



# *Question 3: Heading Over the Cliff*

SEPTEMBER 2010

*MTF*

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*Question 3:*  
*Heading Over the Cliff*

**MASSACHUSETTS TAXPAYERS FOUNDATION**

**SEPTEMBER 2010**



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## QUESTION 3: HEADING OVER THE CLIFF

### INTRODUCTION

In the midst of the worst fiscal crisis in the state's history, on November 2 the voters of Massachusetts will determine the fate of a ballot question (Question 3) to reduce the state's sales tax from 6.25 percent to 3 percent. The state already faces a \$2 billion shortfall in the fiscal 2012 budget, which would jump to \$4.5 billion if the voters approve Question 3. It is not an exaggeration to say that the resulting massive spending cuts would eliminate or erode a wide range of services – from education and public safety to health care and human services – that for decades the citizens of Massachusetts have counted on the government to provide.

The purpose of this report is to describe the potential impact of Question 3. The report is divided into two sections – the current fiscal environment and the consequences of approving the ballot question.

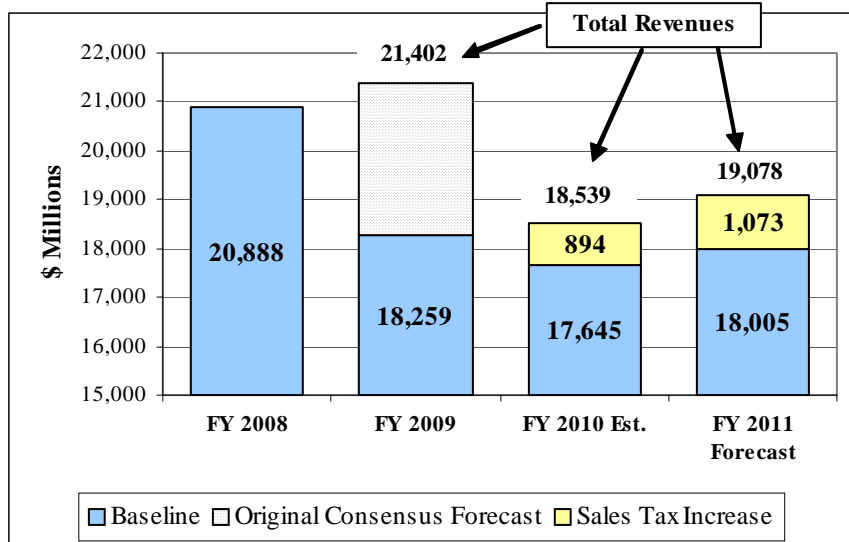
### I. FISCAL CONTEXT

#### Revenue Collapse

Between fiscal 2008 and 2010, the Commonwealth experienced the most severe two-year decline in tax collections in the state's history with baseline tax revenues<sup>1</sup> dropping by \$3.24 billion, or nearly 16 percent, from \$20.9 billion to \$17.6 billion (Figure 1). Even when one accounts for last year's increase in the sales tax from 5 percent to 6.25 percent, 2010 tax revenues of \$18.54 billion were \$2.35 billion, or 11 percent, less than 2008.

The fiscal 2011 consensus forecast of \$19.1 billion reflects an increase of \$540 million over fiscal 2010 revenues. After accounting for additional sales tax collections of \$180 million (for a full 12 months compared to 10 months in fiscal 2010), the projected growth of \$360 million or 2 percent appears to be conservative. However, August revenues were

Figure 1 – Dramatic Decline in State Tax Revenues



<sup>1</sup> Baseline revenues reflect collections as if tax laws were unchanged, providing a more accurate measure of year-to-year variations in state tax collections.

below the benchmark and the national economic recovery is weak. Tax collections would need to grow by 3 percent in 2011 just to bring baseline tax revenues back to the 2009 level.

To get a further perspective on the enormity of the revenue collapse, even if fiscal 2012 revenues grow by 5 percent, the long-term annual average, total tax revenues of approximately \$20 billion would still be \$800 million below fiscal 2008. Given the current national economic indicators, however, 5 percent growth may be optimistic.

### **Spending Realities**

In commenting on their proposal to cut the sales tax, proponents have repeatedly emphasized how easy it would be to reduce state spending by “a mere” \$2.5 billion, the amount of revenue that would be lost as a result of the ballot question. In fact, state programs have already been cut by more than \$2 billion, or almost 12 percent, since the fiscal crisis began in 2009.

The Foundation has done a program-by-program comparison of the original budget for fiscal 2009 – which was signed by the Governor before revenues began to collapse – with the budget that was recently enacted for 2011 (Table 1). Virtually every program has experienced substantial spending reductions; in some cases the cuts are staggering:

- \$700 million in support for local government, including an almost \$500 million or one-third cut in non-education aid, as well as \$190 million in non-Chapter 70 K-12 education aid;
- \$225 million, or 13 percent, in state assistance to education that includes a \$140 cut to higher education and an \$85 million reduction for early education;
- More than \$400 million, or 8 percent, in human services scattered unevenly across dozens of programs;
- A 92 percent, or \$42 million, cut in programs to promote tourism in the state;
- A \$22 million, or 27 percent, cut in spending for state parks and beaches.

The Foundation excluded two major programs (debt service and pensions) from Table 1 because spending was artificially reduced by shifting some costs to the future. Pension expenditures declined from \$1.46 billion in fiscal 2009 to \$1.44 billion in fiscal 2011 while long-term debt service payments fell from \$1.8 billion to \$1.63 billion.

In the case of debt service, the reduction in spending was achieved by refinancing debt in fiscal 2011 that would otherwise have come due, generating \$300 million in savings that will have to be repaid in future years.

Spending on pensions was reduced by \$150 million in fiscal 2009 through two adjustments. In October 2008, the administration used a newly estimated valuation of the state’s unfunded pension liability on January 1, 2008 to reduce payments by \$50 million annually. Ironically, stocks collapsed that very October, and the state now faces a much larger unfunded liability. In order to save another \$100 million, the administration proposed and the Legislature agreed to extend the payment schedule to eliminate the unfunded liability from 2023 to 2025.

**Table 1 - Cuts in State Spending**  
 Fiscal 2009 to Fiscal 2011  
 (\$ Millions)

	<b>FY 09</b>	<b>FY 11</b>	<b>Change</b>	<b>Change</b>
	<b>Original</b>	<b>Budget</b>	<b>\$</b>	<b>%</b>
<b>Health Care (Non-Medicaid)</b>	<b>1,133</b>	<b>967</b>	<b>-166</b>	<b>-14.6%</b>
Connector	869	732	-137	-15.8%
Administration, IT, and Other Health Care	263	235	-28	-10.8%
<b>Local Government Support</b>	<b>6,026</b>	<b>5,322</b>	<b>-704</b>	<b>-11.7%</b>
Chapter 70 Education Aid	3,954	3,926	-28	-0.7%
Other Education Aid	612	422	-190	-31.0%
Municipal Aid	1,460	974	-487	-33.3%
<b>Other Education</b>	<b>1,681</b>	<b>1,456</b>	<b>-225</b>	<b>-13.4%</b>
Early Education	590	505	-85	-14.4%
Higher Education	1,091	950	-140	-12.9%
<b>Human Services</b>	<b>5,142</b>	<b>4,719</b>	<b>-422</b>	<b>-8.2%</b>
Developmental Services	1,358	1,321	-37	-2.7%
Family Services	1,030	886	-144	-14.0%
Cash Assistance	780	767	-13	-1.7%
Mental Health	705	622	-84	-11.8%
Public Health	591	489	-102	-17.2%
Housing Support	275	273	-1	-0.5%
Senior Support	296	244	-52	-17.6%
Veteran Services	106	117	11	10.8%
<b>Public Safety</b>	<b>2,453</b>	<b>2,222</b>	<b>-232</b>	<b>-9.4%</b>
Corrections <sup>1</sup>	1,047	1,004	-44	-4.2%
Judiciary	825	731	-94	-11.4%
State Police	257	228	-28	-11.0%
District Attorneys	107	91	-16	-14.8%
Attorney General	44	38	-5	-11.8%
Crime Lab, Fire Services, and other Public Safety	150	97	-53	-35.3%
<b>Economic Development</b>	<b>434</b>	<b>286</b>	<b>-148</b>	<b>-34.1%</b>
Business and Labor	187	97	-90	-48.2%
Div. of Industrial Accidents	21	20	-1	-6.1%
Workforce Training and Summer Jobs	47	22	-26	-54.6%
Tourism and Tourist Councils	46	4	-42	-91.7%
Commonwealth Zoo	7	4	-4	-51.0%
Environment and Energy	247	189	-58	-23.5%
Environmental Protection	62	45	-17	-27.1%
State Parks and Beaches	80	58	-22	-27.2%
Fisheries and Wildlife	28	21	-8	-26.6%
<b>General Government</b>	<b>593</b>	<b>473</b>	<b>-120</b>	<b>-20.3%</b>
Legislative Operations	60	51	-9	-14.6%
Department of Revenue	200	141	-59	-29.3%
State Lottery	96	82	-14	-14.5%
<b>TOTAL</b>	<b>17,462</b>	<b>15,444</b>	<b>-2,018</b>	<b>-11.6%</b>

<sup>1</sup> Includes Dept. of Correction, Parole Board, and County Sheriffs

Note: The costs of state transportation are not shown in this table. The complexity of the still-in-progress reorganization of state transportation did not make it possible to break out the 2009-2011 changes in costs in time for this report.



Two health care programs, Medicaid and the Group Insurance Commission (GIC), were the only areas that experienced spending increases in the 2009-2011 period – roughly \$1 billion combined (Table 2).

In addition to contending with medical inflation, Medicaid has experienced a recession-driven 9 percent growth in enrollment since July 2009, resulting in almost 10 percent growth in expenditures over the past two years. Despite this increase, Medicaid has not escaped the cuts that have impacted all of state government. For example, reimbursements to hospitals have been reduced by roughly \$300 million, as well as cuts to adult restorative dental care (\$56 million), day services for disabled adults (\$15 million), and prescription drug costs not covered by Medicare Part D (\$26 million).

**Table 2 - Increases in State Spending**  
Fiscal 2009 to Fiscal 2011  
(\$ Millions)

	FY 09	FY 11	Change	Change
	Original	Budget	\$	%
Medicaid	9,152	10,045	893	9.8%
GIC/Retiree Healthcare	1,094	1,245	152	13.9%
<b>TOTAL</b>	<b>10,245</b>	<b>11,290</b>	<b>1,045</b>	<b>10.2%</b>

The GIC has confronted the same dynamic – escalating expenditures even while benefits have been cut. The costs to insure state employees and retirees rose by roughly 7 percent annually the last two years.<sup>2</sup> Nevertheless, facing a \$35 million shortfall in February, the GIC increased co-pays and deductibles for all state employees, retirees and their dependents.

**Fiscal 2012 Deficit**

Despite the severity of the budget problems over the past three years, fiscal 2012 may be the most difficult of all. The state faces a \$2 billion budget deficit in 2012, even with an economic recovery, largely because of the heavy reliance on one-time revenues to support spending in fiscal 2011 and with virtually no one-time monies remaining in 2012 (Table 3).

**Table 3 - Fiscal 2012 Structural Deficit**  
(\$ Millions)

One-Time Funds in FY 11	-1,650
One-Time Funds Available in FY 12	0
Obligatory Spending Growth	-1,400
Tax Revenue Growth	1,000
<b>Estimated Structural Deficit</b>	<b>-2,050</b>

<sup>2</sup> This total excludes health care spending on behalf of municipalities and authorities that reimburse the state for that spending.

### **End of One-Time Funds**

Since the beginning of the fiscal crisis, the state has depended on one-time funds to fill large budget gaps – \$3.1 billion in 2009, \$2.5 billion in 2010, and \$1.6 billion in 2011. Most of the one-time money is from two sources – approximately \$4.1 billion in federal stimulus dollars and \$1.7 billion from the state’s stabilization or “rainy day” fund.

The \$1.6 billion in 2011 includes \$800 million in federal stimulus aid, \$300 million from restructuring the state’s debt at lower interest rates, \$160 million in federal reimbursements for health care costs of recipients of Social Security Disability Insurance (SSDI) paid by Medicaid rather than Medicare, a \$100 million withdrawal from the state’s rainy day fund, and \$95 million that state law would normally require be carried forward into 2012.

The problem facing the state in fiscal 2012 is that there will be virtually no one-time dollars available to help close the large budget gap and to compensate for the heavy use of one-time fixes in 2011. Federal stimulus aid expires at the end of fiscal 2011, and the approximately \$550 million remaining in the stabilization fund needs to be preserved for real fiscal emergencies and to protect the state’s credit rating (Figure 2).

The dependence on one-time monies in fiscal 2011 is likely to be significantly greater than this analysis suggests, creating an even larger structural gap in fiscal 2012. This analysis does not account for Congress’ recent authorization of additional federal stimulus dollars which will bring \$667 million to Massachusetts. It is likely that most of that money will be built into the 2011 spending base which could drive the 2012 structural deficit as high as \$2.5 billion.

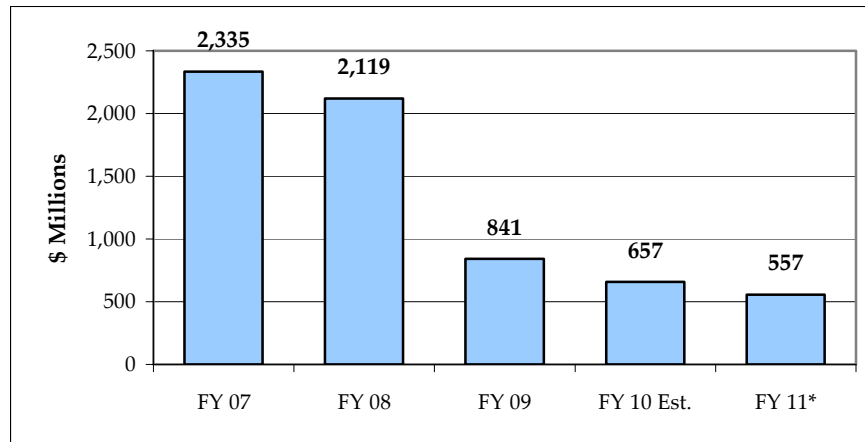
The \$667 million includes \$463 million of Medicaid matching dollars (FMAP) and \$204 million in aid for education.<sup>3</sup> The Governor’s plan allocates the \$204 million to Chapter 70 local aid to help offset the nearly four percent reduction in the 2011 budget but also shifts roughly \$50 million of previously allocated federal ARRA funds from Chapter 70 to higher education. Thus, cities and towns would receive \$150 million in net new aid, which can be spread over fiscal 2011 and 2012.

Most of the \$463 million in FMAP money will be needed to pay for deficiencies in the 2011 budget. Medicaid is running at least a \$500 million shortfall (\$200 million state dollars), and several other accounts will require supplemental spending as well. While the federal aid will help the state in 2011, the budget cuts will necessarily be deeper in 2012.

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<sup>3</sup> FMAP funds require legislative appropriation while the Governor has the authority to disburse the education aid.

**Figure 2- State Stabilization Fund Balance**



\* Includes \$100 million draw in original 2011 budget

**Obligatory Spending Growth**

In calculating the 2012 structural deficit, the Foundation has estimated that spending will need to increase by a minimum of \$1.4 billion (Table 3) just to meet constitutional, federal and legal requirements in a handful of major programs as summarized below. (This \$1.4 billion estimate makes no allowance for the costs of inflation across most of state government.)

- Because of health care inflation, high unemployment and federal requirements, Medicaid is likely to grow by at least \$500 million in 2012;
- Increases in Chapter 70 aid to education, debt service, and health care for state employees and retirees through the GIC would add another \$400 million;
- If there is no extension of the state’s pension payment schedule, annual costs are estimated to jump by a staggering \$800 million. Even with an extension, pension payments are likely to increase by several hundred million dollars in 2012;
- Medicare Part D reimbursements to the federal government are likely to increase by roughly \$100 million in 2012 following a federal government waiver that reduced a portion of state payments in fiscal 2010 and 2011.

**Revenue Growth**

The growth of tax revenues will reduce, though far from eliminate, the 2012 budget gap. In Table 3, the Foundation assumes that revenues will increase by \$1 billion, or approximately 5 percent, in 2012. While 5 percent growth following a recession reflects recent history, it may be optimistic given the latest national economic trends. Even a 5 percent increase leaves a projected budget deficit of \$2 billion.

**II. IMPACT OF QUESTION 3**

Question 3 would reduce the state’s sales and use tax from 6.25 percent to 3 percent effective January 1, 2011. If a majority of those voting approve the question, it would become law. The state would lose approximately \$1 billion in sales tax revenues in fiscal 2011 (for five months of the fiscal year) and \$2.5 billion in 2012.<sup>4</sup>

The state collected \$4.6 billion in sales taxes in fiscal 2010, including 10 months at the higher 6.25 percent rate, representing 20 percent of total 2010 tax revenues and the second largest source of tax receipts after the personal income tax.

Even with the sales tax increase, Massachusetts still ranks in the bottom group of states in terms of sales tax burden. Of the 45 states with a broad-based sales tax, Massachusetts ranks 43<sup>rd</sup> in revenues collected per \$1,000 of income and 35<sup>th</sup> per capita.<sup>5</sup> Massachusetts has a very narrow base on which sales taxes are collected (e.g. exempting food, clothing up to \$175, and services), which is the principal explanation for its low ranking even with a rate of 6.25 percent.

**Huge Budget Gap if Question 3 Approved**

If Question 3 is approved by the voters, the state would face a \$4.5 billion budget gap for fiscal 2012 – a \$2 billion structural deficit plus \$2.5 billion in lost sales tax revenues.<sup>6</sup> The consequences would be even greater than the \$4.5 billion suggests because close to half of the \$32 billion in state spending is mandated by the state constitution, federal requirements or legal obligations.

As shown in Table 4, approximately \$15.1 billion, or 47 percent of the budget, is required spending in five major areas: MassHealth (Medicaid), Chapter 70 education aid, debt service, the MBTA and the School Building Authority. As a result, \$4.5 billion in reductions must be spread over the remaining \$16.9 billion of “discretionary” spending.

**Table 4 - Constitutional and Legal Obligations**  
(\$ Millions)

<b>Program</b>	<b>Total Spending*</b>	<b>Mandated Spending*</b>
MassHealth	10,045	7,836
Chapter 70 Education Aid	3,926	3,657
Debt Service	2,039	2,039
MBTA	927	927
School Building Authority	644	644
<b>Total</b>	<b>17,581</b>	<b>15,104</b>

\* Total and mandated spending are based on the 2011 budget with the exception of debt service which reflects 2012 obligations.

<sup>4</sup> A second ballot question (Question 1) would repeal the sales tax on alcoholic beverages approved by the Legislature in 2009. The annual revenue impact would be approximately \$100 million.

<sup>5</sup> MTF calculations based on data from the U.S. Bureau of Economic Analysis and the U.S. Census: State Government Tax Collections (2009), State Population estimates (July 1, 2009), and State Personal Income (2008).

<sup>6</sup> The state would also have to deal with the loss of approximately \$1 billion in sales tax revenues in fiscal 2011, requiring large mid-year cuts across state government.

## **Obligatory Spending**

### *MassHealth*

Accounting for almost one-third of state spending, Medicaid provides subsidized health care to 1.25 million children and families, disabled individuals and low-income seniors at a cost of \$10 billion in fiscal 2011. Health care for senior citizens, including nursing homes, makes up about \$2.5 billion, or 25 percent, of the total. As a general matter, the Medicaid program is reimbursed 50 percent by the federal government.<sup>7</sup>

Under federal law, if Massachusetts is to remain in the Medicaid program and receive the federal match, it must provide coverage to residents who are categorically eligible if they meet any of the following: 1) over 65 years of age; 2) eligible for institutional care; 3) disabled; 4) children up to 150 percent of the federal poverty level; 5) have breast or cervical cancer up to 200 percent of the federal poverty level; or 6) pregnant up to 200 percent of the federal poverty level.

In fiscal 2011, spending on these groups totaled approximately \$7.8 billion, the minimum amount required to be spent on the Medicaid program. The recently passed national health care law prohibits states from altering any standard that would make someone ineligible for Medicaid coverage who was eligible on March 23, 2010.

### *K-12 Education*

In fiscal 2011, the state will distribute roughly \$4.3 billion in K-12 education aid to cities and towns, including \$3.93 billion in Chapter 70 education aid. Almost \$3.7 billion, or 95 percent of Chapter 70 aid, is mandated to meet the state constitutional requirement that every child receive an adequate education, which is reflected in the 1993 education reform legislation establishing a minimum, or foundation, level of per pupil spending in each community.<sup>8</sup>

In determining the foundation level amount, or minimum funding necessary to ensure an adequate education, the state uses a statutory formula based on student enrollment, inflation, and a municipality's aggregate property values among other components. The state must make up the difference between a community's required local contribution and the foundation budget.

### *Debt Service*

Each year the state borrows money by selling bonds in the credit markets to pay for the construction of major capital projects with long-term life such as roads and bridges, college buildings, prisons, courthouses, state parks and many other important infrastructure investments throughout the state. These 20-30 year bonds are repaid through the annual costs of debt service in the operating budget, which combines the principal and interest to repay the notes not unlike the mortgage on a house.

Debt service, artificially reduced in the 2011 budget by roughly \$300 million, will cost the state \$2.04 billion in the 2012 budget, servicing the Commonwealth's \$19.4 billion in outstanding bonds.

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<sup>7</sup> SCHIP (State Children's Health Insurance Program) is part of the Medicaid program but is federally reimbursed at 65 percent. Additionally, the federal stimulus bill passed in early 2009 increased the state's 50 percent match to approximately 62 percent. The federal match is scheduled to return to 50 percent in the 2012 budget.

<sup>8</sup> Massachusetts Department of Education estimate.

**MSBA**

A portion of sales tax revenues is earmarked to the Massachusetts School Building Authority (MSBA) to assist cities and towns with school construction costs. The 2004 legislation creating the MSBA established a phased-in schedule of funding from the sales tax, culminating in 1 cent of sales tax receipts<sup>9</sup> in fiscal 2011, projected by the Department of Revenue at \$644 million based on collections of \$4.025 billion.

**MBTA**

As part of the 2000 legislation reforming the MBTA’s financial structure, known as “forward funding,” the Authority received 1 cent of sales tax receipts,<sup>10</sup> which is adjusted annually by an inflation index up to 3 percent, with a guarantee that the state’s contribution in any year cannot be less than the previous year.

Over the course of 10 years, the state’s contribution to the MBTA has grown from \$645 million in fiscal 2001 to \$767 million in fiscal 2009 with level funding in the 2010 and 2011 budgets due to low inflation rates and declining sales tax revenues. The MBTA also receives \$160 million from the 2009 increase in the sales tax – for a total of \$927 million in fiscal 2011.<sup>11</sup>

**Impact on “Discretionary” Spending**

With nearly half of the state budget earmarked for obligatory spending, the other half would have to bear the full \$4.5 billion in spending cuts that will be necessary if Question 3 is approved.

As shown in Table 5, deducting \$15.1 billion in obligations from the \$32 billion budget leaves a balance of \$16.9 billion from which \$4.5 billion must be cut. In addition, because of these spending reductions, principally in Medicaid, the state will lose an estimated \$300 million in federal revenues which would bring total spending reductions to \$4.8 billion.

In other words, the state would have to cut \$4.8 billion from the total of \$16.9 billion in so-called discretionary spending, which would require across-the-board cuts of 28.4 percent. If the initial 2012 shortfall is \$2.5 billion, the resulting \$5 billion gap would require across-the-board cuts of almost 33 percent.

**Table 5 - Impact on 2012 Budget**  
(\$ Millions)

2011 Total Spending	32,000
Legal Obligations	-15,104
Balance of Budget	<u>16,896</u>
Cuts to 2012 Budget	-4,500
Federal Revenue Loss	-300
Total Cuts Required	<u>-4,800</u>
Final Balance	12,096
<b>Across-the-Board Cuts</b>	<b>28.4%</b>

<sup>9</sup> Excluding the sales tax imposed on meals.

<sup>10</sup> Excluding the sales tax imposed on meals.

<sup>11</sup> If Question 3 is approved, the Legislature could choose to include the \$160 million subsidy to the MBTA in the across-the-board cuts discussed below.

**Table 6 - Across-the-Board Cuts of 28.4 Percent**  
(\$ Millions)

<b>Program</b>	<b>FY 11 Spending</b>	<b>Cut</b>	<b>Balance</b>
<b>Health Care</b>	<b>4,421</b>	<b>-1,256</b>	<b>3,165</b>
MassHealth - Non-Obligatory	2,209	-627	1,582
Health Refrom and Other Care	967	-275	692
Employee & Retiree Health Benefits	1,245	-354	891
<b>Local Government Support</b>	<b>1,665</b>	<b>-473</b>	<b>1,192</b>
Non-Obligatory Education Aid	691	-196	495
Municipal Aid	974	-277	697
<b>Other Education</b>	<b>1,456</b>	<b>-413</b>	<b>1,042</b>
Early Education	505	-144	361
Higher Education	950	-270	680
<b>Human Services</b>	<b>4,719</b>	<b>-1,341</b>	<b>3,378</b>
Developmental Services	1,321	-375	946
Family Services	886	-252	634
Cash Assistance	767	-218	549
Mental Health	622	-177	445
Public Health	489	-139	350
Housing Support	273	-78	196
Senior Support	244	-69	175
Veteran Services	117	-33	84
<b>Public Safety</b>	<b>2,222</b>	<b>-631</b>	<b>1,591</b>
Corrections <sup>1</sup>	1,004	-285	719
Judiciary	731	-208	523
State Police	260	-74	186
District Attorneys	91	-26	65
Attorney General	38	-11	28
Crime Lab, Fire Services, and other Public Safety	97	-28	70
<b>Transportation</b>	<b>213</b>	<b>-61</b>	<b>153</b>
MassDOT Admin.	12	-4	9
Highways	83	-23	59
Regional Transit	59	-17	42
Registry	59	-17	42
<b>Economic Development</b>	<b>286</b>	<b>-82</b>	<b>204</b>
Business and Labor	97	-28	69
Div. of Industrial Accidents	20	-6	14
Workforce Training and Summer Jobs	22	-6	15
Tourism and Tourist Councils	4	-1	3
Commonwealth Zoo	4	-1	3
Environment and Energy	189	-54	135
Environmental Protection	45	-13	33
State Parks and Beaches	58	-16	42
Fisheries and Wildlife	21	-6	15
<b>General Government</b>	<b>473</b>	<b>-134</b>	<b>339</b>
Legislative Operations	51	-14	36
Department of Revenue	141	-40	101
State Lottery	82	-23	59
<b>Employee Pensions</b>	<b>1,442</b>	<b>-410</b>	<b>1,032</b>
<b>TOTAL</b>	<b>16,896</b>	<b>-4,800</b>	<b>12,096</b>

<sup>1</sup> Includes Dept. of Correction, Parole Board, and County Sheriffs

Table 6 summarizes the enormous impact of such cuts on the wide array of services that the public expects state and local governments in Massachusetts to provide. The discussion below highlights that impact in a few key areas.

### *Local Aid*

Cuts in local aid of \$475 million – on top of \$700 million of cuts since 2009 – would result in thousands of layoffs of municipal employees, chiefly teachers, police and fire. The cuts would fall most acutely on cities and poorer communities that depend so heavily on state aid. The problem would be exacerbated by the end of federal stimulus dollars which have temporarily protected some services during this extended fiscal crisis.

Not only would the cuts seriously compromise the core services provided by local government – education and public safety – but the widespread layoffs would add to the state’s joblessness and undercut the economic recovery. There is no evidence that the reduction in the sales tax rate would generate any meaningful increase in private sector employment, let alone on a scale to compensate for the large reduction in municipal employment.

With these large cuts in local aid, the only way for cities and towns to protect services would be to raise property taxes beyond 2 ½ percent. The wealthier communities would turn to overrides, but for poorer communities that would not be a realistic possibility. Even for those communities that do approve overrides, the amount is not likely to compensate fully for the cuts in local aid. So the inevitable result would be a combination of higher property taxes and reduced services.

### *Higher Education*

Despite the importance of public higher education to the state’s economy, the University of Massachusetts and the 24 state and community colleges have always borne a disproportionate share of spending cuts during economic recessions. While experiencing significant cuts during this fiscal crisis, the campuses have been shielded in part because of an infusion of federal stimulus dollars. However, those dollars will disappear after fiscal 2011 so public higher education will experience exceptionally large cuts in 2012 even if Question 3 is defeated.

If voters approve the ballot question, funding for the University of Massachusetts and the state and community colleges would be cut by roughly \$235 million while state scholarships would be reduced by another \$25 million (Table 6). Factoring in the loss of \$20 million of federal stimulus aid in the 2011 budget<sup>12</sup> that will not be available in 2012, total spending for higher education would be cut by almost \$300 million.

The 270,000 higher education students would be impacted in two major ways – higher tuition and fees, and fewer course offerings, reduced faculty time and other elements of a quality education. For example, facing a \$50 million cut in state aid in fiscal 2010, the University of Massachusetts raised student fees by \$1,500.<sup>13</sup> If Question 3 passes, UMass would lose roughly \$120 million in funding in fiscal 2012, more than double the cuts in fiscal 2010.

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<sup>12</sup> This does not include the additional \$50 million that higher education will receive in 2011 as a result of the additional stimulus dollars recently authorized by Congress (see page 5). However, that \$50 million will not be available in 2012.

<sup>13</sup> In fiscal 2010, the \$1,500 was offset by rebates of up to \$1,100 from federal stimulus aid, but no rebates are anticipated in fiscal 2011.



### *Public Safety*

Public safety, including prisons, courts, state police and the district attorneys, would be cut by \$630 million if Question 3 is approved (Table 6).

The state police budget would be reduced by \$74 million. Since a large portion of that budget supports staffing of 2,200, the cuts would likely result in the layoff of some 500 police officers, bringing total personnel to 1,700 compared to 2,500 before the recession.

The \$495 million budgeted for the Department of Correction facilities – supporting a staff of 5,200 overseeing 11,000 inmates at 18 facilities – would be cut by \$140 million. With a commensurate 25 percent reduction in personnel, corrections staffing would fall below 4,000, clearly requiring the closing of some prison facilities.

Major reductions in staff and services have already taken place in the court system, including the Trial Court, District Courts, Probate and Family Courts, Superior Courts, Juvenile Courts, Boston Municipal Courts, and the Appeals Court. As serious as those cuts have been, they would pale compared to the layoffs of court personnel and the closing of facilities that would be required by a \$208 million reduction if Question 3 is approved.

The one area that has continued to see increases during the fiscal crisis has been the budget for public defender services, despite jumping by 300 percent in the five years before the economy collapsed.

### *Human Services*

After Medicaid and support for local government, the largest area of state spending is human services – \$4.7 billion in 2011. These services fund dozens of different programs for those with needs, including foster care and protection of children from abuse and neglect, services for the developmentally disabled, mental health services for children and families, home care and other programs for seniors, financial support for those on transitional assistance, a variety of public health programs, and many others. A large fraction of these programs are run by private, generally nonprofit, providers under contract with the state.

The consequences of cutting \$1.3 billion from human services would be enormous, affecting the lives of tens of thousands individuals and families and resulting in the elimination of scores of programs that have met important individual and societal needs for decades.

### *Capital Spending*

The loss of \$2.5 billion in annual tax revenues would also take a significant bite out of the state's capital program. The Commonwealth is already facing a capital funding crisis with widespread deterioration in the state's infrastructure, from transportation and public higher education to state parks and courthouses. The transportation system is in particularly desperate shape.

Also, the Commonwealth's bond rating would almost certainly be downgraded, adding tens of millions of dollars in increased interest costs.

## **Conclusion**

Question 3 comes before the voters in the midst of the worst fiscal crisis in the state's history, a crisis that will confront the state at least through fiscal 2012. It is impossible to overstate the enormity of the consequences of reducing state revenues by \$2.5 billion when programs have already been cut by \$2 billion and with the state facing another \$2 billion shortfall next year.

But even if Question 3 is defeated, there is a larger fiscal reality that state leaders have only begun to understand and address. Massachusetts is entering a permanent new period, even when the fiscal crisis abates, in which state revenues will not be sufficient to support all the programs, and employee benefits, that have been the hallmark of state and municipal governments in Massachusetts for decades.

The contradictions abound. Citizens want lower taxes but also expect government to provide an acceptable level of services. At the same time, public employees ignore the new reality that private sector benefits have eroded and that taxpayers neither can nor will support a dramatically higher level of benefits for government employees and retirees. This changing fiscal and political landscape will be the catalyst for some wrenching adjustments in the decade ahead.

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