



ML Strategies Alert

Governor Patrick Proposes State Budget Cuts; Speaker DeLeo Opposes

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This morning Speaker of the House Robert DeLeo indicated that he will not support the Governor's plan to trim the state budget to close a projected \$329 million mid-year budget gap.

The Governor has statutory power through [Section 9C of Chapter 29 of the Massachusetts General Laws](#) to reduce spending for Executive Branch agencies, and plans to implement \$198.1 million in savings there.

However, reductions outside the Executive Branch require approval from the Legislature, and Speaker DeLeo is against the Governor's proposal, which seeks to shrink unrestricted local aid by \$25.5 million, bringing it to fiscal year 2014 levels. Even before the Speaker voiced his opposition, the Governor's proposal was likely to face opposition in the Legislature, because historically lawmakers have been loath to reduce local aid funding.

According to a statement yesterday from Secretary of Administration and Finance Glen Shor, the administration has not prepared an alternative solution, should the Legislature not cooperate with the proposed spending reductions.

Unaffected Areas

In the plan Patrick announced Wednesday, the funding for the following areas was largely left intact:

- Department of Children and Families;
- Early education;
- Community Preservation Act funds;
- Chapter 70 local school aid;
- The Commonwealth's debt services, including paying down debts for financing the accelerated bridge program, the clean energy investment program, and the central artery/third harbor tunnel funding shortfall;
- The Center for Health Information and Analysis;
- Sheriffs;
- Research and funding initiatives for University of Massachusetts, the state universities, and community colleges.

Affected Areas

In addition to the \$198.1 million the Governor plans to cut from Executive Branch agencies without legislative approval, he has also filed a bill to implement further savings, at non-Executive Branch agencies. The most controversial part of Governor Patrick's bill is his proposal to reduce local aid by \$25.5 million. The legislation also calls for a 1.5 percent reduction to spending at most non-Executive agencies, saving \$21.8 million, and seeks to trim \$10 million from the Department of Transportation budget.

The biggest cuts Patrick plans to make are in health and human services, which is also the largest area of spending in the state budget. Of the \$111 million in gross spending being trimmed, the proposal cuts \$45.4 million from hospital and nursing home rates paid through MassHealth, and \$11.6 million from the Department of Mental Health, largely through program implementation delays.

Included in the \$198.1 million of emergency executive budget cuts, Patrick plans to cut charter school reimbursements by \$1.2 million, special education reimbursements by more than \$3.8 million, and regional school transportation funding by \$18.7 million.

In addition to agency and programmatic cuts, the administration has also reached deals with some quasi-public agencies to reduce government funding. MassDevelopment, for example, has agreed to forgo \$20 million of new funding. Patrick will also delay some spending for welfare program implementation, and has identified roughly \$44.6 million in additional federal departmental revenues to balance the budget.

Reasons for Budget Shortfall

The budget shortfall was announced on November 6, 2014, two days after the election and just over four months after Patrick signed a \$36.5 billion fiscal 2015 budget that increases spending by 5.6 percent.

The shortfall, which was revised upward by \$4 million since it was first announced, has been attributed to several factors:

- The growing economy is likely to trigger an automatic reduction in the personal income tax rate in January, which will result in a \$70 million loss this fiscal year;
- Fees and reimbursements are not achieving the levels forecast in the budget, resulting in a \$179 million shortfall;
- Investments through the economic development act passed this summer were made with the expectation of higher revenues, which have not been realized, costing the Commonwealth an additional \$80 million.

Conclusions

Although the Patrick administration has said it will close the Commonwealth's budget gap before Governor-elect Charlie Baker takes office in January, it is unclear what the current administration will do if the Legislature rejects its proposal, which appears quite likely.

Furthermore, Andrew Bagley, research director at the Massachusetts Taxpayers Foundation, predicts that the budget gap could be wider than currently assumed, citing Group Insurance Commission, state retirement fund, and one-time tax settlement exposures that could push the shortfall closer to \$500 million or \$600 million before next July.

ML Strategies will continue to monitor this situation as it develops. For more information on Executive Branch cuts, please see the [complete list of unilateral cuts](#).

If you have any questions about how the cuts may impact you or your business, please feel free to [contact your ML Strategies government relations professional](#).

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