



*Analysis of state policy choices with particular attention to their impacts on low- and moderate-income Marylanders*

# MARYLAND POLICY REPORTS

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# Budget Update

As this is written, a conference committee of senators and delegates is working to resolve differences in the \$31 billion state budget. The two budget plans differ by less than 1% of the overall expenditures. However, the conference committee has become time consuming because legislators are looking for a way to repeal the unpopular sales tax on computer services while wrapping up the budget.

## Conference Committee

The conference committee's main task is to resolve differences between the Senate's version of the budget bill and the House of Delegates' version. The House has cut about \$120 million more from the budget than the Senate. Some of the key areas of difference include stem cell research, higher education funding, and the starting date for expansion of the Medicaid program.

## “Tech Tax” Repeal and Alternatives

The negotiation of a plan to repeal the sales tax on computer services complicated budget negotiations. In the special session of November 2007, the legislature approved an expansion of the sales tax to computer services. To repeal the tax, the legislature needed to come up with \$200 million in offsetting budget actions. The Senate Budget and Taxation Committee has put forward a proposal to repeal the computer services tax, and replace the revenue with:

- \$100 million from a surtax of 0.75% on taxable income over one million dollars, which would be in effect for three years;
- \$50 million to be re-directed from the transportation fund to the general fund for three years; and
- \$50 million in general budget cuts, to be decided by the Governor by July 1.

Please see this month's "Director's Corner" column for MB&TPI's opinion. May's issue of *Maryland Policy Reports* will contain a detailed analysis of the session's budget and tax actions.

## Supplemental Budget

Governor O'Malley submitted a supplemental budget in the final days of the session. The supplemental budget totals \$241 million. Only \$27 million comes from state general funds. The rest come from federal aid, college and university funds, and other dedicated special funds.

Of the general fund expenditures \$17 million are patches to fill in gaps in the current fiscal year. Some of the more notable items for next year include:

- \$7.2 million to fully fund the formula for the "Infants and Toddlers" programs. This funding more than doubles the state aid to local school systems for serving pre-school-age children with disabilities.

- \$1.4 million for the state police to implement DNA fingerprinting legislation.
- \$500,000 to increase adult literacy services.
- \$449,000 to provide a grant to help the United Way of Central Maryland implement the “2-1-1” telephone information and referral system for services to citizens.
- \$900,000 in special grants to a variety of organizations, including the University of Maryland Center for Agro-Ecology, City of Annapolis for public safety programs, Special Olympics, Best Buddies, and the Andrews Business and Community Alliance for BRAC-related programs.

The conference committee will act on the supplemental budget as part of their report back to the full Senate and House.

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## **Frozen Out**

# **State Hiring Freeze Has Hurt Human Services**

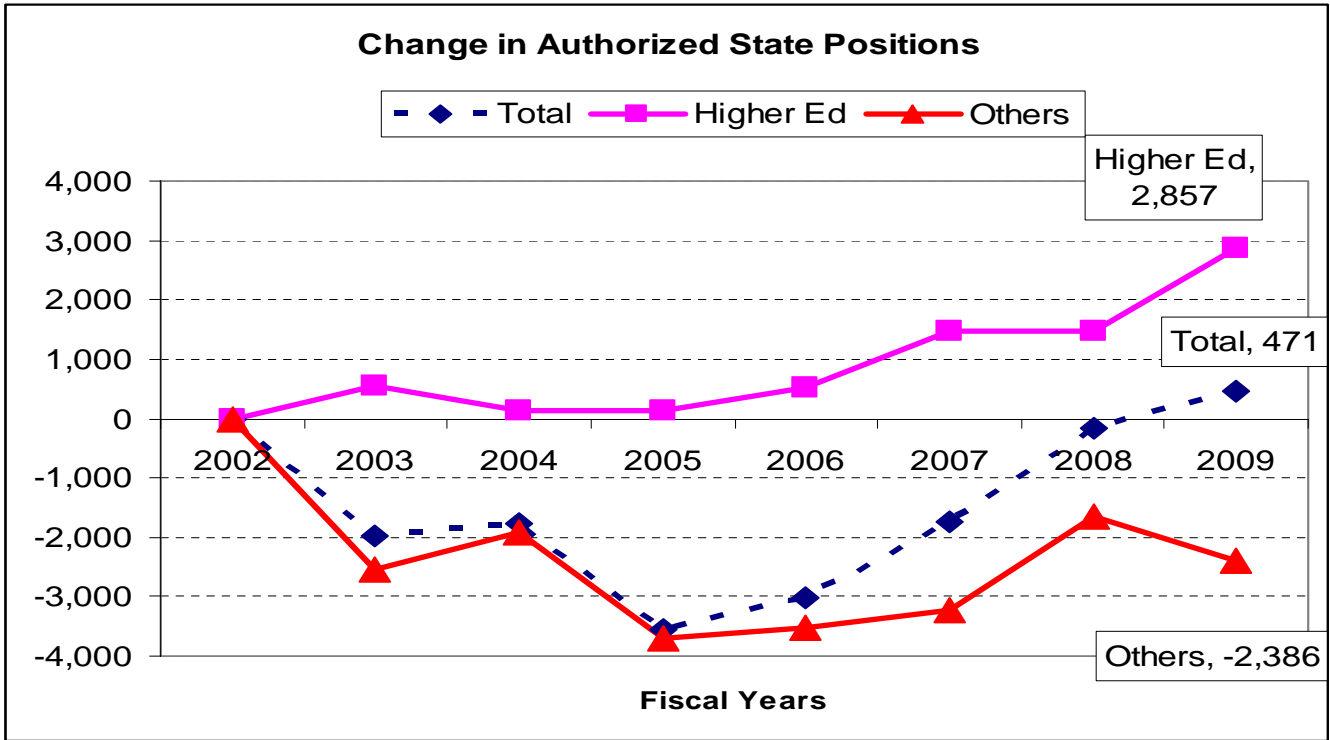
By Neil Bergsman

Observers of state government have given a lot of attention to the size of the state workforce and the operation of the state hiring freeze. For example, WYPR-radio recently aired a story about the effects of vacant positions on the Baltimore County Department of Social Services.<sup>1</sup>

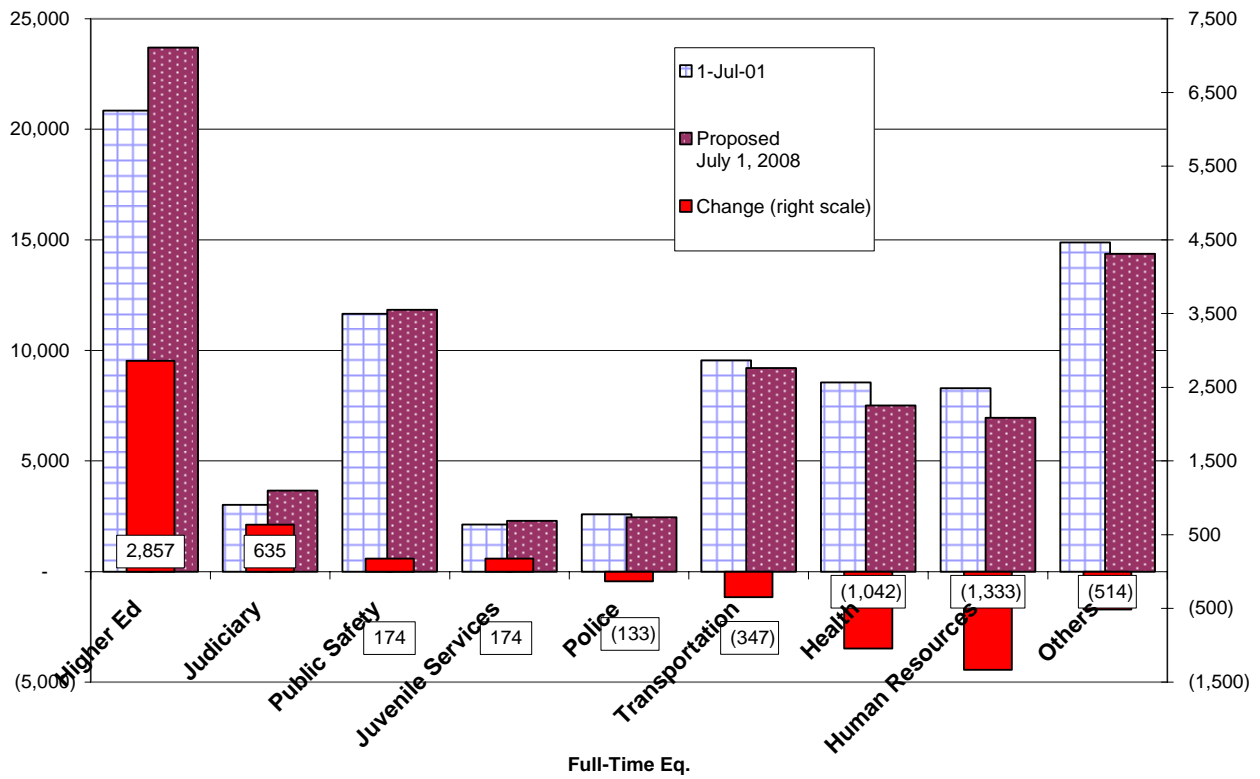
State government has had a freeze on filling vacant positions since October 2001, shortly after the terrorist attacks. Certain jobs are exempt from the freeze (such as prison guards, state troopers, nurses and teachers), and agencies may request exceptions to fill other positions. Most of these requests are eventually approved.<sup>2</sup>

Over this time period, state positions have been eliminated several times. This has happened through the regular budget process and by the Governor’s administrative powers during the fiscal year. For example, Governor O’Malley abolished 577 vacant positions in his proposed budget for fiscal year 2009 (while adding 976 for a net gain of 398). At different times, Governors Glendening, Ehrlich and O’Malley have each cut agencies’ enacted budgets in mid-year, which have included abolishing positions. Positions have also been added to the budget through the regular budget process.

From 2001 to 2005 the authorized state workforce was reduced by over 3500 positions. The total workforce is now slightly (0.6%) above the pre-freeze level.<sup>3</sup> However, the total masks a significant change in the mix of employees. Colleges and universities have added 2800 employees to their complements, while the rest of state government is down almost 2400 jobs.



**State Positions 2001-2008**



Hardest hit are the health and human resources departments. Each has lost over 1000 jobs. In addition to higher education, the courts and other criminal-justice-related agencies gained positions.

This pattern continues in the fiscal 2009 budget, with health losing 128 positions, human resources losing 96 and higher education institutions gaining 117.

The loss of positions and the inability to fill vacant positions on a timely basis can have significant impacts on the ability of state government to serve the citizens effectively. Understaffing shows up in the time it takes to match citizens with benefits and services, with direct care in institutions and community services, and with inspections and other regulatory and enforcement functions.<sup>4</sup>

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## StateScope

### **Facing Deficits, Many States Are Imposing Cuts That Hurt Vulnerable Residents**

By Iris J. Lav and Elizabeth Hudgins

*The following is the summary of a report prepared by Iris Lav and Elizabeth Hudgins of the Center for Budget and Policy Priorities. It is published with permission of the authors. MB&TPI thanks Ms. Lav and Ms. Hudgins for sharing their excellent work with us. For the full report, and updates, see [www.cbpp.org](http://www.cbpp.org).*

To date, at least 17 states facing deficits have made or proposed budget cuts that threaten vital services for many residents, including some of the state's most vulnerable residents. Examples include:

- **Public health programs:** At least ten states have implemented or are considering cuts that will affect low-income children's or families' eligibility for health insurance or reduce their access to health care services. For example, Rhode Island's governor has proposed eliminating health coverage for nearly 7,400 low-income parents; New Jersey's governor has proposed cutting funds for charity care in hospitals by 15 percent; and California's governor has proposed requiring many families to pay more for their children's health care.
- **Programs for the elderly and disabled:** At least four states are cutting or proposing to cut medical, rehabilitative, home care, or other services needed by low-income people who are elderly or have disabilities, or significantly increasing the cost of these services. For example, Tennessee has cut community-based services for the mentally retarded; Maine's governor has ordered cuts that will remove 7,000 mentally ill and poor adults from Medicaid; and Rhode Island is requiring low-income elderly people to pay more for adult daycare.
- **K-12 education:** At least eight states are cutting or proposing to cut K-12 education; three of them are proposing cuts that would affect access to child care or Head Start. For example: California's governor is proposing cuts in

state education aid that would translate to a total loss of \$787 per student; and Arizona is considering eliminating child care subsidies for approximately 3,200 children in low-income working families.

- **Colleges and universities:** At least eight states have implemented or proposed cuts to public colleges and universities. For example, Florida has already cut university budgets and community-college funding, with further cuts expected in March; Kentucky and Virginia have cut university funding for the current fiscal year by 3 percent and 5 percent, respectively; and Maine's governor has proposed cuts that could lead to tuition hikes of 14 percent for universities and community colleges.

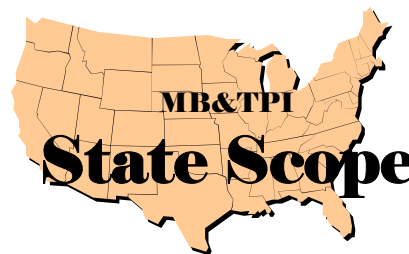
## Arizona's Grand Budget Canyon

By Neil Bergsman

Arizona has the largest budget shortfall, in percentage terms, of any state. According to the Joint Legislative Budget Committee, the shortfall is \$1.2 billion in the current fiscal year and \$1.9 billion for fiscal year 2009.<sup>5</sup> The FY 2009 shortfall works out to 18% of the general fund budget. The 2009 figure is fluid because the '08 fix may affect the '09 problem.

Negotiations between the Governor and legislative leaders are centering on four major areas:

1. **Budget Cuts:** According to Karen McLaughlin, Budget and Research Director of Arizona's Children's Action Alliance, "For FY '08 we expect these cuts to come from savings from holding positions vacant, not starting new projects, etcetera. We are being told that next year the cuts will be deeper and will mean cutting programs, and waiting lists." The child care reductions mentioned above are an example.
2. **Raids on special funds:** Governor Janet Napolitano has proposed withdrawing nearly \$400 million of the \$700 million in the state's Rainy Day Fund.<sup>6</sup> Various other special fund balances are also in the budgeters' cross-hairs.
3. **Borrowing.** The Governor has proposed another \$900 million in bond issuances for public school construction, an expense traditionally paid with current revenues in Arizona.<sup>7</sup>
4. **Timing Gimmicks** – The Governor proposed to delay the year's final monthly payment to school systems into the next fiscal year, producing a one-time accounting savings almost \$600 million.<sup>8</sup>



No one is talking about tax increases. The Governor has proposed traffic cameras as a revenue raising measure, and there is talk of expanding lottery advertising to increase sales and therefore revenue. The revenue to be gained from these measures is not significant in comparison to the size of the budget gap.

According to McLaughlin, based on experience from past years, a small group of legislative

leaders, meeting with the Governor and her staff, will come to an agreement and the public will not see any detail until the budget bills are introduced. “This ‘process’ can go very fast,” she says, “if they suspend the rules, we will have very little time to analyze the impacts before the votes take place and the bill is on its way to the Governor.”

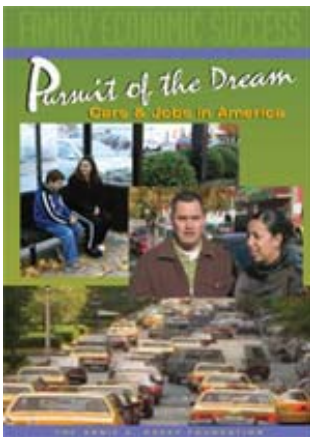
From a distance of 2300 miles, it certainly looks like Arizona is delaying its problem and making it worse. A deficit approaching 20% requires fundamental reform. Arizona is already 45<sup>th</sup> among the 50 states in state general expenditures.<sup>9</sup> It is doubtful that significant cuts are possible without very severe impacts on basic services.

New revenues are the obvious alternative. Maryland’s tax package – to address a smaller structural problem than Arizona’s – has caused our Governor and legislature to take substantial hits in their public approval ratings.<sup>10</sup> Arizona is an unabashedly conservative state, and it will be very difficult to round up support for tax increases. The closed and secretive process is no way to build the public credibility that state leaders will ultimately need to implement a long-term solution.

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## TRANSPORTATION ISSUES

### New “Cars and Jobs” Video from Casey Foundation



As far as we know, this is the first time *Maryland Policy Reports* has published a movie review. The folks at the Casey Foundation sent us a copy of their recent video “Pursuit of the Dream – Cars and Jobs in America.” This 22-minute video uses three real-world case studies to show the importance of reliable, affordable transportation for low-income working people to gain and maintain their independence.

The video promotes both public policies that can help, and provides practical advice to individuals who are seeking to purchase a car. Individuals should avoid high-interest financing from roadside used car lots. They should not be pressured by a salesman into a bad deal. They should seek help from reputable local banks or credit unions, and non-profit organizations that run programs to help low-income workers acquire cars.

Policy makers and advocates can promote better public transportation service, stiffer regulation of fraud and other unfair sales and financing practices, and expansion of nonprofit car programs.

The video is narrated by veteran Washington TV anchor Jim Vance. The production values are, frankly, not great. But the information is excellent and the personal stories are very compelling. There are English- and Spanish-language versions of the video. Anyone can view the video at [www.aecf.org](http://www.aecf.org). Advocates, policy makers and employers can request a copy from the Casey Foundation at the same web page.

## Mass Transit Flexibility and Accountability

In a related issue, the B&T Institute supported legislation that would allow the Maryland Transit Administration (MTA) to improve its services without further fare increases. The legislation has passed the House of Delegates and is awaiting Senate action. It is neither probable nor desirable for all low-income Marylanders who need reliable transportation to buy cars. Improvements in public transportation need to be a piece of the puzzle.

House Bill 1185 – Public Transit Services – Efficiency and Performance Standards repeals a requirement that fare revenues support at least a certain percentage of Mass Transit Administration services. The current “fare box recovery” requirement is 50% for commuter rail and 40% for bus, light rail, and Metro. As amended by the House, the bill sets a legislative goal of 35% cost recovery. By removing the rigid “fare box recovery” requirement, the bill allows for improved transit services, which in turn could open greater opportunities to low-income Marylanders.

MTA recovers 30% to 35% of its costs through fare revenue. Among major US cities, only New York exceeds the 50% recovery level. Only nine large metro areas’ systems exceed MTA’s recovery rates. Pittsburgh, St. Louis, Houston, Denver and Miami all have recovery rates lower than MTA’s, for example.

The fare box requirement ultimately causes the transit system to increase passengers’ cost and to reduce service levels. An affordable and reliable transit system opens up job opportunities and enables people to get other services such as training, child care, treatment services and leisure activities. For many poor people, especially inner city residents, public transportation is the primary means of travel. According to the American Public Transportation Association, 1/3 of transit riders have incomes under \$15,000 and 70% have no access to cars at the time of their trip<sup>11</sup>. Providing good access to these types of opportunities is an important strategy for helping low-income citizens achieve independence.

A well-used transit system provides statewide benefits in other areas, including improving environmental quality and reducing traffic congestion. The Maryland Budget and Tax Policy Institute believes that a fare box requirement is an impediment to providing the optimal transit system for the state to reap these benefits.

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## ***Director's Corner***

### ***More budget cuts are not smart – The millionaire tax is the better option***

As the General Assembly wraps up its work on the budget, it is searching for ways to repeal the unpopular sales tax on computer services, and to offset the 200 million dollars in revenue the tax is projected to bring in.

The Maryland Budget and Tax Policy Institute supported retaining the computer services sales tax, as a positive step towards modernizing the sales tax to reflect today's service economy. However, despite our well-reasoned support, the Governor and legislators seem to be determined to repeal the measure.

**The best measure to replace the "tech tax" is the "millionaire's tax."** This is 1.0% or 0.75% surtax on income over \$1 million. These taxpayers benefited the most from the federal income tax cuts over the past eight years. The Tax Policy Center has estimated the cumulative benefit of recent federal tax cuts for the top 1% of taxpayers nationally, with average incomes of 1.2 million dollars, at 5.3% of income.<sup>12</sup>

For a taxpayer earning 1.2 million dollars, a 1% state surtax would amount to only 2000 dollars (because the surtax does not even apply to the first million dollars of taxable income). And that effect would be reduced by about 1/3 because you deduct state income tax payments on your federal return.

**More budget cuts are the worst option.** The state budget goes mostly towards the cost of health and education. These are important public functions with growing unmet needs.

Governor O'Malley cut the budget by \$280 million last July to make a down-payment on the structural deficit. In January, he incorporated another \$500 million in cuts into his proposed budget. These included significant reductions from the planned levels for education and health expenditures.

Over the last 11 weeks, the legislature's budget committees have been combing through the budget agency-by-agency with the assistance of its staff of 25 budget analysts. They have identified another \$220 to \$260 million in cuts. These have focuses on higher education, health care, environmental programs, and advance payments against future state liabilities.

Add them up – we have inflicted a billion dollars of reductions to state spending. The next round of cuts is certain to reverse the state's progress in education and health care, curtail critical services for some vulnerable and under-represented group and damage the state's future financial stability.

In short, the right thing to do is to expand and modernize the sales tax. If we can't bring ourselves to do that, a very modest surtax on the wealthiest taxpayers is much better than further budget cuts.

*-Neil Bergsman*

## About the Maryland Budget & Tax Policy Institute

The Maryland Budget and Tax Policy Institute is a nonpartisan research organization that provides timely, accurate and accessible analysis of state budget and tax issues. In addition to general budget and tax research and analysis, the Institute examines issues affecting low-income Marylanders and other vulnerable populations and the important community programs that serve them. For additional information, to be added to our e-mail list, or to make a tax-deductible contribution, please visit our website at [www.marylandpolicy.org](http://www.marylandpolicy.org).

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<sup>1</sup> Stephanie Marudas, Maryland's Hiring Freeze Causes Shortage in Social Service Workers, march 28, 2008, WYPR Radio 88.1FM, [http://www.publicbroadcasting.net/wypr/news.newsmain?action=article&ARTICLE\\_ID=1251203](http://www.publicbroadcasting.net/wypr/news.newsmain?action=article&ARTICLE_ID=1251203).

<sup>2</sup> Department of Legislative Services, Analysis of the Executive Budget for Fiscal year 2009. Department of Budget and Management – Personnel. [www.mlis.state.md.us](http://www.mlis.state.md.us).

<sup>3</sup> Department of Budget and Management. For FY 2002 Fiscal Digest, Schedule G. For FY 2009 Maryland Budget Highlights FY 2009, pp. E1-E6.

<sup>4</sup> See Maryland Budget and Tax Policy Institute and Open Society Institute-Baltimore, Regular person's Guide to the Governor's Budget, February 2008, pp12-13. [http://www.marylandpolicy.org/documents/RegularPersonsGuide2008\\_001.pdf](http://www.marylandpolicy.org/documents/RegularPersonsGuide2008_001.pdf)

<sup>5</sup> Joint Legislative Budget Committee, *Budget Update*, March 19, 2007. [http://www.azleg.gov/jlbc/budgetupdate\(031908\).pdf](http://www.azleg.gov/jlbc/budgetupdate(031908).pdf)

<sup>6</sup> Mary Jo Pitzl, *Budget Negotiations Remain Slow as Deficit Adds Up*, The Arizona Republic, March 23, 2008.

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<sup>8</sup> Pitzl.

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<sup>12</sup> Tax Policy Institute, Distribution of 2001-2006 Tax Cuts. [www.taxpolicycenter.org/taxpics/cuts0106.cfm](http://www.taxpolicycenter.org/taxpics/cuts0106.cfm)