General Fund Revenue Forecast
($ in Millions)

	Fiscal 2023 Actual	Fiscal 2024 Estimate September	Fiscal 2024 Estimate December	Fiscal 2024 Estimate $ Diff.	%Diff.	Percent Change vs. Fiscal 2023	Fiscal 2025 Estimate September	Fiscal 2025 Estimate December	Fiscal 2025 Estimate $ Diff.	%Diff.	Percent Change vs. Fiscal 2024
Personal Income Tax	$13,469	$13,836	$13,782	-$54	-0.4%	2.3%	$14,448	$14,421	-$27	-0.2%	4.6%
Corporate Income Tax	1,816	1,752	1,773	21	1.2%	-2.3%	1,697	1,747	49	2.9%	-1.5%
Sales and Use Tax (1)(2)	6,005	6,088	5,944	-144	-2.4%	-1.0%	6,273	6,096	-177	-2.8%	2.5%
State Lottery	655	661	650	-11	-1.7%	-0.9%	548	526	-23	-4.1%	-19.0%
Other	2,527	2,349	2,464	116	4.9%	-2.5%	2,255	2,269	-3	0.6%	-7.9%
Ongoing General Funds	**$24,473**	**$24,686**	**$24,614**	**-$72**	**-0.3%**	**0.6%**	**$25,221**	**$25,059**	**-$163**	**-0.6%**	**1.8%**
Transfer to Blueprint Fund (1)	-$800	$0	$0	$0	n/a	n/a	$0	$0	$0	n/a	n/a
GAAP Transfer (3)	0	0	150	150	n/a	n/a	0	0	0	n/a	n/a
Volatility Adjustment (4)	0	-120	-120	0	n/a	n/a	-140	-140	0	n/a	16.7%
Total General Funds	**$23,673**	**$24,566**	**$24,644**	**$78**	**0.3%**	**4.1%**	**$25,081**	**$24,919**	**-$163**	**-0.6%**	**1.1%**

GAAP: generally accepted accounting principles

(1) Chapter 33 of 2022 changed the sales tax distribution to the Blueprint for Maryland's Future Fund (BMFF) beginning in fiscal 2023 to a percentage of total net receipts after the distribution of the short-term rental vehicle tax. In fiscal 2023, the percentage was 9.2% and rises to 11.0% in fiscal 2024 and 11.3% in fiscal 2025. Chapter 33 also required a transfer of $800 million from personal income tax revenue to the BMFF in fiscal 2023 only.

(2) Fiscal 2024 and 2025 include revenues from the 9% sales tax imposed on cannabis authorized by Chapters 254 and 255 of 2023. Estimated general fund sales tax revenues equal $18.0 million in fiscal 2024 and $36.6 million in fiscal 2025.

(3) The Comptroller's annual analysis of the local income tax reserve account determined the account was overfunded at the end of fiscal 2023 by $315.7 million (exclusive of canceled repayments). The Board of Revenue Estimates (BRE) chose to transfer a little less than half that amount to reduce the overfunding in the account.

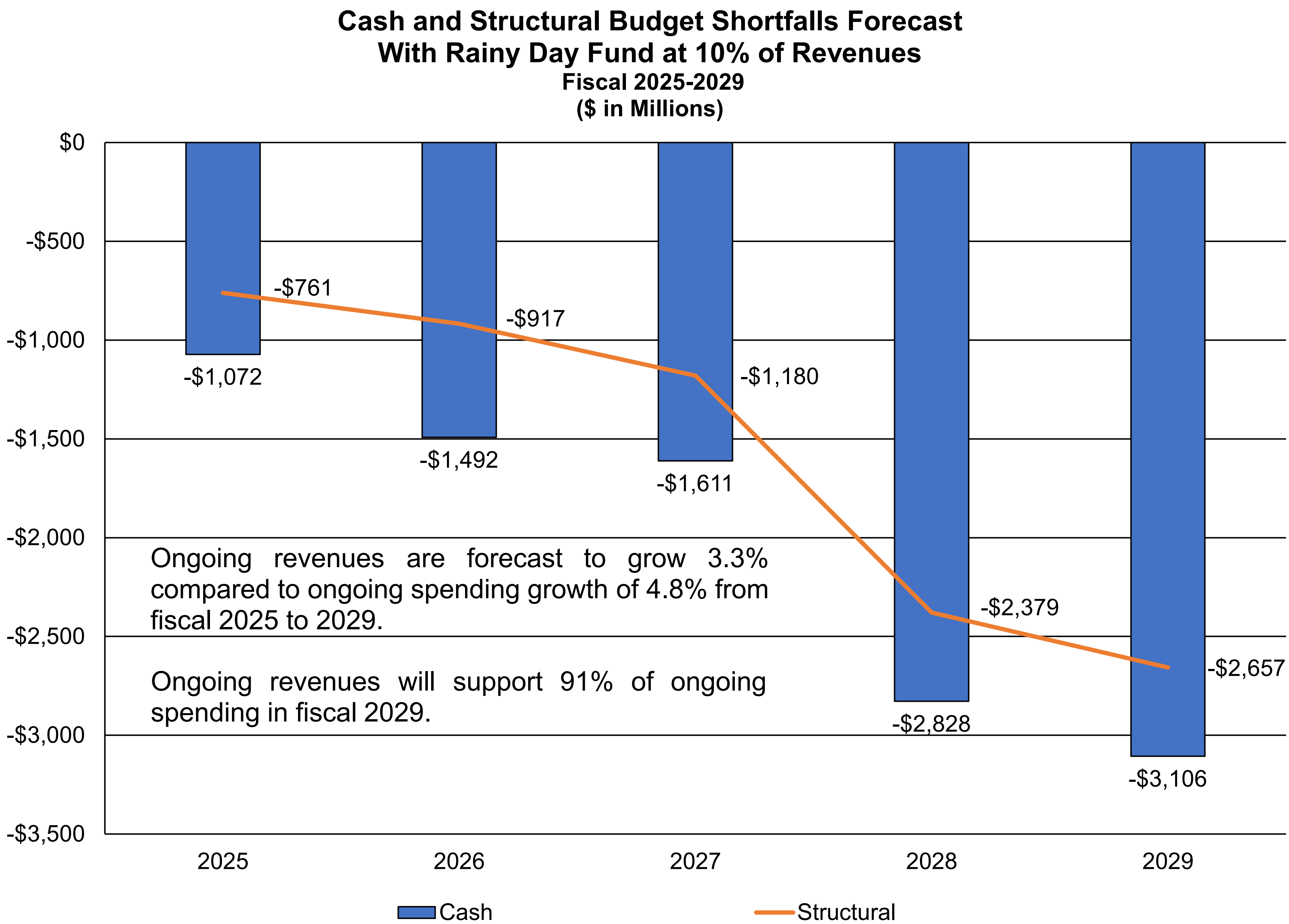
(4) Chapters 4 and 550 of 2017 as amended by the Budget Reconciliation and Financing Act of 2018 require BRE, beginning with fiscal 2020, to calculate an adjustment to the general fund revenue estimate based on the share of revenues from nonwithholding personal income tax payments relative to the historical average. The amount of the adjustment is capped at 2.0% of the total general fund revenue estimate with specific dollar caps in fiscal 2023 through 2025.

Source: Board of Revenue Estimates

Change in Budget Outlook Since November SAC Meeting
Fiscal 2024-2029
$ in Millions

	2024	2025	2026	2027	2028	2029
November SAC Cash Balance with Rainy Day Fund at 10%	**$449**	**-$1,088**	**-$1,349**	**-$1,446**	**-$2,682**	**-$2,941**
December Adjustments						
Revenue Revisions	$78	-$163	-$325	-$374	-$355	-$404
Additional Child Care Scholarship Costs	-214	-225	-225	-225	-225	-225
K-12 Education Updated for Enrollment, Wealth, and BRE Blueprint Revenue Revisions		-27	12	-169	-44	-5
Miscellaneous Spending Adjustments		-25	-4	24	23	54
Transfer from Rainy Day Fund of Amounts in Excess of 10%		-84				
Smaller Fiscal 2024 Closing Balance		-136				
Total December Adjustments	**-$136**	**-$659**	**-$541**	**-$744**	**-$600**	**-$580**
December SAC Cash Balance with Rainy Day Fund at 10%	**$313**	**-$1,747**	**-$1,890**	**-$2,190**	**-$3,282**	**-$3,521**

BRE: Board of Revenue Estimates
SAC: Spending Affordability Committee



Cash and Structural Budget Shortfalls Forecast
With Rainy Day Fund at 10% of Revenues
Fiscal 2025-2029
($ in Millions)
$0
-$500
-$1,000
-$1,500
-$2,000
-$2,500
-$3,000
-$3,500
2025
2026
2027
2028
2029
-$761
-$917
-$1,180
-$2,379
-$2,657
-$1,072
-$1,492
-$1,611
-$2,828
-$3,106
Ongoing revenues are forecast to grow 3.3% compared to ongoing spending growth of 4.8% from fiscal 2025 to 2029.
Ongoing revenues will support 91% of ongoing spending in fiscal 2029.
Cash
Structural

Recommendations

In light of the considerations discussed earlier, the committee proposes the following recommendations for the 2024 session:

1. Operating Budget Spending Limit and Sustainability

A structural deficit of $761 million is forecast for fiscal 2025 and is projected to increase to $2.7 billion by fiscal 2029. Cash shortfalls are expected to grow from $1.1 billion in fiscal 2025 to $3.1 billion by fiscal 2029. While the State has significant cash reserves and can take one-time actions to mitigate the projected fiscal 2025 cash deficit, planned State spending levels are not sustainable in the long-term without a significant revenue increase, reduction of planned spending, or a combination of the two. **In recognition of this outlook and our commitment to fully fund the Blueprint for Maryland's Future as well as other critical ongoing State priorities, the committee recommends that the State make measurable progress in reducing the structural deficit. To that effect, the fiscal 2025 budget, as introduced and enacted, should reduce the gap between ongoing general fund revenues and ongoing spending by at least 33%, leaving a structural gap of no more than $508 million.**

With the State facing substantial long-term budget challenges, the committee recommends:

- **considering revenue options to ensure resources are available to appropriately fund the State's priorities. Options should include better aligning program fees with the cost of providing the related service and focusing new investments on activities that will increase economic competitiveness and grow the economy;**

- **minimizing the enactment of new mandates that are not paid for with a new revenue source; and**

- **analyzing strategies to increase the efficiency of State operating and capital investments without reducing services.**

2. Fund Balances

After assuming the transfer of funds in excess of 10% of general fund revenues from the Rainy Day Fund, it is anticipated that there will be a $1.1 billion cash shortfall at the close of fiscal 2025. Prior analyses have indicated that maintaining a balance close to 10% of revenues in the Rainy Day Fund should mitigate the need for deep spending reductions during the next recession. **Therefore, the State should exercise caution in drawing on the Rainy Day Fund at a time when the Maryland economy is relatively healthy, and the State's fiscal challenges are only expected to escalate in the coming years. Before considering drawing on the Rainy Day**

Fund, opportunities should be explored to (1) shift planned PAYGO capital spending to bonds; (2) better align ongoing spending with ongoing revenues; and (3) achieve one-time budgetary savings. The committee recommends:

- **maintaining a Rainy Day Fund balance of <u>at least</u> 8.5% of general fund revenues to ensure resources are available to mitigate the impact of a recession. To the extent possible, funds transferred from the Rainy Day Fund should support one-time spending; and**

- **achieving a minimum ending balance of at least $100 million in the General Fund for fiscal 2025.**

3. Capital Budget

A. General Obligation Debt

In its 2023 report, the Capital Debt Affordability Committee (CDAC) recommended a general obligation (GO) bond authorization level of $1.750 billion for fiscal 2025. This level is above the $1.250 billion last recommended by the Spending Affordability Committee in December 2022. The higher authorization level recommended by CDAC would create additional capacity to replace programmed levels of pay-as-you-go (PAYGO) general funds in fiscal 2025, thereby providing a measure of relief to the General Fund.

Since fiscal 2014, the State's GO purchasing power has eroded with authorizations growing far slower than the annual 4.5% construction inflation experienced over the last decade. The impact of the loss in purchasing power was mitigated by the availability of large general fund surpluses, which allowed extraordinary general fund PAYGO investments. Those levels of general fund support are not sustainable. The CDAC recommendation to increase planned GO authorizations in fiscal 2025 to $1.750 billion more closely aligns the authorizations with where they would be if the authorizations had kept pace with inflation over the last decade ($1.790 billion).

The CDAC recommendation is well within its debt affordability criteria, which limit debt service to 8% of State revenues and debt outstanding to 4% of State personal income.

The committee recommends the authorization of $1.750 billion in new GO bonds for the 2024 session. In addition, the committee recommends, for planning purposes, the level of authorizations should be increased by 2% annually through the five-year planning period as a hedge against construction inflation. The proposed limit and annual increase keeps the State well within the CDAC debt affordability criteria. Furthermore, the capital plan should:

- **continue to make strategic capital and operating investments in facility renewal for State facilities managed by the Department of General Services and higher education facilities to reduce the backlog of projects and improve the condition of State facilities; and**

- **set aside $200 million of GO bonds for legislative priorities.**

B. Higher Education Debt

The University System of Maryland (USM) intends to issue up to $30 million in academic debt for fiscal 2025, which is the same amount authorized in fiscal 2024 and is consistent with the amount programmed in the 2023 *Capital Improvement Program* for fiscal 2025. 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 with the recommendation of CDAC that $30 million in new academic revenue bonds may be authorized in the 2024 session for USM. USM should consider focusing the additional revenues to address facility maintenance needs.

4. State Employment

Personnel costs comprise approximately 20% of the State's operating budget. The committee anticipates a net increase of 962 positions in the fiscal 2025 budget compared to the fiscal 2024 legislative appropriation. This is comprised of 504 positions added in higher education, 455 new positions in the Executive Branch, and 3 new positions in the Judiciary. The resulting authorized number of State employees would be 83,557 in fiscal 2025.

The Executive Branch currently has a vacancy rate of 11.1% with almost 5,400 Executive Branch vacancies in October 2023, excluding higher education. While the number of vacant positions is still relatively high, there are approximately 1,800 more filled positions than there were at this time last year.

The committee recommends pursuing efforts to increase the pace of hiring in order to fully restaff State government. To further support existing State employees and to reach shared policy goals, agencies should prioritize filling currently vacant positions and focus on the conversion of contractual positions before creating new positions. Additionally, the State should place particular emphasis on modernization of the hiring process, expansion of the labor pool through increased focus on skills, not just degrees, and statewide analysis of opportunities to create apprenticeship pathways to grow our own workforce.

5. Transportation

The target closing balance for the Transportation Trust Fund (TTF) is intended to ensure that the Maryland Department of Transportation (MDOT) has sufficient working cash to administer its operating and capital programs. System preservation spending is necessary to maintain or bring capital assets into a State of Good Repair, which is where assets are performing as designed, and the chance of breakdowns is small. MDOT has an identified 10-year shortfall of more than $4 billion between programmed spending for State of Good Repair and needed spending. **The committee recommends:**

- **a fiscal 2025 target closing balance of at least $325 million for the TTF;**
- **fiscal 2025 spending on system preservation of at least $1.1 billion, which is the average annual amount spent over the previous 10 years; and**
- **MDOT develop a plan for system preservation spending beyond fiscal 2025 that reduces the State of Good Repair funding gap by half by the end of fiscal 2040.**