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Commentary

The Illusion of Declining Revenues, Reduced Spending
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Marylanders should not be fooled by the headlines about the reduction in estimated state revenues by the Maryland Board of Revenue Estimates on March 6. The reduction is merely a reduction in the rate of growth of the revenues, not a reduction in the total revenues that the state expects to receive. And overall spending will continue to grow as well.

Even after the revenue adjustments, the board estimates that total Maryland general fund revenue will rise by 4.8 percent, or $600 million, for the current fiscal year (2008) and another 6.8 percent, or $900 million, in fiscal 2009, which begins July 1. The "reduced" estimates for fiscal 2009 mean the state will have $3 billion more to spend than it did in fiscal 2005. Since fiscal 2005, state revenues have increased an average of 6.5 percent annually. After the March revisions, the state expects to receive $400 million more in fiscal 2009 than was anticipated by the board in December 2005.

A similar picture emerges with respect to state appropriations. Newspaper headlines herald hundreds of millions of dollars in reduced appropriations. In fact, general fund appropriations in the fiscal 2009 budget adopted by the state Senate will exceed fiscal 2008 general fund appropriations by $600 million, or 4 percent. The House-passed budget provides for an increase of $550 million, or 3.8 percent.

Where then are the hundreds of millions in spending reductions? Like the reduction in estimated revenues, the reduction in appropriations is a reduction in the rate of growth, not an actual decline in spending. Yet, reading the papers, taxpayers might assume that revenues and spending are both declining.

The most interesting budget development is that total appropriations in the fiscal 2009 budget approved by both the Senate and the House will exceed the March revised revenue estimates by more than half a billion dollars.

In order to make up that half-billion-dollar difference between the spending that is approved and the estimated revenues, the fiscal 2009 budget relies on one-time transfers from other funds and an anticipated surplus from 2008 operations resulting largely from the increase in the sales tax that took effect Jan. 1. This excess of spending over revenues perpetuates the structural deficit state officials happily proclaimed they resolved in November's special session.

Just like homeowners caught in the subprime mortgage mess, Maryland officials have made more promises than they can fulfill even with the significantly higher revenues anticipated in fiscal 2009.

Just as home purchasers hope their income will rise sufficiently to pay the increased cost of the mortgage when their payments increase, Maryland officials hope revenues will keep pace with the increasing costs of both existing programs and all the new programs they will enact in this and future years.

Each year new promises are made by the governor and 188 state legislators, and new and expanded programs, each requiring more spending, are created every year without ensuring funding will be available.

Alas, hope alone doesn't pay the bills.

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