

MTEF Annual Report

MTEF ANNUAL

Maryland Tax Education Foundation, Inc.

ANNUAL REPORT

This year was another busy one for MTEF with its work on two billion dollar projects. Also, MTEF sent you three newsletters to keep you informed as this work progressed.

MTEF continued to shed some light on the \$1.1 Billion legal fee that Peter Angelos claimed for representing the State in the tobacco case. MTEF believes that its efforts contributed to the negotiations that occurred late in the Legislative Session between Angelos and the Governor.

A Board of Contract Appeals hearing was scheduled for May, but the \$150 million settlement of the \$1.1 Billion claim was made in time to avoid the hearing. Although the payout is over a period

of years, the savings to Taxpayers is \$950 million.

Following that success, MTEF supporter Jeff Hooke proposed that MTEF help with another Billion Dollar project, this time to educate the leaders of the State on the true value of slot machine licenses. The MTEF Board voted in June that it did not favor having slot machines, but if the politicians were going to have them in Maryland, there would be no reason not to get the best price for the Taxpayers that the State can get.

The auction of slot machine licenses would at least get some money that can be used to pay for the increased social costs of gambling. MTEF documented this at the news conference at the Baltimore Science Center. Every-

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Spending Affordability Levels Set

Whether a spending affordability limit increase of 2.5 % will be a large enough reduction or not will have to await the March 2003 improvements in revenues. The Spending Affordability Committee (SAC) opted, after an hour debate that actually occurred before the

vote for once, to reduce the FY 2004 recommendation to 2.5 % after a vote on 3.25 % failed.

The General Fund Revenues include all of the taxes – income, property, sales, car registrations and others. The SAC is charged

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Dates of Interest

Jan 8 — General Assembly Convenes

Jan. 15— Inauguration of Governor & Lt. Governor

Jan. 17— Final date for Governor to introduce Budget Bill

Jan. 17— Final date for Governor to submit Executive Orders reorganizing the Executive Branch

Administration Bills introduced in the Senate after this date are referred to the Rules Committee

Jan. 27— Final Date for Governor to submit capital budget bill

Jan. 31 -- Senate Bills introduced after this date are referred to the Rules Committee

March 31— Budget Bill to be passed by both Chambers

April 7— 90th Day— Adjournment Sine Die

April 27— Final date for presentation of bills to Governor

May 27— Governor to sign/veto bills by this date

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ized, the crime rate goes up, the number of people on welfare goes up, and more social services are needed.

To simply give the licenses away to four races track owners who fail to use their profits to improve their purses and facilities would be a real economic disaster. The Taxpayers cannot afford to keep paying tax money to private corporations to enhance their take from doing business with Marylanders.

MTEF's newsletters have explained the details of the slot business. You can see copies of these on our website if you do not remember the details.

There is a lot to do with educating the legislature on the State's finances. With \$550 to \$600 million shortfall between now and June 30, and another \$800 million to \$1 Billion or more shortfall in fall for the next fiscal year, the new Governor has a chance to fix things.

There will be some pain in the budget cuts, made necessary by the previous Governor's and Legislature's overly optimistic projections of income and low balling of the costs for the last several years.

The Maryland Taxpayers Association, our affiliated trade organization, lobbied for years on several budget cuts. Now is the time for you to review those proposals.

MTEF received a \$1,000 grant from Montgomery County Taxpayers League for an economic study of compensation in Public Schools. The study, on the web, found compensation is already very competitive.

There is plenty for MTEF to do as an objective, independent observer of the Maryland financial scene. We will be counting on receiv-

ing your support for the months to come.

William J. Skinner, R.Ph., Esq.
President

SPENDING AFFORDABILITY LEVELS—

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with recommending to the Legislature the level of increases in spending they recommend for the next budget.

New faces at the December 17 decision meeting were Public Member H. Furlong Baldwin and Delegate Michael Busch, the Speaker designate, in place of defeated Speaker Casper Taylor, who did not attend. Public Member John Miller did not show again. No one left early this time. Staff member Warren Deschaneaux led the discussion of a 10-page document with staff propositions that had been worked out ahead of time.

Although the percentage increase item was listed as number 1 in the 10-page document, Deschaneaux recommended that it be taken up last. *Maryland Tax Educator (MTE)* and the prior *MTA News* have pointed out in prior years that the vote was usually taken without opportunities to have much discussion. This year, under Co-Chairman Delegate Norman Conway, and Co-Chairwoman Barbara Hoffman, who was defeated in the primary, the meeting was conducted with a more open and democratic process for a change.

Reproduced at Table 1 are the SAC recommendations and the results of the Legislative actions taken since the process was started in 1982. Table 2 is the state spending in relation to the increases in personal income.

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Spending Affordability Levels Set — continued from page 2...

At this session, many members were vocal, starting with Senator Thomas Middleton (D) saying that bond bills were a bone of contention last year among some recipients because the Legislature ask the agencies, like community colleges, to cut back and wait until this year. They did so, in good faith, he said, and he was concerned that the Legislature keep the commitments made so it has credibility. Senator Robert Neal (D), defeated by Delegate Janet Greenip (R) in November, said that he wanted to clarify why the report asked for an increase in general obligation bonds to \$740 million. He said, "There was no legitimate reason to raise the debt level."

Immediately, Delegate Pete Rawlings (D) disagreed and said the language in the report recognizes the needs. Senator Neal responded that they ought to prioritize the \$200 million increase because if it is used to increase programs, it will not help. He said the Legislature promised \$135 million last year. Senator Middleton pointed out that projects on the books will take most of the new \$200 million in bond money. No changes were made to the report.

Senator Middleton said,
*"We should have been
 tough last year."*

When these initial remarks were completed, the SAC began at the end of the report at item number 5 and voted to say that the acceleration of the Earned Income Credit phase-in is not affordable at this time. Delegates Hixon and McIntosh voted "nay," by rising their hands.

Item number 4 dealt with the numbers of State employees. The first part stated a lengthy position on a hiring freeze and position ceiling. The second part of it dealt with limitations on new positions created being limited to public safety, homeland security, and facilities scheduled to open in FY 2004.

Senator Hoffman (D) wanted to know how many of the 5,400 vacancies mentioned were in places like hospitals. Deschaneaux said that about 1,500 persons were in the exempt categories. Public Member Dana Jones wanted to know if the public safety category included child protective service and similar positions, or just policing agencies. This was explained by several members of the SAC making comments. Public Member Baldwin, a former bank president and chairman, asked, "When do we get serious? Raising the debt from \$540 million to \$740 million is not going to help. Someday we have to get serious. I think we are there now."

Delegate Rawlings responded that the Capital Debt Spending Affordability Committee says that \$200 million is serious. "We have the capacity for \$1.1 or 1.2 Billion in capital debt and we are not approaching that." He added, "It is a tough position to eliminate 2,700 jobs," that was a part of the proposal. Rawlings said again, "We don't have a problem in the capital debt area." And he asked, "Was a 10 % income tax reduction such a great idea?"

Senator Hoffman chimed in with comments, saying, "We need to talk about the core of what the departments are supposed to do. We have been snowed a lot and we now have an opportunity to make government more realistic."

Senator Middleton said, "We should have been tough last year." Senator Ida Rubin (D) claimed that cuts in employees would hurt public safety. Baldwin shot back that those were exempted positions.

Chairman Conway had to ask that each person

SPENDING AFFORDABILITY LEVELS — from page 3...

be recognized to speak because the discussion was not being heard with people speaking at the same time. Finally, Delegate Redmer (R) made a motion that only mentioned a small part of the report language. He moved that the SAC adopt an executive branch employment ceiling of 74,100 positions. This was seconded, and there were several grumbles and statements about it. But the motion passed with no “nays.”

Senator Hoffman immediately asked about ceilings for the Legislative and Judicial Branches. After some discussion, Chairman Conway asked for staff to prepare some information for the Committee on the other two branches of government.

When the next part of the employment item was taken up, Delegate Redmer wanted to know if the new position limitations would apply to new positions in consolidated departments, if the new Governor decided to consolidate them. Deschaneaux and several members of the SAC offered reasons why this would not be covered. This part passed with Delegate Redmer voting “nay.”

Next the Committee voted to not support issuing tobacco bonds for the purpose of funding an operating budget. This passed. The SAC passed another provision asking for oversight of the non-tax supported debt of State agencies and independent authorities.

The \$740 million ceiling on capital debt was taken up again with several SAC members restating their arguments and several made new arguments against it. But it passed with Senators Hoffman and Neal and Delegate Redmer voting “nay.” A separate item for another \$40 million in academic revenue bonds was taken up. Senator Neal asked if we had already reached the statutory limit in that area and no one knew the answer. But this passed with no opposition.

How to handle the Rainy Day Fund was next on the list. The SAC would recommend that any proposal to withdraw funds to support the FY 2004 budget would have to be accompanied by provi-

sions to replace funds at \$100 million a year to restore the balance to 5 % of the general fund revenues and that a plan be adopted for achieving a structural balance between operating spending and ongoing revenues by FY 2005. This passed without a “nay” vote.

The final item discussed was the spending affordability limit. First, Delegate Rawlings advanced a figure of 3.25 % and Delegate Sheila Hixon (D) seconded this motion. Public Member Baldwin asked someone to please explain where the numbers 4.1 % and 4.4 % personal income growth came from. “Will someone defend that number,” he asked. Deschaneaux said this was a consensus estimate figure prepared by those who do estimating. “4.4 % is lower than the number we estimated in November,” he said. Baldwin then listed several economic factors which to him indicated that things are much worse and said he did not believe the staff numbers.

By this time, the SAC had been debating and voting about one hour. Senator Neal spoke for a lower number, quoting Yogi Berra, who said, “You can observe a lot by watching.” Neal said a principal component of spending needs to be cut and this is where it can be done. “The sooner the cuts come, the better,” he said. “If you have to eat two frogs, you should eat the largest one first.”

Delegate Redmer agreed with Senator Neal, saying the success rate in making revenue projections has not been strong. “We need to set expectations for the public. A 2.0 to 2.5 % increase should be set, and if revenues come in March, the spending can be increased.” Delegate Rawlings agreed with Senator Neal that the Legislature will have to reconcile the FY 2003 budget without the recommendations of Governor Glendening, but he added that the 3.25 % motion was a reasonable one. Senator Hoffman reiterated her earlier comments about the need for the Legislature to restructure what government ought to be, as it cannot be everything to everyone. Delegate McIntosh (D) supported the 3.25 % motion as reasonable. The vote was 6 for and 8 against, with hands raised and it was defeated. Most of the votes for this were from Delegates, and most of those opposed were made by Senators.

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SPENDING AFFORDABILITY LEVELS — from page 4...

Senator P. J. Hogan (D) next proposed that the spending limit be 2.5 % as it was in 1993. This was seconded and passed 9 to 7. This concluded the committee business.

Afterward, *MTE* asked Senator Hogan who seconded his motion and he said he thought it was Senator Hoffman. He wanted to know what *MTE* thought. We told him that a 2.5 % spending increase was going to be “tight.” The counties want more support. Hogan said that the local support has been increased during the last few years and the money was not there for an increase this year.

MTE asked new Public Member Dana Jones what he thought of the Spending Affordability Process and the outcome. Jones replied, “From what I know before coming here, I thought the spending limit would be a lot lower.” He said it was interesting to be involved.

Finally, *MTE* commented to Senator Munson (R) why the Senators seemed to be smarter about the budget than the Delegates. He replied, we are all paid the same, so I don’t know why!

2002 Contributors

Admiral Level -- \$1,000 to 9,999

Jeffrey C. Hooke of Chevy Chase

Leadership Level -- \$500 to 999

Robert P. & Mary Denise of Oxford

Tax Educator Level -- \$100 to 499

Charles T. Ackerman of Ellicott City
 Robert C. Baldwin of Odenton
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 Bernard Browning of New Market
 Richard P. Cheney of Odenton
 G. Stanley & S. Jane Doore of Silver Spring
 James A. & Mary Griffin of Chevy Chase
 Richard E. Hug of Baltimore
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 Lee Loevinger of Chevy Chase
 Sumner Parker of Easton
 Mary M. Schrader of Timonium
 William R. & Anne Snyder of Timonium

Charles S. Stansfield of North Bethesda
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Basic Member Level -- \$25 to 99

Terrance R. Blackwood of Easton
 Joanne Breen of Potomac
 Sam Bronstein of College Park
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 Michael Clisham of Baltimore
 Marsella R. Dunlop of Chevy Chase
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 Henrietta Jones of Ijamsville
 Thomas J. Keller of Chevy Chase
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 Liebmann & Shively of Baltimore
 James E. Mack of Potomac
 Gregory N. Madjeski of Ridge
 Diane Mahoney of Randallstown
 Robert & Mary Jones of Bethesda
 Kenneth M. Manning of Potomac
 Barbara Mayle of Bethesda
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 John & Carolyn Naughton of Silver Spring
 Robert & Margaret Parrish of Silver Spring
 Norbert & Dorothy Paszkiewicz of Lutherville
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 Florence Rand of Silver Spring
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 Richard L. Strombotne of Gaithersburg
 John P. Sverha of Rockville
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 John Ward of Easton
 Thomas V. Welsh of Ellicott City
 John & Mary Wilhelmy of Bethesda
 Paul G. Wist of Towson
 William H. Wymer of Darnestown

Other Contributions

Doug & Eileen Brautigam of Millersville
 Chris Controwinski of Rockville
 Charles & Agnes Hahn of Baltimore
 James Ketchum of Bethesda
 Maurice & Pauline Lizotti of Pasadena
 Edward & Susan Marshall of Chevy Chase
 Donald & Vita Merryfield of St. Michaels

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2002 Spending Affordability Committee Report and Recommendations to the Governor and the Legislative Policy Committee

The Spending Affordability Committee was created in 1982 (Chapter 585, Acts of 1982). The committee is composed of 18 legislative members including the presiding officers, the majority and minority leaders, the chairmen of the fiscal committees (or their designees), and other members appointed by the presiding officers. A four-member citizen advisory committee assists the committee.

The committee's primary responsibility is to recommend to the Governor and the General Assembly a level of spending for the State operating budget that is reflective of the current and prospective condition of the State's economy. Consideration is given to constraining disproportionate growth in State-funded expenditures in any fiscal year which might necessitate or "build in" unsupportable levels of spending in future years. Thus, especially during periods of strong economic growth, the committee has attempted to exert a "smoothing effect" on spending.

The committee's prior recommendations and legislative action on the operating budget are reflected in the following table:

Session Year	Committee Recommendation		Legislative Action	
	Growth Rate	Amount	Growth Rate	Amount
1982	10.18%	\$431.9	9.62%	\$412.8
1983	9.00%	428.0	5.70%	269.8
1984	6.15%	326.7	8.38%	402.0
1985	8.00%	407.2	7.93%	404.6
1986	7.70%	421.5	7.31%	402.2
1987	7.28%	430.2	7.27%	429.9
1988	8.58%	557.5	8.54%	552.9
1989	8.79%	618.9	8.78%	618.2
1990	9.00%	691.6	8.98%	689.7
1991	5.14%	421.8	5.00%	410.0
1992	No recommendation		10.00%	823.3
1993	2.50%	216.7	2.48%	215.0
1994	5.00%	443.2	5.00%	443.2
1995	4.50%	420.1	4.50%	420.0
1996	4.25%	415.0	3.82%	372.8
1997	4.15%	419.6	4.00%	404.6
1998	4.90%	514.9	4.82%	506.6
1999	5.90%	648.8	5.82%	640.6
2000*	6.90%	803.0	6.87%	800.0
2001**	6.95%	885.3	6.94%	884.6
2002	3.95%	543.2	3.40%	468.1

*2000 legislative action does not reflect \$266 million of Cigarette Restitution Fund (CRF) appropriations. CRF dollars were excluded because they had not previously been available to the State. The 2000 growth rate including CRF dollars was 9.16%.

**Data from the 2001 session and subsequent years reflect a revised methodology for calculating the spending affordability limit; data from the earlier years reflect the older methodology.

**State Spending Under the Spending Affordability Concept
In Relation to Maryland Personal Income
(\$ in Millions)**

<u>Session/CY</u>	<u>Approp. Under SA</u>	<u>Percent Change</u>	<u>Personal Income</u>	<u>Percent Change</u>
1984	5,090		68,506	
1985	5,474	7.5%	74,853	9.3%
1986	5,909	8.0%	80,612	7.7%
1987	6,477	9.6%	87,731	8.8%
1988	7,041	8.7%	96,072	9.5%
1989	7,684	9.1%	104,005	8.3%
1990	8,374	9.0%	110,450	6.2%
1991	8,614	2.9%	114,466	3.6%
1992	8,667	0.6%	119,419	4.3%
1993	8,865	2.3%	124,076	3.9%
1994	9,332	5.3%	129,849	4.7%
1995	9,771	4.7%	135,116	4.1%
1996	10,119	3.6%	140,809	4.2%
1997	10,509	3.9%	148,827	5.7%
1998	10,998	4.6%	158,502	6.5%
1999	11,639	5.8%	167,245	5.5%
2000	12,738	9.4%	180,354	7.8%
2001	13,623	6.9%	189,142	4.9%
2001*	13,752	n/a	189,142	4.9%
2002	14,221	3.4%	196,896	4.1%
2003	-		205,560	4.4%

* This is the 2001 session SAC appropriation utilizing a revised method for calculating the SAC limit.

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*TO GOVERN
THEMSELVES A PEOPLE
MUST HAVE KNOWLEDGE*

We're on the web at [www.
MarylandTaxEducation.
Org](http://www.MarylandTaxEducation.Org)

MTEF is a 501(c)(3) non-profit organization. Contributions are tax deductible from State and Federal Taxes if you itemize deductions.

Contribution or dues levels are in the lists in this Report. Copies of our Reports to the State are available on request from MTEF as well as from the Maryland Secretary of State, Annapolis, MD 21401.

2002 Contributors — *continued from page 5*

Other Contributors — *continued*

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Daniel A. O'Connell of Rockville
John Schmick of Preston
Earnest & Ellen Tremmel of Bethesda
Melvin Waskey of Baltimore
William O. Woodward of Reisterstown

If you believe your name should be listed here, please let us know. We have made every effort to credit everyone and apologize if we have not done so. Thanks to all who contributed in 2002. A receipt is being prepared for tax deduction purposes at this time.

We want to thank each of our MTEF directors for their time and efforts this year. And we welcome Jeff Hooke as the newest member of the Board.

MTEF can only do its work with assistance of its members. Your support allows MTEF to reach more Marylanders with our educational materials. Deductions to MTEF are tax deductible as charitable contributions under Maryland and US Tax Codes if you itemize.

MTEF may be named in your will for a charitable deduction as well. Charitable deductions may be deducted in many situations under Estate or Inheritance tax laws. If you need guidance on doing this, consult your tax advisor.