



**Presentation  
to the  
Joint Legislative Workgroup to Study  
State, County, and Municipal Fiscal Relationships  
October 8, 2009**

Thank you for the opportunity to speak with you today regarding the state of county finances, including our concerns regarding State budgetary reductions. The following individuals will present their perspectives on many pressing issues facing local jurisdictions, as well as respond to any questions.

David R. Craig, County Executive, Harford County  
Wayne Cooper, President, Charles County Commissioners  
Richard M. Pollitt, County Executive, Wicomico County  
Cathleen M. Vitale, Chairman, Anne Arundel County Council  
Michael Sanderson, Executive Director, MACo

Maryland's local jurisdictions have a direct impact on the every day lives of individuals, yet they face many challenges to meet the needs of their constituencies. MACo and its members understand the fiscal challenges facing the State. However, we are concerned by the manner in which reductions have been made and feel that we have been forced to share an undue burden of the cuts.

State general and special fund aid to County and Municipal Governments has been reduced by 60% since FY 2007. **Exhibit 1.** The majority of these reductions have been made in Highway User Revenue (HUR). In FY 2007, HUR was funded at \$562.1 million. In FY 2010, HUR is funded at \$156.1 million. Significant reductions have also been made in the areas of public safety, land preservation, and direct county and municipal grants. When examining funds from all sources during the same time frame, FY 2007 to FY 2010, direct funding for County and Municipal Governments has declined by over \$520 million while funding for Education and Libraries, Entitlements, and State agencies has increased by over \$1 billion each. Education funding alone has increased by over \$1.3 billion. **Exhibit 2.** No area of State government has faced spending reductions approaching the magnitude suffered by local governments. Further, the overall County and Municipal share of the State budget has declined from 3% in FY 2007 to 1% in FY 2010, while the State agency share has remained the same and the Education and Library share has increased from 18% to 21%. **Exhibit 3.**

An area of frustration for many local officials is that while the State has protected education aid from reductions, the calculated percentage reduction to local government aid includes education. "Aid to Local Governments" is frequently said to be 40% of the State General Fund budget. However, looking more closely, approximately 38% is funding for education and a far smaller share of the General Fund is direct funding to local governments. The counties continue to support education; most counties put more money into education than all other budget categories combined. However, when roughly half of every county budget has been taken off the table for

reductions, it results in a jurisdiction being forced to take reductions in critical program areas, such as public safety, even though some efficiencies could have been achieved in the education area.

Compounding this frustration is county concern over the Maintenance of Effort (MOE) waiver process. When the General Assembly codified the waiver process in statute, the counties believed that it would provide a balanced process for a financially stressed county to waive all or part of its MOE requirement. However, based on the State Board of Education's summary denial of all three waiver requests earlier this year, MACo feels that the waiver process is neither objective nor balanced and must be reformed. Meanwhile, counties are faced with a budget requiring school funding to be "maintained" while other areas of the county budget are being slashed.

Actions taken by the General Assembly during the 2009 Session and the Board of Public Works during the interim have resulted in all jurisdictions taking steps to reduce their budgets. **Exhibit 4** summarizes actions taken by local jurisdictions to date to achieve funding reductions while attempting to maintain a certain level of service. To date, 12 jurisdictions have enacted layoffs of current employees totaling 419 employees. Especially significant is the number of health department employees being laid off at a time when we are facing a Swine Flu epidemic. Prince George's County has laid off 40 health department employees and St. Mary's County has laid off 12. In addition to local departmental reductions of up to 25% in some jurisdictions, a total of 14 counties have dipped into Rainy Day and Reserve funds, for some both funds and multiple times. This information is still being compiled and an updated overview will be provided at a later date.

As local jurisdictions try to cope with the cuts already taken, there is the fear that more may be shifting our way. There has been talk for a few years now about the shifting of teacher pensions to the local governments. We are sure that as a growing area within the State budget these discussions will come before this body. Also of concern is the increasing number of unfunded mandates. As these costs are shifted or realized, county governments must find the means to pay for them. Some jurisdictions may be forced to raise property taxes to do so. Jurisdictions with property tax caps will need to make drastic cuts to fund these mandates or find other sources of revenue to do so. Regardless of the approach, this could put our local officials in a very difficult position and jeopardize services over the course of the next few years. **Exhibit 5** provides information on property tax limitations, State-mandated tax credits and limits, and county taxing authority.

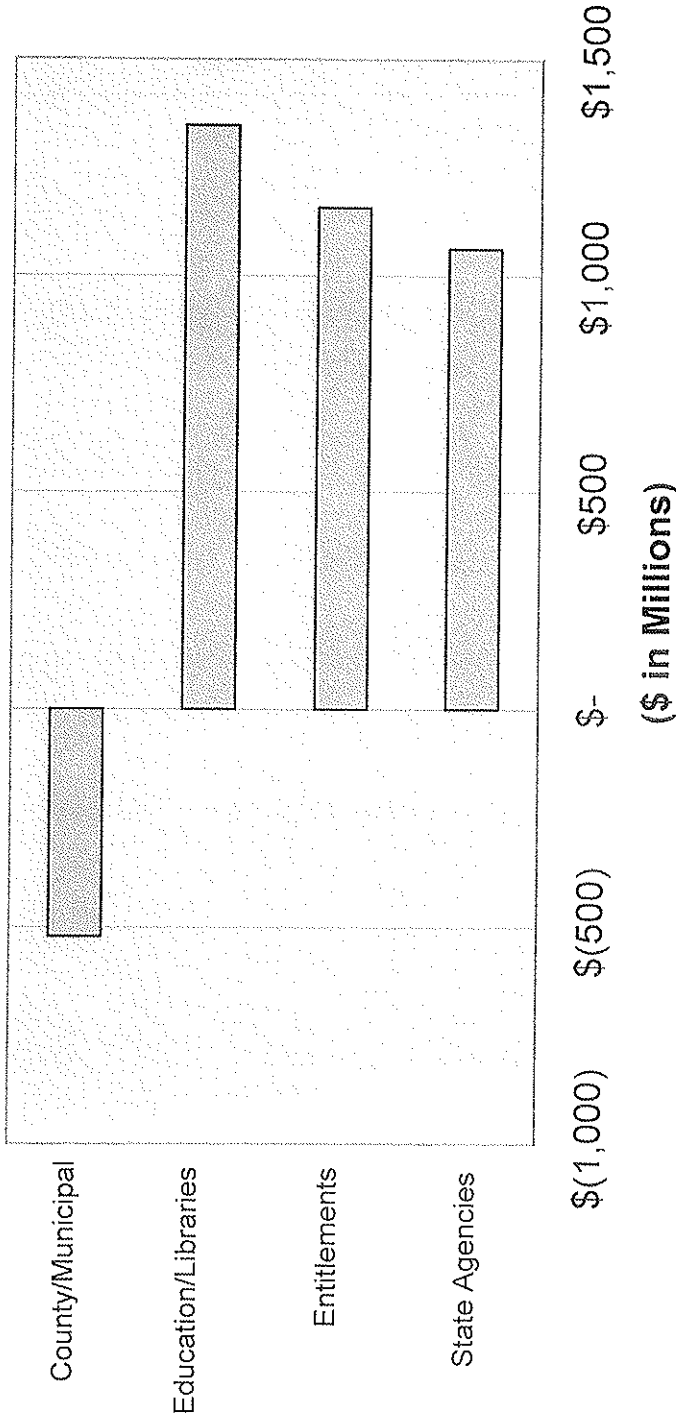
We understand the challenges before you, including the balancing of the FY 2011 budget. We would like to note that State aid to local government is only one piece of the puzzle and not a major driver, as pointed out in one of the DLS presentations during the last workgroup meeting. We do not envy where you sit, but we greatly appreciate the open dialogue and comprehensive look at county finances. We ask that you look to MACo as a resource as you work over the next year and half. Again, we want to thank you for giving us the opportunity to speak with you today.

## State Aid to County and Municipal Governments - Recent Actions and Trends

<u>Area of Support</u>	<u>FY 2007 funding</u>	<u>FY 2010 funding</u>	<u>Percent Change</u>	<u>Budget Actions This Term</u>
<b>Transportation</b>	562.1	156.1	-72%	Highway User Formula reduced \$18m/yr - 2007 special session Highway User Revenues reduced \$162 million - 2009 regular session Highway User Revenues permanently reduced - 2009 regular session Highway User Revenues reduced by 90% for most - 2009 BPW
<b>Public Safety</b> (including local jail reimbursements)	130.5	90.8	-30%	Local jail reimbursements eliminated for FY 2010 - 2009 regular session Local jail reimbursements reduced permanently - 2009 regular session Police Aid reduced by \$20.5m - 2009 BPW
<b>Land Preservation</b>	135.6	9.2	-93%	Local POS funds diverted to support state parks - 2007 special session
<b>Direct County &amp; Municipal Grants</b>	149.3	133.2	-11%	Electric utility grant eliminated - 2007 special session Disparity grants "capped" permanently - 2009 special session
<b>Total</b>	<b>977.5</b>	<b>389.3</b>	<b>-60%</b>	Direct county funding rolled back to approximately the 1984 level

Source: Department of Budget and Management; Department of Legislative Services

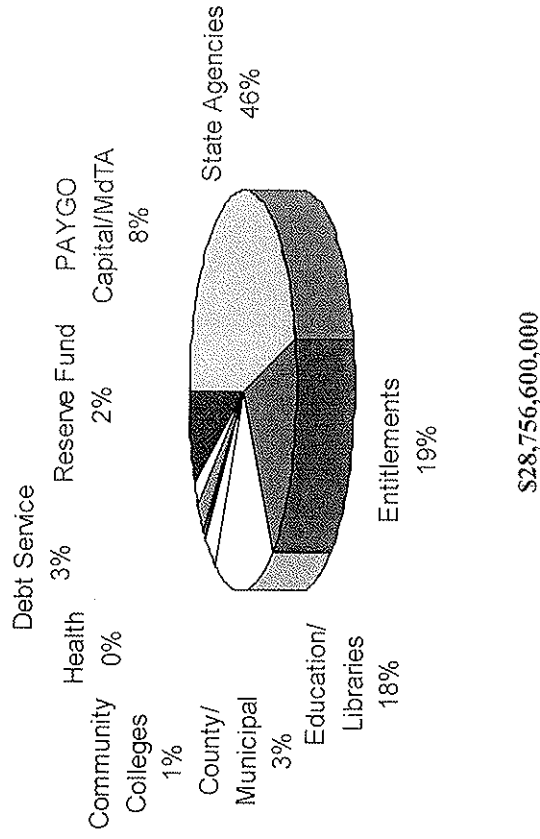
### Change in Spending - All Funds FY 2010 over FY 2007



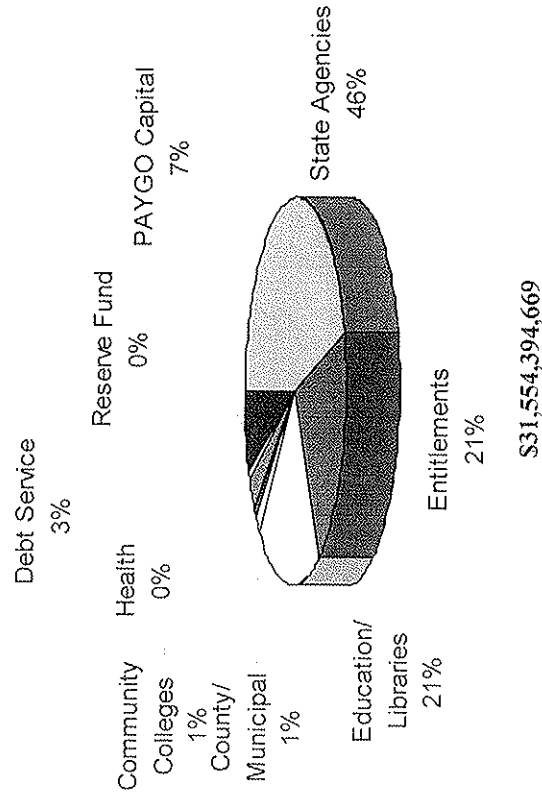
Notes: County/Municipal does not include community colleges and health; Totals include BPW reductions from July and August 2009  
Source: Department of Legislative Services, 90 Day Report; Department of Budget and Management

# State Budget Expenditures by Category (all funds) FY 2007 and FY 2010 post BPW Reductions

FY 2007 Actual



FY 2010 w/BPW Reductions



Source: Department of Legislative Services, 90 Day Report; Department of Budget and Management

FY 2010 County Budgets – A Snapshot-October 8, 2009

(With information still coming in from counties)

Action	Prior /Following 2009 session	Since August 26 BPW cuts
No general COLA to county employees	At least 18 counties	At least 18 counties
Eliminated positions	12 counties	16 counties (1105 and counting)
Enacted layoffs of current employees	7 counties (totaling 308 employees)	12 counties (419 employees and counting)
Enacted furloughs or salary reductions (range of 5-10 days)	4 counties	8 counties (and counting)
Dipped into Rainy Day/Reserve funds	12 counties	14 counties (some used again)
Increased service fees	4 counties	7 counties
Cut department budgets across the board (amount ranges up to 25%)	14 counties	20 counties

Source: Maryland Association of Counties survey June and September, 2009

## County Tax Limitations

### Charter Limitations on Property Taxes

<u>County</u>	<u>Established</u>	<u>Type of Limitation</u>	<u>Effect of Limitation</u>
Anne Arundel	1992	Revenue cap	Revenue increase limited to the lower of CPI or 4.5%
Montgomery	2006	Procedural - Supermajority	Rate increase only by unanimous vote of Council
Prince George's	1978	Rate cap	County tax rate limited to \$0.96 per \$100 of assessed value
Talbot	1978	Revenue cap	Revenue increase limited to the lower of CPI or 2%
Wicomico	2002	Revenue cap	Revenue increase limited to the lower of CPI or 2%

### State-Mandated Tax Credits and Limits

- County income taxes are a broad revenue source in Maryland (more so than in any other state) but are limited to a rate of 3.2% by State law. Over 2 million Maryland residents already pay this maximum rate, and 3 out of 5 residents pay a rate at 3% or higher (very near the maximum level allowed under State law), significantly impeding the ability of counties to rely on income tax revenues as an option to backfill budget cuts.
- The State imposes a number of tax credits and exemptions from the property tax, removing some property that would otherwise be taxable from the tax rolls. Tax credits are imposed on a variety of real and personal property, generally related to the nature of the property's owner or the property's effective use.
- County and municipal governments are required under the State's "Constant Yield" law to publicly advertise a "Notice Of Tax Increase" in any year where its rate exceeds the constant yield tax rate (CYTR), and hold a public hearing on the matter. Failure to comply with the detailed requirements of this law results in the State imposing the CYTR for that jurisdiction for the upcoming year.

### Uneven Tax Authority Among Counties

- County governments, especially those counties under the Commissioner form of government (those not adopting home rule either through the Code or Charter forms of government) have a wide variation in their taxing authority, with two notable examples:
  - Property Transfer Tax: only 17 counties have enabling authority to impose
  - Impact Fees / Development Excise Taxes: imposed by 16 counties, with wide variation