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Governor Patrick's Second Budget: What A Difference A Year Makes

**“This budget is balanced without gimmicks. We did not defer difficult decisions.
We did not use Band-Aids to treat symptoms and ignore their root causes.”
~ Governor Patrick on his first budget, 2/27/07**

More than a year after taking office, the Governor's second budget raises serious concerns about the state's fiscal trajectory. Some evidence of a commitment to transparent budgeting remains, but there is obfuscation on other critical issues, and the Governor seems to have abandoned the long-term reforms that were present in his first budget.

These developments are disheartening and raise concerns about the administration's fiscal management at a time of uncertainty.

The Governor's leadership potential, so evident in his first budget, seems to have dissipated in the face of fiscal pressure. By basing this year's budget on revenue sources that are unlikely to materialize, questions are inevitably raised about his ability to navigate the potentially rough economic waters ahead.

“The lack of progress on the structural deficit is disappointing, especially after a year in which revenues were above expectations,” said Jim Stergios, executive director of Pioneer Institute. “This budget's highly contingent revenue enhancements, continued emphasis on one-time revenue sources, and proposed increase in business taxes—all in the face of an uncertain economy—are reasons for concern.”

What follows is a consideration of the good, the bad and the yet-to-be-determined in this budget:

The Good

Tiered Health Insurance Contributions for State Workers: The Governor's budget contains a sound, workable proposal to tier the contribution ratio for state workers making in excess of \$35,000. This will help to limit the cost of healthcare and bring state benefits more in line with those offered in the private sector.

Consolidation of the Trial Court System's Budget: For years the state's court system has been wastefully micromanaged through multiple line items, as demonstrated in Pioneer's [A Declaration of Independence](#) and the findings of the Monan Commission. By combining judiciary line items in many places, the Governor allows court administrators to use funds more efficiently.

Greater Transparency in Transportation Revenues and Spending: This budget makes transportation revenue sources and expenditures more transparent by renaming the former Highway Fund and, more importantly, using it to fund all operating transportation-related expenditures. This is a departure from the previous practice of using illogical “fund splits” to obscure actual spending and revenue figures.

Consolidating the Seven County Sheriffs: Bringing these sheriffs on-budget and consolidating their health insurance and pension systems will produce significant savings, allow greater oversight and offer the potential to realize economies of scale. Pioneer highlighted the costs of our atomized public pension system in our White Paper, [Leaving Money on the Table](#).

Inching Towards Regionalization: The Governor's budget includes \$3 million to use as incentives to localities that adopt regional strategies to provide services.

Long-Term Leasing of Ponkapoag Golf Course: Our [April 2006 research paper](#) detailed how long-term leasing of certain state ice rinks has led to increased availability, continued affordability, rising attendance and needed capital investment. This budget allows the Ponkapoag course to be leased out, but unlike last year's budget, it does not allow the remaining state-run ice rinks to be leased.

The Bad

We Have A Structural Deficit: The budget contains a transfer from the Stabilization Fund, despite the fact that state revenues continue to grow. It is the first H.1 or H.2 budget from a Governor in recent memory to draw from the Stabilization Fund.

Reliance on Highly Unlikely Gambling Revenues: Generating any meaningful revenues from casinos during this fiscal year would require each of the following to occur: the successful passage of enabling legislation; appointment of a gaming commission; development of regulations; and the initiation of a licensing process. Experience from other states suggests that this process, done with care, takes several years. Also, relying on one-time revenues, like licensing fees, to fund operating obligations creates a deficit in future years.

Playing Games with Local Aid: The Governor funds \$124 million in local aid with these speculative revenues from gambling. Unless casino legislation is approved and implemented in record time, this shortfall will need to be addressed with other revenue sources. Cities and towns already operating under severe fiscal strain deserve assurances that a predictable amount of state aid will be available.

If You Don't Agree, Is It Consensus? On January 8th, the Administration (along with the chairs of the respective Ways & Means Committees) agreed on a consensus revenue figure of \$20.987 billion for fiscal year 2009. By including in the budget a contingent transfer from the Stabilization fund just two weeks later, the administration is implying that the consensus revenue estimate is too low.

Their justification is that consensus revenue has been consistently low for the last five years. But this analysis ignores the 2002 economic downturn, when tax revenues plummeted by \$2.4 billion compared to 2001. With the possibility of a recession looming, now is not the time to be overstating projected revenue.

Raising Taxes on Businesses, Again: Citing the recommendation of the Study Commission on Corporate Taxation—an entity created by press release, not law—the administration has justified an increase in corporate taxes on the order of \$300 million through “loophole closures.” The Commission had requested a “meaningful reduction in the corporate income tax,” such that the cut would be “significant enough to send a positive message of business competitiveness in the Commonwealth.”

The budget's phased-in reduction in the corporate income tax rate—coupled with more “loophole closures”—will produce a nearly \$300 million tax increase in FY09 and a subsequent \$200 million net increase. This is far from a “meaningful reduction,” let alone a “positive message.” A steady stream of “loophole closures” has already resulted in new taxes of over \$300 million dollars annually, increasing the [cost of doing business](#), and deterring businesses from coming to the state. Finally, the proposed reduction in the corporate income tax would only partially begin at the start of 2010.

Walks Like A Slush Fund, Talks Like A Slush Fund: The budget will continue the practice of shorting the Stabilization Fund and diverting money to the Bay State Competitiveness Investment Fund, which in turn will allocate the money among seven other funds. This attractively (but deceptively) named fund masks the total yearly surplus and acts like a slush fund. The goal of greater transparency is not served by creating this complex web of funds.

Walking Away from Our Retiree Healthcare Commitment: The Governor's commitment last year to fully fund our current year liability for public employee retiree healthcare is not in this budget. This sends a signal to the broader financial community that the Commonwealth cannot keep its fiscal commitments, even in a year with positive revenue growth.

Micromanagement of the Courts: The Governor's budget sets a specific salary for a single employee of the Suffolk Superior Court. Managing the court system by passing laws for individual employees or employee classes is needless interference in the operation of the judicial branch.

Will We Account for Over \$4 Billion in Spending This Year? Will Education Governance be Independent? The Governor's budget funds the successor entity to the Office of Educational Quality and Accountability, but places it within the proposed education secretariat. The administration's recent education governance proposal would give the Secretary authority over personnel and budgetary issues that are currently the purview of an independent Board of Education. This budget would further consolidate power by giving the Secretary direct control over accountability for over \$4 billion in state education spending, as opposed to the formerly independent EQA. The move toward centralizing control over the Board of Education and Commissioner comes just as the Commonwealth has hired a new Commissioner whose specific area of expertise is accountability.

To Be Determined

Property Tax Relief: As a candidate, the Governor emphasized his commitment to property tax relief. This budget contains a proposal to use speculative revenues from casinos to fund a modest program.

Funding the Readiness Project: Through a thicket of subcommittees and task forces, citizens have been promised a comprehensive plan to improve and fund public education. The plan is due this spring. The only funding provided is \$200,000 for related research. Without a real placeholder for the Readiness Project in the Governor's budget, we are forced to assume two possibilities: 1) implementation of these ideas won't start until FY2010, half way through the Governor's term, or 2) funding for the Governor's program will be provided for by the House or Senate's budget.

Reforming State Maintenance Practices: The Governor's budget provides funding for a special commission to study the state's maintenance practices. While this falls short of the recommendations in Pioneer's recent publications ([Our Legacy of Neglect](#) and [Fixing Maintenance in Massachusetts](#)), it begins the process of reexamining the fundamentally flawed manner in which the state maintains its assets.