‘Historic’ $6B surplus projected for Maryland budget — but how to spend it?
By Bryan P. Sears
*The Daily Record*
December 19, 2021

Lawmakers and Gov. Larry Hogan have a nearly $6 billion problem.

Budget analysts say the state’s financial picture, at least in the near term, has improved. Forecasts project the state can expect nearly $6 billion more in revenue than expected. The result will be billions in surplus over the same period and no shortage of ideas on how to spend it.

“It’s really a historic level of general fund surplus that will provide some unique opportunities to the state this coming budget year,” said David Romans, coordinator of fiscal and policy analysis for the Department of Legislative Services.

And those surpluses, at least for now, are projected to have positive effects with structural surpluses growing annually peaking at nearly $2.5 billion in fiscal 2026. Smaller surpluses are projected in fiscal years 2027 and 2028.

“Much like the cash balance, I don’t think we’ve seen this sort of sustained surplus certainly not in any time in my memory,” Romans said. “I’m not sure anyone has seen this at all in Maryland fiscal history.”

The size of the surpluses for the current and coming budget years have grown. The new estimate adds about $1 billion to earlier projections of nearly $5 billion for the same period.

Much of the increase is driven by increases in personal income and sales taxes.

“This is money that’s already in the door,” said Andrew Schaufele, director of the state Bureau of Revenue Estimates.

Del. Marc Korman, D-Montgomery and House chair of the Joint Spending Affordability Committee, called the revised numbers “historically great news.”

Because of that, requests will come from all corners for pay raises, projects and tax relief. And while some are projecting the state will ride a wave of surpluses over the next few years, others caution not to count the money too soon.

On Tuesday, the Board of Revenue Estimates revised that figure upward adding nearly $500 million to each of those years.
“These are tremendous numbers prompted by the tremendous amounts of federal stimulus that Maryland is receiving,” Comptroller Peter Franchot said.

Hogan, a Republican, has already proposed using a small portion of the surplus for anti-crime efforts. His “re-fund the police” earmarks $150 million for aid to local police, salary increases and retention bonuses as well as de-escalation training, victim services and rewards for identifying those to commit crimes.

The governor has also renewed his interest in reducing taxes across the board for retirees.

State Budget Secretary David Brinkley said the new, more optimistic budget projections provide a cushion for the state. The additional money would be used to support the state’s economic health but also “make some one-time fixes to some things we’ve all known about for many, many years and when we do that, there will be benefits for generations to come.”

“These revised numbers are positive and give us added resources to accomplish these goals,” said Brinkley. “I think everybody will be pleased to see some of the investments we’re going to recommend.”

Brinkley said he remains concerned about the pandemic and potential economic volatility.

“Caution is still the operative word especially when you look back over where we were 21 months ago,” Brinkley said. “Just as we revised these numbers upward, something as yet not determined can force us to revise them again, potentially even downward.”

Republican legislators also have an interest in some election-year tax relief.

“I think we have a recognition that there is elasticity in the rubber band of revenue or at least the revenue forecasts and current on hand revenue to facilitate some meaningful tax relief whether that’s targeted middle class tax relief, small business tax relief,” said Del. Jason Buckel, R-Allegany and House Republican leader.

Even some of the retirement tax relief proposals of recent years “could fit within the window, the envelope of structural surpluses that we have today and that forecasting to have for the foreseeable period,” Buckel said.

Franchot renewed his call for Hogan and the state to set aside money for immediate aid to residents disproportionately affected by the pandemic.

Similarly, nonprofits last month called on the state to pump another $1 billion into targeted COVID-19 relief for food and housing assistance.

Franchot also called for increasing the size of the state’s so-called rainy day fund to $3 billion — about three times the pre-pandemic balance.

By law, the state must keep 5% of the state’s operating budget in reserve for emergencies. In recent years, Hogan and the legislature have looked for ways to sock away additional money above that requirement.

The legislature’s Spending Affordability Committee last week approved a set of recommendations to Hogan on how the surplus might be spent.
That proposal includes a recommendation to set aside $300 million for deferred maintenance projects within the Department of General Services and at state parks. Another $200 million is recommended for projects at state colleges that are seeing the costs of projects increase with inflation.

Local governments are feeling similar pressures.

“Our budgets were based on pre-COVID costs for construction. Anybody going out and building now knows full well that inflation in building materials has vastly increased the price of construction,” said Montgomery County Executive Marc Elrich.

Del. Maggie McIntosh, D-Baltimore and chair of the House Appropriations Committee, said other jurisdictions have similar concerns.

“What they’re seeing is the costs of materials is really, I think, beginning to threaten their finish timelines,” said McIntosh.

McIntosh and other lawmakers on the committee voted to go along with a $900 million proposed capital budget as long as Hogan agreed to spend $200 million for projects authorized last year as well as the money for maintenance and state parks.

The committee also asked Hogan for $300 million for legislative priorities. The recommendations also called for increasing the capital budget by 4% in fiscal year 2024.

The committee recommendations increase the rainy day fund to nearly $2 billion or about 9% of the operating budget.

Buckel, the House Republican leader, questioned that increase.

“I want to be prudent too,” he said. “We’re saving money for the rainy day fund but I have some cognitive dissonance between we need to save more money for when things go bad but we’re forecasting everything is going to go incredibly well (in future years).”

Buckel questioned the reliability of the forecast of surpluses in future years. Romans, the legislative budget analyst, said the proposed large balance was for potential downturns that cannot be foreseen. Tax and spending decisions made in the coming session will also affect the projected future surpluses.

“I think it’s always prudent to remember these are just estimates and just as they’ve turned around in a dramatic fashion to the good over the last year,” Romans said, “so they can turn the other way and things can go downhill in a hurry.”