January 28, 2019

Message to Members

After 10 years of a sustained recovery from the Great Recession of 2008-2009, there are economic warning signs that a slowdown is on the horizon. These storm clouds could bring challenges for Maryland's economy and create headaches for the State's budget planners. Some recent developments of note:

- During a briefing in the Senate Budget and Taxation Committee, Moody's Analytics warned that financial indicators point to an impending recession. A factor cited was that low unemployment could lead to rising wages and inflation. A recession is typically defined as a decline of gross domestic product for two or more consecutive quarters. The previous recession began in July 2008, making the current recovery one of the longest in U.S. history, which is also a harbinger for an economic slowdown.
The partial government shutdown caused economic hardship in Maryland due to its high number of federal government employees and dependent businesses. Comptroller Peter Franchot said recent revenue estimates show that Maryland has, so far, $57.5 million less in income tax revenue since the shutdown began. House Appropriations Committee Chair Maggie McIntosh further warned that the government shutdown costs Maryland up to $1.5 million in revenue daily. Policymakers must be keenly aware of the need to diversify Maryland’s economy and reduce its over-reliance on the federal government.

State budget analysts believe Maryland's policymakers will soon be addressing structural deficits in future budgets despite enjoying a surplus in this year's budget. A structural deficit occurs when spending exceeds revenues in the operating budget. Budget analysts also cautioned that an economic slowdown and political upheaval in Washington, D.C., like the recent prolonged partial government shutdown, could bring sustained economic and fiscal hardship to Maryland’s economy.

The Kirwan Commission, which is completing its work to improve Maryland's public education system, is in the process of putting a cost on its recommendations. The costs are estimated at $4 billion per year of new spending if all recommendations are fully implemented. Even with a strong economy and growing tax revenues, the State of Maryland would be unable to pay for the implementation of Kirwan Commission recommendations without new funding sources.

All, however, is not doom and gloom. Maryland’s budget leaders have been briefed about economic slowdowns and understand that it is imperative that the State be on a solid fiscal footing. As an example, Governor Larry Hogan's Fiscal Year 2020 budget proposes a significant increase to the State Reserve Fund, better known as the Rainy Day Fund, to $1.3 billion. This is an important acknowledgement that a probable economic downturn requires responsible budgeting. Whether a growing Rainy Day Fund and a firm understanding of economic storm clouds on the horizon is enough has yet to be determined. There are simply too many factors and unexpected events (such as a prolonged government shutdown affecting 800,000 federal employees) that make predictions difficult. That is why it is so important that policymakers see the big picture and alter their approach accordingly.

As always, if you have any questions or concerns, please feel free to contact me.

Sincerely,

Donald C. Fry
President and CEO

http://campaign.r20.constantcontact.com/render?preview=true&m=1104450135336&ca=78f6c93f-57c9-44ad-87e9-fed2148ada47&id=preview
**Fiscal Year 2020 Budget Proposal Released**

Governor Larry Hogan released his $46.6 billion Fiscal Year 2020 operating budget proposal on January 18. The proposal accounts for a roughly 4 percent increase in spending over current levels. Notable new spending includes increases for public education funding, more money for crime initiatives and a salary adjustment for State employees. In the area of public education, Baltimore City schools received increased funding despite declines in enrollment.

Education is an area where there is likely to be some significant debate during the 2019 legislative session. Regarding preliminary Kirwan Commission recommendations, the Governor and legislative leaders disagree about how much to spend and where the funds should come from. The Kirwan Commission asked for $200 million to implement some early recommendations related to expanded pre-K and increased teacher pay, but also requested $125 million in casino revenues to pay for additional recommendations. The Governor instead proposed to spend some of the casino revenue funds on school construction.

As required by the Maryland Constitution, the Governor's Fiscal Year 2020 budget proposal is balanced. The legislature's budget committees will hold hearings, make recommendations and vote on the budget before the 90-day session ends. Lawmakers cannot add to the budget, but can leverage changes through cuts.

**Public Safety Legislation Introduced**

Governor Larry Hogan has made reducing violent crime in Baltimore City one of his key legislative priorities during his administration. The same holds true for the 2019 legislative session of the Maryland General Assembly. The GBC believes public safety is a pivotal issue facing the business community and if not addressed, Baltimore City will suffer irreparable harm outside of the tragic human costs.

Governor Hogan has introduced legislation aimed at addressing public safety and violent crime. Two proposals are of particular interest to the GBC and will merit serious consideration. First is SB 166/HB 236 -- *Crimes - Use of a Firearm in the Commission of a Crime of Violence or Felony - Penalties (The Repeat Firearms Offender Act of 2019)*, which seeks to increase the minimum sentence to 10 years for repeat offenders who use a gun to commit a violent crime. The second proposal is SB 176/HB 229 -- *State Commission on Criminal Sentencing Policy - Annual Report - Crimes of Violence*, which would require the Maryland State Commission on Criminal Sentencing Policy to publish detailed, judge-by-judge information on the actual sentences that are handed down for violent crimes. The GBC supports increased transparency of judges and sentencing.

The GBC is also supportive of the Governor's launch of a new violent crime joint operations center in Baltimore City. The joint operations center will seek to increase coordination among local, state and federal law enforcement resources.
Furthermore, the GBC supports the Governor's expansion of Project Exile, which is a crime reduction program in conjunction with the U.S. Attorney that deters would-be firearm offenders from committing violent crime.

Legislators will also seek to address public safety through legislative changes. So far, the GBC is supporting two bills introduced early in the legislative session by Senator Cory McCray, the newly-elected Senator from Baltimore City's 45th District, which include changes to how Baltimore City forms its police districts and requiring the Office of Legislative Audits to evaluate the effectiveness and efficiency of the financial management practices of the Baltimore Police Department. More bills are on the horizon as the legislature still is in the formative stages of the 2019 session.

For some of GBC President and CEO Don Fry's thoughts on public safety, please check out the two commentaries below.

**Commentaries by GBC President and CEO Donald C. Fry**


**Upcoming Dates of Interest**

On [February 11](#), the GBC is hosting the Breakfast Briefing, "What the Affordable Care Act Means for You." The event will begin at 7:30 a.m. at the GBC Office, 111 South Calvert Street, Suite 1700, Baltimore, MD 21202.

On [February 20](#), the GBC is hosting a Breakfast Briefing, "Baltimore’s CitiWatch Surveillance Camera Program - It's Role in Law Enforcement." This event will begin at 7:30 a.m. at the GBC Office, 111 South Calvert Street, Suite 1700, Baltimore, MD 21202.