

Department of Legislative Services
 Maryland General Assembly
 2025 Session

FISCAL AND POLICY NOTE
 Third Reader - Revised

House Bill 1424
 Appropriations

(Delegate J. Lewis, *et al.*)

Budget and Taxation

Catastrophic Event Account, Federal Government Shutdown Employee Assistance Loan Fund, and Powers of the Attorney General - Alterations (Protect Our Federal Workers Act)

This emergency bill expands the purposes of the Catastrophic Event Account and the Federal Government Shutdown Employee Assistance Loan Fund (renamed as the Federal Government Employee Assistance Loan Fund or FGEALF) so that funds may be used to provide financial assistance to former federal employees. The bill alters eligibility requirements for loans from FGEALF, authorizes loan forgiveness, and authorizes transfer of \$5.0 million from the Revenue Stabilization Account (Rainy Day Fund) to FGEALF in fiscal 2025. The bill expands the Attorney General’s powers under the Maryland Defense Act and increases a mandated appropriation to the Office of the Attorney General (OAG) to at least \$2.5 million, with \$1.5 million authorized to be transferred to OAG from the Rainy Day Fund in fiscal 2025.

Fiscal Summary

State Effect: Special fund expenditures increase by \$6.5 million in FY 2025 as authorized fund transfers are made; special fund revenues increase correspondingly, with expenditures made the following year. Special fund expenditures and revenues increase by \$10.0 million in FY 2026 reflecting further capitalization of FGEALF. All special funding made available in FY 2025 and 2026 – \$15.0 million for FGEALF and \$1.5 million at OAG – is assumed to be expended in FY 2026. Out-year special fund effects (not shown below) are possible. General fund expenditures increase by \$1.7 million for the Maryland Department of Labor (MD Labor) in FY 2026 only, and by \$1.5 million annually beginning in FY 2027 for OAG. **This bill increases a mandated appropriation beginning in FY 2027.**

(\$ in millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
SF Revenue	\$6.5	\$10.0	\$0	\$0	\$0
GF Expenditure	\$0	\$1.7	\$1.5	\$1.5	\$1.5
SF Expenditure	\$6.5	\$26.5	\$0	\$0	\$0
Net Effect	\$0.0	(\$18.2)	(\$1.5)	(\$1.5)	(\$1.5)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: The bill is not anticipated to materially affect local government operations or finances.

Small Business Effect: None.

Analysis

Bill Summary: Consistent with its broader purposes under the bill, the Federal Government Shutdown Employee Assistance Loan Fund is renamed as FGEALF. Funds in the Catastrophic Event Account and FGEALF may be used to provide financial assistance to former federal employees facing financial hardship from the closure, relocation, or mass layoff of a unit of the federal government, or other similar circumstances. Accordingly, funds in the Catastrophic Event Account may be used to assist a unit of State or local government in connection with a closure, relocation, or mass layoff of a unit of the federal government.

FGEALF must only be used to provide no-interest loans to State residents (as opposed to federal employees who are required to work at a work site in the State under current law) who (1) are federal employees who are not being paid because of a full or partial federal government shutdown due to a lapse in appropriations or (2) in the immediately preceding six months were terminated from employment by the federal government due to the closure, relocation, or mass layoff of a unit of the federal government, or other similar circumstances beyond the employees' control. The purpose and eligibility criteria of the fund are modified to reflect this change. MD Labor may forgive a loan, and MD Labor must establish repayment procedures if repayment is required.

Office of the Attorney General

In addition to the Attorney General's powers specified under current law, the bill authorizes the Attorney General to investigate, commence, and prosecute or defend any civil or criminal suit or action that is based on the federal government's action or inaction that threatens the public interest and welfare of the residents of the State with respect to protecting State residents who:

- are federal government employees who are not being paid because of a full or partial federal government shutdown due to a lapse in appropriations; or
- were federal employees who, after December 31, 2024, were terminated from federal employment due to the closure, relocation, or mass layoff of a unit of the federal government, or other similar circumstances beyond the employees' control or separated from employment by the federal government as a result of a voluntary separation incentive payment.

The Governor must include an appropriation of at least \$2.5 million (instead of \$1.0 million) in the annual budget for OAG's authorized activities and for OAG to employ attorneys (instead of five attorneys as specified under current law).

Rainy Day Fund

After providing the Legislative Policy Committee with at least seven days to review and comment, the Governor may transfer from the Rainy Day Fund up to \$5.0 million to FGEALF and \$1.5 million to the expenditure accounts of the Attorney General. These provisions terminate on June 30, 2025.

Current Law:

Catastrophic Event Account

The Catastrophic Event Account, which is within the State Reserve Fund and administered by the Department of Budget and Management, enables the State or a local government to respond quickly to a natural disaster or catastrophe that could not be addressed within existing State appropriations. It may also be used for federal employee financial hardship in the event of a full or partial federal government shutdown due to a lapse in federal appropriations.

Funds appropriated to the Catastrophic Event Account (1) may not be used to offset operating deficiencies in regular programs of State government but (2) as noted above, may be expended to assist a unit of State or local government in funding costs in connection with a natural disaster, a catastrophic situation, or a full or partial federal government shutdown due to a lapse in appropriations.

The Catastrophic Event Account consists of direct appropriations in the budget bill. Investment earnings are credited to the Rainy Day Fund. The fiscal 2026 budget as introduced projects a closing fund balance of \$10.0 million for fiscal 2026, which has been maintained for several years.

Federal Government Shutdown Employee Assistance Loan Fund

The Federal Government Shutdown Employee Assistance Loan Fund, administered by MD Labor, must only be used to provide no-interest loans to federal employees who are (1) required to report to work at a work site located in the State and (2) not being paid because of a full or partial federal government shutdown due to a lapse in appropriations.

MD Labor must establish procedures and eligibility criteria for loans from the fund, as specified, such as repayment timelines. In addition to funds appropriated in the State budget and other sources, the fund consists of (1) money transferred from the Catastrophic Event Account and (2) repayments on loans made from the fund.

Unemployment Compensation for Federal Employees

The Unemployment Compensation for Federal Employees (UCFE) program provides unemployment compensation for federal employees who lost their employment through no fault of their own. The same terms and conditions that apply to individuals eligible for regular unemployment insurance apply to UCFE claimants. For additional general information about the State Unemployment Insurance (UI) program, see the **Appendix – Unemployment Insurance**.

Maryland Defense Act

Under Chapter 26 of 2017 (the Maryland Defense Act), the Attorney General may investigate, commence, and prosecute or defend any civil or criminal suit or action that is based on the federal government's action or inaction that threatens the public interest and welfare of the residents of the State with respect to (1) protecting the health of the residents of the State and ensuring the availability of affordable health care; (2) safeguarding public safety and security; (3) protecting civil liberties; (4) preserving and enhancing the economic security of workers and retirees; (5) protecting financial security of the residents of the State, as specified; (6) protecting the residents of the State against fraud and other deceptive and predatory practices; (7) protecting the natural resources and environment of the State; (8) protecting the residents of the State against illegal and unconstitutional federal immigration and travel restrictions; or (9) otherwise protecting as *parens patriae*, the State's interest in the general health and well-being of its residents.

Before commencing a suit or action, the Attorney General must provide the Governor with written notice and an opportunity for review and comment, unless the Attorney General determines that emergency circumstances require immediate action. If the Governor objects to the intended suit or action, then the Governor must provide in writing to the Attorney General the reasons for the objection within 10 days after receiving the notice. Unless there are emergency circumstances that require the immediate commencement of the suit or action, the Attorney General must consider the Governor's objection before proceeding. If the Attorney General determines that emergency circumstances require the immediate commencement of a suit or action to protect the public interest and welfare of the residents of the State, as specified, the Attorney General must provide the Governor notice of the suit or action as soon as reasonably practicable. The Governor must include an appropriation of at least \$1.0 million in the annual budget for the authorized activities and to employ five attorneys.

Under Chapter 26, the General Assembly finds (1) the federal government's action or failure to take action may pose a threat to the health and welfare of the residents of the State and (2) the State should investigate and obtain relief from any arbitrary, unlawful, or

unconstitutional federal action or inaction and prevent such action or inaction from harming the residents of the State.

State Fiscal Effect: MD Labor advises that forgiven loans are not considered wages for UCFE and UI purposes. Thus, the bill has no effect on UCFE or UI benefits, although loans from FGEALF supplement benefits from UCFE that are available to federal employees who are laid off.

There are approximately 160,000 civilian federal jobs in Maryland. Virginia and the District of Columbia each have around 190,000 federal jobs, and many Marylanders commute to those jurisdictions. (These employment counts do not include classified agencies like the National Security Agency in Maryland and the Central Intelligence Agency in Virginia.) An analysis of tax year 2021 data by the Comptroller’s Office found about 256,000 Marylanders received a federal W-2, representing about 8% of taxpayers. Thus, a significant number of State residents are federal employees who may become eligible for loans under the FGEALF Program if they are terminated due to the closure, relocation, or mass layoff of a unit of the federal government, or other similar circumstances beyond the employees’ control. MD Labor estimates that more than 10,000 former federal employees may apply for loans.

Maryland Department of Labor Administrative Costs

FGEALF may only be used to provide no-interest loans, so general funds are needed to administer the program. Accordingly, general fund expenditures for MD Labor’s Office of the Secretary increase by \$1.7 million in fiscal 2026, which assumes a start-up delay until July 1, 2025. This estimate reflects the cost of hiring 10 contractual claims processors to process loans. It includes salaries, fringe benefits, one-time start-up costs, and other operating expenses. It also includes \$950,000 for MD Labor to contract with an information technology (IT) vendor to maintain a cloud-based application platform as well as provide project management services, data analytics, and customer support.

Contractual Positions	10
Salaries and Fringe Benefits	\$682,891
IT Vendor Expenses	950,000
Other Operating Expenses	<u>76,450</u>
Total FY 2026 General Fund Expenditures	\$1,709,341

This analysis assumes contractual employees are only needed in fiscal 2026 as MD Labor expects the majority of federal layoffs to occur within the first year. MD Labor also anticipates using 10 existing full-time employees from its divisions to assist with application submissions and provide in-person support, similar to how MD Labor operated the Port of Baltimore Worker Support Program. To the extent that these employees work

in federally funded programs, general fund expenditures increase further to reimburse federally funded programs for their time. To the extent loans are needed beyond fiscal 2026, existing MD Labor employees can likely continue the program if needed.

This estimate does not include any health insurance costs that could be incurred for specified contractual employees under the State's implementation of the federal Patient Protection and Affordable Care Act.

Special Funds for Loans

Under current law, the Federal Government Shutdown Employee Assistance Loan Fund Program has not been launched and written policy guidance has not been issued. However, MD Labor advises that, under the current program, eligible federal employees would be able to receive a \$700 no-interest loan, as currently constructed. If a federal shutdown were prolonged and funding remained, a second loan could be offered. Loans would be due to be repaid to the State once the shutdown had ended and after they had received back pay for the shutdown period. The bill does not specify the terms of the loans under the FGEALF Program, but they are likely similar to those under the current program.

Transfers for Capitalization of FGEALF: The Governor may transfer up to \$5.0 million from the Rainy Day Fund to FGEALF in fiscal 2025. The Catastrophic Event Account has a projected fund balance of \$10.0 million for fiscal 2026; assuming 10,000 loan recipients and \$700 loan amounts, the program initially requires \$7.0 million. However, if the number of loan applicants exceeds that estimate, or if MD Labor allows for multiple rounds of loan applications or offers more generous loans, the program could use the full \$10.0 million in the Catastrophic Event Account, along with the \$5.0 million transfer from the Rainy Day Fund. This analysis, therefore, assumes that the Governor transfers \$5.0 million in fiscal 2025 from the Rainy Day Fund and \$10.0 million in fiscal 2026 from the Catastrophic Event Account for the program, so special fund expenditures from those accounts increase by \$5.0 million in fiscal 2025 and by \$10.0 million in fiscal 2026, respectively. Special fund revenues increase correspondingly to reflect the transfers from the Rainy Day Fund and the Catastrophic Event Account to FGEALF.

No-interest Loans Under the Program: Special fund expenditures for FGEALF increase to provide no-interest loans to former federal employees, beginning as early as fiscal 2025 but more likely in fiscal 2026, and special fund revenues increase as those loans are repaid (if not forgiven), likely in fiscal 2026 and 2027. However, it is unknown to what extent loans will be forgiven or will require repayment. The actual amounts and exact timing cannot be predicted. Any expenditures in fiscal 2025 would have to be made with existing staff; accordingly, this analysis assumes that loans are not made until fiscal 2026 – which is when contractual employees and an IT vendor are expected to be hired. Thus, the funds transferred in fiscal 2025 are assumed to be held as fund balance (and encumbered for

expenditure in fiscal 2026). Accordingly, special fund expenditures from FGEALF increase by as much as \$15.0 million in fiscal 2026 for no-interest loans to former federal employees.

To the extent State residents are terminated from employment by the federal government due to the closure, relocation, or mass layoff of a unit of the federal government, or other similar circumstances beyond the employees' control beyond fiscal 2026, special fund revenues and expenditures increase in the out-years (with more transfers from the Catastrophic Event Account) to provide additional loans; as such out-year actions are uncertain, related costs are not reflected in this analysis.

Other Effects: As discussed above, the bill is likely to deplete the \$10.0 million fund balance of the Catastrophic Event Account in fiscal 2026. To the extent that loan repayments (if not forgiven) do not fully replenish the fund, general fund expenditures may increase, up to \$10.0 million in fiscal 2027, to replenish the Catastrophic Event Account. However, any such funding is discretionary and not included in this analysis.

Additionally, under current law, any interest generated by the Catastrophic Event Account is credited to the Rainy Day Fund. Accordingly, special fund revenues to the Rainy Day Fund decrease minimally in fiscal 2026 as a result of funding being transferred from the Catastrophic Event Account.

Office of the Attorney General

The Governor may transfer \$1.5 million from the Rainy Day Fund to the expenditure accounts of the Attorney General. This analysis assumes that transfer is made; accordingly, special fund expenditures for the Rainy Day Fund increase by \$1.5 million in fiscal 2025, with the monies treated as special fund revenues by OAG. This analysis assumes those monies are encumbered for expenditure in fiscal 2026. Additionally, the bill increases a mandated appropriation to OAG from at least \$1.0 million to at least \$2.5 million; thus, general fund expenditures for OAG also increase by \$1.5 million annually beginning in fiscal 2027.

Any additional general fund expenditures are discretionary (and presumed to not be needed) for fiscal 2026. Instead, this analysis assumes a start-up delay to July 1, 2025, to hire the additional OAG attorneys. Accordingly, the \$1.5 million transfer from the Rainy Day Fund is assumed to be expended by OAG as special funds in fiscal 2026.

This funding is anticipated to support the salaries and fringe benefits for additional attorneys and related costs – specifically, one principal counsel, four assistant Attorneys General, one administrative officer, one-time start-up costs, and ongoing operating expenses. The actual cost to comply with the bill's provisions may be less than the

additional mandated appropriation of \$1.5 million each year. For example, the estimated cost for salaries, fringe benefits, and associated operating requirements for these six positions at the grades specified by OAG is \$861,519 in fiscal 2025, increasing to \$901,486 in fiscal 2030.

Also, as the bill only authorizes the Attorney General to initiate an action or defend against an action, as specified, and does not *require* the Attorney General to take a specific action, there may be years in which no legal actions occur. Because the mandated appropriations may only be used for the functions specified in the bill, any unused funds revert to the general fund at the end of each fiscal year, as required by State law, although this impact has not been accounted for in this analysis. Furthermore, staffing costs must be covered in perpetuity.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: SB 683 (Senator Charles, *et al.*) - Budget and Taxation.

Information Source(s): Maryland State Treasurer's Office; Department of Budget and Management; Maryland Department of Labor; Office of the Attorney General; U.S. Department of Labor; Department of Legislative Services

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Appendix – Unemployment Insurance

Program Overview

Unemployment Insurance (UI) provides temporary, partial wage replacement benefits of up to \$430 per week to individuals who are unemployed through no fault of their own and who are willing to work, able to work, and actively seeking employment. Both the federal and state governments have responsibilities for UI programs. Generally, funding for the program is provided by employers through UI taxes paid to both the federal government for administrative and other expenses and to the states for deposit in their UI trust funds. Using federal tax revenues, the UI program is administered pursuant to state law by state employees. The Maryland Department of Labor's (MD Labor) Division of Unemployment Insurance administers the State's UI program.

Each state law prescribes the tax structure, qualifying requirements, benefit levels, and disqualification provisions. These laws must, however, conform to broad federal guidelines.

Employer Contributions

Most Maryland employers pay State UI taxes, although State and local governments and some nonprofit organizations reimburse the Unemployment Insurance Trust Fund (UITF) for claims paid in lieu of paying taxes. Therefore, for most Maryland employers, the State UI tax rate is a function of:

- the employer's specific unemployment claims history; and
- the applicable tax table, which is based on the State's UITF balance and applies to most taxable employers.

Exhibit 1 shows the range of State UI taxes a typical employer owes based on the tax table in effect; there are other rates for new employers and in other limited circumstances. State UI taxes and reimbursements are typically due quarterly. As UI taxes are applied to the *first* \$8,500 earned by each employee, each calendar year, the first two quarterly tax payments are typically the largest.

Exhibit 1
Tax Tables and Applicable Employer Tax Rates

Tax Table	As of Sept. 30, if the Trust Fund Balance, As a Percentage of Taxable Wages		Trust Fund Balance (\$ in Millions)		Then Next Year's Tax Rates Range from			Annual Tax Per Employee (Rate x \$8,500)		
	Exceeds	Up to	Exceeds	Up to	No Claims	Single Claim	Up to	No Claims	Single Claim	Up to
	A	5.00%	n/a	\$1,067.8	n/a	0.30%	0.60%	7.50%	\$25.50	\$51.00
B	4.50%	5.00%	961.0	\$1,067.8	0.60%	0.90%	9.00%	51.00	76.50	765.00
C	4.00%	4.50%	854.2	961.0	1.00%	1.50%	10.50%	85.00	127.50	892.50
D	3.50%	4.00%	747.5	854.2	1.40%	2.10%	11.80%	119.00	178.50	1,003.00
E	3.00%	3.50%	640.7	747.5	1.80%	2.60%	12.90%	153.00	221.00	1,096.50
F	0.00%	3.00%	0.0	640.7	2.20%	3.10%	13.50%	187.00	263.50	1,147.50

Notes: Fund balance threshold dollar amounts are based on the 2023 taxable wage base and are subject to modest changes each year. State law also generally requires a federal solvency goal to be met prior to moving to a tax table with lower rates (*i.e.*, from Table F to Table A). The federal solvency goal, which is designed to ensure the State's ability to pay claims during periods of high unemployment, is approximately \$1.7 billion and varies with the total wages paid in the State and benefits paid during recent recessions.

A "single claim" represents the tax rate applicable to the lowest possible rate associated with nonzero (.0001 to .0027) benefit ratios. Taxes are applied to the first \$8,500 earned by each employee, each year; compensation less than that amount reduces taxes owed accordingly.

Table F was in effect in 2021 due to the COVID-19 pandemic; prior to that, Table A had been in effect since 2016. Table C was in effect in 2022 and 2023 pursuant to Chapter 73 of 2021, which also resulted in an \$830 million infusion of federal funds into the trust fund in 2021. Table A was in effect in 2024 and is once again in effect in 2025.

As of January 1, 2025, the trust fund balance was \$1.9 billion.

Source: Department of Legislative Services

Benefit Payments

Generally, the weekly benefit amount a claimant is eligible for is based on the quarterly wages that the claimant was paid for covered employment in the calendar quarter of the claimant's base period in which those wages were highest. The base period is the first four of the last five completed calendar quarters immediately preceding the start of the benefit year, or, if the individual does not qualify under that definition, the four most recently completed calendar quarters immediately preceding the start of the benefit year.

Weekly benefit amounts range from \$50 to \$430 per week, based on earnings in the base period. There is also a dependent allowance of \$8 per dependent, for up to five dependents, although the allowance cannot raise the weekly benefit amount above \$430. The first \$50 of any wages earned by an individual receiving UI benefits in a given week is disregarded for purposes of calculating the weekly benefit amount, after which the benefit payment is reduced dollar for dollar. These amounts do not adjust for inflation. Generally, during a benefit year, a claimant is entitled to 26 times the claimant's weekly benefit amount. During periods of high unemployment, extended benefits may also be available.

2021 Legislation Enhanced and Required Evaluation of the State Unemployment Insurance System

The unprecedented volume of claims and benefit payments due to COVID-19 strained the State UI system to its limit, which raised numerous concerns about the system's ability to effectively meet the needs of claimants and employers. Consequently, during the 2021 legislative session, the General Assembly required several system reforms, including an [MD Labor-led study](#) regarding various longer-term reforms.