

MARYLAND'S BUDGET CHALLENGE

January 2015

Dual Budget Challenges

FY 2015 & FY 2016

- Fiscal Year 2015 anticipated shortfall of \$423 million
- Fiscal Year 2016 estimated budget gap of \$802 million
- Cumulative Budget Challenge - **\$1.25 billion**

Budget Solutions - \$1.3 billion

Fiscal Year 2015

- Reductions \$300 m.
- Revenues \$16 m.
- Transfers \$143 m.

Fiscal Year 2016

- Reductions \$766 m.
- Revenues \$72 m.
- Transfers \$4 m.

Fiscal Year 2016 Surplus - \$47 million

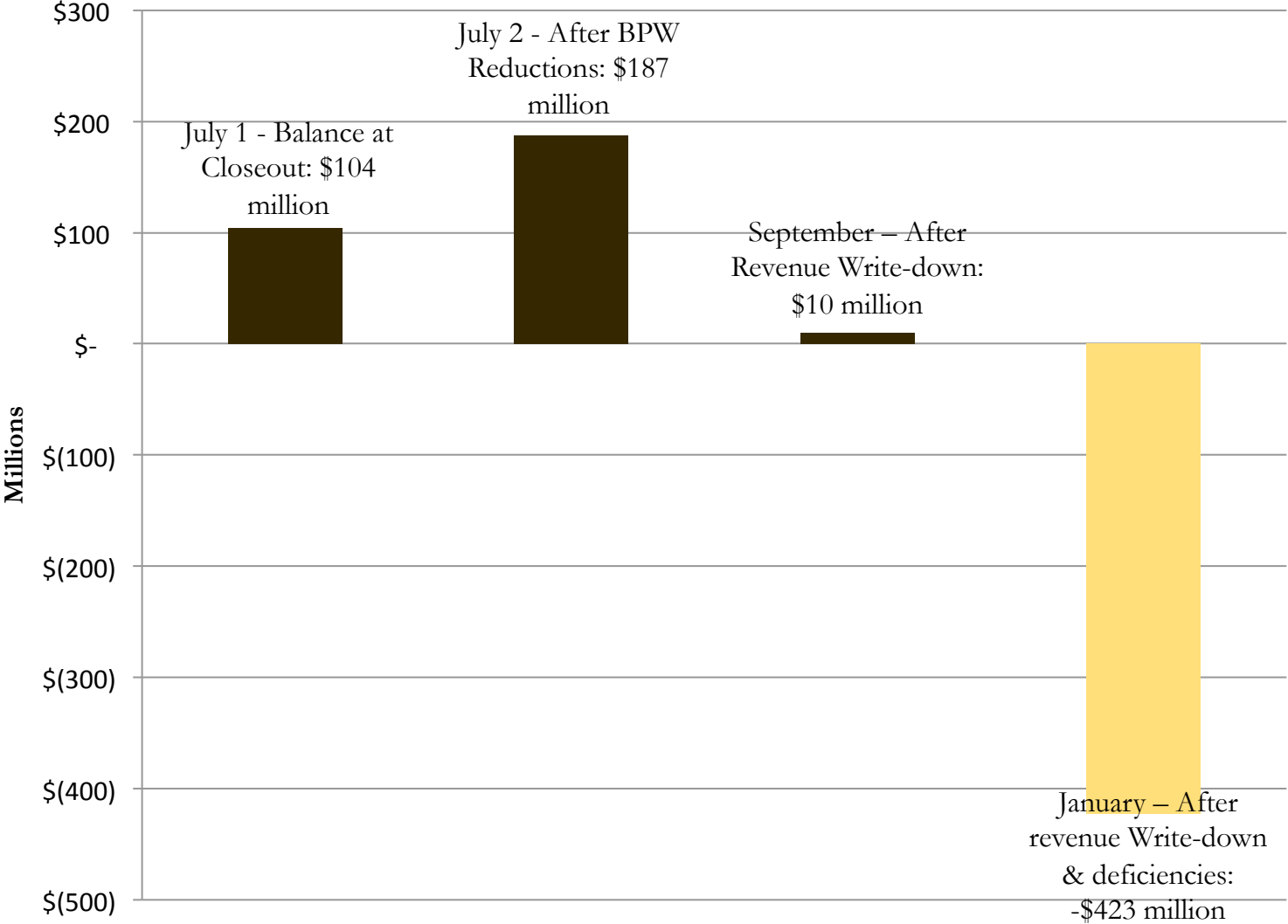
FY 2015 Budget Shortfall

General Fund Summary

(\$ in millions)

Ending General Fund Balance at Closeout	\$	104
July BPW Reduction actions	\$	83
September Revenue Write-down	\$	(177)
Balance After September Revenue Write-down	\$	10
December Revenue Write-down	\$	(123)
Expected Deficiencies	\$	(310)
Shortfall	\$	(423)

FY 2015 Budget Shortfall



Fiscal Year 2015 Budget Shortfall

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

Fiscal Year 2015 Solutions

- **Reductions - \$300 million**
 - 2% agency reduction - \$112 m.
 - Use MHIP funds to support Medicaid - \$45 m.
 - Reductions to Deficiencies - \$42 m.
 - Provider Rates (50% reduction to FY 15 increases) - \$39m.
 - Local Aid - \$25 m.
 - Other - \$37 m.
- **Revenues - \$16 million**
 - MCO payment; Stadium Authority
- **Transfers - \$143 million**
 - Local Income Tax Reserve Loan - \$100 million
 - To be repaid in Fiscal Year 2016
 - Other - \$43 million

Fiscal Year 2016 Budget Shortfall

- General Fund revenue growth of 3.8%
- General Fund baseline spending growth of 5.0%
- Estimated budget gap of \$802 million
 - Expenditure growth in excess of revenues - \$206 m.
 - Use of FY 2014 fund balance - \$148 m.
 - Previously unresolved FY 2015 shortfall - \$300 m.
 - December revenue revision - \$148 m.

What Drives Baseline Spending?

- Drivers of Budget Growth
 - Medicaid - \$184 m.
 - K-12 Education Aid - \$180 m.
 - Debt Service - \$133 m.
 - State Reserve Fund - \$80 m.
 - State employee & retiree health insurance - \$69 m.
 - DHMH community programs & rates - \$62 m.
 - Higher Education - \$57 m.
 - FY 2016 State employee increments - \$50 m.
 - Retirement Reinvestment - \$44 m.
 - FY 2015 COLA / ASR annualization - \$41 m.
- Two-thirds of the growth above is driven by mandates; Entitlements drive another 20+ percent of growth

Fiscal Year 2016 Solutions

- **Reductions - \$766 million**
 - Provider Rates (reduce rates to FY 14 levels) - \$160m.
 - Employee compensation adjustments - \$156 m.
 - Aid to Education - \$143 m.
 - 2% agency reduction - \$118 m.
 - Other Medicaid Reductions / Fund Swaps - \$50 m.
 - Repeal Ehrlich POS repayment - \$50m.
 - Voluntary Separation Program - \$30 m.
 - Local Aid - \$35 m.
 - Other - \$24 m.
- **Revenues - \$72 million**
 - Redirection of Transfer Tax and CB 2010 revenues - \$46 m.
 - Includes \$17 m. from tax compliance and fraud initiatives
- **Transfers - \$4 million**

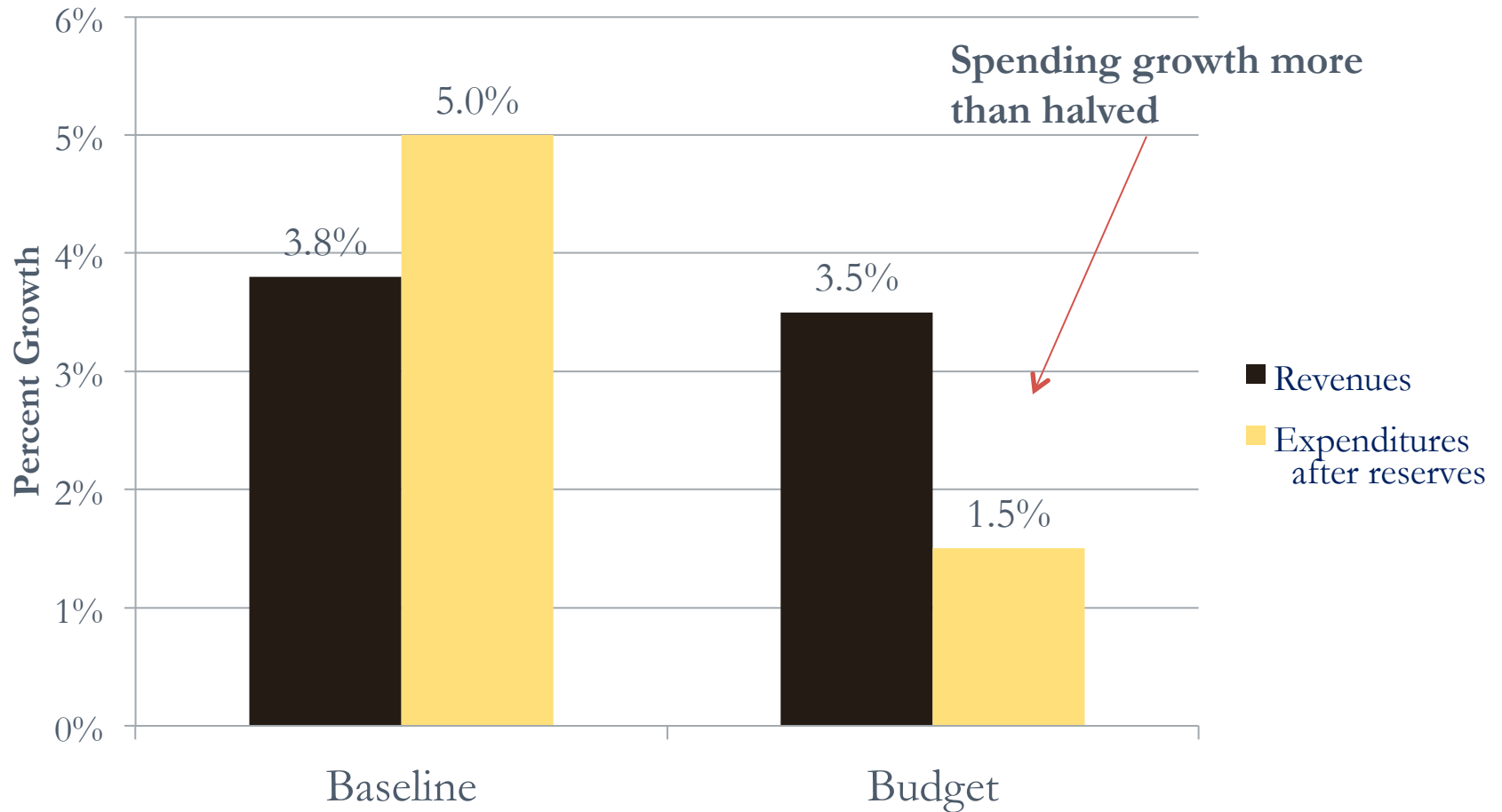
Highlights of FY 2016 Budget

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

Highlights of FY 2016 Budget (cont.)

- Budget includes record funding of K-12 education aid
 - \$6.1 billion in total aid, a \$45.3 million increase (after contingent reductions) over FY 2015
- Developmental Disabilities Administration
 - FY 2016 spending is \$1.02 billion TF after contingent reductions, an increase of 8% over FY 2015. General funds total more than \$550 million. Both record levels.
- Public School construction funding of \$290.7 million
- State agency spending reduction of 2.0% included in this budget
 - FY 2016 includes funding to support increased health insurance & retirement costs

Reining in Spending



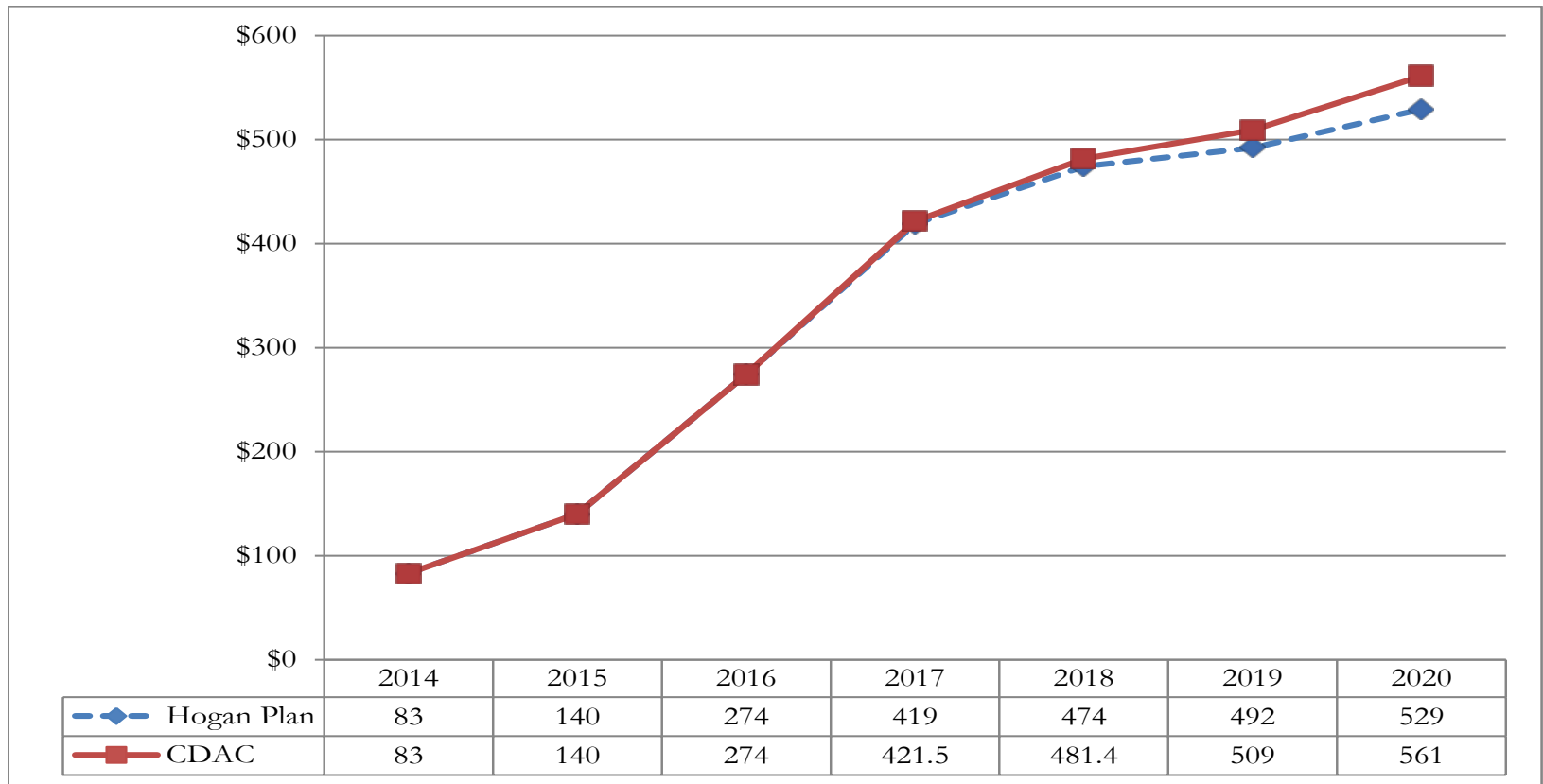
How does the Budget grow \$381 million?

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

Structural Deficit Outlook

- Savings from Mandate Relief provisions in BRFA
 - Listing of major savings proposals
 - Limit per pupil inflation to 1%
 - General Mandate Relief (lesser of formula or revenue growth less 1%)
 - Transportation assumes its share of Watershed Implementation Growth
 - Repeal Ehrlich POS repayment
- Comparison of structural deficit outlook
 - Before & After (with charts)
- Debt Service Savings from reduction in size of General Obligation Bond program

Budget plan begins to restrain Debt Service costs



Ongoing General Fund Revenue vs. Ongoing Spending

Fiscal 2007-2020

(\$ in Millions)

