Maryland's Fiscal Folly: The Taxpayer's View

NTU Foundation Issue Brief 152
February 22, 2006

By Sam Batkins

Residents of Maryland are fortunate that their state government is subject to a balanced budget requirement. All but one state (Vermont) is bound by law to ensure that the state's credit rating and taxpayer interests are protected from spendthrift politicians. Enacting a Constitutional Balanced Budget Amendment (BBA) on the federal level would help stem the tide of rising deficits and long-term unfunded liabilities, but even a BBA cannot *guarantee* taxpayers will see relief from higher tax bills and increased government spending. Maryland is just one example of a government that spends according to its own self-perpetuating interests, rather than those of taxpayers.

Maryland is one of the richest states in the United States. Its per capita income ranked fourth in the nation overall in 2004 ($39,629).[1] Maryland's politicians have taken note of this affluence and despite an average annual increase in total revenues of 4.7 percent from 1993-2003, total spending has risen at an even faster average rate – 8.2 percent each year. Although the levels of increase have varied from year to year, expenditure growth in Maryland has continued unabated, even in the face of actual declines (not just slowdowns) in revenues. (See the Appendix for a graphic presentation.)

A Relentless Trend to Spend

One blatant example of Maryland's propensity to spend occurred during Fiscal Years (FY) 2000-2002. The economic downturn that much of the nation experienced during this period afflicted Maryland's fiscal condition as well. This did not, however, influence spending in Annapolis. Between FY 2000 and FY 2001, total revenue declined 2.0 percent.[2] Under Governor Parris Glendening and the State Legislature, total expenditures increased an astounding 10.9 percent during that time, the fastest pace in over a quarter century.[3] Despite the economic slowdown, Maryland did little to ensure future taxpayer protections.

The following year demonstrated even more fiscal irresponsibility. For the second time in as many years, total revenue decreased in Maryland. Instead of cutting expenditures to ameliorate future budget woes, Maryland's leaders increased total spending between FY 2001 and FY 2002 by 8.6 percent.[4] Over a four-year period (1998-2002), yearly net revenues averaged out to an anemic 0.3 percent rise (in three of the four years receipts actually declined). During the same interval, however, average annual spending jumped 10.2 percent – hardly indicative of a government living within its means. If the state had tied total expenditures to inflation plus population growth, spending would have increased at a more prudent 3.7 percent over that time, eventually leaving government with surplus revenue as the economy recovered (and leaving Marylanders with modest hopes of tax reductions).[5]

Instead of focusing on restrained spending during periods of both boom and bust, the state continued in its profligate ways, and then left taxpayers with the final bill. During his tenure in office (from 1995 through 2002), Governor Parris Glendening and the State Legislature increased annual spending, on average, by roughly 7 percent.[6] Unfortunately, Governor Robert Ehrlich's budget proposal for the upcoming fiscal year does not break from Maryland's troubled past; his plan only exacerbates the disturbing trend of skyrocketing state budget growth.

Ehrlich's Latest Budget: Going for the Record

On January 17, 2006, Governor Ehrlich proposed the largest increase in state spending in at least 25 years.[7] Governor Ehrlich touts "Fiscal Responsibility" as one of the "Five Pillars" of the Ehrlich-Steele Administration, but his record 12 percent budget increase would likely make his predecessor (derisively referred to as "Spendening") blush.[8] Governor Glendening's largest budget increase was a robust 10.9 percent.

Ehrlich insists that no new sales or income tax hikes will be needed to fund his \$3.2 billion increase in net state spending. Even with a surplus of almost \$1.2 billion, Maryland taxpayers fail to benefit from the prosperity they have created.[9]

Governor Ehrlich also claims his budget allocates money for Maryland's "most vulnerable citizens."[10] But, Ehrlich's budget calls for \$3.5 million "to construct facilities at the National Aquarium and Irvine Nature Center."[11] Ehrlich, the former college athlete, also included \$8.3 million for sports complexes and the construction of a new minor league baseball stadium.[12] Given the choice, most citizens would prefer tax reductions to new baseball stadiums. This extra pork does not constitute the diet of a true fiscal conservative, but rather that of an anxious politician staring at the prospects of reelection.

Governor Ehrlich's proposed FY 2007 budget does provide for modest property tax relief. Under the proposed budget, property owners will receive a 15 percent state property tax reduction, in addition to an expanded Homeowner's Tax Credit.[13] Property owners in heavily-assessed counties such as Montgomery, Prince George's, and Baltimore will welcome the new relief. More could be done, however, in the current budget to reduce spending (such as privately funding Governor Ehrlich's new baseball stadium) and provide further tax relief.

But how much does Maryland's out of control spending hurt the typical taxpayer? An illustration is in order. Suppose Maryland had restricted its rising expenditures to no more than population growth plus inflation, beginning in Fiscal Year 1995. Under this scenario, spending should have grown by an average of 3.5 percent annually from 1995-2005.[14] If an inflation/population limit were applied (on a compounded year-by-year basis) to Maryland, 2005 expenditures would have been just over \$21 billion (about

$3,700 per capita). Governor Ehrlich's proposed FY 2007 budget is nearly $30 billion (about $5,300 per capita). Even after accounting for the 2006 Fiscal Year, a leaner government would mean that close to $9 billion (approximately $1,600 per capita), or almost a third of the current budget request, would still be in the pockets of Maryland taxpayers in 2007. Instead, Governor Ehrlich and Governor Glendening have chosen political expediency over the best interests of taxpayers.

Conclusion: Annapolis Must Shift the Tide

Currently, Maryland has the 17th highest tax burden in the United States (neighboring Delaware ranks 48th).[15] Residents around the U.S. are beginning to take notice: Maryland ranked below the national average for 2004-2005 population growth (0.7 percent vs. 0.9 percent), with Delaware (1.6 percent) and Virginia (1.2 percent) far outpacing the so-called "Free State."[16] Record increases in state expenditures with few rebates or tax breaks for citizens will not attract prospective residents.

Marylanders have created record prosperity. Tax revenue in Maryland has increased 31 percent between 2002 and 2005.[17] It is one of the richest and most educated states in the U.S. It should be a destination for aspiring entrepreneurs and young professionals. Annapolis, however, has shown the propensity to tax and spend first, and think about taxpayers last.

The state's recent fiscal history has demonstrated a shocking lack of budget discipline, and continued hostility towards the financial interests of its citizens. Taxpayers in Maryland have, through their toils, nearly doubled state revenues since 1993, but the state government has done little to reward them for their continued sacrifice. It is time the Governor and the State Legislature study the sterling records of other states that have provided vital services, and, at the same time, protected taxpayers from runaway spending. With so much to learn, they should begin the tutorial before acting on the 2007 budget.

About the Author

Sam Batkins is Deputy Press Secretary for the National Taxpayers Union Foundation, the research arm of the 350,000-member National Taxpayers Union, a non-partisan citizen group founded in 1969. For further information, visit www.ntu.org.

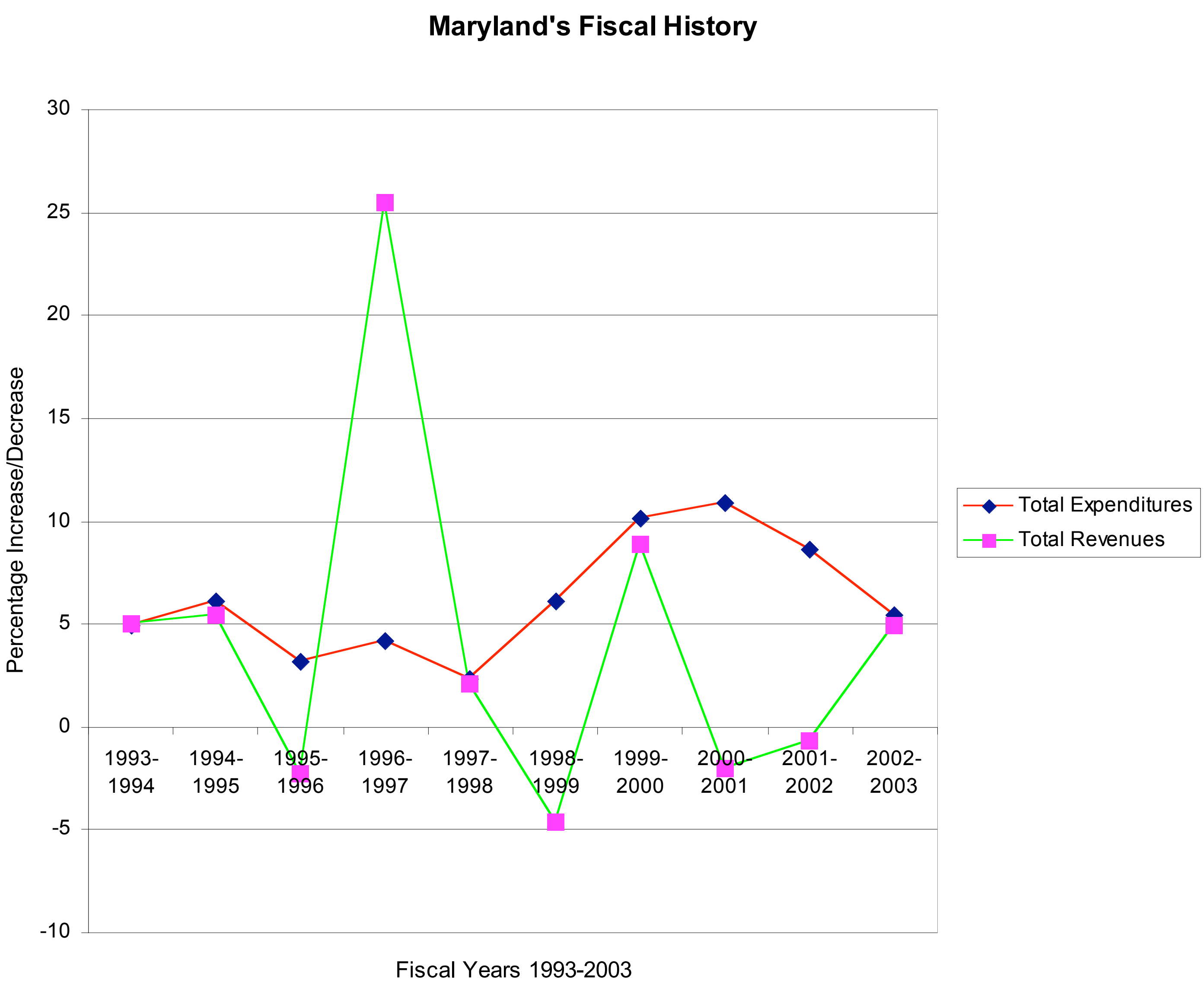
Notes

---

[1] U.S. Department of Commerce, Bureau of Economic Analysis, "State Per Capita Personal Income 2004," Released September 28, 2005, http://www.bea.gov/bea/newsrel/spi_highlights.pdf.
[2] *Ibid*.
[3] Andrew A. Green, "Ehrlich Seeks 12% Increase in Budget," *Baltimore Sun*, January 18, 2006.
[4] U.S. Census Bureau, Government Division, "State Government Finances," Maryland Summary Pages, http://www.census.gov/govs/www/state.html.
[5] *Ibid*.

[6] *Ibid*.
[7] Andrew A. Green, "Ehrlich Seeks 12% Increase in Budget."
[8] Office of the Governor, "The 5 Pillars of the Ehrlich-Steele Administration," http://www.gov.state.md.us/fiscalresp.html.
[9] Maryland Department of Budget and Management, "Maryland's FY07 Budget Highlights," http://www.dbm.maryland.gov/dbm_publishing/public_content/dbm_taxonomy/budget/publications/budget_highlights/fy07_budgethighlights.pdf.
[10] *Ibid*.
[11] *Ibid*.
[12] *Ibid*.
[13] *Ibid*.
[14] U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index: All Urban Consumers, U.S. City Average, 1982-84=100, http://data.bls.gov/cgi-bin/surveymost?cu. U.S. Census Bureau, Population Division, Table C0-EST2001-12-24: Time Series of Maryland Intercensal Population Estimates by County: April 1, 1990 to April 1, 2000. Released April 17, 2002, http://www.census.gov/popest/archives/2000s/vintage_2001/CO-EST2001-12/CO-EST2001-12-24.html. U.S. Census Bureau, Population Estimates Program, Table 1: Population Estimates, Data Set 2005 Population Estimates, http://factfinder.census.gov/servlet/DTTable?_bm=y&-geo_id=04000US24&-ds_name=PEP_2005_EST&-mt_name=PEP_2005_EST_G2005_T001.
[15] "Research Area: State Taxes and Spending," The Tax Foundation, http://www.taxfoundation.org/research/topic/9.html.
[16] U.S. Census Bureau, Population Division, Table 3: Annual Estimates of Population Change for the United States and States, and for Puerto Rico and State Rankings: July 1, 2004 to July 1, 2005 (NST-EST2005-03), Released December 22, 2005, accessed at: http://www.census.gov/popest/states/NST-pop-chg.html.
[17] Chris Edwards, "State Revenue Boom Paves Way for Tax Cuts," The Cato Institute's *Tax and Budget Bulletin*, January 2006, http://www.cato.org/pubs/tbb/tbb-0601-30.pdf.

Appendix


Maryland's Fiscal History
30
25
20
15
10
5
0
-5
-10
Percentage Increase/Decrease
1993-1994
1994-1995
1995-1996
1996-1997
1997-1998
1998-1999
1999-2000
2000-2001
2001-2002
2002-2003
Fiscal Years 1993-2003
Total Expenditures
Total Revenues