
Spending Affordability Briefing

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

November 10, 2009

State Debt Policy

- The Capital Debt Affordability Committee (CDAC) advises the General Assembly on State debt policy.
- State debt includes general obligation (GO) bonds, transportation bonds, Grant Anticipation Revenue Vehicles (GARVEEs), bay restoration bonds, stadium authority bonds, and capital leases.
- Since 2000, State GO bond authorizations have increased and the State has authorized new kinds of State debt.
- In 2008, the CDAC completed a two-year study reviewing the debt affordability criteria. The committee recommended that:
 - State tax-supported debt outstanding should not exceed 4% of Maryland personal income; and
 - State tax-supported debt service payments should not exceed 8% of State revenues.
- The CDAC recommends that the General Assembly authorize up to \$990 million in GO bonds in the 2010 legislative session. This provides a \$120 million decrease from the authorization in the 2009 legislative session. The decrease represents a \$30 million previously planned inflationary adjustment and removing authorizations for a one-time, \$150 million increase. The CDAC also expressed its intention to review the recommendation in December 2009.
- The table below shows that projected authorizations meet the affordability criteria:

<u>Fiscal Year</u>	<u>Debt Outstanding as a % of Personal Income</u>	<u>Debt Service as a % of Revenues</u>
2010	3.47%	6.99%
2011	3.42%	7.23%
2012	3.39%	7.18%
2013	3.27%	7.16%
2014	3.17%	7.16%
2015	3.08%	7.32%

State Debt Policy (continued)

Debt Service Costs Exceed Projected Revenues Fiscal 2010-2015 (\$ in Millions)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total Change 2010-2015</u>	<u>Average Annual % Change</u>
Special Fund Revenues								
Property Tax Receipts	\$748	\$771	\$791	\$813	\$837	\$862	\$114	2.9%
Bond Sale Premiums ¹	90	16	0	0	0	0	-90	-100.0%
Other Revenues	2	2	2	2	2	2	0	-2.4%
ABF Fund Balance Transferred from Prior Year	72	130	75	0	0	1	-71	n/a
Subtotal Special Fund Revenues Available	\$912	\$919	\$868	\$816	\$840	\$865	-\$47	n/a
General Fund Appropriations	\$0	\$0	\$16	\$142	\$153	\$188	\$188	n/a
Federal Fund Appropriations ²	1	2	2	2	2	2	1	14.9%
Total Revenues	\$913	\$921	\$885	\$960	\$995	\$1,055	\$142	2.9%
Projected Debt Service Expenditures	\$783	\$846	\$885	\$959	\$994	\$1,055	\$272	6.1%
ABF End-of-year Fund Balance	\$130	\$75	\$0	\$0	\$1	\$0	-\$130	n/a

ABF: Annuity Bond Fund

¹ To date, the State has realized \$64 million in bond sale premiums in fiscal 2010. The Department of Legislative Services projects an additional \$26 million bond sale premium realized at March 2010 bond sale and a \$16 million bond sale premium realized at the July 2010 bond sale.

² Federal fund appropriations represent subsidy on Build America Bonds.

State Debt Policy (continued)

The Department of Legislative Service's Recommendations

Continue Issuing Build America Bonds

- Build America Bonds (BABs) were authorized by the federal American Recovery and Reinvestment Act of 2009. The bonds are taxable and provide the issuer with a subsidy equal to 35% of the interest payments. The State issued \$50 million in August 2009 and \$51.8 million in October 2009.
- The Department of Legislative Services (DLS) estimates that the True Interest Cost for BABs was 0.92% (92 basis points) less than the yield for AAA-rated 15-year bonds. This reduces annual debt service costs by approximately \$1 million annually.
- **DLS recommends that the Treasurer's Office continue to issue BABs.**

Limit Retail Bond Sale Issuances

- In 2009, Maryland issued its first retail bond sale in at least 20 years. The sales totaled \$225.8 million in March and \$235.0 million in August.
- DLS estimates that the True Interest Cost of retail bonds is 0.25% (25 basis points) greater than the cost of competitively bid bonds to institutional investors. These costs are offset by the savings realized by reducing the total bonds sold to institutional investors. The interest cost increases 0.06% (6 basis points) for each \$100 million issued.
- Based on the statistical analysis, DLS estimates that the retail bonds increased the interest cost on the \$460.8 million issued by 0.10% (10 basis points), which reduced the premium realized by the State by an estimated \$3.5 million.
- **Since the analysis of the bond sale data suggests that retail bonds tend to be more expensive than bonds sold to institutional investors through a competitive process, it is recommended that subsequent bond sales be limited to one retail sale per year.**
- **DLS recognizes that the data from the first two bond sales is insufficient to conclusively estimate the cost of retail bonds, and DLS recommends that subsequent bond sales be evaluated.**

State Debt Policy (continued)

State Center and Health Laboratory Capital Leases Should Be Included in State Debt Projections

- The Administration is proposing that two major State capital projects, the State Center Complex in Baltimore and the new Department of Health and Mental Hygiene (DHMH) public health laboratory, be financed through capital leases instead of GO bonds.
- To clarify if these projects are State debt, the operating budget bill included a requirement that the State Treasurer's Office evaluate the proposed State Center lease for potential affordability implications.
- The Treasurer's assessment is that the prudent approach would be to assume that the State Center occupancy leases are, or will be, capital leases and that they will impact debt affordability. The same can be said for the new DHMH public health laboratory which, considering the essential public need and use of the facility, makes a capital lease determination and corresponding debt affordability impact even more likely.
- **Insofar as the State Center and public laboratory projects are State projects funded with State revenues and the Treasurer's Office advises that it is prudent to consider these projects State debt, DLS recommends that CDAC include these projects as State debt.**

Issue Bay Restoration Bonds in a Competitive Sale, Instead of Negotiated Sale

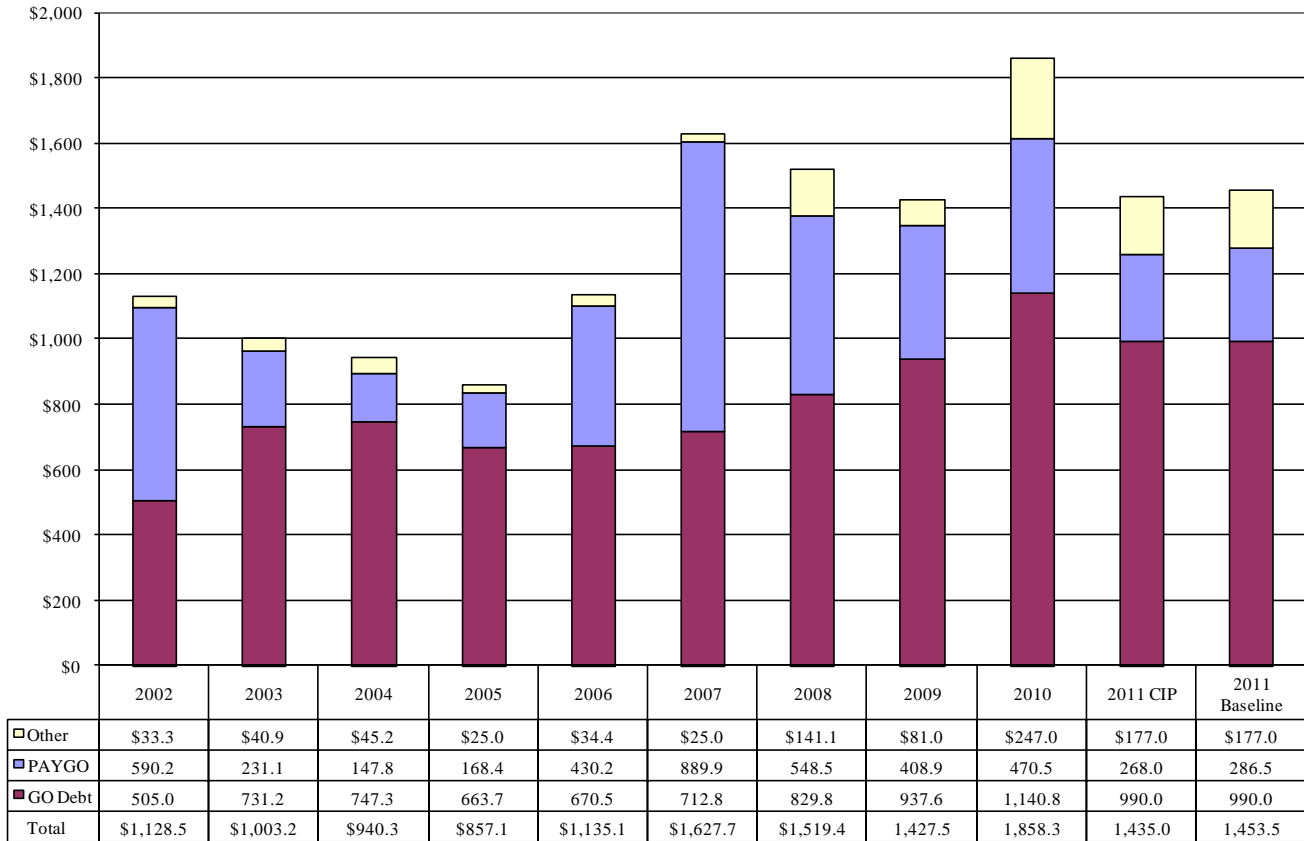
- In June 2008, the State issued the first series of bay restoration bonds. The bonds were issued through a negotiated sale. Because competitive bond sales tend to reduce the cost of debt, GO and transportation bonds are issued through competitive sales.
- **Insofar as bay restoration bonds have been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

Capital Program

Capital Program Funding Trends

The fiscal 2010 capital program exceeded \$1.85 billion, all funds included, eclipsing all previous annual capital funding levels. The current estimate is \$1.4 billion for fiscal 2011.

**Capital Funding by Major Source
Fiscal 2002-2011
(\$ in Millions)**

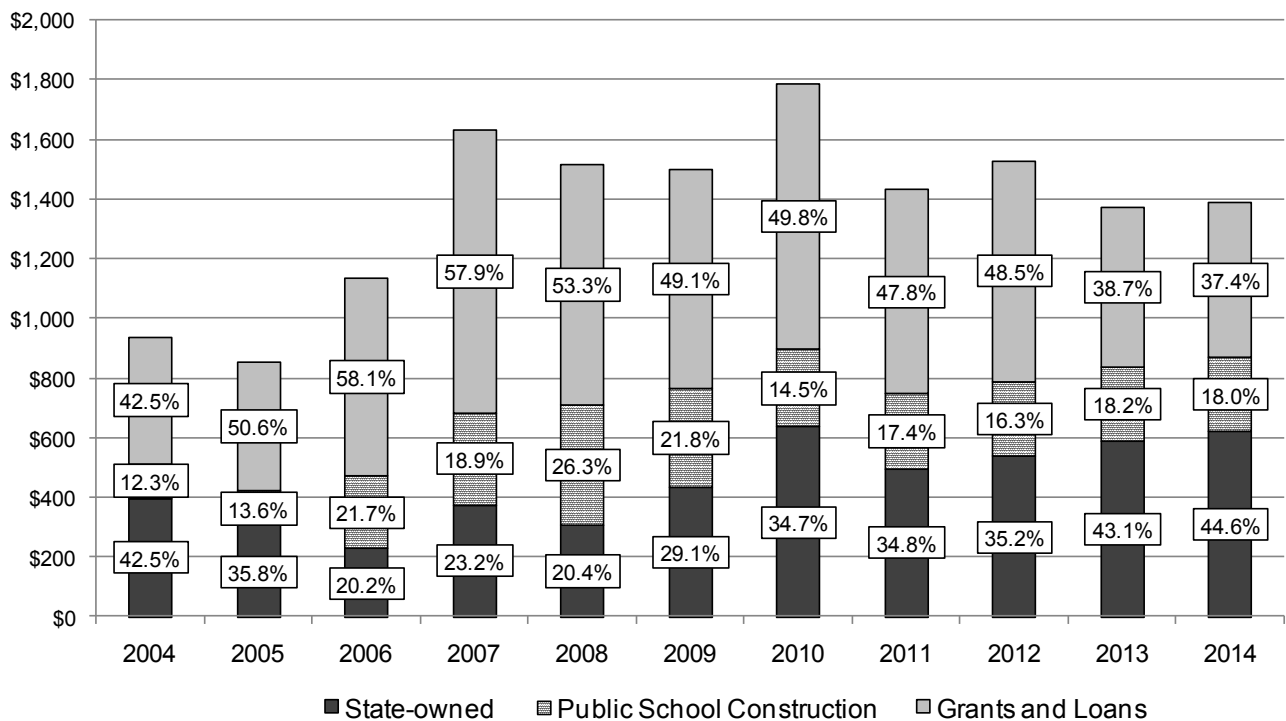


CIP: *Capital Improvement Program*
 GO: general obligation
 PAYGO: pay-as-you-go

Greater Share of Funding for State-owned Projects Proposed

Beginning in fiscal 2006 and in direct response to the Public School Facilities Act of 2004, the level of funding for public school construction increased in both absolute dollars and as a share of the total capital program. The allocation of funding for grant and loan programs similarly increased resulting in reduced allocation for State-owned projects. Fiscal 2009 and 2010 funding levels began to reverse this trend.

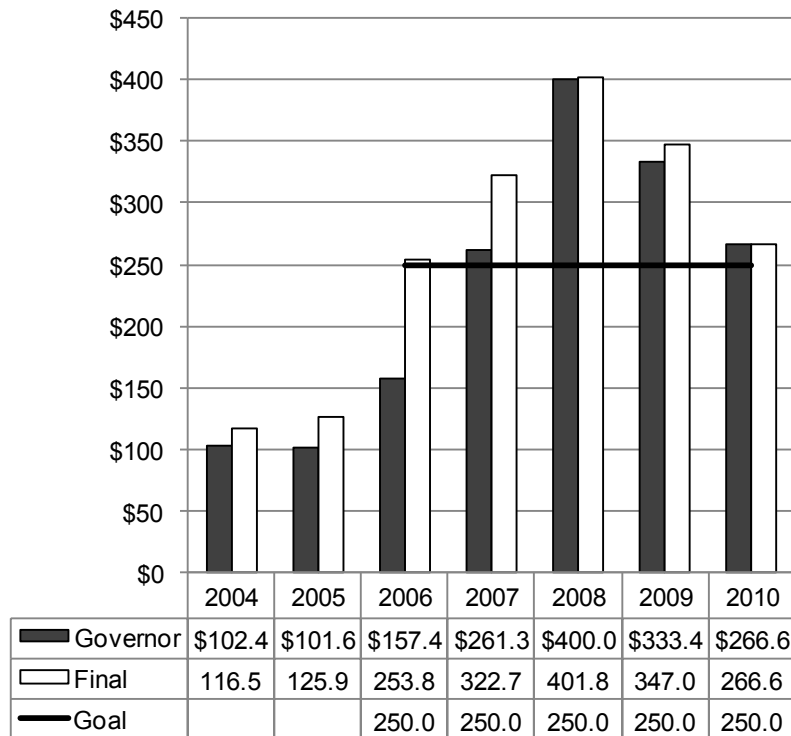
**Fiscal 2004-2014
(\$ in Millions)**



School Construction Funding Goal

Fiscal 2010 marked the fifth year in a row that funding for public school construction projects met or exceeded the \$250 million annual funding goal set in the 2004 Public School Facilities Act. Since fiscal 2006, the State has invested a total of \$1.591 billion towards the State's nominal funding goal of \$2 billion by 2013.

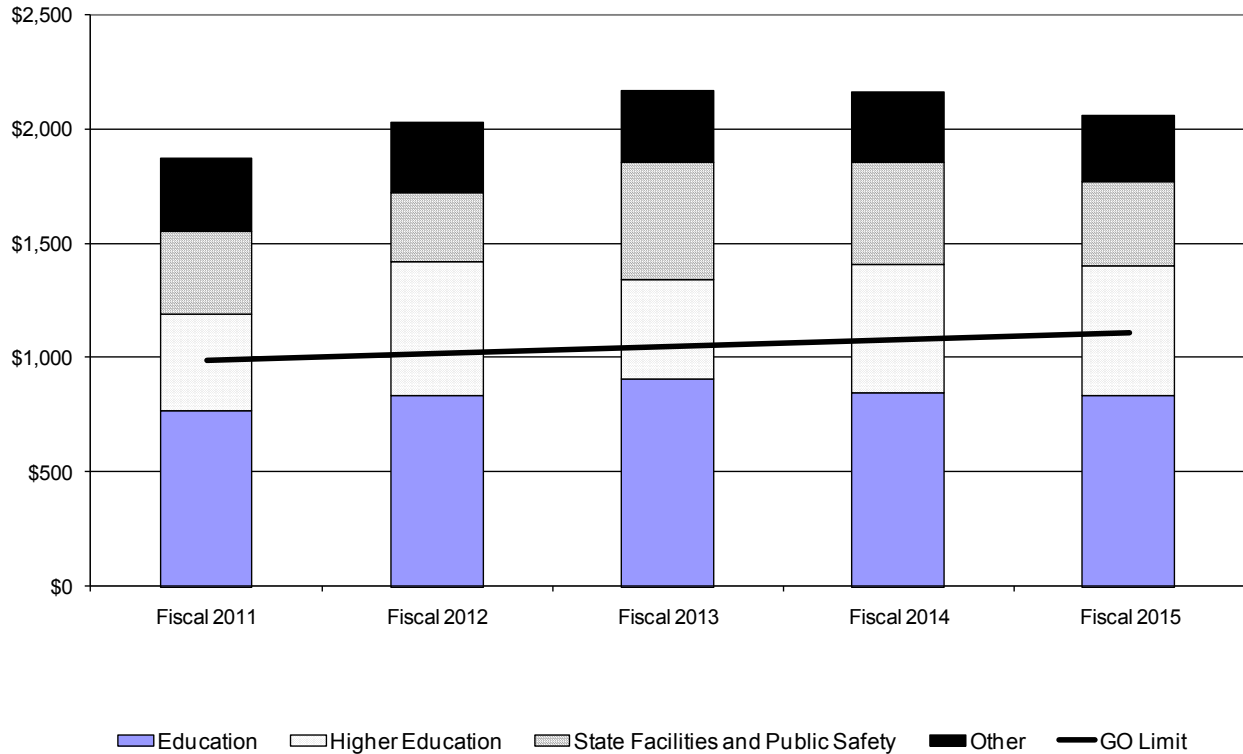
**Fiscal 2004-2010
(\$ in Millions)**



Capital Demand

Capital general obligation (GO) bond requests for fiscal 2011 total \$1.87 billion, or \$884 million more than the amount available under the Capital Debt Affordability Committee (CDAC) recommended GO bond debt limit of \$990 million. Capital requests for the next five years total nearly \$10.3 billion, while the projected debt authorizations for the same period total about \$5.2 billion.

**GO Bond Requests and CDAC GO Bond Debt Limit
Fiscal 2011-2015
(\$ in Millions)**



**Variance between Requests and CIP Estimates
(\$ in Millions)**

	Fiscal 2011			Four-year Plan		
	<u>CIP</u>	<u>Request</u>	<u>Variance</u>	<u>CIP</u>	<u>Request</u>	<u>Variance</u>
Public School Construction	\$250.0	\$742.1	-\$492.1	\$1,000.5	\$3,269.2	-\$2,268.7
University System of Maryland	224.2	259.8	-35.6	913.8	1,157.2	-243.4
Department of Juvenile Services	30.1	110.2	-80.1	210.0	453.1	-243.1
Public Safety Communication System	10.0	68.0	-58.0	100.0	255.0	-155.0
Community Colleges	100.2	107.8	-7.6	366.0	502.2	-136.2
Morgan State University	38.4	48.9	-10.5	129.3	252.4	-123.1

CIP: *Capital Improvement Program*

**Use of GO Bond Program to Relieve Pressure on the Operating
Budget
(\$ in Millions)**

	<u>Fiscal 2010</u>	<u>Estimate for Fiscal 2011</u>
<ul style="list-style-type: none"> ● Transfer Tax Diversion to the General Fund: Transfers to the general fund authorized in the Budget Reconciliation and Financing Act of 2009 (BRFA) totaled \$172.3 million of which \$102.3 million was replaced with GO bond funds and another \$70.0 million with POS revenue bonds. 	\$102.3	\$30.0*
<ul style="list-style-type: none"> ● InterCounty Connector Funding: \$55.0 million authorized in fiscal 2010 – statutory changes made in the BRFA would require remaining \$156.9 million in fiscal 2011. 	55.0	156.9*
<ul style="list-style-type: none"> ● Medevac Helicopter Replacement: The \$52.5 million authorized for fiscal 2010 to fund the purchase of three helicopters. The 2009 CIP programs another \$30 million in fiscal 2011. 	52.5	30.0
<ul style="list-style-type: none"> ● Use of GO Bond Funds to Fund Capital Programs Traditionally Funded with General Funds: The 2009 CIP programs \$36.1 million of GO bonds in fiscal 2011 for these programs. 	28.1	36.1
<ul style="list-style-type: none"> ● Special Fund Revenue Replacement: Potential transfer of special fund revenues from various revolving grant and loan programs and replacement with GO bond authorizations. 	0.0	90.0*

CIP: *Capital Improvement Program*

GO: general obligation

POS: Program Open Space

*Not currently programmed in the *Capital Improvement Plan*.

- **Making Room for Commitments Made in the 2009 Session:** In addition to potentially needing to make room for an estimated \$277 million of bondable costs not currently projected in the CIP, another \$64 million is needed to fund projects that were either deferred, split-funded, or added by the General Assembly in the 2009 session.

- **Accommodating Prior Year Commitments:** Projects already programmed in the CIP awaiting construction or equipment funding in fiscal 2011 account for approximately \$570 million of the \$990 million of proposed new GO bond authorizations. This includes State-owned projects split-funded in the 2009 session and other multi-year commitments to projects funded through grants and loans to local governments.

Bay Restoration Bonds Not Projected to Be Sufficient

The Maryland Department of the Environment (MDE) currently estimates that the cost to upgrade the 67 major wastewater treatment plants is \$1.539 billion. The bond revenue, in addition to revenues expended from the fund as pay-as-you-go special funds, would fund approximately \$881 million leaving a shortfall of approximately \$659 million potentially unfunded.

Bay Restoration Fund Fiscal 2010-2015 (\$ in Millions)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Project Costs	\$332	\$195	\$343	\$241	\$160	\$152
Bay Restoration Fees and Bond Funds	332	195	220	4	2	2
Projected Annual Deficit	0	0	-123	-237	-158	-150

Source: Maryland Department of the Environment

The Bay Restoration Fund Advisory Committee may consider the following options for addressing the shortfall: (1) increase the current \$30 annual household fee – this action would require legislative approval to implement; (2) reduce the percent of grant funding to local governments for Enhanced Nutrient Removal (ENR) projects which is currently being provided at 100% of eligible costs – this action would not require legislation to implement; (3) delay ENR upgrades at certain wastewater treatment plant facilities – this action would not require legislation to implement; and (4) use a portion of the fee for payment of local government bond debt (with terms greater than 15 years) where bond proceeds are used for MDE approved ENR upgrade costs – this action would require legislative approval to implement.

Transfer Tax Revenues Continue to Decline

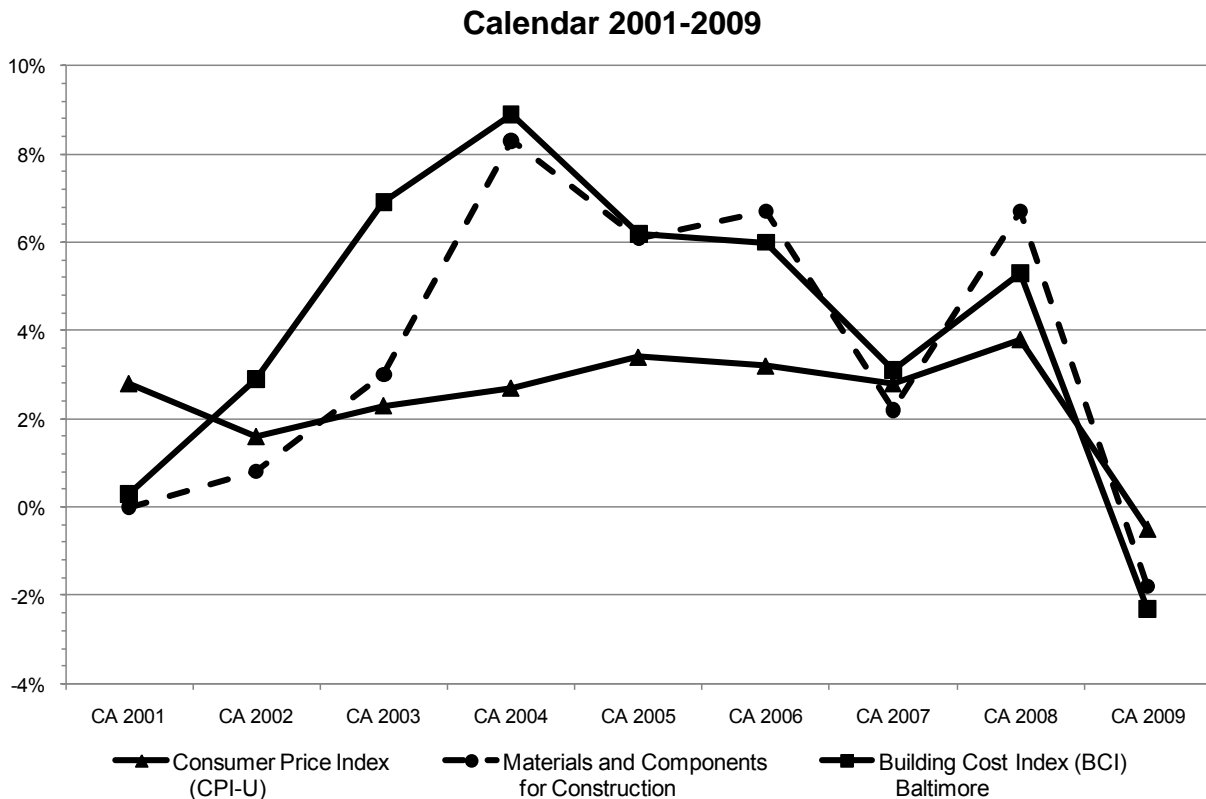
	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011 Est.</u>
Revenues				
Budgeted Revenue Estimate	\$188.58	\$166.30	\$114.74	\$112.36
Less Administrative Expenses*	-5.66	-4.99	-4.66	-\$4.59
Attainment Adjustment	75.50	-51.96	-35.05	-52.64
Net Available for Allocation	\$258.43	\$109.35	\$75.03	\$55.14
Allocations				
Program Open Space (POS)				
POS Bonds Debt Service	\$0.00	\$0.00	\$0.00	\$7.00
POS Local	95.60	18.59	6.15	0.00
Forest and Park Service**	0.00	21.00	21.00	21.00
Heritage Areas Authority	3.00	3.00	3.00	0.36
POS State Land Acquisition	61.76	20.87	10.57	0.00
POS State Rural Legacy	8.00	8.00	0.00	8.00
POS State Capital Development	24.64	9.52	0.00	4.14
POS State Park Operating	1.20	1.20	1.20	1.20
POS Subtotal	\$194.21	\$82.18	\$41.92	\$41.70
Other Allocations				
Additional State Land Acquisition	\$2.58	\$1.09	\$0.76	\$0.00
Agricultural Land Preservation	44.06	18.64	0.00	9.61
Rural Legacy Additional	12.92	5.47	0.00	2.82
Heritage Conservation Fund	4.65	1.97	1.37	1.01
Other Subtotal	\$64.22	\$27.17	\$2.13	\$13.44
Total Transfer Tax Allocations	\$258.43	\$109.35	\$44.06	\$55.14
General Obligation (GO) Bond Replacement				
POS State Rural Legacy	\$0.00	\$0.00	\$8.00	\$0.00
POS State Capital Development	0.00	0.00	6.16	0.00
Agricultural Land Preservation	0.00	0.00	13.00	0.00
Rural Legacy Additional	0.00	0.00	3.81	0.00
Total GO Bond Replacement	0.00	0.00	30.97	0.00
Total Funding	\$258.43	\$109.35	\$75.03	\$55.14

*The Budget Reconciliation and Refinancing Act of 2009 authorizes the use of \$1,217,000 of the State's share of funds to be used for administrative expenses.

**In order to provide \$21 million for the Forest and Park Services required under the formula, the estimate for fiscal 2011 for State Land Acquisition is adjusted to \$0 million and the discretionary funds to the Heritage Area Authority to \$0.4 million.

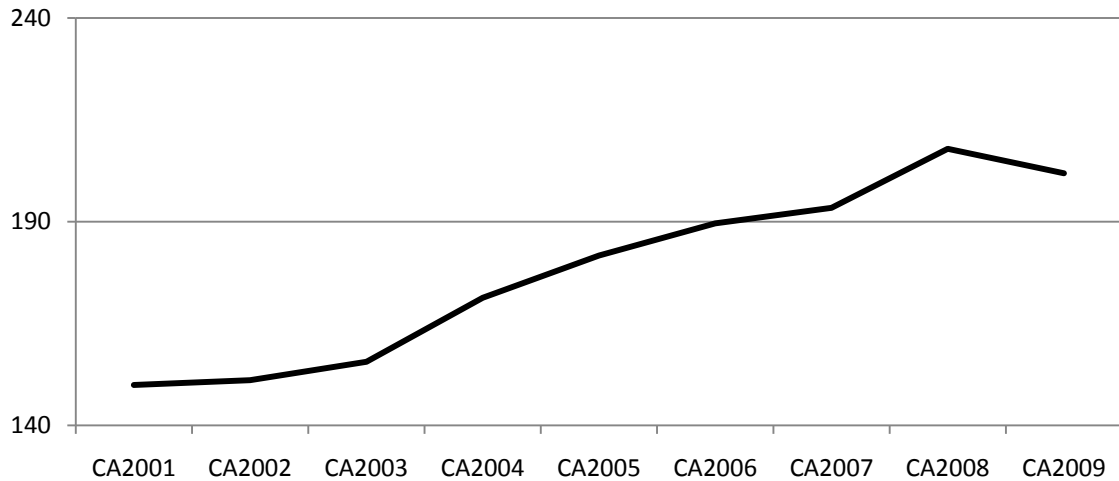
Construction Costs Decline

- **Construction Costs Decline in 2009:** The year-over-year measure for inflation in the building and construction market as measured nationally through the materials and components for construction component of the Producer Price Index and locally through the Engineering News-record Building Cost Index for Baltimore City reflect a decrease in construction costs both nationally and locally. Through September 2009, construction costs are 3.0% below calendar 2008 figures.



- **Despite 2009 Declines Average Annual Costs Increase:** Despite negative growth in construction cost in calendar 2009, overall costs have increased at an average annual rate of 3.9% from calendar 2001 through September 2009.

**Calendar 1999-2009
(Inflation Index)**



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- **Recent Bids Below Authorization Levels:** The recent decline in construction costs, which began in the third quarter of calendar 2008, is now reflected in construction bids anywhere from 10 to 15% below authorization levels. This will allow for some recycling of prior authorized funds to support fiscal 2011 projects and allow the CIP to accommodate more project requests.
 - **The Department of Budget and Management (DBM) Revised Annual Escalation and Regional Cost Factors Used in Cost Estimating Process:** DBM revised the escalation rate for projects requested in the 2010 session to reflect escalation at 1.0% for calendar 2009, 3.5% for calendar 2010, and 4.0% for each year thereafter. This compares to rates set for the 2008 session of 8.0% for calendar 2009, and 5.0% for each year thereafter. DBM also revised the methodology for calculating the “regional cost factor” (RCF) used in the cost estimating process. This produces variance between the old and revised RCF as high as 35.0% which will lower cost estimates for projects that are included in the next five-year CIP.
 - **Stabilization of School Construction Costs:** The Interagency Committee on School Construction (IAC) recently reported stabilization of bid prices and increased contractor competitiveness. Individual projects are bidding at 25 to 30% below budget and well below the \$224 square foot cost used for fiscal 2010. As a result, the IAC has lowered the square foot rate applicable to fiscal 2011 by 12% to \$197 per square foot.

Transportation Trust Fund Closeout
Comparison of Fiscal 2009 Projected and Actual Revenues
(\$ in Millions)

	<u>Projected</u> <u>FY 2009</u>	<u>Actual</u> <u>FY 2009</u>	<u>Variance</u>
Starting Fund Balance	\$53	\$53	\$0
Revenues			
Titling Taxes	\$550	\$514	-\$36
Motor Fuel Taxes	741	736	-5
Sales Tax	207	202	-5
Corporate Income, Registrations, and Misc.			
MVA Fees	726	712	-14
Other Receipts and Adjustments	484	521	37
Bond Proceeds and Premiums	420	402	-18
Total Revenues	\$3,128	\$3,087	-\$41
Uses of Funds			
MDOT Operating Expenditures	\$1,576	\$1,526	-\$50
MDOT Capital Expenditures	837	716	-121
MDOT Debt Service	142	142	0
Highway User Revenues	478	465	-13
Other Expenditures	48	47	-1
Total Expenditures	\$3,081	\$2,896	-\$185
Ending Fund Balance	\$100	\$244	\$144

MDOT: Maryland Department of Transportation
MVA: Motor Vehicle Administration

- The fiscal 2009 ending funding balance totaled \$244 million, \$144 million higher than expected. The higher-than-expected fund balance is largely due to capital budget reductions that were made in March 2009 and a wet spring slowing construction. Operating cost containment and cancellations at the end of the year resulted in an additional \$50 million for the fund balance.
- Total revenues to the department were \$41 million less than estimated. The decline in revenues is attributed to the recession with the largest decline in titling tax revenues. Other receipts increased \$37 million, but this was due to additional federal funds for transit operating expenses that reduced the need for special funds and a higher level of reimbursements.

Maryland Department of Transportation's (MDOT) Draft Financial Forecast Highlights

Revenue

- MDOT forecasts a rebound in titling tax receipts with growth of 10.0, 18.0, and 14.0% in fiscal 2011 to 2013, respectively. The department's share of Highway User Revenues increases to 71.5% in fiscal 2012, and its share of sales tax receipts increases from 5.3 to 6.5% in fiscal 2014.

Operating Budget

- MDOT assumes approximately \$50 million in cost containment in fiscal 2010. The average annual growth rate for the operating budget is 3.8%.

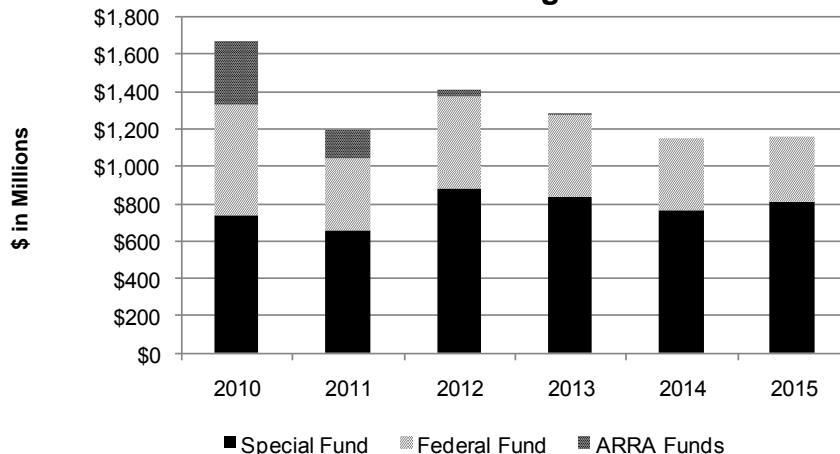
Debt Issuances

- The department has planned \$1,425 million in bond issuances over the six-year period. Total debt outstanding reaches \$2.3 billion, below the statutory cap of \$2.6 billion. The department's net income coverage ratio is 2.1 in fiscal 2011 and 2012 and then gradually increases to 2.7 in fiscal 2015.

Capital Budget

- The six-year capital budget totals \$7.9 billion for special and federal funds. For the comparable fiscal years, the capital budget has not changed significantly since the March 2008 forecast.

**Maryland Department of Transportation Draft Forecast
Fiscal 2010-2015 Funding for Draft CTP**



CTP: Consolidated Transportation Program

MDOT's Draft Financial Forecast Risks

Revenue

- MDOT assumes that vehicle sales will begin to recover in fiscal 2011, with a strong recovery in fiscal 2012 and 2013; however, it is not clear what impact the recent gas price shock or recession will have on future purchases. The downside risk is that the department will not meet its estimates for titling, and that a slow economic recovery may also adversely affect other revenues.
- Due to the larger State budget difficulties, it is not clear if the increase in the sales tax distribution to the Transportation Trust Fund is sustainable.

Operating Budget

- Despite MDOT's efforts to constrain expenditures, spending pressures remain. Specific areas that may be underbudgeted in the forecast include snow removal, MARC contract costs, and union personnel expenditures.

Debt Issuances

- One of the department's constraints on debt is a net income coverage test. The department has indicated to bond holders that if the coverage ratio falls below 2.0, it will not issue debt until the ratio exceeds 2.0. If revenues do not meet estimates or spending is higher than estimated, MDOT runs the risk of falling below the 2.0 level and not being able to issue debt for the capital program.

Capital Budget

- Future levels of federal funding are uncertain due to federal revenues not being able to sustain prior levels of spending without an increase in the gas tax or other revenues.
- The current *Consolidated Transportation Program* (CTP) does not provide funding for the construction of the Purple or Red Line or the Corridor Cities Transitway even though the department continues to move forward to obtain federal approval of these three major mass transit initiatives.
- The current capital program already assumes an economic recovery, leaving little capacity for new projects to be added.

**Impact of Downside Risks to the Capital Program
Incorporated in DLS Estimate
(\$ in Millions)**

Revenues Compared to Draft CTP

Titling Tax – DLS estimates that vehicle sales will begin to recover in fiscal 2010 and 2011 and then return to more historical rates of growth. -\$373

Motor Fuel Tax, Corporate Income Tax, Sales Tax, Registrations, and Miscellaneous MVA Fees – Slight downward adjustments were made to revenues, in particular the sales tax (\$57 million) to reflect the Board of Revenue Estimates' estimate and registration fees (\$46 million) due to lower estimates of vehicle sales. -113

Other Receipts and Adjustments 63

Bond Sales – Due to the write-down in revenue and increased operating budget expenditures, bond sales are constrained by the net income coverage test over the six-year period. -880

Total Revenues Compared to Draft CTP **-\$1,303**

Expenditures Compared to Draft CTP

Operating Budget – DLS assumed the operating budget would grow at an average annual rate of 5.1% compared to MDOT's growth rate of 3.8%, and DLS did not assume cost containment in fiscal 2010, except for Board of Public Works reductions. \$556

Local Highway User Revenues – Due to downward revisions in revenues, the local share of highway user revenues is reduced. -90

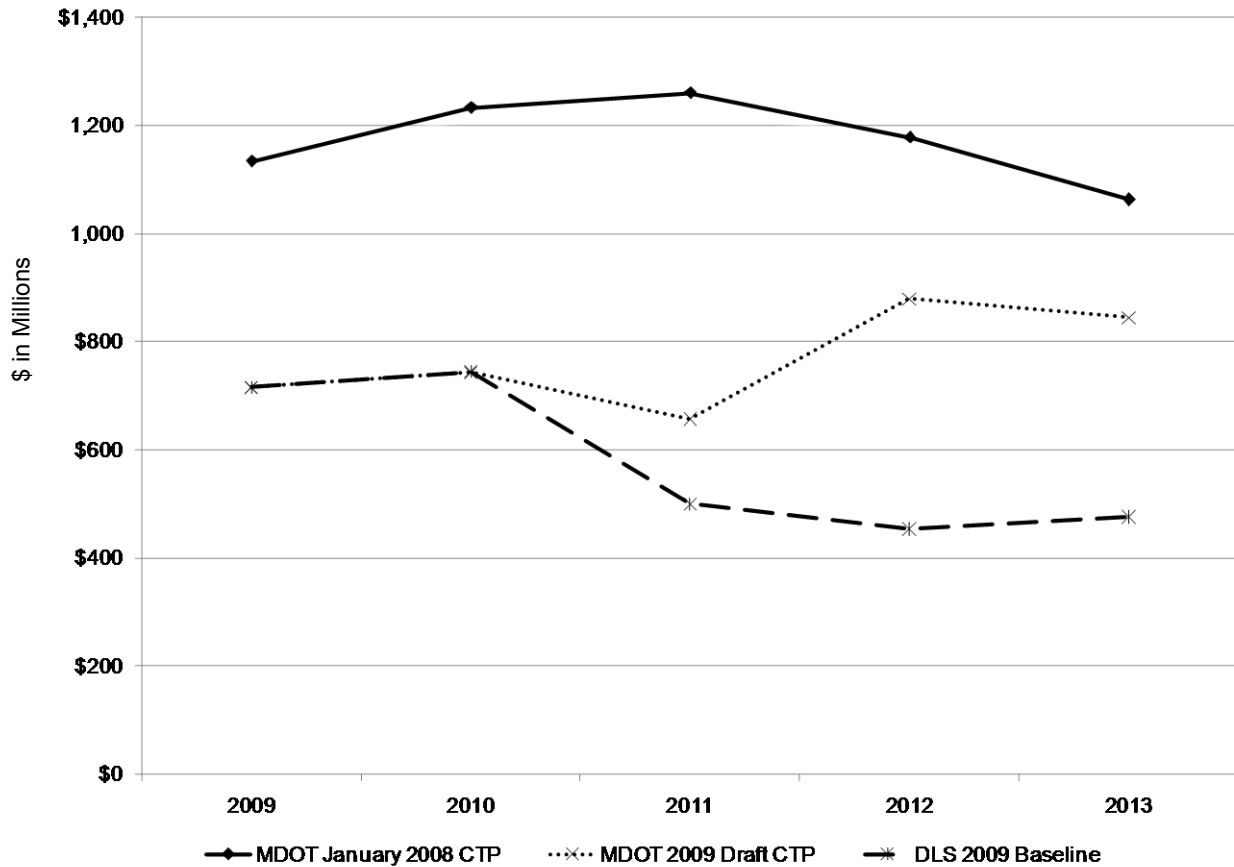
Debt Service – Due to reduced bond sales, debt service payments are less than estimated. -127

Capital Program – As revenues are revised downward and operating expenditures increase, bond sales are constrained reducing the capital program. DLS estimates the special fund capital budget will total \$3.1 billion compared to MDOT's estimate of \$4.7 billion, over the fiscal 2010 to 2015 period. -1,642

Total Expenditures Compared to Draft CTP **-\$1,303**

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

Transportation Special Fund Capital Budget January 2008 Forecast Compared to Current Forecast Fiscal 2009-2013



CTP: Consolidated Transportation Program
 DLS: Department of Legislative Services
 MDOT: Maryland Department of Transportation

- The special fund capital program was reduced by \$2.2 billion from January 2008 to January 2009, offsetting the additional funding for the capital program that was added as a result of the 2007 special session revenue increase.
- MDOT updated its financial forecast in March 2009 and further reduced the capital program from fiscal 2009 to 2011; however, funding was moved into fiscal 2012 to 2014.
- The draft CTP did not include any additional capital reductions, with funding for the comparable fiscal years largely the same.
- The DLS forecast highlights the risks to the capital program which could result in an additional \$1.6 billion in reductions to the capital program.

Transportation Federal Stimulus

- Maryland received \$565 million in federal stimulus funding through existing formula programs for highway and transit projects in Maryland. Approximately \$45 million was also provided to the Washington Metropolitan Area Transit Authority.

Federal Stimulus Update (\$ in Millions)

	<u>Total Allocation</u>	<u>Flexed Spending</u>	<u>Net Allocation</u>	<u>Value of Projects Advertised</u>	<u>Value of Projects Where Work Started</u>	<u>Value of Projects Completed</u>
Highway	\$431	-\$17	\$414	\$296	\$184	\$10
Transit	134	17	151	103	58	0.7

- Maryland received \$431 million in highway formula aid; however, due to favorable bids, the State Highway Administration had bid savings of \$30 million and MDOT elected to use \$17 million for transit funding.
- Of the \$414 million in federal aid, \$62 million is provided to local jurisdictions for projects and Baltimore City received \$35 million.
- To date, Maryland has advertised 117 highway projects totaling \$296 million, or 72%, of the total highway allocation. Within the State, 71 projects have started construction with a total value of \$184 million, and 6 projects have been completed with a value of \$10 million.
- MTA received \$151 million in the federal American Recovery and Reinvestment Act and anticipates 134 contracts. To date, 49 projects have been advertised at a value of \$103 million. In addition, 24 projects have started construction at a value of \$58 million, and 6 projects have been completed with a value of \$0.7 million.
- Maryland has also applied for funding under a supplemental grant program (Transportation Investment Generating Economic Activity). Maryland has submitted five applications totaling \$204 million and includes projects for MARC capacity and Base Realignment and Closure improvements. Maryland is also supporting an additional \$120 million in projects that have been proposed by regional governmental entities.
- Maryland has also applied for \$360 million under the high speed rail grant program for MARC and Amtrak related improvements.

**Impact of American Recovery and Reinvestment Act on Maryland State and Local Budgets
Appropriations Compared to Total Available Funds**

(\$ in Millions)

<u>Program</u>	<u>FY 09 Approp.</u>	<u>FY 10 Approp.</u>	<u>Unapprop.</u>	<u>Total ARRA Funding (a)</u>	<u>Expended as of 9/30/2009</u>
Supporting State General Fund Commitments					
Fiscal Stabilization – Education	\$0.0	\$295.9	\$423.8	\$719.7	\$139.4
Fiscal Stabilization – Discretionary	1.5	79.6	79.0	160.1	15.4
Medicaid	<u>435.0</u>	<u>652.0</u>	<u>506.1</u>	<u>1,593.1</u>	(b)
Subtotal	\$436.5	\$1,027.5	\$1,008.9	\$2,472.9	\$154.8
Education Grants Appropriated in the State Budget					
Special Education	\$0.0	\$107.3	\$122.0	\$229.4	\$3.7
Title I	0.0	156.8	19.2	175.9	0.2
Education Technology	<u>0.0</u>	<u>4.3</u>	<u>4.3</u>	<u>8.5</u>	<u>0.0</u>
Subtotal	\$0.0	\$268.4	\$145.5	\$413.8	\$3.8
Infrastructure Appropriated in the State Budget					
Highways	\$0.0	\$249.0	\$182.0	\$431.0	\$36.4
Transit Capital	0.0	93.1	86.2	\$179.3	5.8
HOME Investment Partnerships Program	0.0	31.7	0.0	\$31.7	0.0
Community Health Centers	0.0	0.0	12.3	\$12.3	0.0
Leaking Underground Storage Tanks	0.0	3.7	0.0	\$3.7	0.0
Clean Water	0.0	96.0	-0.3	\$95.7	0.1
Drinking Water	<u>0.0</u>	<u>27.0</u>	<u>-0.2</u>	<u>26.8</u>	<u>0.0</u>
Subtotal	\$0.0	\$500.5	\$280.0	\$780.5	\$42.3
Other Grants Appropriated in the State Budget					
State Energy Programs	\$1.5	\$0.0	\$108.0	\$109.5	\$0.0
Weatherization	6.6	28.1	26.8	\$61.4	1.1
Community Services Block Grant	0.0	12.6	1.1	\$13.7	0.0
Homelessness Prevention – State	0.0	5.7	0.0	\$5.7	0.0
Community Development Block Grant – State	0.0	2.2	0.0	\$2.2	0.0
Foster Care	8.6	11.5	2.9	\$23.0	(b)
Child Support Enforcement	0.0	0.0	29.2	\$29.2	0.0
Health Centers Increased Demand	0.0	0.0	4.3	\$4.3	0.0
Food Assistance – Individuals	34.2	45.0	146.0	\$225.2	(b)
Food Assistance – Other	2.6	2.0	1.6	\$6.2	1.1
Temporary Assistance for Needy Families	20.0	0.6	94.0	\$114.5	(b)
Ind. Living, Homeless Educ., & Work Study	0.4	0.9	5.1	\$6.4	0.1
Child Care Development Block Grant	0.0	25.0	-0.9	\$24.0	15.4
Vocational Rehabilitation	3.4	3.4	0.0	\$6.9	1.0
UI/Workforce Investment/Dislocated Workers	1.8	34.9	7.1	\$43.8	6.5
Preventive Health Block Grant/Immunization	0.0	0.0	3.8	\$3.8	0.0
AmeriCorps State Program	0.0	1.0	-0.4	\$0.6	0.3
Arts Funding	0.3	0.0	0.0	\$0.3	0.2
Byrne Grants/Public Safety Grants	<u>0.0</u>	<u>13.1</u>	<u>18.1</u>	<u>31.2</u>	<u>0.1</u>
Subtotal	\$79.5	\$185.9	\$446.5	\$711.9	\$25.9
Total State Grants	\$516.0	\$1,982.2	\$1,881.0	\$4,379.2	\$226.8

<u>Program</u>	<u>FY 09 Approp.</u>	<u>FY 10 Approp.</u>	<u>Unapprop.</u>	<u>Total ARRA Funding (a)</u>	<u>Expended as of 9/30/2009</u>
Federal Grants Not Appropriated in the State Budget					
Homelessness Prevention	n/a	n/a	n/a	\$60.6	n/a
Community Development Block Grant	n/a	n/a	n/a	12.5	n/a
Head Start	n/a	n/a	n/a	7.9	n/a
Lead Hazard Reduction	n/a	n/a	n/a	0.8	n/a
Public Housing	n/a	n/a	n/a	48.2	n/a
Subtotal				\$129.9	
Total Grants for Maryland Governments	\$516.0	\$1,982.2	\$1,881.0	\$4,509.1	\$226.8(a)

ARRA: American Recovery and Reinvestment Act of 2009

UI: Unemployment Insurance

(a) Does not include competitive grant awards.

(b) ARRA does not require spending reports for grants going directly to individuals.

Source: Federal Funds Information for the States; Governor's StateStat Office; Department of Legislative Services

Local Government Salary Actions Fiscal 2009 and 2010

<u>COLA Amount</u>	<u>County Government</u>		<u>Public Schools</u>	
	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2010</u>
No COLA	3	18	1	14
0.5 to 2.9%	7	3	7	9
3.0 to 3.9%	10	1	6	1
4.0 to 4.9%	1	0	5	0
5.0 to 5.9%	0	0	3	0
6.0% and Greater	1	0	2	0
Dollar Amount	2	2	0	0
Still Pending	0	0	0	0

Furlough and Salary Reductions Plans in Fiscal 2010

Furlough/Salary Reduction Plans	10 Counties
Eliminated Vacant Positions	18 Counties
Eliminated Filled Positions	12 Counties

	<u>State Government</u>		<u>CPI-Urban Consumers</u>	
	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2010¹</u>
COLA Amount	2.0%	0%	1.4%	0.7%
Furloughs²	5 days	10 days		
Effective COLA³	0.5%	-2.6%		

COLA: cost-of-living adjustment
CPI: Consumer Price Index

¹ Forecast of the CPI for 2010 comes from Moody's Economy.com.

² Maximum number of furlough and service reduction days based on salary level.

³ Effective COLA in fiscal 2010 ranges from -1.2 to -3.8% depending on the number of furlough days.

Local Government Salary Actions in Fiscal 2010

County	County Government Generally		Board of Education Teachers		Comments
	COLA	Step	COLA	Step	
Allegany	0.0%	No	2.0%	Yes	<p>¹ Anne Arundel County renegotiated COLA amounts with several bargaining units. These units were scheduled to receive a 3% COLA in fiscal 2010; but instead will receive no COLA but will receive a merit increase. For units that did not renegotiate, no funds were budgeted for either COLA or merit increases. Police officers will not receive a COLA but will receive a 3% merit increase, based on their new contract.</p> <p>² Baltimore County COLAs take effect on January 1, 2010. Baltimore County school teachers received a 3.5% COLA and other school employees received a 2.0% COLA, both of which are implemented at mid-year.</p> <p>³ Frederick County deputy sheriffs will receive a merit/step increase.</p> <p>⁴ Garrett County employees will receive \$750 in December 2009 and an additional increase totaling up to 3% in March 2010; however, these adjustments will not increase employee base salaries. Road department employees represented by AFSCME received a 4% COLA.</p> <p>⁵ Howard County provided a 3.0% merit/step increase for most positions and a 3.5% merit/step increase for police officers.</p> <p>⁶ Somerset County school employees will receive a merit/step increase in January 2010 if sufficient funds are available.</p> <p>⁷ Washington County provided a 2% COLA for teachers and support personnel effective July 1, 2009, and a 3% COLA for school administrators effective January 1, 2010. School administrators did not receive a merit/step increase, while other school employees did.</p>
Anne Arundel ¹	0.0%	Varies	0.0%	No	
Baltimore City	2.0%	Yes	0.0%	Yes	
Baltimore ²	2.0%	Yes	3.5%	Yes	
Calvert	0.5%	No	0.5%	Yes	
Caroline	0.0%	No	0.0%	Yes	
Carroll	0.0%	No	0.0%	No	
Cecil	0.0%	No	1.1%	Yes	
Charles	0.0%	No	0.0%	No	
Dorchester	0.0%	No	0.0%	No	
Frederick ³	0.0%	No	0.0%	No	
Garrett ⁴	\$750	No	0.0%	Yes	
Harford	0.0%	No	0.0%	No	
Howard ⁵	0.0%	Yes	1.2%	No	
Kent	0.0%	Yes	0.5%	Yes	
Montgomery	0.0%	Yes	0.0%	Yes	
Prince George's	0.0%	No	0.0%	No	
Queen Anne's	\$900	No	2.0%	Yes	
St. Mary's	0.0%	Yes	1.8%	No	
Somerset ⁶	0.0%	No	0.0%	Yes	
Talbot	0.0%	Yes	1.0%	Yes	
Washington ⁷	3.0%	No	2.0%	Yes	
Wicomico	0.0%	No	0.0%	Yes	
Worcester	0.0%	No	0.0%	No	
Number Granting	6	8	10	14	

AFSCME: American Federation of State, County, and Municipal Employees
 COLA: cost-of-living adjustment

Local Government Furlough and Salary Reduction Plans in Fiscal 2010

County	Furlough/ Reduction	Layoffs	
Allegany	Yes	No	County employees will receive 2 furlough days or will forfeit 2 paid days off.
Anne Arundel	Yes	No	School employees will receive between 1 and 4 furlough days depending on their position. County eliminated 109 vacant positions.
Baltimore City	Yes	Yes	City employees will receive between 5 to 10 furlough days, while 75 filled and 474 vacant positions were eliminated.
Baltimore	No	No	
Calvert	No	No	
Caroline	Yes	Yes	County employee salaries will be reduced by 1% in fiscal 2010. County eliminated 4 filled and 9 vacant positions.
Carroll	No	No	County eliminated 14 vacant positions and school system reduced its workforce by 32 employees.
Cecil	No	No	County eliminated 6 vacant positions.
Charles	Yes	Yes	County employees will receive 10 furlough days, while 3 filled and 19 vacant positions were eliminated.
Dorchester	No	No	
Frederick	No	Yes	County eliminated 2 filled and 95 vacant positions. Sixty-three school employees received a reduction in work hours.
Garrett	No	No	County eliminated 8 vacant positions.
Harford	Yes	Yes	County employees will receive 5 furlough days, while 34 filled positions were eliminated.
Howard	Yes	Yes	County employees will receive between 4 and 5 furlough days, while 9 filled and 50 vacant positions were eliminated.
Kent	No	No	County eliminated 6.5 vacant positions.
Montgomery	No	Yes	The county eliminated 151 filled and 227 vacant positions.
Prince George's	Yes	Yes	County employees will receive 10 furlough days. County eliminated 50 filled and 495 vacant positions. School system eliminated 685 positions.
Queen Anne's	No	No	County eliminated 15 vacant positions.
St. Mary's	No	Yes	County eliminated 12 filled and 13 vacant positions.
Somerset	No	No	County eliminated 6 vacant positions.
Talbot	Yes	No	County employees will receive between 2 and 5 furlough days, while 4 vacant positions were eliminated.
Washington	No	Yes	The county eliminated 2 filled and 20 vacant positions.
Wicomico	Yes	Yes	County employees will receive between 5 and 10 furlough days depending on salary amount. County eliminated 10 filled positions.
Worcester	No	Yes	County eliminated 11 filled and 8 vacant positions.
Number of Counties	10	12	In total, counties eliminated 363 filled and 1,578.5 vacant positions. School systems eliminated 717 positions.

Source: Department of Legislative Services; Maryland Association of Counties

Constraining General Fund Spending Fiscal 2008-2010

(\$ in Millions)

Governor's Proposed Budget Less Than DLS Baseline	\$1,198
Legislative Reductions	954
Board of Public Works Reductions	970
Additional Reversions at Closeout	118
Total Actions	\$3,240
DLS: Department of Legislative Services	

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- Actions to constrain general fund budget exceed \$3.2 billion over three years.
- However, it is estimated that about \$1.0 billion of the actions have not been ongoing.

Current Fiscal 2010 Spending Is \$2.3 Billion Below 2006 Estimate

Projected Fiscal 2010 Spending Compared to Current Spending (\$ in Millions)

	DLS Projection Dec 2006	Current Fiscal 2010 Spending	Difference
Operations	\$16,525	\$14,311	-\$2,214
PAYGO Capital	88	0	-\$88
Total	\$16,613	\$14,311	-\$2,302

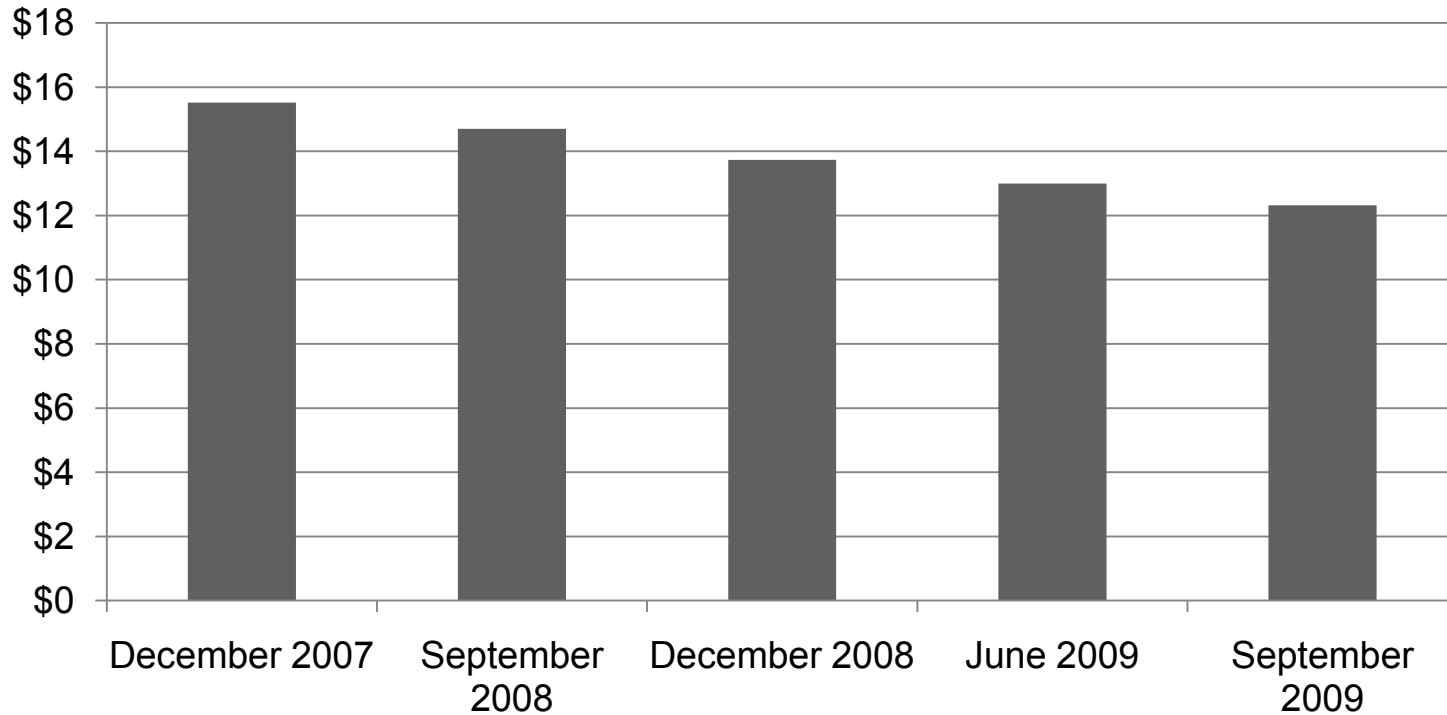
26

DLS : Department of Legislative Services
PAYGO: pay-as-you-go

Note: Current spending includes general funds and the federal American Recovery and Reinvestment Act of 2009 monies (\$1.1 billion) that replaced general funds in the fiscal 2010 budget. Amounts exclude appropriations to State reserve fund.

Constrained Budget Growth Overwhelmed By \$3.2 Billion Revenue Decline

(\$ in Billions)



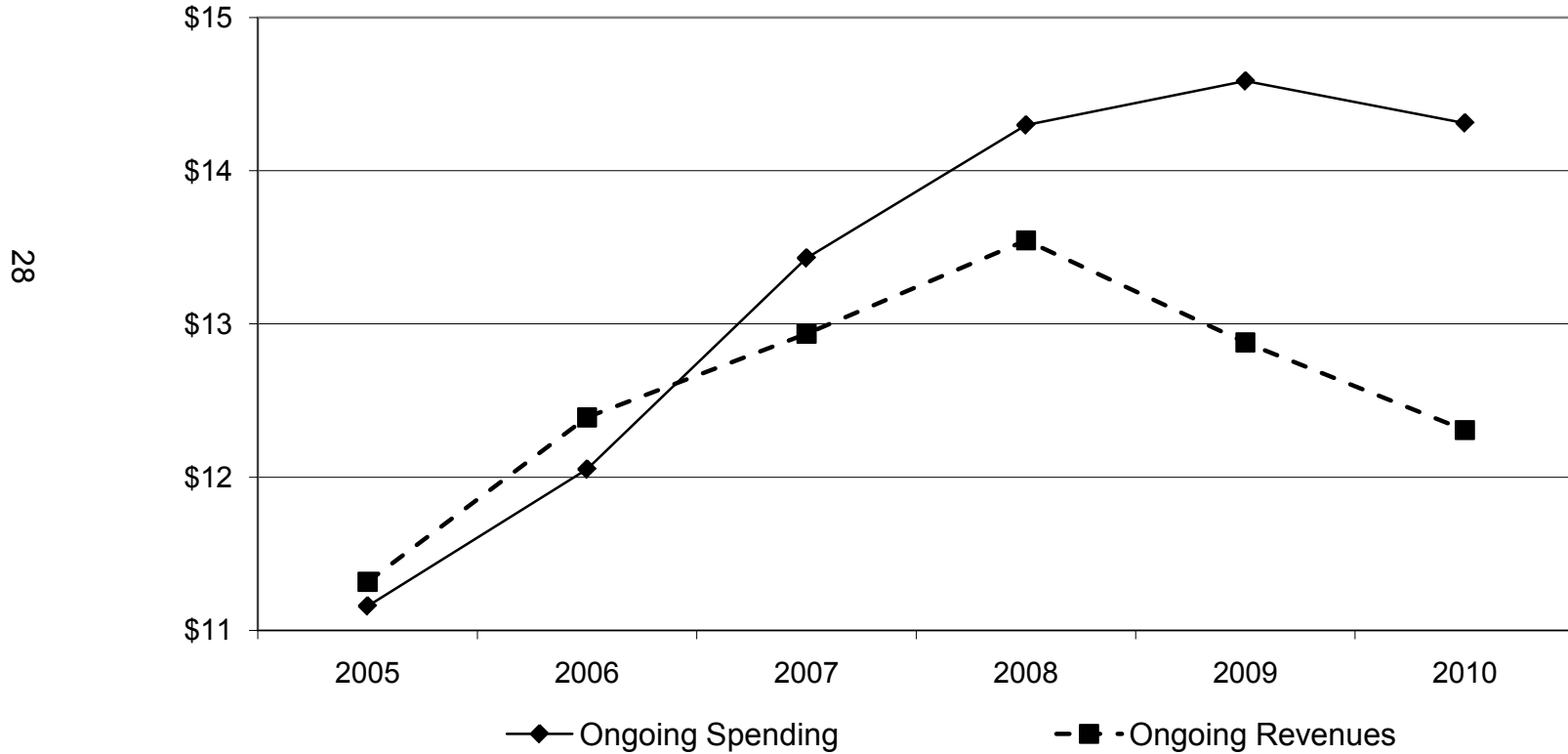
General Fund Revenue Estimates

Fiscal 2010 Revenues Level with Fiscal 2006

Budget Gap Grows to \$2 Billion

Fiscal 2005-2010

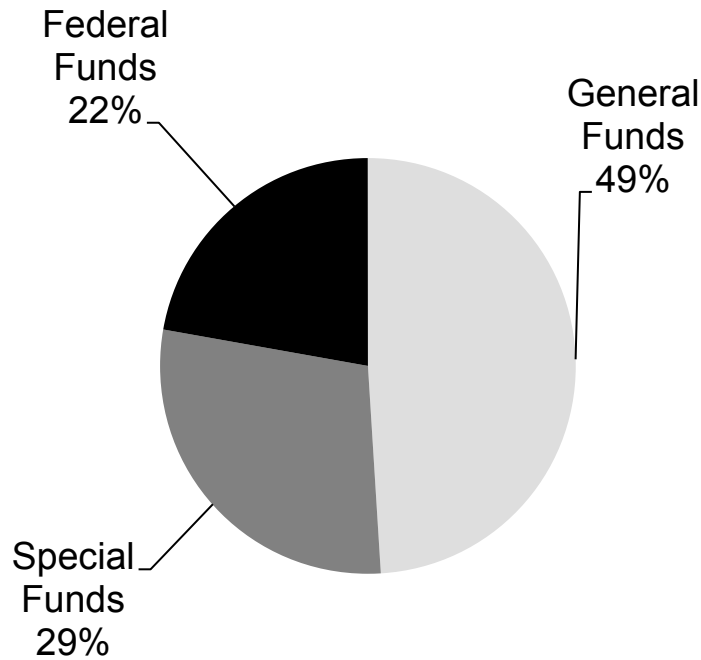
(\$ in Millions)



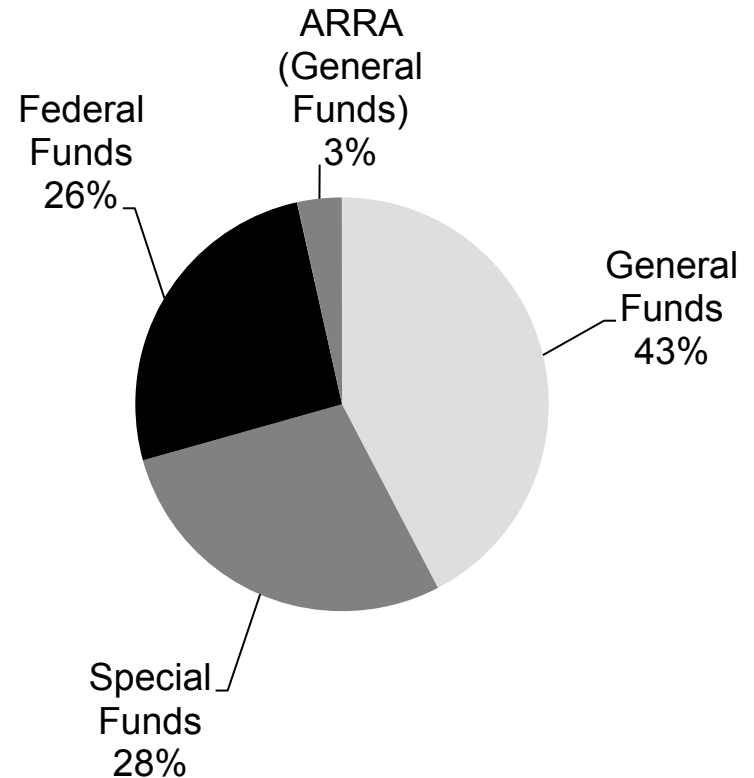
Note: Fiscal 2009 and 2010 adjusted to reflect federal stimulus funds.

Stimulus Funds Grow Federal Share of Budget to Almost 30 Percent

Fiscal 2008



Fiscal 2010



ARRA: American Recovery and Reinvestment Act of 2009

ARRA (General Funds) – ARRA monies replacing general funds

Federal Stimulus Funds Drive Growth in State Budget

(\$ in Millions)

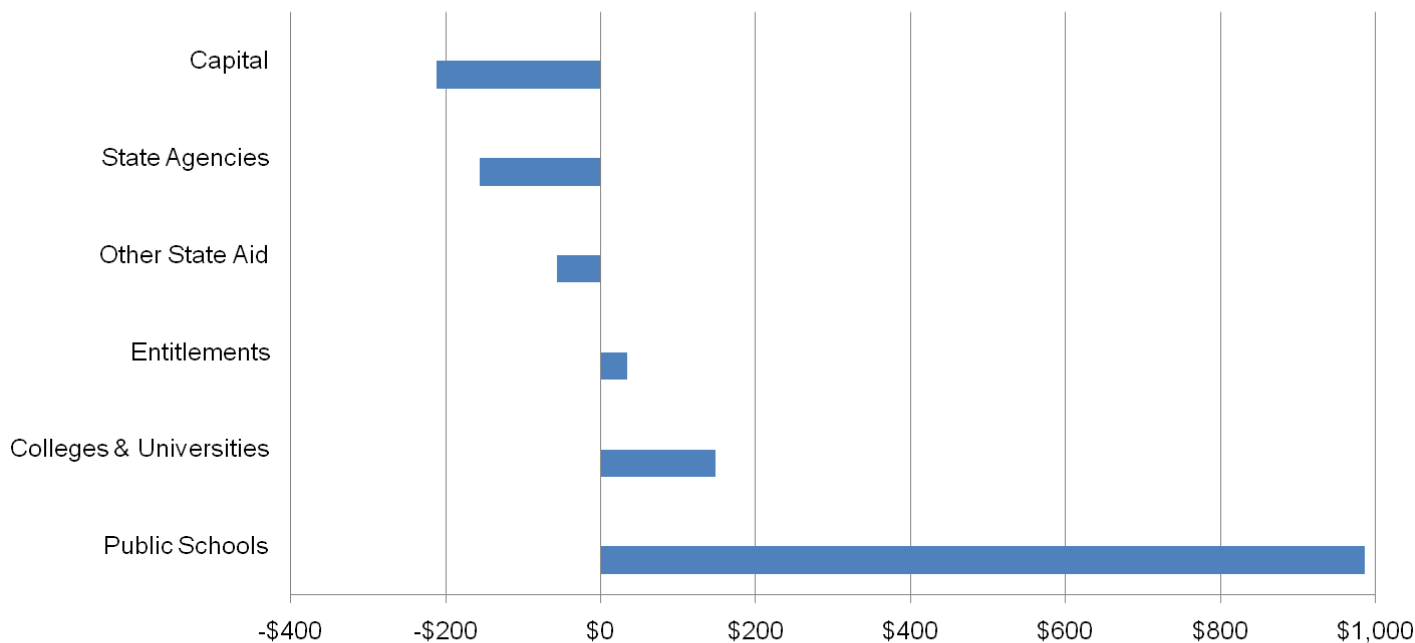
	<u>FY 2007</u>	<u>FY 2010</u>	<u>Change</u>	<u>% Change</u>
General	\$13,566	\$13,209	-\$357	-2.6%
Special	5,319	5,526	207	3.9%
Higher Education	2,870	3,386	516	18.0%
Federal	<u>6,364</u>	<u>9,186</u>	<u>2,822</u>	44.3%
	\$28,119	\$31,307	\$3,188	11.3%
General/ARRA Funds	\$13,566	\$14,311	745	5.5%

ARRA: federal American Recovery and Reinvestment Act of 2009

Note: General funds exclude reserve fund appropriations. General/ARRA Funds include ARRA funds substituted for general funds.

Education Aid Up \$1 Billion and Agency Budgets Constrained Since Fiscal 2007

Change in General Fund Spending
Fiscal 2010 Over Fiscal 2007
(\$ in Millions)



Note: Colleges and universities includes community colleges. All amounts augmented by the federal American Recovery and Reinvestment Act of 2009 funds used in lieu of general funds in fiscal 2010.

Budget Gap Remains for Fiscal 2010 Planned Reductions and Windfall Narrow the Gap

Fiscal 2010 Budget (\$ in Millions)

-	\$240.6	Current Gap to Close
-	<u>278.7</u>	Potential Budget Deficiencies (DLS Estimate)
-	\$519.5	Potential Gap to Close
	\$300.0	November 2009 BPW Actions – Planned
	<u>95.0</u>	Corporate Income Tax – CEG Asset Sale
-	\$124.5	Remaining Gap

DLS: Department of Legislative Services

BPW : Board of Public Works

CEG : Constellation Energy Group

Revenues Minus Baseline Spending Estimate = \$2 Billion Fiscal 2011 Hole

Fiscal 2011 General Fund Budget (\$ in Millions)

Starting Balance		\$0.0
Revenues		
BRE Estimated Revenue September 2009	\$12,733.9	
Transfers	161.6	
Funds Available		\$12,895.5
Spending		
DLS Baseline Estimate	\$14,923.8	
Estimated Agency Reversions	-30.0	
Net Expenditures		\$14,893.8
Ending Balance		-\$1,998.2

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

Components of Growth Conducive to Level Funding about \$350 Million

(\$ in Millions)

- Level Fund Mandated Formulas \$72
- No Employee COLAs/Increments 123
- Continue State Employee Furloughs 45
- No Deferred Compensation Match 12
- Continue to Defer IT Projects 40
- Level Fund Higher Education 28
- Constrain Agency Operating Costs 15
- No Community Provider Rate Increases 12

COLA: cost-of-living adjustment

IT: information technology

Other Gap Closers

(\$ in Millions)

- Enhanced Medicaid Match for Extra 6 Months per House Health Bill \$384
- Continue One-time BPW Reductions or Transfers for Another Year 175
- Maximize Use of Bonds to Benefit the General Fund 120
- Additional Federal TANF Monies 85

BPW: Board of Public Works

TANT: Temporary Assistance to Needy Families

Fiscal 2010 General Fund Revenues

(\$ in Millions)

<u>Source</u>	<i>Fiscal Year through October</i>			
	<u>FY 2009</u>	<u>FY 2010</u>	<u>\$ Difference</u>	<u>% Difference</u>
Personal Income Tax	\$1,758.2	\$1,621.8	-\$136.4	-7.8%
Sales and Use Tax ⁽¹⁾	947.5	884.1	-63.4	-6.7%
State Lottery	135.0	155.8	20.8	15.4%
Corporate Income Tax	125.1	108.4	-16.7	-13.3%
Business Franchise Taxes	44.5	43.4	-1.1	-2.6%
Insurance Premiums Tax	67.3	65.7	-1.6	-2.3%
Estate and Inheritance Taxes	78.4	56.4	-22.0	-28.1%
Tobacco Tax	116.2	114.5	-1.7	-1.5%
Alcohol Beverages Tax	7.3	7.3	0.0	0.6%
Motor Vehicle Fuel Tax	2.2	2.2	0.0	1.9%
District Courts	30.9	32.2	1.3	4.3%
Clerks of the Court	14.2	14.4	0.2	1.4%
Hospital Patient Recoveries ⁽²⁾	10.2	3.7	-6.5	-63.7%
Interest on Investments ⁽³⁾	24.0	7.0	-16.9	-70.6%
Miscellaneous	42.2	42.0	-0.1	-0.3%
Total Revenues	\$3,403.1	\$3,159.1	-\$244.0	-7.2%

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

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

⁽³⁾ Adjusted to reflect accrued interest earnings.

Appendix

**Department of Legislative Services
Transportation Trust Fund Forecast
Fiscal 2010-2015**

	<u>Actual 2009</u>	<u>Estimate 2010</u>	<u>Estimate 2011</u>	<u>Estimate 2012</u>	<u>Estimate 2013</u>	<u>Estimate 2014</u>	<u>Estimate 2015</u>
Opening Fund Balance	\$53	\$244	\$100	\$100	\$100	\$100	\$100
Closing Fund Balance	\$244	\$100	\$100	\$100	\$100	\$100	\$100
Net Revenues							
Taxes and Fees	\$1,655	\$1,628	\$1,703	\$1,827	\$1,918	\$2,021	\$2,083
Operating and Miscellaneous	548	508	505	508	527	536	545
Transfers between TTF and GF	0	0	0	0	0	0	0
MDTA Transfer	-30	-30	0	0	0	0	0
Net Revenues Subtotal	2,173	2,106	2,208	2,335	2,445	2,558	2,627
Bonds Sold	390	220	130	55	55	45	40
Bond Premiums	12	0	0	0	0	0	0
Total Revenues	\$2,575	\$2,326	\$2,337	\$2,390	\$2,502	\$2,603	\$2,668
Expenditures							
Debt Service	\$142	\$151	\$165	\$185	\$190	\$210	\$230
Operating Budget	1,526	1,574	1,672	1,751	1,835	1,924	2,017
State Capital	716	745	500	454	476	468	420
Total Expenditures	\$2,384	\$2,470	\$2,337	\$2,390	\$2,502	\$2,603	\$2,669
Debt							
Debt Outstanding	\$1,583	\$1,725	\$1,707	\$1,659	\$1,603	\$1,515	\$1,400
Debt Coverage – Net Income	2.5	2.6	2.1	2.1	2.2	2.3	2.4
Local Highway User Revenues	\$466	\$133	\$368	\$469	\$487	\$496	\$510
HUR Transfer to GF	\$0	\$320	\$102	\$0	\$0	\$0	\$0
Capital Summary							
State Capital	\$716	\$745	\$500	\$454	\$476	\$468	\$420
Net Federal Capital (Cash Flow)	762	928	546	528	444	388	346
Subtotal Capital Expenditures	\$1,478	\$1,673	\$1,046	\$982	\$920	\$856	\$766
GARVEE Debt Service	40	87	87	87	87	87	87

GARVEE: grant anticipation revenue vehicle
 GF: general fund
 HUR: highway user revenue
 MDTA: Maryland Transportation Authority
 TTF: Transportation Trust Fund