
**Summary of Statement No. 50
Pension Disclosures – an Amendment of Government
Accounting Standards Board Statements No. 25 and No. 27**

**Presentation to the
Maryland Government Finance Officer and Associates
Spring Meeting**

**Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland**

April 24, 2015

2015 Session Review

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New Governor's Focus

- Resolve the structural general fund deficit
- Cut taxes
- Restore transportation aid sharing with local governments
- What to do with the two multi-billion transit lines
- Reducing future debt issuance to mitigate general fund need for debt service

Resolving the General Fund Structural Deficit

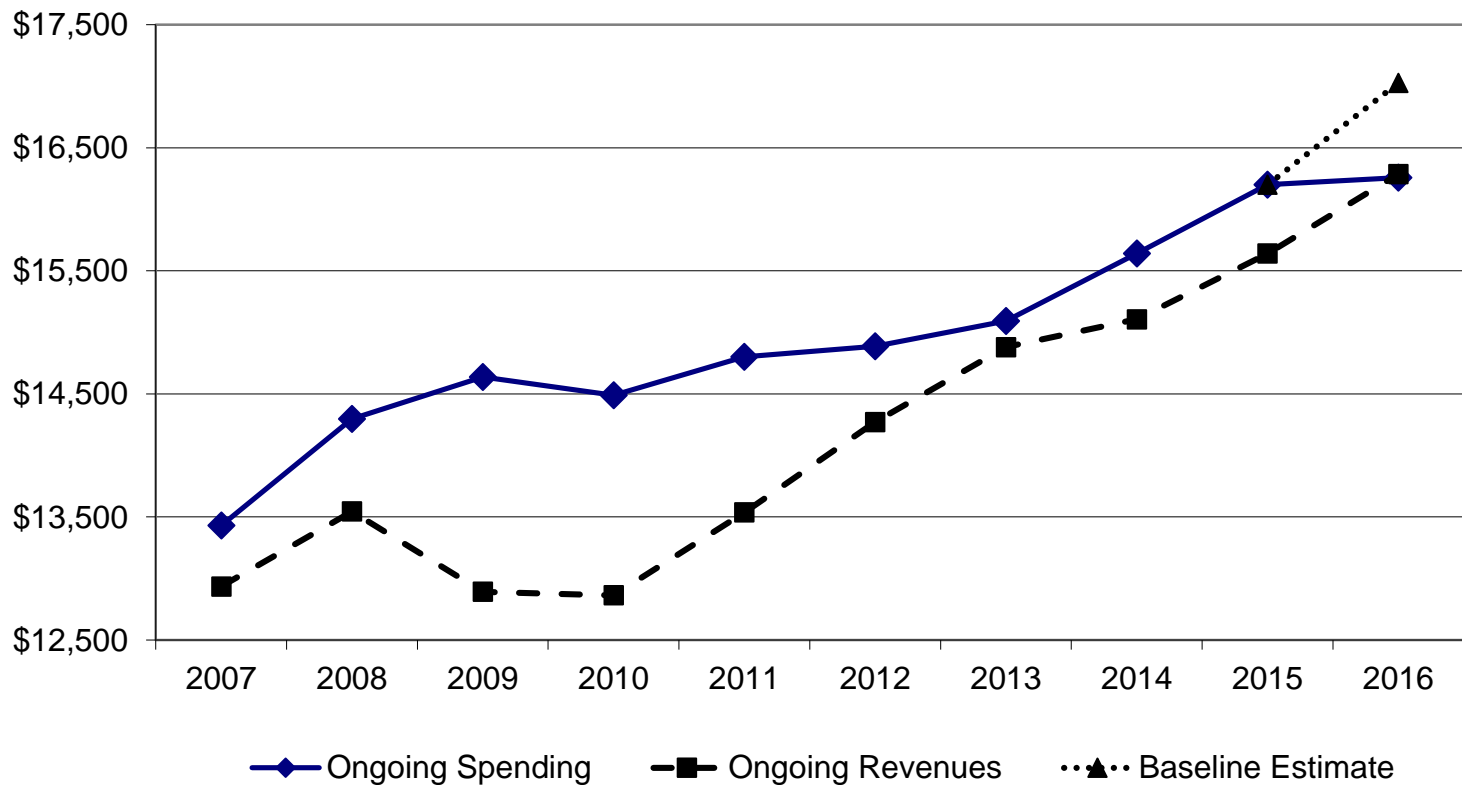
- All but one state is required to have a balanced budget, but this only means having enough cash from any source to pay for all spending (“cash balance”)
- Maryland has struggled with a structural deficit since the “Great Recession” of 2008. The December 2014 forecast predicted a general fund structural deficit of \$650 million for fiscal 2016

Structural Balance: Ongoing Revenue = Ongoing Spending



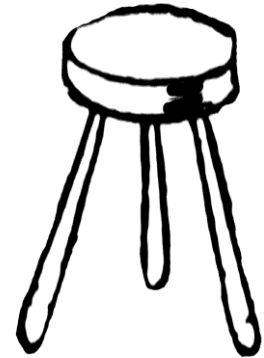
The Governor Proposes to Resolve the Structural Deficit

(\$ in Millions)



How Was the Budget Balanced?

- Cuts to:
 - Entitlements
 - Provider reimbursements
 - Agencies
 - Salary reduction, no cost-of-living adjustments (COLA), or increments
 - Abolish 500 positions
 - 2% across-the-board cut to agencies
 - Local Aid
 - Foundation program 0% growth
 - Geographic Cost of Education Index (GCEI) at 50%
 - Most other local aid held to 2014 levels



Issues with Trying to Achieve Balance

- When is a cut a cut
 - Cutting the increase
 - vs.
 - Cutting into the base
- Example
 - If statute requires a program to grow \$10 million next year but it is cut to grow \$5 million, is that a cut?



Legislative Action

- Concern that impact of general fund cuts too much to absorb in one year
- Established priorities for restoration and possible restoration
 - K-12 education
 - State employee compensation
 - Healthcare

Contingent Cuts That Were Restored

- Foundation Program
- State Arts Council
- Disparity Grants
- Academic Health Centers
- Deaf Culture Digital Library
- Library for the Blind and Physically Handicapped
- Health Benefit Exchange
- Juvenile Services provider rates

\$201.7 Million Restricted Funding That Could Be Restored

(\$ in Millions)

Employee Salaries to Offset 2% Cut	\$68.7
Geographic Cost of Education Index	68.1
Provider and Nursing Home Rate Increases	33.6
Prince George's County Hospital Grant	15.0
Various Other Health Initiatives	14.1
School for the Blind	1.8
Other	0.4

How Was It Paid For?

- \$90 Million from the Local Income Tax Reserve Account
- Pension Reform: Move from “corridor” funding to full actuarial funding
 - \$75 million supplemental payments until 85% funded and up to \$50 million at closeout for four years
- Savings from Bond Premiums
- Cuts to Judiciary
- Medicaid

What About the Future?

Governor Proposed

- Level fund fiscal 2016 Foundation Program and cap at 1.0% through 2020
- Reduce the GCEI by 50.0%
- Limit formula mandates to general fund growth minus 1.0%



Legislative Action

- Restore fiscal 2016 funding (1.4% growth) and keep formula (annual 5.0% cap)
- Restrict funding for restoration; SB 183 mandates the GCEI if not fully funded in 2016
- All out-year formulas unchanged

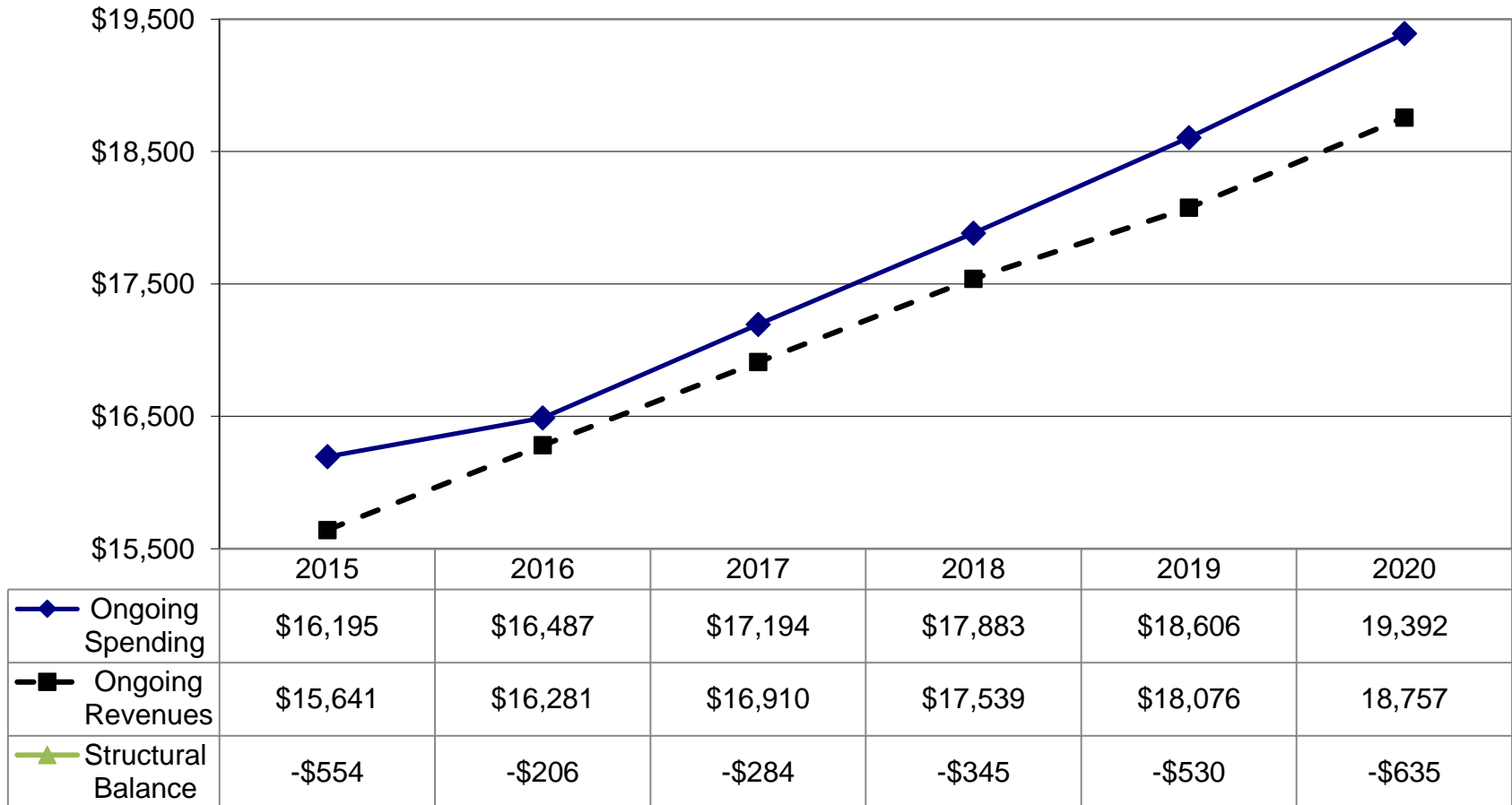
The Status of the Structural Deficit

- Mandated spending formulas account for two-thirds of general fund spending and require statutory changes
- Even though legislative action solved 69% of the structural deficit in 2016, tough sledding lies ahead



Protecting Legislative Priorities Widens the Structural Gulf

(\$ in Millions)



Transportation Issues

- Maryland has been pursuing two multi-billion transit lines:
 - Red Line in Baltimore City
 - Purple Line in the Washington suburbs
- New Governor questioned both lines
- Fiscal 2016 budget includes funding for both lines, but the Governor defers a decision until mid-May



Transportation Legislation Would Have Foreclosed a Transit Decision

- Administration Legislation
 - HB 483/SB 589: Repeal Gas Tax Increases and Consumer Price Index adjustments
 - HB 484/SB 591: Restore Highway User Revenues
 - HB 72/SB 57: Transfer the Watershed Implementation Plan to the Transportation Trust Fund (TTF)
- Combined five-year impact = loss of \$2.7 billion to the TTF (more than was raised by Chapter 429 of 2013)

Highway Aid Lite

- Supplemental Budget No. 1
 - \$25 million in transportation aid to the counties and municipalities
 - Third year of “one-time” grants



Proposed Tax Cuts

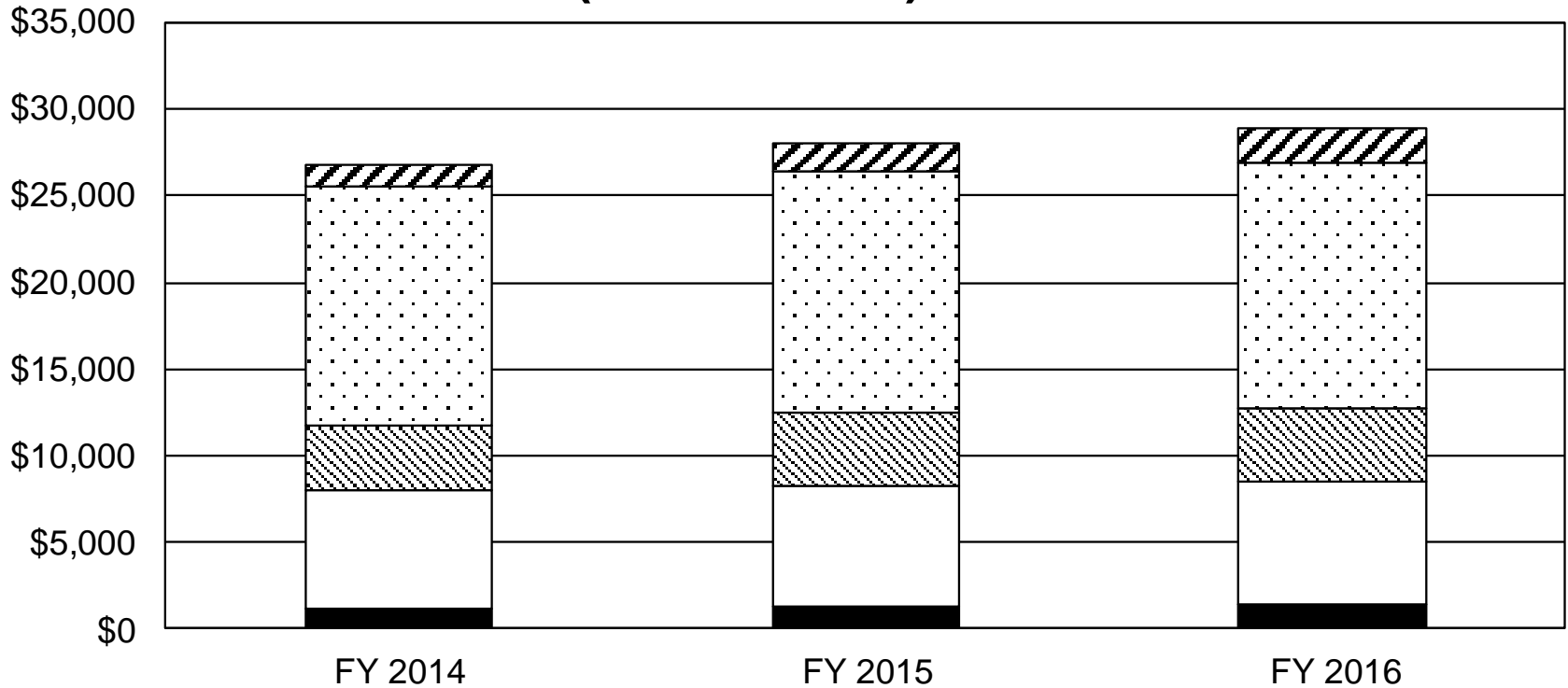
- HB 482/SB 592 Military retirement income tax exemption
 - Passed allowing smaller increase in exempt income
- HB 488/SB 594 Law enforcement/fire rescue/ emergency services retirement income tax exemption (Failed)
- HB 481/SB 588 Stormwater remediation fee repeal
 - SB 863 repeals requirement for separate fee but not required spending
- HB 480/SB 590 Small business personal property tax (Failed)
- HB 487 Maryland education credit (Failed)

Lower Planned GO Bond Issuance

- The Governor's 5 year capital plan reflects lower planned General Obligation bond issuance totaling \$738 million
- It will take years to see the impact on the general fund share of debt service
- General fund support for debt service still expected to nearly double, to \$529 million by FY 2020

State Funded Budget

(\$ in Millions)



■ Debt Service □ Aid to Local Governments ▨ Entitlements □ State Agencies ▩ Capital

Highlights

- State-sourced spending grows \$813 million, or 2.9%
- Largest growth in transportation pay-as-you-go
 - Awaiting Governor's decision on transit lines
- Impact on State employees
 - 1.96% salary cut July 1
 - No COLA or increments
 - 500 positions cut through the Voluntary Separation Program



Aid to Local Governments

(\$ in Millions)

	<u>2015</u>	<u>2016</u>	<u>Difference</u>	<u>% Difference</u>
Public Schools	\$5,344	\$5,481	\$138	2.6%
Libraries	51	52	1	2.5%
Community Colleges	250	254	4	1.6%
Health	42	46	4	9.4%
County/Municipal	537	557	20	3.7%
Subtotal – Direct				
Aid	\$6,223	\$6,390	\$167	2.7%
Retirement Payments	\$797	\$790	-\$7	-0.9%
Total	\$7,021	\$7,180	\$160	2.3%

Note: Funding for public schools in fiscal 2016 assumes 100% funding for the Geographic Cost of Education Index.

Local Aid Details

(\$ in Millions)

Public School Funding	
Foundation	\$64.6
Compensatory Education	53.5
Limited English Proficiency Grants	19.5
Special Education – Nonpublic Placements	11.7
Teacher Development Grants	-13.4
Other	1.7
Subtotal	\$137.6
County/Municipal Government Funding	
Municipal/County Transportation Grants	\$9.0
Statewide Voting Systems	3.7
Wastewater Treatment – Nutrient Removal	2.4
Other	4.9
Subtotal	\$20.0
Local Program Open Space	-\$3.0
Net Effect on State Funding to Local Governments	\$166.6

Note: Funding for public schools in fiscal 2016 assumes 100% funding for the Geographic Cost of Education Index.

Other Items of Interest

- Appointed Attorney Program continues into 2016
 - Judiciary pays first \$10 million/local governments pay above \$10 million
- Local school boards must report to the State if that system has a structural deficit that requires a transfer of reserve funds
- HB 72 authorizes payment of refunds and interest from Local Income Tax Reserve Account for adverse Wynne decision
 - Requires “timely” repayment by counties
 - Comptroller can withhold portion of quarterly payments in nine equal installments

The End

- Questions?