

Maryland's New Budget Process

*And how advocates can make
their voices heard*

*Rigorous
Independent
Shared Prosperity*

Benjamin Orr
Founder, President & CEO
Nonprofits Montgomery
September 7th, 2022



**Every Marylander should
be able to achieve their full
potential in a healthy
economy that offers a
widely shared, rising
standard of living**

National Networks – Local Impact



THE ANNIE E. CASEY
FOUNDATION



Nonprofit Professional
Employees Union

Economic
Policy
Institute



Recent Campaigns & Coalitions

**MARYLAND
CAMPAIGN
FOR EARNED
SICK DAYS**



**MARYLAND FIGHT
FOR
\$15**



**Court Extends
Maryland
Unemployment
Benefits To
September**

**Time to
Care**

**BLUEPRINT
for Maryland's
FUTURE**

Why Do We Call Maryland's Budget A Moral Document?

Fiscal Policy Is a Matter of Justice



Our Fiscal Policy Choices Affect Children's Education



Our Fiscal Policy Choices Affect Families' Economic Security



Our Fiscal Policy Choices Affect Public Health and Safety

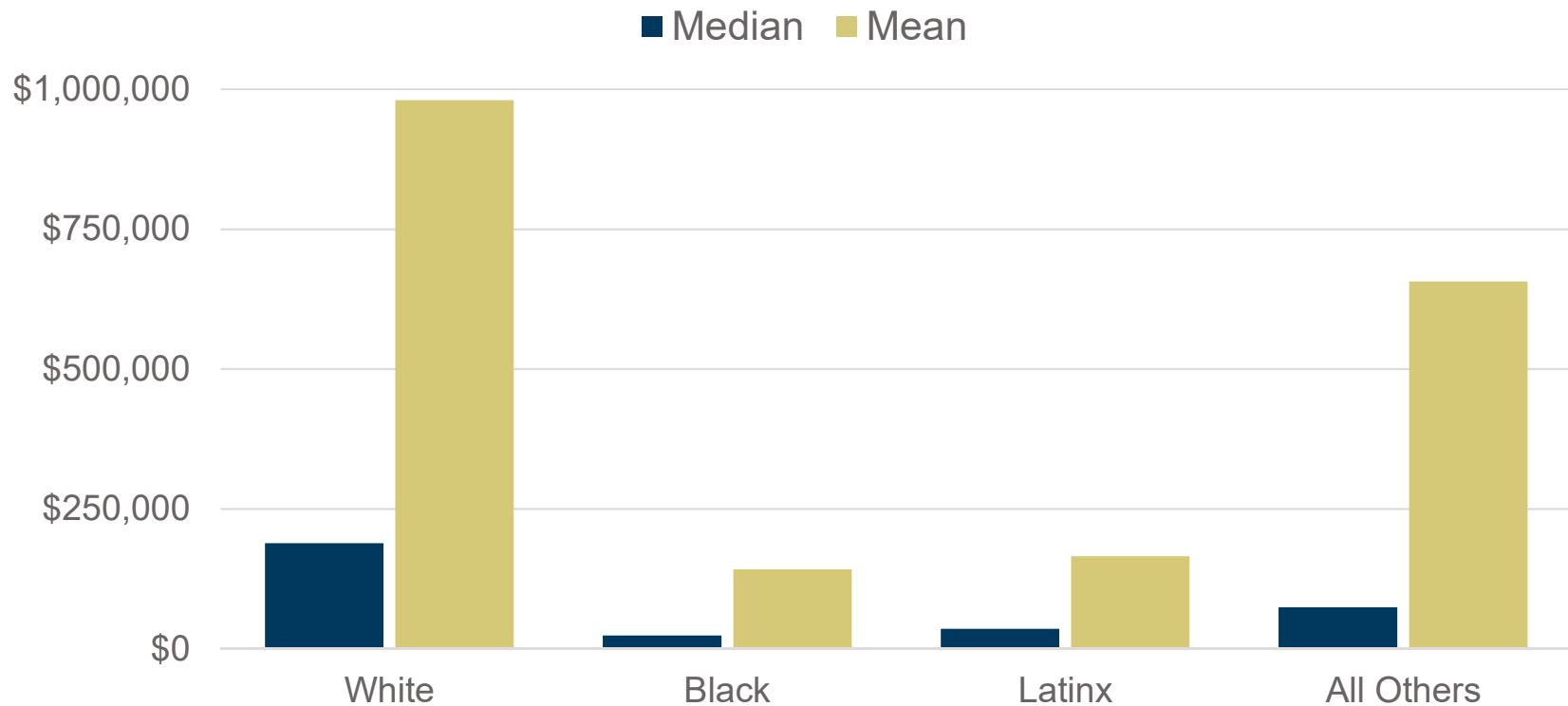


They Can Guide Us Toward Shared Prosperity and Opportunity...



Or They Can Guide Us Toward Concentrated Wealth and Power

Net Worth by Race/Ethnicity (2019, Nationwide)



Source: Federal Reserve Board, 2019 Survey of Consumer Finances.

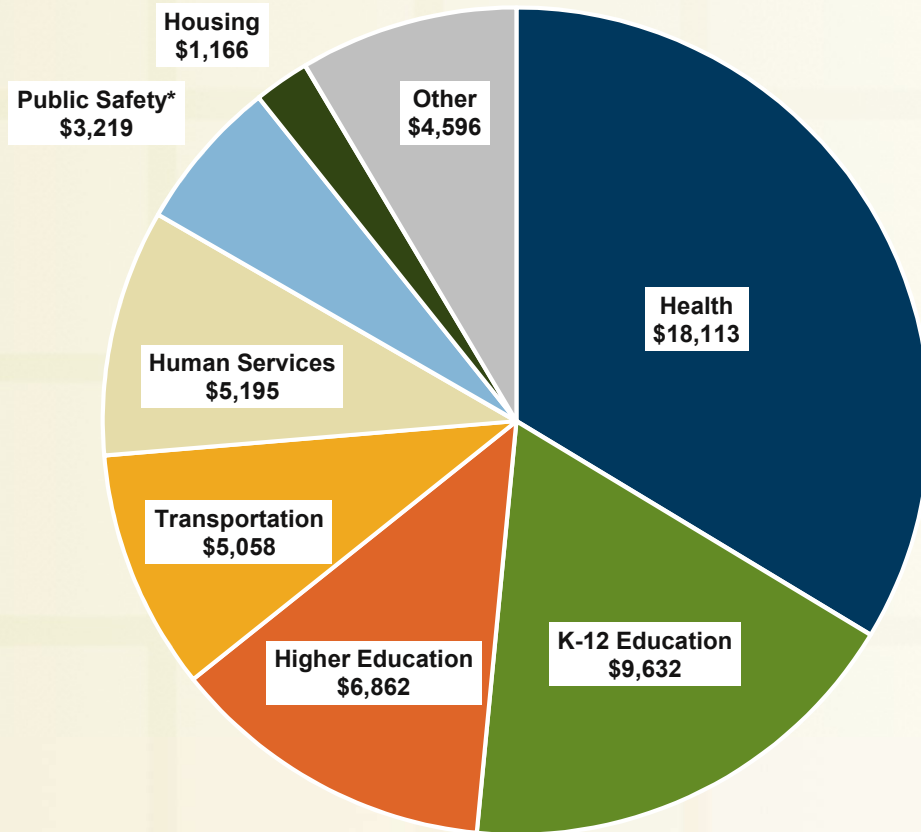
Note: White, Black, and “All Others” groups exclude Latinx families. Data are not disaggregated for other racial/ethnic groups because of insufficient sample size.

What Fiscal Choices Have We Made?



Maryland Budget 101

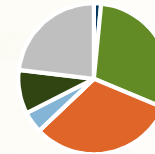
Operating Budget (FY21 Actual):
\$54 billion



Doing Things

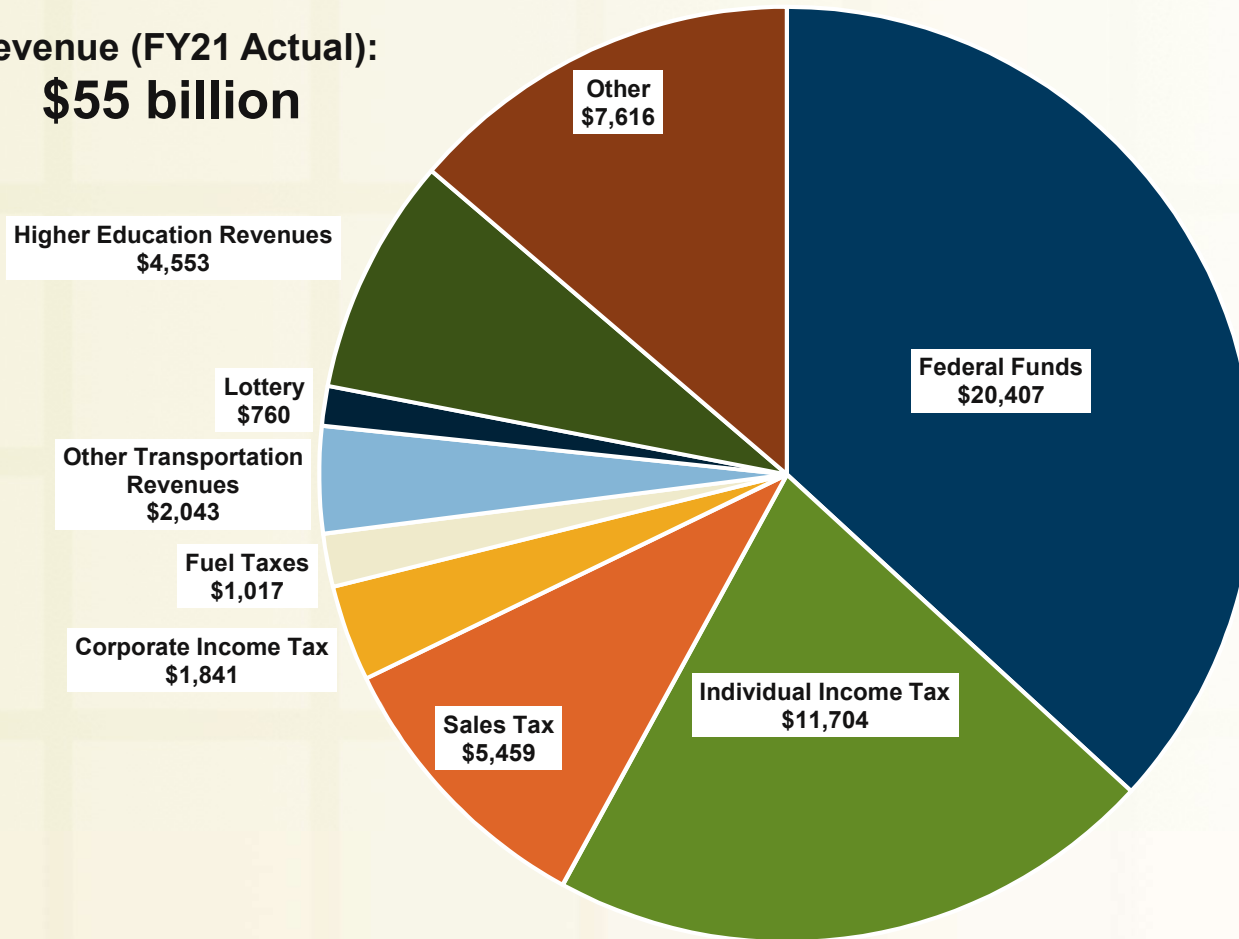
Building Things

Capital Budget (FY21 Adopted):
\$1.2 billion



Maryland Budget 101

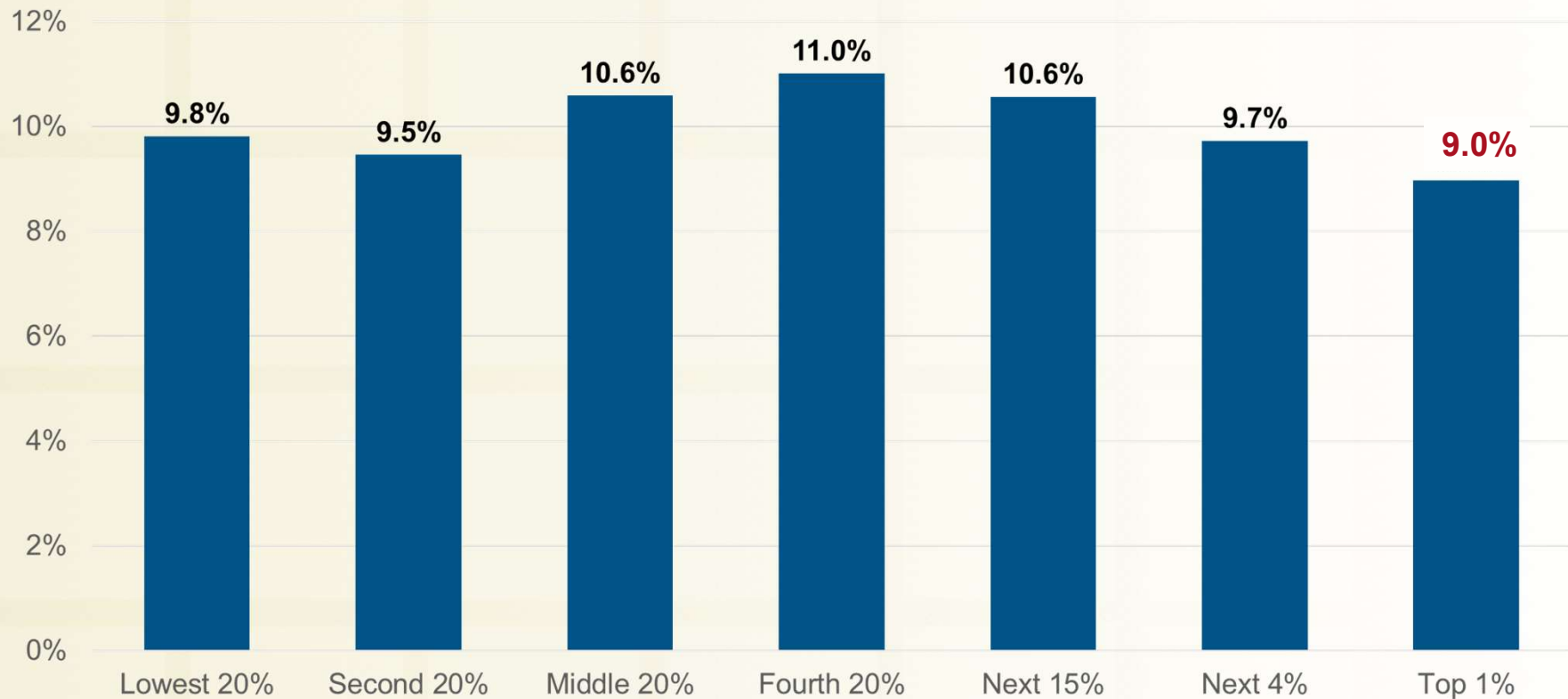
Revenue (FY21 Actual):
\$55 billion



Major Budget Developments

- **Blueprint for Maryland's Future**
 - Major step forward for public education, equity
 - Implementation begins in earnest this year
 - Dedicated revenues, dedicated savings fully cover costs for next several years
 - Eventually will require GF contribution
- **Pandemic & Federal Aid**
 - \$11.9b S&L aid through ARPA
 - \$3.7b direct to state
 - ARPA economic, tax boost
 - Pandemic continues to increase needs, challenge performance
- **State Agency Staffing**
 - FY23 total executive branch staffing: 48,300
 - +85 from FY 2022
 - -2,800 from FY 2015!
 - High vacancies
 - Impact on services: UI, DORS
- **Inflation Reduction Act**
 - Much more modest than BBB, in general and for state & local government
 - Opportunities for new climate investments
 - Positive economic impacts

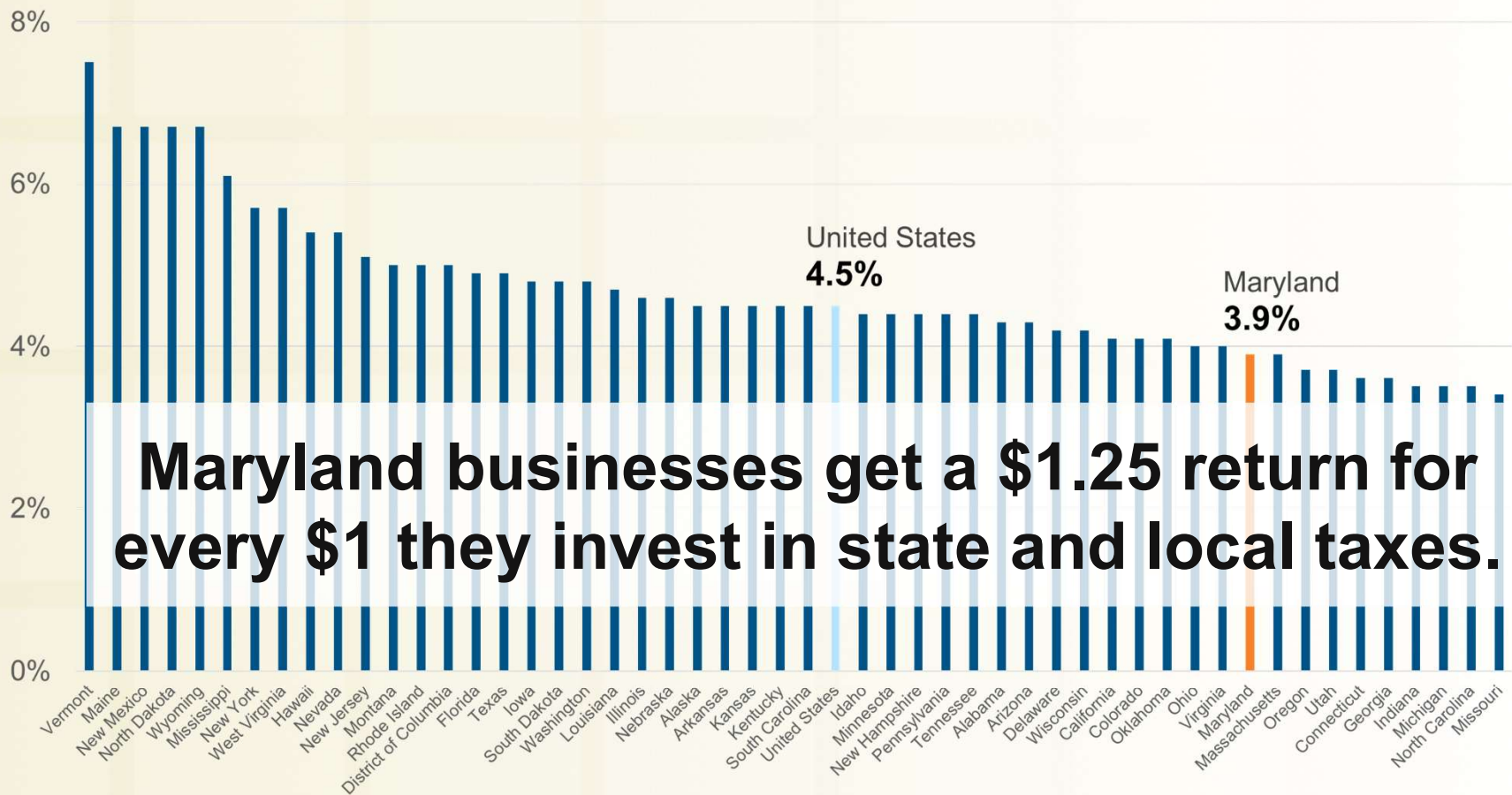
Wealthiest Marylanders Pay a Smaller Share of their Income in State and Local Taxes



Source: Institute on Taxation and Economic Policy, 2018.

Who Pays? A Distributional Analysis of the Tax System in All 50 States. (2018). Institute on Taxation and Economic Policy. See: http://www.itep.org/whopays/full_report.php

Business taxes are a smaller share of MD's economy than in most states



Maryland businesses get a \$1.25 return for every \$1 they invest in state and local taxes.

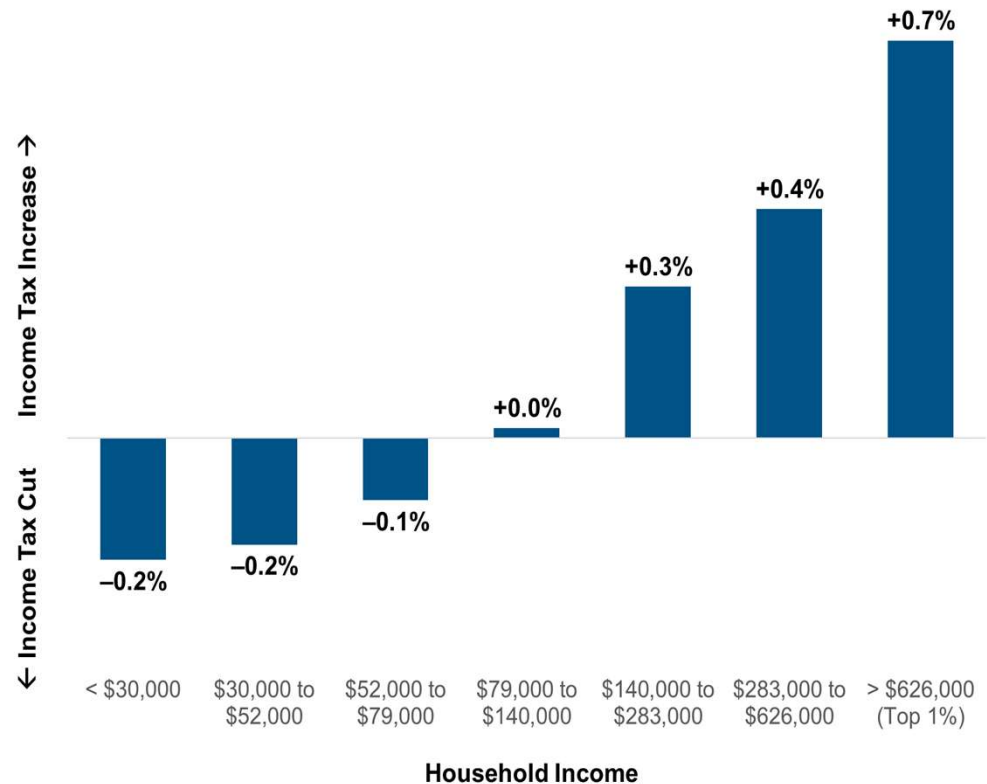
Ernst & Young, FY 2017 COST report on state and local taxes

How to Improve Maryland's Tax Code:

- Close loopholes that only benefit large, profitable businesses
- Eliminate ineffective economic development subsidies
- Restore the pre-2014 estate tax on the top 3% of estates
- Fair income tax reform

Impact of State Income Tax Reform

Average tax increase/decrease (% of household income)



How do MDers make their voices heard on fiscal issues?

What is the new budget process?



New Operating Budget Lifecycle in 2023

Maryland's fiscal year starts July 1st



BRE stands for Board of Revenue Estimates
 DBM stands for Department of Budget and Management
 DLS stands for Department of Legislative Services

Sine Die is the name for the last day of session



Operating Budget Lifecycle Will Change in 2023

- Legislators will be able to increase the budget for their priorities
- They will have to raise revenue or cut other areas to maintain a balanced budget
- The governor will gain the ability to veto line items that are larger than proposed
- Supermajority can override line-item vetoes
- The budget for vetoed line items will revert to the level the governor originally proposed

MDCEP Recommends

- Improve Transparency
 - Compare proposals to the baseline budget more often
 - Improve readability of budget documents
 - Open up the executive budget process
 - Require DLS to analyze equity impacts of budget choices
 - Economic development tax subsidies should be appropriated

MDCEP Recommends

- Strengthen Inclusion
 - More opportunities for public input
 - MDers should be able to participate remotely
 - Expand number of voting members of the conference committee

MDCEP Recommends

- Budget with prudence
 - Be thoughtful when eliminating mandates
 - Strengthen state revenues to avoid pitting one unmet need against another
 - Pair budget cuts (such as to prisons) with equitable policy changes to avoid unintended consequences
 - Appropriate funding to effectively implement new budget process and these recommendations

Fiscal Advocacy Opportunities

Summer

- Agencies that administer your programs
 - As they implement budget starting July 1st
 - As they develop recommendations for the Governor
- Pay Attention to:
 - Closeout report for previous fiscal year from Comptroller (published in August/Sept)
 - September BRE estimates

Closeout Report

	ACTUAL	ESTIMATED	Δ	%	ACTUAL	Δ	%
INCOME TAXES							
Individual	10,698,874,684	10,587,326,518	111,548,167	1.1%	10,272,351,915	426,522,769	4.2%
Corporation	1,051,808,219	1,011,262,547	40,545,672	4.0%	1,033,109,278	18,698,941	1.8%
Total	11,750,682,903	11,598,589,064	152,093,839	1.3%	11,305,461,193	445,221,710	3.9%
SALES AND USE TAXES	4,634,873,635	4,951,863,180	(316,989,545)	-6.4%	4,812,089,855	(177,216,221)	-3.7%
STATE LOTTERY RECEIPTS	548,511,872	530,950,114	17,561,758	3.3%	552,375,064	(3,863,193)	-0.7%
OTHER REVENUES							
Business Franchise Taxes	211,258,765	246,174,118	(34,915,353)	-14.2%	245,064,807	(33,806,042)	-13.8%
Insurance Premium Tax	395,851,096	351,648,666	44,202,430	12.6%	335,168,061	60,683,035	18.1%
Estate and Inheritance Taxes	197,174,594	196,946,663	227,931	0.1%	180,439,693	16,734,901	9.3%
Tobacco Taxes	362,911,842	348,559,925	14,351,916	4.1%	356,696,875	6,214,966	1.7%
Alcoholic Beverages Excises	30,208,980	32,878,348	(2,669,368)	-8.1%	32,534,251	(2,325,271)	-7.1%
District Courts	47,675,980	58,537,470	(10,861,490)	-18.6%	59,858,584	(12,182,605)	-20.4%
Clerks of Court	29,296,097	31,753,652	(2,457,555)	-7.7%	30,204,423	(908,326)	-3.0%
Hospital Patient Recoveries	60,565,828	57,402,016	3,163,812	5.5%	64,296,997	(3,731,170)	-5.8%
Interest on Investments	46,797,602	50,000,000	(3,202,398)	-6.4%	50,239,933	(3,442,331)	-6.9%
Miscellaneous	318,296,284	323,246,907	(4,950,623)	-1.5%	374,609,065	(56,312,781)	-15.0%
Total	1,700,037,067	1,697,147,765	2,889,301	0.2%	1,729,112,689	(29,075,622)	-1.7%
TOTAL CURRENT REVENUES	18,634,105,476	18,778,550,124	(144,444,648)	-0.8%	18,399,038,802	235,066,674	1.3%
Excellence in Education Fund ²	-	-	-	#N/A	(200,000,000)	200,000,000	-100.0%
Volatility Cap ³	#NA ⁴	(42,218,000)			-	-	#N/A
GRAND TOTAL	18,634,105,476	18,736,332,124	(102,226,648)	-0.5%	18,199,038,802	435,066,674	2.4%

¹ The 2020 Legislative Session resulted in an additional \$15.151 million in estimated revenues beyond the March 2020 official estimate; this table has been adjusted accordingly

² The 2018 BRFA diverted \$200M from individual income tax revenues to the Commission on Innovation and Excellence in Education Fund

³ Established by Chapters 4 & 550 of the 2017 Legislative Session and amended by the 2018 BRFA, see detail on next page

https://www.marylandtaxes.gov/reports/static-files/revenue/closeout/FY2020_Closeout.pdf

Fiscal Advocacy Opportunities

Fall to Opening Day of Session

- Governor, Dept. of Budget & Management
 - As they finalize budget
- Spending Affordability Committees
 - Operating, capital are different committees
 - Set budget cap, debt, staffing goals that define budget debate to come
 - Usually two committee briefings

Spending Affordability Report

Analysis of Vacancies and Turnover Rate Executive Branch, Excluding Higher Education Fiscal 2020 Legislative Appropriation Compared to October 2019 Vacancies

<u>Department/Service Area</u>	<u>Positions</u>	<u>Budgeted Turnover Rate</u>	<u>Vacancies to Meet Turnover</u>	<u>October Vacancies</u>	<u>Vacancies Above (or Below) Turnover</u>	<u>October Vacancies</u>
Six State Agencies						
Safety and Correctional Services	10,152	12.2%	1,239	2,088	849	
Police	6,120	7.1%	434	577	143	
State Police	6,415	8.8%	563	785	222	
State Fire Marshal Services	2,445	6.4%	156	246	90	
Transportation	1,987	7.2%	144	208	64	
Total	9,060	4.8%	435	594	159	
Total	36,346	7.2%	2,971	4,498	1,527	

Fiscal Advocacy Opportunities

Fall to Opening Day of Session

- Pay Attention to:
 - Any mandated reports or studies by agencies or DLS
 - December BRE estimates
 - Spending Affordability recommendations

Fiscal Advocacy Opportunities

Legislative Session

- Governor
 - Introduces budget (Jan 20) & supplemental budgets
- Legislative debate
 - Senate Budget & Taxation Committee
 - House Appropriations Committee
 - House Ways & Means Committee
 - Capital Budget Committees

Fiscal Advocacy Opportunities

Legislative Session

- Pay Attention to:
 - Who is the DLS analyst assigned your priority area?
 - Which legislators are on the relevant subcommittee?
 - Budget books published by DBM
 - DLS Fiscal Briefing (Monday after Governor introduces budget)
 - ◆ Should be MLK, Jr. Day

Gov's Proposed Budget Highlights

Public Health and Safety

The budget also includes \$9.6 million to reflect savings realized since the enactment of the Justice Reinvestment Act to continue to research evidence-based strategies to decrease crime and reduce recidivism. This record level of funding is double the amount provided in FY 2021.

Youth populations at the Department of Juvenile Services residential facilities have dropped by more than 50% over the last year. This decline is partially due to recent departmental reform efforts to reduce youth involvement in the juvenile justice system by providing support and treatment services for youth in the community. These efforts have led to more than \$13 million in savings.

The FY 2022 budget continues to fund important public safety programs by providing:

- Nearly \$250 million for community and residential operations to provide direct care services to youth under the Department of Juvenile Services' supervision;
- Almost \$10 million over two years for various boosts to correctional officers' pay, including sign-on, certification, and deferred retirement bonuses;
- \$6.8 million for the Maryland Criminal Intelligence Network (MCIN) to reduce violent crime by forming information technology-enabled partnerships that lead to the improved investigation and prosecution of violent criminals and their networks; and
- More than \$4 million to address COVID-19 needs within various correctional facilities and all parole and probation offices around



Supporting Law Enforcement

The FY 2022 budget continues the Hogan administration's commitment to law enforcement by including:

- \$74.6 million in police aid to local governments;
- \$43.7 million in direct local law enforcement grants, including \$3 million to protect Marylanders against hate crimes;
- \$5 million for grants that support crime prevention, prosecution, witness protection, and police officer recruitment and retention as part of the third year of the governor's Baltimore City Crime Prevention Initiative;
- Nearly \$3 million over two years for the Rape Kit Testing Grant Fund to reduce the backlog of rape kit tests at the local level;
- \$1.7 million for the Violence Intervention and Prevention Program; and
- \$1 million and 21 new positions, including eight new troopers, to meet increased application demand in the Firearms Services Section of the state police's Licensing Division.

Fiscal Advocacy Opportunities

Legislative Session

- Pay Attention to:
 - MDCEP budget and tax briefs www.mdeconomy.org
 - DLS analyses of agency budgets (online)
 - Agency budget briefings (can submit written testimony)
 - Will leadership create more opportunity for public input?
 - March BRE estimates

Info in the DLS Fiscal Briefing

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Fiscal Advocacy Opportunities

After the Legislative Session

- Agencies
 - As they finish the fiscal year ending June 30th
 - As they prepare to implement budget
- Pay Attention to:
 - 90 Day Report – official budget as passed

Exhibit A-1.21
State Expenditures – General Funds
Fiscal 2020 – 2022
(\$ in Millions)

<u>Category</u>	<u>Actual 2020</u>	<u>Working Appropriation 2021</u>	<u>Legislative Appropriation 2021</u>	<u>\$ Change 2021 to 2022</u>	<u>% Change</u>
Debt Service	\$287.0	\$131.0	\$260.0	\$129.0	98.5%
County/Municipal	296.2	314.4	311.2	-3.1	-1.0%
Community Colleges	330.3	330.8	371.5	40.7	12.3%
Education/Libraries	6,403.2	6,617.0	6,590.7	-26.3	-0.4%
Health	41.8	34.4	52.3	17.9	52.1%
<i>Aid to Local Governments</i>	<i>\$7,071.5</i>	<i>\$7,296.6</i>	<i>\$7,325.8</i>	<i>\$29.1</i>	<i>0.4%</i>
Foster Care Payments	\$202.3	\$206.2	\$210.2	\$4.0	1.9%
Assistance Payments	43.3	127.7	103.0	-24.7	-19.3%
Medical Assistance	3,483.5	3,118.5	4,038.4	919.9	29.5%
Property Tax Credits	88.4	96.3	93.7	-2.6	-2.7%
<i>Entitlements</i>	<i>\$3,817.4</i>	<i>\$3,548.8</i>	<i>\$4,445.4</i>	<i>\$896.6</i>	<i>25.3%</i>
Health	\$1,590.1	\$1,948.5	\$1,700.4	-\$248.0	-12.7%
Human Services	367.9	370.4	395.3	24.9	6.7%
Juvenile Services	259.6	246.2	253.6	7.4	3.0%
Public Safety/Police	1,496.8	1,442.3	1,571.5	129.2	9.0%
Higher Education	1,577.9	1,577.2	1,588.7	11.5	0.7%
Other Education	467.2	491.6	538.1	46.5	9.5%
Agriculture/Natural Res./Environment	134.4	131.4	157.8	26.4	20.1%
Other Executive Agencies	800.6	877.6	871.4	-6.3	-0.7%

MDCEP'S ANNUAL POLICY SUMMIT

A PEOPLE'S BUDGET

TUESDAY, SEPTEMBER 13 | 4-7 PM

FREDERICK, MD | THE ARC AT MARKET STREET



Keynote: Vanessa Williamson

Author of *Read My Lips: Why Americans Are Proud to Pay Taxes*

**LIVE STREAMING
AVAILABLE**

mdeconomy.org/events



Relevant Websites

- Maryland Center on Economic Policy www.mdeconomy.org
- Department of Budget & Management
<https://dbm.maryland.gov/pages/default.aspx>
- MD General Assembly
<https://mgaleg.maryland.gov/mgaweb/Budget/Charts>
- Board of Revenue Estimates <https://www.mdbre.gov/index.php>
- Comptroller reports
<https://www.marylandtaxes.gov/reports/index.php>
- Board of Public Works
<https://bpw.maryland.gov/Pages/default.aspx>

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