

Ocean City – Politicians looking for relief from budget woes received a dose of bad news from a Maryland economist who predicted that the recession's effect on government revenues will likely continue through Election Day next year.

As the keynote speaker for the Maryland Association of Counties (MACO) summer conference, economist Anirban Basu had the daunting task of advising budgetarily shell-shocked local elected officials and their fiscal analysts when they might see a light at the end of the tunnel. Governor Martin O'Malley has asked local officials to bear the burden of at least \$250 million in cuts of state funding to localities to be announced before Labor Day.

Basu's best advice for riding out the economic cycle was "the recession is effectively over but your problems have just begun," as he described how the potential economic turn-around will take at least six to twelve months to filter down to county coffers.

With limited resources in county budgets being the overall theme of this year's conference, MACO turned to Basu, the Chairman and CEO of Sage Policy Group, Inc., to explain how the counties might fare in the context of the global and national recession. Sage Policy Group performs economic and policy studies for numerous Maryland businesses as well as units of state and local government.

Also on the fiscal briefing panel was Delegate Murray Levy (D-Charles County) who predicted that substantial deficits will continue under Governor O'Malley's budget policy. The \$250 million in cuts to local aid to help close an \$800 million state budget deficit in the current budget year is likely the first of several rounds of cuts to localities.

Levy said that the counties are being asked to contribute much more than their "fair share" of funding cuts to resolve O'Malley's deficit spending. Moreover, Maryland counties should expect additional cuts during next year's budget when the O'Malley deficit could reach an additional \$700 million to \$1.3 billion depending upon two different scenarios outlined by Levy.

Basu emphasized that counties are in a precarious position because they are dependent on real estate for revenues and the cornerstone of the current recession has been the decline in the

United States housing market. County budgets rely on an active real estate market for recording fee and transfer tax revenues as well as rising real property assessments that fuel annual budget increase without the necessity for local governments to increase the county property tax rates.

The rapid pace of job losses in Maryland has also hurt the state's economy, said Basu, but the state employment figures have performed better than other states and have recently "flatten out." Basu pointed to the stabilization of the job market and recent increases in home sales as economic up-ticks that offer hope that the recession is ending in Maryland.

Offering the good news that we are fortunate to be in the Baltimore-Washington corridor where federal government spending buffers negative national economic trends, Basu predicted, "Maryland was one of the last states to go into recession and will be one of the first out."

Unfortunately, there are still bumps in the road to full economic recovery. Over 50% of current home sales today are to first-time home buyers spurred by the federal tax credit of \$8000. What happens when that tax break which expires in November? Will there be significant reductions in home sales further compounding state and local budget problems?

Basu also posited that economists are worried that the stimulus package may fuel inflation which could lead the nation into a "double-dip" recession.

"We are definitely at the end of the 'Starbucks economy,'" Basu concluded, as consumers have been spending less, saving more and looking for greater value in their purchases. Among the many factors that will determine the state's economic future is what Maryland's consumers decide to do in the coming months.