SAVE OUR STATE

A More Balanced Approach for Our Future

www.saveourstatemd.org

School class sizes are increasing as school districts lay off or can't afford to replace teachers. Parents are being put on waiting lists for the child care assistance they need to continue working. Hospitals and correctional facilities are dangerously short-staffed, posing public health and public safety problems.

With state transportation funding almost entirely eliminated, counties and municipalities struggle to maintain roads and operate local transit. There are thousands of other examples of how Marylanders are hurt when public programs are not adequately funded.

The Save Our State (SOS) coalition—a group of community, labor, and education groups working to restore Maryland's long-term fiscal health—has been holding community conversations across the state over the last three months. Communities discussed how budget cuts are affecting them and what types of solutions they'd like to see enacted.

Communities urged elected officials, many of whom attended the SOS conversations, to pursue a balanced approach to save our state and keep Maryland moving forward.

Cuts in spending take a toll on jobs in both the public and private sectors. Every dollar the state government spends goes back into the economy in the form of salaries, payments for purchases and contracts, or various forms of assistance to residents. Big reductions create a ripple effect throughout the economy.

For the sake of jobs today and economic recovery in the future, Maryland should employ reasonable revenue options that would reduce reliance on spending cuts and preserve public investments in education, health, public safety, and other essentials.

STATE BUDGET CONNECTIONS: THE ECONOMY, REVENUES, AND SERVICES

Not only does the economy affect the state budget—the state budget affects the economy. When the state cuts budgets, employees lose jobs, and businesses and nonprofits lose contracts. The loss of jobs, business revenues, and household income weakens the economy further.

Maryland's spending is not out of line. In fact, according to U.S. Census data, state and local expenditures per person in Maryland are below the U.S. average. If we compare state and local government expenditures to Marylanders' total incomes, only three states spend a smaller share.

We can protect the services we depend on and care about by nurturing the fragile economic recovery and ensuring that state revenues remain adequate.

"The recent budget cuts can show themselves quickly in our rising class sizes or can be more subtle. Central office has been slashed, so you don't know exactly why a form is slow in being processed, or emails are unanswered, but you can guess people are struggling to keep up. There are no new textbooks, and we're rationing paper, yet we have plenty of kids."

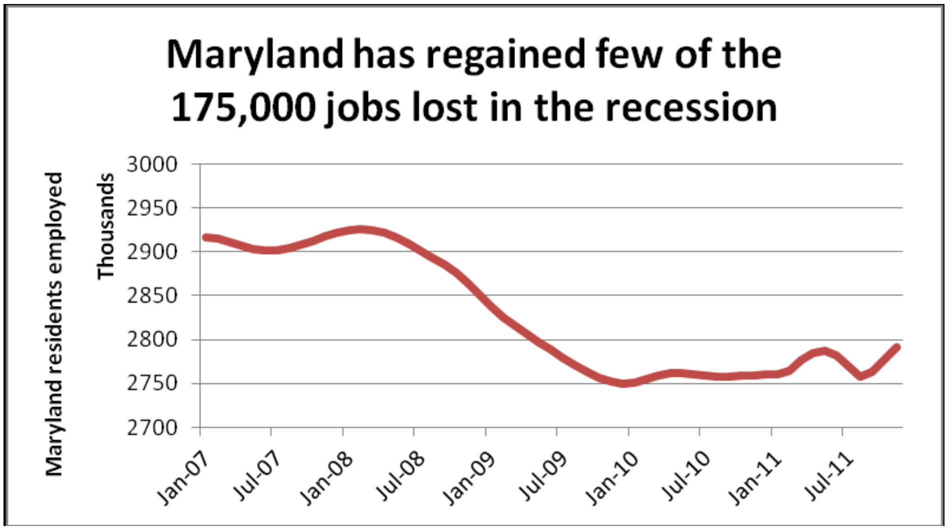
Bill Breslin
English teacher, St. Mary's County

MARYLAND'S REVENUE DEPENDS ON THE STATE AND NATIONAL ECONOMY

Over four-fifths of Maryland's general fund revenue comes from the income tax and sales tax. These sources are very sensitive to economic conditions. Even before the Great Recession, Maryland's revenues were growing more slowly than inflation.

Although the Great Recession officially ended in June 2009, overall economic growth has not translated into better times for most middle-class and working families. Jobs and incomes remained depressed. *There are still more than four unemployed workers for each available job.*

Maryland lost 175,000 jobs between February 2008 and January 2010; fewer than 25 percent of them have been regained.



"It is simply not possible to provide the services that people in Salisbury need without enough staff. We are at our breaking point and the people of Maryland are suffering. There MUST be a better, more balanced way. There MUST be a fairer way. I hope my legislators are listening."

Sharon Cooper of Maryland's Department of Human Resources, Eastern Shore, at the Salisbury SOS meeting

When the economy is weak, fewer people are working, and many still employed are having their hours cut and have little hope of receiving a raise or bonus. Income growth drops and the government collects less income tax. In state fiscal year 2011, state income taxes brought in less revenue than in 2007.

When incomes fall, the amount people can spend on taxable goods also falls. Marylanders do not pay state sales tax on items like groceries, medicine, utilities, or rent; we do pay sales tax on other goods, from appliances to clothing—the purchases that people cut back on when money is tight and the future uncertain. In 2011, the sales tax generated less than in 2008.

BUDGET CUTS IN MARYLAND

Since 2007, budget cuts have affected every community—a message that came across loud and clear in every SOS community conversation we held. Inflation increases have been stripped from aid for local schools. Teacher positions are unfilled and as a result, class sizes are larger, and student learning suffers. Arts, foreign languages, and physical education programs are being eliminated. School systems are cutting back on school nurses and guidance counselors.

"I work at the State Comptroller's office, where I deal with taxpayers every day. We work closely with them to ensure they are paying the right amount and have all of their tax documents in order.

With all the staffing cuts, we can barely get the job done. I know my customers want enough staff on the job to provide the services they need and deserve," *Telina Jones told the crowd at the SOS meeting.*

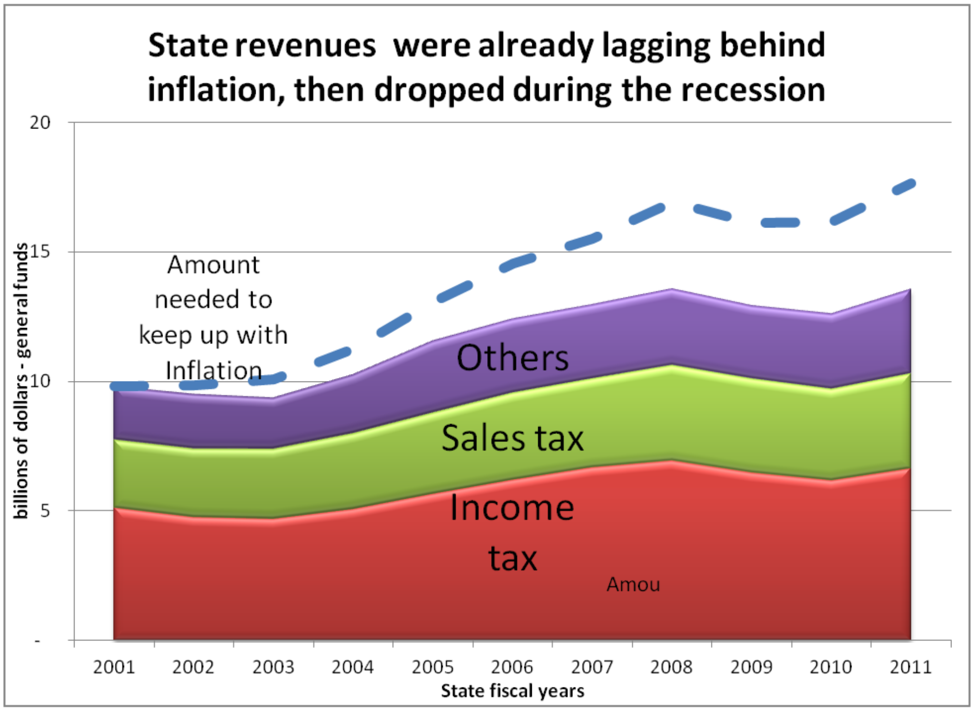
State aid to local governments for transportation has been cut by more than 90 percent. As a result, counties and cities cannot repair roadways and sidewalks on a timely basis. Bus routes have been cut. When the snow arrives, clearing all the streets on a tight budget will be a challenge.

Funding has been cut for doctors, clinics, and mental health counselors. Health providers' state payments are not keeping up with costs. As result, patients who depend on Medical Assistance and other state-funded health care will have less access to the care they need.

Funding for child care assistance has not kept up with need. Now, working parents who qualify for help with child care are placed on a waiting list.

State employees and public school teachers are contributing an additional 2 percent to their pension funds—meaning a 2 percent cut to their take-home pay. And, adding insult to injury, a part of that 2 percent is being diverted to help balance the state's budget instead of funding their pensions.

Over the last 10 years, the state executive branch has reduced 5,500 jobs—one in ten. The reductions have left prisons, probation offices, hospitals, juvenile facilities, and social services offices short-staffed, just when the needs are increasing. In prisons and hospitals, the short staffing leads to excessive overtime as employees are required to work 16-hour "doubles" to maintain coverage. In parole and probation, caseloads for individual officers has reached 200 cases, and 300 or more in some instances.



MARYLAND'S BUDGET OUTLOOK

This year, Maryland faces another revenue shortfall in excess of a billion dollars. A key legislative committee has recommended that the 2013 budget should "reduce the estimated structural deficit for that year by at least 50%."

The committee estimates the structural deficit at $1.1 billion, so the recommendation requires $550 million in ongoing budget balancing actions—revenue increases or more budget cuts.

However, in meeting this sensible recommendation, the governor should use a balanced approach. Maryland has already cut $2 billion from annual spending for education, health care, transportation, public safety, and other important services since 2007.

Further cuts would put more Marylanders out of work; jeopardize the quality of our children's education; damage the services residents depend on; and withdraw the investments we need to secure Maryland's prosperous future. Communities across the state are discussing and speaking out in support of reasonable and fair revenue options so that we can keep Maryland a great place to raise a family and start a business.

"Because of budget cuts, the programs we had in place to help ensure that our troubled youngsters would not return into the system are gone. Too many kids are finding their way back into our facilities. We need a better, more balanced approach to all this."

Department of Juvenile Services employee Archie Nelson at the December SOS meeting in Baltimore City

FAIR AND REASONABLE REVENUE OPTIONS

CLOSE CORPORATION TAX LOOPHOLES

Big, multi-state banks and other national corporations are seeing their profits return to pre-recession levels. To make sure profitable corporations pay their fair share, Maryland should require companies to pay taxes that they may try to avoid by shifting their profits on paper to other states. By requiring companies to add their actual profits together and then determine which states they owe taxes to, rather than letting them assign profits to subsidiaries or holding companies, Maryland would see a gain in revenue. This reform, called "combined reporting," has been adopted by 23 states.

Baltimore City SOS meeting panel members, from left: Jon Shure, Director of State Fiscal Strategies for the Center on Budget and Policy Priorities; Archie Nelson, state employee at DJS; Karen DeCamp, parent at Roland Park Middle School and Director of Neighborhood Programs at the Greater Homewood Community Corporation; and Neil Bergsman, Director, Maryland Budget and Tax Policy Institute

The Maryland Comptroller's office has estimated that if combined reporting had been in effect in 2007, the state would have collected $144 million in additional tax. Combined reporting is a proven reform. The alternative is to let the multi-state corporations off the hook while Maryland-only businesses pay full freight and we cut back our schools, health providers, and police.

Maryland can enact other provisions to prevent corporate profits from escaping taxation. One, called the "throwback rule," deals with corporate profits that fall through the cracks when a firm in Maryland makes sales into a state where it has no substantial physical presence. Another reform would allow Maryland to collect tax on non-operational income that often reflects profits on the sale of property, equipment, and other assets. A majority of the states with corporate income taxes have closed these loopholes. These two measures would provide $80 to $90 million annually for the state and make Maryland's tax fairer for businesses that cannot or choose not to take advantage of aggressive tax avoidance strategies.

Save Our State panelist Karen DeCamp, Director of Neighborhood Programs, Greater Homewood Community Corporation, informed the crowd of the real impact of flat education funding, which because of inflationary costs, results in cuts to school-level programs and cuts to staff.

RESTORE THE TOP STATE TAX BRACKET FOR INCOME OVER $1 MILLION

Returning the "millionaire's tax" rate to pre-2011 levels would add an average of $87 million to state revenues each year. Prior to 2011, the state tax rate on taxable income over $1 million was 6.25 percent; this year, the rate dropped to 5.5 percent. It makes no sense to give breaks to the wealthiest citizens while services are being cut for Maryland's middle class.

BRING THE SALES TAX INTO THE 21ST CENTURY

Maryland's 6 percent sales tax applies principally to purchases of tangible goods, as opposed to services. When Maryland's sales tax was established in 1947, people spent most of their money on goods rather than services.

Aligning the sales tax to today's purchasing patterns could be accomplished without significantly increasing the sales tax paid by businesses or low-income households—and still cover a broad range of consumer services. The sales tax would not be extended to predominantly business-to-business services (like freight transportation, payroll processing, and advertising) or to basic services that consume a large share of low-income households' spending (like medical, housing, and child care expenses). Nor would basic household services be taxed, so as not to disproportionately affect low-income households. If this reform took effect in January 2013, it would generate approximately $1 billion in fiscal 2013 and $2 billion annually thereafter. Some of this revenue could be applied to reducing the sales tax rate or providing credits for moderate-income taxpayers.

MAKE CYBER-SELLERS PLAY BY THE SAME RULES AS MAIN STREET AND THE MALL

In addition to the growth of the service economy, another factor driving down sales tax revenue is the increase in purchases made from out-of-state sellers over the Internet, by phone, and through catalogues. One study estimated that Maryland loses approximately $164 million in revenues from not taxing online sales—over 4 percent of state sales taxes collected in 2011.

This loophole doesn't just deprive Maryland of revenue needed for education, healthcare, and other services. It also puts traditional brick and mortar merchants at an unfair disadvantage compared with their online and catalog competitors. To fully apply sales tax to Internet and catalog sales will require action from Congress or the courts at the federal level. However, there are things Maryland can do now to collect some of the online sales tax.

> "We need to realize the long-term effects cuts will have on our kids and on the reasons families and businesses come to Calvert County. As educators, we would be failing our students if we didn't advocate for a balanced approach to protecting school funding."
>
> *Debbie Russ, president, Calvert Education Association*

MARYLAND'S COMPETITIVE EDGE

Maryland's competitive edge does not come from being the cheapest state. Our competitive edge comes from a high-quality workforce, a sound infrastructure, and an enviable quality of life.

There are many proposals before the legislature to raise revenues that deserve serious consideration. More job-killing budget cuts will harm Maryland families today and endanger Maryland's economic competitiveness in the future. Additional cuts will harm education, public safety, health, and the environment—the very things that make our state a national leader.

Putting Maryland's finances in order and investing in a future of job creation, great public schools and services, and economic growth requires a balanced fiscal approach that includes revenues, not simply cuts. We've found that communities across the state support such measures, and are urging elected officials to take the necessary steps to save our state.

Sources: Center on Budget and Policy Priorities; Maryland Board of Revenue Estimates; Maryland Department of Budget and Management; Maryland Department of Legislative Services; *National Association of State Budget Officers*; *US Bureau of Labor Statistics*; *US Census Bureau.*

SAVE OUR STATE SPONSORING ORGANIZATIONS:

ACLU-MD Education Reform Project • Advocates for Children and Youth • Maryland State and DC AFL-CIO • AFSCME-MD • AFSCME Council 67 • AFT Maryland
Maryland and DC Alliance of Retired Americans • Maryland Budget and Tax Policy Institute
Maryland Education Coalition • Maryland Nonprofits • Maryland Retired School Personnel Association
Maryland State Conference NAACP • Maryland State Education Association
Progressive Maryland • SEIU Local 500 • SEIU Maryland and DC State Council
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