
Fiscal Update

**Presentation to the
Joint Legislative Workgroup to Study State, County, and
Municipal Fiscal Relationships**

**Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland
September 17, 2009**

Maryland Economic Performance Year-over-year Percent Change*

<u>Month-Year</u>	<u>Employment</u>		<u>Unemployment</u>	<u>Existing</u>	<u>Median</u>	<u>Vehicle</u>	<u>Sales</u>
	<u>CES</u>	<u>QCEW</u>	<u>Rate</u>	<u>Home Sales</u>	<u>Home Price</u>	<u>Sales</u>	<u>Tax</u>
Jan-09	-1.7%	-2.4%	6.2%	-17.7%	-14.7%	-14.5%	-1.2%
Feb-09	-2.0%	-2.9%	6.8%	-22.3%	-11.1%	-10.0%	-4.8%
Mar-09	-2.4%	-3.1%	6.9%	-9.6%	-6.8%	-14.2%	-8.0%
Apr-09	-2.7%		6.8%	-10.3%	-15.8%	-15.9%	-6.6%
May-09	-2.5%		7.2%	0.3%	-8.3%	-5.4%	-7.0%
Jun-09	-2.3%		7.2%	10.0%	-10.5%	-6.6%	-9.3%
Jul-09	-1.9%		7.3%	21.8%	-10.0%	-1.8%	-8.4%
Aug-09				13.3%	-10.0%		

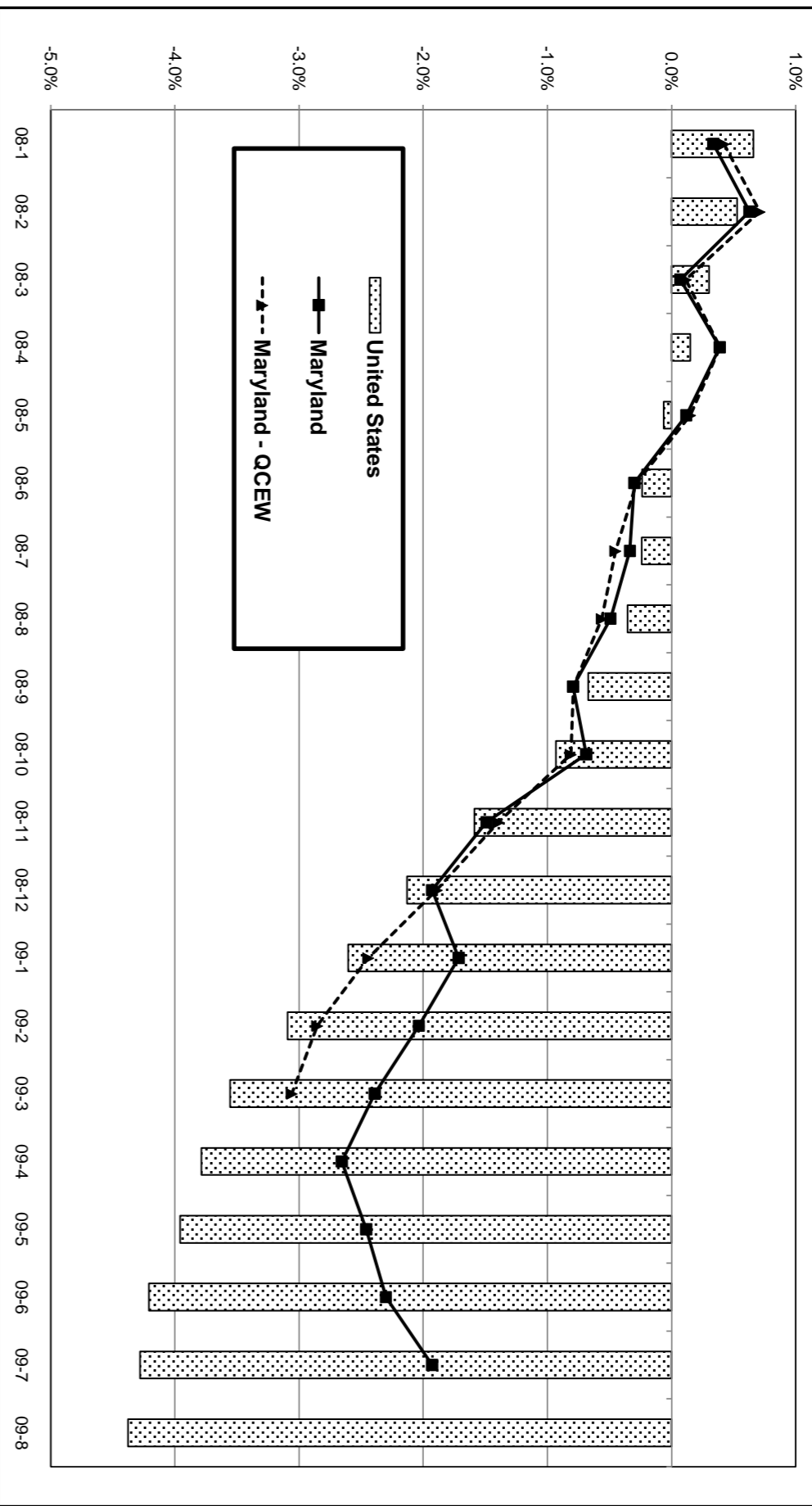
CES: Current Establishment Survey

QCEW: Quarterly Census of Employment and Wages

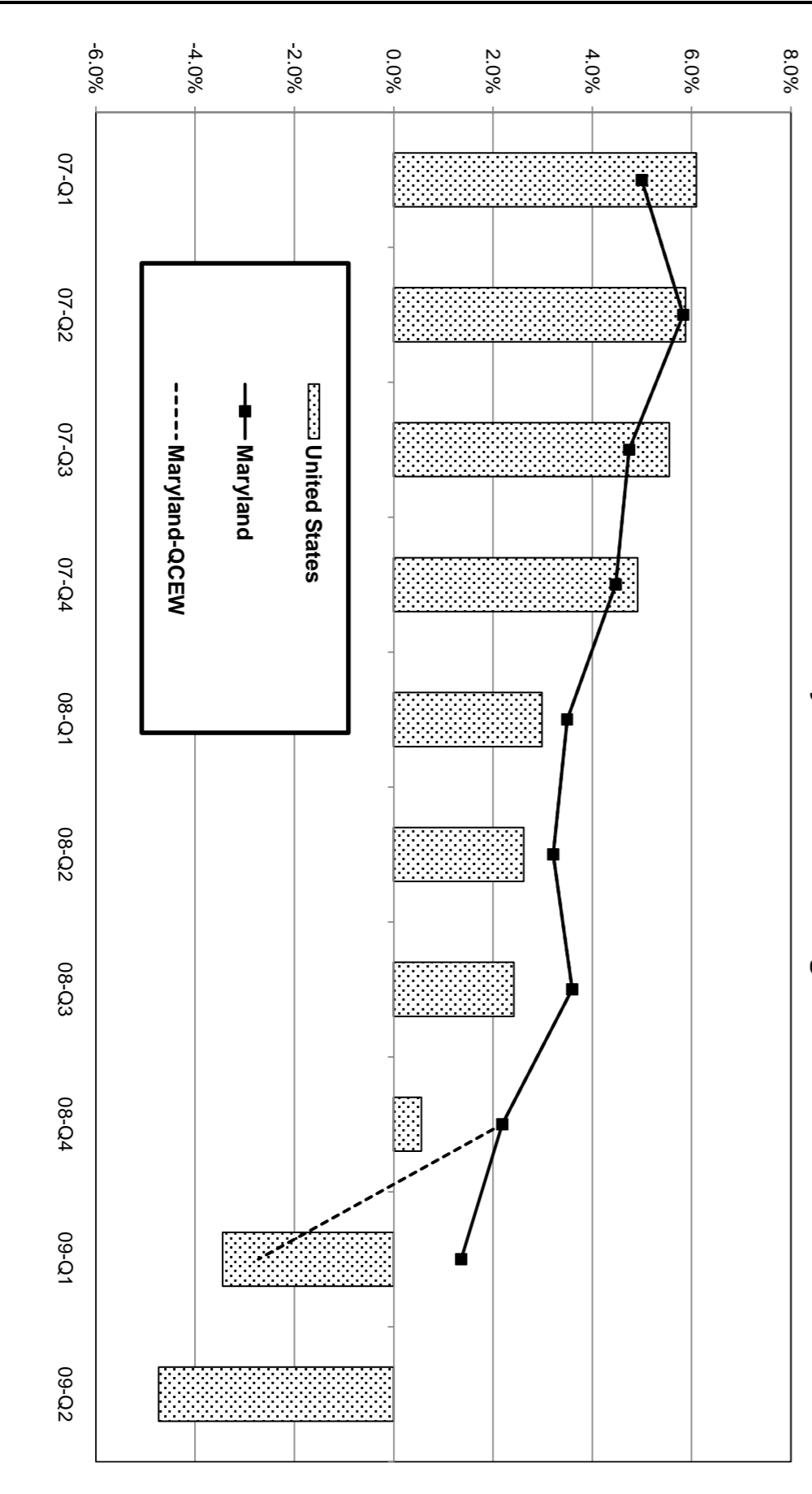
* Except the unemployment rate

Note: The unemployment rate is based on seasonally adjusted data. The sales tax is gross receipts (excluding assessments) adjusted for law changes.

**Payroll Employment - January 2008 to August 2009
Year-over-year Percent Change**



**Wage and Salary Income - 2007Q1 to 2009Q2
Year-over-year Percent Change**



QCEW = Quarterly Census of Employment and Wages

Maryland Economic Forecasts

Year-over-year Percent Change

Calendar Year	Employment			Personal Income		
	<u>Dec. 2008</u>	<u>Mar. 2009</u>	<u>Sep. 2009</u>	<u>Dec. 2008</u>	<u>Mar. 2009</u>	<u>Sep. 2009</u>
2006	1.3%	1.3%	1.3%	5.8%	5.8%	5.5%
2007	0.8%	0.8%	0.7%	6.3%	6.3%	6.2%
2008*	-0.2%	-0.5%	-0.4%	3.9%	3.6%	3.8%
2009E	-2.0%	-2.6%	-2.9%	1.7%	1.1%	-0.7%
2010E	0.1%	-0.2%	-0.4%	3.4%	2.7%	2.5%
2011E	1.5%	1.9%	1.6%	5.9%	5.8%	4.7%
2012E	2.1%	2.1%	2.3%	5.8%	5.7%	5.8%

Calendar Year	Wage & Salary Income			Taxable Capital Gains Income*		
	<u>Dec. 2008</u>	<u>Mar. 2009</u>	<u>Sep. 2009</u>	<u>Dec. 2008</u>	<u>Mar. 2009</u>	<u>Sep. 2009</u>
2006	5.4%	5.4%	5.4%	12.5%	12.5%	12.5%
2007	5.0%	5.0%	5.0%	10.9%	10.9%	20.4%
2008*	2.9%	2.9%	3.1%	-45.0%	-45.0%	-63.5%
2009E	1.5%	0.5%	-2.1%	-15.0%	-30.0%	-33.5%
2010E	3.6%	2.6%	2.7%	8.4%	8.4%	12.5%
2011E	5.4%	5.5%	5.0%	8.4%	15.0%	8.0%
2012E	5.5%	6.0%	5.7%	8.4%	8.4%	8.2%

* 2008 is an estimate for taxable capital gains income.

Fiscal 2009 General Fund Revenues

(\$ in Millions)

<u>Source</u>	<u>FY 2008</u>	<u>FY 2009</u>			<u>FY 2008-2009</u>
	<u>Actual</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Difference</u>	<u>% Change</u>
Personal Income Tax	\$6,940.1	\$6,781.5	\$6,477.2	-\$158.6	-6.7%
Sales and Use Tax	3,675.3	3,611.0	3,620.4	-64.3	-1.5%
State Lottery ⁽¹⁾	497.1	455.8	473.2	-41.3	-4.8%
Corporate Income Tax	551.7	582.3	550.7	30.6	-0.2%
Business Franchise Taxes	208.0	209.2	201.4	1.3	-3.2%
Insurance Premiums Tax	301.8	298.3	275.2	-3.5	-8.8%
Estate and Inheritance Taxes	243.5	226.6	205.5	-17.0	-15.6%
Tobacco Tax	376.1	413.8	405.6	37.7	7.8%
Alcohol Beverages Tax	29.0	29.0	29.2	0.0	0.7%
Motor Vehicle Fuel Tax	13.2	6.5	6.5	-6.7	-50.8%
District Courts	91.3	88.3	89.4	-3.0	-2.1%
Clerks of the Court	42.6	32.4	40.5	-10.1	-4.8%
Hospital Patient Recoveries	86.6	94.7	96.5	8.2	11.4%
Interest on Investments	166.5	103.0	83.0	-63.5	-50.1%
Miscellaneous	322.9	307.9	338.3	-15.0	4.8%
GAAP Transfer	0.0	7.9	7.9	7.9	n/a
Total Revenues	\$13,545.6	\$13,248.4	\$12,900.5	-\$347.9	-4.8%

* From the Board of Revenue Estimates, March 2009, with adjustments for action at the 2009 legislative session.

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

⁽¹⁾ Total fiscal 2008 net receipts after the distribution to the Stadium Authority totaled \$507.9 million, \$10.8 million above the estimate. The \$10.8 million over-attainment was transferred to a special fund per SB 545 (2008 session).

Maryland General Fund Revenue Forecast
(\$ in Millions)

<u>Source</u>	FY 2009	FY 2010 Estimate			% Change over FY 2009	FY 2011 Estimate	% Change over FY 2010
	<u>Actual</u>	<u>March</u>	<u>September</u>	<u>Difference</u>			
Personal Income Tax	\$6,477.2	\$6,602.2	\$6,121.8	-\$480.3	-5.5%	\$6,358.2	3.9%
Sales and Use Tax	3,620.4	3,605.4	3,523.9	-81.6	-2.7%	3,647.2	3.5%
State Lottery	473.2	507.1	523.0	15.9	10.5%	530.4	1.4%
Corporate Income Tax	550.7	555.5	495.0	-60.5	-10.1%	541.1	9.3%
Business Franchise Taxes	201.4	216.1	216.1	0.0	7.3%	216.1	0.0%
Insurance Premiums Tax	275.2	305.2	275.8	-29.5	0.2%	281.3	2.0%
Estate and Inheritance Taxes	205.5	177.6	180.2	2.6	-12.3%	178.3	-1.1%
Tobacco Tax	405.6	399.1	380.3	-18.9	-6.2%	375.7	-1.2%
Alcohol Beverages Tax	29.2	29.6	29.5	-0.1	1.2%	29.9	1.2%
Motor Vehicle Fuel Tax	6.5	8.4	8.4	0.0	29.0%	0.0	-100.0%
District Courts	89.4	88.8	88.6	-0.2	-0.9%	87.5	-1.2%
Clerks of the Court	40.5	32.8	42.0	9.2	3.7%	40.2	-4.4%
Hospital Patient Recoveries	96.5	66.4	65.7	-0.7	-31.9%	67.1	2.0%
Interest on Investments	83.0	73.0	38.0	-35.0	-54.2%	48.5	27.6%
Miscellaneous	338.3	329.8	326.0	-3.8	-3.6%	332.5	2.0%
GAAP Transfer	7.9	0.0	0.0	0.0	-100.0%	0.0	n/a
Total Revenues	\$12,900.5	\$12,997.0	\$12,314.2	-\$682.8	-4.5%	\$12,733.9	3.4%

Source: Board of Revenue Estimates. The estimate from March has been adjusted for actions taken at the 2009 legislative session.

Administration Plan to Address Revenue Shortfall Exceeds \$700 Million

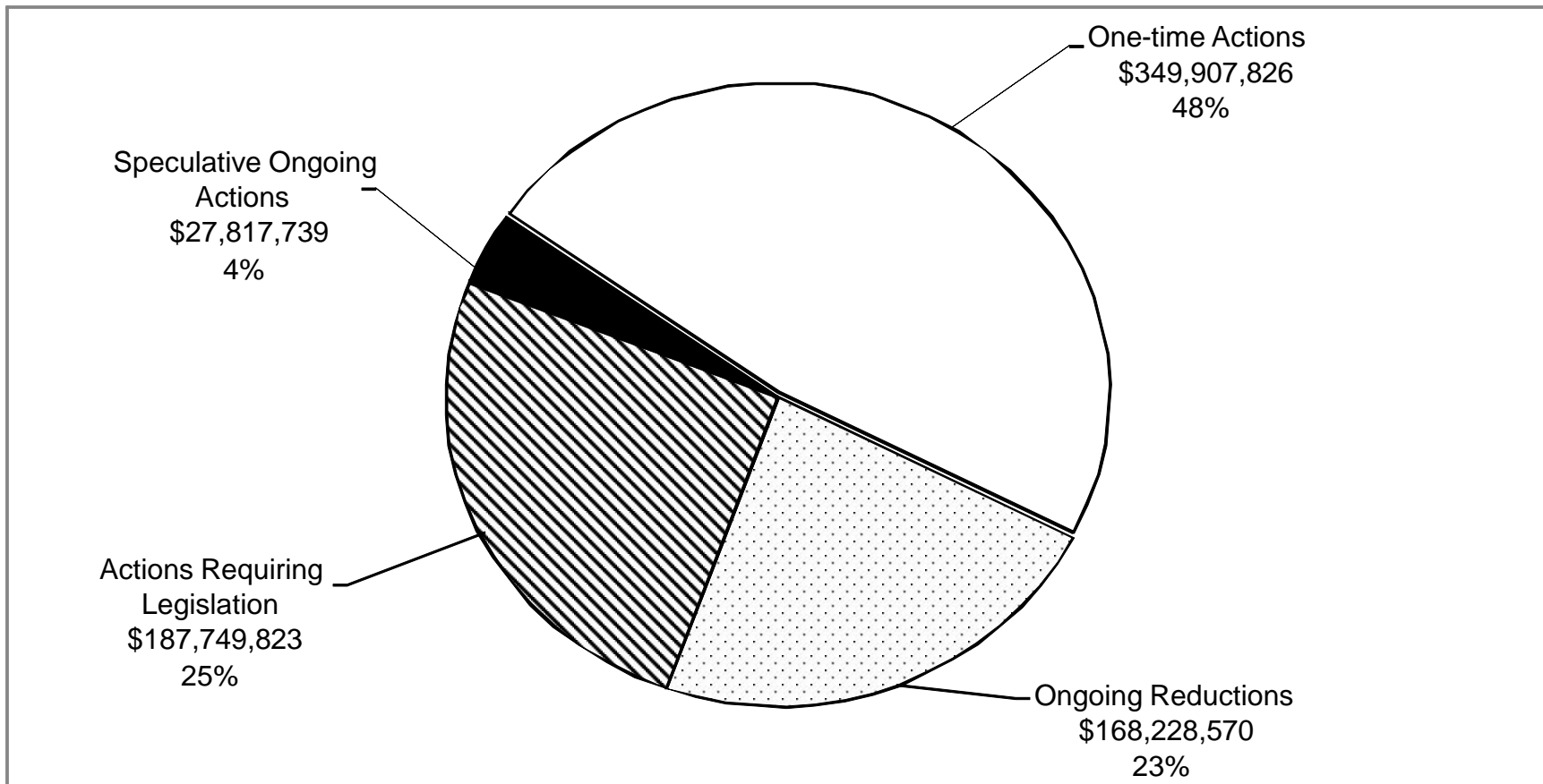
\$428.6 million BPW reductions (July/Aug.)

49.3 million revenues & reversions

255.8 million actions requiring legislation

\$733.7 million total

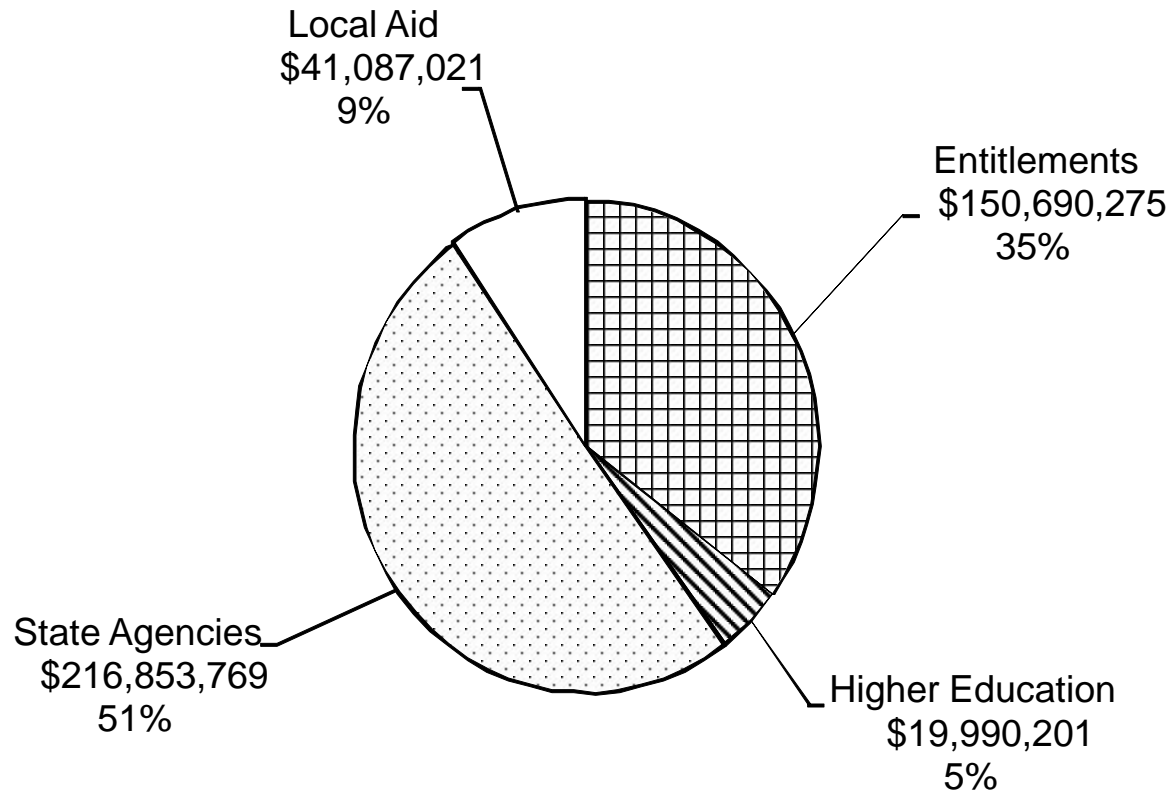
Half of Actions One-time Another 25% Require Legislation



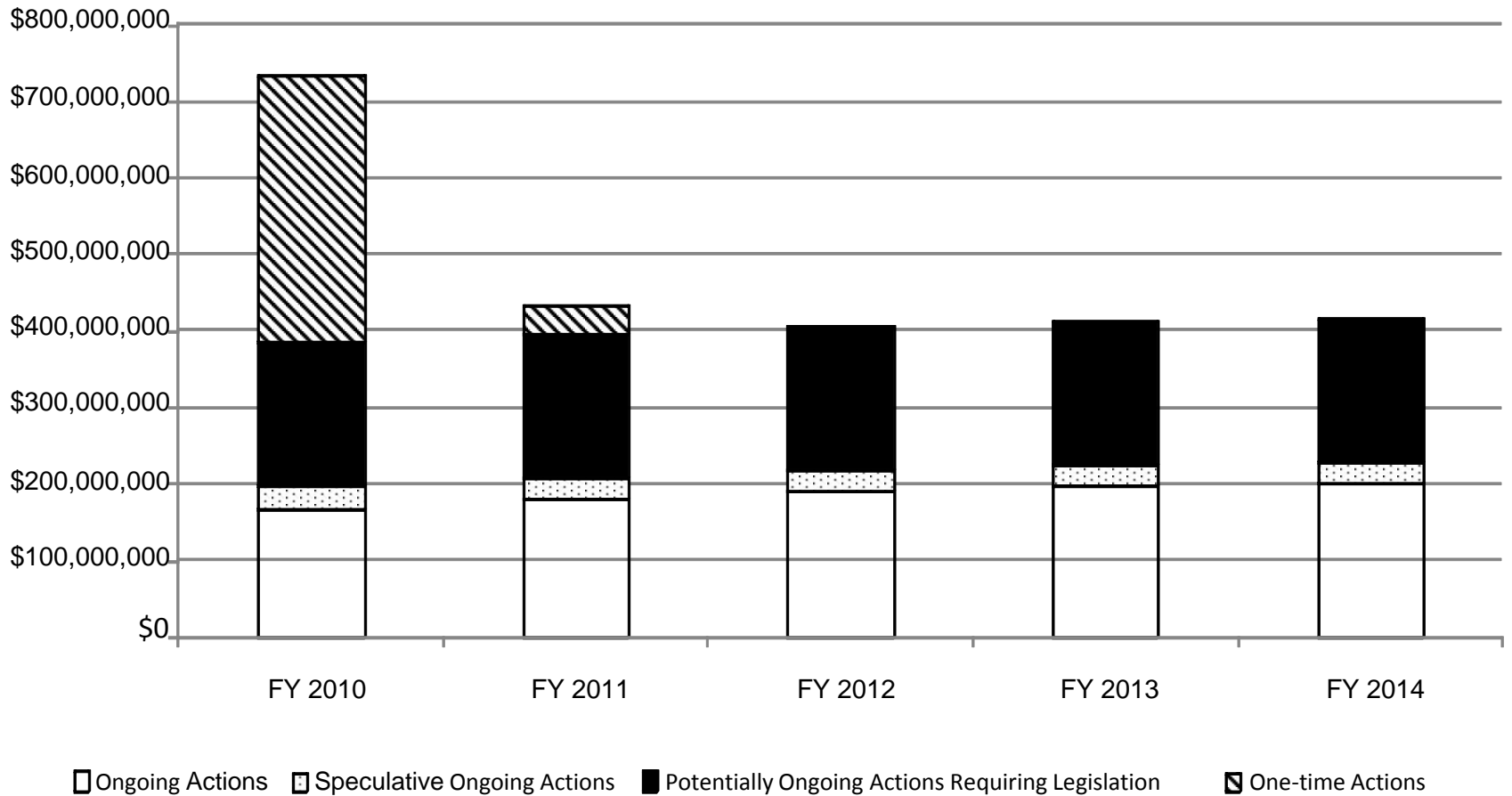
Local Aid Reductions Are 30% of Administration Plan to Close Budget Gap

Police Aid Formula – Reduce General Funds	\$ 20.6 M
Local Health Formula – Reduce General Funds	20.1 M
Highway User Revenues – Reduce Special Funds & Transfer to General Fund	159.5 M
Community Colleges – Shift Federal ARRA Monies to Reduce Public Safety General Fund Spending	10.5 M
Chesapeake Bay Critical Areas Commission Grants – Reduce General Funds	.3 M
Special Public Safety Grants – Reduce General Funds	.1 M
	\$211.1 M

Fiscal 2010 General Fund Reductions by Budget Category



Out-year General Fund Savings Potentially \$400 Million with Legislative Action



Significant Revenue Shortfalls Offset Administration's Actions to Date

(\$ in Millions)

\$ 87.9 Estimated FY 2010 Fund Balance (August)
6.3 Revenue Adjustments
(349.9) FY 2009 Closeout
733.7 BPW Actions & Proposed Actions
(682.8) Revenue Revision (September BRE)
(\$204.8) Work Remaining

BPW – Board of Public Works

BRE – Board of Revenue Estimates

New General Fund Forecast Reflects Deteriorating Revenues

(\$ in Millions)

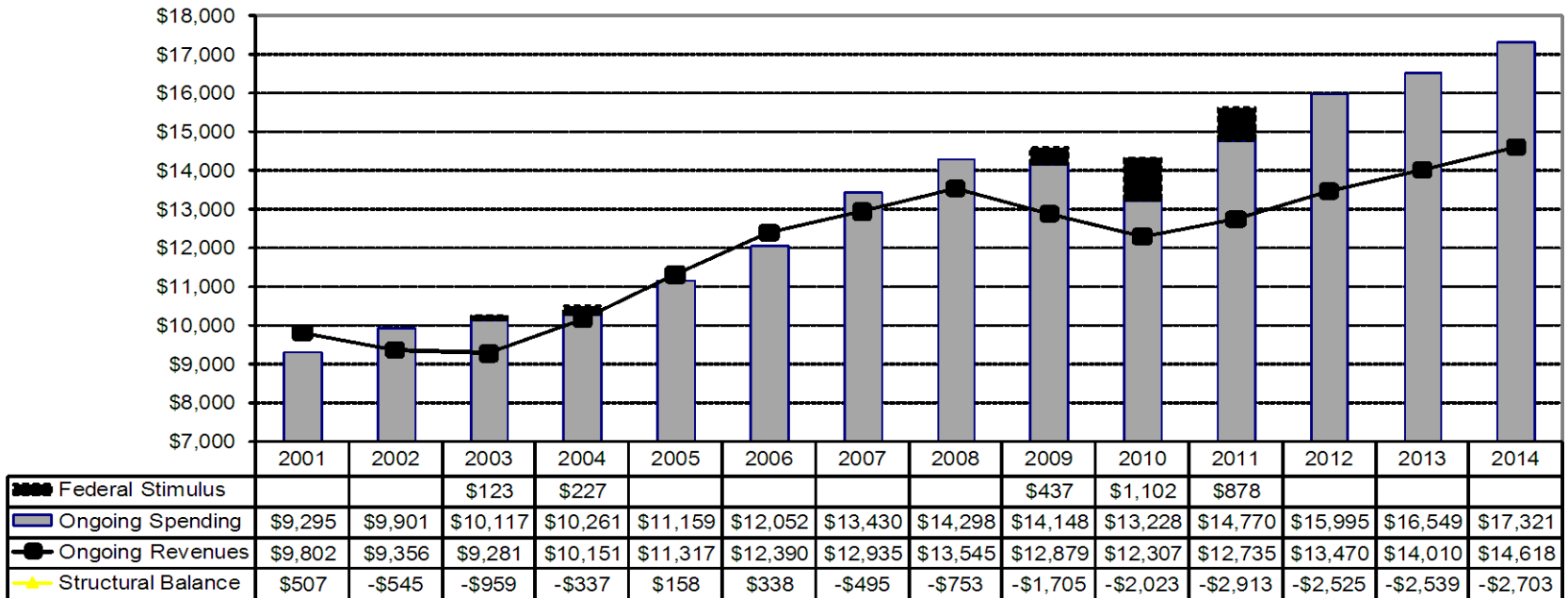
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Avg Annual Change 2010-2014
Revenues	Working	Leg. Approp.	Est.	Est.	Est.	Est.	
Opening Fund Balance	\$487	\$87	\$0	\$0	\$0	\$0	
Transfers	189	234	110	54	66	55	
BPW Transfers from July & August 2009*	0	305	0	0	0	0	
One-time Revenues/Legislation	<u>840</u>	<u>230</u>	<u>115</u>	<u>14</u>	<u>7</u>	<u>8</u>	
Subtotal One-Time Revenue	\$1,517	\$856	\$225	\$68	\$73	\$63	-48.0%
Ongoing Revenues	\$12,879	\$12,977	\$13,642	\$14,434	\$15,021	\$15,674	
September 2009 Revenue Adjustment	0	-683	-920	-973	-1,012	-1,056	
Revenue Adjustments - Legislation	<u>0</u>	<u>13</u>	<u>12</u>	<u>9</u>	<u>1</u>	<u>-1</u>	
Subtotal Ongoing Revenue	\$12,879	\$12,307	\$12,735	\$13,470	\$14,010	\$14,618	4.4%
Total Revenues & Fund Balance	\$14,396	\$13,163	\$12,961	\$13,538	\$14,083	\$14,680	2.8%
Ongoing Spending							
Operating Spending**	\$14,585	\$14,695	\$15,843	\$16,553	\$17,359	\$18,186	
BPW Reductions from July & August 2009	0	-325	-182	-192	-196	-201	
VLT Spending Supporting Education	<u>0</u>	<u>-39</u>	<u>-13</u>	<u>-366</u>	<u>-614</u>	<u>-664</u>	
Subtotal Ongoing Spending	\$14,585	\$14,330	\$15,649	\$15,995	\$16,549	\$17,321	4.9%
One-Time Spending							
PAYGO Capital	\$14	\$1	\$1	\$1	\$1	\$1	
Federal Stimulus Funds***	-437	-1,102	-878	0	0	0	
Appropriation to Reserve Fund	<u>147</u>	<u>140</u>	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>	
Subtotal One-Time Spending	-\$276	-\$961	-\$827	\$51	\$51	\$51	n/a
Total Spending	\$14,309	\$13,368	\$14,821	\$16,046	\$16,600	\$17,372	6.8%
Ending Balance	87	-205	-1,861	-2,508	-2,516	-2,692	
Rainy Day Fund Balance	693	651	636	673	701	731	
Balance over 5% of GF Revenues	49	34	0	0	0	0	
As % of GF Revenues	5.38%	5.28%	5.00%	5.00%	5.00%	5.00%	
Structural Balance	-1,706	-2,023	-2,913	-2,525	-2,539	-2,703	

* Includes \$256 million in transfers requiring legislation.

Falling Revenues in Fiscal 2009 & 2010

Increase Structural Budget Gap

**Ongoing Revenues vs. Ongoing Spending
Adjusted for Federal Stimulus Spending
(\$ in Millions)**



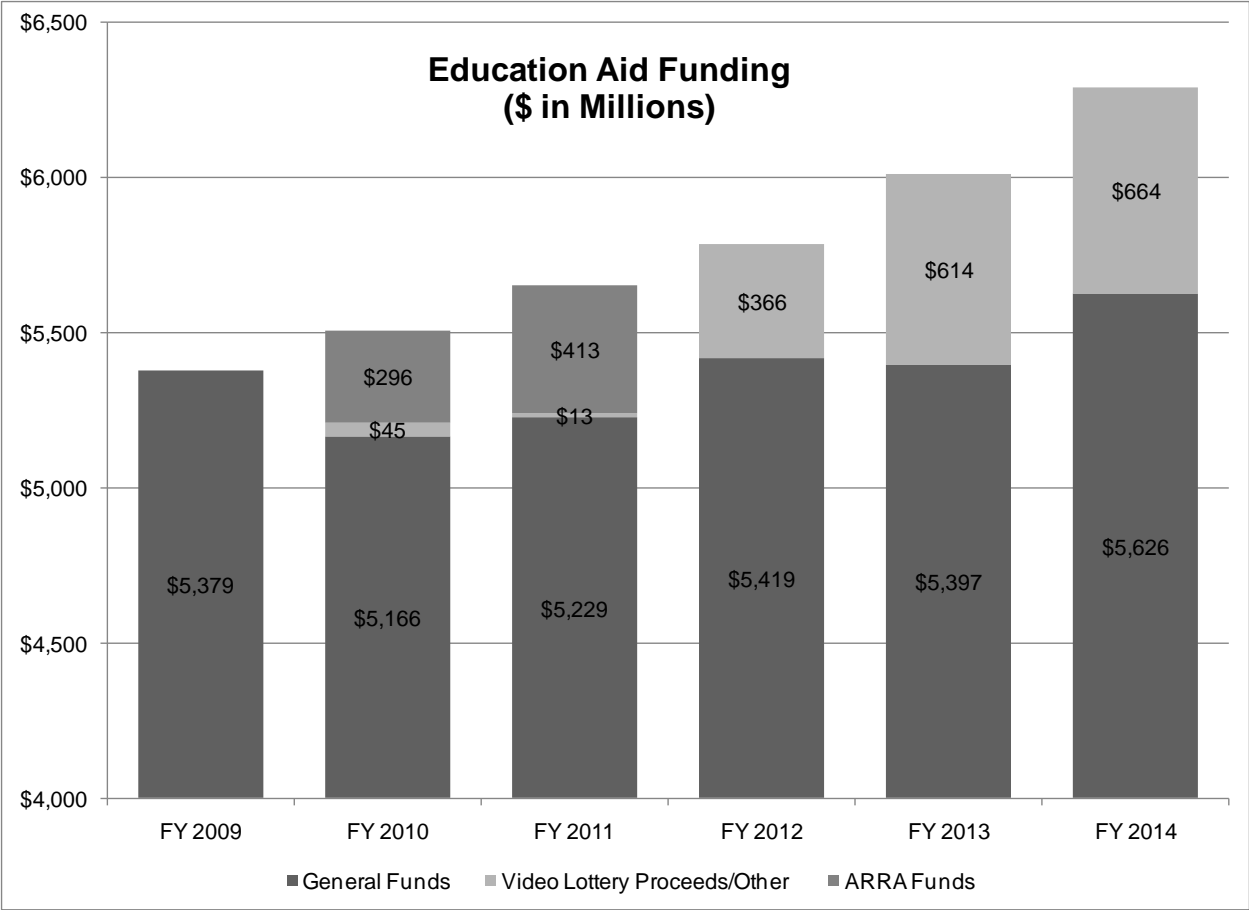
Current Services Forecast Indicates Significant Budget Challenges in Fiscal 2011

- Current services requirements forecast to grow almost 11.7% in FY 2011 (\$1.5 billion) reflecting less federal and special funds and one-time actions in FY 2010
 - Medicaid (Less ARRA and Special Funds) \$712 M
 - State Personnel (Salaries & Benefits) 226 M
 - BPW Reductions Not Ongoing 143 M
 - Higher Education (\$45 million is HEIF shift) 113 M
 - Local Aid (Primarily Statutory Mandates) 98 M
 - Foster Care/Assistance Payments 56 M
 - Major IT Projects (Prior year deferrals) 52 M

State Aid Not a Major Driver of Spending Growth in Current Forecast

- State aid accounts for 17% of the estimated growth in general fund current services spending between FY 2010 and 2014
- Cap on Thornton formulas in FY 2012 and low inflation assumptions moderate education aid increases
- Although education aid grows almost \$800 million over the four years, significant video lottery revenues (\$664 million) by FY 2014 offset general funds and the loss of federal stimulus monies

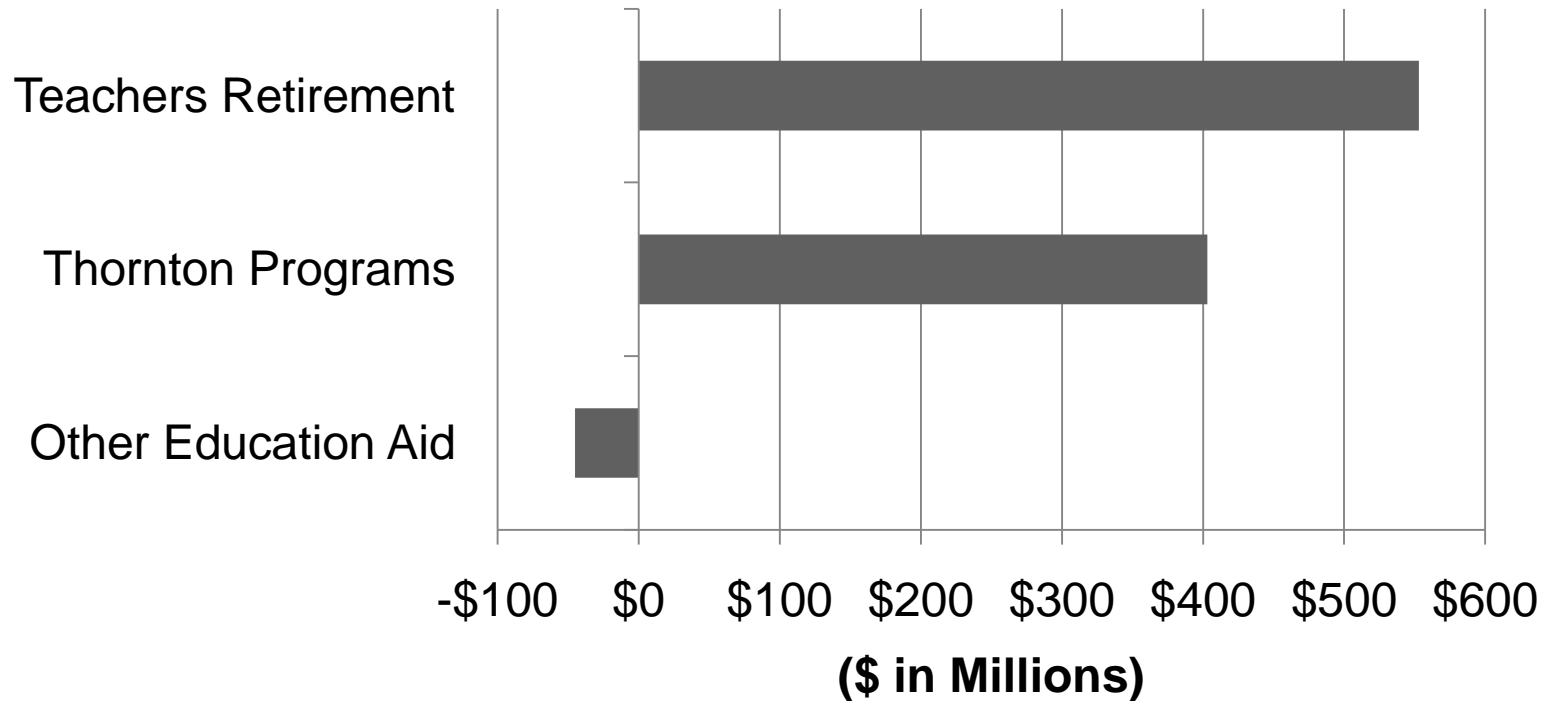
Federal and Video Lottery Revenues Fund Most of Projected Growth in Education Aid



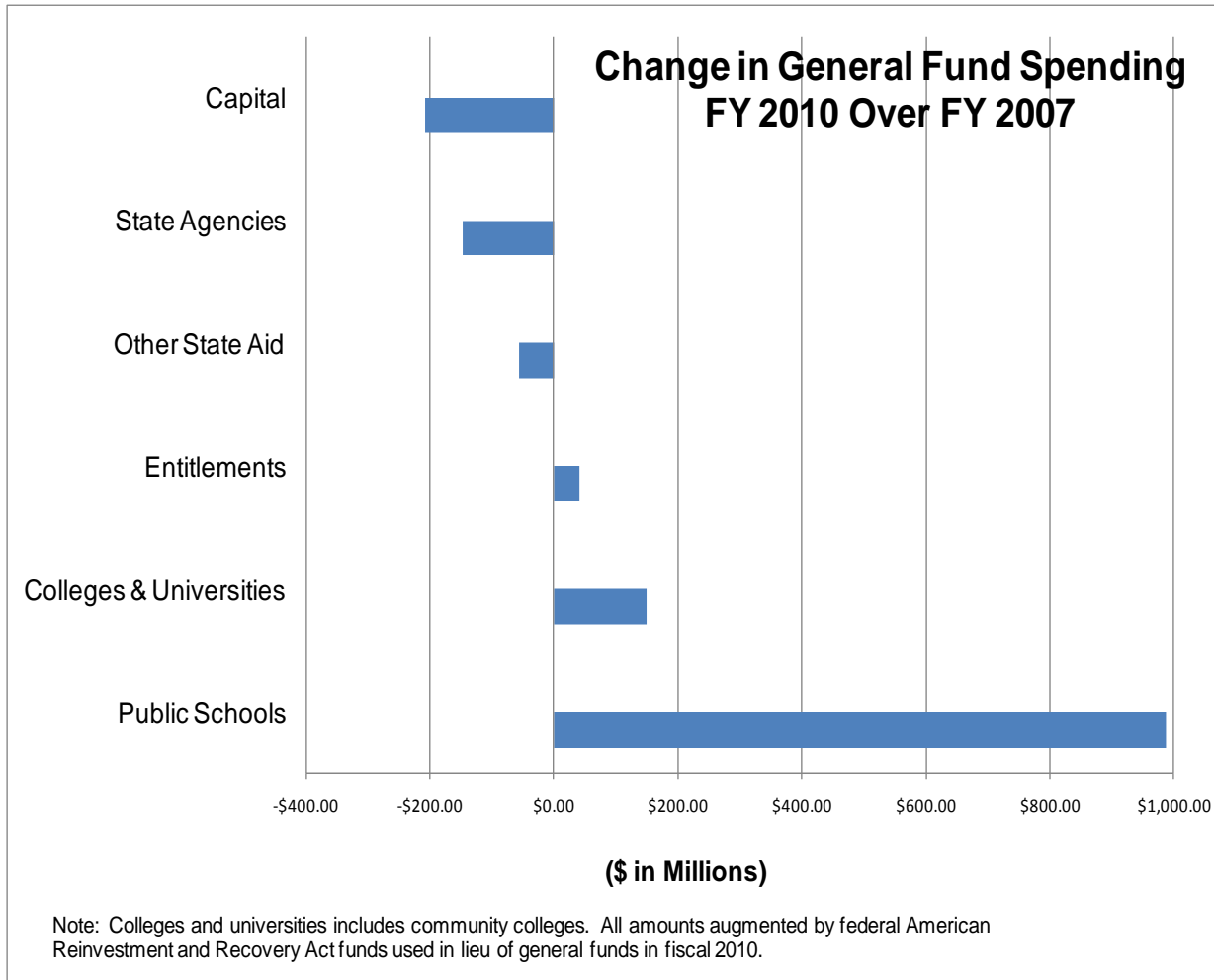
ARRA: Federal American Recovery and Reinvestment Act

Teachers Retirement Costs Are a Major Component of Education Aid Growth

**Increase in Education Aid
Fiscal 2009-2014**

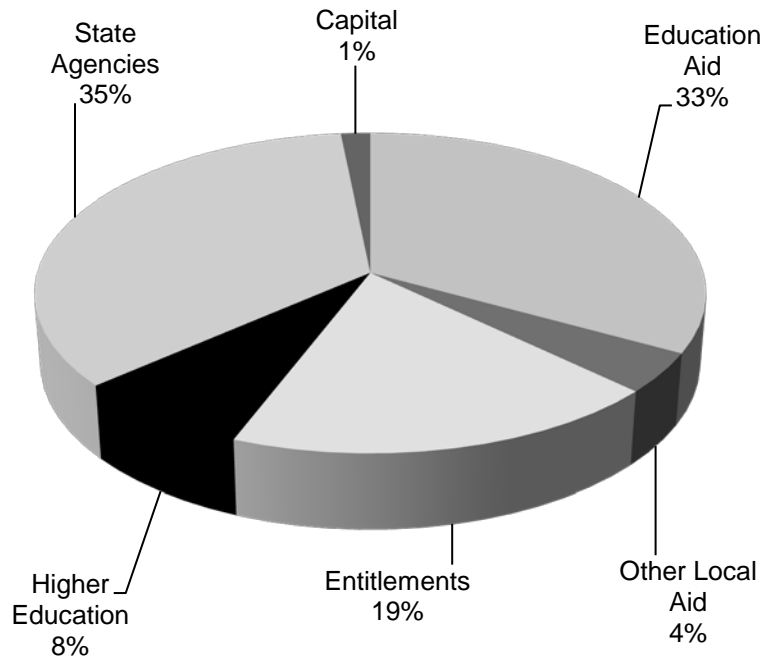


Education Aid Up \$1 Billion Since Fiscal 2007 Agencies and Other Aid Down

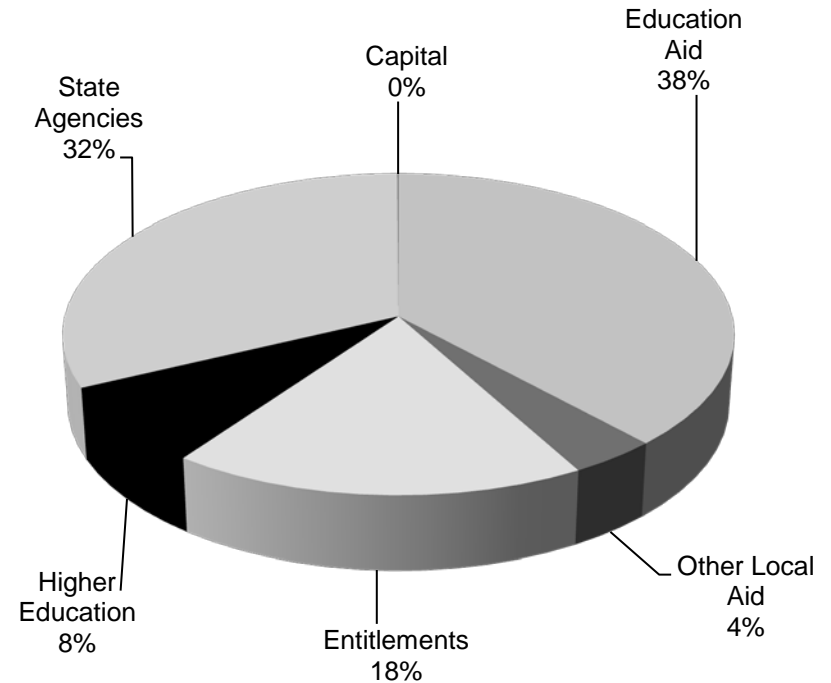


Education Aid Share of General Fund Budget Has Increased Since Fiscal 2007

FY 2007



FY 2010*



*Amounts include federal ARRA monies.