



House Bill 352

Budget Reconciliation and Financing Act of 2025

MACo Position: **SUPPORT**
WITH AMENDMENTS

To: Appropriations and
Ways and Means Committees

Date: February 27, 2025

From: Kevin Kinnally

The Maryland Association of Counties (MACo) **SUPPORTS** HB 352 **WITH AMENDMENTS**.

The Budget Reconciliation and Financing Act (BRFA) of 2025 shifts more than a quarter of a billion dollars in new costs onto county governments. These provisions place an unprecedented burden on counties, forcing impossible trade-offs between tax increases and service cuts.

Make no mistake – this is a State-mandated property tax increase. With two-thirds of Marylanders living in counties already at the maximum 3.2% local income tax rate, these cost shifts leave counties with no flexibility to absorb the burden. The only option is to raise property taxes – hitting renters who see costs passed down and homeowners already struggling with rising assessments. **Forcing counties into this position is not just fiscally reckless – it is regressive, unsustainable, and punitive.**

TEACHER PENSION COST SHIFT – A FISCAL CRISIS FOR COUNTIES

Proposes shifting hundreds of millions of State teacher pension costs directly to counties beginning in fiscal 2026 and beyond.

MACo requests that the Committee reject this section of the BRFA.

The BRFA proposes permanently shifting additional teacher pension costs onto counties, already imposing a significant financial strain. However, a recommendation from the Department of Legislative Services (DLS) would more than double the initial shift, bringing the total county burden to \$186 million. If accepted, this recommendation would force counties to absorb 100% of the State's unfunded teacher pension liability – an unprecedented move with severe fiscal consequences.

Counties already fully fund the employer share of teacher pensions, a cost transferred to local governments in 2012 after deep, complex negotiations. The BRFA seeks to offload the State's unfunded liabilities entirely onto counties despite counties having no control over teacher salaries, pension investment performance, or the broader policies driving these liabilities.

These unfunded liabilities stem largely from underperforming pension investments and salary-driven increases tied to the Blueprint for Maryland's Future — factors beyond county authority. Yet counties are expected to absorb these growing costs year after year, with no ability to mitigate or manage them.

DLS staff inserted this cost shift without justification or policy analysis — an unprecedented move with dire fiscal consequences. If enacted, this provision will devastate county budgets, forcing local governments to raise property taxes or slash funding for essential services like public safety, infrastructure, and climate resilience.

Adding insult to injury, the BRFA also proposes cutting supplemental retirement grants under Aid to Civil Divisions by 50% in fiscal 2026 and eliminating them in fiscal 2027 — breaking a promise from 2012 designed to soften the impact of the original pension shift. This cut represents a \$28 million loss statewide over two years, compounding the unsustainable fiscal burden on counties.

INCREASING COUNTY COSTS FOR SDAT – COMPROMISING OBJECTIVITY

Proposes shifting \$21 million in SDAT costs to counties, reducing State responsibility for core property assessment functions.

MACo requests that the Committee reject this proposal on policy grounds.

The BRFA increases county reimbursements for the State Department of Assessments and Taxation (SDAT) from 50% to 90%, imposing an additional \$21 million burden on counties.

Counties rely on SDAT to provide fair and objective property assessments, ensuring accurate revenue collection. Increasing county responsibility for SDAT funding risks compromising this objectivity, placing assessment functions under the influence of local governments directly benefiting from property tax revenue. This undermines public confidence in fair and impartial assessments.

Additionally, the proposal forces counties to fund nearly all of SDAT's operations without managerial control over its budget or decision-making. The State would have no incentive to contain costs, knowing counties must cover them regardless.

In 2014, the Maryland General Assembly created the Maryland Assessment Work Group (AWG) to examine issues related to the assessment processes for real and personal property, tax credits, and exemptions. The AWG made several recommendations, including:

- Tasking SDAT with examining and improving its business processes to maximize efficiency related to its assessments and administration; and
- Suggesting the creation of an Advisory Council to address the fact that local governments are major business partners with SDAT, to include local government representatives and ensure progress on business process improvements within the Department.

The 2015 Joint Chairmen's Report provided:

It is the intent of the committees to assure progress on the implementation of the 2014 Assessment Workgroup (AWG) recommendations by directing the State Department of Assessments and Taxation (SDAT) to establish a State and Local Advisory Council. ... The advisory council shall meet periodically to discuss issues of mutual interest, including but not limited to the assessment of real and personal property and tax credit programs and exemptions; guidance on the implementation of the AWG recommendations from the December 15, 2014, report; and, business process changes and the leveraging of new technologies to achieve greater operational efficiencies.

Those recommendations remain unfulfilled. Without an advisory council to provide oversight and input, counties should not be forced to shoulder the majority of SDAT's operational costs.

SHIFTING COMMUNITY COLLEGE RETIREMENT COSTS TO COUNTIES – AN UNJUSTIFIED BURDEN

Proposes shifting \$5 million in new costs to counties for community college employee retirement.

MACo urges the Committee to reject this section of the BRFA and prevent an unwarranted and destabilizing precedent for future State cost shifts.

The BRFA shifts \$5 million in new costs for community college employee retirement onto counties despite counties never being responsible for these costs.

Counties already provide significant operating and capital funding to Maryland's community colleges. This new unfunded mandate forces counties to absorb retirement costs they neither negotiated nor planned for, setting a concerning precedent for future cost shifts. If the State can unilaterally impose these expenses now, counties have no assurance that additional retirement costs won't follow in future budgets.

This cost shift lacks justification, transparency, or any demonstrated need, raising concerns that county governments will be expected to assume even more financial obligations than the State's responsibility. Counties cannot sustain an open-ended financial commitment without any control over the policies driving these expenses.

NONPUBLIC SPECIAL EDUCATION PLACEMENT COST SHIFT – COUNTIES WILL SHOULDER THE BURDEN

Proposes shifting \$25 million in new education costs onto counties through increased local school funding demands.

MACo requests that the Committee reject this section of the BRFA and prevent an unfair cost shift that increases county financial burdens at a time when local budgets are already stretched thin.

The BRFA reduces the State's share of nonpublic special education placement costs from 70% to 60%, shifting \$25 million in new costs directly onto local school systems. While this shift technically affects school budgets, counties will ultimately bear the financial impact, as school systems routinely request additional county funding to cover rising expenses – especially for mandated services like special education.

Counties already contribute substantial funding to public education beyond Blueprint and Maintenance of Effort (MOE) requirements. The BRFA further pressures county budgets by increasing education costs without additional State resources, leaving counties with few options other than raising local taxes or cutting other essential services to fill the gap.

This strain is compounded by unexpected spikes in mandated school funding, far exceeding prior State estimates. For example, the fiscal 2026 funding requirement for Dorchester County is 15% higher than the last official State-issued estimate for that year. **Until this month, state and local fiscal leaders relied on outdated projections that significantly underestimated county obligations.** Those projections originally forecasted that Dorchester County would not reach its current funding level until fiscal 2030.

With many school systems still experiencing enrollment declines, the factors driving these sudden increases remain unclear, leaving local leaders unable to plan or budget accordingly. Counties across Maryland face the same unpredictability – mandated funding increases far exceeding prior estimates, with no explanation or opportunity to prepare. **The BRFA's additional cost shifts only compound the problem, forcing counties into impossible financial decisions without warning or resources to manage them.**

PHASING OUT ENTERPRISE ZONE TAX CREDITS – WEAKENING LOCAL ECONOMIC DEVELOPMENT

Proposes eliminating State funding for Enterprise Zone tax credits, shifting costs to counties, and jeopardizing economic growth.

MACo urges the Committee to reject this provision and preserve the State's commitment to local economic development.

The BRFA phases out State funding for Enterprise Zone tax credits by June 30, 2025, eliminating a pivotal tool for economic development and shifting the entire financial burden onto counties.

Enterprise Zone tax credits are vital in attracting businesses and investment to economically distressed urban and rural areas across Maryland. These incentives drive job creation, improve quality of life, and expand local tax bases — benefiting not just counties but the state as a whole.

Eliminating the State's contribution would have a devastating statewide impact, jeopardizing economic development efforts in several counties. Baltimore City alone would face a \$100 million loss over the next ten years, severely weakening its ability to revitalize communities and attract businesses to areas that need it most.

Local governments share the State's commitment to economic growth, and a strong partnership is essential to ensure long-term success. Removing State support for this program undermines that partnership and leaves counties struggling to sustain the investments that drive broader economic opportunity.

LOCAL HEALTH DEPARTMENT FUNDING – COUNTIES NEED A PREDICTABLE FRAMEWORK

FAILS TO ESTABLISH PREDICTABLE FUNDING FOR LOCAL HEALTH DEPARTMENTS, LEAVING COUNTIES VULNERABLE TO BUDGET VOLATILITY.

MACo requests that the Committee amend this proposal to include a statutory cap on local match increases.

The BRFA fails to address the unstable and unpredictable local match formula for local health departments (LHDs), leaving counties vulnerable to sudden cost spikes.

LHD funding is a shared State-County responsibility, but counties have faced sudden, dramatic increases in their required match contributions due to discretionary State salary adjustments rather than core public health needs.

The 2024 Joint Chairmen's Report from the Maryland Department of Health and the Department of Budget and Management failed to clarify the formula, leaving counties with ongoing financial uncertainty.

Without a statutory cap, counties will continue to face last-minute budget shocks, recurring waiver requests, and unsustainable financial obligations. Establishing a 5% cap provides counties with the predictability to ensure stable funding for critical local health services.

DIVERTING LOCAL PROGRAM OPEN SPACE FUNDING – UNDERMINING COMMUNITY RECREATION AND CONSERVATION

DLS RECOMMENDS DIVERTING PROGRAM OPEN SPACE (POS) FUNDS INTENDED FOR LOCAL GOVERNMENTS, REDIRECTING THEM TO THE GENERAL FUND AND UNRELATED STATE EXPENSES.

MACo requests the Committee reject this recommendation and safeguard needed funding for parks, recreation, and conservation efforts.

The BRFA redirects local POS funds to the General Fund and unrelated State expenses, breaking Maryland's commitment to local conservation and recreation projects. This shift threatens essential investments that drive economic growth, environmental resilience, and public access to outdoor spaces.

County governments have relied on POS funding for decades to develop and maintain parks, trails, and recreational areas that strengthen communities. By diverting these funds, the State undermines local investments, disrupts planned projects, and erodes public trust in Maryland's conservation priorities. Instead of expanding recreational access and improving climate resilience, approving this recommendation would force counties to cancel or delay critical initiatives.

This proposal follows a troubling pattern of raiding transfer tax revenues to backfill State budget gaps – short-term fixes that create long-term harm. Maryland leaders cannot claim to prioritize environmental protection while simultaneously stripping local funding for open space preservation.

Local governments need stable, dedicated POS funding to fulfill public commitments and ensure equitable access to outdoor spaces.

RESTORE FORMULA-DRIVEN CUTS TO DISPARITY GRANTS AND ENSURE LONG-TERM STABILITY

The Disparity Grant, because of its statutory structure, routinely leads to jagged outcomes, reducing predictability for both the State and affected jurisdictions. A revision to add stability could avert this nearly annual policy conundrum.

MACo requests the Committee restore the \$12 million in formula-driven cuts to the Disparity Grant Program and enact a legislative solution to address ongoing volatility 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 ensures that counties relying heavily on local income tax revenue can generate sufficient funding for education, public safety, transportation, public health, and other essential services residents depend on daily.

State-imposed caps artificially suppress funding, even for counties that have exercised the maximum local income tax rate. Over the past five years, these caps have reduced Disparity Grant funding by approximately \$233 million, weakening the program’s ability to fulfill its intended purpose.

This year, volatility in the formula – driven largely by fluctuations in non-wage income – has triggered a \$12 million funding decline for fiscal 2025. These unpredictable shifts disproportionately affect less affluent counties, making it difficult to budget for essential services and sustain long-term fiscal stability.

Restoring these funds and implementing a more predictable, sustainable funding structure is critical to maintaining equitable State support for counties with fewer revenue-generating options.

CONCLUSION

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