MARYLAND’S BUDGET CHALLENGE

January 2015
Dual Budget Challenges
FY 2015 & FY 2016

• Fiscal Year 2015 anticipated shortfall of $423 million

• Fiscal Year 2016 estimated budget gap of $802 million

• Cumulative Budget Challenge - $1.25 billion
### Budget Solutions - $1.3 billion

**Fiscal Year 2015**
- Reductions: $300 m.
- Revenues: $16 m.
- Transfers: $143 m.

**Fiscal Year 2016**
- Reductions: $766 m.
- Revenues: $72 m.
- Transfers: $4 m.

**Fiscal Year 2016 Surplus - $47 million**
## FY 2015 Budget Shortfall

### General Fund Summary

($ in millions)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ending General Fund Balance at Closeout</td>
<td>$104</td>
</tr>
<tr>
<td>July BPW Reduction actions</td>
<td>$83</td>
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<tr>
<td>September Revenue Write-down</td>
<td>$(177)</td>
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<tr>
<td>Balance After September Revenue Write-down</td>
<td>$10</td>
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<tr>
<td>December Revenue Write-down</td>
<td>$(123)</td>
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<td>Expected Deficiencies</td>
<td>$(310)</td>
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<tr>
<td>Shortfall</td>
<td>$(423)</td>
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</tbody>
</table>
FY 2015 Budget Shortfall

July 1 - Balance at Closeout: $104 million

July 2 - After BPW Reductions: $187 million

September — After Revenue Write-down: $10 million

January — After revenue Write-down & deficiencies: -$423 million
Fiscal Year 2015 Budget Shortfall

• Anticipated budget deficiencies in excess of $300 m.
  – Largest single shortfall – Medicaid – almost $200 m.
    • FY 2015 enrollment higher than budgeted due to ACA
    • Higher costs of new Hepatitis C drugs
    • FY 2014 accrual not expected to cover all FY 2014 costs
    • Cigarette Restitution revenue shortfall
  – Education – about $53 m.
    • Shortfall in VLT revenues; Assessments; Teacher stipends
  – Everything Else – around $57 m.
    • Transfer Tax shortfall, Public Safety, State Police
• December revenue write-down $123 million
  – cumulative revenue revision for FY 2015 - $300 million
Fiscal Year 2015 Solutions

• **Reductions** - $300 million
  - 2% agency reduction - $112 m.
  - Use MHIP funds to support Medicaid - $45 m.
  - Reductions to Deficiencies - $42 m.
  - Provider Rates (50% reduction to FY 15 increases) - $39m.
  - Local Aid - $25 m.
  - Other - $37 m.

• **Revenues** - $16 million
  - MCO payment; Stadium Authority

• **Transfers** - $143 million
  - Local Income Tax Reserve Loan - $100 million
    • To be repaid in Fiscal Year 2016
  - Other - $43 million
Fiscal Year 2016 Budget Shortfall

• General Fund revenue growth of 3.8%

• General Fund baseline spending growth of 5.0%

• Estimated budget gap of $802 million
  – Expenditure growth in excess of revenues - $206 m.
  – Use of FY 2014 fund balance - $148 m.
  – Previously unresolved FY 2015 shortfall - $300 m.
  – December revenue revision - $148 m.
What Drives Baseline Spending?

• Drivers of Budget Growth
  – Medicaid - $184 m.
  – K-12 Education Aid - $180 m.
  – Debt Service - $133 m.
  – State Reserve Fund - $80 m.
  – State employee & retiree health insurance - $69 m.
  – DHMH community programs & rates - $62 m.
  – Higher Education - $57 m.
  – FY 2016 State employee increments - $50 m.
  – Retirement Reinvestment - $44 m.
  – FY 2015 COLA / ASR annualization - $41 m.

• Two-thirds of the growth above is driven by mandates; Entitlements drive another 20+ percent of growth
Fiscal Year 2016 Solutions

- **Reductions** - $766 million
  - Provider Rates (reduce rates to FY 14 levels) - $160m.
  - Employee compensation adjustments - $156 m.
  - Aid to Education - $143 m.
  - 2% agency reduction - $118 m.
  - Other Medicaid Reductions / Fund Swaps - $50 m.
  - Repeal Ehrlich POS repayment - $50m.
  - Voluntary Separation Program - $30 m.
  - Local Aid - $35 m.
  - Other - $24 m.

- **Revenues** - $72 million
  - Redirection of Transfer Tax and CB 2010 revenues - $46 m.
  - Includes $17 m. from tax compliance and fraud initiatives

- **Transfers** - $4 million
Highlights of FY 2016 Budget

- **FY 2016 Budget is structurally balanced**
- General Fund spending growth of 2.4%, less than 3.5% revenue growth
- General Fund spending growth excluding Reserve Fund spending is only 1.5%
- General Fund spending growth excluding Reserve Fund, PAYGO Capital and Debt Service spending is only 0.5%
- Almost 80% of spending growth is Reserve Fund, Debt Service, and PAYGO Capital
Highlights of FY 2016 Budget (cont.)

• Budget includes record funding of K-12 education aid
  – $6.1 billion in total aid, a $45.3 million increase (after contingent reductions) over FY 2015

• Developmental Disabilities Administration
  – FY 2016 spending is $1.02 billion TF after contingent reductions, an increase of 8% over FY 2015. General funds total more than $550 million. Both record levels.

• Public School construction funding of $290.7 million

• State agency spending reduction of 2.0% included in this budget
  – FY 2016 includes funding to support increased health insurance & retirement costs
Reining in Spending

Baseline:
- Revenues: 3.8%
- Expenditures: 5.0%

Budget:
- After reserves: 1.5%

Spending growth more than halved
How does the Budget grow $381 million?

- Reserve Fund - $135 m.
- Debt Service - $134 m.
- Judiciary - $39 m.
- Education Aid - $36 m.
- PAYGO School Construction - $30 m.
- State Agencies - $21 m.
- Higher Education - $13 m.
- Medicaid - ($8 m.)
- Everything Else - ($19 m.)
Structural Deficit Outlook

• Savings from Mandate Relief provisions in BRFA
  – Listing of major savings proposals
    • Limit per pupil inflation to 1%
    • General Mandate Relief (lesser of formula or revenue growth less 1%)
    • Transportation assumes its share of Watershed Implementation Growth
    • Repeal Ehrlich POS repayment

• Comparison of structural deficit outlook
  – Before & After (with charts)

• Debt Service Savings from reduction in size of General Obligation Bond program
Budget plan begins to restrain Debt Service costs

<table>
<thead>
<tr>
<th>Year</th>
<th>Hogan Plan</th>
<th>CDAC</th>
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<tbody>
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<td>2014</td>
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<td>2020</td>
<td>529</td>
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</tbody>
</table>
Ongoing General Fund Revenue vs. Ongoing Spending
Fiscal 2007-2020
($ in Millions)

Projected Revenues
DLS Projected Spending
Governor Hogan Spending Plan

Previous Budget Gap: $700 million