



March 14, 2007

To: Chairman and Members of the House Ways and Means Committee

From: Henry Bogdan, Public Policy Director

Re: House Bill 846 – Sales and Use Tax – Rate – Education Trust Fund

Position: **SUPPORT**

The Maryland Association of Nonprofit Organizations is a statewide organization comprised of over 1600 member nonprofit agencies, associations and institutions, and our purpose is to support and enhance the effectiveness of the State's more than 24,000 nonprofit groups in carrying out their missions of public and community service.

We express our support for House Bill 846 as a measure that would help to resolve the serious ongoing structural imbalance between Maryland's state revenue system and the funding required for current programs and services for our citizens and communities. While the increase in sales tax rate is 'dedicated' to education, it effectively relieves the general fund of costs to that extent.

There is much popular perception that the Thornton education plan is the cause of our structural deficit. Most have forgotten that when the 1997 income tax cut was enacted, Legislative Services was projecting an out year deficit, that was delayed only by unexpected extraordinary revenues resulting from a stock market boom.

In fact, our current structural deficit is the result of several factors. In broad terms, our revenue structure has not kept pace with the growing cost of government. In the last 25 years there have been significant increases in the cost and demand for services at the state and local level in the United States. Yet Maryland has been one of only a handful of states where the investment of the state and local governments has not grown (relative to the economy as measured by personal income) to keep pace with these demands and responsibilities. The Thornton program merely brought home the reality of this situation when it faced up to the necessary costs of public education.

- The “base” of our general sales tax is more limited than that in most states; in particular, the tax is largely inapplicable to the rapid growth of the service sector as a portion our economy.
- There have been legislated reductions in our income tax, as well as reductions from changes in the federal tax system to which it has been coupled.
- Corporate income tax collections have been shrinking as a portion of state tax collections both nationally and in Maryland, and multi-state business entities are able to legitimately shift income among states to more favorable tax environments.
- Finally, our budget surpluses of the late 1990’s were eliminated by the subsequent national recession.

These revenue shortfalls require action. Because the problem is structural, the state budget remains badly out of balance despite economic recovery, and despite the fact that we have been cutting away at our “baseline” budget obligations for several years.

While all states are impacted by national economic factors, Maryland, one of the wealthiest, ranked 47th in the revenue collected by state and local government in 2004, and also near last in total spending on government compared to our aggregate personal income.

Our failure to address issues on the revenue side of government has had serious impacts on the state government’s ability to maintain services and programs. Funding for programs and services important to all Marylanders has been limited, cut back or eliminated: child care for working families, mental health services, cancer prevention screening, education at all levels, affordable housing, crisis counseling, substance abuse treatment, children’s health coverage, arts and cultural opportunities, public parks and recreation.

Raising the general sales tax as proposed in HB 846 alone is not solution to this problem. There is frankly no one revenue source that can accomplish this as a practical matter. But House Bill 846 should be considered as one of many potential parts of a revenue ‘restructuring’.

We urge you to consider House Bill 846 favorably, as part of a solution to our larger structural revenue problem.