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A Spending Problem
by
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Disturbing headlines about the credit and financial crisis may confuse Marylanders about the state's current bleak budget picture. Many may believe that our budget problems stem from a decline in revenues resulting from the faltering economy.

That perception would be understandable - but wrong. Even in this economic climate, the state expects half a billion dollars more in revenue than it received in fiscal year 2008. Unlike many Maryland households, the state's income is increasing.

Maryland's problem is not a lack of revenue. It's that the state is spending more money than it receives. This deficit between revenues and spending will continue until at least 2013, even if slots are approved in November. While some officials would like to characterize the state's economic situation as a "cyclical deficit" rather than a "structural deficit," the result is the same for Maryland taxpayers: ever-increasing fees and taxes along with the proposed expansion of state-sponsored gambling.

As with the credit crisis that is shaking the financial markets, our elected officials are looking for easy answers. For a long-term solution to its spending problem, however, Maryland needs to reform its budget process - and an important element of that reform involves shedding light on an area of state government that is kept almost entirely hidden from view.

The first step should be a reassessment of the "spending affordability process" that was adopted in 1982. The process to determine how much the state can spend is similar to the way in which borrowers qualified for mortgages they couldn't afford: The state overestimates income, underestimates expenses and assumes that the future will be as rosy as the present.

In every year since its creation, the state Spending Affordability Committee, which sets the maximum rate of growth for the state's budget and is composed primarily of legislative leaders, has recommended an increase in spending. In many of those years, the state did not have sufficient revenues to pay for expenditures; this prompted transfers from other funds or increases in fees and taxes to balance the budget. While the committee's reports often warned about deficits, the panel still recommended growth in state spending. Such recommendations delude elected officials into believing that they are being fiscally responsible. They also delude Maryland residents into believing that the state has sufficient resources to pay for spending increases.

In order for the spending affordability process to result in spending that is actually affordable, the methodology for determining "affordability" needs to be clearly explained at the outset of the annual process. Currently, the methodology is known only to a handful of state employees and even fewer legislators.

The methodology excludes many items from the spending limit. Precisely which ones are excluded can only be gleaned, if at all, from extensive research of past committee actions, many of which have long been forgotten by the committee. (For example, the Spending Affordability Report for fiscal 2003 excluded costs for the port, the airport and the state lottery, up to the revenues generated by each of those activities - but succeeding years' reports don't make it clear whether those exclusions carried forward to other years.)

These exclusions ensure that state spending will be greater than that recommended by the committee. They also allow the legislature to provide the illusion of cutting spending even as it authorizes the spending to be restored through budget amendments after the budget is adopted.

Recommendations for growth in state spending should be aligned with the state's revenue growth. The current approach has it backward: It calculates what the state's proposed spending needs are and then sets a target for spending growth. Until the process is changed, Maryland will continue to suffer deficits, whether they are labeled structural or cyclical.

The current "affordability" process allows the committee to increase its original spending limit in a back room without any justification or opportunity for public discussion. This creates an environment where difficult legislative decisions about reducing spending are resolved by simply raising the spending limit.

Significantly reforming the existing spending affordability process, especially by making it more transparent, would go a long way to avoiding the deficits that have become too accepted in Maryland government operations.

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The Free State Foundation is an independent, non-profit, tax-exempt free market-oriented think tank located in Potomac, Maryland.