



333 WASHINGTON STREET

BOSTON, MA 02108-5170

617-720-1000

FAX 617-720-079

Bulletin

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House Budget: Protecting the Economy

The House Ways and Means fiscal 2008 budget, which will be debated by the full House beginning April 23, has a bottom line that is very similar to the Governor's budget proposal but rejects most of his specific initiatives.

The House proposes to spend \$29.16 billion in fiscal 2008, an increase of 3.7 percent or slightly more than \$1 billion over 2007, compared to an increase of 3.8 percent in the Governor's budget, \$26.5 million more than the House (see the Budget Summary on page 2).

On the other hand, the House rejected many of the Governor's specific initiatives, including \$300 million in new corporate taxes, the funding formula for Chapter 70 school aid distribution, the collapsing of line items for the courts and public colleges, the elimination of most earmarks, funding for 250 new police officers, a special \$25 million emergency fund, and expanded spending for a variety of public health programs.

From a fiscal point of view, the main difference between the two budgets is the House's larger planned draw on reserves – approximately \$500 million compared to \$225 million by the Governor. Despite the Governor's smaller use of reserves, the House has adopted the better approach.

That is because the administration's budget depends on a large increase in corporate taxes, the fourth such increase in five years and a virtual doubling of the corporate income tax during this period. The creation of jobs is the only way out of the state's fiscal dilemma. These large tax

increases will undercut job creation and exacerbate the state's long-term fiscal problems. Drawing on reserves during an economic recovery – even a weak one – is not ideal, but it has none of the negative consequences of the tax proposals.

Furthermore, it is highly unlikely that these tax changes would produce the hundreds of millions of dollars claimed by the administration. So the proposed tax increases would harm the economy, worsen the state's fiscal problems, and not even produce a balanced fiscal 2008 budget.

But if the House Ways and Means Committee has taken a wiser approach, it is critical that House leaders hold the line on additional spending during floor debate and not add to the dependence on reserves.

Almost half of the \$1.04 billion increase in the House Ways and Means budget goes for Medicaid and pension and health care benefits for state employees. Even so, both the Governor and House limit Medicaid growth to less than 4 percent, an ambitious and perhaps unrealistic target.

While the House increases overall spending by only 3.7 percent, the larger question is whether the state can afford even that level of spending given the state's sluggish economy.

BUDGET SUMMARY¹

(\$ Millions)	2008			Gov08 vs. GAA07		HWM'08 vs. GAA07		HWM'08 vs. Gov08	
	2007 GAA	2008 Governor	House W and M	Diff	Pct. Chg.	Diff	Pct. Chg.	Diff	Pct. Chg.
Investment in Children	\$6,470.5	\$6,743.4	\$6,810.0	\$272.9	4.2%	\$339.5	5.2%	\$66.6	1.0%
Education Local Aid	4,032.9	4,246.8	4,268.7	213.9	5.3%	235.9	5.8%	21.9	0.5%
Higher Education	994.9	1,036.5	1,052.7	41.6	4.2%	57.8	5.8%	16.2	1.6%
Services to Children	775.2	790.3	797.1	15.1	1.9%	21.9	2.8%	6.8	0.9%
Youth Services	157.5	160.0	159.7	2.4	1.6%	2.1	1.4%	-0.3	-0.2%
Child Care Services	510.0	509.9	531.8	-0.2	0.0%	21.8	4.3%	21.9	4.3%
Criminal Justice and Law Enforcement	\$2,056.7	\$2,127.3	\$2,124.9	\$70.6	3.4%	\$68.2	3.3%	-\$2.4	-0.1%
Corrections	927.4	971.4	959.2	43.9	4.7%	31.8	3.4%	-12.2	-1.3%
Judiciary	744.6	745.5	751.0	0.8	0.1%	6.3	0.8%	5.5	0.7%
Police	254.6	276.5	281.4	21.9	8.6%	26.8	10.5%	4.9	1.8%
DAs	91.4	93.5	94.5	2.1	2.3%	3.1	3.4%	1.0	1.1%
Attorney General	38.6	40.4	38.8	1.8	4.7%	0.2	0.5%	-1.6	-4.0%
Local Government	\$1,561.1	\$1,583.8	\$1,576.4	\$22.7	1.5%	\$15.3	1.0%	-\$7.4	-0.5%
Assistance to the Poor	\$9,807.8	\$10,134.7	\$10,146.2	\$326.9	3.3%	\$338.4	3.5%	\$11.5	0.1%
Medicaid/Other Health Care	8,661.9	8,974.9	8,987.7	313.0	3.6%	325.8	3.8%	12.8	0.1%
Cash/Housing Assistance	859.5	872.3	868.6	12.8	1.5%	9.1	1.1%	-3.7	-0.4%
Elderly	286.4	287.5	289.9	1.1	0.4%	3.5	1.2%	2.4	0.8%
Assistance to the Sick and Disabled	\$2,287.4	\$2,421.6	\$2,402.1	\$134.2	5.9%	\$114.7	5.0%	-\$19.5	-0.8%
Mental Retardation	1,172.5	1,215.8	1,226.3	43.3	3.7%	53.8	4.6%	10.5	0.9%
Mental Health	646.3	664.0	665.1	17.8	2.7%	18.9	2.9%	1.1	0.2%
Public Health	468.6	541.8	510.6	73.1	15.6%	42.0	9.0%	-31.1	-5.7%
Transportation	\$212.6	\$209.8	\$209.5	-\$2.8	-1.3%	-\$3.0	-1.4%	-\$0.3	-0.1%
Regional Transit	51.7	52.3	52.3	0.5	1.0%	0.5	1.0%	0.0	0.0%
Highways	99.7	95.4	94.5	-4.2	-4.3%	-5.2	-5.2%	-1.0	-1.0%
Registry	61.2	62.1	62.8	1.0	1.6%	1.6	2.7%	0.7	1.1%
Economic Development	\$381.6	\$375.0	\$354.8	-\$6.6	-1.7%	-\$26.8	-7.0%	-\$20.2	-5.4%
Business and Labor	164.5	156.7	138.7	-7.9	-4.8%	-25.8	-15.7%	-17.9	-11.4%
Environment	217.1	218.3	216.0	1.2	0.6%	-1.0	-0.5%	-2.3	-1.0%
Central Costs	\$4,408.7	\$4,586.4	\$4,581.1	\$177.7	4.0%	\$172.5	3.9%	-\$5.3	-0.1%
Employee Benefits ²	2,421.6	2,605.0	2,599.7	183.3	7.6%	178.1	7.4%	-5.3	-0.2%
Debt Service	1,987.0	1,981.4	1,981.4	-5.6	-0.3%	-5.6	-0.3%	0.0	0.0%
Other	\$939.1	\$1,010.2	\$960.6	\$71.1	7.6%	\$21.5	2.3%	-\$49.6	-4.9%
Total	\$28,125.4	\$29,192.2	\$29,165.6	\$1,066.7	3.8%	\$1,040.2	3.7%	-\$26.5	-0.1%

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. Does not include workers' compensation and unemployment insurance which are budgeted in agency accounts.