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Maryland
DEPARTMENT OF BUDGET AND MANAGEMENT

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HOUSE BILL 589/SENATE BILL 493

BUDGET RECONCILIATION AND FINANCING ACT OF 2021

Senate Budget and Taxation Committee
House Appropriations Committee
March 3, 2021

Testimony by

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HB 589/SB 493, the Budget Reconciliation and Financing Act of 2021 (BRFA), implements several actions to balance the FY 2020 budget, address COVID-19 related impacts, and to provide out year structural budget relief. These budget actions provide $1.75 billion in General Fund savings through FY 2026, including $826 million in savings between FY 2021 ($100 million) and FY 2022 ($726 million).

<u>Background</u>

The Governor's FY 2022 budget proposal continues the administration's commitment to fiscal discipline, addressing the State's critical and immediate needs, and achieving a structurally balanced budget. The approach taken by the administration, reflected in the BRFA, includes the following:

- Providing relief from various funding mandates, both one-time and ongoing;
- Restructuring repayment for prior fund transfers to ensure obligations are met in a fiscally prudent manner;
- Authorizing allowable uses of certain funds and revenues as well as fund transfers;
- Making limited changes to statute to facilitate the State's response to the COVID-19 pandemic and to address COVID-19 impacts;
- Making other changes to current law to provide budget relief in the short and/or long term.

Mandate Relief

The BRFA continues the Governor's commitment to enacting meaningful mandate relief in both the short and long-term. To this end, the BRFA:

- Shifts the Financial Consumer Protection Mandate from General to Special Funds.
    - FY 2022 GF Savings: $700,000
- Limits growth under the Cade Formula for Community Colleges in FY 2022 and the out years by aligning it with revenue growth and removing the current formula from future calculations. Under current law, funding for the local community colleges was set to grow by 16 percent. The BRFA provision will still allow the Cade formula to grow by $13.8 million to $263.5 million in FY 2022.
    - FY 2022 GF Savings - $26.6 million
- Level funds the Sellinger Formula for Non Public Higher Education Institutions at the FY 2021 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 50 percent.
    - FY 2022 GF savings - $29.8 million
- Shifts support for the Loan Assistance Repayment Program (LARP) for Former Foster Care Recipients to the traditional Janet L. Hoffman LARP. Actual FY 2020 spending for foster care recipients was less than $7,000.
    - FY 2022 GF Savings - $100,000
- Eliminates mandated growth for the Maryland Public Broadcasting Commission.
    - FY 2022 GF Savings - $775,594
- Aligns the Maryland Health Benefit Exchange funding mandate with prior year actuals.
    - FY 2022 SF Savings - $3 million
    - FY 2022 GF Revenue - $3 million
- Suspends general fund mandate for the Fisheries Research and Development Fund for one year as there is sufficient balance in the Fund to support the appropriation.
    - FY 2022 GF Savings - $1.8 million
- Reduces the Annapolis PILOT payment mandate to historical levels of $367,000.
    - FY 2022 GF Savings - $383,000
- Level funds the Maryland State Arts Council in FY 2022 and alters mandated growth in the out years to align with General Fund revenue growth less one percentage point.
    - FY 2022 GF Savings - $2.9 million
- Permanently alters the Medicaid Deficit Assessment amount beginning in FY 2022 to provide $35 million in additional special funds to offset General Fund costs in the Medicaid program.
    - FY 2022 GF Savings - $35 million

Transfer Tax

The BRFA restructures certain statutory repayments for past transfers to the General Fund. Specifically, the BRFA of 2021 adjusts certain required repayments of transfer tax revenue to eliminate the required $43.9 million repayments in FY 2022 and adds the missed repayments to the end of each schedule.

The BRFA also authorizes the transfer of $100.6 million in transfer tax revenues to the General Fund if there is a matching General Obligation (GO) Bond authorization in the same programs. The Administration is offering an amendment to strike this provision, consistent with action reflected in FY 2022 Supplemental Budget No. 2.

Fund Transfers/Authorized Uses

The BRFA authorizes the use of certain funds or revenues for specified purposes as well as the transfer of certain excess fund balances to the General Fund or to other specified budgeted purposes. The BRFA of 2021:

- Clarifies that allowable uses of Blueprint for Maryland's Future Funds includes providing funds for COVID-19 related costs in early childhood and K-12 education. Specifically, allowable uses include one–time education grants provided in fiscal year 2022 to address enrollment declines related to the pandemic and to ensure that every county board receives an increase in State education aid compared to fiscal year 2021.
    - FY 2022 SF Expenditures - $213.7 million
- Authorizes $100 million annually from State Reinsurance Program fund balance to be used to offset General Fund costs in the Medicaid program in FY 2021 through FY 2026.
    - FY 2021 GF Savings - $100 million
    - FY 2022 GF Savings - $100 million
- Authorizes, in FY 2022 and FY 2023 only, the use of bond premium funds for additional capital projects or to fund previously authorized projects.
    - FY 2021 SF Deficiency - $34 million
    - FY 2022 Capital Budget - $210 million
- Directs specified amounts of marketplace facilitator revenues to offset shortfalls in the Education Trust Fund.
    - FY 2021 SF Deficiency - $174.8 million

In addition, the bill authorizes the following actions:

- In FY 2021, $30 million in excess funds in the reserve account established by the State to pay unemployment compensation for State employees to the General Fund;
- $10 million in Consumer Protection Recoveries in FY 2022 to the General Fund.
- $6 million from the Natalie M. LaPrade Medical Cannabis Commission Fund in FY 2022 to offset General Fund costs in the Behavioral Health Administration.
- $2 million from the Board of Professional Counselors and Therapist Fund in FY 2022 to offset General Fund costs in the Behavioral Health Administration.
- $500,000 from the Board of Pharmacy Fund in FY 2022 to offset General Fund costs in the Office of Controlled Substances Administration within the Maryland Department of Health.

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. Under the BRFA of 2021, the local contribution increases to 60 percent in FY 2022, and by 10 percentage points a year through FY 2025, when the local share reaches 90 percent.

- FY 2022 GF savings - $3.9 million

Local Income Tax Reserve – FEMA Reimbursement

Rather than using scarce General Funds to cover eligible federal spending that will eventually be covered by federal funds, the BRFA proposes to cash flow expenditures with the Local Income Tax Reserve, allowing the State to maximize General Funds and all eligible federal resources to assist in dealing with the COVID-19 pandemic. Local Income Tax Reserve funds would be used to support COVID-related costs that are eligible for reimbursement through the Federal Emergency Management Agency's (FEMA) Public Assistance program, such as Personal Protective Equipment and vaccination costs. Under the BRFA, the FEMA reimbursement is required to be deposited into the Local Income Tax Reserve to make sure that the account is made whole. Any claim that is denied by FEMA would be made up by the General Fund in the next subsequent session.

Other

The BRFA also:

- Limits the retention of unused Senatorial and Delegate Scholarship funding by the awarding legislator for one year only. After that time, any remaining unused shall be deposited in the Need-Based Student Financial Assistance 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 (CHRC) receives no more than $8 million.
    - FY 2022 SF Reduction to CHRC - $4.4 million
- Repeals the required $80 million revenue volatility adjustment for FY 2022; future required adjustments remain in effect.
    - FY 2022 GF Revenue - $80 million
- Eliminates the pension and Other Postretirement Employee Benefits (OPEB) "sweeper" requirements for FY 2022 only.
    - FY 2022 GF Savings - $50 million
- Reduces the required appropriation to the Rainy Day Fund by $422 million, leaving a balance equivalent to five percent of the December 2020 Board of Revenue Estimates' projection of FY 2022 General Fund revenues.
    - FY 2022 GF Savings - $422 million
- Implements a 50/50 cost share between the state and appropriate local government jurisdiction for any awards granted to erroneously confined individuals by the Board of Public Works, beginning with awards granted in FY 2021.

- Limits Interagency Rate Committee provider rates increases to no more than four percent over the rates at the end of CY 2020.
- Provides a one-time exception to the requirement to provide a designated number of printed budget books to the Maryland General Assembly and the Department of Fiscal Services.
- Introduces a local maintenance of effort provision for a declining enrollment hold harmless grant newly created for FY 2022 to respond to the coronavirus public health crisis. This maintenance of effort provision requires that each county's appropriation of funds for K-12 education exceed the FY 2021 level in order to receive the one-time grants in FY 2022.
- Provides an exception to the earnings limitation for certain specified retirees reemployed in the Department of Health and the Department of Labor to assist with functions directly related to the State's response to the COVID-19 pandemic. This exception applies retroactively to January 1, 2020 and is in effect through December 31, 2021.
- Authorizes the transfer of employees of DPSCS facilities that will be closed effective June 30, 2021 to other comparable positions within the Department, notwithstanding any other provision of law, including the 50 mile limit requirement.

Departmental Position

As noted earlier, the Administration is offering an amendment to the BRFA to strike a transfer tax provision, consistent with Supplemental Budget No. 2. The amendment is attached. The Budget Reconciliation and Financing Act of 2021 as amended is necessary to ensure a balanced FY 2022 budget, address certain aspects of the State's COVID-19 response, 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 with amendment report on HB 589/SB 493.

<u>AMENDMENT TO HOUSE BILL 589/SENATE BILL 493</u>
(First Reading File Bill)

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