Advancing Justice through Fiscal Policy in Maryland

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Maryland Center on Economic Policy
Crisis in the Black Community Conference
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Maryland Center on Economic Policy

Every Marylander should be able to achieve their full potential in a healthy economy that offers a widely shared, rising standard of living.
Maryland Center on Economic Policy

Court Extends Maryland Unemployment Benefits To September
Fiscal Policy As a Matter of Justice
Maryland Budget 101

Operating Budget (FY21 Actual):
$54 billion

- K-12 Education: $9,632
- Higher Education: $6,862
- Transportation: $5,058
- Human Services: $5,195
- Public Safety*: $3,219
- Other: $4,596
- Housing: $1,166
- Health: $18,113

Capital Budget (FY21 Adopted):
$1.2 billion

Doing Things

Building Things

*Public Safety budget includes corrections to misappropriated funds.
Maryland Budget 101

Revenue (FY21 Actual): $55 billion

- Federal Funds: $20,407
- Individual Income Tax: $11,704
- Sales Tax: $5,459
- Corporate Income Tax: $1,841
- Fuel Taxes: $1,017
- Other Transportation Revenues: $2,043
- Lottery: $760
- Higher Education Revenues: $4,553
- Other: $7,616

Revenue (FY21 Actual): $55 billion
Historically Strong Fiscal Outlook
General fund cash and structural balance (dashed lines indicate estimates), FY2015–2028

$3,500
$3,000
$2,500
$2,000
$1,500
$1,000
$500
$0
-500


Cash  Structural

Source: Spending Affordability Committee Interim Briefings.
Investing in Health Justice

- **Context:** Marylanders of color & families with low incomes face greater threats to their health

- **Smart choices:** ACA Medicaid expansion drove historic improvements in insurance coverage

- **Foolish choices:** Repeatedly slashing public health funding weakened our pandemic response

1 Source: MDCEP analysis of 2016 American Community Survey one-year estimates and 2012–2016 American Community Survey five-year estimates. Neighborhoods are defined as census tracts for this analysis.
Investing in Housing Justice

- **Context:** Even high-income Black families are more likely to live in struggling neighborhoods.

- **Impact:** Health, school, access to good jobs, ...

- **Solutions:**
  - Strengthen rental assistance
  - Build affordable housing

### Average Neighborhood Income

<table>
<thead>
<tr>
<th>Household Income</th>
<th>White Households</th>
<th>Black Households</th>
</tr>
</thead>
<tbody>
<tr>
<td>$60,000 to $74,999</td>
<td>$98,000</td>
<td>$82,000</td>
</tr>
<tr>
<td>$100,000 to $124,999</td>
<td>$109,000</td>
<td>$94,000</td>
</tr>
</tbody>
</table>

### Average Neighborhood Poverty Rate

<table>
<thead>
<tr>
<th>Household Income</th>
<th>White Households</th>
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<tr>
<td>$60,000 to $74,999</td>
<td>8.9%</td>
<td>12.6%</td>
</tr>
<tr>
<td>$100,000 to $124,999</td>
<td>7.5%</td>
<td>9.6%</td>
</tr>
</tbody>
</table>

1. Source: MDCEP analysis of 2016 American Community Survey one-year estimates and 2012–2016 American Community Survey five-year estimates. Neighborhoods are defined as census tracts for this analysis.
Investing in Education Justice

- **Great news!** The General Assembly passed the historic Blueprint for Maryland’s Future in 2021!

- **The Blueprint was overdue:** Post-Great Recession, we underfunded schools, and we did it inequitably.

- **Faithful implementation:**
  - We can’t repeat 2008–2015 cuts
  - Gov. Hogan attempted to shortchange schools this year

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**More than Half of Black Students in Maryland Attended Substantially Underfunded Schools as of 2015**

<table>
<thead>
<tr>
<th>Race</th>
<th>Fully Funded Districts</th>
<th>Substantially Underfunded Districts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Black</td>
<td>53%</td>
<td>21%</td>
</tr>
<tr>
<td>White</td>
<td>8%</td>
<td>34%</td>
</tr>
</tbody>
</table>

Source: MDCEP analysis of DLS funding adequacy data and National Center for Education Statistics data on enrollment by race. Schools are considered fully funded if they are at or above 95 percent of the Bridge to Excellence adequacy standard. Districts are considered substantially underfunded if they are below 85 percent of the standard.
Investing in Transportation Justice

**Context:** Black Marylanders spend more time commuting, *especially* in segregated communities

**Impact:**
- Access to good jobs
- Freedom to live your life
- Climate change
- More

**Foolish choices:** Canceling the Red Line massively set back transportation justice

**Solutions:** Invest in frequent, reliable transit, dense development; address barriers facing drivers

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Source: MDCEP analysis of DLS funding adequacy data and National Center for Education Statistics data on enrollment by race. Schools are considered fully funded if they are at or above 95 percent of the Bridge to Excellence adequacy standard. Districts are considered substantially underfunded if they are below 85 percent of the standard.
Investing in Workforce Justice

Black Workers Consistently Face Higher Unemployment Rates

Maryland quarterly unemployment rate by race, 2015 Q1 to 2021 Q2


Source: MDCEP analysis of DLS funding adequacy data and National Center for Education Statistics data on enrollment by race. Schools are considered fully funded if they are at or above 95 percent of the Bridge to Excellence adequacy standard. Districts are considered substantially underfunded if they are below 85 percent of the standard.
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"Investing" in Mass Incarceration

Source: MDCEP analysis of DLS funding adequacy data and National Center for Education Statistics data on enrollment by race. Schools are considered fully funded if they are at or above 95 percent of the Bridge to Excellence adequacy standard. Districts are considered substantially underfunded if they are below 85 percent of the standard.
“Investing” in Mass Incarceration

<table>
<thead>
<tr>
<th>Incarceration Rate by Global Standards</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oklahoma</td>
<td>incarcerates more of its residents than any other state does.</td>
</tr>
<tr>
<td>The United States</td>
<td>incarcerates more of its residents than any other country does.</td>
</tr>
<tr>
<td>El Salvador</td>
<td>incarcerates slightly more of its residents than Maryland does.</td>
</tr>
<tr>
<td>Maryland</td>
<td>incarcerates more of its residents than 17 other states do.</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>incarcerates slightly fewer of its residents than Maryland does.</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>incarcerates fewer of its residents than any other state, but more than most countries do.</td>
</tr>
<tr>
<td>Countries in the European Union</td>
<td>incarcerate one-fifth as many of their residents as Maryland does.</td>
</tr>
</tbody>
</table>

Source: Prison Policy Initiative 2018 with calculations by MDCEP.

Source: MDCEP analysis of DLS funding adequacy data and National Center for Education Statistics data on enrollment by race. Schools are considered fully funded if they are at or above 95 percent of the Bridge to Excellence adequacy standard. Districts are considered substantially underfunded if they are below 85 percent of the standard.
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Wealthiest Marylanders Pay a Smaller Share of their Income in State and Local Taxes


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

mdeconomy.org | @mdeconomy
Wealthiest MDers Got Big Tax Cut in 2017
Corporations and Wealthy Individuals Can Afford to Pay More

Federal Tax Cut Law Primarily Benefits Wealthiest White Households

Average tax cut under 2017 federal overhaul by income group in Maryland

Distribution of tax cuts among racial and ethnic groups nationwide

- 67% of households are white. They get 80% of tax cuts.
- 10% of households are Black. They get 5% of tax cuts.
- 12% of households are Latinx. They get 7% of tax cuts.
- 11% of households are in other racial groups. They get 9% of tax cuts.

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
Result: A Fairer, More Effective Revenue System

- Strengthens long-term fiscal position
- Improves Maryland’s upside-down tax code
- Advances racial equity

Tax Reform Would Help Build a More Equitable Revenue System in Maryland

Impact of tax reform as a share of income by income group

<table>
<thead>
<tr>
<th>Income Group</th>
<th>Current Tax Responsibility</th>
<th>Tax Reform Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest 20%</td>
<td>+0.1%</td>
<td>+0.1%</td>
</tr>
<tr>
<td>Second 20%</td>
<td>+0.1%</td>
<td>+0.2%</td>
</tr>
<tr>
<td>Middle 20%</td>
<td>+0.1%</td>
<td>+0.4%</td>
</tr>
<tr>
<td>Fourth 20%</td>
<td>+0.2%</td>
<td>+0.5%</td>
</tr>
<tr>
<td>Next 15%</td>
<td>+0.4%</td>
<td>+0.9%</td>
</tr>
<tr>
<td>Next 4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top 1%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 in 9
Black and Latinx households are among the wealthiest 20%.

1 in 4
White households are among the wealthiest 20%.

Source: Institute on Taxation and Economic Policy. Some revenue components are excluded from distributional estimates due to insufficient data. Note that the income classes used to define current tax responsibility differ slightly from those used to estimate tax reform impact. See endnotes xxviii and xxix for details.
Operating Budget Lifecycle

Maryland’s fiscal year starts July 1st

Agencies develop recommendations
• Governor provides guidance to agencies
• Summer-Fall

DBM drafts budget
• Incorporates agency feedback, governor priorities
• Through early January

Spending Affordability Committee recommends
• Joint legislative committee
• Makes recommendation on how much budget, state workforce should grow
• November - December

Governor introduces budget
• Mid-January
• Must be balanced
• DLS fiscal briefing Monday after budget introduced

Legislature holds hearings, edits budget
• January to April
• Historically: May cut, but cannot add
• Beginning next year: Can cut or shift, but not add to total

Legislature approves budget
• Deadline is one week before Sine Die (mid-April)
• Or go into extended session
• Does not require governor’s signature
• Must be balanced

Agencies implement budget
• Start work on next budget

Federal Fiscal Year Starts October 1st

Governor submits Supplemental Budget(s) (optional)

After budget passes, Governor can cut up to 25% of individual line items through Board of Public Works

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
Looking Ahead

2020 Ballot Measure Creates New Opportunities

Current Budget System

- Most powerful governor in the country
- **Corollary**: Least powerful legislature
- Current system created 1916
- Legislature can only cut
- Can’t increase funding
- **Can’t move funding**
- Cf: Annual budget tug-of-war

Beginning in the 2023 Session:

- Comparable process to all the other states
- Legislature can move funding
- Legislature can’t increase total budget
- Governor has line-item veto
- Supermajority can override
Looking Ahead

**2020 Ballot Measure Creates New Opportunities**

### Current Budget System
- Budget development untransparent
- Limited advocacy opportunities with executive agencies
- Limited advocacy opportunities with governor
- Session advocacy opportunities:
  - Reject “contingent reductions”
  - “Fence off” money
  - Create future mandates
  - Cut more

### Beginning in the 2023 Session:
- Same limited opportunities with executive branch
- New opportunity to advocate with legislators
- Every increase has to come with a corresponding cut (not revenue)
- Resist temptation to fight for crumbs