
Analysis of Proposed Fiscal 2021 General Fund Reductions

**Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland**

June 30, 2020

Analysis of Proposed Fiscal 2021 General Fund Reductions

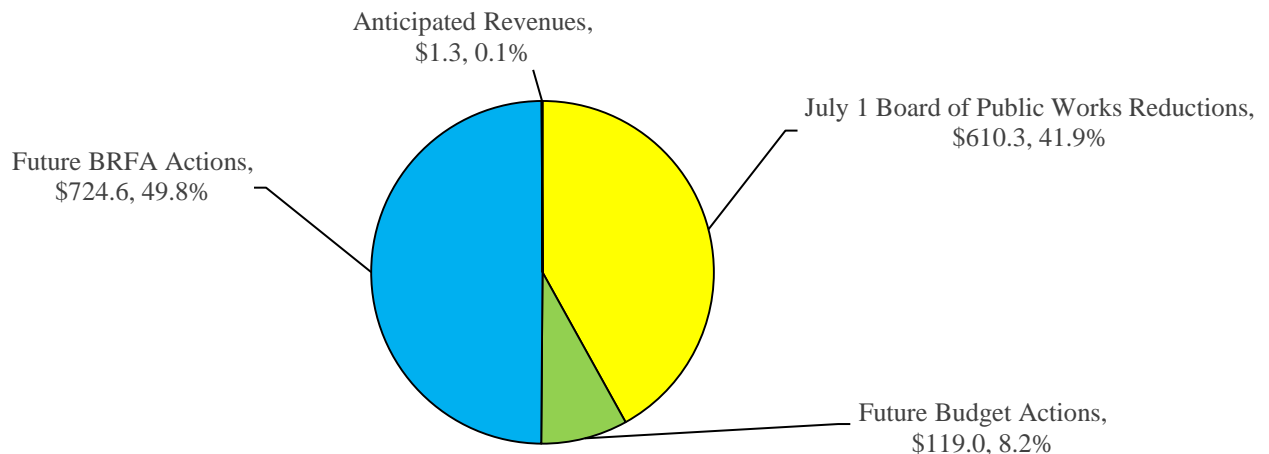
Overview

Summary of Actions

At the July 1, 2020 Board of Public Works (BPW) meeting, the Administration is presenting just over \$1.45 billion in proposed general fund spending reductions and \$1.3 million in anticipated revenues to help address the revenue losses currently being experienced by the State. As shown in **Exhibit 1**, the actions proposed by the Administration will occur at two separate times:

- \$610.3 million in proposed general fund budget reductions will be presented and acted upon by BPW on July 1, 2020, although it should be noted that \$35 million of these reductions in Medicaid require legislation to generate the special fund backfill; and
 - \$844.9 million in future actions, including \$724.6 million that will require legislation, \$119.0 million that can be effectuated in the fiscal 2022 budget, and \$1.3 million in revenue assumptions.
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Exhibit 1
Administration Adjustments to Fiscal 2021 Budget Plan
(\$ in Millions)



BRFA: Budget Reconciliation and Financing Act

Source: Department of Budget and Management; Department of Legislative Services

Additional detail on the timing of the proposed reductions and when specific reductions are planned to occur are shown in **Appendix 1**.

Analysis of Proposed Fiscal 2021 General Fund Reductions

Exhibit 2 lists the 20 largest reductions which account for almost \$1.3 billion of the total actions and identifies which items require legislative action.

Exhibit 2
General Fund Savings – Summary of Largest Items
(\$ in Millions)

| | <u>General Fund Savings</u> |
|--|-----------------------------|
| Education Aid – TBD* | \$200 |
| Salary Savings Includes Legislative/Judicial Reversions – No COLA and 3% FY 2021 Reduction via Furloughs or Temporary Salary Reduction** | 139 |
| Local Government Aid – TBD* | 130 |
| USM and Morgan State University – More than 8% Reduction | 126 |
| WMATA – No General Funds and Not Clear MDOT will Backfill* (BPW will cut \$28 million with remainder requiring legislation) | 125 |
| Fund Medicaid with Surplus Reinsurance Dollars from Individual Market* | 100 |
| No 4% Rate Increase for Behavioral Health, DDA, and Medicaid Providers** | 79 |
| Eliminate Most General Fund PAYGO | 72 |
| Retirement Reinvestment (\$75 million total funds) | 61 |
| Cade Community College Formula – Level Fund | 36 |
| Medicaid Deficit Hospital Assessment – Increase Assessment* | 35 |
| Employee and Retiree Health Insurance – Favorable Trends/Other Changes | 33 |
| Fund Balance from State Unemployment Insurance Fund (State Employees)* | 30 |
| Teachers’ Supplemental Grant – Eliminate Local Aid Program | 28 |
| Overtime – Change Rules | 20 |
| Fund Balances for Various Health Boards and Commissions* | 20 |
| Locals Share of State Department of Assessments and Taxation Operating Costs Increase from 50% to 90%* | 17 |
| DJS Operational Savings | 15 |
| Disparity Grant – Level Fund | 12 |
| Sellinger Formula – Level Fund | 11 |
| Other Actions | 166 |
| Total | \$1,455 |

BPW: Board of Public Works

COLA: cost-of-living adjustment

DDA: Developmental Disabilities Administration

DJS: Department of Juvenile Services

MDOT: Maryland Department of Transportation

PAYGO: pay-as-you-go

USM: University System of Maryland

WMATA: Washington Metropolitan Area Transit Authority

*Requires legislative action.

**Requires either legislative action or future BPW action.

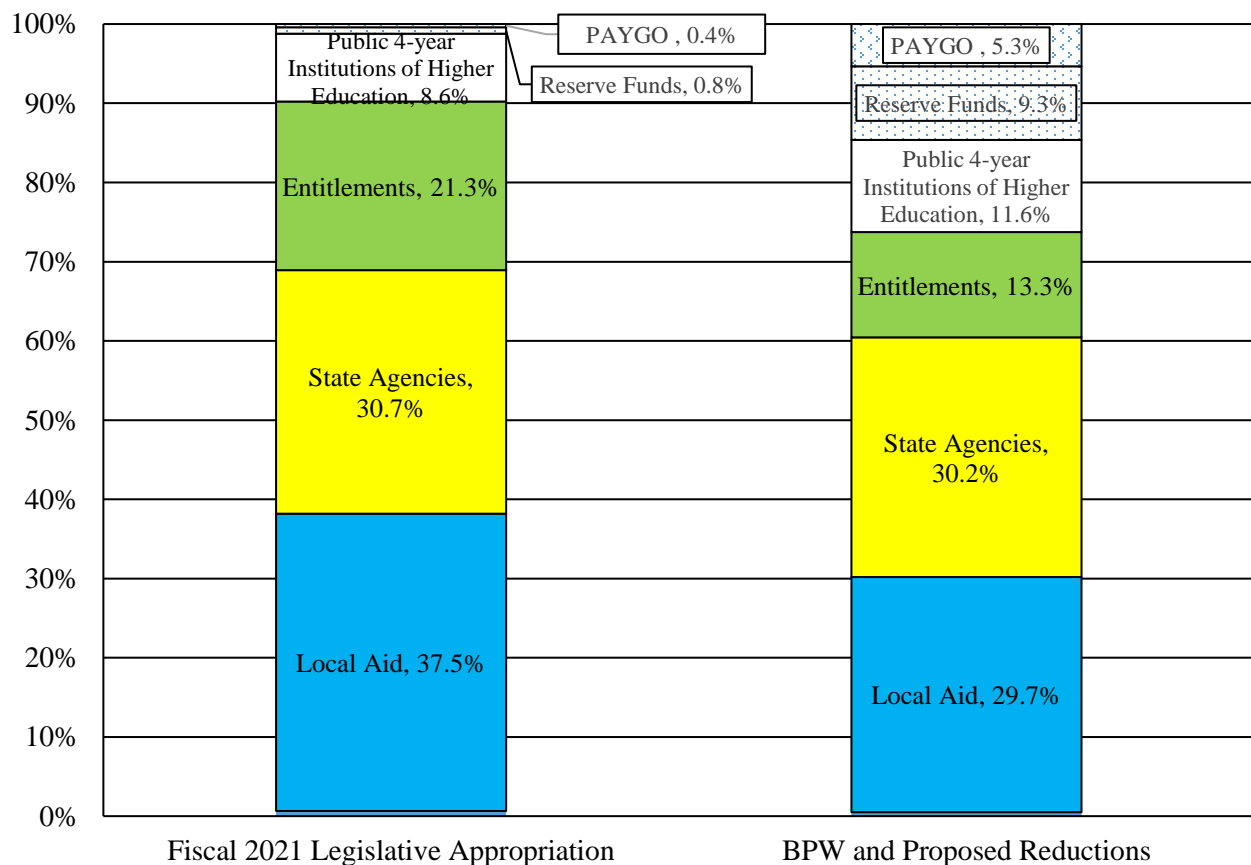
In addition to \$52.5 million in fund balance transfers from various special funds, at least \$165.6 million of the general fund reductions will be backfilled by special and federal funds, \$161.3 million and \$4.3 million respectively. Additionally, it is unclear to what extent the

Analysis of Proposed Fiscal 2021 General Fund Reductions

\$125.0 million general fund reduction to the grant to the Washington Metropolitan Areas Transit Authority (WMATA) will be backfilled from funding from the Transportation Trust Fund (TTF), or how much of the \$72.0 million reduction in pay-as-you-go (PAYGO) funds will be shifted to the general obligation capital program.

The reductions proposed by the Administration are 7.4% of the fiscal 2021 general fund appropriation. As shown in **Exhibit 3**, in comparison to the fiscal 2021 general fund appropriation, the cuts are disproportionately weighted toward certain areas of the budget. Specifically, reserve fund and PAYGO appropriations which consist of a combined 1.2% of the general fund budget, account for 14.6% of the proposed reductions, with each area of funding declining by close to or over 90%. Funding for public four-year institutions of higher education, which make up an estimated 8.6% of the general fund appropriation, accounts for 11.6% of the total reductions, while local aid, which sees the largest dollar reduction, accounts for 30% of the reductions but 38% of the overall general fund budget.

Exhibit 3
Fiscal 2021 Proposed Reductions Relative to Overall General Fund Budget



BPW: Board of Public Works
PAYGO: pay-as-you-go

Source: Department of Budget and Management; Department of Legislative Services

Analysis of Proposed Fiscal 2021 General Fund Reductions

Entitlement spending, accounting for 21.3% of the fiscal 2021 budget, accounts for only 13.3% of the general fund reductions. Further, as discussed in more detail below, that overstates the impact of the reductions in that a significant amount of the special fund backfills are in the entitlement area. That said, these reductions are primarily to provider rates, an area of specific concern to the General Assembly.

Fiscal Outlook

The combined \$1.455 billion of proposed balancing actions would make significant progress in closing the budget shortfall forecast for fiscal 2021. However, a budget gap of \$1.0 billion to \$1.6 billion remains depending on which of the two revenue estimates produced by the Board of Revenue Estimates (BRE) in May is utilized. The Department of Budget and Management (DBM) expects to close this gap with a combination of withdrawals from the Rainy Day Fund, federal Coronavirus Relief Funds (which can fund certain public health and police costs currently budgeted with general funds), and any additional federal funds made available by the U.S. Congress. This approach should prove adequate to close the fiscal 2021 deficit under either scenario. **Exhibit 4** shows the balancing strategy under BRE’s S2 revenue forecast, and which incorporates Department of Legislative Services’ estimates of increased entitlement costs. **Appendix 2** shows the outlook with BRE’s S4 scenario.

Without additional federal relief, the budget outlook for fiscal 2022 is bleak, with a gap of \$2.3 billion to \$4.0 billion depending on the assumed revenue scenario. This also assumes that all of the Administration’s adjustments to mandates in fiscal 2021 carry forward into fiscal 2022.

Exhibit 4
Budget Outlook under BRE S2 Scenario
Fiscal 2020-2022
(\$ in Millions)

| | <u>2020</u> | <u>2021</u> | <u>2022</u> |
|---|----------------|-----------------|-----------------|
| S2 Fiscal Effects Forecast | -\$498 | -\$2,429 | -\$3,780 |
| Proposed BPW Actions (7/1/2020) | | 610 | 525 * |
| Balance After BPW Actions | -\$498 | -\$1,819 | -\$3,255 |
| Additional Options | | | |
| BRFA/Other Administration Proposals | | \$844 | \$600 |
| Coronavirus Relief Fund | \$100 | 250 | |
| Enhanced Medicaid Match | 280 | TBD | |
| Additional Federal Money | | TBD | |
| Agency Reversions | 70 | | |
| Exhaust Rainy Day Fund | 48 | 725 | 379 |
| Other Fund Balance Transfers/Reductions | | TBD | TBD |
| Closing Fund Balance | \$0 | \$0 | -\$2,276 |
| Rainy Day Fund Balance | \$1,152 | \$379 | \$0 |

BPW: Board of Public Works BRE: Board of Revenue Estimates BRFA: Budget Reconciliation and Financing Act

*Assumes \$214 million of statutory changes to continue fiscal 2021 reductions to mandates in fiscal 2022.

Analysis of Proposed Fiscal 2021 General Fund Reductions

The Administration's plan leaves much work to the General Assembly during the 2021 session with a fiscal 2021 shortfall of about \$1.8 billion under the S2 revenue scenario after accounting for the proposed BPW actions. Delaying many of the most difficult decisions until session has the benefit of allowing further evaluation of State revenue performance and more time for Congress to provide additional federal relief. The disadvantage is, if more federal aid is not forthcoming, the General Assembly will be attempting to close a large budget gap with actions that will not go into effect until the final quarter of fiscal 2021, providing little planning time for entities that receive less funding. Given this uncertainty, State agencies, local government, and nonprofits receiving grants from the State will need to proceed cautiously with the spending plans for fiscal 2021.

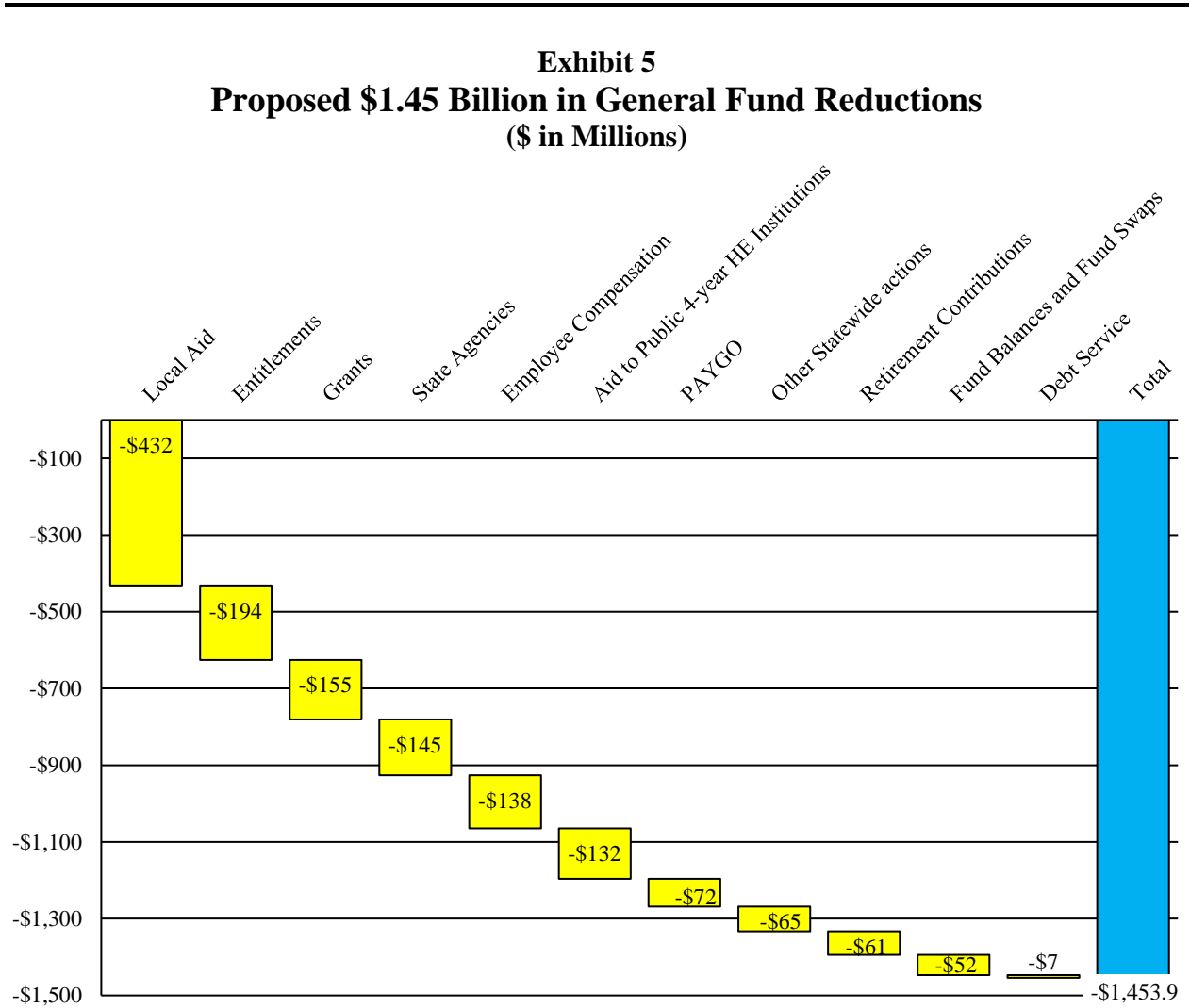
Summary of Issues

Key issues with in the Administration's balancing plan include:

- a lack of detail regarding how a significant amount of the proposed reductions will be allocated, including \$330 million in cuts to education and other local aid, in addition to not providing a plan for addressing significant special fund shortfalls in the Education Trust Fund and TTF. The lack of detail not only presents challenges to local governments and local education agencies in planning for reductions, but also leaves the potential for a significant amount of additional pressure to be placed on the General Fund that is not currently reflected in the fiscal outlook;
- proposed reductions to organizations that may have difficulty absorbing the cuts. Eliminating the rate increase for most health and foster care providers at a time when the minimum wage is increasing may create financial stress for those organizations. The plan to implement the health portion of the reduction through legislation also means that the entire savings, if approved by the General Assembly, would be applied in the fourth quarter of fiscal 2021. Similarly, small entities like the Baltimore Zoo and the Baltimore Symphony Orchestra (BSO) are already experiencing revenue losses due to COVID-19. These actions to more vulnerable organizations are proposed despite the availability of larger and potentially less harmful options. These options include transferring up to \$200 million in fund balance from the Local Income Tax Reserve Fund, backfilling or bonding \$140 million in special fund PAYGO funded with the transfer tax and shifting those revenues to the General Fund, or reducing funding to Medicaid Managed Care Organizations by \$10.5 million through a shift to the bottom of the actuarially allowed range;
- a reliance on actions repeatedly rejected by the General Assembly including raising the local share of State Department of Assessments and Taxation (SDAT) costs and transfers of balances from boards like the Maryland Community Health Resources Commission; and
- proposed reductions to K-12 education PAYGO programs (Healthy School and School Safety) that Counsel to the General Assembly advises are not constitutionally permissible.

Categories of Reductions

Exhibit 5 illustrates the proposed \$1.45 billion in general fund reductions by broad category of reduction.



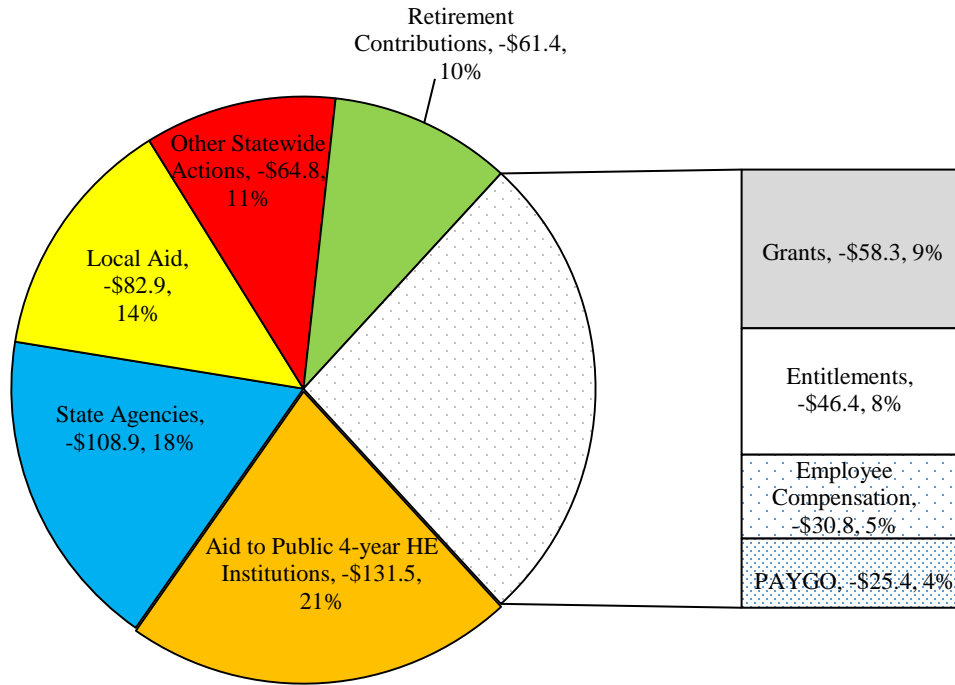
HE: higher education
PAYGO: pay-as-you-go

Note: Numbers may not sum due to rounding.

Source: Department of Budget and Management; Department of Legislative Services

As shown in **Exhibits 6** and **7**, the composition of the reductions varies quite significantly between BPW reductions and the proposed future reductions, in part due to restrictions placed on BPW's authority to limit appropriations. However, for the purpose of the discussion below, the reductions will be considered in their entirety.

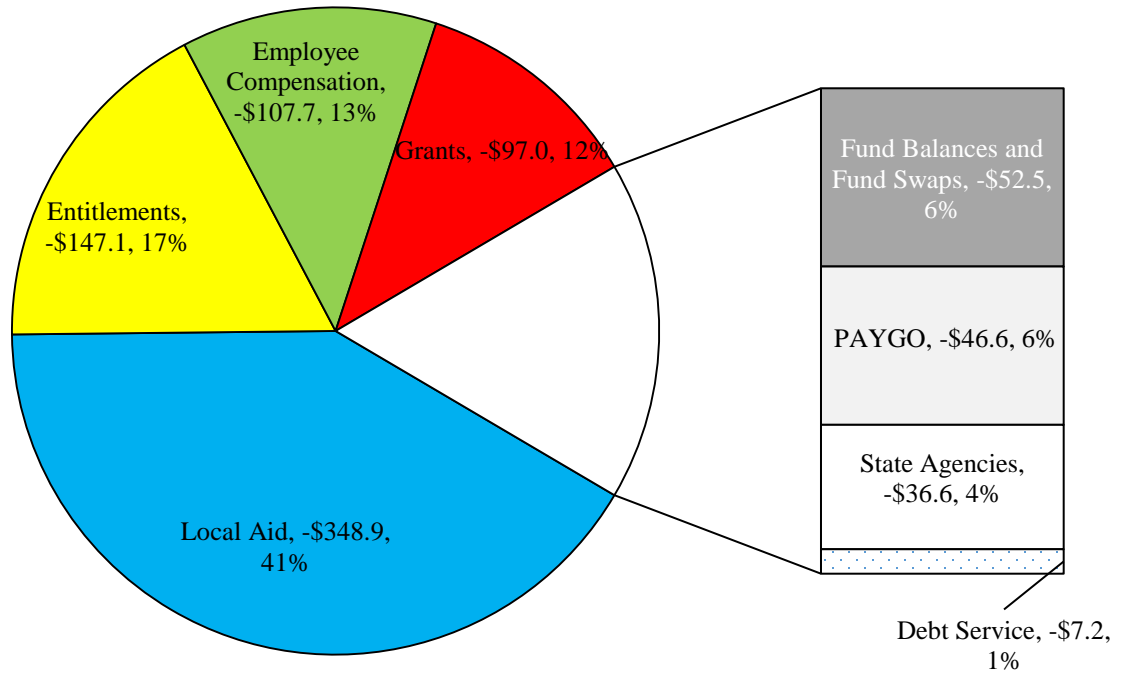
Exhibit 6
Composition of BPW Reductions
(\$ in Millions)



BPW: Board of Public Works
HE: higher education
PAYGO: pay-as-you-go

Source: Department of Budget and Management; Department of Legislative Services

Exhibit 7
Composition of \$843.6 Million in Future Budget and BRFA Reductions
 (\$ in Millions)



BRFA: Budget Reconciliation and Financing Act
 PAYGO: pay-as-you-go

Source: Department of Budget and Management; Department of Legislative Services

Local Aid

The largest impact of the proposed reductions, almost \$432 million, 29.7% is to local aid. However, of this amount, \$330.0 million in proposed reductions lack specificity: \$200 million in K-12 education cuts; and \$130 million in “unallocated” reductions. Thus, the precise impact on local jurisdictions is unknown.

Other significant local aid reductions include level funding the disparity grant (\$12.4 million), eliminating the Teacher Retirement Supplemental Grant (\$27.7 million), level funding the Cade formula for community colleges (\$36.4 million), and increasing the local share of certain costs in SDAT from 50% to 90% (\$16.8 million). Excluding the \$330.0 million of K-12

Analysis of Proposed Fiscal 2021 General Fund Reductions

education aid and unallocated reductions, the jurisdictional impact of the remaining \$101.8 million in reductions is shown in **Exhibit 8**.

Exhibit 8
Jurisdictional Impact of Selected Local Aid Reductions

| | Disparity Grant | Teacher Supplemental Retirement | Cade | SDAT* | Other | Total |
|----------------------|----------------------------|--|---------------------|---------------------|--------------------|----------------------|
| Allegany | | \$1,632,106 | \$827,254 | \$289,962 | \$104,503 | \$2,853,825 |
| Anne Arundel | | | 4,292,280 | 1,603,871 | 35,685 | 5,931,836 |
| Baltimore City | \$2,471,387 | 10,047,596 | | 1,690,348 | 197,059 | 14,406,390 |
| Baltimore County | | 3,000,000 | 6,343,963 | 2,162,334 | 1,059 | 11,507,356 |
| Calvert | | | 258,136 | 298,384 | 1,164 | 557,684 |
| Caroline | 114,091 | 685,108 | 212,836 | 109,784 | 21,430 | 1,143,249 |
| Carroll | | | 1,020,349 | 481,964 | 5,715 | 1,508,028 |
| Cecil | 341,164 | | 708,258 | 355,501 | 9,729 | 1,414,652 |
| Charles | | | 846,158 | 470,680 | 13,639 | 1,330,477 |
| Dorchester | 1,592,569 | 308,913 | 145,512 | 152,366 | 58,911 | 2,258,271 |
| Frederick | | | 1,776,726 | 674,463 | 14,281 | 2,465,470 |
| Garrett | | 406,400 | 320,464 | 210,856 | 170,015 | 1,107,735 |
| Harford | | | 1,794,441 | 731,294 | 8,690 | 2,534,425 |
| Howard | | | 3,301,048 | 813,021 | 8,053 | 4,122,122 |
| Kent | | | 59,172 | 88,737 | 11,059 | 158,968 |
| Montgomery | | | 6,266,662 | 2,484,082 | 20,240 | 8,770,984 |
| Prince George's | | 9,628,702 | 4,683,033 | 2,144,250 | 129,640 | 16,585,625 |
| Queen Anne's | | | 250,160 | 172,056 | 19,202 | 441,418 |
| Somerset | 520,600 | 381,999 | 135,706 | 347,488 | 47,712 | 1,433,505 |
| St. Mary's | | | 299,562 | 122,851 | 22,562 | 444,975 |
| Talbot | | | 226,646 | 140,828 | 1,059 | 368,533 |
| Washington | 5,721,037 | | 1,568,125 | 430,536 | 9,117 | 7,728,815 |
| Wicomico | 1,641,333 | 1,567,837 | 759,718 | 330,469 | 1,059 | 4,300,416 |
| Worcester | | | 296,890 | 453,873 | 50,644 | 801,407 |
| Multi-jurisdictional | | | | | 7,587,657 | 7,587,657 |
| Total | \$12,402,181 | \$27,658,661 | \$36,393,100 | \$16,760,000 | \$8,549,884 | \$101,763,826 |

SDAT: State Department of Assessments and Taxation

*Local payments to support SDAT administrative costs are not technically local aid but shown here since they reduce resources available to local governments.

Source: Department of Budget and Management; Department of Legislative Services

Entitlements

General Fund reductions to entitlements total \$193.5 million, all but \$3.1 million to Medicaid. However, \$136.7 million of the Medicaid reductions are backfilled by special funds: \$100.0 million available from the Maryland Health Benefit Exchange Fund derived from taxes on health insurers to pay for State costs associated with the State's 1332 waiver that established a reinsurance program to reduce premium costs of private health insurance on the Maryland Health Connection; \$35.0 million from an increase in the Medicaid Deficit Assessment supported through rates paid by insurers; and \$1.7 million in available Cigarette Restitution Fund support based on cuts to the grant to Statewide Academic Health Centers for cancer research (\$1.5 million) and the Southern Maryland Agricultural Development Commission (\$225,000).

The other major reductions to Medicaid are to provider rates, \$50.3 million, as is the \$3.1 million reduction to out-of-home provider rates in the Department of Human Services (DHS). The focus on provider rates in Medicaid is unsurprising as maintenance of effort requirements under the Families First Coronavirus Response Act, which authorized an enhanced federal match for certain Medicaid expenses during a Public Health Emergency declared by the U.S. Department of Health and Human Services, limit many other Medicaid actions.

Grants

There are \$155.5 million in general fund reductions to a variety of grants. The largest reductions are \$125.0 million to the general fund portion of the \$167.0 mandated capital grant to WMATA and \$10.6 million in grants to private institutions of higher education under the Sellinger program.

The reduction to the WMATA capital grant represents a significant reduction to the State's long-term commitment to fund improvements to the transit system in the Washington metropolitan region. At this time, the Administration has not offered an indication of if, or how, this reduction impacts the State's commitment to the system, including whether or not it will be backfilled by the TTF. Given that revenues to the TTF are also being reduced by the economic contraction associated with COVID-19, any backfilling would require a significant reordering of State transportation priorities.

The remaining cuts in grants are spread across multiple programs. It is worth noting that while cuts in many areas represent 10% of the original proposed grants, some are more substantial. For example, the BSO \$1.6 million grant is cut in its entirety, which will be more difficult for the BSO to absorb given the curtailment of its 2019-2020 concert season and considerable uncertainty over the extent to which it will be able to fulfill its 2020-2021 season. Similarly, the Baltimore Zoo, which was facing significant financial challenges and was forced to close in April though much of June due to COVID-19, is cut by \$606,000.

State Agencies

General fund reductions to State agencies (excluding statewide actions) total \$145.5 million. Reductions are mainly to agency operations, such as holding positions vacant, cutting contractual support, reducing travel, and aligning fiscal 2021 expenditures to fiscal 2020 actual spending levels.

Analysis of Proposed Fiscal 2021 General Fund Reductions

Some of the larger individual actions include elimination of provider rate increases for developmental disability providers and non-Medicaid behavioral health services (\$36.0 million), restructuring various major Information Technology Development Projects and reducing funding for cybersecurity initiatives (\$15.0 million), reducing critical maintenance projects (projects that are nearing the end of their useful life and need to be restored to get back to design effectiveness) and financing facility security enhancements in the Department of General Services (\$7.5 million), abolishing 91.8 vacant positions (\$7.4 million), aligning residential per diem spending in the Department of Juvenile Services to updated utilization projections (\$6.3 million), using fund balance to backfill a \$5.5 million reduction in the Heritage Structure Rehabilitation Tax Credit, savings from the transition from the Partnership Assessment for College and Career Readiness assessment (\$4.7 million), savings in information technology spending in DHS (\$4.0 million), and alignment of the Community College Promise Scholarship program to updated projections based on fiscal 2020 spending (\$3.5 million).

There is one agency, the new Alcohol and Tobacco Commission, for which dedicated fiscal 2021 funding is deleted in its entirety for a savings of \$0.9 million. The commission was created by Chapter 12 of 2019 by removing certain alcohol and tobacco oversight functions from the Comptroller of Maryland. Chapters 359 and 360 of 2020 deferred establishment until January 1, 2021, and authorized the transfer of other funding and position from the Comptroller at that time. The impact of eliminating the \$0.9 million on the ability of the commission to operate as a separate entity effective in January 2021 is unclear.

Employee Compensation

Savings from reductions in employee compensation total \$138.5 million in general funds. As shown in **Exhibit 9**, the largest area of savings is \$54.9 million from a temporary salary reduction for Executive Branch employees, excluding public four-year higher education institutions. At this point, there is no detail as to how the Administration intends to implement this reduction. However, the reduction represents a 3% salary savings applied over the full fiscal year.

Part of the proposed savings, \$12.2 million, assumes that the Judiciary and Legislative branches will adopt similar actions, or at least achieve similar levels of savings, to those taken by the Executive Branch.

Exhibit 9
Employee Compensation Reductions
(\$ in Millions)

| <u>Item</u> | <u>General Fund Savings</u> |
|--|-----------------------------|
| Temporary salary reduction (Executive Branch excluding public four-year higher education institutions)* | \$54.9 |
| State Employee 2% general salary increase effective January 1, 2021 | 48.2 |
| Temporary salary reduction (Judiciary \$10.0 million) and temporary salary reduction and 2% general salary increase effective January 1, 2021 (Legislature \$2.2 million) | 12.2 |
| Fiscal 2021 Annual Salary Review targeted increases for hard to recruit/retain positions including social workers, direct care workers, licensed practical nurses, teachers, pretrial investigators, laboratory scientists, and veterans benefit specialists | 11.7 |
| State Law Enforcement Officers Labor Alliance 4% general salary increase effective July 1, 2020 | 11.5 |
| Total | \$138.5 |

*Higher education institutions have the autonomy to implement furloughs and temporary salary reductions to offset reductions to their budgets.

Source: Department of Budget and Management; Department of Legislative Services

Public Four-year Institutions of Higher Education

State general fund support to public four-year institutions of higher education is reduced by \$131.5 million. This amount excludes \$18 million in statewide reductions, which are discussed further below. Reductions are allocated as shown in **Exhibit 10**.

As shown in the exhibit, taken together the reductions represent a significant change to the fiscal 2021 general fund appropriation, ranging from 8.4% for Baltimore City Community College (BCCC) to 9.9% for the University System of Maryland (USM). However, in comparison to the fiscal 2020 level of funding, Morgan State University actually sees a 3.5% increase while general fund support for St. Mary's College of Maryland is essentially flat, falling by only 0.6%. USM and BCCC experience more significant reductions, 5.4% and 8.5% respectively. BCCC's reduction compared to fiscal 2020 is larger because its fiscal 2021 appropriation fell in comparison to fiscal 2020.

Exhibit 10
**General Fund Reductions to Public Four-year Institutions of
Higher Education**

| | <u>Targeted Reductions</u> | <u>Statewide Adjustments</u> | <u>Total</u> | <u>Change Compared to Fiscal 2021 Appropriation</u> | <u>Change Compared to Fiscal 2020 Appropriation</u> |
|--------------|--------------------------------|----------------------------------|-----------------------|---|---|
| USM | -\$117,302,869 | -\$6,309,739 | -\$133,612,608 | -9.9% | -5.4% |
| MSU | -8,979,480 | -1,336,270 | -10,315,750 | -9.1% | 3.5% |
| SMCM | -2,054,502 | -240,151 | -2,294,653 | -9.7% | -0.6% |
| BCCC | -3,207,008 | -147,833 | -3,354,841 | -8.4% | -8.5% |
| Total | -\$131,543,859 | -\$18,033,993 | -\$149,577,852 | | |

BCCC: Baltimore City Community College

MSU: Morgan State University

SMCM: St. Mary's College of Maryland

USM: University System of Maryland

Note: At the time of writing, reductions by individual USM institution were not available.

Source: Department of Budget and Management; Department of Legislative Services

PAYGO

Exhibit 11 highlights that the proposed PAYGO reductions virtually eliminate fiscal 2021 general fund PAYGO appropriations.

Exhibit 11
Fiscal 2021 PAYGO Reductions and Remaining Appropriations

| <u>Project Title</u> | <u>Legislative Appropriation</u> | <u>Reductions</u> | <u>Adjusted Appropriation</u> |
|--|--------------------------------------|----------------------|-----------------------------------|
| MISC: Cal Ripken, Sr. Foundation Turf Field | \$500,000 | \$0 | \$500,000 |
| MISC: Boys and Girls Clubs of Metropolitan Baltimore Infrastructure | 250,000 | \$0 | \$250,000 |
| MISC: Maryland Alliance of Boys and Girls Clubs Safety and Security Enhancements | 250,000 | \$0 | \$250,000 |
| MISC: End Hunger Kitchen | 500,000 | \$0 | \$500,000 |
| IAC: Healthy School Facility Fund | 30,000,000 | -\$30,000,000 | \$0 |
| IAC: Public School Safety Grant Program | 10,000,000 | -\$10,000,000 | \$0 |
| IAC: Non-Public School Security Improvements | 3,500,000 | -\$3,500,000 | \$0 |
| MHEC: Community College Facilities Renewal Grant Program | 4,000,000 | -\$4,000,000 | \$0 |
| DHCD: Neighborhood Business Development Program | 500,000 | \$0 | \$500,000 |
| DHCD: Seed Community Development Anchor Institution Fund | 5,000,000 | -\$5,000,000 | \$0 |
| DHCD: National Capital Strategic Economic Development Fund | 7,000,000 | -\$7,000,000 | \$0 |
| DHCD: Rental Housing Programs | 12,000,000 | -\$12,000,000 | \$0 |
| MDE: Hazardous Substance Cleanup Program | 500,000 | -\$500,000 | \$0 |
| MDE: Comprehensive Flood Management Program | 200,000 | \$0 | \$200,000 |
| Total FY 2021 PAYGO General Funds | \$74,200,000 | -\$72,000,000 | \$2,200,000 |

Source: Department of Budget and Management; Department of Legislative Services

The reductions:

- eliminate PAYGO in programs that provide school facility improvement grants administered by the Maryland State Department of Education (MSDE), including the Healthy Schools Facility Fund that provides grants to public primary and secondary schools in the State to address facility problems that impact the health of students and staff, the Public School Safety Grant Program that provides grants to local school systems for security improvements, including secure and lockable doors for every classroom, an area of safe refuge in every classroom, and surveillance and other security technology for school monitoring purposes; and the Non-Public School Security Improvement Program;

Analysis of Proposed Fiscal 2021 General Fund Reductions

- leave only \$500,000 in PAYGO funding in the Department of Housing and Community Development for the Neighborhood Business Development Program while eliminating PAYGO funding for the Rental Housing program that provides loans to housing developers for the financing of affordable rental housing developments for low- and moderate-income households, the National Capital Strategic Economic Development Fund that offers financial assistance to specified government agencies, entities controlled by housing authorities, and community development organizations in the national capital region for community enhancement projects; and the Seed Community Development Anchor Institution Fund that provides strategic community investment grants for projects located near higher education and health care anchor institutions;
- eliminate PAYGO funding for the Community College Facilities Renewal Grant Program which provides grants administered by the Maryland Higher Education Commission for facility renewal projects at local community colleges and Baltimore City Community College; and
- preserve \$200,000 in PAYGO funding in the Maryland Department of the Environment for the Comprehensive Flood Management Program while cutting all funding from the Hazardous Substance Clean-up Program which supports site assessments and remediation of hazardous waste contaminated sites throughout the State.

Advice from counsel for the General Assembly has raised concern with the proposal to reduce the \$43.5 million in PAYGO funding for programs administered by MSDE, as these programs provide funding to make schools safe and healthy for learning, thereby making them constitutionally protected education aid. As such, any reductions to these programs would need to be enacted via legislation.

Other Statewide Actions

There are \$64.8 million in proposed additional statewide actions.

As shown in **Exhibit 12**, the largest reduction relates to State health insurance contributions, \$32.9 million, and reflects three separate items:

- \$21.0 million from excess fund balance due to lower than projected medical and dental expenditures as a result of COVID-19 restrictions on procedures;
- \$4.9 million from aligning the formulary used by retirees with the formulary used by employees. Specifically, under the CVS Pharmacy Benefit Manager contract used for prescription drug coverage by the State, when the State transitioned to CVS' formulary, retirees were allowed to keep their existing formulary. Savings are derived from anticipated additional rebates; and

Analysis of Proposed Fiscal 2021 General Fund Reductions

- \$7.0 million by truing up premiums for Exclusive Provider Organization (EPO) and Preferred Provider Organization (PPO) plans. The State has been able to keep employee/retiree premiums flat for several years by providing additional subsidies into the health account, which offset the premium growth necessary to keep pace with expenditures. As a result, the State is paying more than the agreed upon cost share for EPO (85/15) and PPO (80/20). The true up would enforce these agreed upon splits, which will increase employee/retiree contributions for the calendar 2021 plan year.

Exhibit 12
Statewide Reductions

| | |
|--|----------------------|
| Health Insurance Reduction | -\$32,890,041 |
| Overtime Reduction | -19,598,349 |
| Unemployment Insurance Reduction | -9,313,189 |
| DoIT Enterprise and IT Salary Reductions | -2,957,739 |
| Total | -\$64,759,317 |

DoIT: Department of Information Technology
IT: information technology

Source: Department of Budget and Management; Department of Legislative Services

Savings in overtime (\$19.6 million) are derived by enforcing, effective July 1, 2020, a policy that paid leave will no longer be treated as work time for the purposes of triggering overtime compensation. The State's current policies allow for an employee to use accrued leave during a normal work week and have that count as work time in regards to determining overtime compensation. The savings result from fewer employees earning overtime compensation, since overtime will only be earned in pay periods where an employee works the required number of hours.

The unemployment insurance reduction is taken as the State has a significant surplus in the special fund account it uses to pay unemployment insurance claims filed by State workers.

Retirement Contributions

The \$61.4 million savings in retirement contributions is the general fund share of the \$75.0 million supplemental retirement contribution. This contribution is above the State's actuarially required contribution which was included in the fiscal 2021 budget, and there is no reduction to the required contribution.

Fund Balance Transfers and Fund Swaps

A total of \$52.5 million in fund balance transfers and fund balance swaps are identified in addition to those already identified under various other categories of reductions and are listed in

Analysis of Proposed Fiscal 2021 General Fund Reductions

Exhibit 13. The largest transfer is \$30.0 million from the State Employee Unemployment Insurance Trust Fund. The State is self-insured for unemployment insurance and has built up a surplus in the program. This \$30.0 million fund balance transfer is in addition to statewide reductions in unemployment insurance expenditures noted above. According to DBM, the fund retains sufficient balance to cover costs associated with the State’s unemployment claims.

**Exhibit 13
Fund Balance Transfers and Fund Swaps**

Fund Source

| | |
|--|---------------------|
| Unemployment Insurance Trust Fund | \$30,000,000 |
| Maryland Board of Physicians Fund | 5,000,000 |
| Waiting List Equity Fund | 5,000,000 |
| Maryland Medical Cannabis Commission | 4,000,000 |
| Community Health Resources Commission | 4,000,000 |
| Maryland Correctional Enterprises | 2,000,000 |
| Board of Professional Counselors and Therapists Fund | 1,500,000 |
| Board of Pharmacy Fund | 500,000 |
| Cord Blood Transplant Program fund balance | 250,001 |
| Integrated Care Network fund balance | 216,845 |
| Total | \$52,466,846 |

Source: Department of Budget and Management; Department of Legislative Services

A preliminary analysis of the special fund balances from various other programs listed in Exhibit 13 indicates that there is adequate available funding to implement these actions. It should be noted that the \$5.0 million reduction from the Waiting List Equity Fund may prevent appropriate investments into community-based care, and the \$4.0 million reduction to the Community Health Resources Commission (CHRC) will limit CHRC’s ability to make grants to health care providers. However, the CHRC was recently provided with \$1.5 million in federal CARES Act funding for COVID-19 specific grants and has awarded \$1.3 million of that funding, somewhat offsetting the impact of this reduction.

Debt Service

The smallest reduction, \$7.2 million, is to general fund debt service support to reflect additional revenues into the Annuity Bond Fund from the sale of one helicopter (\$6.0 million) and a fixed wing aircraft (\$1.2 million). The sale of the helicopter is also associated with \$1.3 million in operational savings from the closure of one base operated by the aviation division in the Department of State Police (DSP).

Analysis of Proposed Fiscal 2021 General Fund Reductions

It should be noted that at this time DSP is unable to identify which Maryland State Police Aviation Command (MSPAC) base is to be closed, or where this aircraft is stationed. The impact on response times and service coverage therefore also remains unknown. DSP is unable to explain how it will reduce MSPAC's operational capacity while maintaining adequate service coverage. During the 2020 session, for example, legislators expressed concern regarding MSPAC's limited operational capacity, particularly at the Trooper 5 base in Cumberland.

Summary

In addition to specific concerns raised as part of the general discussion noted above, three other broad points can be made about the proposed reductions.

- The lack of specificity surrounding a significant amount of the proposed reductions. In some cases, most notably the \$200.0 million in K-12 education aid and \$130.0 million in unallocated local aid, these reductions are simply indicative of areas where the Administration intends to cut. Without knowing what specific cuts are proposed, however, local jurisdictions will be uncertain as to how to plan for what is already going to be a fraught budget year. In other cases, the impact of an action is unknown and may have ramifications for other programs that are not specifically included in the proposed reduction list, for example, the implementation of the \$125.0 million reduction to the WMATA grant.
- As noted earlier, the proposed reductions are split between those that would be implemented immediately by BPW on July 1, 2020, and those proposed to be implemented through subsequent budget action or a BRFA. As noted, in part this reflects restrictions over the statutory authority of BPW to implement reductions. However, it does mean that local governments and provider groups in particular, if those reductions are approved by the General Assembly, may potentially have to absorb reductions in the last quarter of the fiscal year. For example, providers will be receive a 4% rate increase on July 1, 2020, but potentially would see a 16% rate reduction in the last quarter of fiscal 2021 in order to yield the full value of an annual 4% rate reduction. In an environment where the delivery of health and community-based services is already uncertain, this could result in even larger cash-flow concerns toward the end of the fiscal year.
- Finally, many of the reductions are specifically targeted at budget priorities identified by the legislature during the 2020 session, and in many cases the reductions are even deeper than those proposed by the Governor and rejected by the General Assembly during session. For example, rate increases of 4% for developmental disability, behavioral health, and a variety of Medicaid providers that relate to the gradual increase in the State's minimum wage, are eliminated after a 2% rate cut was restored during session. Similarly, a partial reduction to the increase in mandated funding for community colleges was restored during session but is being cut entirely in this proposal. Again, the proposal to shift certain costs of SDAT to the locals that was rejected during session is quadrupled in the proposed reductions. Even relatively small restorations to mandated funding for the City of Annapolis and the Maryland Public Broadcasting Commission (already seeing reductions in member contributions due to the worsening economy) are cut back to levels originally proposed by the Administration during session.

Appendix 1 Timeline for Proposed Reduction

| | | |
|---|----------------|-----------------------|
| Reductions to be taken by BPW July 1, 2020 | | -\$610,331,650 |
| Reductions that may be implemented prior to 2021 Session but will be reflected in Fiscal 2022 Budget Bill | | -\$119,008,265 |
| Employee Compensation | | |
| Temporary salary reduction (equivalent to 3% for full fiscal year) | -\$66,523,377 | |
| Reduction of fiscal 2021 general salary increase (2% effective January 1, 2021) | -41,144,888 | |
| Subtotal | | -\$107,668,265 |
| Provider Rates | | |
| Physician evaluation and management fees | -\$4,140,000 | |
| Subtotal | | -\$4,140,000 |
| Public Debt | | |
| Use proceeds from helicopter/aircraft sales to reduce general fund support for debt service | -\$7,200,000 | |
| Subtotal | | -\$7,200,000 |
| Actions that Require Legislative Approval (BRFA) | | -\$724,561,256 |
| Education and Library Aid | | |
| Reduce K-12 education aid | -\$200,000,000 | |
| Align funding for Next Generation Scholars of Maryland program with actual spending | -1,000,000 | |
| Align funding for the Public School Opportunities Enhancement Program with actual spending | -500,000 | |
| Eliminate Robotics Program | -350,000 | |
| Reduce funding for expanded hours for the Enoch Pratt Free Library | -300,000 | |
| Subtotal | | -\$202,150,000 |
| Fund Balance Transfers to General Fund and Fund Swaps | | |
| Transfer reinsurance funding from the Maryland Health Benefit Exchange | -\$100,000,000 | |
| Transfer surplus from the State Employees Unemployment Insurance Trust Fund to the General Fund | -30,000,000 | |
| Maryland Board of Physicians | -5,000,000 | |
| Waiting List Equity Fund | -5,000,000 | |
| Maryland Medical Cannabis Commission | -4,000,000 | |
| Community Health Resources Commission | -4,000,000 | |
| Transfer surplus from Maryland Correctional Enterprise to General Fund | -2,000,000 | |
| Board of Professional Counselors and Therapists | -1,500,000 | |
| Board of Pharmacy | -500,000 | |
| Authorize use of remaining special fund balance from the Cord Blood Transplant Program for the Maternal and Child Health Surveillance | -250,001 | |
| Integrated Care Network | -216,845 | |
| Subtotal | | -\$152,466,846 |

| | | |
|--|----------------|-------------------------|
| Other Local Aid | | |
| Unallocated reduction | -\$130,000,000 | |
| Modify the State/Local cost share for certain spending in the State Department of Assessments and Taxation from 50/50 to 10/90 | -16,760,000 | |
| Subtotal | | -\$146,760,000 |
| State Reserve Fund | | |
| Grant to Washington Metropolitan Area Transit Authority | -97,000,000 | |
| Subtotal | | -\$97,000,000 |
| Provider Rates | | |
| Medicaid | -\$30,212,402 | |
| Developmental Disabilities | -26,507,537 | |
| Behavioral Health | -22,203,423 | |
| Subtotal | | -\$78,923,362 |
| PAYGO | | |
| Maryland State Department of Education | | |
| Healthy School Facilities Fund | -\$21,000,000 | |
| Nonpublic School Safety | -3,000,000 | |
| Public School Safety | -8,000,000 | |
| Department of Housing and Community Development | | |
| National Capital Strategic Economic Development Fund | -4,000,000 | |
| Rental Housing | -7,600,000 | |
| SEED | -3,000,000 | |
| Subtotal | | -\$46,600,000 |
| Other | | |
| Reduce remaining fiscal 2021 funding for the Alcohol and Tobacco Commission | -\$661,048 | |
| Subtotal | | -\$661,048 |
| Total | | -\$1,453,901,171 |

BPW: Board of Public Works
BRFA: Budget Reconciliation and Financing Act
PAYGO: pay-as-you-go
SEED: School for Education Evolution and Development

Note: \$35.0 million of the July 1, 2020 BPW reductions require approval of an action in the BRFA.

Source: Department of Budget and Management; Department of Legislative Services

Appendix 2
Budget Outlook under BRE S4 Scenario
Fiscal 2020-2022
(\$ in Millions)

| | <u>2020</u> | <u>2021</u> | <u>2022</u> |
|---|---------------|-----------------|-----------------|
| S4 Fiscal Effects Forecast | -\$700 | -\$3,033 | -\$5,168 |
| Proposed BPW Actions (7/1/2020) | | 610 | 525 * |
| Balance After BPW | -\$700 | -\$2,423 | -\$4,643 |
| Additional Options | | | |
| BRFA/Other Administration Proposals | | \$844 | \$600 |
| Coronavirus Relief Fund | \$100 | 250 | |
| Enhanced Medicaid Match | 280 | TBD | |
| Additional Federal Money | | TBD | |
| Agency Reversions | 70 | | |
| Exhaust Rainy Day Fund | 250 | 902 | |
| Other Fund Balance Transfers/Reductions | | TBD | TBD |
| Closing Fund Balance | \$0 | -\$427 | -\$4,043 |
| Rainy Day Fund Balance | \$902 | \$0 | \$0 |

BRE: Board of Revenue Estimates
BPW: Board of Public Works
BRFA: Budget Reconciliation and Financing Act

*Assumes \$214 million of statutory changes to continue fiscal 2021 reductions to mandates in fiscal 2022.