Federal Funds History



Department of Legislative Services January 2016

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Department of Legislative Services
Office of the Executive Director
Maryland General Assembly

Warren G. Deschenaux
Executive Director

January 2016

The Honorable Thomas V. Mike Miller, Jr., President of the Senate
The Honorable Michael E. Busch, Speaker of the House of Delegates
Honorable Members of the Maryland General Assembly

Ladies and Gentlemen:

During the 2014 and 2015 interims, the Department of Legislative Services (DLS) conducted an analysis of federal funding received by the State from fiscal 2007 to the 2016 appropriation. The resulting report includes the following:

- an overview of federal budgeting, including a discussion of the Great Recession, the American Recovery and Reinvestment Act of 2009 (federal stimulus), and sequestration;
- a review of federal stimulus funding received by the State;
- an analysis of the impact of sequestration on federal funding received by the State, separating funds into categories of funds exempt from sequestration and funds subject to sequestration (*i.e.* non-exempt); and
- a look at federal funds received by State agencies and discussion of what funding is driving specific agency budgets and the State budget as a whole.

Laura M. Vykol of the Office of Policy Analysis wrote the report, which was reviewed by Patrick S. Frank, John W. Rohrer, and David C. Romans. Maureen R. Merzlak was responsible for production of the manuscript. Your questions and comments are welcomed.

Sincerely,

Warren G. Deschenaux
Director

WGD/LMV/mrm

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Federal Funds History

Federal spending has changed in recent years in response to an economic recession and the federal deficit. Given its proximity to Washington, DC and the many federal institutions within Maryland, the State's economy is substantially influenced by the flow of federal dollars. This report focuses more narrowly on changes in federal funds that are included in the State budget; direct grants to local governments are not included. In fiscal 2014, federal funds made up 25.3% of Maryland's operating budget. In recent years, federal funding to states nationwide has shifted in order to respond to an economic recession and reduce a federal deficit. This report will focus on federal funds to Maryland from fiscal 2007 to the fiscal 2016 appropriation.

The Great Recession, Federal Stimulus, and Austerity

A general slowdown in economic activity known as The Great Recession began in December 2007 and ended in June 2009, but effects on State revenues continue to be felt. In response to the economic crisis, Congress passed the American Recovery and Reinvestment Act of 2009 (ARRA), commonly referred to as the federal stimulus, which provided additional federal funding with the objectives to create and sustain jobs, spur economic activity, invest in long-term growth, and promote accountability and transparency in government spending. The ARRA sought to achieve these goals by providing tax cuts and increasing funding for benefits, entitlement programs, federal contracts, and grants and loans. The Congressional Budget Office estimates that the ARRA will increase federal spending by $575 billion and reduce federal tax collections by $212 billion from federal fiscal year (FFY) 2009 to 2019.

As a result of the slowdown in the economy and increases in federal spending, a substantial budget deficit was created. In an effort to address the deficit, Congress passed the Budget Control Act (BCA) of 2011, which created budget caps to enforce tight limits on annual appropriations from FFY 2012 through 2021, separated into defense and nondefense spending categories. The caps were designed to rise over time to keep up with projected inflation, although not enough to cover population growth or other rising needs or to offset previous losses[1].

The BCA of 2011 also established a Joint House-Senate Select Committee on Deficit Reduction, known as the supercommittee. The supercommittee was charged with decreasing the deficit by $1.2 trillion over 10 years, but the BCA of 2011 also created a back-up process to achieve the reduction known as sequestration. Sequestration enacted automatic spending reductions that took effect January 2013 for certain government programs due to the failure of the supercommittee to produce the desired legislation. Sequestration cuts are spread equally over nine years and divided equally between defense and nondefense programs; some major programs, such as Social Security and Medicaid, are exempt from cuts.

[1] Center Budget and Policy Priorities.

The BCA of 2011 directed that initial across-the-board cuts in most appropriated programs be applied. Additional reductions would result from lowering caps that would otherwise apply beginning in FFY 2014. However, President Barrack H. Obama and Congress enacted measures that provided sequestration relief in FFY 2013, 2014 and 2015. Each year, the same amount of relief was given to both defense and nondefense categories. The American Taxpayer Relief Act provided relief in FFY 2013, while the Bipartisan Budget Act (BBA) of 2013 provided relief in FFY 2014 and 2015.

Bipartisan Budget Act of 2015

The President and the Congressional leaders announced a budget agreement on October 27, 2015 (the BBA of 2015), which would increase discretionary spending caps by $50 billion in FFY 2016 and $30 billion in FFY 2017 (equally split between defense and nondefense spending), similar to the BBA of 2013. The BBA of 2015 increases FFY 2016 nondefense discretionary caps by 5.4% compared to FFY 2015 while FFY 2017 caps basically remain at their FFY 2016 levels. Discretionary programs would still be subject to across-the-board sequestration cuts if enacted appropriations exceed these new funding caps under the BBA of 2015; sequestration for nonexempt programs is extended through FFY 2025. Absent further legislation, FFY 2018 discretionary caps will decline for both defense and nondefense spending back to levels set by the BCA of 2011.

The BBA of 2015 also has provisions to provide additional funding for overseas contingency operations (which is not subject to a cap), suspend the federal debt limit until March 15, 2017, provide relief from the projected 52% increase in Medicare Part B premiums for dual eligible recipients, extend the solvency of the Social Security Disability Insurance Trust Fund, and offset additional spending with changes to certain programs and funding.

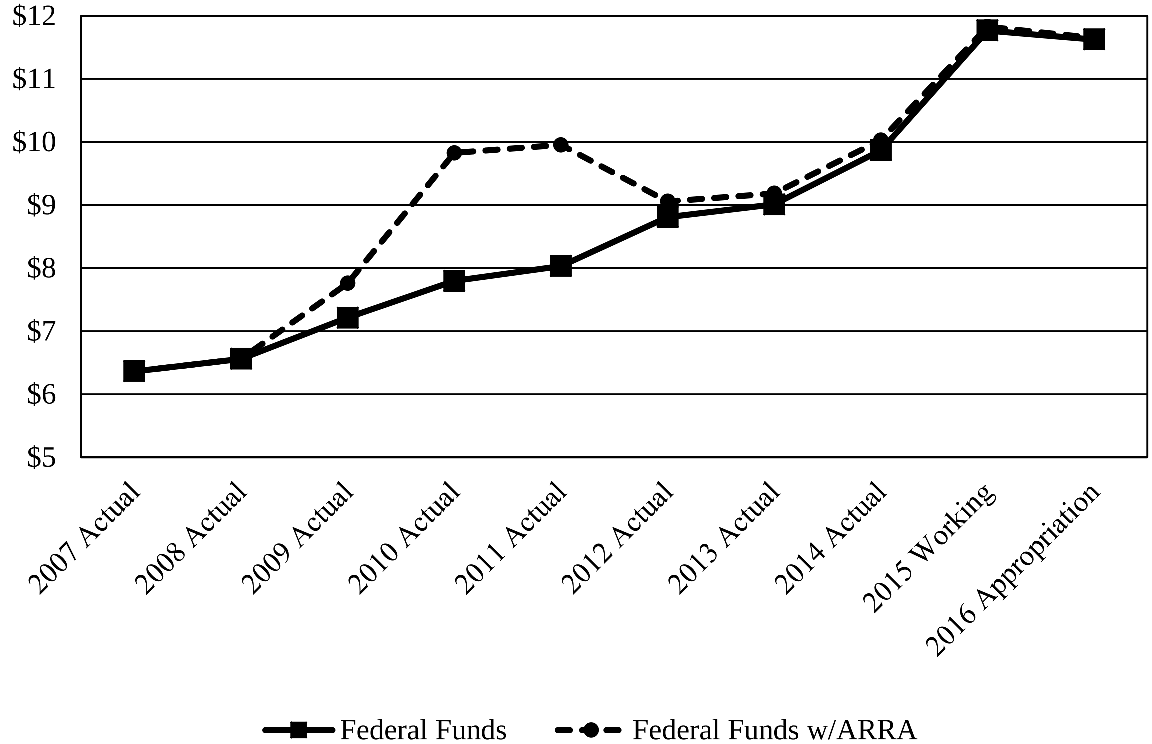
Consolidated Appropriations Act of 2016

The BBA of 2015 is not an appropriations bill but provided the budget framework for a FFY 2016 appropriations package. On December 18, 2015, the President signed the FFY 2016 omnibus (H.R. 2029 the Consolidated Appropriations Act of 2016), which completed the budget process for FFY2016. The budget sets overall discretionary spending at $1.5 trillion, including $73.7 billion designated as Overseas Contingency Operation funds. The total cost of the bill adheres to the defense and nondefense discretionary caps set by the BBA of 2015

Federal Funds to the State of Maryland: Overview

From fiscal 2007 to the 2016 appropriation, total federal expenditures (not including temporary federal stimulus funding) through the State budget increased by $5.3 billion, or at a 6.9% annual rate. In comparison, general fund spending increased by $2.7 billion, or at a 2.0% annual rate; special funds increased by $3.1 billion, or at a 5.3% annual rate; and current unrestricted funds (CUF) increased by $1.3 billion, or at a 4.0% annual rate[2]. Since fiscal 2009, Maryland has also received $5.2 billion in ARRA funds, primarily in fiscal 2010 ($2.0 billion) and 2011 ($1.9 billion). **Exhibit 1** shows federal funding to the State from fiscal 2007 to the 2016 appropriation.

Exhibit 1
Federal Funds to the State of Maryland
Fiscal 2007-2016 Appropriation
($ in Billions)



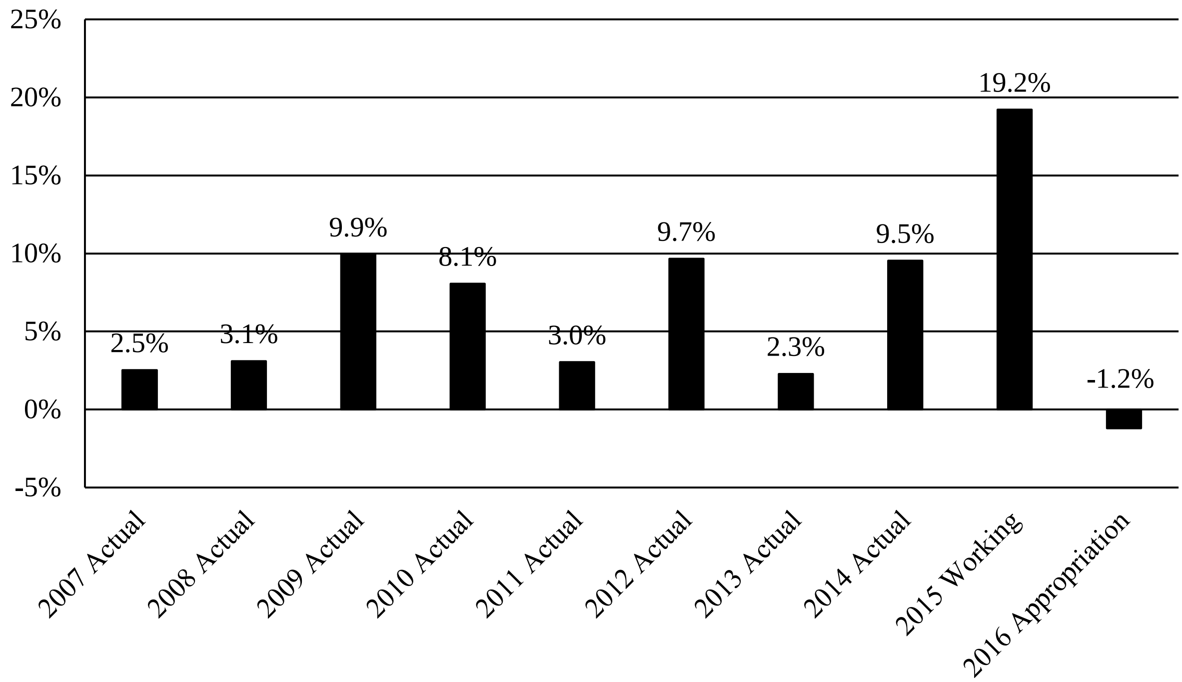
ARRA: American Recovery and Reinvestment Act of 2009

Source: Department of Budget and Management

Exhibit 2 compares the annual growth rate of federal funds (excluding ARRA funds) to the State from fiscal 2007 to the 2016 appropriation.

[2] CUFs are funds available for any current operating purposes for higher education, not restricted by an external party. CUF includes tuition, fees, Higher Education Investment Funds, and general funds.

Exhibit 2
Growth Rate of Federal Funds to the State of Maryland
Fiscal 2007-2016 Appropriation



Note: Does not include American Recovery and Reinvestment Act of 2009 funds.

Source: Department of Budget and Management

High growth rates for federal funds in fiscal 2009 and 2010 are primarily due to increasing direct payment programs in response to the economic crisis. Direct payment programs provide financial assistance to subsidize a particular activity, such as low-income assistance to individuals. The Supplemental Nutrition Assistance Program (SNAP), also known as the Food Stamps Program, and Medicaid account for 76.0% of the increase in federal funds in fiscal 2009 and 88.7% of the increase in fiscal 2010.

Federal funds return to a pre-recession growth rate in fiscal 2011 with 3.0%, but then spike in fiscal 2012 with a growth of 9.7%; Medicaid and highway construction and planning funds account for 76.7% of the increase. The increase in Medicaid is most likely due to some fiscal 2011 bills being pushed out to fiscal 2012. For highways, projects delayed in fiscal 2010 and 2011 due to the recession pushed expenditures out to fiscal 2012. In addition, redistribution of the obligatory authority (funds that other states have not obligated by a certain deadline) and passage of the federal Hiring Incentives to Restore Employment Act, which extended federal transportation authorization in 2010, restored apportionments that had been rescinded. Additional funding to the State for high priority and earmarked transportation projects also contributed to the spike in expenditures in fiscal 2012. The modest 2.3% federal fund growth rate for fiscal 2013 reflects the impact of sequestration (discussed in more detail later in this document) and minimal growth in Medicaid costs (in part due to the fiscal 2012 budget including costs associated with fiscal 2011 and 2012).

Fiscal 2014 and 2015 show substantial growth in federal funds primarily due to implementation of the federal Affordable Care Act (ACA). One of the key provisions of the ACA is the expansion of the Medicaid program to all persons under 138.0% of the federal poverty level. Beginning in fiscal 2014 and through the first half of fiscal 2017, 100.0% of the costs for these newly eligible populations will be borne by the federal government; in the second half of fiscal 2017, 95.0% of the costs will be covered by the federal government. As a result of this new expansion, Medicaid is responsible for 98.5% of the growth in federal funds in fiscal 2014 and 88.0% of the growth in fiscal 2015.

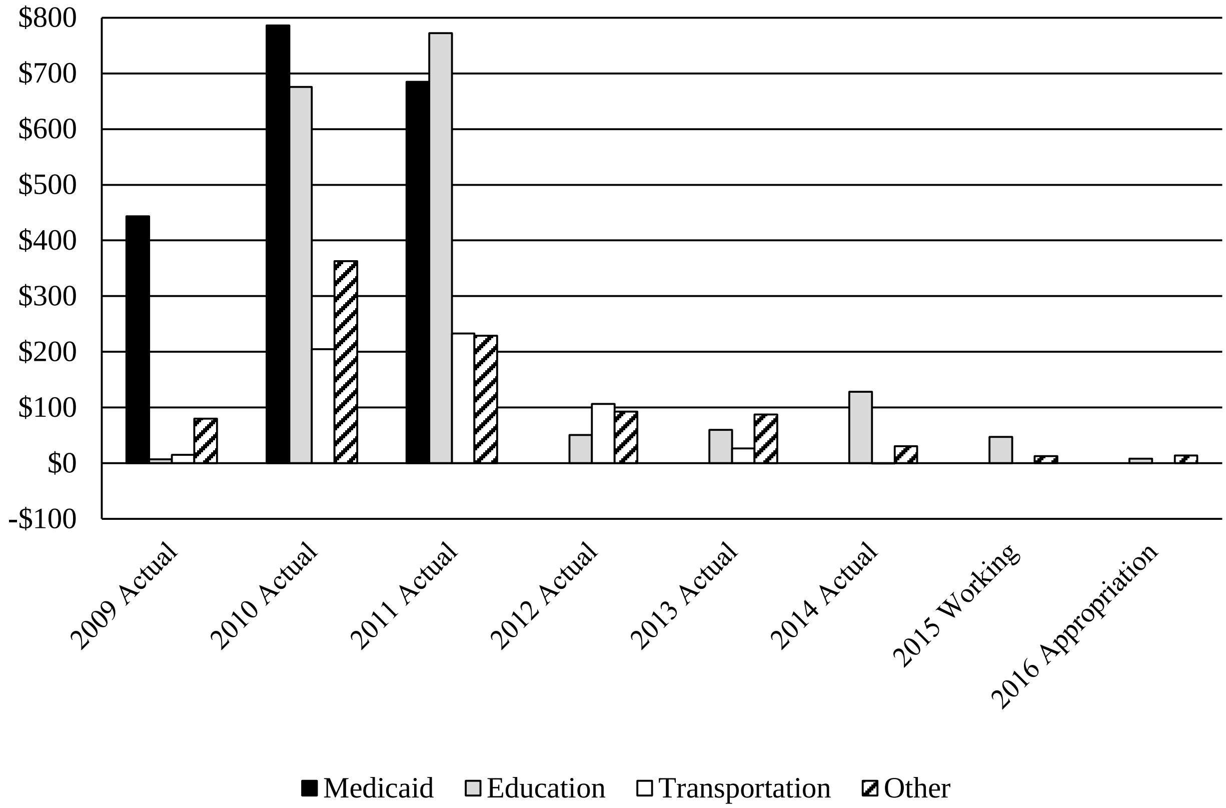
The fiscal 2016 appropriation decreases by $142.4 million, or 1.2%, from fiscal 2015. Medicaid experiences the largest drop with $237.7 million, or 3.6% and the SNAP decreases by $101.1 million[3]. An increase of $204.1 million in Federal Transit-Capital Investment Grants for a variety of transit projects, including the Purple Line, partially offsets these two major decreases.

American Recovery and Reinvestment Act of 2009

The federal stimulus was designed to be temporary and the overall decline of this funding is evident starting in fiscal 2011. Maryland received the most ARRA funding in fiscal 2010 ($2.0 billion) and fiscal 2011 ($1.9 billion); ARRA funding dropped significantly in fiscal 2012 ($250.0 million) and has continued to slowly decline. As shown in **Exhibit 3**, the majority of ARRA funding to Maryland has been for Medicaid ($1.9 billion), education ($1.7 billion), and transportation ($638.9 million), accounting for 82.4% of the total.

[3] The fiscal 2015 working appropriation does not take into account large cancellations of Medicaid and SNAP funds. Cancellations of funds will result in fiscal 2015 actual expenditures being lower than what is appropriated in the fiscal 2016 appropriation.

Exhibit 3
American Recovery and Reinvestment Act of 2009 Funds to the State
Fiscal 2009-2016 Appropriation
($ in Millions)



Source: Department of Budget and Management

Medicaid

Medicaid ARRA funding was received from fiscal 2009 through 2011 as part of a temporary increase in the Federal Medical Assistance Percentage, which determines the amount of federal matching funds that states receive. Under the federal stimulus, each state received a temporary across-the-board 6.2 percentage point increase. Also, an unemployment-related bonus was made available to states that experienced increases to the unemployment rate. Funds under both these provisions were made available from October 1, 2008, through December 2010. In fiscal 2012, the enhanced federal fund match to the State ends.

Education

The bulk of education ARRA funding occurred in fiscal 2010 and 2011. The ARRA increased existing formula programs in order to target aid directly to local school systems. The largest increases in education formula grants in fiscal 2010 and 2011 were for Title I of the Elementary and Secondary Education Act (Title I) (provides funds for educationally deprived children), and the Individuals with Disabilities Education Act (provides funds for special education). The State also received federal Education Jobs Funds ($178.6 million) in fiscal 2011 to save or create education jobs during the 2010-2011 school year.

Additionally, the ARRA created a new one-time funding stream, the State Fiscal Stabilization Fund (SFSF) for use in state and local budgets to help minimize reductions in essential services. To access federal aid for the SFSF and apply for competitive grants states had to commit to four areas of educational reform:

- make improvements in teacher effectiveness and ensure all schools have highly qualified teachers;
- demonstrate progress toward college- and career-ready standards and rigorous assessments that will improve both teaching and learning;
- improve achievement in low-performing schools by providing intensive support and effective interventions in schools that need them the most; and
- enhance statewide data systems to track improvements in student learning, teacher performance, and college and career readiness.

Maryland was awarded SFSF funds from fiscal 2010 to 2015 with the largest amounts occurring in fiscal 2010 and 2011.

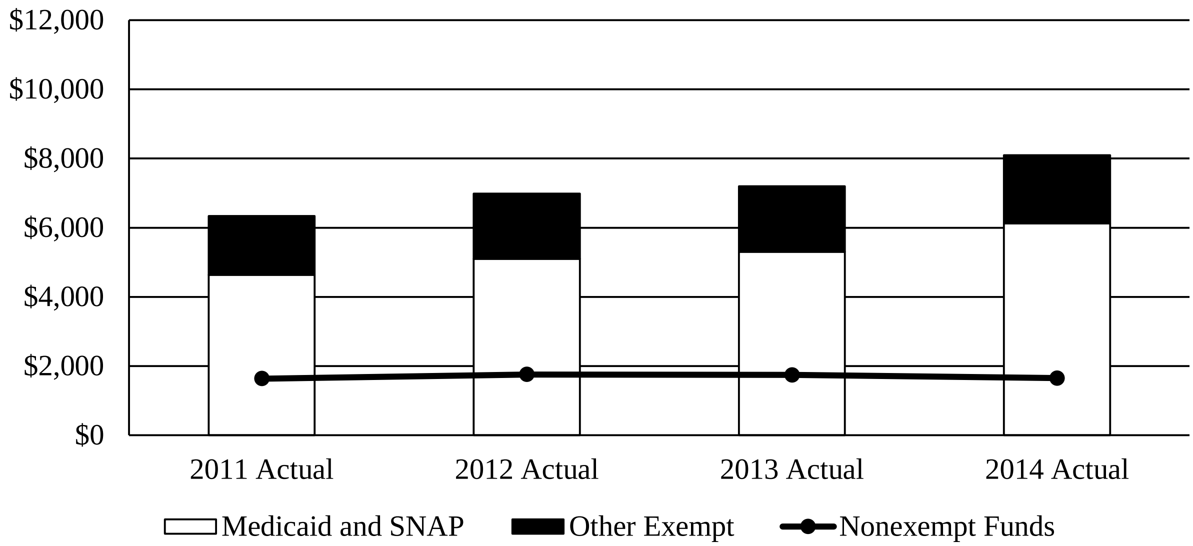
Transportation

The majority of ARRA funding for transportation was received from fiscal 2010 to 2012. The ARRA funding for transportation helped to partially offset capital reductions to highway and transit projects. In an attempt to prevent states from supplanting existing transportation funding, the ARRA included a Maintenance of Effort (MOE) provision, which required states to certify and maintain a level of spending as of the date of enactment of the ARRA through September 30, 2010; many states struggled to meet the MOE provision to maintain the spending level, including Maryland.

Sequestration

Federal fund reductions as a result of sequestration were expected to be largest in FFY 2013, which corresponds to the final three quarters of Maryland's fiscal 2013 and the first quarter of fiscal 2014. Sequestration only applies to certain government programs. Funds considered mandatory, such as Medicaid and SNAP, are exempt from sequestration. Separating funds into categories of exempt and nonexempt from sequestration, **Exhibit 4** compares the growth rate of federal funds from fiscal 2011 to 2014; Medicaid and the SNAP are distinguished because that funding makes up the largest portion of exempt funds[4]. From fiscal 2012 through 2014, exempt funds make up $28.6 billion, or approximately 80% of total federal funds received by the State.

Exhibit 4
Federal Spending: Exempt vs. Nonexempt from Sequestration
Fiscal 2011-2014
($ in Millions)



SNAP: Supplemental Nutrition Assistance Program

Note: Does not include American Recovery and Reinvestment Act of 2009 funds or funds unable to be identified as exempt or nonexempt at this time.

Source: Department of Budget and Management; Department of Legislative Services; Federal Fund Information for States

[4] The fiscal 2015 working appropriation and fiscal 2016 appropriation is not included in this chart. This chart focuses only on actual recorded expenditures to analyze the impact of sequestration.

Exhibit 5 compares the rate of growth of exempt versus nonexempt funds from fiscal 2012 to 2014.

Exhibit 5
Growth Rate of Funds Exempt and Nonexempt from Sequestration
Fiscal 2012-2014

	Growth Rate (%)	
Fiscal Year	**Exempt Funds**	**Nonexempt Funds**
2012 Actual	10.2%	7.5%
2013 Actual	3.1%	-0.8%
2014 Actual	12.5%	-5.4%

Note: Does not include American Recovery and Reinvestment Act of 2009 funds or funds unable to be identified as exempt or nonexempt at this time.

Source: Department of Budget and Management; Department of Legislative Services; Federal Funds Information for States

As expected, exempt funds showed continuous growth from fiscal 2012 to 2014. Fiscal 2013 showed lower growth in expenditures than fiscal 2012 primarily due to Medicaid bills and highway construction projects from previous fiscal years being pushed out to fiscal 2012, as previously discussed. Exempt funds increased substantially in fiscal 2014 primarily due to implementation of the ACA, which expands the Medicaid program. Nonexempt funds increased by 7.5% in fiscal 2012, then decreased in fiscal 2013 and 2014. The impact of the FFY 2013 sequestration is more pronounced in fiscal 2014 as many State agencies were able to draw down federal fund balances in fiscal 2013, delaying the impact of sequestration on State spending.

Nonexempt Funds

Nonexempt funds made up approximately 20% of total federal funding received by the State from fiscal 2012 to 2014. During this period, nonexempt funds overall decreased by $108.2 million, or 6.2%, as shown previously in Exhibit 5. There are other reasons for appropriations to decrease besides sequestration, such as programs or grants of a limited duration, or funds phasing in and out as the State receives them in different years. It can be difficult to distinguish the exact cause for changes in every nonexempt fund, but the overall reduction in spending from fiscal 2012 to 2014 was the intended impact of sequestration.

When separating nonexempt funds into spending categories, education makes up the largest share of spending from fiscal 2012 to 2014 with 32.4%. As shown in **Exhibit 6**, the next largest categories are health and human services with 28.2% and housing with 14.1%.

Exhibit 6
Funds Subject to Sequestration (Nonexempt Funds)
Fiscal 2012-2014

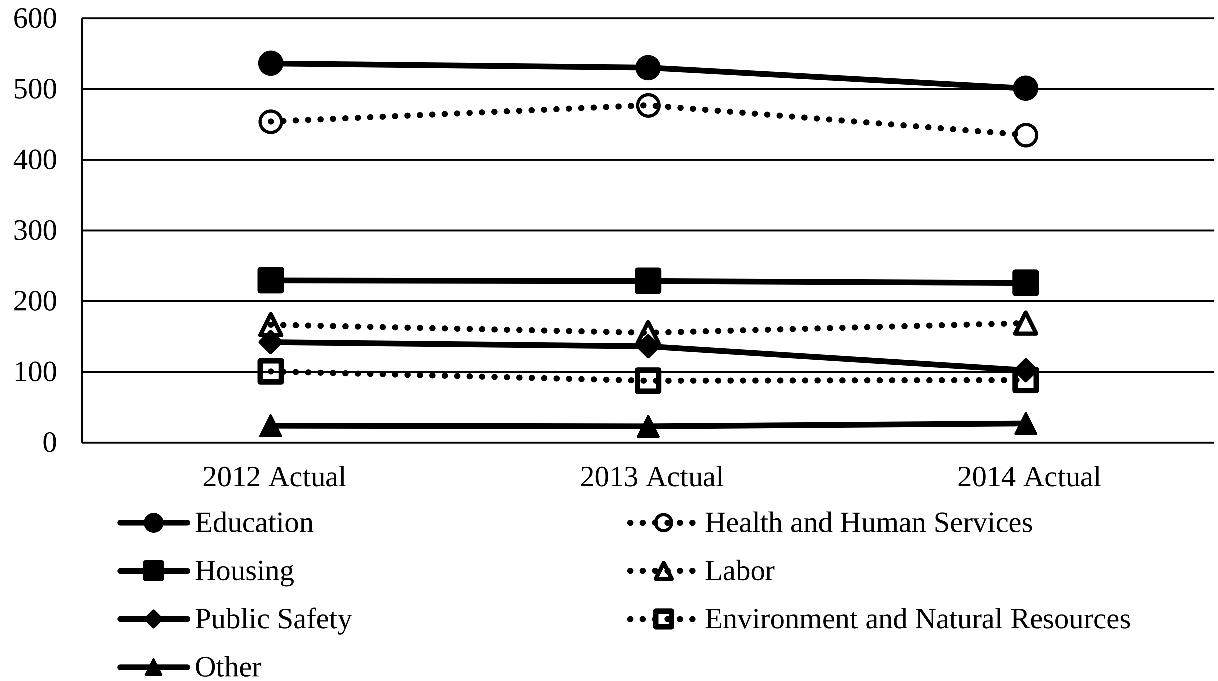
Spending Category	Total Funding	% of Nonexempt Funds Received from
Education	$1,567,909,819	32.4%
Health and Human Services	1,366,415,066	28.2%
Housing	684,137,188	14.1%
Labor	491,047,207	10.1%
Public Safety	380,461,400	7.9%
Environment and Natural Resources	276,280,732	5.7%
Other	73,797,974	1.5%
Total	**$4,840,049,386**	**100.0%**

Note: Numbers may not sum due to rounding. Does not include American Recovery and Reinvestment Act of 2009 funding or funding unable to be identified as exempt or nonexempt at this time. Public Safety category includes funding related to public safety, homeland security, disaster relief, emergency medical services, and emergency management. Health and Human Services does not include funding for State Planning and Establishment Grants for Affordable Care Act Exchanges. Housing does not include funding for the Emergency Homeowners' Loan Program, and Public Safety does not include funding for Public Assistance Grants (disaster relief). These three funding streams are large appropriations that are uniquely dependent or temporary which distorts category trends.

Source: Department of Budget and Management; Department of Legislative Services; Federal Funds Information for States

There were three funds in particular that experienced large funding swings from fiscal 2012 to 2014: 1) Public Assistance Grants (*i.e.* disaster relief); 2) the Emergency Homeowners' Loan Program; and 3) State Planning and Establishment Grants for the ACA Exchanges. Public Assistance Grants are issued by the Federal Emergency Management Agency to reimburse state and local governments for damage caused by natural disasters; fiscal 2012 and 2013 saw large spikes in this funding primarily for damage caused by hurricanes. The Emergency Homeowners' Loan Program is funding administered by the U.S. Department of Housing and Urban Development to assist eligible homeowners with payments; the State spent $52.0 million of this funding in fiscal 2012 primarily to prevent foreclosures in Prince George's County and Baltimore City. The State received $28.7 million, $50.6 million, and $91.2 million from fiscal 2012 to 2014, respectively, to establish the State ACA Health Exchange; this level of funding is expected to be short-term. These three programs are excluded from the spending categories of nonexempt funds due to their unique, temporary traits that would distort spending trends in their respective categories. **Exhibit 7** demonstrates the change in the various spending categories from fiscal 2012 to 2014, excluding the three programs previously discussed.

Exhibit 7
Funds Subject to Sequestration (Nonexempt Funds) By Spending Category
Fiscal 2012-2014



Note: Does not include American Recovery and Reinvestment Act of 2009 funding or funding unable to be identified as exempt or nonexempt at this time. Public Safety category includes funding related to public safety, homeland security, disaster relief, emergency medical services, and emergency management. Health and Human Services does not include funding for State Planning and Establishment Grants for Affordable Care Act Exchanges; Housing does not include funding for the Emergency Homeowners' Loan Program; and Public Safety does not include funding for Public Assistance Grants (disaster relief). These three funding streams are large appropriations that are uniquely dependent or temporary which distorts category trends.

Source: Department of Budget and Management; Department of Legislative Services; Federal Funds Information for States

Public Safety experienced the largest decrease with $39.5 million, or a 27.9% reduction. The most substantial decrease in public safety was National Guard Military Operations and Maintenance funding, which provides funding to states through cooperative agreements to support the operations and maintenance of National Guard facilities; this funding decreased by $25.2 million, experiencing a 60.3% drop from fiscal 2012. Environment and natural resources spending showed the next biggest decrease with 12.5%, but only a reduction of $12.6 million overall. The decrease in environment is primarily due to a reduction of $13.1 million in capitalization grants for state revolving funds, which provide a long-term source of State financing for construction of wastewater treatment facilities and implementation of water quality management activities.

In terms of real dollars, the next largest decreases in spending from fiscal 2012 to 2014 are education with $35.3 million and health and human services with $19.0 million, or 6.6% and 4.2% reductions, respectively. Both housing and labor spending remained relatively flat from fiscal 2012 to 2014. In housing, a special allocation for Section 8 Housing Assistance Payments is the largest appropriation. The largest appropriation in labor is unemployment insurance, which experiences swings in funding and is primarily responsible for the slight dip in spending in fiscal 2013.

Funding included in the "Other" category actually experienced a 13.3% increase from fiscal 2012 to 2014, but only results in an increase of $3.2 million overall. This category includes project specific funding (*e.g.* transportation projects) and other programs where spending tends to phase in and phase out. Some spending in the other category are continuous programs subject to sequestration, such as funding for Americorps which experienced a 37.0% decrease from fiscal 2012 to 2014.

Federal Funds to the State of Maryland: State Agencies

The State's fiscal 2016 federal fund appropriation totals $11.6 billion, including $22.0 million in ARRA funds for subsidies on bonds ($11.5 million), Race to the Top Early Learning Challenge grants ($8.0 million), and energy programs ($2.5 million). **Exhibit 8** shows the distribution of the federal funds by department/service area for fiscal 2016. The Department of Health and Mental Hygiene (DHMH), the Department of Human Resources (DHR), Public Education, and Transportation make up 92.8% of total federal funding to the State.

Exhibit 8
Federal Funds in Fiscal 2016 Appropriation
($ in Millions)

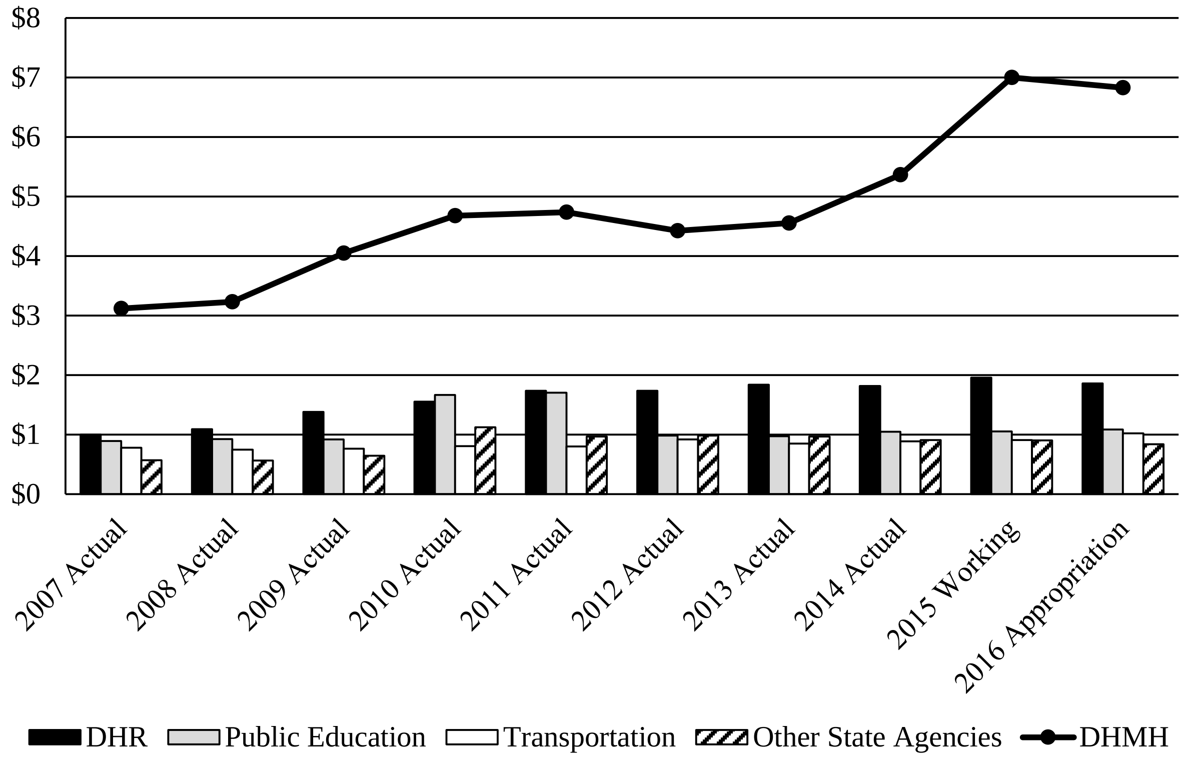
Department/Service Area	Fiscal 2016 Appropriation	% of Total
Judicial and Legal Review	$4.2	0.0%
Executive and Administrative Control	218.7	1.9%
Budgetary and Personnel Administration	3.9	0.0%
General Services	1.3	0.0%
Transportation	1,023.1	8.8%
Department of Natural Resources	30.0	0.3%
Agriculture	4.0	0.0%
Health and Mental Hygiene	6,830.3	58.7%
Human Resources	1,862.7	16.0%
Labor, Licensing, and Regulation	186.6	1.6%
Public Safety and Correctional Services	29.2	0.3%
Public Education	1,088.2	9.3%
Housing and Community Development	262.2	2.3%
Business and Economic Development	1.5	0.0%
Environment	79.6	0.7%
Juvenile Services	7.4	0.1%
State Police	1.2	0.0%
Public Debt	11.5	0.1%
Total Federal Funds	**$11,645.5**	**100.0%**

Note: Numbers may not sum to total due to rounding. Fiscal 2016 appropriation includes $22.0 million in American Recovery and Reinvestment Act funds.

Source: *Fiscal Digest of the State of Maryland for the Fiscal Year 2016*

These four departments have been the primary recipients of federal funds to the State, averaging 90.8% of total federal funds from fiscal 2007 to 2016. **Exhibit 9** compares the federal funds received by these four departments to funds received by all other State agencies during this time period. As demonstrated by Exhibit 9, federal funds to DHMH greatly exceeded all other State agencies.

Exhibit 9
Federal Funds Received by State Agencies
Fiscal 2007-2016 Appropriation
($ in Billions)



DHMH: Department of Health and Mental Hygiene
DHR: Department of Human Resources

Note: Includes American Recovery and Reinvestment Act of 2009 funding.

Source: Department of Budget and Management

Health

DHMH receives the most federal funding of all the State agencies with $6.8 billion, or 58.7%, in the fiscal 2016 appropriation. Since fiscal 2007, federal funds to the department have increased by $3.7 billion, experiencing an annual growth rate of 9.1%.

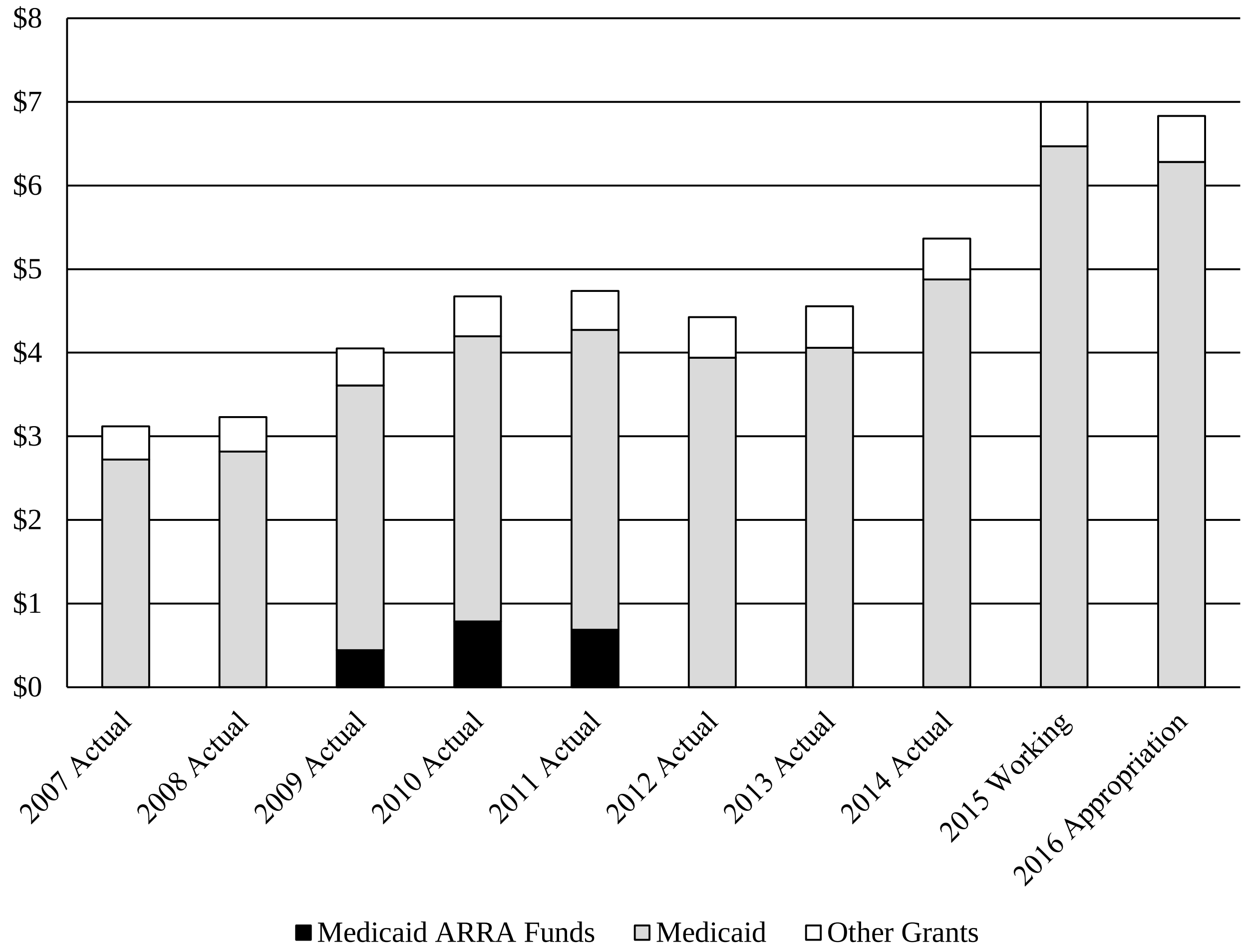
The largest amount of federal funds to DHMH comes from the Medical Assistance Program (Medicaid) administered by the U. S. Department of Health and Human Services (HHS). In fiscal 2016, Medicaid accounts for $6.3 billion of DHMH federal funds, or 92.0%, and is the majority of the increased funding since fiscal 2007 with $3.6 billion. **Exhibit 10** compares federal funding for Medicaid to all other federal funding received by DHMH.

Exhibit 10

Department of Health and Mental Hygiene Federal Funds

Fiscal 2007-2016 Appropriation

($ in Billions)



ARRA: American Recovery and Reinvestment Act of 2009

Source: Department of Budget and Management

Increases in Medicaid are largely due to the impacts of the economic recession as more people met the eligibility for Medicaid when the economy declined. From fiscal 2009 through 2011, Medicaid received $1.9 billion in ARRA funding in addition to the normal federal matching funds; DHMH has received the most ARRA funds of all State agencies.

In March 2010, Congress enacted the ACA. One of the more significant impacts of the ACA was the expansion of Medicaid eligibility to all individuals up to 138% of the federal poverty level effective January 1, 2014. The entire cost of expansion is borne by the federal government through the first half of fiscal 2017, at which time the federal government will cover 95% of the cost[5]. The ACA expansion increases Medicaid funding in DHMH's budget by $2.4 billion from fiscal 2013 to 2015.

Human Resources

DHR receives the second most federal funding of all the State agencies with $1.9 billion, or 16.0%, in the fiscal 2016 appropriation. Since fiscal 2007, federal funds to the department have increased by $863 million, experiencing an annual growth rate of 7.2%.

Since fiscal 2010, the largest federal fund grant to DHR has been the SNAP, administered by the U.S. Department of Agriculture. The SNAP provides $1.2 billion in fiscal 2016, or 61.8%, of federal funds to DHR and accounts for the majority of the funding increase since fiscal 2007 with $802.4 million. The program provides monthly financial support to low-income households to purchase food at authorized retailers. **Exhibit 11** compares SNAP funding levels to all other federal funds received by DHR.

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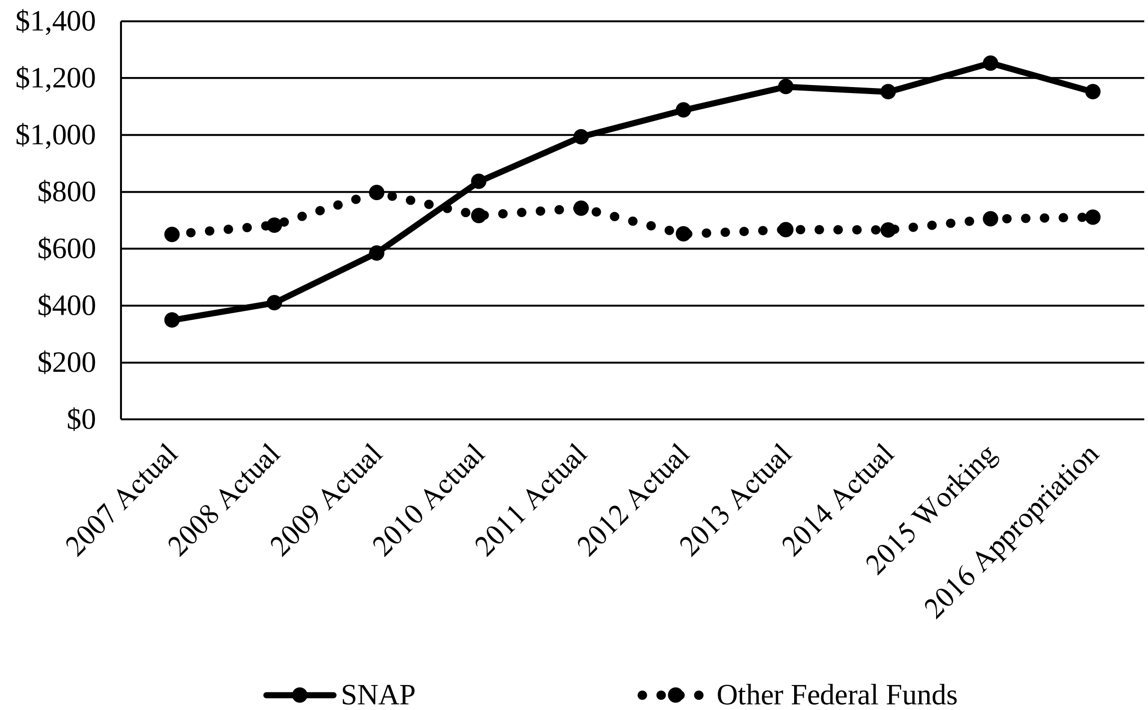
[5] The amount of Medicaid expansion costs the federal government covers decreases gradually each year until calendar 2020, at which point the federal government will cover 90% of the cost of the Medicaid expansion. Under current law, the federal government shall continue to cover 90% of costs in subsequent calendar years.

Exhibit 11
Federal Funds to the Department of Human Resources
Fiscal 2007-2016 Appropriation
($ in Millions)



SNAP: Supplemental Nutritional Program Funding

Note: Includes American Recovery and Reinvestment Act of 2009 funding.

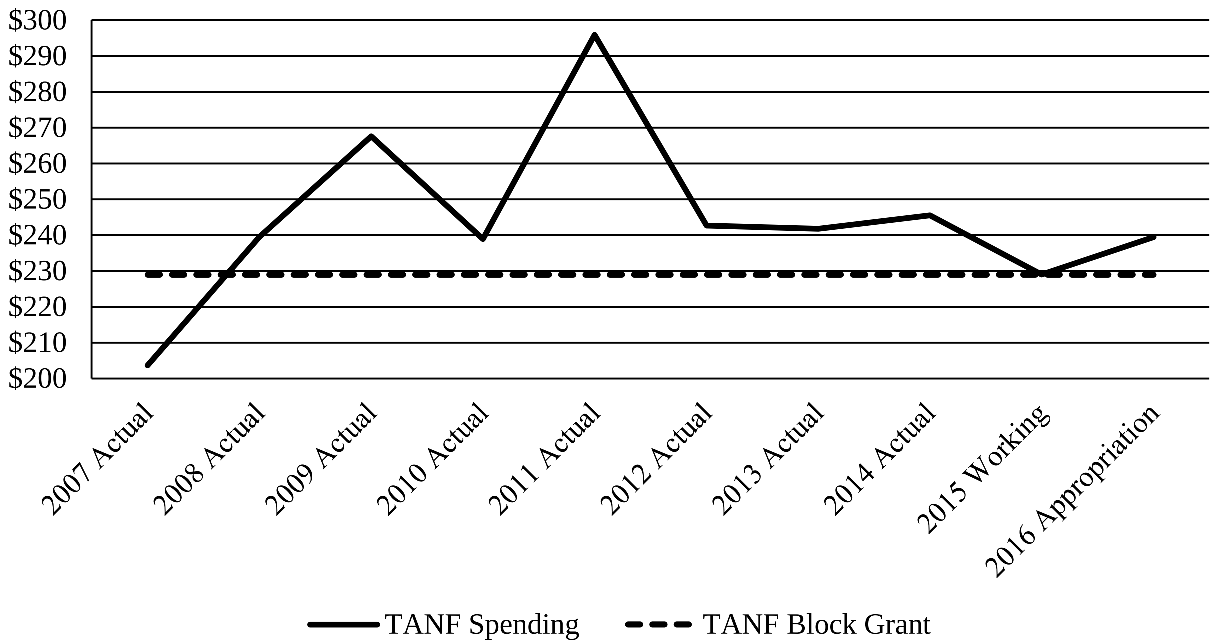
Source: Department of Budget and Management

The SNAP experienced large increases in fiscal 2009 to 2011 as a result of a combination of factors, including more people being eligible for benefits due to the decline of the economy, State efforts to increase the number of people signed up for the program, and the ARRA (which contributed $27.3 million in fiscal 2010). The SNAP experienced a slight drop in fiscal 2014 largely due to the ending of a benefit premium provided as part of the federal stimulus effort. Funding for the SNAP increases in fiscal 2015 then decreases in fiscal 2016[6].

[6] The fiscal 2015 working appropriation does not take into account large cancellations of SNAP funds expected. Cancellations of funds will result in fiscal 2015 actual expenditures being lower than what is appropriated in the fiscal 2016 appropriation.

The second largest federal fund grant to DHR is Temporary Assistance for Needy Families (TANF), administered by HHS. TANF is a block grant that has provided $229 million each year to the State since the 1996 welfare reform. The objective of TANF is to assist needy families with children by providing financial support; reduce dependency by promoting job preparation, work, and marriage; reduce and prevent out-of-wedlock pregnancies; and encourage the formation and maintenance of two-parent families. **Exhibit 12** shows TANF spending and funding from fiscal 2007 to 2016.

Exhibit 12
TANF Funding to the State of Maryland
Fiscal 2007-2016 Appropriation
($ in Millions)



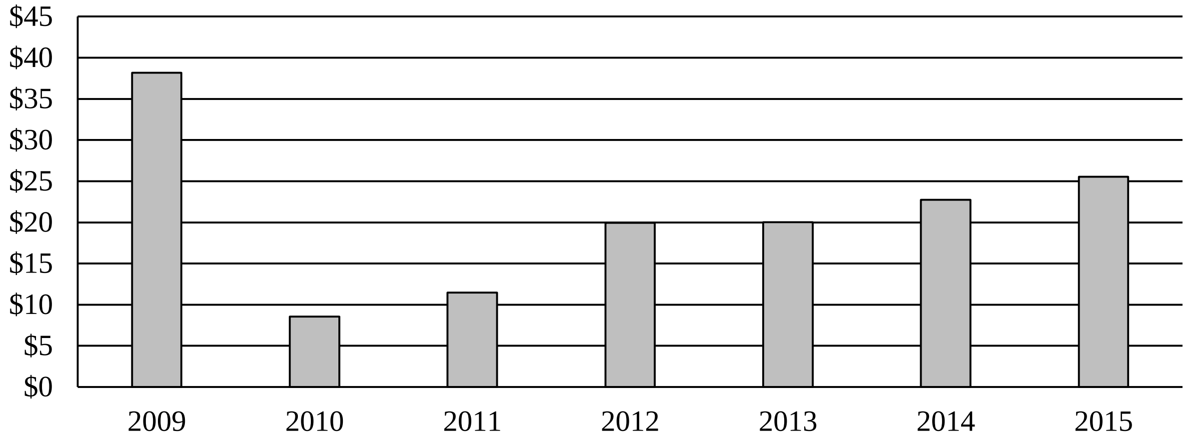
TANF: Temporary Assistance for Needy Families

Note: Includes American Recovery and Reinvestment Act of 2009 funding.

Source: Department of Budget and Management

Fiscal 2007 is the last year that TANF spent less than the $229 million block grant. In the years that followed, the State utilized surplus fund balance and additional funds to maintain spending levels above the annual grant to address elevated caseloads. In fiscal 2011, the State was able to spend an amount that exceeded the block grant by eliminating the remaining fund balance, utilizing additional funds, and dipping into TANF appropriations from other fiscal years. Additional funds to TANF come from the ARRA, which provided $16.1 million and $16.2 million in fiscal 2009 and 2011, respectively, and TANF contingency funds, which were made available to states experiencing an increase in the SNAP caseloads. **Exhibit 13** shows TANF contingency funds received by the State from FFY 2009 to 2015. Congress reduced the amount of available TANF contingency funding in FFY 2011 and 2012 due to the poor budgetary climate.

Exhibit 13
TANF Contingency Funding Received by the State of Maryland
Federal Fiscal 2009-2015
($ in Millions)



TANF: Temporary Assistance for Needy Families

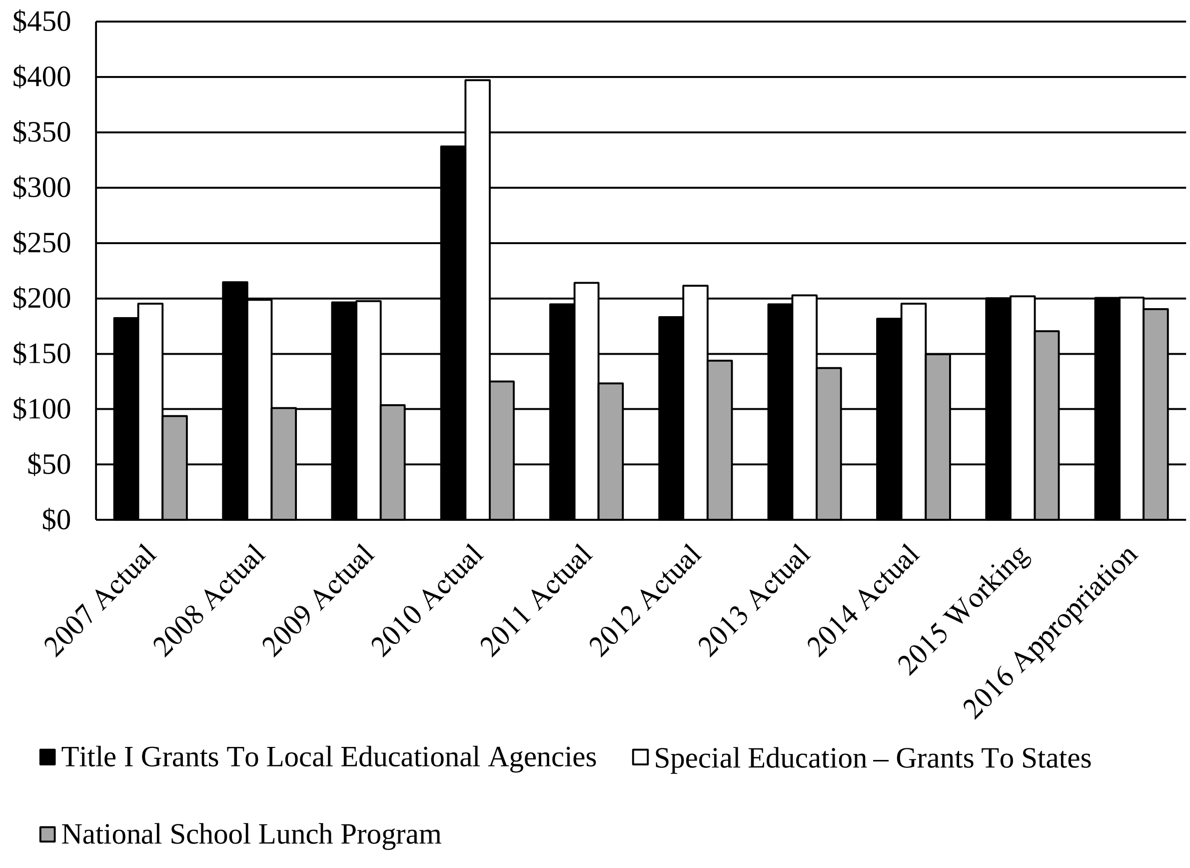
Note: The federal fiscal year (FFY) begins October 1 and ends September 30 each year; the State fiscal year begins July 1 and ends June 30 each year. Funds received in a particular FFY may not correspond to State funds in the same fiscal year (*e.g.*, FFY13 funds, October 1, 2012, to September 30, 2013, will not reflect equally in fiscal 2013, July 1, 2012, to June 30, 2013).

Source: Department of Human Resources

Public Education

Public education receives the third most federal funding of all the State agencies with $1.1 billion, or 9.3%, of the total, in the fiscal 2016 appropriation. Since fiscal 2007, federal funds to public education have increased by $195.8 million, experiencing an annual growth rate of 2.2%. From fiscal 2009 to 2016, public education has received a total of $1.7 billion in ARRA funding, the second largest amount of ARRA funding received by all the State agencies. The majority of ARRA funds to public education, or 90.2%, were received in fiscal 2010 ($675.8 million), 2011 ($772.1 million), and 2014 ($128.4 million). **Exhibit 14** compares funding from the three largest federal funds to public education – Special Education Grants to States, Title I Grants to Local Education Agencies, and the National School Lunch Program. The National School Lunch Program is the only program of the three that did not receive ARRA funds.

Exhibit 14
Federal Funds to Public Education
Fiscal 2007-2016 Appropriation
($ in Millions)



Note: Title I Grants to Local Educational Agencies and Special Education Grants to States include funding from the American Recovery and Reinvestment Act of 2009.

Source: Department of Budget and Management

The largest federal fund source to public education comes from Special Education Grants to States, administered by the U.S. Department of Education (DOE). This program received $200.7 million in fiscal 2016, or 18.44%, of federal funds for public education. The program issues grants to assist states in providing special education and related services to all children with disabilities. The program has only increased by $5.5 million, or an annual growth rate of 0.3%, since fiscal 2007 because funding for the program fluctuates based on changes in the eligible population of children with disabilities. From fiscal 2009 to 2012, the ARRA contributed an additional $200.6 million to the program, predominately in fiscal 2010.

Title I Grants to local education agencies, also administered by DOE, is the second largest federal fund source to public education with $200.4 million, or 18.42%, in fiscal 2016. Since fiscal 2007, this program has increased by $18.2 million, experiencing an annual growth rate of 1.1%. Title I provides funds to local school systems based on the number of children in poverty[7]. From fiscal 2010 to 2012, the State received an additional $136.7 million in ARRA funding for Title I, predominately in fiscal 2010.

The third largest federal fund source to public education is the National School Lunch Program with $190.2 million, or 17.5%, of federal funds for public education in fiscal 2016. The National School Lunch Program increased substantially since fiscal 2007 with a growth of $96.6 million, or an annual growth rate of 8.2%. The objective of the program, administered by the U.S. Department of Agriculture, is to provide a nutritious lunch service for school children through cash grants and food donations.

In addition to increases in current federal fund programs, the ARRA also created a new, one-time funding stream titled the SFSF, which contributed a total of $1.1 billion to public education from fiscal 2010 to 2015. The SFSF was created to help minimize reductions in essential services provided at the State and local level and required that 82.8% of funds be used to support education while the remaining funds go to public safety and other government services. In fiscal 2010 and 2011, Maryland used SFSF money ($853.0 million) to finance programmed increases to its major State education aid formulas, including teacher retirement and the State share of the Foundation Formula. In fiscal 2014, the State received SFSF Race to the Top funds ($115.2 million) to develop assessments.

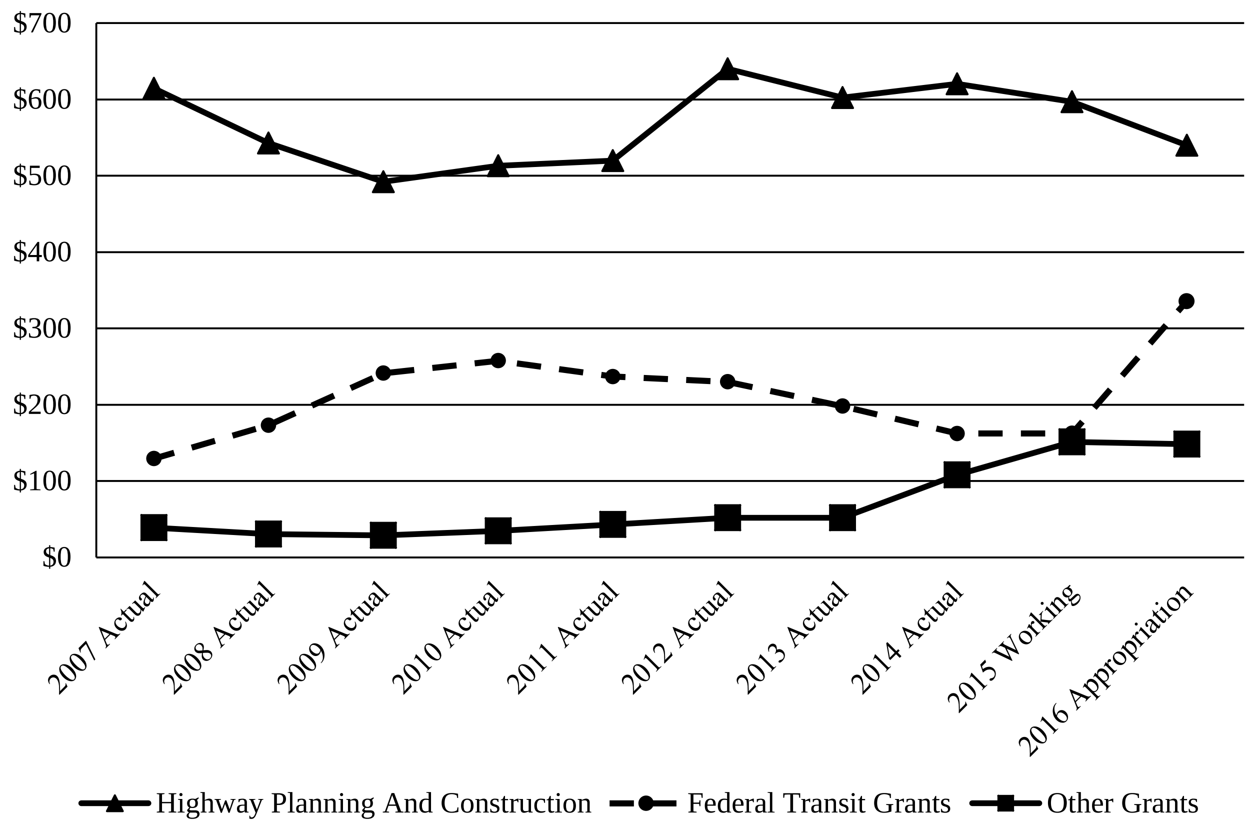
Another substantial one-time funding stream created by the ARRA comes from the Education Jobs Fund, which provided $178.6 million in fiscal 2011. The objective of this fund was to save or create education jobs during the 2010-2011 school year.

[7] Title I allocation may be determined by the number of children that qualify for free lunch, free and reduced lunch, TANF, Census Poor (children ages 5-17 based on 2000 Census Data), medical assistance under the Medicaid program, or a composite of any of the previous measures. Title I counts must be applied uniformly to all schools across a school system.

Transportation

Transportation receives $1.0 billion in federal funds, or 8.8% of the total, in the fiscal 2016 appropriation. Since fiscal 2007, federal funds for transportation have increased by $240.3 million, experiencing an annual growth of 3.0%. Highway planning and construction ($539.7 million) and federal transit grants ($335.3 million) account for 85.5% of federal funds to transportation in fiscal 2016. **Exhibit 15** compares these two federal funding streams to all other federal funds received by transportation. Transportation received $585.6 million in ARRA funding, with $412.7 million (70.5%) provided for highway planning and construction.

Exhibit 15
Federal Funds to Transportation
Fiscal 2007-2016 Appropriation
($ in Millions)



Note: Includes American Recovery and Reinvestment Act of 2009 funding.

Source: Department of Budget and Management

Highway planning and construction funds assist State transportation agencies in the planning and development of an integrated, interconnected transportation system. During the economic recession, the Maryland Department of Transportation had to reduce spending on its capital program and many construction projects were removed or pushed out; focus was shifted to maintaining system preservation. As a result, federal aid declined by $122.4 million, or 19.9%, from fiscal 2007 to 2009. Project funding rebounded slightly in fiscal 2010 and 2011 due to the federal stimulus; the ARRA included funding for transportation infrastructure projects that could begin construction immediately. Funding for highway construction projects returned to pre-recession levels in fiscal 2012 primarily due to an increase in pass-through funding to local government agencies. In fiscal 2013, highway planning and construction funds decreased due to the elimination of $44.1 million in ARRA funding. Fiscal 2014 and 2015 reflect conservative funding levels due to uncertainty over the Federal Highway Trust Fund. However, President Obama signed The Fixing America's Surface Transportation (FAST) Act into law on December 4, 2015. The $305 billion surface transportation bill re-authorizes all federal-aid surface transportation programs through FFY 2020, increases funding for all major surface transportation programs, creates two new grant programs, and pays for all five years of re-authorizations, in part, by a $70 billion transfer to the Federal Highway Trust Fund.

Federal transit grants support public transportation services in urbanized areas. Funding for federal transit grants increased by $128.2 million, or 99.1%, from fiscal 2007 to 2010, primarily because transit system preservation projects, such as bus procurements and light rail overhauls, were not impacted by reductions to the transportation capital program. In addition, a number of projects funded by transit-formula grants happened to have large expenditures as part of the normal cash flow in fiscal 2010. The ARRA provided a total of $140.6 million from fiscal 2010 to 2014, which mitigated the overall decrease in transit formula grants from fiscal 2011 to 2014.

Other State Agencies

Removing the top four recipients of federal funds in the State, the rest of the State agencies account for $841.0 million, or 7.2%, in the fiscal 2016 appropriation. The Department of Housing and Community Development; the Executive and Administrative agencies; and the Department of Labor, Licensing, and Regulation make up 79.3% of total federal funds received by the other State agencies in the fiscal 2016 appropriation.

Since 2007, federal funds to other State agencies have increased by $273.1 million, experiencing an annual growth rate of 4.5%. Other State agencies received $339.4 million and $200.2 million in ARRA funding in fiscal 2010 and 2011, respectively; the ARRA funding accounted for 30.2% of total federal funds received by other State agencies in fiscal 2010 and 20.6% received in fiscal 2011.