MARYLAND Association of COUNTIES

Senate Bill 187

Budget Reconciliation and Financing Act of 2018

MACo Position: **SUPPORT WITH AMENDMENTS**

To: Budget and Taxation Committee

Date: February 28, 2018

From: Barbara Zektick

The Maryland Association of Counties (MACo) **SUPPORTS** SB 187 **WITH AMENDMENTS**.

This bill is the Budget Reconciliation and Financing Act (BRFA), reconciling various provisions incorporated into the Administration's FY 2019 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 one particular component of the BRFA and its future effect on local governments.

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. Counties, however, find that shifting costs to counties of approximately $20 million for State Department of Assessments and Taxation (SDAT) to be inordinate and unwise.

PROPERTY TAX ASSESSMENT COST SHARE

Proposes shifting costs to counties by approximately $20 million in FY 2019 and thereafter.
<u>MACo requests that the Committee reject this proposal on policy grounds</u>

The BRFA proposes increasing counties' reimbursement of 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 90 percent, permanently. In addition, the BRFA proposes requiring counties to pay for 90 percent of the costs of the Office of the Director, permanently – 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.

OVERRIDE SPENDING FORMULAS IN PERPETUITY

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

Section 8 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 effect of this "mandate relief" would place important county programs in 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.