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THE "DOOMSDAY" BUDGET: MYTHS AND FACTS

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WHEN THE MARYLAND GENERAL ASSEMBLY adjourned on April 9, legislators had passed a balanced budget without raising taxes or shifting a portion of teachers' pension costs to local governments. The governor and the legislative leadership also intended for the Assembly to pass two other budget-related bills, but time did not permit this during the legislative session. Those bills, the Budget Reconciliation and Financing Act (BRFA) and the State and Local Revenue and Financing Act (SLRFA), would have raised taxes, required counties to pay partial teacher pension costs, and increased spending in some areas.

Since legislators were not able to increase spending as much as they desired, they labelled the balanced budget a "doomsday budget." The governor, legislators, and special interest groups claimed that this budget posed severe problems for the state and local governments, and that it needed to be "fixed" with a special legislative session.

Governor Martin O'Malley called a special session for May 14 and 15 to address these alleged budget problems. Before legislators meet in their special session to raise taxes and increase spending, Maryland taxpayers need to consider a few myths and facts about this so-called "doomsday budget."

Myth: The "doomsday budget" cuts spending.
Fact: Total spending by the state will increase by $439 million.

The working appropriation for Fiscal Year 2012 is $34.648 billion. If all three budget-related bills had passed, total budgeted spending for FY 2013 would have been $35.599 billion, a 2.7 percent increase.[1]

Since BRFA and SLRFA did not pass, the operating budget bill contained $512 million in contingent reductions from the proposed FY 2013 level.[2] Even those reductions leave $439 million in new spending, a 1.3 percent increase in spending.

Myth: Lawmakers need to raise taxes to fund important state programs.
Fact: Most of the potential savings identified by the state would have little effect on average Marylanders.

The General Assembly identified $250 million in savings the state would be forced to absorb if taxes were not raised: cuts in spending, increased cost-sharing by state workers, and reductions in spending increases.[3] The vast majority of the savings would arise from streamlining state government, eliminating special interest tax credits, and eliminating slush funds used by legislators to provide college scholarships.

The current budget would eliminate these programs:
Stem Cell Research Fund. The state's corporate welfare fund providing grants to government and private organizations for stem cell research (savings of $10.4 million)
Biotechnology Tax Credit. A corporate welfare tax credit for investors in certain Maryland biotech companies (savings of $8 million)
Sustainable Communities Tax Credit. Tax credits to rehabilitators of "historical" structures (savings of $7 million)

Delegate and Senatorial Scholarships. A slush fund for legislators to give college scholarships to anyone they choose (savings of $11.8 million)

A tax hike on Marylanders is difficult to justify in order to protect state workers from paying a little more for their generous health insurance or to fund scholarships used by delegates and senators as a form of political patronage.

The state would also be forced to rein in its bureaucracy in the following ways:

- State employees would have to increase their share of health insurance costs (savings of $15 million)
- State employees would not receive a cost-of-living adjustment (savings of $33.8 million)
- Five hundred state government positions would be eliminated (savings of $30 million)
- Agency operating expenses would be reduced by 8 percent (savings of $50 million)

These savings total $166 million. Of the remaining $84 million, cuts would be apportioned as follows:

- Eliminate provider rate increases for some disability and foster care services (savings of $15.2 million)
- Reduce capacity at state facilities serving children with emotional disabilities and allow these children to be placed in private facilities instead (savings of $6.5 million)
- Reduce funding for public higher education by 10 percent (savings of $38.5 million)
- Reduce funding for community colleges by 10 percent below the budget bill's funding level (savings of $19.9 million). Considering that the budget legislation gave community colleges an increase of 2.3 percent, or $6 million, this is actually a 7.7 percent cut.
- Reduce grants to private higher education institutions by 10 percent ($3.8 million)

Few, except state employees and the special interest groups that benefit from the narrowly-targeted tax credits, can plausibly argue that a savings of at least $166 million in the "doomsday budget" would hurt the average Marylander. A tax hike on Marylanders is difficult to justify in order to protect state workers from paying a little more for their generous health insurance or to fund scholarships used by delegates and senators as a form of political patronage.

Of the remaining $84 million, a plausible case could be made that such cuts would affect many people, though not necessarily cause "doom" for the state. For instance, why should the state provide any grants to private higher education facilities? Do private providers of disability services need a rate increase or can they continue to provide care at the same rates as last year? If children with emotional disabilities can be placed in private residential treatment facilities, does the state need to offer so many slots in its own facilities?

Even with a "yes" answer to these questions and belief that $84 million in cuts is harmful, the state should consider a far smaller figure for its tax hike plan in the special session.

Myth: Cuts in the current budget will hurt county governments and the services they provide.
Fact: Regardless of the special session's outcome, counties' budgets will suffer. The special session will likely produce a huge fiscal burden for counties.

In the "doomsday budget," local law enforcement grants and aid to education services (including libraries) will be cut. However, maintaining the "doomsday budget" ensures that counties will not bear the additional burden of partially funding teacher pensions. Furthermore, if the state fails to raise taxes to fund the additional spending, then counties retain the option of raising their local taxes to compensate any shortfall.

Most cuts to local governments in the current budget result from the plan to shift a portion of teacher pension funding to the counties. Consequently, counties face the following funding reductions from the state:

- Decrease the amount of per-pupil funding from $6,761 to $6,650 (savings of $70.9 million)
- Eliminate the Geographic Cost of Education Index (savings of $128.8 million)
- Eliminate incentives to improve teacher quality and reimbursement for teachers to get National Board certification (savings of $5.2 million)
- Reduce disparity grants by 10 percent (savings of $12 million)
- Reduce a supplemental disparity grant (savings of $19.6 million)
- Decrease library funding by 10 percent (savings of $5 million)
- Reduce local law enforcement grants by $20.8 million

If legislation is passed to shift a portion of the pension burden to counties, these funding reductions will be restored for the next fiscal year. However, counties would then bear a permanent future burden of funding a portion of teacher pensions.

In the first five years, the cumulative burden on the counties from the teacher pension shift dwarfs the money counties would gain if the funding cuts were restored. In fact, for most counties, the teacher pension shift would force more FY 2013 spending than counties would receive in increased funding from the state.

COUNTY	FUNDING RESTORED IF TEACHER PENSION SHIFT OCCURS 1	FY13 TEACHER PENSION SHIFT BURDEN 2	FY14 TEACHER PENSION SHIFT BURDEN	FY15 TEACHER PENSION SHIFT BURDEN	FY16 TEACHER PENSION SHIFT BURDEN	FY17 TEACHER PENSION SHIFT BURDEN	TOTAL 5-YEAR ADDITIONAL BURDEN ON COUNTIES
MONTGOMERY	$41.4	$47.4	$61.1	$66.1	$69.2	$71	$273.4
PRINCE GEORGE'S	$65.4	$34.1	$43.9	$47.5	$50	$51	$161.1
WICOMICO	$3.6	$3.8	$4.9	$5.3	$5.6	$5.7	$21.7
TALBOT	$.17	$1.1	$1.5	$1.6	$1.6	$1.7	$7.33
WASHINGTON	$2.4	$5.5	$7.1	$7.7	$8.1	$8.3	$34.3
ANNE ARUNDEL	$13.7	$20.3	$26.2	$28.4	$29.7	$30.5	$135.1
FREDERICK	$9.8	$10.3	$13.2	$14.3	$15	$15.4	$58.4

This chart presents numbers for a select group of counties (in the millions of dollars):

Most Maryland counties would be in a better fiscal position in FY 2013 to absorb the reduction in funding contained in the "doomsday budget" than if that funding were restored, because the special session restores this funding through the teacher pension shift. Every Maryland county will be in a better fiscal position in coming fiscal years if this teacher pension shift is scrapped.

The state could eliminate six times as many positions as called for in the "doomsday budget" and still not fire one state worker.

Myth: Five hundred state workers will lose their jobs under the "doomsday budget."
Fact: The state will be forced to eliminate 500 positions, and not necessarily fire 500 workers.

As of January 2012, there were 3,023 vacant positions in Maryland's executive branch.[4] The state could eliminate six times as many positions as called for in the "doomsday budget" and still not fire one state worker.

Myth: The General Assembly must reconvene to pass a tax increase on little cigars and smokeless tobacco to prevent teens from using these products.
Fact: The proposed tax increases on these products will not significantly reduce their use among teens and will instead burden adult tobacco users with higher prices for these legal products.

This past session, lobbyist Vinny DeMarco spearheaded a campaign to increase the state's excise tax on cigars and smokeless tobacco. The Budget Reconciliation and Financing Act would have increased the smokeless tobacco tax from 15 percent of wholesale price to 30 percent, and on little cigars from 15 percent of wholesale price to 70 percent.

In a letter to the *Baltimore Sun*, DeMarco claimed, "we have not raised the tax on little cigars and smokeless tobacco since 1999, and youth use of these deadly products has increased."[5] Yet no evidence supports that claim.

The state of Maryland conducts a biennial survey of youth tobacco use. There are no data for 1999, but in 2000 3.5 percent of public middle and high school students used smokeless tobacco, and 3.3 percent in 2010.[6]

There are no data on "little cigar" usage. While the number of middle and high school students using cigars has increased slightly since 2000, from 8.8 percent to 9.5 percent, little evidence suggests that raising the tax on these products will affect youth usage. Advocates for this tax hike claim that Maryland's increase in the cigarette tax lowered youth cigarette usage. The numbers tell a more complex story.

Over the past decade, Maryland increased its cigarette tax twice: on June 1, 2002 and January 1, 2008. During this decade, cigarette use by underage Maryland middle and high school students also declined, but with no clear connection between the tax hikes and this decline.

It is a stretch to claim that cigarette tax increases are primarily or even largely responsible for the decline in underage cigarette use.

Between 2000 and 2002, the number of underage youth in Maryland who used cigarettes declined from 15.7 percent to 12.5 percent. After the tax hike of 2002 took effect, cigarette usage declined further to 10 percent in 2006. However, between 2006 and 2008, which included another cigarette tax increase, cigarette use also increased, from 10 percent to 10.2 percent. Between 2008 and 2010, cigarette use once again began to decline, ending the decade at 9.6 percent.[7]

Given the multiple factors, it is plausible that the increased cost of cigarettes from the cigarette tax hike did play some role in reducing underage cigarette use. However, this relationship is not straightforward. Underage cigarette use was declining prior to a cigarette tax hike, declined after a cigarette tax hike, and increased after a cigarette tax hike. It is a stretch to claim that cigarette tax increases are primarily or even largely responsible for the decline in underage cigarette use.

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1 Conference Committee Report on SB 150 and SB 152, April 9, 2012, p. 5., at http://mlis.state.md.us/2012rs/budget_docs/all/Operating/Committee_Reports/CC_Summary.pdf.
2 Ibid, p. 8.
3 Ibid, pp. 8-9.
4 Department of Legislative Services, Fiscal Briefing, January 2012, p. 71. at http://mlis.state.md.us/2012rs/budget_docs/all/Operating/Fiscal_Briefing.pdf.
5 DeMarco, Vincent, "Another Casualty of the Annapolis Breakdown: Cigar, Smokeless Tobacco Tax," *Baltimore Sun*, April 17, 2012, at http://www.baltimoresun.com/news/opinion/readersrespond/bs-ed-tobacco-tax-letter-20120417,0,4223043.story.
6 Maryland Department of Health and Mental Hygiene, "Monitoring Changing Tobacco Use Behaviors 2000-2010: Legislative Report," p. 36, at http://fha.dhmh.maryland.gov/ohpetup/docs/HG13-1004d-FHA-BiennialTobaccoReport.pdf.
7 Ibid.