KRIS FAIR
Legislative District 3
Frederick County

Ways and Means Committee
Subcommittees
Education
Election Law

The Maryland House of Delegates
6 Bladen Street, Room 306
Annapolis, Maryland 21401
410-841-3472
800-492-7122 *Ext.* 3472
Kris.Fair@house.state.md.us

THE MARYLAND HOUSE OF DELEGATES
ANNAPOLIS, MARYLAND 21401

SPONSOR TESTIMONY
HB 23 - Property Tax - County Authority to Set Special Rates

The Honorable Guy Guzzone, Chair
Budget and Taxation Committee
Maryland Senate
3 West Miller Senate Office Building
Annapolis, MD 21401

Chair Guzzone, Vice-Chair Rosapepe, and Esteemed Members of the Budget and Taxation Committee:

House Bill 23 enables Maryland's local jurisdictions to address their unique revenue challenges and opportunities through localized decision-making. This bill realizes our state's commitment to fostering economically and socially thriving communities by empowering local jurisdictions to make nuanced decisions about revenues to pay for essential education and transportation projects. Importantly, it also helps Counties adjust to new costs under the 2025 BRFA. To accomplish this, HB 23 modernizes local jurisdictions' revenue systems by giving them discretion to be more responsive to the complexities of their economies.

Mitigates Impacts to Counties from 2025 Budget: The Budget as contemplated by the House requires Counties to pay more for teacher pensions, phases out grants to Counties to help teachers retire with appropriate compensation, mandates that Counties fully compensate individuals wrongfully incarcerated by the State, and makes Counties pay for 90% of SDAT's operating costs. However, it does not provide tools to offset those costs or to give Counties any say or oversight on how that money is used once it is taken by the State.

As a result, the Maryland Association of Counties (MACo) predicts broad property tax hikes for all property classes and service cuts which will impact vulnerable residents the most. Counties already fill in gaps in education spending created by the mismatch of statutory mandates versus revenues. Special education is underfunded by $1 billion annually and student transportation by $500 million annually, yet Counties already contribute nearly that total sum in addition to their mandated local share under the Blueprint. The additional costs in this year's Budget will significantly impact local jurisdictions' ability to continue this support if they are not given more tools to address new pressures.

Most relevant to this legislation is that under the House budget plan, Counties would have the flexibility to raise local income tax rates from 3.2% to 3.3% — but MACo points out this is "not a solution, as counties grapple with growing State cost shifts and long-term budget pressures." Indeed, this would be a broad tax increase on all residents' income as opposed to a targeted increase on certain commercial properties that HB 23 contemplates.

With all of this in mind, HB 23 becomes not just an important step towards giving Counties flexibility to determine how they raise revenues on par with municipalities' current authority; under the 2025 Budget it is now an important source of funding to maintain the level of services provided by Counties as they work to address our residents' most pressing needs in education and transportation.

For reference, please see MACo's recent entries on its Conduit Street blog: House Advances Budget Plan: Counties Block Some Cost Shifts but Face New Burdens – Conduit Street and Unfunded and Unwise: SDAT Cost Shift Reopens Old Warnings – Conduit Street

Smarter Revenue Streams through Local Empowerment and Flexibility: HB 23 grants local jurisdictions the authority to create differential tax rates on specific State Department of Assessment and Taxation (SDAT)-identified subclasses of commercial real property. It allows local jurisdictions greater flexibility to identify and address imbalances within their existing revenue structure between the commercial property classes identified in the bill. If a jurisdiction decides to set a differential rate, it must direct the funds toward local transportation or education projects.

Inspired by decades of advocacy and informed by thorough analysis from Ways and Means committee staffers, this bill harnesses local governments' up-close knowledge of their communities, enabling them to better fund and execute transportation and education projects in their jurisdictions—enhancing Marylander's overall quality of life and economic competitiveness.

Increasing Options for Local Jurisdictions to Deliver for their Residents – Without a Mandate: Under HB 23, local jurisdictions can choose to implement a tailored differential commercial property tax rate, strengthening budgetary outlooks in the ways that work for their economies and without burdening residential properties. Critically, this bill does not create a mandate for local jurisdictions—they are free to implement this, or not, depending on what makes the most sense for their communities.

Rather, this legislation creates flexibility for jurisdictions to fund two critical needs: transportation and education. Considering the increasing costs of these two primary government functions, this bill expands the tools at the jurisdictions' disposal to ensure that our commitments to world-class education and equitable transportation access do not come at the expense of public safety, health, and infrastructure.

Guardrails Lead to Better Outcomes: The authority granted to local jurisdictions under HB 23 comes with stringent guardrails to ensure reasonable and responsible implementation. Unlike municipalities' broad discretion to levy property taxes, jurisdictions impacted by this bill will have clearly defined, limited authority to raise commercial tax rates: the maximum rate that can be set is 12.5%, any new rates can only be applied using two methodologies (either county-wide, or through a special taxing district), and all funding is specifically directed either to education or transportation projects depending on the methodology for raising the tax. This ensures accountability and aligns the use of revenues with the jurisdictions' and the state's broader policy objectives.

In conclusion, House Bill 23 represents a pragmatic and flexible approach to addressing our jurisdictions' financial challenges. It empowers local governments to proactively fund transportation and education projects with guardrails to ensure accountability and alignment with state-wide priorities. I urge you to support this bill, recognizing its potential to enhance the quality of services delivered by governments in Maryland. I respectfully request a favorable report.

Thank you,

Delegate Kris Fair
District 3, Frederick County