

Facing Another Tough Budget Year

The global recession continues to deal a body blow to many Massachusetts families and businesses. Although the Massachusetts economy added jobs in January for the first time in 18 months, the unemployment rate remains stubbornly high at 9.5%, just slightly below the national unemployment rate.

The recession is also having a devastating impact on state and local government budgets, with tax revenues down at the same time that more people need government services. Unlike the federal government which can borrow money and run a deficit during a recession, state and local governments must run balanced budgets each year. This means many difficult and painful choices will be required in the coming months as budgets are put together for Fiscal Year 2011 (which begins on July 1, 2010).

The recession first impacted the state budget in FY09 when a \$3 billion gap opened up in the middle of the fiscal year due to lower than anticipated tax revenues. The state budget relies heavily on personal and corporate income taxes, sales tax, and capital gains tax. All of these revenue sources have fallen as a result of the recession. Capital gains tax receipts, for example, dropped from \$2.2 billion in FY08 to \$0.5 billion in FY09, a decline of 75%.

The FY09 budget shortfall was addressed with spending cuts, withdrawals from the state's "rainy day" account, and some federal stimulus money. The rainy day account stood at \$2.3 billion when the recession began, but is now down to a little more than \$600 million.

For FY10, which began last summer, the state faced an even larger \$5 billion gap between projected tax revenues and the level of spending necessary to maintain the same level of services as the prior year. Facing this immense challenge, Governor Patrick and the state legislature pursued a balanced approach – with approximately \$2.5 billion in spending cuts, \$1.5 billion in federal stimulus money, and about \$1 billion from an increase in the sales tax. As a result of the 1.25% increase in the sales tax, our district received \$800,000 more in local aid than would otherwise have been the case, helping to prevent more painful cuts to our schools, public safety, and other municipal services.

Work is now underway on FY11 budgets. The good news is that most economists believe the economy is in a slow recovery and businesses will start hiring again. The bad news is that the pressure on state and local government budgets will continue for at least the next two years.

A modest recovery in state tax revenues is expected for FY11, but increases in healthcare costs alone will outpace any revenue growth. As a result, another multi-billion dollar deficit will need to be addressed in order to produce a balanced budget.

Governor Patrick released his FY11 budget proposal in late January. His budget relies on approximately \$600 million in further spending cuts, and \$1.4 billion from the remaining federal stimulus dollars available to Massachusetts. However, almost half of this federal stimulus money is Medicaid matching funds which were included in President Obama's budget but have yet to be approved by Congress. If this money is not forthcoming, much deeper spending cuts would be required.

The Governor's FY11 budget also counts on more than \$200 million in new revenue by eliminating the sales tax exemption for certain products (candy, soda, cigars, and smokeless tobacco) and scaling back the state's film and life sciences tax credits. These proposals are all controversial and unlikely to be fully or even partially adopted in the final state budget. As a result, additional spending cuts will probably be required to make up for the lost revenue.

The House and Senate are planning to issue a joint local aid resolution later this month so that cities and towns know what they can expect in Chapter 70 education funding and other local aid as they put together their FY11 budgets.

The state budget now moves to the House of Representatives, where it will be analyzed and debated over the next few months, before going to the Senate and then back to the Governor for his final signature in June.

The road ahead will not be easy as lawmakers struggle to preserve funding for education, local aid, public safety, healthcare, housing, transportation, and economic development while ensuring that the social safety net for our most vulnerable citizens remains intact.

I welcome your feedback on the budget, including specific programs that are important to you, or any other issues. Please visit our website at www.RepJasonLewis.com. You can also reach me at 617 722-2060 or by email at Jason.Lewis@state.ma.us.

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