Massachusetts governor cuts social programs, continues corporate tax giveaways

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As Massachusetts Governor Charlie Baker prepares his budget proposal for the fiscal year beginning July 1, 2017, due to the legislature January 25, he is also seeking to balance the current year's budget on the backs of workers and the elderly.

In December, the Republican governor announced $98 million in cuts to state programs. Section 9C of Chapter 29 of the Massachusetts general laws gives the governor authority to make cuts in the middle of a fiscal year if the secretary of administration and finance reports to him that revenues are lower than expected. Normally, the budget for a fiscal year beginning July 1 is proposed by the governor in January and then negotiated with the legislature before its July implementation. The secretary of administration and finance is then required by law to provide updated revenue estimates each October.

Baker's announced cuts include $26 million from the MassHealth (Medicaid) fee-for-service budget, $1.5 million from the Department of Transitional Services' administrative budget, more than $6.3 million from MassHealth Senior Care, almost $5.4 million (13 percent) from State Parks and Recreation, more than $2.4 million from the Massachusetts Rental Voucher program, nearly $2 million from the Bureau of Substance Abuse Services, and $1 million—or half its budget—from Programs for English-Language Learners in Gateway Cities. All of these cuts will need to be recouped in the second half of the fiscal year ending June 30. Effectively, their impact will therefore be doubled over the next six months.

The Rental Voucher program pays up to 70 percent of monthly rent for people making less than 50 percent of an area's median income. The Massachusetts gateway cities include Lowell, Lawrence, New Bedford, and other former industrial or port cities outside of the immediate Boston area. According to the State House News Service, nearly 2 million Massachusetts residents are enrolled in Medicaid, despite the state's low official unemployment rate.

The cuts were presented as an adjustment caused by lower-than-expected revenues, but state politicians are trying to appease the credit rating agencies. On November 22, Standard & Poor's (S&P) issued a ratings document giving an AA+ rating but a negative outlook to almost $400 million in new General Obligation bonds. The negative outlook was attributed to Massachusetts' already heavy burden of debt, pension and other post-employment benefit liabilities, and inadequate funding in the state's Budget Stabilization Fund (BSF), otherwise known as the "rainy day fund." The projected BSF balance of $1.3 billion at the end of fiscal year 2017 is not enough to satisfy S&P.

The rating agency found that at the end of its 2015 fiscal year, Massachusetts had total tax-supported debt of $34.5 billion, or more than $5,000 for every man, woman and child. Payments to the bondholders, consisting of principal and interest, accounted for 7.7 percent of all general expenditures.

The sales tax, which is regressive by its very nature, was raised from 5 percent to 6.25 percent in 2009. Because of lower-than-expected revenues this year, Massachusetts cancelled its annual "sales tax holiday" this past fall. In fiscal year 2016, revenues from sales and use taxes (including meals) made up 23 percent of total tax revenues in the commonwealth.

Revenues from sales and use taxes increased by 5 percent from fiscal year 2015 to 2016. However, in an October 14, 2016, letter to the governor and legislators, Secretary of Administration and Finance Kristen Lepore estimated that this growth rate would drop to

2.3 percent in the current fiscal year. The "previously established benchmark" for this year was 5.2 percent. In addition to the cuts announced last month, the lower sales tax revenues will reduce the funding available for public transportation and School Building Assistance Authority budgets.

Lottery revenues are also teetering. A December 5 report from state Treasurer Deborah Goldberg fretted that the sale of instant lottery tickets is "already experiencing a slump…they could be down as much as 2 percent or more this year." The lottery's net profit was nearly $1 billion in fiscal 2016, a significant source of revenue for the state's government. Instead of looking for ways to replace this drain on the poor with higher corporate taxes, Goldberg has filed a bill to allow for online lottery tickets that can be played on smart phones.

Despite low official unemployment and a booming GDP, Massachusetts' total revenues were almost $500 million below the consensus forecast for fiscal year 2016, which was based on overly optimistic estimates of income tax, corporate taxes, and lottery revenues. Net personal income tax revenues dropped by more than $100 million from the prior fiscal year, while net revenues from corporate taxes—which accounted for less than 9 percent of total state revenues— went up by only $140 million. The corporate tax rate was cut from 9.5 percent to 8 percent during the administration of Baker's predecessor, Democrat Deval Patrick.

Tax expenditures, which governments implement to achieve policy goals by providing deductions and exemptions, are also a large drain on Massachusetts' revenues. According to the state's fiscal year 2017 tax expenditure budget, the non-taxation of capital gains at death will reduce state revenues by $775 million. An estimated $100 million per year is lost to the non-taxation of capital gains if they're transferred as a gift. Accelerated equipment depreciation for corporations—passed off as a means of economic competitiveness—increased from $223 million in fiscal year 2013 to $263 million this year. The estimated tax expenditure total for corporate net operating loss carry-forwards increased from $142 million in fiscal 2013 to $170 million in the current fiscal year.

For corporations doing business in other states as well as Massachusetts, a weighting gimmick in the apportionment of sales, payroll and property taxes will cost the state an estimated $375 million this year. This gimmick is of particular benefit to military contractors and mutual fund corporations.

The Massachusetts economy is doing better than national averages in several ways. S&P reported that the state's GDP grew by 2.4 percent in 2015; the national growth rate was 2.0 percent. At the end of June 2016, the state's U-3 unemployment rate, which excludes the unemployed who have stopped looking and part-time workers who want to work full-time, was 4.2 percent, below the national rate of 4.7 percent. The Massachusetts rate has since dropped to 2.9 percent, and the Massachusetts Budget and Policy Center (MassBudget) has reported that GDP grew by 3.7 percent from July to September 2016. However, the U-6 unemployment rate, which includes those excluded from U-3, was 8.2 percent in September.

Against this backdrop, according to MassBudget, the drop in sales tax revenues is "puzzling analysts."

While the December budget cuts do not affect state-funded colleges and universities, students are being made to shoulder an increasing burden of cost. A report on "Higher Education Funding in Massachusetts" released by MassBudget in December found that the state cut total higher education spending in its operating budget by 14 percent from fiscal year 2001 to 2017. Because of increasing enrollment, total per-student spending was cut by 31 percent. Total state funding for scholarships, a separate budget category, has also been cut by 31 percent since 2001, when adjusted for inflation.