Budget in Brief

The governor's FY 2018 budget is both fiscally responsible and structurally balanced. This budget keeps spending in check without raising taxes, cutting services or borrowing from special funds. In fact, this budget allocates less spending in general funds than last year, while leaving $1 billion in reserves and continuing, for the third straight year, to fund K-12 education at an all-time record level. The administration's commitment to fiscal discipline is reflected in the continued effort to achieve ongoing mandate relief in the out years.

The FY 2018 budget spends $17.1 billion and maintains $1 billion in cash reserves for any future write downs in revenues. In addition, the FY 2018 budget is less than FY 2017 spending.

Revenue Picture

- Actual revenues for FY 2016 came in $250 million below the estimate.
- This shortfall carried forward into FY 2017, where revenues were revised downward by a total of $379 million.
- FY 2018 revenues were written down by a total of $442 million, with General Fund revenues now projected to come in $55 million less than the FY 2017 budget approved by the General Assembly during the 2016 Legislative Session.
- These adjustments to revenue estimates were largely due to weaker than expected withholding growth, non-wage income underperforming, and higher corporate tax refunds.

The Administration Response

- Revenue write downs consumed what was an estimated fund balance of $363.3 million at the end of FY 2017 when the General Assembly closed session.
- The sizable fund balance, together with the administration's decision not to spend restricted funds out of the Reserve Fund, provided a cushion in FY 2017 to soften the impact of the significant decline in anticipated revenues.
- Recognizing the need to act expeditiously to address the eroding fund balance and decline in revenues, the administration sought the Board of Public Works' approval of $82.3 million in FY 2017 budget reductions, as part of a $105 million package of budget balancing solutions.
- Many of the reductions approved in November were carried forward into the FY 2018 budget.
- Despite these prudent actions, the December 2016 Spending Affordability Committee report forecasts an FY 2017 shortfall of $209 million.
- In order to resolve the remaining FY 2017 shortfall, Goveror Hogan has limited deficiency spending, made additional budget reductions, and made prudent use of the Rainy Day surplus greater than 5 percent of state revenues.

FY 2018 Budget Solutions

The administration's FY 2018 budget proposal addresses a $544 million shortfall and positions the state to remedy any future revenue shortfalls. Governor Hogan's budget:

- Spends less in General Funds in FY 2018 than in FY 2017
- Holds Total Fund growth to 1.1 percent—the second-lowest year-over-year percentage increase since at least 1970
- Leaves a surplus of $144 million—more than was recommended by the General Assembly's own Spending Affordability Committee
- Leaves $1 billion in cash reserves at the end of FY 2018, including the $144 million surplus
- Eliminates the FY 2018 structural deficit, surpassing the Spending Affordability Committee's recommendation of a 50 percent reduction
- Limits borrowing for capital projects to $995 million in FY 2018 in an effort to slow down the rapidly rising General Fund subsidy for debt service

Budget in Brief

In addition to those important fiscal achievements, this budget does the following:

- Provides historic level of K-12 education aid and funds new innovative approaches to education
- Allows only a 2 percent in-state tuition increase at the University System of Maryland, Morgan State University, and St. Mary's College
- Allocates $334 million for public school construction and $385 million for higher education capital projects
- Spends a record $256 million to support community colleges
- Maintains the network of services for vulnerable Marylanders
- Provides a 2 percent rate increase for most health and social services providers
- Maintains and enhances investments in programs that will create jobs and educate the workforce

Budgeting Responsibly for the Future

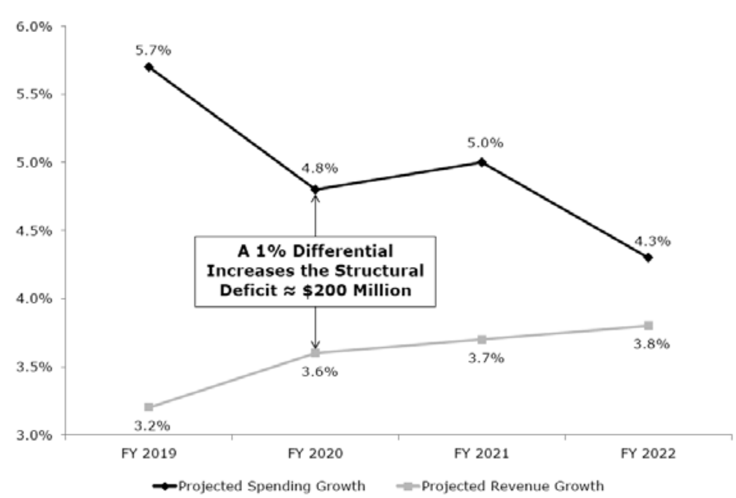
One of the most serious challenges Maryland is facing is the state's long-term structural deficit. This problem is exacerbated by our inability to limit ongoing spending to a level below ongoing revenue growth.

To address this, Governor Hogan is again pushing for the enactment of real, meaningful mandate relief in the 2017 Legislative Session. The administration is proposing the Mandate Relief Act of 2017 to rein in future increases in mandated spending and keep mandated spending from outpacing revenue growth. This new bill would:

- Limit growth in FY 2019 and beyond to the lesser of actual formula growth or revenue growth minus 1 percent, and
- Require the General Assembly to reduce or repeal mandates when new mandates are enacted.

Governor Hogan and his administration are proud to submit the FY 2018 state budget. Over the following several pages, we will outline the governor's key budget priorities and the programs that are being funded to accomplish his goal of continuing to change Maryland for the better.

Spending Outpaces Revenues



Source: Department of Legislative Services, Spending Affordability Committee Report (December 2016)