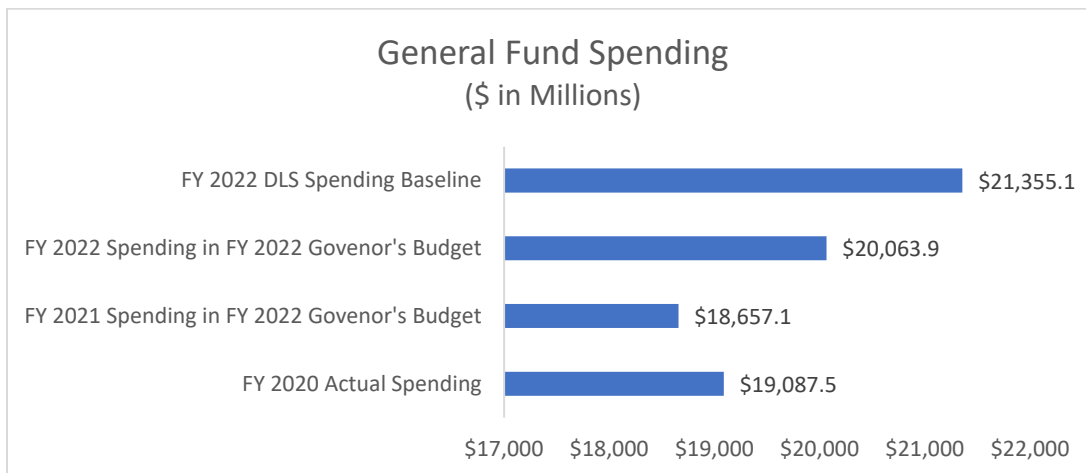


Maryland Fiscal Year 2022 State Budget: A “Quick Look” Analysis

January 22, 2021

Like a family strained by the economic fallout of the COVID-19 pandemic anxiously awaiting more money from new federal stimulus to make ends meet, local and state governments are eagerly eyeing additional federal fiscal relief to balance their budgets, protect their workers’ jobs and preserve current services. In this uncertain environment, Governor Hogan released the state budget on January 20, 2021, which included \$49 billion in the Operating Budget and \$2 Billion in the Capital Budget.¹ Although Maryland is less dependent on additional federal relief than other states, potential underfunding in the budget, particularly for assistance payments to support working families, suggest the state may have to rely on further federal help to fully fund and balance the budget under the current administration plan.

The state budget must be balanced when introduced by the administration and when passed by the General Assembly. While at the beginning of the pandemic the projections of state economic conditions, revenue collections and the resulting budget gaps were dire, due to an infusion of federal CARES Act funding and better-than-expected state revenue numbers and December 2020 forecasts, the Department of Legislative Services (DLS) projected a FY 2022 budget gap of \$632 million in the General Fund, where most state revenues that fund ongoing operations are deposited.² DLS will provide a detailed Fiscal Briefing on the FY 2022 budget on Monday January 25th.



FY 2022 spending in the Governor’s budget is \$1.29 billion below the DLS baseline. Variances from the DLS baseline in the administration plan include:

- \$726.4 million in FY 2022 reductions contingent on legislative approval,
- \$315.2 million more in FY 2022 Special Funds for Aid to Education,
- \$198.5 million more from the Rainy Day Fund in FY 2022, with balance at 5% of General Fund revenue instead of 6% in DLS baseline,
- \$173.4 million in FY 2021 back of the bill reductions,
- \$63.7 million in specific, agency and estimated FY 2021 reversions, and
- \$41.8 million in additional General Fund FY 2021 deficiency reversions.³

¹ See “Maryland Budget Highlights Fiscal Year 2022,” Maryland Department of Budget and Management (DBM), January 2021 at <https://dbm.maryland.gov/budget/Documents/operbudget/2022/proposed/FY2022MarylandStateBudgetHighlights.pdf>. The Operating Budget books are available at <https://dbm.maryland.gov/budget/Documents/operbudget/2022/proposed/FY2022-Volume12.zip>. See “FY 2022 Capital Budget as Proposed,” DBM, January 2021 at <https://dbm.maryland.gov/budget/Documents/capbudget/FY2022-Capital-Budget-as-Proposed.pdf>.

² See “Spending Affordability Committee 2020 Interim Report, Department of Legislative Services, December 2020, at <http://mgaleg.maryland.gov/Pubs/BudgetFiscal/Spending-Affordability-Committee-2020-Interim-Report.pdf>.

³ This report focuses on analysis of spending in the Governor’s budget. For additional detail on variances in General Fund revenue between the administration plan and the DLS baseline, see Appendix B of the FY 2022 Budget Highlights Document and the December 2020 Spending Affordability report, pages 13-26.

Spending reductions in the state reserve fund of \$515.9 million account for 71% of total contingent reductions. In addition to the FY 2022 Medicaid cut, there is a matching FY 2021 contingent reduction of \$100 million.⁴

FY 2022 General Fund Contingent Reductions Summary	
Reserve Fund	-\$515,885,915
Medicaid	-\$100,000,000
Higher Education	-\$56,500,714
Other Maryland Department of Health	-\$43,500,000
Other	-\$6,177,078
Local Aid/Cost Shifts	-\$4,331,020
	-\$726,394,727

FY 2022 General Fund Contingent Reductions Detail

FY 2022 Contingent General Fund Reductions	
OAG - Utilize special funds for Financial Consumer Protection	-\$700,000
SDAT - Modify Local Cost Share to 60%	-\$3,948,020
DGS - Reduce Annapolis PILOT payment	-\$383,000
DNR - Eliminate mandate increase for Fisheries	-\$1,794,000
MDH - Utilize State Reinsurance funds for Medicaid	-\$100,000,000
MDH - Utilize Medical Cannabis Commission funds for BHA	-\$6,000,000
MDH - Reduce Hospital Deficit Assessment	-\$35,000,000
MDH - Utilize Board of Professional Counselors Fund for BHA	-\$2,000,000
MDH - Utilize Board of Pharmacy Funds for OCSA	-\$500,000
MPT - Eliminate mandated increase	-\$775,594
MHEC - Limit growth in Community College formula to 5.51%	-\$26,615,554
MHEC - Level-fund Selinger Formula (Comm. College Aid)	-\$29,785,160
MHEC - Eliminate LARP for Foster Care mandate	-\$100,000
Commerce - Level fund State Arts Council	-\$2,907,484
Reserve Fund - Reduce Allocation to Revenue Stabilization Account	-\$422,024,965
Reserve fund - Delay Program Open Space Repayment	-\$43,860,950
Reserve Fund - Eliminate Pension/OPEB sweeper	-\$50,000,000
Total Contingent Reductions	-\$726,394,727

The \$173.4 million in back of the bill cuts are contingent on a \$247.2 million federal deficiency in the Maryland Department of Health (MDH) Office of Preparedness and Response (OPR), which is coordinating the health response to the pandemic.⁵ These reductions are basically fund swaps between General Funds and Federal Funds and not cuts to overall funding. The additional federal money in OPR will be distributed to the specified agencies as Reimbursable Funds to replace the General Fund cuts.⁶

⁴ FY 2022 Budget Highlights Document, Appendix A, page A-3.

⁵ The Operating Budget bill (HB 588/SB 491) is available at <http://mgaleg.maryland.gov/2021RS/bills/hb/hb0588f.pdf> and the back of bill language with \$173.4 million in back of the bill reductions are in Section 19, page 189.

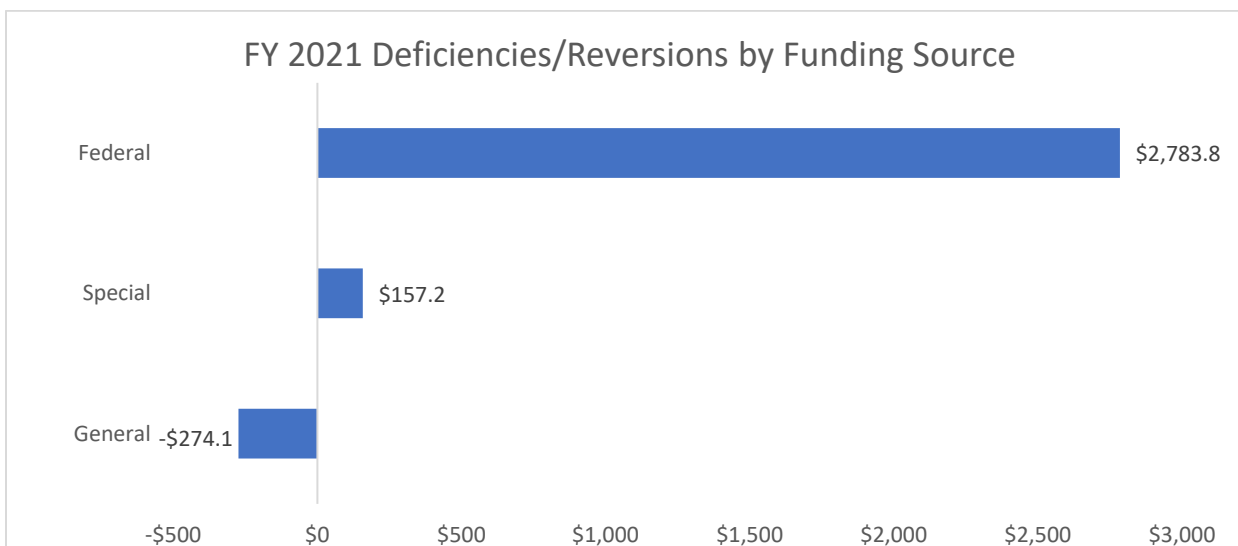
⁶ To reflect the purpose of the \$247.2 million in OPR, the spending is not accounted for as added funds in OPR and is accounted for as a fund swap in the Office of Secretary of the specified agencies, with a General Fund reversion and matching federal fund deficiency appropriation.

Back of the Bill Reductions - FY 2021	
Department of General Services	-\$4,379,862
Department of Natural Resources	-\$21,559,256
Maryland Department of Health	-\$27,000,000
Department of State Police	-\$120,446,477
Total FY 2021 Back of the Bill Reductions	-\$173,385,595

The administration plan includes \$28.7 million in FY 2021 specific and agency reversions.⁷ In addition, the budget each year includes \$35 million in estimated statewide reversions, for a total of \$63.7 million in FY 2021 reversions.

FY 2021 Specific & Agency Reversions	
<i>Specific Reversions: Fenced Off Items</i>	
DPSCS - Maryland Correctional Institute for Women	-\$1,500,000
Commerce - MD Economic Development Assistance Authority & Fund	-\$1,000,000
Reserve Fund - Sunny Day	-\$460,000
Aging Community For Life	-\$300,000
<i>Agency Reversions</i>	
MDH - Service Year 2020 Carryover	-\$19,870,331
DHCD - Prior Year Encumbrances	-\$1,581,531
DJS - Overtime	-\$3,687,185
DJS - Residential Per Diems	-\$312,815
Total FY 2021 Specific & Agency Reversions	-\$28,711,862

Due to the increased federal funding in the CARES act, both the DLS baseline and the administration plan include large FY 2021 federal deficiency appropriations, providing additional federal money and enabling General Fund reversions. While the DLS baseline estimated \$232.3 million in General Fund reversions⁸, the Governor's budget included \$274.1 million in General Fund reversions⁹, a difference of \$41.8 million.



⁷ FY 2022 Budget Highlights Document, Appendix A, page A-2.

⁸ December Spending Affordability report, page 24.

⁹ For FY 2021 deficiencies for all funding sources, see FY 2022 Budget Highlights Document, Appendix C, beginning on page C-34.

FY 2021 Deficiency Appropriations Detail

	General	Special	Federal	Total
Executive Direction/Control	\$213,843,920	\$3,895,580	\$182,398	\$217,921,898
Natural Resources/Agriculture/Environment	\$0	\$2,765,859	\$825,000	\$3,590,859
Community/Economic Development	-\$8,000,000	\$3,000,000	\$0	-\$5,000,000
Public Safety/Police	-\$5,434,015	\$0	\$0	-\$5,434,015
Health	-\$595,103,595	\$62,174,612	\$1,620,706,663	\$1,087,777,680
Human Services	\$76,999,656	\$5,000,000	\$1,162,061,214	\$1,244,060,870
K-12 Education	\$7,397,000	\$174,845,017	\$0	\$182,242,017
Higher Education	\$36,239,410	\$31,000,000	\$0	\$67,239,410
Transportation	\$0	-\$125,468,347	\$0	-\$125,468,347
TOTAL	-\$274,057,624	\$157,212,721	\$2,783,775,275	\$2,666,930,372

FY 2022 Operating Budget: Spending by Function

The spending data are for all funds and account for contingent reductions, proposed deficiencies, back of the bill reductions, and specific and agency reversions.¹⁰

	FY 2021	FY 2022	\$ Change	% Change
Medicaid	\$12,492.5	\$13,081.1	\$588.6	4.7%
Other Health	\$3,839.1	\$4,054.5	\$215.4	5.6%
MSDE Aid to Education	\$8,403.3	\$8,380.0	-\$23.3	-0.3%
Other Education	\$677.8	\$618.1	-\$59.7	-8.8%
Higher Education	\$6,965.7	\$6,928.7	-\$37.0	-0.5%
Human Services	\$4,162.1	\$3,304.1	-\$858.0	-20.6%
Public Safety/Police	\$2,389.2	\$2,415.3	\$26.0	1.1%
Natural Resources/Agriculture/Environment	\$1,005.5	\$1,032.2	\$26.7	2.7%
Business/Economic Development	\$852.8	\$637.9	-\$214.8	-25.2%
Transportation	\$5,132.5	\$4,888.6	-\$244.0	-4.8%
Debt Service/Reserves	\$1,458.5	\$1,501.0	\$42.5	2.9%

Health Spending

	FY 2021	FY 2022	\$ Change	% Change
Health	\$16,331.6	\$17,135.6	\$804.0	4.9%

	FY 2021	FY 2022	\$ Change	% Change
Medicaid	\$12,492.5	\$13,081.1	\$588.6	4.7%
Other Health	\$3,839.1	\$4,054.5	\$215.4	5.6%

¹⁰ For the Governor's allowance by funding source detail, see FY 2022 Budget Highlights Document, Appendix C. These data do not reflect the contingent reductions and specific and agency reversions detailed in Appendix A, the deficiency appropriations specified later in Appendix C, or the back of the bill reductions in Section 19 of the HB 588/SB 491.

Health Spending by Function¹¹

	FY 2021 Total	FY 2022 Total	\$ Change	% Change
MDH Executive Direction/Commissions/Admin.	\$508,878,947	\$545,899,566	\$37,020,619	7.3%
MDH Prevention/Preparedness/Public Health	\$597,989,457	\$694,846,069	\$96,856,612	16.2%
MDH Behavioral Health (w/Medicaid Reimbursements)	\$2,476,012,798	\$2,657,234,161	\$181,221,363	7.3%
MDH Developmental Disabilities	\$1,466,406,444	\$1,541,188,850	\$74,782,406	5.1%
MDH Medicaid/MCHP (No Behavioral Health)	\$10,794,477,923	\$11,201,920,343	\$407,442,420	3.8%
MDH Total	\$15,843,765,569	\$16,641,088,989	\$797,323,420	5.0%
Maryland Health Benefit Exchange	\$452,486,734	\$461,455,574	\$8,968,840	2.0%
Maryland Health Insurance Plan	\$35,394,684	\$33,055,842	-\$2,338,842	-6.6%
Health	\$16,331,646,987	\$17,135,600,405	\$803,953,418	4.9%

Education Spending

	FY 2021	FY 2022	\$ Change	% Change
Early Childhood/K-12 Education	\$9,081.2	\$8,998.1	-\$83.0	-0.9%

	FY 2021 Total	FY 2022 Total	\$ Change	% Change
MSDE Aid to Education	\$8,403,342,451	\$8,380,039,105	-\$23,303,346	-0.3%
Other Education	\$677,817,122	\$618,101,608	-\$59,715,514	-8.8%
TOTAL	\$9,081,159,573	\$8,998,140,713	-\$83,018,860	-0.9%

Higher Education Spending

	FY 2021	FY 2022	\$ Change	% Change
Higher Education	\$6,965.3	\$6,928.3	-\$37.0	-0.5%

	FY 2021 Total	FY 2022 Total	\$ Change	% Change
Higher Education Institutions (General & Special Funds)	\$1,674,348,235	\$1,620,805,976	-\$53,542,259	-3.2%
Higher Education Institutions (Net Unrestricted Funds)	\$4,720,166,433	\$4,670,789,010	-\$49,377,423	-1.0%
MHEC: Aid to Community Colleges	\$389,848,724	\$403,932,154	\$14,083,430	3.6%
MHEC: Grants/Scholarships/Loans/Admin	\$181,312,512	\$233,198,523	\$51,886,011	28.6%
TOTAL	\$6,965,675,904	\$6,928,725,663	-\$36,950,241	-0.5%

¹¹ Medicaid Behavioral Health reimbursements are counted with spending in the Behavioral Health Administration, State Psychiatric Hospitals and RICAs as well as BHA Facility Maintenance.

Human Services Spending

	FY 2021	FY 2022	\$ Change	% Change
Human Services	\$4,162.1	\$3,304.1	-\$858.0	-20.6%

	FY 2021 Total	FY 2022 Total	\$ Change	% Change
DHS Child Welfare	\$560,157,803	\$567,782,024	\$7,624,221	1.4%
DHS Income Support & Nutrition (Includes Assistance Payments)	\$2,827,060,091	\$1,974,276,856	-\$852,783,235	-30.2%
DHS Executive & Administration	\$246,026,235	\$256,633,902	\$10,607,667	4.3%
Total Department of Human Services	\$3,633,244,129	\$2,798,692,782	-\$834,551,347	-23.0%
Department of Aging	\$77,250,686	\$63,989,026	-\$13,261,660	-17.2%
MDL Division of Workforce Development & Adult Learning	\$130,961,084	\$118,026,865	-\$12,934,219	-9.9%
DHCD Development Finance Less Capital (Affordable Housing)	\$320,621,640	\$323,360,927	\$2,739,287	0.9%
Human Services	\$4,162,077,539	\$3,304,069,600	-\$858,007,939	-20.6%

Public Safety/Police Spending

	FY 2021	FY 2022	\$ Change	% Change
Public Safety/Police	\$2,389.2	\$2,415.3	\$26.0	1.1%

	FY 2021 Total	FY 2022 Total	\$ Change	% Change
DPSCS Executive/Admin HQ	\$390,365,754	\$423,698,301	\$33,332,547	8.5%
DPSCS Institutions	\$988,652,256	\$983,762,841	-\$4,889,415	-0.5%
DPSCS Parole and Probation	\$103,558,287	\$105,536,268	\$1,977,981	1.9%
DPSCS Total	\$1,482,576,297	\$1,512,997,410	\$30,421,113	2.1%
Department of Juvenile Services	\$252,529,115	\$259,610,515	\$7,081,400	2.8%
State Police	\$448,975,264	\$446,566,396	-\$2,408,868	-0.5%
Governor's Office of Crime Prevention, Youth & Victim Services	\$205,156,712	\$196,089,434	-\$9,067,278	-4.4%
Public Safety/Police	\$2,389,237,388	\$2,415,263,755	\$26,026,367	1.1%

Natural Resource/Agriculture/Environment Spending

	FY 2021	FY 2022	\$ Change	% Change
Natural Resources/Agriculture/Environment	\$1,005.5	\$1,032.2	\$26.7	2.7%

	FY 2021 Total	FY 2022 Total	\$ Change	% Change
Department Natural Resources	\$437,145,780	\$428,855,584	-\$8,290,196	-1.9%
Department of Agriculture	\$129,659,384	\$123,269,001	-\$6,390,383	-4.9%
Department of Environment	\$438,737,051	\$480,111,062	\$41,374,011	9.4%
Natural Resources/Agriculture/Environment	\$1,005,542,215	\$1,032,235,647	\$26,693,432	2.7%

Maryland Capital Budget

Capital investments increase by \$243.1 million, or 12.5% from FY 2021 to \$2.2 billion in FY 2022.¹² FY 2022 spending on public school construction is \$833.1 million, an increase of \$425 million from \$408.1 million in FY 2021, although FY 2021 spending was down by \$92.5 million from \$500.6 million in FY 2020.

\$ in Millions	FY 2021	FY 2022	\$ Change	% Change
Health/Cultural	\$12.6	\$16.8	\$4.2	33.1%
Environment/Open Space	\$515.2	\$557.2	\$42.0	8.2%
Public Safety/Police	\$56.1	\$45.9	-\$10.2	-18.1%
Education/Library	\$415.8	\$847.4	\$431.6	103.8%
Higher Education	\$403.5	\$417.5	\$14.0	3.5%
Housing & Community Development	\$197.9	\$216.1	\$18.3	9.2%
Transportation	\$125.0	\$188.5	\$63.5	50.8%
Misc./Other/State Facilities	\$227.9	\$107.0	-\$120.9	-53.1%
Total	\$1,954.0	\$2,396.4	\$442.4	22.6%
GO Bond Deauthorizations	-\$13.1	-\$2.4	\$10.7	-81.5%
Adjust for Bond Sale Premiums		-\$210.0		
Net Capital Budget Authorizations	\$1,940.8	\$2,184.0	\$243.1	12.5%

Department of Housing and Community Development Capital Budget

The FY 2022 capital budget for DHCD increases by \$18.3 million to \$216.1 million, including \$98.9 million for community development and neighborhood revitalization and \$117.3 million for affordable housing and rental housing programs.

	FY 2021	FY 2022	\$ Change	% Change
Community/Neighborhood	\$88.4	\$98.9	\$10.5	11.9%
Affordable Housing/Rental Housing	\$109.5	\$117.3	\$7.8	7.1%
DHCD Capital Budget	\$197.9	\$216.1	\$18.3	9.2%

As the legislature works to pass their version of the balanced budget, additional federal fiscal relief is uncertain, but is more likely with Democratic control of the Senate. The Biden administration COVID relief proposal includes \$350 billion in local and state fiscal relief, along with additional targeted money for schools. Any additional federal money would become part of the budget negotiations between the legislature and administration. Without new federal support, the potential underfunding in the budget highlights the need for fair funding and additional revenue sources that tax wealth the same as work and close and business and corporate tax loopholes.

¹² The FY 2021 Capital Budget as Enacted is available at <https://dbm.maryland.gov/budget/Documents/capbudget/FY2021-CBAE.pdf>. See Summary of Capital Budget as Enacted.

