WES MOORE
Governor

ARUNA MILLER
Lieutenant Governor

Maryland
DEPARTMENT OF BUDGET AND MANAGEMENT

HELENE GRADY
Secretary

MARC L. NICOLE
Deputy Secretary

HOUSE BILL 352/SENATE BILL 321

BUDGET RECONCILIATION AND FINANCING ACT OF 2025

House Appropriations Committee
House Ways & Means Committee
February 27, 2025

Senate Budget & Taxation Committee
February 28, 2025

Testimony by

Helene Grady
Secretary of Budget and Management

HB 352/SB 321, the Budget Reconciliation and Financing Act of 2025 (BRFA), implements several actions to balance the FY 2025 and FY 2026 budgets and to provide out-year structural budget relief. These budget actions provide approximately $8.8 billion in General Fund savings and increased revenue through FY 2030, including $3.0 billion between FY 2025 ($767 million) and FY 2026 ($2.23 billion). The bill also provides budgetary / revenue relief to non-general fund sources in excess of $3.8 billion over this same time period, including $2.7 billion in relief to the Transportation Trust Fund.

Background

The Moore-Miller Administration introduced its proposed budget for FY 2026 in the midst of profound and unprecedented challenges confronting Maryland State government. In December 2024 the Department of Legislative Services (DLS) reported a historic $2.95 billion General Fund projected shortfall for the State's Fiscal Year 2026 (beginning July 1, 2025)—greater than any shortfall in at least 20 years including during the Great Recession.

The budget challenge will be exacerbated by the policy changes that President Trump and the Republican-led Congress are pursuing, including cutting federal spending, slashing safety net programs and altering the tax code, all of which could negatively impact Maryland's workforce, economy, and budget.

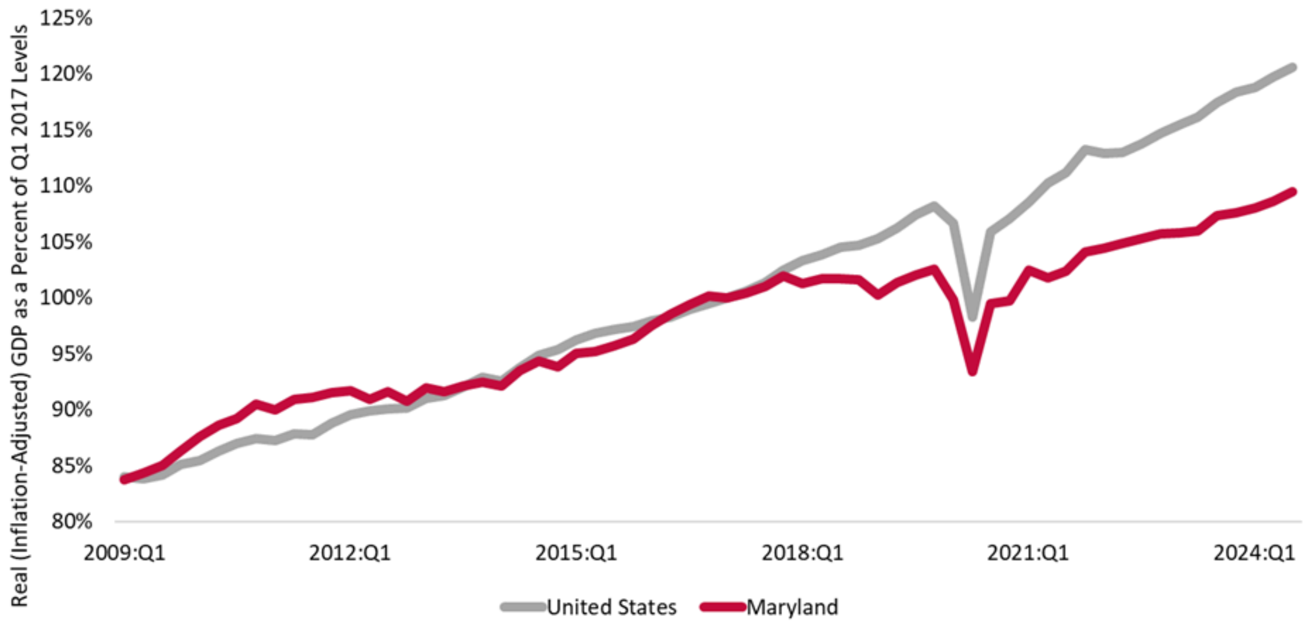
The Administration has warned of the challenging outlook since before the release of its first budget in 2023. Over the last two years, we have made targeted spending reductions alongside responsible investments to narrow the budget gap. This Administration's first budget proposal left an $820 million cash surplus, 10 percent reserve in the Rainy Day Fund, and preserved $1 billion to fund the Blueprint and strategic transportation projects. In the FY 2025 budget, the Administration worked with the General Assembly to close an operating gap of $1 billion and continue to maintain just under 10 percent reserve in the Rainy Day Fund. Budget reductions approved by the Board of Public Works in July 2024 reduced General Fund expense by another $148 million in FY 2025.

As we enter this next and more challenging phase of this work, it's important to keep in mind how we got here. The factors that drove our State's cash surplus in the Fall of 2022—like many states around the country—were external to Maryland and would not be sustained. An infusion of federal pandemic-related aid led to unsustainable commitments and spending growth.

The State operating budget grew at a significant clip through the pandemic. From FY 2019 through FY 2023, the total budget (all funds) grew by $20 billion from $44 billion to $64 billion—45 percent growth in four years. The General Fund grew by 55 percent or $10 billion over the same period, from $18 billion in FY 2019 to $28 billion in FY 2023. Therefore, when we talk about cost reductions, rebasing budgets, or efforts to focus our resources around State government's core priorities, we are doing that from an all-time high level of program spend. Post-reductions, many of our programs are still at a level of investment that would have been hard to imagine just a few years ago.

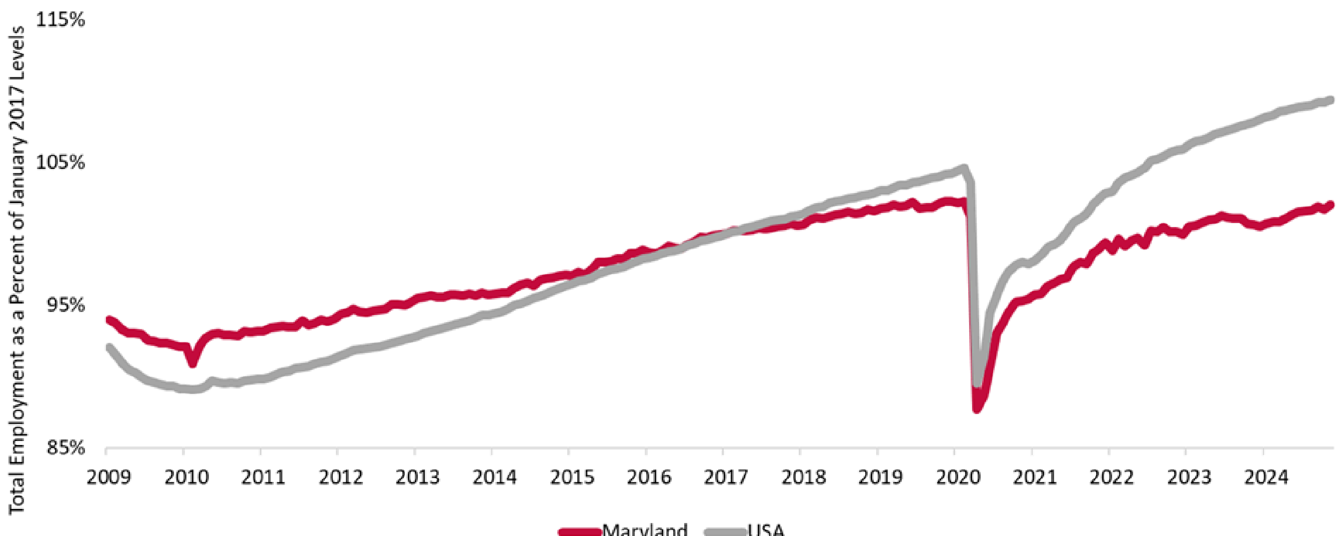
However, even with record public investment over the period since FY 2019, the State's economic growth was stagnant, in terms of population, jobs, and GDP growth, while the nation and many of our neighboring states experienced strong growth. While Maryland is beginning to see progress on key metrics with a historically low unemployment rate, recent employment gains, and real GDP growth in Maryland matching the national rate in Q3 of 2024, it will take continued intentional strategy and targeted investments to build on this recent momentum.

Since 2017, Maryland's Real GDP Growth Has Significantly Underperformed National Growth



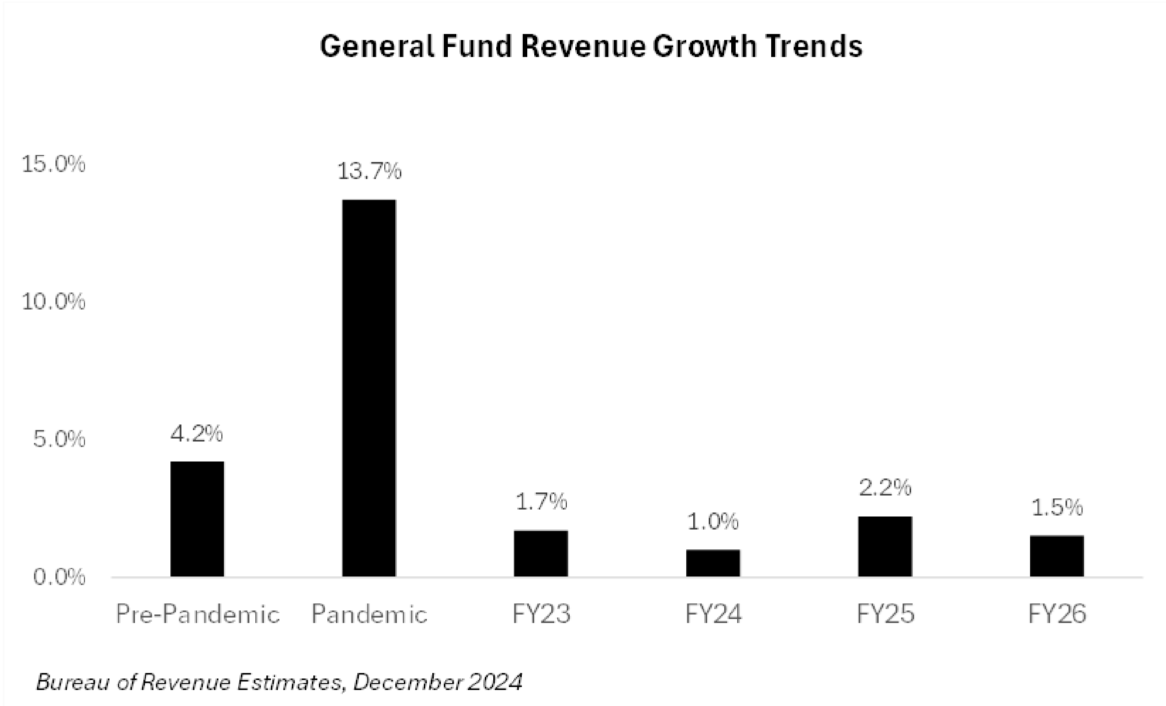
Source: Bureau of Economic Analysis

Maryland's Total Nonfarm Employment Growth Underperformed the Nation Since 2017 with the Gap Widening After 2020



Source: Bureau of Labor Statistics

As a result of stagnant economic growth since 2017, Maryland's State revenues haven't kept pace with the significant increase in the cost of delivering services. General Fund revenues grew only 1.0 percent in FY 2024 over FY 2023 and are projected to increase 2.2 percent in FY 2025 and only 1.5 percent in FY 2026.



Budget Strategy

This proposed budget builds on Maryland's legacy of protecting its AAA bond rating and includes innovative approaches to inherited challenges. The Governor's budget as introduced:

- Flips the projected cash shortfall of $2.95 billion to **a positive cash ending balance of $106 million** in FY 2026;
- Reduces the **structural deficit** for FY 2026 from a projected $2.5 billion to **$186 million** per DLS' scoring;
- Maintains a **Rainy Day Fund balance of 8.0 percent of General Fund revenues** in FY 2026 ($2.05 billion) to weather the uncertainties (compared to 5 percent historically prior to the pandemic);

Further, the Administration continues to focus on investments and policy decisions that will drive strong economic results for Maryland. This Administration is squarely focused on investments to increase population and jobs and bring labor force participation back to pre-pandemic levels. These are critical factors to help us compete better for GDP growth, drive economic mobility for Marylanders, and enhance State revenues. We also continue to focus on supporting the services that Marylanders care the most about—public safety, education, access to jobs, health care, housing, and transportation.

Accomplishing all that is proposed in the budget required hard choices and tradeoffs, including reining in areas of significant expense growth from recent years and reprioritizing funds where the investment has not directly aligned with visible outcomes for most Marylanders. Many of these proposals are reflected in this BRFA.

On the revenue side, the reforms in the Governor's budget create a significantly simpler and fairer tax system for Maryland, while also delivering a tax cut for nearly two-thirds of Maryland households and putting the State on a path to be stronger and more competitive in the future.

When budgets are tight, our top priorities come more into focus and analyzing results is key to ensuring the State government is working for Marylanders. The Administration has proposed a package of very difficult tradeoffs, and we look forward to a continued conversation with the General Assembly and the Maryland public during the rest of this legislative session. Meanwhile, we remain focused on directing State resources to key investments that deliver results for our most core priorities, strengthen our economic competitiveness, and position the State to emerge stronger and better.

Mandate Relief

The BRFA allows the Administration to propose meaningful mandate relief in both the short and long-term to address the State's structural budget challenge. To this end, the BRFA includes the following provisions:

- Requires local governments to pay half of the mandated State retirement increase from FY 2025 to FY 2026 for teachers at K-12 schools and staff at community colleges, excluding the separate reinvestment provision. This additional required contribution is a set amount in all future years. With this provision, the net local share of teacher retirement costs for FY 2026 is $536.4 million, or 33.5% of teacher retirement costs.
    - FY 2026 GF savings - $97.7 million
- Allows Project CORE to be funded with General Obligation Bonds or general funds in FY 2026 and the out years.
    - FY 2026 GF Savings - $50 million
- Amends the State/local share for the Nonpublic Placement Program. The State is required to pay 70% of approved costs for students placed in Nonpublic schools in excess of 300% of the calculated basic costs, with the remainder of the costs paid by local schools, and the provision would revise this to 60% State in FY 2026 then 50% State in FY 2027 and each year after. The costs for the Nonpublic Placement Program have been growing at a high rate in the last few years due partially to the requirement for teacher pay parity.
    - FY 2026 GF Savings - $25 million

Nonpublic Placement Program State (GF) Spending, $ Millions

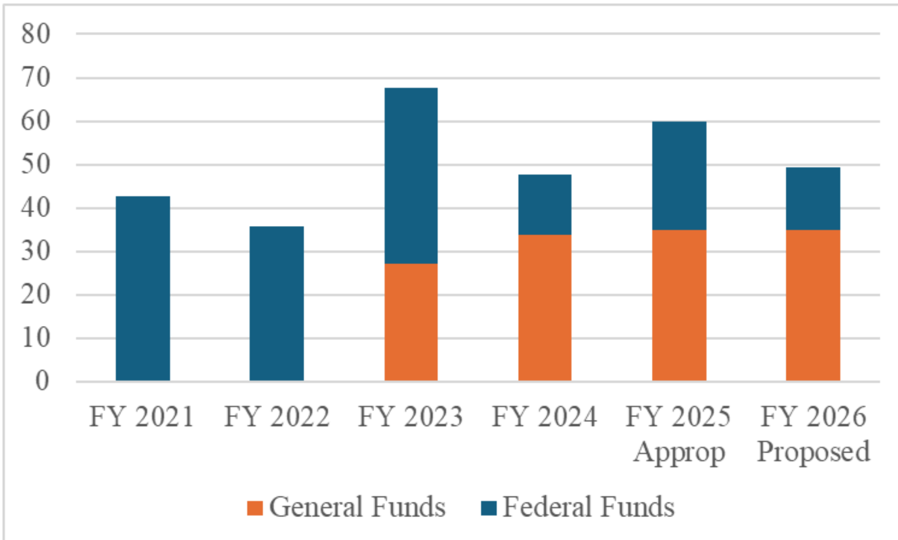
	FY 21	FY 22	FY 23	FY 24	FY 25 Approp	FY 26 Est	FY 26 Proposed
Actual/Project	114.2	126.7	141.4	148.6	151.6	172.1	147.1

- Phases out the mandated funding to certain jurisdictions for teacher retirement supplemental grants, reducing by half in FY 2026 and eliminating the grant program starting in FY 2027. The grant program is intended to assist specified jurisdictions with the impact of sharing teachers' retirement costs. It has been over a decade since these costs were shifted, giving local jurisdictions time to adjust to them.
    - FY 2026 GF Savings - $13.8 million
- Makes funding for expedited major IT projects discretionary. $15 million remains in the allowance for expedited projects in FY 2026 following the contingent reduction, supporting smaller IT projects to improve overall IT modernization at state agencies.
    - FY 2026 GF Savings - $13.8 million
- Alters the Victims of Crime Act (VOCA) $60 million mandate, where the State is required to make up for federal grant declines, and changes it to a $35 million general fund mandate, level funded

from FY 2025. The amount that the State received in federal funds for the VOCA program has declined by 77% since FFY 2018 from a height of $61 million to only $14 million in FFY 2024.

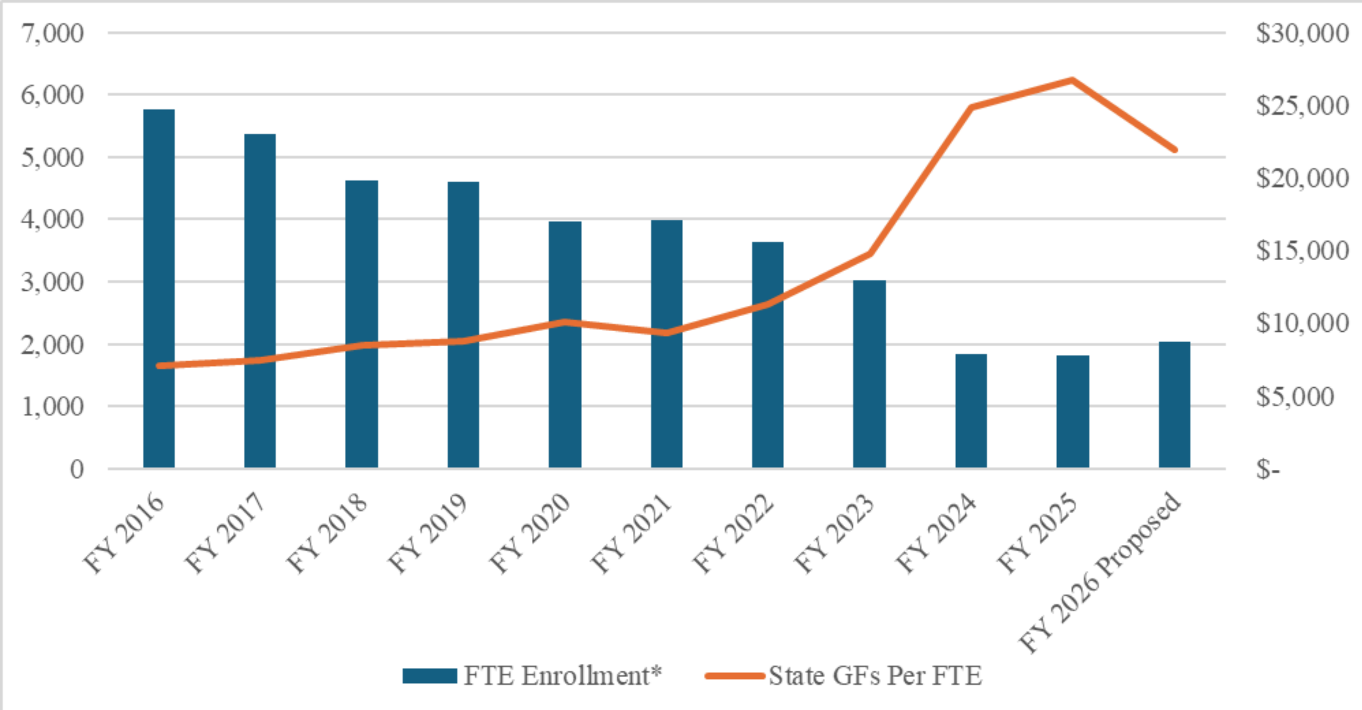
- o FY 2026 GF Savings - $10.8 million

VOCA Funding History, $ Millions



- <u>Eliminates the mandate to provide $10 million to the School Safety Fund</u> but retains the mandate to provide $10 million in spending authority. The FY 2026 allowance assumes that the $5 million general fund reduction will be in FY 2026 only, relying on fund balance in that year to sustain the same level of spending, and that $10 million in general funds will be provided annually to the Fund in FY 2027 and the outyears.
  - o FY 2026 GF Savings - $5 million
- <u>Reduces the mandate for the Police Officer and Probation Officer Loan Assistance Repayment Program</u> in perpetuity from $5 million to $200,000 to be in line with actual program expenditures.
  - o FY 2026 GF Savings - $4.8 million
- <u>Reduces the mandate for the Police Officer and Probation Officer Scholarship Program</u> in perpetuity from $5 million to $500,000 to be in line with actual program expenditures.
  - o FY 2026 GF Savings - $4.5 million
- <u>Reduces the Baltimore City Community College (BCCC) funding formula</u> by $3.6 million as the hold harmless provision in the formula has meant funding for BCCC has not matched enrollment trends. Even with the proposed BRFA item, state funding per pupil for BCCC has grown by 134% since FY 2021.
  - o FY 2026 GF Savings - $3.6 million

Baltimore City Community College Enrollment and Funding History



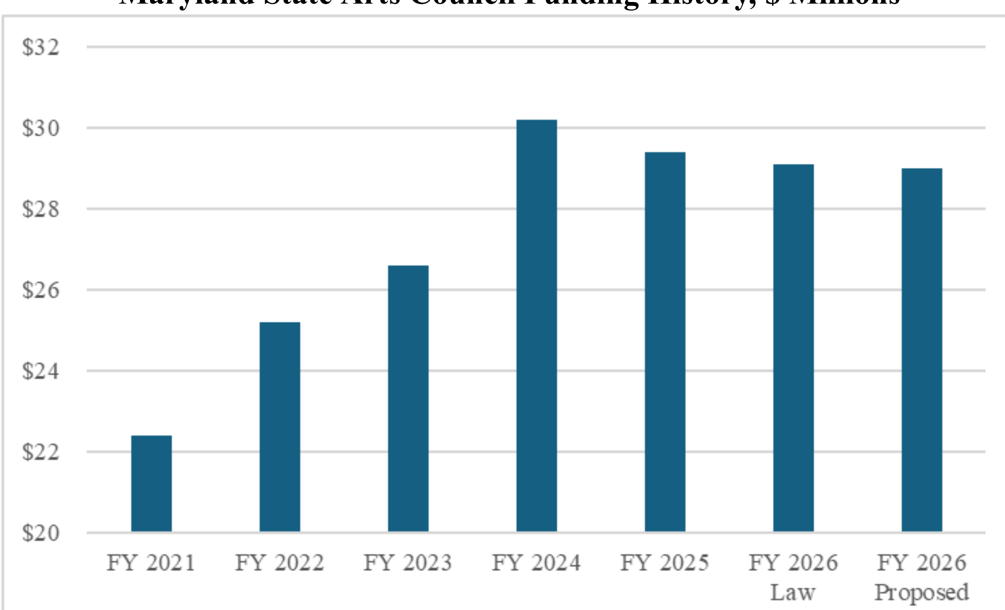
*Due to timing of data, funding is based on enrollment from two years prior, i.e. fall 2024 aligns with FY 2026 funding.

- Reduces the funding mandate for tree planting in the Department of Agriculture from $2.5 million to $500,000, as the Department has struggled to spend the full $2.5 million due to the limited available agricultural land that does not already have forest buffers.
    - FY 2026 GF Savings - $2 million
- Reduces the mandate for the Young Adult Service Year from $15 million to $13 million in FY 2026 only. The program has sufficient fund balance to serve the projected number of participants with this reduction.
    - FY 2026 GF Savings - $2 million
- Reduces the mandate for the Long-Term Care and Dementia Care Navigation Program from $2.4 million to $1.2 million annually, level funding at its first year level of $1.2 million in FY 2025.
    - FY 2026 GF Savings - $1.2 million
- Eliminates the requirement to appropriate at least $1 million annually to the Maryland Patient Safety Center Fund in the Maryland Department of Health. The mandate was established by Chapter 529 of 2022.
    - FY 2026 GF Savings - $1 million
- Reduces funding for Warrant and Absconding Grants by $1 million in FY 2026, level funding the program to FY 2025 following a $1 million reduction by the Board of Public Works in July 2024.
    - FY 2026 GF Savings - $1 million
- Rebases funding for the Maryland Public Broadcasting Commission and eliminates mandated growth in the future. In FY 2021, the agency received $9.1 million in general funds. Their FY 2026 allowance before the BRFA would be $14.1 million, a 55% increase. The allowance reduces this by $0.8 million so the increase over FY 2021 is closer to 46%.
    - FY 2026 GF Savings - $778,897
- Eliminates the Maryland Watermen's Microloan Program mandate one year early. Due to loan repayments and the fund balance for the program, the program will still be operational in FY 2026.

- FY 2026 GF Savings - $500,000

- Reduces the mandates for the Career Pathways for Healthcare Workers program from $1 million to $500,000 annually starting in FY 2026, bringing funding closer in line with actual expenditures.
    - FY 2026 GF Savings - $500,000
- Eliminate the mandated funding formula for St. Mary's College of Maryland so that the State funds that are allocated to the College each year are dictated in the same manner as other similar higher education institutions. Note that the Administration is proposing an amendment to remove this provision from the BRFA via amendment, with further detail later in the document.
    - FY 2026 GF Savings - $416,847
- Shifts the Financial Consumer Protection Mandate from General to Special Funds.
    - FY 2026 GF Savings: $350,000
- Makes funding for the Maryland Native Plants Program discretionary.
    - FY 2026 GF Savings: $250,000
- Ends the mandates for the Maryland Forestry Education Fund one year early. Funding was also eliminated in FY 2025 so, as result of this provision, the program will have never been funded.
    - FY 2026 GF Savings - $250,000
- Makes funding discretionary for the Montgomery County and Prince George's County Rent Courts program, established in statute starting in FY 2026.
    - FY 2026 GF Savings - $200,000
- Reduces the mandated amount for the Maryland New Start Act, first funded in FY 2024, from $200,000 to $50,000 starting in FY 2025.
    - FY 2025 GF Savings - $150,000
    - FY 2026 GF Savings - $150,000
- Eliminates mandated growth for the Maryland State Arts Council (MSAC) starting in FY 2026. General funds for MSAC have grown from $22.4 million in FY 2021 to $29.0 in FY 2026 including the BRFA provision, a 30% increase.
    - FY 2026 GF Savings - $119,451

Maryland State Arts Council Funding History, $ Millions



- Reduces the mandate for the Maryland Center for Construction Education and Innovation (MCCEI), a public-private partnership located at Towson University that supports education and

training in construction fields, from $625,000 to $531,250 starting in FY 2026. This reduction level funds the program from FY 2025 following reduction by the Board of Public Works in July 2024.
    - FY 2026 GF Savings - $93,750
- Eliminates the requirement for $12 million in general funds for the 9-8-8 Trust Fund to be included in the FY 2025 budget since there are special funds supporting the program and allows the remaining appropriation to be cut following a $9 million reduction by the Board of Public Works in July 2024.
    - FY 2025 GF Savings - $3 million
- Repeals the required "sweeper" contribution to the Rainy Day Fund for FY 2026 only, leaving a balance equal to 8.0% of the December 2024 Board of Revenue Estimates' projection of FY 2026 General Fund revenues.
    - FY 2026 GF savings - $419.5 million
- Repeals the required "sweeper" contributions to the Postretirement Health Benefits Trust Fund and State Retirement and Pension Fund for FY 2026 and the out years. The budget continues to fully fund the pension system's actuarially required contribution (ARC), as the sweeper mandate was in excess of the ARC.
    - FY 2026 GF Savings - $50 million
- Repeals the required "reinvestment" contribution to the State Retirement and Pension Fund in FY 2026 and the out years. The budget continues to fully fund the pension system's ARC, as this reinvestment mandate was in excess of the ARC.
    - FY 2026 GF savings - $43.6 million

In addition, the bill reduces the following special fund mandates, offsetting costs that would otherwise become general fund costs.:

- Reduces funding to the Maryland Consortium on Coordinated Community Supports from $130 million to $40 million in FY 2026 and each fiscal year thereafter, level with the FY 2025 amount. With the Blueprint for Maryland's Future Fund facing significant shortfalls starting in FY 2028, this provision will help to extend the Blueprint Fund's solvency.
    - FY 2026 SF Savings - $90 million
- Eliminates the mandate to provide $13 million annually for the Maryland Department of Health for the purposes of Statewide Academic Health Center Cancer Research Grants. This mandate has historically been funded by the Cigarette Restitution Fund (CRF). Due to declining CRF revenues and an effort to spend within the annual revenues, the BRFA provision would eliminate this funding mandate.
    - FY 2026 SF Savings - $13 million
- Phases out the $1 million annual mandate for Cigarette Restitution Funds (CRF) to the Tri-County Council for Southern Maryland to the Maryland Forestry Education Fund, reducing the mandate by $250,000 each year for four years until it is completely eliminated in FY 2029. Given recent declines in CRF revenues, this provision helps to offset costs that would otherwise become general fund costs.
    - FY 2026 SF Savings - $250,000

Maryland Tax Reform: Simpler, Fairer, Pro-Growth, and Lower for Most

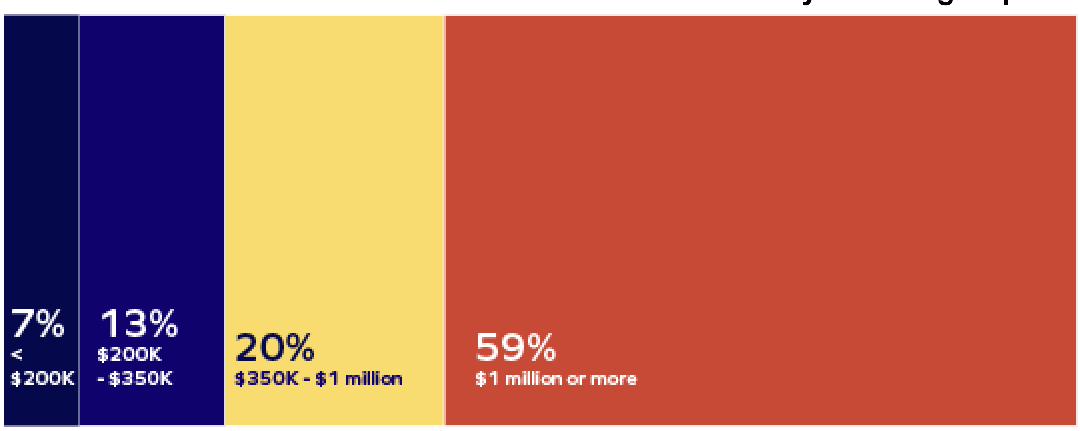
To make smart investments and ensure we are the state that serves, Maryland needs a tax system that is simpler, fairer, and built for the state's future growth and prosperity. Maryland's current tax system is unnecessarily confusing, burdensome, and redundant. It's also vulnerable to the ongoing chaos in Washington, where unpredictable federal tax changes could harm the state's taxpayers or its revenue. As the governor has said, one thing all Marylanders agree on is that our tax system does not make sense.

That's why the Moore-Miller Administration did not simply propose a tax increase to balance our budget, but instead presented a bold tax reform. The proposed income tax reform package raises roughly $800 million for Maryland's schools, public safety, and economic development, while simultaneously delivering a tax cut to nearly two-thirds of Marylanders. In total, 82 percent of Maryland households would see a tax cut or no change, with tax cuts targeted at working families and the vast majority of the revenue coming from our state's highest-earning households.

Change in tax liability, individual income tax reforms

Source: Maryland Department of Budget and Management using Bureau of Revenue Estimates data.
Note: Does not include the capital gain surcharge or the expanded child tax credit.

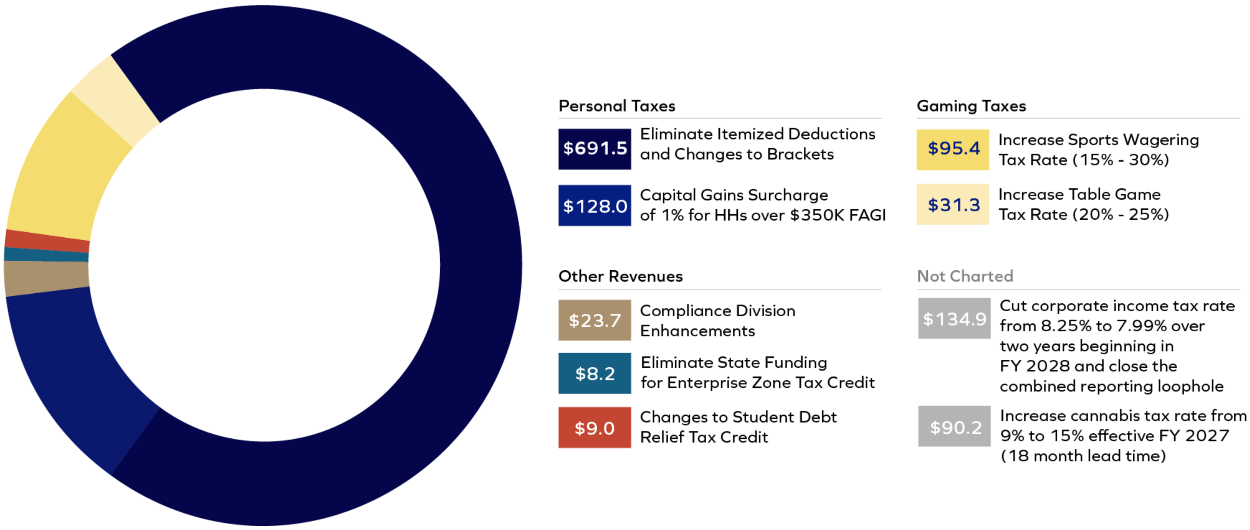
Share of net individual income tax revenue contribution by income groups



Source: Maryland Department of Budget and Management using Bureau of Revenue Estimates data.
Note: Includes the capital gain surcharge. Net revenue accounts for both tax increases and tax decreases in the overall tax reform package.

This is why the Center on Budget and Policy Priorities championed Gov. Moore's reforms as a "blueprint [that] more states should follow" and concluded his plan will "enable [Maryland] to invest in its own future." The reforms would also significantly simplify Maryland taxes for all residents and businesses. The conservative Tax Foundation said the Governor's reforms are a "responsible approach" that "align with the principles of simplicity, transparency, and neutrality." Overall, these tax changes would strengthen working families and keep Maryland as an attractive location for business growth and expansion.

In addition to reforming the income tax, the Governor's proposal also makes important changes to the corporate income tax, death taxes, gambling taxes, and the cannabis tax. In total, these reforms raise roughly $1 billion to help ensure Maryland is safer, more affordable, and more competitive.



Specific revenue actions in the BRFA include:

- Reforms Maryland's individual income tax. While these policy changes ultimately raise revenue, the reform package is a combination of tax cuts and tax increases. Doubling the standard deduction and eliminating a rule that limits the standard deduction for low-income workers delivers a tax cut to nearly two-thirds of Maryland households and ensures 82 percent see a tax cut or no change. Eliminating itemized deductions and adding two new tax rates on large amounts of income ($500,000 and $1 million for single filers) raise revenue for our investments.

  Raising the standard deduction is a simple and effective way to deliver tax relief to all taxpayers and specifically target benefits at working families. In contrast, tax policy experts view itemized deductions (at both the federal and state level) as "expensive, regressive, and often ineffective" (Brookings, 2012) and "overwhelmingly favor[ing] upper-income households, complicat[ing] the tax code, and are poorly targeted" (ITEP, 2025). Specifically, there is no evidence that state-level itemized deductions encourage home purchases or charitable giving, in part because state benefits are significantly smaller than federal benefits (which are unaffected by the reforms). As a 2019 ITEP report concluded, "State itemized deductions are often touted as tools for incentivizing … giving to charity or purchasing a home. But design flaws, combined with the inherent limits of using state tax policy to shape behavior, conspire to make these deductions ineffective."

  Maryland itemized deductions include mortgage interest, property tax, charitable contributions, and extreme medical expenses.[1] They do not include other adjustments to income on both the federal and Maryland tax return (e.g., student loan deduction) or Maryland-specific adjustments (e.g., exemption for military retirement income). Eliminating itemized deductions does not affect business expenses or deductions. The only direct effect on pass-through business income in the

[1] A taxpayer can only claim a medical expense deduction if their eligible out-of-pocket medical payments exceed 7.5 percent of their adjusted gross income. Payments made by the government, an insurance company, or Health Savings Account (HSA) are not eligible.

reform package are the tax rate changes, and those would only apply to a business earning more than $500,000 in profit (not revenue).
    - FY 2026 GF Savings – $691.5 million
- Expands Maryland's child tax credit (CTC). Under current law, a family cannot claim Maryland's CTC if they earn one dollar above the $15,000 income limitation. The Governor's proposal expands access to families earning above that threshold and delivers an average CTC benefit of $363 to thousands of Maryland families with young children.
    - FY 2026 GF Cost – The original estimate did not include the CTC expansion, but a follow-up analysis published on Feb. 6, 2025 said the cost was "modest."
- Enacts a 1% temporary surcharge on capital gain income for households with more than $350,000 in federal adjusted gross income (FAGI) to sunset after four years. Households earning less than $350,000 in FAGI are exempt from the surcharge. The surcharge would only apply to capital gains (i.e., the difference between what an asset was purchased for and what it was sold for, not simply the sale price) and account for existing restrictions on capital gain income, most notably the exemption for profit (not sale price) on the sale of a primary home ($250,000 for single filers and $500,000 for married filers).
    - FY 2026 GF Savings – $128 million, with the revenue earmarked for economic growth initiatives in the budget
- Adopts combined reporting and lower the corporate income tax rate from 8.25% to 7.99%. Water's edge combined reporting, a rule used by 28 of the 45 states with a corporate income tax, would close loopholes and prevent large corporations from shifting income out of Maryland. Combined reporting would not affect small businesses that do not pay the corporate income tax or any business that does not own subsidiaries in other states. Lowering the corporate income tax rate (in two consecutive years) would make Maryland more competitive in attracting and retaining businesses. Both changes would not take effect until FY 2028 but, in combination, would raise revenue in future fiscal years.
    - FY 2026 GF Savings - $0
- Eliminates the inheritance tax and reduce the estate tax exemption to $2 million. This reform would end Maryland's distinction as the only state with two death taxes in a revenue-neutral way. Currently, the inheritance tax applies to estates valued as low as $50,000, meaning many middle-class families will be unburdened by death taxes as a result of this reform. The estate tax's exemption and marginal tax rates also prevent estates valued at just over the exemption level from paying large estate tax bills.
    - FY 2026 GF Savings - $0
- Increases the mobile sports wagering tax rate from 15% to 30%. Maryland's mobile sports betting tax rate is well below the rates used in Pennsylvania (37%) and New York (51%), two states that bring in significantly more per capita revenue from sports betting taxes than Maryland. The tax is paid by the sportsbook and not the person placing the wager. The rate increase would not apply to bets placed at brick-and-morter sportsbooks. We propose that this incremental revenue support the General Fund through FY 2027 then be directed to the Blueprint Fund in FY 2028 and after.
    - FY 2025 GF Savings - $7.5 million
    - FY 2026 GF Savings - $95.4 million
- Increases the table game tax rate from 20% to 25%. Maryland's rate is lower than the rate for table games in Pennsylvania, Virginia, and West Virginia. The tax is paid by the casino and not the person placing the wager. We propose that this incremental revenue support the General Fund through FY 2027 then be directed to the Blueprint Fund in FY 2028 and after.
    - FY 2025 GF Savings - $2.5 million
    - FY 2026 GF Savings - $31.3 million
- Increases the cannabis tax rate from 9% to 15%. This change does not take effect until July 2026.

Maryland has one of the lowest cannabis tax rates in the nation. Cannabis prices are affected by numerous factors other than tax, and evidence from other states show that states can run effective cannabis markers with high tax rates. For example, Washington state has a 37% tax rate and some of the lowest-priced retail cannabis of any state allowing legal sales. The incremental revenue is proposed to be directed entirely to the General Fund.
    - FY 2026 GF Savings – $0
- Eliminates the downward adjustment to General Fund revenues from Revenue Volatility from FY 2026 through FY 2029.
    - FY 2026 GF Savings – $272.1 million
- Allows the mandated Social Equity Partnership Grant Program to be supported by cannabis special funds, for a GF expenditure savings of $5 million listed below. However, as 50% of these special funds go to the General Fund, this in turn costs the State $2.5 million in general fund revenues.
    - FY 2025 GF Cost – $2.5 million
    - FY 2026 GF Cost – $2.5 million
- Freezes enrollment for the Enterprise Zone Tax Credit. The Department of Legislative Services in 2022 found no evidence that this credit creates jobs for residents of the Enterprise Zones. This estimate reflects both $1 million in income tax credit revenue savings and $7.2 million in budgeted property tax savings in the State Department of Assessments and Taxation.
    - FY 2026 GF Savings - $8.2 million
- Reforms the Student Debt Relief Tax Credit. The tax credit is not currently achieving its goals. For example, it provides support to students with incomes greater than $300,000. This proposal reduces the credit's funding allocation for FY 2026 and directs the remaining funds to the state workforce. as the Maryland Higher Education Commission develops a proposal to better target the credit for the desired policy outcomes.
    - FY 2026 Savings – $9 million
- Redirects interest from the Strategic Energy Investment Fund to the General Fund.
    - FY 2025 GF Savings - $35 million
    - FY 2026 GF Savings - $30 million
- Removes the mandate to provide funding from revenues from vehicle registration fees for the Diver Education in Public High Schools Fund ($2 million) and the State-Aided Institutions Field Trip Fund ($600,000) starting in FY 2026. This requirement was established by CH 857 of 2024. CH 747 of 2023 requires that the budget include $500,000 starting in FY 2025 to support field trips to museums of cultural import. That separate mandate is not impacted by this provision.
    - FY 2026 GF Savings – $2.6 million
- Limits the admissions and amusement tax revenue transferred to the Maryland E-Nnovation Incentive Program to $8.5 million annually, with the remainder attributable to a tax rate of 20% directed to the State General Fund. Given existing fund balance and program experience, it is not projected that this revision will impact program activity in the forecast period.
    - FY 2026 GF Savings – $2.5 million
- Eliminates the ability for the More Jobs for Marylanders (MJM) Reserve Fund in the Department of Commerce to retain excess appropriation beyond issued tax credit certificates. Excess amounts will automatically revert to the General Fund.
    - FY 2026 GF Savings – Indeterminate

Fund Transfers / Authorized Uses

The BRFA expands the allowable use of certain funds or revenues for specified purposes.

- Allows a one-time transfer of $16.4 million from the Program Open Space – State fund balance to support operating expenses in the Maryland Park Service (MPS), preventing a significant reduction in services and limitation of park hours resulting from the lowest transfer tax appropriation since FY 2017.
    - o FY 2026 GF cost avoidance - $16.4 million
- Expands the allowable uses of the Waiting List Equity Fund (WLEF). The WLEF is used to support individuals entering Developmental Disabilities Administration (DDA) waiver services through emergency and non-emergency pathways, but because of current restrictions on the use of the fund, the balance has been growing in recent years. This BRFA would allow 100% spending of the Fund on non-emergency pathways.
    - o FY 2025 GF savings - $15 million
- Allows up to $10.5 million from the 2010 Trust Fund to support operating expenses in the Department of Natural Resources. Savings decrease in future years as the forecast only assumes $6.5 million of the allowable $10.5 million special funds to be swapped based on projected Trust Fund balances.
    - o FY 2026 GF savings - $10.5 million
- Allow Strategic Energy Investment Funds (SEIF) to be used to pay all costs associated with the Maryland Department of the Environment's Air And Radiation Administration (ARA), offsetting general fund costs.
    - o FY 2025 GF savings - $6.6 million
    - o FY 2026 GF savings - $6.1 million
- Expands the use of the Maryland Emergency Medical System Operation Fund (MEMSOF) in FY 2025 and FY 2026 only to allow the use of the MEMSOF on general operations of the State Police's Aviation Division. In recent years, the General Fund had to support MEMSOF-eligible costs in the Aviation Division due to MEMSOF solvency concerns.
    - o FY 2025 GF savings - $5.5 million
    - o FY 2026 GF savings - $5.5 million
- Allows the mandated Social Equity Partnership Grant Program to be supported by cannabis special funds. As 50% of these special funds go to the General Fund, this in turn costs the State $2.5 million in General Fund revenues annually as listed above.
    - o FY 2025 GF savings - $5 million
    - o FY 2026 GF savings - $5 million
- Transfers $4 million from health regulatory boards to offset General Fund costs in the Behavioral Health Administration. All related boards have fund balances in excess of 20% of FY 2026 expenditures which, combined with projected FY 2026 revenues, should ensure fund solvency.
    - o FY 2026 GF savings - $4 million
- Allows the Securities Registration Act Fund to support the general operations of the Attorney General's Office.
    - o FY 2026 GF savings - $1.7 million
- Allows up to $1 million be used from the Performance Incentive Grant Fund (PIGF) in FY 2025 and beyond to support the general operations of the Office of the Correctional Ombudsman (OCO). Legislation already permits the OCO to utilize $1 million of PIGF in FY 2025, and the fund balance is projected to be sufficient to support this cost on an ongoing basis.
    - o FY 2026 GF savings - $1 million
- Authorizes the Maryland Heritage Areas Authority (MHAA) to receive an additional up to $340,000 for operating expenses in FY 2026 only on top of the existing 10% of their annual $6 million in Program Open Space (POS) transfer tax funding. This one-time realignment eliminates the necessity of adding general funds to support the one-time cost for grant software re-procurement that will be incurred by the Maryland Historical Trust in FY 2026.

    - FY 2026 GF cost avoidance - $340,000
- Increases the allowable Waterway Improvement Fund (WIF) funding for Natural Resources Police marine operations from $2 million to $2.1 million.
    - FY 2026 GF cost avoidance - $100,000

In addition, the bill authorizes the following transfers to the General Fund:

- $230.0 million from the Local Income Tax Reserve Account with an annual repayment to the account of $23 million annually for ten years starting in FY 2029. The LITR balance has averaged at over $3 billion on an ongoing basis for the past three years.
- $150 million from the Renewable Portfolio Standard / ACP Account of the Strategic Energy Investment Fund (SEIF). Following this transfer and all actions related to the SEIF in the allowance and the BRFA, the SEIF is projected to end FY 2026 with a balance of $339.1 million.
- $113.9 million in the Dedicated Purpose Account reserved for capital projects as follows:
    - $62.9 million for construction of a new State veterans home;
    - $25.0 million for the University of Maryland Medical System Comprehensive Cancer and Organ Transplant Center;
    - $11.0 million for Department of Natural Resources critical maintenance;
    - $10.0 million for Morgan State University deferred maintenance and site improvements; and
    - $5.0 million for Baltimore City Community College deferred maintenance.
- $63.5 million in the Dedicated Purpose Account reserved for cybersecurity.
- $20 million in the Dedicated Purpose Account reserved for the relocation of State agencies out of State Center.
- $10 million from the Maternal and Child Health Improvement Fund, as the program is set to sunset during FY 2026.
- $9 million from the Resilient Maryland Revolving Loan Fund.
- $7 million from the Maryland Police Training and Standards Commission Fund.
- $6 million from the Maryland Innovation Investment Tax Credit Reserve Fund. Note that this transfer revenue assumption will be revised by a future supplemental budget, further details in the amendment section below.
- $5 million from the Securities Act Registration Fund.
- $4.9 million from the Violence Intervention Prevention Program Fund.
- $4.3 million from the More Jobs for Marylanders (MJM) Reserve Fund.
- $4 million from the Rape Kit Testing Fund.

Cost Avoidance

The BRFA revises or establishes a number of fees to offset costs that otherwise would become general fund costs:
- Increases the Medicaid Deficit Assessment to $344,825,000 in FY 2025 and $394,825,000 in FY 2026 onwards. Provider assessments are tools that the vast majority of states use to maximize federal dollars.
    - FY 2025 GF savings - $46.3 million
    - FY 2026 GF savings - $92.5 million

Medicaid Deficit Assessment History

FY	Hospital Assessment (SF)
2014 Act.	$412,455,978
2015 Act.	$390,260,882
2016 Act.	$389,827,993
2017 Act.	$364,825,032
2018 Act.	$364,825,000
2019 Act.	$334,902,112
2020 Act.	$309,825,000
2021 Act.	$294,825,000
2022 Act.	$294,825,000
2023 Act.	$294,825,000
2024 Act.	$244,825,000
2025 Leg App	$294,825,000
2025 Proposal	$344,825,000
2026 Proposal	$394,825,000

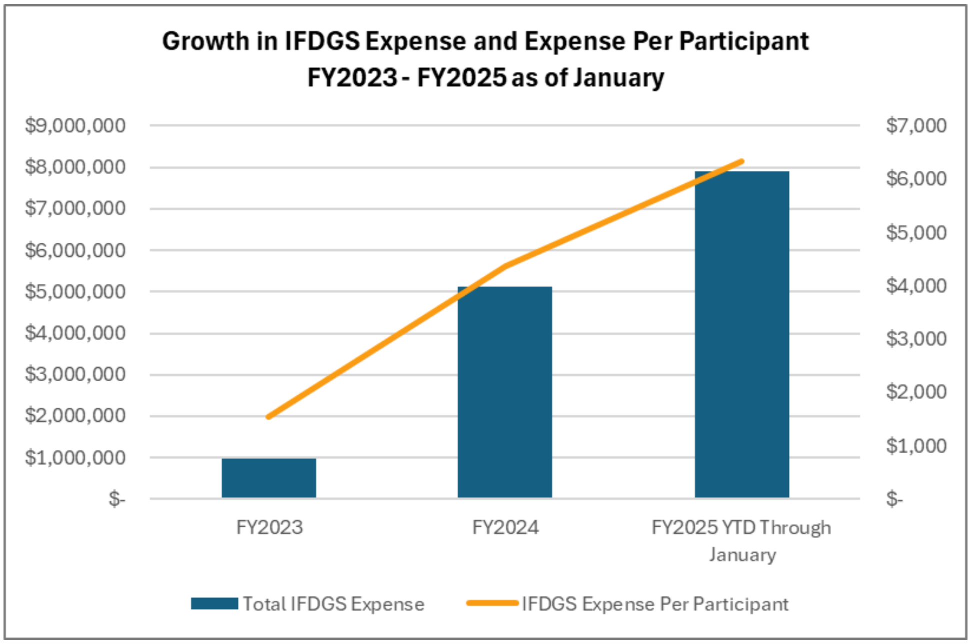
- Establishes a new 0.15% charge on contributing employers to cover the costs of administering the Unemployment Insurance program in Maryland, to be placed into the Special Administrative Expense Fund (SAEF). The Division of Unemployment Insurance (DUI) at the Department of Labor has faced funding shortfalls for the last few fiscal years due to how federal support is calculated and the enhancements necessary to improve services to the residents of Maryland. The Department's plan is to lower UI tax rates at the same time this new 0.15% charge is added so that employers see no difference in their overall UI rates.
  - FY 2026 GF cost avoidance - $33 million
- Authorizes the Maryland Department of the Environment (MDE) to establish through regulation a fee for Erosion and Sediment Control Responsible Personnel Training Program Certification. Various fee provisions already in statute (wetlands and waterways authorizations and related installations, rental property lead registration, the Voluntary Cleanup Program, and non-coal surface mining licenses) are modified to allow MDE to collect higher amounts.
  - FY 2026 GF Savings - $700,000
  - FY 2026 GF cost avoidance - $5.3 million
- Adjusts or authorizes a number of fees in the Maryland Department of Agriculture, Horse Industry Board late fees, beekeeper administrative penalties, Nutrient Management Plan late fees, seedsman permit fee increase, Weights and Measures registration fees, and Weights and Measures late fees.
  - FY 2026 GF cost avoidance - $700,000

In addition, the BRFA:

- Adjusts the share that each county and Baltimore City reimburse the State for the costs related to the State Department of Assessments and Taxation (SDAT)'s real property valuation, business personal property valuation, and information technology offices from 50% to 90%, reflecting the share of property tax revenues that the State and local government receive.
  - FY 2026 GF Savings - $20.9 million
- Reinstates the cap on individuals receiving Developmental Disabilities Administration (DDA) benefits spending on Individual Family Directed Goods and Services (IFDGS), a separate miscellaneous expense category within each client's budget. The current law was enacted under the Self-Direction Act of 2022 (CH 736). Prior to this legislation, Individual Family Directed Goods

and Services (IFDGS) budgets were capped at $5,500. The FY 2026 Governor's Allowance assumes that IFDGS will be capped at this previous level. Since FY 2023, the number of SDS participants utilizing IFDGS has approximately doubled from 629 to 1,245 participants, and the IFDGS cost per participant has increased by 311% from $1,541 in FY 2023 to $6,339 year to date in FY2025 (through January).

- FY 2026 GF Savings - $14.5 million



- <u>Eliminates the Low Intensity Supports Program</u>. However, as this program is not a mandate, a BRFA provision is not needed in order to reduce the program in FY 2026. Therefore, the Administration intends to submit an amendment to remove this provision from the BRFA.
  - FY 2025 GF savings - $2.8 million
  - FY 2026 GF savings - $5.5 million
- <u>Reduces the target participation for the Young Adult Service Year Option Pathway</u>, delaying the goal of getting to 2,000 annual participants by one year.
  - FY 2026 GF savings - $4.8 million
- <u>Removes the requirement for MDH to apply for Substance Abuse and Mental Health Services Administration (SAMHSA) funds for Certified Community Behavioral Health Clinics (CCBHCs)</u>. The CCBHC model is designed to ensure access to coordinated comprehensive behavioral health care. Applying for a planning grant creates a budgetary obligation for the State as Maryland would be required to move forward with implementing benefits. Services would be covered for both Medicaid (federally matched) and uninsured/underinsured (state-only dollars). A rough estimate of implementation in FY 2027 would be in excess of $170 million general funds. There is no funding currently in the MDH budget in FY 2025 or FY 2026 for CCBHCs.
  - FY 2026 GF Savings - none

<u>MDOT Proposals</u>

The BRFA includes several provisions needed to align programmed spending with available funding in support of the January 2025 Consolidated Transportation Program.

- Establishes a retail delivery fee of $0.75 per retail delivery transaction. The fee will not apply to the delivery of goods that are exempt from the general sales tax (e.g., groceries and prescription drugs). The fee amount is indexed to inflation, meaning it will grow at the annual rate of inflation based on the Consumer Price Index (rounded to the nearest one cent). Revenues will be dedicated to the Transportation Trust Fund.
    - FY 2026 SF savings - $225 million
- Repeals the trade-in allowance for vehicle purchases greater than $15,000.
    - FY 2026 SF savings - $181 million
- Modifies the current three-year passed-in increase of vehicle registration fees for certain vehicle classifications and weights, established by CH 717 of 2024, to two years.
    - FY 2026 SF savings - $50 million
- Increases the maximum allowed Vehicle Emissions Inspection Program (VEIP) fee from $14 to $30 and indexes the fee to inflation moving forward.
    - FY 2026 SF savings - $20 million
- Modify existing law regarding Maryland Vehicle Administration's (MVA) cost recovery requirement and increases the threshold to 115%.
    - FY 2026 SF savings - $15 million
- Requires MVA to charge a fee for the use of payment plans to offset the impact of deferred collection of registration fees.
    - FY 2026 SF savings - $1 million
- Repeals the requirement that MDOT's outyear budget growth assumption be based on the five-year average of actual expenses and allows MDOT to establish its own reasonable outyear growth assumption.
    - FY 2026 SF savings - None
- Increases the statutory limit on outstanding Consolidated Transportation Bond debt to $5 billion in accordance with the recent increase in transportation revenues.
    - FY 2026 SF savings - None
- Adds major rehabilitation of the Maryland Transit Administration's (MTA) existing light rail system to the list of allowed uses of Grant Anticipation Revenue Vehicle (GARVEE) bonds while maintaining the existing debt outstanding cap.
    - FY 2026 SF savings - None
- Delays implementation of MTA's transition to zero-emission buses to fiscal year 2032 and adds GARVEE bonds as an eligible funding source, consistent with a change in the allowed uses of GARVEEs adopted by the legislature in 2023.
    - FY 2026 SF savings - None

Other

The BRFA also:

- Allows the Maryland Department of Health to transfer funding between all budgetary programs, giving MDH greater flexibility given budget pressures on major entitlement programs.
- Establishes a non-lapsing, special fund, called the Medicaid Primary Care Program Fund, to serve as the foundation for advancing primary care in Maryland under the Advancing All-Payer Health Equity Approaches and Development (AHEAD) Model. A supplemental budget to be introduced by the Administration will tie this provision to $16 million in general fund savings, noted below.
- In Maryland Environmental Services (MES), increases the Eastern Correctional Institution Turbine Project Contingency Fund cap to $5 million and the Reimbursable Project Contingency Fund cap to $3 million. This provision allows MES to better fulfill its contractual obligations and permit compliance in light of rising costs.

- <u>Makes discretionary the requirement that when a proposed budget includes expenditure reductions to be applied across multiple Executive Branch agencies, the budget bill must specify how the savings will be achieved</u> and, with the exception of position abolitions and items requiring collective bargaining, must include a separate schedule for each reduction allocating the reduction for each agency in a level of detail not less than the 3–digit R*Stars financial agency code and by each fund type. The Governor's Allowance includes $50 million in unallocated general fund savings through government modernization in FY 2026.

<u>Proposed Amendments</u>

The Administration is offering the following amendments to the Budget Reconciliation and Financing Act of 2025 as introduced. These amendments make clarifications and modifications to provisions of the first reading file bill itself and provide additional budget relief in support of the Governor's budget plan.

- Authorizes the transfer of $20 million in excess funds in the reserve account established by the State to pay unemployment compensation for State employees.
    - FY 2025 GF savings - $20 million
- Removing the BRFA provision described above eliminating the mandated funding formula for the St. Mary's College of Maryland, fully funding the mandate in FY 2026.
    - FY 2026 GF cost - $416,847
- Removes language repealing the provision eliminating the Low Intensity Support Program from the BRFA as the program is not a mandate. There is no net change to the FY 2026 allowance, as the program is not funded.
- Addition of a provision enabling the reversion to the General Fund of grant funding from the Behavioral Health Administration (BHA) to core service agencies, local addictions authorities, or local behavioral health authorities or the community providers. The allowance assumed that $22.7 million in unspent funding from FY 2025 would be reverted, but the initial BRFA excluded a provision enabling the reversion.
    - FY 2025 GF savings - $22.7 million
- Technical drafting corrections to the provision establishing the Maryland Primary Care Fund and clarifying that payments are one-time in nature. There is no net fiscal impact to these corrections.
- Clarifies that the Board of Nursing Fund may be used to support infrastructure operation costs consistent with assumptions included in the budget.
    - FY 25 GF Savings - $1,971,117
- Technical drafting corrections to the provision eliminating the ability for the More Jobs for Marylanders (MJM) Reserve Fund in the Department of Commerce to retain excess appropriation beyond issued tax credit certificates. This provision will allow funding to be reverted to the General Fund more quickly in future fiscal years.
- Technical drafting correction clarifying that the adjustment to the Maryland New Start Mandate is intended to start in FY 2025, already assumed in the budget allowance.
- Provides funding to support the Register of Wills through a revenue distribution from the Estate Tax in FY 2026 and beyond.
    - FY 2026 GF cost - $15 million
- Removes the requirement, for FY 2026 only, that 50% of the Cigarette Restitution Fund (CRF) appropriation support specified programs as identified by Md. State Finance and Procurement Code Ann. § 7-317. The FY 2026 allowance for these items is currently funded at 43% or $44 million. This statute adjustment was assumed in the allowance so there is no net fiscal impact.

- Expands the use of the Opioid Restitution Fund for FY 25 and 26 consistent with funding included in the budget.
    - FY 25 / 26 Savings - $15.4 million
- Increases the transfer from the Local Income Tax Reserve Account to the General Fund and adjusts the annual repayment amount..
    - FY 25 Savings - $40.6 million
- Adjusting the provision freezing enrollment for the Enterprise Zone Tax Credit, allowing local jurisdictions to continue to enroll new entities into the program but removing any State funding requirement. This amendment does not change the State fiscal impact of the provision.
- Adjusting the provision establishing a new 0.15% charge on contributing employers to cover the costs of administering the Unemployment Insurance (UI) program in Maryland, clarifying that the funding will only be used for administration of UI not also for workforce development. This amendment does not change the State fiscal impact of the provision.
- Adds a transfer of $37.3 million from the Local Income Tax Reserve Account to the General Fund to support the Department of Labor's Division of Paid Leave in its administration of Family and Medical Leave Insurance, with the transfer to be repaid back to the Local Income Tax Reserve Fund within two years of the start of contributions into the Department's Family and Medical Leave Insurance Fund. This bridge funding will support the continued ramping up of Division of Paid Leave operations, offsetting costs that would otherwise be borne by the General Fund.
    - FY 2026 GF Cost Avoidance - $37.3 million
- Limits the mandate that the Department of Human Services (DHS) replace benefits stolen from cash assistance and Supplemental Nutrition Assistance Program (SNAP) recipients via Electronic Benefits Transfer (EBT) card fraud to funding available in the State's budget only.
    - FY 2026 GF Cost Avoidance - Indeterminate
- Increases the Transfer from the Strategic Energy Investment Fund from $150 million to $230 million.
    - FY 25 Savings - $80 million
- Authorizes the Governor to transfer funds from the Revenue Stabilization Account of the State Reserve Fund to the Annuity Bond Fund, if necessary, to ensure that the State Treasurer is able to pay debt service to the State's bondholders. This provision provides a safety net for the state in light of uncertain market conditions.

The Administration intends to introduce a supplemental budget that implements the budgetary changes listed in the amendments above. In addition, the supplemental budget will revise the allowance figures related to BRFA provisions listed above as follows:

- Addition of a contingent general fund reduction totaling $16 million related to the establishment of the Maryland Primary Care Fund.
    - FY 2026 GF savings - $16 million
- Reduces the transfer from the Maryland Innovation Investment Tax Credit Reserve Fund to the General Fund from $6 million to $1.4 million based on revised fund balance data from the Department of Commerce.
    - FY 2026 GF cost - $4.6 million
- Updates the savings from adjusting the share that each county and Baltimore City to reimburse the State for the costs related to the State Department of Assessments and Taxation (SDAT)'s real property valuation, business personal property valuation, and information technology offices from 50% to 90%.
    - FY 2026 GF savings adjustment - $331,560

Departmental Position

The Department of Budget and Management believes that the Budget Reconciliation and Financing Act of 2025, as amended, is necessary to ensure a balanced FY 2026 budget and to provide out-year structural budget relief. For these reasons, we urge the Committees to vote favorable with amendments on HB 352/SB 321.