



AMERICANS *for* TAX REFORM

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Statement of Karri Bragg, State Government Affairs Manager

submitted to the

Ways and Means Committee
Maryland House of Delegates

on HB 1299, Taxpayers' Bill of Rights

March 18, 2008

My name is Karri Bragg and I am State Government Affairs Manager at Americans for Tax Reform, a national taxpayer advocacy group located in Washington, D.C. While I unfortunately cannot be present at this morning's hearing, I would like to thank you for the opportunity to submit testimony in support of House Bill 1299, the Taxpayer Bill of Rights.

Delegate Miller and co-sponsors of the bill have created a fine piece of legislation that if enacted, would protect Maryland taxpayers by reigning in state government overspending and allowing citizens to become more actively involved in state finance decisions.

TABOR, primarily, allows taxpayers to approve or reject all tax increases proposed by the state legislature, placing them in the driver's seat in the state budget process. One important element of TABOR is the reinforcement of democratic principles, embodied in the ability of citizens to check the power and size of their government. Most importantly, enactment of a TABOR would force the state government to live within its means and not grow exponentially beyond its intake of revenue.

A Glimpse at Maryland's Spending Record

In recent years, state government spending has increased rapidly and beyond that of annual average revenue intake. According to a study by the Tax Foundation, despite an average annual increase in revenues of 4.7 percent from 1993-2003, total state spending has risen at an average rate of 8.2 percent each year. As a result, taxpayer dollars have not sufficiently covered state spending, creating the current multi-billion dollar hole in the budget.

HB 36 provides for spending limits that would prevent the state from spending beyond the previous year's budget plus inflation and population growth. With reasonable limits, the state cannot spend beyond its means. If the legislature wishes to expand spending beyond the given limit, the second component of this bill will require that taxpayers become a part of this process. If legislators require additional funds to match new spending, taxpayers will have to approve higher



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taxes- making them an integral part of the process that will increase their burden and lower their net income.

Model Tax and Expenditure Limit: TABOR in Colorado

Despite weakening TABOR in 2005, Colorado's legislation still serves as the best model for the nation. Passed in 1992, Colorado's Taxpayer Bill of Rights mandates three broad issues: spending can increase no faster than inflation plus population growth; a supermajority vote of the legislature is required to raise taxes; and any surplus revenue over the spending cap is immediately rebated to taxpayers each year. Colorado's experience shows all three theoretical benefits of sound spending limits.

First, budget stability: Colorado avoided the severe budget crises that gripped almost every other state in 2002 and 2003. While Colorado did experience a minor shortfall each year, in magnitude it was nothing similar to California's \$38 billion, Texas's \$10 billion, or Minnesota's \$4.2 billion, or Maryland's nearly \$2 billion shortfall in 2003. Colorado's budget went from \$5.6 billion to \$5.4 billion to \$5.5 billion. While some cuts were necessary, dealing with a shortfall in the range of a hundred million is much easier than one in the range of two billion.

In addition, Colorado's TABOR has no provision for a small percentage of excess revenue to go into a reserve fund – every extra dollar is rebated to taxpayers. The presence of a reserve fund would have helped Colorado cope with the economic downturn. Colorado residents enjoyed the most tax relief of anyone in the nation during the 1990's. Between 1997 and 2002, Colorado taxpayers received a rebate EVERY YEAR, totaling \$3.2 billion dollars. Notice that this rebate continued until 2002, a year when most states were already struggling with their budgets. And despite rebating money back to taxpayers each year Colorado faced only mild difficulties in 2003 when compared to drastic cuts needed in other states.

That \$3.2 billion of money left in private hands, combined with a less burdensome government, paid big dividends for Colorado's economy. Colorado became a hotbed of high-paying technology and knowledge workers. It was first in the nation in Gross State Product growth from 1995 to 2000. It was second in the nation in personal income growth from 1995 to 2000. The Corporation for Enterprise Development has ranked Colorado's business climate as best in the nation. All in all, Colorado residents benefited much more than just the \$3.2 billion they saved.

The Importance of Enacting TABOR in Maryland

Now more than ever, Maryland is in need of spending restraint to prevent future overspending, and resulting budget holes like that of 2007. A sound, constitutional spending limit is the best method yet designed to avoid such

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budget crises. A spending limit amendment stabilizes budgets and assures predictability to all those who manage or depend upon government funding.

If Maryland cannot rein in spending and tax increases, it risks losing its competitive edge with surrounding states. According to a study from the Tax Foundation, the proposed tax increases included in the governor's current tax package would cause the state to drop from 24th best in business competitiveness to 49th. TABOR would prohibit the state's ability to create a budget deficit through overspending, spurring the current special session and tax hike discussions. In addition, taxpayers would have the ability to reject these harmful tax increases before they become law.

TABOR would also counteract a dangerous, emerging pattern in Maryland. According to Americans for Tax Reform Foundation's Cost of Government Day Report, the cost of government and therefore taxpayer burden) has been growing in leaps and bounds. In 2001, Marylanders worked until June 29th to pay for the total cost of government. In 2007, the state dropped to 36th in the rankings; Maryland taxpayers did not pay off the cost of government until July 12th!

Now is the time to act to ensure the brightest and most prosperous future for Maryland. If Maryland's leaders have the foresight to approve HB 1299, Maryland will position itself as a dynamic state that attracts the best new businesses, technology and knowledge workers, and rising incomes.

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