

2025 Spending Affordability Committee Report and Recommendations to the Governor and the Legislative Policy Committee

The Spending Affordability Committee (SAC) was created in 1982 (Chapter 585). The committee is composed of equal numbers of senators and delegates and includes the Presiding Officers, the majority and minority leaders, the chairs of the fiscal committees (or their designees), and other members appointed by the Presiding Officers. A citizen advisory committee assists the committee.

The committee's primary responsibility is to recommend to the Governor and the General Assembly a level of spending for the State operating budget that is reflective of the current and prospective condition of the State's economy. Historically, this has been in the form of a recommended growth limit. More recently, however, the structural budget gap has been the focus of the committee's recommendations. The full list of the committee's prior recommendations and legislative action on the operating budget are reflected in the table in **Appendix 1**. Since the committee's inception over 40 years ago, its recommendations have been adhered to by the legislature in all but 1 year.

The committee's statutory responsibility is to consider spending in relation to the State's economy. In determining its recommendations, the committee has considered economic performance, revenue estimates, and current and future budget requirements.

Economy

The U.S. economy experienced strong growth in the last two years with inflation-adjusted gross domestic product increasing 2.9% in calendar 2023 and 2.8% in calendar 2024. Growth slowed in the first half of calendar 2025 to 2.1% compared to the first half of 2024. Employment growth also slowed in 2025, increasing 1.1% in the first nine months of 2025 compared to 1.3% in 2024. Year-over-year growth in the third quarter (July through September) was 0.9% and since December, the economy has added 684,000 jobs, an increase of just 0.4%. A significant reduction in federal employment has been a drag on the labor market. Between December 2024 and September 2025, federal employment fell by 94,000 jobs, or 3.1%.

With its proximity to Washinton, D.C., federal employment is more important to the Maryland economy than average. In calendar 2024, federal employment accounted for 5.7% of jobs in Maryland compared to 1.9% nationally. The Maryland share is understated because employment data does not include classified agencies like the National Security Agency. In addition to direct jobs in the State, many Marylanders commute to federal jobs in Washington, D.C. and Virginia. As of September 2025, total federal jobs in Maryland are down 14,000 since December 2024, a decline of 8.6%. Maryland has experienced the largest drop of any state and accounts for about 14% of the total federal job loss. Over this same period, Washington, D.C. saw federal employment fall by 9,100 (-4.7%), and Virginia lost 11,300 federal jobs (-5.7%).

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In September, the Board of Revenue Estimates (BRE) issued a revised economic forecast for Maryland, its first since March 2025. BRE estimated that employment, which grew 1.9% in calendar 2024, will increase 0.4% in calendar 2025 and fall 0.3% in 2026. Employment growth slows to just 0.1% in calendar 2027 and 2028 due to low population growth and an aging workforce. Wage growth is projected to slow from 6.4% in 2024 to 3.4% in 2025. With the small decline in employment, BRE estimated wage growth will slow to 2.7% in calendar 2026. In December 2025, BRE revised down their estimate of personal income growth in calendar 2025 due to revisions and new data for the second quarter. The economic forecast beyond 2025 was little changed in December.

Revenues

Fiscal 2025 general fund revenues exceeded the estimate by \$520.6 million, or 2.1%. General fund revenues totaled \$25.7 billion in fiscal 2025, an increase of 3.4% over fiscal 2024, reflecting a one-time transfer in 2024 of \$150 million from the local income tax reserve account to the General Fund. In fiscal 2025, ongoing revenues grew 4.1% over fiscal 2024.

Among the major revenue sources, the personal income tax was above the estimate by \$263.8 million, or 1.8%. The sales tax exceeded the estimate by \$72.4 million (1.2%), and the corporate income tax was below the estimate by \$46.9 million (-2.4%). The State lottery was slightly below the estimate in fiscal 2025 by \$4.0 million (-0.8%). All other sources exceeded the estimate with substantial overattainment for franchise taxes, the tax on insurance premiums, interest on investments and miscellaneous revenues, mostly related to unclaimed property. Combined, the other revenue sources were over the estimate in fiscal 2025 by \$235.4 million, or 9.5%.

In September 2025, BRE lowered its estimate for fiscal 2026 general fund revenues by \$19.1 million, or -0.1%, reflecting the pass-through effects of the federal One Big Beautiful Bill Act. Total general fund revenues were projected to increase by 3.7% in fiscal 2026 as a variety of State tax law changes from Chapter 604 of 2025 (Budget Reconciliation and Financing Act) take effect. Ongoing revenues were forecasted to grow 3.6% in fiscal 2026 and 1.7% in fiscal 2027.

In December, BRE increased the estimate for fiscal 2026 general fund revenues by \$90.7 million, or 0.3%. Growth over fiscal 2025 is projected to be 4.1%. The personal income tax estimate was increased by \$79 million (0.5%), and there were substantial upward revisions to the estimates for estate and inheritance taxes and interest earnings based on strong year-to-date collections. BRE also reduced their estimate for the corporate income tax by \$97 million (-5.4%) and the sales tax by \$77 million (1.2%). For fiscal 2027, BRE revised up their estimate by \$9 million and is projecting 1.4% growth over fiscal 2026.

Budget Requirements

General fund deficiency appropriations totaling \$803 million are forecast for fiscal 2026. The figure includes \$356 million related to prior year expenses, with provider reimbursements in the Maryland Department of Health representing the largest share (approximately \$300 million). The remaining \$447 million in anticipated general fund deficiencies relate to projected shortfalls in fiscal 2026. The largest projected deficiencies are to pay provider reimbursements related to developmental disabilities services (\$140 million) and behavioral health (\$107 million), which were understated due to higher than expected utilization growth. Other significant deficiency appropriations support:

- foster care maintenance payments (\$41 million);
- personnel costs due to lower than expected vacancy savings (\$30 million);
- child care scholarships (\$29 million); and
- inmate medical contracts (\$26 million).

The committee's forecast assumes the transfer of \$265 million from the Revenue Stabilization Account (Rainy Day Fund) in fiscal 2026 to offset a portion of the deficiencies. With this transfer, a cash deficit of about \$17 million is forecast at the close of fiscal 2026.

The baseline estimate for fiscal 2027 projects that general fund spending will increase by \$1.34 billion compared to the fiscal 2026 legislative appropriation after adjusting for anticipated deficiencies. The fiscal 2027 general fund ending balance is projected to be a shortfall of \$1.56 billion, after accounting for a transfer of \$304 million from the Rainy Day Fund that represents the amount over 8% of general fund revenue. The significant general fund spending increase reflects \$343 million related to entitlements, driven primarily by Medicaid and Medicaid-eligible behavioral health provider reimbursements (\$310 million). In addition, the baseline anticipates a net increase of \$432 million in appropriations to the Reserve Fund. Spending on local aid increases by \$112.5 million, driven primarily by retirement costs (\$79 million) and community college funding (\$31 million).

State agency costs are projected to increase by \$568 million. The largest increase in State agency spending supports an increase in personnel costs, including \$94 million for a 2% general salary increase and \$50 million for health insurance costs. Additional significant increases include provider reimbursements for the Developmental Disabilities Administration and non-Medicaid-eligible behavioral health services (\$131 million), Information Technology Investment Fund projects (\$97 million), and the State share of administrative costs for the Supplemental Nutrition Assistance Program due to the lower federal share beginning on October 1, 2026 (\$60 million).

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The committee budget forecast assumes that the State will close fiscal 2027 with a balance of \$2.17 billion in the Rainy Day Fund, which represents 8% of general fund revenues.

As shown in **Exhibit 1**, which provides the cash and structural balance projections for the General Fund through fiscal 2031, the cash deficit worsens over time, growing from \$1.56 billion in fiscal 2027 to \$3.9 billion by fiscal 2030. The projected structural shortfall also increases substantially, rising from \$1.2 billion in fiscal 2027 to \$2.7 billion in fiscal 2028 with additional increases through fiscal 2030 before slightly improving to \$3.55 billion in fiscal 2031. Both the cash and structural shortfalls increase beginning in fiscal 2028 due to the need for general funds to support costs related to the Blueprint for Maryland's Future (Blueprint). The general funds required to support Blueprint costs rise from \$0 in fiscal 2027 to \$1.57 billion in fiscal 2028, increasing further to \$3.43 billion in fiscal 2031.

Exhibit 1 General Fund Budget Outlook Fiscal 2026-2031 Est. (\$ in Millions)

	Working Appropriation <u>2026</u>	Est. <u>2027</u>	Est. <u>2028</u>	Est. <u>2029</u>	Est. <u>2030</u>	Est. <u>2031</u>
Cash	-\$17	-\$1,562	-\$2,709	-\$3,132	-\$3,912	-\$3,722
Structural Balance	-259	-1,239	-2,720	-2,965	-3,744	-3,554

Note: Estimates assume a Revenue Stabilization Account balance of 8% of general fund revenues.

Recommendations

In light of the considerations discussed earlier, the committee proposes the following recommendations for the 2026 session:

1. Operating Budget Spending Limit and Sustainability

A structural deficit of \$1.2 billion is forecast for fiscal 2027 and is projected to increase to \$3.7 billion by fiscal 2030. Cash shortfalls are expected to grow from \$1.6 billion in fiscal 2027 to \$3.9 billion by fiscal 2030.

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The State's budget challenges reflect the negative impact of the Donald J. Trump Administration's policies and the costs of entitlement and education programs surpassing planning estimates. Federal job cuts have weakened the State's economy, contributing to a March 2025 revenue write-down of more than \$1 billion over the fiscal 2025 through 2030 period. The One Big Beautiful Bill Act ALONE will increase State spending by about \$100 million annually and reduce taxes paid by businesses by more than \$350 million over the next two years. In addition, the Trump Administration's unpredictable policies on trade, federal employment, and government services add material downside risks to Maryland's economy and fiscal situation.

In recognition of the fiscal outlook, the committee recommends that the fiscal 2027 budget, as introduced and enacted, reduce the gap between general fund revenues and ongoing spending by 50% (\$600 million).

The committee notes that the reliability of budget actions depends heavily on the quality, consistency, and alignment of underlying fiscal projections. In recent budget cycles, changes to revenue and expenditure outlooks have materially affected the State's structural balance, underscoring the need for enhanced coordination, consensus, and shared forecasting assumptions. Recently, the Department of Legislative Services (DLS), the Department of Budget and Management (DBM), and the Board of Revenue Estimates have increased coordination and data sharing. To support more durable budget decisions, the committee recommends continued and regular consultation among the agencies, including more frequent cross-checks and updates.

2. Fund Balances

After assuming the transfer of funds in excess of 8% of general fund revenues from the Revenue Stabilization Account (Rainy Day Fund), it is anticipated that there will be a cash shortfall of \$1.6 billion at the close of fiscal 2027. Reducing the Rainy Day Fund balance below 8% would assist the State in resolving the short-term fiscal challenges but leave the State vulnerable to the impact of a recession. It is important to keep in mind that the Rainy Day Fund is supposed to be used in emergency situations such as when unemployment is above 5% or unexpected revenue write-downs occur in the middle of drafting the fiscal 2027 budget.

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 additional 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:**

- **the fiscal 2027 budget as introduced maintain a Rainy Day Fund balance of at least 8.0% of general fund revenues to ensure that 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 2027.**

Notwithstanding the goal of 8%, in the event that March revenues are revised downward by \$100 million or more or the State's unemployment rate reaches 5.0% or more, a Rainy Day Fund balance of at least 7.5% will be maintained.

Excluding COVID-19 related disaster assistance, between fiscal 2010 and 2025 Maryland received \$325.8 million in federal disaster assistance, an average of \$21.4 million per year. Federal policymakers appear to be transitioning to a policy of severely limiting future aid to states. The Federal Emergency Management Agency (FEMA) denied a request for a disaster declaration and resulting aid from the May 2025 floods in Western Maryland, for which Maryland had requested \$33.7 million in aid. Maryland has two funds that can be used to support costs related to disasters: (1) the Catastrophic Event Account – which supports disaster assistance and federal employee hardship related to layoffs, relocations, and government shutdowns; and (2) the State Disaster Recovery Fund – which supports disaster relief regardless of an official disaster declaration. Historically, the Catastrophic Event Account is maintained with a balance of \$10 million, and it is expected to require replenishment in fiscal 2027 to be at this level following use for federal government shutdown assistance. DLS anticipates a balance of \$2.3 million at the close of fiscal 2027 in the State Disaster Recovery Fund. **Since the federal government appears less likely to provide disaster assistance in the future, the State should maintain a combined balance of at least \$15 million in these two funds beginning in fiscal 2027. The Treasurer's Office should also explore the cost of purchasing disaster recovery insurance to cover at least a portion of the cost of assisting communities impacted by natural disasters.**

3. Capital Budget

A. General Obligation Debt

In its 2025 report, the Capital Debt Affordability Committee (CDAC) recommended keeping annual general obligation (GO) bond authorizations at \$1.750 billion in fiscal 2027 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 2025 *Capital Improvement Program* (CIP). **The committee recommends the authorization of \$1.750 billion in new GO bonds for the 2026 session. For planning purposes, the level of authorizations should remain at the CDAC-recommended level of \$1.750 billion from fiscal 2028 through 2031.**

CDAC also considered alternative assumptions regarding the annual level of GO bond issuances. The 2025 *Joint Chairmen's Report* (JCR) directed the State Treasurer's Office to work with DBM and DLS to convene a workgroup to evaluate the issuance assumptions used by CDAC, which are based on a formula that has been unchanged for several decades. The workgroup recommended that CDAC adopt issuance assumptions based on a 10-year weighted average of actual project expenditures.

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Although DBM participated in the JCR workgroup, DBM proposed and CDAC adopted an alternative recommendation to use issuance assumptions based on recent experience of lower expenditure levels.

Because the CDAC-adopted issuance assumptions are based on trends in expenditure levels rather than trends in expenditure rates, the adopted assumptions significantly underestimate future issuance needs. The GO bond authorization level increased significantly in fiscal 2025, from \$1.205 billion in fiscal 2024 to \$1.750 billion in fiscal 2025. Issuances would also be expected to increase significantly as projects authorized in fiscal 2025 begin to expend funds. **Accordingly, the committee recommends using the JCR workgroup recommendation based on expenditure rates for the purposes of debt affordability analysis.**

B. Higher Education Debt

The University System of Maryland (USM) intends to issue \$30 million in academic debt for fiscal 2027, which is the amount recommended by CDAC and is consistent with the level of issuance authorized for fiscal 2026. This level of issuance will result in a ratio of debt service, including payments on capital lease obligations, to operating revenues and State appropriations of 3% or less through fiscal 2031. This is well below the 4.0% limit recommended by the system's financial advisers.

The committee recommends the level of Academic Revenue Bond authorizations be set at \$50 million for fiscal 2027 and for planning purposes remain at \$50 million annually through fiscal 2031. The recommendation is affordable within USM debt limitation policies and will provide \$20 million of additional authorization in fiscal 2027 and a total of \$100 million through the planning period above the amounts currently programmed in the 2025 CIP. The committee also recommends that the additional \$20 million annual authorization be earmarked for USM stand-alone State-owned projects included in the CIP.

4. State Employment

Personnel costs comprise approximately 18% of the State's operating budget. The committee anticipates a net decrease of 318.7 positions in the fiscal 2027 budget compared to the fiscal 2026 legislative appropriation, adjusted to account for positions abolished in October 2025 by the Board of Public Works. The resulting authorized number of State employees would be 85,958.8 in fiscal 2027.

The Executive Branch currently has a vacancy rate of 10.0% with 5,194 Executive Branch vacancies in October 2025, excluding higher education. While the vacancy rate is relatively high, the budgeted turnover rate is higher, at 10.5%. The Executive Branch is approximately 318 vacancies short of meeting budgeted turnover in fiscal 2026. Compared to one year ago, the Executive Branch has grown by approximately 650 filled positions.

The committee recommends that the Executive Branch maintain current levels of authorized positions, fill vacancies in mission critical positions, and increase vacancies overall to meet budgeted turnover.

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 \$12.5 billion. **The committee recommends:**

- **a fiscal 2027 target closing balance of at least \$550 million for the TTF, which is \$50 million greater than the target closing balance assumed by MDOT in its draft September 2025 financial forecast. The committee is recommending a larger TTF fund balance to ensure the continued ability of MDOT to meet its cash flow needs in the case that federal fund attainment, including federal reimbursement for capital projects, is less than currently projected by the department; and**
- **fiscal 2027 spending on system preservation of at least \$1.15 billion, which is the average annual amount spent over the previous 10 years.**

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**Appendix 1
Prior Recommendations and Legislative Action on the Operating Budget
(\$ in Millions)**

<u>Session Year</u>	<u>Committee Recommendation</u>		<u>Legislative Action</u>	
	<u>Growth Rate</u>	<u>Amount</u>	<u>Growth</u>	<u>Amount</u>
1983	9.00%	\$428.0	5.70	\$269.8
1984	6.15%	326.7	8.38	402.0
1985	8.00%	407.2	7.93	404.6
1986	7.70%	421.5	7.31	402.2
1987	7.28%	430.2	7.27	429.9
1988	8.58%	557.5	8.54	552.9
1989	8.79%	618.9	8.78	618.2
1990	9.00%	691.6	8.98	689.7
1991	5.14%	421.8	5.00	410.0
1992	No recommendation		10.0	823.3
1993	2.50%	216.7	2.48	215.0
1994	5.00%	443.2	5.00	443.2
1995	4.50%	420.1	4.50	420.0
1996	4.25%	415.0	3.82	372.8
1997	4.15%	419.6	4.00	404.6
1998	4.90%	514.9	4.82	506.6
1999	5.90%	648.8	5.82	640.6
2000 ¹	6.90%	803.0	6.87	800.0
2001 ²	6.95%	885.3	6.94	884.6
2002	3.95%	543.2	3.40	468.1
2003	2.50%	358.2	0.94	134.1
2004	4.37%	635.2	4.33	629.0
2005 ³	6.70%	1,037.1	6.69	1,036.3
2006 ³	9.60%	1,604.7	9.57	1,599.0
2007	7.90%	1,450.0	7.51	1,378.4
2008	4.27%	848.7	4.16	826.8
2009 ⁴	0.70%	145.7	0.19	39.2
2010 ⁴	0.00%	0.0	-	-626.9
2011	Reduce fiscal 2012 structural deficit by 33⅓%		36.90%/46.00% ⁵	
2012	Reduce fiscal 2013 structural deficit by 50.0%		50.60%	
2013	Reduce fiscal 2014 structural deficit by \$200.0 million			-211.2
2014	4.00%	937.8	2.76	646.4
	Reduce fiscal 2015 structural deficit by \$125.0 million			-126.1

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<u>Session Year</u>	<u>Committee Recommendation</u>		<u>Legislative Action</u>	
	<u>Growth Rate</u>	<u>Amount</u>	<u>Growth</u>	<u>Amount</u>
2015	Reduce fiscal 2016 structural deficit by 50.0%		68.27%	
2016	4.85%	1,184.2	4.55	1,111.2
2017	Reduce fiscal 2018 structural deficit by at least 50.0%		90.19%	
2018	Eliminate 100% of the fiscal 2019 structural deficit		100%	
2019	3.75%	1,019.0	3.31	900.7
	Maintain structural balance in fiscal 2020			76.0 ⁶
2020	Maintain structural balance in fiscal 2021			160.2
2021	Limit fiscal 2022 structural deficit to \$700 million or less			63.0
2022	Maintain structural balance in fiscal 2023			276.0
2023	Structural surplus of \$100 million in fiscal 2024			146.0
2024	Limit fiscal 2025 structural deficit to \$508 million or less			483.1
2025	Eliminate 100% of the fiscal 2026 structural deficit		100%	

¹2000 legislative action does not reflect \$266 million of Cigarette Restitution Fund (CRF) appropriations. CRF dollars were excluded because it had not previously been available to the State. The 2000 growth rate, including CRF dollars, was 9.16%.

²Methodology revised effective with the 2001 session.

³The committee initially approved a limit of 5.70% for 2005 and 8.90% for 2006.

⁴Legislative action calculation includes federal funds under the American Recovery and Reinvestment Act of 2009 used in lieu of ongoing general fund spending.

⁵Spending reduction/total reduction.

⁶Amount reflects difference between the estimated structural deficit of \$64 million in the Governor's allowance and the structural surplus of \$12 million in the legislative appropriation.