

MARYLAND TAX EDUCATOR

A BILLION DOLLAR JACKPOT?

by Jeff Hooke &
William J. Skinner

The Maryland legislature can cover the \$1 billion budget shortfall and set the gaming industry to rights in one fell swoop! How? By auctioning off licenses to operate slots to the highest qualified bidders, rather than giving them away as other states have. Prominent politicians such as Mike Miller, Cas Taylor, "Pete" Rawlings, Bob Ehrlich and William Donald Schaefer support slots, but have they thought through the mechanics? Prior drafts of

legislation contemplated giving the licenses away for free, with the State collecting a percentage of the future "win" through betting taxes and other fees.

In our densely populated region, the right to operate slot machines is a license to print money. This is a demonstrable fact, and major gaming firms will pay heavily for the privilege. By way of example, in early 2002, MGM-Mirage Corporation, a \$4 billion gaming company, offered \$615 million to

Donald and Kevin Flynn for their license to operate a casino in a Chicago suburb. Construction of the casino had not yet broken ground. In 2000, the Sault Ste Marie Chippewa Tribe, which owns several casinos in Michigan, paid \$265 million to Ted Gatzaros and Dimitrios Papas for their 40% interest in a Detroit casino license, indicating a total license value of \$663 million. Prior to receiving a license to operate slots, Dover Downs was appraised at \$20 million; the slots operation alone is now worth over \$300

Continued on page 2...

WHAT A DIFFERENCE A YEAR MAKES

From early 2001 to late 2002 is more than a year, but what a difference a year makes. Here are some of the events concerning taxes and spending in Maryland.

August 30, 2002 – Schaefer: Maryland Sinks Into Deficit. A \$104 million deficit in

the present year ending June 30, and \$900 million budget gap for FY2003, he says. Governor Glendening's office says that Schaefer lost about \$3 Billion since he became chairman of the pension fund. *The Gazette*, August 30, 2002.

August 23, 2002 – Barry Rascovar says "Things are going from bad to worse for Mike Miller," the state's longest serving state Senate president." An ethics panel reluctantly told Miller he had abused his position. *The Gazette*, August 23, 2002.

Continued on page 2...

Inside this issue:

A Billion Dollar Jackpot?	1
What A Difference A Year Makes	1
Message from the President	4
Taxing Events	1

Taxing Events

November 5, 2002

Quadrennial Election of Legislature and Governor at most polling places in Maryland.

November 12, 2002

First meeting of the statutory Spending Affordability Committee to look at the revenues and expenses. This meeting is at 6:00 P.M. in the Lowe House Office Building.

November 19, 2002

Second meeting of the Spending Affordability Committee at 4:00 P.M. More data from the Legislative Services analysts. This meeting is in the Lowe House Office Building.

December 17, 2002

Final meeting (tentative) of the Spending Affordability Committee. Decisions on what level of spending increases to make for the next budget

A Billion Dollar Jackpot? — continued from page 1...

million.

In each case, Illinois, Michigan and Delaware awarded the gaming licenses for free to politically-connected groups, under the guise of aiding economically depressed areas or failing racetracks. Even after including the impact of betting taxes, the awardees then had the opportunity to turn around and make vast profits. If, and when, Maryland legalizes slots, it should pursue a course of innovative financial management. The State should auction slot licenses through a Request-for-Proposal (RFP) process, which would stipulate appropriate conditions, such as bidders having audited financial statements, adequate financing and crime-free histories. In this way, most of the economic gain of slots accrues to the taxpayers.

Forecasting the auction proceeds to the State is a straightforward exercise. Taking into account the above valuations, Maryland's proposed higher-than-average betting taxes, and the site configurations of the most recent gaming bill (HB 1149, March 2001, which stipulated racetracks and four additional non-racing locations), a common-sense estimate of the proceeds is \$1.5 billion.

In an August 2002 poll conducted by Gonzales/Arscott Research, the independent polling firm, 60% of Maryland voters surveyed thought taxpayers would be getting a raw deal if licenses to operate slots were granted for no fee,

even when the State received a portion of the future "win". When provided the option of giving slots licenses to the horse racing industry or auctioning them to the highest bidder, 49% opted to go the auction route, 25% favored the industry and 26% were not sure. These powerful numbers show taxpayers are not ready for a giveaway.

Admittedly, there are many Marylanders, including ourselves, who have moral reservations about gambling. Nevertheless, if the State is going to proceed with slots, taxpayers expect their legislators to award the licenses responsibly. All of us can agree on that.

Jeff Hooke is Chairman of Project \$1.5 Billion Recovery, a non-profit, non-partisan citizens group that wants a fair deal on slots. William Skinner is President of the Maryland Tax Education Foundation.

WHAT A DIFFERENCE — from p. 1

July 16, 2002 – *The Wall Street Journal* opinion page contrasted the \$23 Billion deficit in California with Colorado's return of \$3 Billion of surplus to the taxpayers. Colorado passed a Taxpayers Bill of Rights in 1993. *WSJ* said Colorado's constitutional limitation on of spending only with voter approval of increases had worked the best. Colorado grew even faster than most of the country. *The Wall Street Journal*, July 16, 2002, A16.

End of Session letters from Legislators – Credit is taken for redistricting (later overturned by the Court

Credit is taken for redistricting (later overturned by the Court of Appeals), increase in salaries of local board of education, Thornton Commission Funding goes half way to a permanent solution, tax credits for businesses who provide home computers for employees, and many other bills.

April 16, 2002 – Montgomery County Council proposes raises for officials, with the Executive to get \$158,285 by 2005. Council members would get raises to \$72,557. *The Montgomery Journal*, April 16, 2002.

April 16, 2002 – U. S. House will vote for tax cut and death tax reduction. *The Wall Street Journal*, April 16, 2002, A20.

April 3, 2002 – Maryland Senate debates cigarette tax increase of \$100 million and amended education funding for Montgomery County to provide an additional \$80 million for the County in 2007. *The Montgomery Journal*, April 3, 2002, p1.

March 23, 2002 – Scripps Howard News Service studies taxes and growth trends – finding lower levies spur people to vote with their feet. Maryland, for example, grew taxes from 1990 to 2000 by 10.8% to \$1,955 per persons; while Virginia grew 14.4% to \$1,787, and Florida grew 23.5% to only \$1,553 per person. *The Montgomery Journal*, March 23, 2002.

March 15, 2002 – Budget Panels awaits Angelos deal. Rawlings says he is confident the Governor will settle this issue very shortly. *The Gazette*, March 15, 2002, p1.

Continue to page 3...

WHAT A DIFFERENCE A YEAR MAKES — continued from page 2...

March 3, 2001 — Montgomery County considers raising income taxes, reinstating telephone taxes and increasing real estate transfer taxes. *The Montgomery Journal*, March 3, 2002.

December 19, 2001 — Comptroller Schaefer says \$275 million less revenue means we are in for tough times. *Gazette Regional News*, December 19, 2001, A25.

December 14, 2001 — Governor Glendening is optimistic about the future despite having \$275 million less revenue than expected. The Governor said he would submit a budget in the black. *The Montgomery Journal*, December 14, 2001, p14.

December 10, 2001 — State Delegates propose salary increase to \$43,500 per year. Barry Rascovar questions if this is the end of citizen-legislators. *The Gazette*, December 14, 2002, A9.

November 23, 2001 — Transportation funds are in good shape and the state's debt level remains low. A \$128 million balance in the transportation fund was \$20 million more than expected. The tax amnesty program has now reached \$30 million. *The Montgomery Journal*, November 23, 2001.

October 31, 2001 — Federal depreciation deductions allow higher deductions from business income taxes. This also reduces state income taxes, so the National Governor's Association pushed for higher Federal spending in Medicaid. *The Wall Street Journal*, October 31, 2001, B8B.

October 31, 2001 — Maryland's managed care Medicaid program is crumbling. Reimbursements are bound to 1997 levels. Insurance companies want the state to pay for increases, but the state cannot afford what it pays now. An alternative is to cut costs. Maryland covers population it does not have to under Federal law, says a state legislature analyst. *The Montgomery Journal*, October 31, 2001.

October 28, 2001 — State Pension Fund loses \$2.9 Billion or 9 percent. About 77,000 retired employees and teachers receive payments from the fund. This loss came as the state worked to make up a \$521 million shortfall in Medicaid. *The Washington Times*, October 28, 2001, A28.

October 24, 2001 — *The Wall Street Journal* reports that Social Security taxes will increase on earnings of \$84,900 in 2002 or \$279 per person. An individual's maximum tax goes to \$5,263.80, representing a 8.6% increase. *The Wall Street Journal*, October 24, 2001.

October 19, 2001 — Barry Rascovar says the budget now becomes everyone's problem. He said Governor Glendening reduced spending by \$205 million because of September 11 attack, Lechter's closed all stores, including 17 in Maryland. Bethlehem Steel declared bankruptcy. "The governor had been playing games with his budget in recent years" *The Gazette*, October 19, 2002.

October 18, 2001 — Governor Glendening announced spending

cuts of \$205 million because the state cannot afford anti-terrorism costs. The Governor said none of the cuts would have been necessary without the terrorist attack on September 11, 2001. *The Montgomery Journal*, October 18, 2001.

July 30, 2001 — A \$21 Billion budget was adopted by the Maryland General Assembly and the state is headed for a \$400 million shortfall. The same warnings were made last year. *The Montgomery Journal*, July 30, 2001.

April 18, 2001 — *Investor's Business Daily* reports Congress' budget of \$2 trillion is not enough and discretionary spending will grow by 4% in the next year, down from 8% in the previous year. *Investor's Business Daily*, April 18, 2001, A22.

January 17, 2001 — Glendening asks for \$21 Billion to "push to the edge of affordability." *The Washington Times*, Section C, p1.



Typical Maryland Taxpayer

LOCAL GOVERNMENT EMPLOYEE COMPENSATION

MTEF undertook a study of teacher compensation and salaries for the Montgomery County Taxpayers League. The MCTL Board members had a lot of ideas about how to do the study, but few members had the several dozen hours to collect and analyze data.

So, for a small fee, MTEF agreed to do the project which turned out to be more time consuming than expected, since certain data was not immediately available and other data was not digitized.....

MTEF asked its economic consultant, David Curry, to work on

the project. Curry is retired from the U.S. Treasury, he has taught economics at the college level, and he was treasurer of the Maryland Taxpayers Association a few years ago.

The study that MTEF did was reviewed by the Board and a few friends before it was completed. Curry and MTEF President Skinner assisted the MCTL organize and present the study along with other information by several speakers at a public forum on September 30, 2002, in Rockville.

Copies of the report are available for \$5.00 postage and handling and free to Tax Educator and above supporters.

www.marylandtaxeducation.org

Maryland Tax Education
Foundation, Inc.
103 North Adams Street
Rockville, MD 20850-2217

Phone: 301-762-3784
President's Office

E-mail: MDTAXES@AOL.COM



TO GOVERN THEMSELVES A
PEOPLE MUST HAVE KNOWLEDGE

MTEF

MESSAGE FROM THE PRESIDENT

MTEF GROWS

MTEF is proud to report that it is moving ahead with its effort to get the State to auction off slot machine licenses, if we must have them come back to Maryland.

Jeff Hooke, who was the spark plug behind the idea that Maryland should not give away slot licenses for free, since they have a definite value in the gaming industry, has agreed to join MTEF's Board. He is a welcome addition.

With the study project for the

Montgomery County Taxpayers League, MTEF has started to assist local taxpayer groups with their own projects.

David Curry, who directed the study and authored the report, spent nearly 100 hours on it. Yours truly and Marvin Weinman for MCTL supplied several hours of data. The Forum got the attention of three public employee unions who participated and those who attended learned more about the contract negotiation process and made it possible for more public input into

the process of collective bargaining.

Several of you have not yet contributed to our efforts in 2002, so please take this reminder as a friendly one to send us some financial support.

As a 501 (c)(3) organization, contributions to MTEF are tax deductible from Federal and Maryland income taxes if you itemize. You cannot afford not to help as MTEF is the only group in Maryland that does what it does.

Thanks for your help.

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



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