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Bulletin

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Fiscal 2008 Budget: Straining at the Seams

The fiscal 2008 state budget debate turns to the Senate this week at a particularly delicate time for state finances.

The final tally shows that the House added \$204 million in spending during floor debate, a net increase of \$171.6 million in state spending after adjusting for \$32.35 million in federal Medicaid reimbursements. While most of those additions were for deserving programs, the House budget's bottom line of \$29.37 billion clearly is not affordable over the long-term.

The House budget depends on almost \$700 million in reserves,¹ an amount too large in the midst of an economic recovery. In both fiscal 2006 and 2007 the Legislature passed budgets that included major draws on the state's reserve funds, betting that tax revenues would come in higher than expected, and thus not require an actual use of reserves. That bet was won in 2006 and may be in 2007 as well, but it is not at all clear that revenue growth will cover proposed spending in 2008. Revenue growth has slowed substantially and April tax collections were disappointing, falling \$115 million below the benchmark for the month.

The Foundation recommends that fiscal 2008 spending be held to the approximately \$29.2 billion in the Governor's and House Ways and Means budgets.

In one significant area the House budget is a distinct improvement over the Governor's –

decision not to include some \$300 million in new corporate taxes. The Governor's package of corporate tax increases would be the fourth in five years and result in a 75 percent increase in corporate income taxes during this period. These large tax increases will undercut the creation of jobs and thus exacerbate the state's long-term fiscal problems. Furthermore, it is highly unlikely that these tax changes would produce the hundreds of millions of dollars claimed by the administration.

The House budget, like the Governor's, counts on approximately \$300 million of savings in the Medicaid program in order to hold the program's rate of growth below 5 percent. With Medicaid expenditures having seen average increases close to 7 percent annually since 2001, this is an ambitious target that relies in part on the Commonwealth reducing or eliminating expected rate increases to a variety of health care providers.

Also on the fiscal front, the Governor has announced a \$1 billion, 10-year life sciences initiative, and the Legislature has approved \$88.4 million in supplemental spending requested by the Governor for fiscal year 2007.

Regardless of their merits, the many additional spending proposals – and the resulting inflated fiscal 2008 budget – ignore the state's fiscal realities. Barring a dramatic economic recovery and an accompanying sharp increase in revenues, the state simply cannot afford the level of spending that is being proposed. The state's leaders need to choose among the long list of competing needs.

¹ Including the suspension of the \$100 million annual deposit to the stabilization fund.

BUDGET SUMMARY¹

| (\$ Millions) | FY07 GAA | FY08 House | \$ Diff | % Diff | FY01 Actual Infl. Adj. | FY08 House | \$ Diff | % Diff |
|---|-------------|---------------|-----------|--------|---------------------------|---------------|-----------|--------|
| Investment in Children | \$6,470.5 | \$6,838.8 | \$368.3 | 5.7% | \$7,342.2 | \$6,838.8 | -\$503.4 | -6.9% |
| Education Local Aid | 4,032.9 | 4,286.2 | 253.3 | 6.3% | 4,403.3 | 4,286.2 | -117.1 | -2.7% |
| Higher Education | 994.9 | 1,053.6 | 58.7 | 5.9% | 1,414.1 | 1,053.6 | -360.5 | -25.5% |
| Services to Children | 775.2 | 800.4 | 25.2 | 3.2% | 731.3 | 800.4 | 69.0 | 9.4% |
| Youth Services | 157.5 | 160.7 | 3.1 | 2.0% | 150.8 | 160.7 | 9.8 | 6.5% |
| Child Care Services | 510.0 | 538.0 | 28.0 | 5.5% | 642.7 | 538.0 | -104.7 | -16.3% |
| Criminal Justice and Law Enforcement | \$2,056.7 | \$2,142.1 | \$85.5 | 4.2% | \$2,178.4 | \$2,142.1 | -\$36.2 | -1.7% |
| Corrections | 927.4 | 960.9 | 33.4 | 3.6% | 1,019.1 | 960.9 | -58.2 | -5.7% |
| Judiciary | 744.6 | 765.4 | 20.8 | 2.8% | 750.6 | 765.4 | 14.9 | 2.0% |
| Police | 254.6 | 281.4 | 26.8 | 10.5% | 261.8 | 281.4 | 19.6 | 7.5% |
| DAs | 91.4 | 94.8 | 3.4 | 3.8% | 103.8 | 94.8 | -9.0 | -8.8% |
| Attorney General | 38.6 | 39.6 | 1.0 | 2.6% | 43.1 | 39.6 | -3.5 | -8.1% |
| Local Government | \$1,561.1 | \$1,596.1 | \$35.0 | 2.2% | \$1,964.7 | \$1,596.1 | -\$368.7 | -18.8% |
| Assistance to the Poor | \$9,807.8 | \$10,218.6 | \$410.8 | 4.2% | \$7,514.1 | \$10,218.6 | \$2,704.5 | 36.0% |
| Medicaid/Other Health Care ² | 8,661.9 | 9,054.9 | 393.0 | 4.5% | 6,196.3 | 9,054.9 | 2,858.6 | 46.1% |
| Cash/Housing Assistance | 859.5 | 870.3 | 10.7 | 1.2% | 1,025.7 | 870.3 | -155.4 | -15.2% |
| Elderly | 286.4 | 293.5 | 7.1 | 2.5% | 292.1 | 293.5 | 1.3 | 0.5% |
| Assistance to the Sick and Disabled | \$2,287.4 | \$2,414.0 | \$126.6 | 5.5% | \$2,590.9 | \$2,414.0 | -\$176.9 | -6.8% |
| Mental Retardation | 1,172.5 | 1,228.2 | 55.6 | 4.7% | 1,168.0 | 1,228.2 | 60.1 | 5.1% |
| Mental Health | 646.3 | 665.1 | 18.9 | 2.9% | 767.9 | 665.1 | -102.7 | -13.4% |
| Public Health | 468.6 | 520.7 | 52.1 | 11.1% | 655.0 | 520.7 | -134.3 | -20.5% |
| Transportation | \$212.6 | \$209.7 | -\$2.8 | -1.3% | \$332.0 | \$209.7 | -\$122.2 | -36.8% |
| Regional Transit | 51.7 | 52.3 | 0.5 | 1.0% | 52.5 | 52.3 | -0.3 | -0.5% |
| Highways | 99.7 | 94.7 | -5.0 | -5.0% | 198.1 | 94.7 | -103.4 | -52.2% |
| Registry | 61.2 | 62.8 | 1.6 | 2.7% | 81.4 | 62.8 | -18.5 | -22.8% |
| Economic Development | \$381.6 | \$390.9 | \$9.3 | 2.4% | \$514.4 | \$390.9 | -\$123.5 | -24.0% |
| Business and Labor | 164.5 | 165.3 | 0.8 | 0.5% | 202.0 | 165.3 | -36.6 | -18.1% |
| Environment | 217.1 | 225.6 | 8.5 | 3.9% | 312.4 | 225.6 | -86.8 | -27.8% |
| Central Costs | \$4,408.7 | \$4,581.1 | \$172.5 | 3.9% | \$4,059.9 | \$4,581.1 | \$521.2 | 12.8% |
| Employee Benefits ³ | 2,421.6 | 2,599.7 | 178.1 | 7.4% | 2,138.3 | 2,599.7 | 461.4 | 21.6% |
| Debt Service | 1,987.0 | 1,981.4 | -5.6 | -0.3% | 1,921.6 | 1,981.4 | 59.8 | 3.0% |
| Other | \$939.1 | \$978.2 | \$39.1 | 4.2% | \$1,323.2 | \$978.2 | -\$345.0 | -26.1% |
| Total | \$28,125.4 | \$29,369.6 | \$1,244.2 | 4.4% | \$27,819.8 | \$29,369.6 | \$1,549.8 | 5.6% |

1. Amounts are adjusted to include certain off-budget authorizations, primarily for health care and pensions, and to exclude MBTA, school building assistance, convention center, mosquito control and certain other expenditures moved off-budget over the previous several years.
2. Combines MassHealth accounts with related off budget funds, such as the Commonwealth Care Trust Fund (including the UOC) and the Essential Community Provider Trust.
3. Does not include workers' compensation and unemployment insurance which are budgeted in agency accounts.