

The Coronavirus Pandemic and Maryland's Economy

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Panelists

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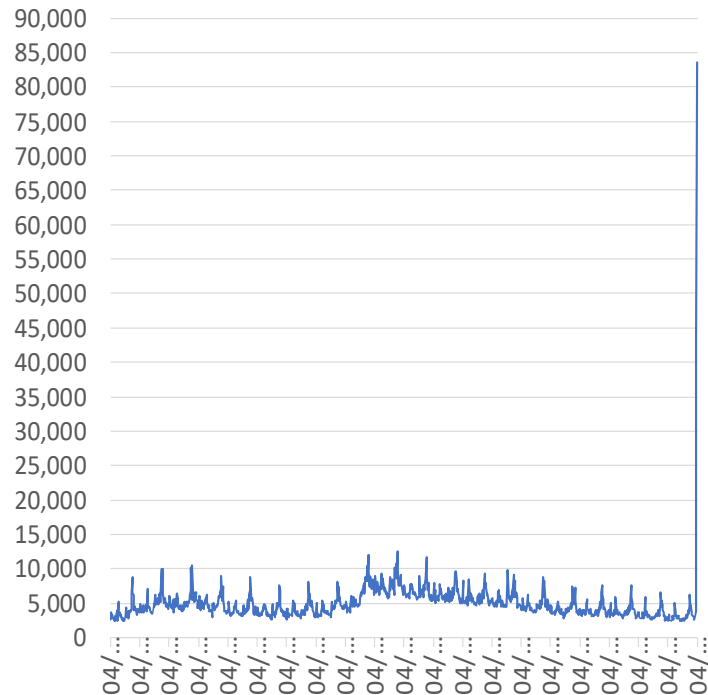
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Uncharted Waters

Maryland Weekly Initial Unemployment Claims



- 126,500 initial unemployment claims (2 weeks ending 3/28)
- Comparable to typical 6-month total post-2000
- 4/1 Estimate: 347,000 job losses by July
- On track to exceed?

Covid-19 and Public Finance in Maryland

Warren Deschenaux



Federal Government to the Rescue?

- Among many other initiatives, Congress set aside \$150 billion for aid to state and local governments
- Maryland's share
 - State government \$1.3
 - Local governments (pop > 500k) \$1.0
 - Total \$2.3 billion
- BUT use limited to new expenditures, NOT REVENUE LOST
- Also direct payments to higher ed, community colleges school systems, mass transit
 - Higher ed and mass transit may use funds to replace some lost revenue

Maryland Public Finance Facts

- Income and sales taxes represent about 85% of State revenues
- The State income tax filing deadline was moved to July 1.
- Casino revenue supports over 6% of pre k – 12 education spending
- Property taxes and income tax account for about 75% of local own source revenues
- The fiscal 2021 general fund budget assumes GF revenues will increase \$600 million or **over 3%**
- The state has a Rainy Day fund of \$1.2 billion with \$150 million earmarked for COVID expenses

Stating the Obvious: We are in trouble

- The depth and duration of the expected recession will determine how bad it gets.
- Specific vulnerabilities
 - Income tax
 - Sales tax
 - Education funding
 - Local governments

Contrast with the Great Recession

- Similar in that each occurred in the midst of a major effort to enhance education funding
- But some big differences
 - The Great Recession sort of snuck up on us. The current situation more sudden and obvious
 - The Great Recession followed a substantial increase in State Revenues. The current administration has done nothing to address ongoing structural issues or to support increased education costs.
 - In the Great Recession, federal assistance to states was specifically designed to support vital operations, education and safety net programs. Current federal support is limited to COVID related expenses.

And One Big Difference: Loss of Fiscal Flexibility

- During the Great Recession every effort was made to avoid use of the Rainy Day fund This involved taking money from dedicated accounts and increasing some fees and taxes.
- In the time since, it has become harder to repurpose funds due to an evolving preference to support special purposes over general government. L
- Lockboxes and required repayments have tied up the budget.
- That leaves the Rainy Day fund, budget cuts, and taxes.
- Sobering fact: the \$1 billion Rainy Day fund balance will support government operations for a little more than a month

So where does this leave us?

- Do everything we can to surmount the health emergency and maintain the health care system. The fiscal outlook will not get better until we all do
- Revenue loss will be sudden and substantial to state and local governments
 - Federal Aid must be made available to allow safety net and priority programs to be maintained
 - Federal and state policies should be directed sustaining business, jobs and, most important, individual incomes.
- Funding decisions should be targeted to stated, measurable objectives with oversight and accountability

Questions?

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