# Senate Bill 192

*Budget Reconciliation and Financing Act of 2020*

MACo Position: **SUPPORT WITH AMENDMENTS**

To: Budget & Taxation Committee

Date: February 26, 2020

From: Kevin Kinnally

The Maryland Association of Counties (MACo) **SUPPORTS** SB 192 **WITH AMENDMENTS.**

This bill is the Budget Reconciliation and Financing Act (BRFA), reconciling various provisions incorporated into the Administration's FY 2021 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.

**PROPERTY TAX ASSESSMENT COST SHARE**

***Proposes shifting millions in costs directly to counties FY 2021 and thereafter.***

***<u>MACo requests that the Committee reject this proposal on policy grounds</u>***

> The BRFA proposes increasing counties' reimbursement of 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 60 percent, permanently.
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> This proposed permanent cost shift not only imposes a significant 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.
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> Additionally, this cost shift requires counties to fund 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 the majority of the operations of many of SDAT's core functions.

## COMMUNITY COLLEGE FUNDING REDUCTIONS

***Proposes dramatic, long-term reductions by altering the future Cade Funding Formula increases to the level of projected general fund revenue growth.***

***<u>MACo urges the Committee to reject this section of the BRFA</u>***

The Cade Funding Formula originally called for the State to provide 29% of community college funding by 2012. However, the State has adjusted the formula several times – delaying its commitment to fully fund the Cade formula. Under current law, funding is based on an amount equal to 25% of the State Aid per FTES (full-time student enrollment) at the selected four-year schools. This increases to 27% in fiscal 2022 and 29% in fiscal 2023 and thereafter.

The BRFA proposes amending the Cade Funding Formula to limit the growth of community college funding. Beginning in FY 2022, funding for community colleges is limited to the FY 2021 appropriation plus the annual percentage increase in General Fund revenues above the estimated annual increase in General Fund revenues, which is calculated by the Board of Revenue Estimates. As a consequence of this alteration, the funding formula would no longer be annually linked to the FTES population, fixed cost, marginal cost, size factor, or hold harmless provision at the respective community colleges.

<u>DLS estimates that this proposal would cut overall funding for community colleges by approximately $121 million by FY 2025.</u>

When state funding for community colleges lags, additional pressure builds on county budgets and on student tuition. When county budgets face distress from the economic climate or state actions, the local contributions cannot reliably offset these cutbacks. For the past several years, this combined dynamic has led to increased tuition costs for Maryland community college students, at a time when the training and education opportunities are arguably most needed.

**HIGHWAY USER REVENUES**

***Proposes diverting $5 million of Baltimore City's Highway User Revenues for capital improvements to the Howard Street Tunnel.***

***<u>MACo urges the Committee to reject this section of the BRFA</u>***

The BRFA proposes diverting $5 million per year of Baltimore City's share of highway user revenues to the Maryland Department of Transportation for four years beginning in fiscal 2021 to support the Howard Street Tunnel project.

The State created the highway user revenue formula in 1968, and for more than forty years afterward, local governments had received at least 30 percent of transportation revenues—mostly motor fuel tax and vehicle registration fees—to fund their roads and bridges. 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 nearly $300 million in 2007 to only $40 million in 2018: an 87 percent decimation. In 2018, Baltimore City alone received nearly $100 million less than it did before the cuts.

Chapters 330 and 331 of 2018 provide counties, municipalities, and Baltimore City with additional highway user revenues for five years beginning in fiscal 2020. The five-year statutory mandate provides welcomed stability for local transportation planners, who are able to forecast a revenue stream without year-to-year uncertainty.

It is unquestionable that local governments maintain the lion's share of the state's roads and bridges. Unlike most other states, in Maryland, local governments own and maintain 83% of the roads. **Diverting local highway user revenues to fund state capital improvement projects sets an alarming precedent**, **jeopardizing these desperately needed funds**.

## OVERRIDE SPENDING FORMULAS IN PERPETUITY

***Proposes dramatic long-term reductions by permanently capping formula increases.***

*MACo urges the Committee to reject these provisions of the BRFA*

> Several provisions of the BRFA, and accompanying legislation, are intended to reduce out-year expenditures by permanently capping formula increases in statutorily mandated programs to the level of general revenue growth. In effect, these provisions 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 these provisions, 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.