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Maryland
DEPARTMENT OF BUDGET AND MANAGEMENT

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STATE RESERVE FUND
FY 2026 Budget Hearing

Testimony of
Helene Grady, Secretary
Department of Budget and Management

Senate Budget & Taxation Committee
February 11, 2025

House Appropriations Committee
February 21, 2025

The Administration appreciates the thorough analysis put forward by the Department of Legislative Services (DLS).

As noted in the analysis, in light of current economic uncertainty, the Moore Administration has budgeted to maintain the Rainy Day Fund at $2.1 billion in FY 2026 (8.0% of General Fund revenue). The Administration and the Department of Budget and Management (DBM) look forward to working together with the General Assembly to ensure Maryland remains on a fiscally responsible, sustainable path forward that best serves Marylanders now and in the future.

As part of this vision, the Administration continues to focus on investments and policy decisions that will drive strong economic results for Maryland. This Administration is squarely focused on investments to increase population and jobs and bring labor force participation back to pre-pandemic levels. These are critical factors to help us compete better for GDP growth, drive economic mobility for Marylanders, and enhance State revenues.

Strengthening our state's economy in an equitable way underpins the progress we will make across all of our key policy priorities including making Maryland's education system the best in the nation, making Maryland more affordable, and making Maryland safer. The FY 2026 budget includes significant investments to advance our progress in creating pathways to work, wages and wealth for Marylanders, including $128 million in new targeted investments, most of which are budgeted within the Dedicated Purpose Account within State Reserves and are discussed in the DLS analysis for today's hearing. The $128 million in investment is estimated to drive $515 million in economic activity and support, create or retain 2,600 jobs. The Governor's proposed budget also includes new revenue specifically to support these targeted investments, in the form of a four-year 1% temporary surcharge on income from capital gains.

DBM's responses to the DLS recommendations in the analysis are below. We are available to answer any questions.

DLS Recommendations and DBM Responses

(1) Page 3: The Department of Legislative Services (DLS) recommends deleting the $419.5 million Rainy Day Fund appropriation, reducing the DPA appropriation by $50 million, and deleting language making these reductions contingent on legislation.

DBM concurs.

(2) Page 7: DLS recommends adopting budget bill language making the appropriation ($180 million special funds) contingent on legislation authorizing the use of SEIF funds for the disclosed purposes. DLS notes that DBM should introduce an amendment to the BRFA to authorize the use of ACP funds for these purposes for fiscal 2026 only.

The Department respectfully disagrees with this recommendation, as MEA and DBM believe the proposed projects for the $180 million appropriation are allowable uses. There are two types of ACP (Solar and Tier 1) which have similar restrictions. MEA interprets the Alternative Compliance Payment (ACP) statutory restrictions to require the project to be an eligible energy type (Solar or Tier 1 depending on the funding source) and to be in an eligible census tract. All of the designated projects would be in those census tracts and all three proposed projects are solar-related. More specifically, Alternative Compliance Payment (ACP) funds will be used to create new solar energy sources (§ 7-705(b)(2)(i)(2)) at qualifying MDOT facilities. The MDOT sites associated with this project have been narrowed down to be compliant with CH 98 (2023) through close collaboration with MEA, MDOT, and the Governor's Office.

(3) Page 8: DBM should comment on the intended use of the funds (included in a provision in SB434/ HB505 authorizing the use of the DPA to establish regulations and evaluation criteria for nuclear energy procurement) and which source of appropriation from the DPA would be transferred for these purposes.

DBM understands that the Maryland Energy Administration (MEA) does not believe this provision is needed and can be amended from the bill.

(4) Page 8: Due to the State's fiscal condition, DLS recommends reducing $8.0 million in general funds from the DPA for the biomarker testing.

DBM respectfully disagrees with this recommendation. CH 322 / CH 323 of 2023 requires the Maryland Medicaid program to provide broad coverage for biomarker testing beginning July 1, 2025. This was a priority for the Legislative Black Caucus in 2023 that passed both chambers with near unanimous votes. The State's current fiscal challenges have prevented the Administration from being able to fully implement the vision for this initiative in FY 2026, which was projected to cost $24 million in State funds in FY 2026 increasing to $45 million by FY 2030. The $8 million proposed in the budget focuses additional testing to have the greatest impact on eliminating health disparities.

(5) Page 9: DLS recommends reducing $1.75 million in general funds from the DPA for the Capital of Quantum Initiative as the faculty complement is expected to grow over time and therefore only a portion of personnel costs are needed at this time.

DBM respectfully disagrees with this recommendation. We understand from UMCP that a reduction to the faculty hires proposed in the analysis would have significant negative consequences for the "Capital of Quantum" initiative for three reasons revolving around timing. This proposal comes at the opening of a brief window in time when Maryland can build upon hard-won competitive advantages to become a national economic leader in an emerging industry. Delays to the proposal endanger its success. First, the funding package proposed by Governor Moore leverages significant federal funding commitments from DoD and DARPA (among others) that requires the requested new UMD faculty to be on-board and collaborating in an embedded nature with their federal counterparts as soon as possible. Any delay risks the loss of these funds, potentially squandering our current competitive financial advantage. Second, delay risks the competitive knowledge advantage Maryland has built up through its 20-year investment in a unique core of quantum experts at the University of Maryland's QLab, Quantum Startup Foundry, Mid-Atlantic Quantum Alliance, and IonQ. Other states - particularly Illinois and Colorado - are investing multiples of what the Governor proposes because they lack the infrastructure and knowledge base to compete with what Maryland has already built. A delay in funding gives these larger states time to catch up to Maryland, significantly risking the State's ability to fortify our market position before they are ready to hire in the quantum space. Third, hiring expert faculty in a specialized field requires both a long lead time and a clear demonstration of committed resources. The plan as submitted puts the State and universities in a prime position to attract these unique talents now because of the sound funding approach and the peer faculty from UMD's current labs and the federal agencies they can work with immediately. Reductions or hedges on the funding would be a troubling warning sign for the key researchers the proposal needs to attract that may hobble the success of the initiative as competitors may recruit them as Maryland awaits available funding.

(6) Page 9: Due to the State's fiscal condition, DLS recommends reducing $2.5 million in general funds for the Strategic Infrastructure Revolving Fund.

DBM respectfully disagrees with this recommendation. There is significant demand and interest from developers to utilize this fund for eligible projects. Reducing the appropriation by $2.5 million will reduce opportunities and impact of the State to support transformative projects that may be prime for development with assistance from the State through this program.

(7) Page 9: Due to the State's fiscal condition, DLS recommends reducing $3.5 million in general funds from the DPA for the Certified Sites Program.

DBM respectfully disagrees with this recommendation. The certified sites program is a program that is long-overdue in Maryland. Other states, including Virginia and Pennsylvania, have had certified sites programs for many years and have been effective in attracting private sector investments to shovel-ready sites. In October, Governor Shapiro secured $500 million from the Pennsylvania legislature to support their site readiness program, following a successful $10 million pilot program that received 102 applications totaling $236 million. In December, Governor Youngkin announced an additional $50 million towards their site readiness program, in addition to the $282 million appropriated towards the program during the Governor's four-year term. Governor Moore's requested appropriation of $7 million is already significantly lower than investments towards these programs in neighboring states, and will be used to jumpstart this long-overdue program. Reducing the appropriation by 50% would make it significantly less meaningful and grant and loan capacity to 24 local jurisdictions and developers would be severely limited.

(8) Page 10: DLS recommends reducing $2 million in general funds from the DPA for Cyber Workforce Grants, as increased funding is already provided for this purpose in fiscal 2026.

DBM respectfully disagrees with this recommendation. Reducing $2 million for Cyber Workforce grants would undermine Maryland's ability to cultivate the skilled workforce necessary to sustain and expand our position as a national cybersecurity leader. These grants play a critical role in expanding access to cyber education, training, and certification programs - particularly for underrepresented communities and nontraditional students - ensuring a steady pipeline of qualified professionals to meet industry and government needs. At a time when Maryland is making significant investments in cyber initiatives - including Cyber Maryland, the introduction of Secretary Coker, expanded National Guard cyber operations, and the development of community college cyber ranges - this funding cut sends a conflicting message. Without a strong and well-supported workforce, these initiatives risk falling short of their full potential. The demand for cybersecurity talent continues to outpace supply, and workforce development funding is a strategic necessity to close this gap. By maintaining and expanding these grants, Maryland can strengthen its cyber workforce, enhance economic opportunities, and reinforce its reputation as the premier hub for cybersecurity innovation. Cutting this funding now would not only slow workforce growth but also risk ceding competitive ground to other states that are aggressively investing in their cyber talent pipelines. To secure our state's future in cybersecurity, we must align policy decisions with our broader strategic objectives – prioritizing workforce development as a cornerstone of Maryland's cyber leadership.

(9) Page 10: Due to the State's fiscal condition, DLS recommends reducing $0.8 million in general funds from the $2 million appropriation to the DPA for Economic Agenda IT Investments, representing funds allocated for a customer management system and other IT tools in Commerce.

DBM respectfully disagrees with this recommendation. The Department of Commerce (Commerce) lacks basic technological tools it needs today to be effective. An obvious deficiency that requires immediate investment is the lack of a Customer Relationship Management (CRM) system. This deficiency and modernization was also cited and recommended by the Maryland Economic Council in their final report submitted to the Governor in 2024. Currently, Commerce tracks business project opportunities in spreadsheets, which is unreliable and does not allow Commerce employees and leadership to effectively track status of projects. In addition, Commerce doesn't have a centralized database to house contact information of business clients they interface with. The lack of a modernized system risks loss of data and information with retirements or departures of employees. This proposed system would track interactions with businesses, monitor progress on economic initiatives, and ensure coordinated efforts between state and local entities.