General Fund Revenue Forecast
($ in Millions)

	Fiscal 2022 Estimate Sep 2021	Fiscal 2022 Estimate Dec 2021	$ Diff.	Percent Change vs. Fiscal 2021	Fiscal 2023 Estimate Sep 2021	Fiscal 2023 Estimate Dec 2021	$ Diff.	Percent Change vs. Fiscal 2022
Personal Income Tax [(1)]	$11,797	$12,058	$261	3.0%	$12,634	$12,915	$281	7.1%
Corporate Income Tax	1,446	1,389	-56	-5.0%	1,556	1,527	-29	9.9%
Sales and Use Tax	5,283	5,510	226	10.5%	5,520	5,743	223	4.2%
State Lottery	641	649	8	2.7%	651	665	13	2.5%
Other	2,009	2,066	56	22.5%	1,985	2,040	55	-1.2%
Ongoing General Funds[(2)]	**$21,176**	**$21,672**	**$495**	**5.9%**	**$22,346**	**$22,889**	**$543**	**5.6%**
Volatility Adjustment	-$80	-$80	0	n/a	-$100	-$100	0	25.0%
Total General Funds	**$21,096**	**$21,592**	**$495**	**3.7%**	**$22,246**	**$22,789**	**$543**	**5.5%**
Selected Special Funds for Education								
Sales Tax	$671	$612	-$59	44.5%	$611	$589	-$22	-3.7%
Casinos	561	588	27	10.6%	571	598	27	1.8%
Sales Tax – Blueprint Fund								
Baseline Transfer	*$583*	*$563*	*-$21*					
Catch Up for Underdistribution in Fiscal 2021	*88*	*49*	*-38*					
Total Fiscal 2022 Transfer	*$671*	*$612*	*-$59*					

[(1)] The December estimate reflects an extra distribution of $50 million in fiscal 2022 to the Local Income Tax Reserve Account. The annual financial analysis of the account showed it to be underfunded by $816.5 million at the end of fiscal 2021 and by $77.9 million net of cancelled repayments for prior transfers.

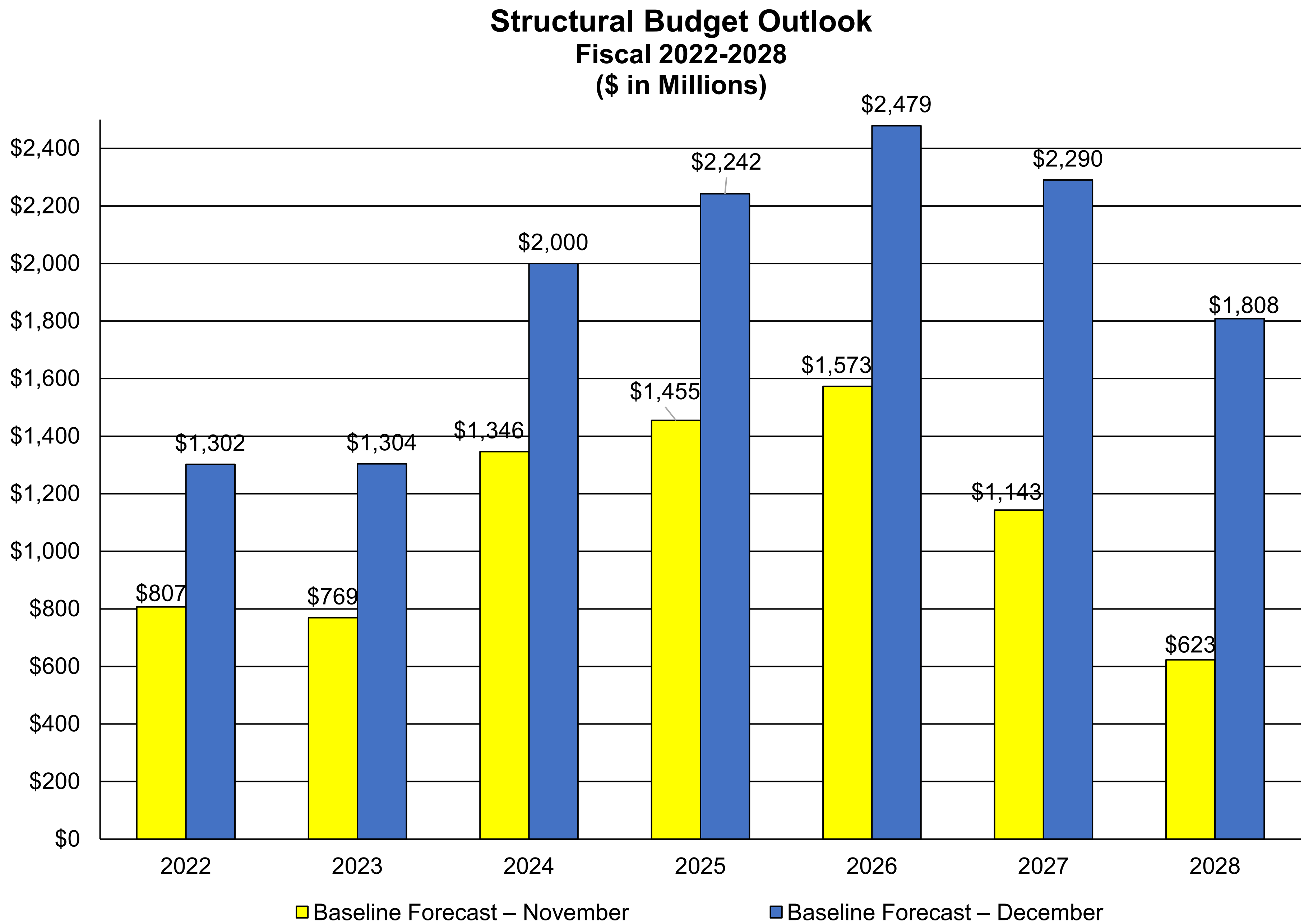
[(2)] The Budget Reconciliation and Financing Act of 2020 (Chapter 538) eliminated the Rate Stabilization Fund beginning in fiscal 2022. The insurance premiums tax revenue that was distributed to the fund will be directed to the General Fund. Adjusted for this law change, ongoing general fund revenue growth in fiscal 2022 would be about 4.4% over fiscal 2021.

Source: Board of Revenue Estimates

General Fund: End-of-year Balances
Fiscal 2021-2023
($ in Millions)

	2021 Actual	2022 Working	2023 Baseline
Funds Available			
Total Funds Available	$21,904	$24,858	$26,926
Total Spending	18,665	20,769	24,155
Cash Balance/(Shortfall)	**$3,239**	**$4,089**	**$2,771**
Structural Balance (Ongoing Revenues Less Ongoing Spending)	**$1,795**	**$1,302**	**$1,304**
Ratio (Ongoing Revenues/Ongoing Operating Costs)	109.5%	106.4%	106.1%
Estimated Rainy Day Fund Balance – June 30	$631	$1,160	$3,587
Available Cash Balance (General Funds + Rainy Day Fund Above 5%)	**$2,829**	**$4,259**	**$5,218**

REVISED as of December 15, 2021



Recommendations

In light of the considerations discussed earlier, the committee proposes the following recommendations for the 2022 session:

1. Operating Budget Spending Limit and Sustainability

Unprecedented levels of federal assistance helped to sustain incomes and the economy during the COVID-19 pandemic, resulting in significantly more revenue than anticipated throughout the forecast period. The fiscal 2023 baseline estimate projects a structural surplus in excess of $1.3 billion. While this positive fiscal position allows policymakers some flexibility to utilize available resources to address the ongoing needs of the State, the Board of Revenue Estimates (BRE) notes that actual out-year revenue growth could be affected by economic uncertainties including inflation, which suggests that the State should approach decisions about how to use this surplus cautiously. **The committee recommends that the budget maintain structural balance in fiscal 2023 to support ongoing budget sustainability.**

2. General Fund Balance and Use of Surplus

Estimated cash balances, after assuming a 5% balance in the Rainy Day Fund, total $4.3 billion at the close of fiscal 2022. This surplus provides the State with the unique opportunity to invest resources toward unmet needs and priorities. Recognizing that the fund balance is one time in nature, the committee recommends against making ongoing investments with the cash surplus. Ongoing needs can be accommodated within the significant structural surplus forecast for fiscal 2023 and beyond. The committee recommends investing the cash surplus in the following one-time purposes:

- **achieving a minimum ending fiscal 2023 general fund balance of $200 million. Over the last five years, annual general fund deficiency appropriations have averaged about $150 million. A balance of $200 million is sufficient to cover a normal level of deficiencies and also provide a hedge against modest changes in revenue collections;**

- **increasing the Rainy Day Fund balance to 9.0% of general fund revenues. Allocating a portion of the surplus to the Rainy Day Fund positions the State to (1) avoid deep cuts and maintain social safety nets during periods of economic stress and (2) provide resources to protect government services and meet new needs in such periods. The General Assembly and the Governor should collaborate on implementing clear criteria for when the Rainy Day Fund should be used;**

- **committing $225 million toward the repayment of funds previously borrowed from the Local Income Tax Reserve Account, which reduces the outstanding unfunded liability by more than 30%:**

- **allocating a minimum of $300 million to address long-standing deferred maintenance and facility renewal needs in Department of General Services (DGS) operated facilities and at State parks and allocating $200 million to the public four-year institutions of higher education and regional higher education centers for deferred maintenance and facility renewal. Funds for each public four-year institution of higher education and each regional higher education center should be linked to a commitment to annually set-aside funds for facility renewal;**

- **investing in pay-as-you-go (PAYGO) capital to fund previous commitments, offset the impact of a recent spike in construction inflation, mitigate the planned reduction in the general obligation (GO) authorizations in fiscal 2023, and expand the capital program; and**

- **investing in one-time purposes such as improving cybersecurity, accelerating the replacement of outdated information technology systems, capitalizing investments that build capacity to provide ongoing programs and services including infrastructure for apprenticeships and other career pathways to reduce barriers to attracting and training workers in skill shortage occupations in government and the private sector, and offering hiring and retention bonuses to attract more workers to State government.**

3. Capital Budget

A. General Obligation Debt

In September 2021, BRE increased its estimate of general fund revenues through fiscal 2027, which substantially reduced the State's debt service to revenues affordability ratio in all years of the planning period; the improved revenues reduced the State's debt service to revenues ratio from 7.7% in October 2020 to 7.1% in October 2021. Despite the improved debt affordability ratio, the Capital Debt Affordability Committee (CDAC) recommendation limits fiscal 2023 GO bond authorizations to $900 million, which is $215 million below both the level recommended by the Spending Affordability Committee (SAC) in December 2020 and the amount programmed in the 2021 *Capital Improvement Program* (CIP).

The committee is concerned that the CDAC recommendation does not provide a level of capital investment necessary to address the critical infrastructure needs of the State at a time when interest rates remain low but are projected to increase and construction inflation is quite high.

While the committee finds reducing GO authorizations to $900 million unnecessary given the State's improved affordability ratio and low interest rates, the committee recognizes that substantial one-time cash balances are available to support a robust capital program. Therefore, the committee recommends that the General Assembly adhere to the $900 million limit proposed by CDAC if the Governor's PAYGO and GO proposals:

- **fund all the projects preauthorized by the General Assembly for fiscal 2023;**

- **allocate funds to make strategic investments in facility renewal for State parks, State facilities managed by DGS, and higher education facilities; and**

- **set aside $300 million in GO bonds for allocation by the General Assembly.**

The substantial amount for the General Assembly reflects a small share of the historic amount of resources (potentially in excess of $3 billion between GO authorizations, bond premiums, and general fund balances) available to the State for capital projects in fiscal 2023. If the Governor's budget submission does not adhere to these proposals, SAC will reconvene and consider a higher authorization level for fiscal 2023 only that keeps the State well within the affordability ratios.

As to the long-range plan, the committee continues to support 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 is concerned, however, that the CDAC's recommendation through the planning period, which returns the authorization level to the amounts currently programmed beginning in fiscal 2024 ($1.125 billion), fails to account for recent increases in construction inflation. **Accordingly, the committee recommends that GO bond authorization levels be rebased beginning in fiscal 2024 to a level of $1.205 billion and include annual 4% increases as opposed to the 1% currently recommended by CDAC.**

B. Higher Education Debt

The University System of Maryland (USM) intends to issue up to $30 million in academic debt for fiscal 2023, which is the same amount authorized in fiscal 2022 and is consistent with the amount programmed in the 2021 CIP for fiscal 2023. 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 2022 session for USM.

C. Payment of Debt Service

During the fiscal challenges of the last decade, the State has allocated premium revenue from the sale of GO bonds to paying debt service. Paying debt service with the proceeds from bond sales is not an efficient approach to paying debt service at a time when large general fund balances are forecast. **The committee recommends dedicating bond premiums from the sale of GO bonds solely to capital projects in fiscal 2023.**

4. State Employment

Personnel costs comprise approximately 20% of the State's operating budget. The committee anticipates a net increase of 757 positions in the fiscal 2023 budget compared to the fiscal 2022 legislative appropriation. This is comprised of 474 positions added in higher education, and 255 new positions in the Executive Branch, most of which are the result of recent legislation. The resulting authorized number of State employees would be 80,842 in fiscal 2023.

However, in the Executive Branch excluding higher education, 5,788 positions, or 12%, were vacant in October 2021. While specific departments, such as Public Safety, have struggled with high vacancy levels in the past, the issue is now persistent in most State agencies; five of the six largest State departments have vacancy rates above 12%. The lack of an adequate, professionally skilled workforce limits the State's ability to provide quality services, an issue that has been further exacerbated by the pandemic. According to the most recent jobs report from the U.S. Bureau of Labor Statistics, state and local government job openings (excluding in education) grew by 114,000 nationwide in the third quarter, indicating the issue is widespread and not isolated to Maryland State government. **The committee is concerned about the high level of vacancies in State government and the general deprofessionalization of its workforce. Considering the State's budget outlook, the committee recommends that the fiscal 2023 budget include funding for general salary increases as well as targeted salary enhancements to classes with significant vacancies. The Department of Budget and Management (DBM) should also consider one-time payments, such as recruitment and retention bonuses, in order to attract qualified employees to the State. DBM should explore the creation of subsidized apprenticeship and other career pathways in all agencies with hard-to-fill positions, focusing both on upskilling current employees and recruiting new employees beginning in high school.**

5. Infrastructure Investment and Jobs Act

Enactment of the federal Infrastructure Investment and Jobs Act of 2021 reflects historic investment in the nation's infrastructure priorities – funding improvements across all modes of transportation, water systems, and broadband. Of the $727 billion in grants of interest to states, it is anticipated that Maryland will receive more than $7.2 billion. As was witnessed with the swift, yet successful allocation of prior COVID-19 relief assistance during the 2021 session, resources are most efficiently and effectively utilized when there is a collaboration of priorities between the branches of government. **As such, the committee expects the Administration to work with the General Assembly to develop the State's plan for utilizing resources available through the Infrastructure Investment and Jobs Act, including resources allocated to Maryland via formula and specifically with regard to the planned uses of the funds and decisions regarding the pursuit of competitive grants that require a State match.**