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Bulletin

June 19, 2007

Budget Conference Committee: Limiting the Use of Reserves

How long will the luck hold?

For the past three fiscal years the Legislature has passed budgets which depended on reserves to achieve balance. In each case tax revenues came in better than forecast, largely because of capital gains, eliminating the need to actually deplete the reserves.

This scenario is playing out once again in the House-Senate conference committee deliberating the fiscal 2008 state budget. The House budget plans to draw on almost \$700 million in reserves and the Senate \$500 million. The Senate includes more optimistic assumptions about non-tax revenues so its spending total is only \$65 million less than the House despite the \$200 million smaller dependence on reserves.

The Commonwealth received some good news in May with tax collections through 11 months now almost \$250 million above the most recent fiscal 2007 benchmark of \$19.3 billion. Should June collections meet expectations, the state would enter fiscal 2008 with higher-than-expected baseline revenues, which would reduce next year's projected draw on reserves.

Nevertheless, unlike 42 states which are experiencing cash surpluses, Massachusetts is debating how much to dip into reserves during an economic recovery. The state's job growth has been anemic, and Massachusetts actually lost 1,600 jobs in April and May.

Under these circumstances it is critical for the conference committee to reach agreement on a bottom line that is closer to the Ways and Means budgets than the spending added during floor debate. The House added \$204 million and the Senate \$35 million during budget debate, but the Senate Ways and Means budget was already \$100 million higher than House Ways and Means.

Both the House and Senate have taken the wise course of rejecting the Governor's package of corporate tax increases, which would further undercut the creation of jobs and thus exacerbate the state's long-term fiscal problems. Furthermore, it is doubtful that these tax changes would produce the hundreds of millions of dollars claimed by the administration.

The larger challenge facing the state is to create the jobs which will produce the tax revenues to fund investments in education, health care, transportation and other critical areas.

MTF BUDGET SUMMARY¹
FY08 Senate Final

(\$ Millions)	2007	FY08	FY08	FY08 Senate	Senate vs. 2007		House vs. 2007	
	Spending ²	Governor	House	(w/ SOPS) ³	Diff.	% Chg.	Diff.	% Chg.
Investment in Children	\$6,486.1	\$6,743.4	\$6,838.8	\$6,837.7	\$351.7	5.4%	\$352.7	5.4%
Education Local Aid	4,032.9	4,246.8	4,286.2	4,285.1	252.2	6.3%	253.3	6.3%
Higher Education	994.9	1,036.5	1,053.6	1,053.7	58.8	5.9%	58.7	5.9%
Services to Children	790.7	790.3	800.4	804.9	14.2	1.8%	9.6	1.2%
Youth Services	157.5	160.0	160.7	160.1	2.6	1.6%	3.1	2.0%
Child Care Services	510.0	509.9	538.0	534.0	23.9	4.7%	28.0	5.5%
Criminal Justice and Law Enforcement	\$2,099.8	\$2,127.3	\$2,142.1	\$2,152.6	\$52.9	2.5%	\$42.4	2.0%
Corrections	951.1	971.4	960.9	966.3	15.2	1.6%	9.8	1.0%
Judiciary	752.9	745.5	765.4	767.6	14.7	2.0%	12.6	1.7%
Police	265.8	276.5	281.4	281.5	15.7	5.9%	15.6	5.9%
DAs	91.4	93.5	94.8	95.9	4.5	5.0%	3.4	3.8%
Attorney General	38.6	40.4	39.6	41.3	2.7	7.1%	1.0	2.5%
Local Government	\$1,566.1	\$1,583.8	\$1,596.1	\$1,574.9	\$8.8	0.6%	\$29.9	1.9%
Assistance to the Poor	\$9,769.9	\$10,134.7	\$10,218.6	\$10,190.6	\$420.7	4.3%	\$448.7	4.6%
Medicaid/Other Health Care ⁴	8,623.9	8,974.9	9,054.9	9,025.0	401.1	4.7%	431.0	5.0%
Cash/Housing Asst.	859.6	872.3	870.3	871.7	12.0	1.4%	10.6	1.2%
Elderly	286.4	287.5	293.5	294.0	7.6	2.7%	7.1	2.5%
Assistance to the Sick and Disabled	\$2,310.9	\$2,421.6	\$2,414.0	\$2,420.5	\$109.5	4.7%	\$103.1	4.5%
Mental Retardation	1,174.1	1,215.8	1,228.2	1,224.9	50.7	4.3%	54.0	4.6%
Mental Health	646.3	664.0	665.1	667.4	21.1	3.3%	18.9	2.9%
Public Health	490.5	541.8	520.7	528.2	37.7	7.7%	30.2	6.2%
Transportation	\$223.6	\$209.8	\$209.7	\$206.4	-\$17.2	-7.7%	-\$13.8	-6.2%
Regional Transit	51.7	52.3	52.3	52.3	0.5	1.0%	0.5	1.0%
Highways	110.7	95.4	94.7	91.3	-19.4	-17.5%	-16.0	-14.5%
Registry	61.2	62.1	62.8	62.8	1.7	2.7%	1.6	2.7%
Economic Development	\$385.8	\$375.0	\$390.9	\$389.1	\$3.3	0.8%	\$5.1	1.3%
Business and Labor	168.1	156.7	165.3	169.9	1.8	1.1%	-2.8	-1.7%
Environment	217.7	218.3	225.6	219.1	1.5	0.7%	7.9	3.6%
Central Costs	\$4,408.7	\$4,586.4	\$4,581.1	\$4,576.3	\$167.7	3.8%	\$172.5	3.9%
Employee Benefits ⁵	2,421.6	2,605.0	2,599.7	2,596.2	174.5	7.2%	178.1	7.4%
Debt Service	1,987.0	1,981.4	1,981.4	1,980.1	-6.9	-0.3%	-5.6	-0.3%
Other	\$945.1	\$1,010.2	\$978.2	\$956.5	\$11.3	1.2%	\$33.1	3.5%
Total	\$28,196.0	\$29,192.2	\$29,369.6	\$29,304.6	\$1,108.6	3.9%	\$1,173.6	4.2%

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. Includes 2007 GAA figures, \$88.4 million in supplemental spending, and certain appropriations carried forward from FY06.
3. Totals are adjusted to reflect the full funding that affected agencies would have received absent the Senate proposal that their pharmacy services be "purchased" from the State Office of Pharmacy Services (SOPS).
4. Combines MassHealth accounts with related off-budget funds, such as the Commonwealth Care Trust Fund (including the UCC/HSNT) and the Essential Community Provider Trust.
5. Does not include workers' compensation and unemployment insurance which are budgeted in agency accounts.