The Structural Mismatch

Why Maryland's 20th-century municipal revenue model cannot fund 21st-century services

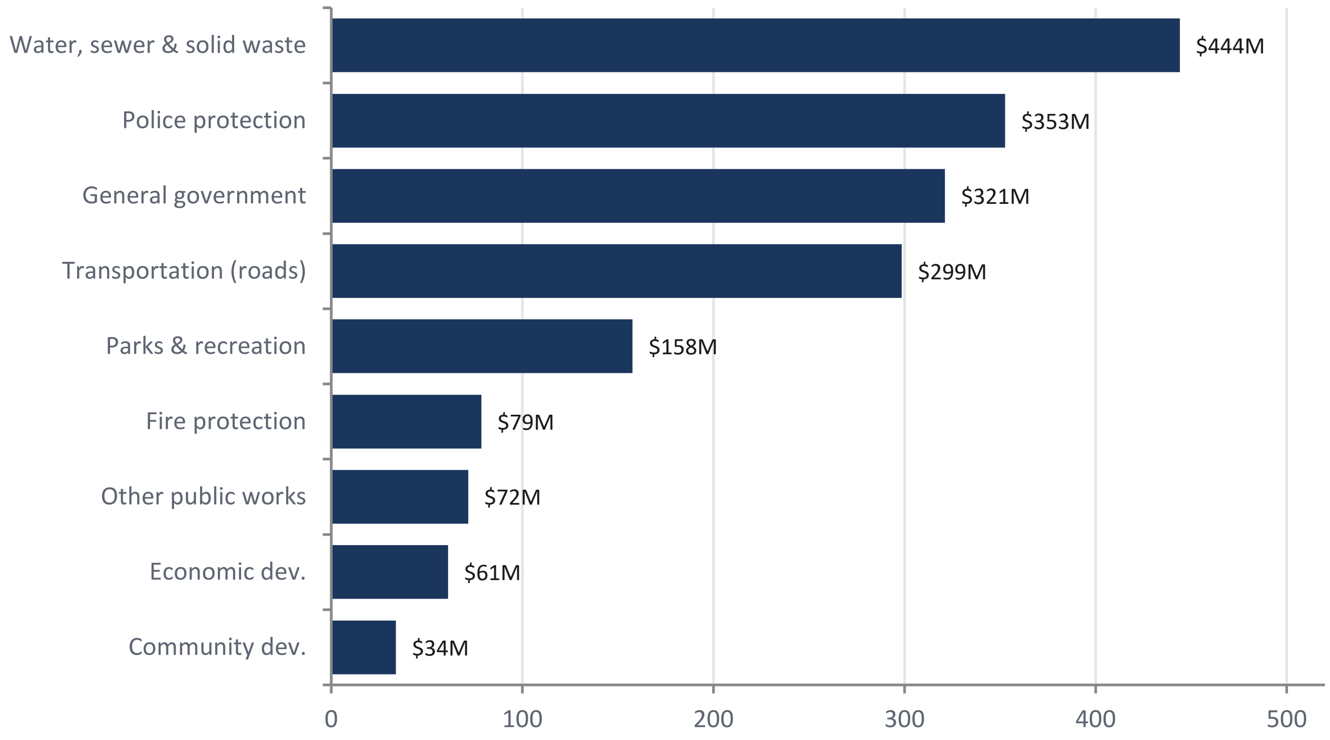
Maryland Municipal League

Presented to the Task Force to Modernize County and Municipal Revenue Structures, July 31, 2026

The government closest to the people

157 incorporated municipalities. Roughly one in four Marylanders. $2.03 billion in services.

What municipalities spend on, FY2024 ($M)



Source: DLS, Local Government Finances in Maryland, FY2024, Table V.

24%
of every municipal dollar goes to public safety

12,044
requests for assistance answered per police agency, per year

227
building permits issued per municipality, per year

2,043
households whose trash is collected, per municipality

What cities and towns deliver:

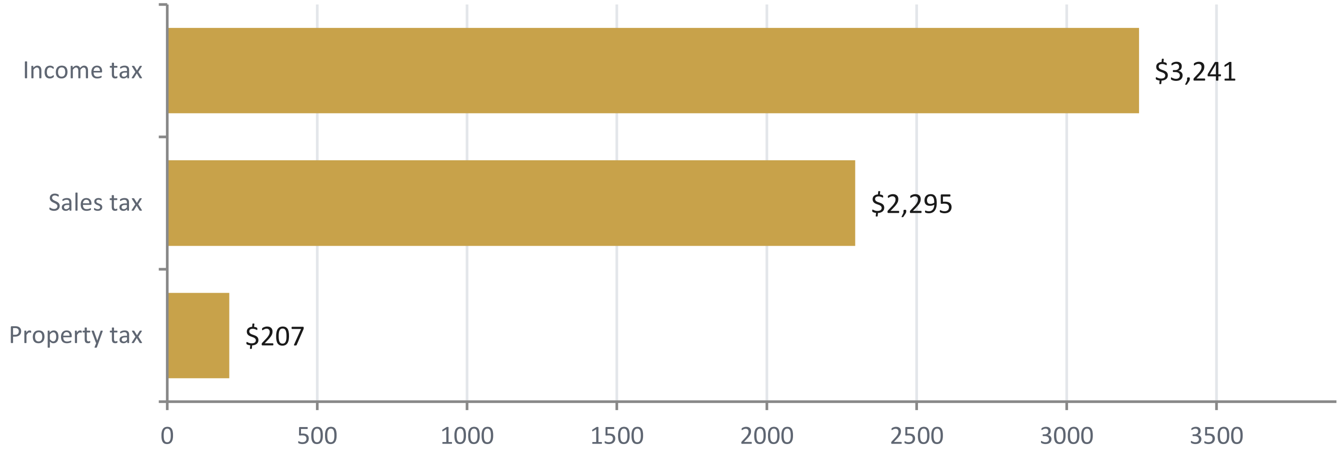
- 91% manage housing, planning & development. 87% employ and deliver public works services.
- 76% collect municipal trash. 73% maintain municipal roads. 56% run an independent law enforcement agencies.
- How are we different? No school systems. No jails.

Service provision and use: Schaefer Center for Public Policy, UBalt, Municipal Service Delivery in Maryland (MML, December 2025); n=157, survey n=77.

Economic engines of the State

Municipalities occupy under 5% of Maryland's land area — and generate a wildly disproportionate share of the State's tax base.

State tax revenue generated within municipalities, FY2023 ($M)



33.8%

of all statewide business sales — on <5% of the land

51.4%

of all local economic development spending

48%

of Maryland's 2023 population growth, from 15.9% of population

$21B

higher statewide assessable base because municipalities exist

$5.7 billion

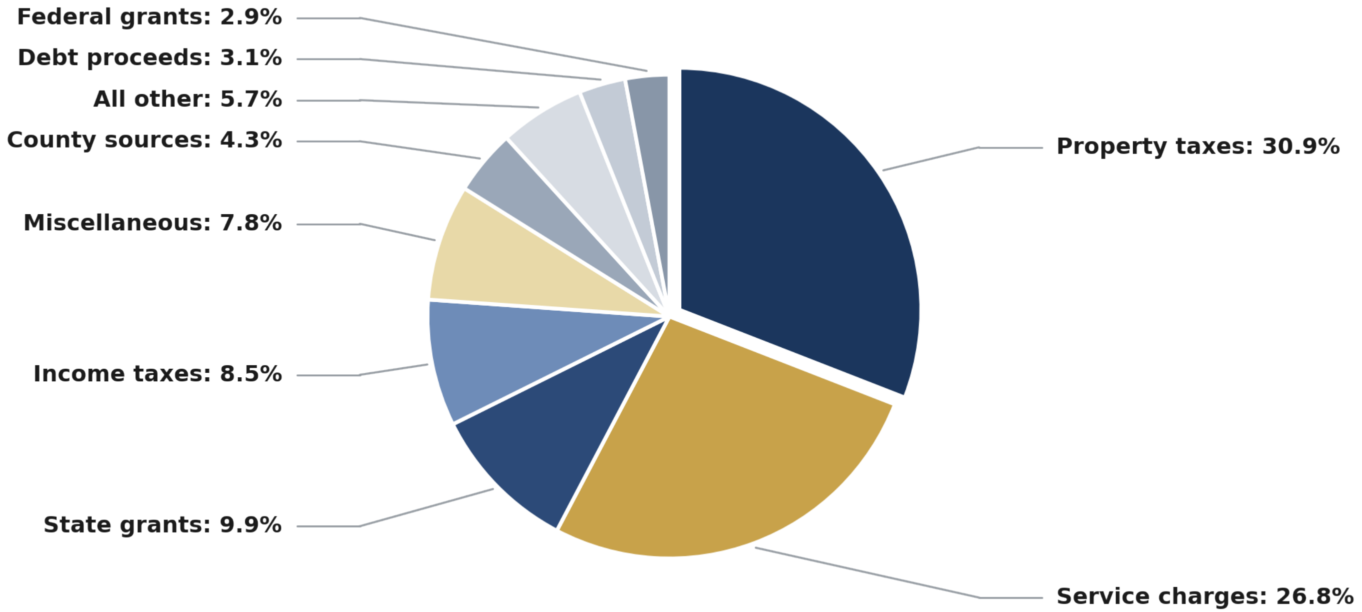
in State tax revenue generated inside municipalities in FY2023 —
No portion of the sales tax raised returns s to the municipality which generated the sale.

- Sales per capita ~50% higher in incorporated places.
- 12 of Visit Maryland's Top 20 attractions sit in or border a municipality, including 7 of the top 10 “Best Places to Visit in Maryland,” as ranked by U.S. News and World Report.
- Municipal government operations support more than 42,000 jobs – 32,00 direct.
- We build the grid that makes the commerce possible — and capture none of the sales tax it produces.

Source: Sage Policy Group, The Fiscal Contributions of Maryland's Municipalities (MML, December 2024); DLS; U.S. Census Bureau.

Where the money comes from

Total municipal revenue, FY2024: $2.25 billion. On this chart, the property tax looks like a manageable third of the picture.



30.9% property taxes

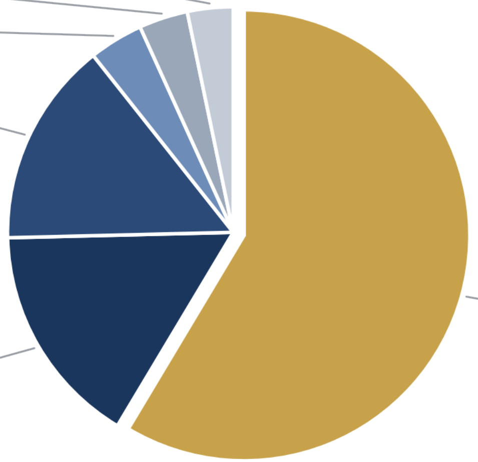
The number most often quoted — and the reason people conclude municipalities are already diversified.

- Service charges ($602M) are enterprise funds — water, sewer, solid waste.
- Intergovernmental ($389M) is restricted: HUR to roads, police aid to police, grants to grant purposes. Skewed partially by Covid-era federal funding.
- Debt proceeds ($70M) are borrowing, not revenue at all.

Source: DLS, Local Government Finances in Maryland, FY2024, Section IV Table V.

The general fund reality

Remove what is legally restricted and what isn't revenue. $1.19 billion remains statewide — this is the money a municipality can actually decide how to spend.



58.6% property taxes

Add the income tax distribution and 74.6% of every discretionary dollar comes from two taxes on residents.

Why the distinction is not a technicality:

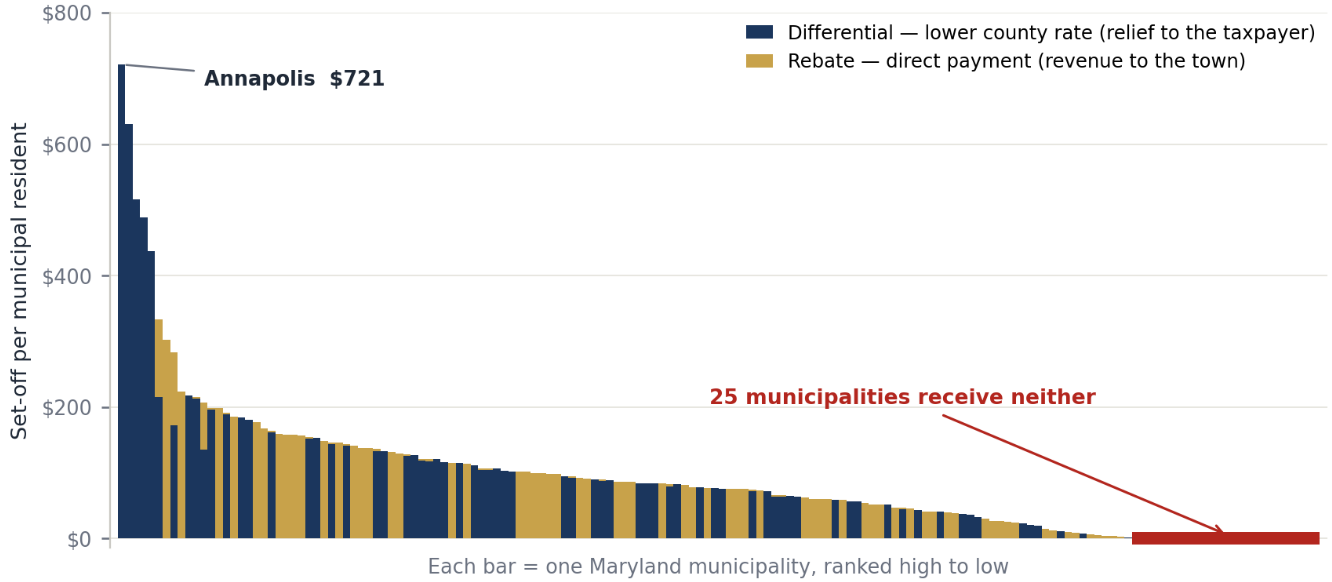
- A surplus in the water fund cannot hire a police officer. Enterprise funds are ratepayer money, pledged under bond covenants, restricted to the utility.
- Highway User Revenue cannot pay for parks. Police aid cannot pave a street.
- When public safety, paving, or parks needs more money, there is only one lever.
- And restricted funds don't even fully cover the earmarked services.

A note on what this chart cannot show. County tax rebates — $34.1M in FY2024 — are reported as intergovernmental revenue and are excluded here, though they derive from county property tax and compensate for property-tax-funded service duplication. Counting them as property-tax-derived would put this share at about 60%. Tax differentials, a further $99.5M, never appear in municipal revenue data at all: no money changes hands, the county simply levies a lower rate inside the town. The property tax does more work than any revenue chart can display.

Source: DLS, Local Government Finances in Maryland FY2024, Table V; DLS, Property Tax Set-offs Fiscal 2024, Exhibit 1. General-purpose revenue excludes federal/State grants, county sources, service charges, and debt proceeds. DLS reports by source, not by fund; defensible range 52–59%.

Taxed twice for the same service

Where a municipality provides a service instead of the county — its own police, its own roads, its own planning office — residents fund it twice. Maryland law lets counties correct that, two different ways, at their discretion.



$104.9M

in differentials — a lower county rate. The relief goes to the taxpayer.

$37.8M

in rebates — a direct payment. This is the part towns receive.

No consistency across the state:

- 7 counties grant only differentials, 5 only rebates, 6 both, 3 nothing — never the town's choice.
- 25 municipalities receive neither, including Salisbury and Ocean City.
- Nine counties must grant one; the rest may. Each uses its own formula.

Same value. Opposite effect. *Two comparable cities — neither chose the form its county used.*

Frederick City

pop. 89,537 · $11.9M, all differential · $133 per resident

The city budget receives nothing. Its taxpayers pay a lower county rate.

Rockville

pop. 68,417 · $8.8M, all rebate · $129 per resident

The city budget receives $8.8M. Its taxpayers pay the full county rate.

Source: DLS, Property Tax Set-offs: The Use of Local Property Tax Differentials and Tax Rebates in Maryland, Fiscal 2025 (December 2025); Tax-Property Article §§6-305, 6-305.1, 6-306.

2009: the cost shift that never reversed

$45M → $1.6M

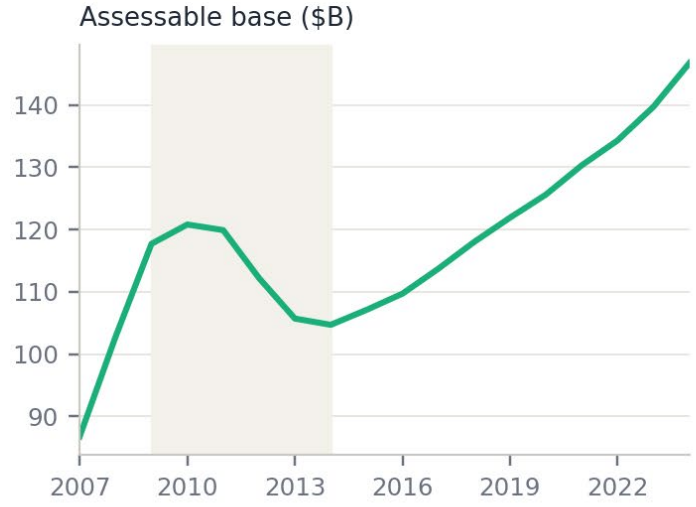
municipal Highway User Revenue, FY2008 to FY2010

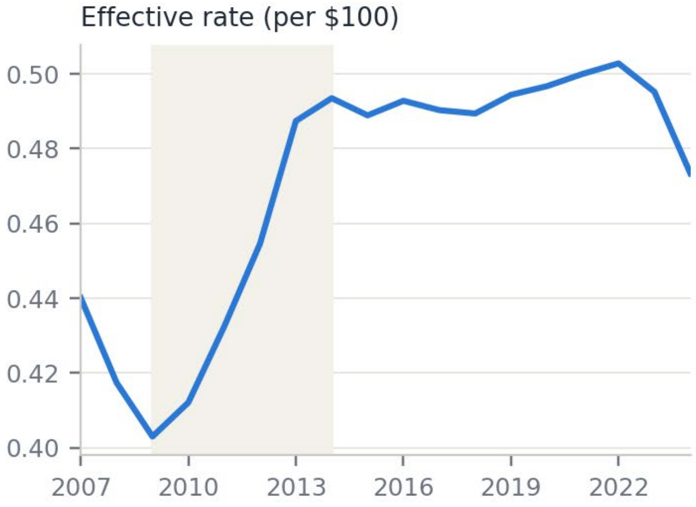
–96%

the cut — made permanent by the 2010 Budget Reconciliation Act

~$300M

cumulative municipal shortfall, FY2010–FY2024 (MML analysis)





The bubble inflated the base to $120.8B; the crash took it to $104.7B. The effective rate rose 22.5% from its FY2009 trough — and never came back down.

What the cut actually did:

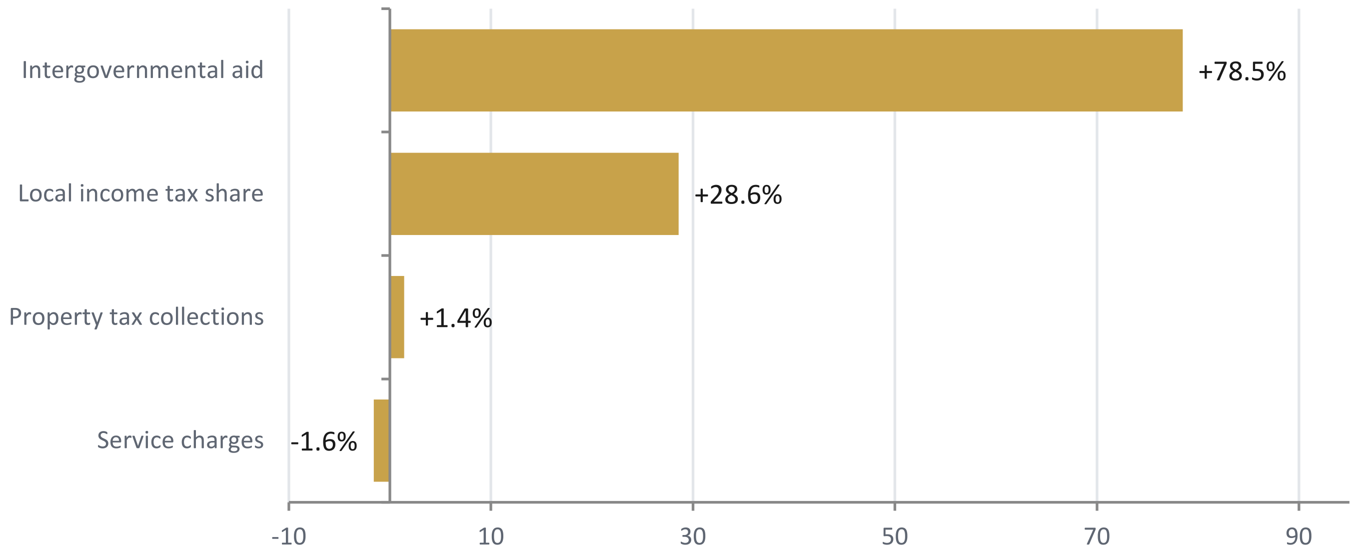
- Municipalities cannot levy their own transportation revenue. HUR is the only source.
- The cost moved from the State ledger to the property taxpayer's — permanently.
- The HUR cut landed while the base was collapsing: $120.8B → $104.7B. 38 municipalities raised rates in FY2011 alone.
- The effective rate rose 22.5% from its FY2009 trough and has never come back down. The emergency lever has already been pulled.
- This was a known problem before it happened: MML and MACo pushed a revenue task force just before the 2008 crisis.

Sources: DLS; Board of Public Works FY2010 reductions; Ch. 484 of 2010. Assessable base and effective rate: MML analysis of DLS FY2008–FY2024 editions; SDAT rate tables FY2010–FY2026.

The COVID-era bridge

Federal relief did not solve the structural problem. It concealed it — and it is now ending.

Real (inflation-adjusted) growth, FY2014–FY2024



$164M → $389M

intergovernmental aid, FY2014 to FY2024

~$470M

one-time pandemic aid (FY21–FY24), now unwinding

Why rates stayed flat

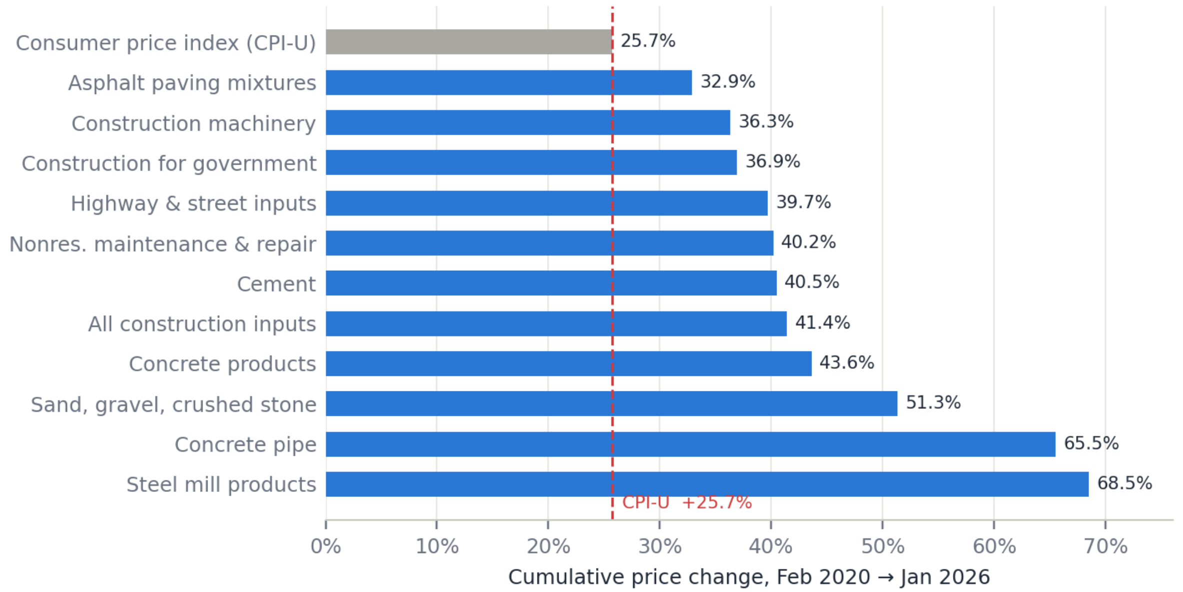
- ARPA and IIJA funded water, sewer, broadband and deferred capital work — without a local tax increase.
- Aid reliance rose from 11.6% to 17.9% of municipal revenue.
- Flat rates over the last five years are not evidence of fiscal health. They are evidence of a bridge.
- The bridge is ending. The costs are not.

CARES · ARPA · IIJA

The only fast-growing line in the municipal budget was the one we do not control.

Source: MML analysis of DLS Local Government Finances in Maryland, FY2012–FY2024 editions; SDAT municipal tax rate tables, FY2012–FY2026.

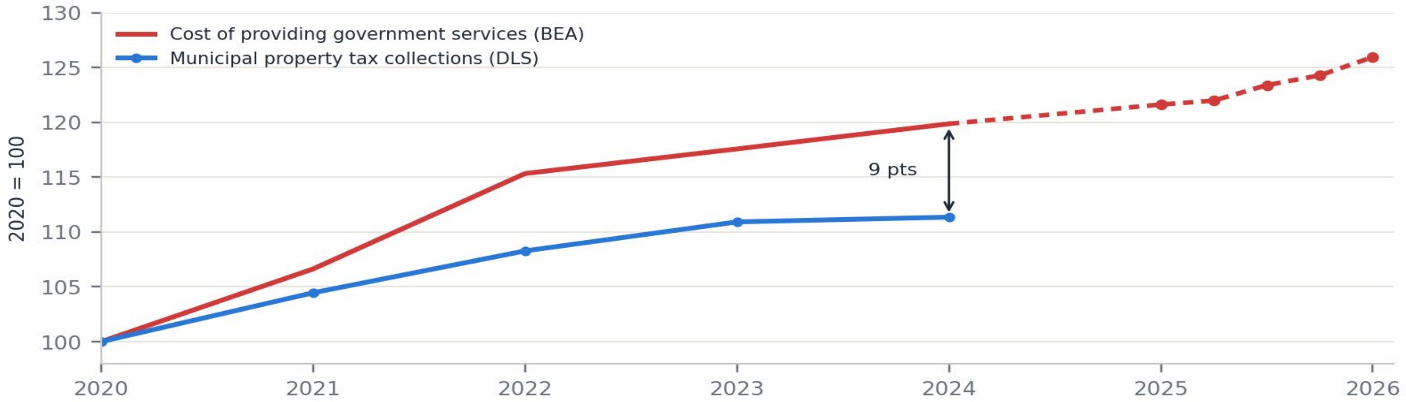
Municipal inflation is not consumer inflation



BLS producer price indexes, Feb 2020 → Jan 2026. Every input a city buys has outpaced the CPI.

1.4–1.6×

Municipal costs inflate at roughly one and a half times the rate of the CPI.

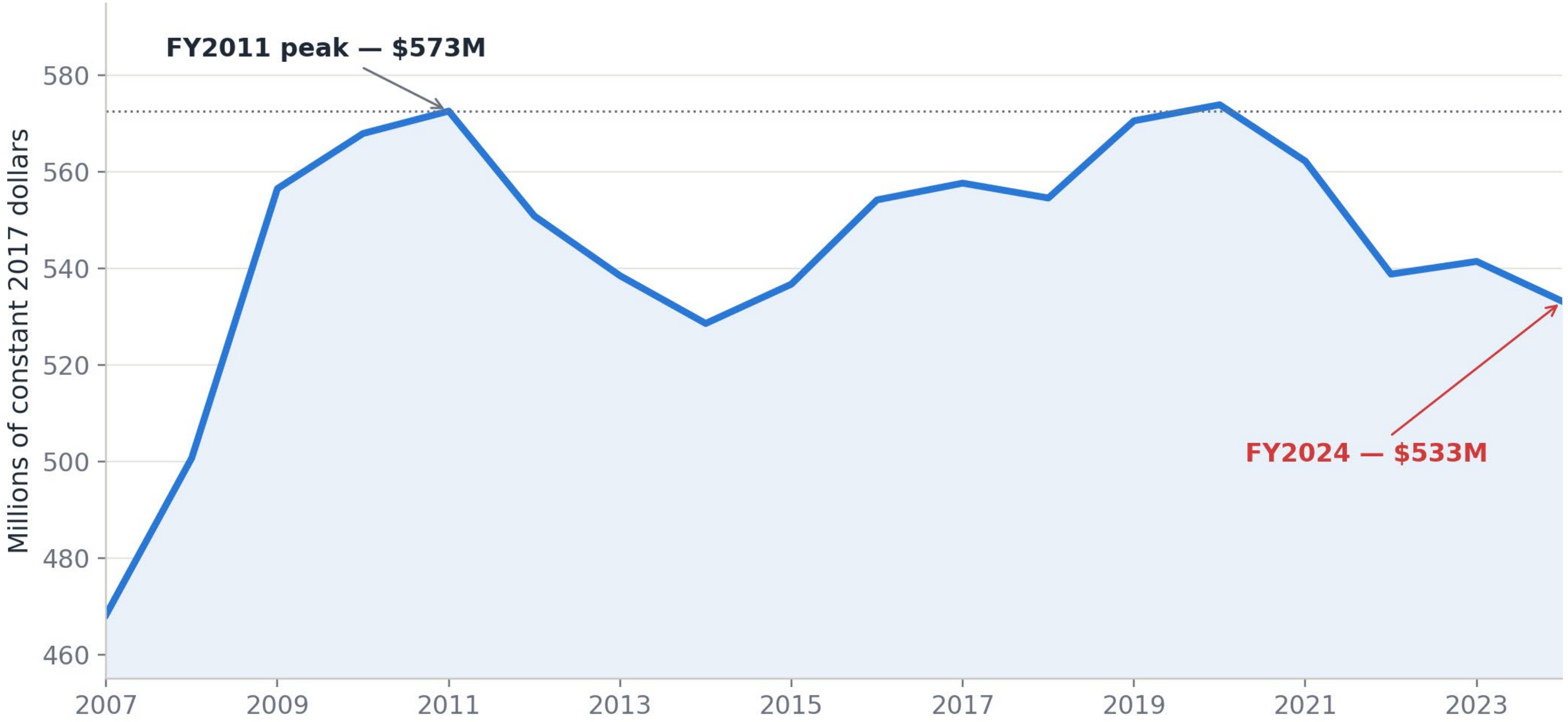


- FY2020 → FY2024: collections +11.4%, cost of services +19.9%.
- The cost index has kept climbing through Q1 2026; collections data ends at FY2024.

Sources: BLS producer price indexes (AGC compilation, Jan 2026); BEA state & local government implicit price deflator (A829RD, annual + quarterly A829RD3Q086SBEA); MML analysis of DLS FY2008–FY2024.

What the property tax can actually buy

Collections deflated by the cost of providing government services. More dollars every year — but less government.



Peak purchasing power was FY2011. **Thirteen years later the property tax buys 7% less government — while collecting more dollars than ever.**

Sources: MML analysis of DLS Local Government Finances FY2008–FY2024; BEA state & local government implicit price deflator (A829RD).

The fiscal cliff: four pressures, one arrival

Federal relief ends. Every deferred cost comes due at once — into a market where the inputs cost 33% to 51% more than they did in 2020.

1 Deferred maintenance

IIJA funded project categories, not the backlog. Roughly $300M in foregone Highway User Revenue since 2010 has meant extended resurfacing cycles and deferred structure work. And HUR no longer covers current need: in the one year MML tabulated it (2023), municipalities self-funded HUR-eligible work — roads, sidewalks, bridges, bike lanes — equal to the entire statewide distribution.

2 Modernization & cyber risk

Municipalities run water treatment controls, utility billing, permitting and police records systems, and hold residents' payment data. Cyber insurance now carries security requirements as a condition of coverage. Hardening, incident response and body-camera storage are recurring general fund costs with no dedicated revenue.

3 PFAS & environmental mandates

EPA's 2024 rule sets enforceable limits of 4 parts per trillion for PFOA and PFOS — compliance by 2029, or 2031 with an extension. AWWA estimates national compliance at $3.8–$5.5 billion annually. Only partially recoverable through water rates; the balance falls on borrowing capacity and, in smaller systems, the general fund.

4 State and federal fiscal exposure

DLS projects the State's structural deficit widening from $2.6B in FY2028 to $3.4B by FY2030, as general funds needed for the Blueprint climb from zero in FY2027 to $3.4B by FY2030. FY2027 was balanced only through roughly $800M in cuts and new revenue — the imbalance underneath begins the year after.

Sources: DLS and MML analysis of Highway User Revenue distributions and municipal HUR expenditure reporting; EPA (April 2024 PFAS NPDWR; May 2026 proposed compliance extension); AWWA; Schaefer Center for Public Policy (MML, 2025); DLS 2026 90-Day Report; BLS.

Where this leaves us

What the data shows

Property tax is most of the money municipalities actually control	~59%
The effective rate rose in the recession and never came back down	+22.5%
The pandemic-era aid peaked in FY2023 and is now unwinding	$470M -> $0
Municipal costs inflate faster than consumer prices	1.4–1.6× CPI
Municipalities share this base with the county and State	~¼ of the bill
State and federal fiscal pressure is intensifying, not easing	$3.4B by FY2030

What we ask of the Task Force

1. **Understand the existing municipal revenue structure and the pressures it creates.**
   A shared factual baseline before anyone turns to solutions based on data.

2. **Find and build consensus around a healthy, modern solution.**
   Agreement that a 1967 revenue chassis cannot carry 21st-century service costs. It is time for change to support all residents.

3. **Capture the modern spending economy.**
   Property tax captures only part of the visitor economy, and only indirectly. Municipalities generate $2.3 billion in state sales tax on under 5% of the land — revenue that funds the State, not the town whose services the commerce and out of state visitors depend on.

"The time to repair the roof is when the sun is shining." — President John F. Kennedy, State of the Union, January 11, 1962