

Spending Affordability Committee
Delegate Michael A. Jackson, Presiding Chair
Senator Craig Zucker, Senate Chair

Agenda
Tuesday, December 15, 2020
3:00 p.m.
Virtual Meeting Via Zoom

I. Call to Order and Chair's Opening Remarks

II. Board of Revenue Estimates December Report and Revised Forecast

Office of Policy Analysis, Department of Legislative Services

- Theresa Tuszynski, Principal Analyst
- David Romans, Coordinator, Fiscal and Policy Analysis

III. Decisions

IV. Closing Remarks and Adjournment

Maryland General Fund Revenues \$ in Millions

	Fiscal 2021			Percent	Fiscal 2022			Percent
	<u>Sep 2020</u>	<u>Dec 2020</u>	<u>Difference</u>	<u>vs. FY 2020</u>	<u>Sep 2020</u>	<u>Dec 2020</u>	<u>Difference</u>	<u>vs. FY 2021</u>
Personal Income Tax	\$10,784	\$10,850	\$66	1.4%	\$11,200	\$11,316	\$115	4.3%
Corporate Income Tax	1,095	1,065	-30	1.3%	1,139	1,190	50	11.7%
Sales and Use Tax	4,624	4,700	76	1.4%	4,938	4,934	-4	5.0%
State Lottery	572	607	35	10.7%	584	595	10	-2.0%
Other**	1,634	1,551	-83	-8.8%	1,815	1,854	38	19.5%
Volatility Adjustment	0	0	0	n.a.	-12	-80	-68	n.a.
Total General Funds*	\$18,710	\$18,774	\$64	0.7%	\$19,666	\$19,808	\$143	5.5%
Blueprint Fund								
Sales Tax	\$364	\$447	\$83	93.1%	\$364	\$447	\$83	0.0%
Corporate Filing Fees**	0	50	50	n.a.	0	0	0	n.a.

* The Budget Reconciliation and Financing Act (BFRA) of 2020 (Chapter 538) eliminated the Rate Stabilization Fund beginning in fiscal 2022. The insurance premiums tax revenue that was distributed to the fund will be directed to the General Fund. Adjusted for this law change, general fund revenue growth in fiscal 2022 would be about 4.6% over fiscal 2021.

** The BRFA of 2019 (Chapter 16) limits the General Fund to the first \$66.3 million of corporate filing fees in fiscal 2021 with the remainder distributed to the Blueprint Fund. The September estimate inadvertently included all fiscal 2021 corporate filing fee revenue in the General Fund, failing to reflect the estimated \$33 million distribution to the Blueprint Fund.

Source: Board of Revenue Estimates

General Fund: Recent History and Outlook

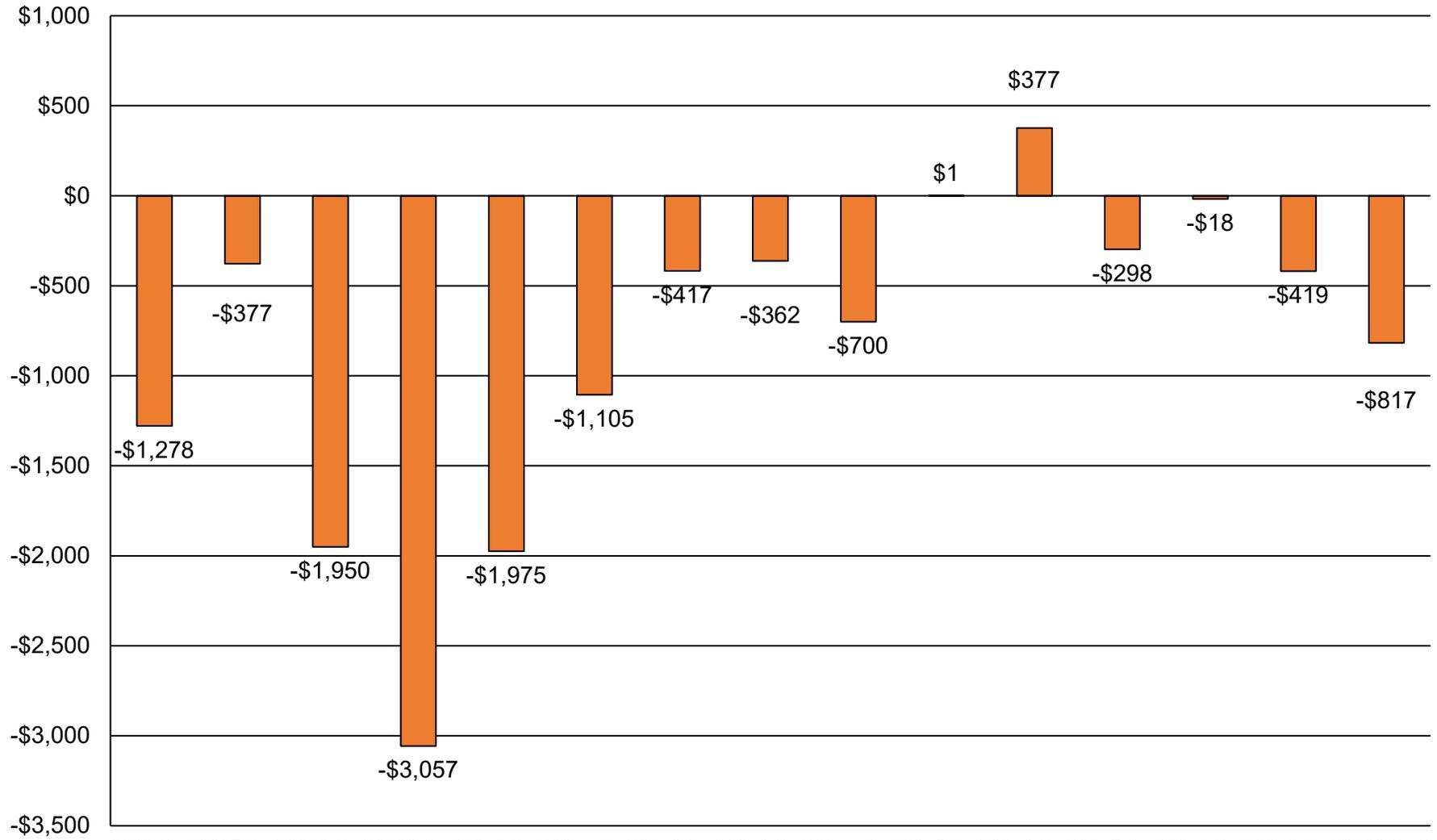
Fiscal 2020-2022

(\$ in Millions)

	<u>2020</u> <u>Actual</u>	<u>2021</u> <u>Working</u>	<u>2022</u> <u>Baseline</u>
Funds Available			
Ongoing Revenues	\$18,659	\$18,809	\$19,855
Balances, Transfers, and One-time	1,132	803	1,010
Total Funds Available	\$19,791	\$19,612	\$20,864
Appropriations, Deficiencies, and Cost Containment			
Net Ongoing Operating Costs and Deficiencies	\$18,967	\$19,458	\$20,671
Appropriations to Reserve Fund	563	114	769
One-time Spending Net of Targeted Reversions	-\$443	-738	56
Total Spending	\$19,088	\$18,834	\$21,496
Cash Balance/(Shortfall)	\$703	\$778	-\$632
Structural			
Balance (Ongoing Revenues Less Ongoing Operating Costs)	-\$308	-\$649	-\$817
Ratio (Ongoing Revenues/Ongoing Operating Costs)	98.4%	96.7%	96.0%
Reserve Fund Activity			
Appropriations to Rainy Day Fund	\$444	\$7	\$526
Transfers to General Fund	-158	-54	-232
Governor's Economic Recovery Initiative	0	-250	0
Estimated Rainy Day Fund Balance – June 30	\$1,177	\$886	\$1,188
Total Cash (Rainy Day Fund and General Fund Balance)	\$1,881	\$1,664	\$557
Rainy Day Fund Balance in Excess of 5%	\$246	-\$52	\$199

Note: For purposes of the fiscal 2022 baseline, Rainy Day Fund activity is calculated using the Board of Revenue Estimates December 2020 revenue estimate. Using the official estimate from December 2019 would place the fiscal 2021 fund balance \$52.4 million below 5% of estimated general fund revenues.

**Structural Budget Outlook for Upcoming Allowance
December SAC Meetings
2006-2020 (FY 2008 to FY 2022)
\$ in Millions**



2006 SAC2007 SAC2008 SAC2009 SAC2010 SAC2011 SAC2012 SAC2013 SAC2014 SAC2015 SAC2016 SAC2017 SAC2018 SAC2019 SAC2020 SAC
(FY 08) (FY 09) (FY 10) (FY 11) (FY 12) (FY 13) (FY 14) (FY 15) (FY 16) (FY 17) (FY 18) (FY 19) (FY 20) (FY 21) (FY 22)

Structural Budget Outlook

Fiscal 2021-2026
(\$ in Millions)

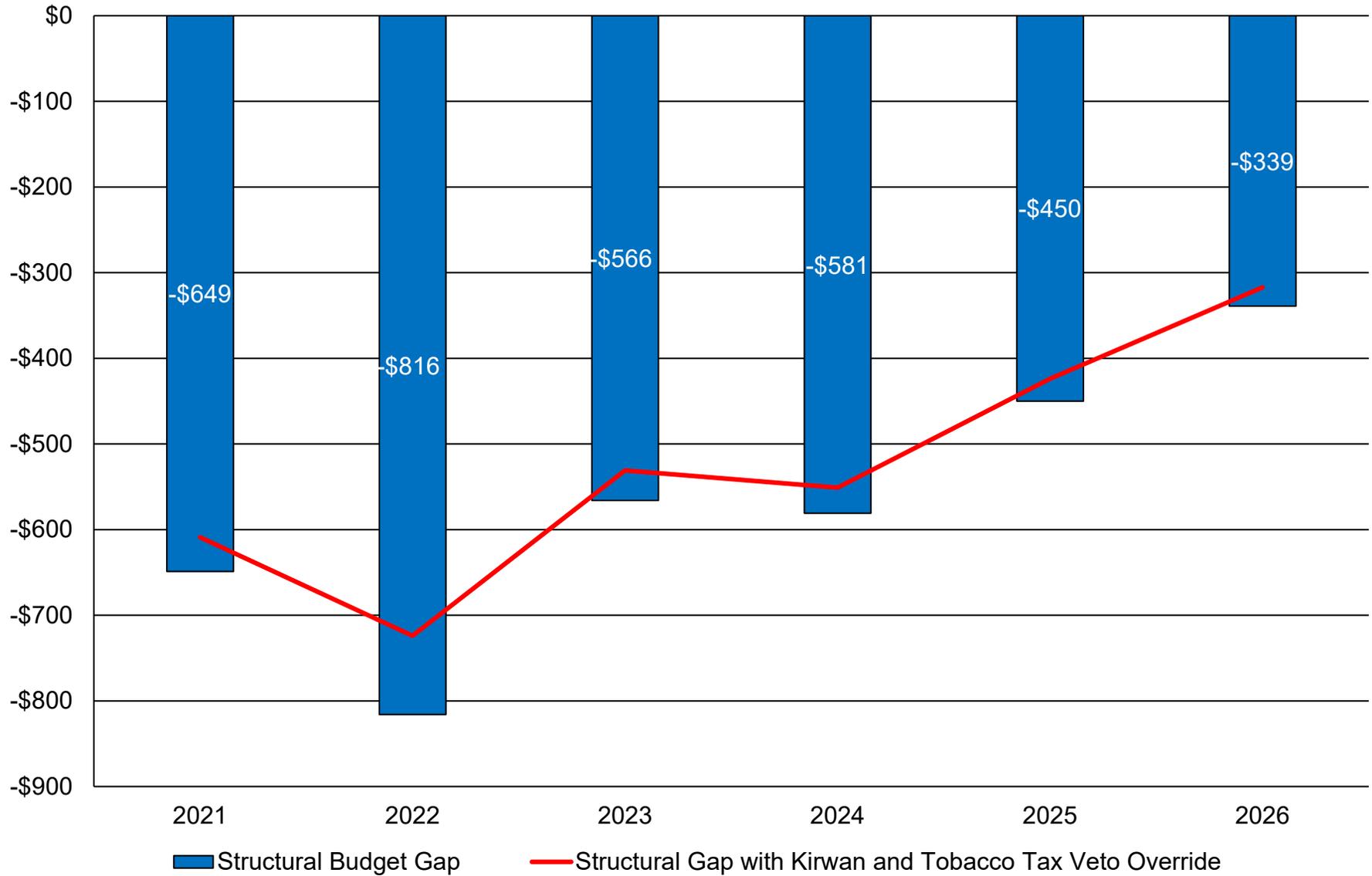


Exhibit 1
General Fund Budget Outlook
Fiscal 2021-2026
(\$ in Millions)

	2021 Working <u>Approp.</u>	2022 <u>Baseline</u>	2023 <u>Est.</u>	2024 <u>Est.</u>	2025 <u>Est.</u>	2026 <u>Est.</u>
Cash Balance	\$778	-\$632	-\$851	-\$851	-\$709	-\$611
Structural Balance	-649	-816	-566	-581	-450	-339

Recommendations

In light of the considerations discussed earlier, the committee proposes the following recommendations for the 2021 session:

1. Operating Budget Spending Limit and Sustainability

Federal funding from the CARES Act has provided the State with a significant amount of general fund savings and resources to support the pandemic response and economic recovery. The potential also exists for additional federal stimulus to be provided in the future. However, as was experienced with the Great Recession, reliance on one-time federal funding to support ongoing expenses has the long-term effect of exacerbating the structural spending gap. The fiscal 2022 baseline estimate projects a structural deficit in excess of \$800 million. **To ensure that any future federal assistance does not harm the structural outlook of the State, the committee recommends that the fiscal 2022 budget limit the structural imbalance to no more than \$XXX million and that federal stimulus funding not spent on one-time expenses be included in the structural calculation.**

2. Fund Balances

The committee projects a Rainy Day Fund balance at the beginning of fiscal 2022 of \$886.2 million, which is \$52.4 million less than 5% of estimated general fund revenues. The Governor will be required to include \$525.8 million for the Rainy Day Fund in the fiscal 2022 allowance, based on the unappropriated general fund surplus above \$10.0 million from the fiscal 2020 closeout, bringing the available fund balance to approximately 7.2% of estimated general fund revenues. With a cash shortfall projected for fiscal 2022, the committee recognizes that the State may need to spend a portion of the Rainy Day Fund balance to resolve the budget deficit but also notes that with significant cash shortfalls forecasted in subsequent years that the State must also take actions to better align revenues and spending and preserve some cash reserves for the future. **Therefore, the committee recommends:**

- **achieving a minimum ending fiscal 2022 general fund balance of at least \$XXX million;**
- **maintaining a Rainy Day Fund balance of at least X.X% of general fund revenues, barring any catastrophic reduction in estimated general fund revenues. To the extent that utilization of the Rainy Day Fund is necessary to address a budget shortfall or provide assistance to citizens and businesses adversely impacted by the recession, an aggressive repayment plan is necessary to rapidly restore the Rainy Day Fund to 5% of general fund revenues; and**
- **allocating discretionary federal stimulus funding that becomes available in a way that prioritizes one-time expenses and targeting pandemic response and recovery efforts.**

Furthermore, to the extent that additional federal resources become available prior to or during the 2021 session, the committee recommends that the Governor allocate those funds through the budget process to ensure proper transparency and legislative input.

3. Capital Budget

A. General Obligation Debt

In its 2020 report, the Capital Debt Affordability Committee (CDAC) recommended a fiscal 2022 general obligation (GO) bond authorization level of \$1,095 million; the same amount authorized for fiscal 2021. The recommendation is \$10 million less than the amount planned for fiscal 2022 in both the 2019 CDAC and SAC reports and reduces out-year planned authorizations by \$10 million annually while resuming a 1% annual authorization growth rate in fiscal 2023.

Although the CDAC recommendation is advisory and the committee has differed in its recommendation in recent years, the committee supports the CDAC debt affordability criteria, which limits debt service to 8% of State revenues and debt outstanding to 4% of State personal income. The committee also supports moderating the growth in authorization levels to maintain the debt ratios within the affordability limits. However, since the effect of reducing authorizations by \$10 million for each of the next five years has minimal effect on the debt affordability ratios and debt service costs through the planning period, and the General Assembly has adopted a policy of 1% annual increases since fiscal 2016, **the committee recommends the authorization of \$XXXX million in new GO bonds for the 2021 session. In addition, for planning purposes, out-year annual authorizations should continue to be limited to X% growth, which keeps the State within the CDAC debt affordability criteria. The committee further recommends with the use of \$31 million of bond premiums from the most recent GO bond sale to supplement the capital program while maintaining a limit on the growth in GO bond authorizations.**

B. Higher Education Debt

USM intends to issue up to \$30 million in academic debt for fiscal 2022. This is \$2 million less than was authorized for fiscal 2021 but is consistent with the amount programmed in the 2020 CIP for fiscal 2022. This level of issuance will result in a debt service ratio within the 4.5% of current unrestricted funds and mandatory transfers criterion recommended by the system's financial advisers.

The committee concurs in the recommendation of CDAC that \$30 million in new academic revenue bonds may be authorized in the 2021 session for USM.

4. State Employment

Personnel costs comprise approximately 20% of the State's operating budget. The committee anticipates the net reduction of 493 positions in the fiscal 2022 budget primarily due to position eliminations by higher education and reductions made by the Board of Public Works in July. The resulting State workforce would be 80,369 in fiscal 2022.

In addition to the position reductions, the Administration has also implemented a hiring freeze on State agencies. The committees are concerned that the combination of position reductions and continuing high vacancy levels in State government are impairing agency operations. The hiring freeze will only exacerbate operational challenges for state agencies. **The committee wishes to praise the exemplary efforts of all State employees during difficult times and note that all State positions are critical. The committee is especially concerned about the adequacy of staffing in functions critical to responding to the pandemic, including public health, public safety, unemployment insurance, and direct care nursing positions in State facilities. The committee recommends that the administration prioritize hiring staff at the Maryland Department of Labor to speed the processing of unemployment insurance claims and at the Maryland Department of Health to adequately staff State facilities and provide critical public health services.**

**Adjustments to Baseline General Fund Forecast
Fiscal 2021-2022
(\$ in Millions)**

	<u>2021</u>	<u>2022</u>
General Fund Cash Balance (11/20)	\$547	-\$856
Revenue Revisions – Board of Revenue Estimates	64	143
Medicaid Revisions Including Another Quarter of Enhanced Federal Match	181	-17
K-12 Enrollment and Wealth Update		-110
SLEOLA Salary Increases Restored Due to Revised Bargaining Agreement	-14	-14
Rainy Day Fund – Larger Amount Required to Maintain Balance at 6%		-9
Additional Fiscal 2021 Surplus Available in Fiscal 2022		231
December Forecast (12/15/20)	\$778	-\$632

SLEOLA: State Law Enforcement Officers Labor Alliance