

Resolving the Structural Deficit & Investing in Maryland's Future



Governor Martin O'Malley

September 27, 2007

Where does your state tax dollar go ?



48.1%
Education



25.4%
Healthcare



10.3%
Public Safety

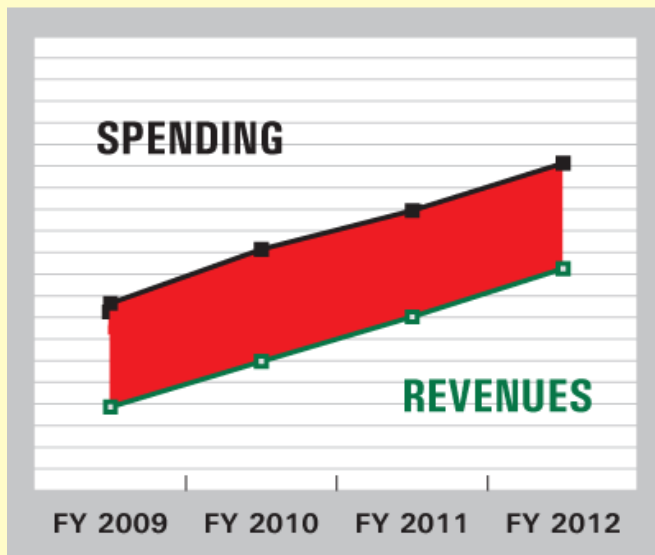


16.2%
Other

83.8%

The Problem: A Structural Deficit

THE STRUCTURAL GAP



- 1997: Income tax cut reduced revenue by \$1 billion.
- 2002: Thornton plan increased education funding by \$1.3 billion – but, in reality it ballooned by \$1.5 billion (due to the index being higher than expected).
- Over past few years, problem masked by tuition hikes, fee increases, and raids on open space and transportation funds.
- Now we face a \$1.7 billion deficit.

Renewed Fiscal Responsibility

In our first 9 months, working with legislators, we've taken action:

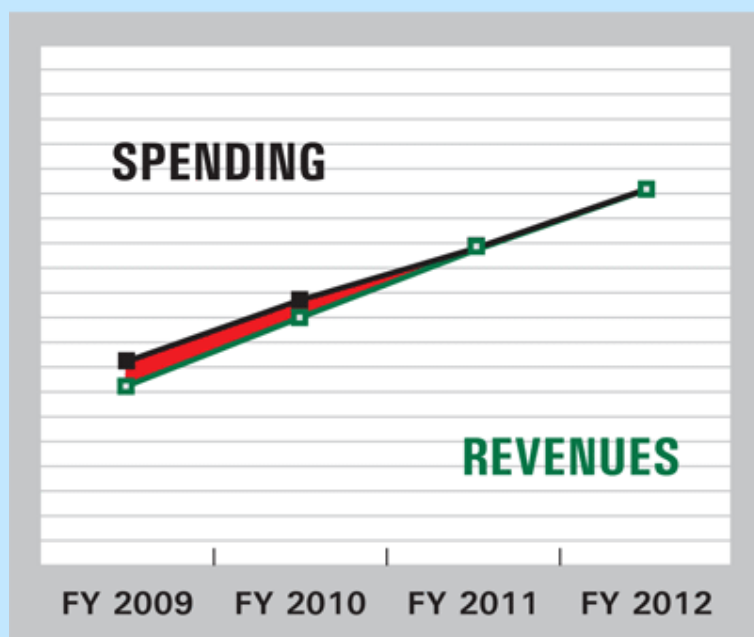
- Closed a \$400 million hole in this year's budget without raising taxes.
- Passed a budget that grew by just 1.9% – less than the rate of inflation – compared to 12% increase last year.
- Approved \$280 million in cuts and savings at the Board of Public Works.
- Eliminated 147 government positions.
- Closed the violent Jessup House of Corrections, saving \$10 million annually.
- Reduced the Governor's staff budget by 11%.
- And renewed our focus on government efficiency and accountability through StateStat and individual agency efforts.

Guiding Principles: A Fair, Balanced & Sustainable Plan

- We need to get our fiscal house in order...
- With a long-term solution that protects our recent investment in education, and enables our state to get back to making progress...
- In a way that's fair to middle class families, who have been taking it on the chin, and keeps Maryland competitive with surrounding states.

The Solution: Structural Reform

THE STRUCTURAL GAP



A consensus plan that gets Maryland back to making progress.

- Target reductions in spending growth.
- Reform tax system to make it fairer for the vast majority of Maryland families – 83.5% will pay less.
- Achieve consensus on slots to protect 18,000 jobs and open space – and recapture hundreds of millions of dollars going to DE, WV and PA.

Where Maryland Stands

- Maryland is the nation's **wealthiest** state.

U.S. Census Bureau 2007

- Maryland ranked as **one of best states for business**: 8th for business climate and 3rd for workforce.

Forbes Magazine

- “Maryland’s state/local **tax burden below average.**”

The Tax Foundation, 2007

- Maryland ranks **31st in spending per capita.**

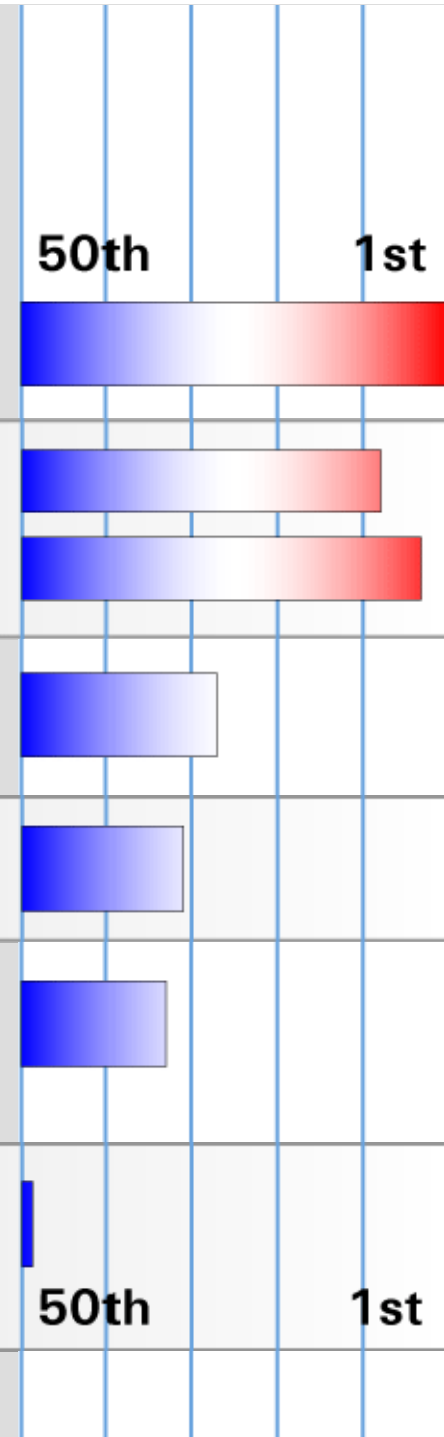
U.S. Census Bureau

- Maryland ranks **33rd in state and local government employment** per 10,000 residents.

U.S. Census Bureau

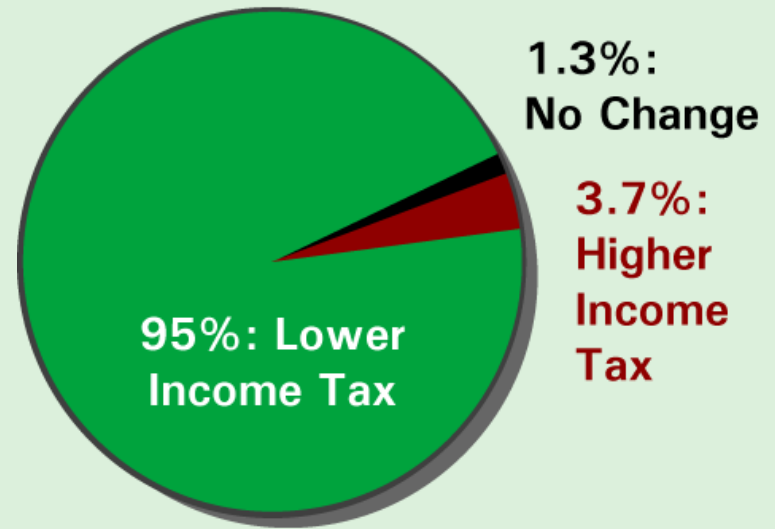
- Maryland is **50th in state and local spending** as a percentage of personal income.

Maryland Department of Legislative Services



Making The Income Tax Fairer For Middle Class Families

- 95% of Marylanders will have their income tax reduced.
- Reform income tax, making it more progressive by adding new rates for wealthiest Marylanders, and reducing taxes for all others.
- Refundable EITC is increased to 25% of federal credit to reward work.



Making The Property Tax Fairer For Middle Class Families

*Property Owners will
save more than \$700
million over 5 years.*

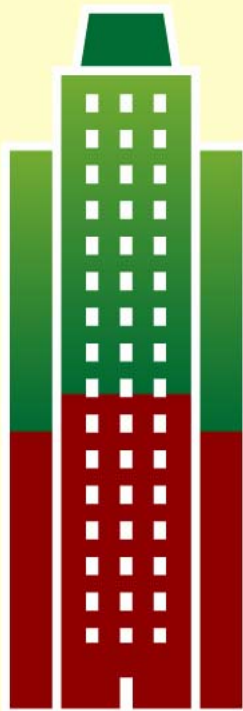
- Reduce property tax by 3 cents per \$100.
- Lowering the property tax will benefit 1.45 million homeowners struggling with rising assessments.
- Seniors and others living on fixed incomes will get much needed help.



Closing Corporate Loopholes

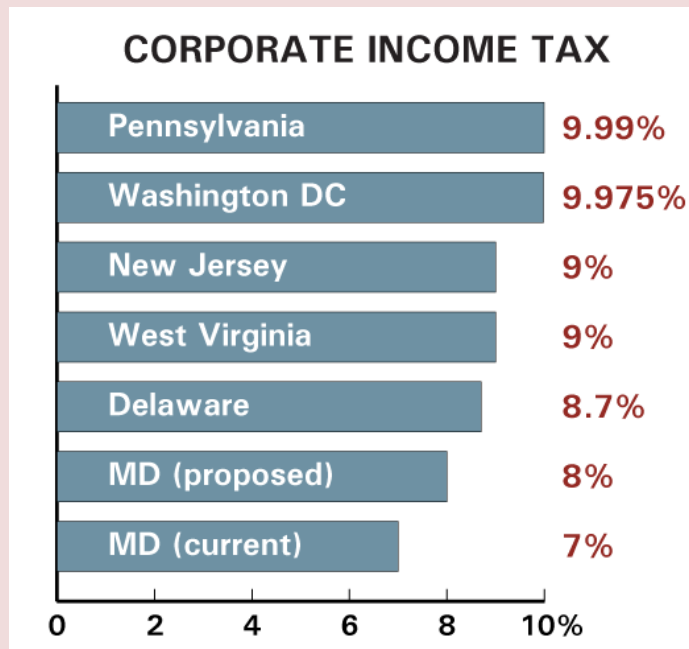
*\$120,000,000
Office Building
Transfer Tax:
\$0*

*\$200,000 Home
Transfer Tax:
\$4,000*



- Close loopholes in the corporate income tax
 - 100% of small businesses pay taxes on their profits.
 - 50% of Maryland's biggest corporations pay no corporate income tax.
- Eliminate "controlling interest" loophole
 - Big corporations should be treated the same as small businesses and homeowners when they sell property.

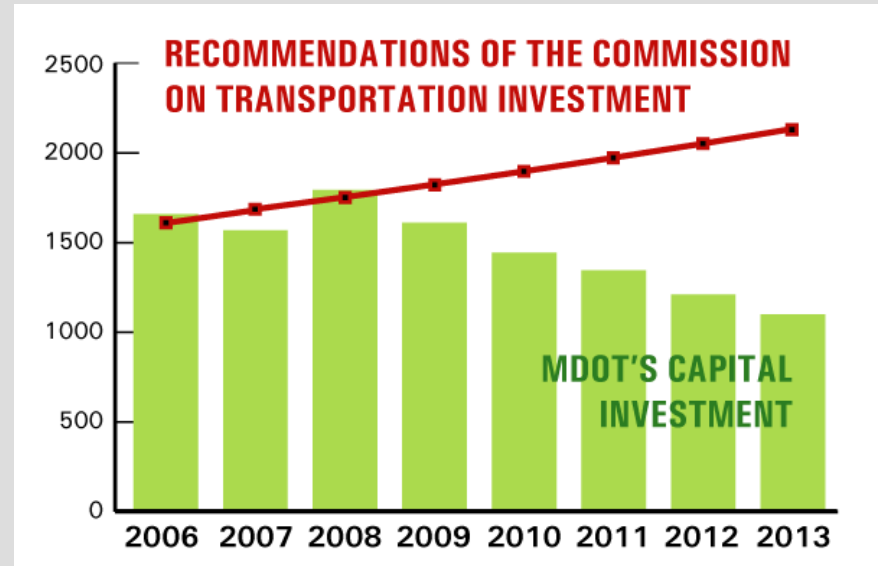
Investing in Maryland's Most Critical Infrastructure



- Split 1% increase in the corporate income tax rate between our State's most critical intellectual and physical infrastructure needs: affordable higher education and transportation.
- Even with a 1% increase, Maryland's corporate income tax rate will remain lower than Pennsylvania, DC, New Jersey, West Virginia, and Delaware.

Meeting Critical Transportation Needs

- Maryland faces \$40 billion of unmet transportation needs – which impacts our quality of life, every day.
- The State’s aging and inadequate transportation systems is a threat to road safety, our quality of life, economic competitiveness and sustainable growth.
- It’s time to invest in a statewide transportation vision.



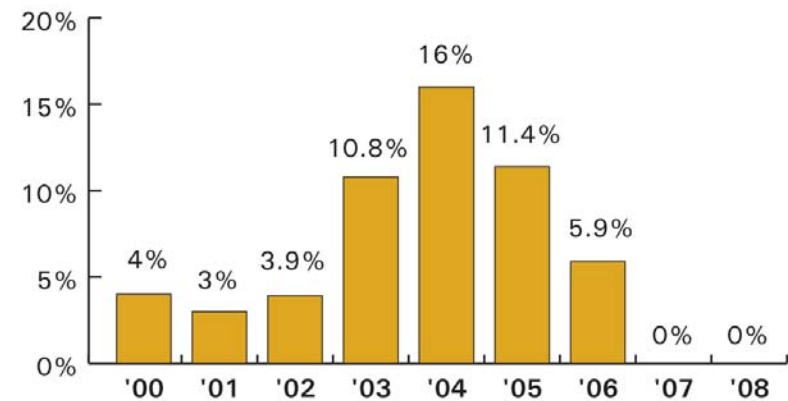
is a threat to road safety, our quality of life,

Proposed TTF Actions	Impact (Millions \$)
Ending TTF transfers to the General Fund	63
Dedicating General Fund rental car tax revenues to the TTF	40
Increasing the vehicle titling tax 1 percent	166
Dedicating 50 percent of increased corporate income tax yield	55
Indexing the State gas tax to the CCI	63
Instituting Combined Report (TTF impact)	5
Total	392

Protecting and Enhancing Maryland's Knowledge Economy

- Dedicate half of new corporate income tax revenues to stabilize college tuition and upgrade higher education facilities – keeping Maryland competitive.
- Maryland is #1 in America in advanced degrees, but the 40% increase in tuition rates during the 2003 – 2005 period pushed an affordable college education out of reach for too many families.

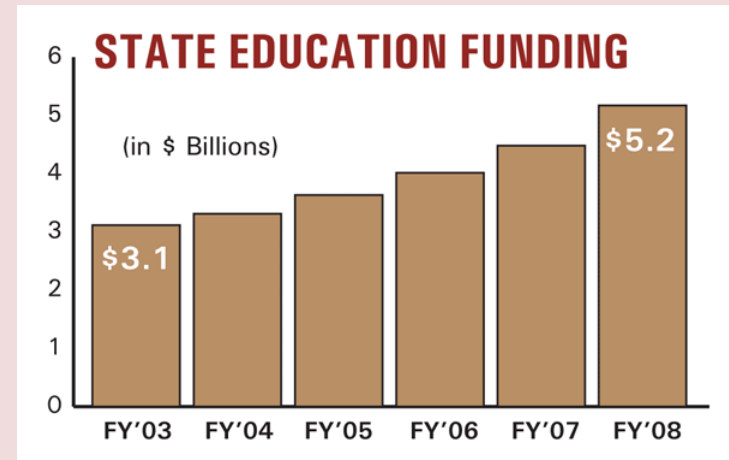
TUITION INCREASES



University of MD, College Park

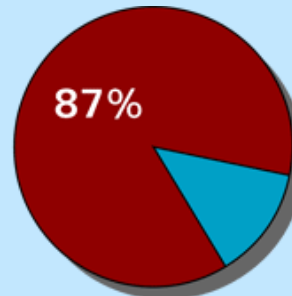
Protecting Our Investment In Education

- Thornton Law has increased annual Education investment by \$1.5 billion, without secure funding.
- Our State must provide long-term security for education.
- First, we need accountability for results, and a report back to taxpayers:
 - Track where funding has been spent.
 - Ensure investment is directed to classrooms.
 - Determine academic impact and outcomes.
- Next steps:
 - Ensure that education reform is effective and sustainable – and that school construction and GCEI investment needs are met.

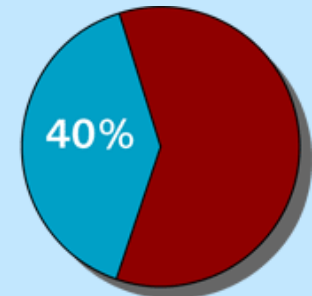


Making Healthcare More Affordable

Uninsured
living with
working
adult



Small
businesses
offering
insurance



Source: Maryland Healthcare Commission

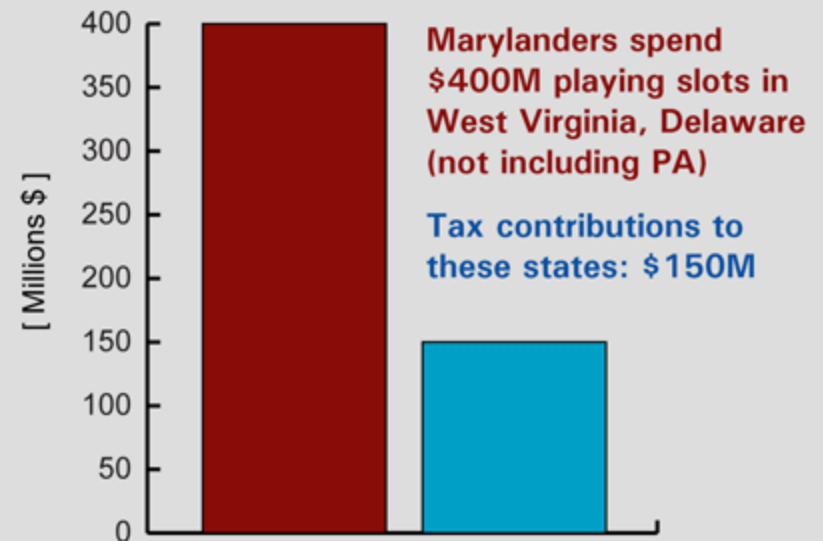
- Increase tobacco tax by \$1 to discourage smoking and invest in making healthcare coverage more affordable for more Marylanders – including small and family-owned businesses.
- Provide incentives and support for small businesses offering insurance to employees.
- Reduce the State's \$800 million in uncompensated care and the number of uninsured people by reforming Medicaid limits.
- Work with General Assembly in upcoming session to craft comprehensive healthcare reform.

Protecting Maryland's Seniors

- Double senior citizens income tax exemption from \$1,000 to \$2,000.
- Create new \$50 sales tax rebate to make plan fair for seniors and others earning less than \$30,000.
- Make healthcare more affordable and accessible, working with the General Assembly.
- Reduce property tax to help seniors and others on fixed incomes, who are struggling with rising assessments.

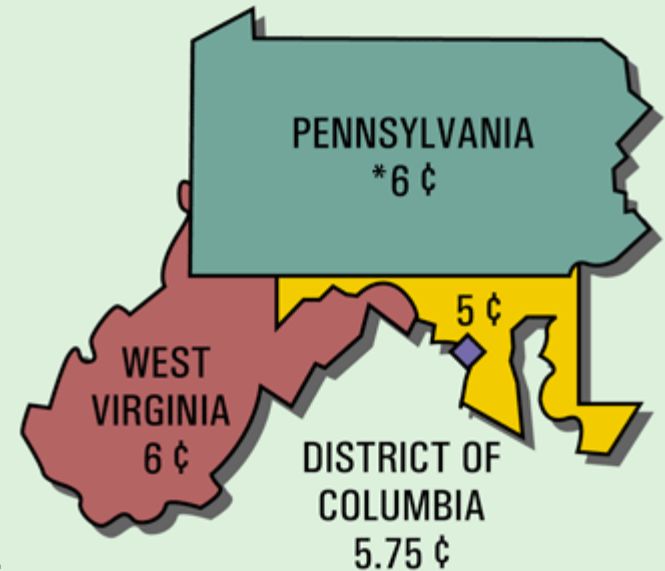
Recapturing Slots Revenue For MD Priorities

- Achieve consensus on compromise legislation.
- Protect 600,000 acres of horse-related open space and 18,000 racing industry jobs.
- \$425 million will be invested in priorities like education.
- \$125 million will be invested in education facilities – school construction and higher education, including community colleges.



Modernizing Our Sales Tax

- Maryland has one of the lowest sales tax rates in America.
- A penny increase keeps us competitive with Pennsylvania, West Virginia and DC.
- Limited expansion of sales tax to cover a few additional services: tanning, health club membership, massage & real estate management.
- Permanent new sales tax holidays for back-to-school clothes and energy efficient appliances.
- Maintain exemptions for food and medicine.
- Enables us to maintain needed investments in schools.



* One additional cent in Pittsburgh and Philadelphia

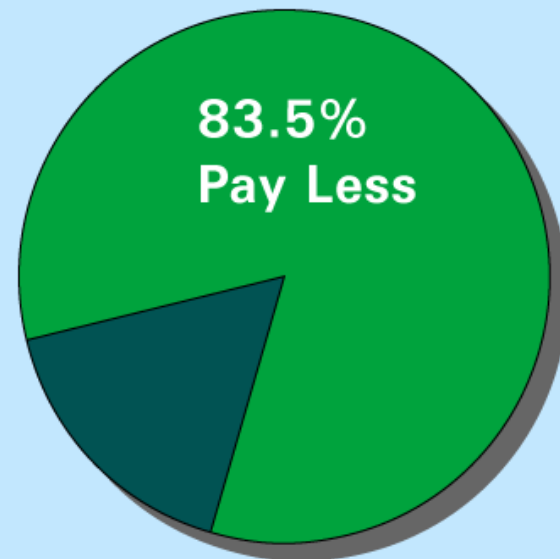
Resolving the Structural Deficit and Investing in Maryland's Future

(\$ in Millions)		FY 08	FY 09	FY 10	FY 11	FY 12
Defining the Challenge	Structural Deficit		-1,492	-1,633	-1,534	-1,522
	Revenue Write Down (9/07)	-132	-175	-185	-195	-205
	Projected FY 2008 Closing Balance	157				
	Revised Deficit	25	-1,667	-1,818	-1,729	-1,727
Proposed Solution	BUDGET REDUCTIONS/REVENUE CHANGES					
	Budget Reductions (including BPW Actions)	128	437	556	564	573
	Progressive Personal Income Tax*	81	162	170	180	190
	Property Tax Relief for Homeowners		-54	-112	-177	-186
	Close Corporate Loopholes		20	20	20	20
	Controlling Interest - Local Offset to Fund Parks		16	16	16	16
	Increase Corporate Tax Rate by 1%*	56	110	116	120	126
	Tobacco Tax (\$1 per pack increase)*	85	170	160	150	140
	Video Lottery Terminals		27	250	500	550
	Expand Sales Tax Base (tanning, massage, physical fitness & real estate property mgmt.)		74	76	77	79
	Raise Sales Tax from 5% to 6%*	350	730	768	804	840
	Two Tax Free Weeks on Clothes and Two Tax Free Weekends on Energy Efficient Appliances		-13	-13	-13	-13
	Use FY 08 Closing Balance in Subsequent Years		316	248	32	26
	INVESTMENTS					
	School Construction: VLT Revenue over \$425M				-75	-125
	Higher Education Affordability & Quality: 50% of Corporate Rate Increase	-28	-55	-58	-60	-63
	Transportation: 50% of Corporate Rate Increase	-28	-55	-58	-60	-63
	Transportation: 100% of Vehicle Rental Revenue		-40	-40	-40	-40
	Transportation: No Revenue Diversion		-63	-63	-63	-63
	Affordable Health Insurance (Small Business/Uninsured)		-85	-188	-216	-250
	Tax Relief for Seniors/Working Poor		-30	-30	-30	-30
	Closing General Fund Balance - Special Session	669	353	105	73	47
Closing General Fund Balance - No Special Session	153	-163	-498	-32	-26	

* Change effective 1/1/08

A Fair, Fiscally Responsible Plan

- Starts with cutting \$280 million this year – and reducing spending growth by \$1 billion over the next two years.
- A fair, modern and inclusive tax reform plan:
 - 83.5% of Marylanders pay less – income and property tax reductions exceed sales taxes.
 - Closes corporate loopholes.
- Eliminates Maryland's structural deficit with a long-term solution that enables us to invest in our priorities, make progress on education and public safety – and keep Maryland competitive.



A Fair Plan: Typical Middle Class Families Pay Slightly Less

Married with 2 Children

Income and property tax,
Maryland Department of
Budget and Management
Sales tax, Maryland
Department of Legislative
Services

Income	Progressive Income Tax	3 Cent Property	1 Cent Sales	Net IMPACT
25,000	-141		66	-75
50,000	-175	-45	101	-119
75,000	-176	-69	135	-110
125,000	-176	-114	212	-78
250,000	-72	-225	212	-85
750,000	7,028	-675	212	6,565

Single Adult

Income	Progressive Income Tax	3 Cent Property	1 Cent Sales	Net IMPACT
25,000	-90		66	-24
50,000	-90	-45	101	-34
75,000	-90	-69	135	-24
125,000	-90	-114	212	8
250,000	771	-225	212	758
750,000	7,997	-675	212	7,534