

## July 1, 2020 Board of Public Works – Budget Actions

On July 1<sup>st</sup>, the Board of Public Works is scheduled to vote on \$672 million in unwise and unnecessary budget cuts. The cuts jeopardize access to health care during a pandemic, threaten the education and career readiness of the state’s children and young adults, and shift costs to Maryland’s working families, health care providers and local jurisdictions. While state revenues have dropped due to the COVID-19 pandemic, it is not necessary to begin cutting the budget on the first day of the fiscal year. With the effects of COVID-19 increasingly hitting red states as well as blue states, state and local fiscal relief from Congress may be more likely. The state also has a range of revenue options to help close the budget gap. Revenue bills vetoed this year by the administration would have raised \$183.2 million in FY 2021 revenue. In addition, three bills introduced in the 2020 session that would have raised taxes on corporations and investment income would have increased FY 2021 revenue by \$670.7 million.

FY 2021 Maryland Operating Budget funding is \$47.95 billion, with \$19.62 billion in General Funds, where most state revenue collections are budgeted. BPW proposed cuts and budget actions are \$1.51 Billion, including \$672 million in proposed budget cuts. In the administration plan, budget balancing items in the General Fund total \$1.45 Billion, including \$610.3 million in proposed BPW cuts, or 3.1% of the General Fund budget, and \$844.8 million in other budget balancing actions. According to the BPW agenda document, the Administration presented the \$844.8 million in General Fund balancing actions for informational purposes and they will not be part of the BPW vote.

### BPW Agency Reductions by Program Area

Higher Education	\$206,879,783
Public Safety	\$86,257,343
Early/K-12 Education	\$75,079,323
Health/Medicaid	\$69,834,852
Executive/Administrative	\$63,619,141
State Employee Compensation	\$41,852,578
Local Aid	\$40,060,842
State Reserve Fund	\$38,000,000
Housing/Human Services	\$37,059,748
Natural Resources/Environment	\$13,383,102
<b>TOTAL BPW Agency Reductions – All Funds</b>	<b>\$672,026,712</b>

Investments in the education and career readiness of Maryland’s children and young adults bear a large portion of the BPW proposed reductions, with \$282 million cut from Early/K-12 and Higher Education, or 42% of the total reductions. Cuts to Higher Education are \$206.9 million, or 31% of total reductions, and include \$57.3 million cut from the Maryland Higher Education Commission (MHEC) and \$149.6 million cut in Support for State Operated Institutions of Higher Education. Cuts to state support for higher education may increase the likelihood of tuition increases, which can limit college affordability and increase student and family debt.

MHEC cuts include \$10.6 million in reduced support to independent higher education institutions, including a \$5.7 million cut to Johns Hopkins University, \$1 million to Loyola College, and \$918,294 cut to McDaniel College. MHEC aid to Community Colleges is cut by \$36.4 million, including \$6.4 million cut from Baltimore County Community College, \$6.3 million cut from Montgomery College, \$4.7 million cut from Prince George's Community College, \$4.3 million cut from Anne Arundel Community College, and \$3.3 million cut from Howard Community College. For State institutions, \$117.3 million is cut from the University of Maryland System, \$9 million from Morgan State University, \$3.2 million from Baltimore City Community College, \$2.1 million from St. Mary's College, and \$18 million in statewide reductions.

BPW proposed cuts to the State Department of Education (MSDE) are \$75.1 million. Cutting funding to schools and teachers could increase class size, threatening the educational achievement of the state's children. State aid to local school systems for retirement is reduced by \$44.1 million and reported under "statewide reductions." With the proposed elimination of \$27.7 million in Teacher Retirement Supplemental Grants under local aid, total reduced state support for local school systems retirement costs is \$71.8 million, or 10.7% of BPW proposed cuts.

During the pandemic and the related behavioral health crisis, other MSDE cuts include \$11.5 million in PAYGO capital funding for Healthy Schools and School Safety. In addition, \$5 million is cut from the Child Care Subsidy Program, \$1 million is cut from the Juvenile Services Education Program, and \$437,400 in reduced grant funding to Chesapeake Bay Foundation. State aid is cut by 10% for Local Management Boards and the Baltimore Children and Youth Fund, with \$2.1 million in proposed cuts, and for independent educational institutions, with \$607,043 in reductions.

\$86.3 million in reductions to Public Safety funding include \$6.2 million cut from Office of Public Defender, \$4.5 million reduced for the Office of the Attorney General, and \$66,612 cut in the Office of the State Prosecutor. The Governor's Office for Crime Prevention, Youth and Victim Services receives \$8.3 million in cuts, with \$3.7 million in reductions to Local Law Enforcement Grants, including the Protecting Against Hate Crimes grant, the Student Peer Mediation Program Fund, the Youth Crime Prevention and Diversion Parole Fund, the Internet Crimes Against Children Fund, the Baltimore City and Prince George's County State's Attorney's Office. \$1.9 million is cut from the Baltimore City Crime Prevention Initiative, \$1.5 million is cut from the Maryland Criminal Intelligence Network, and \$130,000 is cut from the Violence Intervention and Prevention Program. The Department of Public Safety and Correctional Services budget goes down by \$35.7 million, and the Department of Juvenile Services receives \$18.5 million in cuts, or 6.8% of the agency budget.

In the midst of a public health emergency, the administration proposes \$69.8 million in cuts to the Maryland Department of Health, with \$52.2 million cut from Medicaid providers, including reductions to hospitals, medical equipment and supplies, rural health access, a postpartum dental initiative, and diabetes prevention. Provider rate cuts could lead to some providers declining to offer services and threaten health care access. Funding for the Capital Regional Medical Center, for UMB and JHU for cancer research, and the Advance Directives Fund drops by \$3.5 million; and \$1 million is cut from Behavioral Health Crisis Response grants for local jurisdictions.

Funds for state employee compensation go down by \$41.9 million, through Cost of Living Adjustment salary reductions and by eliminating annual salary reviews for some employees. Other proposed cuts to Executive/Administrative agencies include \$10.6 million from the Department of General Services, \$10.1 million cut from the Department of Transportation, \$8 million from the Department of Commerce, \$5.5

million cut from the Heritage Structure Rehabilitation Credit, \$4.9 million from the Comptroller, and \$1.4 million cut from the Department of Veteran Affairs.

Local Aid goes down by \$40.1 million, with a \$12.4 million cut to Disparity Grants and the elimination of \$27.7 million in funding for Teacher Retirement Supplemental Grants. Baltimore City and Prince George’s County take more than half of the cuts. In addition to the elimination of the Teacher Retirement Supplemental Grant, the BPW proposed cuts include \$44.1 million cut in MSDE for local aid to school systems for retirement costs, or combined costs shifts to local jurisdictions of \$84.2 million, or 12.5% of proposed reductions.

Disparity Grant & Teacher Retirement Supplemental Grants by Jurisdiction	
Baltimore City	\$12,518,983
Prince George's	\$9,628,702
Washington	\$5,721,037
Wicomico	\$3,209,170
Baltimore County	\$3,000,000
Dorchester	\$1,901,482
Allegany	\$1,632,106
Somerset	\$902,599
Caroline	\$799,199
Garrett	\$406,400
Cecil	\$341,164
	\$40,060,842

The Department of Human Services budget goes down by \$20.8 million, with \$3.1 million cut by freezing institutional foster care rates at the FY 2020 level, \$8.5 million cut in General Administration, and \$9.1 million in statewide reductions, including IT, overtime, and retirement costs. Investments in affordable housing and community development are cut by \$10.1 million, with \$5.2 million cut from the National Capital Strategic Economic Development Fund and the SEED Fund, \$4.4 million cut from Rental Housing Works program, and \$537,516 in statewide reductions. Department of Labor funding drops by \$4 million, including a \$1.4 million cut to the YouthWorks program and other youth apprenticeship programs. Community Services spending in the Department of Aging is cut by \$2 million.

Investments in the state’s environment and natural resources are cut by \$13.4 million. \$6.2 million is cut from the Department of Natural Resources, with \$2.7 million in statewide administrative reductions and \$1.1 million cut by eliminating the aviation program and reducing funding for vehicles. The Department of Environment budget would be reduced by \$5.3 million, including \$2.1 million cut from the Water and Science Administration, \$1.7 million in statewide reductions, and a \$500,000 cut to the Hazardous Substance Clean-up Program. The Department of Agriculture budget goes down by \$1.9 million, including \$400,000 cut by eliminating the nuisance insect program, \$308,038 cut from the Rural Maryland Council grant, and \$268,750 from the Next Generation Farmland Acquisition Program.

The majority of proposed BPW cuts are to the General Fund, \$610.3 million, with \$32.1 million in proposed Special Fund cuts and \$29.6 million in Federal Fund reductions.

General Fund BPW Proposed Cuts

Higher Education	\$206,868,099
Public Safety	\$82,343,262
MSDE/K-12 Education	\$70,712,276
Health/Medicaid	\$57,087,637
Executive/Administrative	\$79,316,766
Local Aid	\$40,060,842
State Reserve Fund	\$38,000,000
Housing/Human Services	\$25,795,237
Natural Resources/Environment	\$10,147,531
<b>Total General Fund BPW Proposed Cuts</b>	<b>\$610,331,650</b>

Special Fund BPW Proposed Cuts

Higher Education	\$7,855
Public Safety	\$2,897,024
MSDE/K-12 Education	\$49,583
Health/Medicaid	\$2,248,331
Executive/Administrative	\$23,118,788
Housing/Human Services	\$1,102,962
Natural Resources/Environment	\$2,648,669
<b>Total BPW Special Fund Proposed Cuts</b>	<b>\$32,073,212</b>

Federal Fund BPW Proposed Cuts

Higher Education	\$3,829
Public Safety	\$943,224
MSDE/K-12 Education	\$4,391,296
Health/Medicaid	\$10,498,884
Executive/Administrative	\$3,035,374
Housing/Human Services	\$10,161,550
Natural Resources/Environment	\$587,693
<b>Total BPW Federal Fund Proposed Cuts</b>	<b>\$29,621,850</b>

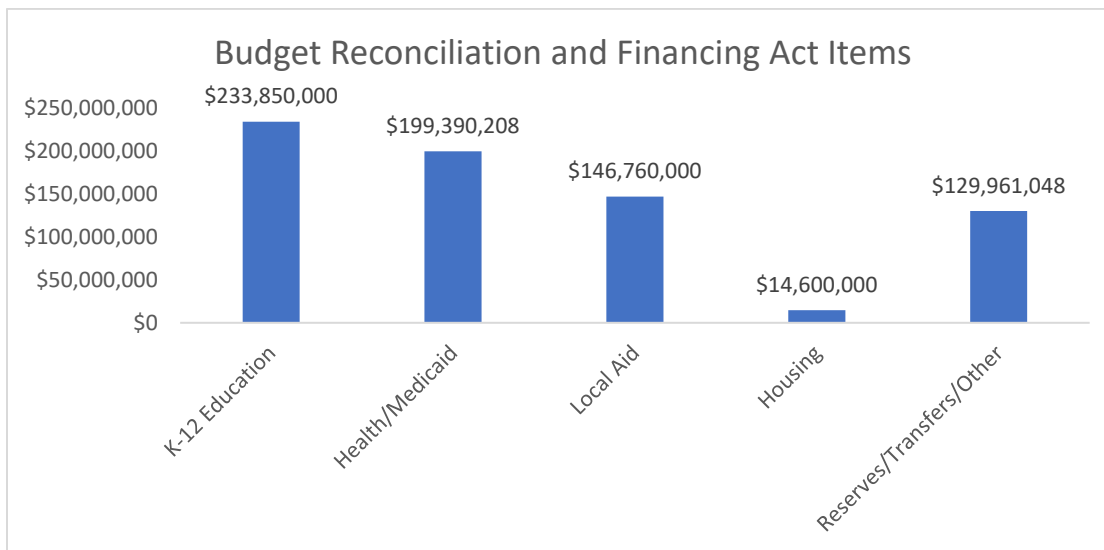
Additional Administration Budget-Balancing Actions

While BPW is scheduled to vote on the \$672 million in proposed cuts on July 1<sup>st</sup>, the BPW agenda document also presents \$844.8 million in additional General Fund budget-balancing actions. Combined with the \$610.3 million in proposed General Fund BPW cuts, total General Fund budget-balancing items are \$1.45 Billion. The agenda document does not provide further information on the implementation of the additional budget-balancing actions.

Budget Reconciliation and Financing Act Actions	\$724,561,256
Additional Budget-Balancing Actions	\$119,008,265
Anticipated Revenues	\$1,269,318
Total Budget-Balancing Actions	\$844,838,839

### Budget Reconciliation and Financing Act Actions

The administration proposes \$724.6 million in Budget Reconciliation and Financing Act (BRFA) items to balance the General Fund budget. Like the BPW reductions, spending on Education and Health make up a large portion of the BRFA items.



Education BRFA actions include a \$200 million reduction in K-12 Education Aid, \$32 million cut in PAYGO capital funding for Healthy School Facilities Fund and School Safety, \$1 million cut from Next Generation Scholars of Maryland program, \$500,000 cut from the Public School Opportunities Enhancement Program, and \$350,000 cut by eliminating the Robotics Program.

Health BRFA actions are a \$100 million cut to Medicaid and \$78.9 million cut for health care provider rates, including \$22.2 million for behavioral health providers, \$26.5 million for providers to individuals with developmental disabilities, and \$30.2 million for Medicaid providers. In addition, \$20.4 million in excess fund balances for MDH Boards and Commissions and Special Fund transfers to the General Fund.

Local Aid BRFA actions are \$130 million cut through an unallocated reduction to local governments and \$16.8 million cut by modifying State Department of Assessment and Taxation state/local cost sharing formula. \$14.6 million in DHCD PAYGO capital funding is cut, including \$7.6 million to Rental Housing, \$4 million to National Capital Strategic Economic Development Fund, and \$3 million cut to SEED Fund. Reserve Fund actions are a \$97 million reduction in PAYGO funds for Washington Metropolitan Area Transit Authority. In addition, \$32 million in Special Funds are transferred into the General Fund, \$661,048 is cut from the Alcohol and Tobacco Commission and \$300,000 is cut from the Maryland State Library Agency.

### Additional Budget Items

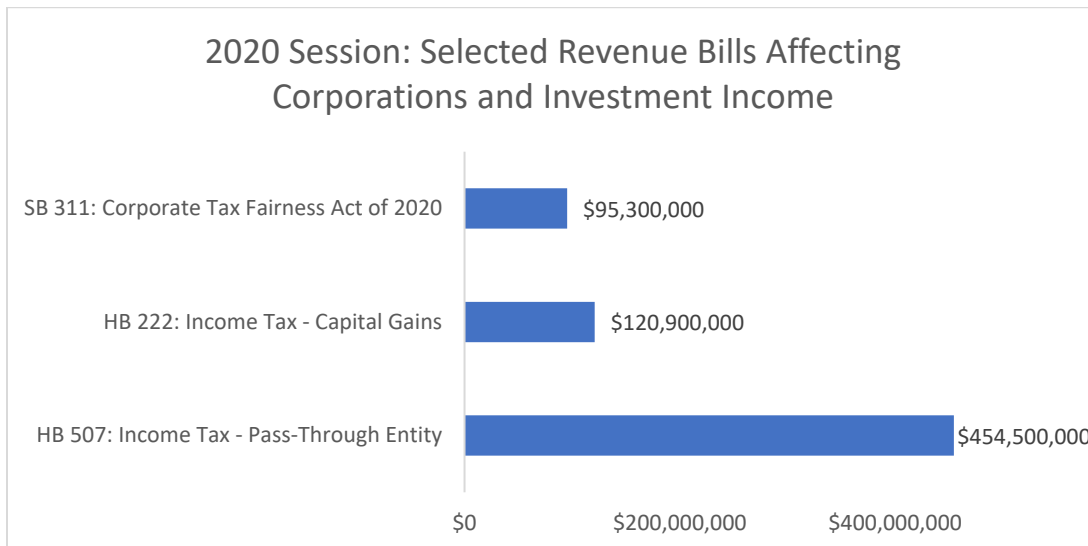
The administration proposal also includes \$119 million in additional budget-balancing actions. State employees would bear most of these cuts, with \$107.7 million cut through temporary employee compensation reductions, which might include furloughs or other salary reductions. MDH Physician E&M rates are cut by \$4.1 million and \$7.2 million is cut in Public Debt through the sale of two state aircraft.

Employee Compensation	\$107,668,265
MDH Provider Rates	\$4,140,000
Public Debt	\$7,200,000
<b>Total – Additional Budget-Balancing Actions</b>	<b>\$119,008,265</b>

Additional anticipated revenue items total \$1.3 million, with \$794,270 in added revenues from the Central Collection Unit and \$475,408 from the Lottery and Gaming Control Authority.

### A Fiscal Alternative: Maryland’s Range of Revenue Options

Instead of unwise and unnecessary budget cuts, the state has a range of revenue raising options to close the budget gap. Three revenue bills introduced in the 2020 legislative session that affected corporations and investment income would have raised \$670.7 million in FY 2021 revenue. HB 507 would have applied a tax on pass-through entity (PTE) income above \$1.0 million and would have yielded \$454.5 million in FY 2021 revenue. HB 222 imposed an added 1% state income tax on net capital gains income and would have increased FY 2021 revenue by \$120.9 million. SB 311 – Corporate Tax Fairness Act of 2020 – made changes to corporate income tax reporting and would have produced \$95.3 million in FY 2021.



Revenue bills vetoed by the administration would have raised \$183.2 million in FY 2021 revenue. HB 732 raised various tobacco taxes and applied a tax on certain digital advertising and would have raised \$100.1 million in FY 2021 revenue. HB 932 – 21<sup>st</sup> Century Economic Fairness Act – applied the state sales tax to specified digital products and codes and would have raised \$83.1 million in FY 2021 revenue.

Other proposed revenue items in 2020 session would have made changes to the sales and income taxes and generated large amounts of revenue. HB 1628 modernized the state's sales tax structure, by applying the sales tax to specified services and cutting the sales tax rate from 6% to 5%. The bill would have increased FY 2021 revenue by \$873.2 million. HB 1190 would have changed individual income tax brackets and increased tax rates and generated \$284.2 million in FY 2021 revenue. SB 876 would have regulated and taxed electronic smoking devices and vaping liquids. Legislative analysts were not able to calculate an increased revenue amount and reported that "General Fund revenues increase significantly beginning in FY 2020."