Financial Advisory Commission Subcommittee Report

Adopting a *spending affordability* function

Overview:

The Financial Advisory Commission (FAC) was presented with a question of whether it should adopt a *spending affordability* oversight and advisory function similar to that serving Anne Arundel County government and the State of Maryland government. Both county and state governments have in place a committee of appointed citizens, codified in law, that performs this function.

A FAC subcommittee was formed consisting of Commissioner Bob Burdon and Commissioner Ed Meehan to answer this question. This report presents the subcommittee's deliberations in broad terms. If the FAC were to add this function to its oversight and advisory responsibilities, then a more detailed outline of how that function will yield the best possible guidance to the Annapolis City Council and Mayor will need to occur.

Process & Resources Considered:

The subcommittee focused its efforts on understanding how Anne Arundel County and the State of Maryland performed their *spending affordability* functions. Although the City of Annapolis is a separately incorporated jurisdiction, intuitively its economy is a subset of Anne Arundel County in the sense that economic conditions in the County affect in varying degrees the economic trends and well-being of the City. Much in the same way that the County's economy is affected by the economic health of the State of Maryland. Methods, data, and tools used to determine how economic trends and data affect the *spending affordability* of the City should also be considered when attempting to recognize the effects of the County's and State's economic influences on the City. While other jurisdictions in Maryland may perform varying degrees of *spending affordability* functions, their local economies may not necessarily reflect the intuitive relationship that appears to exist between the City of Annapolis and Anne Arundel County, nor that between Anne Arundel County and the State of Maryland. Furthermore, the synergy and possibility of shared resources with Anne Arundel County that may advantage the City of Annapolis in determining its *spending affordability* threshold should be taken into consideration.

The subcommittee also consulted with the Director of Finance for the City of Annapolis to ascertain the value of the FAC undertaking a *spending affordability* function and the possible data points that may be helpful to include in a *spending affordability* annual recommendation to the City Council and Mayor.

Spending Affordability Function Defined

In order to assist the FAC in its deliberations on whether to adopt a *spending affordability* function, the subcommittee considered how Anne Arundel County and the State of Maryland define their *spending affordability* functions and the scope of work undertaken by their respective "*spending affordability committees*".

The Anne Arundel County Spending Affordability Committee has a set of rules, procedures, and bylaws that defines the function and scope of that committee's work. They are as follows …

> *Consistent with Section 610 of the Anne Arundel County Charter, the purpose of the Spending Affordability Committee (the "Committee") is to "...make advisory recommendations to the Office of Budget, the County Executive, and the County Council relating to spending affordability including County spending levels to reflect the ability of the taxpayer to finance County service and long-term debt." In addition, "The Committee shall examine: (1) current capital projects; (2) the 5-year capital improvement program; (3) per capita wealth; (4) debt service; (5) pay-as-you-go funding; and (6) alternative sources of funding." The Committee's recommendations shall be presented in a report not less than 150 days before the end of each fiscal year, and copies shall be made available for public inspection.*

The State of Maryland's Spending Affordability Committee defines its function and scope of work as follows …

> *… the Spending Affordability Committee studies and reviews the status and projections of State revenues and expenditures and the status and projections of the Maryland economy (Chapter 585, Acts of 1982). The Committee's purpose is to limit the rate of growth of State spending to a level that does not exceed the rate of growth of the State's economy. Annually, the Committee recommends to the Governor and Legislative Policy Committee the fiscal goals of the State*

government budget to be considered at the next General Assembly session. Committee recommendations cover levels of State spending, new debt authorization, and State personnel, as well as how any surplus may be used.

Both Anne Arundel County and the State of Maryland utilize similar and shared resources to compile the data and interpret economic trends when formulating their recommendations. Those resources include the Sage Policy Group, Moody's, Global Insight, and the Regional Economic Studies Institute [RESI] of Towson University. It is important to note the synergy between the County and State in gathering data and interpreting economic trends. RESI of Towson University also provides more refined and localized economic data for individual Maryland jurisdictions, which Anne Arundel County utilizes for formulating its recommendations to the County Executive and County Council.

Anne Arundel County's Spending Affordability Committee further defines its responsibilities and the value of its recommendations as follows …

To avoid placing additional financial burden on County residents, spending growth should remain in-line with personal income growth. For example, if personal income of our residents should only increase one percent, then County spending should not increase more than that one percent. Simply put, if County spending were to increase faster than personal income, additional taxes and fees from County residents would likely be needed to support that spending.

The County's approach to formulating its recommendations, by assessing personal income growth and using that metric as a guide for determining the County's *spending affordability* threshold, is of particular interest. At present, the City of Annapolis does not use this metric. Yet such a metric appears to be very germane in determining *spending affordability*.

The City's current approach to spending and debt affordability is outlined in City Council Resolution 31-18 (*City Debt and Financial Administration Policies*) adopted by the City Council on October 22, 2018. Debt policies are outlined in that Resolution through identifying key debt ratios such as "*Debt as a Percentage of Assessed Value*", "*Debt Service as a Percentage of General Government Expenditures*", and "*Debt Payout Ratio*". Spending affordability with regard to the City's operating budget appears to be a function of assuring appropriate reserve fund balances and the development of a "Multi-year Comprehensive Financial Plan". The gathering of economic data and trend analysis for aiding in decisions on *spending affordability* for the City does not appear to be as prevalent as in the approaches taken by the County and State.

FAC's Authority to Adopt A Spending Affordability Function

The subcommittee consulted the City Code to determine whether the authority exists for the FAC to perform a *spending affordability* function. The City Code defines the FAC's scope of work as follows …

Article IV - Financial Advisory Commission

2.48.110 - Established—Duties.

There is established a Financial Advisory Commission, <u>which may advise the mayor and Aldermen/Alderwomen on financial issues. These issues shall include, but not be limited to</u>, the review of collective bargaining agreements prior to execution and an annual report on the amount of public debt the City may incur without jeopardizing its bond rating. In carrying out its duties, the Commission may retain consultants, as permitted by the budget.

In the judgment of the subcommittee, the FAC appears to have the ability to adopt a *spending affordability* oversight and advisory function consistent with its scope of work as defined in the City Code.

Additional Issues for Discussion and Consideration

The subcommittee believes the FAC should give serious consideration to encouraging the City of Annapolis to adopt a more focused *spending affordability* initiative that would generate a *spending affordability* report annually to advise the City Council and Mayor on the ability of city taxpayers to finance City services and long-term debt. Furthermore …

a) Such an initiative should consider modeling its report after Anne Arundel County's report and also consider utilizing the same resource providers, which are consulted by the County and State of Maryland in formulating their respective annual *spending affordability* recommendations.

b) This initiative should also consider adopting similar metrics used by the County, in addition to metrics of particular importance to the City of Annapolis, when formulating its *spending affordability* recommendations for the City Council and Mayor.

c) Given the limited resources available to the FAC, a *spending affordability* initiative should be a joint undertaking by the FAC, the Department of Finance for the City of Annapolis, and its Director of Finance. Any establishment of contractual relationships for assistance in obtaining data and interpretive analysis should be under the purview of the Department of Finance. That would also include identifying opportunities where the City may partner with the County to share resources and reduce redundancy costs in the acquisition and analysis of such data.

d) The preparation and issuance of *spending affordability* recommendations should be sequenced into the City's budget timeline, so that its recommendations may be of optimal use to the City Council and Mayor when formulating and considering each year's operating and capital budgets, debt affordability, alternative sources of funding, etc.

Attachments

Attached to the subcommittee's report are:

A. Anne Arundel County's Spending Affordability Committee Report,

B. State of Maryland's Spending Affordability Report,

C. Policy/Procedures and Bylaws for Anne Arundel County's Spending Affordability Committee,

D. Section of the City Code outlining the scope of the FAC's work, and

E. City Council Resolution 31-18

Respectfully submitted:

Commissioner Bob Burdon
Commissioner Ed Meehan

February 12, 2020

Anne Arundel County
Spending Affordability Report

SPENDING AFFORDABILITY COMMITTEE
Anne Arundel County
January 15, 2019

The Hon. Steuart Pittman, County Executive
The Hon. Andrew Pruski, Chair, County Council
Mr. Ben Birge, Chief Administrative Officer
Ms. Jessica Leys, Acting Budget Officer
Ms. Karin McQuade, Controller
The Arundel Center, 44 Calvert Street
Annapolis, Maryland 21401

This report of the Spending Affordability Committee (SAC) for FY2020 is hereby submitted to you in accordance with Section 610 of the Anne Arundel County Charter. This section requires in part that "The Committee shall make advisory recommendations to the Office of the Budget, the County Executive, and the County Council relating to spending affordability including County spending levels to reflect the ability of the taxpayer to finance County services and long-term debt." Section 610 also tells the Spending Affordability Committee to "…examine current capital projects, the five-year capital improvement program, per capita wealth, debt service, pay-as-you-go funding and alternative sources of funding."

Committee Recommendation

The SAC has followed the practice of previous committees that "spending affordability" can best be determined by estimating the growth in personal income of County residents. The committee uses the definition of personal income provided by the U.S. Department of Commerce, Bureau of Economic Analysis (BEA), which is "income received by persons from all sources" (e.g., wages, employment benefits, business income, and investment income) whether taxable or not. To avoid placing additional financial burden on County residents, spending growth should remain in-line with personal income growth. For example, if personal income of our residents should only increase one percent, then County spending should not increase more than that one percent. Simply put, if County spending were to increase faster than personal income, additional taxes and fees from County residents would likely be needed to support that spending.

Using this methodology, the SAC recommends that FY2020 spending be based on a personal income growth rate projection of 3.75%, which results in a forecasted FY2020 personal income level of $41,047,481,925 for the County. As shown in the table below, applying the 3.75% growth rate to the FY2019 adjusted base budget results in a recommended FY2020 Current Expense (General Fund) budget of $1,582,064,038. This represents a $57.2 million increase over FY2019. With respect to the Capital Budget, County budget policy stipulates the General

Fund Debt Limit be less than 4% of forecasted personal income.[1] This results in a recommended General Fund Debt Limit of $1,641,899,277. This represents a $69.8 million increase over FY2019.

The SAC's recommendation is based on data available as of the drafting of this report. The SAC agreed to meet again prior to our testimony to the County Council, currently scheduled for May 1st 2019. At that time, the SAC will examine actual economic data from the most recent quarter to determine if any adjustments to our recommendations are warranted.

Current Expense Budget Recommendation	
(Adjusted Base Budget for Current Year x Estimated Personal Income Growth Rate for Budget Year)	
Approved FY2019 Budget	$1,589,938,300
- Appropriated Fund Balance	(58,557,300)
- Rainy Day Fund Contribution	(6,500,000)
Committee's Adjusted Base Budget - FY2019	$1,524,881,000
Estimated Increase in County Personal Income (FY19 to FY20)	3.75%
FY2020 General Fund Appropriation Limit (customary manner)	**$1,582,064,038**
Capital Budget Recommendation	
(Personal Income Forecast for Current Year x Estimated Personal Income Growth Rate for Budget Year x Standard)	
Average of RESI (Regional Economic Studies Institute of Towson University) Quarterly Forecasts for County Personal Income - FY2019	$39,563,838,000
Estimated Increase in County Personal Income (FY19 to FY20)	3.75%
Forecast Personal Income - FY2020	$41,047,481,925
Standard Applied in County's Debt Affordability Model	4.0%
FY2020 General Fund Debt Limit (customary manner)	**$1,641,899,277**

Background

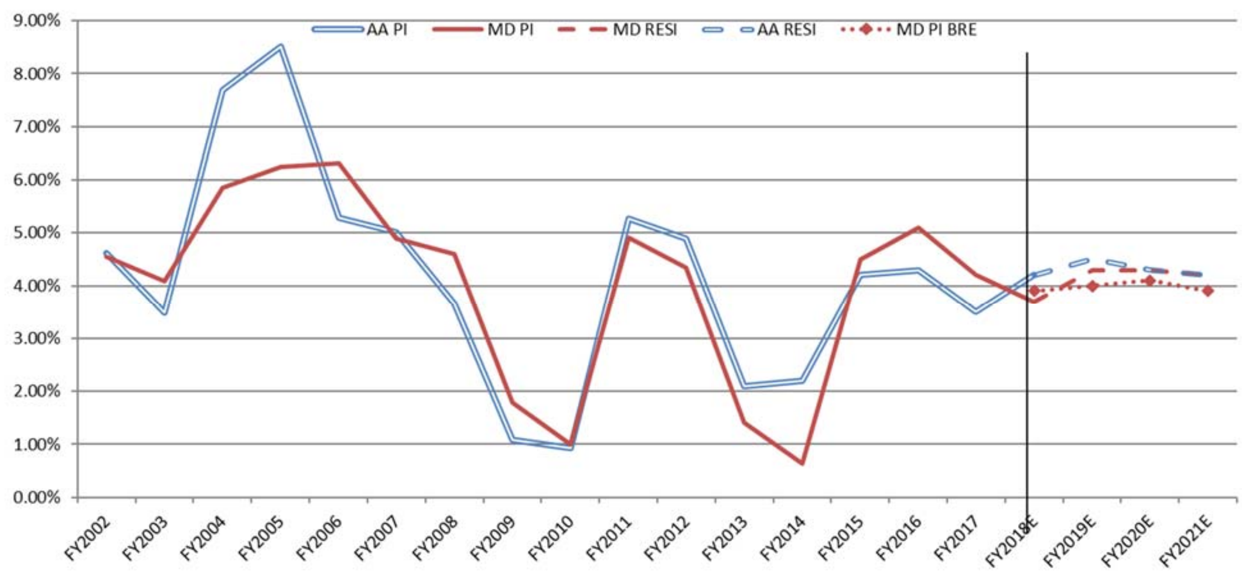
Historically, the State of Maryland has contracted with four firms (Sage Policy Group, Moody's, Global Insight, and the Regional Economic Studies Institute [RESI] of Towson University) to provide economic data and personal income estimates. Based on these four estimates, the State Board of Revenue Estimates makes its own additional estimate for Maryland. One of these firms, RESI, also provides data and forecasts for Anne Arundel County. The RESI estimates are derived from an economic model known as REMI PI+. This model is informed by personal income data from the BEA, employment data from the Bureau of Labor Statistics (BLS), and population data from the U.S. Census Bureau. The following table summarizes the most recent personal income growth estimates for Maryland and Anne Arundel County. As shown, these forecasts project a 4.0% personal income growth rate for FY2020 for Maryland, with a slightly higher growth rate (4.3%) projected by RESI for Anne Arundel County.

[1] Page 21, Approved Current Expense Budget and Budget Message for Fiscal Year 2019

Comparison of Personal Income Forecasts (Date of Estimate)		(Fiscal Years)			
		2018	2019	2020	2021
State of Maryland	Board of Revenue Estimates (Dec 2018)	3.9%	4.0%	4.1%	3.9%
	Sage Policy Group (Nov 2018)	4.0%	3.8%	3.4%	3.6%
	Moody's (Nov 2018)	4.0%	4.1%	3.7%	2.8%
	Global Insight (Aug 2018)	3.9%	4.1%	4.6%	4.4%
	RESI of Towson University (Dec 2018)	3.7%	4.3%	4.3%	4.2%
	Average	3.9%	4.1%	4.0%	3.8%
Anne Arundel County	RESI of Towson University (Dec 2018)	4.2%	4.5%	4.3%	4.2%

The following graph shows the actual annual growth rates in personal income from FY2002 to FY2017 for Maryland and Anne Arundel County as reported by the BEA, along with the forecasts described above for FY2018 and beyond. If viewing in black and white, the higher (blue) line in 2005 is Anne Arundel and the lower (red) line in 2005 is Maryland. For the most recent year where data is available (FY2017), the actual personal income growth rate in Anne Arundel County was 3.5%.

PERSONAL INCOME GROWTH BY YEAR FOR ANNE ARUNDEL AND MARYLAND



The SAC applied our collective experience and background in business, economics, finance, and Federal/State/ Local government to assess the forecasts provided by the State's four econometric modeling firms. Because full year personal income actuals are only available for FY2017, projections for FY2020 are based on 2 years of estimated data. These estimates are continuously revised as new data becomes available. As such, the SAC compared actual BEA-reported personal income growth in Maryland and Anne Arundel County to previous forecasts. We also examined changes over time in forward-looking personal income growth projections.

This analysis showed that, in recent years, the Maryland State Board of Revenue Estimates and their four econometric firms have had to revise downward their estimated personal income growth for Maryland as actual data becomes available. For example, in December 2014, the average of the five estimates was 5.4 percent for FY2017. In November 2015, the estimate dropped to 4.8 percent. In December 2016, the estimate was further decreased to 4.5 percent. The actual growth rate in Maryland for FY2017 came in at 4.2 percent, based on the latest BEA data. This is 1.2 percent below initial estimates made 2 years earlier.

With respect to FY2018, the average of the five estimates reported in December 2017 was 4.4 percent for Maryland. In December 2018, this estimate dropped to 3.9 percent, continuing the trend of downward revisions made to these forward-looking estimates.

Similar to the Maryland projections, RESI has reduced their personal income forecast for Anne Arundel County. For example, in December 2016, RESI forecast growth rates in Anne Arundel of 5.1, 5.6 and 5.0 percent for FY2016 through FY2018. In December 2017, RESI reported actual personal income growth in Anne Arundel County of 4.0 percent for FY2016, and reduced their FY2017 and FY2018 forecasts to 3.9 and 4.3 percent respectively. In December 2018, RESI reported actual FY2017 personal income growth in Anne Arundel as 3.5 percent (vs. the 3.9 percent estimate made 12 months earlier) and reduced their FY2018 projection to 4.2 percent.

Based on this analysis, the SAC believes it is likely that actual results for FY2020 will be lower than currently forecast. This analysis is the primary factor in the SAC's recommendation to base the FY2020 budget on a more conservative 3.75 percent growth rate, as compared to RESI's current projection of 4.3 percent.

Additional factors leading to our recommendation include the following:

- **Lower Forecasted Growth for 2020 and 2021 –** The average growth estimate for Maryland decreases from 4.1 percent for FY2019 to 4.0 percent for FY2020, and 3.8 percent for FY2021. This may be related to a slowing job market. Data indicates that Maryland as a whole is approaching full employment levels, with an unemployment rate of 4.1 percent in October 2018. While full employment typically results in higher wages, it also potentially slows job growth. RESI projections indicate that Anne Arundel employment levels will peak in 2019 and then remain flat through 2023 (*i.e., no job growth for the next 45 months*). The SAC believes it prudent to maintain steady year-over-year growth in the County budget. As such, we recommend budgeting below currently forecasted personal income growth for FY2020. If the economy does slow, this will allow the County to maintain a more consistent year-over-year budget while mitigating concern of a potential revenue shortfall. Conversely, if revenue outperforms projections, this will provide the County with additional budgeting flexibility.

- **Lack of Growth in High Paying Employment –** Overall, annual wages in Anne Arundel County increased nearly $2,300 from 2017 to 2018, outpacing inflation. While positive, the largest industry in Anne Arundel County remains Food Services and Drinking Places, with an average annual wage of only $20,696. The second largest industry in the County is Professional and Technical Services, with an average annual wage of $103,636. However, the SAC notes that overall employment in the 15 highest paying industries in the County (including Professional and Technical Services, Data Processing, Hosting, and Telecommunications), ***decreased*** by 0.9% last year. This trend is surprising, as the Committee would have expected Federal spending at Ft. Meade to have spurred more growth in the technology sector overall. Instead, tech companies such as Amazon are choosing to expand their local presence in Virginia (https://www.forbes.com/sites/forbesrealestatecouncil/2018/12/05/why-crystal-city-virginia-was-an-easy-choice-for-amazons-hq2/#3e4843b55387). The SAC believes the County should consider opportunities to increase the number of high paying jobs in the County when formulating long-term economic development policy.

- **Shift from Full Time W-2 Employment to Part Time and Self Employment –** While data on part time and self-employment (i.e., 1099) was not presented, the SAC believes that increasing numbers of County residents fall into these categories (a trend first noted in our report for FY2017). For example, recent estimates indicate the number of self-employed workers nationwide will reach 42 million by 2020, approaching a third of the total workforce (https://nypost.com/2018/03/25/self-employment-is-a-rising-trend-in-the-american-workforce/). As noted above, the BEA definition of personal income includes employment benefits (insurance, pension, employer's contribution to social security, etc.). Because many of these benefits are not available to part time employees and self-employed individuals, this trend has the potential to negatively impact personal income.

- **Population and Job Growth –** RESI estimates that per capital personal income will grow 3.5% from FY2019 to FY2020. Therefore, in order to achieve higher growth at the County level, it is necessary for the county population to grow and that there be jobs available to expand the workforce. In their latest report, RESI indicates average wage growth of 3.9% (2017 to 2018), projected population growth of 0.73 percent (FY2019 to FY2020), and slightly negative employment growth of minus 0.14 percent (FY2019 to FY2020). Should any of these parameters come in lower that projected, it directly impacts personal income. With respect to projected population growth, the Committee reviewed data presented in the Draft Anne Arundel County 2017 Land Preservation, Parks and Recreation Plan[2] from the U.S. Census Bureau and Maryland Department of Planning Round 8A Population Projections. This data indicated a population growth rate through 2035 of approximately 0.5 percent vs. RESI's 0.73 percent projection. Further, this same data showed the percentage of retirees (persons aged 65 and older) living in the County increasing from 13 percent of the population in 2015 to 21 percent of the population in 2035. Lower than projected population growth and accelerated aging of the County population both represent risk factors to forward-looking personal income projections.

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[2] Page II-9, Draft Anne Arundel County 2017 Land Preservation, Parks and Recreation Plan http://www.aacounty.org/departments/recreation-parks/lpprp/index.html#.Wk61AAjF-h4.aolmail

On a related note, the SAC recommends the County ensure that all planning and budgeting are using a consistent population growth model.

- **Impact of Federal Spending –** Many Government agencies involved in national security do not report employment data to the BLS, potentially impacting the models used by RESI and others. However, it is the sense of the SAC that the County's economy is heavily dependent on Federal spending. This is driven by employers located in the County (e.g., Government employees at BWI, the Naval Academy, and Ft. Meade, as well as businesses serving those locations). It also driven by residents who commute to Federal and related jobs outside the County. In 2013, it was estimated that 60% of Ft. Meade's 56,000 member civilian workforce lives in Anne Arundel County (https://www.capitalgazette.com/cg2-arc-5a4e7b95-81bf-5953-92a0-b9db8c70b503-20131001-story.html). At the state level, the Maryland Comptroller's Office estimates that direct and indirect federal paychecks account for 10 percent of state income tax revenue (https://www.wbaltv.com/article/partial-government-shutdown-has-big-impact-on-marylands-economy/25728433). While the County benefits significantly from Federal discretionary spending, the SAC notes that such spending typically increases about 2% year-over-year (i.e., less than forecasted personal income growth). Further, County reliance on Federal spending creates risk exposure in the event of continued/future Government shutdowns, sequestration or similar budget policy changes, or if future rounds of Base Realignment and Closure (BRAC) move jobs out of Maryland.

- **Real Estate Values –** Real estate taxes are the County's largest source of revenue, with Recordation and Transfer Fees representing the third largest source of revenue. The SAC considered whether or not changes in interest rates, U.S. Tax Code or other factors might impact these revenues going forward. Data presented by RESI shows that Anne Arundel home sale prices and the number of homes sold still remain below pre-2007 levels, and are recovering slowly. RESI also noted that County foreclosure rates actually increased last year. While our budget recommendation for FY2020 was not influenced by concern of a crash in the real estate market, we also do not see rising real estate values as contributing significantly to personal income growth. This topic should continue to be monitored closely given the County's dependence on these revenues.

- **Effect of the National Economy –** It is well documented that the national economy has been growing steadily since the last recession in 2008, and that the pace of growth has accelerated in 2017 and 2018. While this is a positive factor for the County's economic outlook, the SAC remains cautionary. As noted above, we believe the prudent approach is to plan based on more conservative growth expectations and to hedge against a possible slowdown in 2019 and recession in 2020.

- **Long Term Debt** – The SAC charter includes making advisory recommendations regarding long-term debt. Current County debt is in line with the Council approved debt affordability guidelines. However, the SAC is concerned that long-term debt growth has the potential to unduly burden County taxpayers in future years. The County enacted a 30-year bond program in 2015, when interest rates were significantly lower than they are today. The County also changed debt affordability guidelines to require that tax supported debt be less than 4.0 percent of projected personal income (vs. 3.0 percent in previous budget years). The SAC's more conservative estimate of personal income results in a lower debt affordability recommendation.

Finally, consistent with the SAC charter to consider the ability of the taxpayer to finance County services and long-term debt, the SAC notes that the analysis presented above does not include evaluation of other demands on personal income. In other words, under the methodology used above, County spending is considered "affordable" if it remains consistent as a percentage of overall personal income. However, even if taxes and fees paid to the County remain stable, increased costs in other areas (health care, insurance, tuition, federal and state taxes, etc.) potentially mean that less discretionary income is available to County residents. While this is a subjective consideration, it nonetheless supports our recommendation to increase the FY2020 County budget at a rate less than forecasted personal income growth.

Conclusion

Based on the analysis presented above, the SAC recommends an increase of 3.75% in the FY2020 General Fund budget as compared to FY2019. This recommendation is less than the personal income growth currently forecast by the Maryland Board of Revenue Estimates and the State's four econometric modeling firms. While we believe the economic outlook for Anne Arundel County remains positive, our recommendation is based on a measured approach that maintains steady growth while hedging against a potential downturn and allowing the County budgeting flexibility in future years should revenues exceed expectations.

The Committee once again extends its heartfelt appreciation to our County employees, especially to Assistant Budget Officer Hujia Hasim. The quality of governmental services that they provide is second to none. We sincerely hope that the evidence assembled for this report will help manage expectations and inform fair and just analysis of the difficult choices facing our elected leaders.

Sincerely,

David G. James, Chair

Spending Affordability Membership for 2018 to 2019:

District	Name	Resolution #	Appointed on	Term Expires
1	Carl Joe Carrick	70-16	November 21, 2016	December 1, 2018
2	Ejaz Younas, CPA-CISA-MSc, Secretary	19-17	May 1, 2017	December 1, 2020
3	Vacant			
4	Jerome W. Klasmeier	66-16	July 7, 2016	December 1, 2020
5	J. Timothy Connolly, Vice Chair	42-15	October 1, 2015	December 1, 2018
6	Jerry L. Pesterfield	42-15	October 1, 2015	December 1, 2018
7	David G. James, Chair	45-17	September 19, 2016	December 31, 2021

State of Maryland
Spending Affordability Report

Spending Affordability Committee

2018 Interim Report

Annapolis, Maryland
December 2018

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to contact the General Assembly.

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Home Page: http://mgaleg.maryland.gov

Roger Manno
Senate Chair

Ben Barnes
House Chair

Maryland General Assembly

Spending Affordability Committee
December 19, 2018

The Honorable Lawrence J. Hogan, Jr.
Governor, State of Maryland
State House
Annapolis, Maryland 21401

Dear Governor Hogan:

We are pleased to submit the fiscal policy recommendations of the Spending Affordability Committee made during the 2018 interim. These recommendations were adopted by the committee at its meeting on December 18, 2018. The committee reviewed data concerning the economic condition of the State, revenue and expenditure trends during the past several years, personnel data, the Transportation Trust Fund, and the results of the Capital Debt Affordability Committee report.

Recommendations were made concerning the fiscal 2020 spending limit, the use of general fund cash balances, reserve fund balances, capital debt limits and the reporting requirements for the Capital Debt Affordability Committee, and State positions.

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

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

Sincerely,

Delegate Ben Barnes
Presiding Chair

Senator Roger Manno
Senate Chair

BB:RM/RJR/mrm

Enclosure

Roger Manno
Senate Chair

Ben Barnes
House Chair

MARYLAND GENERAL ASSEMBLY

Spending Affordability Committee

December 19, 2018

The Honorable Thomas V. Mike Miller, Jr., Co-Chairman
The Honorable Michael E. Busch, Co-Chairman
Members of the Legislative Policy Committee

Dear Colleagues:

We are pleased to submit the fiscal policy recommendations of the Spending Affordability Committee made during the 2018 interim. These recommendations were adopted by the committee at its meeting on December 18, 2018. The committee reviewed data concerning the economic condition of the State, revenue and expenditure trends during the past several years, personnel data, the Transportation Trust Fund, and the results of the Capital Debt Affordability Committee report.

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

Sincerely,

Delegate Ben Barnes
Presiding Chair

Senator Roger Manno
Senate Chair

BB:RM/RJR/mrm

Enclosure

Maryland General Assembly
Spending Affordability Committee
2018 Interim
Membership Roster

Delegate Ben Barnes, Presiding Chair
Senator Roger Manno, Senate Chair

Senators
James E. DeGrange, Sr.
George C. Edwards
J. B. Jennings
Edward J. Kasemeyer
Nancy J. King
Richard S. Madaleno, Jr.
Nathaniel J. McFadden
Thomas M. Middleton
Thomas V. Mike Miller, Jr.
Douglas J. J. Peters

Delegates
Wendell R. Beitzel
Michael E. Busch
C. William Frick
Tawanna P. Gaines
Sheila E. Hixson
Adrienne A. Jones
Anne R. Kaiser
Nicholaus R. Kipke
Maggie McIntosh
Kirill Reznik

Citizens Advisory Committee
John L. Bohanan
Dana M. Jones

Committee Staff
Rebecca J. Ruff

Contents

2018 Spending Affordability Committee Report and Recommendations to the Governor and the Legislative Policy Committee

The Spending Affordability Committee was created in 1982 (Chapter 585). The committee is composed of equal numbers of senators and delegates and includes the Presiding Officers, the majority and minority leaders, the chairmen of the fiscal committees (or their designees), and other members appointed by the Presiding Officers. A citizen advisory committee assists the committee.

The committee's primary responsibility is to recommend to the Governor and the General Assembly a level of spending for the State operating budget that is reflective of the current and prospective condition of the State's economy. Historically, this has been in the form of a recommended growth limit. More recently, however, efforts to close the structural budget gap have been the focus of the committee's recommendations. The full list of the committee's prior recommendations and legislative action on the operating budget are reflected in the table in **Appendix 1**. Since its inception 35 years ago, the recommendation of the committee has been adhered to by the legislature in all but 1 year.

Often, growth in personal income is used as a proxy for the State's economic performance. The committee notes that operating spending in relation to the State's economy, as measured by the personal income statistic, has fluctuated between 6.7% and 7.6% over the past 30 years. The unprecedented increases under the Bridge to Excellence in Public Schools Act raised spending as a percentage of income during the period of 2004 to 2008. By 2009, the ratio reached 7.5%, the highest level since 1991, in part, due to falling income. Conversely, rising income and reduced State spending caused the ratio to drop to 7.1% in 2010; the rate has fluctuated between 7.1% and 7.5% since.

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

Economy

Since the recession ended, Maryland has generally underperformed relative to the nation as a whole with employment growth below the United States in each year from 2011 to 2017. Payrolls increased by less than 1% in both in 2013 and 2014 but accelerated to 1.5% in 2015. The increase, while slower than the U.S. growth, reflects the strongest employment growth in the State since 2005. In 2016, economic growth slowed slightly, but the gap between Maryland and the national economy narrowed. The improvement did not continue in 2017. Maryland employment growth further decelerated to 1.0%, and the rate of growth slowed substantially over the course of

2017. The data available for 2018 shows employment growth of 0.8% through the first 10 months of the year. Wage income grew 3.6% in the first half of 2018.

In September, the Board of Revenue Estimates (BRE) issued a revised economic forecast for Maryland, its first since March 2018. BRE revised the economic outlook largely in line with recent performance. Employment growth for 2018 was revised down slightly from 0.8% to 0.7%, and 2019 was increased from 0.5% to 0.8%. In December 2018, BRE took 2018 employment growth back to 0.8% but made no other changes to its employment forecast. The 2018 estimated personal income growth was increased from 3.6% to 3.7% due mostly to revisions of non-wage income.

Revenues

Fiscal 2018 general fund revenues were above the estimate by $339 million, or 2.0%. General fund revenues totaled $17.4 billion in fiscal 2018, an increase of 4.0% over fiscal 2017. The overattainment was due mostly to the personal income tax, the insurance premiums tax, and the sales tax. General fund personal income tax revenues were above the estimate by $218.7 million and grew 5.4% over fiscal 2017.

Fiscal 2019 general fund revenues through October are up 3.0% over fiscal 2018, with ongoing revenue up 5.1%. In September, BRE increased their estimate for fiscal 2019 general fund revenues by $331.6 million, or 1.9%. The personal income tax estimate was revised up by $177.8 million. In December, BRE reduced the general fund estimate for fiscal 2019 by $18.4 million, or -0.1%, in light of the revised economic assumptions and the year-to-date performance. BRE lowered their general fund revenue estimate for fiscal 2020 by $55.3 million (0.3%).

Budget Requirements

Taking into consideration the revenue projections by BRE in December 2018, the committee is currently projecting an ending general fund balance of $776.4 million at the close of fiscal 2019. This projected balance reflects a larger than anticipated fiscal 2019 starting balance driven by stronger than anticipated revenue attainment as well as minimal anticipated spending shortfalls requiring fiscal 2019 general fund deficiency appropriations of $35.5 million.

Significant deficiencies include fiscal 2018 shortfalls for Medicaid due to lower than budgeted special fund attainment that are anticipated to carry forward into fiscal 2019; longstanding liabilities in the Developmental Disabilities Administration (DDA) related to disallowed federal fund claims; anticipated fiscal 2019 salary enhancements that were not included in the fiscal 2019 budget; and growth in certain mandates and entitlements, notably Medicaid substance use disorder treatment costs. However, the overall level of projected deficiency needs is significantly tempered by projected fiscal 2019 surpluses in the Department of Public Safety and Correctional Services (DPSCS) through turnover savings despite the need for higher overtime, favorable enrollment and service delivery trends in Medicaid, and favorable per diem placement trends in the Department of Juvenile Services.

The baseline estimate for fiscal 2020 projects general fund growth of 7.8% over fiscal 2019 when capital and reserve fund appropriations are included, 4.6% excluding capital and reserve fund appropriations. The fiscal 2020 general fund ending balance is projected to be $122.8 million.

Outside of capital and reserve fund appropriations that grow by $37.5 million and $528.4 million, respectively, general fund budget growth includes $339.5 million in aid to local governments, an increase of 5.4%, of which $313.5 million is for education and library aid. Included in the growth in education and library aid is $125.0 million to supplement education funding as approved by voter referendum in November 2018. Entitlement growth is anticipated at $174.4 million, or 4.7%, $165.0 million of which is in the Medicaid program. Growth in Medicaid is driven by statutory changes to the federal matching rate for the Affordable Care Act expansion and Maryland Children's Health Program populations, modestly higher enrollment levels, provider rate increases, and a decline in available special fund revenue.

In terms of State agency spending, the baseline assumes $328.6 million in general fund growth. Personnel costs, excluding higher education, account for $121.3 million of this growth. The baseline assumes a 1% general salary increase for fiscal 2020 effective July 1, 2019, with a general fund cost of $23.1 million, plus regular increment increases totaling $42.1 million. The baseline also annualizes fiscal 2019 general salary increases at a cost of $31.4 in general funds.

Other significant State agency costs include general fund support for the University System of Maryland (USM) to cover growth in base costs (primarily for personnel) not supported by tuition and Higher Education Investment Fund revenue ($129.5 million), rate increases and placement costs in DDA ($43.9 million), and funding for legislation passed in the 2018 session ($41.4 million). These increases are partially offset by expected declines in spending, most significantly on the inmate medical contract in DPSCS ($12.9 million), mandated operating support for the University of Maryland Capital Region Medical Center ($12.0 million), and one-time Sunny Day support for Amazon ($10.0 million).

The committee projects that the State will close fiscal 2020 with a balance of $1,369.7 million in the Revenue Stabilization Account (Rainy Day Fund), which represents 7.4% of general fund revenues. The statutorily mandated appropriation for fiscal 2020 will be $537.7 million.

Current baseline projections estimate the General Fund to have a cash balance of $122.8 million at the close of fiscal 2020 and a slight structural shortfall of $18.9 million. As shown in **Exhibit 1**, which provides both the cash and structural balance projections for the General Fund through fiscal 2024, the picture is forecasted to deteriorate beyond fiscal 2020.

Exhibit 1
General Fund Budget Outlook
Fiscal 2019-2024
($ in Millions)

	2019 Working Approp.	2020 Baseline	2021 Est.	2022 Est.	2023 Est.	2024 Est.
Cash Balance	$776	$123	-$321	-$1,150	-$1,386	-$1,471
Structural Balance	406	-18	-664	-1,024	-1,281	-1,368

Recommendations

In light of the considerations discussed earlier, the committee proposes the following recommendations for the 2019 session:

1. Operating Budget Spending Limit and Sustainability

The spending affordability process was put in place in 1982 with the goal of calibrating the growth in State spending to growth in the State's economy. In implementing that objective, a unique method of classifying and accounting for State spending was developed and has been periodically revised as circumstance has required. For the past several years, the traditional establishment of a growth limit has been replaced with recommendations to reduce the structural deficit that developed as a result of plummeting revenues, substantial short-term federal assistance, and extensive reliance on one-time budget balancing actions experienced in the first part of the past decade.

Significant efforts have been undertaken since fiscal 2011 to close the structural imbalance. Most recently, improved revenue projections, coupled with slower expenditure growth, have created a short-term favorable fiscal position for the State. However, long-term stresses still exist that create a sizeable imbalance in the out-year forecast for the General Fund, even before accounting for any recommendations from the Commission on Innovation and Excellence in Education. Although a cash surplus and minimal structural shortfall are projected for fiscal 2020, current estimates indicate the structural deficit of $664 million in fiscal 2021 growing to almost $1.4 billion by fiscal 2024. Ongoing operating spending growth is forecast to outpace revenue growth by 1.6 percentage points annually.

As such, the committee recommends that the fiscal 2020 general fund budget maintain structural balance and that appropriations subject to the spending affordability limit shall be limited to growth of no greater than 3.75% over those approved at the 2018 session. This level of growth provides for a spending increase of $1,019 million over the previous session's spending. **In addition, the committee recommends that, with the exception of actions taken**

on the recommendations of the Commission on Innovation and Excellence in Education, the General Assembly minimize the impact of legislation passed at the 2019 session on the structural deficit forecast for fiscal 2021 and subsequent years.

2. Fund Balances

The committee anticipates that achievement of structural balance in fiscal 2020 will result in a closing general fund balance well in excess of $100 million and a Rainy Day Fund balance of $1,370 million, which is 7.3% of ongoing general fund revenues. With large structural budget deficits forecast for subsequent years, some respected economic forecasters predicting a recession within the next two years, and the Commission on Innovation and Excellence in Education expected to recommend significant new ongoing investments in education, the State faces substantial out-year budget challenges. **To help mitigate these challenges, the committee recommends that the Governor and General Assembly prioritize the preservation of cash reserves at the 2019 session. To achieve this goal, the committee recommends:**

- **a minimum ending fiscal 2020 general fund balance of $100 million;**
- **a Rainy Day Fund balance of at least 6.0% of general fund revenues; and**
- **the allocation of any remaining cash balances to reserves and one-time spending.**

3. Capital Budget

A. General Obligation Debt

In its 2018 report, the Capital Debt Affordability Committee (CDAC) recommended limiting general obligation (GO) bond authorizations to $995 million each year through fiscal 2024. This is consistent with the recommendation made by CDAC in each of its 2015 through 2017 reports with the purpose of slowing the growth in debt service costs and preserving additional debt capacity for the future.

Although the CDAC recommendation is advisory and the committee has differed in its recommendation in recent years, the committee does support the CDAC debt affordability criteria, which limits debt service to 8% of State revenues and debt outstanding to 4% of State personal income. The committee also supports the objective to slow the growth in debt service costs and reduce the debt service to revenue ratio. The committee remains concerned, however, that the CDAC recommendation to freeze authorizations through fiscal 2024 will make it difficult for the State to fund the capital infrastructure investments already programmed in the CIP due to recent increases in construction inflation.

The CDAC debt affordability objectives can be achieved while providing an increase in new GO bond authorizations to account for construction inflation. In each of the last three years, the committee has recommended increasing the authorization for the planning period by 1% annually. This 1% annual growth rate would equate to an authorization level of $1,085 million for the 2019 session. This moderate growth rate limits increases in GO bond authorizations to projected State property tax revenue increases. Since general funds and other State revenues are projected to increase at an annual rate in excess of 1%, this reduces the ratio of debt service to revenues in the out-years.

The committee recommends the authorization of $1,085 million in new GO bonds for the 2019 session. In addition, for planning purposes, out-year annual authorizations should be limited to 1% growth so that capital spending does not increase at a greater rate than State property tax revenue, which is the primary revenue source supporting debt service. The proposed limit keeps the State well within the CDAC debt affordability criteria. The committee further recommends the prudent use of general fund PAYGO, particularly for programs and projects that would require the issuance of more expensive taxable bonds, to supplement the capital program while maintaining a limit on the growth in GO bond authorizations.

The committee also recommends that the State conduct a comprehensive assessment of the condition of State facilities. For many years, the State has relied on self-reporting by State agencies to evaluate the State's facility renewal and facility maintenance needs. The application of uniform criteria and established asset management best practices by trained staff would provide the Governor and General Assembly with much needed insight into the actual facility maintenance and renewal needs at State facilities as well as identify facilities that are near or past their useful life.

B. Higher Education Debt

USM intends to issue up to $34 million in academic debt for fiscal 2020. This is $10 million more than was authorized for fiscal 2019 but is consistent with the amount programmed in the 2018 CIP for fiscal 2020. This level of issuance will result in a debt service ratio within the 4.5% of current unrestricted funds and mandatory transfers criterion recommended by the system's financial advisers.

The committee concurs in the recommendation of CDAC that $34 million in new academic revenue bonds may be authorized in the 2019 session for USM.

C. Debt Affordability Committee Report

Under current law, CDAC is required to submit its recommendations to the Governor and General Assembly on or before October 1 of each year. In addition to its review of debt, the committee's analysis requires careful consideration of State revenues. BRE generally issues its official revenue estimates late in September each year. The State Treasurer's Office (STO) is concerned that the timing of the board's approval of the revenue estimates leaves little time for the debt affordability analysis to be completed. Discussions between the Department of Legislative Services, STO, the State Comptroller's Office, and the Department of Budget and Management (DBM) concluded that extending the deadline to October 20 is reasonable. **The Spending Affordability Committee recommends the adoption of legislation at the 2019 session to extend the CDAC deadline to no later than October 20.**

4. State Employment

Personnel costs comprise almost 20% of the State's operating budget. The committee expects a State workforce of 80,932 in fiscal 2020, 642 more positions than in fiscal 2007, the year prior to the start of the economic recession. The increase primarily reflects positions created at institutions of higher education, which increased by almost 4,000 positions to 26,770 over the time period. In comparison, the State's Executive Branch workforce has declined by an almost equal amount from 53,364 in fiscal 2007 to an anticipated 49,360 in fiscal 2020. During this time period, the Judicial Branch increased by 653 positions to an expected total of 4,051 positions in fiscal 2020.

Since the economic recession in fiscal 2008, there has been a steady increase in vacant positions in Executive Branch agencies, despite cost containment actions to abolish vacant positions. Vacancies increased by 659 positions over the course of the past year, from 5,300 positions in October 2017 to 5,959 positions in October 2018 (increasing the Executive Branch vacancy rate from 10.7% to 11.2%, respectively). The committee is concerned that a significant number of these vacancies are within agencies that have been identified as chronically understaffed. In particular, vacant positions within DPSCS increased by 503, bringing the agency's total vacancies to 2,253, or 21.6%. Correctional officers account for 57% of those vacant positions.

The committee is concerned that a number of critical classes of positions in State agencies are understaffed, such as correctional officers, which could adversely impact public safety and care for vulnerable populations. **Given the high vacancy rate in DPSCS, the committee recommends that DBM authorize a one-grade increase for correctional officer salaries in order to improve recruitment and retention. The committee continues to encourage the Governor to act expeditiously to fill positions in understaffed agencies and work to remove hiring barriers for positions with recruitment and retention difficulties.**

Appendix 1
Prior Recommendations and Legislative Action on the Operating Budget
($ in Millions)

	Committee Recommendation		Legislative Action	
Session Year	**Growth Rate**	**Amount**	**Growth Rate**	**Amount**
1983	9.00%	$428.0	5.70%	$269.8
1984	6.15%	326.7	8.38%	402.0
1985	8.00%	407.2	7.93%	404.6
1986	7.70%	421.5	7.31%	402.2
1987	7.28%	430.2	7.27%	429.9
1988	8.58%	557.5	8.54%	552.9
1989	8.79%	618.9	8.78%	618.2
1990	9.00%	691.6	8.98%	689.7
1991	5.14%	421.8	5.00%	410.0
1992	No recommendation		10.00%	823.3
1993	2.50%	216.7	2.48%	215.0
1994	5.00%	443.2	5.00%	443.2
1995	4.50%	420.1	4.50%	420.0
1996	4.25%	415.0	3.82%	372.8
1997	4.15%	419.6	4.00%	404.6
1998	4.90%	514.9	4.82%	506.6
1999	5.90%	648.8	5.82%	640.6
2000[1]	6.90%	803.0	6.87%	800.0
2001[2]	6.95%	885.3	6.94%	884.6
2002	3.95%	543.2	3.40%	468.1
2003	2.50%	358.2	0.94%	134.1
2004	4.37%	635.2	4.33%	629.0
2005[3]	6.70%	1,037.1	6.69%	1,036.3
2006[3]	9.60%	1,604.7	9.57%	1,599.0
2007	7.90%	1,450.0	7.51%	1,378.4
2008	4.27%	848.7	4.16%	826.8
2009[4]	0.70%	145.7	0.19%	39.2
2010[4]	0.00%	0.0	-3.00%	-626.9
2011	Reduce FY 2012 structural deficit by 33⅓%		36.90%/46.00%[5]	
2012	Reduce FY 2013 structural deficit by 50.0%		50.60%	
2013	Reduce FY 2014 structural deficit by $200.0 million			-211.2
2014	4.00%	937.8	2.76%	646.4
	Reduce FY 2015 structural deficit by $125.0 million			-126.1
2015	Reduce FY 2016 structural deficit by 50.0%		68.27%	
2016	4.85%	1,184.2	4.55%	1,111.2
2017	Reduce FY 2018 structural deficit by at least 50%		90.19%	
2018	Eliminate 100% of the FY 2019 structural deficit		100%	

[1]2000 legislative action does not reflect $266 million of Cigarette Restitution Fund (CRF) appropriations. CRF dollars were excluded because it had not previously been available to the State. The 2000 growth rate, including CRF dollars, was 9.16%.

[2]Methodology revised effective with the 2001 session.

[3]The committee initially approved a limit of 5.70% for 2005 and 8.90% for 2006.

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

[5]Spending reduction/total reduction.

Part 1

Economic Outlook

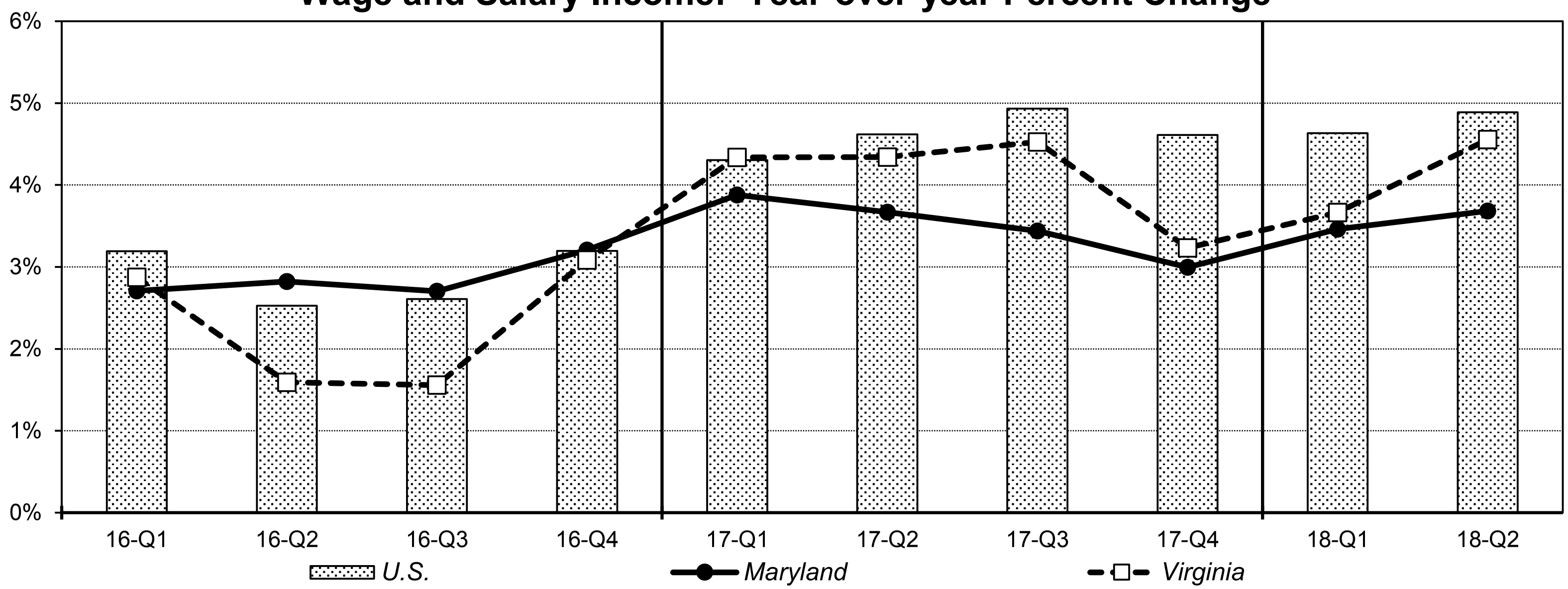
Maryland Economic Performance
Year-over-year Percent Change

Month-Year	Employment CES	Employment QCEW	Unemployment Rate	Initial UI Claims	Existing Home Sales	Median Home Price	Vehicle Sales
Jan-18	0.2%	0.7%	4.1%	-8.8%	-0.7%	0.9%	-1.8%
Feb-18	0.4%	0.8%	4.2%	-19.8%	-2.6%	6.6%	-3.1%
Mar-18	0.6%	0.8%	4.3%	-17.5%	-5.3%	5.4%	-6.3%
Apr-18	0.3%		4.3%	-26.0%	2.2%	3.9%	4.4%
May-18	0.6%		4.3%	-20.9%	-0.4%	4.0%	1.3%
Jun-18	0.9%		4.3%	-20.4%	-5.9%	4.0%	-3.3%
Jul-18	1.1%		4.3%	2.2%	5.2%	-1.4%	7.4%
Aug-18	1.2%		4.2%	-11.9%	1.2%	4.2%	0.7%
Sep-18	1.0%		4.2%	-6.5%	-10.8%	3.6%	-2.8%
Y-T-D	*0.7%*	*0.8%*	*4.2%*	*-14.8%*	*-1.9%*	*3.4%*	*-0.4%*

CES: Current Establishment Survey QCEW: Quarterly Census of Employment and Wages UI: unemployment insurance

Note: The unemployment rate is based on seasonally adjusted data. Monthly unemployment insurance claims from the U.S. Bureau of Labor Statistics with seasonal adjustment by Moody's Analytics.

Wage and Salary Income: Year-over-year Percent Change



Maryland Economic Forecasts

Year-over-year Percent Change

Calendar Year	Employment Mar. 2018	Employment Sep. 2018	Personal Income* Mar. 2018	Personal Income* Sep. 2018
2015	1.6%	1.5%	4.5%	5.0%
2016	1.4%	1.2%	3.6%	3.7%
2017	1.1%	1.1%	3.4%	4.1%
2018E	0.8%	0.7%	3.8%	3.6%
2019E	0.5%	0.8%	4.2%	4.2%
2020E	0.6%	0.6%	4.1%	3.9%
2021E	0.4%	0.4%	3.8%	3.7%

Calendar Year	Wage and Salary Income Mar. 2018	Wage and Salary Income Sep. 2018	Average Wage Mar. 2018	Average Wage Sep. 2018
2015	4.6%	4.6%	3.0%	3.1%
2016	3.0%	2.9%	1.6%	1.6%
2017	3.4%	3.5%	2.3%	2.4%
2018E	4.0%	3.9%	3.2%	3.2%
2019E	3.8%	4.0%	3.2%	3.2%
2020E	4.0%	3.9%	3.4%	3.3%
2021E	3.3%	3.3%	2.9%	2.9%

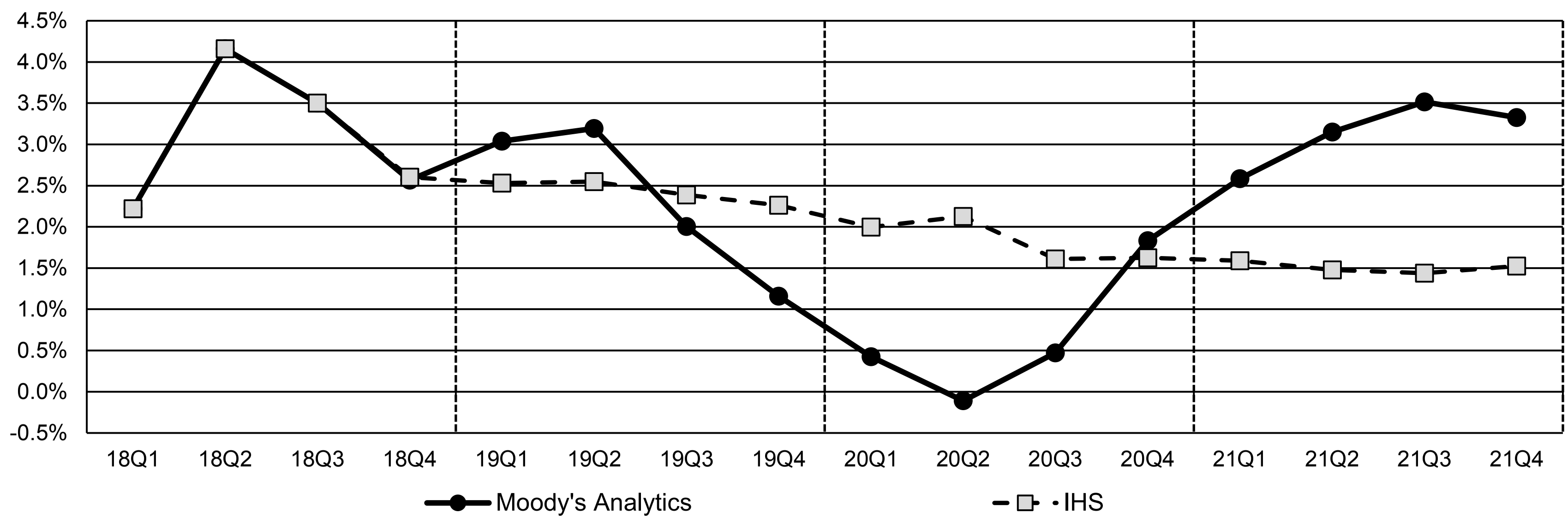
Calendar Year	Dividends, Interest, Rent Mar. 2018	Dividends, Interest, Rent Sep. 2018	Taxable Capital Gains Income* Mar. 2018	Taxable Capital Gains Income* Sep. 2018
2015	4.8%	6.0%	1.4%	1.4%
2016	1.9%	1.7%	-10.0%	-11.3%
2017	2.7%	5.0%	11.0%	23.1%
2018E	3.4%	3.7%	0.0%	12.1%
2019E	4.3%	4.4%	0.0%	4.6%
2020E	3.8%	3.8%	0.0%	-3.5%
2021E	4.1%	3.8%	0.0%	-3.5%

* For personal income, the calendar year 2017 figure is an estimate for March. For capital gains income, the calender 2016 figure is an estimate for March, and calendar 2017 figures are estimates for both March and September.

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

Calendar Year		Real Gross Domestic Product Moody's Analytics	Real Gross Domestic Product IHS	Employment Moody's Analytics	Employment IHS	Personal Income Moody's Analytics	Personal Income IHS
2016		1.6%	1.6%	1.8%	1.8%	2.6%	2.6%
2017		2.2%	2.2%	1.6%	1.6%	4.4%	4.4%
2018	E	2.9%	2.9%	1.6%	1.6%	4.6%	4.5%
2019	E	2.9%	2.7%	1.5%	1.5%	4.9%	4.5%
2020	E	0.9%	2.1%	0.3%	1.1%	4.1%	4.9%
2021	E	2.3%	1.6%	-0.1%	0.6%	3.6%	4.4%
2022	E	2.7%	1.5%	0.8%	0.4%	4.2%	4.2%

Inflation Adjusted U.S. Gross Domestic Product
Annualized Quarter-over-quarter Percent Change



Part 2

General Fund Revenues

Fiscal 2018 General Fund Revenues

($ in Millions)

	Fiscal 2017	Fiscal 2018				Fiscal 2017-2018 % Change	
Source	**Actual**	**Estimate[1]**	**Actual**	**$ Diff.**	**% Diff.**	**Estimated**	**Actual**
Personal Income Tax	$9,019.3	$9,289.1	$9,507.8	$218.7	2.4%	3.0%	5.4%
Sales and Use Tax	4,539.3	4,611.7	4,645.8	34.1	0.7%	1.6%	2.3%
State Lottery	484.3	518.4	534.6	16.2	3.1%	7.0%	10.4%
Corporate Income Tax	795.6	815.1	820.4	5.3	0.7%	2.4%	3.1%
Business Franchise Taxes	228.4	234.1	245.9	11.9	5.1%	2.5%	7.7%
Insurance Premiums Tax	328.7	326.3	386.4	60.1	18.4%	-0.7%	17.6%
Estate and Inheritance Taxes	227.9	216.4	214.4	-2.0	-0.9%	-5.1%	-6.0%
Tobacco Tax	387.0	381.6	372.7	-8.8	-2.3%	-1.4%	-3.7%
Alcohol Beverages Tax	32.5	31.9	32.0	0.2	0.6%	-1.9%	-1.4%
Other [2]	545.4	547.9	551.1	3.1	0.6%	0.5%	1.0%
Subtotal	***$16,588.5***	***$16,972.3***	***$17,311.1***	***$338.8***	***2.0%***	***2.3%***	***4.4%***
Transfer Tax [3]	$62.8	$46.0	$46.0	$0.0	0.0%	-26.7%	-26.7%
GAAP transfer [4]	47.4	0.0	0.0	0.0	n/a	n/a	n/a
Extraordinary Revenues [5]	0.0	14.8	15.3	0.5	n/a	n/a	n/a
Total Revenues	**$16,698.7**	**$17,033.2**	**$17,372.5**	**$339.3**	**2.0%**	**2.0%**	**4.0%**

GAAP: generally accepted accounting principles

[1] From the Board of Revenue Estimates, March 2018, with adjustments for actions at the 2018 legislative session.

[2] Includes revenues from the courts, interest earnings, hospital patient recoveries, and other miscellaneous revenues.

[3] The Budget Reconciliation and Financing Act (BRFA) of 2013 (Chapter 425) established a distribution of transfer tax revenues to the General Fund for fiscal 2014 to 2018. Chapter 10 of the 2016 session reduced the distribution in fiscal 2018 by $40.0 million.

[4] The Comptroller's annual analysis of the local income tax reserve account determined that the account was overfunded at the end of fiscal 2016 by $47.4 million.

[5] The BRFA of 2017 (Chapter 23) distributed to the General Fund in fiscal 2018 casino revenues that would normally go to the Small, Minority and Women-Owned Businesses Account.

Source: Maryland Office of the Comptroller; Board of Revenue Estimates

Fiscal 2019 General Fund Revenues
($ in Millions)

Source	FY 2018	FY 2019	$ Difference	% Difference	Full-year Estimated Growth Rate
	Fiscal Year through October				
Personal Income Tax	$2,401.8	$2,545.5	$143.6	6.0%	7.8%
Sales and Use Tax [1]	1,163.0	1,196.0	33.0	2.8%	4.7%
State Lottery	170.2	174.9	4.7	2.8%	-1.1%
Corporate Income Tax	204.2	248.6	44.4	21.7%	14.2%
Business Franchise Taxes	53.1	49.3	-3.7	-7.1%	-0.2%
Insurance Premiums Tax	69.7	115.9	46.1	66.2%	-2.3%
Estate and Inheritance Taxes	65.3	49.8	-15.5	-23.8%	-14.2%
Alcohol and Tobacco Taxes	115.8	118.5	2.7	2.4%	0.5%
Other [2]	150.9	26.4	-124.5	-82.5%	-8.8%
Total Revenues	**$4,394.0**	**$4,524.9**	**$130.8**	**3.0%**	**5.7%**

[1] Data reflects sales tax revenue remitted to the Comptroller from August through October that were collected by retailers from July through September.

[2] Includes revenues from the courts, interest on investments, miscellaneous revenues, and hospital patient recovery revenues from Medicare, insurance, and sponsors. Fiscal 2018 includes $5.0 million in casino revenue representing money that would normally go to the Small, Minority, and Women-Owned Businesses Account but was diverted to the General Fund per the Budget Reconciliation and Financing Act (BRFA) of 2017 (Chapter 23). Fiscal 2018 also includes $46.0 million in transfer tax revenue. Fiscal 2019 reflects a transfer of $40 million from general fund personal income tax collections to the Commission on Innovation and Excellence in Education Fund as required by the BRFA of 2018 (Chapter 10).

Source: Comptroller of Maryland; State Lottery and Gaming Control Agency

"Revised as of December 18, 2018"

Maryland General Fund Revenue Forecast

($ in Millions)

Source	FY 2018 Actual	FY 2019 Estimate September	FY 2019 Estimate December	FY 2019 Estimate $ Difference	% Change over FY 2018	FY 2020 Estimate September	FY 2020 Estimate December	FY 2020 Estimate $ Difference	% Change over FY 2019
Personal Income Tax	$9,507.8	$10,249.6	$10,202.6	-$47.0	7.3%	$10,594.6	$10,526.8	-$67.8	3.2%
Sales and Use Tax [1]	4,645.8	4,863.1	4,863.1	0.0	4.7%	5,026.4	5,026.4	0.0	3.4%
State Lottery	534.6	528.6	544.5	15.9	1.8%	539.3	535.2	-4.0	-1.7%
Corporate Income Tax	820.4	937.0	958.0	21.1	16.8%	943.4	965.3	21.8	0.8%
Business Franchise Taxes [2]	245.9	245.5	242.6	-3.0	-1.4%	212.7	208.4	-4.3	-14.1%
Insurance Premiums Tax	386.4	377.5	377.5	0.0	-2.3%	396.9	396.9	0.0	5.1%
Estate and Inheritance Taxes [3]	214.4	184.0	177.4	-6.6	-17.3%	167.2	164.3	-2.9	-7.4%
Alcohol and Tobacco Taxes	404.8	406.7	404.8	-1.9	0.0%	395.5	396.6	1.1	-2.0%
Other	551.1	502.7	499.5	-3.3	-9.4%	502.0	496.1	-5.9	-0.7%
Subtotal	***$17,311.1***	***$18,294.6***	***$18,269.8***	***-$24.8***	***5.5%***	***$18,777.9***	***$18,715.9***	***-$62.0***	***2.4%***
Transfer Tax [4]	$46.0	$0.0	$0.0	$0.0	-100.0%	$0.0	$0.0	$0.0	n/a
Casino Revenues [5]	15.3	0.0	0.0	0.0	n/a	0.0	0.0	0.0	n/a
Excellence in Education Fund [6]	0.0	-200.0	-200.0	0.0	n/a	0.0	0.0	0.0	n/a
Total Revenues	**$17,372.5**	**$18,094.6**	**$18,069.8**	**-$24.8**	**4.0%**	**$18,777.9**	**$18,715.9**	**-$62.0**	**3.6%**
Volatility Adjustment [7]	$0.0	$0.0	$0.0	$0.0	n/a	-$93.9	-$93.6	$0.3	n/a
Available Revenues	**$17,372.5**	**$18,094.6**	**$18,069.8**	**-$24.8**	**4.0%**	**$18,684.0**	**$18,622.3**	**-$61.7**	**3.1%**

(1) Fiscal 2019 and fiscal 2020 reflect revenues of $62.9 million and $99.1 million, respectively, from out of state retailers following the Supreme Court decision allowing states to require those sellers to collect and remit the sales tax (*South Dakota vs. Wayfair*).

(2) Corporate filing fees decline in fiscal 2020 due to implementation of Chapters 323 and 324 of 2016 which exempts companies that participate in the Maryland Small Business Retirement Savings Program and Trust or otherwise offer a retirement savings arrangement from the annual filing fee for corporations and business entities.

(3) Estate tax revenunes decline due to Chapter 612 of 2014 which raised the unified credit over a number of years and Chapter 15 of the 2018 which sets the credit at $5 million beginning in calendar 2019.

(4) The Budget Reconciliation and Financing Act (BRFA) of 2013 (Chapter 425) established a distribution of transfer tax revenues to the general fund for fiscal 2014 to 2018. Chapter 10 of 2016 reduced the distribution in fiscal 2017 by $20.0 million and in fiscal 2018 by $40.0 million.

(5) The BRFA of 2017 (Chapter 23) distributed to the general fund casino revenues that would normally go to the Small, Minority and Women-Owned Businesses Account in fiscal 2018.

(6) The BRFA of 2018 (Chapter 10) distributed $200 million of personal income tax revenues to the Commission on Innovation and Excellence in Education Fund created by the bill.

(7) Chapters 4/550 of 2017 as amended by the BRFA of 2018 requires the Board of Revenue Estimates, beginning with fiscal 2020, to calculate an adjustment to the general fund revenue estimate based on the share of revenues from non-withholding personal income tax payments relative to the historical average.

Note: Other includes revenues from the courts, hospital patient recoveries, interest earnings and other miscellaneous revenues. The September estimate has been adjusted in both fiscal 2019 and 2020 to reflect additional miscellaneous revenue related to a court ruling.

Source: Board of Revenue Estimates

"Revised as of December 18, 2018"

Gaming Program
Revenues and Impact on the Education Trust Fund
Fiscal 2018-2020
($ in Millions)

	FY 2018			FY 2019 Estimate			FY 2020 Estimate		
	Estimate	Actual	Difference	September	December	Difference	September	December	Difference
Video Lottery Terminals									
Education Trust Fund [1]	$388.3	$401.8	$13.5	$431.5	$438.7	$7.1	$438.6	$430.1	-$8.5
Casino Operators	475.6	491.0	15.4	510.3	518.0	7.7	518.6	542.2	23.6
Local Impact Grants	54.9	56.8	1.9	58.9	59.8	1.0	59.8	60.8	1.0
SMWOBA [2]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purse Dedication	59.1	61.2	2.1	63.5	64.5	1.0	64.5	65.6	1.1
RTFRA	9.7	10.0	0.3	10.4	10.6	0.2	10.5	10.7	0.2
State Lottery Agency	10.1	10.5	0.3	10.9	11.0	0.2	11.0	11.2	0.2
General Fund	14.8	15.3	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Gross Revenues	**$1,012.6**	**$1,046.7**	**$34.1**	**$1,085.4**	**$1,102.6**	**$17.2**	**$1,103.0**	**$1,120.6**	**$17.5**

	FY 2018			FY 2019 Estimate			FY 2020 Estimate		
	Estimate	Actual	Difference	September	December	Difference	September	December	Difference
Table Games									
Education Trust Fund	$93.4	$94.8	$1.5	$96.1	$99.3	$3.2	$97.6	$98.7	$1.1
Casino Operators	498.1	505.8	7.8	512.5	529.4	16.9	520.3	526.4	6.1
Local Impact Grants	31.1	31.6	0.5	32.0	33.1	1.1	32.5	32.9	0.4
Gross Revenues	**$622.6**	**$632.3**	**$9.7**	**$640.6**	**$661.8**	**$21.1**	**$650.4**	**$658.0**	**$7.6**
Total Gross Revenues	**$1,635.2**	**$1,679.0**	**$43.8**	**$1,726.0**	**$1,764.3**	**$38.3**	**$1,753.4**	**$1,778.5**	**$25.1**
Total Education Trust Fund	**$481.7**	**$496.7**	**$15.0**	**$527.6**	**$537.9**	**$10.3**	**$536.1**	**$528.8**	**-$7.4**

SMWOBA: Small, Minority, and Women-Owned Businesses Account
RTFRA: Race Tracks Facility Renewal Account

[1] The December estimate for fiscal 2020 reflects a reduction in Education Trust Fund (ETF) revenue as a result of an increase in the licensee shares approved by the Maryland Lottery and Gaming Commission in December 2018. The Commission increased the licensee share of video lottery terminal revenues at the Live!, Horseshoe and Hollywood casinos effective July 1, 2019. The change increases the licensee share at Live! from 49% to 51%, at Horseshoe from 46% to 49% and at Hollywood from 39% to 44%. In the absence of these changes, total revenues to the ETF would have been revised up in fiscal 2020 by $8.4 million relative to the September estimate.

[2] The Budget Reconciliation and Financing Act of 2017 (Chapter 23) diverted the distribution that normally goes to the SMWOBA to the General Fund in fiscal 2018 and to the ETF in fiscal 2019 and 2020. The distribution is 0.75% of gross video lottery terminal revenues at the Rocky Gap facility and 1.5% at all other casinos.

Source: State Lottery and Gaming Control Agency; Board of Revenue Estimates.

Part 3

General Fund Budget and Forecast

General Fund: Recent History and Outlook

Fiscal 2018-2020
($ in Millions)

	2018 Actual	2019 Working	2020 Baseline
Funds Available			
Ongoing Revenues	$17,382	$18,154	$18,651
Balances and Transfers	377	390	776
Short-term Revenues	0	143	0
Total Funds Available	**$17,759**	**$18,686**	**$19,428**
Appropriations, Deficiencies, and Cost Containment			
Net Ongoing Operating Costs and Deficiencies	$17,338	$17,748	$18,670
One-time Spending	25	97	0
Prior Year Withdrawn Appropriations/One-time Cuts	0	0	0
One-time Spending/Reductions	-214	-31	0
Pay-as-you-go Capital	10	59	97
Appropriations to Reserve Fund	10	36	538
Total Spending	**$17,169**	**$17,909**	**$19,304**
Cash Balance/Shortfall	**$590**	**$776**	**$123**
Structural			
Balance (Ongoing Revenues Less Operating Costs)	**$44**	**$406**	**-$18**
Ratio (Ongoing Revenues/Operating Costs)	**100.3%**	**102.3%**	**99.9%**
Reserve Fund Activity			
Appropriations to Rainy Day Fund	$10	$15	$444
Transfers to General Fund	0	0	0
Estimated Rainy Day Fund Balance – June 30	**$857**	**$882**	**$1,370**
Total Cash (Rainy Day Fund and General Fund Balance)	**$1,446**	**$1,659**	**$1,493**
Rainy Day Fund Balance In Excess of 5%	**-$12**	**-$22**	**$436**

Status of the General Fund
Fiscal 2019
($ in Millions)

Starting Balance			**$589.6**
Revenues			
	BRE Estimated Revenue December 2018	$18,069.8	
Total			**$18,069.8**
Transfers			
	Budgeted Tax Credits	$26.5	
Total			**$26.5**
Funds Available			**$18,685.9**
Spending			
	Fiscal 2019 Legislative Appropriation	$17,908.9	
	DLS Estimated Deficiencies	35.5	
	Estimated Agency Reversions	-35.0	
Net Expenditures			**$17,909.5**
Ending Balance			**$776.4**

BRE: Board of Revenue Estimates
DLS: Department of Legislative Services

Fiscal 2019 Fund Balance Reconciliation
($ in Millions)

Estimated Closing Fund Balance (July 2018)	**$105.8**
Revenues and Transfers	
September and December 2018 BRE Revisions	$300.4
Fiscal 2018 Closeout	343.4
Medicare Part D Injunction	6.4
Tax Credit Reimbursements and September Estimate	1.3
Subtotal	***$651.6***
Spending	
Fiscal 2018 Closeout Reversions	$54.6
DLS Estimated 2019 Deficiencies	-35.5
Subtotal	***$19.0***
Estimated Closing Fund Balance (December 2018)	**$776.4**

BRE: Board of Revenue Estimates
DLS: Department of Legislative Services

"Revised as of December 18, 2018"

Status of the General Fund
Fiscal 2020
($ in Millions)

Starting Balance		**$776.4**
Revenues		
BRE Estimated Revenue December 2018	$18,622.3	
Total		**$18,622.3**
Transfers		
Budgeted Tax Credits	$28.9	
Total		**$28.9**
Funds Available		**$19,427.6**
Spending		
Fiscal 2020 DLS Baseline Estimate	$19,339.2	
Estimated Agency Reversions	-35.0	
Net Expenditures		**$19,304.2**
Ending Balance		**$123.4**

BRE: Board of Revenue Estimates
DLS: Department of Legislative Services

State Reserve Fund Activity
Fiscal 2019 and 2020
($ in Millions)

	Rainy Day Fund	Dedicated Purpose Acct.	Catastrophic Event Acct.
Estimated Balances 6/30/18	**$856.8**	**$0.0**	**$4.8**
Fiscal 2019 Appropriations	$47.8	$71.0	$0.0
Funds Restricted for Legislative Initiatives	-44.5	0.0	0.0
Contingent Reduction	0.0	-65.0	0.0
Ellicott City Flood Relief	0.0	0.0	-2.5
Transfer to Program Open Space	0.0	-6.0	0.0
Interest Earnings	22.1	0.0	0.0
Estimated Balances 6/30/19	**$882.3**	**$0.0**	**$2.3**
Fiscal 2020 Appropriations	$443.8	$50.0	$0.0
Transfer Funds to State Pensions	0.0	-50.0	0.0
Interest Earnings	43.6	0.0	0.0
Estimated Balances 6/30/20	**$1,369.8**	**$0.0**	**$2.3**
Percent of Revenues in Reserve	**7.3%**		

Fiscal 2020 General Fund Outlook Has Improved by More Than $1 Billion
($ in Millions)

Change in Outlook		**$1,052**
Components of the Change – How It Happened		
Revenues Increased		**$956**
Fiscal 2019 Ongoing Revenues Revised Upward	$302	
Fiscal 2020 Ongoing Revenues Revised Upward	350	
Fiscal 2018 Closeout	343	
Transfers from Rainy Day Fund	-39	
Expenditure Growth Slowed		**$487**
Favorable Trends in Medicaid Enrollment and Inflation	$200	
Higher Property Tax and Bond Premium Revenues Expected	92	
Baseline Aligns Employee Turnover with Recent Experience of About 7%	75	
Fund Balance in Employee/Retiree Health Insurance Program	72	
Align Developmental Disabilities Spending with Recent Experience	40	
Net Other Changes	8	
Mandated Appropriation to Rainy Day Fund Increased (Capturing Unappropriated Fiscal 2018 Surplus – "Sweeper")		**-$392**

General Fund Budget Outlook
Fiscal 2019-2024
($ in Millions)

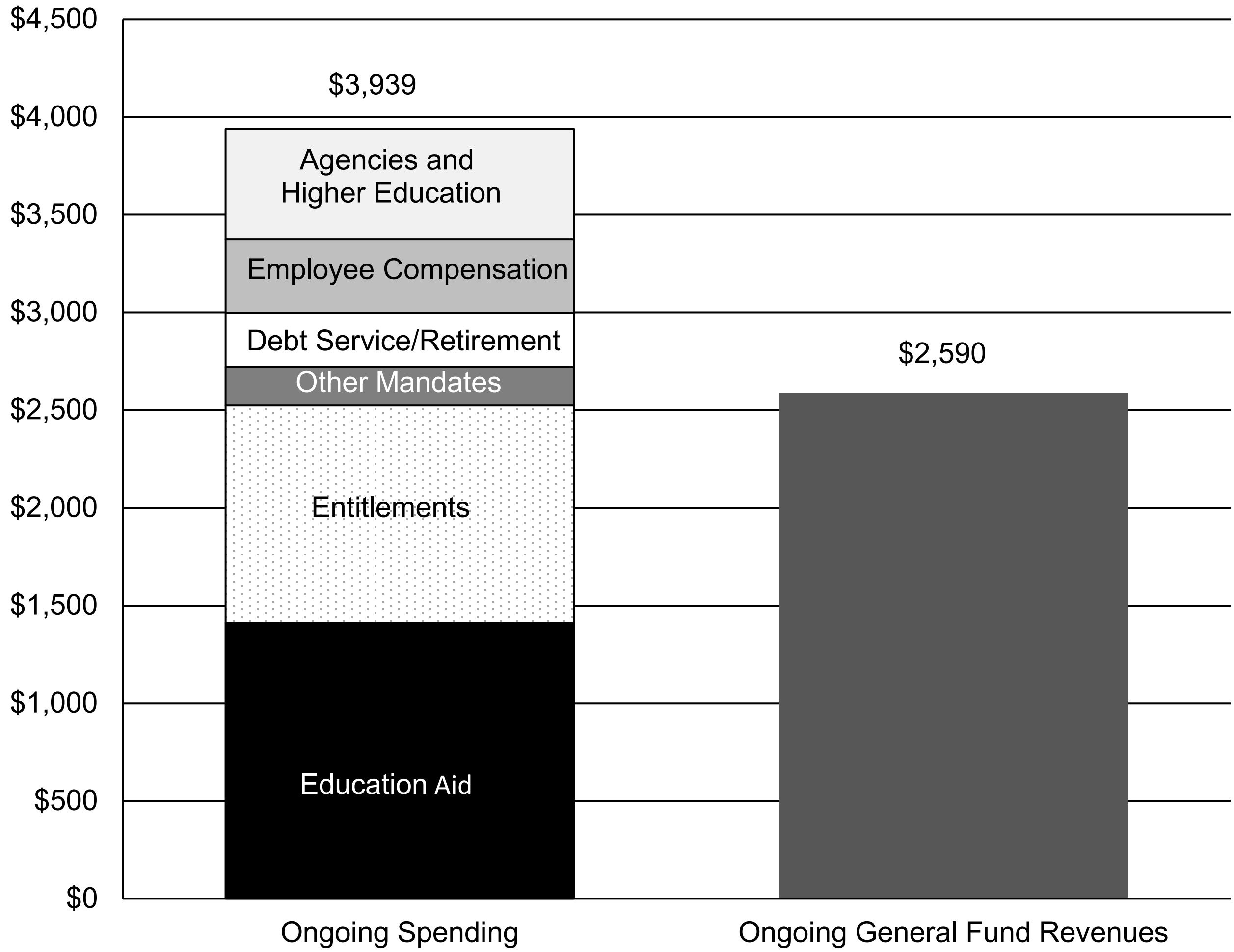
	App. 2019	Baseline 2020	Estimate 2021	Estimate 2022	Estimate 2023.	Estimate 2024	Average Annual Change 2020-24
Revenues							
Opening Fund Balance	$590	$776	$123	$0	$0	$0	
Transfers	0	0	504	52	46	48	
One-time Revenues	-57	0	0	0	0	0	
Subtotal One-time Revenue	***$532***	***$776***	***$627***	***$52***	***$46***	***$48***	
Ongoing Revenues	**$18,154**	**$18,651**	**$19,195**	**$19,796**	**$20,511**	**$21,241**	**3.3%**
Total Revenues and Fund Balance	**$18,686**	**$19,428**	**$19,823**	**$19,848**	**$20,557**	**$21,289**	
Spending							
Ongoing Spending	**$17,748**	**$18,670**	**$19,860**	**$20,820**	**$21,793**	**$22,609**	**4.9%**
PAYGO Capital/Other	$152	$97	$93	$63	$49	$49	
Appropriation to Reserve Fund	9	538	191	114	102	102	
Subtotal One-time Spending	***$162***	***$635***	***$284***	***$177***	***$151***	***$151***	
Total Spending	**$17,909**	**$19,304**	**$20,143**	**$20,998**	**$21,944**	**$22,760**	
Ending Balance	**$776**	**$123**	**-$321**	**-$1,150**	**-$1,386**	**-$1,471**	
Rainy Day Fund Balance	$882	$1,370	$960	$989	$1,026	$1,062	
Balance Over 5% of GF Revenues	0	439	0	0	1	0	
As % of GF Revenues	5.01%	7.36%	5.01%	5.01%	5.01%	5.00%	
Structural Balance	**$406**	**-$18**	**-$664**	**-$1,024**	**-$1,281**	**-$1,368**	

GF: general fund
PAYGO: pay-as-you-go

Ongoing General Fund Spending Will Grow Faster Than Revenues Over Next Four Years, Producing a Fiscal 2024 Structural Gap of $1.3 Billion

Fiscal 2020-2024

($ in Millions)



Revenue Legislation Impacting General Fund Forecast

Fiscal 2018-2024

($ in Millions)

	2018	2019	2020	2021	2022	2023	2024
Total General Fund Impact	**-$74.1**	**-$130.4**	**-$251.2**	**-$229.1**	**-$233.7**	**-$241.7**	**-$240.5**
Estate Tax							
Unified Credit	-$67.1	-$99.7	-$128.3	-$135.6	-$137.6	-$139.7	-$141.8
Corporate Filing Fees							
Small Business Retirement Savings Program	$0.0	$0.0	-$37.5	-$38.3	-$39.2	-$40.1	-$41.0
Personal/Corporate/Sales Taxes							
Interest Rate on Deficiencies and Refunds	-$5.4	-$7.6	-$9.8	-$11.9	-$14.1	-$15.6	-$16.2
Personal/Corporate Income Taxes: Business Tax Credits							
Film Production	$0.0	-$3.0	-$11.0	-$14.0	-$17.0	-$20.0	-$20.0
Cybersecurity	0.0	-2.0	-4.0	-4.0	-4.0	-4.0	0.0
Job Creation/One Maryland	0.0	-1.1	-2.8	-5.5	-7.0	-9.2	-9.9
More Jobs for Marylanders	-1.6	-17.0	-57.9	-19.8	-14.8	-13.1	-11.6
Fiscal Note	-0.5	-0.5	-25.1	-4.9	-2.9	-1.2	0.3
Impact of Federal Tax Cuts and Jobs Act	-1.1	-16.6	-32.8	-14.9	-11.9	-11.9	-11.9

Source: Board of Revenue Estimates; Department of Legislative Services

Funds Reserved for Education Enhancements

Fiscal 2020-2024

($ in Millions)

	2020	2021	2022	2023	2024
Ongoing Funding					
Education Trust Fund Revenues*	$125	$250	$375	$540	$545
One-time Funding					
Commission on Innovation and Excellence in Education Fund**	$200				

* Funds must be used as supplemental funding for K-12 Education and may include school construction.

** Funds must be used to implement final recommendations of Commission. Funds may be spent in a single year or over multiple years.

Potential Uses of Fund Balance

Bolster Reserves

- Leave balance in Rainy Day Fund of 6% to 7% of general fund revenues, better positioning State to respond to an economic downturn and the budget challenges forecast for fiscal 2021 to 2024.

One-time Infrastructure Spending

- Fund taxable debt with cash rather than bonds.

- Use pay-as-you-go to expand capital program in fiscal 2020 or replace general obligation bonds.

- Fund comprehensive study of facilities maintenance/renewal needs.

Fund One-time Costs Associated with the Recommendations of the Commission on Innovation and Excellence in Education

- Training for State and local school system leadership, senior staff, principals, and teachers.

- Information technology upgrades/enhancements.

- Development of expanded curriculum/syllabi/professional development, *etc*.

Address Unfunded Liabilities

- Other Post Employment Benefits = $11.4 Billion

- Workers' Compensation = $400 Million

- Allocating small sum will have minimal impact absent a multi-year funding plan.

Part 4

Fiscal 2020 Baseline Budget Estimate

Potential Fiscal 2019 General Fund Deficiencies Are Mostly Offset by Projected Underspending in Medicaid, Public Safety, and Juvenile Services
($ in Millions)

Fiscal 2018 Deficiencies: Medicaid, lower than budgeted special fund attainment ($42.0 million), higher substance use disorder treatment costs ($3.0 million), and higher enrollment in the Maryland Children's Health Program (MCHP) ($0.2 million); State Department of Assessments and Taxation (SDAT) funding for various tax credits ($7.5 million); Office of the Public Defender operating costs ($1.3 million); and Department of Information Technology (DoIT) operating costs and security contracts ($1.1 million).	$55.1
Long-term Liabilities: Developmental Disabilities Administration federal fund audit disallowance ($34.2 million) and refunds of improperly collected fiscal 2014 contribution to care payments ($1.2 million).	35.4
Fiscal 2019 Salary Enhancements: April 1, 2019 $500 one-time bonus ($25.3 million) and 0.5% general salary increase ($5.1 million).	30.3
Mandates and Entitlements: Medicaid, primarily higher costs for substance use disorder treatment ($15.7 million), and enrollment growth in MCHP ($1.2 million); SDAT Homeowners Tax Credit estimated funding need ($6.7 million); and Department of Human Services foster care costs based on revised caseload, placement mix, and the implementation of Chapters 815 and 816 of 2018, which reduce recipient contribution to care requirements ($5.2 million).	28.8
Operating Expenses: DoIT operating costs and security contracts ($1.1 million) and Stadium Authority operating subsidy for the Baltimore City Convention Center ($0.5 million).	1.6
Fiscal 2019 Overfunding: Public Safety and Correctional Services turnover savings ($72.3 million) partially offset by increased overtime costs ($26.0 million); Medicaid favorable enrollment trends and higher use of managed care ($63.0 million); and Department of Juvenile Services favorable trends in per diem placements ($6.4 million).	-115.7
Total Deficiencies	**$35.5**

Fiscal 2020 Baseline Budget Forecast Assumptions

Baseline Budget Concepts

- The baseline budget is an estimate of the cost of government services in the next budget year based on a set of assumptions. Assumptions include that current laws, policies, and practices are continued; federal mandates and multi-year commitments are observed; legislation adopted at the prior session is funded; and full-year costs of programs, rate increases, and any other enhancements started during the previous year are included.

- Major inflation assumptions include natural gas (4.3%), medical care and medicine/drugs at State facilities (3.7%), utilities/electricity (3.2%), postage (2.4%) food (2.2%), and gas and oil (-7.4%).

- Employee compensation costs include:

  - annualization of fiscal 2019 salary increases (January 1, 2019 2.0% general salary increase and April 1, 2019 0.5% general salary increase);

  - a general salary increase of 1.0% effective July 2019 and funding for employee increments on the regular July-January schedule;

  - employee and retiree health insurance costs increase slightly based on available fund balance and savings under the recent pharmacy contract (1.1%); and

  - employee retirement costs increase slightly due to higher than projected membership in the reformed plan, average returns being close to expectations, and lower than projected salary growth (0.9%).

- The higher education grant is calculated primarily on growth in mandatory costs and assuming a 3.0% tuition increase.

Caseload Assumptions

	FY 2018	FY 2019	FY 2020	% Change FY 2019-2020
Pupil Enrollment*	852,520	860,806	866,977	0.7%
Medicaid	914,577	923,296	933,752	1.1%
Children's Health	147,837	156,708	161,410	3.0%
Expansion Under Affordable Care Act	309,504	312,302	318,548	2.0%
Temporary Cash Assistance	46,651	43,619	42,965	-1.5%
Foster Care/Adoption/Guardianship	12,726	12,600	12,455	-1.2%
Adult Prison Population	21,440	21,111	20,561	-2.6%

* Data for fiscal 2018, 2019, and 2020 reflect September 2016, September 2017, and September 2018 full-time equivalent enrollments.

State Expenditures – General Funds

Fiscal 2018-2020

($ in Millions)

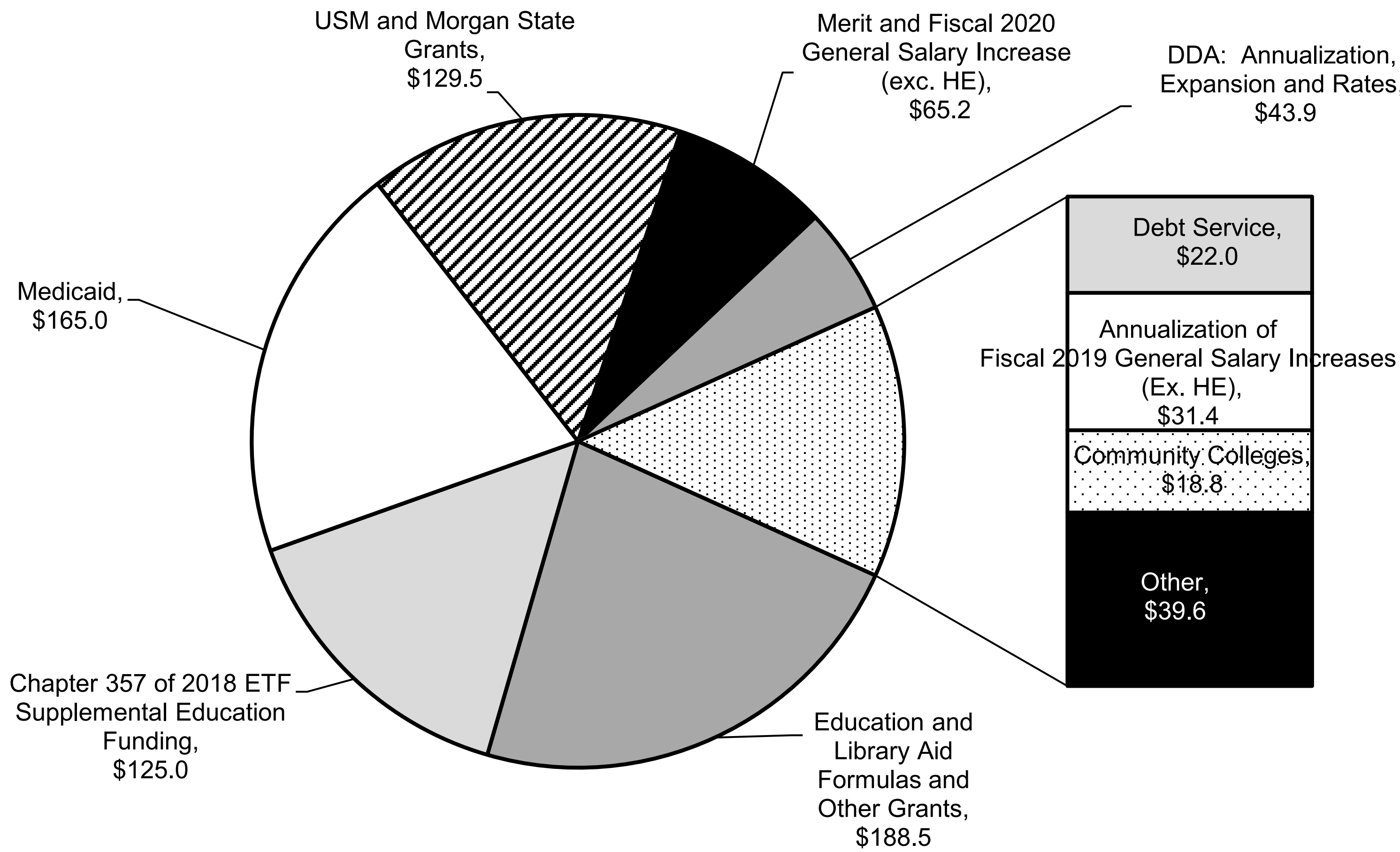
Category	2018 Working Appropriation	2019 Adj. Leg. Appropriation	2020 Baseline	2019-2020 $ Change	2019-2020 % Change
Debt Service	$259.6	$286.0	$308.0	$22.0	7.7%
County/Municipal	$282.7	$287.7	$293.5	$5.8	2.0%
Community Colleges	317.7	322.4	341.2	18.8	5.8%
Education/Libraries	5,970.4	6,114.0	6,427.5	313.5	5.1%
Health	51.1	51.4	52.8	1.4	2.8%
Aid to Local Governments	***$6,621.8***	***$6,775.4***	***$7,114.9***	***$339.5***	***5.0%***
Foster Care Payments	$184.5	$188.1	$196.6	$8.5	4.5%
Assistance Payments	59.6	45.4	44.8	-0.5	-1.2%
Medical Assistance	3,198.1	3,400.1	3,565.1	165.0	4.9%
Property Tax Credits	89.6	90.6	92.0	1.4	1.6%
Entitlements	***$3,531.7***	***$3,724.2***	***$3,898.6***	***$174.4***	***4.7%***
Health	$1,426.5	$1,478.3	$1,543.2	$64.9	4.4%
Human Services	369.4	372.3	388.8	16.6	4.4%
Children's Cabinet Interagency Fund	18.5	18.5	18.5	0.0	0.0%
Juvenile Services	265.2	264.2	271.2	7.0	2.6%
Public Safety/Police	1,475.6	1,514.5	1,569.2	54.7	3.6%
Higher Education	1,432.6	1,481.9	1,597.7	115.8	7.8%
Other Education	424.8	442.4	479.5	37.1	8.4%
Agriculture/Natural Res./Environment	119.9	125.1	131.2	6.1	4.9%
Other Executive Agencies	668.4	757.5	760.5	3.1	0.4%
Judiciary	485.8	508.5	529.5	21.0	4.1%
Legislative	89.3	91.3	93.7	2.4	2.7%
State Agencies	***$6,776.1***	***$7,054.5***	***$7,383.1***	***$328.6***	***4.7%***
Anticipated Deficiencies	$0.0	$35.5	$0.0	-$35.5	-100.0%
Total Operating	***$17,189.4***	***$17,875.6***	***$18,704.5***	***$828.9***	***4.6%***
Capital [(1)]	$9.5	$59.5	$97.0	$37.5	63.1%
Subtotal	***$17,198.9***	***$17,935.1***	***$18,801.5***	***$866.4***	***4.8%***
Reserve Funds	$10.0	$9.3	$537.7	$528.4	5,653.7%
Appropriations	**$17,208.9**	**$17,944.5**	**$19,339.2**	**$1,394.8**	**7.8%**
Reversions	-$78.0	-$35.0	-$35.0	$0.0	0.0%
Grand Total	**$17,130.9**	**$17,909.5**	**$19,304.2**	**$1,394.8**	**7.8%**

[(1)] Includes the Heritage Structure Rehabilitation Tax Credit Reserve Fund.

Note: The fiscal 2018 working appropriation includes $52.0 million in targeted reversions, $35.0 million in anticipated reversions, $116.3 million in deficiencies and legislative reductions to the deficiencies. The fiscal 2019 adjusted legislative appropriation reflects $35.0 million in anticipated reversions and estimated deficiencies of $35.5 million. In fiscal 2019, the legislature reduced the budget by $69.9 million but provided authorization for those funds to be used for a variety of purposes. Spending the $69.9 million is at the discretion of the Governor.

"Revised as of December 18, 2018"

General Fund Operating Expenditures Growth
Fiscal 2019 Adjusted Legislative Appropriation to Fiscal 2020 Baseline
($ in Millions)



DDA: Developmental Disabilities Administration
ETF: Education Trust Fund
HE: Higher Education
USM: University System of Maryland

Components of General Fund Budget Change
($ in Millions)

Summary of Budget Growth Compared to Adjusted Legislative Appropriation

	Dollars	Share of Growth
Ongoing Requirements/Entitlements	$535.8	62.0%
State Agency Costs	328.6	38.0%
Growth in Operating Budget, Including Anticipated Deficiencies	**$864.5**	
Pay-as-you-go (PAYGO)	$37.5	
Appropriation to Reserve Fund	528.4	
Reversions	0.0	
Total Baseline Increase in State Expenditures	**$1,430.3**	
Deficiency Appropriations	-$35.5	
Total	**$1,394.8**	

Ongoing Requirements/Entitlements

Education and Library aid formulas and other grants including Chapter 357 of 2018 that authorized the Constitutional Amendment establishing gaming revenues as supplemental education funding ($125.0 million), Chapter 361 of 2018 requiring level funding for preschool expansion ($15.0 million), Chapter 556 of 2018 Head Start ($1.2 million), and Chapter 560 of 2018 State Free Feeding Program ($1.1 million)	$313.5
Medical assistance including mandated 3.5% behavioral provider rate increase ($10.0 million) and Chapter 621 of 2018 Pilot Adult Dental Program ($2.5 million)	165.0
Debt service	22.0
Community college formula plus miscellaneous grants	18.8
Foster Care payments including need to offset lower cost of care contributions as a result of Chapters 815 and 816 of 2018 ($1.9 million), lower federal funds due to the end of the Title IV-E waiver, and caseload changes	8.5
Disparity grant formula	7.0
Local health department funding	1.4
Other entitlements and local aid	-0.4

State Agency Costs

Statewide Personnel Expenses (Excluding Higher Education):

Merit pay (increments)	$42.1
Annualization of January 1, 2019 1.0% and April 0.5% general salary increases	31.4
General salary increase (1.0%)	23.1
Employee retirement (0.9%)	17.2
Health insurance (1.1%)	7.5

Impact of 2018 Legislation

Chapter 554 of 2018 Maryland Community College Promise Scholarships	$15.0
Chapter 148 of 2018 Public Safety and Violence Prevention Act	7.0
Chapter 18 of 2018 2020 Census Grant Program	5.0
Chapter 147 of 2018 Baltimore City Safe Streets Initiative	3.6
Chapters 209 and 210 of 2018 Crisis Response Grant Program	3.0
Chapters 566 and 567 of 2018 Cyber Warrior Diversity Program	2.5
Chapter 590 of 2018 Medical Research Funding	2.5
Chapter 578 of 2018 Cybersecurity Incentive Tax Credits	2.0
Chapter 698 of 2018 State Lakes Protection and Restoration Fund	1.2
Chapter 558 and 559 of 2018 Thrive by Three Fund	1.1
Chapters 731 and 732 of 2018 Financial Consumer Protection Act	1.0
Chapter 597 of 2018 Leadership with Honor Scholarship Program	1.0
Chapter 358 of 2018 Computer Science Curriculum and Professional Development	1.0
Chapter 786 of 2018 Veteran Employment and Transition Success Program	0.5
Chapter 595 of 2018 Film Production Activity Tax Credit	-5.0

Other Major Agency Programmatic and Operating Expenses:

University System of Maryland: General funds required to cover growth in base costs not provided for through tuition and Higher Education Investment Fund revenue	$125.0
Developmental Disabilities Administration: Fiscal 2020 expansion ($20.7 million), 2% provider rate increase ($13.2 million), and annualization of fiscal 2019 expansion ($9.9 million)	43.9
Major Information Technology Development Projects	7.4
Sellinger Formula for Aid to Private Colleges and Universities	5.3
Morgan State University: Growth in State operating grant support	4.6
Behavioral Health Administration: Behavioral health services for the uninsured including mandated 3.5% provider rate increase	4.2
Maryland Higher Education Commission: Educational Excellence Awards	2.5
Judiciary: New judges and associated personnel ($1.2 million), and operating costs at Catonsville Courthouse ($0.9 million)	2.2
Maryland State Arts Council grant increase	1.7
Juvenile Services: Provider rate increases (2%)	1.2
School Construction: Removal of one-time school facility assessment	-4.9
Public Safety: Savings derived from increased turnover that more than offset higher overtime	-6.2
Juvenile Services: Savings from favorable trends in per diem placements	-6.4
Commerce: Lower than anticipated demand for the More Jobs for Marylanders Tax Credit	-9.0
Removal of one-time Amazon Sunny Day fund support	-10.0
University of Maryland Capital Region Medical Center: Scheduled reduction in mandated operating support	-12.0
Public Safety: Savings from inmate medical contract	-12.9
Other	-6.1

Reserve Fund and PAYGO

PAYGO: Chapter 561 of 2018 Healthy School Facility Fund	$30.0
PAYGO: Chapters 639 and 640 of 2018 Continuing the Creating Opportunities for Renewal and Enterprise Partnership Fund	30.0
PAYGO: Re-basing the Baltimore Regional Neighborhood Initiative and SEED Community Development Anchor Institution Fund	5.0
PAYGO: Chapters 687 and 688 of 2018 Community Colleges Facility Renewal Grant Program	3.0
PAYGO: Other changes	-1.5
PAYGO: University of Maryland Capital Region Medical Center	-29.0
Reserve fund: Unassigned fiscal 2018 fund balance per statute including $50 million for the pension sweeper	485.5
Reserve fund: Required fiscal 2020 Program Open Space Repayment	42.9
Total	**$1,394.8**

State Expenditures – Special and Higher Education Funds*

Fiscal 2018-2020
($ in Millions)

Category	2018 Working Appropriation	2019 Adj. Leg. Appropriation	2020 Baseline	2019 to 2020 $ Change	2019 to 2020 % Change
Debt Service	$1,304.6	$1,337.8	$1,366.4	$28.6	2.1%
County/Municipal	$358.8	$374.8	$396.7	$21.9	5.8%
Community Colleges	0.0	0.0	0.0	0.0	n/a
Education/Libraries	475.8	503.5	564.4	60.9	12.1%
Health	0.0	0.0	0.0	0.0	n/a
Aid to Local Governments	***$834.6***	***$878.3***	***$961.2***	***$82.8***	***9.4%***
Foster Care Payments	$4.3	$4.3	$4.3	-$0.1	-1.4%
Assistance Payments	12.5	10.1	5.8	-4.3	-42.9%
Medical Assistance	991.4	950.0	897.5	-52.5	-5.5%
Property Tax Credits	0.0	0.0	0.0	0.0	n/a
Entitlements	***$1,008.2***	***$964.4***	***$907.5***	***-$56.9***	***-5.9%***
Health	$472.6	$429.5	$431.1	$1.6	0.4%
Human Services	83.4	82.6	75.8	-6.8	-8.2%
Children's Cabinet Interagency Fund	0.0	0.0	0.0	0.0	n/a
Juvenile Services	3.2	3.6	3.6	-0.1	-1.7%
Public Safety/Police	221.7	218.1	230.7	12.6	5.8%
Higher Education	4,512.4	4,608.3	4,717.5	109.2	2.4%
Other Education	70.7	70.7	81.4	10.7	15.2%
Transportation	1,905.1	1,952.2	2,065.2	113.0	5.8%
Agriculture/Natural Res./Environment	293.3	293.8	304.0	10.2	3.5%
Other Executive Agencies	693.9	721.5	734.5	13.0	1.8%
Judiciary	66.0	62.1	61.7	-0.4	-0.6%
Legislative	0.0	0.0	0.0	0.0	n/a
State Agencies	***$8,322.2***	***$8,442.4***	***$8,705.6***	***$263.2***	***3.1%***
Anticipated Deficiencies	$0.0	$12.2	$0.0	-$12.2	-100.0%
Total Operating	**$11,469.7**	**$11,635.1**	**$11,940.7**	**$305.5**	**2.6%**
Capital	$1,857.3	$1,966.5	$1,843.4	-$123.0	-6.3%
Transportation	1,481.0	1,496.7	1,355.4	-141.3	-9.4%
Environment	187.1	220.3	182.7	-37.5	-17.0%
Other	189.3	249.5	305.3	55.8	22.4%
Grand Total	**$13,327.0**	**$13,601.6**	**$13,784.1**	**$182.5**	**1.3%**

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

Note: The fiscal 2018 working appropriation reflects $9.4 million in additional special fund spending due to funding swaps, deficiencies of $56.0 million, and legislative cuts to the deficiencies. The fiscal 2019 adjusted legislative appropriation reflects $12.2 million in estimated deficiencies and $16.1 million in additional special fund spending due to funding swaps. In fiscal 2019, the legislature reduced the budget by $2.2 million but provided authorization for those funds to be used for a variety of purposes. Spending the $2.2 million is at the discretion of the Governor.

State Expenditures – State Funds
Fiscal 2018-2020
($ in Millions)

Category	2018 Working Appropriation	2019 Adj. Leg. Appropriation	2020 Baseline	2019 to 2020 $ Change	2019 to 2020 % Change
Debt Service	$1,564.3	$1,623.8	$1,674.4	$50.6	3.1%
County/Municipal	$641.5	$662.5	$690.2	$27.7	4.2%
Community Colleges	317.7	322.4	341.2	18.8	5.8%
Education/Libraries	6,446.2	6,617.5	6,991.9	374.4	5.7%
Health	51.1	51.4	52.8	1.4	2.8%
Aid to Local Governments	***$7,456.4***	***$7,653.7***	***$8,076.0***	***$422.3***	***5.5%***
Foster Care Payments	$188.8	$192.5	$200.9	$8.4	4.4%
Assistance Payments	72.1	55.5	50.6	-4.9	-8.8%
Medical Assistance	4,189.5	4,350.1	4,462.6	112.5	2.6%
Property Tax Credits	89.6	90.6	92.0	1.4	1.6%
Entitlements	***$4,540.0***	***$4,688.6***	***$4,806.1***	***$117.5***	***2.5%***
Health	$1,899.1	$1,907.8	$1,974.3	$66.4	3.5%
Human Services	452.8	454.8	464.6	9.8	2.2%
Children's Cabinet Interagency Fund	18.5	18.5	18.5	0.0	0.0%
Juvenile Services	268.4	267.8	274.8	6.9	2.6%
Public Safety/Police	1,697.2	1,732.6	1,800.0	67.3	3.9%
Higher Education	5,945.0	6,090.2	6,315.2	225.0	3.7%
Other Education	495.5	513.1	560.9	47.8	9.3%
Transportation	1,905.1	1,952.2	2,065.2	113.0	5.8%
Agriculture/Natural Res./Environment	413.2	418.9	435.3	16.3	3.9%
Other Executive Agencies	1,362.3	1,479.0	1,495.1	16.1	1.1%
Judiciary	551.8	570.6	591.2	20.6	3.6%
Legislative	89.3	91.3	93.7	2.4	2.7%
State Agencies	***$15,098.4***	***$15,496.9***	***$16,088.6***	***$591.8***	***3.8%***
Anticipated Deficiencies	$0.0	$47.7	0.0	-$47.7	-100.0%
Total Operating	**$28,659.1**	**$29,510.8**	**$30,645.2**	**$1,134.5**	***3.8%***
Capital [(1)]	$1,866.8	$2,025.9	$1,940.4	-$85.5	-4.2%
Transportation	1,481.0	1,496.7	1,355.4	-141.3	-9.4%
Environment	187.6	220.8	183.7	-37.0	-16.8%
Other	198.3	308.4	401.3	92.8	30.1%
Subtotal	***$30,525.9***	***$31,536.7***	***$32,585.6***	***$1,048.9***	***3.3%***
Reserve Funds	$10.0	$9.3	$537.7	$528.4	5653.7%
Appropriations	**$30,535.9**	**$31,546.0**	**$33,123.3**	**$1,577.3**	**5.0%**
Reversions	-$78.0	-$35.0	-35.0	$0.0	0.0%
Grand Total	**$30,457.9**	**$31,511.0**	**$33,088.3**	**$1,577.3**	**5.0%**

[(1)] Includes the Heritage Structure Rehabilitation Tax Credit Reserve Fund.

Note: The fiscal 2018 working appropriation includes $52.0 million in targeted reversions, $35.0 million in anticipated reversions, $9.4 million in additional special fund spending due to funding swaps, $60.2 million in deficiencies, and legislative cuts to the deficiencies. The fiscal 2019 adjusted legislative appropriation reflects $35.0 million in anticipated reversions, $47.7 million in estimated deficiencies, and $16.1 million in additional special fund spending due to funding swaps. In fiscal 2019 the legislature reduced the budget by $72.1 million but provided authorization for those funds to be used for a variety of purposes. Spending the $72.1 million is at the discretion of the Governor.

State Expenditures – Federal Funds
Fiscal 2018-2020
($ in Millions)

Category	2018 Working Appropriation	2019 Adj. Leg. Appropriation	2020 Baseline	2019 to 2020 $ Change	2019 to 2020 % Change
Debt Service	$11.5	$12.8	$10.9	-$1.9	-14.7%
County/Municipal	$80.6	$74.1	$74.1	$0.0	0.0%
Community Colleges	0.0	0.0	0.0	0.0	n/a
Education/Libraries	985.1	961.9	946.9	-15.0	-1.6%
Health	4.5	0.0	0.0	0.0	n/a
Aid to Local Governments	***$1,070.1***	***$1,036.0***	***$1,021.0***	***-$15.0***	***-1.4%***
Foster Care Payments	$73.8	$68.8	$64.3	-$4.4	-6.5%
Assistance Payments	1,196.4	1,102.6	1,040.5	-62.1	-5.6%
Medical Assistance	7,003.9	7,059.3	6,937.2	-122.1	-1.7%
Property Tax Credits	0.0	0.0	0.0	0.0	n/a
Entitlements	***$8,274.2***	***$8,230.7***	***$8,042.0***	***-$188.6***	***-2.3%***
Health	$996.2	$1,076.1	$1,102.3	$26.2	2.4%
Human Services	553.0	552.1	539.0	-13.1	-2.4%
Children's Cabinet Interagency Fund	0.0	0.0	0.0	0.0	n/a
Juvenile Services	4.8	5.4	4.7	-0.7	-12.9%
Public Safety/Police	40.3	36.6	40.2	3.6	9.8%
Higher Education	0.0	0.0	0.0	0.0	n/a
Other Education	270.9	264.7	283.7	18.9	7.2%
Transportation	97.4	98.4	99.6	1.2	1.2%
Agriculture/Natural Res./Environment	67.0	68.1	70.3	2.1	3.1%
Other Executive Agencies	622.5	586.0	590.2	4.3	0.7%
Judiciary	1.1	0.2	0.2	0.0	1.4%
State Agencies	***$2,653.2***	***$2,687.6***	***$2,730.2***	***$42.5***	***1.6%***
Anticipated Deficiencies	$0.0	-$160.8	$0.0	$160.8	-100.0%
Total Operating	**$12,009.0**	**$11,806.3**	**$11,804.1**	**-$2.3**	**0.0%**
Capital	$1,115.1	$1,132.9	$1,137.5	$4.6	0.4%
Transportation	1,005.9	1,063.1	1,029.6	-33.5	-3.2%
Environment	42.6	43.3	52.9	9.6	22.1%
Other	66.6	26.5	55.1	28.5	107.4%
Grand Total	**$13,124.1**	**$12,939.3**	**$12,941.6**	**$2.3**	**0.0%**

Note: The fiscal 2018 working appropriation includes $85.7 million in deficiencies and legislative cuts to the deficiencies. The fiscal 2019 adjusted legislative appropriation reflects -$160.8 million in estimated deficiencies and $18.0 million in additional federal fund spending tied to additional general fund spending in Medicaid and Juvenile Services. The additional general fund spending is at the discretion of the Governor.

"Revised as of December 18, 2018"

State Expenditures – All Funds
Fiscal 2018-2020
($ in Millions)

Category	2018 Working Appropriation	2019 Adj. Leg. Appropriation	2020 Baseline	2019 to 2020 $ Change	2019 to 2020 % Change
Debt Service	$1,575.8	$1,636.6	$1,685.4	$48.7	3.0%
County/Municipal	$722.0	$736.6	$764.3	$27.7	3.8%
Community Colleges	317.7	322.4	341.2	18.8	5.8%
Education/Libraries	7,431.3	7,579.4	7,938.8	359.4	4.7%
Health	55.6	51.4	52.8	1.4	2.8%
Aid to Local Governments	***$8,526.5***	***$8,689.7***	***$9,097.0***	***$407.3***	***4.7%***
Foster Care Payments	$262.6	$261.2	$265.2	$4.0	1.5%
Assistance Payments	1,268.5	1,158.0	1,091.1	-67.0	-5.8%
Medical Assistance	11,193.4	11,409.4	11,399.8	-9.6	-0.1%
Property Tax Credits	89.6	90.6	92.0	1.4	1.6%
Entitlements	***$12,814.1***	***$12,919.3***	***$12,848.1***	***-$71.2***	***-0.6%***
Health	$2,895.3	$2,984.0	$3,076.6	$92.6	3.1%
Human Services	1,005.8	1,006.9	1,003.6	-3.3	-0.3%
Children's Cabinet Interagency Fund	18.5	18.5	18.5	0.0	0.0%
Juvenile Services	273.2	273.2	279.5	6.2	2.3%
Public Safety/Police	1,737.6	1,769.2	1,840.1	70.9	4.0%
Higher Education	5,945.0	6,090.2	6,315.2	225.0	3.7%
Other Education	766.4	777.8	844.6	66.7	8.6%
Transportation	2,002.5	2,050.6	2,164.8	114.2	5.6%
Agriculture/Natural Res./Environment	480.2	487.1	505.6	18.5	3.8%
Other Executive Agencies	1,984.8	2,064.9	2,085.3	20.3	1.0%
Judiciary	552.9	570.7	591.4	20.6	3.6%
Legislative	89.3	91.3	93.7	2.4	2.7%
State Agencies	***$17,751.5***	***$18,184.5***	***$18,818.8***	***$634.3***	***3.5%***
Anticipated Deficiencies	$0.0	-$113.1	$0.0	$113.1	-100.0%
Total Operating	**$40,668.0**	**$41,317.1**	**$42,449.3**	**$1,132.2**	**2.7%**
Capital [1]	$2,982.0	$3,158.9	$3,077.9	-$81.0	-2.6%
Transportation	2,486.9	2,559.8	2,385.0	-174.8	-6.8%
Environment	230.2	264.1	236.6	-27.5	-10.4%
Other	264.9	335.0	456.3	121.3	36.2%
Subtotal	***$43,650.0***	***$44,476.0***	***$45,527.2***	***$1,051.2***	***2.4%***
Reserve Funds	$10.0	$9.3	$537.7	$528.4	5653.7%
Appropriations	**$43,660.0**	**$44,485.3**	**$46,064.9**	**$1,579.6**	**3.6%**
Reversions	-$78.0	-$35.0	-$35.0	$0.0	0.0%
Grand Total	**$43,582.0**	**$44,450.3**	**$46,029.9**	**$1,579.6**	**3.6%**

[1] Includes the Heritage Structure Rehabilitation Tax Credit Reserve Fund.

Note: The fiscal 2018 working appropriation includes $52.0 million in targeted reversions, $35.0 million in anticipated reversions, $9.4 million in additional special fund spending due to funding swaps, $145.9 million in deficiencies, and legislative cuts to the deficiencies. The fiscal 2019 adjusted legislative appropriation reflects $35.0 million in anticipated reversions, -$113.1 million in estimated deficiencies, and $16.1 million in additional special fund spending due to funding swaps. In fiscal 2019, the legislature reduced the budget by $72.1 million but provided authorization for those funds to be used for a variety of purposes. Spending the $72.1 million (plus matching federal funds of $18.0 million) is at the discretion of the Governor.

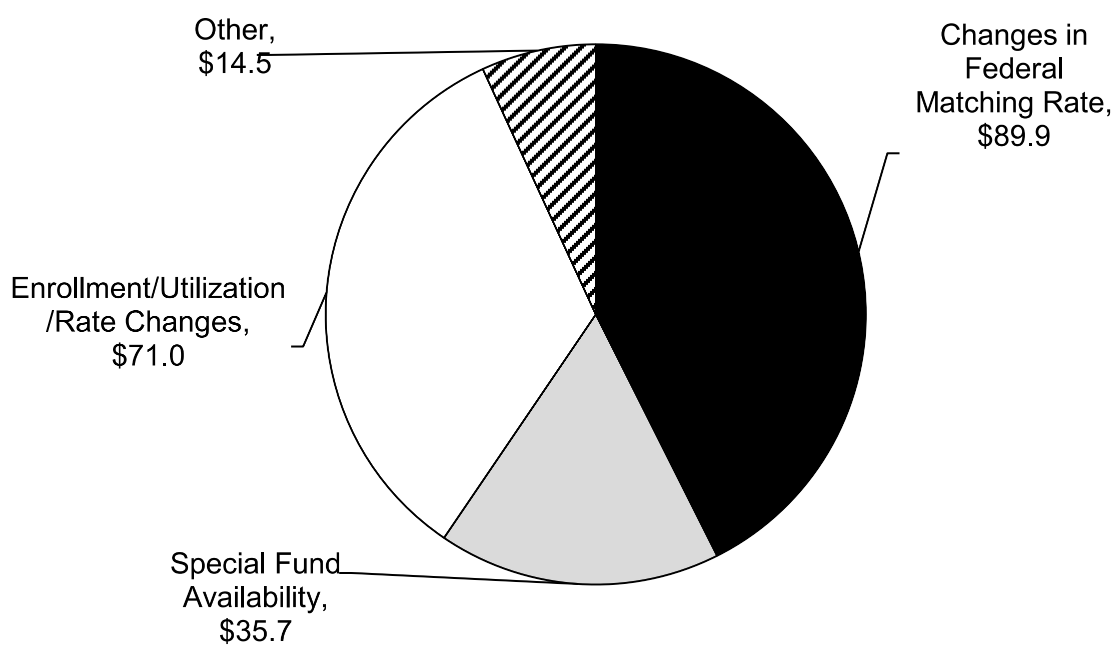
General Fund Growth in Medicaid Is Driven by Changes in the Federal Matching Rate and Available Special Funds

Medicaid – Baseline Estimates
Fiscal 2018-2020
($ Millions)

	2018	2019 Estimate	2020 Baseline	2019-2020 $ Change	2019-2020 % Change
General Funds	$3,239.2	$3,354.0	$3,565.1	$211.0	6.3%
Special Funds	918.9	933.2	897.5	-35.7	-3.8%
Federal Funds	6,661.2	6,867.3	6,937.2	69.9	1.0%
Reimb. Funds	69.4	69.4	69.4	0.0	0.0%
Total	**$10,888.7**	**$11,224.0**	**$11,469.2**	**$245.2**	**2.2%**

Note: Fiscal 2018 and 2019 numbers include estimated deficiency appropriations.

Medicaid – Why General Funds Grow
Fiscal 2019-2020
($ in Millions)



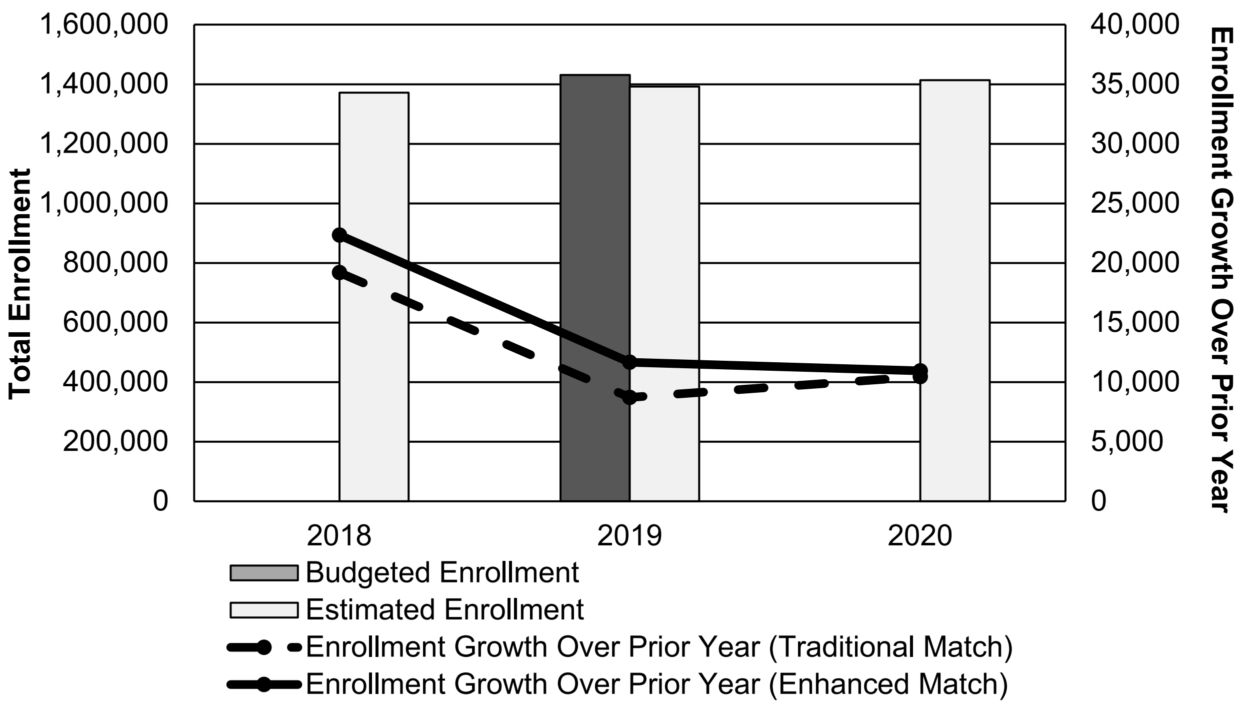
- The federal matching rate for the Affordable Care Act expansion population falls from 93.5% to 91.5% in fiscal 2020, resulting in an increase of $60.1 million in general funds. The federal matching rate for the Maryland Children's Health Program falls from 88.0% to 79.4% in fiscal 2020, resulting in an increase of $29.8 million in general funds.

- Special fund availability declines, primarily as a result of the planned $40 million drop in the Medicaid deficit assessment.

- The fiscal 2020 baseline assumes mandated rate increases of 3.5% for behavioral health services, 3% for discretionary provider rates, and 2% for regulated services and includes the impact of the mid-year calendar 2018 Managed Care Organization (MCO) rate increase (2%) and the calendar 2019 MCO rate increase (-1.7%).

- Enrollment growth is expected to be only 1.8% in fiscal 2019 over fiscal 2018, slowing to 1.5% in fiscal 2020 with total enrollment just over 1.4 million. Most of the enrollment growth is in eligibility groups with an enhanced match.

Medicaid Enrollment
Fiscal 2018-2020



Part 5

State Employment and Employee Benefits

Major Baseline Position Changes

Department/Service Area	Fiscal 2019 Working	Fiscal 2020 Baseline	Fiscal 2019-2020 Change
Health	6,278	6,294	17
Legal (Excluding Judiciary)	1,476	1,485	9
Natural Resources	1,340	1,349	8
Retirement	210	184	-26
Other Executive	40,032	40,048	17
Executive Subtotal	***49,336***	***49,360***	***24***
Higher Education*	26,770	26,770	0
Judiciary	4,029	4,051	22
Legislature	751	751	0
Total	**80,886**	**80,932**	**46**

*Fiscal 2019 working appropriation has been adjusted to include a net increase of 477 positions in higher education institutions using flex authority.

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

New Positions

- ***Judiciary:*** 22 positions, including 4 circuit court judges, 3 District Court judges (including 2 for the new Catonsville District Court), and 15 associated staff.

- ***Health:*** 17 positions to implement the Maryland Nursing Home Resident Protection Act (Chapter 454 of 2018) and various legislation.

- ***Legal*:** 9 positions, including 8 in the Office of the Attorney General to implement the Financial Consumer Protection Act (Chapters 731 and 732 of 2018) and other legislation and 1 in the Public Service Commission (Chapter 51 of 2018).

- ***Natural Resources:*** 8 positions to implement the State Lakes Protection and Restoration Fund (Chapter 698 of 2018), the Coast Smart siting criteria (Chapters 628 and 629 of 2018), and to reflect changes in staffing needs for construction projects.

- ***Other Changes:*** 17 positions in various departments as a result of legislation, workload changes, and new facilities.

Abolished Positions

- ***State Retirement Agency:*** 26 positions due to the Investment Division becoming nonbudgeted (Chapter 728 of 2018).

Personnel

Regular Full-time Equivalent Positions Changes
Fiscal 2017 Actual to Fiscal 2020 Baseline

Department/Service Area	2017 Actual	2018 Working	2019 Working*	2020 Baseline	2019-2020 Change
Largest Six State Agencies					
Public Safety and Correctional Services	10,954	10,554	10,454	10,445	-9
Health	6,187	6,207	6,278	6,294	17
Human Services	6,224	6,220	6,120	6,122	2
Police and Fire Marshal	2,436	2,436	2,449	2,435	-14
Juvenile Services	1,998	1,987	1,987	1,987	0
Transportation	9,108	9,058	9,058	9,058	0
Subtotal	***36,907***	***36,462***	***36,346***	***36,341***	***-5***
Other Executive					
Legal (Excluding Judiciary)	1,475	1,474	1,476	1,485	9
Executive and Administrative Control	1,563	1,560	1,573	1,569	-4
Financial and Revenue Administration	2,102	2,099	2,097	2,097	0
Budget and Management and DoIT	581	567	567	568	1
Retirement	210	210	210	184	-26
General Services	581	581	581	582	1
Natural Resources	1,315	1,333	1,340	1,349	8
Agriculture	356	355	352	354	2
Labor, Licensing, and Regulation	1,512	1,471	1,446	1,449	3
MSDE and Other Education	1,940	1,940	1,930	1,964	34
Housing and Community Development	324	333	333	330	-3
Commerce	193	193	192	193	1
Environment	894	893	893	896	3
Subtotal	***13,045***	***13,008***	***12,990***	***13,019***	***29***
Executive Branch Subtotal	***49,951***	***49,469***	***49,336***	***49,360***	***24***
Higher Education	**25,914**	**26,296**	**26,770**	**26,770**	**0**
Judiciary	**3,951**	**3,989**	**4,029**	**4,051**	**22**
Legislature	**749**	**749**	**751**	**751**	**0**
Total	**80,565**	**80,503**	**80,886**	**80,932**	**46**

DoIT: Department of Information Technology MSDE: Maryland State Department of Education

*Fiscal 2019 has been adjusted to include positions created and abolished in higher education institutions using flex authority.

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

Personnel (Cont.)

Analysis of Vacancies and Turnover Rate
Executive Branch, Excluding Higher Education
Fiscal 2019 Legislative Appropriation Compared to October 2018 Vacancies

Department/Service Area	Positions	Budgeted Turnover Rate	Vacancies to Meet Turnover	October Vacancies	Vacancies Above (or Below) Turnover	October Vacancy Rate
Largest Six State Agencies						
Public Safety and Correctional Services	10,454	9.6%	1,001	2,253	1,252	21.6%
Human Services	6,120	7.1%	433	558	125	9.1%
Health	6,278	7.6%	477	713	237	11.4%
Police and Fire Marshal	2,449	6.9%	168	308	140	12.6%
Juvenile Services	1,987	7.0%	139	208	70	10.5%
Transportation	9,058	4.5%	411	*608*	*197*	*6.7%*
Subtotal	**36,346**	***7.2%***	***2,628***	***4,649***	***2,021***	***12.8%***
Other Executive						
Legal (Excluding Judiciary)	1,476	6.1%	90	127	37	8.6%
Executive and Administrative Control	1,573	4.3%	68	179	110	11.3%
Financial and Revenue Administration	2,097	5.0%	104	224	120	10.7%
Budget and Management and DoIT	567	3.7%	21	71	50	12.5%
Retirement	210	6.7%	14	21	7	10.0%
General Services	581	4.8%	28	71	42	12.1%
Natural Resources	1,340	5.6%	75	112	37	8.3%
Agriculture	352	5.0%	18	36	18	10.1%
Labor, Licensing, and Regulation	1,446	3.6%	53	194	141	13.4%
MSDE and Other Education	1,930	5.7%	110	161	51	8.3%
Housing and Community Development	333	6.0%	20	11	-9	3.3%
Commerce	192	5.5%	10	16	6	8.3%
Environment	893	6.5%	58	89	31	10.0%
Subtotal	**12,990**	***5.2%***	***670***	***1,310***	***641***	***10.1%***
Executive Branch Subtotal	**49,336**	**6.6%**	**3,298**	**5,959**	**2,661**	**11.2%**

DoIT: Department of Information Technology

MSDE: Maryland State Department of Education

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

Employee and Retiree Health Insurance Account
Fiscal 2018 Projection Compared to Actual
($ in Millions)

	2018 Projection	2018 Actual	Difference
Beginning Balance	**$276.9**	**$277.1**	**$0.2**
Expenditures			
DBM Personnel Administrative Cost	$7.5	$7.5	$0.0
Payments of Claims			
Medical	$1,025.4	$992.0	-$33.4
Prescription Drug*	472.3	453.4	-18.9
Dental	52.0	50.6	-1.4
Contractual	12.9	10.7	-2.2
Payments to Providers	**$1,570.1**	**$1,514.2**	**-$55.9**
Receipts			
State Agencies**	$1,104.3	$1,108.1	$3.8
Employee Contributions**	174.7	175.3	0.6
Retiree Contributions	90.1	93.0	2.9
EGWP Rebates and Other Revenue	57.8	89.7	31.9
Total Receipts	**$1,426.9**	**$1,466.1**	**$39.2**
Ending Balance	**$133.7**	**$228.9**	**$95.2**
Incurred but Not Received	**-$103.0**	**-$103.0**	**$0.0**
Reserve for Future Provider Payments	**$31.2**	**$125.9**	**$94.7**

DBM: Department of Budget and Management
EGWP: Employer Group Waiver Plans

*Prescription drug costs net of rebates.
**State agency and employee contributions include contractual contributions.

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

Employee and Retiree Health Insurance Account
Fiscal 2018-2020
($ in Millions)

	2018 Actual	2019 Working	2020 Baseline
Beginning Balance	**$277.1**	**$228.9**	**$204.8**
Expenditures			
DBM Personnel Administrative Cost	$7.5	$7.8	$7.9
Payments of Claims			
Medical	$992.0	$1,036.0	$1,123.1
Prescription Drug*	453.4	451.9	379.0
Dental	50.6	50.6	53.5
Contractual	10.7	11.3	11.3
New Positions			8.2
Payments to Providers	**$1,514.2**	**$1,557.6**	**$1,583.1**
Percent Growth in Payments	0.1%	2.9%	1.6%
Receipts			
State Agencies**	$1,108.1	$1,172.6	$1,158.4
Employee Contributions**	175.3	191.2	196.2
Retiree Contributions	93.0	101.4	94.3
EGWP Rebates	75.0	53.5	28.4
Other Revenue and Adjustments	14.7	14.7	14.7
Total Receipts	**$1,466.0**	**$1,533.4**	**$1,492.1**
Percent Growth in Receipts	-10.2%	4.6%	-2.7%
Ending Balance	**$228.9**	**$204.8**	**$113.8**
Incurred but Not Received	**-$103.0**	**-$103.0**	**-$103.0**
Reserve for Future Provider Payments	**$125.9**	**$101.8**	**$10.8**

DBM: Department of Budget and Management
EGWP: Employer Group Waiver Plan

*Prescription drug costs includes rebate revenues.
**State agency and employee contributions include contractual contributions.

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

Medicare Part D Transition

Projected Savings to the State
Transition of Medicare-eligible Retirees to Medicare Part D
Fiscal 2020-2021

	2020 Savings	2021 Savings
Medicare-eligible Rx Claims Savings	$104.5	$223.6
Loss of EGWP Revenue	-38.9	-83.2
Loss of Medicare-eligible Retiree Premiums	-9.5	-20.3
Loss of Federal Payment to General Fund	-6.4	-12.8
State Cost Savings	**$49.7**	**$107.3**
General Fund Cost Savings	**$27.3**	**$59.2**

EGWP: Employer Group Waiver Plan
Rx: prescription drug

*Prescription drug claims net of rebates.

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

- Transition of Medicare-eligible retirees to Medicare Part D will result in an annual cost savings of $59.2 million in fiscal 2021. Savings will grow in the out-years due to the elimination of prescription drug claims costs.

- **Other Post Employment Benefits (OPEB) liability of the State decreased from $16.1 billion to $9.7 billion in July 1, 2011, as a result of the 2011 Pension Reform. The decrease was primarily due to the elimination of State-provided post-Medicare prescription drug coverage. As of July 1, 2017, the State's OPEB liability was $11.4 billion.**

- In September 2018, a lawsuit was filed in Baltimore City Circuit Court to challenge the planned transition beginning in January 2019.

  "If the plaintiffs are successful, the result would significantly increase Maryland's OPEB liability and cast doubt on the degree of legal flexibility wielded by states to change retiree health benefits, a credit negative." – Moody's Investors

- In October 2018, a federal judge granted a temporary restraining order and preliminary injunction, delaying the transition to Medicare Part D until a decision came on the lawsuit.

Part 6

Local Government Assistance

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

	Fiscal 2020 State Aid Amount	Percent of Total
Public Schools	$6,908.2	85.5%
County/Municipal	690.2	8.5%
Community Colleges	341.2	4.2%
Libraries	83.6	1.0%
Local Health	52.8	0.7%
Total	**$8,076.0**	**100.0%**

Change in State Aid
State Funds
($ in Millions)

	Fiscal 2020 Aid Change	Percent Change
Public Schools	$371.7	5.7%
County/Municipal	27.7	4.2%
Community Colleges	18.8	5.8%
Libraries	2.7	3.3%
Local Health	1.4	2.8%
Total	**$422.3**	**5.5%**

State Aid by Major Programs
State Funds
Fiscal 2018-2020
($ in Millions)

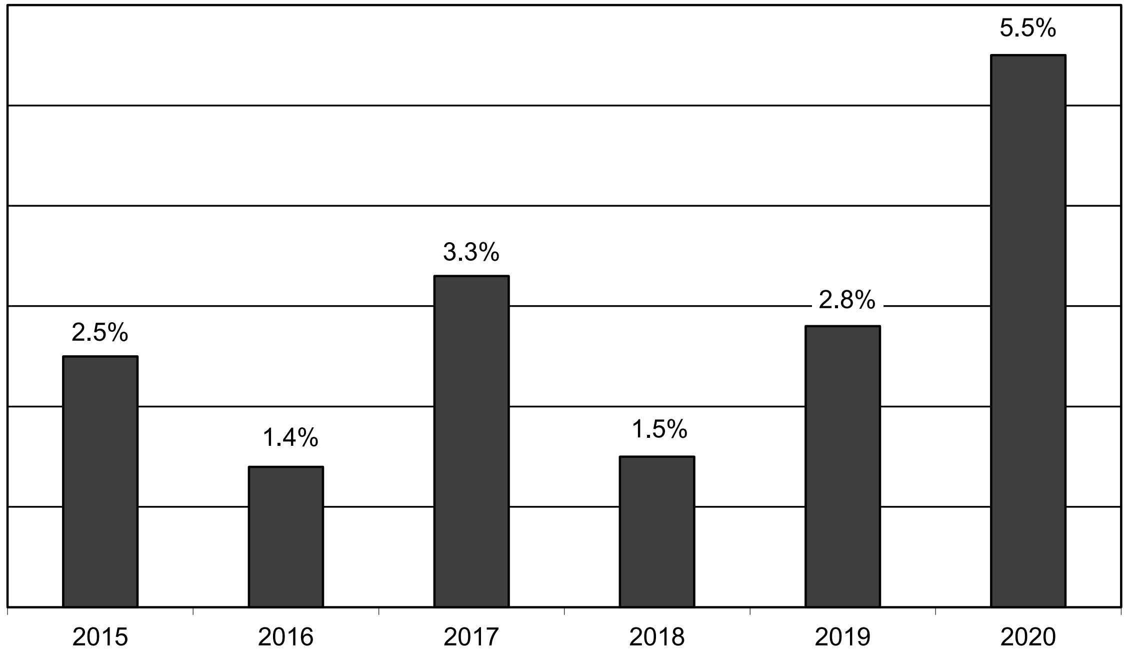
	2018	2019	Baseline 2020	$ Change 2019-2020	% Change 2019-2020
Public Schools					
Foundation Program	$3,005.3	$3,056.2	$3,154.9	$98.7	3.2%
Supplemental Grant	46.6	46.6	46.6	0.0	0.0%
Geographic Cost Index	139.1	141.6	146.3	4.7	3.3%
NTI Education Grants	49.2	62.5	62.7	0.2	0.3%
TIF Education Grants	0.4	0.5	0.7	0.1	24.8%
Declining Enrollment Grants	17.2	18.7	10.6	-8.1	-43.3%
Foundation – Special Grants	0.0	13.0	0.0	-13.0	-100.0%
ETF Supplemental Grants[1]	0.0	0.0	125.0	125.0	
Compensatory Aid	1,305.5	1,308.3	1,375.5	67.2	5.1%
Student Transportation	276.3	282.6	302.8	20.2	7.2%
Special Education – Formula Aid	284.9	290.8	300.0	9.2	3.2%
Special Education – Nonpublic Placements	123.6	123.5	126.0	2.5	2.0%
Limited English Proficiency Grants	248.7	288.0	315.7	27.7	9.6%
Guaranteed Tax Base	50.3	48.2	47.0	-1.2	-2.5%
Head Start/Pre-kindergarten	20.7	29.5	53.5	24.0	81.5%
Other Education Programs	65.1	93.6	92.2	-1.4	-1.5%
Subtotal Direct Aid	***$5,633.0***	***$5,803.6***	***$6,159.5***	***$355.9***	**6.1%**
Retirement Payments	$734.5	$732.9	$748.7	$15.8	2.2%
Total Public School Aid	**$6,367.5**	**$6,536.5**	**$6,908.2**	**$371.7**	**5.7%**
Libraries					
Library Aid Formula	$40.7	$41.9	$43.2	$1.3	3.1%
State Library Network	17.7	18.4	19.1	0.7	3.9%
Subtotal Direct Aid	***$58.4***	***$60.3***	***$62.3***	***$2.0***	**3.3%**
Retirement Payments	$20.3	$20.6	$21.3	$0.7	3.3%
Total Library Aid	**$78.7**	**$81.0**	**$83.6**	**$2.7**	**3.3%**
Community Colleges					
Community College Formula	$235.2	$240.4	$258.6	$18.1	7.5%
Other Programs	37.9	37.9	36.9	-1.0	-2.6%
Subtotal Direct Aid	***$273.1***	***$278.3***	***$295.4***	***$17.1***	**6.2%**
Retirement Payments	$44.6	$44.1	$45.7	$1.7	3.8%
Total Community College Aid	**$317.7**	**$322.4**	**$341.2**	**$18.8**	**5.8%**
Local Health Grants	**$51.1**	**$51.4**	**$52.8**	**$1.4**	**2.8%**
County/Municipal Aid					
Transportation	$219.9	$242.1	$256.1	$14.0	5.8%
Public Safety	131.6	132.7	133.3	0.6	0.5%
Disparity Grant	138.8	140.8	147.8	7.0	5.0%
Gaming Impact Grants	85.9	87.2	92.3	5.1	5.8%
Teacher Retirement Supplemental Grant	27.7	27.7	27.7	0.0	0.0%
Other Grants	29.5	32.0	32.9	0.9	2.8%
Total County/Municipal Aid	**$633.4**	**$662.5**	**$690.2**	**$27.7**	**4.2%**
Total State Aid	**$7,448.4**	**$7,653.7**	**$8,076.0**	**$422.3**	**5.5%**

[1] Funding can be used for public school operations and public school construction purposes.

ETF: Education Trust Fund
NTI: Net Taxable Income
TIF: Tax Increment Financing

Annual Change in State Aid to Local Governments

Fiscal 2015-2020



Part 7

Transportation

Transportation Trust Fund Forecast

Transportation Trust Fund Forecast Comparison
Fiscal 2018-2023 v. Fiscal 2019-2024 Six-year Totals
($ in Millions)

	MDOT Final 2018-2023	MDOT Draft 2019-2024	Final/ Draft Variance	DLS 2019-2024	MDOT/DLS Variance
Revenues					
Taxes and Fees					
Motor Vehicle Fuel Taxes	$7,096	$7,338	$242	$7,256	-$82
Titling Taxes	5,407	5,520	113	5,478	-42
Sales Tax – Rental Vehicles	201	205	4	205	0
Corporate Income Tax	1,047	1,093	46	1,093	0
Registration Fees	2,403	2,439	36	2,439	0
Miscellaneous Motor Vehicle Fees	1,850	1,837	-13	1,837	0
Subtotal – Taxes and Fees	***$18,004***	***$18,431***	***$428***	***$18,307***	***-$124***
Other Revenues					
Operating Revenues	$2,929	$2,969	$40	$2,969	$0
Federal Operating Assistance	588	588	0	588	0
Bond Proceeds/Premiums	2,898	3,020	122	2,976	-44
Other	469	425	-44	439	14
Change in Fund Balance	13	-15	-28	-8	7
Subtotal – Other Revenues	***$6,897***	***$6,987***	***$90***	***$6,964***	***-$23***
Total Revenues	**$24,901**	**$25,418**	**$518**	**$25,271**	**-$147**
Expenditures					
Debt Service	$2,387	$2,600	$213	$2,575	-$25
Operating Budget	12,922	13,439	517	13,486	47
P3 Availability Payments	150	304	154	304	0
Deductions to Other Agencies	427	437	10	437	0
Local Aid (HUR/Grants)	1,139	1,479	340	1,463	-16
State Capital Program	7,875	7,159	-716	7,006	-154
Total Expenditures	**$24,901**	**$25,418**	**$518**	**$25,271**	**-$147**

DLS: Department of Legislative Services
HUR: Highway User Revenues
MDOT: Maryland Department of Transportation
P3: public-private partnership

Transportation Trust Fund Forecast (cont.)

Observations

- Revenues and spending in the Maryland Department of Transportation (MDOT) draft fiscal 2019-2024 Transportation Trust Fund (TTF) forecast are $518 million higher than in the fiscal 2018-2023 TTF forecast. Tax and fee revenue increases $428 million, and other revenue sources add an additional $90 million compared with MDOT's previous forecast. On the expenditure side, higher projected debt service, operating expenses, and the ramp up of Availability Payments to the Purple Line concessionaire combine to increase spending by $884 million. This more than offsets the revenue increase and results in a reduction to the State-funded capital program of $716 million compared to the previous forecast.

  - Chapters 330 and 331 of 2018 converted transportation aid to local governments from a share of revenues (Highway User Revenues) to mandated capital grants and also increased local aid to an amount equivalent to 13.5% of revenues credited to the Gasoline and Motor Vehicle Revenue Account (previously 9.6%). This increase sends an additional $340 million to local governments.

- The Department of Legislative Services' (DLS) fiscal 2019-2024 TTF forecast varies only slightly from the MDOT draft forecast.

  - Tax and fee revenue in the DLS forecast is $124 million less than MDOT assumes in its draft forecast, primarily due to a slower rate of growth in motor fuel sales.

  - The DLS fiscal 2020 baseline estimate for operations is $47 million higher than the MDOT forecast due largely to higher pension contributions and estimated salary increases for union employees that will be set through collective bargaining or binding arbitration.

  - The DLS forecast assumes a reduction in bond issuances of $44 million, in fiscal 2020 only, in order to maintain minimum debt service coverage ratios. The impact of lower revenues, higher operating expenses, and lower bond issuances results in an estimated State capital program that is $154 million less over six years than that in the MDOT draft forecast.

Draft Consolidated Transportation Program

- Programmed spending in the draft fiscal 2019-2024 *Capital Transportation Program* (CTP) is $1.2 billion (8.3%) higher than in the fiscal 2018-2023 CTP. The State program (which excludes mandated local grants) is $72.2 million lower in the draft CTP compared to the prior year program.

- MDOT has requested $793 million in general funds to support the new mandated grant to the Washington Metropolitan Area Transit Authority (WMATA). To the extent that general funds are not provided, MDOT will have to reduce programmed spending to make room in the CTP for the WMATA grant.

Comparison of Capital Transportation Program Spending
Fiscal 2018-2024
($ in Millions)

	2018-2023	Draft 2019-2024	Change	% Change
Special Funds	$7,949	$7,227.4	-$721.6	-9.1%
Federal Funds	5,707.5	5,660.7	-46.8	-0.8%
Other Funds[1]	1,158.9	1,062.1	-96.8	-8.4%
Undetermined[2]	0	793.0	793.0	–
Subtotal State Program	***$14,815.4***	***$14,743.2***	***-$72.2***	***-0.5%***
Mandated Local Grants	0	1,301.7	1,301.7	–
Total CTP	**$14,815.4**	**$16,044.9**	**$1,229.5**	**8.3%**

CTP: *Consolidated Transportation Program*

[1] Includes funds from customer and passenger facility charges and certain types of federal aid that do not pass through the Transportation Trust Fund.

[2] The Maryland Department of Transportation (MDOT) has requested general funds for the new capital grant to the Washington Metropolitan Area Transit Authority ($167 million annually). To the extent that general funds are not provided, MDOT will need to make reductions to the capital program presented in the draft CTP.

Source: Maryland Department of Transportation, 2018-2023 final *Consolidated Transportation Program*, 2019-2024 draft *Consolidated Transportation Program*

Comparison of Six-year Capital Spending by Mode
Fiscal 2018-2024
($ in Millions)

	2018-2023 CTP	Draft 2019-2024 CTP	Change	% Change
Secretary's Office	$281.0	$235.0	-$46.0	-16.4%
WMATA	1,534.8	2,574.9	1,040.1	67.8%
State Highway	8,119.8	7,231.1	-887.7	-10.9%
Port	800.6	799.3	-1.3	-0.2%
Motor Vehicle	125.3	138.7	13.4	10.7%
Mass Transit	3,381.8	3,230.2	-151.6	-4.5%
Airport	572.1	533.0	-39.1	-6.8%
State Aid	0	1,301.7	1,301.7	--
Total	**$14,815.4**	**$16,044.9**	**$1,229.5**	**8.3%**

CTP: *Consolidated Transportation Program*
WMATA: Washington Metropolitan Area Transit Authority

Source: Maryland Department of Transportation, 2018-2023 final *Consolidated Transportation Program*, 2019-2024 draft *Consolidated Transportation Program*

- The $1.0 billion increase for WMATA comprises the new capital grant ($835 million), debt service on series 2017 and 2018 bonds ($107.3 million), and mandated increases to the base capital grant ($101.6 million).

- The $887.7 million reduction in State Highway is nearly evenly split between funding for major projects and funding for safety, congestion relief, and community enhancement projects.

- Mass transit funding decreases by $151.6 million, but this reflects declining spending on the Purple Line light rail project for which construction is scheduled to be complete in fiscal 2023. If Purple Line spending is excluded, mass transit spending increases by $168 million largely due to increased funding for system preservation and for Metro and light rail safety improvements.

Part 8

Capital Program and State Debt Policy

Capital Program

GO Bond Fund Outlook

- **Capital Debt Affordability Committee (CDAC) Recommends Annual $995 Million General Obligation (GO) Bond Authorization Level:** The October 2018 CDAC recommendation would keep new GO bond authorizations at $995 million annually through the planning period and continues the policy of scaled back annual authorizations. The 2017 Spending Affordability Committee (SAC) recommendation established a limit on new GO bond authorizations that increased by 1% on a year-over-year basis. This moderate growth rate limits increases in GO bond authorizations to less than the projected State property tax revenue increases.

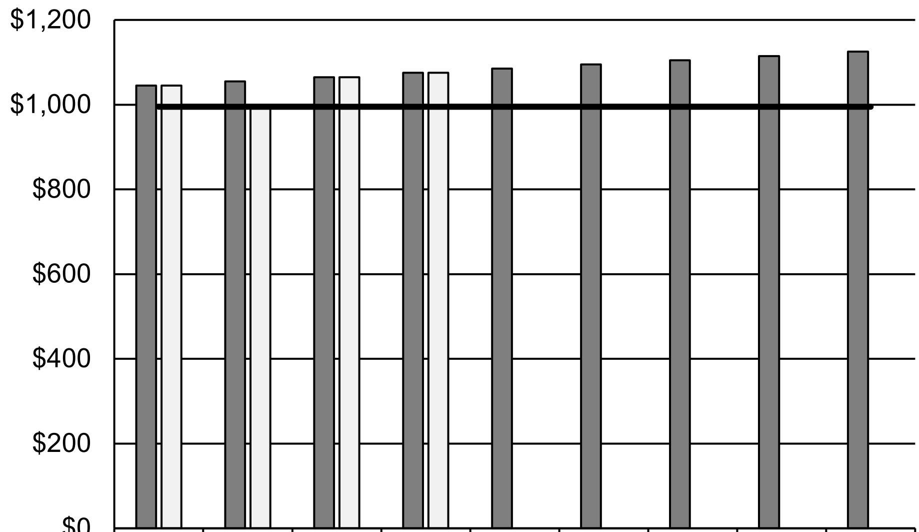
  - The SAC recommendation would provide $90 million more than the CDAC recommendation in fiscal 2020 and $550 million more over the five-year planning period.

  - The higher SAC authorization level could be used to fund legislative commitments and help offset some of the impact of construction inflation.

2015-2018 CDAC and 2015-2017 SAC Recommended GO Bond Authorization Levels

Fiscal 2016-2024

($ in Millions)



	2016	2017	2018	2019	2020	2021	2022	2023	2024
SAC Recommendations (1% Annual Growth)	$1,045	$1,055	$1,065	$1,075	$1,085	$1,095	$1,105	$1,115	$1,125
Legislative Authorization	1,045	995	1,065	1,075					
CDAC Recommendations	995	995	995	995	995	995	995	995	995

CDAC: Capital Debt Affordability Committee
GO: general obligation
SAC: Spending Affordability Committee

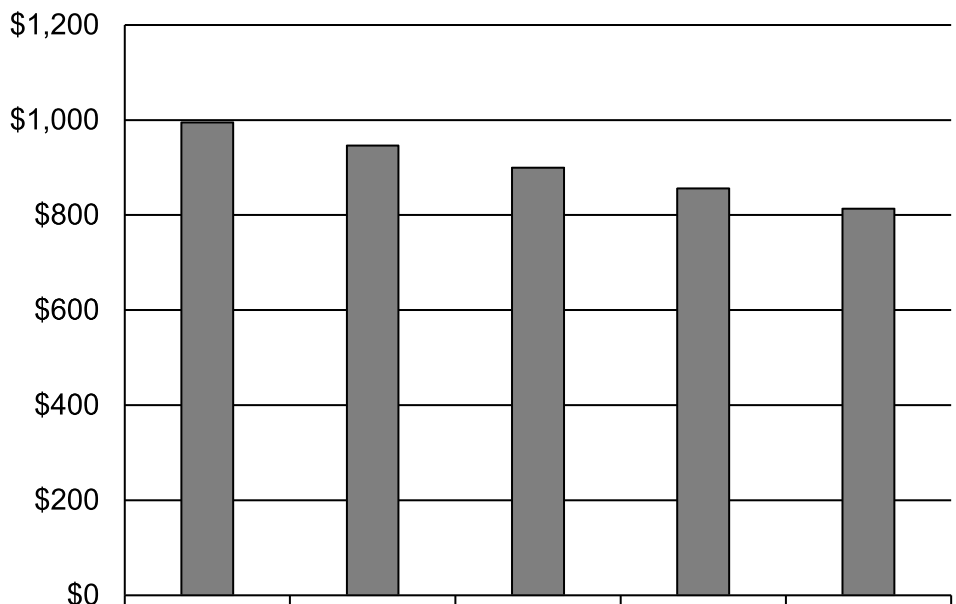
Note: The fiscal 2016 capital program was supplemented with the use of $48 million in bond premiums, increasing the amount of new new bond proceeds made available to the capital program to $1,043 million, and the fiscal 2019 capital program was supplemented with $68 million in bond premiums, increasing the amount of net new bond proceeds made available to the capital program to $1,143 million. The fiscal 2017 capital program was supplemented with $122 million in general funds of which $42.9 million fenced off in the State Reserve Fund was never appropriated, and $16.8 million was reduced by actions of the Board of Public Works.

Source: 2015 through 2018 Capital Debt Affordability Committee report; 2016 and 2017 Spending Affordability Committee report.

Capital Program (cont.)

- **Impact of Construction Inflation on Bond Authorization Levels:** The CDAC's 2018 recommendation, which is consistent with the levels programmed in the Governor's 2018 *Capital Improvement Program* (CIP), does not include an annual inflation adjustment. Although the 2017 SAC recommendation provides for a 1% annual growth in GO bond authorizations, it is still well below the growth in the regional measure of construction inflation, which has averaged 4.9% from January 2016 through August 2018. Until the more recent policy to hold new annual GO bond authorizations at $995 million, CDAC policy was to include a 3% annual increase to account for construction inflation and population growth.

CDAC Proposed New GO Bond Authorization Levels
Inflation Adjusted
Fiscal 2020-2024
($ in Millions)



	2020	2021	2022	2023	2024
Inflation Adjusted (4.9% annual)	$995.0	$946.3	$900.0	$855.9	$814.0

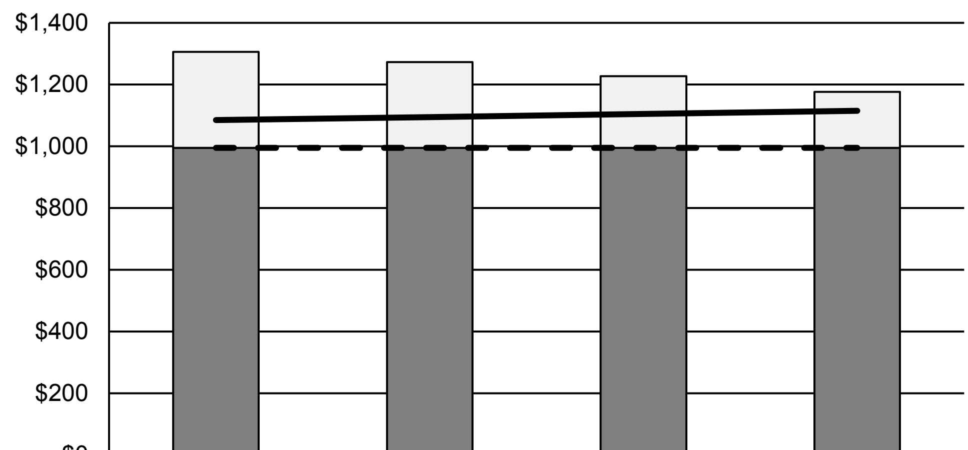
CDAC: Capital Debt Affordability Committee
GO: general obligation

Source: Bureau of Labor Statistics Producer Price Index for Materials and Components of Construction

GO Bond Authorization Levels Are Insufficient to Meet Commitments

Capital commitments exceed the levels of GO bonds currently programmed in the 2018 CIP and recommended by CDAC by $312 million for fiscal 2020 and by $1 billion through fiscal 2023. The higher SAC recommended levels and some prudent use of general fund pay-as-you-go (PAYGO) would allow the State to meet more of its commitments.

GO Bond Commitments Made in 2018 Exceed Programmed Authorization Levels
Fiscal 2020-2023
($ in Millions)



	2020	2021	2022	2023
Other Commitments	$311.5	$277.4	$232.2	$181.7
CIP 2018	995.0	995.0	995.0	995.0
CDAC 2018	995.0	995.0	995.0	995.0
SAC	1,085.0	1,095.0	1,105.0	1,115.0

CDAC: Capital Debt Affordability
CIP: *Capital Improvement Program*
GO: general obligation
SAC: Spending Affordability Committee

Note: Recent SAC policy established a limit on new GO bond authorizations that increase by 1% on a year-over-year basis. This moderate growth rate limits increases to below projected State property tax revenue increases, which reduces the ratio of debt service to revenues in the out-years.

Source: 2018 *Capital Improvement Program*; Department of Legislative Services

Commitments Made in 2018 Session Exceed Programmed General Obligation Bond Authorization Levels
Fiscal 2020-2023
($ in Millions)

	2020	2021	2022	2023
Projects Accelerated/Enhanced/Deferred	$23.000	$43.500	$43.000	$19.000
Projects Preauthorized	27.665			
Expressions of Intent – Community College Facilities Grant Program and Rental Housing Program	25.000			
Expression of Intent – Fund Public School Construction Program at $400 Million Annually (Chapter 14 of 2018)	80.000	80.000	80.000	80.000
Legislative Local Initiatives	15.000	15.000	15.000	15.000
Subtotal	***$170.665***	***$138.500***	***$138.000***	***$114.000***
Potential Bond Replacement for General Fund Pay-as-you-go	$140.861	$138.861	$94.180	$67.680
Total	**$311.526**	**$277.361**	**$232.180**	**$181.680**

Note: Estimated out-year funding impacts for accelerated projects and deferred projects reflect one-year deferral and funding in useable phases such that no gaps exists in the timing of funding and project delivery.

Source: 2018 *Capital Improvement Program*; Department of Legislative Services

- **Increased Demand for General Fund Support for the Capital Program:** The fiscal 2020 baseline budget assumes the use of $140.9 million in general funds compared to the $65.5 million appropriated in the fiscal 2019 budget and $53.9 million programmed in the CIP for fiscal 2020. The Department of Legislative Services general fund forecast for the period covering fiscal 2020 through 2023 assumes $439.6 million of general fund PAYGO compared to just $177.6 million programmed in the CIP.

General Fund PAYGO CIP Compared to Forecast
Fiscal 2020-2023
($ in Millions)

	2020 CIP	2020 Forecast	2020-2023 CIP	2020-2023 Forecast
Mandates				
DNR – Transfer Tax Repayment (Chapter 10 of 2016 as amended by Chapter 10 of 2018) – Dedicated Purpose Account	$43.861	$43.861	$137.582	$137.582
Healthy School Facilities Fund (Chapter 561 of 2018)		30.000		60.000
School Safety Enhancement (Chapter 14 of 2018)		10.000		40.000
DHCD Baltimore Regional Neighborhood Initiative (Chapter 29 of 2016)		9.000		27.000
DHCD SEED Community Development Anchor Institution Fund (Chapter 31 of 2016)		5.000		15.000
Aid to Community Colleges – Facilities Renewal Program (Chapters 687 and 688 of 2018)		3.000		15.000
Subtotal Mandates	***$43.861***	***$100.861***	***$137.582***	***$294.582***
Other				
DHCD – CORE (Chapters 639 and 640 of 2018)		$30.000		$105.000
Maryland Heritage Structure Rehabilitation Tax Credit	$9.000	9.000	$36.000	36.000
Environment – Hazardous Substance Clean-up Program	1.000	1.000	4.000	4.000
Subtotal Other	***$10.000***	***$40.000***	***$40.000***	***$145.000***
Total General Fund PAYGO Capital	**$53.861**	**$140.861**	**$177.582**	**$439.582**

CIP: *Capital Improvement Program*
CORE: Creating Opportunities for Renewal and Enterprise
DHCD: Department of Housing and Community Development
DNR: Department of Natural Resources
PAYGO: pay-as-you-go

- **Programs and Projects That Require the Issuance of Taxable Bonds Should Be Considered for General Fund PAYGO:** In periods of economic difficulty, the State has moved programs traditionally funded with general fund PAYGO to the GO bond funded portion of the capital program. While this allows general funds to be used for other budget priorities, it has resulted in the issuances of taxable bonds that cost more than tax-exempt bonds. As the State returns to a more stable general fund outlook, the programs that require the issuance of taxable bonds should be funded with general fund PAYGO. Based on current CIP programmed funding levels, $65.9 million could be moved out of the GO bond portion of the capital budget that would free up capacity for other capital priorities.

Private Activity Authorizations
Fiscal 2020-2023
($ in Millions)

	2020	2021	2022	2023	Total
Private Business Use					
State Agency					
Maryland Public Television	$8.198	$0.000	$0.000	$0.000	$8.298
University System of Maryland	0.039	0.000	0.000	0.000	0.039
Subtotal	***$8.237***	***$0.000***	***$0.000***	***$0.000***	***$8.337***
Private Loans					
State Agency					
Department of Housing and Community Development	$48.100	$63.600	$63.600	$63.600	$238.900
Maryland Department of the Environment	9.430	9.430	9.430	9.430	37.720
Maryland Department of Planning	0.150	0.150	0.150	0.150	0.600
Subtotal	***$57.680***	***$73.180***	***$73.180***	***$73.180***	***$277.220***
Total	**$65.917**	**$73.180**	**$73.180**	**$73.180**	**$285.557**

Source: Department of Budget and Management, *Capital Improvement Program*, January 2018

State Debt Policy – Affordability Ratios

- The Capital Debt Affordability Committee (CDAC) reviews State debt policy each year and issues a recommendation for the following legislative session by October 1.
  - CDAC’s policy is that State tax-supported debt outstanding should not exceed 4.0% of Maryland personal income.
  - State tax-supported debt service payments should not exceed 8.0% of State revenues.
- Prior to 2015, CDAC policy was to allow 3% increases in general obligation (GO) bonds authorizations in the out-years. Current policies are more restrictive.
  - The current CDAC policy, which began in 2015, is to limit GO bond authorizations to $995 million and maintain this limit in the out-years.
  - Current Spending Affordability Committee (SAC) policy is to limit out-year increases to 1%. This is less than the projected increase in State property tax and general fund revenues. If SAC adheres to this policy, fiscal 2020 authorizations are limited to $1,085 million.

State Affordability Ratios
Fiscal 2020-2024

	Debt Outstanding to Personal Income		Debt Service to Revenues	
Year	**CDAC**	**SAC**	**CDAC**	**SAC**
2020	3.45%	3.45%	7.38%	7.44%
2021	3.39%	3.39%	7.33%	7.50%
2022	3.32%	3.32%	7.44%	7.61%
2023	3.21%	3.22%	7.56%	7.75%
2024	3.13%	3.16%	7.32%	7.53%

CDAC: Capital Debt Affordability Committee
SAC: Spending Affordability Committee

Source: Bureau of Revenue Estimates; Department of Legislative Services

State Debt Policy – Affordability Risks

- Affordability risks include changes to interest rates, issuances, the definition of debt, personal income, and revenues.

- Most of these factors pose a negligible or marginal risk.

- However, two consecutive years of declining revenues could result in a breach in the debt service to revenue ratio. If revenues decline more than 2.7% over two years, debt service costs exceed 8% of revenues.

- The recessions of 2001 and 2007-2009 resulted in revenue declines of 3% and 4%, respectively, over the first two years.

- A mild or short recession does not necessarily result in a breach in revenues.

Revenues Required to Maintain Debt Service Affordability Ratios Above 8%

Comparing October 2018 to the Two Most Recent Recessions ($ in Millions)

	October 2018: Base Year Fiscal 2019	2007-2009 Recession: Base Year Fiscal 2008	2001 Recession: Base Year Fiscal 2001
Base Year: State Supported Debt Total Revenues[1]	$23,628	$16,735	$11,707
Minimum Affordable Revenues in Fiscal 2021 and Actual Revenues Two Years Later (Fiscal 2010 and 2003)	22,997	16,061	11,353
Total Change in Revenues	-$631	-$674	-$354
Percent Change	-2.7%	-4.0%	-3.0%

[1] Revenues supporting State debt include general funds, State property taxes, Transportation Trust Fund revenues, Bay Restitution Funds, federal transportation funds, and certain Stadium Authority revenues, Education Trust Fund revenues, and transfer taxes.

Source: Department of Legislative Services, October 2018

State Debt Policy – Share of Debt by Type of Debt

- Under current State debt policies, each type of debt has its own policies.
  - The Capital Debt Affordability Committee's policy is to strictly limit general obligation (GO) bond authorizations to $995 million.
  - The transportation debt program is fully leveraged so that its net revenues are 2.5 times debt service, which is management's coverage limit.[1]
  - The other State debt is being reduced as authorizations expire or non-State debt is issued instead.
- From fiscal 2019 to 2024, the amount of nontransportation debt outstanding (GO, Bay, and leases) declines by $283 million, while the amount of transportation debt outstanding (transportation bonds and Grant Anticipation Revenue Vehicles) increases by $844 million.

State Debt Outstanding
Fiscal 2019 and 2024
($ in Millions)

Type of Debt	2019	2024	Percent Change	Current Policy
GO Bonds	$9,962	$9,837	-1.3%	The Capital Debt Affordability Committee limits debt to $995 million indefinitely
Transportation Bonds	3,343	4,236	26.7%	Maximum leverage so that coverage ratios are at their limit
GARVEEs	49	0	-100.0%	Legislation limited issuances to only support Intercounty Connector project
Bay Restoration Bonds	253	219	-13.4%	Issuances determined by bay restoration revenues available for debt service and project size
Capital Leases	181	109	-39.8%	Issue as needed
Stadium Authority Bonds	65	13	-80.0%	Issue less State debt and instead issue debt supported by lottery proceeds
Total	**$13,853**	**$14,414**	**4.0%**	

GARVEE: Grant Anticipation Revenue Vehicles GO: general obligation

[1] The covenant is that coverage will not fall below 2.0. It is a longstanding Maryland Department of Transportation policy to keep it at 2.5 to avoid a breach of covenant if revenues underperform or spending exceeds projections.

State Debt Policy – Debt Service Costs

- The forecast projects increasing interest rates, reduced bond sale premiums, and a constant State property tax rate of $0.112 per $100 of assessable base.
- As premiums decline general fund debt service appropriations are expected to increase to $500 million, ending this unusual period of high premiums and low general fund appropriations.
- Out-year general fund appropriations plateau at 2.5% of general fund revenues and 36% of debt service costs, which is consistent with historical averages.

Annuity Bond Fund Forecast
Fiscal 2019-2024
($ in Millions)

	2019	2020	2021	2022	2023	2024
Special Fund Revenues						
State Property Tax Receipts	$834	$860	$875	$893	$910	$929
Bond Sale Premiums	72	70	31	0	0	0
Other Revenues	2	2	2	2	2	2
ABF Fund Balance Transferred from Prior Year	158	73	1	1	1	1
Subtotal Special Fund Revenues	$1,066	$1,005	$910	$896	$913	$932
General Funds	286	308	426	486	506	519
Transfer Tax Special Funds	7	7	7	7	7	7
Federal Funds	11	11	10	9	8	7
Total Revenues	**$1,371**	**$1,331**	**$1,353**	**$1,398**	**$1,435**	**$1,465**
Debt Service Expenditures	**$1,298**	**$1,330**	**$1,352**	**$1,398**	**$1,434**	**$1,464**
ABF End-of-year Fund Balance	**$73**	**$1**	**$1**	**$1**	**$1**	**$1**

ABF: Annuity Bond Fund

[1] Fiscal 2019 premiums total $127 million, with $55 million supporting capital projects.

Source: Department of Legislative Services, December 2018

State Debt Policy – Keeping Debt Service Costs Down

- Fiscal 2018 ended with a $590 million general fund balance. The Bureau of Revenue Estimates added $325 million to fiscal 2019 and $377 million[2] to fiscal 2020 revenues. General funds are available to support the capital program and keep debt service costs down.

- The cost of issuing $100 million in general obligation bonds, assuming a 5% coupon rate, is $148.4 million, which is $10.6 million in annual debt service costs.

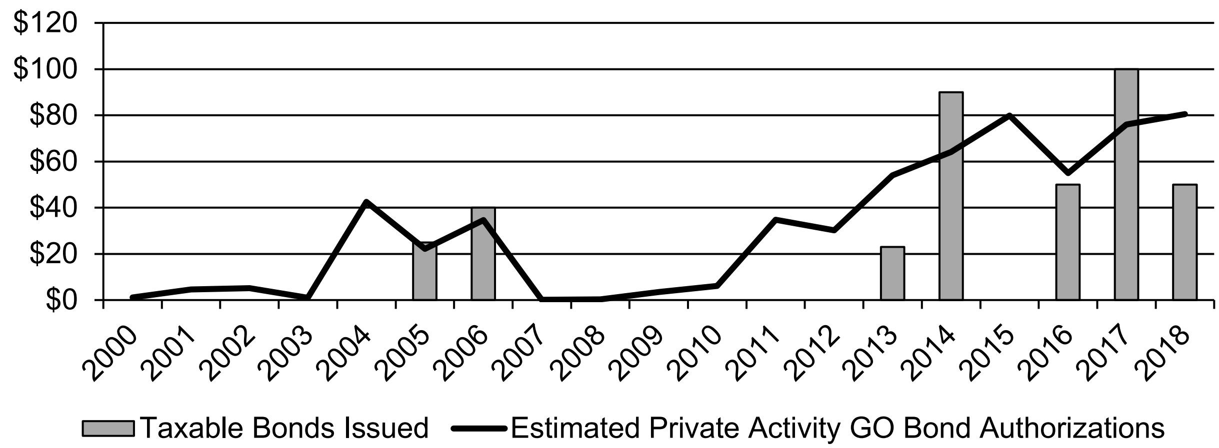
- Taxable bonds are more expensive. The Department of Budget and Management fiscal 2019 *Capital Improvement Plan* assumes $66 million in taxable, private activity bonds in fiscal 2020.

- **To reduce debt service costs, the Department of Legislative Services (DLS) recommends that the State use fund balances to support capital needs and minimize reliance on GO bonds.**

- **DLS also recommends that the State fund private loan projects and programs that do not qualify for tax-exempt bonds with cash in fiscal 2020.**

Private Activity Authorizations and Taxable Bond Issuances

Fiscal 2000-2018
($ in Millions)



GO: general obligation

Source: Department of Budget and Management's *Capital Improvement Program*; Financial Advisor's *Report on Bond Sales*

[2] Revenues are reduced by $94 million to reflect volatility reduction required by Chapters 4 and 550 of 2017.

Anne Arundel County
Spending Affordability Committee

Policy/Procedures & Bylaws

ANNE ARUNDEL COUNTY
RULES OF PROCEDURES AND BYLAWS
OF THE ANNE ARUNDEL COUNTY SPENDING AFFORDABILITY COMMITTEE

ARTICLE I. Statement of Purpose.

Consistent with Section 610 of the Anne Arundel County Charter, the purpose of the Spending Affordability Committee (the "Committee") is to "…make advisory recommendations to the Office of Budget, the County Executive, and the County Council relating to spending affordability including County spending levels to reflect the ability of the taxpayer to finance County service and long-term debt." In addition, "The Committee shall examine: (1) current capital projects; (2) the 5-year capital improvement program; (3) per capita wealth; (4) debt service; (5) pay-as-you-go funding; and (6) alternative sources of funding." The Committee's recommendations shall be presented in a report not less than 150 days before the end of each fiscal year, and copies shall be made available for public inspection.

Article II. Organization.

Section 1. Members. Committee members shall be appointed by the County Executive and confirmed by resolution of the County Council. The Committee shall consist of one resident from each councilmanic district who is knowledgeable in the field of economics, finance, fiscal planning, or a related field. A member shall serve a four year term and may not serve more than two successive terms. A member appointed after a term has begun shall serve only for the rest of the term and until a successor is appointed and qualified. At the end of a term, a member shall continue to serve until a successor has been appointed and qualified.

Section 2. Officers. The Officers of the Committee shall consist of a Chair, a Vice-Chair, and a Secretary elected for one year terms by the Committee.

1. Chair. The Chair shall conduct meetings and coordinate with the Office of Budget as appropriate. The chair shall also present the Committee's annual report to the County Council, County Executive, and other interested parties.

2. Vice-Chair. The vice-chair shall act as the chair in when the Chair is absent.

3. Secretary. The Secretary shall keep accurate records and minutes of all meetings of the Committee. The records and minutes shall comply with the Maryland Open Meeting Act and relevant provisions of the County Code. The Secretary shall make available minutes of the previous meeting and distribute them to the Committee members and to the County's Boards and Commissions Officer in advance of each meeting; cause to be delivered all notices of meetings to the Board members and to the County's Boards and Commissions Officer; maintain the minutes and a current listing, with contact information, of the members of the Committee; and serve as the records custodian for the Committee under the provisions of

the Maryland Open Meetings Act.

4. Elections of officers. Officers of the Committee shall be elected at the first meeting of each County fiscal year in accordance with Article III, Section 4.

Section 3. Staff support. Staff support for the Committee shall be a County employee appointed by the Budget Officer without a specific term. The staff support is responsible for providing staff support on matters being considered by the Committee, scheduling agenda items for Committee's consideration, providing administrative support, preparing and distributing public notices and agendas, and officially transmitting the Committee's recommendations to the Budget Officer, the County Executive, the County Council, the Chief Administrative Officer and any other parties determined by the Committee.

ARTICLE III. Meetings.

Section 1. Meetings. Meetings will be held at the call of the Chair unless a quorum of the members determines otherwise.

Section 2. Quorum. A majority of the appointed members in attendance at a meeting constitutes a quorum. In the event there are fewer than seven appointed members on the Committee in attendance, a quorum shall in no case be less than four members.

Section 3. Voting. – Any action taken by the Committee must be passed at a meeting with a quorum and by an affirmative vote of the majority of voting members.

Section 4. Open Meetings. All meetings of the Committee shall be open to the public in accordance with Maryland's Open Meetings Act. The minutes of all such meetings shall be public records and shall be available for inspection by interested persons during regular office hours of the Office of Budget in accordance with the Maryland Open Meetings Act.

Section 5. Notice of Meetings.

1. Public Notice. Written public notice of all meetings shall be provided to the County's Boards and Commissions Officer and published on the County website no later than ten calendar days preceding the date of the meeting and in accordance with the Maryland Open Meetings Act. Notice of meetings shall be kept by the Office of Budget for at least five years.

2. Cancellation of meetings. Cancellation of meetings will follow delays and closings of the Anne Arundel County Government. Notification of delays and cancellations will be posted on the County website and sent to the Committee members whenever possible.

3. Agenda. The Staff, in coordination with the Chair, shall prepare a tentative agenda for each regular meeting and will distribute it to the Committee members and other interested parties no later than five

calendar days (when practical) preceding the meeting. Whenever possible, pertinent background material relating to the agenda items shall be forwarded with the agenda.

4. Minutes. The Secretary shall draft minutes for each meeting subject to the Open Meeting Act and present to the Committee at the next meeting for approval. The Staff shall post approved minutes on the County website for at least five years.

Section 7. Conduct of Meetings.

1. Open to the Public. All meetings of the Committee are open to the public and shall be held in compliance with the Maryland Open Meetings Act. Those desiring to address the Committee shall register with the Staff prior to or during the hearing. The person wishing to speak shall provide the Staff with their name, address and the organization with which they are affiliated. The speakers will be heard in order in which they registered and are limited to not more than five minutes. However, the Chair may grant more time at his or her discretion. Speakers shall give their name, contact information organization that they represent. The Chairman may suspend any testimony that is not relevant to the subject of the hearing and advise the speaker to that effect. If a member of the general public is disruptive as determined by the Committee, the individual may be removed.

2. Closed meetings. The Committee may, when deemed necessary, hold a closed meeting, but it must be in accordance with the Maryland Open Meetings Act.

3. Correspondence. Individual Committee members who receive mail pertaining to items considered by the Committee shall forward copies to the Chair and the Staff.

4. Meeting procedures. Meetings shall be conducted in accordance with the latest published version of Robert's Rules of Order.

Section 8. General Guidelines. Once an official position by the Committee is taken, members voting in the minority should not lobby their opinions, but should restrict their comments to explaining how and why they voted the way they did. The Committee may authorize the Chair or other Committee member to present testimony or represent the Committee before the County Council, community organizations or other organizations or committees on matters to present Committee recommendations, opinions and decisions.

ARTICLE IV. Amendment of Bylaws. These by-laws can be amended consistent with Article III.

These bylaws are approved on this date of November 8, 2018.

David G. James, Chair

Annapolis City Code

FAC Scope of Work

Article IV - Financial Advisory Commission[6]

Footnotes:

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Editor's note— Ord. No. O-69-09, § I, adopted March 22, 2010, amended Art. IV, in its entirety, to read as herein set out. Prior to inclusion of said ordinance, Art. IV pertained to the data processing committee. See also the Code Comparative Table and Disposition List.

2.48.110 - Established—Duties.

There is established a Financial Advisory Commission, which may advise the mayor and Aldermen/Alderwomen on financial issues. These issues shall include, but not be limited to, the review of collective bargaining agreements prior to execution and an annual report on the amount of public debt the City may incur without jeopardizing its bond rating. In carrying out its duties, the Commission may retain consultants, as permitted by the budget.

(Ord. No. O-69-09, § I, 3-22-2010)

2.48.120 - Composition.

The Financial Advisory Commission, consisting of seven persons with demonstrated knowledge of public finance, shall be appointed by the Mayor and confirmed by a majority vote of the City Council. Each member shall serve a term of four years, commensurate with the term of the Mayor and City Council, or until the member's successor is confirmed. Vacancies shall be filled by the Mayor, subject to confirmation by the City Council, for the balance of the term. Any staff shall be provided by the Department of Finance.

(Ord. No. O-69-09, § I, 3-22-2010)

2.48.130 - Reserved.

Annapolis City Council
Resolution 31-18

File #: R-31-18, **Version:** 1

City Debt and Financial Administration Policies - For the purpose of formally amending and approving the debt and financial administration policies for the City of Annapolis.

CITY COUNCIL OF THE
City of Annapolis

Resolution 31-18

Introduced by: Mayor Buckley

A RESOLUTION concerning

City Debt and Financial Administration Policies

FOR the purpose of formally amending and approving debt and financial administration policies for the City of Annapolis.

WHEREAS, on, April 27, 2015 the City Council adopted Resolution 9-15 for the purpose of formally approving debt and financial administration policies for the City of Annapolis; and

WHEREAS, Resolution 9-15 requires a review of the City's debt and financial administration policies every four years at the seating of a new City Council.

WHEREAS, the City Council hereby seeks to amend and approve said debt and financial administration policies.

NOW THEREFORE:

BE IT RESOLVED BY THE ANNAPOLIS CITY COUNCIL that the City's debt and financial administration policies shall be amended as follows:

DEBT ISSUANCE POLICIES:

1. The City shall not use long-term borrowing or bond anticipation notes to finance current operations or routine maintenance.

2. Capital projects financed through the issuance of bonds and capital lease purchases shall not be financed for longer than the expected useful life of the improvements.

3. The City shall not issue tax or revenue anticipation notes to fund governmental operations.

4. The City may issue bond anticipation notes (BANs) for capital improvements. All BANs shall be paid off within ~~two~~three years of issuance and may be refinanced with long-term debt.

5. To reduce reliance on long-term debt for recurring capital projects, the City shall strive to increase pay-as-you-go funding until recurring capital projects are fully funded ~~with~~ without debt. Examples of recurring capital projects are road resurfacing, sidewalk repairs, and capital facility improvements.

6. The City's accumulated General Fund balance is intended to provide the City with sufficient working capital and enable the City to finance unforeseen emergencies without borrowing. The City shall not use General Fund balance to finance recurring current operations. Use of General Fund balance must comply with the provisions of the Financial Administration Policies contained herein.

7. It is the City's intent for the Water and Sewer Enterprise Funds to be self-supporting. To ensure that water and sewer rates and fees are sufficient to cover the funds' operating expenses and debt service, the Finance Director shall ensure a formal rate study is conducted as required by any Trust Indenture the City enters into in connection with Revenue Bonds. Additionally, water and sewer rates and fees shall be reviewed annually during the budget process to evaluate whether the funds' revenues are sufficient to cover operating expenses and debt service.

8. As of the effective date of adoption of these policy guidelines, the City of Annapolis has no outstanding variable rate indebtedness, nor has it entered into any municipal derivatives contracts (i.e. interest rate swap agreements). Prior to undertaking the issuance of variable rate debt or committing itself to any derivatives contracts, the City shall develop in consultation with its Financial Advisor appropriate policies and procedures to safeguard the financial interest of the City.

DEBT RATIO POLICIES:

There are several key debt ratios that investors and financial analysts use when reviewing a city's credit-worthiness. As part of its policy, the City of Annapolis has established an act of target and ceiling numbers that reflect the type of ratios used by the national credit rating agencies. The target number is the ratio the City intends to achieve through a prudent program of debt management. The ceiling and floor percentages are the absolute maximum and minimum ratios that the City administration shall permit.

The City's key debt ratios are as follows:

1. Debt as a Percentage of Assessed Value

   The City shall maintain its tax-supported debt at a level not to exceed a ceiling of 3% of the assessed valuation of taxable property within the City, with a target ratio of 2%. This ratio indicates the relationship between the City's tax-supported debt and taxable value of property in the City. It is an important indicator of the City's ability to repay debt because property taxes are the primary source of City revenues used to repay tax-supported debt. A smaller ratio is an indication that the City will be better able to withstand possible future economic downturns and continue to meet its debt obligations.

2. Debt Service as a Percentage of General Government Expenditures

The City shall maintain its annual tax-supported debt service costs at a ceiling of 12% of the General Fund expenditures, with a target ratio of 10% of General Fund expenditures. The ratio of tax-supported debt to General Fund expenditures is a measure of the City's ability to repay its general obligation debt without hampering other government services. A smaller ratio indicates a lesser burden on the City's operating budget.

3. Debt Payout Ratio

The City shall maintain a ten-year payout ratio (i.e. rate of principal amortization) for its tax-supported debt of not less than 55%. This ratio is a measure of how quickly the City retires its outstanding tax-supported indebtedness. A higher payout ratio preserves the City’s capacity to borrow for future capital needs.

FINANCIAL ADMINISTRATION POLICIES

1. Unassigned General Fund Balance as a Percentage of Revenues in the General Fund, Parking Fund, and Transportation Fund~~.~~

The City shall maintain an unassigned General Fund balance equal to no less than 15% of the sum of budgeted revenues in the General Fund, Parking Fund, and Transportation Fund. This ratio shall be computed by comparing the unassigned fund balance per the City’s annual audited financial statements on June 30 of each fiscal year to the sum of the budgeted revenue in the General Fund, Parking Fund, and Transportation Fund for the ensuing fiscal year.

With the affirmative vote of six members, the City Council may, upon recommendation of the City’s Mayor and City Manager, appropriate unassigned General Fund Balance such that the amount would fall below 15% of the sum of the budgeted revenues in the General Fund, Parking Fund, and Transportation Fund.

If the City Council appropriates unassigned General Fund Balance such that the balance would fall below 15% of the sum of the budgeted revenues in the General Fund, Parking Fund, and Transportation Fund, the City Council shall concurrently adopt a reserve replenishment plan approved by the affirmative vote of six members of the City Council to restore the unassigned General Fund Balance to 15% of the sum of the budgeted revenue in the General Fund, Parking Fund, and Transportation Fund within the subsequent three fiscal years. The reserve replenishment plan may include planned revenue increases and expenditure reductions intended to restore the unassigned General Fund balance to its required minimum level.

2. Budget Stabilization Fund

The City shall establish a Budget Stabilization Fund (BSF) within the assigned portion of its General Fund balance. At the close of each fiscal year, the BSF shall receive 50% of the unassigned General Fund balance that is in excess of 15% target. Balances in the BSF, measured as of June 30 of each fiscal year, may accumulate until the balance reaches an amount equal to 3% of the sum of the budgeted revenues in the General Fund, Parking Fund, and Transportation Fund for the ensuing fiscal year. If the BSF reaches the maximum 3% level, any unassigned General Fund Balance that would be assigned to the BSF if it were not at its maximum 3% level may be assigned for contingencies, appropriated for one -time expenditures, or appropriated for unfunded pension or other post-employment benefit liabilities. Balances in the BSF may be appropriated for any purpose of City government by simple majority vote.

3. Capital Reserve Fund

The City recognizes that continued, periodic reinvestment and maintenance of capital infrastructure is critical to maintaining the quality of life for residents and businesses and minimizing the additional cost associated with deferred maintenance. Further, the City recognizes that capital maintenance and capital improvements should have an annual, on-going funding mechanism in addition to the use of one-time monies and prudent use of long-term borrowing to fund capital expenditures.

As such, the City shall establish a Capital Reserve Fund funded as follows:

1. At the close of each fiscal year, the Capital Reserve Fund shall receive 50% of the unassigned General Fund balance in excess of 15% target.

2. The City may dedicate additional unassigned General Fund balance or other General Fund revenue to the Capital Reserve Fund, provided the unassigned General Fund Balance does not fall below its 15% target and provided the ~~Budget~~ ~~Stabilization~~ ~~Fund~~BSF is fully funded at 3% of the sum of budgeted revenues in the General Fund, Parking Fund, and Transportation Fund.

3. Monies in the Capital Reserve Fund may only be appropriated as pay-as-you-go funding for capital improvements.

4. Quarterly Budget Monitoring and Reporting

Quarterly the City Finance Director shall prepare a report that compares actual revenues and expenditures for the fiscal year to the budget and to similar points in time for the prior fiscal year. The report shall include any recommendations for budget amendments that may be required. The quarterly report shall be reviewed promptly by the Finance Committee and provided to the full City Council at the next scheduled meeting.

4. Multi-year Comprehensive Financial Plan

Annually the City shall prepare a multi-year comprehensive financial plan that is provided to the City Council for its review during the annual budget process. The plan shall integrate the operating and capital budgets such that the incremental operating costs associated with new capital projects are incorporated into the operating budget. The purpose of the multi-year plan is to provide near-to-medium term perspective on how current year budget decisions might affect the City's financial health in future years. The multi-year plan is not intended to and shall not supersede the annual budget adopted by the City Council.

The City shall review these debt and financial administration policies no less frequently than once every four fiscal years at the seating of a new City Council and reaffirm or adjust the policies to reflect evolving City priorities, developments in industry best practices, or changes to rating agency criteria