

Lessons from the States

Principles of Limited Growth Have Impact in Maryland

By Delegates Susan Aumann, Gail Bates & Nancy Stocksdate

With the defeat of Gov. Robert Ehrlich in 2006 came the end of four years of fiscal sanity in the not-so-“Free State” of Maryland. Immediately following the election of Gov. Martin O’Malley, the political rhetoric to convince the public that Maryland was in dire fiscal straits and needed massive tax increases began—this despite a \$1 billion surplus left by the previous Governor. What started as a reference to a structural deficit (where planned spending exceeds planned revenues), soon became an actual deficit (with immediate budgetary shortfalls) as legislative leaders dropped the word structural. Our counter message to this was simply that, “we have a spending problem, not a revenue problem.”

Gov. O’Malley’s very first budget not only spent the \$1 billion surplus, it increased spending by more than 8 percent, fueling the case for large tax increases. As the not-so-loyal opposition, the six (out of 26) minority members of the House Appropriations Committee developed a plan to limit spending growth to three percent per year, which would allow the state to grow out of its structural deficit over two years without tax increases. Our goal was to avoid the trap

of offending specific special interests by shaping our comments to address the larger issue of “how much growth is reasonable?” Maryland’s Governor has great authority over the budget process and by offering overall growth limits we left the Governor responsible for setting priorities.

We submitted a single amendment to the budget to cap spending increases. This amendment helped change the tone of the debate and forced the leadership to defend the entire budget. We kept the discussion focused on fiscally sound spending limits, taking the high road. We proved, over and over, that limiting growth for two years would allow us to let revenues catch up without tax increases. Unfortunately, while our amendment failed, the budget battle was far from over and we did succeed in convincing some members on the other side of the aisle.

With the surplus spent, the Governor kept up the drumbeat of serious fiscal problems needing a massive infusion of cash throughout the fall. He then called for a special session of the legislature to solve our perceived problem and prevent catastrophe. At the same time,

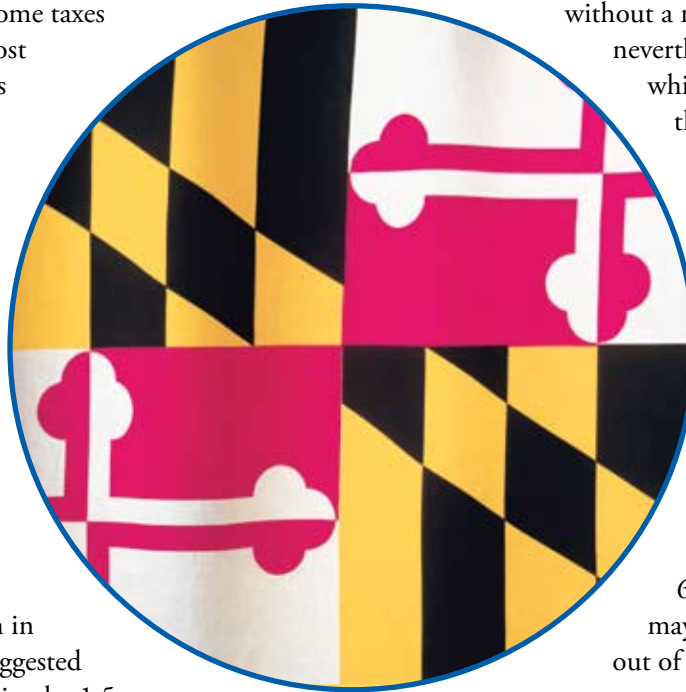


From left, Maryland Delegate Nancy Stocksdate (ALEC State Chair), Delegate Susan Aumann, and Delegate Gail Bates

a real fiscal crisis was looming on the horizon as problems in the housing market became clearer and energy costs for consumers in Maryland increased by more than 72 percent.

With Marylanders struggling to make ends meet, the Governor and legislative leaders drove through the largest single tax increase in Maryland's history (\$1.5 billion). The sales tax was increased and extended to computer services. Cigarette taxes, personal and corporate income taxes were increased, as were a host of other fees. All of this was done without a real budget before us, only a projected budget put together by legislative services. We, in the minority, continued to offer fiscal restraint as a solution to the "crisis" and we proposed an alternative budget which would allow limited growth and temporary reduction of some reserves, to allow revenues to catch up. In response to our calls to rein in spending, the legislature suggested the Governor reduce spending by 1.5 percent, or \$500 million. Our message was having an impact.

As the new legislative session opened in 2008, the Governor, armed with the massive tax increase, proposed a budget that again massively increased spending, this time by 6 percent, despite the tightening economy. We again provided an alternative budget which included a modest increase in spending growth of 2 percent, keeping within inflation rates. Our proposed budget would have allowed the state to repeal the much-maligned computer services tax, and still provide more funds for programs and services simply by limiting the rate of increase in funding. Once again, we garnered support from core constituencies and developed a media plan to get the message out to the general public.



As the session wore on, worsening economic conditions in the state drove revenue projections downward, increasing the budget deficit despite the tax increases. Legislative leaders had little choice but to enact further reductions in spending. Consequently, nearly 75 percent of our reductions were adopted. We were also successful in repealing the computer services tax.

Although we proved it could be repealed without a replacement tax, the legislature nevertheless approved a compromise which reduced spending by half the anticipated revenue and back-filled the remainder with a "millionaire's" tax, which increased the state tax on income of over \$1 million. Since this higher tax includes small business income of sole proprietorships, partnerships, and Subchapter S corporations, we fear that the impact on those businesses that create 65 percent of Maryland jobs, may drive them out of business or out of state.

Our constant efforts had an impact on the budget, but more importantly, they had an impact on the general public. We succeeded in changing the tone of the debate, in forcing the tax and spenders to play defense. Popular bumper stickers on Maryland cars now include such slogans as "Taximus Maximus", "Owe Malley", and "Welcome to Maryland – what's in your wallet". We plan on increasing our efforts this year to include public briefings on how other states are managing their state budgets. We will also continue to offer a fiscally prudent alternative budget which will provide for core government services while protecting our citizens from additional taxes.

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