

# Commission on Maryland's Fiscal Structure

## Minutes

Thursday, November 21, 2002

---

### Members Present:

Chairman Fred W. Puddester  
Mr. Peter V. Berns  
Ms. Sabrina W. Bush  
Ms. Barbara M. Coit  
Delegate Jean B. Cryor  
Senator Ulysses Currie  
Mr. William K. Hellmann  
Delegate Sheila E. Hixson  
Delegate Mary-Dulany James  
Mr. Laurence Levitan  
Senator Thomas M. Middleton  
Senator Donald F. Munson  
Senator Robert R. Neall  
Delegate Howard P. Rawlings  
Mr. Robert L. Swann  
Ms. Barrie P. Tilghman

### Members Absent:

Comptroller William Donald Schaefer

### Follow Up on Transportation Issues

Mr. Puddester began the meeting by introducing Secretary John Porcari of the Department of Transportation (MDOT). Mr. Porcari said that MDOT was completing its tour of counties that evening. If the counties top priorities were funded, it would require \$1.5 billion in additional spending or \$300 million a year – this would, in turn, require a ten-cent increase in the gas tax per gallon. This increase is not indexed to inflation; a 6.5 cent increase would be 10 cents if indexed to inflation in the out-years.

A federal funding increase is not in the cards – the best-case scenario is that the federal share could be as much as 60 percent, but the usual share is 50 percent. Moreover, the federal share is going down.

Senator Currie asked if the \$2.75 billion in safety enhancements (as noted at the earlier hearing) was required by the federal government; Mr. Porcari said that these were costs identified by MDOT. Senator Currie then asked about the additional \$300 million a year to fund local priorities – Mr. Porcari said that this was the State share; there would need to be additional revenue for the local jurisdictions' share. Mr. Porcari said that a 5 cent increase per gallon would raise \$150 million a year. By year ten, a 6.5 cent increase would be the equivalent of \$300 million. If the department makes a significant attempt to get at the backlog in projects, then more than five cents is needed.

Mr. Swann asked which projects are included in the \$1.5 billion – Mr. Porcari advised that the Hughesville bypass is included as it is the top priority for Southern Maryland. Mr. Swann asked if the amount actually needed was more like \$4 billion when the State projects were included – Mr. Porcari confirmed this.

Senator Currie asked if the \$300 million included the transfer of monies to the General Fund. Mr. Porcari said that \$70 million is the projection for fiscal 2004 – MDOT is expecting to get money back from the General Fund to cover the cost of the Woodrow Wilson Bridge and the Addison Road extension. If you increase the gas tax by a dime, you can fund these projects. Ms. Bush asked about the department's contingency plan if there is no tax increase – Mr. Porcari said they had no contingency plan as they are counting on getting the money back from the General Fund. They would have to adjust their program somewhere.

## **Public Testimony from Interested Parties**

The commission heard five hours of public testimony – representatives of several groups testified, as shown below. Additional groups provided written testimony only.

### **Groups Represented**

Maryland Association of Counties

Montgomery County

Charles County

Harford County

Minutes  
November 21, 2002  
Page 3

Cecil County

Washington County

Maryland Municipal League

Havre de Grace

Rockville

Advocates for Children and Youth

Maryland Children's Action Network

Maryland Education Coalition

YMCA of Central Maryland

Maryland Children's Mental Health Coalition

Committee to Protect Maryland Children

Early Learning Work Group

Coalition for Healthy Maryland Children

Youth Investment Partnership

Safe and Sound

Maryland Committee for Children

Living Free Campaign for Freedom of People on the Go of Maryland

Maryland Developmental Disabilities Council

Maryland Civil Rights Coalition for People with Disabilities

Developmental Disabilities Coalition

Arc of Maryland

Maryland Disability Law Center

Mental Health Association of Maryland

American Council of Engineering Companies/Maryland

Private Citizens

Minutes  
November 21, 2002  
Page 4

Maryland Classified Employees Association

League of Women Voters of Maryland

Maryland Works

American Federation of Teachers – Maryland Health Care

Maryland Professional Employees Council

Maryland Association of Boards of Education

American Heart Association

American Cancer Society

Maryland Green Party

National Federation of Independent Business

Maryland Retailers Association

Marylanders for Better Transportation

Health Facilities Association of Maryland

Genesis ElderCare Spa Creek Center

New Pathways/Maryland Association of Resources for Families and Youth

Maryland Chamber of Commerce

Maryland Hospital Association and LifeSpan

AFSCME Council 92

Community Behavioral Health Association of Maryland

Progressive Maryland

Welfare Advocates

Presbytery of Baltimore

Teachers Association of Baltimore County/Maryland State Teachers Association

Alliance to Invest in Maryland

Maryland Senior Citizens Action Network

Local Management Boards

Allegany County

Montgomery County

Maryland Justice Policy Institute

Project \$1.5 Billion Recovery

Maryland Alliance for the Poor

Energy Advocates

Maryland Catholic Conference

NOcasiNO-Maryland

National Coalition Against Gambling Expansion-Maryland

Maryland Earned Income Credit Campaign

LaRouche Youth Movement

Maryland Center for Community Development

Maryland Coal

St. Vincent dePaul Society

Maryland Highway Contractors Association/Maryland Asphalt Association

Maryland Community Health System

American Civil Liberties Union

**Primary Themes of Testimony**

Before the testimony began, Mr. Puddester advised witnesses of the time limitations that would be applied – no more than five minutes per individual testifying and no more than seven minutes per panel. He asked witnesses to take into account that the options before the commission are not recommendations from the commission or any member of the commission. As noted below, there were several recurring themes in the testimony received.

- ***Local Aid Helps Fund Important Programs and Should Not Be Touched***

**Counties have already raised taxes and, even with these increases, their budgets are stressed.** For example, 23 jurisdictions participated in the teachers' salary challenge – the cost to the counties is four times the cost to the State for this program. In addition, counties have a different role post 9/11 as first responders – their exposure is greater. **Don't make cuts to local aid, but if you have to, then make programmatic cuts straight up, rather than an across-the-board cut as included in the options document.** Ms. Coit asked where to find the money – Ms. Praisner, representing MACo, said local jurisdictions have had to identify their own places and the State should do the same – moreover, counties have raised taxes while the State cut taxes.

**Municipalities have few options for raising local revenue (the personal income tax passes through and the property tax) but have to provide a wide array of services to citizens, including as first-responders. Reductions to local aid would require an increase in the property tax or reduction/elimination of existing services.** Further reductions to Program Open Space are opposed. Senator Middleton commented that, if Program Open Space is cut, there could be debt capacity to fund local projects. He advised the local jurisdictions to remember that they have benefited significantly in the past.

- ***Fund Education and Services for Vulnerable Children***

**Fully fund Thornton – phasing it in over a longer period of time could invite lawsuits, as the education system is not adequate now.** Maryland is still just thirty-fifth in the nation for education spending when Thornton is added. Moreover, don't cut special education. Senator Currie noted that, with regard to the federal No Child Left Behind legislation, the money was left behind and this is also driving additional costs in education.

**Cuts recommended by the Governor for the Department of Human Resources, in particular, will reverse gains made. It is important to protect programs for abused and neglected children and to maintain front-end support services because they are less expensive and costs will be higher down the road.** Fund programs like after-school care and school-based mental health that help working parents. Nevertheless, the department could be more efficient; results-based management is important. The Office for Children, Youth and Families should help eliminate duplication.

- ***Maximize Federal Funding for Health Care Programs***

**In the area of developmental disabilities, if you have to downsize, close the four residential facilities. Services provided in the community are less costly; Medicaid funding can follow the individual in the community and federal funding could be maximized.** Ms. Tilghman asked if the witnesses were advising that all institutions for the developmentally disabled be closed – she was told that the State should work toward the long-term goal of closing facilities and do significant downsizing immediately. For every individual in an institution, there is an active twin in the community. Senator Middleton cautioned that, if the staffing in the community is not adequate, this cannot be done. Supporting the community system is important – please do not delay or eliminate the wage initiative for direct care workers. The waiting list has not yet served many people.

**Cutting managed care organizations (MCOs) by \$6 million would actually mean a \$12 million cut because we would lose the matching federal funds too.** Reducing provider reimbursements is counter-productive and could cause churning; instead, look at services that could be reduced. Delegate Cryor asked which services should be reduced and was told that there were no particular ideas, but that service reductions or capping enrollment would be better than cutting provider rates. Also, the State could eliminate unnecessary provider/departamental administrative burdens and manage State facilities more efficiently. Mr. Levitan asked if the State is getting its fair share of federal dollars and was told that we do a decent job of maximizing federal dollars in the Medicaid program, but there are new opportunities for competitive federal grants such as federally qualified health centers.

**Underfunding for medical care continues to be a problem, particularly for mental health** – clinics have had to close due to underfunding. The more access is restricted, the more likely costs will increase in other areas.

- ***Transportation Needs More Money***

**Transportation needs to be funded adequately; fixing structural problems could help address the \$27 billion “shortfall.”** Increase the gas tax immediately and slow down the workload. Go back to using public-private partnerships. Raise the debt ceiling. Dedicate a revenue source for funding transit. Senator Currie asked about using toll revenues for transit and was told that most public-private initiatives should be built with tolls to pay for bond costs. Senator Currie asked if it was too late to toll the Woodrow Wilson Bridge and was told that the bridge was originally planned as a toll facility but the states determined not to go forward with that option. It could still be done with intelligent tolling. Mr. Berns and Ms. Bush asked why revenues should be dedicated to transportation but not to other programs. Other jurisdictions have done so to fund transit; it is a service used by all,

including the disadvantaged. This State is on record as wanting to double services over 20 years. Delegate Cryor asked if all bridges should become toll bridges and was told no – it is a consideration for the Woodrow Wilson Bridge as a means of paying for the additional costs associated with that bridge.

In addition to the revenue options above, increase bonding capacity and take a penny from the existing sales tax to fund mass transit. Senator Neall commented that this fix is not viable – it is akin to having a flat tire on the driver's side of a vehicle and fixing it by taking the good tire from the passenger side. He was told that this idea is for the future. Senator Munson commented that his constituents don't like paying taxes for things that don't benefit them, but if they had their way, there would have been no Baltimore or Washington systems.

- ***Raise Revenues to Cover Growing Expenses – No Consensus on How to Do So***

**The State has a revenue problem, not a spending problem – the needs of vulnerable children and families are legitimate responsibilities of government. Don't cut services for children and families, particularly those related to mental health,** as there will be consequences. Three-fourths of likely voters favor increasing taxes to solve problems of children and families. Local management boards are a vital part of solving such problems. Ms. Coit asked where the money should come from and was told that the commission should examine the revenue options before it

**Maryland is actually a low tax state relative to personal income, particularly in the area of property taxes. Don't cut programs merely because there is no political will to raise revenue.** State employees should not bear the burden alone.

**Raise revenue** – increase the marginal tax rate; impose the sales and use tax on non-essential services; change the standard deduction; and increase the titling tax. Develop a revenue generation system that provides adequate resources and is based on certain principles: adequate yield, equity/fairness, and compatibility – it should be progressive.

However, it is a tough time for small business **so reject options that will cost small employers the most** like the 2 percent insurance premium tax. Also, don't touch the sales tax – don't expand it to services necessary to run small businesses. Senator Currie asked what to do instead and was told to eliminate certain programs in the Department of Business and Economic Development. Mr. Berns asked which was preferable, expanding the sales tax or an income tax increase on high-income folks and was told that the big concerns are related to health care costs and the sales tax, being parochial. Mr. Levitan asked about support for

streamlined taxation and was told the business community recognizes this problem but has not worked with the Congressional delegation. Ms. Bush asked why an increase in the sales tax would be detrimental and was told that the Maryland Retailers Association could provide follow-up information.

**Close loopholes in the tax code** which amount to corporate welfare. Hundreds of millions of dollars could be generated. However, do not reduce the Maryland Earned Income Credit or its refundability – this helps people who receive the credit survive. Delegate Cryor noted that the testimony indicates 159,000 families receive the credit and asked how many people that amounts to – the witness was not sure.

**Don't expand gambling.** Gambling is a regressive way of balancing the budget and it is possible to balance the budget without slots. Crime and homelessness will increase so the revenues gained from gambling will be mitigated by increased costs. Ms. Coit asked about insurance for compulsive gambling and was told that it should be looked at.

- ***Don't Balance the Budget on the Backs of State Employees***

**State employees are already affected by cost containment; don't hurt them even more.** Workload for State employees has increased with the hiring freeze and their reward could be a salary reduction, increased health care costs, no bonuses, lower or eliminated deferred compensation matches, and no merit increases. During the last fiscal crisis, the workweek for employees was increased without an increase in compensation; in addition, employees were furloughed. All of these things have happened or could happen to State employees at a time when county employees are getting salary increases – sometimes by using local aid monies. Particularly with an aging workforce, it is becoming increasingly difficult to get people to come to the State to work – especially nurses. With the nursing shortage, nurses are being paid big bonuses to work in other states and the private sector – Maryland can't compete.

Most State employees make less than \$40,000 a year. Further reductions will hurt them. Morale is already very low.

State legislators should give up their raise. Mr. Puddester commented that the legislative and judicial branches have typically followed actions taken by the executive branch.

- ***Miscellaneous***

**Fiscal responsibility should be at the top of the agenda**, but transportation, health care, and education need to be funded. There is support for a limited number of slot machines to fund public education. A results-based management system could energize State employees. A combined tax return is difficult to comply with. Taxing services has been problematic for other states. Cut State agencies across the board.

**Maryland is bankrupt and needs to rebuild its economic structure**, but must be revolutionary and look globally for solutions. People shouldn't have to beg to live. Use the power of the federal government for long-term infrastructure improvements.

**The Maryland Mined Coal Credit is an important credit for Western Maryland.** It was enacted in the 1980s to assist coal companies that could not compete – it has been reauthorized a few times. The credit helps maintain 600 direct and 2,800 indirect jobs. Eliminating the credit would jeopardize certain multi-year contracts. Senator Munson commented that the credit doesn't apply to Washington or Frederick counties, just Allegany and Garrett counties; nevertheless, he still supports it.

**Cutting information technology could have unintended consequences**

## **Closing Remarks**

Mr. Puddester stated that staff would be working on a document for the next meeting. He asked members to provide any comments or observations they wanted to be incorporated to staff. He also noted that the commission would need to add a meeting on either December 10 or December 11. With no further business, the commission adjourned at 6:10 p.m.