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Maryland
DEPARTMENT OF BUDGET AND MANAGEMENT

DAVID R. BRINKLEY
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SENATE BILL 946 Housing and Community Development-Neighborhood Revitalization-Passive House Pilot Program (Hayes)

STATEMENT OF INFORMATION

DATE: February 27, 2020

COMMITTEE: Senate Education, Health & Environmental Affairs Committee and Senate Budget & Taxation Committee

SUMMARY OF BILL: SB 946 creates a three-year Passive House Pilot Program in the Department of Housing and Community Development for the purpose of assisting a nonprofit organization, in partnership with neighboring high schools and institutes of higher education, to provide students with career and technical educational experiences through the renovation of residential properties as passive houses.

Annual mandated appropriations in the amount of $300,000 in FY 2022, $400,000 in FY 2023, and $300,000 in FY 2024 shall be used to cover the costs of property acquisition, renovation, and administrative overhead, with priority given to nonprofit proposals which partner with a high school and higher education institution in Baltimore City.

EXPLANATION: DBM's focus is not on the underlying policy proposal being advanced by the legislation, but rather on the difficulty in balancing the State budget when the increased use of mandated spending for new program initiatives continues unabated.

The FY 2022 General Fund forecast shows spending growth of 6.4%, whereas revenue growth is forecast to be 2.9%. Growth in State spending will outpace otherwise healthy revenue growth not only next year, but also for the foreseeable future. The result is a short and long-term structural gap that will continue to strain State resources until the underlying causes have been resolved.

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.

The ever-increasing use of mandates and entitlement spending by the General Assembly is a more recent practice, making the State's structural budget deficit a chronic challenge. According to the Department of Legislative Services (DLS), 70.2% of the FY 2020 General Fund allowance is mandated or entitlement spending.

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. Whatever specific funding is mandated will likely 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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