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State's Budget Balancing Act Is Short-Term Fix

by

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As usual, the General Assembly leaders have been congratulating themselves on balancing the state budget and preserving the social safety net in bad times.

But the slim $96 million fund balance (surplus) they left leaves little wiggle room if revenue forecasts come up short, as they have repeatedly in the past year. The lawmakers also used a series of fund swaps and budget tricks that did not fundamentally change the fact they are facing budget deficits in future years.

With Maryland's unemployment rate at its highest in 17 years, there can be little doubt that state revenues for the coming year will be no better than forecasted and likely worse. The General Assembly's Department of Legislative Services has projected that from fiscal 2006 to 2012, state general fund revenues were up 17 percent while spending rose 35 percent. Spending that is rising twice as fast as the money to pay for it is clearly not sustainable.

That's why legislative analysts are predicting "structural deficits" for the next five years, cumulatively $8 billion. The state budget would have been severely out of balance this year without the infusion $1 billion of extra federal dollars.

These built-in deficits are caused by scores of spending mandates, funding formulas and entitlements that are used to force Maryland governors to put money in the budget, since the legislature on its own may not add to the governor's spending plan. These mandates and entitlements consume two-thirds of the $13.8 billion general fund budget that does not include transportation or federal dollars, or the 361 special funds for projects like the Chesapeake Bay and open space. A 2007 legislative study during the special session called to "cure" the structural deficits with tax increases found that there were 128 different funding mandates or entitlements — 45 to fund education, 20 for health care and 10 in transportation.

The tax increases did not cure the deficits because the legislators did not change the spending mandates they have become so attached to. In fact, they added some new mandated spending.

These lingering "structural" deficits will be fixed only by reforming the mandatory spending.

To their credit, lawmakers did put a temporary freeze on some of the spending mandates. But they added to the biggest and most popular spending mandate of all — the so-called Thornton education aid. Since 2002, an election year when the Thornton Bridge to Excellence aid was passed without any additional revenues to pay for it, the state has increased spending on K-12 education by more than $2 billion for a total of $5.5 billion in fiscal 2010.

Without Thornton aid, there would no structural deficits. However, funding public schools is the only spending mandate in the state constitution, and the increased spending has contributed to both rising test scores and better pay for teachers, which is what half the increased aid went for.

Those increased salaries have also led to increasing state contributions for teacher pensions, especially after the legislature enhanced pensions in 2006, another election year, again without a funding mechanism. This coming year, the state will contribute $774 million to teacher pensions, an 86 percent hike in four years.

Those contributions need to be capped at current levels, as a number of legislators, including Senate President Thomas V. Mike Miller Jr. have proposed. The Thornton school aid needs to be capped as well, and all the other smaller mandates need to be re-examined. The automatic increases built into the mandates from everything from the arts to private higher education should be removed or deferred. And no new programs, mandates or entitlements should be enacted without an accompanying spending cut or revenue sources.

The costs of health benefits for retired state employees will also be a drain on future budgets, and these benefits need to be reduced or premiums raised.

Without such fundamental reforms, the notion of a "balanced" Maryland budget will continue to be a shell game featuring fund raids and short term fixes with no permanent solution in sight.

Miller and House Speaker Michael Busch have both promised to appoint a work group of key legislators to examine mandated state funding to the counties. The question is whether they can actually find the will to restrain these mandates in an election year, rather than expand them as they have prior to the last two state elections.

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