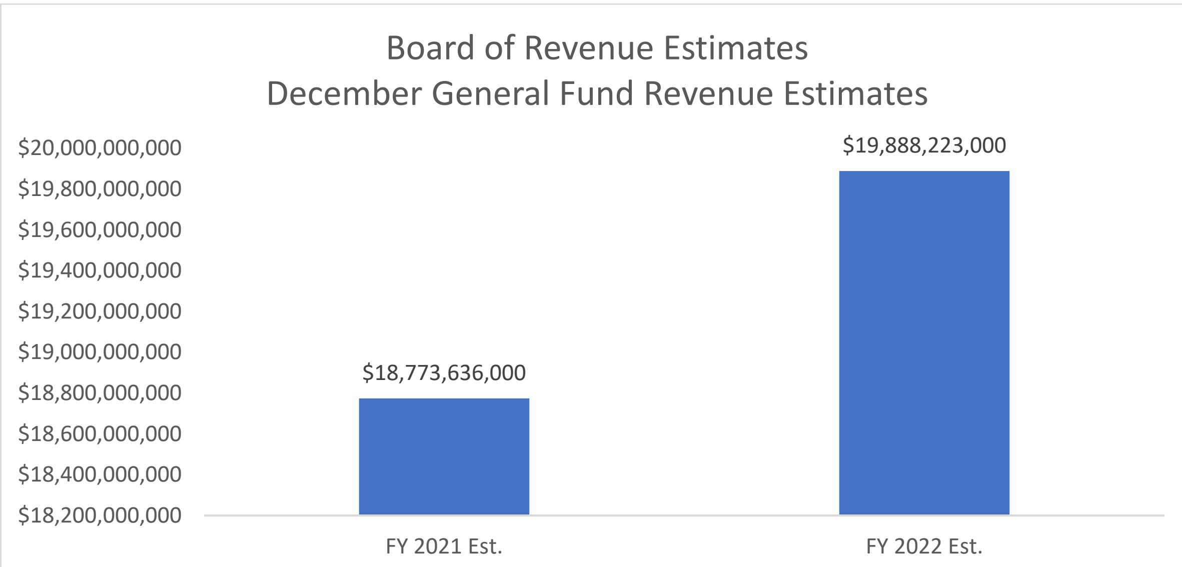
Maryland Budget Snapshot: State's Fiscal Outlook
December 2020

In January, the Governor will submit the FY 2022 state budget to the General Assembly. The state budget must be balanced when the administration introduces it to the legislature and when the General Assembly passes the budget. On December 11th, the Board of Revenue Estimates (BRE) released updated General Fund revenue projections for FY 2021 and FY 2022. BRE projects General Fund revenue of $18.77 billion for fiscal year (FY) 2021, an increase of $63.8 million from BRE September estimates, and $19.67 billion for FY 2022, an increase of $142.6 million from September BRE forecasts, for a cumulative General Fund revenue increase of $206.4 million for FYs 2021 and 2022.[1]



In their December 15th decision meeting, the legislature's Spending Affordability Committee (SAC) incorporated BRE's updated revenue forecasts and updated their FY 2022 spending baseline to project a closing FY 2021 General Fund surplus of $778 million and a FY 2022 General Fund budget gap of $632 million. Since the budget must be balanced, the administration's upcoming budget would need to address this fiscal gap, either through spending cuts or additional transfers or revenues. The Department of Legislative Services (DLS) also projects a structural budget gap of $649 million for FY 2021 and $817 million for FY 2022. [2]

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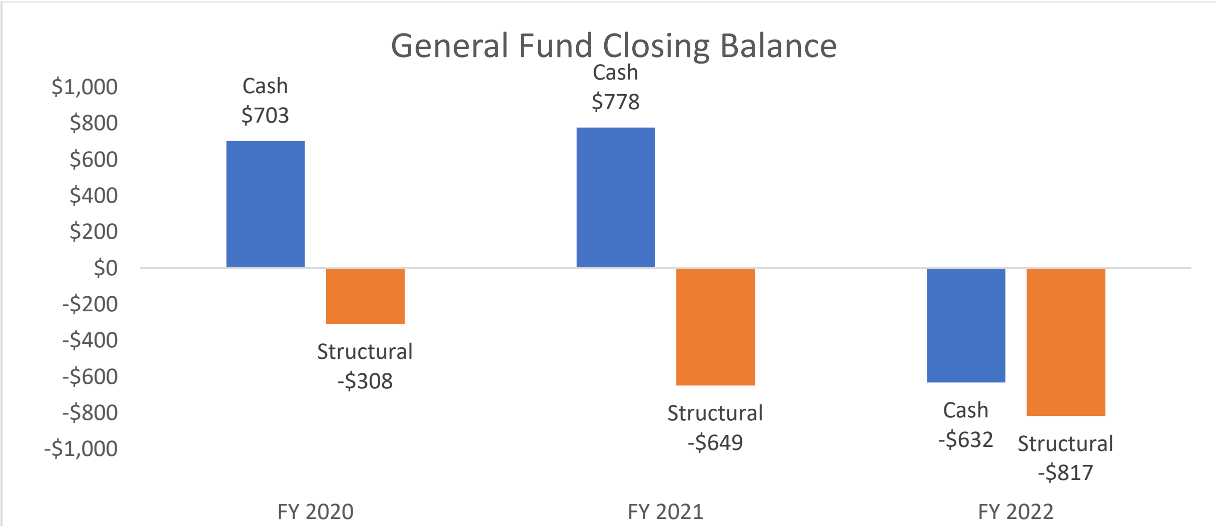
[1] See https://www.marylandtaxes.gov/divisions/bre/BRE_reports/FY_2021/Board_Revenue_Table_December_2020.pdf.
[2] See Spending Affordability Committee December 15th Meeting Materials, page 2 at http://mgaleg.maryland.gov/2021RS/meeting_material/spa%20-%20132525398783527715%20-%20SAC-Meeting%20Materials-December%2016,%202020.pdf.



In July, the Board of Public Works (BPW) reduced the FY 2021 General Fund budget by $395 million but deferred an additional $1 billion in cuts proposed by the administration. These proposed cuts included $200 million in reduced K-12 education aid, $139 million in state employee salary savings, $130 million cut from Local Aid, $100 million cut from Medicaid, $97 million cut from WMATA, $79 million in cuts to community health care providers, and $63 million in reduced money for school construction and affordable housing.[3]

A tobacco tax veto override would generate an additional $40 million in FY 2021 General Fund revenue and $92 million in FY 2022 and would decrease the FY 2022 budget gap to $500 million. An override of the Governor's veto of HB 932's sales tax on digital downloads would yield an additional $40 million in FY 2021 Special Fund revenue and $96 million in FY 2022 but would not help to close the General Fund budget gap.[4]

A factor in Maryland's AAA bond rating is maintaining Rainy Day Fund balances of at least 5% of General Fund revenues. The DLS fiscal baseline assumes a FY 2022 Rainy Day Fund closing balance of 6% of General Fund revenues. In their December decision meeting, the Spending Affordability Committee recommended a FY 2022 Rainy Day Fund closing balance of 5% of General Fund revenues. Transferring additional Rainy Day Fund dollars to the General Fund for a FY 2022 Rainy Day Fund closing balance of 5% of General Fund revenues would yield $198 million in additional available funds, closing the budget gap to $302 million.

The DLS budget baseline includes an estimated FY 2021 deficiency of $181.9 million in General Funds due to a shortfall in the Education Trust Fund (ETF)[5] and projects a Blueprint Fund balance of more than $1 billion at the end of FY 2022.[6] Using the FY 2022 Blueprint fund balance, or other Special Funds, to fund the FY 2021 deficiency for the ETF shortfall would free up $182 million in additional General Fund dollars and bring the budget gap down to $120 million.

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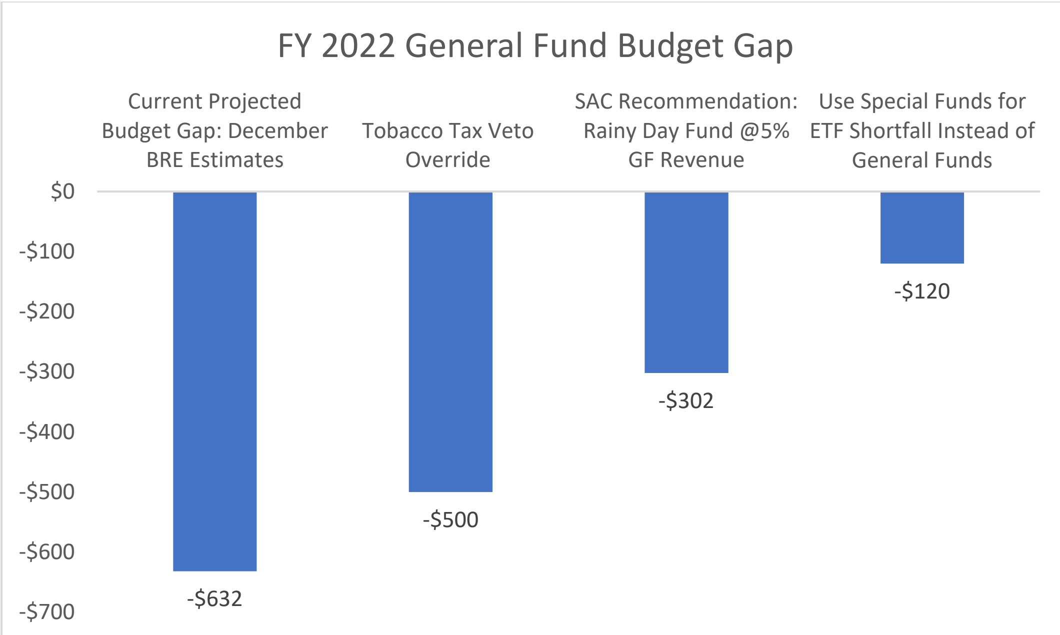
[3] For a complete list of deferred cuts, see "Overview of Administration Balancing Plan," Department of Legislative Services, July 2020, page 7, available at http://dls.maryland.gov/pubs/prod/NoPblTabPDF/2020-07-08-DLS-Overview_of_Administration_Balancing_Plan.pdf.

[4] See "Spending Affordability Briefing," Department of Legislative Services, October 2020, page 38, available at https://mgaleg.maryland.gov/Pubs/BudgetFiscal/2020-spending-affordability-briefing-october-27.pdf.

[5] "Spending Affordability Briefing," October 2020, page 16.

[6] "Spending Affordability Briefing," October 2020, page 14.



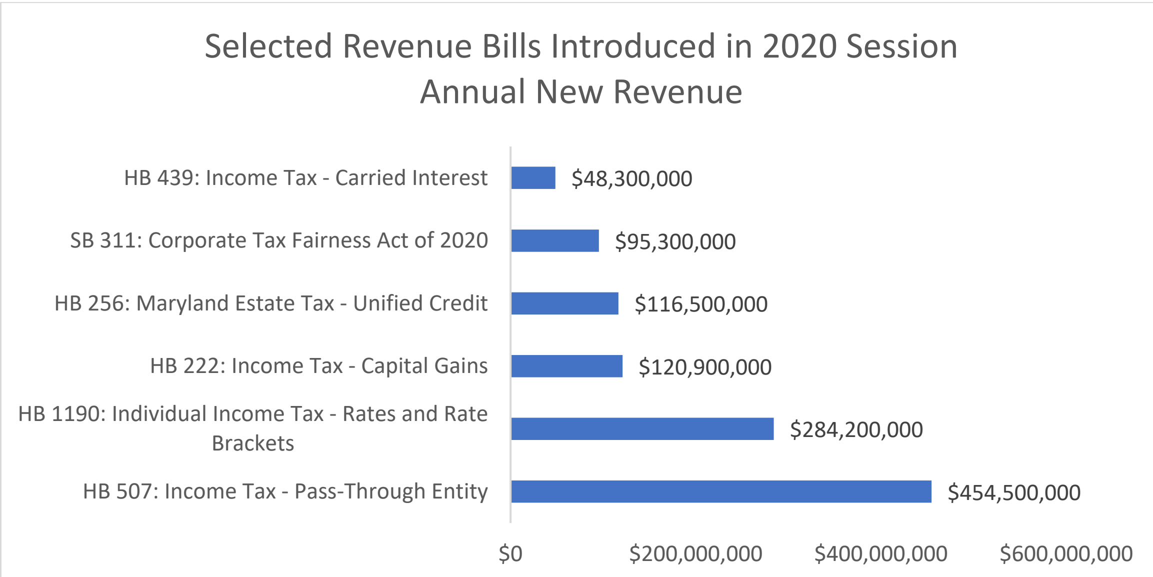
The Spending Affordability Committee also recommended a FY 2022 closing General Fund balance of $100 million and a reduction of the FY 2022 structural budget gap to $700 million from the current projected gap of $817 million. Funding both of those recommendations would require an additional $217 million in available funds. Combined with the estimated $120 million budget gap, total funding needed to close the budget gap and meet SAC recommendations on closing General Fund balance and reducing the structural budget gap would be $337 million.

Since there is no agreement on subsequent federal COVID-19 stimulus, replacing the related enhanced federal funds is a major driver of FY 2022 General Fund spending growth in the DLS baseline. Any additional federal funding related to a potential stimulus bill would further reduce the General Fund budget gap, although state and local fiscal relief is not a component of the currently reported bipartisan stimulus package.

Transfers of Special Funds or Reserve Funds into the General Fund assist in closing the budget gap, but they are one-time measures and do not address the structural budget gap. Additional revenues are needed to fully close the FY 2022 budget gap, to close the structural budget gap in future years, to pay for the future year costs of the veto overrides of Blueprint Implementation, the Built to Learn Act and HBCU Funding, and to address unmet needs currently unfunded in the budget.

Several revenue bills introduced in the 2020 legislative session would have closed corporate and business tax loopholes, taxed income from wealth like income from work and created fairer income tax and would have generated significant additional 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. 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. HB 439 – Income Tax – Carried Interest applied a 17% state income tax of a PTE's taxable income earned through investment management services provided in Maryland and would have yielded an additional $48.3 million in revenue.

HB 222 would have imposed an additional 1% state income tax on capital gains income and would have generated $120.9 million in revenue. HB 256 – Maryland Estate Tax – Unified Credit – would have reduced the estate tax exemption to $1 million from $5 million and yielded an additional $116.5 million in revenue. HB 1190 would have changed individual income tax brackets and increased upper-income tax rates and generated $284.2 million in FY 2021 revenue.



Rather than make unwise and unnecessary cuts to education aid, local aid, state workforce, Medicaid, health care provider rates and funding for school safety and affordable housing, the state has a range of fiscal options to close the FY 2022 budget gap, begin to address the structural deficit and to fund Blueprint Implementation, the Built to Learn Act, and HBCU funding and currently unmet needs in the budget.