



# MARYLAND TAX EDUCATOR

## BUDGET CUTS NOW MANDATORY

Maryland's Spending Affordability Committee (SAC) held its first briefing on October 30 to receive information about the economy, including revenues and expenses of running government programs. The SAC will meet again on November 20 for more information and on December 18 for a decision meeting.

For the past several years the spending affordability level decision appears to be made by the legislative members of the SAC, consisting of nine Senators and nine Delegates, even prior to the public meeting. If the same kind of meeting takes place this year, it will be a public affirmation of what the majority vote has already been sometime before the meeting. There are four public members of the SAC, but typically they say little at the public meetings, and the only public comments made at the October 30 meeting were by H. Furlong Baldwin, retired chairman of the Merchantile Bank, who said, in effect, "You haven't listened to us!"

Governor Glendening announced a few cuts earlier this year, but his office says he will wait until December revenue figures are in before deciding whether to further embargo already appropriated funds, some of which may never be collected, and others of which are already less than expected.

Inside this issue of the *Maryland Tax Educator* are two tables from the Department of Legislative Services, Office of Fiscal Policy Analysis briefing papers given to the SAC. One shows the General Fund Revenue Projections to FY 2003. The other shows the 5% Solution, which is based on keeping 5% of the General Fund Revenues in the Rainy Day Fund for future use.

The Projection Table shows that Personal Income Tax is off \$150.8 million as of October, Sales and Use Tax is off \$97.8 million, Corporate Income Tax is off \$51.0 million, and interest on investments are off 31.08%. Projected revenues are now off \$238.5 million out of \$9,908.9 Billion or only

1.3%. Looking ahead for FY 2003, the budget that the General Assembly has to pass in March 2002, the current projections are only an increase of 2.6% for a total of \$9,918.4 Billion.

The 5% Solution Table shows that for FY 2002 (the fiscal year that started July 1, 2001) there will be a shortfall of \$238.5 million as of October (now), \$268.6 million in deficiencies (not enough was appropriated for some entitlement programs), a reduction in expenditures of

\$127.0 million, leading to a Rainy Day Fund balance of \$483.5 million at the end of June 2002. This same column shows that expense over revenues of \$109.7 million. Then the table shows in the FY 2003 column that expenses over revenues will be \$1,131.2 million.

On page 20 of the briefing paper, staff estimated expenses over income of \$384 million for FY 2002 and \$963 million for FY 2003.

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Mandatory

### *Important Dates*

#### *November 10, 2001*

Maryland Institute on State Budget Analysis  
Howard County Business Training Center  
1:00 to 5:00 P.M.

#### *November 20, 2001*

Spending Affordability Committee Briefing,  
110 Lowe Building,  
Annapolis  
6:00 P.M.

#### *December 18, 2001*

Spending Affordability Committee Briefing,  
110 Lowe Building,  
Annapolis  
6:00 P.M.

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PEOPLE MUST HAVE KNOWLEDGE

# MTEF

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At the October 30 SAC briefing, there was no discussion of the Maryland Constitutional requirement for a balanced budget. There seemed to be a recognition that programs would have to be cut, but there was no serious discussion of what to cut. The SAC meeting audience had a significant number of staff from the Governor's Office of Budget and Management in attendance. Co-chairs of SAC, Senator Barbara Hoffman (D-Baltimore) and Delegate Nancy Kopp (ID-Montgomery) both commented that the Governor should let them know if they disagreed with the data presented by the SAC briefing. Sen. Robert Neall (D-Anne Arundel) commented that SAC should go beyond its statutory process of recommending a spending level for FY 2003 and

develop recommendations for cuts for FY 2002. Sen. Neall reasoned that the Legislature could not begin to handle FY 2003 in January until it took care of the shortfalls in FY 2002. Waiting for December revenue figures would be too late and make the problem more difficult.

While most of the SAC members were present at this briefing there were a few missing. Here are some other comments and questions asked by legislators. Sen. Hoffman announced that the tax amnesty program had taken in only \$11 million. The fiscal briefing papers presented on October 30 were expecting \$70 million, but had not counted on getting it all.

*Continued below ...*

Delegate Pete Rawlings (D-Baltimore), chairman of the Appropriations Committee asked if the legislative staff had negotiated with the Governor over no salary increases for state employees for FY 2003 or just used "good fiscal sense." David Romans said there were no negotiations, just good fiscal sense.

Delegate Martha Klima (R-Baltimore) asked about the use of the Cigarette Restitution funds in the budget for FY 2003. Staff responded that since the Legislature had approved sums for education and that money may not be available, they would have to back-fill for the education projects.

Delegate Norman Conway (D-Eastern Shore) asked about the legal fees for the

tobacco suit. Staff responded they had no answer except the high side figures of 25%.

In reporting economic factors, Theresa Tuszynski, a staff member, reported consumer confidence was down 33%. Furlong Baldwin wanted to know how much of the personal income tax was from capital gains and staff estimated 10 to 15%. Baldwin added at the end of the meeting that the worst case scenario was too optimistic, too ambitious, that a more pessimistic scenario ought to be estimated because the economy may grow even worse, especially if there is another terrorist event. He said, everyone says "Maryland is different, Maryland is different, Maryland is different!" Yes, Maryland is differ-

ent, but not that different!"

Senator Neall pointed out that the 1991 downturn was also caused by an international event, the Gulf War when the Rainy Day Fund was just started. Also, he said we are now working on "off-balance sheet" budget items that were not present then. It will be important how cash balances are handled, he added.

### MESSAGE FROM THE PRESIDENT

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



*MTEF will work hard to educate Maryland Taxpayers about state spending.*

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