

THOMAS V. MIKE MILLER, JR.
PRESIDENT OF THE SENATE



MICHAEL E. BUSCH
SPEAKER OF THE HOUSE

MARYLAND GENERAL ASSEMBLY

STATE HOUSE

ANNAPOLIS, MARYLAND 21401-1991

July 20, 2009

Mr. Warren Deschenaux
Director, Office of Policy Analysis
Department of Legislative Services
90 State Circle
Annapolis, Maryland 21401

Dear Mr. Deschenaux:

We are writing to you regarding our plans to appoint a *Joint Legislative Workgroup to Study State, County, and Municipal Fiscal Relationships*. As you know, the deteriorating national economic condition and its effect on Maryland continues to present tremendous challenges to our State. When the General Assembly Session concluded in April of this year, the State had lost almost \$3.5 billion in revenues in the prior 12-month period. This amount was almost 25 percent of the total General Fund budget for fiscal 2009 which ended June 30th.

In addition to significant reductions taken during the interim of last year, the General Assembly further constrained spending and reduced the budget by over \$840 million. Working with the Governor, the leadership of the General Assembly left this Session with a \$100 million fund balance and maintained \$650 million in our Rainy Day Fund. Earlier this year, the State's triple-A bond rating was once again affirmed by all three rating agencies.

Unfortunately, since the 2009 Session, the State has lost as much as \$800 million more in revenues. This number is offset by the \$100 million fund balance left by the General Assembly's work on the budget but still leaves a \$700 million deficit. The Governor has announced his intention to address this deficit promptly with reductions at the Board of Public Works this month.

Our record of strong fiscal management and planning has served Maryland well. As compared to the financial condition of many other states, Maryland is far better positioned. It is General Assembly's long record of fiscal management and planning which has now compelled us to call for a thoughtful examination of the fiscal relationship between the State and local governments. The State allocates over 40 percent of its General Fund revenues to units of local government and given the financial forecasts, it is time that the structure and sustainability of these commitments are reviewed.

From the State's perspective, in recent years, we have reduced funding to local government in an ad hoc manner and generally on a temporary basis. In almost each of the last seven years, some reduction in funding to local government has been required. Additionally, sharing of traditionally State-only tax bases such as the income tax with local government often magnifies disparities among jurisdictions while simultaneously reducing the State's capacity to address them.

At the same time, counties and municipalities have raised issues over recent years that relate to their fiscal relationship with the State and with each other. Municipalities have expressed concern that their revenue base is too narrow to support operations and they have been unable to reach agreement with the counties on a solution. Counties are pressured to meet commitments to school boards, libraries, health departments and community colleges while they are also confronting an adverse economy and State mandates for support of those local entities. The albeit necessary State aid reductions on an ad hoc basis results in uncertainty in the local budget process as the levels of State support are unpredictable.

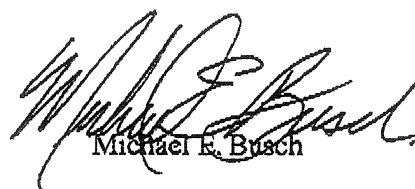
Additionally, property tax rate limitations and Homestead property tax assessment limitations imposed in some jurisdictions create additional local funding pressures resulting in increased demand for State support. All of these issues raise questions as to both the structure and sustainability of the current relationships between the State, county and municipal forms of government in Maryland. For these many reasons, we are appointing the attached roster of General Assembly members to a *Joint Legislative Workgroup to Study State, County, and Municipal Fiscal Relationships*, and would ask that it be staffed by the Office of Policy Analysis.

We have also attached items that we would ask that the Joint Workgroup include in their review and recommendations. Maryland is indeed challenged by the recession but unlike many states, we have responsibly managed the State through these times of economic stress. We have done so while maintaining the success of key investments such as education. We all know that the necessary budget decisions that will be made in the near future will not be easy and look forward the Workgroup's recommendations and assistance in these matters.

Please feel free to contact us with any questions you may have. It is through continued fiscal prudence and management that the State will endure, will revive, and will emerge stronger and best poised to move forward into the new economy.

Sincerely,


Thomas V. Mike Miller, Jr.


Michael E. Busch

Enclosure

cc: Governor Martin O'Malley
Karl Aro

Secretary Eloise Foster
Michael Sanderson

Joseph Bryce
Scott Hancock

Items of Review by the Joint Legislative Workgroup to Study State, County and Municipal Fiscal Relationships

Among other items to be reviewed, the Joint Workgroup is asked to examine the following items and provide recommendations as appropriate to result in a more fair, efficient, and sustainable financial relationship between the State, County and Municipal forms of government in Maryland:

- Evolution and current distribution of governmental responsibilities among units of government, including State assumption or delegation of responsibilities;
- Evolution and current distribution of current State funding and assistance provided to counties and municipalities, including State assumption or delegation of responsibilities;
- A comparison of the major forms of State aid to county and municipal governments and the manner in which these items are funded or provided for in other states;
- Analysis of revenue structure of State, county and municipal governments in the aggregate and by unit of government, including an analysis of variation among counties and municipalities;
- Analysis of the fiscal capacity of State, county and municipal governments in the aggregate and by unit of government, including an analysis of variation among counties and municipalities;
- Analysis of the expenditures of State, county and municipal governments in the aggregate and by unit of government, including an analysis of variation among counties and municipalities and across major policy and program areas
- Analysis of the employment in State, county and municipal governments in the aggregate and by unit of government, including an analysis of variation among counties and municipalities and across major policy and program areas;
- Analysis of the comparative benefits of types of municipal forms as compared to special taxing districts within counties to provide specific services to residents of a sub-county area; and
- Analysis of the impact of spending, tax and revenue limitations of the system of State, county and municipal finance.

**Joint Legislative Workgroup to Study
State, County, and Municipal Fiscal Relationships**

Senator Edward J. Kasemeyer, Co-Chair
Delegate Adrienne A. Jones, Co-Chair

Senator Ulysses Currie
Senator James E. DeGrange, Sr.
Senator Robert J. Garagiola
Senator Allan H. Kittleman
Senator Richard S. Madaleno, Jr.
Senator Thomas McMiddletton
Senator Nathaniel J. McFadden
Senator Donald Munson

Delegate Norman H. Conway
Delegate Kumar Barve
Delegate Sheila E. Hixson
Delegate Marvin E. Holmes
Delegate Maggie McIntosh
Delegate Anthony J. O'Donnell
Delegate Justin D. Ross
Delegate Steven R. Schuh