



## TESTIMONY OF COMPTROLLER BROOKE LIERMAN

### Fiscal Year 2024 Budget Presentation

#### *For Presentation to the House Appropriations Subcommittee on Public Safety & Administration and the Senate Budget & Taxation Subcommittee on Public Safety, Transportation, And Environment*

Thank you for giving me the time today to discuss the state of the Comptroller's Office and the opportunities we have to strengthen the agency, improve the quality of services that we provide to the public each day, and ensure timely implementation of the General Assembly's policy reforms.

We have a unique and exciting opportunity to forge a new path forward in partnership with our legislative branch and I am confident that together we can ensure that this office is able to provide world-class services to your constituents and to help accomplish our shared goals for the state. As a partner, we want to ensure that your ideas are implemented fully and faithfully, and we want to be able to serve your constituents.

As you know, this is the agency responsible for accounting for every dollar in and every dollar out of Maryland. It is a massive undertaking carried out by more than 1,000 dedicated employees spread between 15 Divisions and split among Annapolis, Baltimore, and 11 regional field offices. After an initial reorganization, we have divided the work of the Comptroller's office among four deputy comptrollers and a soon to-be-hired CIO. The deputy comptrollers oversee a variety of divisions including:

- The Board of Public Works where more than \$400M in state contracts are voted on every two weeks
- The General Accounting Division which processes every check deposited by every business working with the State of Maryland and executes all the checks to our bond bill recipients, among other work
- The Central Payroll Bureau that ensures every state employee receives their paycheck on-time – including the Legislature
- The Revenue Administration Division that processes more than 3 million tax returns annually
- The Field Enforcement Bureau that helps safeguard the quality of the fuel in your gas tank
- The Compliance Division that conducts audits to ensure Marylanders and businesses are paying what they owe
- The Unclaimed Property Division that reconnects Marylanders with their unclaimed property
- The Bureau of Revenue Estimates that gives the Legislature and the Governor sound advice on fiscal policy for the years ahead



- The IT Division & Annapolis Data Center that protect the integrity of our systems and are responsible for our technology and processing used by many state agencies
- And more...

The Comptroller's Office plays many vital roles in the functions of Maryland's government and in the day-to-day lives of the people who live here. Our goal each and every day is to do the work that it takes to build communities that are more equitable, more resilient, and more prosperous.

I want to begin by laying out my initial priorities for the office in response to the questions posed by DLS, including three immediate opportunities. Those priorities are:

- Improving the employee experience;
- Modernizing the office; and
- Reimagining our impact

**DLS COMMENT: The Comptroller should comment on whether it is experiencing issues filling vacancies and what efforts it is undertaking to improve recruitment and retention.**

**DLS COMMENT: The Comptroller should comment on the data reporting delays [and the disparity grants formula] and the steps being taken, in addition to the new positions, to prevent this from happening in the future.**

## **The People**

In their report, DLS notes that more than half of the fiscal 2023 allowance (59% or \$114M) was for regular and contractual personnel expenses. Like any other customer-oriented agency, our people are our greatest asset and – necessarily – my first priority in this testimony. When it comes to improving the employee experience, there are three key focuses among the Comptroller's rank-and-file employees: increased compensation, training and support, and the physical environment.

Our agency is unique in state government in that many of the positions require specialized skills with specific expertise and knowledge that is not easy or quick to replace. When we talk compensation, it is first and foremost about supporting our workers, but it is also about ensuring the agency can carry out its core functions. We see ourselves already in competition for talent with local governments and the private sector – which will be further exacerbated by the IRS, who recently announced plans to hire 87,000 new agents, with many likely based in the near the nation's capital. Failing to remain competitive with our compensation offerings in this labor environment will hurt the agency long-term, will prevent us from providing the level of service to your constituents that you – and they – expect, and will prevent us from bringing in the revenue that we should be bringing in.

Within the last decade, the agency's portfolio of core duties has grown dramatically: Maryland has added a number of complex tax types, including the digital gross revenues advertising tax, the PTE SALT workaround, and the expansion of the sales and use tax to cover digital products. These tax types are joined by a number of special projects – such as the RELIEF Act and a growing interest in using the agency's cache of tax data and personnel to perform data analysis for other departments – and increased legislative interest in achieving policy goals through the tax code. However, due to Governor Hogan's restrictions on the budget, none of these important initiatives received any

additional staffing, leaving the agency routinely asked to do more with the same – or less. Not only has the agency lost FTEs, we have also lost many skilled workers.

COM's average employee has lost significant ground against the average Maryland worker during this period, forcing the agency to staff vacant positions with less experienced candidates. As a result, the agency struggles to both hire and retain qualified employees for essential positions. COM cannot support an ever-larger portfolio of tax types, special projects, and inter-agency initiatives without adequate staff – and talent. Each new tax type added and program administered – without appropriate support – imperils the agency's ability to deliver on its core obligations to Maryland taxpayers, and risks the loss of state revenues to fraud schemes which the agency has no means to detect or prevent.

**One of the requests for additional comment by DLS was related to the disparity grants formula, which involves a report that is utilized by DBM based on tax returns.** The disparity grant formula is based on a report by the Comptroller that provides an overview of the net taxable income of each county. This information is based on revenue paid by Maryland taxpayers. The data is then used to calculate disparity grants, the education formula, etc. When the General Assembly passed the SALT Tax PTE workaround, it allowed businesses to pay taxes on behalf of their resident owners. This enables the business to deduct the taxes as expenses, hence the federal tax work around, but those taxes paid by the business must then be added back on each owner's personal income tax return and then claimed as a refundable credit. Therefore, an employee must: (1) connect the business return with the personal returns; (2) verify the business credit matches the credit claimed by the individual; (3) verify that the business indeed paid what they claim; (4) verify the addback; (5) verify the credit; (6) and then re-do for other business holdings of the individual. This ensures the revenue neutrality of the policy while also protecting State dollars from fraud; it should be noted that the average credit for tax paid by a PTE last year was 55 thousand dollars. Many filers who are using this methodology file their taxes at the end of the period – in October. Because of the complexity of calculating whether the tax liability of each person had been paid, it took an incredible amount of time to complete. COM had to reassign 20 employees from other areas in the agency and train them to do this work. It required reviews by hand. It took the extra 20 employees and the pre-determined staff 6 weeks to work through all of the reports. In an initial request to the Governor, our request for an additional team of people to learn the system and process and be dedicated to handling PTEs has been granted. We are also investigating using robotic process automation (bots) to support the processing of these returns when the business and individual have filed all of the information correctly and electronically.

**At its core, COM is a revenue-producing agency. Dollars invested in COM are not only returned as revenue, but also result in an improved taxpayer experience, a better business climate, and adaptability to a quickly-changing and ever-more-digital world of finance.**

The two other vital areas of employee support are increased training and support – from managerial training to specialized tax training – and upgrading the agency's physical spaces. We need to ensure that our employees can learn new skills to take on whatever challenges may come, and we must guarantee that the environment in which they serve is hospitable and appropriate. We plan to hire a training director to help with the development of interagency educational content and weaving it into Portico, our online training delivery system.

The physical conditions of the buildings in which COM employees work are, in a word, unacceptable. We have over \$8 million in deferred maintenance from DGS – some projects which date back to 1996. We have mold, mildew, bathroom facilities that are original to the building, elevators that routinely break down with employees inside, and bats – yes, bats – living in the attic of our Revenue Administration building. The Treasury building is in need of a complete gut renovation that was supposed to be budgeted for FY24 but was moved back to FY28. The Baltimore office is moving this year to 7 St. Paul Street. But the building that houses the Revenue Administrative Division – the largest division with the agency and the one that handles our most fundamental mission as an agency, revenue collection – has people working in areas that were never meant for human habitation – including the attic. That building is also missing basic elements of modern workspaces, including common areas, kitchenette spaces, and updated bathrooms. This workforce and its *workplace* are overdue for investment, and the State of Maryland will reap the rewards of such an investment for decades to come.

**DLS Comments: The Comptroller should clarify when it anticipates the [COMPASS] project being completed. Given the substantial changes in timeline, project cost, and scope, the Department of Legislative Services (DLS) recommends continuing to track ITS project development activities and expenditures through quarterly reports.**

### **Modernizing the Agency**

To help us modernize the agency’s technology, it comes back – again – to the people and personnel involved. Last month, the agency posted a job description for a CIO to build and lead a team with a strategy for fully implementing and overhauling the technology in the office. We will be posting a position for a Chief Information Security Officer (CISO) next week. And shortly after being sworn in last month, I approved a work order to undertake a security assessment to determine our cybersecurity weaknesses.

Louis Goldstein often stated that he “brought the Comptroller’s Office from pencil and paper to the mainframe.” It is now time to bring this agency from the mainframe to the cloud. We have some of the oldest systems in the nation, and that means we have an unbelievable opportunity in front of us to modernize the tools of this office and improve your constituents’ experience with this agency that touches their lives in so many ways.

As a legislator, I regularly heard from small businesses and nonprofits in my district that they were awaiting a payment from the Comptroller’s Office, and how these delays hurt their employees and the communities they serve. Those payments between state agencies and the businesses and nonprofits that contract with them are among the most pressing and time-sensitive ways that your constituents interact with the Comptroller’s Office. Many times, if agency invoices aren’t paid to vendors or nonprofits on-time, their employees do not receive paychecks. And yet, a DLS study in December 2022 found that “the State has paid at least 91% of its contract payments on time,” despite what it called “...an outdated financial management system...”<sup>1</sup> That ‘outdated financial management system’ is called the Financial Management Information System (FMIS), and it integrates numerous databases around state government – most of which dating back to the 1990s or earlier. The Comptroller’s Office recently introduced legislation to begin the process of upgrading

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<sup>1</sup> *Vendor Payments Study*, Department of Legislative Services, December 2022

this critical component of our technology infrastructure, and I welcome your partnership and support of that effort. This overdue upgrade would not simply benefit “the Comptroller’s payment system” – it will improve *the State of Maryland’s* payment system. This may be a long process, but it must be done – and it must be done *right*.

Much like FMIS and payment processing, a core function of the agency – revenue collection – is hindered by an aging technology infrastructure. The current system, SMART, is a 25-year-old, DOS-based system that is neither nimble nor user-friendly. The agency contracted in 2019 to bring in the company RSI to bring a new integrated tax system. The contract was poorly conceived, woefully mismanaged, and has never met a single original target date. The team needed to ensure that the processes undertaken by the Comptroller staff could be translated so that developers could integrate them into a new system was never fully assembled. In order to meet the original target date set, we would need an additional 75 skilled revenue staff to translate processes into new code. Clearly, this is not possible. Therefore, I am working with our Chief Deputy Comptroller to realign our timeline to one that is achievable and enforceable. The additional time on the contract will require additional funding as well. We do believe, however, that the product at the other end of this delay will be excellent and will make it easier to pay taxes for families and businesses, and eventually cut down the number of taxpayer service staff needed because of the ease of access and tracking of payments.

We are also reaching out and working with our external partners and stakeholders to ensure that they are aware of the new system and have a chance to give us their feedback. When the entire program is implemented, taxpayers will have a new online portal where they will be able to do almost all their tax and license transactions online, with the expert help of our employees. This online portal is vital to understanding the value of this new system, as it will enable taxpayers to interact through a secure web application with the functionality that they have come to expect from other private sector models: viewing payment history, balances, updating info, set up payment plans, and more.

### **Reimagining Our Impact: Tracking Dollars from the Board of Public Works**

The Comptroller of Maryland serves as one of only three members on the Board of Public Works along with the Governor and the Treasurer. The Board is described as “Maryland’s highest administrative body,” meeting semi-monthly to review and approve upwards of \$400 million in State government expenditures. The Board provides important oversight of procurement practices to ensure the State receives the best value for every dollar spent by evaluating the strength and reliability of contracts, and the participation of small, minority, and veteran-owned businesses.

The State has promised all small businesses, including those owned by minorities, and women 29 cents out of every procurement dollar spent and just one cent for veteran-owned businesses. To better hold the State and vendors accountable to these MBE, VSBE, and SBR goals for which we continually fall short, tracking, and improved transparency is needed. Additionally, State spending does not stop after Board approval, and to make certain that State investment is wholly transparent and accountable requires continuous monitoring. We must place a greater emphasis on tracking State expenditures, so we understand the actual performance of contracts. The Comptroller’s Office is therefore evaluating ways to improve tracking expenditures including best practices from other states such as tracking and transparency software

## **Closing the Tax Gap**

As you may know, the ‘Tax Gap’ is the divide between what is owed and what we actually collect in revenue. We need to go after the scofflaws – whether it’s individuals intentionally hiding their income and not paying their taxes, or businesses failing to pay their workers as agreed – and there are ways we can leverage this office to ensure everyone pays their fair share under the law. In Fiscal 2022, the Comptroller collected \$415.2 million in unpaid taxes and \$201.5 million in delinquent business taxes, representing a 58% increase in unpaid tax collections and a 17% increase in delinquent business tax collections. The increase aligns with the reinstatement of collection and enforcement activities following the COVID-19 pandemic and the fiscal 2022 numbers are more comparable to pre-pandemic levels of collection. I believe we can be even more creative and aggressive about compliance, though. With an economy that is moving online, we must use new tools to track those who make money from NFTs, online rentals and sales, and more. We must also work smartly by partnering with agencies. I look forward to re-establishing the Workplace Fraud Workgroup with the Department of Labor to ensure we are cracking down on tax evasion by businesses who are also misclassifying workers and failing to pay use taxes.

## **Cannabis**

As the agency charged with ensuring proper taxation and compliance of cannabis sales, the Office of the Comptroller is committed to working with the General Assembly to create a strong, sound, and fair statutory and regulatory framework. The Comptroller’s Office will do all we can to ensure the timely and effective implementation of the cannabis tax and support of the various funds that the General Assembly is creating as part of the legislation.

## **Conclusion**

At the core of every adjustment the Comptroller’s Office is making is the goal of creating a more equitable, more resilient, and more prosperous state. I appreciate your time and partnership in this effort, and I respectfully ask for your support of the Comptroller of Maryland’s Fiscal Year 2024 budget request to continue the successful work we have undertaken together on behalf of Maryland’s taxpayers.