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A Spending Problem

by

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There was an audible sigh of relief in Annapolis when the federal stimulus package was enacted by Congress and signed by the president. The American Recovery and Reinvestment Act, with $3.7 billion for Maryland over the next 30 months, delayed the day of reckoning by doing what the state is not allowed to do - floating debt to fill a budget hole. That day of reckoning will come sooner rather than later.

A few governors have rejected this found money, fearing it will lead to program expansions they cannot sustain. Others, including Gov. Martin O'Malley, have wholeheartedly embraced it, hoping the economy will improve.

Last fall, Mr. O'Malley argued that the current budget shortfalls were "cyclical," part of the usual economic ebb and flow, rather than "structural," built into the budget by spending mandates. That distinction is fairly academic now that it is clear that the economic downturn is far worse and will likely last longer than any in decades.

On Wednesday, we'll see the immediate impact of that downturn in official state revenue estimates. Even before the release of those likely lower projections, legislative fiscal analysts were predicting continuing annual half-billion-dollar deficits for years. Moreover, future revenue from slot machines now looks like wishful thinking.

By the end of this week, the four House Appropriations subcommittees are supposed to complete their painstaking review of the $31.6 billion budget and recommend cuts. Their task is complicated by the fact that Maryland lawmakers have over the decades created mandates and formulas that force the governor to put money in the budget for specific programs. Now, nearly 80 percent of the spending paid for with state revenues - more than $19 billion - is controlled by these mandates.

This required spending affects everything from soil conservation districts to the big-ticket items such as public school aid, community college funding and Medicaid. Mandated spending increases every year because of automatic inflation adjusters, growth in numbers entitled to services or other underlying costs.

Yet, even as spending grows out of control and expensive (but politically attractive) new programs are added in some areas, other state agencies are strapped for cash. For instance, the Department of Public Safety and Correctional Services "continues to be underfunded and understaffed" to the tune of $56 million to $76 million, a fiscal analyst told appropriators in January. And the Department of Human Resources "is losing ground in filled child welfare caseworker positions and is still having difficulty reporting caseload numbers," another budget staffer said.

In other words, while schoolteachers and administrators have enjoyed big salary hikes from Thornton aid to local schools, less-visible state workers, including people who serve the developmentally disabled, have been left behind.

Faced with hard choices, what should Maryland do? The answer is not more taxes. After the big increases in the 2007 special session, tax hikes are no longer politically or economically feasible.

Instead, the state's funding formulas need to be permanently changed so that they do not continue to drive budget growth that outpaces revenues. That probably would mean slowing the growth of Medicaid and capping the Thornton program (which was approved without an identified funding source), or cutting such programs as state aid to private colleges and universities. It also would mean refusing to start or enhance programs unless other services are cut or new revenue sources found.

Now is the time to devise a smaller and more flexible state budget. It won't be easy, but it is the price Maryland will have to pay to stay solvent in good times and bad.

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