

STATE HOUSE NEWS SERVICE

PATRICK CUTS SPENDING BY \$225 MILLION, WILL SEEK POWER TO CUT LOCAL AID

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STATE HOUSE, BOSTON, DEC. 4, 2012.....As part of a plan to address an estimated \$540 million mid-year budget gap, Gov. Deval Patrick on Tuesday slashed spending by \$225 million and asked the Legislature to allow him to unilaterally reduce unrestricted local aid to cities and towns by 1 percent.

Unrestricted local aid pays for local services, such as public safety budgets, and is delivered separately from state aid to fund local education spending, which is not targeted for cuts under Patrick's plan.

"I don't think this is draconian. Obviously every city and town worries about an impact on their local aid, but as I say this is relatively modest. We are spreading the pain as broadly as possible and sensible and we have a solution for closing that gap in unrestricted local aid if the Lottery continues to help," Patrick said.

The spending cuts ordered by the governor will hit nursing homes, special education funding, school transportation for the homeless and reimbursement rates for hospitals that treat low-income patients.

Patrick is asking to trim local aid by \$9 million, and said if Lottery revenue exceeds expectations the surplus would be used to restore the reduced funding at the end of the year.

Senate budget chief Stephen Brewer told the News Service Monday that he did not sense an appetite within the Legislature to grant the governor local aid-cutting powers. Lawmakers are scheduled to return to Beacon Hill in January, when the governor's proposal will await their attention.

Patrick used his existing budget management powers to reduce \$225 million in spending through so-called 9C cuts, a 1 percent reduction to the total state budget that will result in the defunding of 700 positions in state government and, according to the governor, affect services to the state's "most vulnerable" residents.

Patrick is also calling for \$200 million to be drawn from the state's \$1.65 billion rainy day account to plug holes and prevent deeper spending cuts amid a weak economic recovery.

Patrick called on Congress to address the "fiscal cliff" this year, blaming uncertainty over scheduled tax hikes and spending cuts for private sector angst about expanding and the future of the economy.

"By all accounts that uncertainty and the resulting slowdown in economic growth is the direct cause of our budget challenges. Economists agree that the fiscal cliff is keeping a tremendous amount of capital on the sidelines," Patrick said.

Patrick said \$300 million this fiscal year and \$1 billion in the next fiscal year is at risk for state budget writers depending on the outcome of negotiations between President Obama and Congressional leaders. "The cost of inaction is immense," he said.

The state budget is also facing significant and still unknown costs associated with an evidence tampering debacle that has forced public officials to revisit thousands of drug cases previously thought to be settled.

Spending on Medicaid, the state's largest program, is a perennial concern and administration officials said they are on track to meet or exceed roughly \$500 million anticipated savings in that program and \$730 million in overall health care savings associated with Medicaid and other health insurance programs.

Though not as bad as past years during the depths of the recession, Patrick said the state's budget problems are "serious" and could worsen depending on federal machinations.

After a disappointing month of tax collections in October opened a \$256 million budget gap four months into the fiscal year, November revenues rebounded slightly and came in \$21 million above projections, but still \$235 million short for the year to date.

Under the cuts Patrick announced, no agencies will see budgets reduced below fiscal 2012 levels.

Administration and Finance Secretary Jay Gonzalez said administration officials now believe tax collections this fiscal year will total \$515 million less than the administration and legislative budget writers assumed when they compiled this year's \$32.5 billion budget.

Gonzalez officially lowered the state's expected tax take this year to \$21.496 billion, and said he expects the state to collect \$381 million more than in fiscal 2012 but \$515 million less than estimates made last December and used to build the budget.

Gonzalez expects tax collections to slightly rebound over the final seven months of fiscal 2013.

Massachusetts Taxpayers Foundation President Michael Widmer, who monitors budget developments on behalf of the business-backed group, said he agreed with Patrick's revised state revenue estimate.

"The budget-cutting steps, while painful, are certainly necessary," Widmer said.

Widmer identified the impact of the midyear budget problems on the fiscal 2014 budget as the "larger issue," estimating about \$800 million in onetime revenues in the fiscal 2013 budget won't be available for fiscal 2014, which begins on July 1, 2013.

"That's a huge hole the state faces for fiscal '14," Widmer said.

Roughly speaking, Widmer said, the state budget has been under pressure through three years associated with the recent recession and the last two years which have featured modest economic growth, with rainy day fund and federal stimulus law funds driven into the budget and coupled with major spending cuts.

"It is the longest period of fiscal pressures of this magnitude," Widmer said. "The economic recovery has been so weak both nationally and here that we haven't had much in the way of revenues. That's the sad reality. This is now the fifth year."

A \$20 million salary reserve to provide raises to human service workers is not being reduced, Gonzalez said. "It is available to disburse to human service workers," he said.

Patrick is also calling on leaders of the other two branches of government, the legislative and judiciary, to agree to 1 percent cuts to their own budgets for a savings of \$25 million.

The current budget problems don't require additional revenues, Patrick said, while suggesting his upcoming long-term transportation financing plan would feature new revenues.

The governor's budget plan also defers \$20 million in sales tax revenue that would have gone to the Massachusetts School Building Authority to the general fund, and makes cuts to budgeted hospital rate increases, special education and veteran benefit accounts.

Gonzalez said hospital rate increases for providers caring for certain MassHealth patients would be reduced by \$52 million, a special education increase would be cut from \$28 million to \$17 million, and \$1.3 million would be trimmed from veterans' benefits due to decreased caseloads.

Municipal regionalization grants and budgeted increases in nursing home rates will also be decreased.

Gonzalez said the state has realized about \$113 million in savings from lower than expected borrowing costs, of which \$20 million will be used to offset the revenue gap. The supplemental budget to be filed by Patrick asking for 1 percent cuts in non-executive branches of government and local aid also proposes to spend the remaining \$93 million from debt service savings on caseload driven accounts like homelessness.

Geoffrey Beckwith, executive director of the Massachusetts Municipal Association, said cuts to special education reimbursements, school transportation and local aid will impact municipal budgets mid-year and be difficult to address for cities and towns.

Noting cuts to local aid that have built up over several years, Beckwith said, "This is an additional cut of \$9 million opening up question marks for every single community's budget." He said the MMA will ask the Legislature not to approve the cut in unrestricted local aid.

"They'll have to take reductions in programs and services. The 1 percent sounds small but it will destabilize current budgets in place and have communities have to take action. They cannot wait," Beckwith said.

For detailed information about the spending cuts, go to: www.mass.gov/anf/budget-taxes-and-procurement/state-budget/fy13-budget-info/fy13-budget-cut-information

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