MARYLAND ASSOCIATION
OF COUNTIES, INC.

Presentation to the
House Ways and Means Committee
2012 Session Priorities
February 2, 2012

Thank you for the opportunity to speak with you today regarding the state of local government finances and the challenges local governments will face over the next several years. The following individuals will present their perspectives on many pressing issues facing local governments, as well as respond to any questions.

Ingrid M. Turner, Councilmember, Prince George's County
Isiah Leggett, County Executive, Montgomery County
Steve Arentz, President, Board of County Commissioners, Queen Anne's County
Michael Sanderson, Executive Director, MACo

Considering the State's approximate $1 billion budget deficit, local governments recognized that FY 2013 would be a difficult budget year. The Governor's proposed budget presents a massive and immediate shift in teacher pension costs to county governments. This simply could not have come at a more difficult time. Local revenue sources are stagnant at best and county budgets are already stressed by personnel costs and essential services. Further, education budgets are already stretching county budgets and creating massive disparities between county and school staff. We hope our presentation today will provide a better understanding of the fiscal challenges local governments are struggling with as they work to balance their budgets.

County Finances

The recent weakened economy has wreaked havoc on the counties just as it has on the State. However, the counties have been squeezed on multiple sides. Not only has county revenue declined, but State assistance to county and municipal government has also suffered disproportionately as part of the State's budget balancing.

The counties' fiscal picture is best observed through their top revenue source, the property tax. The property tax base is in unprecedented decline. The last three years' assessment cycles yielded actual declines in value of 20%, 22%, and 17%. For most jurisdictions, retaining the same property tax rate yields lower revenues for local services. Many jurisdictions are already projecting shortfalls for FY 2013.

Lastly, State aid going directly to counties and municipalities in the areas of health, public safety, land preservation, and roadways has been drastically reduced in recent years. Just a few years ago in FY 2008, State aid directed to local governments totaled almost $1 billion. Today, it is approximately half that amount. Cumulatively, local governments have foregone approximately $1.8 billion in State aid since FY 2010.

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Pensions

As counties have coped with declining revenues and reductions in State aid, there was widespread and understandable fear that more would be shifting their way. This fear is now a reality with the Governor recommending a shift of teacher pension costs to county governments. This proposed cost shift is occurring all at once, not a phased-in approach like previous proposals. Although a series of actions are also being sought to "mitigate' some portion of these costs, counties strongly oppose this fundamental shift of responsibilities.

Even the Administration's own materials acknowledge that only "year one" is the offset target for the bill's other fiscal components. After FY 2013, contribution costs go up, the local offsets go down, and counties will take an even bigger hit, leaving many counties seeking local tax increases even in the most optimistic of scenarios.

Further, many components of this offset will take extensive discussion and compromise during the Session. There has already been much discussion about the capping of income tax deductions and the phasing-out of exemptions for high income earners; and counties cannot build a budget on the closing of a transfer tax loophole when these types of transactions vary from one year to the next. Further, some of the mitigation effort relieves burdens on school boards, rather than the counties who receive the new shifted pension burden.

The Administration correctly points toward three cost drivers for pensions: benefit design/employee cost sharing; investment performance; and growth in teacher salaries. None of these elements are within county government control. The plan design is entirely a creation of state law, the system's investments are managed by a state-appointed Board, and teacher salaries have been fueled by state funding formulas. Under state law teacher salaries are negotiated by school boards, not counties.

Counties disagree that shifting funding responsibility does anything to improve the sustainability of state pension funding, it simply relocates these cost burdens – away from the level of government that has complete control over benefit levels and investment decisions; and has deliberately guided policy toward wage increases, and toward the level of government that has played the far lesser role in these cost changes.

Counties also differ with the Administration's claim that a "sharing of retirement costs will incentivize locals to consider the impact of salary decisions on retirement benefits." County governments have no control over the setting of teacher salaries, and do not even have a seat at the table to negotiate benefits and terms. This responsibility lies solely with the boards of education. Shifting retirement costs to the county does not provide an incentive for boards of education to hold the line on salaries, any more than current law requires school budget proposals to reflect any fiscal consideration or balance. School boards are free to negotiate and propose any budget they deem suitable, and the county is to work within the narrow confines of the state's funding requirements and its own other service needs to arrive at a balanced budget.

School Accountability and Maintenance of Effort

Recent struggles over school funding have highlighted county difficulties in managing public school expenses. The state's long-standing Maintenance of Effort (MOE) law requires counties to maintain education funding from one year to the next or risk losing State funding. In effect, this has forced most counties to slash funding for other important services well below prior funding levels, while education

funding has essentially been held harmless. As counties have worked to balance their budgets, they have identified many ways to partner with the BOEs to cut costs and achieve economies of scale. However, there is no incentive for the BOEs to take part in these efforts.

Counties are seeking a stronger partnership in guiding investments in public funds, not in the areas of curriculum or programmatic functions, but in overhead and administrative functions. Counties would like to see more equitable treatment of school and county personnel, improvements in the MOE process, governance and disclosure of outside reserve funds, reasonable refinements to the school budget process, and a better process for the determination of non-recurring costs. We look forward to working with you on this issue during the session.

Highway User Revenues

Maryland's local governments have responsibility for most of the state's transportation system, yet they are faced with many challenges in helping to oversee and maintain this system. Local governments are responsible for more than 80% of Maryland's road miles, but over $1 billion in Highway User Revenues (HUR) diverted to the state has devastated local funding to maintain roadways and fund operations.

Since FY 2010, local governments have foregone approximately $1 billion in HUR funding. The most drastic action was taken in FY 2010 when the Board of Public Works reduced these distributions by 95% for most jurisdictions. Then during the 2010 General Assembly session, these deep reductions were extended permanently.

The Blue Ribbon Commission on Maryland Transportation Funding has recommended as one of its goals the restoration of the historic 30% share of HUR to local governments. Counties hope that State policy makers will support this recommendation and will take steps to restore these revenues.

We have highlighted a number of issues and fiscal concerns facing local governments. There are also a number of environmental and planning proposals that are threatening local land use controls, some of which will result in significant costs for counties. Counties have estimated that the implementation of Watershed Implementation Plans could cost billions to upgrade and retrofit storm drains and sewer systems to meet these requirements. We ask that you keep these costs in mind as well as the other issues that we have raised today as you make decisions that will affect county budgets in FY 2013 and beyond.

Thank you for giving us the opportunity to speak with you today.