
Benefits Sustainability Budget Issues

*Presentation to the
Employees' and Retirees' Benefit
Sustainability Commission*

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

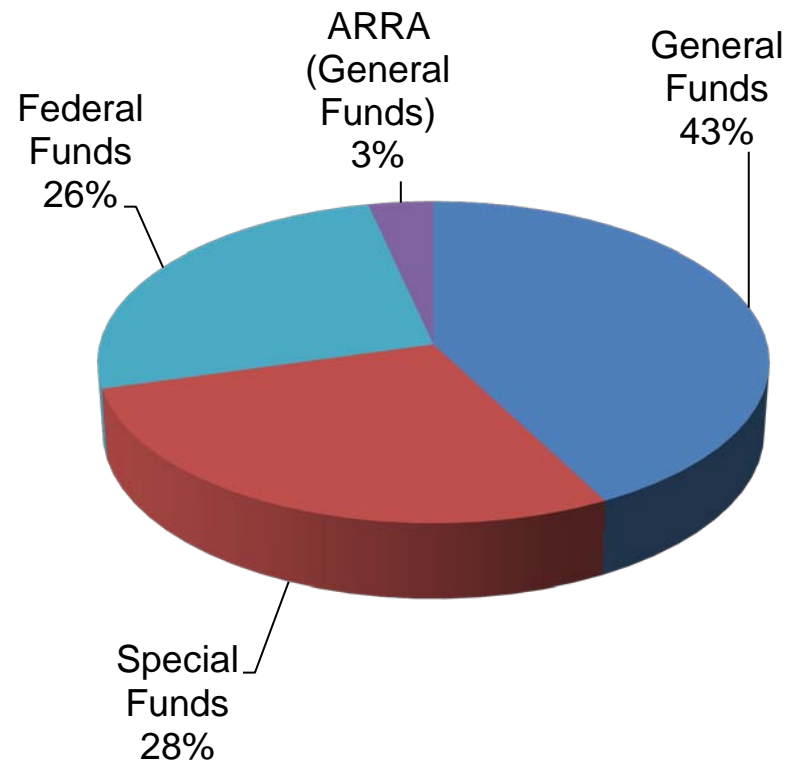
November 2010

State Budget Contains Several Fund Types

Fund Types and Primary Sources

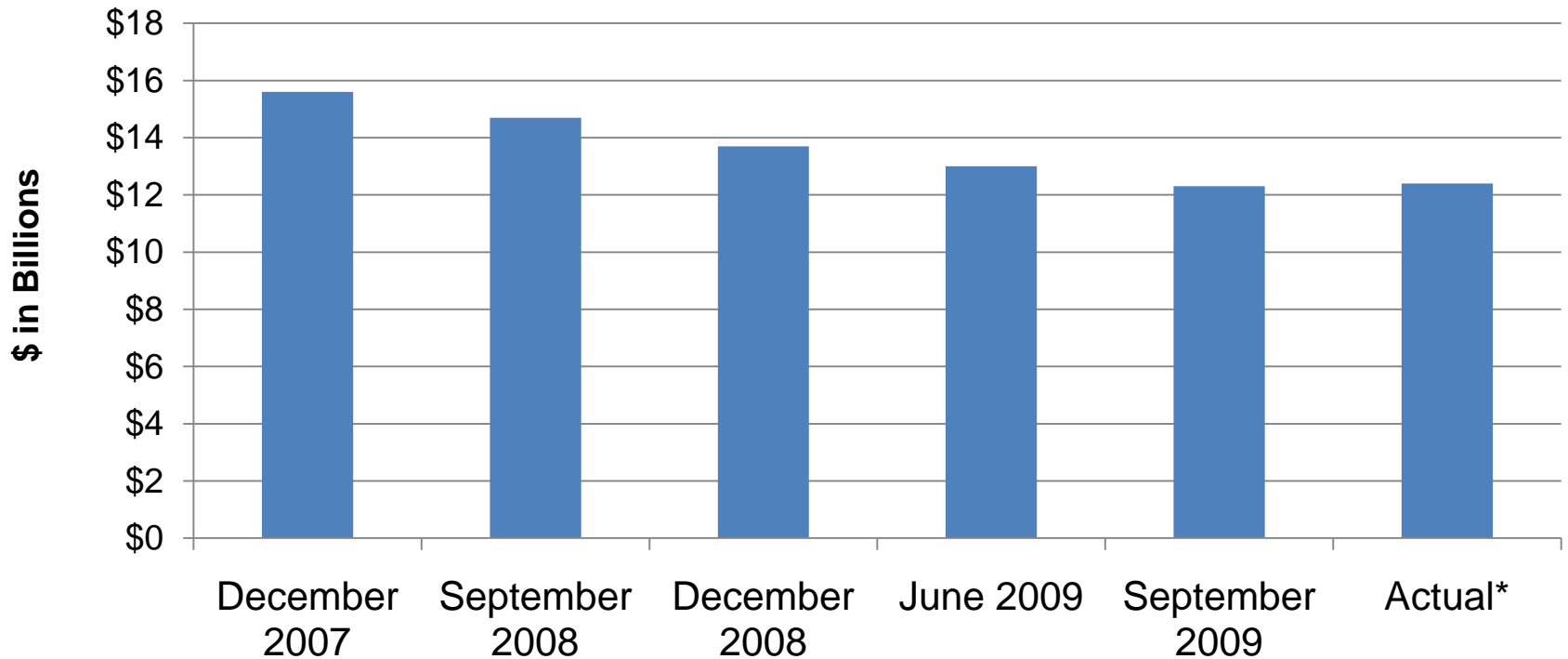
- **General Funds**
 - Income and sales tax
- **Special Funds**
 - Program, licensing fees, and transportation taxes
- **Federal Funds**
 - Medicaid match, program grants, and higher education
- **American Recovery and Reinvestment Act of 2009 (ARRA)**
 - Federal Stimulus monies (temporarily substituted for general funds)

Fiscal 2010 Fund Usage



The “Great Recession” and Incredible Shrinking Revenues

Forecasted Fiscal 2010 Revenues Decline \$3.3 Billion in Less Than Two Years

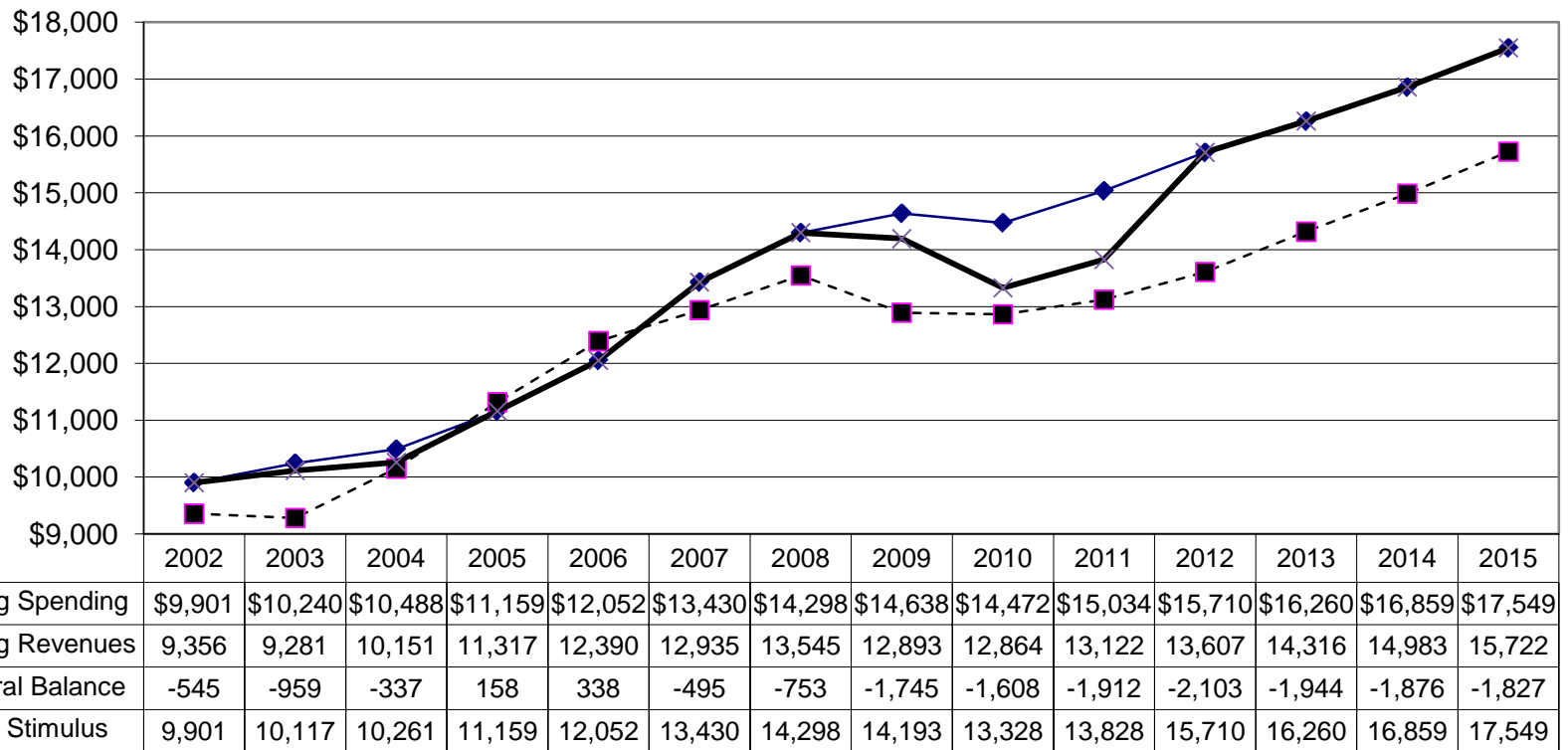


Fiscal 2010 General Fund Revenue Estimates

* Actual revenues do not include \$170 million in additional revenues from 2010 session.

General Fund and Structural Balance

Fiscal 2002 to 2015



- Revenues for fiscal 2011 near fiscal 2007 levels, but cost escalation continues across the budget.
- Projected \$1.8 billion gap through fiscal 2015, with future revenue growth projected at 4.9%.

General Fund Revenue and State Employee Salaries, Fringes, and Local Teacher Pensions

(\$ in Millions)

	FY 2002		FY 2011		% Change 2002-11
	<u>\$ Value</u>	<u>% of GF</u>	<u>\$ Value</u>	<u>% of GF</u>	
General Fund Revenue	\$9,356.0		\$12,992.0		39%
State Employee Salary (General Fund Portion)	2,275.1	24.3%	2,806.7	21.6%	23%
State Employee Fringe Benefit (General Fund Portion)	705.7	7.5%	1,124.3	8.7%	59%
State-made Local Teacher Pension Payments	348.2	3.7%	672.3	5.2%	93%
Full Local Teacher Pension Payments (with ARRA Payments)	348.2	n/a	900.4	6.9%	159%

ARRA: American Recovery and Reinvestment Act of 2009

GF: general fund

- Employee compensation is a large, but not dominant piece of general fund spending.
- State employee salaries have fallen as a proportion of spending, but fringe benefit expenditures have grown significantly, outpacing general fund revenue growth.
- The combined \$1.7 billion for ALL State employee fringe benefit and local teacher pension payments is of equivalent size to the structural budget gap.

Salaries and Fringe Benefits as a Percentage of Expenditures

(\$ in Millions)

<u>General Funds</u>	<u>FY 11</u>	<u>% of Total</u>
<i>State Employee Salaries</i>	\$2,806.7	21.6%
<i>State Employee Fringe Benefits</i>	1,124.3	8.7%
Combined State Employee Compensation	\$3,931.0	30.3%
<i>Local Teachers Pension Payments</i>	672.3	5.2%
Total	\$4,603.3	35.5%
<u>All Funds</u>		
<i>State Employee Salaries</i>	\$4,677.9	14.6%
<i>State Employee Fringe Benefits</i>	1,972.7	6.2%
Combined State Employee Compensation	\$6,650.6	20.8%
<i>Local Teachers Pension Payments</i>	900.4	2.8%
Total	\$7,551.0	23.6%

- Employee compensation forms a larger piece of general fund expenditures than it does of the total budget.
- Local teacher pension payments are entirely funded by the general fund in their current, lump-sum appropriation form, but were temporarily replaced with stimulus dollars in fiscal 2010 and 2011.

Impact of the Cessation of ARRA Funds on Local Pension Funding for the General Fund

(\$ in Millions)

	<u>FY 09</u>	<u>FY 10</u>	<u>FY 11</u>	<u>FY 12 Proj.</u>	<u>Change FY 11 to 12</u>
State Pension Payments	\$975	\$1,189	\$1,371	\$1,497	\$127
<i>General Fund</i>	848	896	946	1,280	334
<i>Stimulus (ARRA)</i>	0	137	228	0	-228
<i>Other Fund Types (SF/FF)</i>	127	156	197	217	21
Other Fringe Benefits	\$1,293	\$1,395	\$1,398	\$1,541	\$142
<i>General Fund</i>	776	837	839	924	85
<i>Other Fund Types (SF/FF)</i>	517	558	559	616	57

ARRA: American Recovery and Reinvestment Act of 2009

FF: federal fund

SF: special fund

- ARRA funds were substituted for general funds in fiscal 2010 and 2011 to fund the increases in contributions to Local Pensions.
- These contributions are an **ongoing** expense that must be funded in spite of ARRA's conclusion.
- So, while total funding is projected to increase by \$127.4 million, the general fund will need to add \$228.1 million to account for ARRA's absence.
- Also, the general fund payment for pensions is now approximately \$350.0 million greater than all other general fund State fringe benefit obligations combined.

Sustainability Concern Is That Projected Growth Rates of General Fund Revenues Are Well Below Those of Fringe Benefits and Local Teacher Pension Payments

(\$ In Millions)

	<u>FY 2012 Est.</u>	<u>FY 2015 Est.</u>	<u>Annual % Change</u>
GF Revenue	\$13,607.0	\$15,722.0	4.9%
GF Pensions	1,280.0	1,701.2	9.9%
GF Health	604.4	761.4	8.0%

GF: general fund

- General fund revenue projections are forecast to grow at an annual rate of 4.9%, which is below the estimated growth rates of major fringe benefits.
- Primarily due to trailing investment losses, projections for pension payments indicate no probable reduction in budgetary requirements as they are estimated to grow by 10.0%.
- State employee health insurance is current structured so that, with no changes, the State will be responsible for 80.0% of all cost increases related to medical inflation and membership growth, which is estimated to be approximately 8.0% annually.