

Senate Budget and Taxation Committee

Senator Guy Guzzone, Chair
Senator James C. Rosapepe, Vice Chair

Agenda
July 9, 2020
10:00 am
Virtual Briefing

Update on FY 2021 Budget

Department of Legislative Services

- **David C. Romans, *Fiscal and Policy Coordinator***

Department of Budget and Management

- **David R. Brinkley, *Secretary***

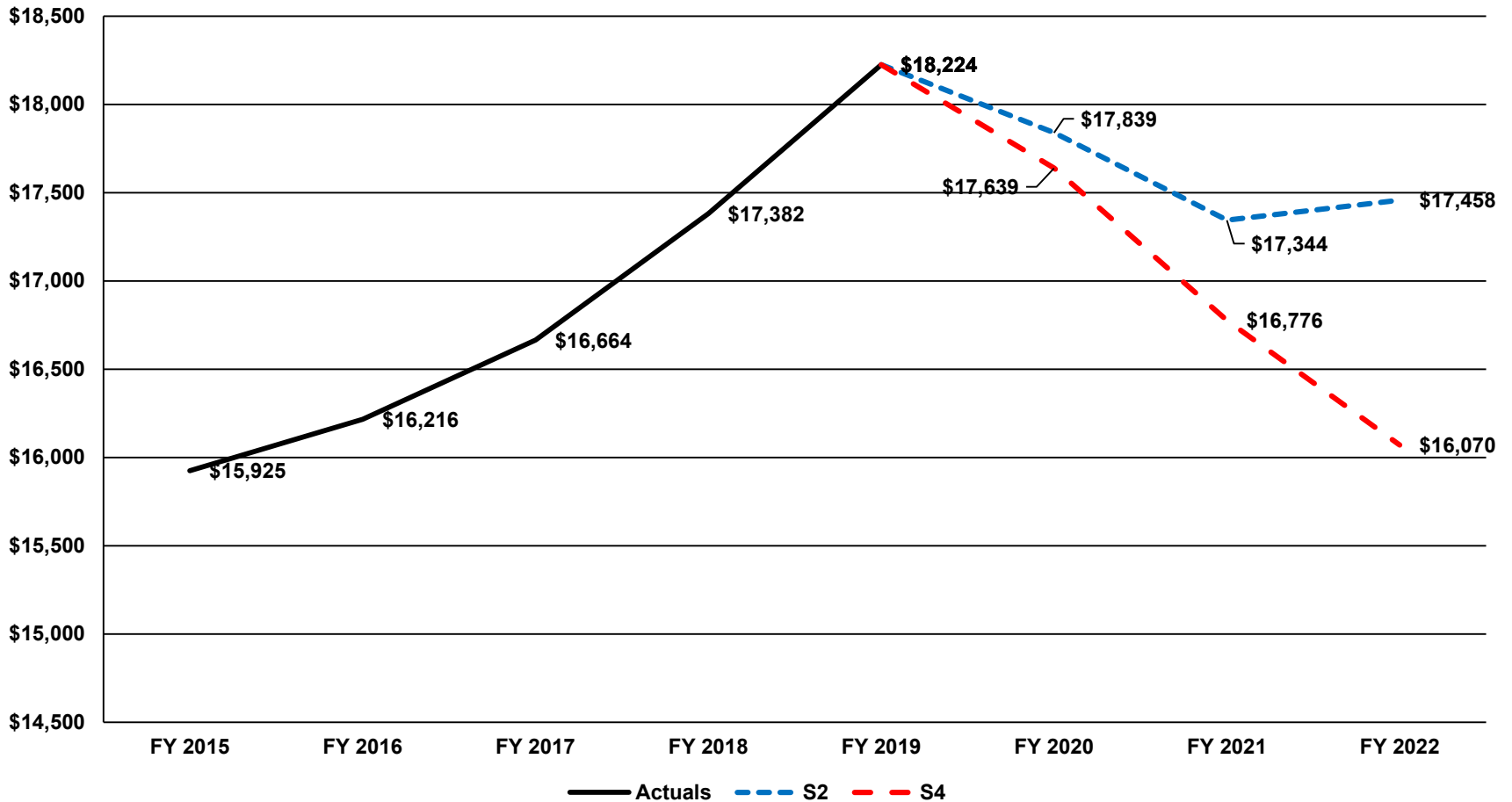
OVERVIEW OF ADMINISTRATION BALANCING PLAN

**Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland**

Outlook for Ongoing General Fund Revenues

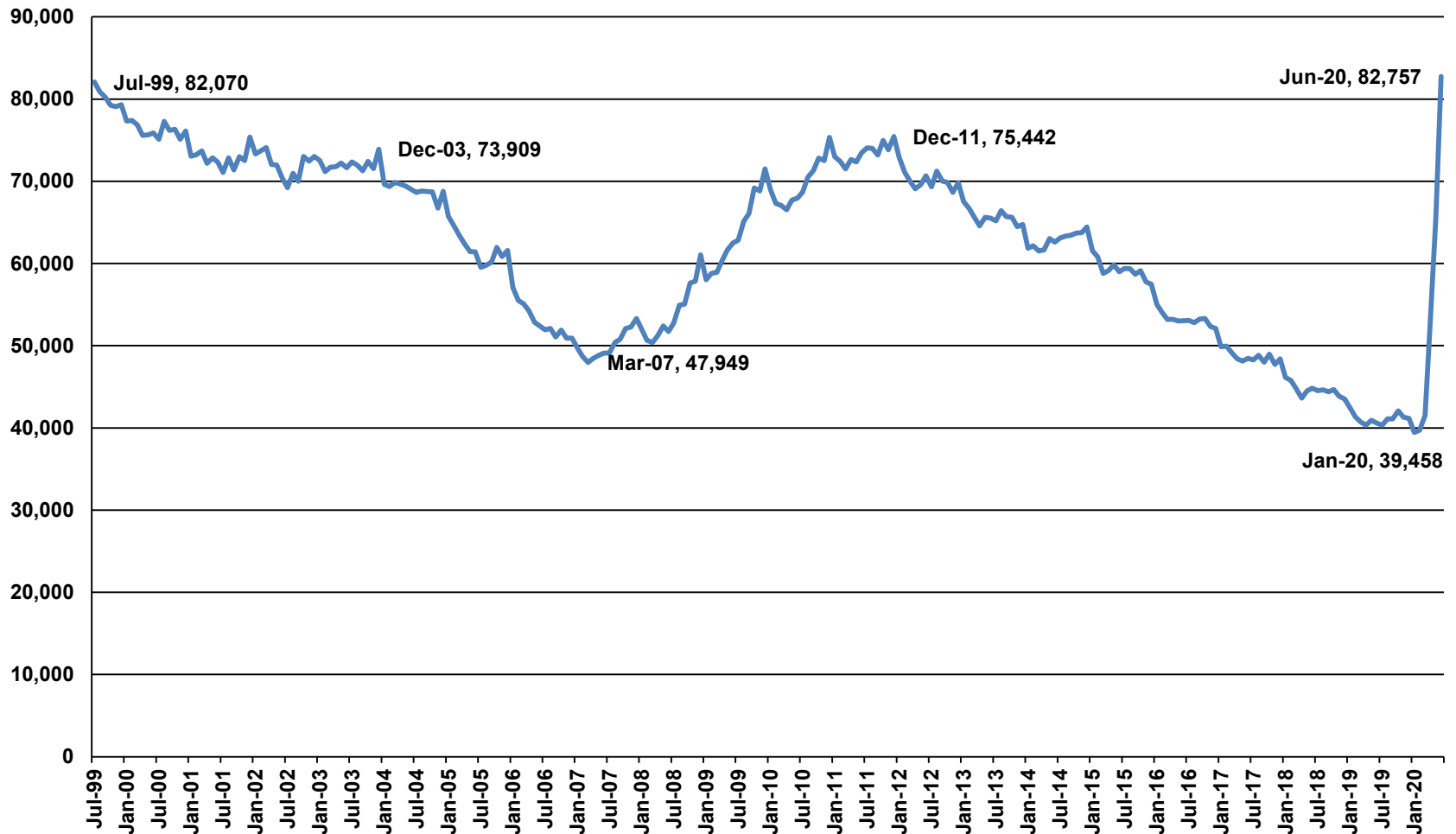
BRE S2 and S4 Scenarios

(\$ in Millions)



Spending Pressures are Increasing

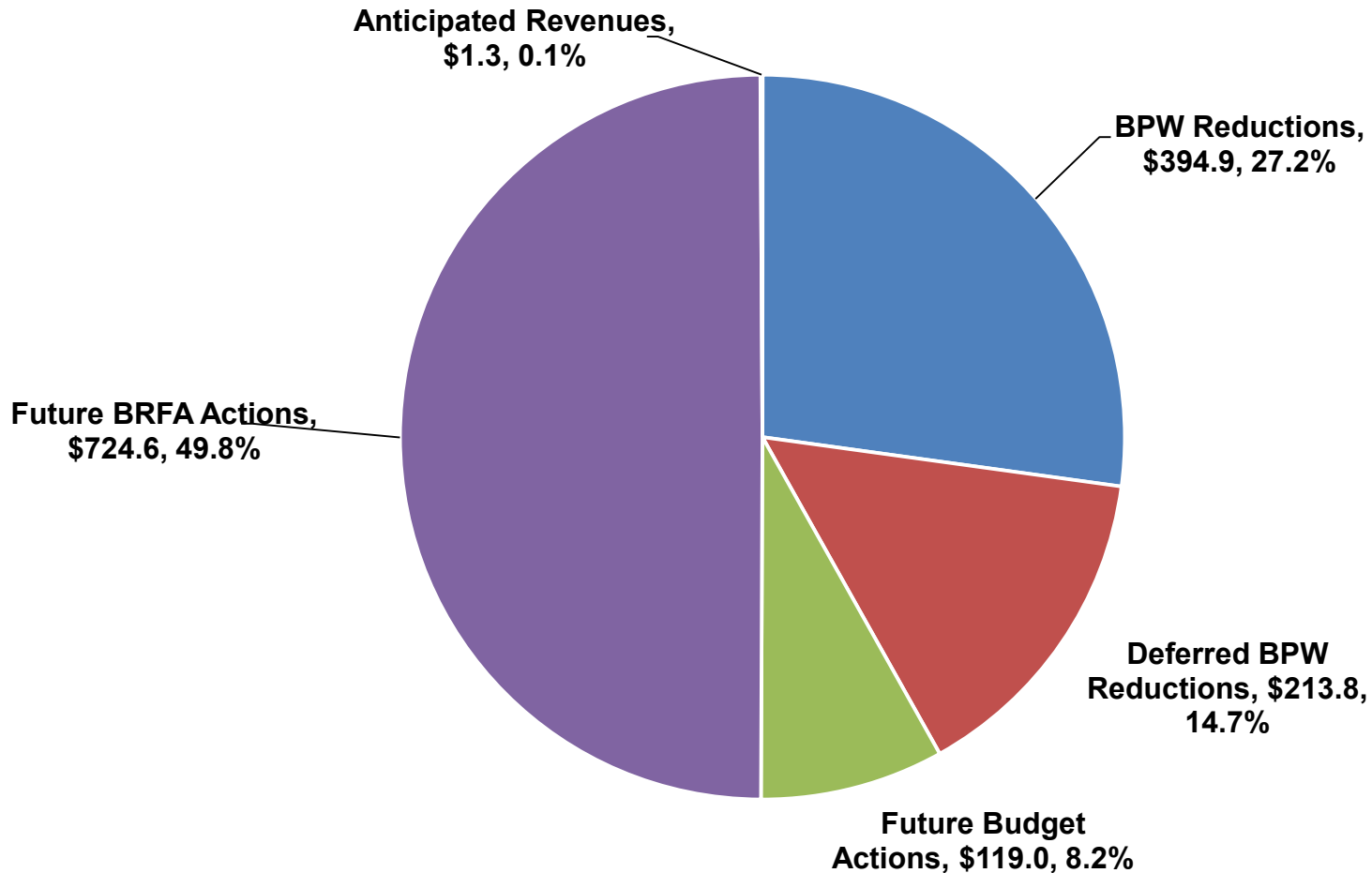
Temporary Cash Assistance Recipients at 20-year High



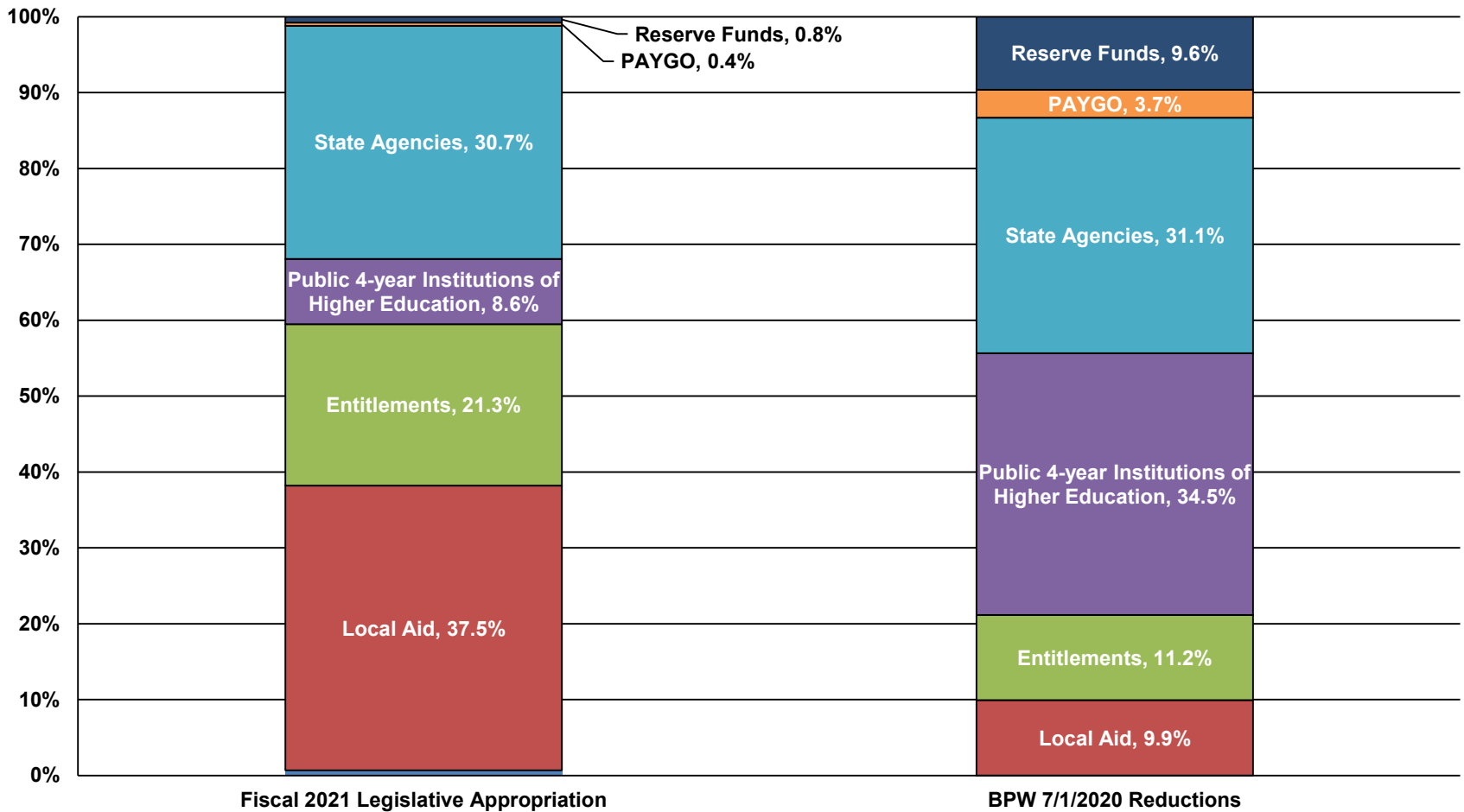
Note: June 2020 numbers are estimates from Department of Human Services.

Administration Proposed Adjustments to Fiscal 2021 Budget

(\$ in Millions)



BPW July 1, 2020 Reductions of \$395 Million Relative to Overall General Fund Budget

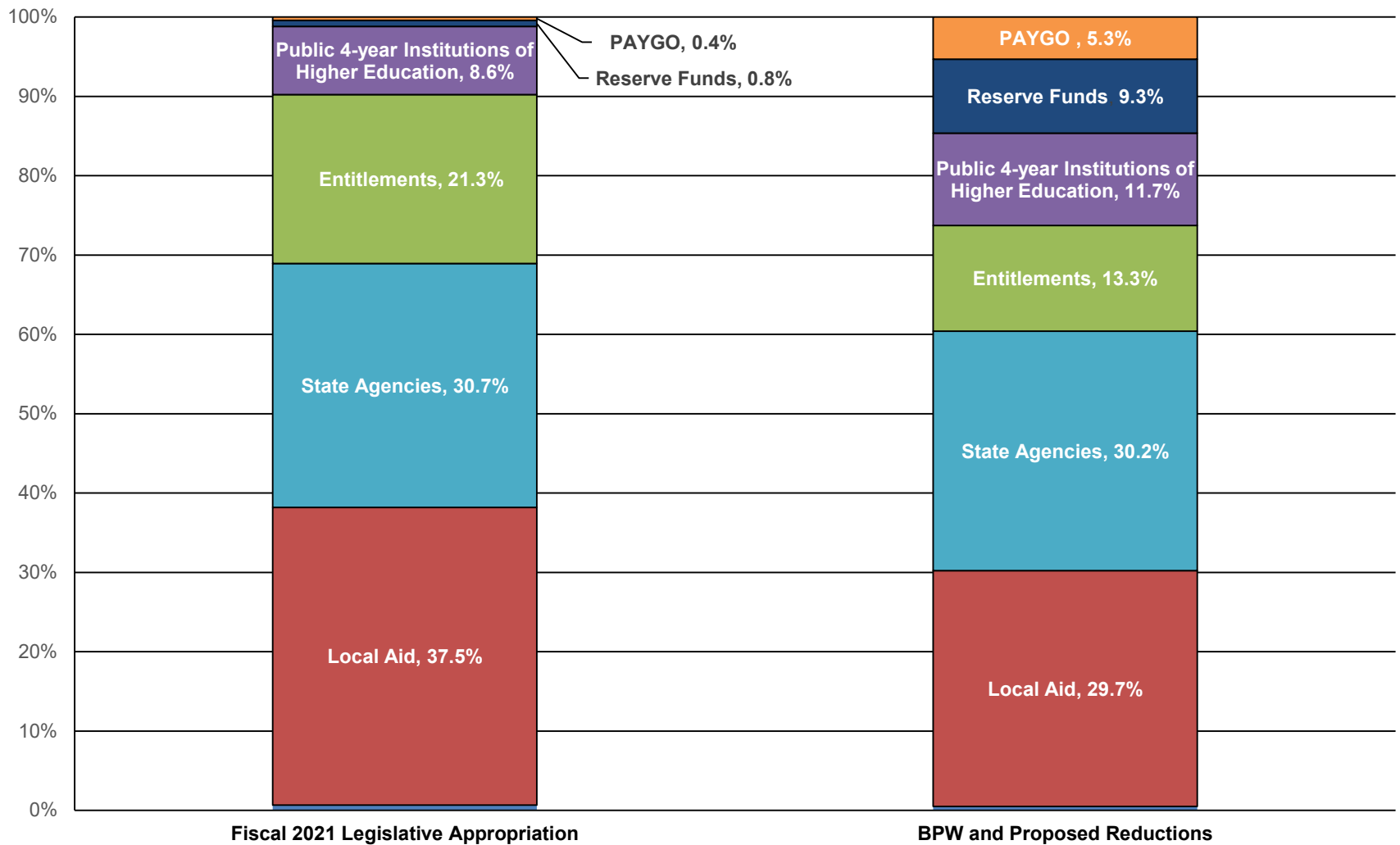


Summary of July 1, 2020 BPW Reductions

(\$ in Millions)

	<u>General Fund Savings</u>
USM and Morgan State University – 9% Reduction	\$126.3
Cade Community College Formula – Level Fund	36.4
Increase Medicaid Hospital Deficit Assessment	35.0
WMATA Grant – Not Clear if MDOT will Backfill	28.0
DJS (\$15.1 million) and DPSCS (\$7.4 million) Operations Savings	22.5
Sellinger Formula – Level Fund	10.6
Cyber Security Enhancements – 50% Reduction	10.0
No Funds for State Employee Unemployment Insurance Fund due to Surplus	9.3
State Police Operations including Closing a Helicopter Base	6.4
Historic Revitalization Tax Credit – Fund Using Existing Cash Balance	5.5
Major IT Projects – Scale Back Selected Projects	5.0
Critical Maintenance for State Facilities	5.0
Public Defender Operating Savings	4.9
Phase-out PARCC Assessment	4.8
No Funds for Community College Facilities Renewal – PAYGO	4.0
DHS IT Savings from Implementation of MD THINK IT Project	3.9
Promise Scholarship Program – Fund Current Demand	3.5
Baltimore City Community College	3.5
No Rate Increase for Institutional Foster Care Providers	3.1
National Capital Strategic Economic Development Fund	3.0
Baltimore City Violent Crime Prosecution – No New Positions for Attorney General	2.5
St. Mary's College	2.1
National Capital Regional Medical Center	2.0
Department of Aging – Enhanced Funding	2.0
SEED Community Development Anchor Institution	2.0
Baltimore City Crime Prevention	1.9
No Grant for Baltimore Symphony	1.6
Other	50.5
Total General Fund Savings	\$395.0

Fiscal 2021 Adopted and Proposed Reductions Relative to Overall General Fund Budget



Summary of Additional Administration Proposals

(\$ in Millions)

	General Fund Savings
Education Aid – TBD*	\$200
Salary Savings Including Legislative/Judicial Reversions – No COLA, 3% Fiscal 2021 Reduction via Furloughs or Temporary Salary Reduction	139
Local Government Aid – TBD**	130
Fund Medicaid with Surplus Reinsurance Dollars from Individual Market*	100
WMATA – No General Funds and Not Clear MDOT will Backfill*	97
Eliminate 4% Rate Increase for Behavioral Health, DDA, and Medicaid Providers**	79
General Fund PAYGO (Healthy Schools \$30 million, School Safety \$13.5 million, Rental Housing \$12 million, Community Development Projects \$7 million)*	63
Retirement Reinvestment (\$75 million total funds)**	61
Employee and Retiree Health Insurance – Favorable Trends and Other Changes**	33
Fund Balance from State Unemployment Insurance Fund (State Employees)*	30
Teachers’ Supplemental Grant – Eliminate Local Aid Program**	28
Overtime – Change Rules	20
Fund Balances for Various Health Boards and Commissions*	20
Local Share of SDAT Operating Costs Increases from 50% to 90%*	17
Disparity Grant – Level Fund**	12
Other Actions	30
Total – Additional Administration Proposals	\$1,059

*Legislative Action required.

**Legislative or BPW Action required.

Budget Outlook – S2 Revenue Scenario

(\$ in Millions)

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
S2 – Department of Legislative Services Fiscal Effects Forecast	-\$498	-\$2,429	-\$3,780
BPW Actions (7/1/2020)		395	336
Balance After BPW Actions	-\$498	-\$2,034	-\$3,444
Available Federal Relief			
Coronavirus Relief Fund	\$100	\$250	
Enhanced Medicaid Match	280	300	
Remaining Budget Challenge	-\$118	-\$1,484	-\$3,444
<u>Menu of Solutions</u>			
Administration Proposals			
Agency Reversions	\$70		
BPW Cuts Deferred		\$214	\$189
Budget Reconciliation and Financing Act/Other Actions Including Furloughs		844	600
Rainy Day Fund (\$1.1 billion available)	48	TBD	TBD
Other Resources			
Override Veto of Tobacco Tax Increase		\$50	\$92
Additional Federal Money if Congress Acts		TBD	TBD
Excess Bond Premium from July and Winter Sales Possible		TBD	
FY 2020 Revenues (Above/Below Estimate???)	TBD	TBD	
Other Fund Balance Transfers/Reductions		TBD	TBD

Budget Outlook – S4 Revenue Scenario

(\$ in Millions)

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
S4 – Department of Legislative Services Fiscal Effects Forecast	-\$700	-\$3,033	-\$5,168
BPW Actions (7/1/2020)		395	336
Balance After BPW Actions	-\$700	-\$2,638	-\$4,832
Available Federal Relief			
Coronavirus Relief Fund	\$100	\$250	
Enhanced Medicaid Match	280	300	
Remaining Budget Challenge	-\$320	-\$2,088	-\$4,832
<u>Menu of Solutions</u>			
Administration Proposals			
Agency Reversions	\$70		
BPW Cuts Deferred		\$214	\$189
Budget Reconciliation and Financing Act/Other Actions Including Furloughs		844	600
Rainy Day Fund (\$1.1 billion available)	250	TBD	TBD
Other Resources			
Override Veto of Tobacco Tax Increase		\$50	\$92
Additional Federal Money if Congress Acts		TBD	TBD
Excess Bond Premium from July and Winter Sales Possible		TBD	
FY 2020 Revenues (Above/Below Estimate???)	TBD	TBD	
Other Fund Balance Transfers/Reductions		TBD	TBD

Other Challenges

- Entitlement Caseloads
 - Growth exceeds May Department of Legislative Services forecast, increasing budget pressure
- Education Trust Fund
 - Administration has not developed plan to backfill the shortfall in casino revenue
 - Board of Revenue Estimates assumes shortfall of \$167 million for FY 2020 and \$176 million to \$279 million for FY 2021

Past Actions Not Included in Administration Reductions

- No use of transfer tax revenues currently appropriated for pay-as-you-go (PAYGO) despite elimination of most general fund PAYGO
- No use of local income tax reserve fund
- No reduction to Medicaid managed care rates despite indications that health insurers in Maryland are experiencing favorable trends

Use of Coronavirus Relief Fund

- Administration plans lack transparency
- Unclear how much of funding will support emergency contracts, higher pay for essential workers, small business grants and loans, and general fund budget relief
- Administration press releases indicate various uses of funds to support new initiatives

Announced Uses of Coronavirus Relief Fund

- \$1,055 M – Local Governments
- \$350 M – General Fund Relief (est.)
- \$100 M – K-12 Remote Learning
- \$100 M – Targeted Tutoring Initiative
- \$90 M – State Higher Education Institutions
- \$50 M – Small Business Assistance
- \$50 M – Nonprofit Recovery Initiative, including
 \$3 M for Arts Council emergency relief fund
- \$30 M – Eviction Prevention
- \$10 M – Rural Broadband (wireless education network)
- About \$450 M – Currently Unallocated

Concluding Thoughts

- The outlook remains dynamic as uncertainty about a “second wave,” development of a vaccine, and possible additional congressional action impede reliable economic forecasting
 - State forecast currently assumes no second wave and widely available vaccine in middle of calendar 2021
- Under the more favorable S2 revenue scenario, the State faces a \$5 billion budget challenge over FY 2021 and FY 2022
 - This is equivalent to about 12% of the planned spending over the two years
- While additional federal aid may relieve pressure, significant State actions will almost certainly be necessary to address the shortfall and position the State to weather a longer term slowdown
 - Any delays in State action will only add to the challenge for FY 2022



MARYLAND'S BUDGETARY OUTLOOK

July 2020

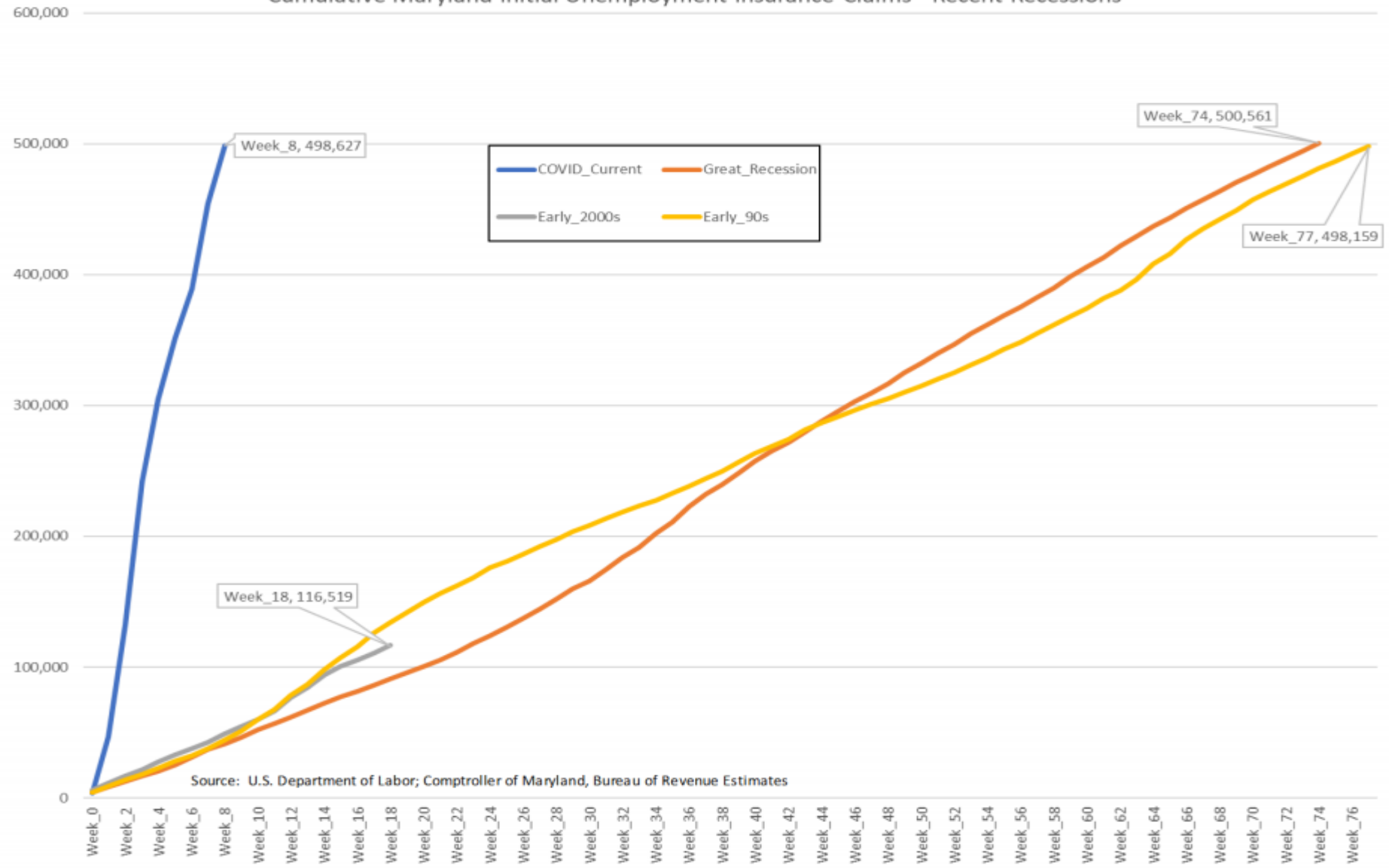


Fiscal & economic impacts of the COVID-19 Recession

- Much worse than the Great Recession
 - Unemployment claims hit half a million in 8 weeks
 - Job losses twice as bad
 - TCA caseload doubles in 5 months; now higher than Great Recession
 - Revenue losses estimated to be significantly higher

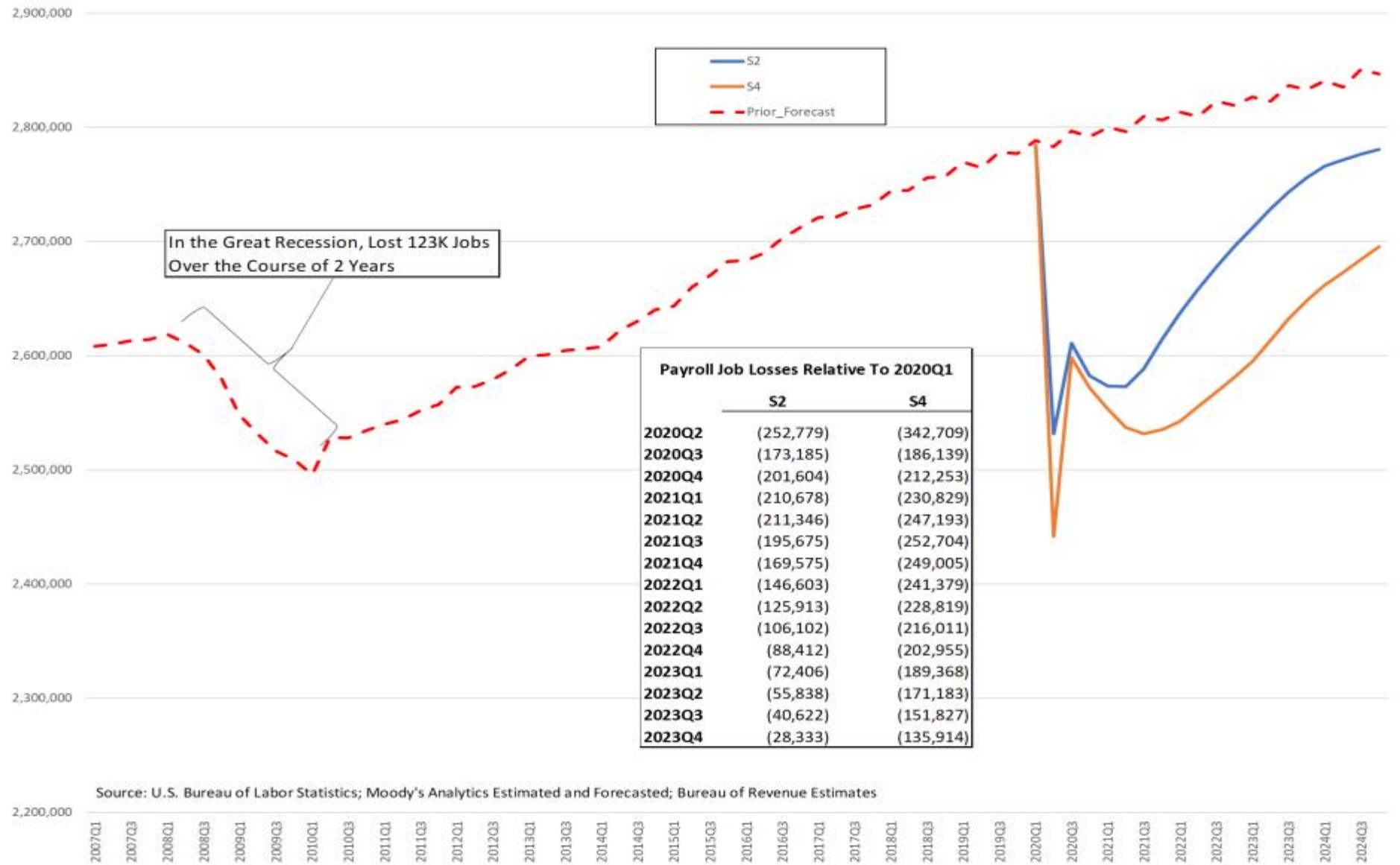


Cumulative Maryland Initial Unemployment Insurance Claims - Recent Recessions



Source: U.S. Department of Labor; Comptroller of Maryland, Bureau of Revenue Estimates

MD Payroll Employment Levels

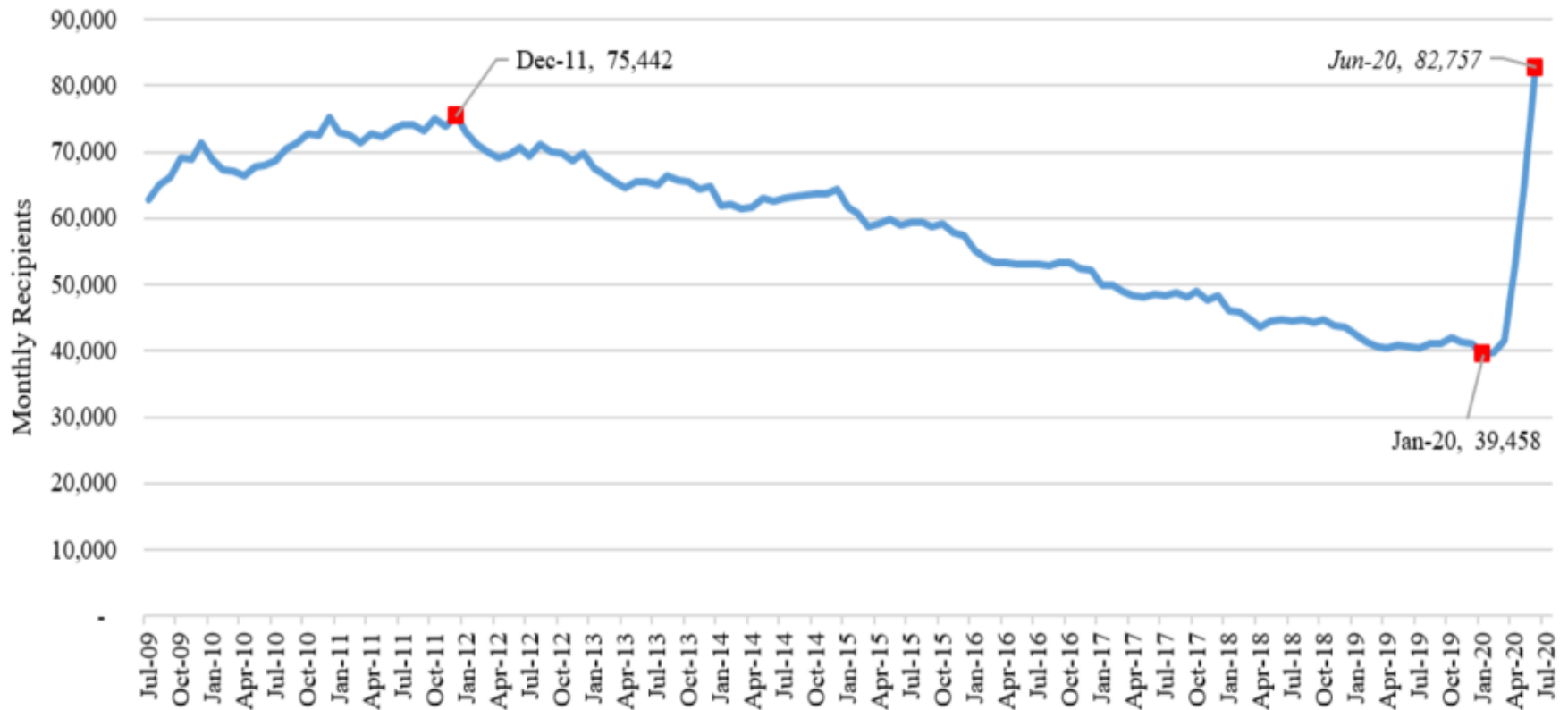


Source: U.S. Bureau of Labor Statistics; Moody's Analytics Estimated and Forecasted; Bureau of Revenue Estimates

TCA caseload doubles in 5 months

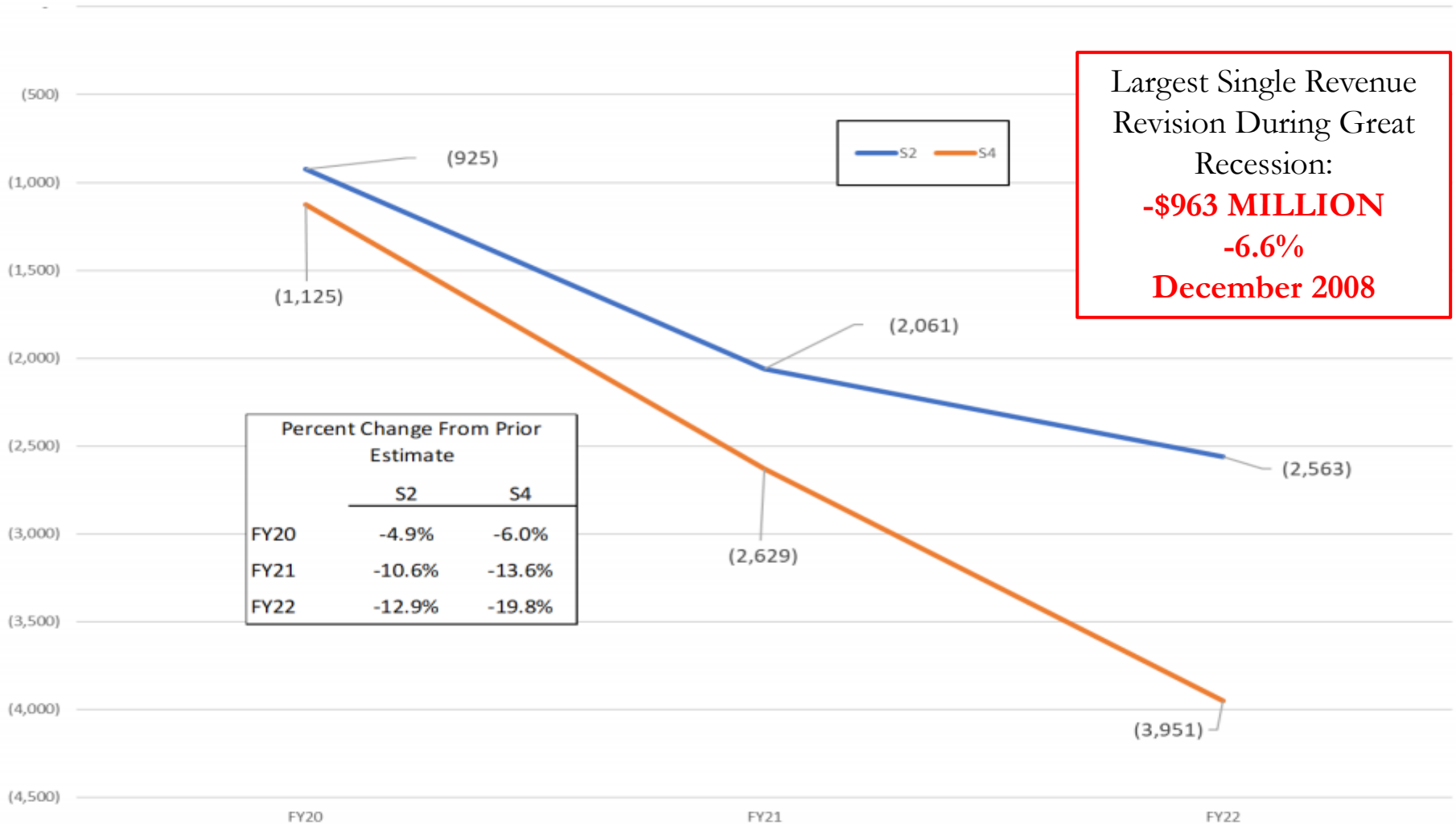
Higher than Great Recession levels

Monthly Temporary Cash Assistance Recipients July 2009 through June 2020*



*June 2020 is an estimate.

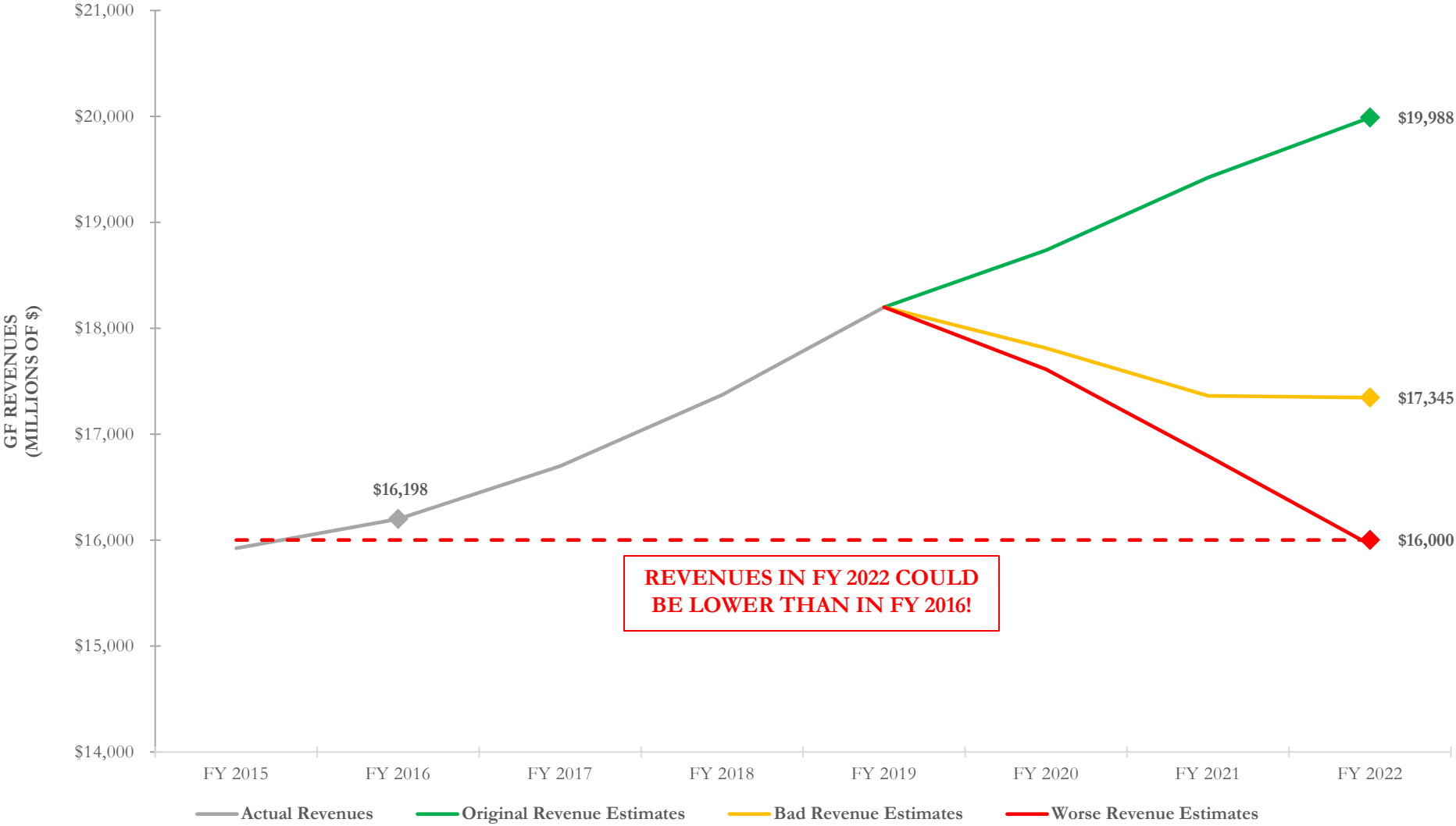
April Update - General Fund Guidance - Difference From Prior Estimates
 (\$\$s in Millions)



	Percent Change From Prior Estimate	
	S2	S4
FY20	-4.9%	-6.0%
FY21	-10.6%	-13.6%
FY22	-12.9%	-19.8%

Largest Single Revenue Revision During Great Recession:
-\$963 MILLION
-6.6%
December 2008

SIX YEARS OF REVENUE GROWTH GONE IN A FLASH





COVID-19 and Budget Balancing

In light of the economic impacts associated with COVID-19 the State has seen a late, sudden decline in revenues not shown on the prior slide. In order to address this, the State:

- Implemented spending and hiring freezes in April, 2020 which increased reversion guidance and expectations from State agencies.
- Enacted \$120.7 million of General Fund Reductions through BPW on May 20, 2020 (not shown on prior slide).
- Despite increases in the Medicaid program, will achieve budgetary savings tied to the enhanced federal match for the program which can be used to balance the budget.
- Will also use the enhanced flexibility provided with Coronavirus Relief Funds from the CARES Act to offset police and other health-related expenditures.
- Maintained a strong Rainy Day Fund balance available for budget balancing.

FY 20 Budget Balancing

(\$ in millions)

Projected Revenue Shortfall	-925
Budget Balancing Plan	
FY 20 Surplus	346
BPW Reductions	120
Additional Agency Reversions	350
CRF (federal fund swaps)	90
Rainy Day Fund	144
Projected Surplus	125
RDF Balance Pre-Transfer	1,180
RDF Balance Post Transfer	1,036



Fiscal Year 2021 Budget Balancing

- Given the severity and suddenness of the declines in revenues, at this time a rewrite of the FY 21 budget is required. However, the overall budget balancing plan in FY 21 will look like FY 20.
- The Administration intends to carry forward the spending and hiring freeze put forward in FY 20.
- On July 1st, the Administration will bring to the Board of Public Works reductions of \$395 million.
- In addition, the Administration will use the flexibility of the Coronavirus Relief fund to offset General Fund spending in the areas of public health and police related activities.
- The Administration will continue to monitor future revenue growth and potential federal relief to determine if further budget reductions are required or if the Rainy Day Fund will need to be further used.



FY 2021 Budget Reductions

The Administration's budget reductions in front of BPW include the following:

- Level fund local aid where possible.
- Eliminate or reduce mandated funding.
- Reduce GF PAYGO funding in FY 21
- No layoffs at this time
- Administrative reductions including reductions to travel, vacant positions, operational efficiencies, etc.
- The detail on reduction items and a plain language document is included for reference



FY 2021 Budget Reductions

The largest BPW reductions include the following:

- Higher Education
 - Reduce funding to higher education institutions by \$131.5 million
- Local Aid
 - Level Funding Community Colleges to FY 20 (\$36.4 million)
- Health
 - Increase the Deficit Assessment (\$35 million)
- WMATA - \$28 million
- Juvenile Services
 - Alter program delivery to youth (\$15.1 million)



COVID-19 Related Expenditures

- The State received \$2.34 billion through the Coronavirus Relief Fund (CRF) with the State receiving \$1.65 billion and 5 local jurisdictions receiving \$691 million
- The State distributed \$364 million to the remaining 19 jurisdictions.
- To date CRF related expenditures have focused on addressing the public health crisis in the State. Expenditures have focused on PPE, ventilators, testing, and other public health related expenditures, and business assistance.
- The recent guidance from the Administration that the CRF can be used to match FEMA reimbursement allows more funding to be used for the public health crisis and to potentially offset other expenditures in the budget.
- The Administration continues to evaluate the needs of the citizens and businesses as it considers future spending from the CRF.



Newly Announced CRF Spending

- K-12 Education
 - \$100 million – Remote Learning Enhancements
 - \$100 million – Targeted Tutoring Initiatives
 - \$10 million – Rural Broadband
- Higher Education - \$90 million
- Business Assistance - \$50 million
- Non-profit Assistance - \$50 million
- Rental Assistance - \$10 million



Governor's Emergency Education Relief Fund

- Community Colleges - \$10 million
- K-12 Education Technology - \$10 million
- Innovative Education Solutions - \$10 million
- Rural Broadband - \$10 million
- Urban Broadband - \$5 million
- School for the Deaf/School for the Blind – \$0.7 million



Immediate Budget Actions are needed

- Economic and fiscal impacts of the recession are worse than the Great Recession
- Bond Rating Agencies expect states to respond quickly, especially AAA rated states
- FY 22 fiscal challenges are expected to be worse than FY 21; DLS is projecting an FY 22 budget gap of \$4.6 billion
- Failure to make difficult choices now will make decisions more difficult in the future



Fiscal Responsibility

The Administration remains committed to acting in a fiscally prudent manner throughout this pandemic, including having to taken additional action at BPW.

To date the Administration has moved very quickly to make mid-year budget reductions twice, once in FY 20 and once in FY 21.

The Administration will continue to monitor revenues and federal action to determine what additional assistance might be available to Maryland.

Should the federal government provide additional assistance or revenues improve, the Administration is prepared to restore certain items that were reduced by BPW.

We have not fully used the Rainy Day Fund.