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HOUSE BILL 737 Local Governments – Income Tax Disparity Grants – Amounts (Anderton, et al)

STATEMENT OF INFORMATION

DATE: February 27, 2020

COMMITTEE: House Appropriations Committee

SUMMARY OF BILL: HB 737 extends for two years the period when the maximum county income tax bracket in the Disparity Grant receives a 67.5% minimum grant, rather than a 60% minimum grant.

EXPLANATION: The bill provides a total of \$6.6 million in FY 2022 and \$6.3 million in FY 2023 to be distributed among Caroline, Prince George’s, Somerset, and Wicomico Counties

DBM’s focus is not on the underlying policy proposal being advanced by the legislation, but rather on the increased costs associated with the formula grant.

The Department of Budget and Management (DBM) is charged with submitting a balanced budget to the General Assembly annually and strives to create a structurally balanced budget, in which the growth in spending is less than the growth in revenues.

**General Fund Budget Outlook
Fiscal 2022 - 2025**

	Est. 2022	Est. 2023	Est. 2024	Est. 2025
Cash Balance	-\$833	-\$1,135	-\$1,201	-\$1,298
Structural Balance	-\$701	-\$905	-\$984	-\$1,071

Department of Legislative Services, January 2020 Fiscal Briefing

For FY 22 – FY 25, the cumulative impact of an ongoing imbalance between spending and revenues is a \$3.6 billion structural gap. Our structural budget problem reflects a spending problem; not a revenue problem.

Until we achieve long-term structural balance, programs cannot rely on a consistent funding level. Constituencies for these proposed programs or enhanced spending bills should be forewarned that passage of this legislation does not guarantee future funding. The diversion of General Funds may be repealed or otherwise modified in a subsequent Budget Reconciliation and Financing Act (BRFA) – this action is necessary to ensure a constitutionally required balanced budget in the next fiscal year.

The Administration is cognizant of the downside risks facing our economy and, in the FY 2021 Budget, has set aside \$1.3 billion in reserves. The Rainy Day Fund balance is equal to 6.25% of revenues, \$48 million more than recommended by the Spending Affordability Committee (SAC). Moody's Analytics has recently advised of a slowdown in employment growth in the latter part of FY 2021, which DLS estimates would add \$241 million to the structural budget gap in FY 2021 and \$419 million in FY 2022. Historic increases in funding for both K-12 education, as proposed by the Kirwan Commission, and school construction will further aggravate the budget gap.

The 2019 SAC commentary encourages a cautious fiscal approach -- **“Out-year fiscal stress is anticipated despite the expectation that personal income and employment will continue to grow steadily, and entitlement and prison caseloads will hold steady or decline. An imbalance is forecast before accounting for any recommendations from the Commission on Innovation and Excellence in Education.”**

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