Maryland’s Budget

A moral document at a turning point

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@mdeconomy
All MDers should be able to achieve their full potential in a healthy economy that offers a widely shared, rising standard of living.
What do we value as a state?

Where do we invest our money?
$43.5 Billion Operating Budget

Proposed FY 2018

$ in billions

- Health $14.1
- Education $8.0
- Higher Education $6.4
- Transportation $5.2
- Public Safety $2.2
- Human Services $3.0
- Public Debt $1.3
- Natural Resources $1.0
- Legislative, Judicial, Legal $0.8
- Other $1.7
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- Public Debt $1.3
- Natural Resources $1.0
- Legislative, Judicial, Legal $0.8
- Other $1.7
$4.5 Billion Capital Budget

Proposed FY 2018

$ in millions

Transportation = $2.7 billion

Remaining $1.8 billion =
Debt Affordability Criteria

Fiscal Year 2018

- Balancing act between needs and ability to pay (also bond ratings)
- Borrowing caps on state debt (driven by GO bonds)
  - All debt service: 8% of State revenues
  - All debt outstanding: 4% of State personal income
- Legislators recommended: $1,065 million GO bonds
  - 1% growth over FY 2017
- Governor’s proposal: $995 million GO bonds (zero growth)

http://www.treasurer.state.md.us/media/95474/2016_cdac_report.pdf

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How do we pay for these investments?

And who pays?
$43 Billion Operating Budget

Proposed FY 2018
$ in billions

General Funds $17.1
Federal Funds $13.0
Higher Education Funds $4.4
Special Funds $9.1

At least $400 million at risk in President Trump’s budget

<table>
<thead>
<tr>
<th>General Fund Revenue Sources</th>
<th>FY 18 Projection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Income Tax</td>
<td>$9,406 million</td>
</tr>
<tr>
<td>Sales &amp; Use Tax</td>
<td>$4,727 million</td>
</tr>
<tr>
<td>Corporate Income Tax</td>
<td>$830 million</td>
</tr>
<tr>
<td>Other Business Taxes</td>
<td>$532 million</td>
</tr>
<tr>
<td>State Lottery</td>
<td>$505 million</td>
</tr>
<tr>
<td>Tobacco &amp; Alcohol Taxes</td>
<td>$426 million</td>
</tr>
<tr>
<td>Estate &amp; Inheritance Taxes</td>
<td>$185 million</td>
</tr>
<tr>
<td>Court revenue</td>
<td>$107 million</td>
</tr>
<tr>
<td>Other revenues</td>
<td>$420 million</td>
</tr>
</tbody>
</table>

MDCEP
MARYLAND CENTER ON ECONOMIC POLICY
Low income MDers pay greater share of income in state/local taxes

Shares of family income for taxpayers under 65

<table>
<thead>
<tr>
<th>Income Bracket</th>
<th>Share of Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest 20% &lt;$24,000</td>
<td>9.7%</td>
</tr>
<tr>
<td>Second 20%</td>
<td>9.5%</td>
</tr>
<tr>
<td>Middle 20% $44k-$67k</td>
<td>10.3%</td>
</tr>
<tr>
<td>Fourth 20%</td>
<td>9.7%</td>
</tr>
<tr>
<td>Next 15%</td>
<td>8.5%</td>
</tr>
<tr>
<td>Next 4%</td>
<td>8.8%</td>
</tr>
<tr>
<td>Top 1%</td>
<td>6.7%</td>
</tr>
</tbody>
</table>

Maryland Has Room to Raise More Revenue

State and Local Tax Revenue as a Share of Personal Income, 2014

Source: Tax Policy Center 2016. Note: Alaska is omitted because its tax system has limited comparability to other states. State and local taxes in Alaska are 36 percent of the state’s personal income due to high severance tax revenues.

MDers of color more likely to pay a greater share of their income in taxes

Poorest 20% ≤$24,000
Second 20% $24,000-$44,000
Middle 20% $44,000-$67,000
Fourth 20% $67,000-$111,000
Richest 20% ≥$111,000

White alone | Non whites Excluding Asians

Maryland Center on Economic Policy. Maryland’s Poor Taxed More Than Rich; Communities of Color Feel Biggest Pinch. March 2015.
Female-headed HH more likely to pay greater share of their income in taxes

Maryland Center on Economic Policy.
Business taxes are a smaller share of MD’s economy than in other states

MD business gets a $1 return for every 70 cents invested in state and local taxes

Ernst & Young, FY14 COST report on state and local taxes
Why MD Needs More Revenue

- Still recovering from Great Recession
  - Returning jobs are lower-quality
  - Still have fifth highest foreclosure rate
- Lots of unmet needs across state
  - $2.6 billion investment needed in K-12 education
  - 19,000 students on waitlist for state need-based financial aid
  - We only support 61% of the Maryland Minimum Living Level
- Revenues growing slower than mandated costs
- Direct and indirect federal cuts
- Debt service costs rising
Potential Resources for Investment

*Annual Revenue Estimates*

- Eliminate corporate “nowhere income”, level the playing field for local business: $53 to $69 million
- Stop cutting the multi-millionaire estate tax: $17 million in fiscal year 2019, increasing to $60 million in fiscal year 2022
- Close the carried interest loophole benefiting hedge fund managers: $50 million
- Modernize the sales tax: $320 million
- Tax marijuana like alcohol: $200 million

How can Marylanders influence the state’s budget?
Governor provides guidance to agencies
Summer-Fall

Incorporates agency feedback, governor priorities
Through early January

Joint legislative committee
Makes recommendation on how much budget, workforce should grow
November - December

Mid-January
DLS fiscal briefing Monday after budget introduced

January to April
Chambers take turns originating

Deadline is one week before Sine Die
Budget does not require governor’s signature

Start work on next budget

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
How Much State Spending is Discretionary?

- Mandated: 81%
- Discretionary: 19%
  - $5.4 B
Threats from Washington
Massive Threats on the Horizon

- Repealing the Affordable Care Act (including Medicaid expansion)
  - Half a million Marylanders would lose health insurance
  - $1.4 Billion budget hole ($14 billion over 10 years)
- Ending the safety net as we know it, esp. SNAP & Medicaid
- Deep budget cuts to other programs that help struggling people
- Major tax cuts for the wealthy, including corporations, that would force deeper cuts
It all comes down to non-defense discretionary spending (NDD)

- NDD spending already at historically low levels
- Already scheduled to get hit even harder by the return of the sequester
- Republicans have talked about undoing the sequester for defense spending but leaving it – or even deepening it – for NDD spending
- Huge consequences for states (receive 25% of NDD)
NDD Spending Falling to Historic Lows as Percentage of GDP

Note: Data available only back to 1962. Sequestration refers to budget cuts required under the 2011 Budget Control Act and includes modifications to it in the Bipartisan Budget Acts of 2013 and 2015.

Source: CBPP based on Office of Management and Budget and Congressional Budget Office data.
Massive tax cuts for the wealthy…

http://www.cbpp.org/research/federal-tax/house-gop-a-better-way-tax-cuts-would-overwhelmingly-benefit-top-1-percent
… Which means even less funding for human needs programs
Reconciliation = Key Vehicle

Only need 51 votes in Senate
Tentative Timeline

March & April
- First reconciliation bill (ACA repeal) potentially passes
- FY2018 budget resolution – likely with big tax and budget cuts – will receive a vote, setting up a second reconciliation bill

Summer
- FY2018 reconciliation bill – potentially with damaging cuts to taxes and services – could pass as early as Memorial Day
Threats from Washington: Solutions?

- Protect structure of the safety net (vital)
- Increase the NDD funding caps (unlikely)
  - Democrats may have a little leverage because appropriations bills require 60 votes in the Senate
  - Republicans most interested in increasing DEFENSE spending, which would put even more pressure on NDD spending if they continue deficit reduction
  - President Trump also said during the campaign that he would pay for his massive tax cuts by cutting more from NDD spending
- MD must get creative to make up the difference, ask all to pay their fair share to protect building blocks of modern economy
Bottom line: Will Maryland and the federal government continue to invest in the pillars of our modern economy, or will we make cuts to education, healthcare, and public safety?