
Spending Affordability Briefing

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

November 18, 2008

Budget Structure Study

Origin

- Report on budget structure and process required by Chapter 2 of the 2007 special session. Due December 2008.

2002 Department of Legislative Services Report – *Assessment of the Maryland Budget Process*

- Examined historical context which shaped the development of the current budget process.

Tools the General Assembly Uses to Influence Budgetary and Fiscal Policy

- “Fencing” appropriations: Use increased during the Ehrlich Administration.
- Mandating appropriations: Research by the National Conference of State Legislatures indicates Maryland has higher reliance on mandating than other states.
- Creating special funds: While the number of special funds has remained relatively constant over past ten years, the mix of funds has changed and the amounts appropriated are greater.
- Passing supplemental appropriations: Little utilized outside of capital appropriations.

Conclusions and Recommendations

- The time may be ripe to consider modifications to the budget process. One approach could be to permit the legislature greater authority to reallocate funds while reducing its authority to mandate future funding.

Debt and Capital

State Debt Policy

- The Capital Debt Affordability Committee (CDAC) advises the General Assembly on State debt policy.
- State debt includes general obligation (GO) bonds, transportation bonds, Grant Anticipation Revenue Vehicles (GARVEEs), bay restoration bonds, stadium authority bonds, and capital leases.
- Since 2000, State GO bond authorizations have increased, and the State has authorized two new kinds of State debt, GARVEEs and bay restoration bonds.
- In 2008, the CDAC completed a two-year study reviewing the debt affordability criteria. The committee recommended that:
 - State tax-supported debt outstanding should not exceed 4.0 percent of Maryland personal income. The previous criterion, which was 3.2 percent, had been in place since 1979; and
 - State tax-supported debt service payments should not exceed 8.0 percent of State revenues. This maintains the criterion at the level set in 1979.
- The CDAC recommends that the General Assembly authorize up to \$1.11 billion in GO bonds in the 2009 legislative session. This provides a \$175 million increase over the authorization in the 2008 legislative session. The increase represents a \$25 million previously planned inflationary adjustment and a \$150 million one-time increase.
- The table below shows that projected authorizations meet the affordability criteria:

<u>Fiscal Year</u>	<u>Debt Outstanding as a % of Personal Income</u>	<u>Debt Service as a % of Revenues</u>
2009	3.11%	5.71%
2010	3.14%	6.12%
2011	3.13%	6.31%
2012	3.12%	6.46%
2013	3.04%	6.58%
2014	2.95%	6.57%

State Debt Policy (continued)

The Department of Legislative Service's State Debt Policy Recommendations in the *Effect of Long-term Debt on the Financial Condition of the State*

- ***Increasing 2009 session GO bond authorization by \$150 million:*** The CDAC recommends a one-time \$150 million increase. **Insofar as the State is facing an economic slowdown and a general fund budget deficit, it is recommended that the additional GO bonds be used to relieve operating budget pressure and support projects that need immediate financing.**

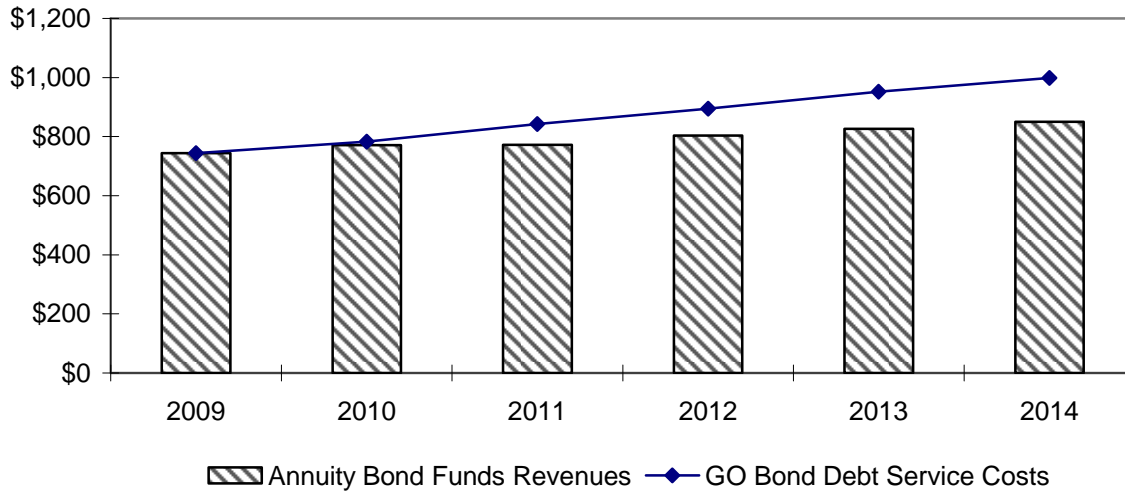
- ***Eliminate the requirement that the CDAC recommend the amount of GO bond debt supporting public school construction:*** Section 11 of the Public School Facilities Act of 2004 directs CDAC to review school construction funding needs and make specific recommendations regarding additional funding for school construction when recommending the State's annual debt limit and GO bond authorization level. Concerns about the requirement are that:
 - the distribution of GO bond authorization has historically been the responsibility of the Governor and General Assembly;
 - the committee does not set spending limits for other capital programs;
 - factors influencing project costs (such as inflation) affect all capital programs and projects; and
 - State is facing a general fund structural deficit, and the additional GO authorizations are needed to support the general fund and provide a short-term stimulus for the economy.

- ***Issue bay restoration bonds in a competitive sale, instead of negotiated sale:*** In June 2008, the State issued the first series of bay restoration bonds. The bonds were issued through a negotiated sale. Because competitive bond sales tend to reduce the cost of debt, GO and transportation bonds are issued through competitive sales. **Insofar as bay restoration bonds have successfully been issued, are highly rated, are supported by stable revenues, and do not have any particularly unique or complicated provisions, it is recommended that the subsequent bay bonds are issued through a competitive sale, instead of a negotiated sale.**

State Debt Policy (continued)

- GO bond debt service costs are projected to exceed revenues:** The exhibit shows that debt service costs exceed revenues beginning in fiscal 2010. **To keep GO bond debt service costs from adding to the general fund shortfall, it is recommended that no general funds be appropriated for debt service and that the Annuity Bond Fund fully fund GO bond debt service. State property tax rates should be calibrated to provide sufficient revenues for debt service.**

Debt Service Costs Exceed Projected Revenues
Fiscal 2009-2014
(\$ in Millions)



Revenue and Cost Data

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Annuity Bond Fund Revenues	\$744	\$771	\$772	\$804	\$826	\$850
GO Bond Debt Service Costs	744	783	842	894	952	999

How to Close the Gap

General Fund Subsidy – General Fund Appropriation	\$0	\$12	\$70	\$90	\$126	\$149
Required State Property Tax Rate	\$0.112	\$0.114	\$0.123	\$0.124	\$0.130	\$0.132

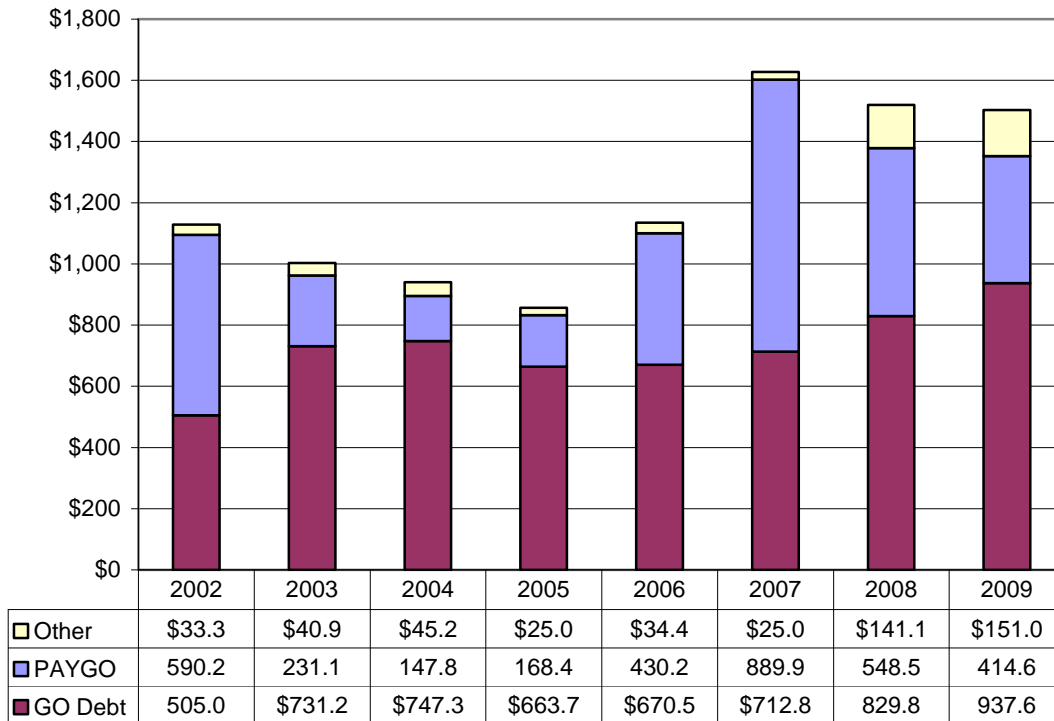
GO: general obligation

Capital Program

Capital Program Funding Trends

As shown in **Exhibit 1**, capital funding in each of fiscal 2007 through 2009 exceeds the level achieved in each of the previous five fiscal years. Increased general obligation (GO) authorizations, the use of the transfer tax to fund programs through the formula, the use of fee revenues and revenue bonds to fund Bay Restoration Fund projects, and loans to local governments through the Water Quality Loan Program account for the recent funding increase.

Exhibit 1
Capital Funding by Major Source
Fiscal 2002-2009
(\$ in Millions)

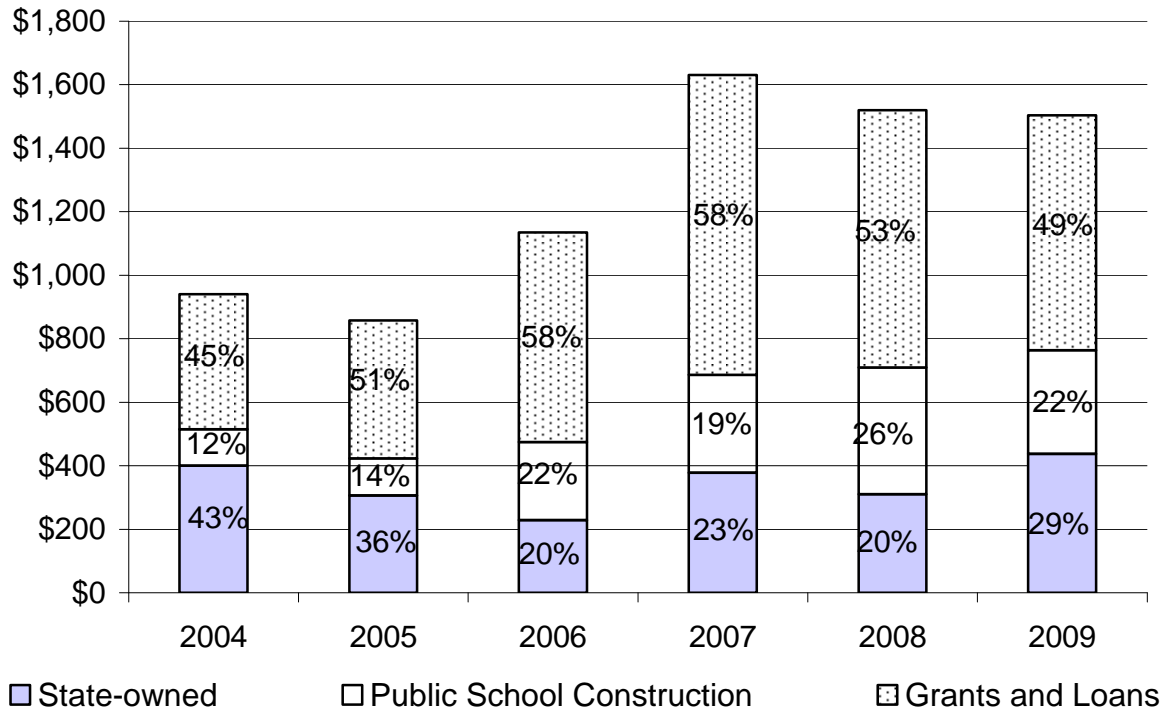


Note: Fiscal 2002 figures do not include \$324 million of general fund PAYGO appropriations reverted to the general fund through the 2002 session budget reconciliation and financing legislation.

Emphasis on School Construction Funding

Exhibit 2 shows recent annual capital program funding by major category. Public school construction funding increased in both absolute dollars and as a share of the total capital program beginning in fiscal 2006. Except for fiscal 2009, funding for State-owned projects declined in both absolute dollars and as a percentage of the budget when compared to fiscal 2004 and 2005 budgets.

Exhibit 2
Capital Funding by Major Category
Fiscal 2004-2009
(\$ in Millions)



- The Capital Debt Affordability Committee (CDAC) recommended \$1.11 billion of new GO bond authorizations for the 2009 session. This represents \$150 million more than what the committee recommended for fiscal 2010 in its 2007 report. The committee specifically tied \$75 million of the additional authorizations to public school construction funding with the intent of level funding this capital grant program at \$325 million for fiscal 2010 (\$250 million is programmed in the 2008 *Capital Improvement Program* with the additional \$75 million intended to boost funding to \$325 million).

- In accordance with Section 8-113 of the State Finance and Procurement Article, the Governor notified the General Assembly on the level of State debt that is advisable. The Governor accepted the recommendation of CDAC and provided the following preliminary allocation of the \$1.11 billion debt authorization as shown in **Exhibit 3**.

Exhibit 3
Governor's Proposed GO Bond Capital Program

	<u>GO Debt</u>	<u>% of Total</u>
General Construction – State-owned Facilities	\$497,000,000	44.8%
Public School Construction	260,000,000	23.4%
Other Special Projects – Grants and Loans	353,000,000	31.8%
Total	\$1,110,000,000	

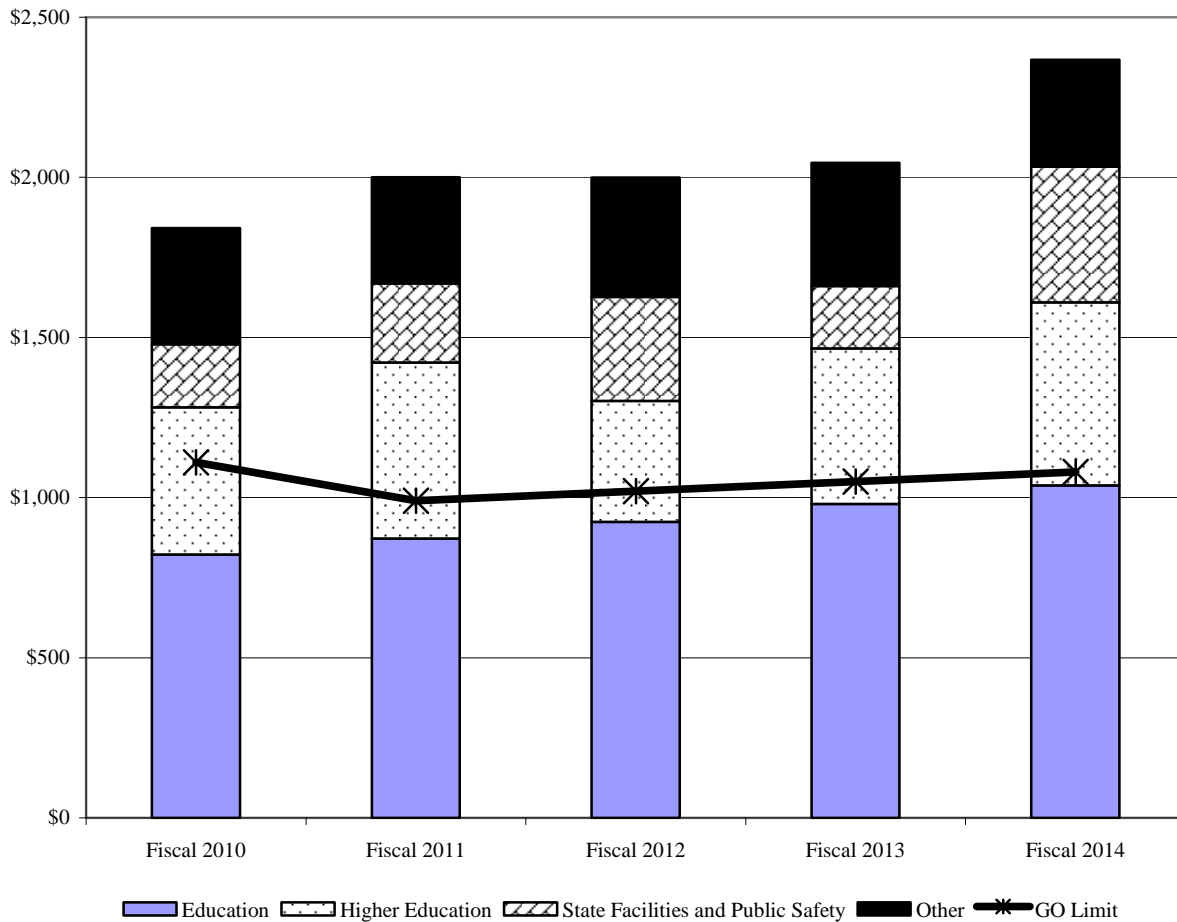
GO: general obligation

Source: Governor's Office, October 15, 2008

Capital Demand

- Capital GO bond requests for fiscal 2010 total \$1.5 billion, or \$365 million more than the amount available under the recommended GO bond debt limit of \$1.1 billion. Capital requests for the next five years total nearly \$8.5 billion, while the projected debt authorizations for the same period total about \$5.3 billion as shown in **Exhibit 4**.

Exhibit 4
GO Bond Requests and CDAC GO Bond Debt Limit
Fiscal 2010-2014
(\$ in Millions)



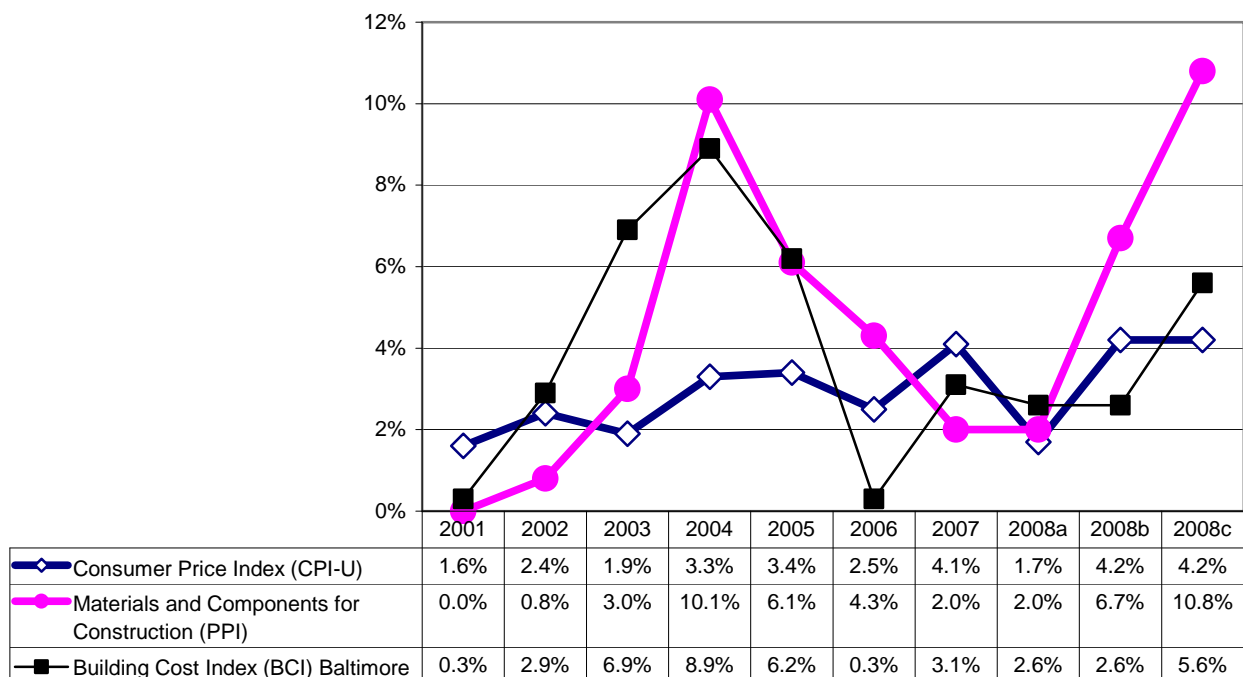
GO: general obligation
 CDAC: Capital Debt Affordability Committee
 IAC: Interagency Committee on School Construction

Note: Education figures represent local education agency public school construction requests to the Interagency Committee on School Construction

Construction Costs Escalation

- Construction market experienced greater cost increases than the rest of the economy.** As shown is **Exhibit 5**, beginning in 2003, the price for construction materials plus items consumed by contractors rose faster than the Consumer Price Index (CPI). From December 2003 through December 2007, the Producer Price Index (PPI) rose a cumulative 30.2 percent, compared to 14.5 percent for the CPI.

Exhibit 5
Materials and Components of Construction
Compared to the Consumer Price Index and Baltimore City Building Cost Index
Calendar 2001-2008



Note: 2008a = First Quarter
 2008b = Second Quarter
 2008c = Third Quarter

Source: Bureau of Labor Statistics; Engineering New-Record

- While there was a leveling off of the growth in construction costs both nationally and regionally during the latter part of 2006 and through the first quarter of 2008, all three inflationary measures spiked in the second quarter of 2008 with construction escalation once again exceeding CPI measures. Despite the more recent return to more normal construction escalation, the PPI measure has still increased at an average annual rate of 6.0 percent from 2002 through 2008 and the BCI at 5.6 percent over the same time period.

Transfer Tax Revenues Below Budgeted Estimate

- **Exhibit 6** shows estimated and actual transfer tax revenues for fiscal 2003 through 2010. The fiscal 2008 budget included \$188.6 million of estimated transfer tax revenues. Actual attainment was \$153.3 million or \$35.3 million less than what was included in the fiscal 2008 budget.

Exhibit 6
Estimated and Actual Transfer Tax Revenues
Fiscal 2003-2010
(\$ in Millions)

<u>Fiscal Year</u>	<u>Original Revenue Estimate</u>	<u>Actual Collections</u>	<u>Variance</u>
2003	\$97.5	\$140.9	\$43.4
2004	107.9	173.1	65.2
2005	132.8	237.3	104.5
2006	194.5	270.0	75.5
2007	264.5	212.5	-52.0
2008	188.6	153.3	-35.3
2009	166.3	-	-
2010	127.5	-	-

Note: Fiscal 2010 estimate is based on Office of the Comptroller estimate made on September 21, 2007. **The Office of the Comptroller has revised the fiscal 2009 estimate to \$132.7 million which represents a \$33.6 million decrease from the original estimate upon which the fiscal 2009 budget was based.**

Section 13-209, Tax Property Article, stipulates that any over or underattainment is reconciled in the second fiscal year following the original budget year, or through the deauthorization of prior authorized projects.

Source: Office of the Comptroller

- **Exhibit 7** shows the impact that over and underattainments have on the transfer taxes available to support capital programs. Exhibit 7 also shows the amount of transfer tax diverted to the general fund and amount of GO bond replacement that occurred in fiscal 2003 through 2006.

Exhibit 7
Transfer Tax Revenues
Fiscal 2003-2010
(\$ in Millions)

<u>Fiscal Year</u>	<u>Revenue Estimate</u>	<u>Attainment Adjustment*</u>	<u>Amount to Programs</u>	<u>Amount to General Fund</u>	<u>GO Replacement</u>
2003	\$97.5	\$11.2	\$47.3	\$58.5	\$0.0
2004	116.2	20.6	19.9	123.4	58.3
2005	132.8	43.4	6.8	165.4	23.6
2006	194.5	65.2	120.4	131.9	0.0
2007	264.5	104.5	361.1	0.0	0.0
2008	188.6	75.5	258.4	0.0	0.0
2009	166.3	-52.0	109.4	0.0	0.0
2010 EST	127.5	-35.3	88.4	-	-

*Attainment adjustment reflects over or underattainment of revenues from the second prior year.

Note: Amount to programs does not include 3% for administrative costs. Amount to general fund does not include unencumbered balances transferred by budget reconciliation legislation (\$39.8 million). **The Office of the Comptroller has revised the fiscal 2009 estimate to \$132.7 million which represents a \$33.6 million decrease from the original estimate upon which the fiscal 2009 budget was based.**

Use of GO Bond Program to Relieve Pressure on Operating Budget

\$ in Millions

- **InterCounty Connector (ICC) Funding:** Use GO bonds to make repayments to the ICC. Chapter 567 of 2008 restructured the general fund repayment to the ICC, as required by Chapters 471 and 472 of 2005, to require a \$63 million payment in fiscal 2010. Fiscal 2009 payment after October BPW reduction of \$20 million is \$65 million. It is anticipated that \$10 million of the reduction would be budgeted in fiscal 2010. \$138.0
 - **Medevac Helicopter Replacement:** Use GO bonds to fund Medevac helicopter replacement and transfer balance of State Police helicopter fund to the general fund. The Spending Mandate and Revenue Dedication Relief Act of 2008 (Chapter 414 of 2008) modified the provisions of Chapter 6 of the 2007 special session to dedicate \$50.0 million rather than \$110.0 million to the State Police Helicopter Replacement Fund. Although \$33.6 million was appropriated from the fund in the fiscal 2009 budget to fund the purchase of the first 3 of 12 helicopters, the procurement has been delayed, and the funds are unlikely to be encumbered until fiscal 2010. \$50.0
 - **Use GO Bond Funds to Fund Capital Programs Traditionally Funded with General Funds:** The 2008 CIP programs \$38.7 million of general funds to support the capital program. Since general funds are typically provided to certain capital programs due to federal private activity restrictions, this action would likely require the issuance of taxable GO bonds. \$38.7
 - **Transfer Tax Diversion:** Recent budgets have been balanced using all or a portion of the State transfer tax revenue (fiscal 2003 through 2006 budgets). The Board of Revenue Estimates projects fiscal 2010 State transfer tax collections at \$127 million. The Department of Natural Resources reports \$235 million of appropriated but unobligated transfer taxes (\$103 million of local share and \$132 million of State share) that remain available for future use. \$88.4
- Total** **\$315.1**

BPW: Board of Public Works

GO: general obligation

CIP: *Capital Improvement Program*

Transportation

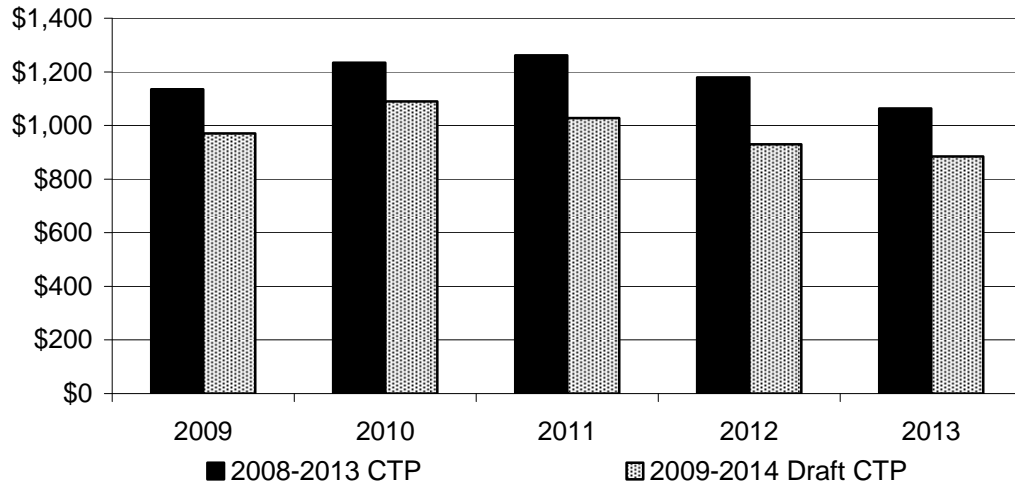
**Transportation Trust Fund Ended Fiscal 2008 With
\$47 Million Less Than Estimated Due to Revenue Shortfalls
(\$ in Millions)**

	<u>Projected FY 2008</u>	<u>Actual FY 2008</u>	<u>Variance</u>
Starting Fund Balance	\$190	\$190	\$0
Revenues			
Titling Taxes	\$714	\$650	-\$64
Motor Fuel Taxes	764	755	-9
Corporate Income, Registrations, and Misc. MVA Fees	749	726	-23
Other Receipts and Adjustments	517	530	13
Bond Proceeds and Premiums	285	250	-35
Total Revenues	\$3,029	\$2,911	-\$118
Uses of Funds			
MDOT Operating Expenditures	\$1,461	\$1,488	\$27
MDOT Capital Expenditures	896	822	-74
MDOT Debt Service	121	119	-2
Highway User Revenues	551	529	-22
Other Expenditures	90	90	0
Total Expenditures	\$3,119	\$3,048	-\$71
Ending Fund Balance	\$100	\$53	-\$47

MVA: Motor Vehicle Administration
MDOT: Maryland Department of Transportation
Source: MDOT, September 2008

- Due to a slowing economy in the second half of the fiscal year, net revenues were \$118 million less than estimated. Specifically, weak vehicle sales resulted in titling tax revenues being \$64 million less than estimated. Motor fuel tax receipts were \$9 million less than estimated.
- Capital expenditures were \$74 million less than estimated due to additional federal fund attainment and cash flow changes in projects. Operating expenditures were \$27 million higher than estimated because of increased diesel fuel and winter maintenance costs. Local highway user revenues were \$22 million lower because revenues did not meet the estimate.
- The ending fiscal 2008 fund balance totaled \$53 million, below the Maryland Department of Transportation's (MDOT) goal of \$100 million. As a result of weak revenue performance, the fund balance was drawn down by \$137 million to support ongoing expenditures.

**Draft CTP Special Fund Capital Program Reduced by \$1.0 Billion
Due to Legislation and Underperforming Revenue
Fiscal 2009-2013
(\$ in Millions)**



CTP: Consolidated Transportation Plan

- Due to declining revenues and legislative changes, the special fund capital program was reduced by approximately \$1.0 billion over the comparable fiscal 2009 to 2013 period. Projects added as part of the revenue increase from the 2007 special session were the first to be delayed or deferred.
- Chapter 10 of 2008 changed the Transportation Trust Fund (TTF) share of the sales tax from 6.5 to 5.3 percent through fiscal 2013 and repealed the sales tax on computer services. This statutory change as well as downward revisions in the sales tax estimate reduced revenues to the TTF by \$420 million for the comparable fiscal 2009 through 2013 period.
- As the economy weakened through the spring and summer months of 2008, vehicle sales continued to decline and titling tax revenue was revised downward by \$442 million from fiscal 2009 through 2013.
- The operating budget forecast did not change significantly for the comparable fiscal years.

**DLS Estimates Additional Difficulties for the Capital Program
Due to Downward Revisions to Revenues
(\$ in Millions)**

Revenues Compared to Draft CTP

Titling Tax – Vehicle sales have declined dramatically in fiscal 2009 which reduces revenue estimates over the six-year period. -\$1,026

Motor Fuel Tax – Vehicle miles traveled have declined and are expected to continue this decline in fiscal 2009 with moderate estimates of growth in the out-years. -139

Corporate Income, Sales Tax, Registrations, and Misc. MVA Fees – DLS revised its general fund forecast downward due to the current economic environment. -129

Other Receipts and Adjustments 9

Bond Sales – Due to the write down in revenue and increased operating budget expenditures, bond sales are constrained by the net income coverage test over the six-year period. -1,220

Total Revenues Compared to Draft CTP **-\$2,505**

Expenditures Compared to Draft CTP

Operating Budget – From 1994 to 2008, the average annual increase in the MDOT operating budget has been 5.7 percent. MDOT assumed a 3.3 percent average annual rate of growth compared to the DLS estimate of 5.2 percent. \$464

Debt Service – Due to reduced bond sales, debt service payments are less than estimated. -201

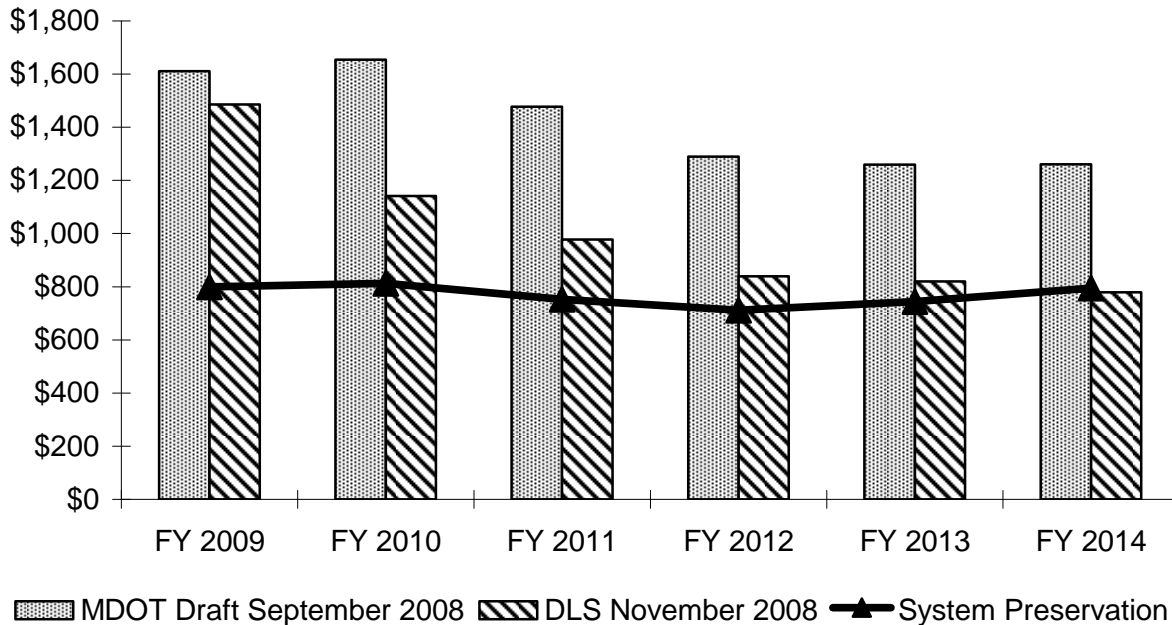
Local Highway User Revenues – Due to downward revisions in revenues, the local share of highway user revenues is reduced. -261

Capital Program – As revenues are revised downward and operating expenditures increase, bond sales are constrained which reduces the capital program. -2,507

Total Expenditures Compared to Draft CTP **-\$2,505**

CTP: Consolidated Transportation Program
DLS: Department of Legislative Services
MDOT: Maryland Department of Transportation
MVA: Motor Vehicle Administration

Special and Federal Fund Capital Program Comparison Fiscal 2009-2014 (\$ in Millions)

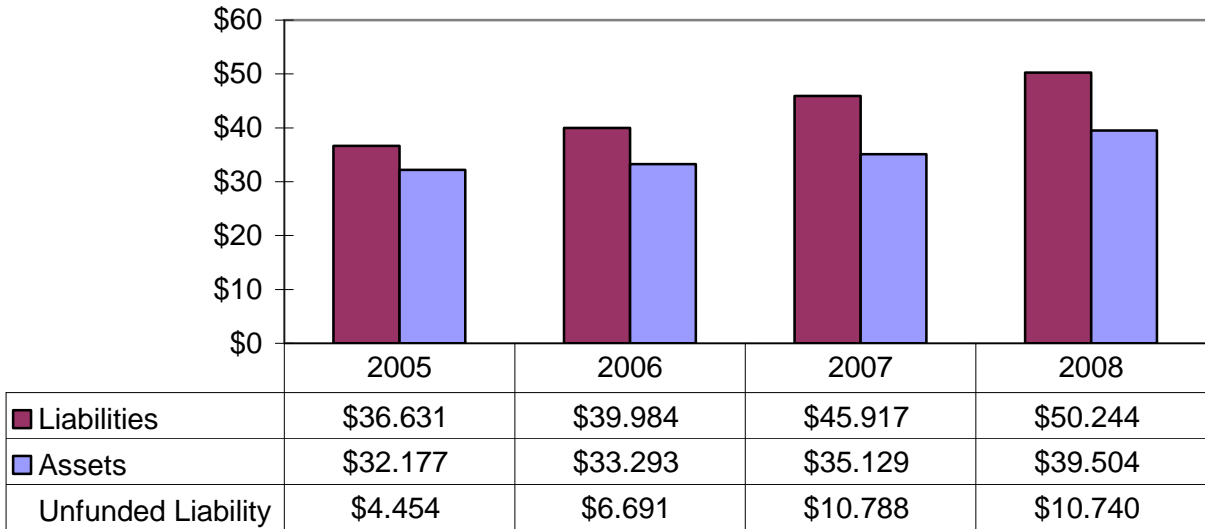


DLS: Department of Legislative Services
MDOT: Maryland Department of Transportation

- In fiscal 2009, the capital program is largely maintained due to the sale of bonds. This limits the ability to issue bonds in the out-years for the capital program.
- Based upon current estimates, funding will only be available for system preservation projects in fiscal 2014.
- To the extent that MDOT undertakes ongoing cost containment in the operating budget, cash is made available for the capital program, and additional bonding capacity is created to support the capital program.
- Current federal fund estimates are conservative throughout the forecast period due to uncertainty regarding the solvency of the federal highway trust fund. If a federal funding solution is identified or transportation infrastructure is included in a second stimulus package, capital spending could increase.

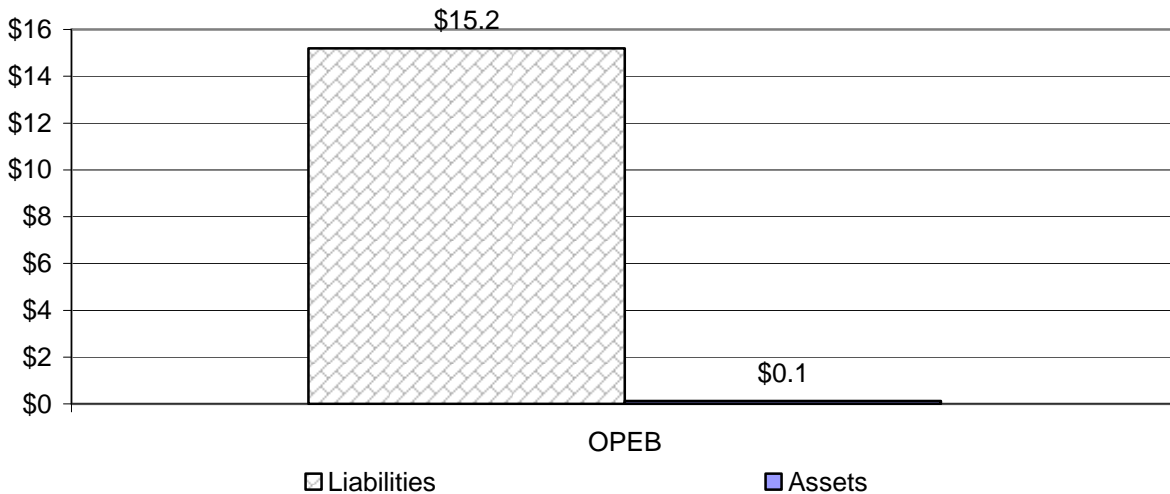
Employee Benefits

State Retirement and Pension System Assets and Liabilities
Fiscal 2005-2008
(\$ in Billions)



Source: State Retirement and Pension System

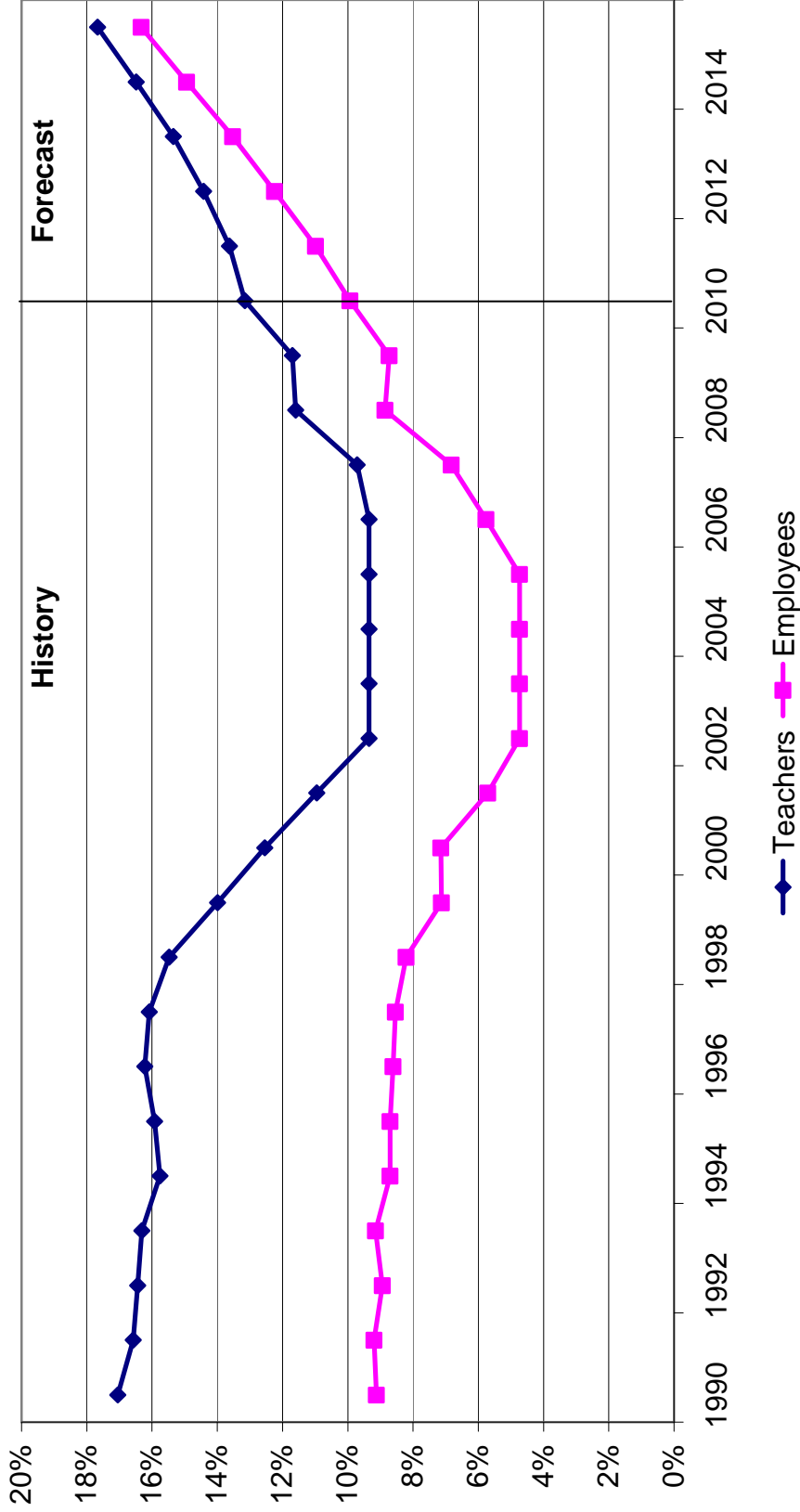
State Retiree Health Liabilities and Assets
(\$ in Billions)



OPEB: Other Post Employment Benefits

Source: Buck Consultants

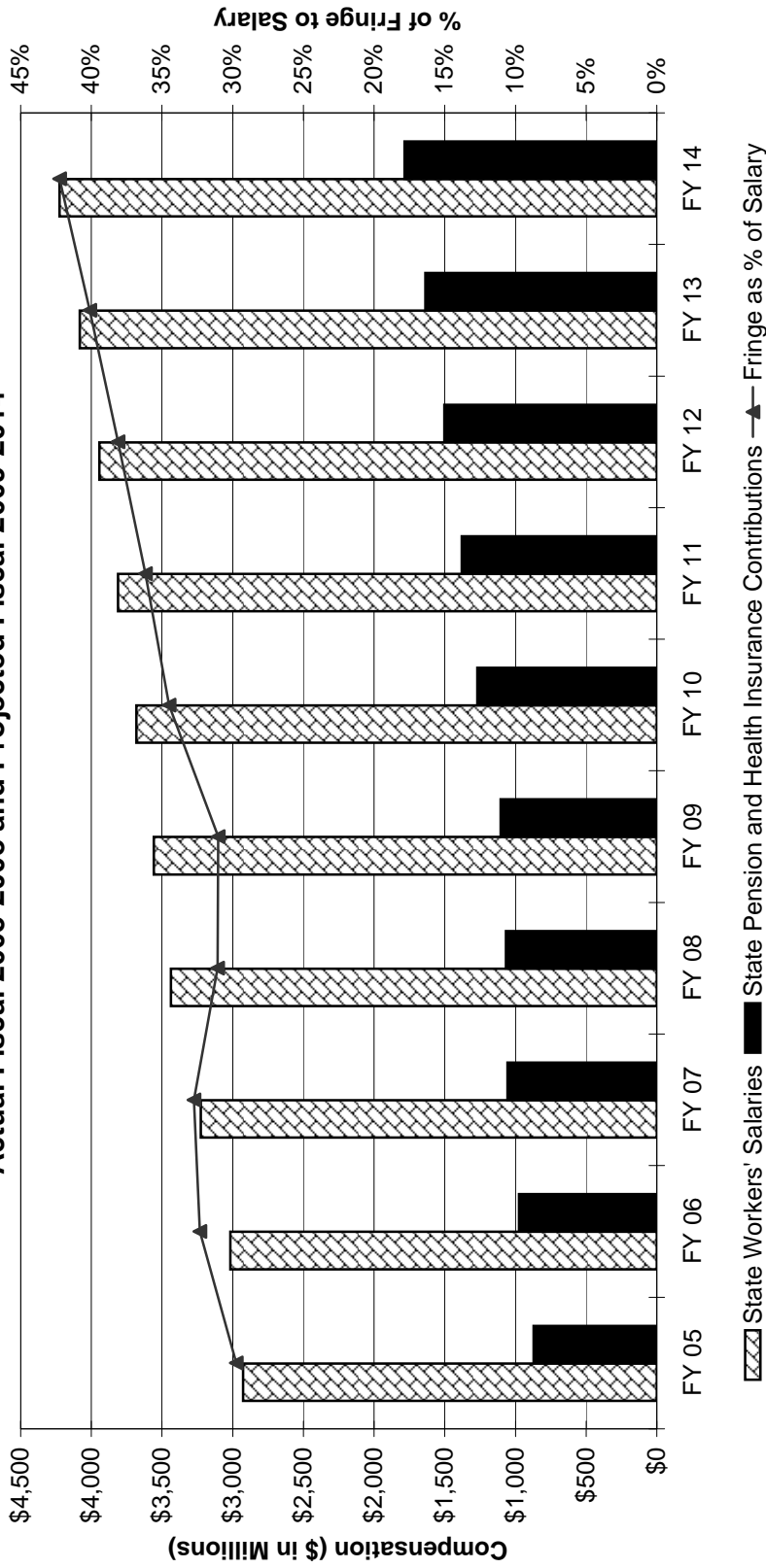
State Pension Contribution Rates Fiscal 1990-2015



Note: Employer contributions rates projected beyond fiscal 2010 assume investment returns of -8.0 percent in fiscal 2009, 0.0 percent in fiscal 2010, and 7.75 percent in 2011 and beyond. If actual investment returns are higher than those assumptions, actual contribution rates may be lower than projected. Similarly, if actual returns are lower, the contribution rates could be higher than projected.

Source: State Retirement and Pension System; Mercer

State Employee Compensation Actual Fiscal 2005-2008 and Projected Fiscal 2009-2014



Source: State Retirement and Pension System; Department of Budget and Management; Department of Legislative Services

Video Lottery Terminals

Video Lottery Terminals

Constitutional Amendment

- The constitutional amendment includes:
 - a maximum of 15,000 video lottery terminals (VLTs);
 - the five geographic areas where facilities can be located;
 - education programs as the primary recipient of revenues;
 - any facility must meet all required local planning and zoning laws/regulations;
 - no more than one facility license may be issued in any single county or Baltimore City; and
 - any subsequent expansion of gambling would have to be passed by the General Assembly and approved by voter referendum.

VLT Facility Location Commission

- Under Senate Bill 3 from the 2007 special session, the VLT implementing bill, a VLT Facility Location Commission will award the VLT facility licenses.
- The Location Commission will have seven members, appointed by the Governor and the Presiding Officers, and will be staffed by the Department of Legislative Services and the State Lottery.
- Facility license proposals must be submitted to the Location Commission by February 1, 2009.
- The Location Commission will issue guidelines for facility license proposals, and the State Lottery will eventually regulate the VLT program.
- The evaluation of proposals will take several months, with facility licenses likely issued in the fall of 2009.

Estimates of Anticipated Revenues at Each Facility Location
Fiscal 2011-2013
(\$ in Millions)

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Anne Arundel	\$125.2	\$477.9	\$546.1
Baltimore City	0.0	265.0	426.7
Cecil	0.0	117.8	189.6
Worcester	31.4	119.8	136.9
Allegany (Rocky Gap)	0.0	38.7	62.3
Total	\$156.5	\$1,019.1	\$1,361.6

Note: Up to \$90 million in video lottery terminal facility license fees are expected in fiscal 2010. The Department of Legislative Services anticipates that facilities will begin operating in calendar 2011.

Distribution of Anticipated Revenues
Fiscal 2011-2013
(\$ in Millions)

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Total Annual Gross	\$156.5	\$1,019.1	\$1,361.6
Education Trust Fund (48.5%)	75.9	494.3	660.4
Facility Licensees (33.0%)	51.7	336.3	449.3
Racing Purses/Bred Funds (7.0%)	11.0	71.3	95.3
Local Impact Grants (5.5%)	8.6	56.0	74.9
Racetrack Renewal (2.5%)	3.9	25.5	34.0
State Lottery Operations (2.0%)	3.1	20.4	27.2
Small/Minority/Women-owned Business Investment (1.5%)	2.3	15.3	20.4

Distribution of Local Impact Grants and Property Tax Equivalents

	<u>Fiscal 2013</u> <u>(\$ in Millions)</u>	<u>Fiscal 2009</u> <u>Property Tax Rate</u>	<u>Property Tax</u> <u>Rate Equivalent</u>
Baltimore City*	\$31.7	\$2.268	\$0.098
Anne Arundel	24.6	0.888	0.038
Cecil	8.6	0.960	0.072
Worcester	6.2	0.700	0.028
Allegany (Rocky Gap)	2.8	0.983	0.071
Prince George's	1.0	0.960	0.001
Total	\$74.9		

*Includes grants through the Pimlico Community Development Authority.

Economy and Revenue Update

Maryland Economic Performance

Year-over-year Percent Change*

<u>Month-Year</u>	<u>Unemployment Rate</u>	<u>Initial UI Claims</u>	<u>Existing Home Sales</u>	<u>Median Home Price</u>	<u>Vehicle Sales</u>	<u>Sales Tax</u>
Jan-08	3.5%	10.6%	-41.3%	-5.7%	-9.2%	-2.2%
Feb-08	3.4%	6.9%	-39.4%	-7.6%	0.8%	3.5%
Mar-08	3.6%	39.1%	-36.9%	-6.3%	-12.0%	-6.8%
Apr-08	3.6%	23.4%	-30.0%	-6.0%	-3.9%	2.6%
May-08	4.0%	19.6%	-31.1%	-5.9%	-13.8%	-5.8%
Jun-08	4.0%	26.8%	-29.6%	-5.4%	-12.8%	-3.9%
Jul-08	4.3%	26.6%	-29.3%	-6.2%	-8.5%	0.9%
Aug-08	4.5%	21.5%	-25.8%	-6.5%	-19.8%	-1.0%
Sep-08	4.6%	62.6%	8.5%	-8.0%	-5.8%	-7.8%
Oct-08			-12.5%	-7.1%	-19.9%	

UI: Unemployment Insurance

* Except the unemployment rate

Note: The unemployment rate and the initial unemployment insurance claims are seasonally adjusted data. The sales tax is gross receipts (excluding assessments) adjusted for law changes.

Sources: The unemployment rate and the initial UI claims are from the U.S. Department of Labor. The seasonal adjustment for the UI claims was done by Moody's Economy.com, Inc. Home sales and the median home price are from the Maryland Association of Realtors. Vehicle sales come from the Maryland Motor Vehicle Administration. Sales tax data comes from the Maryland Office of the Comptroller.

Fiscal 2009 General Fund Revenues (\$ in Millions)

<u>Source</u>	<i>Fiscal Year through October</i>		
	<u>FY 2008</u>	<u>FY 2009</u>	<u>\$ Difference</u> <u>% Difference</u>
Personal Income Tax	\$1,752.3	\$1,758.2	\$5.9 0.3%
Sales and Use Tax ⁽¹⁾	867.6	947.5	79.9 9.2%
State Lottery	152.7	135.0	-17.7 -11.6%
Corporate Income Tax	91.1	125.1	34.0 37.4%
Business Franchise Taxes	44.0	44.5	0.5 1.2%
Insurance Premiums Tax	69.5	67.3	-2.2 -3.1%
Estate and Inheritance Taxes	83.5	78.4	-5.1 -6.1%
Tobacco Tax	79.7	116.2	36.5 45.9%
Alcohol Beverages Tax	7.2	7.3	0.1 1.3%
Motor Vehicle Fuel Tax	2.3	2.2	-0.2 -6.9%
District Courts	32.9	30.9	-2.1 -6.3%
Clerks of the Court	18.1	14.2	-3.9 -21.3%
Hospital Patient Recoveries ⁽²⁾	3.2	10.2	7.0 217.6%
Interest on Investments ⁽³⁾	39.9	24.0	-16.0 -40.0%
Miscellaneous	57.8	42.2	-15.6 -27.0%
Total Revenues	\$3,301.8	\$3,403.1	\$101.3 3.1%
Estimated Baseline Growth			-2.5%

⁽¹⁾ Data reflects sales tax revenue remitted to the Comptroller in August, September and October which were collected by retailers in July, August and September.

⁽²⁾ Includes revenues from Medicare, insurance, and sponsors only. Fiscal 2009 includes \$6.5 million from a Medicaid cost settlement.

⁽³⁾ Adjusted to reflect accrued interest earnings.

Note: Legislation adopted at the 2007 special session and the 2008 session impacted the personal income tax, sales tax, corporate income tax, tobacco tax, motor fuel tax, and certain miscellaneous revenues. In general, these changes went into effect in January 2008 thus impacting the second half of fiscal 2008 revenues but all of fiscal 2009.

Spending and Forecast Update

October 15, 2008 Board of Public Works Summary of Budget Reductions

- On October 15, 2008, the Board of Public Works (BPW) adopted \$347.8 million in reductions to the fiscal 2009 appropriation and abolished 830.2 positions (40 filled).
- The Administration is assuming nearly \$100 million in projected one-time fund balance transfers and reversions to be proposed at the 2009 session.

Administration's Fiscal 2009 Fiscal Actions and Proposal by Fund (\$ in Millions)

<u>Fiscal 2009 Actions</u>	<u>General Funds</u>	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Total</u>	<u>Positions</u>
October BPW Actions	\$297.2	\$19.4	\$31.1	\$347.8	830.15
Executive Reversions	11.6			11.6	
Judicial and Legislative Reversions	7.5			7.5	
Judicial and Legislative OPEB Reversion	5.7			5.7	
Projected Transfers	74.7			74.7	
Subtotal	\$396.7	\$19.4	\$31.1	\$447.3	830.15

BPW: Board of Public Works
OPEB: Other Post Employment Benefits

Examples of Larger Reductions

- \$73.5 million from the Department of Health and Mental Hygiene, including \$28.2 million in one-time fund swaps from the Rate Stabilization Fund and Cigarette Restitution Fund (CRF) for Medicaid, \$20.7 million in provider rate increases, and \$5.6 million associated with 194 position abolitions;
- \$46.1 million toward the State's Other Post Employment Benefits (OPEB) unfunded liability;
- \$20.0 million from the Reserve Fund for the InterCounty Connector, with the intention to increase the payment by \$10 million each in fiscal 2010 and 2011;

- \$17.5 million from the Department of Public Safety and Correctional Services with \$6.0 million from local jail reimbursements, \$4.0 million in federal per diems, and \$4.5 million associated with abolishing 161 positions;
- \$16.3 million from higher education; and
- \$15.3 million from the Maryland State Department of Education, largely replacing child care subsidy payments with \$5.3 million in federal funds.

Issues

- ***Eliminating remaining OPEB contributions*** defers efforts to address the retiree health care unfunded liability.
- ***Reductions to mandated items*** do not produce ongoing savings. \$95.6 million will be needed in fiscal 2010 and \$10.0 million in fiscal 2011.
- ***Proposed transfers of \$74.7 million require legislative approval.***
- ***Abolition of positions*** in State-operated psychiatric facilities and State prisons exacerbates already understaffed conditions.

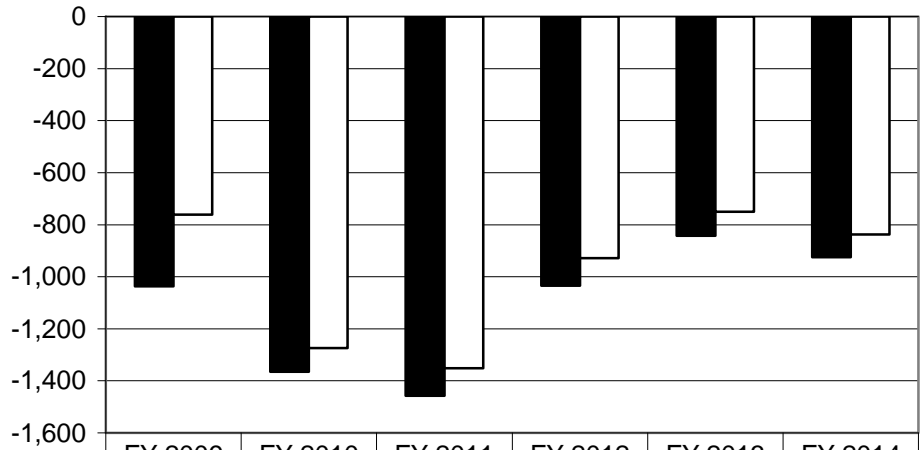
CRF

- BPW action in June and October withdrew \$9.0 million from the CRF, with the intent to provide a deficiency for the Medicaid program.
- The cuts include \$5.4 million from Statewide Academic Health Centers, \$1.9 million from tobacco prevention, \$1.5 million from tobacco transition grants, and \$0.2 million in other cancer prevention and screening activities.

Long-term General Fund Outlook

- The Department of Legislative Services estimates that \$141.0 million of the withdrawals represent ongoing general fund savings, growing to \$169.3 million by fiscal 2014.
- The fiscal 2010 structural deficit is reduced to \$1.273 billion. By 2014, assuming full implementation of slots, the deficit is reduced to \$838 million.

**Projected General Fund Shortfalls under DLS Forecast
Fiscal 2009-2014
(\$ in Millions)**



	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
■ SAC Briefing Structural Balance	-1,037	-1,365	-1,457	-1,035	-842	-924
□ Post-BPW Structural Balance	-762	-1,274	-1,352	-928	-750	-837

DLS: Department of Legislative Services
SAC: Spending Affordability Committee
BPW: Board of Public Works

General Fund Budget Outlook
Fiscal 2009-2014
(\$ in Millions)

Revenues	FY 2006		FY 2007		FY 2008		FY 2009		FY 2010		FY 2011		FY 2012		FY 2013		FY 2014		Avg Annual Change 2010-2014
	Actual	Est.	Actual	Est.	Actual	Est.	Working	Baseline	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	
Opening Fund Balance	\$1,174	\$1,362	\$285	\$487	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Transfers	139	157	996	149	248	59	45	49	55										
BPW Transfers from October 15, 2008	0	0	0	99	0	0	0	0	0										
One-time Revenues/Legislation	15	36	150	51	0	0	0	0	0										
Subtotal One-time Revenue	\$1,328	\$1,554	\$1,430	\$786	\$248	\$59	\$45	\$49	\$55										
Ongoing Revenues	\$12,390	\$12,935	\$13,545	\$13,905	\$14,413	\$15,266	\$16,074	\$16,942	\$17,753										
Net Video Lottery Terminal Revenues	0	0	0	0	90	70	453	605	623										
Subtotal Ongoing Revenue	\$12,390	\$12,935	\$13,545	\$13,905	\$14,503	\$15,336	\$16,527	\$17,547	\$18,377										6.1%
Total Revenues and Fund Balance	\$13,718	\$14,489	\$14,975	\$14,691	\$14,751	\$15,395	\$16,572	\$17,597	\$18,432										
Ongoing Spending	\$11,981	\$13,247	\$14,183	\$14,842	\$15,818	\$16,698	\$17,427	\$18,258	\$19,169										
Operating Spending	0	0	0	0	0	68	187	204	214										
Health Care Expansion *	0	0	0	-275	-119	-141	-160	-165	-169										
BPW Reductions from October 15, 2008**	0	0	0	0	0	0	0	0	0										
Multi-year Commitments	70	183	115	100	78	64	0	0	0										
Subtotal Ongoing Spending	\$12,051	\$13,430	\$14,298	\$14,666	\$15,777	\$16,688	\$17,455	\$18,297	\$19,214										5.1%
One-time Spending	\$6	\$136	\$27	\$16	\$25	\$38	\$38	\$37	\$37										
PAYGO Capital	299	638	163	147	176	50	50	50	50										
Appropriation to Reserve Fund	0	0	0	0	0	0	0	0	0										
Subtotal One-time Spending	\$305	\$775	\$190	\$163	\$201	\$88	\$88	\$87	\$87										
Total Spending	\$12,356	\$14,204	\$14,488	\$14,829	\$15,978	\$16,776	\$17,543	\$18,384	\$19,301										
Ending Balance	\$1,362	\$285	\$487	-\$138	-\$1,226	-\$1,381	-\$971	-\$788	-\$870										
Rainy Day Fund Balance	\$759	\$1,432	\$685	\$732	\$721	\$767	\$827	\$877	\$918										
Balance over 5% of GF Revenues	139	785	3	36	0	0	0	0	0										
As % of GF Revenues	6.12%	11.07%	5.02%	5.26%	5.00%	5.00%	5.00%	5.00%	5.00%										
Structural Balance	\$339	-\$495	-\$753	-\$762	-\$1,273	-\$1,352	-\$928	-\$750	-\$838										

* Chapter 7 of the 2007 special session expresses the intent that the expansion of health care services continue beyond fiscal 2009 subject to specified general fund and education trust fund (from video lottery terminals) revenue attainments. Current revenue estimates fall short of the attainment specified in the bill.

** BPW reduced \$22.3 million in Medicaid expenditures. However, the Department of Legislative Service's baseline already assumed \$22.3 million in Medicaid funds would be used to offset the fiscal 2009 estimated Medicaid deficiencies.

BPW: Board of Public Works
PAYGO: pay-as-you-go
GF: general fund

**Department of Legislative Services
Transportation Trust Fund Forecast
Fiscal 2008-2014**

	<u>Actual FY 2008</u>	<u>Estimate FY 2009</u>	<u>Estimate FY 2010</u>	<u>Estimate FY 2011</u>	<u>Estimate FY 2012</u>	<u>Estimate FY 2013</u>	<u>Estimate FY 2014</u>
Opening Fund Balance	\$190	\$53	\$100	\$100	\$100	\$100	\$100
Closing Fund Balance	\$53	\$100	\$100	\$100	\$100	\$100	\$100
<u>Net Revenues</u>							
Taxes and Fees	\$1,539	\$1,769	\$1,795	\$1,868	\$1,920	\$1,980	\$2,077
Operating and Miscellaneous	533	512	521	531	542	553	557
MDTA Transfer	-30	-30	-30	0	0	0	0
Net Revenues Subtotal	2,042	2,251	2,286	2,399	2,462	2,533	2,634
Bonds Sold	227	360	120	50	40	30	20
Bond Premiums	23	0	0	0	0	0	0
Total Revenues	\$2,292	\$2,611	\$2,406	\$2,448	\$2,502	\$2,564	\$2,655
<u>Expenditures</u>							
Debt Service	\$119	\$142	\$152	\$161	\$178	\$181	\$198
Operating Budget	1,488	1,577	1,676	1,758	1,845	1,936	2,033
State Capital	822	845	578	529	480	445	421
Total Expenditures	\$2,429	\$2,564	\$2,406	\$2,448	\$2,503	\$2,563	\$2,653
<u>Debt</u>							
Debt Outstanding	\$1,269	\$1,553	\$1,595	\$1,562	\$1,500	\$1,422	\$1,312
Debt Coverage – Net Income	4.3	2.5	3.0	2.7	2.7	2.6	2.5
<u>Local Highway User Revenues</u>	\$530	\$496	\$501	\$519	\$529	\$540	\$543
<u>Capital Summary</u>							
State Capital	\$822	\$845	\$578	\$529	\$480	\$445	\$421
Net Federal Capital (Cash Flow)	671	641	564	449	359	375	358
Subtotal Capital Expenditures	\$1,493	\$1,486	\$1,142	\$978	\$839	\$820	\$779
GARVEE Debt Service	36	73	84	84	84	84	84

MDTA: Maryland Transportation Authority

GARVEE: Grant Anticipation Revenue Vehicle