



Maryland

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SENATE BILL 192/HOUSE BILL 152

BUDGET RECONCILIATION AND FINANCING ACT OF 2020

Senate Budget and Taxation Committee

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House Appropriations Committee

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Testimony by

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The Budget Reconciliation and Financing Act of 2020 (BRFA) implements several actions to balance the FY 2021 budget and to reduce the structural budget gap. These budget actions provide approximately \$2.2 billion in General Fund savings through FY 2025, including more than \$490 million in spending reductions in FY 2021.

Background

The Governor's FY 2021 budget proposal continues the administration's commitment to fiscal discipline and achieving a structurally balanced budget. The approach taken by the administration, reflected in the BRFA, includes the following:

- Taking a "Last In, First Out" approach to recently enacted mandates and providing relief from other funding mandates, both for one year only and ongoing;
- Limiting increases to certain provider reimbursement rates;
- Altering various funding requirements for FY 2021 only;
- Restructuring repayment for prior fund transfers to ensure obligations are met in a fiscally prudent manner;
- Authorizing certain reversions and fund transfers; and
- Making other changes to current law to provide budget relief in the short and/or long term.

As introduced, the BRFA addresses the FY 2021 projected shortfall and serves as an important step in addressing the State's ongoing structural budget gap.

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Last In, First Out Mandate Relief

The BRFA takes a “Last In, First Out” approach, eliminating several funding mandates enacted in the past few years. These include mandated funding amounts for the following:

- Baltimore Symphony Orchestra
 - FY 2021 GF Savings - \$1.6 million
- National Capital Strategic Economic Development Program
 - FY 2021 GF Savings - \$7.2 million
- Maryland Public Broadcasting Commission
 - FY 2021 GF Savings - \$215,561
- Maryland Energy Innovation Fund
 - FY 2021 SF Savings - \$1.5 million

Other Mandate Relief

In addition to the actions listed above, the BRFA continues the Governor’s commitment to enacting meaningful mandate relief in both the short and long-term. To this end, the BRFA:

- Limits growth under the Cade Formula for Community Colleges to 50 percent of the projected increase in FY 2021 and aligns future increases with General Fund revenue growth. Under current law, funding for the local community colleges was set to grow by nearly 15 percent. The BRFA provision will still allow the Cade formula to grow by \$18.2 million to \$268 million in FY 2021.
 - FY 2021 GF Savings - \$18.2 million
- Authorizes rather than requires funding for the Community College Facilities Renewal Grant and allows the grant to be funded in the capital budget.
 - FY 2021 GF Savings - \$4.3 million (\$4.2 million in GO Bonds included in FY 2021 capital budget)
- Level funds the Sellinger Formula for Non Public Higher Education Institutions at the FY 2020 level of \$59 million and limits future increases to revenue growth less one percentage point. Under current law, funding for the private colleges and universities was set to grow by 54 percent.
 - FY 2021 GF savings - \$32 million
- Reduces the Seed Community Development Anchor Institution Fund mandate to \$5 million and allows the funding to be provided in the capital budget.
 - FY 2021 GF savings of \$5 million (\$5 million in GO Bonds included in the FY 2021 capital budget)
- Aligns the Maryland Health Benefit Exchange funding mandate with prior year spending actuals.
 - FY 2021 SF Savings - \$3 million
 - FY 2021 GF Revenue - \$3 million
- Reduces the Annapolis PILOT payment to historical levels of \$367,000.
 - FY 2021 GF Savings - \$383,000
- Caps the Film Tax Credit at \$10 million in FY 2021 only to align with projected activity.
 - FY 2021 GF revenue - \$4 million

- Alters the Medicaid Deficit Assessment amount for FY 2021 to provide \$10 million in special funds for Medicaid provider reimbursements, while maintaining the reduced assessment level in FY 2022 consistent with current law.
 - FY 2020 GF Savings - \$10 million

Provider Rates

The BRFA makes several modifications to current law to limit rate increases for various service providers to no more than two percent. Specifically, the BRFA:

- Limits the rate increase for Developmental Disabilities Administration community service providers to two percent in FY 2021 only.
 - FY 2021 GF savings – \$13.3 million
- Limits the rate increase for Behavioral Health community service providers to two percent in FY 2021 only.
 - FY 2021 GF savings – \$11.1 million
- Limits the rate increase for nursing homes, medical day care, private duty nursing, personal care home and community-based services, and Community First Choices providers under Medicaid and the Maryland Children’s Health to two percent in FY 2021 only.
 - FY 2021 GF Savings - \$15.1 million
- Limits the rate increase for residential and child care programs set by the Interagency Rate Committee to no more than two percent in FY 2021.

Retirement/OPEB Sweepers

Under current law, a sweeper supplemental contribution to the retirement system and to the Postretirement Health Benefits Trust Fund are required under certain conditions. Each sweeper equals one-half of any unappropriated general fund balance in excess of \$10 million, up to a \$25 million maximum.

- The BRFA eliminates the pension and Other Postretirement Employee Benefits (OPEB) “sweeper” requirements for FY 2021 only.
 - FY 2021 GF savings - \$50 million

Revenue Volatility

Chapters 4 and 550 of 2017 established a cap on income tax nonwithholding revenues. Initially, the cap was set at two percent of general fund revenues, beginning in FY 2020. Subsequent legislation enacted by the General Assembly phased in the cap over three years and dedicated certain excess revenues to specific purposes. The BRFA of 2020 makes modifications to the revenue volatility statute to:

- Slow implementation of the revenue volatility adjustment beginning in FY 2021 through FY 2025
 - FY 2021 GF Revenue increase - \$133.7 million

- Repeal a provision restricting revenue volatility funds to provide employees belonging to specified collective bargaining units up to a 2 percent cost-of-living adjustment (COLA) in fiscal 2021.
 - While there is no specific budget action tied to this provision, a two percent COLA for the specified bargaining units is estimated to cost \$21.4 million in General Funds in FY 2021.

Restructuring Repayments for Past Transfers

The BRFA restructures certain statutory repayments for past transfers to the General Fund. Specifically, the BRFA:

- Restructures the required \$33.3 million repayment to the Local Reserve Account for \$200 million transferred in FY 2011 to support the Medicaid program into twenty increments of \$10 million each year, transferred directly from income tax revenue.
 - Net FY 2021 GF savings - \$23.3 million
- Adjusts certain required repayments of transfer tax revenue to add missed repayments in FY 2020 onto the end of each schedule.

Reversions and Transfers

The BRFA:

- Authorizes the transfer to the General Fund of \$43.9 million in the Dedicated Purpose Account originally intended for Program Open Space and fenced off by the General Assembly during the 2019 Session.
- Authorizes the reversion to the General Fund of \$62 million in the Dedicated Purpose Account originally intended for the pension sweeper (\$50 million) and the Washington Metropolitan Area Transit Authority's capital program (\$12 million) that was fenced off by the General Assembly during the 2019 Session.
- Authorizes two transfers from the Board of Physicians Fund balance in FY 2021.
 - \$400,000 to be used for the Maryland Loan Assistance Repayment Program for Physicians and Physician Assistants; and
 - \$199,517 in FY 2021 to be used to reimburse the Maryland Department of Health for general funds used in FY 2020 to grant scholarships.

SDAT Cost Reallocation

The BRFA increases the share of certain administrative costs within the State Department of Assessments and Taxation (SDAT) to be paid by local governments. Under current law, each county and Baltimore City are responsible for reimbursing 50% of the costs of real property valuation, business personal property valuation, and the SDAT Office of Information Technology.

- Beginning in FY 2021, the local contribution is increased to 60 percent.
- FY 2021 GF savings - \$4.4 million

Other

The BRFA also:

- Authorizes the annual budget books to be provided in electronic or printed format at the discretion of the governor and eliminates the requirements for the number of copies provided and machine-readable files on the DBM website. In FY 2021, printing the budget books cost nearly \$49,000.
- Allows the Comptroller to list unclaimed property owners on the web rather than in paid advertisements in newspapers.
 - FY 2021 GF Revenue - \$320,000
- Clarifies that Maryland prekindergarten expansion grants are an allowable use under the Blueprint for Maryland's Future Fund.
- Alters current statute to ensure that the Senior Prescription Drug Assistance Program receives at least \$14 million annually from premium tax exemption revenues, while the Community Health Resources Commission receives no more than \$8 million.
- Reduces the required appropriation to the Rainy Day Fund by \$284.4 million, leaving a balance in the Fund just above 6.25 percent of the December 2019 Board of Revenue Estimates' projection of FY 2021 General Fund revenues.
 - FY 2021 GF Savings - \$284.4 million
- Redirects \$5 million in Highway User Revenues allocated to Baltimore City to the Maryland Department of Transportation to support capital improvements for the Howard Street Tunnel project.

Departmental Position

The Department of Budget and Management believes that the Budget Reconciliation and Financing Act of 2020 is necessary to ensure a balanced FY 2021 budget and to advance the Administration's goal of resolving the ongoing structural budget gap. For these reasons, we urge the Committees to vote for a favorable report on SB 192/HB 152.