THOMAS V. MIKE MILLER, JR.
PRESIDENT OF THE SENATE
27th Legislative District

The Senate of Maryland

ANNAPOLIS, MARYLAND 21401-1991

Annapolis Address
H-107 State House
Annapolis, Maryland 21401-1991
410-841-3700 · 301-858-3700
800-492-7122 *Ext.* 3700

District Addresses
Prince George's County
P. O. Box 219
8808 Old Branch Avenue
Clinton, Maryland 20735
301-868-6931
Calvert County
P. O. Box 364
Dunkirk, Maryland 20754
410-257-4400

May 9, 2011

The Honorable Martin O'Malley
Governor
Office of the Governor
State House
Annapolis, Maryland 21401

Dear Governor O'Malley,

As we look towards the Special Session this fall, I wanted to take the opportunity to follow up on our conversations about resolving our State's structural deficit. Much of the recent conversation regarding revenues has focused on transportation revenues, and although I support raising revenues for transportation, we do not have a Constitutional obligation to balance our transportation budget.

As introduced, your budget exceeded the Spending Affordability Committee's recommendation of a 33% deficit reduction by cutting the structural deficit by 37%. I did not support the alcohol tax as initially proposed by the advocates, but I was willing to push forward a substantial and fairly applied increase as long as it furthered a significant reduction in the structural deficit. As passed by the General Assembly, the increased sales tax on alcohol reduces the total deficit 44%.

This was a tremendous step forward and I commend you for your work to ensure this progress was made. The last five years have indeed not been easy. Under your leadership, we have cut the budget by $5.5 billion and reduced the State workforce by 4,000 positions. Even as this was done, we were able to provide record funding for our public schools which have ranked first in the Country for three years in a row and we held the line on tuition increases for working families.

We would not have gotten through these painful and difficult economic times without your courage and determination to make the tough but necessary decisions. I believe our collective courage and determination will now be tested once again as the remaining 56% of our Maryland's deficit solution is where we must take some very difficult action.

Prior to this Session, you indicated that your initial goal was to address the benefit structure and long term liabilities of the pension system and retiree health care benefits. Once this difficult goal was accomplished, you indicated that the next step would be working on an equitable sharing of teachers' pension costs with their employers, the local governments.

The General Assembly followed through on your proposed reforms which will make a difference in the sustainability of the benefits. At the same time, however, the pension reforms did not sufficiently address the affordability of the State remaining as the sole payor of retirement benefits for local government employees. Sharing of teachers' pension costs with their employers continues to be good fiscal and public policy.

The numbers alone warrant critical attention and focus. Six years ago, the cost of the State paying for the full employer contribution for teachers' pensions was $475 million. This year the required contribution was over $954 million. Next year, the cost to the State alone will be $1.07 billion dollars – $60 million more in General Funds that the State is spending on the entire University System of Maryland this year.

Put more acutely, cost of teachers' pensions next year will equal our State's entire structural deficit of $1.1 billion. If the local governments paid the full pension costs for teachers in the manner they fully fund the pensions of other critical local government employees such as police officers and firefighters, our structural deficit would be completely resolved.

There is simply no policy justification for the State funding the entire cost of this subsidy to local government next year. Teachers bargain with local school boards without one of their biggest benefits even connected to the bargaining table. Local governments freely raise salaries even in some of the worst economic times in history with no regard to the costs that must be then paid by State taxpayers.

Two years ago, the Senate took a bold step towards deficit reduction by passing equitable legislation to require that local governments begin sharing part of the cost of pensions of their employees. This Session, we were prepared to do the same but we held off at your request until after the 2011 Session when we could together address this critical issue. That time is now.

I am sure that as I did, you received hundreds of emails from teachers asking that we "keep the promise". I have been working on this issue for so many years for exactly that reason. It is not better for teachers that we ignore the fiscal realities and leave for another Governor or legislature the sorry task of telling them in the future they cannot afford their promised pensions. Doing nothing is not keeping a promise – it is merely telling the worst kind of lie.

When we come together this fall, we should do so with a carefully and jointly crafted plan to: (1) cut the budget through the sharing local pension costs with local governments; (2) close the remainder of the deficit with increased revenue; and (3) address our transportation needs by calling for greater contributions from the users and beneficiaries of our public infrastructure.

You have my strong support and commitment to assist you in these efforts. In that regard, I would ask that we start meeting as soon as possible with legislative leaders of both parties in the General Assembly to move these issues forward.

Our way is clear. We must now take the next step and act. I know we both look forward to the day when Maryland can put the days of annual deficits behind us and we can finally talk about what we can do to best position Maryland's future in the new economy.

Sincerely,

Thomas V. Mike Miller, Jr.

cc: The Honorable Michael E. Busch
Members of the Maryland Senate
Members of the Maryland House of Delegates