"Federation Corner" column
The Montgomery Sentinel - March 7, 2013

Overview of the proposed FY14 State budget
by Chuck Lapinski
MCCF Finance Committee Chair

We are entering the most challenging, and sometimes frustrating, time of the State's and County's legislative and financial year--budget season. In last week's column I focused on the proposed County FY2014 budget, and this week I look at the State budget.

Maryland Governor Martin O'Malley has released his version of the State's budget calling for $37.3 billion. This represents an increase of more than 5 percent over the current budget, and exceeds many standards such as the state/regional inflation indices which have averaged about 1 percent over the past 4 to 5 years.

This increase would be implemented in an economy that continues to falter. October and November State unemployment figures were revised upward and the January figure remained flat. Maryland's property tax assessments dropped in every jurisdiction except Montgomery County which was up a very small fraction.

While there has been some improvement in tax receipts, most of this revenue increase can be attributed to taxpayers taking gains/profits in 2012 due to the lack of resolution of what the 2013 Federal tax rates would be. In order to avoid the risk of rising rates, taxpayers needed to take those gains in or before December 2012. In the end, rates did not rise for most taxpayers, but that was not clear until the eleventh hour.

So what headline heralded the rollout of the Governor's budget? "No new taxes!" Great headline, but not true and worse than misleading. Not mentioned in the headline and story were several key but disturbing facts including continuing high unemployment and underemployment and a faltering State economy.

Gambling receipts, often considered the holy grail of revenue to fund education, continue to substantially fall below projections. The public employee retirement/pension funds are only 64 percent funded and, according to the Maryland Tax Foundation, our State's returns on investments continue to significantly lag behind those of our neighboring peer states.

The special fund for state retirees' health insurance is in even worse shape. Only when the bond rating agencies raised questions that put Maryland's AAA bond rating on the line did the State Treasurer and the legislature take some long overdue but weak action. Of the three members of the Public Works Commission, only the Comptroller has shown any semblance of fiscal and financial prudence and recognized the unfair burdens placed on the State's taxpayers.

The Governor continues to push for his wind farm off the Maryland shore. His legislation would allow an additional fee added to electricity bills averaging $5-10 per month in order to create a $1.5 billion fund to help finance the construction of the wind farm. Potential investors have so far all said "no" to the wind farm proposal, and a required cost-benefit analysis that must be reviewed by the legislature and Maryland Public Service Commission has not yet been done. These projected numbers, moreover, do not include all of the costs for transmission, "battery" storage and power conditioning needed to bring the power to our homes and businesses. To pay for these added costs we can expect to see even more increases in our electric rates in the future.

I have nothing against wind power. There is, however, a big assumption that wind power is the best technological solution to our growing energy needs and the most economical over the near and long term. Government wisdom in directing or handpicking technology solutions, particularly in power generation and distribution, has shown itself to be exceedingly poor at best. By any other name this proposed "investment fee" should be considered a tax.

The headline three days after the Governor's budget rollout was: "Maryland Senate President outlines major tax increase for roads." So much for the Governor's claim of "no new taxes"! I always thought that it was the Governor's responsibility to submit a balanced budget which would include all taxes and fees as well as all costs. So why is the Senate President making this proposal? Why wasn't this explicitly addressed in the budget that the Governor sent to the legislature? The Senate President proposes to increase the State sales tax on gasoline by 5 percent, and possibly allow the counties to add an additional 3.5 percent sales tax.

Nowhere do I see any mention that any of this revenue from a gasoline tax increase would actually go into the State Transportation Trust Fund. Maryland has not proven to be very trustworthy in guarding the monies in this trust fund. As many other news publications have stated, this trust fund has been raided regularly over the past 6 years, and those funds have been used for other functions rather than for their intended transportation purposes. Now the Senate President wants to lease the InterCounty Connector (ICC) to a private operator, presumably to the highest bidder, in order to raise new revenue. (Is this an overdue admission that the ICC's benefits did not exceed its cost? Certainly other alternatives were more cost-effective.)

And, so far, gambling receipts have dollar-for-dollar displaced State funding for the schools, rather than be added to funding levels. Is this Education Fund truly trustworthy? Our legislators and Governor need to "lockbox" the money in both the Education Fund and Transportation Trust Fund.

The views expressed in this column do not necessarily reflect formal positions adopted by the Federation. To submit an 800-1000 word column for consideration, send as an email attachment to montgomerycivic@yahoo.com