

MARYLAND TAX EDUCATOR

SPENDING AFFORDABILITY BRIEFING

The Maryland legislature's Spending Affordability Committee (SAC) met November 12, 2002 to learn from legislative staff recommendations what their alternatives are for setting levels of spending for the FY 2004 Budget. Some new faces were present, some old faces did not show up, some old faces left early, and almost no one seemed excited about the staff recommendations. Only a few members asked questions.

New was Delegate Alfred Redmer, replacing former Delegate Bob Kittleman, now a Sena-

tor. New was Dana M. Jones, a public member. Jones is the executive director of the Tri-County Council in Southern Maryland, a Community Action Committee. Jones was appointed by Speaker Casper Taylor. There is one vacancy in the membership from the House of Delegates. Public members not attending were H. Furlong Baldwin and John Miller. Legislators not attending were Delegates Casper Taylor, Sheila Hixon, Martha Klima, and Senators Clarence Blount and P. J. Hogan. Leaving

early from the one and a half hour meeting were Delegate Maggie McIntosh and Senator Robert Neal.

Interestingly, some on-lookers came to this meeting. Delegate Norman Conway, the House Co-Chair, introduced Lt. Governor-Elect Michael Steele, who attended the meeting to learn what the Legislature was doing about the budget situation. MTEF's president sat next to Steele and had a chance to say a few words about the last six-years of SAC meetings MTEF has attended. Steele had a very

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TEACHER COMPENSATION STUDY

TEACHER COMPENSATION STUDY

MTEF believes that Montgomery County Public Schools teacher compensation is competitive or better in most cases when compared with other school systems in Maryland, the Federal government, and the private sector. This

results from multi-year "general wage adjustments" unrelated to price inflation or productivity gains as well as annual longevity increases that are a function of seniority more than efficiency or productivity.

Also, employee turn-

over rates, employment application rates, and job offer acceptance rates indicate that the level of compensation for teachers, in general, and most, if not all, supervisors and administrators is competitive or better.

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MTA NEWS CONFERENCE

A November 8 news conference in Baltimore held by the Maryland Taxpayers Association explained how the new Governor and Legislature could make Maryland Government more efficient and effective. The first steps for the transformation were stated plainly.

Review regulations from top to bottom, stop new taxes, put state employees on a business basis, eliminate the prevailing wage law, enact a taxpayers' Bill of Rights, allow pension portability, and more.

Go to www.MDTAXES.ORG for more information.

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active time meeting legislators until the briefing started. At the end, Delegate Pete Rawlings, House Appropriations Chairman, made a bee line to say hello to Steele and the press people bombarded Steele with questions. Sitting behind the SAC was Maryland Treasurer, Nancy Kopp, who until recently, was the House Co-Chair of the SAC. Kopp was introduced by Senate President Mike Miller. Kopp may or may not be re-elected as Treasurer next year. Miller and Senator Thomas Middleton, by the way, have seldom been present at SAC meetings for more than a few minutes, sometimes not at all. This time they stayed to the end.

The SAC meets one more time on November 19 at 4:00 P.M., then it will have a final decision session on December 17 at 6:00 P.M. At the next meeting, staff will report on more spending alternatives, capital debt, and personnel. Several issues will be decided by this statutory committee. First, how much of an increase in General Fund spending will it recommend to the other members of the Legislature. Second, how much capital debt increase and spending will it allow. And it will decide the effect of accelerating the Earned Income Tax Credit from 16% to 20% next year as well as the number of new personnel the state can hire. During the last couple of legislative sessions new tasks have been assigned to this Committee.

What happens at these meetings is that the legislative staff, pre-

sumably acting in a non-partisan way, reviews areas of the budget revenues, expenses, and legislative mandates, giving potential options for actions that would increase or decrease the two sides of the ledger. Sometimes the ideas offer a means of balancing the budget; sometimes the ideas do not. The ideas are legislative options left to the legislators.

Here is what happened with some editorial remarks interspersed in a different type format. Warren Deschenaux made opening remarks telling the SAC what its responsibility was for this year; he described in general terms the problems facing the Legislature with a total \$1.7 Billion shortfall and he minced no words in telling them that the deficit was due to spending and lack of revenues.

Theresa Tuszynski gave a broad economic analysis of the United States and Maryland showing a chart that spending and personal income have tracked one another since 1984. [This chart needs to be explored since the spending affordability limits have been a larger percentage increase than the personal income growth percentages in most of the last six years.] Tuszynski claimed that productivity was growing. [There is a difference in productivity in private industry and state government. Tuszynski did not explain this.] She said that Maryland employment and U.S. employment both changed year-over-year in a downward spiral, with Maryland reaching 17,000 fewer jobs in July 2002. Since summer employment is increasing. Personal Income and Wage & Sal-

ary Income both went from 7% down to less than 3% in a year-over-year change. She said that income was not falling, but growth was slowing. Economic forecasting is being done by buying data from Economy.com and four other economic analytical firms, then the staff adds their own interpretations. Personal income, for example, is projected for Marylanders at a percent change of 4.6% in 2003 over 2002, 5.3% in 2004 over 2003, and 5.4% in 2004 over 2003. Wage & Salary Income for the same years is projected at 4.5%, 5.7% and 5.6%. She ended on a sour note when she said that war with Iraq could send us into another recession.

David Romans spoke about Potential Fiscal Deficiencies in the current Fiscal Year of July 1, 2002 to June 30, 2003 and about the Fiscal 2004 Baseline. In the present Fiscal Year through October, we are \$36.6 million short of revenues. For the FY 2004, the projection is that we are \$131.4 million short. These numbers are in the General Fund Revenues, which does not include Federal payments, tuition payments and the like. The General Fund is made up of all of the State taxes, plus fines levied, hospital patient recoveries, interest on investments and other revenue items. The General Fund for FY 2004 is projected at \$10,028 Millions.

At the same time, the deficit projected for FY 2003 in the General

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Fund is \$385 Million. FY 2002 revenues were down over 4%, but the current forecast for ending FY 2003 is going to leave a negative balance of \$590 Million next June 30.

Deficiencies will be about \$100 Million on top of the negative balance. This means that the current budget plan will be that much short because program costs were not estimated correctly – Mental Health, \$36 Million; Overestimate of Reversions, \$25 Million; Foster Care, \$16 Million; Department

of Human Resources, \$13.7 Million; Public Safety, \$4.7 Million and other shortfalls of \$4.1 Million. These are the result of more people participating in a program or fewer dollars being received.

Baseline budget forecasts take into consideration a number of budget concepts and assumptions. Projections show a 1% increase in pupil enrollment, 3.9% in Medicaid, 8.0% increase in Children's health costs, or temporary cash

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Typical Maryland Taxpayer

SLOT AUCTION MOVES TO KENTUCKY by Jeff Hooke

AUCTION OF SLOTS LICENSES BEING CONSIDERED IN KENTUCKY

By Jeff Hooke

It did not take long for the idea of auctioning off slots to rub off on Churchill Downs and the other Kentucky racetracks. On November 8, 2002, an Associate Press writer, Charles Wolfe, wrote an article discussing the same subject in Kentucky. Go to http://www.myinky.com/ecp/home/article/0,1626,ECP_775_1533841,00.html to see the article.

Essentially what the article says is that Kentucky tracks will have to bid on the chance to have casinos in Kentucky. "Legislative leaders this week indicated that the General Assembly is not inclined to give tracks an exclusive casino franchise, as would have happened under a gaming bill that was introduced but not enacted earlier this year."

Other enterprises, including the Executive Inn in Owensboro, also have exhibited keen interest in having casinos. And legislators will have a budget crisis to deal with when they return to the Capitol in January.

The AP article quotes Larry Clark, speaker pro tem of the House, saying "We have to see which venue would give us the most revenue."

Rep. Jim Callahan, chairman of the House Democratic Caucus, had earlier sponsored a bill that would have legalized casinos, restricted them to racetracks and would have provided for a division of profits with the state. Now, Callahan now says that tracks would have to make the best offer.

According to Wolfe's article, Clark said the General Assembly already faces the prospect of budget cuts. "We're going to have

some tough choices to make when we come back in session," Clark said. "I don't see any tax cuts for anybody."

The situation in Maryland is less clean. At press time, the slot machine proposals being circulated by legislators give Maryland racetracks free exclusive licenses or sell them for a mere \$200 million, despite strong evidence that such licenses are worth collectively \$1.5 billion.

For example, the Elgin, Illinois gaming facility operated by Mandalay Resorts is the slot machine operator nearest to Chicago. In the 3rd quarter of 2002, the average "win" per day, per machine was over \$700. By applying this statistic to an exclusive Baltimore license (e.g., Pimlico racetrack and 2,500 machines), the licenseholders' gross annual revenues would

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TABLE 1— Spending Affordability Briefing

TABLE 2 — Spending Affordability Briefing

Spending Affordability Briefing — continued from page 3...

assistance and an increase in Foster Care/Adoption costs of 2.8%.

Staff recommendations account for increase costs for employee health insurance of 14%, increase of 5% in medical contracts and supplies, and 11% increase in the cost of prescription drugs. Also recommended were removal of funds for a one-time FY 2003 bonus for state employees, savings from positions abolished, savings from hiring freezes, only 2% to 4% merit increases costing \$29 Million, and no general salary increase for FY 2004. The staff anticipate no increase in costs or reductions in funding from Congress for Temporary Assistance for Needy Families and they believe that the Cigarette Restitution Funds will maintain programs at FY 2003 levels for FY 2004. MTEF encloses one table showing State Expenditures from General Funds for the FY 03 to FY 04 years. See Table No. 1.

Senator Barbara Hoffman who was defeated in the September primary elections, asked the first question at this point. She wanted to know if Mental Health was taking any steps to implement cost containment as directed by the last budget bill. David Romans answered, "No," and that the department continues to be overly optimistic about getting more money. The first report ordered by the budget bill did not address the containment aspects and the Legislative Services staff asked for a new report.

Hiram Burch reported on local

aid or payments from the State to Counties and Municipalities. These funds are on course to increase 7% in FY 2003 to \$4,121 Million, and 6.5% in FY 2004 to \$4,390 Million. This aid is about 25% of the State expenditures. Increases to local governments, school boards, library boards, colleges, and local health departments is project to increase by \$228 Million or 6.4%. Retirement payments will increase by \$30.6 Million or 8.1%. Funding for public schools accounts for 88% of the increase in State aid. The Bridge to Excellent in Public Schools Act phases out 27 programs but increases overall support for schools. The disparity grant will decrease for the first time by \$18.5 Million or 16% because the counties who got them in the past are collecting more income taxes compared to the average collections state-wide. Prince George's County accounts for half of the decreases and Baltimore City accounts for a third. Delegate Rawlings pointed out that this means the low earning Counties are doing better in raising incomes.

Warren Deschenaux closed the briefing by reviewing the General Fund Status and the Out-year Forecast. Ongoing expenses exceed operating revenues in FY 2002, 2003 and 2004. The Ongoing Revenue per Dollar of Operating Spending will go to \$0.91 and \$0.90 in FY 2003 and FY 2004. Table No. 2 shows the General Fund Projections from FY 2003 through FY 2008. At the present time, Maryland spending will reach an accumulated deficit of \$2,335 Billion in FY

2008.

[Of course, the Legislature could change this. Will it? During the past six years that the author has attended these meetings, the staff have made many suggestions, but these seem to have gotten lost in the final week of the session as the supplemental appropriations added to the regular budget bill have always added up to more money than was in the budget bill. This happens despite the 70-plus days the committees have budget hearings and cut items. And the most unbelievable aspect of the whole process is the fact that a conference committee of a small number of members are the only people in Annapolis who believe they know what they are voting on in the final days of the session. Most legislators simply have to trust the committee system to work and they seldom vote against final reports.]

Teacher Compensation — from page 1...

Higher starting salaries are needed for areas like math and science, and a few other areas. To obtain funds for this, the MTEF report recommends stretching out and reducing percentage pay increases due to longevity. And the report says that salary ladder base pay levels can be stretched out in areas where the number of applicants per open position indicates an excess supply of personnel with particular skills.

Supporting service staff compensation in nine and ten month positions is higher than national average rates for government employ-

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Teacher Compensation Study — continued from page 6...

ees, but some positions exhibit high turnover in all industries. Non-wage compensation to employees with regular work weeks of 20 hours or more is robust and this suggests that competitiveness is not a general problem in the recruiting of supporting service staff.

Data concerning migration of age groups in and out of the county suggest that as households' conclude direct consumption of educational services the willingness to pay for those services exceeds some people's willingness to pay, particularly those over age of 45 years. The report says that more attention must be paid to ability to pay issues in making decisions on issues affecting MCPS employment levels and compensation rates.

The data shows that the commitments made for retirement benefits were probably not fully recognized or funded when made or that employees received retroactive salary increases. More than 400 MCPS employees have retired in each of the past two years. There are 3,023 employees 55 years old or older ready to retire.

MTEF completed this study of teacher compensation for the Montgomery County Taxpayers League as part of a grant program of the local group. Recognizing that teachers are paid based on negotiated rates for a period of usually three years, the Taxpayers League wanted to know what it might cost in the future if we keep paying at present or increased

rates. The local organization wanted to better understand what they could do to protect taxpayers from another 9.3 percent raise in salaries and benefits.

The Montgomery County Council recently gave the firemen's union raises that will increase their salaries by one-third over three years. The County could not deny the firemen a raise after what happened on 9/11, could it? But not everybody gets a one-third salary increase every three years, right? If we paid all county employees at this rate, what happens to our budget?

After combing through all of the various economic factors that are used in accessing teacher compensation levels at the time of contract negotiations and doing a great deal of research, our consulting economist developed a long list of data that was needed for the study. The school board had some of this, but not all, so it took some time to see what could be compared. David S. Curry, M.A. in Economics, was the author. The MCTL and MTEF presidents and board members made suggestions and supplied resources as well.

A preliminary report was rolled out on September 30 at a public forum. This report was further developed and the MTEF Board members had a look at it. Comments were taken into account and the report was submitted to the Taxpayers League. Several national think tanks were asked to make comments and we may be able to report

these at some future time.

Some simple projections can be made based on the firemen's raise of one-third over three years. A FY 2003 MCPS total compensation request of \$1,249,657,000 would become \$1,666,209,000 at the third year. This means that the County must find an additional revenue stream of \$416,552,000 between now and then, just for the MCPS.

The study and the Compensation Forum taught the MTEF and MCTL that there are other problems with the union negotiation process. First, there is no public input. Most unions don't want any public input. Second, the times frames for considering the results of negotiations by the County Executive and County Council assures that few people read the contract (162 pages last time for the Montgomery County Education Association) or that these officials must depend on staff to tell them what to do. Third, since the public is in the dark about most of the details until some brave soul brings it up at election time, every four years, and the union endorsed candidates usually win handily, there is little that the Executive or Council will do to stop the steady increases from being implemented every three years. Finally, Council Staff have turned out a great mass of data about the compensation of MCPS employees, but one wonders who uses this since the increase in compensation is gener-

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TO GOVERN THEMSELVES A
PEOPLE MUST HAVE KNOWLEDGE

MTEF

SLOT AUCTION IDEA MOVES TO KENTUCKY — from page 3...

be \$640 million. After deducting an assumed 35% betting tax and normal operating expenses (50% post-betting-tax revenues), the annual pre-income tax profit of the Baltimore licenseholder would be \$200 million!

That's why similar licenses have sold for over \$600 million in the Chicago and Detroit metropolitan areas (3x pre-income tax profit).

Project \$1.5 Billion Recovery is trying to educate our elected officials...of...these...developments, but it is up against a formidable army of wealthy racetrack owners and high-priced lobbyists. They

have strong economic incentives to see the licenses handed out for pennies on the dollar.

Teacher Compensation — from page 7...

ally assured.

For those who hold out hope of the State of Maryland sending in funds to rescue Montgomery County, read the Spending Affordability Committee article in this newsletter. Frankly, unless there are large increases in several taxes, there will not be any increase in money from the State. It has been the reverse over at least the last 30

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MESSAGE FROM THE PRESIDENT

Let me be brief this month. The Glendening Commission on Fiscal Structure has been called a tax raising operation. Maryland has elected a new Governor, Bob Ehrlich, and it is his recommendations that voters want to see implemented, not those of some holdover group wedded to the idea the money grows on trees.

The best thing that the new legislature could do is to let the new Governor have a chance to make a budget and stop spending money on old ideas.

The Commission on Fiscal Structure is headed by the former Budget Secretary. If he could

not talk Gov. Glendening out of spending more than is taken in, what can he do now?

An interim report this year and a final report next year will cause some to want to wait and see for two years. We need to know now what can be done to right the wrongs for the last eight years.

Maryland cannot afford to wait and the whole enterprise ought to be stopped as soon as possible.



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

The Ehrlich transition team needs to work on a budget that fits Maryland's income, not on a plan for new revenues.

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

years, the State has taken money from the County, and the State has never made good on its education funding no matter which Commission or the Governor who makes the promises. Part of the State's reasoning for taking away money from Montgomery County has been, Montgomery County Taxpayers can afford it.

A single hard copy of the 14-page report can be obtained from MTEF. Please send \$2.00 for postage and handling. Or check our website at www.marylandtaxeducation.org to see if a copy is available there for downloading.

Jeff Hooke has joined the MTEF Board this month. He provides an excellent example of what a citizen can do. You can help MTEF by becoming a supporter and by volunteering some time to work on some Billion dollar projects.