Massachusetts governor releases budget proposal

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Massachusetts Governor Deval Patrick released his proposed budget for fiscal year 2014 last Wednesday, January 23. The previous week, the Democratic governor had announced a plan to raise the state's personal income tax rate from 5.25 percent to 6.25 percent. The additional revenue would go toward education, while the state sales tax would be reduced from 6.25 percent to 4.5 percent and used for transportation and school building needs. The budget next goes to the state legislature, which will debate it over the next several months.

Patrick's proposals, some of which seem reasonable on the surface, turn out to be very cynical when examined. The bill for years of neglected transportation infrastructure maintenance can no longer be put off with half-measures and borrowing, and Patrick expects the working class to pay for it.

Through the increased income tax, the working class would also pay for education "reforms" that will make workers more "competitive" in the global economy; private corporations would have low-wage workers trained for them and pay no tax increase aside from a possible hotel tax on their time share condominiums.

Corporate taxes make up only a paltry portion of the state's tax revenues. (See "Massachusetts governor outlines new round of budget cuts") The amount is so low that the state government doesn't even bother to forecast corporate profits when calculating its tax revenue estimates. Nevertheless, Patrick said in his State of the Commonwealth speech that "we proposed to eliminate unnecessary and duplicative fees on business."

Capital gains also would not be touched by any tax increases (the rate would stay at 12 percent), but the state government has legalized casinos, which would disproportionately impact the working population. To fund public transportation, the state's transportation department had proposed a measly 0.16 percent payroll tax on employers in areas served by public transportation, but this proposal does not appear in Patrick's budget.

Earlier in the month, the state's Department of Transportation (MassDOT) released a report promising billions of dollars in needed infrastructure and maintenance spending for public transit over the next 10 years. The plan would increase yearly MBTA "state of good repair" spending above the $470 million needed to keep the backlog from growing; buy new subway cars and buses; pay for highway and bridge maintenance; create 3,800 new jobs with new commuter rail lines; and end the practice of borrowing on bond markets for operating expenses such as mowing the grass along highways.

Funding for these undertakings would depend on the legislature agreeing to the new tax structure, and on its being instituted for 10 years. Future governors would also have to continue the transportation spending. Patrick has already said that he will not run again when his term expires in two years, and his chief of staff has already told the *Boston Globe* that the proposals are just meant "to start a conversation."

The MassDOT proposal contains a fall-back plan should the legislature not agree to the tax changes: drivers' license fees would increase by $86, vehicle registration fees by $53, and public transportation fares by 5 percent. Public transportation services would also face a $40 million cut. No matter what the legislature decides, workers will pay.

In his annual State of the Commonwealth address, Patrick told attendees to "imagine if you could depend on a bus or subway that came on time, was safe and comfortable and ran." Most workers can only imagine these things when riding the MBTA, with its frequent bus and subway breakdowns. In the latest incident, decrepit electrical wires in a Green Line subway tunnel led to the evacuation of riders during one of the coldest morning commutes of this winter. The system's total maintenance backlog is close to $3 billion.

Patrick, a former Coca Cola executive who will likely go back to the corporate world when his term expires, walks his talk when it comes to corporate profits. In a section of the budget about "innovation" in job creation, his administration promises "education and workforce development for middle-skill jobs," while "increasing the ease of doing business." While the budget proposes hundreds of millions of dollars more in spending at state and community colleges, much of the education offered will be geared toward certain fields, such as the life sciences, that are considered profitable in Massachusetts.

Moreover, much of the education funding from the income tax increase—projected to grow from $367 million in fiscal year 2014 to $1 billion several years from now—would only restore cuts made over the past decade. For example, early education and care for children under age five would see increased funding of $131 million in 2014, but was cut by $174 million between 2001 and 2012. This state program has a waiting list of 30,000 children, which would not be erased until fiscal year 2017.

In his State of the Commonwealth speech, Patrick admitted openly that he expects the working class to pay the debts of big business, stating, "We have to pay the bills we have accrued, already over a decade." Nonetheless, he has gone to great lengths to present his tax law changes as progressive. He does so by proposing to reduce the regressive sales tax, and by increasing the amount of personal exemptions from taxable income.

In reality, the state is moving away from reliance on sales tax revenues because of the difficulty in collecting such taxes from online commerce, and because New Hampshire has no sales tax and therefore draws business over the border.

The effect of online commerce on sales tax revenues has had a devastating impact on the MBTA's operating budget. In 2000, the state legislature passed a law limiting the amount of state support for the system, and set it at 20 percent of yearly sales tax revenues. The resulting structural deficit led to service cuts and drastic fare hikes last year and has not been resolved for the coming year. (See "Greater Boston transit fares hiked by 23 percent")

Patrick proposes to make the state's flat income tax rate more progressive by doubling the personal exemptions, from $4,400 to $8,800 for single payers and from $8,800 to $17,600 for couples. His argument is that the resulting tax cut would be a greater percentage of the income of a low-wage worker than of one with a high salary. The Massachusetts Constitution mandates a flat income tax rate, and there is a possibility that state Republicans, a minority in the legislature, will fight the governor's proposal on that basis.

Nevertheless, even if it passes, the measure will not be what it seems. Patrick proposes to eliminate the deduction of up to $2,000 of Social Security taxes from taxable state income. For couples filing jointly, the lost deduction would be $4,000. Netted against the personal exemption increase, the savings for single workers would be 6.25 percent of $2,400 and for couples 6.25 percent of $4,800. But all workers would pay an extra $100 on each $10,000 of taxable income because of the rate increase.

To balance his fiscal year 2014 budget proposal, Patrick presents an overly optimistic estimate of income tax revenues, not including these increases. Despite emergency cuts in December 2012 because of a $500 million shortfall in income tax receipts this fiscal year, the governor is estimating increased income tax revenues of $838 million in fiscal year 2014. This "consensus estimate" assumes rising employment, salaries and wages, and is used despite Patrick's acknowledgement that "the uncertainty is very high." Should the continuing worldwide economic crisis give the lie to this estimate, many of his proposals may not get off the ground.

Among the risks faced by the state's economy are falling exports to Europe, and the effect of cuts in federal research funding. Massachusetts colleges and universities, both public and private, receive more than $2 billion per year in such funds. An 8-10 percent cut, which was threatened during the sequestration debate and is still possible on March 1, could cause the loss of thousands of Massachusetts jobs.