



Senate Bill 284

Budget Reconciliation and Financing Act of 2026

MACo Position: **SUPPORT**

To: Budget and Taxation Committee

WITH AMENDMENTS

Date: March 4, 2026

From: Kevin Kinnally

The Maryland Association of Counties (MACo) **SUPPORTS** SB 284 **WITH AMENDMENTS**.

The Budget Reconciliation and Financing Act of 2026 shifts tens of millions of dollars in new, ongoing obligations onto county governments and suppresses formula-driven State support. These actions place substantial and recurring pressure on county budgets at a time of economic uncertainty, federal funding instability, and limited local revenue flexibility.

That pressure forces difficult choices between higher taxes and reduced services. Make no mistake — the pressure shifts directly to property taxpayers. Most counties have little flexibility within the local income tax structure. When the State shifts costs or suppresses formula growth, counties must either reduce core services or rely more heavily on property taxes. Those increases flow directly into housing costs for homeowners and renters alike.

Counties remain committed to balanced solutions. However, State budget stability cannot rely on continued cost shifts and cuts to formula support that weaken county budgets and jeopardize essential services.

PENSION COST SHIFT – CONTINUED TRANSFER OF STATE RETIREMENT OBLIGATIONS

Shifts increased retirement costs for K–12 education, community colleges, and local libraries to counties beginning in fiscal 2027.

MACo requests that the Committee reject additional pension cost transfers. This was unsound policy in the 2025 session, and should not be continued.

The BRFA shifts approximately \$39 million in new annual retirement costs to counties in fiscal 2027. The Department of Legislative Services recommends shifting 100% of the increased costs, presumably totaling some \$78 million annually.

This proposal follows nearly \$100 million in retirement cost shifts enacted last year. If the full recommendation advances, counties will assume well over \$170 million in additional ongoing pension obligations across two consecutive budget cycles.

Counties already fund the full employer share of teacher pensions, a cost transferred to local governments in 2012 after deep, complex negotiations. Counties do not control pension design, benefit levels, actuarial assumptions, or investment performance – these are all governed in state statute. Additional cost transfers increase local exposure without corresponding authority.

Each dollar shifted to pensions reduces available funding for classroom support, public safety, infrastructure, and other essential services. 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

DISPARITY GRANT – \$27 MILLION CUT AND THREE-YEAR FREEZE UNDERMINE FORMULA EQUITY

Reduces Disparity Grant funding by \$27 million in fiscal 2027 and freezes funding for three consecutive years.

MACo requests that the Committee reject this section of the BRFA and restore formula-based funding aligned with measured fiscal capacity.

Over time, the State has reshaped the Disparity Grant from a formula-driven equalization tool into a system constrained by caps, floors, and statutory limits. The original purpose was straightforward: help counties with per capita local income tax revenues below 75% of the statewide average generate sufficient resources to fund essential services.

Tax capacity varies significantly across jurisdictions. The Disparity Grant addresses that imbalance by supporting counties with weaker local income tax bases that demonstrate strong local tax effort. As formula costs grew, the General Assembly imposed a hard cap in 2009 that froze each county's grant at its fiscal 2010 level. That cap disconnected funding from current fiscal conditions and locked counties into outdated allocations.

Subsequent legislation layered in minimum funding floors tied to local income tax effort. Counties that increased their income tax rates — including several at the maximum local rate — qualified for higher minimum funding levels. Later changes raised the minimum to 75% of the calculated grant for counties taxing at the maximum rate.

For fiscal 2027, the full formula generates \$261 million statewide. Current law caps reduce that amount to \$204 million, withholding \$57 million in formula-driven funding. The BRFA then freezes funding at \$177 million, creating an additional \$27 million reduction in fiscal 2027 alone. Combined, total funding falls \$84 million short of the formula-driven funding level.

Counties have increased local income tax rates, met effort requirements, and structured budgets around the statutory framework. Yet the program continues to disconnect funding from measured fiscal capacity. That instability disproportionately affects counties with weaker tax bases — including jurisdictions currently managing disaster recovery and other unexpected fiscal strain.

The erratic nature of the Disparity Grant arises because it is based on a single year of data, with inherent

distributional changes that arise from up-and-down market conditions. A smoother calculation would, long term, lessen these dramatic fluctuations and make the program less vulnerable to the volatility that causes these seemingly regular cuts, caps, and concerns.

ASSISTED OUTPATIENT TREATMENT – SIGNIFICANT POLICY SHIFT AND NEW COUNTY COST EXPOSURE

Requires counties to establish Assisted Outpatient Treatment (AOT) programs or reimburse the State for an escalating share of program costs.

MACo requests that the Committee remove this provision from the BRFA and address this policy through standalone legislation subject to full policy and fiscal review.

Counties support thoughtful approaches to behavioral health reform, including Assisted Outpatient Treatment, where clinically appropriate. The “missing piece” in this program has been the state agency guidelines that were not developed to direct locally created programs. The BRFA, however, establishes a new fiscal responsibility for counties tied to program implementation and ongoing operational costs.

The BRFA requires counties to establish AOT programs by July 1, 2026, or reimburse the State for an increasing share of associated costs, rising to 100% of program costs within a few fiscal years. This structure creates new financial exposure for counties tied to program design, scope, and long-term cost growth.

AOT represents a substantial policy change involving clinical services, court processes, legal representation, and long-term treatment oversight. Such a change warrants full policy review, fiscal transparency, and stakeholder input through standalone legislation. Embedding this mandate within the BRFA bypasses that deliberative process and places counties in a position of either rapid implementation or escalating reimbursement obligations.

Significant behavioral health reforms deserve careful consideration. Budget reconciliation should not serve as the vehicle for creating new, open-ended county responsibilities.

LOCAL HEALTH DEPARTMENT FUNDING – UNDERMINING LEGISLATIVE INTENT BY CONSTRAINING TOTAL SUPPORT

Implements the statutory core funding formula while reducing discretionary salary support, resulting in flat overall funding and reduced flexibility at the local level.

MACo requests that the Committee reject cuts to local health department funding and prevent reductions in local public health capacity.

In recent years, the General Assembly enacted legislation to strengthen and ramp up funding for local health departments (LHDs). That policy required increased investment in core public health infrastructure and reflected a bipartisan recognition that predictable funding is essential to community health and emergency readiness.

This year, the governor's budget includes the required \$80 million statutory amount for FY 2026, advanced by one year's inflation and population adjustments, into the core formula as intended. However, to accommodate that funding, the Maryland Department of Health reduces discretionary salary support funding to LHDs, in a dollar-for-dollar offset. As a result, the total funding available to local health departments remains flat compared to last year, and **the sizable majority of county health departments receive a funding reduction this year.**

This approach technically complies with the letter of the statute while frustrating its clear purpose. The General Assembly directed the State to increase and stabilize funding for local health departments. Shrinking one funding component to offset another does not advance that goal and leaves counties managing tighter budgets amid rising public health demands.

COMMUNITY COLLEGES – CAP ON STATE SHARE GROWTH UNDER CADE FORMULA

Limits annual increases in the State share under the Senator John R. Cade funding formula to 3% for fiscal years 2027 through 2029.

MACo requests that the Committee reject this provision of the BRFA and restore full formula-driven funding under the Senator John R. Cade formula.

State funding for Maryland's community colleges follows the Senator John R. Cade formula, designed to provide predictable operating support and maintain affordable tuition. The formula ties community college funding to a percentage of per-student funding at four-year public institutions to promote equitable investment across higher education.

Under current law, the formula would increase community college funding by approximately \$32 million in fiscal 2027. The proposed 3% cap reduces that increase by roughly \$21 million in fiscal 2027 alone and suppresses formula-driven growth through fiscal 2029.

Counties fund a significant share of community college operating and capital costs. When the State limits growth in its share under the Cade formula, pressure shifts to county governments to maintain affordability and program quality. Capping the State share weakens the predictability that the Cade formula provides and adds strain to county budgets and student tuition rates.

Community colleges serve as critical workforce and access institutions, particularly for first-generation, adult, and lower-income students. Constraining formula growth risks higher tuition or reduced program capacity at a time when workforce demands continue to grow.

9-1-1 TRUST FUND – DIVERSION OF DEDICATED EMERGENCY COMMUNICATIONS REVENUE

Expands allowable uses of 9-1-1 Trust Fund revenues beyond core local emergency communications systems and infrastructure.

MACo requests that the Committee remove this provision from the BRFA and preserve the Trust Fund's exclusive use for local emergency communications and public safety infrastructure.

The 9-1-1 Trust Fund supports county and Baltimore City 9-1-1 centers. Residents pay 9-1-1 fees with the expectation that those dollars support frontline public safety and emergency communications systems.

The BRFA expands allowable uses of the Trust Fund without increasing fee revenue or providing replacement support. Expanding allowable uses reduces funding available for local emergency communications infrastructure and modernization. Fewer resources for system upgrades, cybersecurity protections, and equipment replacement directly affect reliability, response capability, and long-term public safety resilience.

Counties recognize the important statewide coordination role performed by the Maryland Department of Emergency Management. That role warrants stable funding. Redirecting dedicated 9-1-1 fee revenue, however, alters the purpose of a resident-paid public safety fee and weakens a funding stream designed to protect emergency response systems.

Federal law requires that 9-1-1 fees support 9-1-1 and enhanced 9-1-1 services. Federal reporting requirements track fee diversion. **Expanding allowable uses beyond core emergency communications introduces compliance risk and could jeopardize future federal 9-1-1 funding.**

Preserving the integrity of the Trust Fund protects system reliability, public safety operations, and long-term emergency communications planning. Multiple bills introduced this session pose a framework for this needed policy solution – and that avenue is far preferable to the diversion proposed in the BRFA.

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 further cost shifts or disproportionate reductions to county programs would compound existing strain and undermine essential local services.