ADVOCATES FOR CHILDREN & YOUTH
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Budget Choices and Challenges

Reasonable Revenue Options Eliminate Need for Harmful Cut

With a projected gap of more than $1 billion and dwindling federal stimulus money, Maryland's leaders are faced with difficult budget choices. Unlike the federal government, the state must balance its budget, both when the Governor introduces his fiscal plan and when the General Assembly enacts it into law. While Governor O'Malley has expressed openness to consider new revenue sources, he has said his upcoming budget will not include money from new revenue. A budget balanced with cuts only is virtually certain to affect children's education and health care.

Media reports suggest that a 5% ($250 million) cut in funding for public schools and hundreds of millions in reductions to Medicaid funding are under very serious consideration. Maryland's public school system was recently named #1 in the country for the third year in a row. Children have better access to health care, particularly dental care, while more families are remaining safe and intact. Fewer children are entering foster care and those that do are more often placed in family settings, rather than expensive group homes. The state has also reduced reliance on juvenile institutions and expanded evidence-based programs to keep youth safely in their community. Continued cuts in these investments jeopardize these important successes.

To meet the challenges posed by the state funding gap, the Governor and legislative leaders should reach consensus on a broader plan including new revenue sources, which would achieve a balanced budget and allow for supplemental budgets to undo or reduce harmful cuts to vital services and proven programs.

Maryland has reasonable revenue options available to avoid cuts to children's services. For instance, the alcohol tax was last raised in 1972. The 2010 bill to boost alcohol taxes would have generated more than $200 million in new money a year.[1] Also, a 2010 tax compliance bill would have increased revenues by about $63 million.[2]

[1] See fiscal note for HB 832 from the 2010 session at http://mlis.state.md.us/2010rs/fnotes/bil_0002/hb0832.pdf

Though the sales tax rate went up, the state missed the opportunity to expand the sales tax base to broadly include the expanding service sector. Applying the sales tax to a broad range of services would yield more than $1 billion in new revenue a year. Additional corporate tax reform could produce about $100 million. And every 5 cent increase in the gasoline tax would produce about $150 million a year. So increasing the gas tax by 15 cents would mean about $450 million in new revenue. Continuing the millionaire's tax would keep up to $90 million available.

While a portion of revenue from the sales tax, corporate tax and the gas tax are allocated to the Transportation Trust Fund, the legislature has temporarily changed those formulas to boost money in the General Fund to balance the budget. An increase in the gas tax could free up about $250 million a year in sales tax for the General Fund.[3]

Fortunately, Governor O'Malley and legislative leaders have recently expressed willingness to consider a range of new revenue sources, with Senate President Miller specifically mentioning the gas tax.[4] Modernizing the state's revenue structure and temporarily allocating a greater portion of revenue from new or current sources to the General Fund would yield the money to balance the budget without spending cuts.

[2] See fiscal note for HB 244 at http://mlis.state.md.us/2010rs/fnotes/bil_0004/hb0244.pdf

[3] Revenue estimates and amount of sales tax freed up are from the Maryland Budget and Tax Policy Institute. See MBTPI's legislative preview at http://marylandpolicy.org/documents/preview2011.pdf

[4] Linskey, Annie, *O'Malley keeping 'open mind' on new taxes*, The Baltimore Sun, January 12, 2011

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