

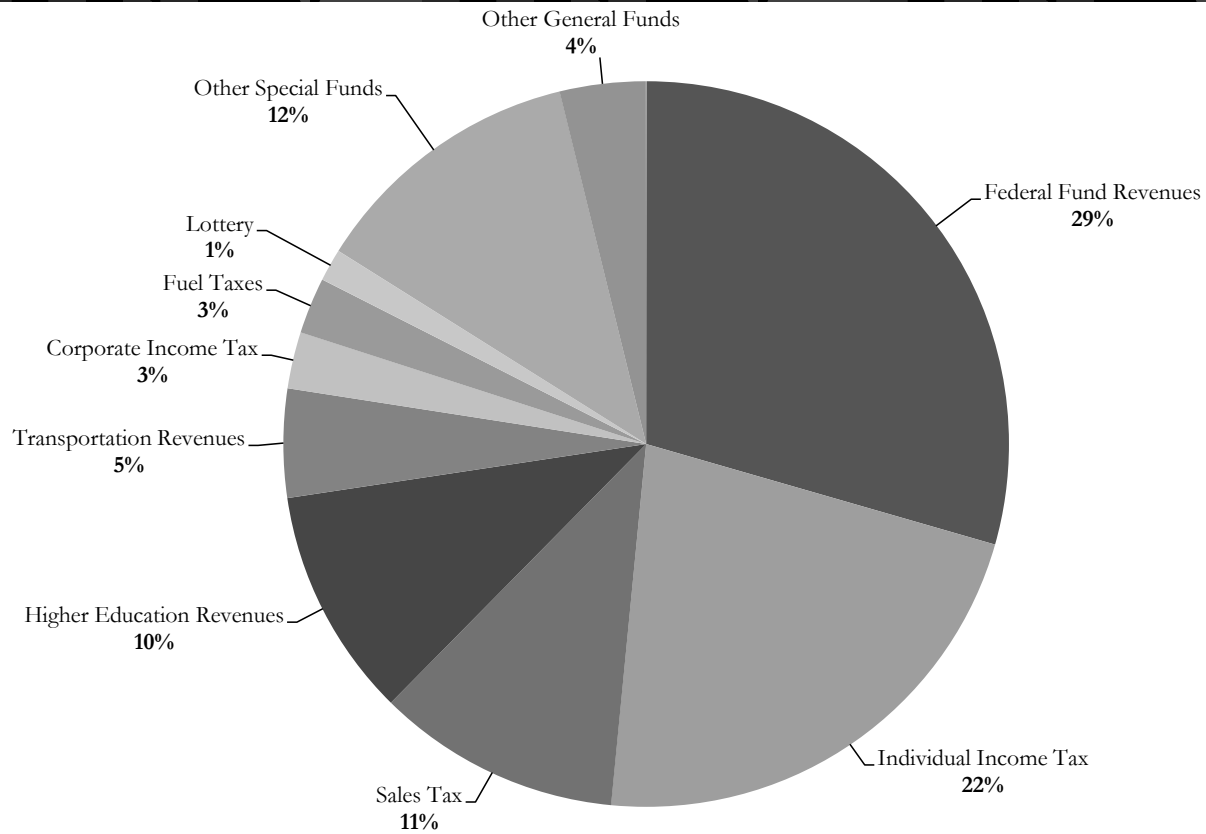


BUDGET HIGHLIGHTS
FISCAL YEAR 2019



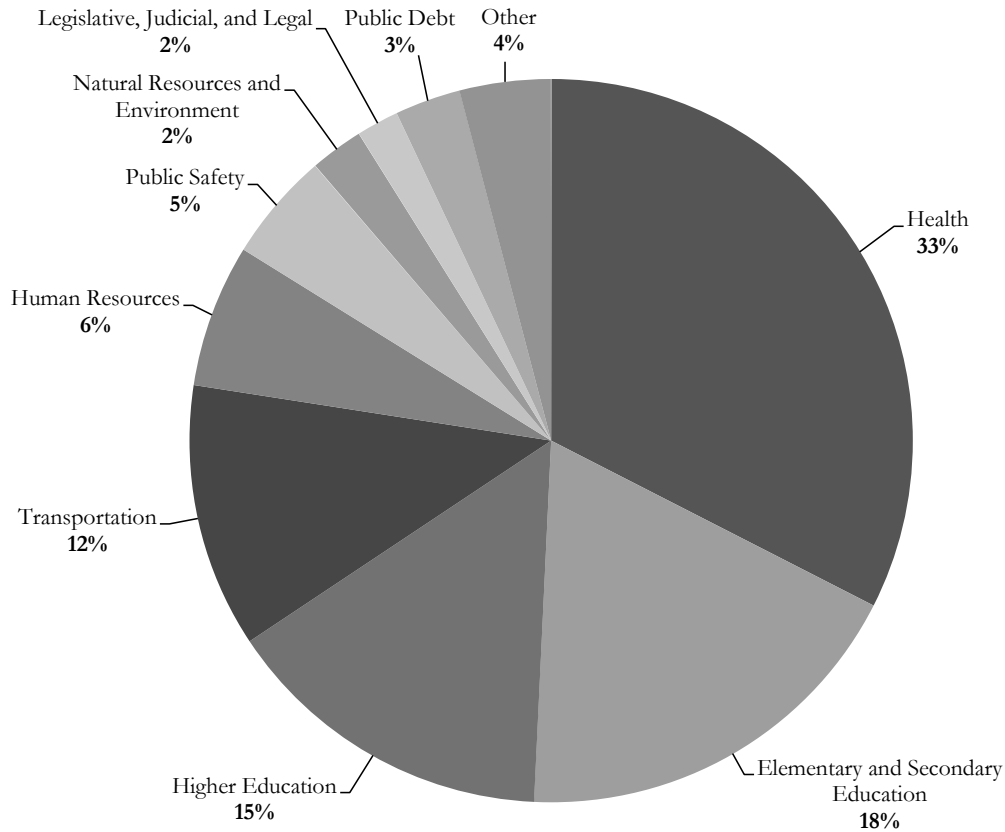
LAWRENCE J. HOGAN JR., GOVERNOR
BOYD K. RUTHERFORD, LT. GOVERNOR

Revenues



Revenues (millions of \$)	FY 2017	FY 2018	FY 2019	Percent Change '19 over '18	Percent Total Revenues
Federal Fund Revenues	12,018	13,127	13,063	0%	29%
Individual Income Tax	9,019	9,289	9,782	5%	22%
Sales Tax	4,609	4,693	4,807	2%	11%
Higher Education Revenues	4,219	4,441	4,531	2%	10%
Transportation Revenues	2,122	2,114	2,144	1%	5%
Corporate Income Tax	1,002	1,063	1,116	5%	3%
Fuel Taxes	1,072	1,052	1,109	5%	3%
Lottery	592	631	642	2%	1%
Other Special Funds	5,014	5,323	5,404	2%	12%
Other General Funds	1,813	1,767	1,699	-4%	4%
Total Revenues	41,480	43,501	44,298	2%	
Volkswagen Settlement Revenue		22			
Central Collection Unit Savings		1			
Lottery Revenue Transfer to DLLR Savings		<1	<1		
Lottery Revenue Adjustment		(3)	5		
Settlement Revenue Lower Than Expected		(6)			
2018 Session Legislation			(20)		
Total Available	41,480	43,515	44,284	2%	

Expenditures



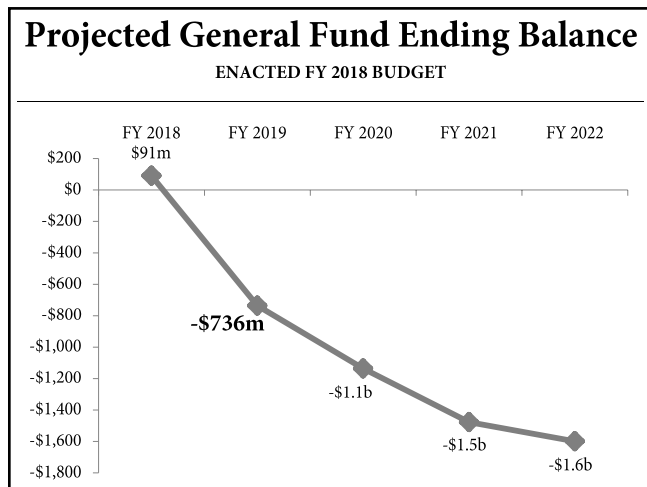
Expenditures (millions of \$)	FY 2017	FY 2018	FY 2019	Percent Change '19 over '18	Percent Total Expenditures
Health	12,907	14,228	14,458	2%	33%
Elementary and Secondary Education	7,827	7,984	8,099	1%	18%
Higher Education	6,308	6,497	6,621	2%	15%
Transportation	5,087	5,121	5,251	3%	12%
Human Services	3,029	2,967	2,839	-4%	6%
Public Safety	2,201	2,198	2,162	-2%	5%
Natural Resources and Environment	940	967	1,057	9%	2%
Legislative, Judicial, and Legal	794	814	842	4%	2%
Public Debt	1,187	1,247	1,306	5%	3%
Other	1,670	1,599	1,791	12%	4%
Estimated Reversions	(43)	(35)	(35)		
Total (less Reserve Fund)	41,907	43,587	44,392	2%	
Reserve Fund	235	10	24	143%	0%
Net Total	42,142	43,597	44,416	2%	

Figures reflect proposed deficiencies, contingent reductions, and back-of-the-bill reductions.

Budget in Brief

Consistent with every budget introduced during his term, Governor Hogan's FY 2019 budget is fiscally responsible and structurally balanced. The FY 2019 budget continues the governor's legacy of making the right and necessary decisions in order to change Maryland for the better. The governor's budget does the following:

- Maintains cash reserves totaling almost \$1 billion;
- Limits future increases in debt service costs through prudent debt issuances;
- Fully funds Program Open Space for the first time since FY 2008;
- Continues investments in the Maryland pension system;
- Curbs the growth of legislative mandates that contribute to unsustainable budget growth;
- Conforms with the legislature's Spending Affordability guidelines; and
- Maintains the state's AAA bond rating.



Framing the FY 2019 Budget Challenge

Immediately upon the completion of the 2017 General Assembly session, a sizable budget gap of almost three-quarters of a billion dollars was forecasted for FY 2019. This gap, which was significantly smaller in the budget submitted by Governor Hogan, was being driven by a number of factors including strong growth in Medicaid spending, in-

creasing debt service costs, new mandated spending enacted at the 2016 and 2017 sessions, and the failure of the legislature to once again enact any type of out-year mandate relief.

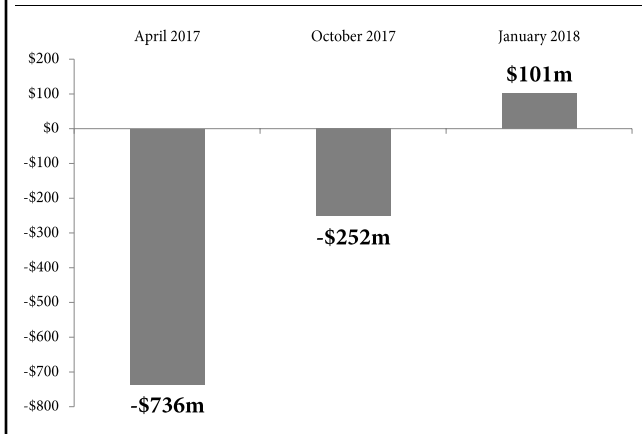
The Administration Response

Given that the FY 2018 budget enacted by the General Assembly left a cash surplus of only \$91 million, Governor Hogan set out a fiscally prudent course of action to once again shore up the state's finances. He directed state agencies to find spending efficiencies at the end of FY 2017 and prepare budget reduction options for FY 2018 to ensure that the budget would stay in balance. State agencies were successful in turning back \$246 million to the General Fund at the end of FY 2017, \$90 million more than estimated. The state was able to close FY 2017 with a balance of \$258 million -- nearly three times greater than expected -- a direct result of agency actions, along with slightly higher than estimated revenues.

Despite higher than expected revenues at the end of FY 2017, revenue collections grew at a slower pace than expected at the beginning of FY 2018; therefore, the administration moved forward with implementing a plan to make mid-year budget reductions. On September 6, 2017, the administration set forth an \$80 million plan to help offset potential revenue reductions, which was approved by the Board of Public Works. Later in the month, the Board of Revenue Estimates revised General Fund revenues downward by \$53 million. In December 2017, the Board revised revenues downward by another \$73 million for FY 2018.

Budget in Brief

FY 2019 General Fund Balance



By reducing spending in FY 2017 and proactively reducing spending early in FY 2018, Governor Hogan positioned the state to absorb the revenue revisions in September and December. The administration then began finalizing work on the FY 2019 budget in a much better position than had these actions not been taken, and the magnitude of reductions needed to balance the FY 2019 budget was lessened. Governor Hogan was able to resolve the remaining FY 2019 budget shortfall by:

- Enacting thoughtful cost-containment actions across state agencies;
- Limiting the growth of legislative mandates in FY 2019;
- Realizing favorable trends in Medicaid and state employee health insurance spending;
- Limiting FY 2018 deficiency spending;
- Using bond premium to offset debt service costs; and
- Strategically level funding certain state agency budgets and programs.

Budget Accomplishments

- While being fiscally responsible, the FY 2019 budget continues to make important investments in Maryland programs. This includes historic funding of \$6.5 billion for K-12 education. Governor Hogan's education budget goes

above and beyond required statutory funding formulas to ensure that every Maryland jurisdiction receives more direct education aid than the prior fiscal year. Overall, aid to local governments totals \$7.7 billion in FY 2019, an increase of \$181 million, or 2.4 percent.

- The budget also continues to ensure that Maryland's most vulnerable populations have access to critical health care services and other important programs to address their needs. Funding is continued in FY 2019 to address the opioid epidemic, limit tuition growth to 2 percent at Maryland universities and community colleges, and fully fund important environmental programs like Program Open Space, the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund, and the Maryland Park Service.
- The governor recognizes that investments need to be made to create more jobs and maintain the state's strong economic growth; therefore, the administration will be proposing legislation to expand 2017's More Jobs for Marylanders Act and provide additional relief to the engines of job growth – Maryland small businesses. Governor Hogan's FY 2019 budget also includes funding for a \$33 million multi-year collaborative effort with the University System of Maryland to produce more graduates in key workforce areas such as science, engineering, and cybersecurity.



Quality of Life

K-12 Education

- For the fourth consecutive year, the Hogan administration is providing record funding for K-12 education. The FY 2019 budget includes a \$6.5 billion state investment in Maryland's public schools, fully funding state aid programs. Direct aid to local schools grows by \$139.2 million, or 2.5 percent.
- Governor Hogan's education budget goes above and beyond required statutory funding formulas to ensure that every Maryland jurisdiction receives more direct education aid than in FY 2018. In fact, five jurisdictions will receive \$15.2 million in FY 2019 to ensure that their direct K-12 education formula aid grows by at least \$100,000 over FY 2018. These include Baltimore City (\$11.1 million), Cecil County (\$3.4 million), Calvert County (\$540,610), Carroll County (\$99,799), and Garrett County (\$47,626).
- The budget includes \$855,000 to continue operations at eight P-TECH 9-14 schools in Maryland, all created as a result of a Hogan administration initiative. Graduates from Maryland's P-TECH schools will earn their high school diploma and a two-year postsecondary degree in a STEM field from an accredited community college.



Other Education Programs

- \$8.5 million in state funding is included in the FY 2019 budget to expand access to prekindergarten throughout the state, bringing total pre-kindergarten enhancement funding provided under the Hogan administration to \$23 million.
- The FY 2019 budget invests \$11.5 million in additional funding for the Child Care Subsidy Program to end the wait list and to increase subsidy rates paid to providers by 8 percent. Funding totals \$90.7 million in FY 2019.
- The Division of Rehabilitation Services (DORS), which promotes the employment and independence of individuals with disabilities, receives \$123.3 million in FY 2019, an increase of \$1.6 million. In the past year, the DORS wait list has fallen by 33 percent.
- Funding for Autism Waiver services grows by \$2.7 million to \$24.4 million, enabling an additional 100 children to receive services in their community rather than in more restrictive and expensive institutional settings. Under the Hogan administration, the number of children served by the program has grown by 20 percent.
- The Broadening Options and Opportunities for Students Today (BOOST) Program grows to \$9 million, continuing the governor's commitment to double funding for the program over three years. BOOST provides scholarships for low-income students in areas with under-performing schools to attend non-public schools, giving them the opportunity for a better education.
- The budget includes \$3 million in grant funding for local boards of education to implement policies and practices that address heroin and opioid addiction and prevention as part of the Hogan administration's comprehensive approach to the opioid crisis.

Quality of Life

School Construction

- At the governor's specific direction, the administration is making the largest investment in school construction in the past decade. School construction projects total \$365 million, accounting for more than one-third of FY 2019 general obligation bond funding: \$314 million for the traditional public school construction program, \$40 million for supplemental funding for districts with high enrollment growth or relocatable classrooms, \$7.6 million for the Aging Schools Program, and \$3.5 million for improvements to non-public school facilities. \$1.4 billion in school construction funding has been authorized during the Hogan administration.
- The budget also includes \$20 million to meet the state's annual commitment to the multiyear Baltimore City School revitalization and reconstruction program.

Health Care

- The FY 2019 budget includes more than \$11.5 billion for Maryland's Medicaid program, which currently provides basic health coverage to nearly 1.4 million Marylanders, including more than 147,000 children through the Maryland Children's Health Program.
- Nearly \$52 million is provided in FY 2019 to fund a 2 percent rate increase for behavioral health service providers and a 1 percent rate increase for most other health care and group home providers. Included in this total is \$11 million for the Developmental Disabilities Administration to benefit direct care workers serving some of Maryland's most vulnerable people.
- An additional \$17.6 million is included to bring certain physician rates under Medicaid up to 93 percent of Medicare rates.

- The governor's budget provides \$20 million in total funds to expand Medicaid coverage to include costs of cochlear implants and hearing aids for adults.
- The FY 2019 budget includes \$14.8 million to continue two waiver programs aimed at reducing the waiting list for DDA services.
- To expand the state's ability to investigate allegations of neglect and harm at nursing homes and other health care facilities, the FY 2019 budget includes nine new positions in the Office of Health Care Quality and enhancement funding totaling nearly \$1 million in state funds.
- The governor's budget provides \$5.1 million over two years for critical maintenance and facilities upgrades at state health facilities.
- Continued operating and capital support is provided for the new University of Maryland Capital Region Medical Center in Prince George's County.



Mental Health and Substance Abuse

- In fulfillment of the state's commitment to increase its capacity to accept court-ordered placements for behavioral health treatment, the FY 2019 budget supports the addition of 82 treatment beds in state facilities as well as expanded access to treatment in the community. The budget provides an additional \$3.4 million in FY 2018, \$8.1 million in FY 2019, and 33 new positions toward this end.

Primary and Secondary Education

Foundation Program: The foundation program is the largest single local aid program and is fully funded in FY 2019. Under the program, aid is distributed on the basis of public school enrollment and equalized for taxable wealth so that jurisdictions with smaller per pupil tax bases receive proportionately more aid. Additional funding of \$15.2 million is provided to ensure that every jurisdiction receives more funding in FY 2019 than FY 2018.

Compensatory Education: The compensatory education program is directed toward the education of children who are economically and environmentally disadvantaged. The Bridge to Excellence Act directs the aid according to the number of students receiving free or reduced price meals.

Special Education: Aid for special education is provided to school systems to help cover the additional cost of educating students with needs for special services. These funds are allocated on a formula basis for students in local schools and to support children placed in nonpublic special education schools. The FY 2019 budget reflects the state's share at 70 percent of the cost of nonpublic placements over a certain amount.

Student Transportation: This program provides aid for the transportation of students to and from school, including a specific grant aid for transporting special needs students.

Other Education Aid: Other education aid includes \$288 million to support students with limited English proficiency and \$48.2 million for the Guaranteed Tax Base program, which provides grants to those subdivisions that have less than 80 percent of the statewide average wealth per pupil and that provide local education funding above the local share required by the foundation program.

State Retirement System: In addition to direct aid for education, the state pays a portion of pension and retirement benefits for teachers, principals, administrators, and other eligible employees on behalf of each board of education.

Primary and Secondary Education

(\$ in thousands)

	Foundation Program	Compen- satory Ed.	Special Ed.	Student Trans.	Other	Total Direct	\$ Change from 2018	% Change from 2018	Retirement System	TOTAL	\$ Change from 2018	% Change from 2018
Allegany	42,992	22,131	7,752	4,771	5,802	83,447	2,027	2.5%	6,724	90,171	1,753	2.0%
Anne Arundel	228,699	67,731	28,600	24,531	17,728	367,289	9,454	2.6%	61,591	428,880	9,079	2.2%
Baltimore City	421,579	288,683	60,438	19,741	89,065	879,507	1,377	0.2%	62,241	941,748	-1,304	-0.1%
Baltimore County	411,516	148,810	56,086	32,181	30,095	678,688	19,956	3.0%	87,122	765,809	21,398	2.9%
Calvert	61,011	8,993	4,902	5,875	1,297	82,079	100	0.1%	12,972	95,051	-5	0.0%
Caroline	30,010	15,328	2,842	2,753	5,936	56,869	2,082	3.8%	4,516	61,385	2,251	3.8%
Carrroll	95,770	14,278	10,598	10,014	2,270	132,930	100	0.1%	19,019	151,949	107	0.1%
Cecil	70,882	20,997	8,093	5,292	2,757	108,020	100	0.1%	12,844	120,864	239	0.2%
Charles	121,000	34,240	11,114	11,277	6,186	183,817	11,790	6.9%	20,933	204,750	11,497	5.9%
Dorchester	23,099	12,799	1,723	2,535	3,629	43,784	968	2.3%	3,681	47,465	895	1.9%
Frederick	171,967	35,124	17,388	13,015	11,749	249,242	7,468	3.1%	30,547	279,789	6,671	2.4%
Garrett	11,768	4,458	1,002	3,031	1,626	21,885	198	0.9%	2,912	24,797	80	0.3%
Harford	141,641	34,417	19,301	12,879	3,611	211,850	2,677	1.3%	26,750	238,600	2,908	1.2%
Howard	179,456	31,926	16,558	18,155	11,097	257,192	10,650	4.3%	55,443	312,635	11,096	3.7%
Kent	3,856	2,703	855	1,594	1,076	10,084	185	1.9%	1,720	11,804	260	2.3%
Montgomery	389,457	141,593	59,535	43,245	80,531	714,359	26,057	3.8%	155,859	870,218	28,581	3.4%
Prince George's	632,504	286,431	67,252	41,559	114,316	1,142,062	29,232	2.6%	109,000	1,251,062	28,178	2.3%
Queen Anne's	23,113	5,066	2,000	3,438	2,250	35,867	834	2.4%	5,840	41,707	709	1.7%
St. Mary's	73,809	18,265	6,243	7,125	1,843	107,285	1,648	1.6%	12,861	120,146	1,563	1.3%
Somerset	14,511	10,120	1,766	1,939	4,091	32,427	442	1.4%	2,637	35,064	493	1.4%
Talbot	4,669	5,357	1,127	1,732	1,445	14,331	574	4.2%	3,332	17,663	570	3.3%
Washington	105,498	43,949	9,398	7,421	11,809	178,075	2,745	1.6%	16,020	194,095	2,327	1.2%
Wicomico	75,751	44,396	7,986	5,379	14,602	148,114	2,821	1.9%	11,794	159,909	2,733	1.7%
Worcester	6,681	7,257	1,764	3,105	1,064	19,870	107	0.5%	6,565	26,435	-19	-0.1%
Statewide/Unallocated	0	0	20,381	0	8,515	28,896	5,647	24.3%	0	28,896	5,647	24.3%
Total	3,341,236	1,305,052	424,702	282,585	434,392	5,787,968	139,240	2.5%	732,921	6,520,889	137,706	2.2%

Totals and percentages may not add due to rounding.

Education Aid Per Pupil

The chart below shows state aid for public schools on a per pupil basis. Aid includes direct aid and contributions for teachers' retirement. Pupils are measured as full-time equivalent counts as of September 30, 2017, the same basis as used for allocating aid under the statutory formulas.

Total K-12 Education Aid - Fiscal Year 2019 Per Eligible Full-Time Equivalent Pupil

	FTE Pupils as of September 30, 2017	Aid per Pupil
Allegany	8,166	11,042
Anne Arundel	80,350	5,338
Baltimore City	74,853	12,581
Baltimore County	109,343	7,004
Calvert	15,435	6,158
Caroline	5,469	11,224
Carroll	24,935	6,094
Cecil	14,782	8,176
Charles	26,085	7,849
Dorchester	4,526	10,487
Frederick	40,752	6,866
Garrett	3,649	6,796
Harford	36,877	6,470
Howard	55,372	5,646
Kent	1,866	6,326
Montgomery	156,995	5,543
Prince George's	127,013	9,850
Queen Anne's	7,536	5,534
St. Mary's	17,155	7,004
Somerset	2,697	13,001
Talbot	4,406	4,009
Washington	21,901	8,862
Wicomico	14,341	11,150
Worcester	6,304	4,193
Total FTE's/Average*	860,806	7,542

* Excludes unallocated aid.

Totals may not add due to rounding.