

Maryland Tax Educator

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THE BIG "BUDGET CRISIS" LIE: MARYLAND SWIMMING IN TAX DOLLARS, BUT POLITICIANS WANT MORE

It's now official. The State of Maryland's revenue grew by more than \$1 billion for fiscal year 2005 over 2004. Hopefully, we can stop talking gibberish about the phony "revenue crisis" and start dealing with the overspending crisis that our politicians and bureaucrats created.

Unfortunately, the 2005 legislature session provided more of the same for fiscal year 2006 (i.e., ending in June 2006).

Spending, once again, will increase by more than the sum of (a) inflation plus (b) population increase. Does it ever stop?

One interesting new tax was the 2% levy on health insurers. The proceeds will be used to reduce doctors' malpractice premiums, and thus go indirectly into trial lawyer pockets. Poor people paying more for health insurance are subsidizing doctors and lawyers. Go figure!

For the future, leaders are again crying about a 2007 (and beyond) "structural deficit." For those of you who don't know what that means in plain English, here it is:

"A structural deficit is when the state's leaders want to increase spending by 10% (8% more than inflation), but tax revenue is only rising by 5% (3% more than inflation)."

Welcome to Maryland!

REAL ESTATE TAXES TAKE CENTER STAGE

With the huge gains in real estate prices, assessments have soared in the state. The rising assessments are "milk and honey" for big spenders, because real estate taxes can increase as much as 10% per year indefinitely, without the politicians needing to vote for these higher-than-inflation tax jolts. Some of our friends on the Eastern Shore have had success in persuading County governments to lower their tax rates on higher assessments, but the luck is mixed elsewhere. Several MTEF members have testified at County legislative meetings to inform legislators of



the impact of higher assessments. Educate your legislator through personal contact. Along the same lines, an effort in Annapolis to reduce the state property tax on homes was derailed, even though the tax had just been raised two years ago.

**PENNSYLVANIA'S \$500 MILLION
SLOTS LICENSE SALE
PROVES MTEF WAS
RIGHT!**

Ok. We know you are tired of hearing about slots, but just one more fact. In following the issue, MTEF published a note in October 2004, indicating that two racino licenses were "flipped" in Pennsylvania, soon after slots were legalized there at a dozen locations. One license sold for \$330 million and the other for \$500 million. Our legislators need to know that these monopoly slot licenses have tremendous values. Despite having a huge legislative services agency and sizeable committee staff, most legislators get the bulk of their information on slots from racetrack lobbyists and gaming executives.



**RACETRACKS SAY THEY CAN'T MAKE
MONEY SELLING WARM, 12-OZ BEERS
FOR \$4.00 A PIECE**

When you hear of slots, you think of racetracks. In September 2004, the Foundation released an analysis of the audited financial statements of the Pimlico and Laurel racetracks. The study indicated that the tracks realized little or no income from concessions or parking, despite recording 1.6 million yearly visitors. Other similar venues typically show concession revenue (beer, hotdogs, etc.) at \$8-10 per day per visitor, with a gross profit margin of 30 - 40%. And, for the Preakness, Pimlico charges \$75 - \$150 for parking one car.

With the data suggesting that the tracks are hiding millions in income from the state in order to "cry poverty," the MTEF formally asked the Maryland State Racing Commission and the Maryland State Board of Accountancy to investigate. Sadly, both agencies shirked their statutory duties and refused to consider the analysis, covered by the Sunpapers, Daily Record, and Montgomery Gazette. Do the words "political hacks" come to mind with respect to these agencies? The Foundation has referred the matter to federal accounting regulators and the national accounting association.

MONTGOMERY COUNTY
ZONING GIVEAWAY

Of course, in Maryland, potential multi-million dollar giveaways are not limited to racetrack owners. In "progressive" Montgomery County, lawmakers want to expand low-income housing. Rather than choosing a direct approach, the County Council is pushing a bill to give developers the right to construct larger apartment buildings in downtown areas.

In exchange, the developers reserve a few extra apartments for low-income tenants. See the analysis on our website. HERE'S the problem: the developer makes millions in extra profit on the added density; but the Council housing program settles for a "few pennies on the dollar" in terms of new units. Does the huge giveaway have something to do with the fact that developers provide 50% or more of the Council's campaign contributions?

MTEF'S study offered a novel idea: let the county auction off higher density, instead of giving it away for free to wealthy developers.

STAY TUNED!



UPDATE:
MARYLAND
DEPARTMENT OF
COMMUNITY HOUSING
AND DEVELOPMENT
COVERUP

The Department has a \$1 billion loan portfolio, ostensibly designed to subsidize low income housing construction in the state. In 2003 and 2004, the Foundation requested information regarding specific aspects of the portfolio, such as the names of the individuals who own the developments and who are being given "soft loans" with lower-than-market interest rates. In fits and starts, the Department refused to talk to the Foundation and turn over this specific information. Our attorney was unsuccessful in resolving the matter.

Because soft loans can save developers hundreds of thousands in financing costs, the Foundation was curious to know if there's a "pay to play" scheme, whereby soft loans are exchanged for political donations.

MTEF RELEASES
MONGOMERY COUNTY
WASTE DISPOSAL STUDY

For most counties in Maryland, waste disposal is an inexpensive, mundane task. In Montgomery County, however, the system is a gold-plated travesty, costing taxpayers approximately \$100 million annually, out of a \$3.6 billion budget. Dave Curry, formerly an economist with the U.S. government, wrote an authoritative study on this subject, released in February 2005 and covered by the media. He outlined ways to save millions of dollars, which could be used for education, social services or tax cuts.

Jeff Hooke, Chairman of MTEF, testified before the County Council in April 2005 regarding this study. Despite repeated assertions that "these isn't enough money," the Council seemed less interested in saving millions than in spending millions.

All they can say is "sorry, school kids, you'll have to learn in those "temporary" trailers for a few more years."

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**TO GOVERN THEMSELVES,
PEOPLE MUST HAVE
KNOWLEDGE**

WHISLTLEBLOWERS?

If you can think of subjects for the Foundation to study, please contact the MTEF chairman or one of the Board members.



INTERNS NEEDED

If you are a graduate student, and you enjoy doing financial/budget/economic research, please contact the MTEF Chairman or one of the Board members. The website has contact information.

The Foundation has one intern at the present time and he is studying an interesting budget matter.

DONATIONS REQUESTED

Enclosed with your newsletter is a request for your tax-deductible contribution. A recommended annual contribution is only \$25. The MTEF accomplishes a lot with limited resources. To be self-sustaining, it needs support from its members and other interested parties. Our efforts have saved millions for Maryland taxpayers. Your assistance is appreciated.

A copy of our annual report is available from the Secretary of State or by writing MTEF.

DONATION FORM

Make checks payable to "Maryland Tax Education Foundation"

	<u>Amount</u>
Name _____	Member _____ \$25-99
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Thanks for your help.

Clip and mail in the enclosed self-addressed envelope.

