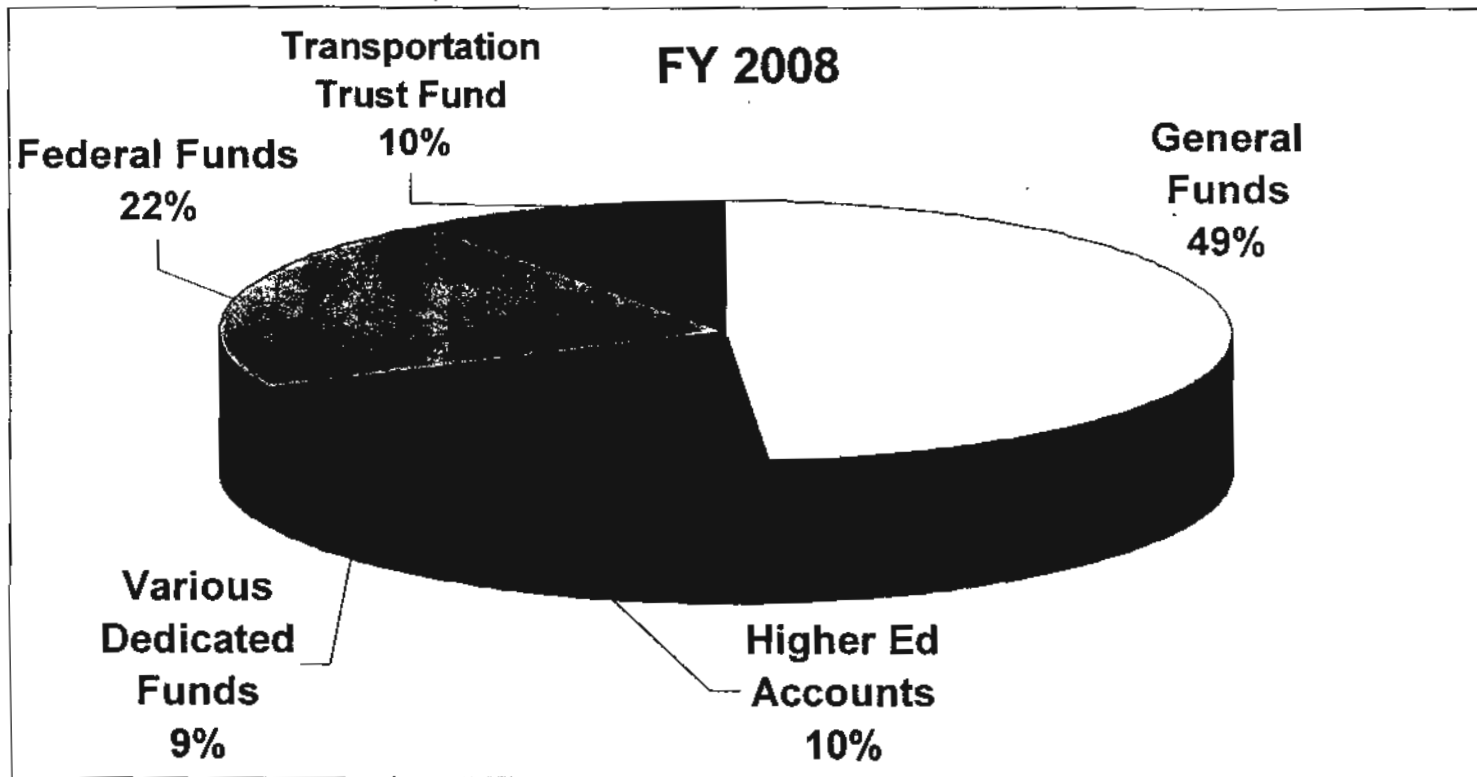

Overview of Maryland State Budget and Budget Outlook

**Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland
June 6, 2007**

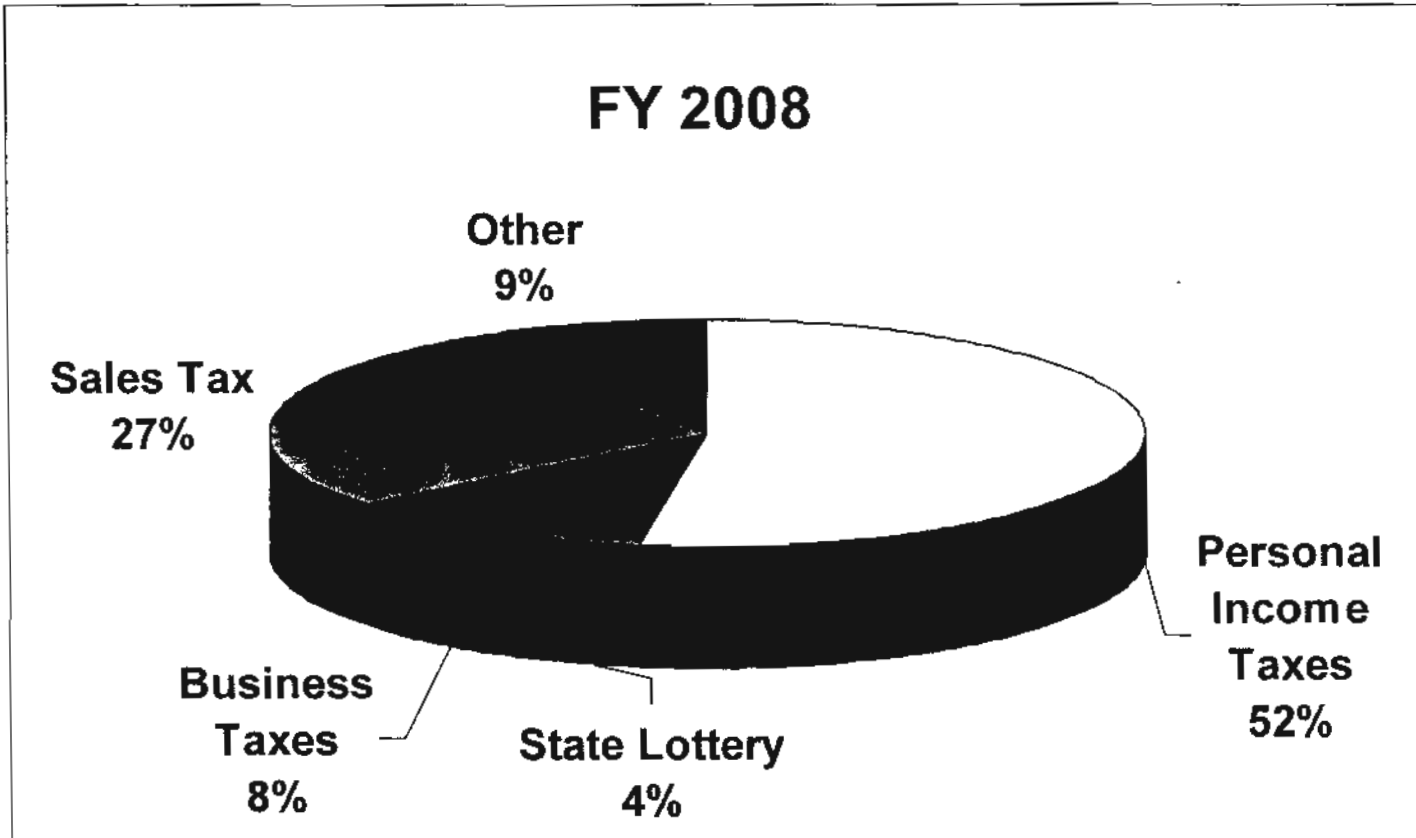
Maryland State Budget by Fund Account



Total Budget \$30.0 Billion

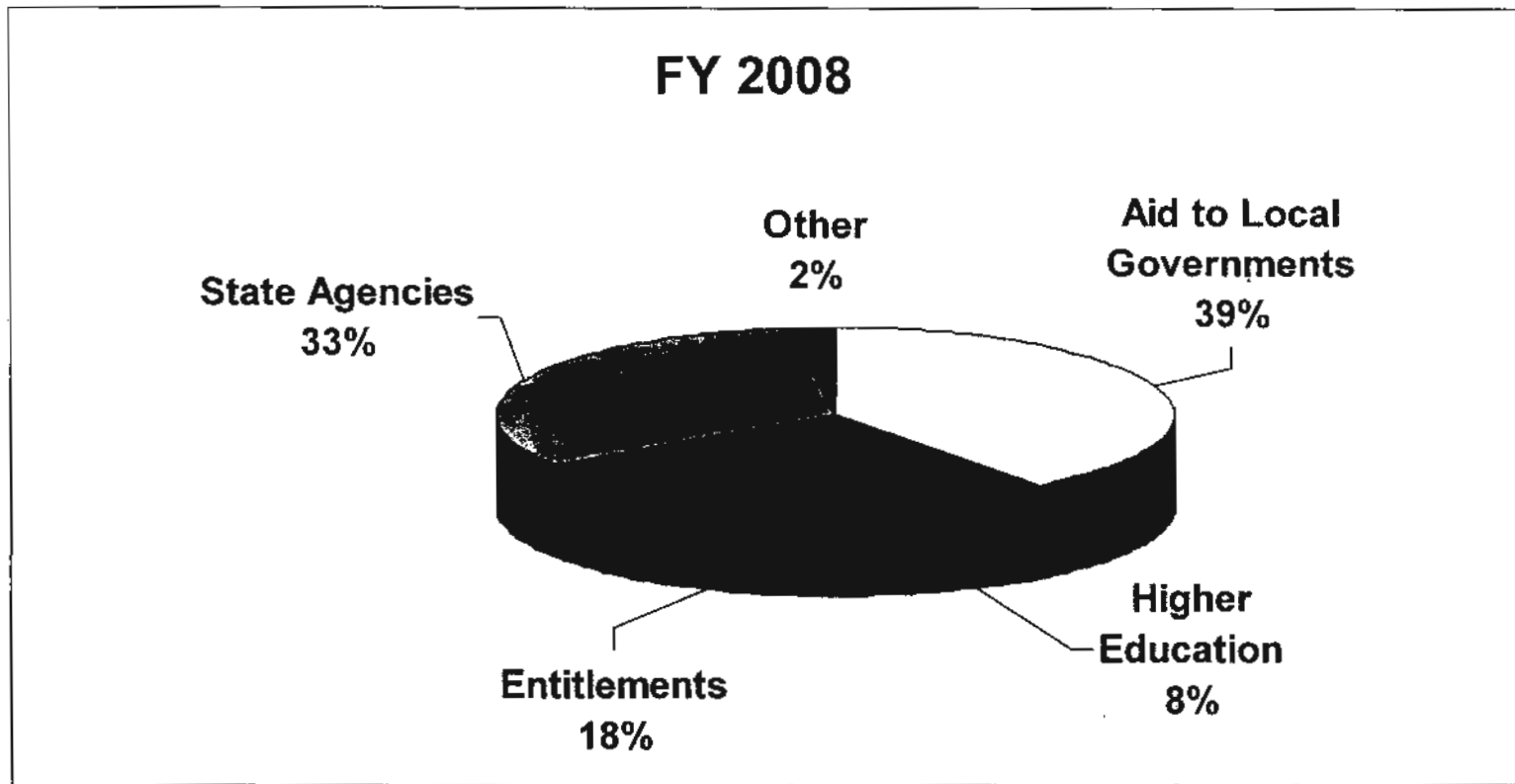
General Fund Revenues

About 80% Sales & Income Taxes



Total Revenue – \$13.4 Billion

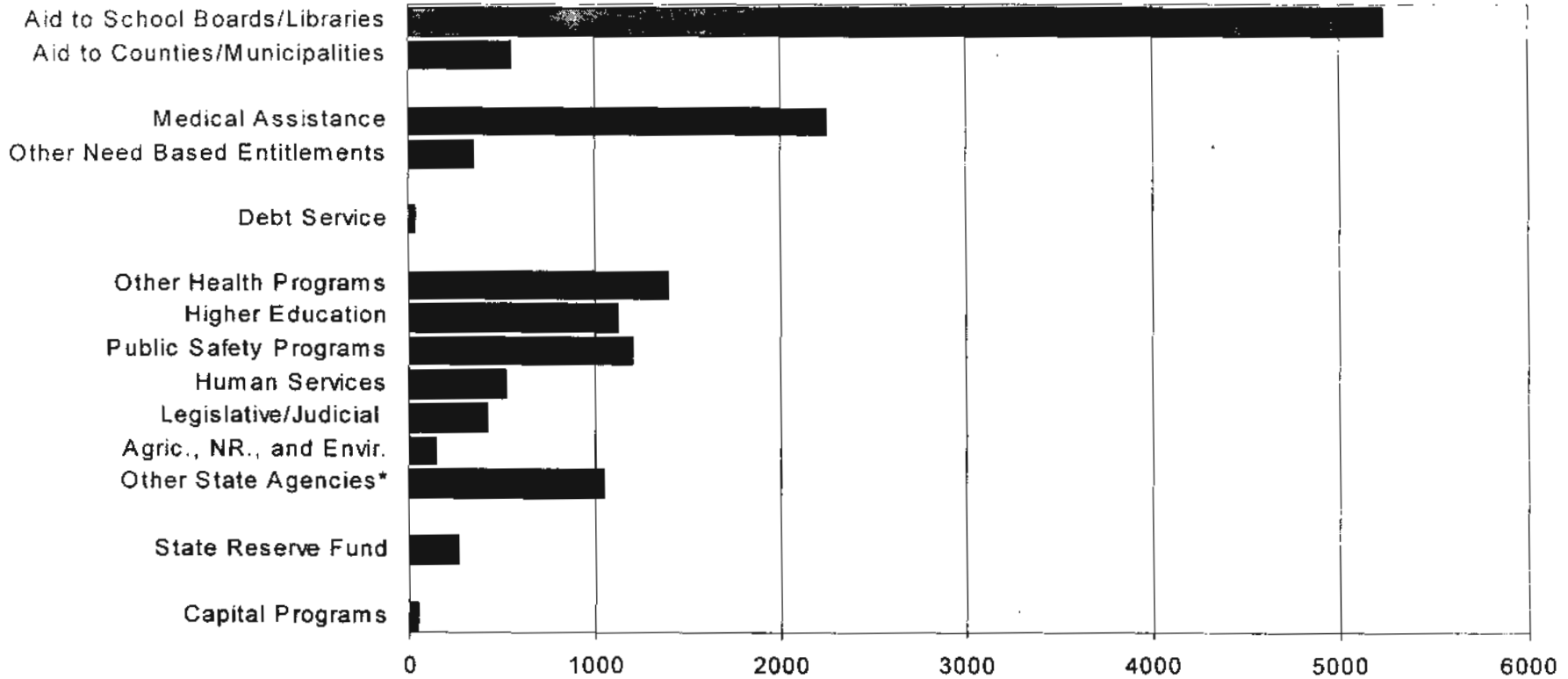
Maryland State Budget General Fund Spending by Category



Total General Fund Budget – \$14.6 Billion

Fiscal 2008 General Fund Budget by Function

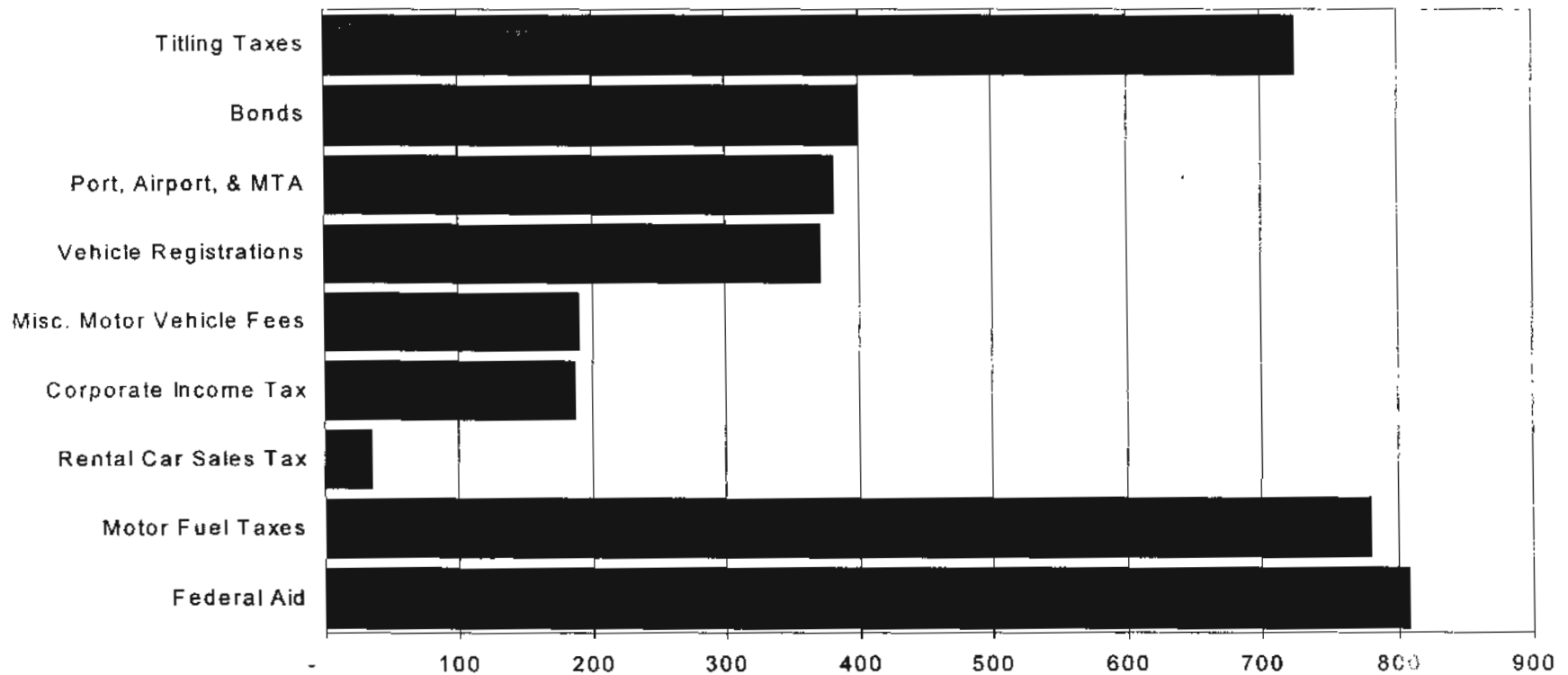
(\$ in Millions)



\$14.6 Billion

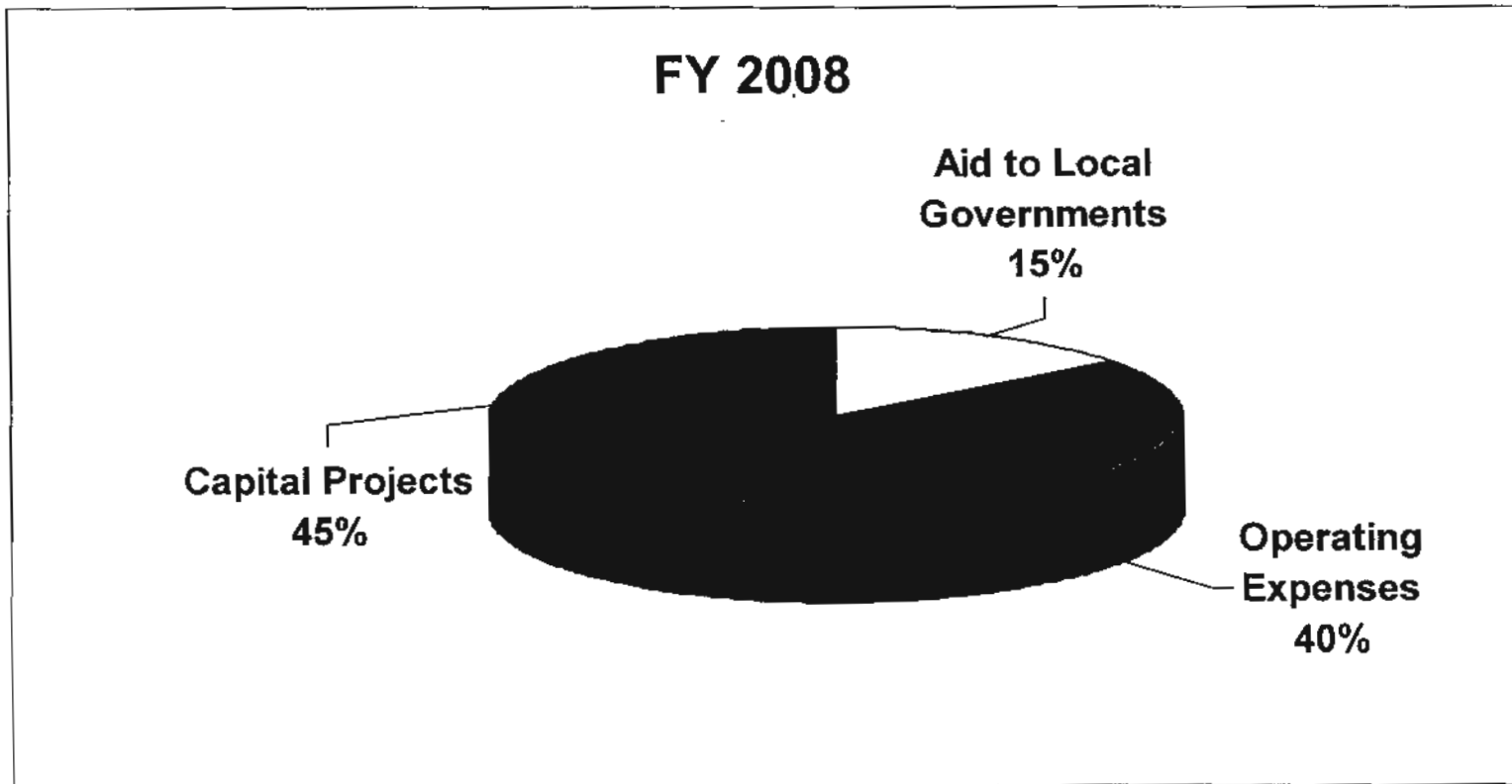
Transportation Trust Fund Fiscal 2008 Revenues

(\$ in Millions)



\$3.9 Billion

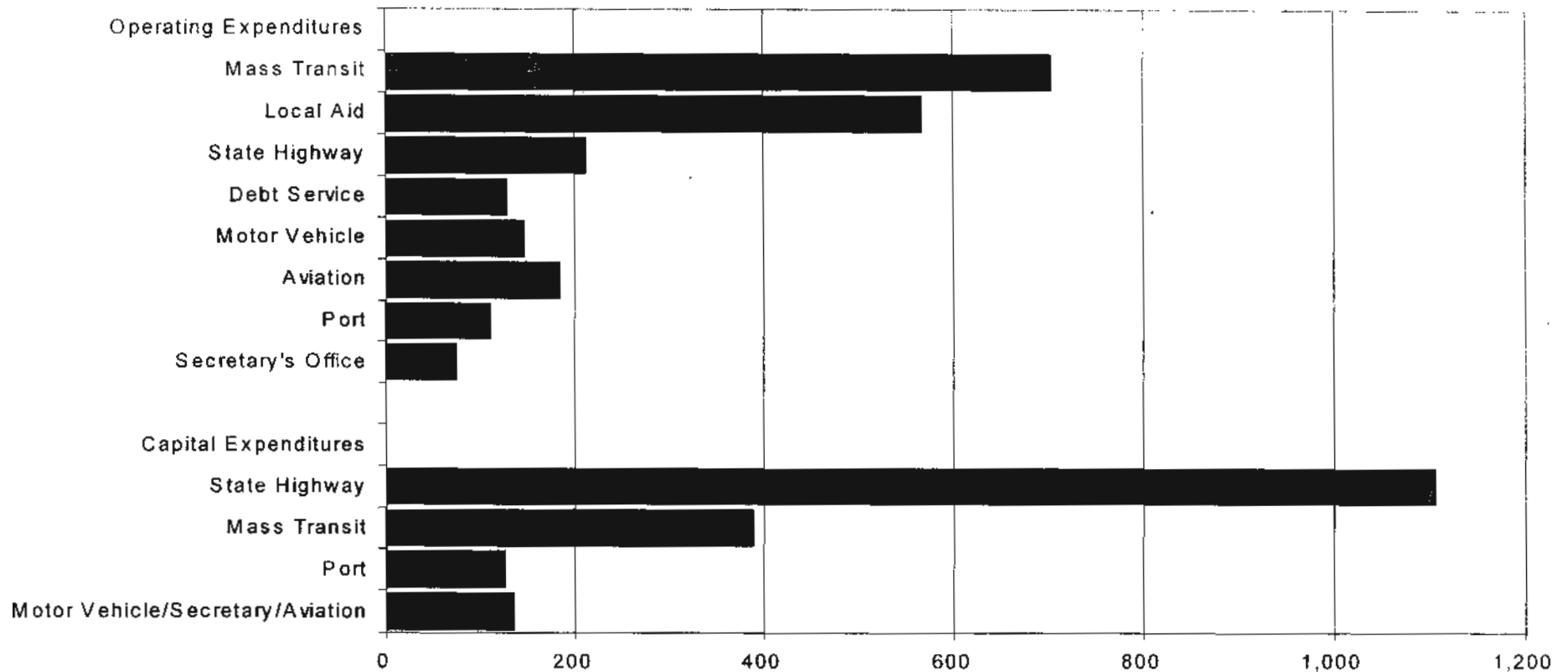
Transportation Trust Fund Capital Expenditures a Major Factor



Total Trust Fund Expenditures – \$3.9 Billion

Transportation Trust Fund Fiscal 2008 Expenditures

(\$ in Millions)



\$3.9 Billion

Fiscal 2008 Budget Highlights

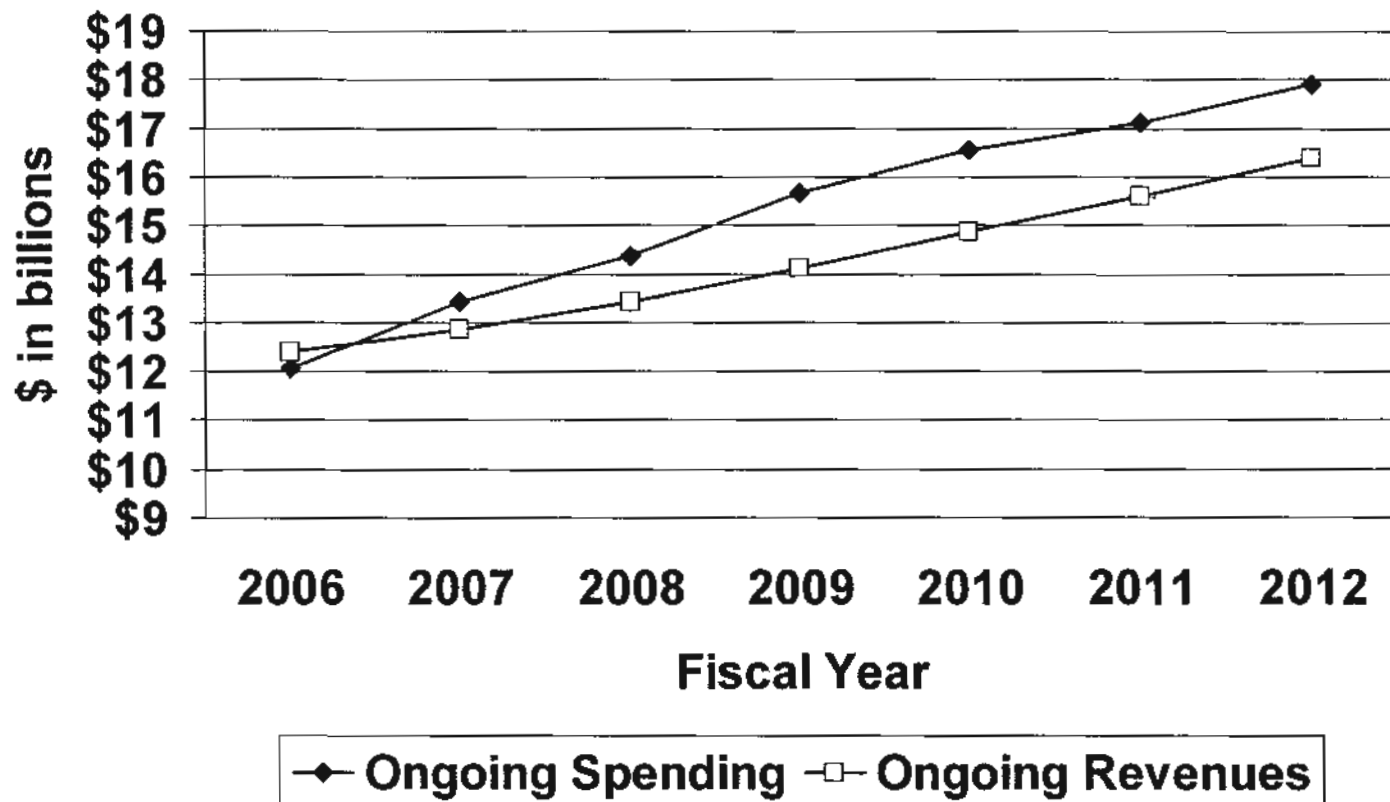
A Status Quo Budget

- Education mandates fully funded
- Land preservation fully funded (but declining)
- Other local aid formulas fully funded
- Funds provided to maintain in-state tuition freeze
- Increased funding for stem cell research and drug treatment
- Provides a 2% general salary increase
- Otherwise maintains current services and avoids major retrenchment

Cash Balances Exceed \$700 Million But Little Progress on Structural Gap

- Fiscal 2008 budget enacted by the General Assembly results in an estimated general fund balance of \$67 million.
- Almost \$675 million is in the State's Rainy Day Fund – 5% of general fund revenues.
- Limited progress on closing the “structural” gap between ongoing revenues and spending – budget balanced using fund balances and one-time savings.

Structural Deficit Forecasted Through Fiscal 2012

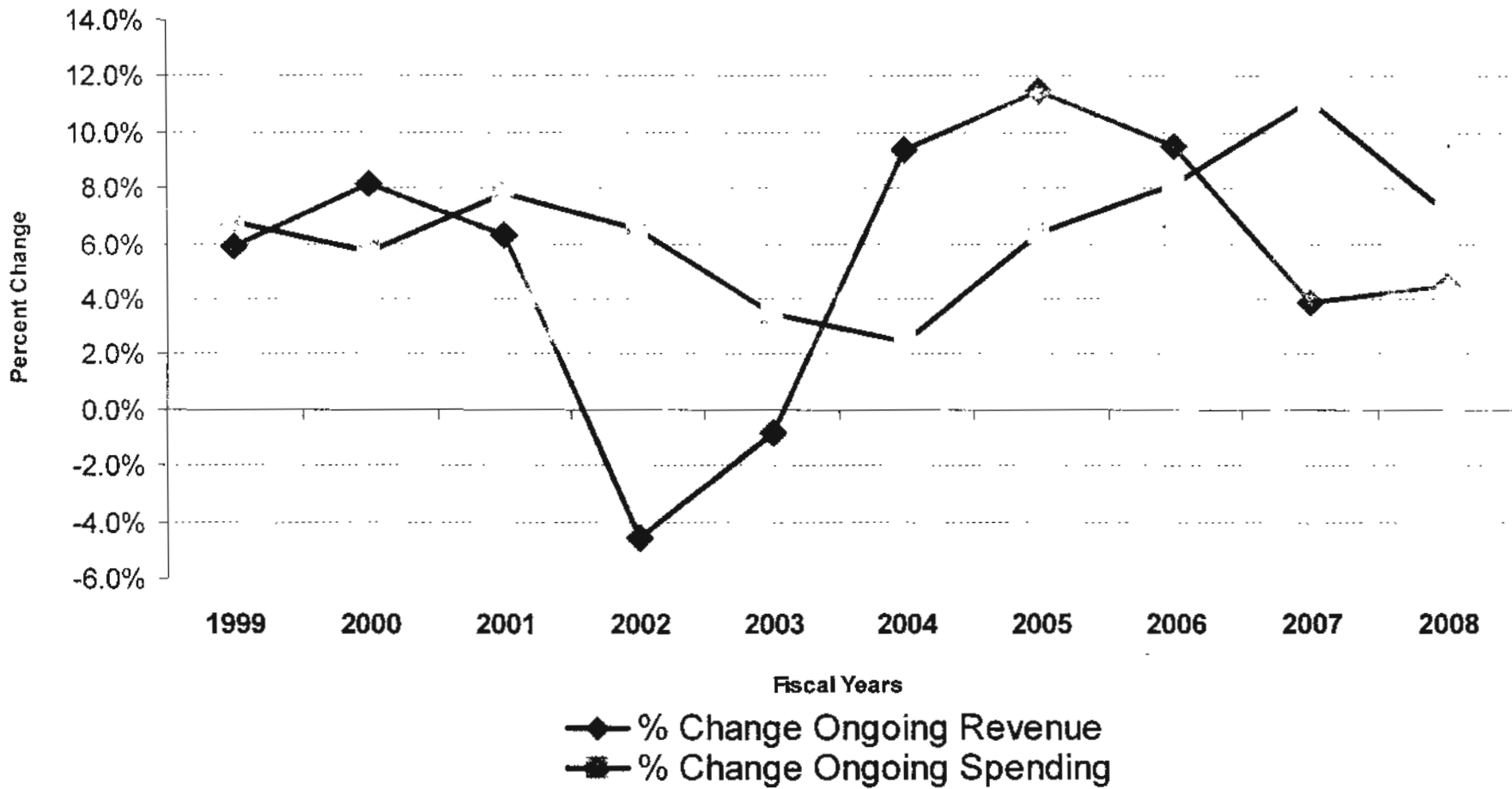


Current Services Spending Exceeds Ongoing Revenues

The Structural Deficit Is Back! (It Never Really Left)

- Revenues, which exceeded 9% annual growth for three years, are forecasted to grow 4% in fiscal 2007 and 2008.
- Ongoing spending, driven primarily by the last two years of the Bridge to Excellence legislation, grows 11% in fiscal 2007 and 7% in fiscal 2008.
- The structural gap between ongoing revenues and ongoing spending in fiscal 2007 is estimated to be over \$500 million, growing to around \$1.5 billion in fiscal 2009 before leveling off.

Welcome to the State Budget Roller Coaster



Is the Deficit Real or Just a Forecast?

It is Both

- **Real**

- Fiscal 2007 is almost complete and revenues are generally tracking estimates – gap between ongoing revenues and ongoing expenditures is over \$500 million
- Fiscal 2008 budget is enacted and there is little indication that the revenue estimate is overly conservative – structural gap is almost \$1 billion

- **Forecast**

- Fiscal 2009 spending forecast is current services estimate plus several currently unfunded commitments
- Revenue estimate is for growth of about 5% which is consistent with long-term trends

Economic Indicators Do Not Suggest Revenue Growth Will Accelerate

Year-over-year Percent Change

<u>Calendar Year</u>	<u>Jobs</u>	<u>Personal Income</u>	<u>Existing Home Sales</u>
2001	0.7%	5.3%	12.8%
2002	0.3%	3.7%	3.7%
2003	0.3%	3.5%	8.6%
2004	1.2%	7.2%	10.6%
2005	1.5%	6.3%	0.3%
2006	1.2%	5.5%	-20.9%
		<i>January - March</i>	
2007	0.9%	n/a	-9.7%

Sources: Personal income data from the Bureau of Economic Analysis, U.S. Department of Commerce; Employment data from the Bureau of Labor Statistics, U.S. Department of Labor; Home sales from the Maryland Association of Realtors.

Department of Legislative Services, May 2007

Expenditure Forecast Appears High But Underlying Growth More Modest

- Ongoing expenditures forecast to grow 9% in fiscal 2009 (\$1.3 billion) but reflect new commitments, legislation, and one-time fiscal 2008 savings

– Higher OPEB Commitment	\$100 M
– Begin Funding GCEI	60 M
– New 2007 Session Legislation	42 M
– No One Time Health Ins. Savings	128 M
– FY 2008 Reductions Not Ongoing	<u>111 M</u>
Total	\$441 M

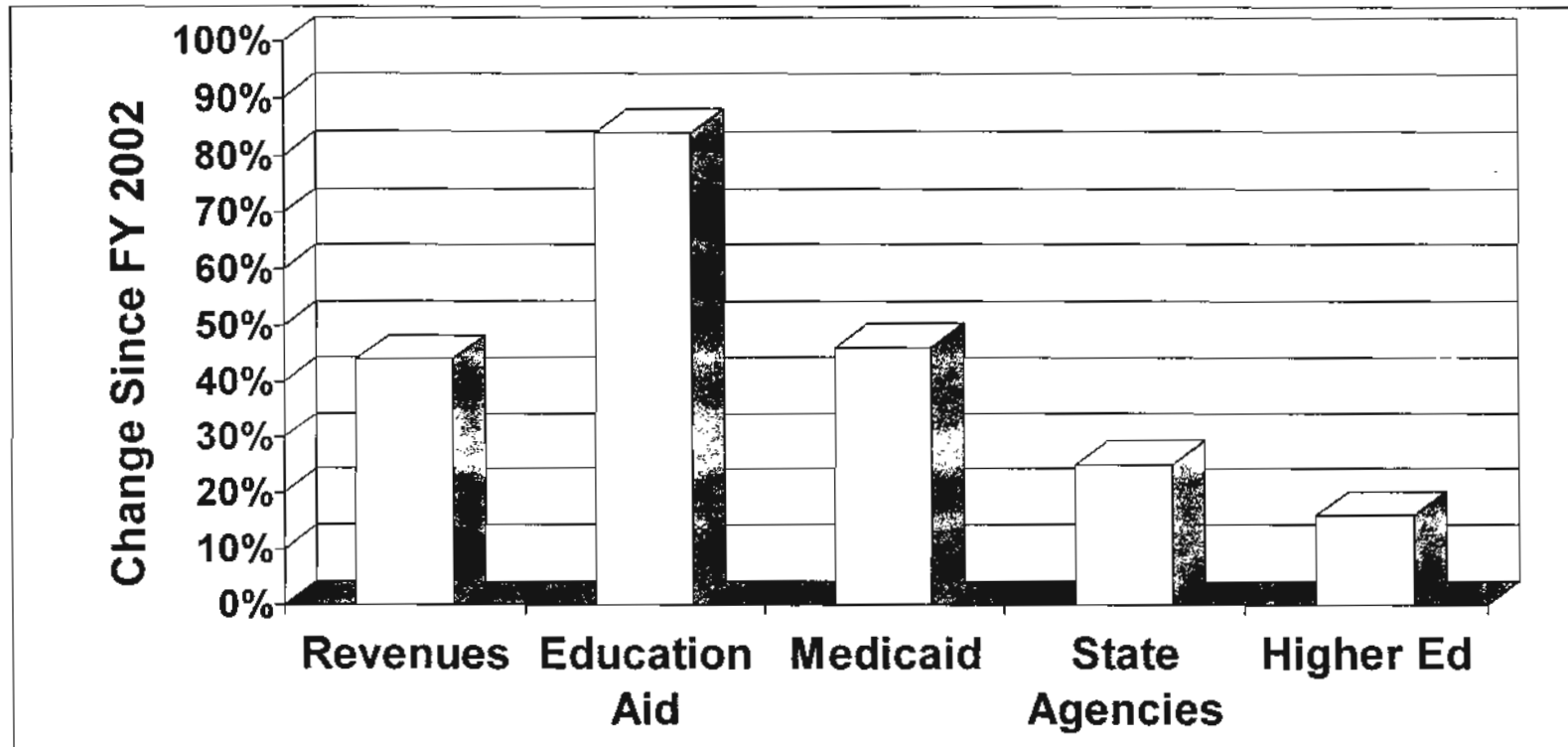
Forecasted Underlying Growth of About 5.5% in Fiscal 2009

- Aid to local governments (40% of general fund budget) estimated to increase 5% – largely statutory mandates
- Medicaid spending (15% of general fund budget) projected to grow 10%
 - Underlying growth of 7.5%
 - Lower federal match for MCHIP and less reliance on Cigarette Restitution Fund than in FY 2008 drive increase higher

What Next?

- No tax option
 - Cut, cap, cost shift, freeze, and pass slots
 - If no slots, then more of above
- Tax option
 - Income, sales (rate or base), corp., and slots
 - If no slots, then more of the above
- Gridlock option
 - Reductions, reserves, and rededicating revenues to GF

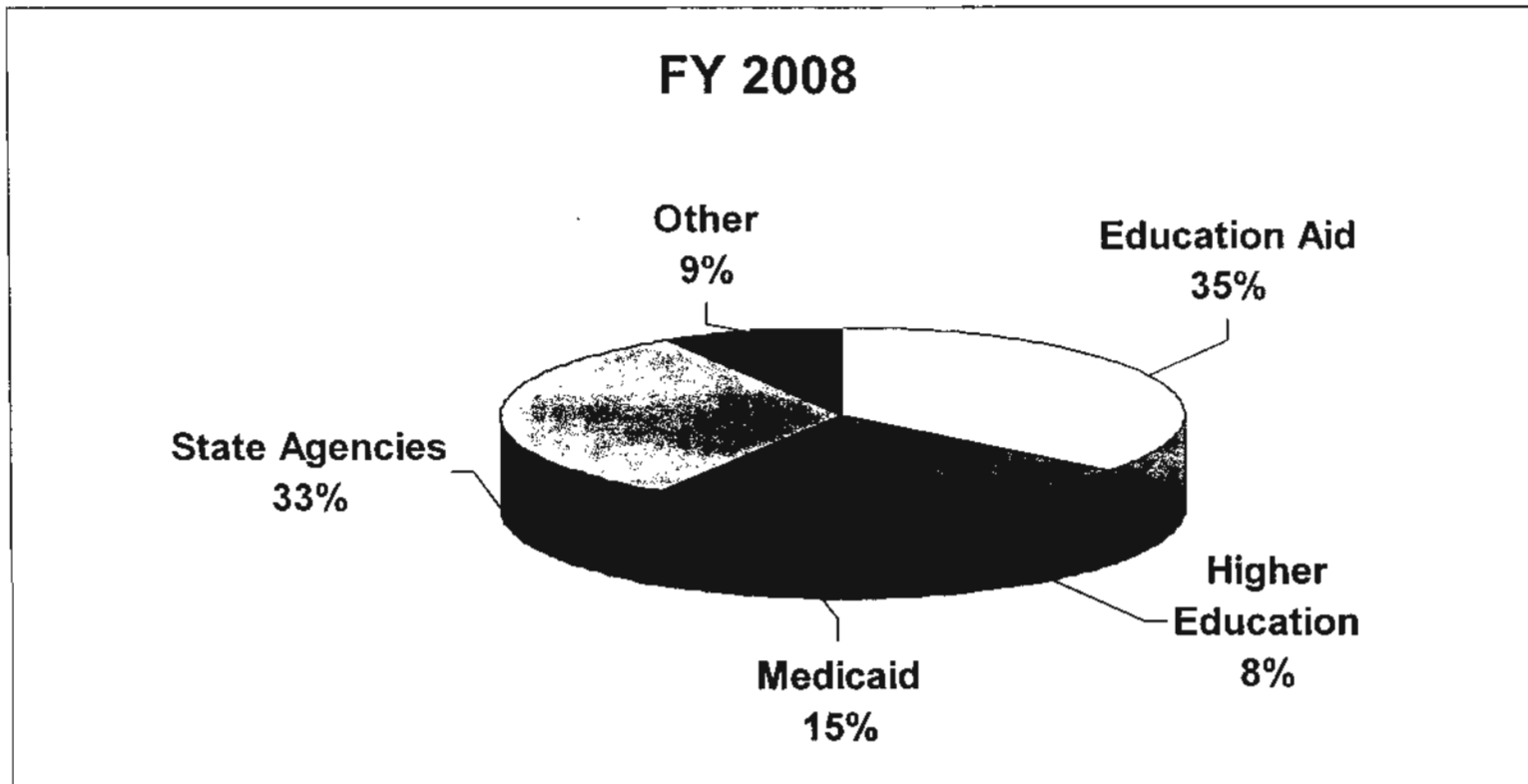
Constraining the Budget Growth Since Fiscal 2002



**General Fund Revenue and Spending Growth
Since Fiscal 2002**

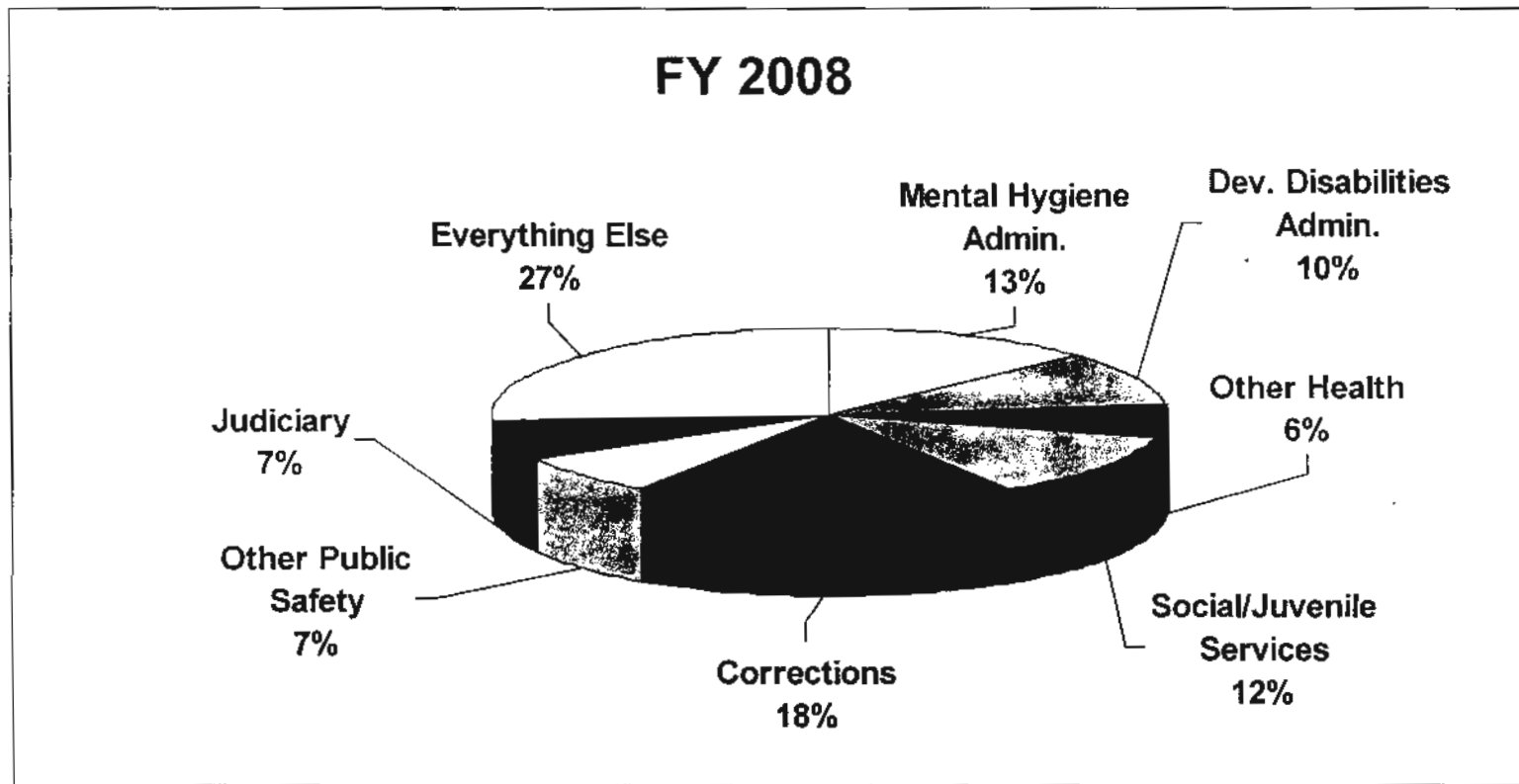
Note: Education aid includes libraries

Education Aid and Medicaid Account for About Half of the Budget



Total General Fund Budget – \$14.6 Billion

Health and Public Safety Account for Over Half of State Agency Spending



Total Agency Spending – \$4.7 Billion

Number of State Executive Branch Positions Lower than in Fiscal 2002

- The fiscal 2008 State budget funds 53,794 Executive Branch positions (excluding higher education).
- This is 3,167 less positions than in fiscal 2002, a decline of 5.5%.
- Higher education authorized positions in fiscal 2008 total 23,253, a 1,867 increase (8.7%) from fiscal 2002.

Several Bills Considered at 2007 Session Raised General Fund Revenues

Significant Revenue Enhancement Legislation (\$ in Millions)

<u>Revenue Type</u>	<u>Bill #</u>	<u>Description</u>	<u>2008</u>	<u>2009</u>
Personal Income Tax	HB 1420	Expand the income tax rate structure on a revenue neutral basis	\$14	\$28
	Similar to SB 508 (2004)	Impose a 6% rate on taxable income over \$150,000/\$225,000	175	357
Sales Tax	HB 393/HB 846	Increase the sales tax rate to 6%	720	750
	HB 434	Increase the sales tax rate to 5.5%	360	375
	HB 448	Impose the sales tax on a variety of services	313	657
	HB 1022	Impose the sales tax on a limited number of services	29	30
Property Tax	HB 475/SB 616	Impose the transfer and recordation tax on controlling interests	7	14
	HB 812	Increase the State homestead property tax cap to 15%	0	16
Video Lottery Terminals (VLT)	HB 17	Provide up to 12,500 VLTs at five locations	403*	547*
	SB 541	Provide up to 15,500 VLTs on 16 licensed gaming vessels	28*	52*
	SB 950	Provide up to 15,500 VLTs at seven locations	413*	807*
Corporate Income Tax	HB 553/SB 393	Impose combined reporting	25	25
	HB 753 (2003)	Increase the corporate income tax rate to 7.7%	78	82
Tobacco Tax	HB 754/HB 288/SB 207	Increase the tobacco tax rate by \$1.00 per pack	188	161
Alcoholic Beverage Taxes	HB 757/SB 422	Double the alcoholic beverage tax rates	28	29
Filing Fees	HB 1053	Increase the annual business reporting filing fee to \$1,000 with an offsetting income tax credit	104	75

* Revenues for fiscal 2010 and 2011

Several Bills Considered at 2007 Session Raised Transportation Revenues

\$ in Millions

Bill		FY 2008	FY 2009
HB 761	Increase Motor Vehicle Excise Tax to 6%	\$145	\$150
HB 821	Increase Motor Fuel Tax by 10 Cents	\$324	\$328
HB 821	Impose Sales Tax on Motor Fuel	\$449	\$440
SB 949	Increase Motor Fuel Tax by 12 Cents	\$390	\$395
SB 949	Tax on Wholesale Price of Motor Fuel	\$16	\$33