Spending Affordability Committee

2023 Interim Report

Annapolis, Maryland
December 2023

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Jim Rosapepe
Senate Chair

Mark S. Chang
House Chair

Maryland General Assembly
Spending Affordability Committee

December 15, 2023

The Honorable Wes Moore
Governor, State of Maryland
State House
Annapolis, Maryland 21401

Dear Governor Moore:

We are pleased to submit the fiscal policy recommendations of the Spending Affordability Committee made during the 2023 interim. These recommendations were adopted by the committee at its meeting on December 14, 2023. The committee reviewed data concerning the economic condition of the State, revenue and expenditure trends during the past several years, personnel data, the Transportation Trust Fund, and the results of the Capital Debt Affordability Committee report.

Recommendations were made concerning the fiscal 2025 spending limit and sustainability, general fund and reserve fund balances, general obligation and higher education debt limits, State employment, and the Transportation Trust Fund.

As required by law, the recommendations of the committee have been submitted to the Governor and the Legislative Policy Committee.

We are most appreciative of the time and effort expended by each member of the committee. A special note of thanks and appreciation is extended to the member of the Citizens Advisory Committee for their valuable assistance and input.

Sincerely,

Senator Jim Rosapepe
Presiding Chair

Mark S. Chang
House Chair

JR:MK/JAK/mrm

Enclosure

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Jim Rosapepe
Senate Chair

Mark S. Chang
House Chair

Maryland General Assembly
Spending Affordability Committee

December 15, 2023

The Honorable Bill Ferguson, Co-Chair

The Honorable Adrienne Jones, Co-Chair
Members of the Legislative Policy Committee
Dear Colleagues:

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Spending Affordability Committee
2023 Interim
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Jesse Pippy
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Citizens Advisory Committee

John L. Bohanan

Committee Staff

Jason A. Kramer

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2023 Spending Affordability Committee Report and Recommendations to the Governor and the Legislative Policy Committee

The Spending Affordability Committee was created in 1982 (Chapter 585). The committee is composed of equal numbers of senators and delegates and includes the Presiding Officers, the majority and minority leaders, the chairs of the fiscal committees (or their designees), and other members appointed by the Presiding Officers. A citizen advisory committee assists the committee.

The committee's primary responsibility is to recommend to the Governor and the General Assembly a level of spending for the State operating budget that is reflective of the current and prospective condition of the State's economy. Historically, this has been in the form of a recommended growth limit. More recently, however, the structural budget gap has been the focus of the committee's recommendations. The full list of the committee's prior recommendations and legislative action on the operating budget are reflected in the table in **Appendix 1**. Since the committee's inception 40 years ago, its recommendations have been adhered to by the legislature in all but 1 year.

The committee's statutory responsibility is to consider spending in relation to the State's economy. In its review of the State's economy, the committee considered income and wealth factors in developing a broad understanding of Maryland's economic position. In determining its recommendations, the committee has considered economic performance, revenue estimates, and current and future budget requirements.

Economy

The U.S. economy continues to recover from the COVID-19 pandemic, which precipitated a deep but relatively brief recession. Nationally, employment exceeded the prepandemic level in June 2022. While U.S. wages grew 7.8% in 2022 and were up 6.3% in the first nine months of 2023, accelerating inflation undercut that wage growth as the consumer price index (CPI) increased 8.0% in 2022, the highest annual growth since 1981. As a result, U.S. inflation-adjusted wages fell 0.2% in 2022. Inflation has slowed substantially in 2023, and the CPI for the first 10 months of the year was up 4.3%, almost half the pace of 2022. In the first 9 months of 2023, U.S. wages adjusted for inflation rose 1.7%.

In Maryland, the impact of the recession was similar to the country as a whole. Between February and April 2020, employment fell by 392,500 jobs, or 14.1%. Employment growth resumed, but as of September 2023, employment was below February 2020 by 11,300 jobs. Aggregate wages grew 5.8% in 2022 but fell 2.0% when adjusted for inflation. In the first half of 2023, Maryland wages were up 7.5% over the same period in 2022 and 2.5% after adjusting for inflation.

Economic growth in calendar 2023 has been stronger than expected when the year began. Many economists predicted that the U.S. economy would slip into a recession in the face of aggressive interest rate hikes by the Federal Reserve. The Federal Reserve increased the federal funds rate from 0.125% to 5.375% over the course of just 16 months starting in March 2022. Long-term interest rates also increased significantly, with mortgage rates rising from around 3.5% to 6.4% during calendar 2022 and reaching 7.5% by fall 2023. Even with these rate increases, the economy remained resilient with U.S. inflation-adjusted gross domestic product rising by 2.3% in the first 9 months of 2023.

In September, the Board of Revenue Estimates (BRE) issued a revised economic forecast for Maryland, its first since March 2023. BRE expects growth will slow, but the economy will not experience a recession. Employment growth slows to less than 0.5% due to slow population growth and an aging workforce. Wage growth slows to just under 4% per year, consistent with the prepandemic trend. In December 2023, BRE revised upward their estimate of personal income growth in calendar 2023 due to revisions and new data for the second quarter. BRE's economic forecast beyond 2023 was little changed in December.

Revenues

Fiscal 2023 general fund revenues were below the estimate by $39.2 million, or -0.2%. General fund revenues totaled $23.7 billion in fiscal 2023, a decline of 1.5% over fiscal 2022, reflecting a one-time transfer in 2023 of $800 million to the Blueprint for Maryland's Future Fund. Fiscal 2023 ongoing revenues grew 1.7% but were below the estimate by $139.2 million (-0.6%).

Among the major revenue sources, the personal income tax was below the estimate by $333.4 million, or -2.4%. The sales tax was just slightly below the estimate ($12.8 million, or -0.2%), and the corporate income tax exceeded the estimate by $84.1 million (4.9%). The State lottery was over the estimate in fiscal 2023 by $18.9 million (3.0%). Among other sources, there was substantial overattainment for business franchise taxes, the tax on insurance premiums, estate/inheritance taxes, and interest on investments, but the tobacco tax and miscellaneous revenues were below expectations. Combined, the other revenue sources were over the estimate in fiscal 2023 by $104.0 million.

The personal income tax performance was driven almost entirely by returns filed for tax year 2022. Payments with returns were below the estimate by 13.6%, while refunds for tax year 2022 were above expectations by 3.0%. Quarterly tax filings in fiscal 2023, covering the third and fourth quarters for tax year 2022 and the first and second quarters for tax year 2023, were below expectations by 2.4%. The one bright spot in the personal income tax was withholding, which grew over fiscal 2022 by a percentage point faster than expected (5.5% versus 4.5%), partially offsetting the underattainment in other sources.

In September, BRE reduced its estimate for fiscal 2024 general fund revenues by $14.1 million, or -0.1%. The personal income tax estimate was revised down by $301.0 million, or -2.1%, and revenues were projected to grow 2.7% over fiscal 2023. Total general fund revenues were projected to increase by 3.8% in fiscal 2024, reflecting a one-time transfer in fiscal 2023 of $800 million to the Blueprint for Maryland's Future Fund. Ongoing revenues were forecasted to grow 0.9% in fiscal 2024 and 2.2% in fiscal 2025.

In December, BRE reduced the estimate for a number of sources that have underperformed in the first months of fiscal 2024, including the State lottery, the tobacco tax, estate/inheritance taxes, and most significantly, the sales tax. This was partially offset by a substantial upward revision to interest earnings in fiscal 2024 reflecting strong performance to date. The total State and local personal income tax estimate was revised up in both fiscal 2024 and 2025, but new data from tax year 2022 returns resulted in an upward revision to the projected local share. As a result, the general fund personal income tax estimate was revised down slightly. In total, ongoing revenues were revised down by $72 million in fiscal 2024 and $163 million in fiscal 2025. Ongoing revenues are now projected to grow 0.6% in fiscal 2024 and 1.8% in fiscal 2025. In fiscal 2024, BRE added a transfer of $150 million to the General Fund due to overfunding of the local income tax reserve account as of the end of fiscal 2023. As a result, the total general fund revenue estimate in fiscal 2024 was revised up by $78 million, or 0.3%.

Budget Requirements

Taking into consideration the revenue projections by BRE in December 2023, the committee currently projects an ending general fund balance of $313 million at the close of fiscal 2024. The projected balance represents a change in circumstance from the extraordinary level of balance at the close of fiscal 2023. The reduction in the general fund balance is partly reflective of substantial one-time investments in fiscal 2024, including $900 million for the Blueprint for Maryland's Future Fund and $100 million in future transportation costs, as well as a greater use of general funds for capital projects. However, it also reflects lower expected revenue in fiscal 2024 primarily related to personal income from nonwithholding sources.

Fiscal 2024 deficiency appropriations are expected to increase general fund spending by a net of $300.2 million. The largest projected deficiencies support funding for child care scholarships ($214 million), which includes both higher than expected fiscal 2024 expenses ($175 million) and fiscal 2023 expenses for which there was insufficient appropriation ($39 million). These higher than expected expenses result primarily from both statutory and departmental policy changes that alter eligibility and reimbursement rates, as well as alter the payment structure. The next largest area of projected deficiencies relates to provider reimbursements in Medicaid and Medicaid-eligible behavioral health, including shortfalls related to both higher than anticipated enrollment in fiscal 2024 and bills from fiscal 2023 services to be paid in fiscal 2024. Significant deficiencies are also expected to address other fiscal 2023 shortfalls, the largest of which is related to the inmate medical contract including both higher than expected costs and a contract dispute. Anticipated deficiency appropriations were partially offset by savings from higher than budgeted vacancies.

The baseline estimate for fiscal 2025 projects general fund spending will decline by 1.9% ($524.3 million) compared to the fiscal 2024 legislative appropriation after adjusting for anticipated deficiencies. The fiscal 2025 general fund ending balance is projected to be a shortfall of $1.1 billion, after accounting for a transfer of $541 million from the Revenue Stabilization Account (Rainy Day Fund) representing the amount over 10% of general fund revenue. The significant general fund spending decline reflects approximately $1.0 billion of one-time spending for legislative additions including transfers to the Blueprint for Maryland's Future Fund, future transportation costs, and capital spending. The second largest area of decreases ($208 million) is one-time capital supported with general funds.

The largest increase is for State agency spending ($421.0 million), including an increase in compensation costs ($145.2 million), certain other fringe benefits including pension costs and the new paid family leave program ($88.6 million), and lower expected vacancies ($50.0 million). Compensation changes include the anticipation of a 2% cost-of-living adjustment (COLA) for most State employees and a 5% COLA for State law enforcement officers. Local aid is the second largest area of increase, at $170.9 million. The increase in local aid is driven by teacher and library retirement costs, which increase by $186.0 million. Aid to community colleges, including retirement costs, increases by $31.4 million. These increases are partially offset by decreases in other areas including all other education and library aid ($37.8 million) and disparity grants ($37.1 million).

The committee budget forecast assumes that the State will close fiscal 2025 with a balance of $2.5 billion in the Rainy Day Fund, which represents 10.0% of general fund revenues.

As previously noted, current baseline projections estimate the General Fund to have a cash shortfall of $1.1 billion at the close of fiscal 2025. The structural shortfall is projected to be $761 million. As shown in **Exhibit 1**, which provides the cash and structural balance projections for the General Fund through fiscal 2029, the cash outlook worsens over time with a cash shortfall of $3.1 billion in fiscal 2029. The structural shortfall gradually increases through fiscal 2027, reaching $1.2 billion before increasing to $2.4 billion in fiscal 2028 and $2.7 billion in fiscal 2029. Both the cash and structural shortfalls increase in fiscal 2028 and 2029, due to the need for general funds to support costs related to the Blueprint for Maryland's Future beginning in fiscal 2027, the first year in which the Blueprint for Maryland's Future Fund no longer fully supports the costs. The general fund need for these costs increases from $426 million in fiscal 2027 to $1.9 billion in fiscal 2028, increasing further to $2.5 billion in fiscal 2029.

Exhibit 1
General Fund Budget Outlook
Fiscal 2024-2029 Est.
($ in Millions)

	Working Appropriation 2024	Est. 2025	Est. 2026	Est. 2027	Est. 2028	Est. 2029
Cash Balance	$313	-$1,072	-$1,492	-$1,611	-$2,828	-$3,106
Structural	-122	-761	-917	-1,180	-2,379	-2,657

Note: Estimates assume a Rainy Day Fund balance of 10% of general fund revenues.

Recommendations

In light of the considerations discussed earlier, the committee proposes the following recommendations for the 2024 session:

1. Operating Budget Spending Limit and Sustainability

A structural deficit of $761 million is forecast for fiscal 2025 and is projected to increase to $2.7 billion by fiscal 2029. Cash shortfalls are expected to grow from $1.1 billion in fiscal 2025 to $3.1 billion by fiscal 2029. While the State has significant cash reserves and can take one-time actions to mitigate the projected fiscal 2025 cash deficit, planned State spending levels are not sustainable in the long-term without a significant revenue increase, reduction of planned spending, or a combination of the two. **In recognition of this outlook and our commitment to fully fund the Blueprint for Maryland's Future as well as other critical ongoing State priorities, the committee recommends that the State make measurable progress in reducing the structural deficit. To that effect, the fiscal 2025 budget, as introduced and enacted, should reduce the gap between ongoing general fund revenues and ongoing spending by at least 33%, leaving a structural gap of no more than $508 million.**

With the State facing substantial long-term budget challenges, the committee recommends:

- **considering revenue options to ensure resources are available to appropriately fund the State's priorities. Options should include better aligning program fees with the cost of providing the related service and focusing new investments on activities that will increase economic competitiveness and grow the economy;**

- **minimizing the enactment of new mandates that are not paid for with a new revenue source; and**

- **analyzing strategies to increase the efficiency of State operating and capital investments without reducing services.**

2. Fund Balances

After assuming the transfer of funds in excess of 10% of general fund revenues from the Rainy Day Fund, it is anticipated that there will be a $1.1 billion cash shortfall at the close of fiscal 2025. Prior analyses have indicated that maintaining a balance close to 10% of revenues in the Rainy Day Fund should mitigate the need for deep spending reductions during the next recession. **Therefore, the State should exercise caution in drawing on the Rainy Day Fund at a time when the Maryland economy is relatively healthy, and the State's fiscal challenges are only expected to escalate in the coming years. Before considering drawing on the Rainy Day Fund, opportunities should be explored to (1) shift planned PAYGO capital spending to bonds; (2) better align ongoing spending with ongoing revenues; and (3) achieve one-time budgetary savings. The committee recommends:**

- **maintaining a Rainy Day Fund balance of <u>at least</u> 8.5% of general fund revenues to ensure resources are available to mitigate the impact of a recession. To the extent possible, funds transferred from the Rainy Day Fund should support one-time spending; and**

- **achieving a minimum ending balance of at least $100 million in the General Fund for fiscal 2025.**

3. Capital Budget

A. General Obligation Debt

In its 2023 report, the Capital Debt Affordability Committee (CDAC) recommended a general obligation (GO) bond authorization level of $1.750 billion for fiscal 2025. This level is above the $1.250 billion last recommended by the Spending Affordability Committee in December 2022. The higher authorization level recommended by CDAC would create additional capacity to replace programmed levels of pay-as-you-go (PAYGO) general funds in fiscal 2025, thereby providing a measure of relief to the General Fund.

Since fiscal 2014, the State's GO purchasing power has eroded with authorizations growing far slower than the annual 4.5% construction inflation experienced over the last decade. The impact of the loss in purchasing power was mitigated by the availability of large general fund surpluses, which allowed extraordinary general fund PAYGO investments. Those levels of general fund support are not sustainable. The CDAC recommendation to increase planned GO authorizations in fiscal 2025 to $1.750 billion more closely aligns the authorizations with where they would be if the authorizations had kept pace with inflation over the last decade ($1.790 billion).

The CDAC recommendation is well within its debt affordability criteria, which limit debt service to 8% of State revenues and debt outstanding to 4% of State personal income.

The committee recommends the authorization of $1.750 billion in new GO bonds for the 2024 session. In addition, the committee recommends, for planning purposes, the level of authorizations should be increased by 2% annually through the five-year planning period as a hedge against construction inflation. The proposed limit and annual increase keep the State well within the CDAC debt affordability criteria. Furthermore, the capital plan should:

- **continue to make strategic capital and operating investments in facility renewal for State facilities managed by the Department of General Services and higher education facilities to reduce the backlog of projects and improve the condition of State facilities; and**

- **set aside $200 million of GO bonds for legislative priorities.**

B. Higher Education Debt

The University System of Maryland (USM) intends to issue up to $30 million in academic debt for fiscal 2025, which is the same amount authorized in fiscal 2024 and is consistent with the amount programmed in the 2023 *Capital Improvement Program* for fiscal 2025. This level of issuance will result in a debt service ratio within the 4.5% of current unrestricted funds and mandatory transfers criterion recommended by the system's financial advisers.

The committee concurs with the recommendation of CDAC that $30 million in new academic revenue bonds may be authorized in the 2024 session for USM. USM should consider focusing the additional revenues to address facility maintenance needs.

4. State Employment

Personnel costs comprise approximately 20% of the State's operating budget. The committee anticipates a net increase of 962 positions in the fiscal 2025 budget compared to the fiscal 2024 legislative appropriation. This is comprised of 504 positions added in higher education, 455 new positions in the Executive Branch, and 3 new positions in the Judiciary. The resulting authorized number of State employees would be 83,557 in fiscal 2025.

The Executive Branch currently has a vacancy rate of 11.1% with almost 5,400 Executive Branch vacancies in October 2023, excluding higher education. While the number of vacant positions is still relatively high, there are approximately 1,800 more filled positions than there were at this time last year.

The committee recommends pursuing efforts to increase the pace of hiring in order to fully restaff State government. To further support existing State employees and to reach shared policy goals, agencies should prioritize filling currently vacant positions and focus on the conversion of contractual positions before creating new positions. Additionally, the State should place particular emphasis on modernization of the hiring process, expansion of the labor pool through increased focus on skills, not just degrees, and statewide analysis of opportunities to create apprenticeship pathways to grow our own workforce.

5. Transportation

The target closing balance for the Transportation Trust Fund (TTF) is intended to ensure that the Maryland Department of Transportation (MDOT) has sufficient working cash to administer its operating and capital programs. System preservation spending is necessary to maintain or bring capital assets into a State of Good Repair, which is where assets are performing as designed, and the chance of breakdowns is small. MDOT has an identified 10-year shortfall of more than $4 billion between programmed spending for State of Good Repair and needed spending. **The committee recommends:**

- **a fiscal 2025 target closing balance of at least $325 million for the TTF;**
- **fiscal 2025 spending on system preservation of at least $1.1 billion, which is the average annual amount spent over the previous 10 years; and**
- **MDOT develop a plan for system preservation spending beyond fiscal 2025 that reduces the State of Good Repair funding gap by half by the end of fiscal 2040.**

Appendix 1
Prior Recommendations and Legislative Action on the Operating Budget
($ in Millions)

	Committee Recommendation		Legislative Action	
Session Year	**Growth Rate**	**Amount**	**Growth**	**Amount**
1983	9.00%	$428.0	5.70	$269.8
1984	6.15%	326.7	8.38	402.0
1985	8.00%	407.2	7.93	404.6
1986	7.70%	421.5	7.31	402.2
1987	7.28%	430.2	7.27	429.9
1988	8.58%	557.5	8.54	552.9
1989	8.79%	618.9	8.78	618.2
1990	9.00%	691.6	8.98	689.7
1991	5.14%	421.8	5.00	410.0
1992	No recommendation		10.0	823.3
1993	2.50%	216.7	2.48	215.0
1994	5.00%	443.2	5.00	443.2
1995	4.50%	420.1	4.50	420.0
1996	4.25%	415.0	3.82	372.8
1997	4.15%	419.6	4.00	404.6
1998	4.90%	514.9	4.82	506.6
1999	5.90%	648.8	5.82	640.6
2000[1]	6.90%	803.0	6.87	800.0
2001[2]	6.95%	885.3	6.94	884.6
2002	3.95%	543.2	3.40	468.1
2003	2.50%	358.2	0.94	134.1
2004	4.37%	635.2	4.33	629.0
2005[3]	6.70%	1,037.1	6.69	1,036.3
2006[3]	9.60%	1,604.7	9.57	1,599.0
2007	7.90%	1,450.0	7.51	1,378.4
2008	4.27%	848.7	4.16	826.8
2009[4]	0.70%	145.7	0.19	39.2
2010[4]	0.00%	0.0	-	-626.9
2011	Reduce fiscal 2012 structural deficit by 33⅓%		36.90%/46.00%[5]	
2012	Reduce fiscal 2013 structural deficit by 50.0%		50.60%	
2013	Reduce fiscal 2014 structural deficit by $200.0 million			-211.2
2014	4.00%	937.8	2.76	646.4
	Reduce fiscal 2015 structural deficit by $125.0 million			-126.1

Session Year	Committee Recommendation Growth Rate	Committee Recommendation Amount	Legislative Action Growth	Legislative Action Amount
2015	Reduce fiscal 2016 structural deficit by 50.0%		68.27%	
2016	4.85%	1,184.2	4.55	1,111.2
2017	Reduce fiscal 2018 structural deficit by at least 50.0%		90.19%	
2018	Eliminate 100% of the fiscal 2019 structural deficit		100%	
2019	3.75%	1,019.0	3.31	900.7
	Maintain structural balance in fiscal 2020			76.0[6]
2020	Maintain structural balance in fiscal 2021			160.2
2021	Limit fiscal 2022 structural deficit to $700 million or less			63.0
2022	Maintain structural balance in fiscal 2023			276.0
2023	Structural surplus of $100 million in fiscal 2024			146.0

[1]2000 legislative action does not reflect $266 million of Cigarette Restitution Fund (CRF) appropriations. CRF dollars were excluded because it had not previously been available to the State. The 2000 growth rate, including CRF dollars, was 9.16%.

[2]Methodology revised effective with the 2001 session.

[3]The committee initially approved a limit of 5.70% for 2005 and 8.90% for 2006.

[4]Legislative action calculation includes federal funds under the American Recovery and Reinvestment Act of 2009 used in lieu of ongoing general fund spending.

[5]Spending reduction/total reduction.

[6]Amount reflects difference between the estimated structural deficit of $64 million in the Governor's allowance and the structural surplus of $12 million in the legislative appropriation.

Part 1

Economic Outlook and General Fund Revenues

Economic Growth Since 2018: Inflation Adjusted Gross Domestic Product

- Maryland economic growth has lagged the United States and neighboring states, but recent revisions improve the picture.
- Prior to the revision, Maryland's economic growth from calendar 2018 to 2022 had been just 0.2%, ranking the State forty-fourth in the country (out of 51). With the revision, Maryland's rank increased to fortieth with growth of 2.4%.
- Looking at the data on a per capita basis changes the picture somewhat, slightly for Maryland but more substantially for certain neighboring states.

Inflation Adjusted GDP
Calendar 2022 vs. Calendar 2018

	Original	**Revised**
Maryland	0.2%	2.4%
Virginia	7.3%	9.3%
D.C.	4.5%	4.3%
Delaware	7.0%	6.1%
Pennsylvania	3.1%	1.1%
West Virginia	-2.1%	-1.1%
United States	7.6%	8.1%

Rank	**Original**	**Revised**
Maryland	44	40
Virginia	20	15
D.C.	34	36
Delaware	23	26
Pennsylvania	41	43
West Virginia	45	45

Inflation Adjusted GDP per Capita
Calendar 2022 vs. Calendar 2018

	Original	**Revised**
Maryland	-0.2%	2.0%
Virginia	5.6%	7.6%
D.C.	6.7%	6.5%
Delaware	2.1%	1.2%
Pennsylvania	3.2%	1.2%
West Virginia	-0.1%	0.8%
United States	6.0%	6.5%

Rank	**Original**	**Revised**
Maryland	45	39
Virginia	21	13
D.C.	17	17
Delaware	40	43
Pennsylvania	37	42
West Virginia	44	44

GDP: gross domestic product

Note: Population data for 2018 and 2019 reflects the Bureau of Economic Analysis estimates as the Census Bureau has yet to release revised population estimates for 2011 through 2019 that are consistent with the 2020 census.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Maryland Employment: September 2023 vs. February 2020

- As of September, Maryland was 1 of only 13 states that has yet to recover the jobs lost during the pandemic recession. Between February 2020 and April 2020, Maryland lost 393,000 jobs (14.1%). September 2023 employment was below the February 2020 level by 11,300 jobs (-0.4%).

- The industries that are still down relative to the prepandemic level are mostly those that provide in-person services.

Feb. 2020	Sep. 2023	Change	% Change	
146,600	160,500	13,900	9.5%	Federal Government
109,900	118,800	8,900	8.1%	State Government
255,200	254,700	-500	-0.2%	Local Government
167,900	168,900	1,000	0.6%	Construction, Natural Resources, and Mining
112,500	109,500	-3,000	-2.7%	Manufacturing
107,800	119,100	11,300	10.5%	Transportation, Warehousing, and Utilities
362,800	352,300	-10,500	-2.9%	Retail and Wholesale Trade
35,700	34,500	-1,200	-3.4%	Information
142,200	133,500	-8,700	-6.1%	Financial Activities
458,900	476,400	17,500	3.8%	Professional and Business Services
91,600	89,500	-2,100	-2.3%	Educational Services
385,900	376,700	-9,200	-2.4%	Health Care and Social Assistance
284,200	259,400	-24,800	-8.7%	Leisure and Hospitality Services
114,600	110,700	-3,900	-3.4%	Other Services
2,775,800	**2,764,500**	**-11,300**	**-0.4%**	**Total**

Source: U.S. Department of Labor, Bureau of Labor Statistics

Employment and Wage Growth: 2022 and 2023 Quarterly Actuals
Forecasts for Calendar 2023 to 2029

		Employment			Wage and Salary Income		
CY	Quarter	Maryland	Virginia	U.S.	Maryland	Virginia	U.S.
2022	1	3.5%	3.1%	5.1%	5.1%	8.3%	10.2%
2022	2	2.4%	3.1%	4.7%	6.8%	7.1%	8.1%
2022	3	2.2%	3.1%	4.1%	7.2%	8.5%	7.9%
2022	4	1.0%	2.6%	3.4%	4.3%	6.5%	5.2%
2023	1	1.2%	2.7%	3.0%	7.4%	7.2%	6.2%
2023	2	1.6%	2.3%	2.5%	7.7%	7.3%	6.9%
2023	3	1.0%	1.4%	2.1%	n/a	n/a	5.7%
2023 Y-T-D		***1.3%***	***2.1%***	***2.5%***	***7.5%***	***7.2%***	***6.3%***

	Employment			Wage and Salary Income		
	BRE	Moody's	Analytics	BRE	Moody's	Analytics
	Sep. 2023	Oct. 2023	Oct. 2023	Sep. 2023	Oct. 2023	Oct. 2023
CY	Maryland	Virginia	U.S.	Maryland	Virginia	U.S.
2023E	1.2%	1.9%	2.3%	4.2%	6.5%	6.4%
2024E	0.7%	0.6%	0.6%	4.1%	5.4%	5.3%
2025E	0.3%	0.5%	0.4%	4.0%	4.2%	4.1%
2026E	0.2%	0.4%	0.4%	3.8%	3.9%	3.8%
2027E	0.2%	0.3%	0.4%	3.7%	3.8%	3.8%
2028E	0.1%	0.4%	0.4%	3.7%	3.8%	3.8%
2029E	0.1%	0.4%	0.4%	3.7%	3.8%	3.8%

BRE: Board of Revenue Estimates

Source: Quarterly employment and wage data from the U.S. Department of Labor, Bureau of Labor Statistics and the U.S. Department of Commerce, Bureau of Economic Analysis, respectively

General Fund Revenues: Fiscal 2023
($ in Millions)

	Fiscal 2022 Actual	Fiscal 2023 Estimate	Fiscal 2023 Actual	Fiscal 2023 $ Diff.	Fiscal 2023 % Diff.	Fiscal 2022-2023 Percent Change Estimated	Fiscal 2022-2023 Percent Change Actual
Personal Income Tax	$13,548	$13,803	$13,469	-$333	-2.4%	1.9%	-0.6%
Corporate Income Tax	1,700	1,732	1,816	84	4.9%	1.9%	6.8%
Sales and Use Tax	5,967	6,018	6,005	-13	-0.2%	0.9%	0.6%
State Lottery	635	636	655	19	3.0%	0.2%	3.2%
Other	2,208	2,423	2,527	104	4.3%	9.7%	14.4%
Ongoing General Funds	**$24,058**	**$24,612**	**$24,473**	**-$139**	**-0.6%**	**2.3%**	**1.7%**
One-time Revenue [1]	$16	$0	$0	$0			
Transfer to Rental Housing Fund [2]	-30	0	0	0			
Transfer to Blueprint Fund [3]	0	-800	-800	0			
Volatility Adjustment	n/a	-$100	n/a	100			
Total General Funds	**$24,045**	**$23,712**	**$23,673**	**-$39**	**-0.2%**	**-1.4%**	**-1.5%**

[1] Fiscal 2022 includes $16.3 million from Maryland Technology Development Corporation.

[2] Chapters 336 and 337 of 2022 required a transfer of $30 million to the Rental Housing Fund in fiscal 2022.

[3] Chapter 33 of 2022 required a transfer of $800 million from personal income tax revenues to The Blueprint for Maryland's Future Fund in fiscal 2023 only.

Note: The estimate from March 2023 has been adjusted for actions taken at the 2023 legislative session.

Source: Office of the Comptroller; Board of Revenue Estimates

Personal Income Tax State and Local Revenues: Fiscal 2023
($ in Millions)

	Fiscal 2022	Fiscal 2023				Fiscal 2022-2023 Percent Change	
	Actual	**Estimate**	**Actual**	**$ Diff.**	**% Diff.**	**Estimated**	**Actual**
Personal Income Tax Detail							
Withholding	$17,346	$18,129	$18,300	$171	0.9%	4.5%	5.5%
Quarterly Estimated Payments	3,795	3,534	3,450	-84	-2.4%	-6.9%	-9.1%
Final Payments with Returns	4,177	3,831	3,310	-520	-13.6%	-8.3%	-20.7%
Gross Receipts	**$25,318**	**$25,493**	**$25,061**	**-$433**	**-1.7%**	**0.7%**	**-1.0%**
Refunds	$3,047	$3,272	$3,371	$99	3.0%	7.4%	10.6%
Net Receipts	**$22,270**	**$22,221**	**$21,690**	**-$532**	**-2.4%**	**-0.2%**	**-2.6%**

Note: Quarterly estimated payments and final payments with returns include payments from fiduciaries.

Source: Office of the Comptroller; Board of Revenue Estimates

General Fund Revenue Forecast
($ in Millions)

	Fiscal 2023 Actual	Fiscal 2024 Estimate March	September	$ Diff.	%Diff.	Percent Change vs. Fiscal 2023	Fiscal 2025 Estimate	Percent Change vs. Fiscal 2024
Personal Income Tax	$13,469	$14,137	$13,836	-$301	-2.1%	2.7%	$14,448	4.4%
Corporate Income Tax	1,816	1,670	1,752	82	4.9%	-3.5%	1,697	-3.1%
Sales and Use Tax (1)(2)	6,005	6,065	6,088	23	0.4%	1.4%	6,273	3.0%
State Lottery	655	638	661	23	3.6%	0.8%	548	-17.0%
Other	2,527	2,190	2,349	159	7.3%	-7.0%	2,255	-4.0%
Ongoing General Funds	**$24,473**	**$24,700**	**$24,686**	**-$14**	**-0.1%**	**0.9%**	**$25,221**	**2.2%**
Transfer to Blueprint Fund (1)	-$800	$0	$0	$0	n/a	n/a	$0	n/a
Volatility Adjustment (3)	0	-120	-120	0	n/a	n/a	-140	16.7%
Total General Funds	**$23,673**	**$24,580**	**$24,566**	**-$14**	**-0.1%**	**3.8%**	**$25,081**	**2.1%**

(1) Chapter 33 of 2022 changed the sales tax distribution to the Blueprint for Maryland's Future Fund (BMFF) beginning in fiscal 2023 to a percentage of total net receipts after the distribution of the short-term rental vehicle tax. In fiscal 2023, the percentage was 9.2% and rises to 11.0% in fiscal 2024 and 11.3% in fiscal 2025. Chapter 33 also required a transfer of $800 million from personal income tax revenue to the BMFF in fiscal 2023 only.

(2) Fiscal 2024 and 2025 include revenues from the 9% sales tax imposed on the sale of adult-use cannabis authorized by Chapters 254 and 255 of 2023. Estimated general fund sales tax revenues equal $18.0 million in fiscal 2024 and $36.6 million in fiscal 2025.

(3) Chapters 4 and 550 of 2017 as amended by the Budget Reconciliation and Financing Act of 2018, require the Board of Revenue Estimates, beginning with fiscal 2020, to calculate an adjustment to the general fund revenue estimate based on the share of revenues from nonwithholding personal income tax payments relative to the historical average. The amount of the adjustment is capped at 2.0% of the total general fund revenue estimate with specific dollar caps in fiscal 2023 through 2025.

Note: The estimate from March 2023 has been adjusted for actions taken at the 2023 legislative session.

Source: Board of Revenue Estimates

REVISED December 14, 2023

General Fund Revenue Forecast
($ in Millions)

	Fiscal 2023 Actual	Fiscal 2024 Estimate September	Fiscal 2024 Estimate December	Fiscal 2024 Estimate $ Diff.	%Diff.	Percent Change vs. Fiscal 2023	Fiscal 2025 Estimate September	Fiscal 2025 Estimate December	Fiscal 2025 Estimate $ Diff.	%Diff.	Percent Change vs. Fiscal 2024
Personal Income Tax	$13,469	$13,836	$13,782	-$54	-0.4%	2.3%	$14,448	$14,421	-$27	-0.2%	4.6%
Corporate Income Tax	1,816	1,752	1,773	21	1.2%	-2.3%	1,697	1,747	49	2.9%	-1.5%
Sales and Use Tax [(1)(2)]	6,005	6,088	5,944	-144	-2.4%	-1.0%	6,273	6,096	-177	-2.8%	2.5%
State Lottery	655	661	650	-11	-1.7%	-0.9%	548	526	-23	-4.1%	-19.0%
Other	2,527	2,349	2,464	116	4.9%	-2.5%	2,255	2,269	-3	0.6%	-7.9%
Ongoing General Funds	**$24,473**	**$24,686**	**$24,614**	**-$72**	**-0.3%**	**0.6%**	**$25,221**	**$25,059**	**-$163**	**-0.6%**	**1.8%**
Transfer to Blueprint Fund [(1)]	-$800	$0	$0	$0	n/a	n/a	$0	$0	$0	n/a	n/a
GAAP Transfer [(3)]	0	0	150	150	n/a	n/a	0	0	0	n/a	n/a
Volatility Adjustment [(4)]	0	-120	-120	0	n/a	n/a	-140	-140	0	n/a	16.7%
Total General Funds	**$23,673**	**$24,566**	**$24,644**	**$78**	**0.3%**	**4.1%**	**$25,081**	**$24,919**	**-$163**	**-0.6%**	**1.1%**

GAAP: generally accepted accounting principles

(1) Chapter 33 of 2022 changed the sales tax distribution to the Blueprint for Maryland's Future Fund (BMFF) beginning in fiscal 2023 to a percentage of total net receipts after the distribution of the short-term rental vehicle tax. In fiscal 2023, the percentage was 9.2% and rises to 11.0% in fiscal 2024 and 11.3% in fiscal 2025. Chapter 33 also required a transfer of $800 million from personal income tax revenue to the BMFF in fiscal 2023 only.

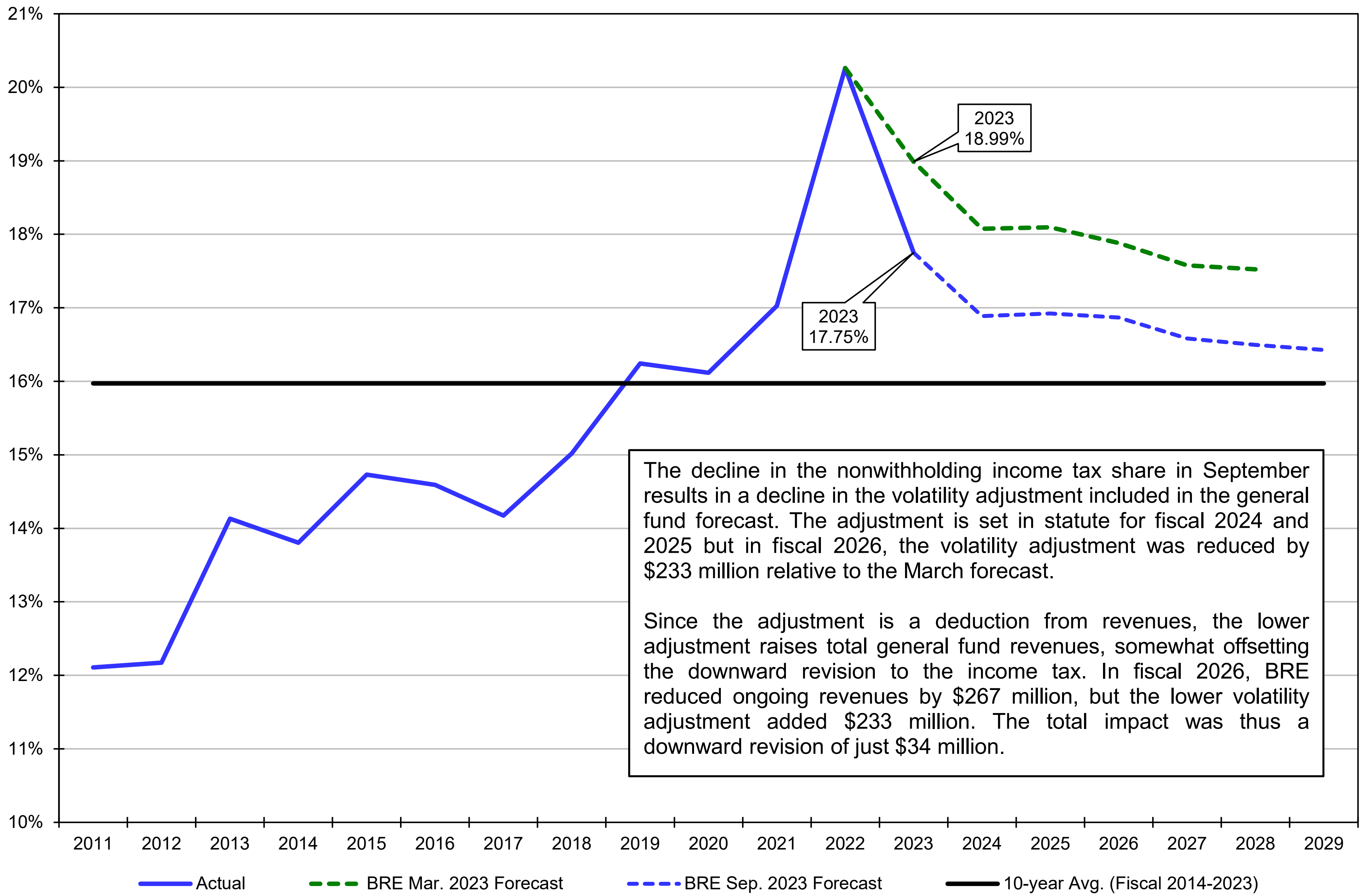
(2) Fiscal 2024 and 2025 include revenues from the 9% sales tax imposed on cannabis authorized by Chapters 254 and 255 of 2023. Estimated general fund sales tax revenues equal $18.0 million in fiscal 2024 and $36.6 million in fiscal 2025.

(3) The Comptroller's annual analysis of the local income tax reserve account determined the account was overfunded at the end of fiscal 2023 by $315.7 million (exclusive of canceled repayments). The Board of Revenue Estimates (BRE) chose to transfer a little less than half that amount to reduce the overfunding in the account.

(4) Chapters 4 and 550 of 2017 as amended by the Budget Reconciliation and Financing Act of 2018 require BRE, beginning with fiscal 2020, to calculate an adjustment to the general fund revenue estimate based on the share of revenues from nonwithholding personal income tax payments relative to the historical average. The amount of the adjustment is capped at 2.0% of the total general fund revenue estimate with specific dollar caps in fiscal 2023 through 2025.

Source: Board of Revenue Estimates

Nonwithholding Income Tax Revenues as a Percent of Total General Fund Revenues
Fiscal 2011-2029

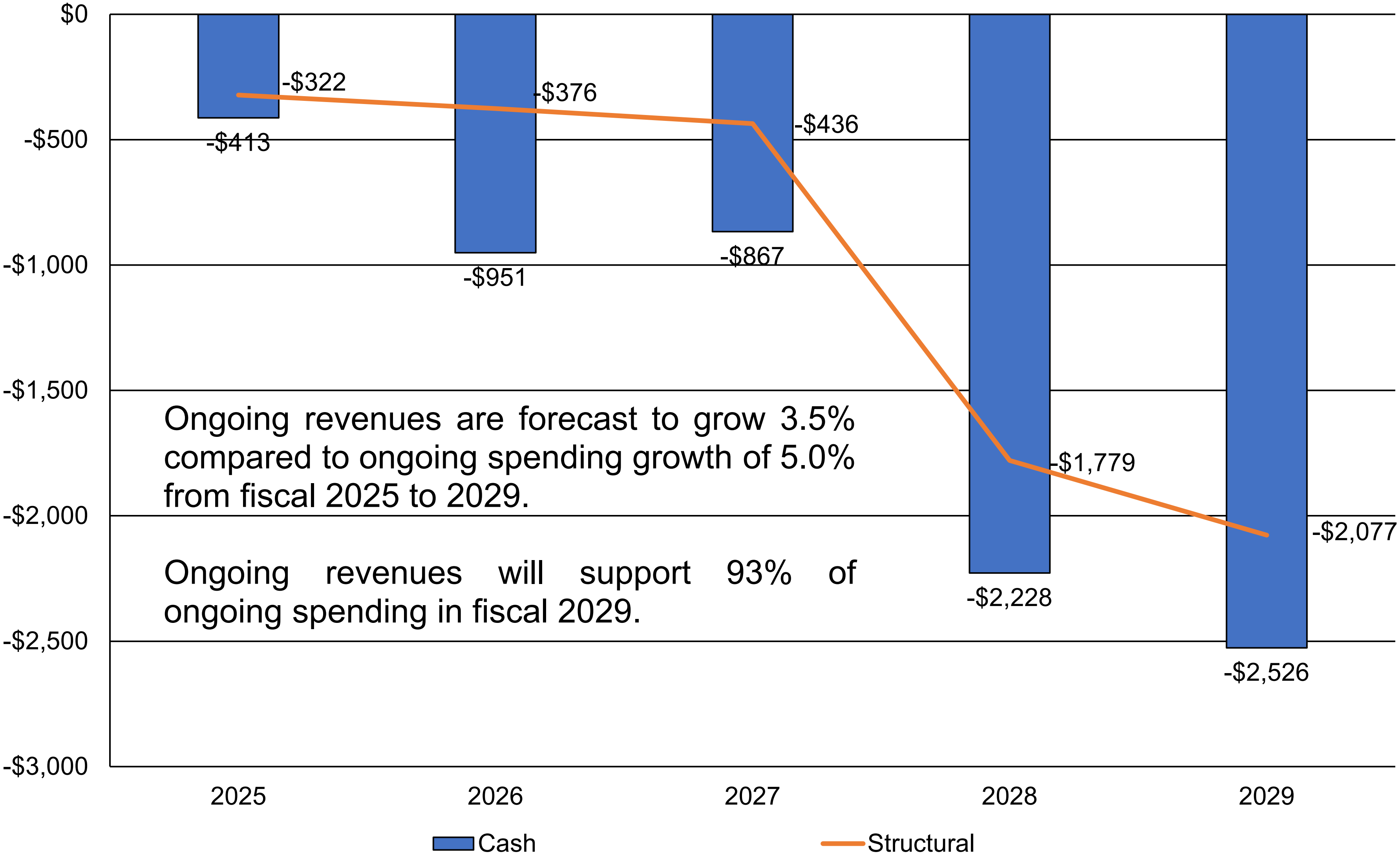


BRE: Board of Revenue Estimates

Part 2

General Fund Budget and Forecast

Cash and Structural Budget Shortfalls Forecast
With Rainy Day Fund at 10% of Revenues
Fiscal 2025-2029
($ in Millions)



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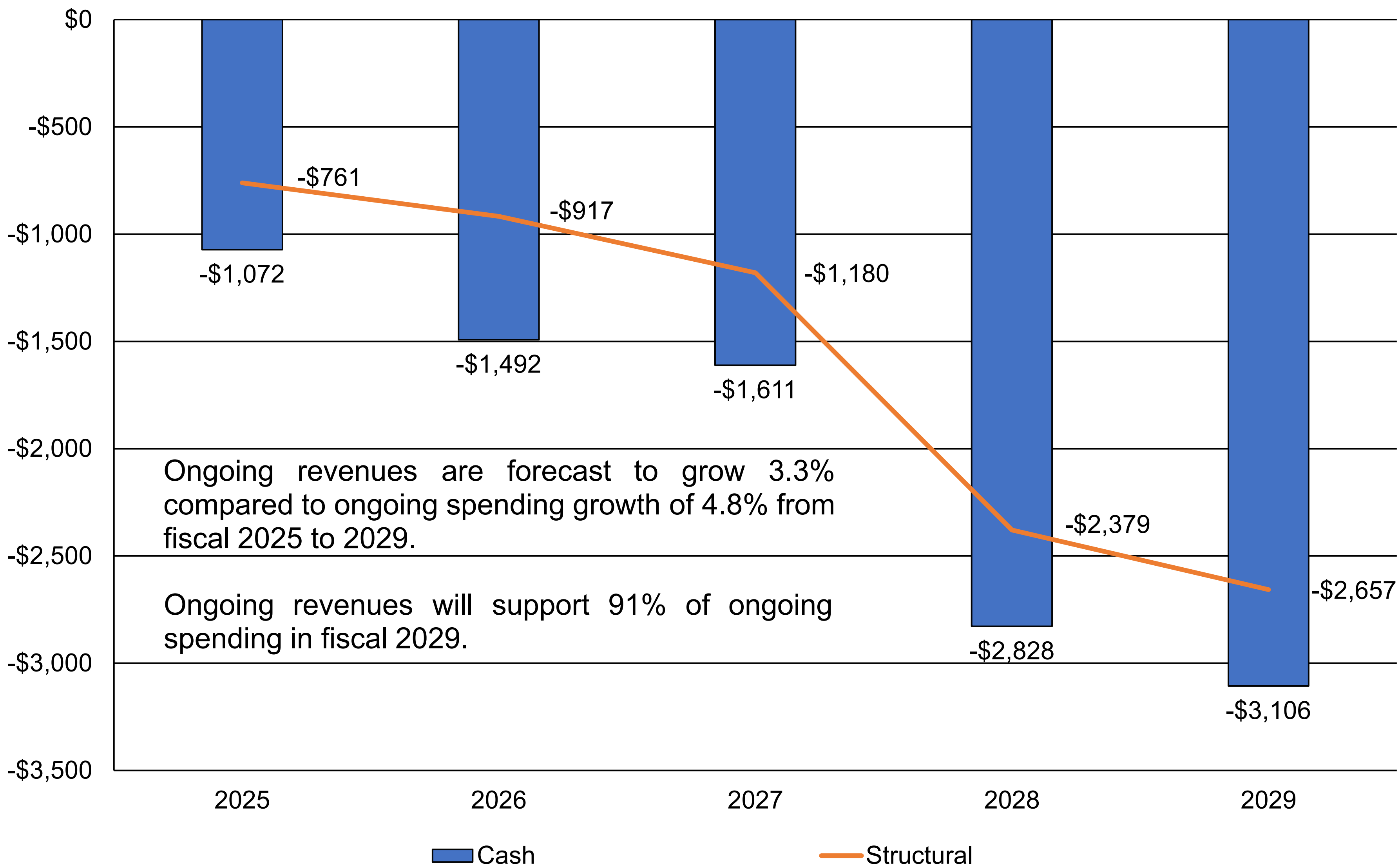
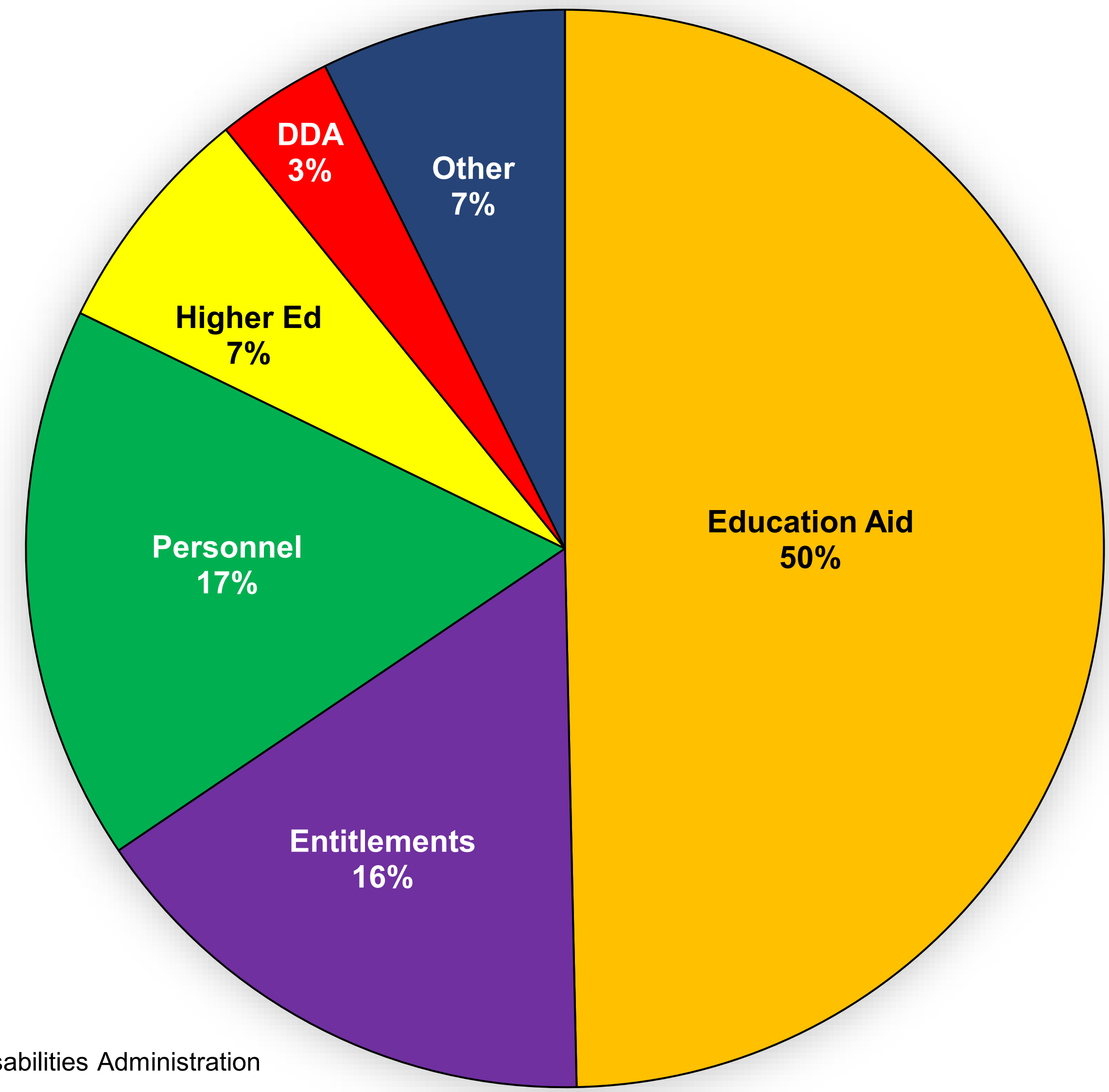
Cash and Structural Budget Shortfalls Forecast
With Rainy Day Fund at 10% of Revenues
Fiscal 2025-2029
($ in Millions)

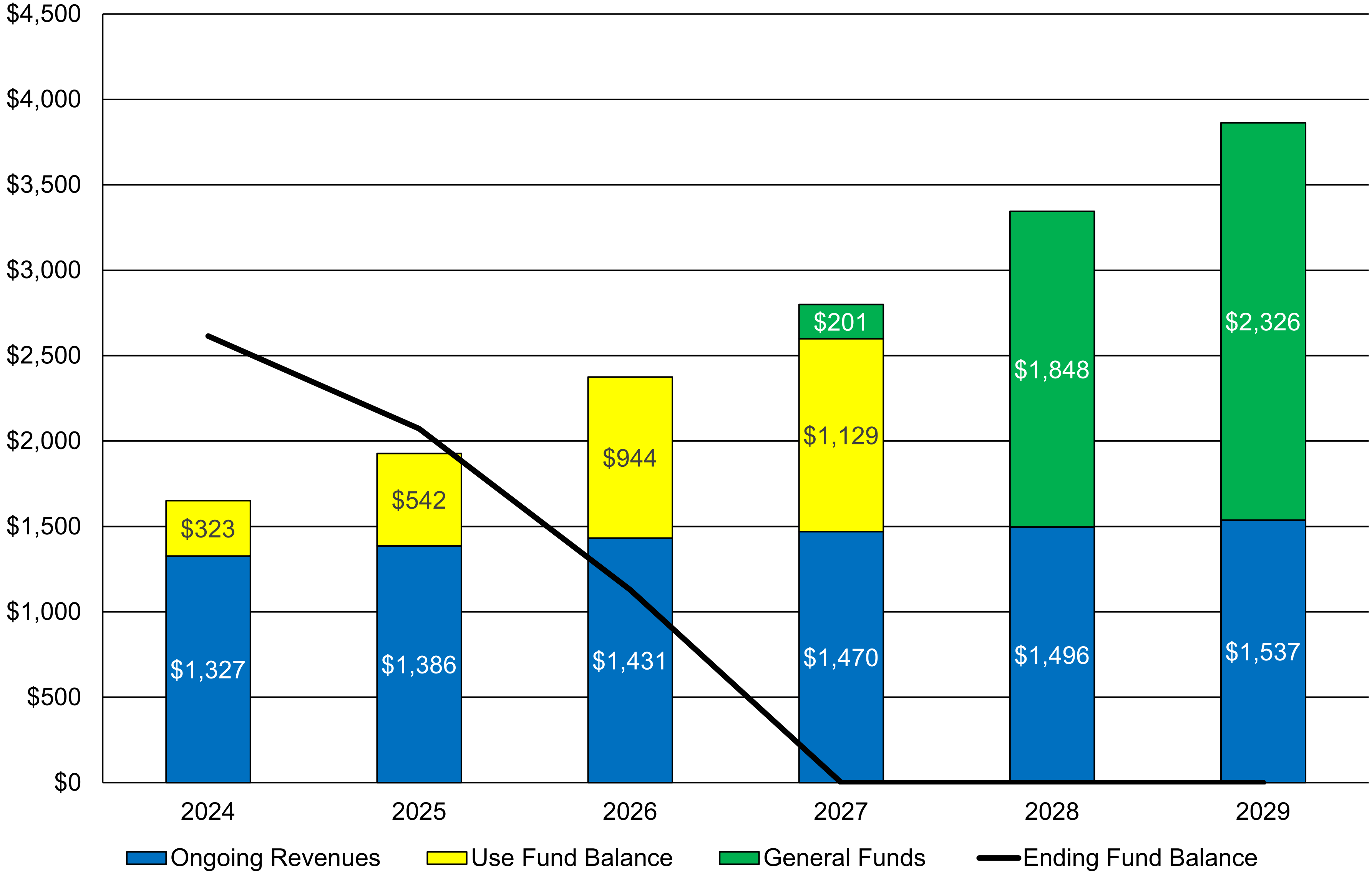


General Fund Spending Projected to Increase $5.4 Billion
From Fiscal 2025 to 2029



DDA: Developmental Disabilities Administration

Estimated Blueprint Costs and Funding Sources
Fiscal 2024-2029
($ in Millions)



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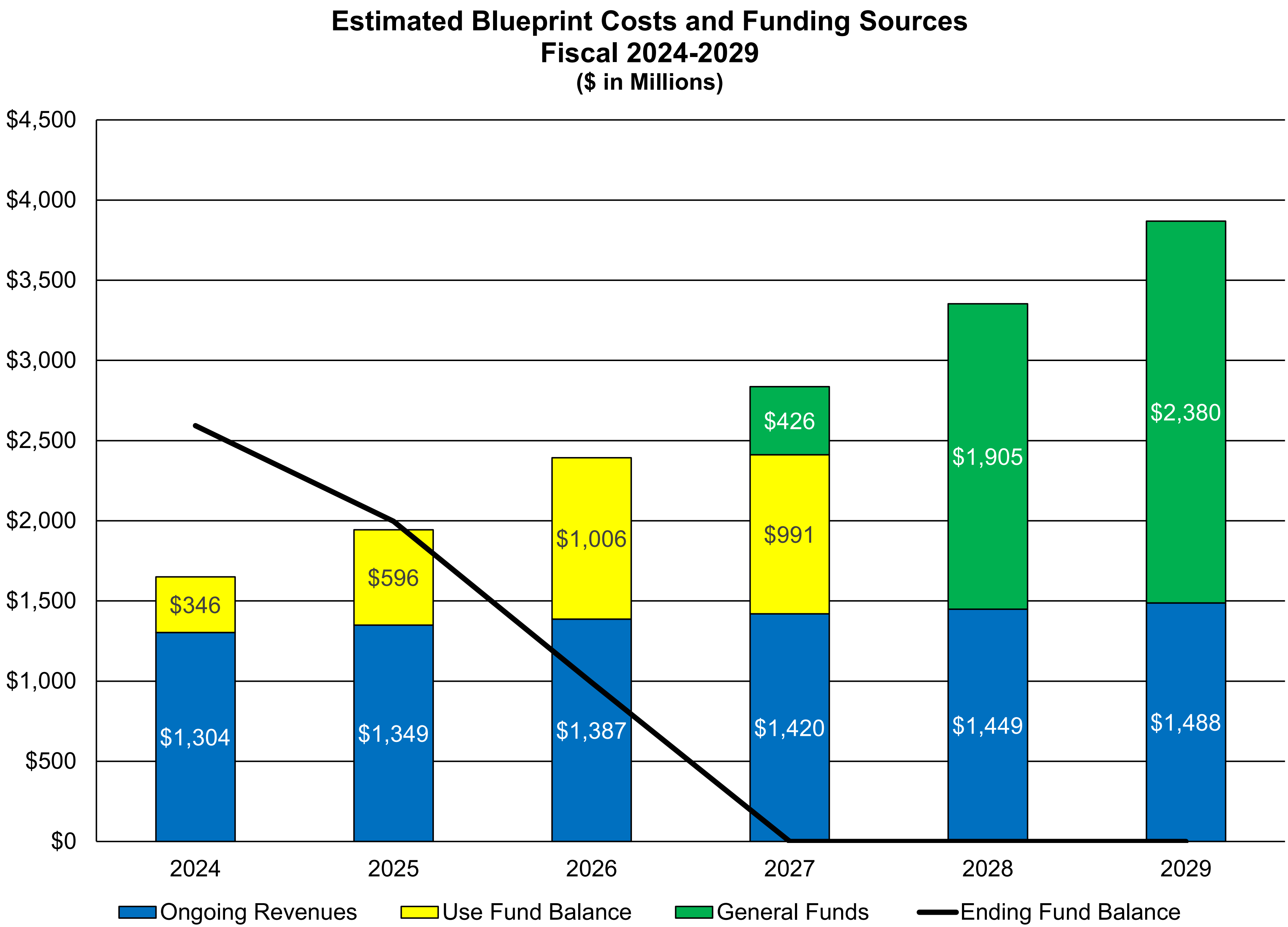


Budget Balancing Approaches

Structural Solutions

Reduce Ongoing Spending to More Closely Align with Ongoing Revenues

- Helps to resolve underlying problem.
- Given magnitude of out-year challenges, starting to reduce ongoing spending in fiscal 2025 is essential to avoid fiscal cliff in fiscal 2028.

Enhance Ongoing Revenues to Support Spending Commitments

- Helps to resolve underlying problem.
- Revenues alone unlikely to resolve long-term budget problem. For illustrative purposes, closing the fiscal 2029 budget gap entirely with revenues is equivalent to increasing sales tax revenues by 30% or individual income tax revenues by 12%.

Improve Cash Outlook

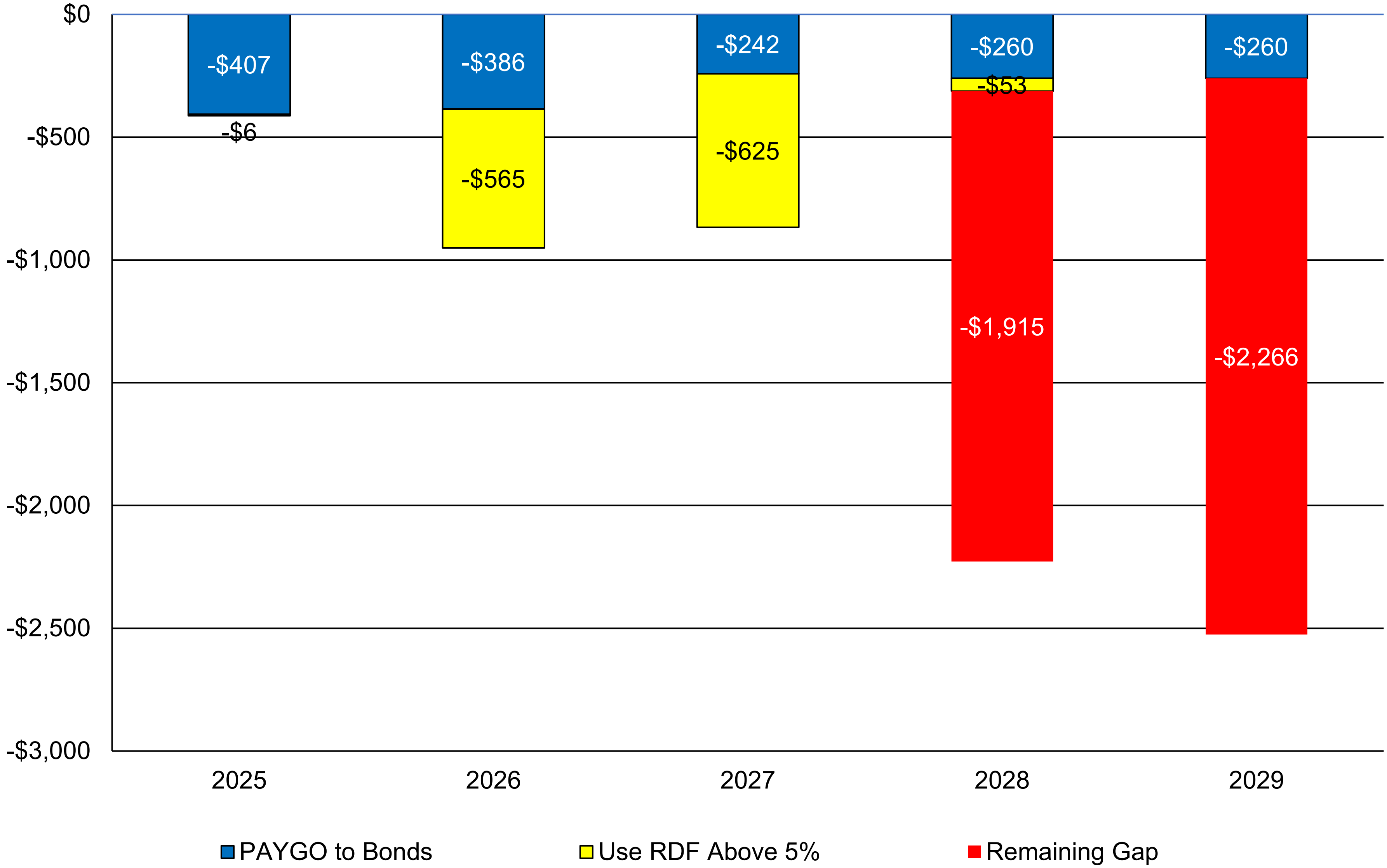
Shift PAYGO to Bonds

- Immediate budget relief.
- Capital Debt Affordability Committee debt increase accommodates and is well within affordability ratios.
- Higher debt limit will increase long-term debt service costs.

Draw on Rainy Day Fund Balance Above 5% for Temporary Budget Relief

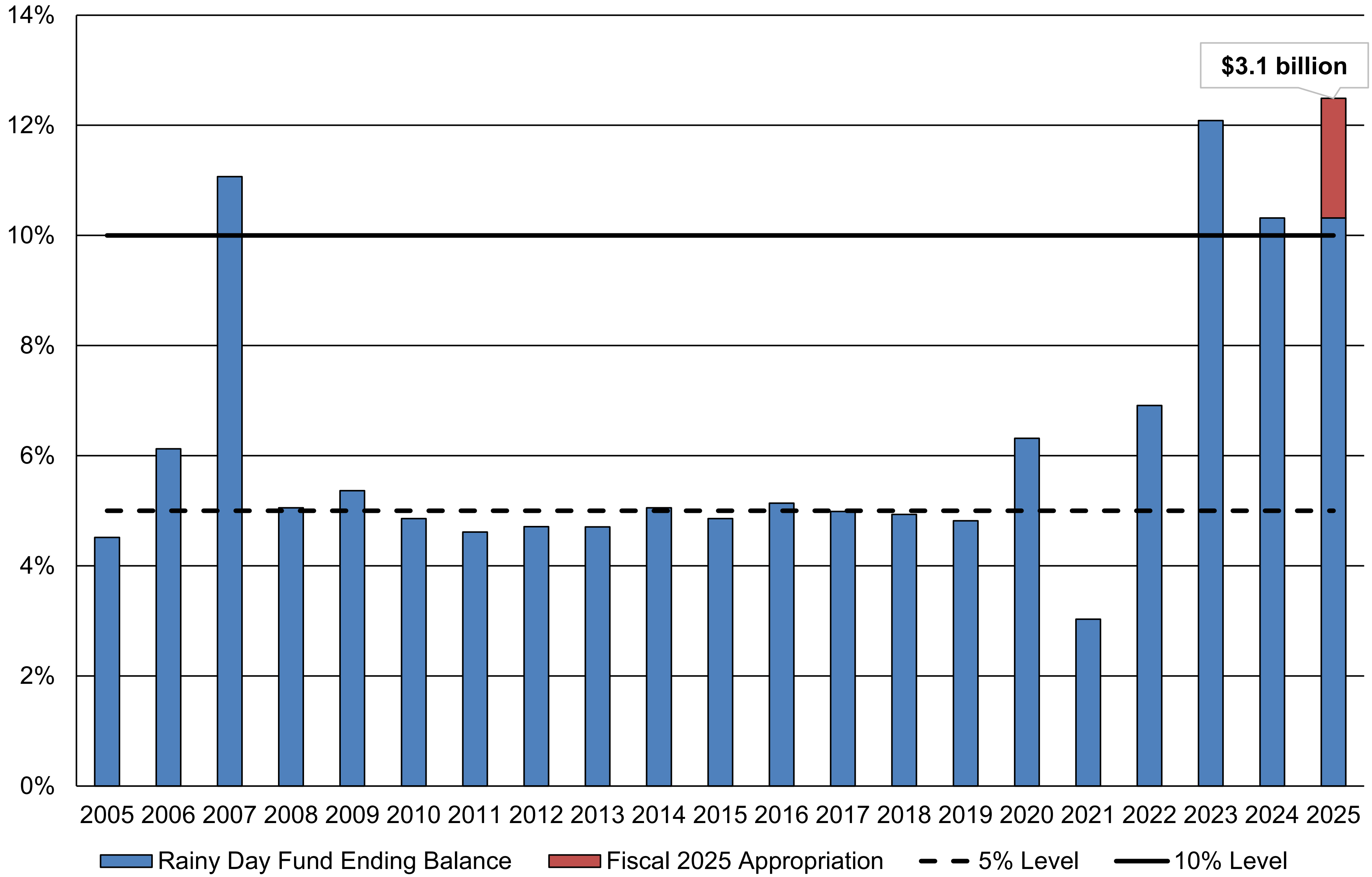
- Temporary solution that does not address structural challenge that mounts over time.
- Drawing balance down when economy is growing steadily leaves State vulnerable to impact of recession. Prior analyses have indicated that a mild recession will result in general fund revenues falling about 10% below pre-recession estimates over a two-year period.
- A recession coupled with the projected fiscal cliff in fiscal 2028 would result in a ongoing revenues covering only about 88% of projected spending.

Reserves and Shift of Planned PAYGO to Bonds Can Mitigate Budget Gap
Fiscal 2025-2029
($ in Millions)



PAYGO: pay-as-you-go
RDF: Rainy Day Fund

Rainy Day Fund Balance as a Percent of General Fund Revenues
Fiscal 2005-2025



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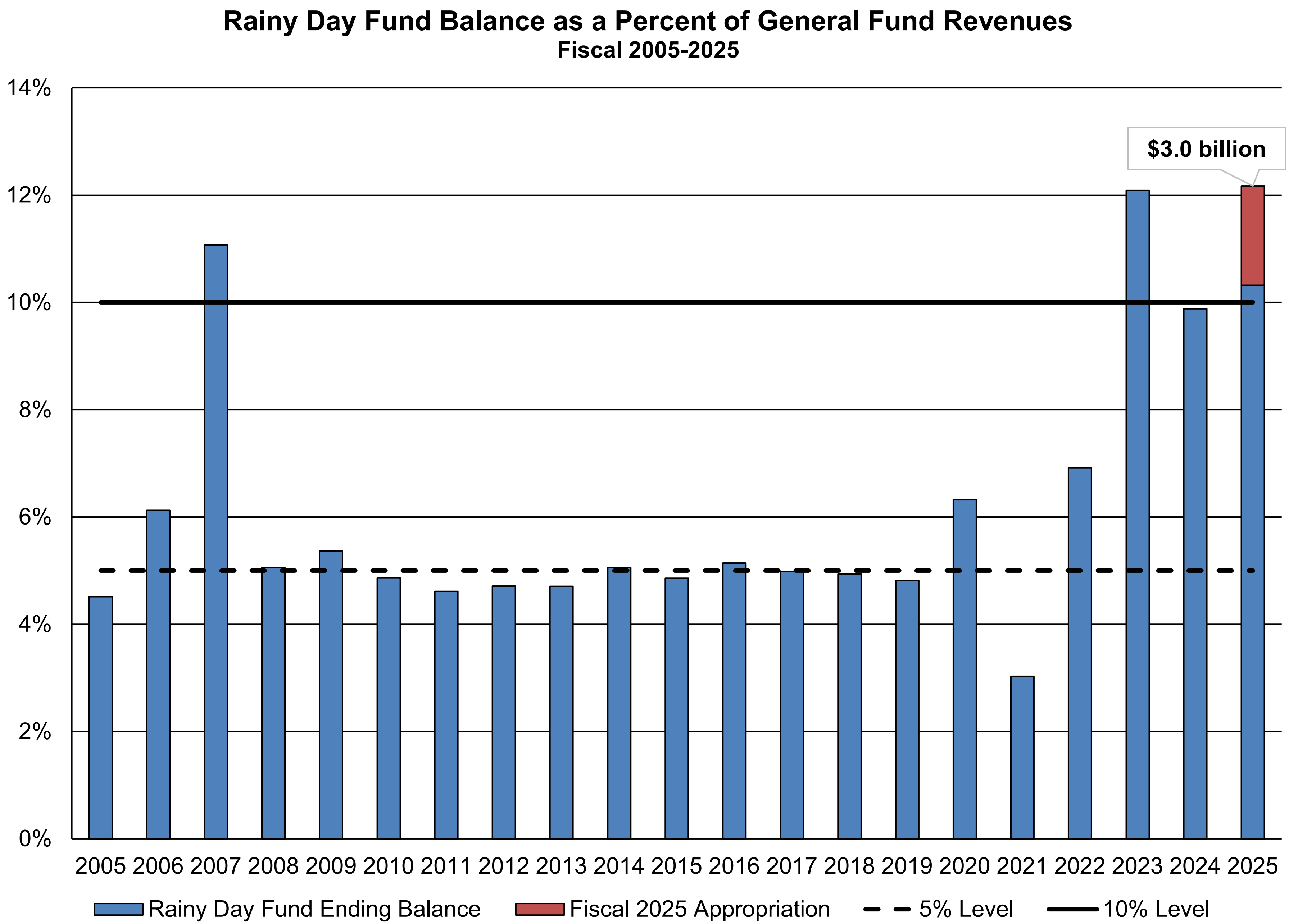

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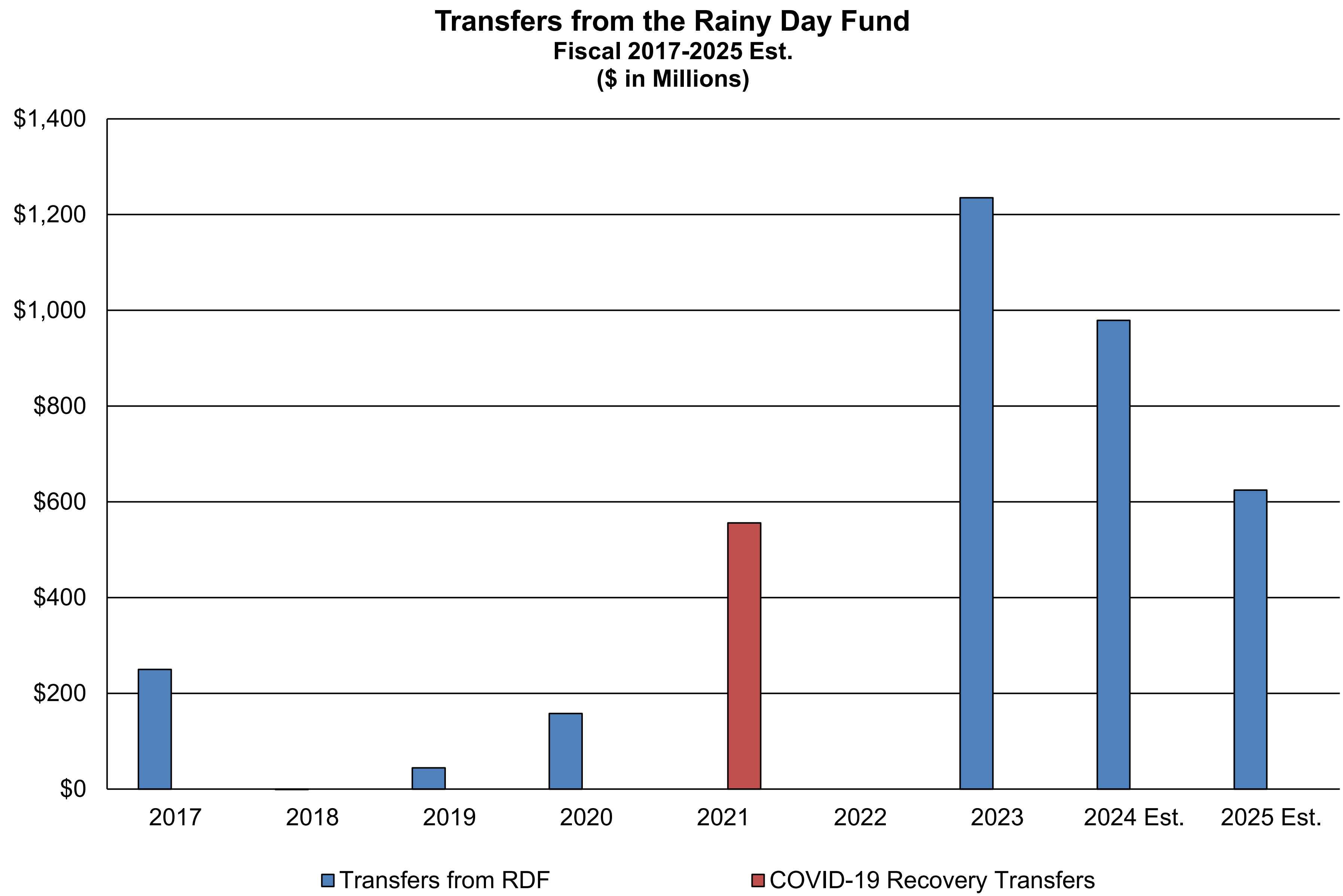

RDF: Rainy Day Fund

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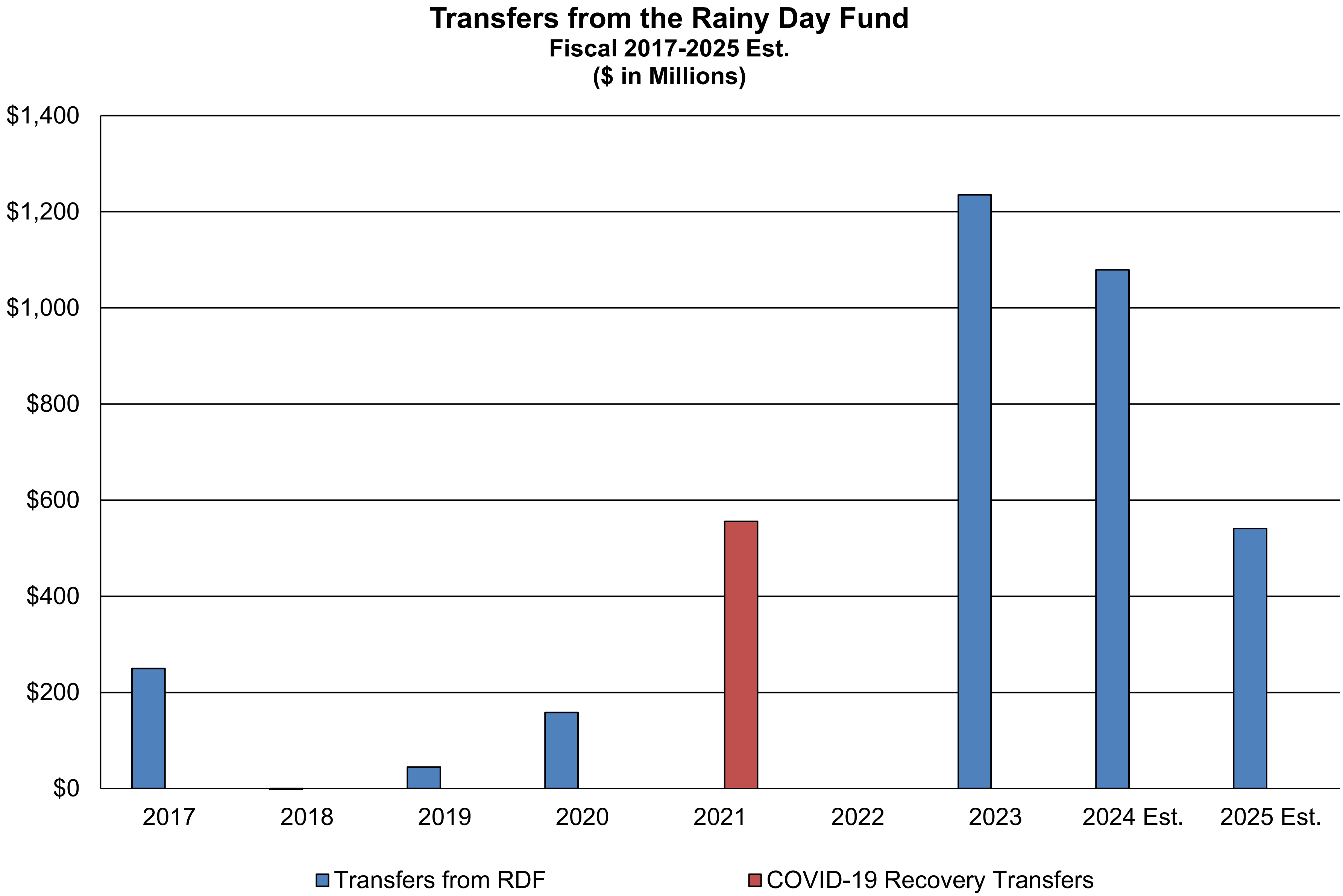


Change in Budget Outlook Since November SAC Meeting
Fiscal 2024-2029
$ in Millions

	2024	2025	2026	207	2028	2029
November SAC Cash Balance with Rainy Day Fund at 10%	**$449**	**-$413**	**-$951**	**-$867**	**-$2,228**	**$2,526**
December Adjustments						
Revenue Revisions	$78	-$163	-$325	-$374	-$355	-$404
Additional Child Care Scholarship Costs	-214	-225	-225	-225	-225	-225
K-12 Education Updated for Enrollment, Wealth, and BRE Blueprint Revenue Revisions		-27	12	-169	-44	-5
Miscellaneous Spending Adjustments		-25	-4	24	23	54
Transfer from Rainy Day Fund of Amounts in Excess of 10%		-84				
Smaller Fiscal 2024 Closing Balance		-136				
Total December Adjustments	**-$136**	**-$659**	**-$541**	**-$744**	**-$600**	**-$580**
December SAC Cash Balance with Rainy Day Fund at 10%	**$313**	**-$1,072**	**-$1,492**	**-$1,611**	**-$2,828**	**-$3,106**

BRE: Board of Revenue Estimates
SAC: Spending Affordability Committee

Part 3

Fiscal 2025 Baseline Budget Estimate

Key Baseline Budget Assumptions

- The baseline budget is an estimate of the cost of government services in the next budget year based on a set of assumptions. Assumptions include that current laws, policies, and practices are continued; federal mandates and multi-year commitments are observed; legislation adopted at the prior session is funded; and full-year costs of programs, rate increases, and any other enhancements started during the previous year are included.

- K-12 enrollment is projected to increase but remain below prepandemic levels; however, actual enrollment will not be known until December 1, 2023, when the Maryland State Department of Education is required to release the official enrollment counts for the current school year.

- Medicaid and related caseloads reflect the ongoing efforts to unwind the continuous enrollment requirements from the public health emergency. The current estimate is based on known waivers and the current schedule for redeterminations, including an anticipated end to a pause on procedural disenrollments by the end of calendar 2023. However, the timing and impact of the unwinding makes the caseload forecast more uncertain than usual eligibility for children.

- Foster Care and Public Assistance Entitlement caseload trends reflect current experience. Department of Human Services administered public assistance caseloads continue to decline consistent with the general improvement in employment and wages since the start of the pandemic.

Caseload Assumptions
Fiscal 2023-2025

	2023	2024	2025	% Change 2024-2025
Pupil Enrollment*	848,653	852,793	858,372	0.7%
Medicaid/Maryland Children's Health Program	1,752,541	1,625,228	1,512,915	-6.9%
Temporary Cash Assistance	53,517	50,574	46,022	-13.0%
Foster Care/Adoption/Guardianship	10,319	10,202	10,088	-1.1%
Adult Prison Population	17,673	18,070	18,000	0.0%

* Data for fiscal 2023 and 2024 reflect actual full-time equivalent enrollments. Fiscal 2025 is a projection.

Note: Reflects average monthly recipients for Medicaid/Maryland Children's Health Program and Temporary Cash Assistance and average monthly caseload for Foster Care/Adoption/Guardianship. Fiscal 2023 represents actual recipients/caseload and fiscal 2024 and 2025 represent estimates. Adult Prison population represents actual experience in fiscal 2023, actual experience from the first quarter of fiscal 2024, and a projection for fiscal 2025.

- $1.0 billion of fiscal 2024 legislative adds are assumed to be one time, including $400 million of funding for the Blueprint for Maryland's Future Fund, $100 million for future transportation costs, and $369 million of pay-as-you go capital funding.

- Tuition increases at the public higher education institutions are capped at 2%, and fee increases are capped at 2%.

- Required appropriation to the Revenue Stabilization Account (Rainy Day Fund) in fiscal 2025 totals $495.5 million. The fiscal 2025 baseline assumes a transfer from the Rainy Day fund balance of $625.0 million, to leave a balance of 10% of general fund revenues in fiscal 2025.

- The fiscal 2024 budget authorized the Governor to process a budget amendment transferring up to $100.0 million from the Rainy Day Fund to the Maryland Department of Transportation. The forecast assumes the transfer does not occur.

- Personnel assumptions for fiscal 2025 include:

  - 2% general salary increase effective July 2024 funded for all State employees and a merit increase.

  - Due to available fund balance there will be no increase in employee and retiree health insurance costs.

  - A contribution related to the Family and Medical Leave Insurance Program for State Employees totaling $22.7 million, of which $14.5 million is general funds.

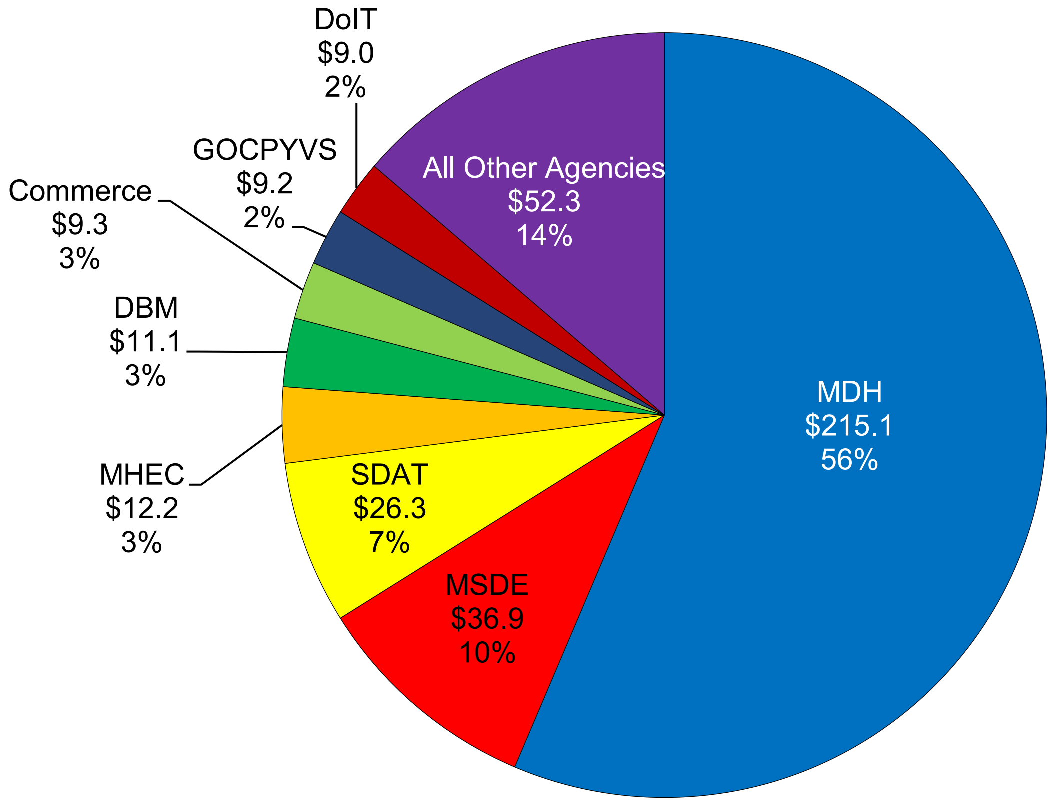
  - The State will fill about 1,750 of the approximately 5,440 currently vacant Executive Branch positions by July 2024.

- Higher than expected inflation will result in the need for deficiency appropriations to cover certain fiscal 2024 costs: prescription drugs ($12.5 million) and food ($7.5 million), while electricity costs are expected to be lower than projected ($13.5 million), a net increase of $4.9 million in general funds.

- Inflation, after accounting for deficiency appropriations, anticipated for fiscal 2025 will increase costs for food (3.8%), electricity (1.25%), and natural gas. Costs are expected to decrease for gas and oil (-7.0%).

Reversions

General Fund Reversions Totaled $381.3 Million in Fiscal 2023, $208 Million More Than Planned in the 2023 Session
($ in Millions)



Commerce: Department of Commerce
DBM: Department of Budget and Management
DoIT: Department of Information Technology
GOCPYVS: Governor's Office of Crime Prevention, Youth, and Victim Services
MSDE: Maryland State Department of Education
MHEC: Maryland Higher Education Commission
MDH: Maryland Department of Health
SDAT: State Department of Assessments and Taxation

- The largest share of reversions was in the Maryland Department of Health ($215.1 million):
  - $108.0 million was from prior years, including $64.3 million for Medicaid and Medicaid-eligible Behavioral Health provider reimbursements for fiscal 2022, which was less than the $79.5 million expected to be reverted from these provider reimbursements during the 2023 session:
    - Other significant prior year reversions were:
      - $19.3 million due to lower than expected residential substance use disorder services; and

- $13.8 million from the Developmental Disabilities Administration is due to higher than anticipated federal attainment for personal support.

- $107.1 million from fiscal 2023, of this amount $104.8 million was in the Behavioral Health Administration; the major contributors are:

  - $35.0 million for mobile crisis and crisis stabilization services due to a longer than expected process for developing regulations;

  - $22.0 million for lower than expected spending for substance related disorder, treatment, and recovery programs;

  - $16.8 million related to provider reimbursements, of which approximately half was due to availability of federal funds for inpatient behavioral health services under a waiver;

  - $13.7 million for grants to providers that were not expended by the providers due to either specific contractor issues or lower than expected growth in programs; and

  - $12.9 million for several programs that were not initiated as expected including the $8 million deficiency for behavioral health investments and $2.5 million for the Sheila E. Hixson Behavioral Health Services Matching Grant Program.

- $36.9 million in the Maryland State Department of Education:

  - $21.2 million from prior years, including $16.2 million from fiscal 2022 for Child Care Stabilization funds reverted in error; and

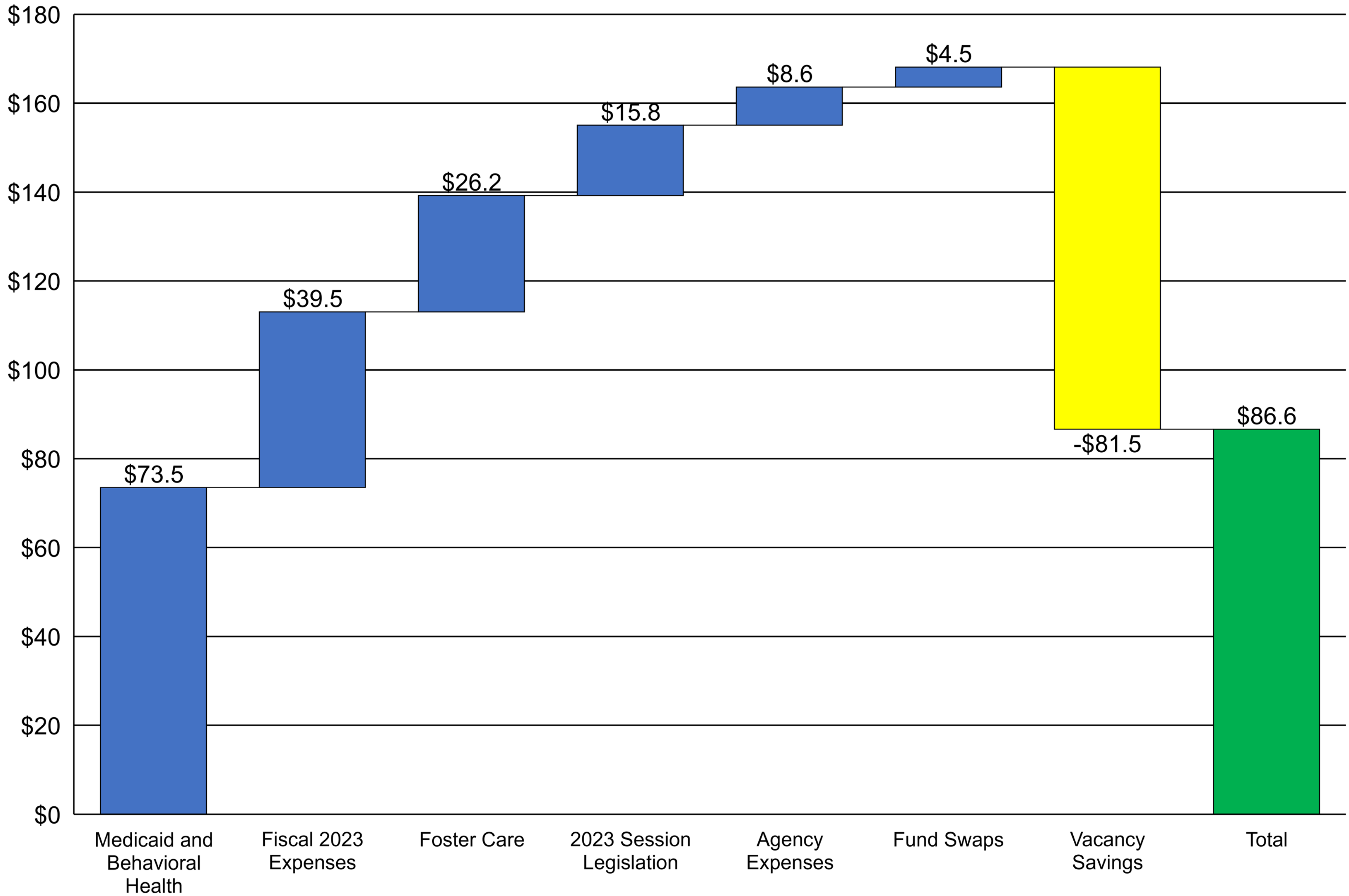
  - $15.7 million from fiscal 2023, of which approximately $7.4 million is related to higher than expected vacancies in regular positions and contractual full-time equivalents and lower than expected spending due to COVID-19.

- $26.1 million from the State Department of Assessments and Taxation in fiscal 2023, of which $16 million was planned due to lower anticipated expenditures from the Homeowners Tax Credit:

  - An additional $8.0 million that was intended to be used to repay the Local Reserve Account for recalculated Homeowners Tax Credits under Chapter 717 of 2021 reverted in error.

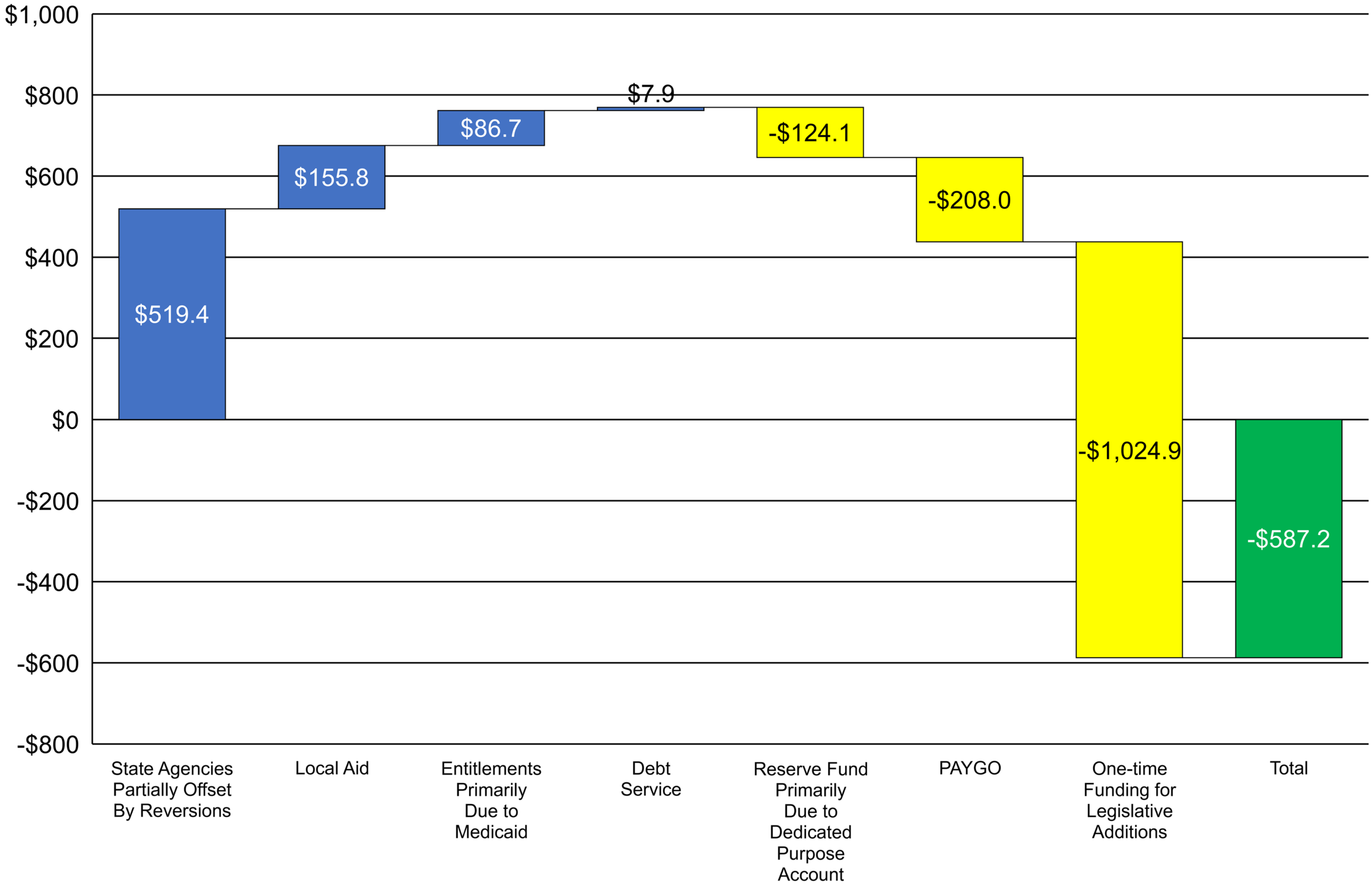
- $12.2 million from the Maryland Higher Education Commission, of which $9.8 million was from unused Senatorial and Delegate scholarships from prior years and was reverted in error.

General Fund Deficiencies Increase Spending by a Net $86.6 Million
($ in Millions)



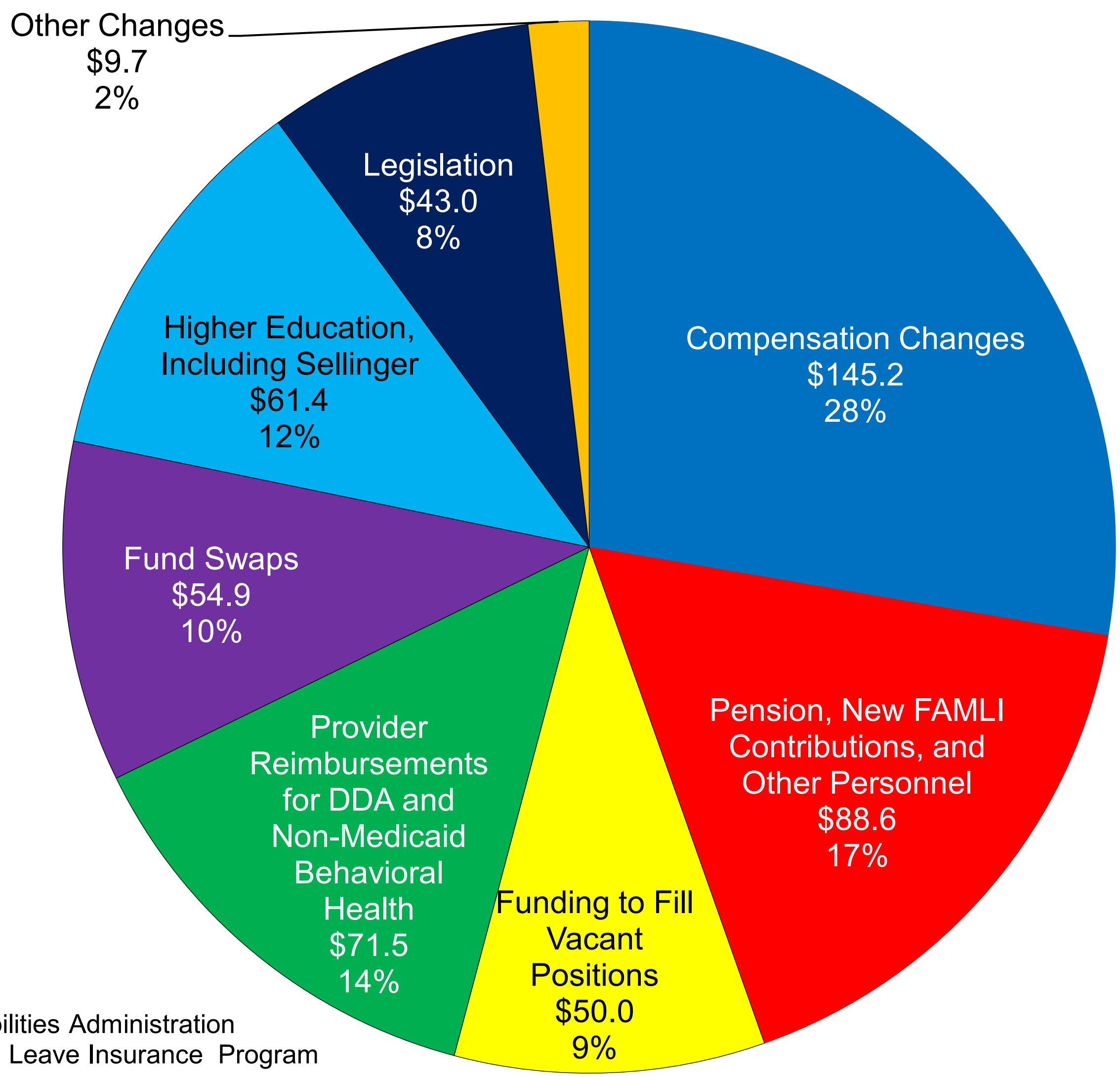
General Fund Spending Decreases by $587.2 Million in Fiscal 2025 Primarily Due to One-time Spending on Legislative Additions

($ in Millions)



PAYGO: pay-as-you-go

State Agency Changes, Excluding Removal of One-time Legislative Additions,
Total $524.4 Million
($ in Millions)



DDA: Developmental Disabilities Administration
FAMLI: Family and Medical Leave Insurance Program

General Fund: End-of-year Balances
Fiscal 2023-2025
($ in Millions)

	2023 Actual	2024 Working	2025 Baseline
Total Funds Available	$30,399	$27,675	$26,226
Total Spending	27,815	$27,226	$26,639
Cash Balance/(Shortfall)	**$2,584**	**$449**	**-$413**
Structural Balance (Ongoing Revenues Less Ongoing Spending)	**$1,386**	**$125**	**-$322**
Ratio (Ongoing Revenues/Ongoing Operating Costs)	106.0%	100.5%	98.7%
Reserve Fund Activity			
Appropriations to Rainy Day Fund	$2,416	$0	$495
Transfers to General Fund	-1,166	-479	-625
Estimated Rainy Day Fund Balance – June 30	$2,924	$2,511	$2,508
Available Cash Balance (General Funds + Rainy Day Fund Above 10%)	**$3,094**	**$528**	**-$413**
Rainy Day Fund Balance In Excess of 10%	$510	$79	$0

REVISED December 14, 2923

General Fund: End-of-year Balances
Fiscal 2023-2025
($ in Millions)

	2023 Actual	2024 Working	2025 Baseline
Total Funds Available	$30,399	$27,753	$25,844
Total Spending	27,815	$27,440	$26,916
Cash Balance/(Shortfall)	**$2,584**	**$313**	**-$1,072**
Structural Balance (Ongoing Revenues Less Ongoing Spending)	**$1,386**	**-$123**	**-$761**
Ratio (Ongoing Revenues/Ongoing Operating Costs)	106.0%	99.5%	97.0%
Reserve Fund Activity			
Appropriations to Rainy Day Fund	$2,416	$0	$495
Transfers to General Fund	-1,166	-479	-541
Estimated Rainy Day Fund Balance – June 30	$2,924	$2,435	$2,492
Available Cash Balance (General Funds + Rainy Day Fund Above 10%)	**$3,094**	**$313**	**-$1,072**
Rainy Day Fund Balance In Excess of 10%	$510	$0	$0

State Expenditures – General Funds
Fiscal 2023-2025
($ in Millions)

Category	2023 Working Appropriation	2024 Legislative Appropriation	2025 Baseline	$ Change 2024 to 2025	% Change 2024 to 2025
Debt Service	$430.0	$425.1	$433.0	$7.9	1.9%
County/Municipal	$388.5	$455.4	$413.4	-$42.0	-9.2%
Community Colleges	435.3	475.4	506.8	31.4	6.6%
Education/Libraries	7,124.8	7,227.7	7,364.4	136.6	1.9%
Health	101.3	115.8	133.8	18.1	15.6%
Aid to Local Governments	***$8,049.9***	***$8,274.3***	***$8,418.4***	***$144.0***	***1.7%***
Foster Care Payments	$240.5	$273.3	$276.8	$3.5	1.3%
Assistance Payments	127.1	120.8	116.2	-4.6	-3.8%
Medical Assistance	4,370.2	5,004.9	5,098.8	93.9	1.9%
Property Tax Credits	87.3	87.4	81.3	-6.1	-7.0%
Entitlements	***$4,825.1***	***$5,486.3***	***$5,573.0***	***$86.7***	***1.6%***
Health	$2,169.4	$2,436.8	$2,545.8	$109.0	4.5%
Human Services	463.5	482.9	483.4	0.5	0.1%
Juvenile Services	299.2	314.3	325.9	11.6	3.7%
Public Safety/Police	1,831.9	1,885.0	1,989.6	104.6	5.5%
Higher Education	2,106.3	2,241.9	2,414.9	173.1	7.7%
Transportation	0.0	0.9	0.0	-0.9	n/a
Other Education	717.2	693.0	730.4	37.4	5.4%
Agriculture/Natural Res./Environment	203.4	238.7	273.0	34.3	14.4%
Other Executive Agencies	1,416.2	1,618.6	1,507.2	-111.4	-6.9%
Judiciary	647.7	668.4	697.6	29.2	4.4%
Legislative	143.7	152.3	154.8	2.6	1.7%
State Agencies	***$9,998.6***	***$10,732.6***	***$11,122.5***	***$390.0***	***3.6%***
Total Operating	**$23,303.6**	**$24,918.3**	**$25,546.9**	**$628.6**	**2.5%**
Capital [(1)]	$2,270.0	$1,273.0	$596.0	-$677.0	-53.2%
Subtotal	***$25,573.6***	***$26,191.3***	***$26,142.9***	***-$48.4***	***-0.2%***
Reserve Funds [(2)]	$2,527.3	$1,079.9	$546.1	-$533.8	-49.4%
Appropriations	**$28,100.9**	**$27,271.2**	**$26,689.0**	**-$582.2**	**-2.1%**
Reversions	-$75.0	-$45.0	-$50.0	-$5.0	11.1%
Grand Total	**$28,025.9**	**$27,226.2**	**$26,639.0**	**-$587.2**	**-2.2%**

[(1)] Includes the Historic Revitalization Tax Credit Reserve Fund.

[(2)] The fiscal 2023 working appropriation for the Reserve Funds excludes $378.8 million budgeted in the Dedicated Purpose Account (DPA). That amount is included in various other categories to reflect the purpose of the spending. It also excludes $1.1 billion budgeted in the DPA for pay-as-you-go capital spending which is included in the Capital line on this chart.

Note: The fiscal 2023 working appropriation reflects $170.5 million in reversions including $95.5 million in targeted reversions. In fiscal 2023, the General Assembly reduced the appropriation to the Revenue Stabilization Account by $69 million but provided authorization for those funds to be used for a variety of purposes. The working appropriation reflects this reallocation. The fiscal 2024 appropriation reflects estimated deficiencies of $86.6 million.

State Expenditures – Special and Higher Education Funds*

Fiscal 2023-2025
($ in Millions)

Category	2023 Working Appropriation	2024 Legislative Appropriation	2025 Baseline	$ Change 2024 to 2025	% Change 2024 to 2025
Debt Service	$1,480.5	$1,443.2	$1,495.0	$51.9	3.6%
County/Municipal	$461.3	$510.7	$589.7	$79.0	15.5%
Community Colleges	0.0	0.0	0.0	0.0	n/a
Education/Libraries	873.9	1,506.8	1,761.0	254.2	16.9%
Health	0.0	0.0	0.0	0.0	n/a
Aid to Local Governments	***$1,335.2***	***$2,017.5***	***$2,350.7***	***$333.2***	***16.5%***
Foster Care Payments	$2.9	$2.7	$2.7	$0.0	0.0%
Assistance Payments	13.7	15.6	10.6	-5.0	-32.3%
Medical Assistance	747.4	671.4	749.9	78.5	11.7%
Property Tax Credits	0.0	0.0	0.0	0.0	n/a
Entitlements	***$764.0***	***$689.6***	***$763.1***	***$73.4***	***10.6%***
Health	$588.2	$762.2	$712.3	-$50.0	-6.6%
Human Services	147.9	166.2	147.2	-19.0	-11.4%
Juvenile Services	2.4	4.2	4.4	0.1	3.2%
Public Safety/Police	173.5	204.3	197.9	-6.3	-3.1%
Higher Education	5,676.5	5,194.4	5,433.2	238.8	4.6%
Other Education	201.7	286.4	283.0	-3.5	-1.2%
Transportation	1,921.7	2,224.4	2,655.5	431.1	19.4%
Agriculture/Natural Res./Environment	347.8	346.9	325.5	-21.4	-6.2%
Other Executive Agencies	1,181.4	1,224.3	1,411.8	187.5	15.3%
Judiciary	68.0	79.7	81.4	1.7	2.1%
Legislative	0.0	0.0	0.0	0.0	n/a
State Agencies	***$10,309.2***	***$10,493.1***	***$11,252.1***	***$759.0***	***7.2%***
Total Operating	**$13,888.8**	**$14,643.3**	**$15,860.8**	**$1,217.5**	**8.3%**
Capital	$1,330.8	$2,297.3	$1,707.1	-$590.2	-25.7%
Transportation	1,031.7	1,336.3	1,305.2	-31.1	-2.3%
Environment	220.7	254.7	205.0	-49.7	-19.5%
Other	78.4	706.3	196.9	-509.3	-72.1%
Grand Total	**$15,219.7**	**$16,940.6**	**$17,567.9**	**$627.3**	**3.7%**

* Includes higher education fund (current unrestricted and current restricted) net of general and special funds.

Note: The fiscal 2024 appropriation reflects estimated deficiencies of -$43.8 million. Fiscal 2023 excludes $1.1 billion, fiscal 2024 excludes $199.1 million and fiscal 2025 excludes $211.1 million that double counts general fund spending.

State Expenditures – Federal Funds

Fiscal 2023-2025
($ in Millions)

Category	2023 Working Appropriation	2024 Legislative Appropriation	2025 Baseline	$ Change 2024 to 2025	% Change 2024 to 2025
Debt Service	$9.0	$7.5	$4.7	-$2.8	-37.3%
County/Municipal	$74.8	$87.4	$87.4	$0.0	0.0%
Community Colleges	0.0	0.0	0.0	0.0	n/a
Education/Libraries	1,072.6	1,130.0	1,130.0	0.0	0.0%
Health	0.0	0.0	0.0	0.0	n/a
Aid to Local Governments	***$1,147.4***	***$1,217.4***	***$1,217.4***	***$0.0***	***0.0%***
Foster Care Payments	$90.5	$64.3	$64.8	$0.5	0.8%
Assistance Payments	2,670.4	2,239.0	1,571.8	-667.2	-29.8%
Medical Assistance	9,665.6	9,221.9	8,706.9	-515.0	-5.6%
Property Tax Credits	0.0	0.0	0.0	0.0	n/a
Entitlements	***$12,426.5***	***$11,525.1***	***$10,343.5***	***-$1,181.6***	***-10.3%***
Health	$2,410.4	$2,292.2	$2,277.5	-$14.7	-0.6%
Human Services	670.2	657.6	656.3	-1.3	-0.2%
Juvenile Services	6.9	6.2	6.4	0.2	3.7%
Public Safety/Police	43.5	41.5	44.2	2.7	6.5%
Higher Education	0.0	0.0	0.0	0.0	n/a
Other Education	422.6	366.9	373.5	6.6	1.8%
Transportation	460.4	248.2	115.5	-132.6	-53.5%
Agriculture/Natural Res./Environment	91.2	107.4	101.4	-6.0	-5.6%
Other Executive Agencies	1,211.3	1,527.9	1,476.6	-51.3	-3.4%
Judiciary	3.2	2.8	2.8	0.0	1.7%
Legislature	0.0	0.0	0.0	0.0	n/a
State Agencies	***$5,319.6***	***$5,250.8***	***$5,054.4***	***-$196.3***	***-3.7%***
Total Operating	**$18,902.5**	**$18,000.7**	**$16,620.0**	**-$1,380.8**	**-7.7%**
Capital	$1,838.3	$1,595.8	$1,905.9	$310.1	19.4%
Transportation	1,270.2	1,333.0	1,391.0	57.9	4.3%
Environment	213.5	116.8	215.4	98.5	84.3%
Other	354.6	145.9	299.5	153.6	105.3%
Subtotal	***$20,740.8***	***$19,596.5***	***$18,525.8***	***-$1,070.7***	***-5.5%***
Reserve Funds	$0.0	0.0	0.0	$0.0	n/a
Grand Total	**$20,740.8**	**$19,596.5**	**$18,525.8**	**-$1,070.7**	**-5.5%**

Note: The fiscal 2024 appropriation reflects estimated deficiencies of $668.3 million.

State Expenditures – State Funds

Fiscal 2023-2025

($ in Millions)

Category	2023 Working Appropriation	2024 Legislative Appropriation	2025 Baseline	$ Change 2024 to 2025	% Change 2024 to 2025
Debt Service	$1,910.5	$1,868.3	$1,928.0	$59.8	3.2%
County/Municipal	$849.8	$966.1	$1,003.1	$36.9	3.8%
Community Colleges	435.3	475.4	506.8	31.4	6.6%
Education/Libraries	7,998.7	8,734.5	9,125.4	390.9	4.5%
Health	101.3	115.8	133.8	18.1	15.6%
Aid to Local Governments	***$9,385.1***	***$10,291.8***	***$10,769.0***	***$477.3***	***4.6%***
Foster Care Payments	$243.4	$275.9	$279.4	$3.5	1.3%
Assistance Payments	140.8	136.4	126.8	-9.6	-7.1%
Medical Assistance	5,117.5	5,676.3	5,848.7	172.4	3.0%
Property Tax Credits	87.3	87.4	81.3	-6.1	-7.0%
Entitlements	***$5,589.1***	***$6,176.0***	***$6,336.1***	***$160.1***	***2.6%***
Health	$2,759.2	$3,199.1	$3,258.1	$59.0	1.8%
Human Services	611.8	649.1	630.6	-18.5	-2.8%
Juvenile Services	301.7	318.5	330.2	11.7	3.7%
Public Safety/Police	2,008.1	2,089.3	2,187.5	98.2	4.7%
Higher Education	7,782.8	7,436.3	7,848.1	411.8	5.5%
Other Education	919.4	979.4	1,013.4	34.0	3.5%
Transportation	1,932.1	2,225.3	2,655.5	430.2	19.3%
Agriculture/Natural Res./Environment	554.4	585.6	598.5	12.8	2.2%
Other Executive Agencies	2,574.1	2,842.8	2,919.0	76.1	2.7%
Judiciary	716.1	748.0	779.0	30.9	4.1%
Legislative	143.7	152.3	154.8	2.6	1.7%
State Agencies	***$20,303.4***	***$21,225.6***	***$22,374.6***	***$1,149.0***	***5.4%***
Total Operating	**$37,188.1**	**$39,561.6**	**$41,407.7**	**$1,846.1**	**4.7%**
Capital (1)	$3,605.3	$3,570.3	$2,303.1	-$1,267.2	-35.5%
Transportation	1,208.7	1,503.3	1,477.2	-26.2	-1.7%
Environment	240.9	254.7	205.0	-49.7	-19.5%
Other	2,155.6	1,812.2	620.9	-1,191.3	-65.7%
Subtotal	***$40,793.3***	***$43,131.9***	***$43,710.8***	***$578.9***	***1.3%***
Reserve Funds (2)	$2,527.3	$1,079.9	$546.1	-$533.8	-49.4%
Appropriations	**$43,320.6**	**$44,211.8**	**$44,256.9**	**$45.1**	**0.1%**
Reversions	-$75.0	-$45.0	-$50.0	-$5.0	11.1%
Grand Total	**$43,245.6**	**$44,166.8**	**$44,206.9**	**$40.1**	**0.1%**

(1) Includes the Historic Revitalization Tax Credit Reserve Fund.

(2) The fiscal 2023 working appropriation for the Reserve Funds excludes $378.8 million budgeted in the Dedicated Purpose Account (DPA). That amount is included in various other categories to reflect the purpose of the spending. It also excludes $1.1 billion budgeted in the DPA for pay-as-you-go capital spending which is included in the Capital line on this chart.

Note: The fiscal 2023 working appropriation reflects $170.5 million in reversions including $95.5 million in targeted reversions. In fiscal 2023, the General Assembly reduced the appropriation to the Revenue Stabilization Fund by $69 million but provided authorization for those funds to be used for a variety of purposes. The working appropriation reflects this reallocation. The fiscal 2024 appropriation reflects estimated deficiencies of $42.9 million. Fiscal 2023 excludes $1.1 billion, 2024 excludes $199.1 million and 2025 excludes $211.1 million of special funds that double count general fund spending.

State Expenditures – All Funds Fiscal 2023-2025
($ in Millions)

Category	2023 Working Appropriation	2024 Legislative Appropriation	2025 Baseline	$ Change 2024 to 2025	% Change 2024 to 2025
Debt Service	$1,919.5	$1,875.8	$1,932.7	$57.0	3.0%
County/Municipal	$924.6	$1,053.5	$1,090.4	$36.9	3.5%
Community Colleges	435.3	475.4	506.8	31.4	6.6%
Education/Libraries	9,071.2	9,864.5	10,255.3	390.9	4.0%
Health	101.3	115.8	133.8	18.1	15.6%
Aid to Local Governments	***$10,532.5***	***$11,509.1***	***$11,986.4***	***$477.3***	***4.1%***
Foster Care Payments	$333.9	$340.2	$344.2	$4.0	1.2%
Assistance Payments	2,811.2	2,375.3	1,698.5	-676.8	-28.5%
Medical Assistance	14,783.1	14,898.1	14,555.6	-342.6	-2.3%
Property Tax Credits	87.3	87.4	81.3	-6.1	-7.0%
Entitlements	***$18,015.6***	***$17,701.1***	***$16,679.6***	***-$1,021.5***	***-5.8%***
Health	$5,172.2	$5,491.3	$5,535.6	$44.3	0.8%
Human Services	1,287.3	1,306.7	1,286.9	-19.8	-1.5%
Juvenile Services	308.6	324.7	336.6	11.9	3.7%
Public Safety/Police	2,052.0	2,130.8	2,231.7	100.9	4.7%
Higher Education	7,782.8	7,436.3	7,848.1	411.8	5.5%
Other Education	1,344.2	1,346.3	1,386.9	40.6	3.0%
Transportation	2,392.8	2,473.4	2,771.0	297.6	12.0%
Agriculture/Natural Res./Environment	646.7	693.1	699.9	6.8	1.0%
Other Executive Agencies	3,772.8	4,370.8	4,395.6	24.9	0.6%
Judiciary	719.4	750.8	781.8	31.0	4.1%
Legislative	143.7	152.3	154.8	2.6	1.7%
State Agencies	***$25,622.4***	***$26,476.4***	***$27,429.0***	***$952.6***	***3.6%***
Total Operating	**$56,090.0**	**$57,562.3**	**$58,027.7**	**$465.4**	**0.8%**
Capital (1)	$5,444.1	$5,166.1	$4,209.0	-$957.1	-18.5%
Transportation	2,478.9	2,836.3	2,868.1	31.8	1.1%
Environment	454.4	388.3	445.1	56.7	14.6%
Other	2,510.8	1,941.4	895.8	-1,045.6	-53.9%
Subtotal	***$61,534.1***	***$62,728.4***	***$62,236.6***	***-$491.7***	***-0.8%***
Reserve Funds (2)	$2,527.3	$1,079.9	$546.1	-$533.8	-49.4%
Appropriations	**$64,061.4**	**$63,808.3**	**$62,782.7**	**-$1,025.6**	**-1.6%**
Reversions	-$75.0	-$45.0	-$50.0	-$5.0	11.1%
Grand Total	**$63,986.4**	**$63,763.3**	**$62,732.7**	**-$1,030.6**	**-1.6%**

(1) Includes the Historic Revitalization Tax Credit Reserve Fund.

(2) The fiscal 2023 legislative appropriation for the Reserve Funds excludes $378.8 million budgeted in the Dedicated Purpose Account (DPA). That amount is included in various other categories to reflect the purpose of the spending. It also excludes $1.1 billion budgeted in the DPA for paygo capital spending which is included in the Capital line on this chart.

Note: The fiscal 2023 working appropriation reflects $170.5 million in reversions including $95.5 million in targeted reversions. In fiscal 2023, the General Assembly reduced the appropriation to the Revenue Stabilization Fund by $69 million but provided authorization for those funds to be used for a variety of purposes. The working appropriation reflects this reallocation. The fiscal 2024 appropriation reflects estimated deficiencies of $711.2 million. Fiscal 2023 excludes $1.1 billion, fiscal 2024 excludes $199.1 million andfiscal 2025 excludes $211.1 million of special funds that double count general fund spending.

$168.1 Million in Potential Fiscal 2024 General Fund Spending Is Partially Offset By Potential Vacancy Savings
($ in Millions)

Medicaid and Behavioral Health Provider Reimbursements: Increased costs in provider reimbursements due to higher than anticipated enrollment ($33.5 million); shortfalls in funding to pay fiscal 2023 costs ($40.0 million)	$73.5
Fiscal 2023 Expenses: Department of Public Safety and Correctional Services for the inmate medical contract ($32.6 million), Department of Commerce funds to capitalize the Child Care Capital Support Revolving Loan Fund inadvertently reverted ($4.5 million), Office of the Public Defender primarily for contractual employees ($2.4 million)	39.5
Foster Care Spending: Primarily due to higher the anticipated placement costs for group homes and flex funds supporting various emergency and ancillary services including respite care, transportation, and other support services	26.2
Legislation: Capitalization of the State Disaster Recovery Fund created in Chapter 549 of 2023 ($10.0 million), administrative expenses and one-time consultant spending to support Chapter 378 of 2023 ($3.2 million), the State share of costs for election judge compensation and marketing established under Chapter 157 of 2023 ($1.9 million), new positions to create the Environmental and Natural Resources Crimes Unit in the Office of Attorney General (OAG) established by Chapter 689 of 2023 ($0.4 million), one-time costs for contractual positions in OAG to support the Task Force to Study Crime Classification established by Chapter 712 of 2023 ($0.2 million), one new position associated with Chapter 679 of 2023 establishing the Interagency Committee on School Construction as an independent unit of State government ($0.1 million), a half position to support the Baltimore City Young Readers program (Chapter 650 of 2023) ($0.04 million)	15.8
Agency Expenses: Statewide costs for food and prescription drugs partially offset by electricity costs ($4.9 million), anticipated underfunding including contractual employees in the Office of the Public Defender ($2.1 million), overtime costs in the Department of Juvenile Services (DJS) ($0.8 million), residential per diem expenses in DJS ($0.6 million), funding for an agreement between Maryland and Virginia for Veterinary Medicine in the University of Maryland, College Park Campus inadvertently not funded in fiscal 2024 ($0.3 million), partially offset by net decrease in funding for contractual conversions approved by the Board of Public Works (- $0.1 million)	8.6
Fund Swaps Due to Anticipated Revenue Shortfalls in the Maryland Department of Environment	4.5
Vacancy Savings	-81.5
Total Deficiencies	**$86.6**

Summary of Baseline Budget Growth Compared to Adjusted Legislative Appropriation

State Agency Costs	$390.0
Local Aid	144.0
Entitlements	86.7
Debt Service	7.9
Growth in Operating Budget, Including Anticipated Deficiencies	**$628.6**
Appropriation to Reserve Fund	-$533.8
PAYGO	-677.0
Reversions	-5.0
Total Baseline Change in State Expenditures	**-$587.2**

Ongoing Requirements/Entitlements	
Provider Reimbursements for Medicaid, the Maryland Children's Health Program, and Behavioral Health Due to Anticipated Provider Rate increases, Utilization Changes, and the End of the Enhanced Federal Match, Partially Offset by Caseload Changes	$77.3
Reimbursements for Certain Provider Costs for the FAMLI Program as Required Under Chapters 258 and 259 of 2023	16.6
Debt Service	7.9
Foster Care Maintenance Payments	3.5
Assistance Payments Due to Caseload Declines	-4.6
Lower Homeowner and Renters Tax Credit Payments Based on Recent Experience	-6.1
	$94.6

Local Aid	
Teacher and Library Retirement	$174.8
Community College Formula and Other Grants ($20.0 Million) and Retirement Costs ($11.4 Million)	31.4
Local Health Department Funding Due to Salary Adjustments and Formula Growth	18.1
All Other Local Aid: Voting System and Epollbook Major IT Project Costs ($6.4 Million) and State Aid for Police Protection formula ($0.5 Million), Partially Offset by a One-time Grant in Supplemental Budget No. 2 for Artscape	5.5
Chapters 752 and 753 for Funding to Capitalize the Officer and Community Wellness Training Grant Fund and Associated Administrative Costs in GOCPYVS	1.0
One-time Legislative Additions: Grants to Baltimore City and Kent County to Increase Contribution for Schools (-$10.25 Million); Prince George's County Seniors Emergency Rental Assistance Fund (-$1.0 Million); Baltimore City Department of Recreation and Parks (-$200,000); School Composting Grants (-$250,000); and Gywnn Park High School FFA Program in Prince George's County (-$60,000)	-11.8
Disparity Grant	-37.1
All Other Education and Library Aid	-37.8
	$144.0

State Agency Costs

Statewide Personnel and Standard Inflation Adjustments	
Increments, Excluding Higher Education	$72.4
2% General Salary Increase for Fiscal 2025, Excluding Higher Education	55.1
Funding to Support Filling Vacant Positions	50.0
Pension Changes, Primarily Due to Rate Changes, Excluding Higher Education	44.1
Other Fringe Benefit Changes	30.0
FAMLI Contribution for State Employees, Including Higher Education	14.5
Anticipated Annual Salary Review Adjustments	14.1
5% COLA for SLEOLA Members	10.9
Salary Increases for Judges	4.3
	$295.4
Impact of Legislation	
Chapter 446 of 2023 for Mandated Funding for a New Statewide Rental Voucher Assistance Program and Associated Administrative Costs in DHCD	$10.3
Chapters 258 and 259 of 2023 for Reimbursements for Certain Provider Costs for the FAMLI Program for DDA and Non-Medicaid Behavioral Health Services	8.9
Chapter 546 of 2023, the Maryland the Beautiful Act, for Grants and Administrative Funds in DNR	6.7
Chapter 260 of 2025 for Mandated Funding for the 9-8-8 Trust Fund of $12 Million, Partially Offset by Fiscal 2024 Mandated Funding in MDH	6.5
Chapter 746 of 2023 for Funding for the Protecting Against Hate Crimes Grant Program and Fund, Partially Offset by Fiscal 2024 Funding for the Program in GOCPYVS	5.0
Chapters 667 and 668 of 2023 for Mandated Funding for the Long Term Care and Dementia Care Navigation Programs in MDOA	2.4
Chapters 461 and 462 for Mandated Funding for the Maryland Equitech Growth Fund and Administrative Costs, Partially Offset by Fiscal 2024 Funding for the Program in TEDCO	2.6
Chapter 651 of 2023 Possession and Permits to Carry, Wear, and Transport a Handgun for New Positions and Associated Costs in DSP	1.9
Chapters 286 and 287 of 2023 to Capitalize the Behavioral Health Workforce Investment Fund in MDH	1.0
Chapter 475 of 2023 for Mandated Funding for the Nonprofit Interest-free Micro Bridge Loan Account in Commerce	1.0
Chapters 378 and 379 of 2023 for Funding of Additional Waiver Slots for a Mental Health Case Management Program, Mandated Funding for Customized Goods and Services for Those Served Under the Program, and Administrative Costs Partially Offset by a One-time Deficiency for Consultant Costs in MDH	-2.4
Chapter 549 of 2023 for Administrative Costs of the State Disaster Recovery Fund More Than Offset by a One-time Deficiency to Capitalize the Fund	-9.7
Other New Mandates and Select Legislation	8.8
	$43.0

Other Major Agency Programmatic and Operating Expenses

MDH: DDA Community Services Due to Costs Including Provider Rate Increase and Backfilling for the End of Enhanced Federal Matches ($75.6 Million), an Increase in Provider Reimbursements for Behavioral Health for Non-Medicaid-eligible Recipients Due to Provider Rate Increases and Utilization Changes ($21.8 Million), Contractual Turnover Expectancy ($1.1 Million), an increase in the Mandate for the Prenatal and Infant Care Grant Program ($1.0 Million), Partially Offset by Provider Reimbursements for Medicaid-eligible Recipients for Non-Medicaid-eligible Services to align with Recent Experience (-$25.9 Million), One-time Behavioral Health Investments (-$9.2 Million), Lower Anticipated Costs for Board of Nursing After the Transfer of the Infrastructure Operations Under Chapters 222 and 223 of 2023 (-$3.6 Million), and a One-time Grant for B'More Healthy Babies (-$0.7 Million)	$60.1
Public Higher Education Including Mandate Changes, Formula Changes for St.Mary's College of Maryland and Baltimore City Community College, and Compensation Adjustments and Other Operating Expenses	54.5
DNR: Fund Swaps Due to Availability of Transfer Tax Revenue ($34.9 Million), Partially Offset by One-time Funding for Replacement of a Research Vessel (-$2.5 Million)	32.4
MSDE: Autism Waiver Due to Increased Slots and Change in Fund Source ($31.0 Million) and Maryland School for the Blind Formula Funding ($0.3 Million), Partially offset by One-time Funding for Grants for Engineering 4 Us All and Thread Provided in Supplemental Budget No. 2 (-$1.8 Million)	29.5
Major Information Technology Development Fund	25.4
Maryland Department of Labor for Additional Unemployment Insurance Administration Expenses Funded with Federal Funds in Fiscal 2024	12.0
Sellinger Formula Growth	6.9
DSCI: Increase in Mandates Under Chapter 37 of 2022 ($5.7 Million), Partially Offset by One-time Funding for an Evaluation Contract	4.7
BPW: Payments for Erroneously Confined Individuals ($2.1 Million) and Miscellaneous Grants ($1.5 Million)	3.6
MDA: One-time Funding for the Next Generation Farmland Acquisition Program (-$4.0 Million) and Vehicle Purchases (-$0.8 Million)	-4.8
SDAT: Primarily Due to One-time Funding for a Contract for Audits Related to the Homestead Property Tax Credit	-5.2
TEDCO: Increase in the Mandate for the Builder Fund ($1.3 Million), More Than Offset by One-time Capitalization Funds for the Maryland Equity Investment Fund (-$10.0 Million) and the End of a Mandate for the Maryland Innovation Initiative University Pilot Program (-$0.5 Million)	-9.2
Commerce: More Jobs for Marylanders Program ($3.9 Million), the Maryland State Arts Council Formula ($0.6 Million), More Than Offset by the End of Mandates for the Baltimore Symphony Orchestra and Child Care Capital Support Revolving Loan Program (-10.2 Million) and a One-time Deficiency Due to Funds for Funds Reverted in Error (-$4.5 Million)	-10.2

DHCD: Elimination of Funding for the Community Safety Works Program (-$10.0 Million) and One-time Funding for the Downtown Partnership Provided in Supplemental Budget No. 2 (-$3.0 Million)	-13.0
DPSCS: Replacing Fiscal Responsibility Funds for General Funds ($20.0 Million), Anticipated Increases in Medical and Related Contracts ($4.4 Million), Contractual Employee Turnover ($4.0 Million), and Changes in Operating Impacts of New Facilities ($0.1 Million), More Than Offset by a One-time Deficiency for Fiscal 2023 Medical Contract Related Shortfalls (-$32.6 Million), Lower Anticipated Costs for Correctional Officer Bonuses (-11.6 Million); Costs Associated with Mailroom Upgrades (-$3.4 Million), and Equipment and Energy Conservation Loan Repayment Schedule (-$0.2 Million)	-19.2
One-time Funding from Legislative Additions: Commerce (-$42.9 Million); MEMSOF (-$25.5 Million); BPW (-$13.1 Million); MDA (-$7.7 Million); DHS (-$7.0 Million); USM (-$7.0 Million); Comptroller (-$5.3 Million); GOCPYVS (-$5.2 Million); MSDE (-$4.2 Million); Judiciary (-$3.6 Million); MDP (-$2.4 Million); DHCD (-$2.2 Million); STO (-$1.8 Million); MDH (-$1.6 Million); MDOA (-$1.2 Million); and All Other Agencies (-$3.8 Million)	-134.4
Other Agency Personnel and Operating Expenses	18.4
	$51.5
Reserve Fund	
Catastrophic Event Account to Bring Balance to $10.0 Million	$0.6
Rainy Day Fund: Appropriation to Be Transferred to the Blueprint for Maryland's Future Fund in Fiscal 2024 (-$500.0 Million), Partially Offset by Required Appropriation Based on Fiscal 2023 Closing Balance ($495.5 Million)	-4.5
DPA Due to Eliminating Funding for Cybersecurity (-$152.0 Million), Payments to Erroneously Confined Individuals (-$7.7 Million), the End the Wait Act (-$6.0 Million), Partially Offset by Funding for the OPEB and Pension Sweeper ($50 Million)	-120.2
One-time Legislative Additions in the DPA: Transfer to the Blueprint for Maryland's Future Fund (-$400.0 Million); Assistance for Trauma Facilities (-$9.5 Million); Technical Assistance for HB 261 (Chapter 202 of 2023) (-$200,000)	-409.7
	-$533.8
PAYGO	
Changes to Conform to the CIP	$40.7
Changes Due to Mandates: Chapter 473 of 2023 Established a New Mandate for the Business Façade Improvement Program in DHCD ($5.0 Million), Chapter 494 of 2023 Increased the Mandate for the National Capital Strategic Economic Development Program ($5.0 Million), Adjust Funding for the Community College Facilities Renewal Grant Program to Mandated Level ($1.4 Million)	11.4
Chapter 512 of 2023 Funding to Capitalize the Transit Oriented Development Capital Grant and Revolving Loan Fund in MDOT	5.0
End of Funding in the DPA for the New Veterans Home	-6.3
One-time Funding in the DGS for Miscellaneous Grants	-52.3

One-time Funding in Supplemental Budgets in DGS ($51.1 Million), DHCD for Rental Housing Programs (-$25.0 Million), and Canal Place ($1.5 Million)	-77.6
Chapter 39 of 2022 Due to One-time Funding in DNR for the Park System Critical Maintenance Fund and Park System Capital Improvements and Acquisitions Fund and the Acceleration of Transfer Tax Repayments of the Maryland Agricultural Land Preservation Program and the Rural Legacy Program	-128.9
One-time Legislative Additions, Including Funds That Replaced General Obligation Bonds: DGS (-$188.0 Million), Healthy Schools and Public School Construction Program (-$181.0 Million), Funds in the DPA for Transportation Projects (-$100 Million), and the Kim Lamphier Bikeways Program (-$0.05 Million)	-469.0
	-$677.0
Reversions	**-$5.0**
Total	**-$587.2**

BPW: Board of Public Works
CIP: *Capital Improvement Program*
COLA: cost-of-living adjustment
Commerce: Department of Commerce
DDA: Developmental Disabilities Administration
DGS: Department of General Services
DHCD: Department of Housing and Community Development
DHS: Department of Human Services
DNR: Department of Natural Resources
DPA: Dedicated Purpose Account
DPSCS: Department of Public Safety and Correctional Services
DSCI: Department of Service and Civic Innovation
DSP: Department of State Police
FAMLI: Family and Medical Leave insurance
FFA: Future Farmers of America
GOCPYVS: Governor's office of Crime Prevention, Youth, and Victim Services
IT: information technology
MDA: Maryland Department of Agriculture
MDH: Maryland Department of Health
MDOA: Maryland Department of Aging
MDOT: Maryland Department of Transportation
MDP: Maryland Department of Planning
MEMSOF: Maryland Emergency Medical System Operations Fund
MSDE: Maryland State Department of Education
OPEB: Other Postemployment Benefits
PAYGO: pay-as-you-go
SLEOLA: State Law Enforcement officers Labor alliance
SDAT: State Department of assessments and Taxation
STO: State Treasurer's office
TEDCO: Maryland Technology Development Corporation
USM: University System of Maryland

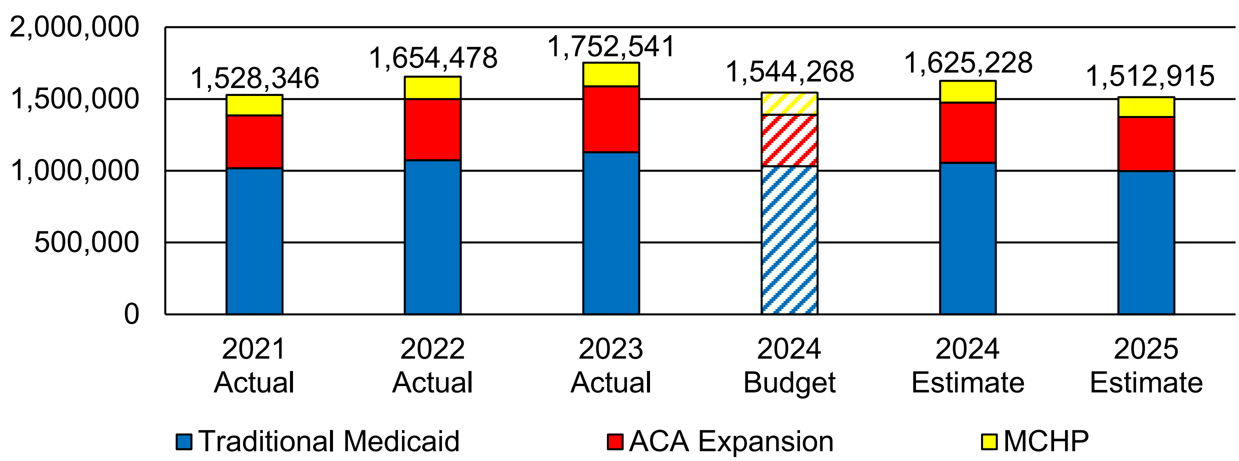
Medicaid

- As a condition of receiving enhanced federal matching funds on qualifying Medicaid and Maryland Children's Health Program (MCHP) expenditures during the national COVID-19 public health emergency (PHE), the Maryland Department of Health (MDH) was required to freeze disenrollments with limited exceptions.

- The continuous enrollment requirement was initially set to end when the national COVID-19 PHE terminated. However, the Consolidated Appropriations Act of 2023 ended this requirement on April 1, 2023, regardless of when the PHE expired. Maryland started a 12-month redetermination schedule (referred to as the unwinding period) on April 1, and the first disenrolled individuals lost Medicaid coverage at the end of May 2023.

- The baseline projects that fiscal 2024 and 2025 average monthly enrollment will fall to 1.63 million and 1.51 million enrollees, respectively, as Medicaid and MCHP caseloads gradually approach prepandemic levels given the ongoing unwinding of the continuous eligibility and general economic improvement.

Medicaid and MCHP Average Monthly Enrollment
Fiscal 2021-2025 Estimate



ACA: Affordable Care Act
MCHP: Maryland Children's Health Program

Source: Maryland Department of Health; Department of Legislative Services

- Early redetermination results have yielded lower disenrollments than expected, partially due to a system error causing MDH to temporarily pause procedural disenrollments, *i.e.*, cases in which participants did not complete their renewals or had outstanding verification documents. MDH has also implemented outreach efforts and federal waiver flexibilities that aim to keep eligible participants enrolled in Medicaid and MCHP. As a result, the baseline anticipates about 81,000 more participants per month in fiscal 2024 than the fiscal 2024 legislative appropriation.

- Considering the ongoing changes to the redetermination process leading to fewer disenrollments, the full impact of the unwinding period on enrollment is difficult to project, making enrollment estimates more uncertain than usual.

Medicaid and MCHP Expenditures
Fiscal 2023-2025 Baseline
$ in Millions

	Actual 2023	Adjusted 2024	Baseline 2025	$ Change Adjusted 2024 – 2025 Baseline	% Change Adjusted 2024 – 2025 Baseline
General Funds	$4,505.5	$4,964.9	$5,098.8	$133.9	2.7%
Special Funds	792.8	671.4	749.9	78.5	11.7%
Federal Funds	9,696.9	9,108.9	8,706.9	-402.0	-4.4%
Total	**$14,995.2**	**$14,745.1**	**$14,555.6**	**-$189.6**	**-1.3%**

MCHP: Maryland Children's Health Program

Note: Fiscal 2023 includes $153 million to account for insufficient funds carried over to reimburse fiscal 2023 bills in the following year. Fiscal 2024 includes anticipated deficiencies and accelerated provider rate increases budgeted in the Maryland Department of Health Office of the Secretary. Expenditures reflect Medicaid and MCHP provider payments (including Medicaid-funded behavioral health services) and some administrative costs.

Source: Department of Budget and Management; Department of Legislative Services

- Due to higher fiscal 2024 enrollment projections compared to what was anticipated in the fiscal 2024 legislative appropriation, the baseline includes deficiency appropriations of $602.5 million in total funds ($33.5 million in general funds and $569 million in federal funds). Based on the enrollment mix, which was predominantly the Affordable Care Act expansion group that receives a 90% federal fund match, the deficiency is mainly supported with federal funds.

- The largest factor in the net $189.6 million decline in total fiscal 2025 spending is a $644.2 million reduction resulting from enrollment and utilization changes, driven by the significant caseload decrease after the continuous enrollment requirement ends.

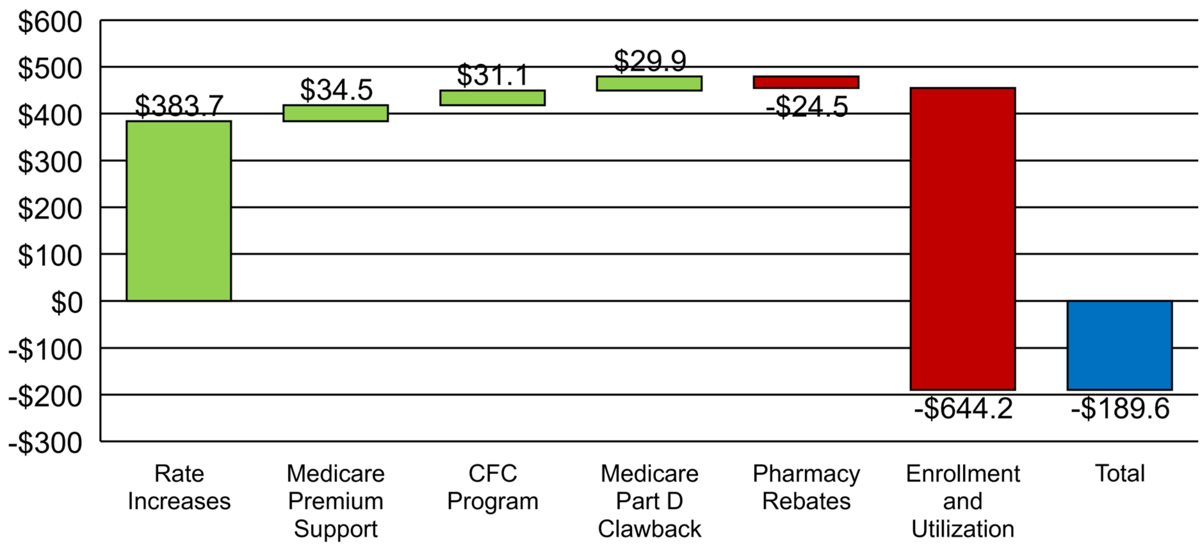
- Total spending reductions are partially offset by an increase of $383.7 million in provider rates due to the following three factors.

  - First, provider rates grow to annualize an 8% rate increase for specified Medicaid providers that takes effect January 1, 2024, representing rate increases that would have been provided in fiscal 2025 and 2026 under prior law. This occurred in accordance with Chapter 2 of 2023 (the Fair Wage Act) accelerating the increase in the State minimum wage.

  - In addition, the baseline assumes that the specified providers will receive a 2% rate increase, effective July 1, 2024.

  - Finally, an average 2.3% increase in calendar 2024 managed care organization rates accounts for most of the remaining rate increase costs.

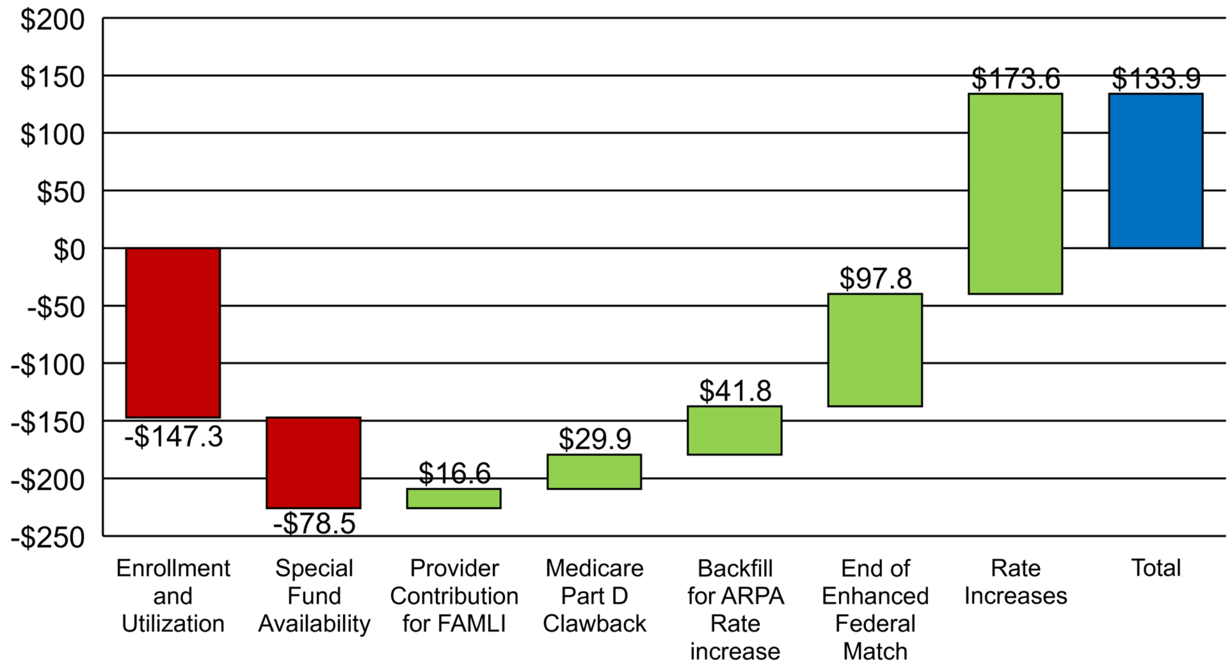
Declining Enrollment Following the COVID-19 PHE Unwinding Period Drives Net Reduction in Fiscal 2025 Total Fund Spending
($ in Millions)



CFC: Community First Choice
PHE: public health emergency

- As shown in the following exhibit, general fund spending in fiscal 2025 reflects a net increase of $133.9 million, largely supporting $173.6 million in various rate increases and the annualization of the 8% accelerated provider rate increase. This growth is partially offset by a reduction of $147.3 million due to declining enrollment and changes in utilization. The lower impact on State funding compared to overall spending is due to the enrollment mix.

Rate Increases and Backfilling One-time Fiscal 2024 Federal Funding Drives Fiscal 2025 General Fund Growth
($ in Millions)



ARPA: American Rescue Plan Act
FAMLI: Family and Medical Leave Insurance

- General funds increase by a total of $139.6 million to backfill the following enhanced federal matching funds that expire in fiscal 2024.

  - The Families First Coronavirus Response Act of 2020 initially authorized states to receive enhanced federal matching funds on Medicaid spending during the COVID-19 PHE, but the Consolidated Appropriations Act established a phase-out timeline that ends after calendar 2023. General fund spending increases by $97.8 million in fiscal 2025 to backfill MDH's enhanced federal fund claiming in the first two quarters of fiscal 2024.

  - The American Rescue Plan Act (ARPA) of 2021 authorized a temporary enhanced federal match for home- and community-based services (HCBS) that must be reinvested to enhance those services by March 31, 2024. MDH allocated most of the ARPA funds to HCBS provider rate increases ranging from 5.2% to 5.5% and indicated that the rate increases will continue beyond March 31, 2024 using State and federal funds. As a result, the baseline includes $41.8 million in general funds to replace ARPA funds.

Part 4

State Employment

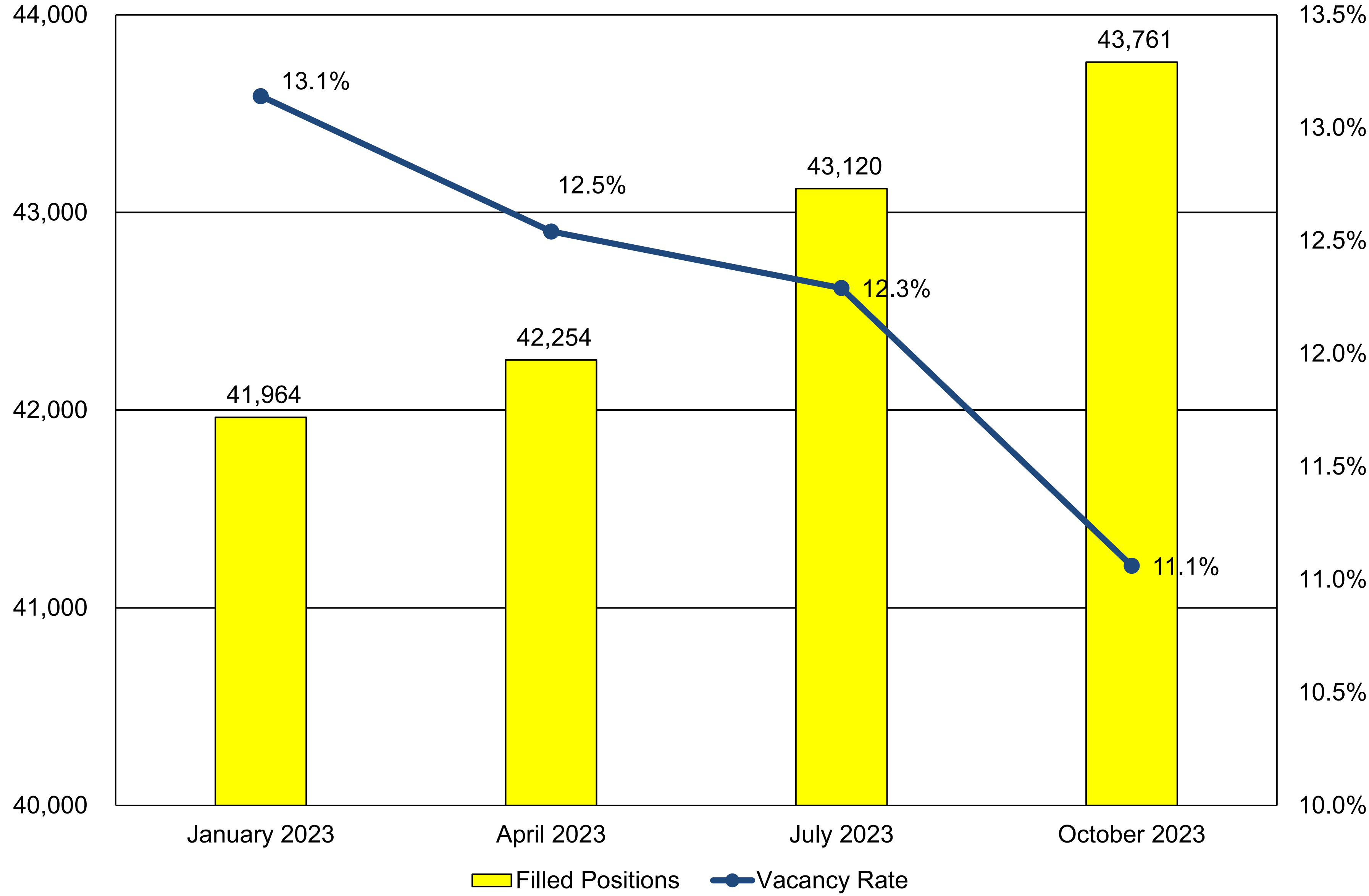
Analysis of Vacancies and Turnover Rate
Executive Branch, Excluding Higher Education
Fiscal 2024 Legislative Appropriation Compared to October 2023 Vacancies

Department/Service Area	Positions	Budgeted Turnover Rate	Vacancies to Meet Turnover	October Vacancies	Vacancies Above (or Below) Turnover	October Vacancy Rate
Largest Six State Agencies						
Public Safety and Correctional Services	9,217	12.7%	1,172	1,150	-21	12.5%
Human Services	5,979	7.0%	421	656	234	11.0%
Health	6,445	8.7%	564	756	192	11.7%
Police and Fire Marshal	2,544	7.1%	180	304	124	12.0%
Juvenile Services	2,163	5.9%	128	243	115	11.2%
Transportation	9,058	5.6%	504	716	213	7.9%
Subtotal	***35,405***	***7.2%***	***2,969***	***3,825***	***856***	***10.8%***
Other Executive						
Legal (Excluding Judiciary)	1,629	5.5%	89	257	168	15.8%
Executive and Administrative Control	1,763	4.7%	83	199	116	11.3%
Financial and Revenue Administration	2,257	6.3%	142	232	90	10.3%
Budget and Management and DoIT	530	5.3%	28	68	40	12.8%
Retirement	192	5.0%	10	26	16	13.5%
General Services	703	5.1%	36	55	19	7.8%
Service and Civic Innovation	32	12.8%	4	10	6	31.4%
Natural Resources	1,462	5.4%	79	220	141	15.0%
Agriculture	409	7.1%	29	27	-3	6.5%
Labor	1,417	5.1%	72	175	103	12.4%
MSDE and Other Education	1,888	5.3%	100	163	63	8.6%
Housing and Community Development	355	4.8%	17	23	6	6.5%
Commerce	186	4.1%	8	17	9	9.1%
Environment	959	5.7%	54	146	92	15.2%
Subtotal	***13,783***	***5.4%***	***751***	***1,617***	***866***	***11.7%***
Executive Branch Subtotal	**49,187**	**7.4%**	**3,720**	**5,442**	**1,723**	**11.1%**

DoIT: Department of Information Technology
MSDE: Maryland State Department of Education

Source: Department of Budget and Management; Department of Legislative Services

Filled Positions and Vacancy Rate
January 2023 to October 2023



Baseline Position Changes
Fiscal 2024 Legislative Appropriation to Fiscal 2025 Baseline

Department/Service Area	Fiscal 2024 Leg. Approp.	Change	Fiscal 2025 Baseline
Health and Human Services			
Health	6,445	44.75	6,490
Human Services	5,979		5,979
Juvenile Services	2,163		2,163
Subtotal	***14,586***	***44.75***	***14,631***
Public Safety			
Public Safety and Correctional Services	9,217		9,217
Police and Fire Marshal	2,544	28.50	2,572
Subtotal	***11,761***	***28.50***	***11,789***
Transportation	9,058		9,058
Other Executive			
Legal (Excluding Judiciary)	1,629	26.00	1,655
Executive and Administrative Control	1,763	134.00	1,897
Financial and Revenue Administration	2,257	4.00	2,261
Budget and Management and IT	530		530
Retirement	192		192
General Services	703		703
Service and Civic Innovation	32		32
Natural Resources	1,462	19.00	1,481
Agriculture	409	2.00	411
Labor	1,417	186.00	1,603
MSDE and Other Education	1,888	1.50	1,889
Housing and Community Development	355	2.00	357
Commerce	186	1.00	187
Environment	959	6.00	965
Subtotal	*13,783*	*381.50*	*14,164*
Executive Branch Subtotal	***49,187***	***454.75***	***49,642***
Higher Education	28,447	504.30	28,952
Judiciary	4,159	3.00	4,162
Legislature	801		801
Grand Total	**82,595**	**962.05**	**83,557**

IT: information technology MSDE: Maryland State Department of Education

Higher Education: 504.3 postions created with flex authority
Department of Labor: 184 positions needed to support administration of the Family and Medical Leave Insurance program
Maryland Department of Health: 144 contractual conversions across departments; 83 positions transferred from the Maryland Medical Cannabis Commission (MMCC) to the Maryland Cannabis Administration (MCA)
Department of Natural Resources: 19 positions needed to support various 2023 session legislation
Office of the Attorney General: New positions and converted contractual positions to support 2023 session legislation; positions added to support legislation that was funded in Section 19 of the budget bill
Public Service Commission: 12 positions needed to support 2023 session renewable energy legislation (Chapters 95, 570, and 652)
MCA: 110 positions transferred to the newly established agency from the Alcohol and Tobacco Commission and MMCC
Alcohol, Tobacco, and Cannabis Administration: Transferred 27 positions to the newly established MCA
Treasurer: Previously funded positions transferred from Maryland 529 program
Maryland State Police: 28.5 positions needed to support 2023 session legislation

Note: 185 positions have already been authorized by the Board of Public Works.

State Retirement and Pension System

Employer Pension Contributions
Fiscal 2024-2025
($ in Millions)

	2024	2025	$ Change	% Change
Employees' Combined	$844.2	$958.9	$114.7	13.6%
Teachers' Combined – State Share	839.9	1,030.0	190.1	22.6%
State Police	134.1	157.4	23.3	17.4%
Judges	27.1	31.1	4.0	14.8%
Law Enforcement Officers	47.7	51.4	3.7	7.8%
State Total	**$1,893.0**	**$2,228.8**	**$335.8**	**17.7%**
Teachers' Combined – Local Share	$380.2	$397.1	$16.9	4.4%
Total	**$2,273.2**	**$2,625.9**	**$352.7**	**15.5%**

Note: Totals for "Teachers' Combined – State share" include State contributions for employees of local school boards, community colleges, and libraries. They do not include State contributions to the Optional Retirement Program for higher education faculty and staff.

Source: State Retirement Agency; Department of Budget and Management; Department of Legislative Services

- The State contribution includes the mandated supplemental contribution of $75.0 million; the fiscal 2024 supplemental contribution was reduced to $35.2 million. The contribution also includes $25.0 million from the pension sweeper provision, which was not included in the fiscal 2024 budget as enacted.

- In addition to the inclusion of a higher supplemental contribution and the sweeper contribution, multiple other factors contribute to the large increase in State pension contributions:

  - **Investment returns** for the year ending June 30, 2023, were 3.1%, below the assumed rate of return of 6.8% for the second consecutive year. As a result, the five-year smoothed rate of return, which is used to calculate the contribution rate, was 5.51%, which is also below the assumed rate. This adds to State costs but not local school districts' costs since the State funds all investment losses.

  - **Payroll growth** across all plans totaled 8.9%, which was substantially higher than the assumed payroll growth of 2.75%;

- **Cost-of-living adjustments (COLA) for retirees** increased more than assumed due to persistent high rates of inflation; uncapped COLAs for many retirees were 8.0%.

- Investment underperformance relative to the 6.8% assumed rate of return is due to underlying weakness in global financial markets. The system’s investment program has outperformed its benchmarks in each of the past three years. For fiscal 2023, the system’s 3.14% return exceeded the benchmark of 2.20% by 94 basis points.

Part 5

Local Government Assistance

State Aid by Governmental Entity
Amount and Percent of Total
($ in Millions)

	Fiscal 2025 State Aid Amount	Percent of Total
Public Schools	$9,028.9	83.8%
Libraries	96.4	0.9%
Community Colleges	506.8	4.7%
Local Health	133.8	1.2%
County/Municipal	1,003.1	9.3%
Total	**$10,769.0**	**100.0%**

Change in State Aid
($ in Millions)

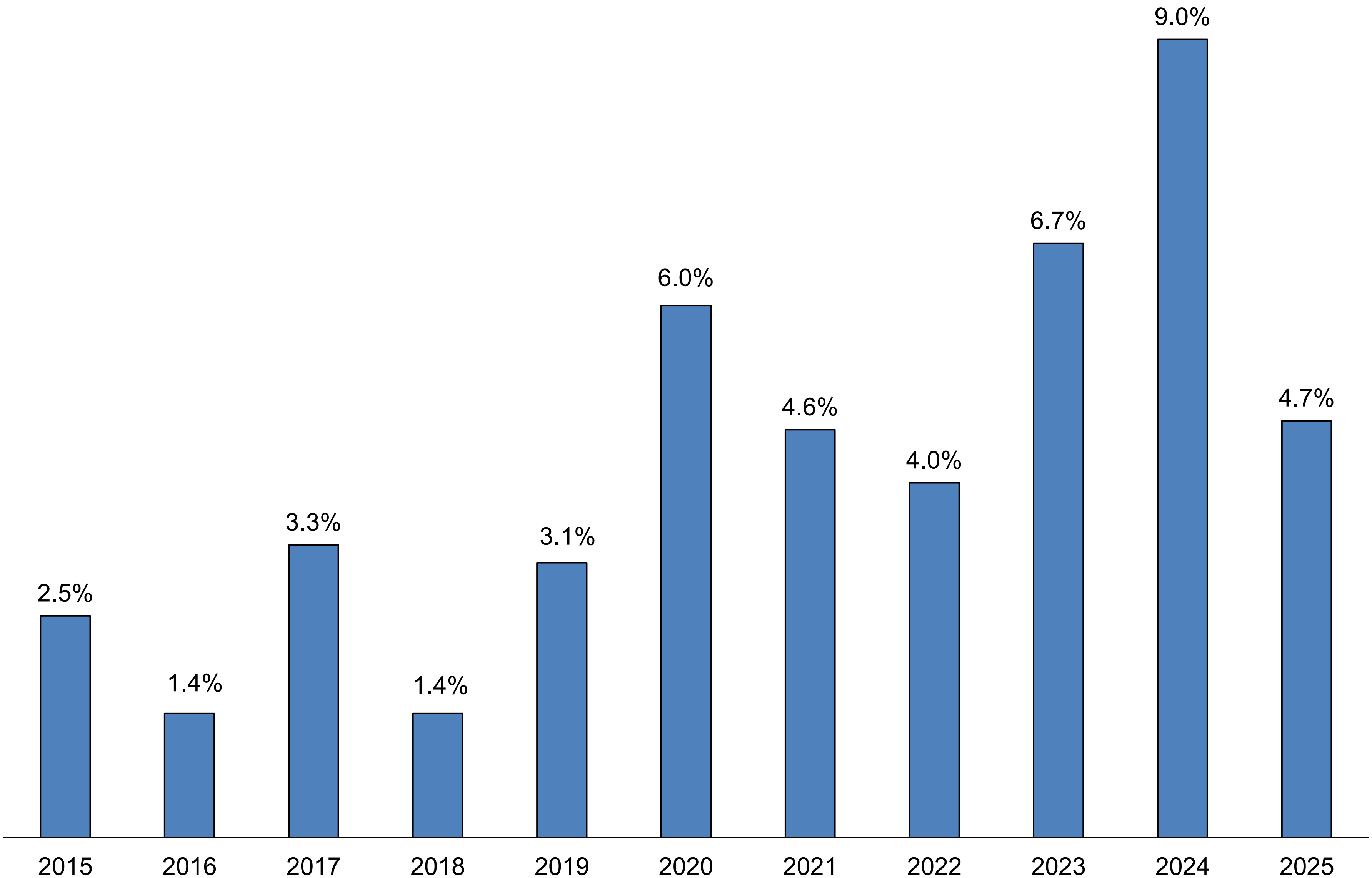
	Fiscal 2025 Aid Change	Percent Change
Public Schools	$385.8	4.5%
Libraries	5.1	5.6%
Community Colleges	31.4	6.6%
Local Health	18.1	15.6%
County/Municipal	39.5	4.1%
Total	**$479.8**	**4.7%**

State Aid by Major Programs
State Funds
Fiscal 2022-2025
($ in Millions)

	2022	2023	2024	2025	Difference	Percent Difference
Public Schools						
Foundation Programs	$3,413.3	$3,817.4	$3,958.1	$3,953.6	-$4.6	-0.1%
Compensatory Aid	1,286.6	1,295.2	1,686.1	1,667.7	-18.4	-1.1%
English Learners Grant	334.3	422.5	473.5	529.0	55.5	11.7%
Special Education - Formula Aid	311.1	401.3	466.0	509.6	43.7	9.4%
Special Education - Nonpublic	126.7	141.4	149.1	156.5	7.3	4.9%
Student Transportation	288.1	336.0	363.4	367.6	4.2	1.2%
Guaranteed Tax Base	49.9	45.8	56.8	61.6	4.8	8.4%
Head Start/Pre-Kindergarten	29.6	29.6	29.6	29.6	0.0	0.0%
Blueprint Programs	811.9	595.4	561.4	705.8	144.5	25.7%
Other Education Programs	91.7	146.1	154.2	132.4	-21.8	-14.2%
Subtotal Direct Aid	***$6,743.1***	***$7,230.6***	***$7,898.2***	***$8,113.3***	***$215.1***	***2.7%***
Retirement Payments	$779.0	$724.6	$745.0	$915.7	$170.7	22.9%
Total Public School Aid	**$7,522.1**	**$7,955.2**	**$8,643.2**	**$9,028.9**	**$385.8**	**4.5%**
Libraries						
Library Aid Formula	$44.7	$47.7	$48.7	$49.5	$0.8	1.6%
State Library Network	19.8	21.0	21.4	21.7	0.2	1.2%
Subtotal Direct Aid	***$64.4***	***$68.7***	***$70.1***	***$71.1***	***$1.0***	***1.5%***
Retirement Payments	$20.1	$20.8	$21.2	$25.3	$4.1	19.1%
Total Library Aid	**$84.6**	**$89.4**	**$91.3**	**$96.4**	**$5.1**	**5.6%**
Community Colleges						
Community College Formula	$290.1	$355.1	$393.3	$414.5	$21.2	5.4%
Other Programs	34.0	35.3	37.0	37.3	0.3	0.8%
Subtotal Direct Aid	***$324.1***	***$390.4***	***$430.3***	***$451.8***	***$21.5***	***5.0%***
Retirement Payments	$46.0	$45.0	$45.1	$55.0	$9.9	21.9%
Total Community College Aid	**$370.1**	**$435.3**	**$475.4**	**$506.8**	**$31.4**	**6.6%**
Local Health Grants	**$80.6**	**$101.3**	**$115.8**	**$133.8**	**$18.1**	**15.6%**
County/Municipal Aid						
Transportation	$285.0	$294.6	$337.1	$418.9	$81.7	24.2%
Public Safety	168.8	221.2	217.7	217.9	0.3	0.1%
Disparity Grant	158.2	161.2	220.2	183.1	-37.1	-16.8%
Gaming Impact Aid	104.3	107.1	105.4	106.5	1.1	1.0%
Other Grants	70.4	70.4	83.2	76.7	-6.5	-7.8%
Total County/Municipal Aid	**$786.7**	**$854.6**	**$963.6**	**$1,003.1**	**$39.5**	**4.1%**
Total State Aid	**$8,844.0**	**$9,435.9**	**$10,289.2**	**$10,769.0**	**$479.8**	**4.7%**

Source: Department of Legislative Services

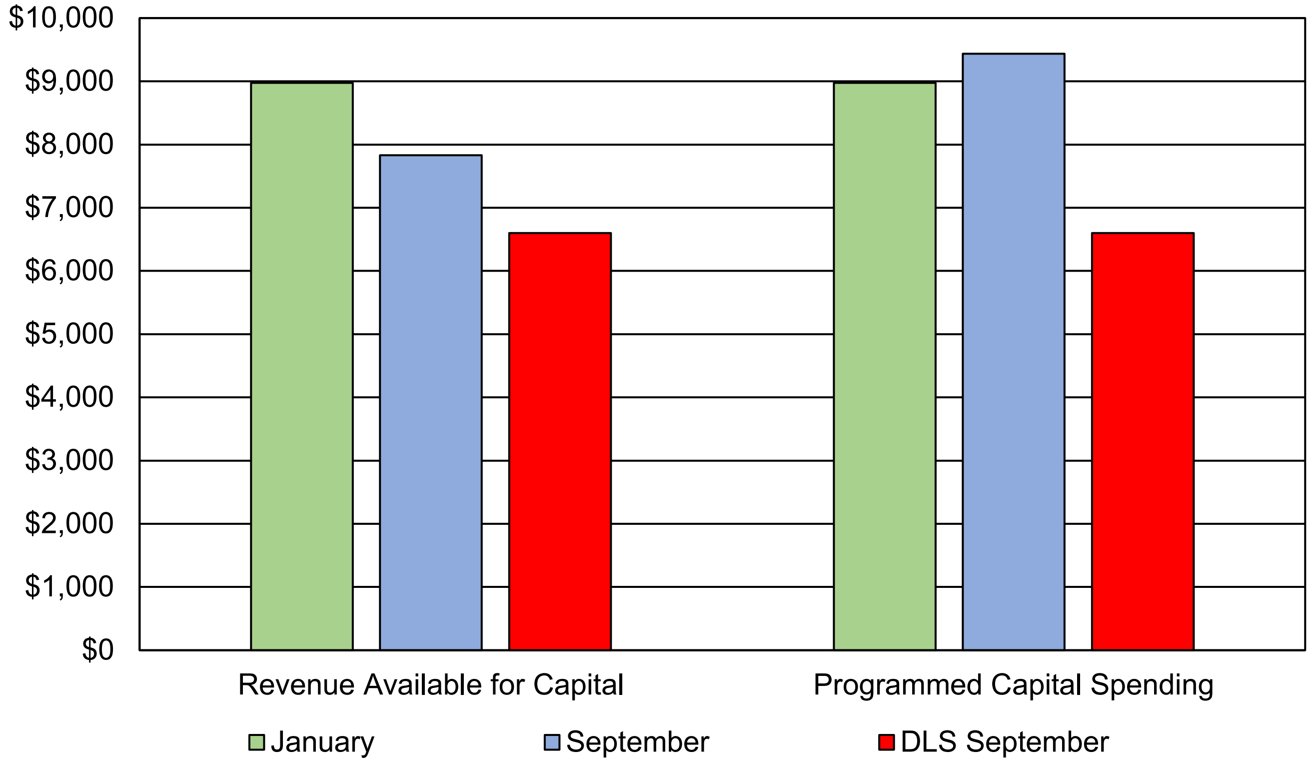
Annual Change in State Aid to Local Governments
Fiscal 2015-2025



Part 6

Transportation

Transportation Capital Revenues and Capital Spending
January 2023 vs. September Draft 2023 Forecasts
Fiscal 2024-2028
($ in Millions)



DLS: Department of Legislative Services

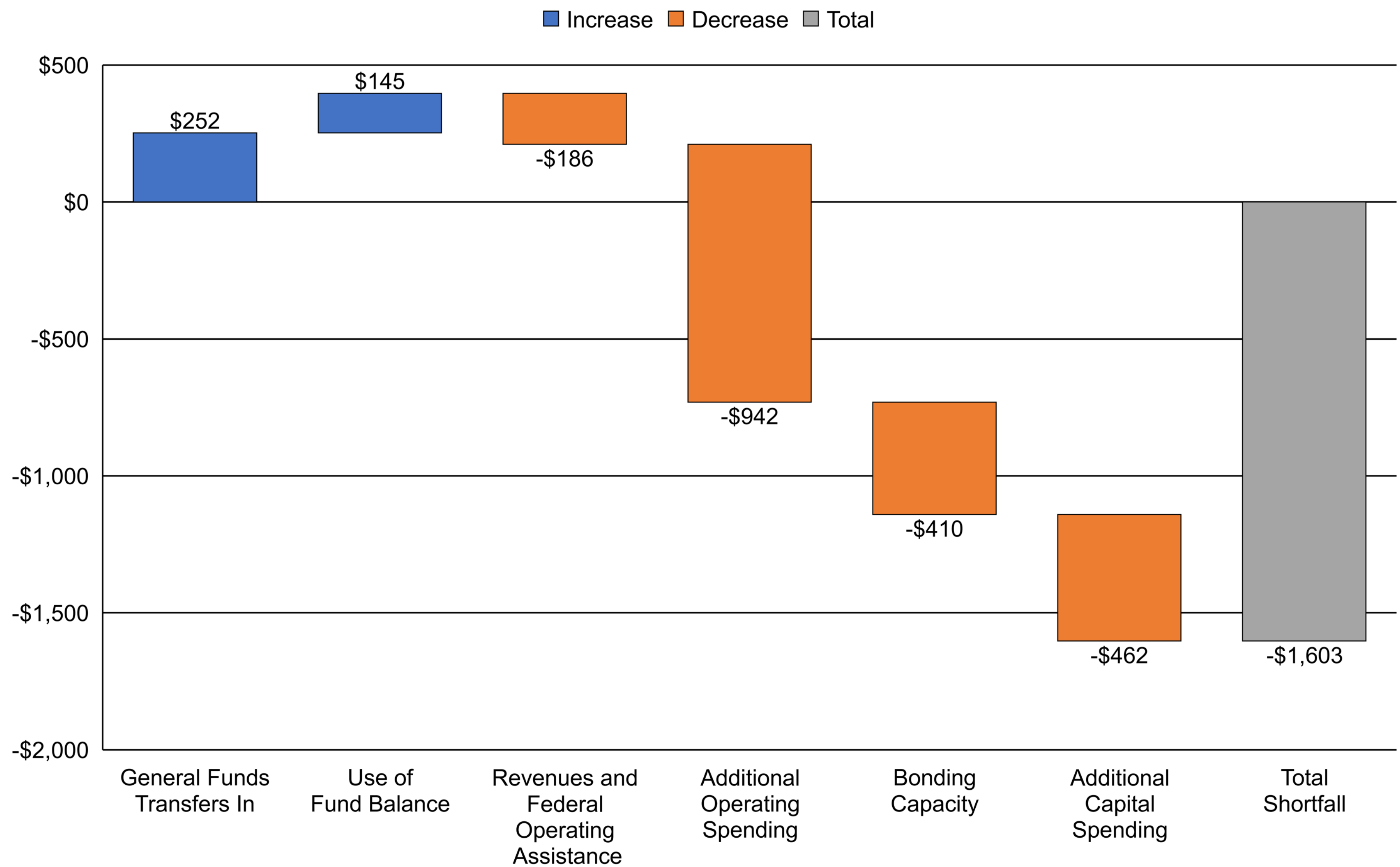
- The draft fiscal 2024-2029 *Consolidated Transportation Program* (CTP) submitted in September is not balanced. Programmed capital spending exceeds projected funding by $2.1 billion over the six-year program.

- The September draft forecast by the Maryland Department of Transportation (MDOT) projected a $1.1 billion decrease in funding available for the capital program between fiscal 2024 and 2028 but programmed an additional $462 million in capital spending relative to its January 2023 forecast.

- This results in a $1.6 billion shortfall between capital funding availability and capital spending between fiscal 2024 and 2029.

- The Department of Legislative Services (DLS) forecast projects a further $1.2 billion decrease in funding available for capital spending that increases the five-year shortfall to $2.8 billion and increases the fiscal 2025 shortfall from the $101 million projected by MDOT to $511 million in the DLS forecast.

Components of Capital Funding Shortall
($ in Millions)



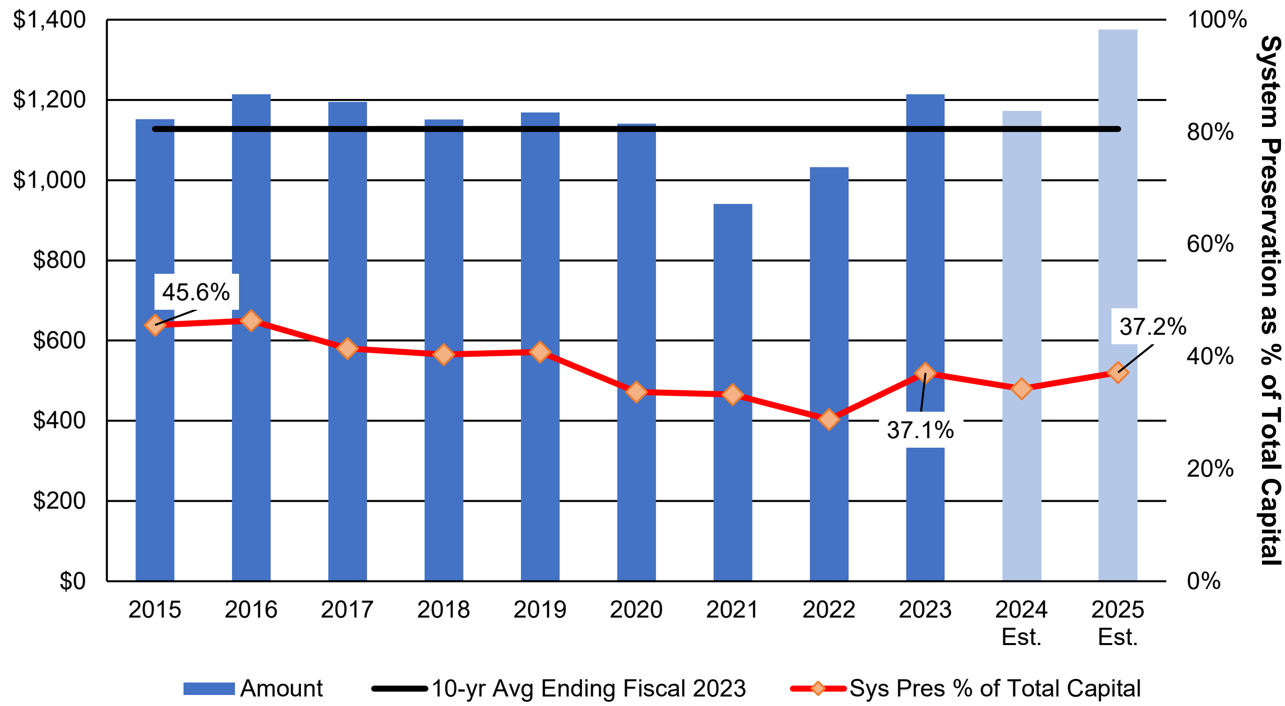
Chapters 27 and 563 of 2022 require the Spending Affordability Committee to include recommendations in the report it submits to the Legislative Policy Committee and the Governor on:

- A recommended fund balance for the Transportation Trust Fund (TTF); and

- A recommended minimum expenditure level for system preservation by MDOT.

- MDOT's target closing balance for the TTF is set to meet projected working cash flow needs. The draft TTF forecast has a target closing balance of $325 million in fiscal 2025. This level is unchanged from the target closing balance anticipated in the January 2023 financial forecast and is reasonable based on expected federal funding for the capital program.

Consolidated Transportation Program Year 1 (Working Appropriation)
System Preservation Programmed Funding
($ in Millions)



- Spending of $1.63 billion is needed for State of Good Repair (SOGR), which is roughly analogous to system preservation, in fiscal 2025 to prevent the SOGR unfunded backlog from growing: however the draft *Consolidated Transportation Program* includes only $879 million.

- MDOT reports that the 10-year SOGR funding gap is $11.2 billion.

Transportation Trust Fund Forecast Comparisons
Fiscal 2024-2028
($ in Millions)

	MDOT Jan. 2023	MDOT Sept. 2023	Diff.	DLS Oct. 2023	Diff.
Revenues					
Taxes and Fees	$18,594	$18,445	-$149	$18,682	$237
Operating and Other Revenues	2,800	2,776	-24	2,776	0
Federal Operating Assistance	567	566	-1	566	0
Federal COVID/Stimulus	135	121	-14	121	0
Bond Proceeds and Premiums	1,800	1,390	-410	236	-1,154
General Fund Transfers In	835	1,087	252	1,087	0
Use of Fund Balance	193	338	145	482	144
Total Revenues	**$24,924**	**$24,723**	**-$201**	**$23,950**	**-$733**
Expenditures					
Debt Service	$2,256	$2,246	-$11	$2,107	-$138
Operating Budget	13,241	14,194	953	14,792	598
Deductions to Other Agencies	451	450	-2	450	0
Highway User Revenues Grants	1,994	1,976	-19	2,026	50
State Capital Program	6,981	5,858	-1,123	4,575	-1,283
Total Expenditures	**$24,924**	**$24,723**	**-$201**	**$23,950**	**-$773**

DLS: Department of Legislative Services
MDOT: Maryland Department of Transportation

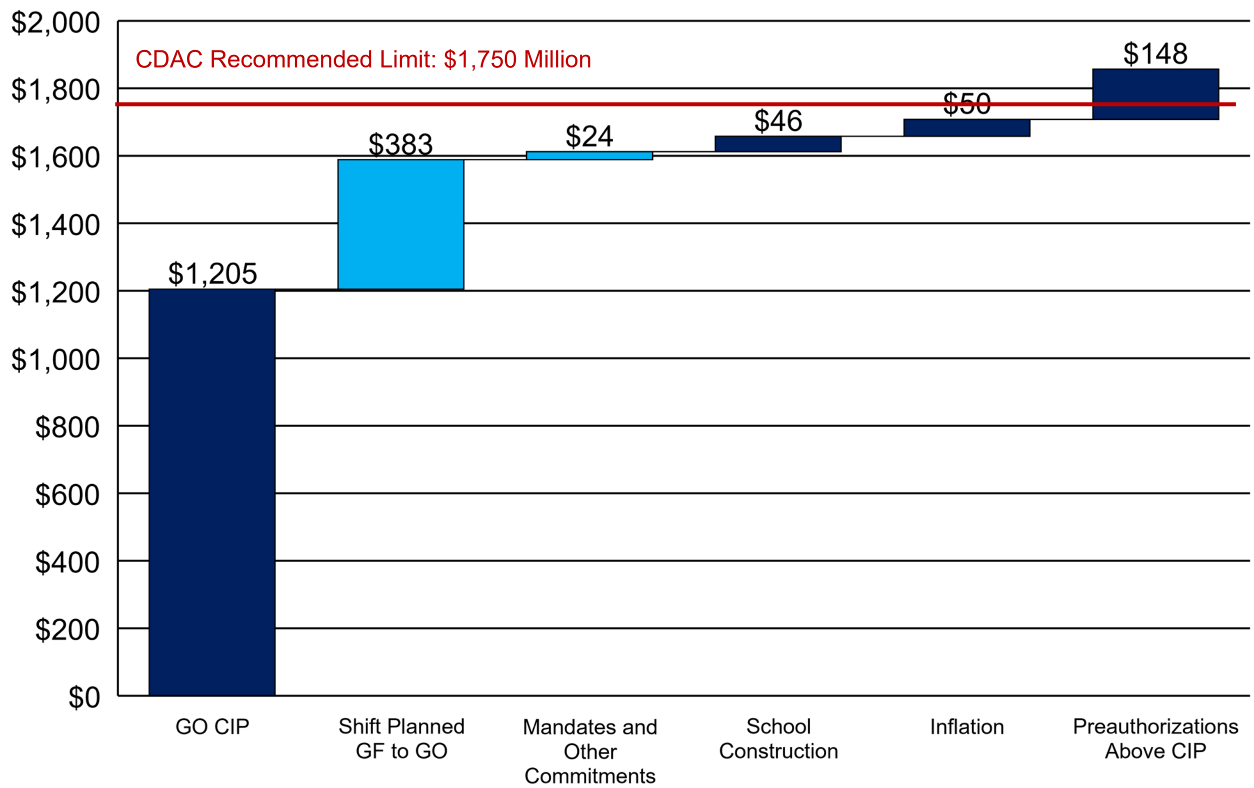
Note: Numbers may not sum to total due to rounding

Part 7

Capital Program and State Debt Policy

Capital Program

Capital Commitments and Other Fiscal Pressures Total $1.856 Billion
($ in Millions)



Indicates items accounted for in the baseline general fund assumptions totaling $407 million.

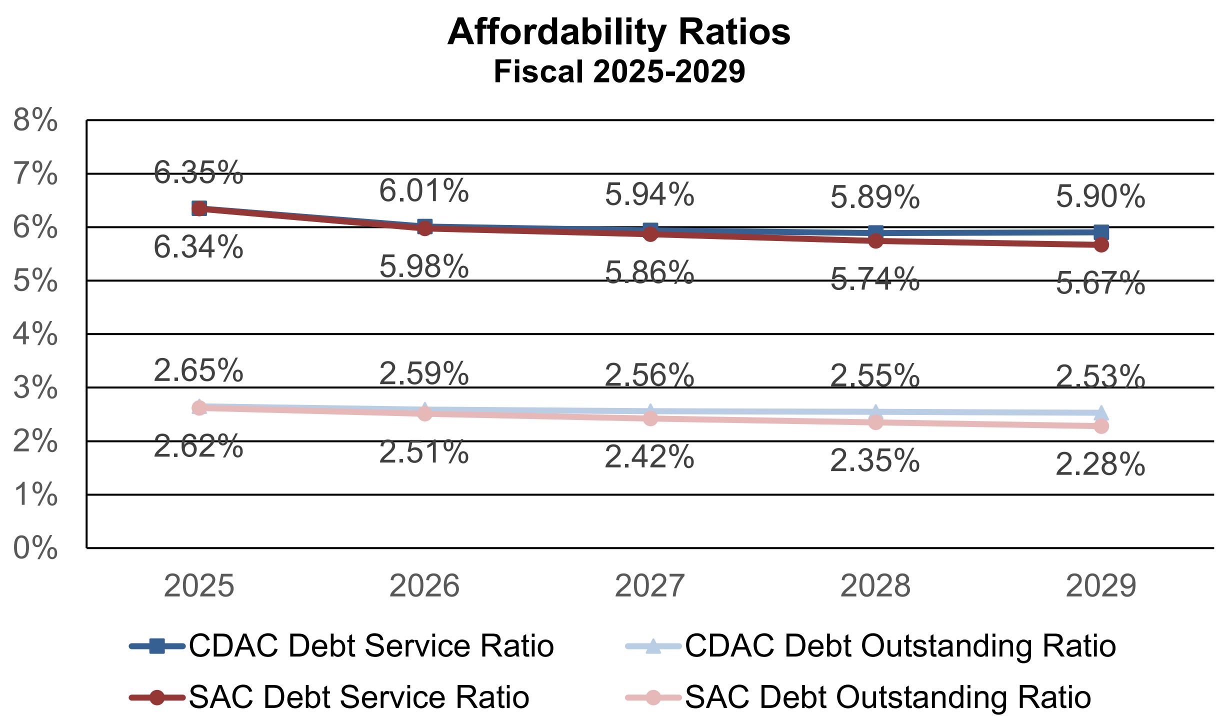
CDAC: Capital Debt Affordability Committee
GF: general funds
CIP: *Capital Improvement Program*
GO: general obligation

Note: Planned general funds excludes $22 million for the Historic Revitalization Tax Credit and $167 million for the Washington Metropolitan Area Transit Authority, as these are assumed to be funded with general funds in fiscal 2025. School construction funding represents the amount needed above the CIP to reach the $450 million annual commitment outlined in Chapter 32 of 2022. Mandates and other commitments include $5 million for the Transit-Oriented Development Capital Grant and Revolving Loan Fund (Chapter 512 of 2023), $5 million for the Business Façade Improvement Program (Chapter 437 of 2023), an increase of $5 million for the National Capital Strategic Economic Development Program (Chapter 494 of 2023), and $9 million to support an ongoing commitment to the Downtown Partnership of Baltimore.

Source: 2023 *Capital Improvement Program*; Department of Legislative Services

State Debt Affordability Ratios

- The Capital Debt Affordability Committee (CDAC) develops State debt policy. CDAC has two affordability criteria:
  - State debt service cannot exceed 8% of State revenues; and
  - State debt outstanding cannot exceed 4% of personal income.
- In 2022, the Spending Affordability Committee (SAC) recommended that $1.25 billion in general obligation bonds should be authorized in fiscal 2025. SAC also recommended increasing the authorization by 4% annually, so that authorizations increase to $1.465 billion by fiscal 2029.
- CDAC has recommended authorizing $1.75 billion annually from fiscal 2025 to 2029.



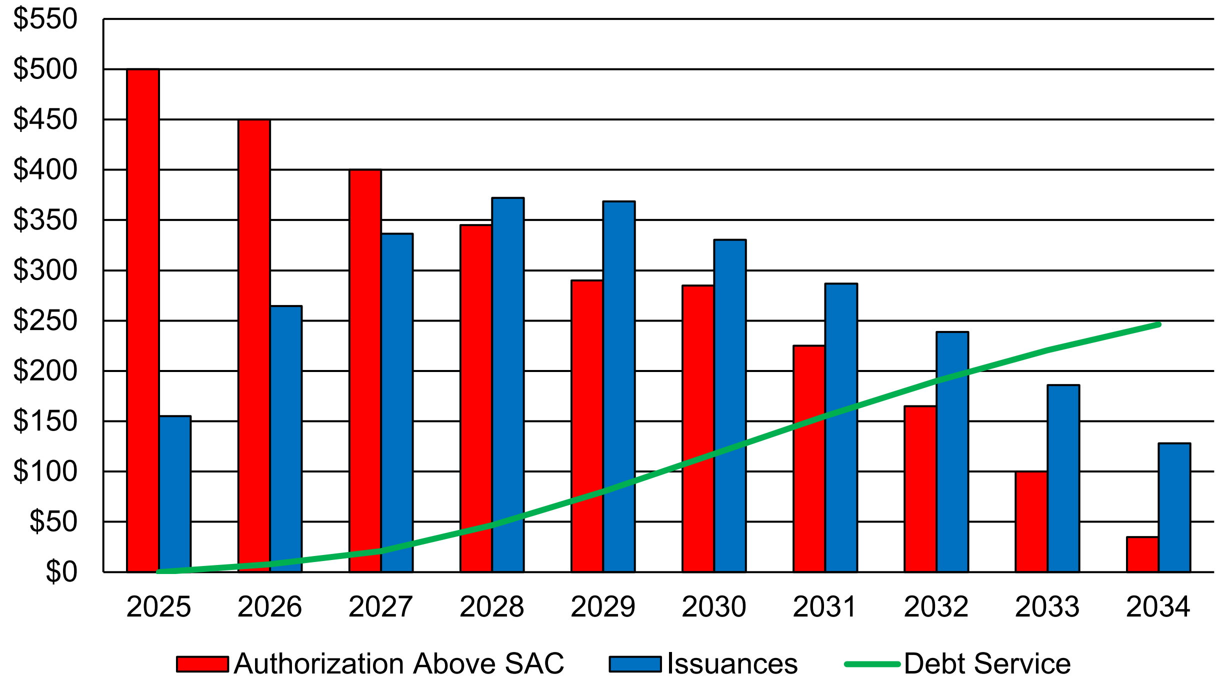
CDAC: Capital Debt Affordability Committee
SAC: Spending Affordability Committee

Source: Board of Revenue Estimates; Maryland Department of Transportation; State Treasurer's Office; Maryland Stadium Authority; Maryland Department of the Environment; Capital Debt Affordability Committee; State Department of Assessments and Taxation; Department of Legislative Services

Effect of Increased Bond Authorizations on Debt Service Costs

- CDAC recommends increasing the fiscal 2025 authorization by $500 million and maintaining $1.75 billion in authorizations indefinitely.
- The effect of increased authorizations is delayed because (1) State debt is issued as funds are needed by capital projects and (2) there are no principal payments until the third year. Consequently, the short-term effects of increasing authorizations are minimal.
- Authorizing $1.75 billion annually increases debt service costs by $246 million by the end of the forecast period in fiscal 2034.

Effect of CDAC Authorizations on Issuances and Debt Service Costs
Fiscal 2025-2034
($ in Millions)



CDAC: Capital Debt Affordability Committee
SAC: Spending Affordability Committee

Source: State Department of Assessments and Taxation; State Treasurer's Office; Department of Legislative Services

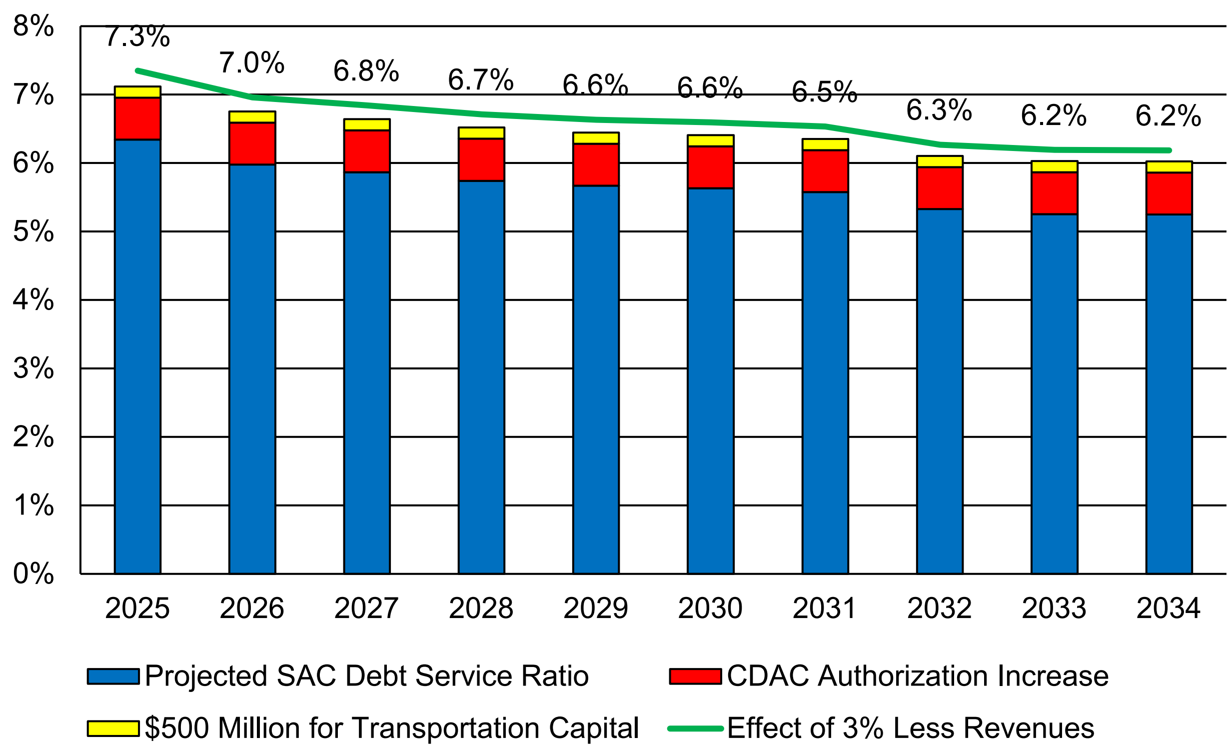
Effect of Increased Bond Authorizations on Debt Service to Revenues Ratio

- Assuming maximum debt service costs, the increase in general obligation bond authorizations adds 51 basis points (0.51%) to the debt service to revenues ratio.

- The Department of Legislative Services estimates that the transportation capital program declines by $0.93 billion from fiscal 2024 to 2029. To illustrate possible impacts of moderating this decline, if $500 million in additional funds are available to the Transportation Trust Fund annually, transportation bond issuances add another 16 basis points (0.16%) to the debt service to revenues ratio.

- A modest recession, in which revenues underperform by 3%, adds another 16 to 20 basis points (0.16% to 0.2%) to the debt service to revenues ratio.

Debt Service to State Revenues Affordability Outlook
Fiscal 2025-2034



CDAC: Capital Debt Affordability Committee

SAC: Spending Affordability Committee

Source: Board of Revenue Estimates; Maryland Department of Transportation; State Treasurer's Office; Maryland Stadium Authority; Maryland Department of the Environment; Capital Debt Affordability Committee; State Department of Assessments and Taxation; Department of Legislative Services

By Any Measure, Maryland Is a High Debt State: Ranking AAA-rated States' Long-term Liabilities

State	Total Long-term Liabilities to Revenues	State Debt to Personal Income	Implied Debt Service to Revenues	Net Pension Liability to Personal Income	Net OPEB Liability to Personal Income	Capital Asset Depreciation Ratio
Maryland	7	10	12	9	13	8
Delaware	12	4	11	18	2	36
Texas	13	33	31	20	11	49
Missouri	23	42	36	30	20	24
Iowa	34	42	41	24	36	18
Virginia	37	18	17	42	31	46
Indiana	38	45	44	29	44	6
Florida	39	37	26	50	27	21
Georgia	40	26	20	47	31	20
North Carolina	41	32	34	42	22	50
Minnesota	42	23	26	34	36	22
Utah	44	30	30	37	44	42
Tennessee	49	47	16	49	31	41
South Dakota	50	40	44	36	44	44

OPEB: Other Postemployment Benefits

Note: Rankings compare 50 states and do not include the District of Columbia or territories. Lower rankings signifying higher liabilities. Maryland and AAA-rated states ranked higher than Maryland are shaded. Revenues include lottery revenues. Implied debt service normalizes debt service costs so that all debt is amortized over 20 years. Pension liabilities are normalized with a standard discount rate.

Source: Moody's Investor Services, September 2023

General Obligation Bonds' Debt Service Costs

Annuity Bond Fund Forecast
Fiscal 2024-2029
($ in Millions)

	2024	2025	2026	2027	2028	2029	Annual % Change
Special Fund Revenues							
State Property Tax Receipts[1]	$981	$1,026	$1,056	$1,067	$1,078	$1,088	2.1%
Other Revenues	3	3	3	3	3	3	0.0%
Prior Year ABF Fund Balance Transferred	20	18	1	1	1	1	-48.9%
Subtotal Special Fund Revenues	***$1,004***	***$1,047***	***$1,060***	***$1,071***	***$1,081***	***$1,092***	***1.7%***
General Funds	$434	$433	$387	$407	$429	$468	1.5%
Transfer Tax Special Funds	7	7	2	0	0	0	-100.0%
Federal Funds	6	5	2	1	0	0	-100.0%
Total Revenues	**$1,451**	**$1,492**	**$1,451**	**$1,479**	**$1,510**	**$1,560**	**1.5%**
Debt Service Expenditures[2]	**$1,433**	**$1,491**	**$1,449**	**$1,478**	**$1,510**	**$1,559**	**1.7%**
End-of-year ABF Balance	**$18**	**$1**	**$1**	**$1**	**$1**	**$1**	

ABF: Annuity Bond Fund

[1] The forecast assumes that State property tax rates remain at $0.112 per $100 of assessable base.

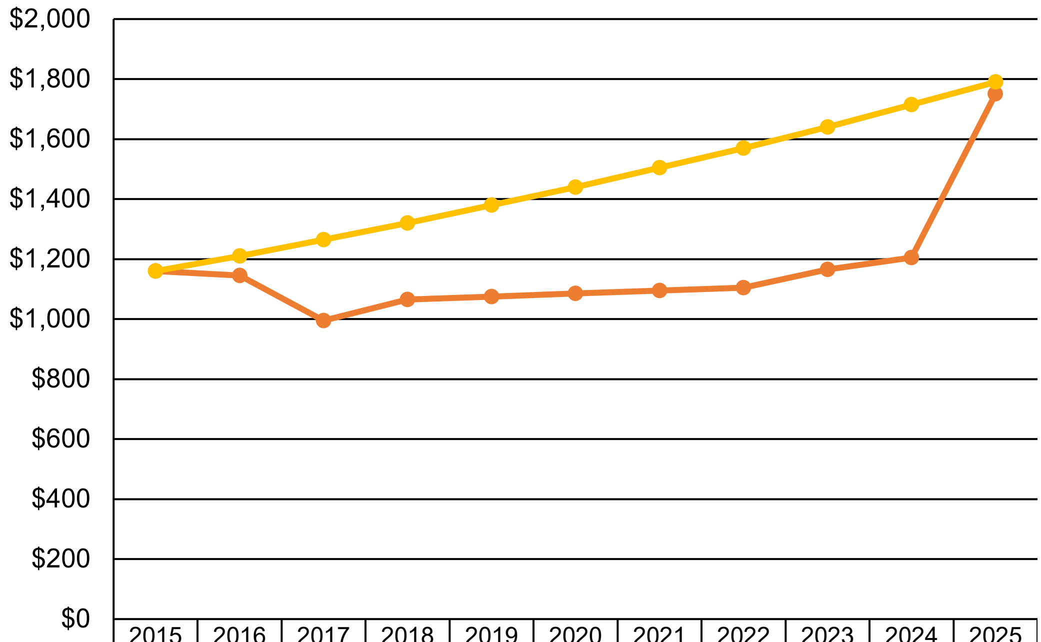
[2] Increases in general obligation bond authorizations are consistent with levels recommended by the Spending Affordability Committee in December 2022.

Source: State Department of Assessments and Taxation; State Treasurer's Office; Department of Legislative Services

General Obligation Bond Authorization Levels Have Not Kept Pace with Inflation

- **Authorizations Have Not Kept Pace with Construction Inflation:** Regional construction inflation has increased at an average annual rate of 4.5% from the beginning of calendar 2014.

Actual and CDAC Fiscal 2025 Planned GO Bond Authorization Levels Compared to Inflation Adjusted Levels
Fiscal 2015-2025



	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Actual/Planned	$1,160	$1,145	$995	$1,065	$1,075	$1,085	$1,095	$1,105	$1,165	$1,205	$1,750
4.5% Annual Growth	$1,160	$1,210	$1,265	$1,320	$1,380	$1,440	$1,505	$1,570	$1,640	$1,715	$1,790

CDAC: Capital Debt Affordability Committee
GO: general obligation

Source: Capital Debt Affordability Committee