House Bill 152

Budget Reconciliation and Financing Act of 2017

MACo Position: **SUPPORT WITH AMENDMENTS**

To: Appropriations Committee

Date: February 28, 2017

From: Michael Sanderson & Barbara Zektick

The Maryland Association of Counties (MACo) **SUPPORTS** HB 152 **WITH AMENDMENTS**.

This bill is the Budget Reconciliation and Financing Act (BRFA), reconciling various provisions incorporated into the Administration's FY 2018 fiscal plan, bringing the proposed budget into balance for the year. MACo appreciates the difficult task of constructing a balanced budget plan. However, counties are concerned with certain components of the BRFA and their future effect on local governments. The Association also has concerns with further budget reductions included in the Department of Legislative Services' (DLS) budget analyses.

MACo does not object to a reasonable local component of a state budget plan, and counties are willing to represent a fair share of needed cutbacks. Inordinate and unwise cost shifts, however, are a central part of county objections.

HIGHWAY USER REVENUES

Proposes a severe funding reduction and shift away from counties' Highway User Revenues (HUR). Counties are already suffering from a $3 billion reduction in HUR since FY10. Additional reductions will debilitate county budgets and local services.
MACo requests that the Committee reject the DLS recommendation

In its analyses, DLS recommends flat funding county governments' share of highway user revenues and local transportation grants (a $28 million reduction, mostly to counties), and shifting $25 million of proposed highway user revenues away from counties to fund the Maryland State Police.

Maryland counties have identified reinvestment in local roads, bridges, and infrastructure as their top legislative initiative for this session – as they have for years following the devastating cuts to local transportation aid in 2010. The Great Recession forced cuts to this area deeper than those in any other component of the state budget. Twenty-three counties' share of funds plummeted from $282 million in 2007 to only $27 million today. Baltimore City alone now receives $85 million less each year than before the cuts. The cumulative loss of local roadway investment since Fiscal 2010 is nearly $3 billion. Meanwhile, it is unquestionable that local governments maintain the lion's share of the roads and bridges in our state.

The DLS proposed cut of $28 million from the Governor's proposal (and the shift of $25 million in these funds to support State Police costs) rubs salt in the wounds of counties still grappling with how to maintain their roads given these extreme cost shifts. While arguably abiding by the letter of the law, this shift of funds from the Transportation Trust Fund to cover costs not traditionally funded with transportation revenues also flies in the face of the voters' intent when they ratified the Transportation Trust Fund lockbox referendum in 2013. MACo respectfully requests that the Committee reject this staff recommendation and close General Fund gaps from sources other than highway user revenues.

PROPERTY TAX ASSESSMENT COST SHARE

Proposes shifting costs to counties by $10.8 million in FY 2018 and $21.4 million and up thereafter.
<u>MACo requests that the Committee reject this proposal on policy grounds</u>

The BRFA proposes increasing counties' reimbursement for State Department of Assessments and Taxation (SDAT) functions including costs of real property valuation, business personal property valuation, and information technology. Since 2013, counties have reimbursed the state for 50 percent of the costs for these functions, but the BRFA proposes increasing this share to 70 percent in fiscal 2018 and 90 percent thereafter. In addition, the BRFA proposes requiring counties to pay for 70 percent of the costs of the Office of the Director in fiscal 2018, and 90 percent thereafter – a cost previously covered entirely by the State.

This proposed permanent cost shift not only imposes a high fiscal burden on counties, but threatens the objective nature of having assessment functions managed and funded by an entity that does not meaningfully, directly benefit from the results of those assessments. Having assessments conducted by the State, rather than the counties, helps assure taxpayers that the assessing body provides objective, unbiased analysis. This becomes compromised when the assessing body receives significant funds from the jurisdictions directly benefiting from the results of those assessments. This cost shift, in effect, places the fox in the hen house by compromising the Department's unbiased nature.

Additionally, this cost shift requires counties to fund, almost in their entirely, functions over which they have no managerial control. So long as the State does not bear the burden of costs resulting from managerial decisions, the Administration will have no incentive to contain those costs, or ensure management choices are generally fiscally prudent.

In 2014, the Maryland General Assembly created the Maryland Assessment Work Group (AWG) to examine issues related to the assessment processes for real and personal property, tax credits, and exemptions. The AWG made a number of recommendations, including:

- Tasking SDAT with examining and improving its business processes to maximize efficiency related to its assessments and administration; and
- Suggesting the creation of an Advisory Council to address the fact that local governments are major business partners with SDAT, to include local government representatives and ensure progress on business process improvements within the Department.

The 2015 Joint Chairmen's Report provided:

It is the intent of the committees to assure progress on the implementation of the 2014 Assessment Workgroup (AWG) recommendations by directing the State Department of Assessments and Taxation

> *(SDAT) to establish a State and Local Advisory Council. … The advisory council shall meet periodically to discuss issues of mutual interest, including but not limited to the assessment of real and personal property and tax credit programs and exemptions; guidance on the implementation of the AWG recommendations from the December 15, 2014 report; and, business process changes and the leveraging of new technologies to achieve greater operational efficiencies.*

No such legislation has been introduced. Without any oversight or participation on an advisory council such as that proposed, counties should not have to bear the brunt of funding nearly all of the operations of many of SDAT's core functions.

FLAT-FUNDING LOCAL AID

Proposes flat funding to many local departments – MACo does not object, overall.
<u>MACo requests that the Committee give close consideration to jurisdictions that would be deeply burdened by the impacts of flat funding, particularly with the Disparity Grant program</u>

Counties appreciate that this is a tough year to make budget decisions, and does not object to the Governor's proposal to flat fund most local aid in fiscal 2018, including aid to local health departments, State Aid for Police Protection, and Local Income Tax Disparity Grants. Flat funding disparity grants, however, has a disproportionate impact on Prince George's and Wicomico counties, which suffer cuts of $6 million and $1 million, respectively. MACo would welcome efforts to "smooth" impacts on these two counties to ensure that flat funding does not unintentionally place the burden of balancing the budget on specific jurisdictions.

OVERRIDE SPENDING FORMULAS IN PERPETUITY

Proposes dramatic long-term reductions by permanently capping formula increases.
<u>MACo urges the Committee to reject this section of the BRFA</u>

Section 9 of the BRFA is intended to reduce out-year expenditures by permanently capping formula increases in statutorily mandated programs to the level of general revenue growth minus 1 percent. In effect, this section could have some of the deepest and longest-lasting effects of any fiscal policy, as formulas and spending priorities would be dramatically abrogated over time. The compounding effect of this "mandate relief" along with the separate proposal to alter the way the state recognizes income tax revenue, could place these important programs in even deeper jeopardy and uncertainty. MACo would urge the Committee to reject this section of the BRFA, and to retain the year-by-year public hearings and evaluations of any cuts and changes needed to effect that year's budget plan.

CONCLUSION

MACo and county leaders are prepared to work with state policymakers on all of these issues, and other considerations, as part of a responsible balanced budget plan. MACo hopes that state leaders recognize that burdens on county budgets are substantial, and these challenges would only be worsened by added cost shifts or disproportionate budget cutbacks on county programs.