



BILL NO.: House Bill 151
TITLE: Budget Reconciliation and Financing Act
POSITION: **SUPPORT WITH AMENDMENTS**
DATE: March 5, 2010
COMMITTEE: Appropriations
CONTACT: Michael Sanderson

The Maryland Association of Counties (MACo) **SUPPORTS HB 151 with AMENDMENTS**. This bill reconciles various provisions of the Administration's FY 2011 budget plan, and carries numerous budget reductions into future years. MACo acknowledges that county participation in the budget reconciliation process is inevitable, but urges consideration of the magnitude and effect of the proposed cuts. Further, some specific long-term cuts represent an inappropriate extension of the required budget reconciliation, and should be rejected.

CUTS TO LOCAL GOVERNMENTS

The Maryland Association of Counties (MACo) recognizes that the national economic recession has created profound challenges for governments at every level. The reductions enacted by the General Assembly in 2009 made that point clear, as local governments suffered deep reductions to important programs. However, the continued economic difficulty necessitated further reductions in August 2009, effected by the Board of Public Works. In the aggregate, these two waves of local government cutbacks have compounded the economic effect on local government revenues, leaving important county services without essential support. These reductions translated very directly into hundreds of local government layoffs, widespread furloughs, and many counties dipping into "rainy day" funds and one-time balances.

The Governor's proposed FY 2011 budget calls for a continuation of all these cuts into the coming year. With many one-time solutions already fully exhausted from the FY 2010 budgeting and mid-year cycles, many counties will face even deeper challenges in the year ahead.

MACo does not expect that the State budget challenges will be resolved without affecting county government. However, the continued merging of State education aid with the funding that actually reaches local government hides the real effects. Funding to local governments in the proposed FY 2011 budget plan is \$600 million below that of FY 2007, representing a cutback of more than 60% in that short time. Simply put, no other major area of State funding has been called upon for such deep cutbacks to resolve the State's difficulties.

As the General Assembly contemplates the more structural elements of the Governor's budget plan, those incorporated into the Budget Reconciliation and Financing Act (BRFA), MACo urges sensitivity to these facts, and calls attention to the dire effects on local government functions and services that are likely to arise.

HIGHWAY USER REVENUES

No other element of the county government budget has suffered the reductions faced by Highway User Revenues (HUR), the share of State-levied transportation revenues directed by statute to local governments for local roads maintenance, snow removal, and infrastructure development. With no other dedicated transportation revenues available, counties depend on this revenue stream to support the bulk of (and in some cases, all of) the county road and bridge maintenance budget.

The General Assembly's 2009 cuts required a dramatic reduction in local projects and maintenance schedules, but the subsequent August 2009 cuts by the Board of Public Works left local public works budgets in shambles. Nearly every county has suffered a State funding cut of more than 95% – as some \$340 million was shifted from local roadways to the State general fund.

The BRFA extends these cuts for two additional years, essentially flat funding local roads at this “starvation budget” level. These cuts affect all components of the county budget, as some roadway maintenance and repair is absolutely essential – a point driven home by the record snowfalls hitting Maryland in February 2010.

MACo recognizes the need to extend HUR reductions into the coming year, but hopes that the General Assembly does not receive this practical acquiescence as agreeing to a long-term shift in fundamental responsibilities. Dedicated transportation revenues are a foundation of Maryland's well-balanced revenue structure, and motorists are entitled to a sense that their contributions are being targeted properly to the transportation infrastructure that serves them. Extending this diversion of local HUR funds beyond the immediate fiscal crisis betrays this public trust.

LOCAL HEALTH DEPARTMENTS

While not technically an arm of the county government per se, Local Health Departments provide an essential “front line” service to the public. They depend on a stream of core funding from a State formula, grant funding for specific operations, and additional county funding. In the last two years, Local Health Department funding has been decimated by unusual statutory interpretations and outright cutbacks. The collective toll has restricted State core funding from a peak of \$70 million down to nearly \$37 million in the proposed FY 2011 budget.

Compounding this difficult cutback, especially during times of unparalleled attention to public health concerns, is the BRFA proposal to not only extend this \$37 million funding level for FY 2011 and 2012, but to then “rebase” this funding at that level going forward. No other funding program in the entirety of the State budget plan has been identified for this permanent, structural reduction – but the BRFA singles out Local Health Departments for this cutback. MACo urges the Committee to consider any necessary cuts to Local Health Departments as temporary, only applying to FY 2011 and 2012 and comparable to the other aid reductions and formula adjustments.

PUBLIC SAFETY AND CORRECTIONS

Counties have the least flexibility in local jail reimbursements and police aid. Ongoing cuts of more than \$20 million to police aid, and the permanent cut (enacted in last year's BRFA) to local jail reimbursements, strike essential county functions hard. Law enforcement units must still patrol the streets, and sentenced inmates must still be housed, regardless of the availability of State funding. While some operational efficiencies can be sought, an annual reduction of some \$50 million simply amounts to a shift from State funding to county funding.

LOCAL INCOME TAX RESERVE FUND (LITRF)

The BRFA also proposes to transfer \$350 million from the LITRF to the State General Fund. The bill specifies repayments from the General Fund back to the LITRF would begin FY 2014. This movement of State-managed funds does not directly affect county government finances, but does carry an actuarial risk that a LITRF fund balance would be, at some future point, insufficient to provide a full regular distribution of county income taxes. Given LITRF history and its funding structure, this is very unlikely. Counties recognize that the State's obligation to properly distribute income taxes would prevail in such a circumstance.

CONCLUSION

MACo acknowledges the difficult decisions facing State decision makers for the FY 2011 budget, and beyond. Uncertainty in the State's own revenue structure, the presence of federal support, and demand for government services plagues the assembly of a responsible budget plan. The FY 2011 plan, represented in the BRFA legislation and accompanying budget, will likely be the toughest on record for county governments. MACo and county leaders urge the Committee to recognize this reality, and be sensitive to local fiscal challenges as additional refinements for this year and beyond are contemplated.