Fiscal & economic impacts of the COVID-19 Recession

• Much worse than the Great Recession
  – Unemployment claims hit half a million in 8 weeks
  – Job losses twice as bad
  – TCA caseload doubles in 5 months; now higher than Great Recession
  – Revenue losses estimated to be significantly higher
In the Great Recession, Lost 123K Jobs Over the Course of 2 Years

<table>
<thead>
<tr>
<th>Payroll Job Losses Relative To 2020Q1</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020Q2</td>
</tr>
<tr>
<td>2020Q3</td>
</tr>
<tr>
<td>2020Q4</td>
</tr>
<tr>
<td>2021Q1</td>
</tr>
<tr>
<td>2021Q2</td>
</tr>
<tr>
<td>2021Q3</td>
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<tr>
<td>2021Q4</td>
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<tr>
<td>2022Q1</td>
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<td>2022Q2</td>
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<td>2022Q3</td>
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<tr>
<td>2022Q4</td>
</tr>
<tr>
<td>2023Q1</td>
</tr>
<tr>
<td>2023Q2</td>
</tr>
<tr>
<td>2023Q3</td>
</tr>
<tr>
<td>2023Q4</td>
</tr>
</tbody>
</table>

Source: U.S. Bureau of Labor Statistics; Moody's Analytics Estimated and Forecasted; Bureau of Revenue Estimates
TCA caseload doubles in 5 months
Higher than Great Recession levels

*June 2020 is an estimate.*
Largest Single Revenue Revision During Great Recession:
-$963 MILLION
-6.6%
December 2008
SIX YEARS OF REVENUE GROWTH GONE IN A FLASH

REVENUES IN FY 2022 COULD BE LOWER THAN IN FY 2016!
COVID-19 and Budget Balancing

In light of the economic impacts associated with COVID-19 the State has seen a late, sudden decline in revenues not shown on the prior slide. In order to address this, the State:

• Implemented spending and hiring freezes in April, 2020 which increased reversion guidance and expectations from State agencies.
• Enacted $120.7 million of General Fund Reductions through BPW on May 20, 2020 (not shown on prior slide).
• Despite increases in the Medicaid program, will achieve budgetary savings tied to the enhanced federal match for the program which can be used to balance the budget.
• Will also use the enhanced flexibility provided with Coronavirus Relief Funds from the CARES Act to offset police and other health-related expenditures.
• Maintained a strong Rainy Day Fund balance available for budget balancing.
## FY 20 Budget Balancing
($ in millions)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Projected Revenue Shortfall</strong></td>
<td>-925</td>
</tr>
<tr>
<td><strong>Budget Balancing Plan</strong></td>
<td></td>
</tr>
<tr>
<td>FY 20 Surplus</td>
<td>346</td>
</tr>
<tr>
<td>BPW Reductions</td>
<td>120</td>
</tr>
<tr>
<td>Additional Agency Reversions</td>
<td>350</td>
</tr>
<tr>
<td>CRF (federal fund swaps)</td>
<td>90</td>
</tr>
<tr>
<td>Rainy Day Fund</td>
<td>144</td>
</tr>
<tr>
<td><strong>Projected Surplus</strong></td>
<td>125</td>
</tr>
<tr>
<td>RDF Balance Pre-Transfer</td>
<td>1,180</td>
</tr>
<tr>
<td>RDF Balance Post Transfer</td>
<td>1,036</td>
</tr>
</tbody>
</table>
Fiscal Year 2021 Budget Balancing

- Given the severity and suddenness of the declines in revenues, at this time a rewrite of the FY 21 budget is required. However, the overall budget balancing plan in FY 21 will look like FY 20.

- The Administration intends to carry forward the spending and hiring freeze put forward in FY 20.

- On July 1st, the Administration will bring to the Board of Public Works reductions of $395 million.

- In addition, the Administration will use the flexibility of the Coronavirus Relief fund to offset General Fund spending in the areas of public health and police related activities.

- The Administration will continue to monitor future revenue growth and potential federal relief to determine if further budget reductions are required or if the Rainy Day Fund will need to be further used.
FY 2021 Budget Reductions

The Administration’s budget reductions in front of BPW include the following:

- Level fund local aid where possible.
- Eliminate or reduce mandated funding.
- Reduce GF PAYGO funding in FY 21
- No layoffs at this time
- Administrative reductions including reductions to travel, vacant positions, operational efficiencies, etc.
- The detail on reduction items and a plain language document is included for reference
FY 2021 Budget Reductions

The largest BPW reductions include the following:

- Higher Education
  - Reduce funding to higher education institutions by $131.5 million

- Local Aid
  - Level Funding Community Colleges to FY 20 ($36.4 million)

- Health
  - Increase the Deficit Assessment ($35 million)

- WMATA - $28 million

- Juvenile Services
  - Alter program delivery to youth ($15.1 million)
COVID-19 Related Expenditures

• The State received $2.34 billion through the Coronavirus Relief Fund (CRF) with the State receiving $1.65 billion and 5 local jurisdictions receiving $691 million.

• The State distributed $364 million to the remaining 19 jurisdictions.

• To date CRF related expenditures have focused on addressing the public health crisis in the State. Expenditures have focused on PPE, ventilators, testing, and other public health related expenditures, and business assistance.

• The recent guidance from the Administration that the CRF can be used to match FEMA reimbursement allows more funding to be used for the public health crisis and to potentially offset other expenditures in the budget.

• The Administration continues to evaluate the needs of the citizens and businesses as it considers future spending from the CRF.
Newly Announced CRF Spending

• K-12 Education
  – $100 million – Remote Learning Enhancements
  – $100 million – Targeted Tutoring Initiatives
  – $10 million – Rural Broadband
• Higher Education - $90 million
• Business Assistance - $50 million
• Non-profit Assistance - $50 million
• Rental Assistance - $10 million
Governor’s Emergency Education Relief Fund

- Community Colleges - $10 million
- K-12 Education Technology - $10 million
- Innovative Education Solutions - $10 million
- Rural Broadband - $10 million
- Urban Broadband - $5 million
- School for the Deaf/School for the Blind – $0.7 million
Immediate Budget Actions are needed

- Economic and fiscal impacts of the recession are worse than the Great Recession
- Bond Rating Agencies expect states to respond quickly, especially AAA rated states
- FY 22 fiscal challenges are expected to be worse than FY 21; DLS is projecting an FY 22 budget gap of $4.6 billion
- Failure to make difficult choices now will make decisions more difficult in the future
Fiscal Responsibility

The Administration remains committed to acting in a fiscally prudent manner throughout this pandemic, including having to taken additional action at BPW.

To date the Administration has moved very quickly to make mid-year budget reductions twice, once in FY 20 and once in FY 21.

The Administration will continue to monitor revenues and federal action to determine what additional assistance might be available to Maryland.

Should the federal government provide additional assistance or revenues improve, the Administration is prepared to restore certain items that were reduced by BPW.

We have not fully used the Rainy Day Fund.