Maryland F(

Volume 1, Number 1 — The Weekly Newspaper for the General Assembly, the Governor, anc

THE BUDGET

Governor Says State Must Do More With Less

By Governor William Donald Schaefer

For more than a year, Maryland's economy has been battered by the recession, forcing us to constantly readjust our revenue projections downward. Our income tax collections are declining because Maryland is shifting more toward a service economy, with lower paying service jobs. At the same time, state government is being called on more and more to provide services for Marylanders. More people have turned to the state for help in the recession, and our younger and older populations, who need a greater range of services, are growing rapidly. The combination ends up meaning that state government, which people for so long have thought of as the safety net for the neediest citizens, is being asked to do more with less. This year we have to decide how much less we are willing to settle for our citizens.

In the past year, in five rounds of budget reduction, we have cut more that $1 billion from state spending and eliminated more than five thousand positions. The Legislature is reviewing my proposal now to make up an additional $225 million shortfall in the current fiscal year, constituting what will be the sixth round of budget cuts in just over a year. We have reduced the size of government, asked state employees to do more, and have sacrificed our commitment to programs in health, education, and welfare.

Even with the earlier reductions, the forces of the recession and changes in our economy combined to produce a $1.2 billion deficit for the 1993 fiscal year. A careful agency-by-agency review of all programs, and elimination of such expenses as merit raises and cost-of-living increases for state employees, allowed us to cut about $500 million from the budget I will introduce January 31. We still, however, face a $700 million shortfall, which is not, as I noted in my State of the State address, a "made-up" number. If we don't cover that gap, between providing basic services and generating revenue to pay for it, we will jeopardize whole agencies and vital programs.

My proposed solution to cover the $700 million gap includes raising fees to make some state services more self-sufficient, reducing local aid programs, and authorizing greater taxing powers for localities. Instead of increasing the sales tax, my solution calls for expanding the sales tax to cover services like haircuts, dry cleaning, cable television, and car repairs, and eliminating exemptions that don't make sense. I'm also asking the corporate community to pay a half-percent more in corporate income taxes. My hope for individuals is that we can adopt a graduated income tax that would

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The writer is the Governor of Maryland.

Budget Cuts Not Enough

By Sen. Laurence Levitan

It's hard to believe that just 3 short years ago, the state was facing a $400 million budget surplus. The turnaround in the economy in Maryland and many other states has been so profound and so quick that state governments have been scrambling for ways to balance their budgets.

Maryland's economy grew faster than the rest of the country during the 1980s and the state

During the 1980s, Maryland benefitted from a robust national economy and increased spending by the federal government. Businesses expanded throughout the state and especially in the Washington suburbs. Fueled by strong growth in income and employment, Maryland's construction industry experienced enormous growth;

Bridging the Gap

By Del. Charles J. Ryan

During the decade of the 1980's Maryland enjoyed a vigorous economy characterized by growing personal income levels and unemployment rates well below national averages.

A robust economy, coupled with prudent fiscal management, led Financial World Magazine in 1990 to cite Maryland as the "best run" state in the country.

It also allowed Maryland to de-

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sides of our state's budget.

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shift the tax burden off the lower- and middle-income taxpayers on to the people with greater ability to pay.

I proposed a few specialized taxes, such as the 25-cent increase in the cigarette tax — to be paid on top of the existing tax — to raise money for cancer prevention and research. I don't think the additional tax is too much to ask for a state that ranks first in the nation for its rate of cancer deaths. I also want to double the excise tax on liquor to restore alcohol and drug prevention programs that were cut in previous budget reductions.

Critics will say my fears about the budget shortfall and meeting the basic needs of Marylanders is just rhetoric, and there is "waste" abounding in state government just waiting to be cut. In response, I remind everyone that I will listen and explore every constructive suggestion of waste or fat in government. A commission on Efficiency and Economy that I named in 1991 continues to review the state's functions to identify ways to economize, and I have begun to implement many of the group's recommendations. But while all of our efforts to cut costs where possible should continue, I do believe we are running short of time to make the decisions that will ensure that Maryland continues to provide the level of services for our next generations that our current generations have come to expect.

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began to plummet. These factors reverberated throughout the economy causing a loss of jobs in Maryland's heavily oriented service economy. Previously thought to be recession-proof, industries such as finance, insurance, engineering and advertising all suffered from the economic slowdown.

What does it all mean for Maryland's state government? It means less revenue at the very time demand for government services is rising. Maryland's revenue engine is driven by the economy—sluggish income growth means not only lower income tax collections, but less consumer spending and shortfalls in sales tax collections. A dropoff in business activity means not only lower business income taxes, but lower sales, transfer and property taxes as well. Also, the recession has caused higher unemployment and fewer pay raises which have increased the demand for government services at the very time it is least able to afford it—medicaid and welfare caseloads have swelled over the past two years.

The impact from the recession was first felt in Maryland in fiscal year 1991. Revenues fell $600 million short of projections. For the first time ever, sales tax revenues in Maryland were actually less than the prior year. Through a combination of budget reductions and fund transfers (ie. program open space, rainy day fund), the state was able to cover the shortfall. Unfortunately, this was only the beginning.

In the current fiscal year (FY 1992), a combination of revenue shortfalls and budget overruns (ie. medicaid) have created a $900 million budget shortfall. This deficit has been covered primarily through further budget cuts and fund transfers—ie. $180 million cut in aid to local governments, $41 million reduction in higher education, $51 million less in aid to individuals. In addition $100 million was raised from reducing the capital gains deduction and closing several sales tax loopholes. An additional $225 million in reductions or new revenue is still needed to end the year with a balanced budget (as required by the constitution).

The prognosis for fiscal year 1993 is not any better; the latest projection is for a $1.1 billion deficit. Revenue growth is expected to be modest and the prolonged recession is increasing the demands on state government. Enrollment in medicaid is skyrocketing—FY 1993 caseloads will be 38% over the pre-recession level; 1 out of 10 people in Maryland will be on Medicaid in 1993, 1 out of 4 in Baltimore City. The number of GPA recipients has grown over 30% in the past 3 years; AFDC caseloads are up 20%. The prison population continues to grow (7% in 1991).

So now we are still faced with finding an additional $1.1 billion in reductions in a budget that has already been cut to the bone. For example, budgets for some state agencies have been cut below their 1990 level and for all others (except Public Safety) funding is below the 1991 level. Over 2,600 budgeted positions have been cut from state government — a 3.4% drop. Funding for high tion is down 17% from els. Grants for AFDC recipients have been rc to 1989 levels. The sta day fund has been totally State employees have no a salary increase in ov and a half and the state h more of the costs of hea ance to state employees

My position is that v cannot balance the FY get with budget cuts alo so would leave the p safety net of governme gaping holes. If we dig re and make some very changes, we may be abl up $700 million of the with budget reductions cal governments would significantly reduced). any further would be w only solution remaining taxes.

I have proposed a ta that could raise over lion. The centerpiece c posal is an increase in th rate to 6% which would relatively painless way a million per year.

Why a sales tax in couple of reasons. First neighboring jurisdictio have a 6% rate. (Penn West Virginia and D.C. Virginia has a 3.5% ra 1% local option; Delaw sales tax). An increase per dollar is not about Marylanders to sudde long distances to save a

Second, the sales ta generally in small, sub nificant amounts whic obscure its full impact