MARYLAND Association of COUNTIES

Presentation to the
Local & Regional Transportation Funding Task Force
October 2, 2013

Thank you for the opportunity to speak with you today regarding local transportation funding trends and needs. The following individuals will present their perspectives on these matters, as well as respond to any questions:

Andrew Mackel, Director, Department of Finance, Wicomico County
Greg Africa, Deputy Director, Bureau of Highways, Anne Arundel County
Todd Mohn, Director, Department of Public Works, Queen Anne's County
Andrea Mansfield, Legislative Director, MACo

Counties are critical to Maryland's transportation system, however, significant funding reductions and diversions totaling more than $1.5 billion have created many challenges in helping to oversee and maintain this system. Whereas jurisdictions relied on a combination of State and local sources to maintain their more than 80% share of Maryland's road miles, reductions in Highway User Revenue (HUR) have left locally managed roadways startlingly underfunded and dependent on the still-dropping property tax for support. (See Exhibit 1. *FY 2014 Highway User Revenue,* and Exhibit 2. *Highway Mileage by Sector*)

Levying taxes and charges on motor vehicles to serve as a "user fee" to support transportation systems has historically rallied support from motorists, businesses, and governments alike. Maryland's citizens do not know where State road maintenance stops and local road maintenance begins. They simply know that they pay taxes on their vehicles and fuel, and have an expectation of travel on good roadways. MACo believes that Maryland has strayed from this ideal and an unfair two-track system is being created: State roadways and projects are being maintained, but local roads are falling short.

Until recently, Maryland's long-standing and wise policy has been to provide HUR as the primary source of revenue for local roads maintenance budgets, including snow removal, patching and chip sealing, signage and pavement stripping, and drainage work. For smaller jurisdictions, HUR funded all of roadway maintenance and capital expenditures.

This policy took a drastic turn in Fiscal Year 2010 when HUR was significantly reduced and transferred to the State's General Fund to help weather the economic downturn. These reductions were then made permanent and the funding distribution was changed to eventually eliminate a transfer to the General Fund, but retained approximately 90% of the funding within the Transportation Trust Fund. This reduced local government's share of HUR from 30% to approximately 10%.

This effective 95% reduction in HUR for all counties but Baltimore City forced counties to make difficult funding decisions to continue maintaining their roadways while not decimating the rest of county government. Although Baltimore City's percentage was not as large, the reduction per capita is greater than that felt by any other jurisdiction.

169 Conduit Street, Annapolis, MD 21401
410.269.0043 BALT/ANNAP ♦ 301.261.1140 WASH DC ♦ 410.268.1775 FAX
www.mdcounties.org

Proof of those difficult funding decisions can be found in the series of county budget actions taken in the depths of the fiscal downturn, Fiscal Years 2010 and 2011, and those fiscal years following. Counties across the state increased taxes, eliminated employee Cost of Living Adjustments (COLAs) and increments, instituted furloughs, laid off employees, enacted across-the-board cuts, and dipped into rainy day and reserve funds — all required to offset the State funding reductions in addition to their own revenue declines related to the economy. (See Exhibit 3. *County Budget Actions FY 2010 – FY 2013*)

With respect to local roadways, counties have done the following:

- Reduced preventive maintenance and surface treatment of roadways such as asphalt overlays and slurry seal - smaller jurisdictions are experiencing major reductions or have eliminated repairs and maintenance altogether
- Delayed or eliminated construction projects completely
- Significantly reduced street tree maintenance and street light repairs
- Reduced stormwater and waterway maintenance
- Eliminated or significantly reduced mowing, tree trimming, street sweeping, and leaf collection
- Reduced guardrail replacements to the point where no new guardrails are being installed, and existing guardrails are only being repaired or replaced in the most damaged areas, and
- Reduced personnel and/or restructured road crews' numbers

Counties are very concerned about the effects of these actions on roadway safety and on the surrounding areas. The American Society of Civil Engineers' 2013 "Infrastructure Report Card" rated roads as the top infrastructure concern. The Report cited that 55% of Maryland's major roadways are in poor condition. A National Association of Manufacturers' report found that infrastructure is not improving quickly enough to meet business needs and roadways are the biggest problem. A recent review by *Governing Magazine* found that local bridges are twice as likely to be considered structurally deficient.

This holds true in Maryland where, out of the 368 structurally deficient bridges, 70% are maintained by local jurisdictions. The longer we delay repairs and maintenance on our roadways, the more expensive it will be to restore them to good working condition. This is why Maryland needs a broad-based and equitable system of transportation financing. The safety of our citizens and the economic needs of our businesses depend on it.

However, it has proven too easy to develop a rationale for reducing local transportation funding. The most recent attempt is an analysis by the Department of Legislative Services (DLS). DLS's analysis, *Impact on Local Transportation Expenditures Due to Reductions in State Support for Local Highway User Revenues,* examines local government transportation spending prior to and after the HUR reductions.

To perform this analysis, DLS used Uniform Financial Reports which are submitted each year by local governments. The data in these reports are then compiled by combining multiple funding sources and line items to try to standardize the data. Such a standardized comparison is extremely difficult because each local government tends to manage its budget slightly differently. MACo believes the combining of operating, capital, and enterprise fund expenditures distorts the data because capital and enterprise funds can vary significantly from one year to the next. MACo would also argue that looking strictly at expenditures does not indicate whether counties used rainy day or reserve funds to keep up transportation operations and maintenance during this difficult time.

A major shortcoming of this analysis is that it fails to examine other budgetary related actions counties took during this time frame to balance their budgets. Although this data may show local transportation funding increasing in the aggregate, this simply reinforces the essential nature of local transportation programs. State cuts could not simply be absorbed by deferring projects – counties were frequently compelled to make up a share of those lost funds with county general revenues, essentially diverting property tax funds away from education and public safety to do so.

As mentioned previously, counties increased taxes, eliminated employee COLAs and increments, instituted furloughs, laid off employees, enacted across-the-board cuts, and dipped into rainy day and reserve funds to offset the State funding reductions in addition to their own revenue declines related to the economy. In fact, using the same DLS data, total county expenditures declined by almost $380 million from Fiscal Year 2009 to 2010, and continued to decline through Fiscal Year 2012. By contrast, during the same time frame it was found that State expenditures (all funds) increased by more than $3 billion. (See Exhibit 4. *Change in State and County Expenditures All Funds – FY 2009 – FY 2012*)

In closing, MACo would like to reinforce its longstanding commitment to a broad-based and equitable system of transportation financing. The historic distribution of Highway User Revenues, with 30% dedicated to local purposes, accomplished this policy goal without creating cross-jurisdictional competition in taxes or distributions. The State's Blue Ribbon Commission on Transportation Funding reached the same conclusion: "The Commission recommends that Highway User Revenue (HUR) funding for localities, which includes counties, municipalities, and Baltimore City, be incrementally returned." (*Final Report*, page 10)

Any solution should benefit Maryland's transportation system as a whole and local governments must be a part of this funding picture.

MACo thanks you for this time today and looks forward to being a part of this conversation.

Exhibit 1

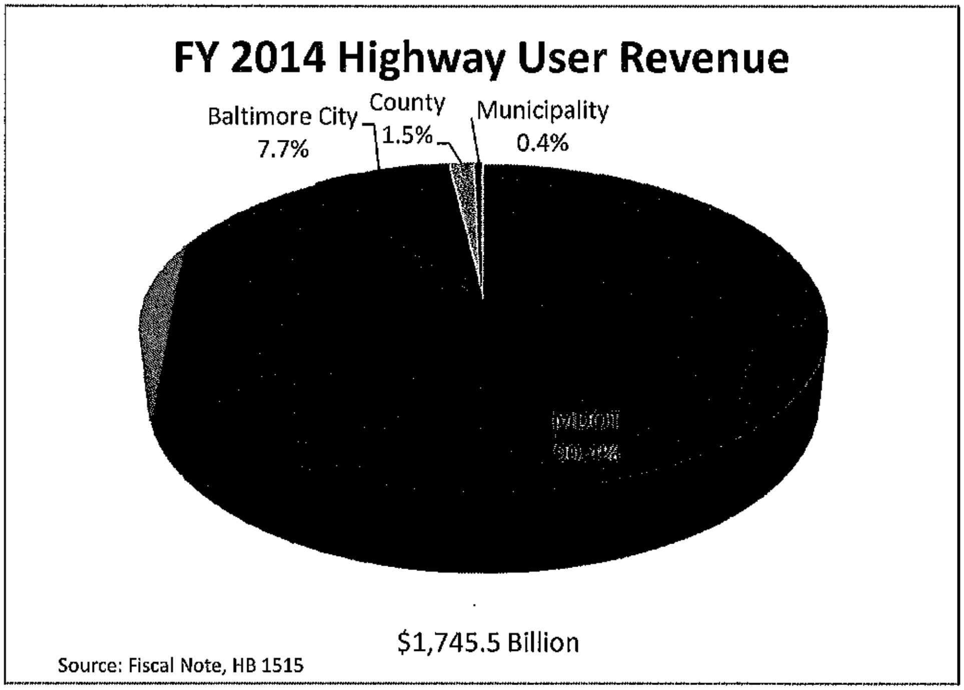


Exhibit 2

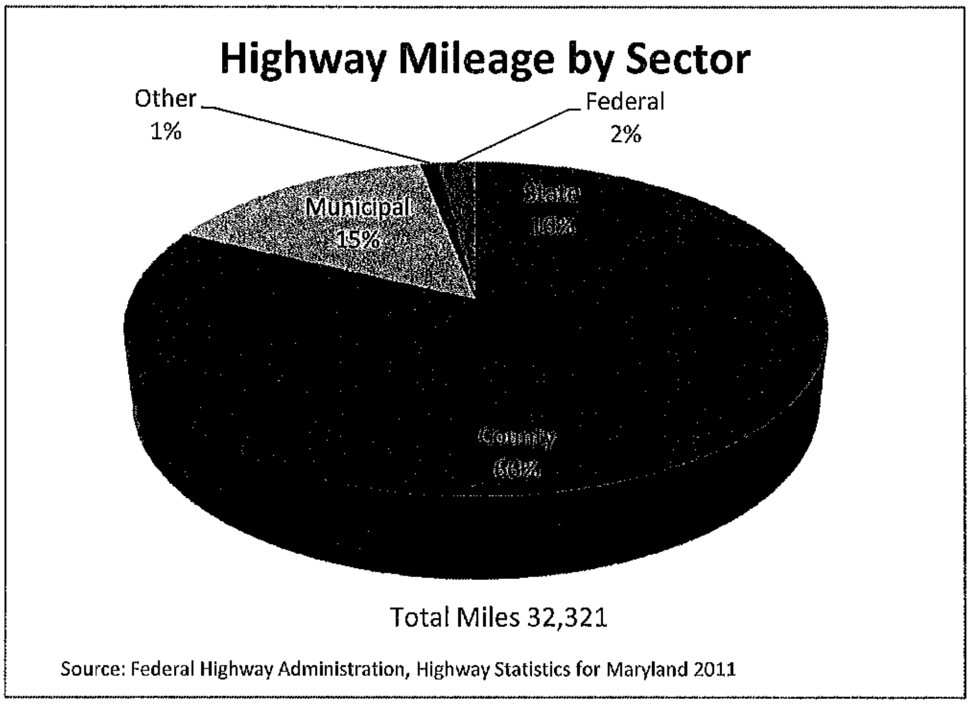


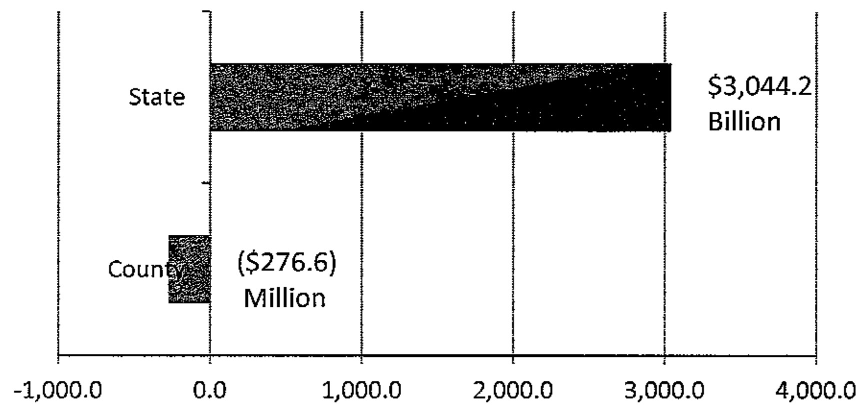
Exhibit 3
County Budget Actions FY 2010 – FY 2013

Personnel Actions	FY 2010	FY 2011	FY 2012	FY 2013
No General COLA (FY 2012 – 4 counties gave one-time bonus/stipend)	18	22	22	14
Salary Reduction	1	1	1	0
No Merit Increases for County Employees	17	21	21	18
Enacted Furloughs (range of 2 to 12 days)	8	8	6	0
Enacted Layoffs (positions identified, actual layoffs reduced after retirements and reassignments)	12 (363)	7 (902)	6 (33)	3 (21)
Eliminated Vacant Positions	18 (1,579)	17 (1040)	15 (459)	9 (608)
Reduced Benefits/Increase Emp. Contribution	-	-	4	4
Early Retirement Incentives	-	-	8	7
Tax and Fee Actions				
Property Tax Increase (range of 4/100 to 12 cents)	-	3	8	8
Property Tax Decrease (range of 1/100 to 5.5 cents)	4	4	2	2
Other Tax Increase (income, recordation, hotel, fire)	1	2	2	6
Other Tax/Fee Decrease (temporary reduction – income tax, trash pick-up, energy)	-	-	1	2
Fee Increases (tire and tipping, water/sewer, parking, planning/zoning, impact)	9	11	11	6
Other				
Use of Rainy Day/Reserve Funds (some both)	17	14	7	11
Delay/Cut Capital Projects	21	-	-	-

Source: County Budgets and Press Releases; Budget Officers

Exhibit 4

Change in County and State Expenditures All Funds - FY 2009 to FY 2012



	FY 2009	FY 2012	$ Change
State	$30,870.5B	$33,914.7B	$3,044.2B
County	$17,858.5B	$17,581.9B	($276.6M)

Source: 90 Day Reports, Local Government Finances in Maryland