

General Fund Revenue Forecast (\$ in Millions)

	Fiscal 2024	Fiscal 2025 Estimate				Percent Change vs. Fiscal 2024	Fiscal 2026 Estimate				Percent Change vs. Fiscal 2025
	<u>Actual</u>	<u>September</u>	<u>December</u>	<u>\$ Diff.</u>	<u>%Diff.</u>		<u>September</u>	<u>December</u>	<u>\$ Diff.</u>	<u>%Diff.</u>	
Personal Income Tax	\$13,617	\$14,271	\$14,432	\$161	1.1%	6.0%	\$14,861	\$14,861	\$0	0.0%	3.0%
Corporate Income Tax	1,904	1,921	1,945	25	1.3%	2.2%	1,951	1,961	10	0.5%	0.8%
Sales and Use Tax ⁽¹⁾⁽²⁾	5,897	5,979	5,996	17	0.3%	1.7%	6,135	6,135	0	0.0%	2.3%
State Lottery	655	532	523	-9	-1.6%	-20.2%	484	508	24	5.0%	-2.9%
Tobacco Taxes ⁽³⁾	405	401	363	-38	-9.5%	-10.3%	312	293	-19	-6.2%	-19.3%
Other	2,236	1,954	1,992	38	2.0%	-10.9%	1,844	1,868	24	1.3%	-6.3%
Ongoing General Funds	\$24,713	\$25,057	\$25,252	\$194	0.8%	2.2%	\$25,586	\$25,625	\$39	0.2%	1.5%
GAAP Transfer	\$150	\$0	\$0	\$0	n/a	n/a	\$0	\$0	\$0	n/a	n/a
Volatility Adjustment ⁽⁴⁾	0	0	0	0	n/a	n/a	-301	-272	29	n/a	n/a
Total General Funds	\$24,863	\$25,057	\$25,252	\$194	0.8%	1.6%	\$25,285	\$25,352	\$68	0.3%	0.4%

⁽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, 11.3% in fiscal 2025 and 11.7% in fiscal 2026.

⁽²⁾ Fiscal 2024 includes \$30.5 million from the 9% sales tax imposed on cannabis authorized by Chapters 254 and 255 of 2023. Estimated general fund cannabis sales tax revenues equal \$30.4 million in fiscal 2025 and \$45.9 million in fiscal 2026. The estimate for cannabis revenues was not changed in the December forecast.

⁽³⁾ The Budget Reconciliation and Financing Act of 2024 (Chapter 717) increased tobacco tax rates and added a new distribution of tobacco revenues to the BMFF. In fiscal 2025, the distribution is \$88.3 million equal to the expected impact of the rate increases. In fiscal 2026, the distribution is equal to 32.6% of tobacco tax revenues.

⁽⁴⁾ Chapters 4 and 550 of 2017 as amended by the Budget Reconciliation and Financing Act (BRFA) of 2018 require the Board of Revenue Estimates, 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. The BRFA of 2024 eliminated the adjustment for fiscal 2025.

Source: Board of Revenue Estimates

Change in Budget Outlook Since November SAC Meeting
Fiscal 2025-2030
\$ in Millions

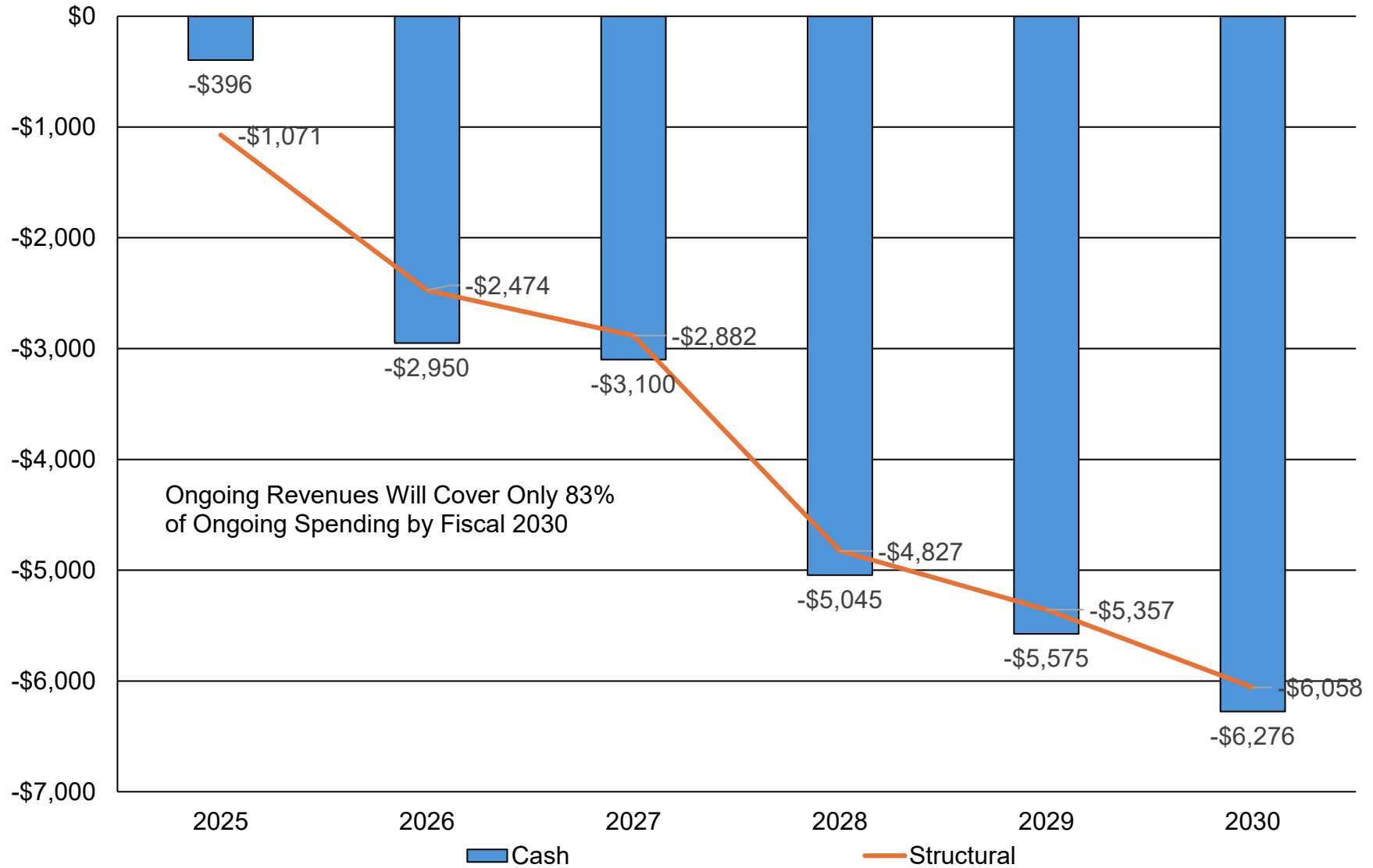
	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>
November SAC Cash Balance with Rainy Day at 10%	-\$299	-\$2,746	-\$2,731	-\$4,681	-\$5,210	-\$5,899
December Adjustments						
BRE Revenue Update	\$194	\$68	\$38	-\$19	-\$23	-\$14
Medicaid (including Behavioral Health) - Favorable Trends	91	95	93	100	107	114
Developmental Disabilities Administration Costs Understated in Baseline	-350	-350	-350	-350	-350	-350
K-12 Education Updated for actual Fall Enrollment, Wealth, and BRE Blueprint Revenue Revisions		-3	-150	-95	-99	-127
State Center Settlement	-32	-15				
Total December Adjustments	-\$96	-\$204	-\$369	-\$364	-\$365	-\$377
December SAC Cash Balance with Rainy Day at 10%	-\$396	-\$2,950	-\$3,100	-\$5,045	-\$5,575	-\$6,276

SAC: Spending Affordability Committee

Cash and Structural Budget Shortfalls Forecast with Rainy Day Fund at about 10% of Revenues

Fiscal 2025-2030

(\$ in Millions)



Recommendations

In light of the considerations discussed earlier, the committee proposes the following recommendations for the 2025 session:

1. Operating Budget Spending Limit and Sustainability

A structural deficit of \$2.5 billion is forecast for fiscal 2026 and is projected to increase to \$6.0 billion by fiscal 2030. Cash shortfalls are expected to grow from \$3.0 billion in fiscal 2026 to \$6.3 billion by fiscal 2030. Maryland's budget challenges are exacerbated by uncertainty about the policy changes President-elect Trump and the new Congress may implement. The State's current revenue and spending forecasts do not assume any positive or negative impact on the Maryland economy or the availability of federal funds from changes in federal policy.

While the State has significant cash reserves and can take one-time actions to reduce the projected fiscal 2026 cash deficit, these one-time actions alone will not resolve the projected shortfall. Aligning long-term revenues and spending will require limiting spending and increasing revenue. These actions must be accompanied by strategies to stimulate growth in Maryland's private-sector workforce and productivity, which have experienced sluggish growth since 2017.

In recognition of this outlook, the committee recommends that the fiscal 2026 budget, as introduced and enacted:

- **erase the projected \$2.5 billion gap between ongoing general fund revenues and ongoing spending in fiscal 2026; and**
- **improve the outlook for fiscal 2028 so that ongoing revenues will support at least 94% of projected ongoing spending. Achieving this goal may require adjusting spending growth associated with mandates, entitlements, and other long-term commitments to better align with available revenues.**

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 cash shortfalls of \$299 million and \$2.7 billion at the close of fiscal 2025 and 2026, respectively. Reducing the Rainy Day Fund balance below 10% would assist the State in resolving the deficits in the short term but is insufficient to fully resolve the fiscal 2026 deficit. In light of current economic uncertainties, it is prudent to retain a healthy fund balance so that funds remain available in the event of a recession or federal actions that harm the Maryland economy. **Before considering drawing on the Rainy Day Fund, opportunities should be explored to (1) better align ongoing spending with ongoing revenues and (2) achieve one-time budgetary savings. The committee recommends:**

- **maintaining a Rainy Day Fund balance of at least 7.5% of general fund revenues to ensure resources are available to mitigate the impact of an economic downturn and/or federal actions that harm the Maryland economy; and**
- **a minimum ending balance of at least \$100 million in the General Fund for fiscal 2026.**

3. Capital Budget

A. General Obligation Debt

In its 2024 report, the Capital Debt Affordability Committee (CDAC) recommended keeping annual general obligation (GO) bond authorizations at \$1.75 billion in fiscal 2026 and through the five-year planning period, which is consistent with the amount planned by CDAC last year and with the amount programmed in the 2024 *Capital Improvement Program* (CIP). However, in its 2023 recommendations, the Spending Affordability Committee (SAC) recommended the annual level of authorizations be increased by 2% annually as a hedge against inflation. If the 2% annual growth policy were adopted, the fiscal 2026 authorization level would be \$1.785 billion, which is \$35 million higher than the amount recommended by CDAC. Over the five-year planning period from fiscal 2026 through 2030, the 2023 SAC recommended authorizations would total \$530 million greater than the CDAC recommendation.

The committee recommends the authorization of \$1.750 billion in new GO bonds for the 2025 session. For planning purposes, the level of authorizations should remain at the CDAC-recommended level of \$1.750 billion from fiscal 2027 through 2030.

The committee is concerned that potential reductions in the federal workforce and other actions by the President-elect may lead to a significant revenue write-down in March. If the Board of Revenue Estimates writes revenues for fiscal 2025 and 2026 down by a cumulative amount of at least \$400 million, the General Assembly is authorized to increase the GO bond authorization for the 2025 session to as much as \$2.000 billion. Any authorization above \$1.750 billion may only be used to replace general fund pay-as-you-go appropriations from prior years and thereby provide one-time cash resources to help offset the shortfall caused by the revenue write-down. Both a \$1.750 billion and \$2.000 billion limit keep the State well within the CDAC debt affordability criteria, which limit debt service to 8% of State revenues and debt outstanding to 4% of State personal income.

The committee also recommends that the capital plan 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.

B. Higher Education Debt

The University System of Maryland (USM) intends to issue up to \$30 million in academic debt for fiscal 2026, which is the same amount authorized in fiscal 2025 and is consistent with the amount programmed in the 2024 CIP for fiscal 2026. 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 2025 session for USM. USM should consider focusing the additional revenues to address facility maintenance needs.

4. State Employment

Personnel costs comprise approximately 18% of the State's operating budget. The committee anticipates a net increase of 468 positions in the fiscal 2026 budget compared to the fiscal 2025 legislative appropriation. This is comprised of 208 positions added in higher education, 243 new positions in the Executive Branch, and 17 new positions in the Judiciary. The resulting authorized number of State employees would be 86,047 in fiscal 2026.

The Executive Branch currently has a vacancy rate of 10.4% with 5,347 Executive Branch vacancies in October 2024, excluding higher education. While the number of vacant positions is still relatively high, there are approximately 2,300 more filled positions than there were at this time last year.

The committee recommends that that State fill existing positions within the limitations of the State's fiscal condition, prioritizing its most critical vacancies such as those that provide health, public safety, and other essential services. New activities requiring additional personnel, including the operation of new facilities and the implementation of new programs and agencies, should be prioritized in the same manner.

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 (SOGR), which is where assets are performing as designed, and the chance of breakdowns is small. MDOT's most recent calculation of the SOGR funding needs and the amount of programmed and projected funding identified a 10-year gap of \$11.2 billion. **The committee recommends:**

- **a fiscal 2026 target closing balance of at least \$400 million for the TTF; and**

- **fiscal 2026 spending on system preservation of at least \$1.14 billion, which is the average annual amount spent over the previous 10 years.**