Senate Bill 362

Budget Reconciliation and Financing Act of 2024

MACo Position: **SUPPORT WITH AMENDMENTS**

To: Budget and Taxation Committee

Date: February 29, 2024

From: Kevin Kinnally

The Maryland Association of Counties (MACo) **SUPPORTS** SB 362 **WITH AMENDMENTS.**

This bill is the Budget Reconciliation and Financing Act (BRFA), reconciling various provisions incorporated into the Administration's fiscal 2025 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.

PERMANENT COMMUNITY COLLEGE FUNDING REDUCTION

Proposes dramatic, permanent reductions in state funding for Maryland's community colleges.

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

The Senator John R. Cade funding formula – which bases community college funding on a percentage of the appropriation per full-time enrollment student (FTES) at four-year public higher education institutions – aims to provide community colleges with predictable operations support and help maintain affordable tuition rates.

However, for 25 years, the State employed formula-rebasing techniques to decrease community college funding or delay full funding of the formula, resulting in a lengthy history of imbalance in state support of its community colleges compared to public four-year colleges. From 2009 to 2022, the State shortchanged community colleges by over $140 million, further harming Maryland's most vulnerable student population.

For the past two years – for the first time – the State fulfilled its obligation to fully fund Maryland's community colleges. Achieving this goal is more than just receiving an increase – it is a recognition that students enrolled in community colleges deserve the same level of support as those in public universities.

When fully funding the Cade formula, the State supports equitable access to higher education for all Marylanders. However, by rebasing one formula, the State effectively prioritizes one segment over the other.

The BRFA proposes permanently altering the Cade formula by arbitrarily changing the enrollment calculation and lowering from 29% to 26.5% of the funding provided per FTES compared to the four-year schools. In addition, the bill cuts the hold harmless provision of the Cade formula − making it even more difficult to budget effectively and maintain essential programs and services.

DLS estimates that this proposal would cut overall funding for community colleges by approximately $138 million by fiscal 2029.

When state funding lags, additional pressure builds on county budgets and student tuition. As county governments are similarly facing budget constraints, these cuts will result in tuition increases at a time when training and education opportunities are most needed.

Maryland's community colleges are graduating more students than ever, and enrollment is up eight percent over last year. Given those successes and the lengthy history of inequitable funding, permanently slashing funding for community colleges is particularly untoward. Counties urge that this cut be rejected.

HIGHWAY USER REVENUES – LOCAL TRANSPORTATION PROJECTS

Proposes to abandon long-overdue progress on restoring funding for local roads.

MACo urges the Committee to reject this section of the BRFA.

While the Governor has announced a one-time infusion from the State general fund to maintain services for the coming year, a plan to scale back spending in future years − including a step backward on the share of state-levied taxes dedicated to local transportation needs − remains before the legislature.

In Maryland, local governments have no authority to levy their own transportation revenues – counties and municipalities depend entirely on a share of State-levied revenues to support safety and maintenance work on local roads and bridges across the state.

For decades, the State supported a balanced means to maintain its transportation infrastructure. The bulk of transportation revenues – mainly motor fuel and vehicle titling taxes – have been split between the State (for its consolidated Transportation Trust Fund, serving multiple modes) and local governments (who own and maintain roughly five of every six road miles across the state).

The State faced a mid-year budget crisis during the depths of the "Great Recession" in 2009. In turn, the Board of Public Works adopted a 90% reduction of the local distributions of these Highway User Revenues and a roughly 40% reduction to Baltimore City's allocation (the largest by far to any jurisdiction). Since then, recession-driven cutbacks have been fully or primarily restored in many service areas. This is not the case with Highway User Revenues – they remain far behind historic levels, even after the State has enacted a substantial transportation revenue increase.

The $396 million in the proposed budget plan for fiscal 2025 remains far short of Maryland's proper and historic funding levels, even on a simple dollar-to-dollar basis. Accounting for road maintenance and materials costs would expand this gap even further.

Under current law, DLS projects local Highway User Revenue distributions to increase by $241.5 million in fiscal 2026 and $245.6 million in fiscal 2027. However, the BRFA slashes funding for local roads and bridges across the state by eliminating planned increases in fiscal 2026 and fiscal 2027.

County leaders urge state policymakers to resist these deep cuts and advance a sustainable solution to address these infrastructure needs across the state. In advancing such a plan, a proper restoration of the Highway User Revenues formula should itself be a priority to create sensible and reliable support for all locally maintained roadways.

DISPARITY GRANTS

MACo requests the Committee restore formula-driven cuts to the Disparity Grant Program and urges a legislative solution to address the variability in the program.

The Disparity Grant Program promotes fiscal equity by providing noncategorical state aid to less affluent counties with proven local income tax effort. The program serves to ensure counties that rely on local income taxes for substantial revenue can generate sufficient yield to fund education, public safety, roadway maintenance and safety programs, and other essential services upon which residents rely.

State-imposed "caps" in this program artificially lessen the effective revenue from such jurisdictions, including those who have exercised the maximum county income tax rate. Over the past five years, cap provisions have reduced state funding under the disparity grant program by approximately $233 million.

This year, the variability in the program − largely arising from the volatility in non-wage income as a part of this year-by-year formula − triggers a funding decline of over $31 million for fiscal 2025, including a $29 million loss in Prince George's County alone.

Cutting the disparity grant program will disproportionately affect less affluent counties and exacerbate pressures at the local level by undermining county revenue structures and support for schools, transportation, public health, and other essential services and programs.

LOCAL HEALTH DEPARTMENT MATCHING FUNDS

MACo urges the Committee to amend its current study language regarding State core/discretionary funding to Local Health Departments to address the appropriate range of funds subject to the longstanding matching funds requirements. For fiscal 2025, BRFA language should clarify the matching fund calculation, to avoid a major fiscal shock to local health funding.

The State began funding local health departments and services over a half century ago. Local governments are required to match these State core funds according to percentages established in 1996, which were based on each jurisdiction's revenue-raising ability. For years, this matching funds requirement has been a relatively trivial matter, as local contributions frequently dwarf the match requirement.

However, in fiscal 2024, the State allocated new funding for their own employees stationed at both state and local agencies, and curiously, this non-core discretionary salary increase was apparently included in the local match calculation. Counties were informed about this calculation after their budget cycle was completed for fiscal 2024 – creating an unanticipated increase in local funding requirements (in one county nearly tripling its match amount from the year before). The result of this oddly timed exchange was a series of questions and eventual waivers – leading in part to the DLS requested report (due in the fall of 2024) to sort out these various funding streams more clearly.

Counties are currently building the local budget for fiscal 2025, and have been advised additional increases are expected, yet they have not received a forecasted estimate nor a clear explanation of the formula base.

BRFA language this session should clarify that the matching fund requirement for local health department funds should not apply to salary-related or similar discretionary funding, and for fiscal 2025 should not exceed the county's actual funding amount from fiscal 2024. Following the study suggested by DLS and agreed to by the Maryland Department of Health, refinements or clarifications can be introduced in subsequent sessions if the Department seeks to create new statutory matching obligations based on other funding streams.

CONCLUSION

MACo and county leaders are prepared to work with state policymakers on 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.