

# Quick Look at Fiscal 2022 Budget

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## Budget Growth Fiscal 2021-2022 (\$ in Millions)

	<u>2021 Plan</u>	<u>2022 Plan</u>	<u>\$ Change</u>	<u>% Change</u>
All Funds	\$50,460	\$49,351	-\$1,109	-2.2%
General Funds	18,757	20,064	1,307	7.0%
Special Funds*	14,670	13,908	-762	-5.2%
Federal Funds	17,033	15,379	-1,654	-9.7%

\*Includes higher education funds.

- The Governor's spending plan leaves a closing balance of \$264.4 million at the end of fiscal 2021 and \$191.8 million at the end of fiscal 2022. The Rainy Day Fund ends fiscal 2022 with a balance of \$991 million (5.0% of general fund revenues). Combined cash balances at the close of fiscal 2022 of \$1.2 billion represent about 6.0% of general fund revenues.
- Overall spending declines in fiscal 2022 as temporary federal Coronavirus Aid, Relief, and Economic Security (CARES) Act funding is exhausted and federal Supplemental Nutrition Assistance Program (SNAP) expenditures decline as the economy recovers and benefit enhancements expire. **No funds from the December federal COVID Relief Act are reflected in the budget.**
- The Administration's plan accounts for \$617 million of general fund tax relief in fiscal 2021 and \$52 million in fiscal 2022.
  - The proposed RELIEF Act of 2021 provides stimulus payments to lower income households and targeted tax relief for households and businesses.
  - Other administration proposals expand the Research and Development Tax Credit and offer tax relief for military retirees and Hometown Heroes.
  - Beginning in fiscal 2023, the Governor proposes phasing-out the income tax on retirement income.
  - Ongoing revenue losses from the proposals will grow to \$401 million in fiscal 2026.

**General Fund Impact of Administration Tax Relief Proposals**  
**Fiscal 2021-2022**  
**(\$ in Millions)**

	<u>2021</u>	<u>2022</u>
<b>RELIEF Act</b>		
Repeal State and Local Income Taxes on Unemployment Benefits	-\$50.0	-\$20.0
Stimulus Payments for Earned Income Tax Credit Recipients of Up to \$750 (families)/\$450 (individual)	-266.7	
Sales Tax Vendor Credit of Up to \$3,000 for Four Months	-300.0	
<b>Other Tax Changes</b>		
Military Retirement Income		\$-18.4
Hometown Heroes		-6.8
Expand Research and Development Tax Credit		-6.5
Phase-out Income Tax on Retirement Income (Begins in FY 2023)		
<b>Total Revenue Loss</b>	<b>-\$616.7</b>	<b>-\$51.7</b>

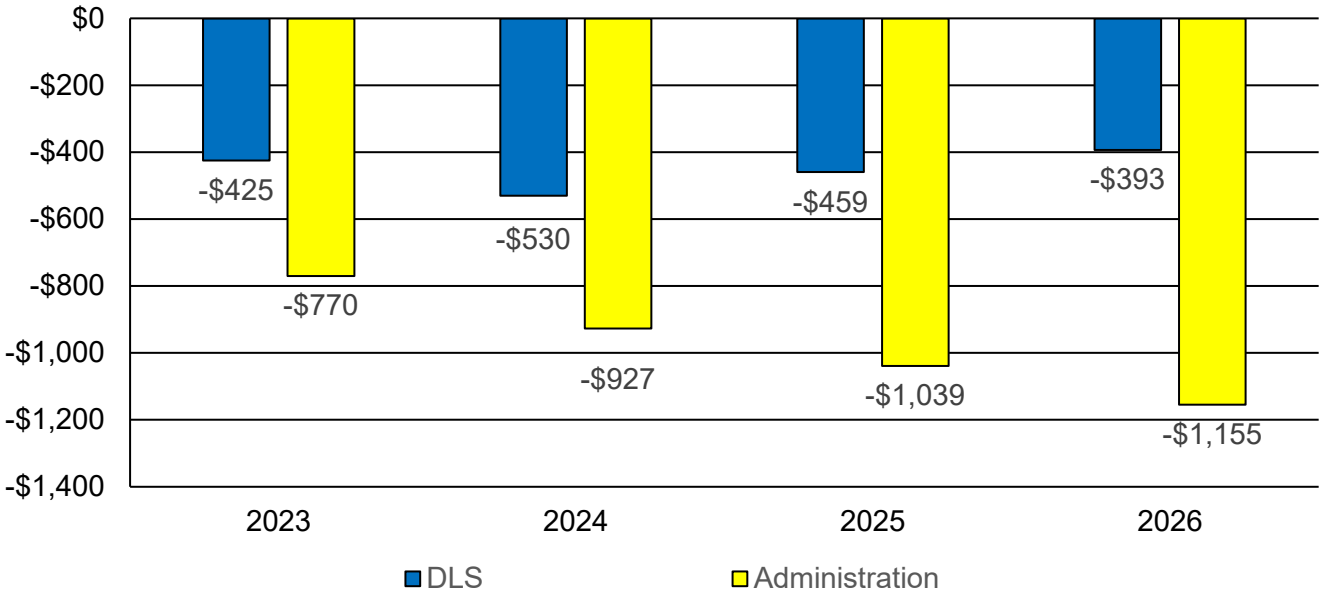
- The Administration's balancing plan rests on a Budget Reconciliation and Financing Act (BRFA) that reduces general fund spending by \$826 million and generates \$224 million of revenue.

**Budget Balancing Plan**  
**Fiscal 2021-2022**  
**(\$ in Millions)**

<b>Fiscal 2022 Ending Balance Before Legislation</b>	<b>-\$189</b>
RELIEF Act	-637
Other Targeted Tax Relief Bills	-32
Budget Reconciliation and Financing Act	1,050
Spending Reductions = \$826 M	
Rainy Day Fund (\$422 M)	
Health Exchange Reinsurance Fund to Support Medicaid (\$200 M)	
Transfers/Revenues = \$224 M	
Transfer Tax Diversion (\$101 M)	
No Revenue Volatility Set-Aside (\$80 M)	
<b>Fiscal 2022 Ending Balance With Legislation</b>	<b>\$192</b>

- With a structural budget gap of about \$76 million, the budget adheres to the Spending Affordability Committee (SAC) goal of a gap of no more than \$700 million.
- The Administration's structural budget forecast is substantially worse than the Department of Legislative Services' estimate due to the expectation of much higher local aid and State agency spending in the out-years.

**Structural Budget Outlook**  
**DLS and Administration Estimates**  
**Fiscal 2023-2026**  
**(\$ in Millions)**



DLS: Department of Legislative Services

**Other Key Features**

- K-12 education formulas are fully funded with an additional \$213.6 million of discretionary Blueprint funds allocated to hold school systems harmless for enrollment declines and for special education transportation costs. Another \$151.6 million of Blueprint funds are allocated to supplemental instruction and tutoring.
- \$174.9 million of Blueprint funds are allocated to offset a shortfall in Education Trust Fund revenues in fiscal 2020 and 2021.
- Rates for most health care providers, including those serving the developmentally disabled and people with behavioral health needs, increase 4.0% effective January 2021, six months sooner than required by statute.
- Monthly Temporary Cash Assistance benefits are increased by \$100 per recipient for the period of January 2021 to June 2021.

- With the exception of community college aid and a grant to the City of Annapolis, all local aid mandates are fully funded. Community college aid is capped at 5.5% growth, saving the State \$26.6 million while providing the schools with a \$13.6 million increase. Under the Administration plan, local governments would pay a larger share of State Department of Assessments and Taxation administrative costs.
- Tuition for in-state students at the University System of Maryland grows 2.0%.
- Aid to non-public higher education institutions is level funded, saving \$29.8 million.
- No funds are included in the budget for a general salary increase or increments for State employees. The Administration has agreed to provide some bargaining units with a \$500 bonus and a 1% salary increase in fiscal 2022 if fiscal 2021 revenues exceed the December revenue estimate by specified amounts.
- Capital spending from general obligation (GO) bonds is funded at the SAC recommended level of \$1,105 million. The bond authorization is supplemented by \$244 million of bond premium revenues, including \$125 million to fund a portion of a mandated capital grant to the Washington Metropolitan Area Transit Authority (WMATA).
- \$100.6 million of transfer tax revenues are diverted to the general fund with GO bonds used to backfill funding for Program Open Space and related programs.
- The budget dedicates \$313.1 million to school facility needs, including \$13.5 million for school safety grants. The Governor also anticipates issuing \$520 million of revenue bonds contingent on enactment of school construction legislation.

### **Potential Legislative Issues**

- The appropriate level of cash reserves to maintain given uncertainty about the near term revenue outlook.
- How to spend new federal stimulus funding. The allowance does not contain any of the federal funding from the December COVID-19 Relief Act (about \$1.4 billion should ultimately be added) and makes no assumptions about future federal stimulus funding.
- Veto overrides, including the Kirwan legislation. Overriding the Kirwan veto will not impact the fiscal 2022 budget but would increase general fund spending by fiscal 2026.

- The best uses of a \$200 million fiscal 2021 deficiency appropriation for unspecified COVID-19 costs.
- Whether to proceed with the repayment of prior transfer tax diversions and whether to fully backfill the proposed \$100.6 million fiscal 2022 diversion with bonds in the fiscal 2022 budget.
- The implications of the Administration's plan to divert \$100 million a year from the Maryland Health Benefit Exchange reinsurance fund to support Medicaid costs from fiscal 2021 through 2026.
- The plan to fund a mandated capital grant to WMATA with revenues from bond premiums rather than the Transportation Trust Fund.
- Cigarette Restitution Funds allocated to Broadening Options and Opportunities for Students grow by \$2.6 million to \$10.0 million.
- Whether to pursue recovery of fiscal 2020 overpayments to behavioral health providers of more than \$163 million. No recovery is assumed in budget but the Maryland Department of Health indicates recoupment is planned.
- No capital funds are earmarked for legislative bond initiatives.