

May 28, 2004

A MATTER OF CHOICE

In recent weeks, there has been some public discussion of reducing Massachusetts' personal income tax rate from 5.3 percent to 5.0 percent. This proposal comes on the heels of cuts in basic public services of over \$3 billion since the onset of the fiscal crisis in FY 2002. Since then, Massachusetts has cut public health programs by over 30 percent in real terms and, between FY 2002 and FY 2004, led the nation in reducing per capita state support for public education.

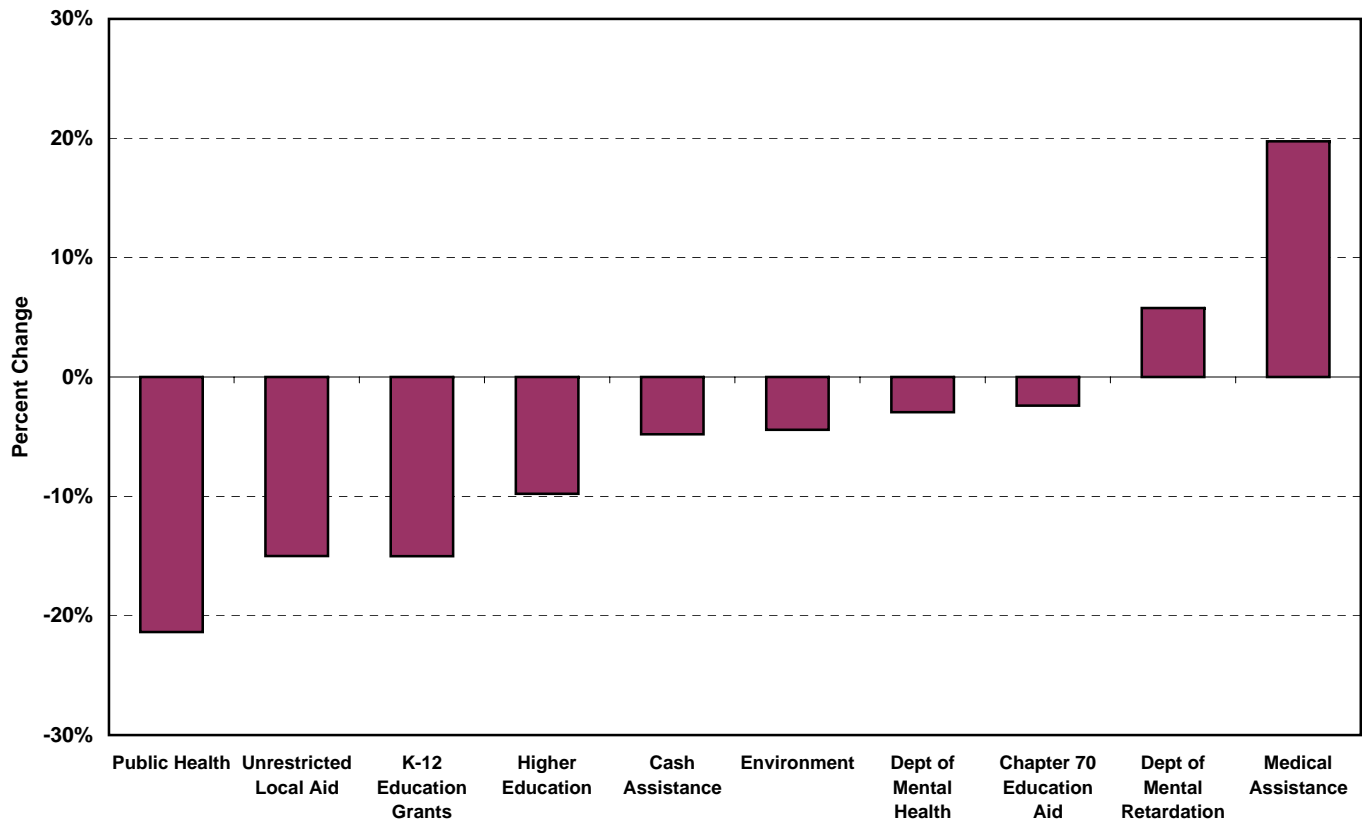
While the national recession of 2001 played a role in forcing such extensive spending cuts, the ultimate source of the fiscal crisis was decisions made during the 1990s to reduce taxes by over \$3 billion. While those tax cuts may have appeared affordable during the boom years, when the economy slowed, it became clear that those tax cuts had created a significant structural budget deficit.

Because the tax cuts occurred in the 1990s when the economy was strong and the budget cuts that paid for those tax cuts occurred later, the connection is sometimes missed. The attached materials highlight program areas that have experienced particularly sharp cuts in funding since FY 2003, detail a variety of specific programs that have been harmed during that period, and describe how the gains from a reduction in the personal income tax rate would be distributed.

A decision to reduce the personal income tax rate to 5.0 percent, rather than to repeal some of the tax cuts that led to the fiscal crisis, would be a decision not only to entrench the deep cuts to our schools, our healthcare system, our environmental protection efforts, our safety net, and our local police and fire services that have been made over the past several years, but likely also to make more spending cuts in the years ahead. Proponents of this new tax cut claim that spending cuts were unavoidable because of the weak economy. This claim was never truly accurate, as it ignored the policy choices that had created the structural deficit. Those who now advocate further tax cuts must acknowledge that the dramatic cuts to essential services were not a necessity – they were a choice.

More than 60 percent of the gains from reducing the personal income tax rate to 5 percent would accrue to the wealthiest 20 percent of Massachusetts taxpayers. This too represents a choice, one that must be weighed against the interests of everyone who benefits from our public schools, from local public safety services, and our safety net protections.

Cuts by Program Area FY 2003 through FY 2005 House 1



*Note: Increase in DMR spending over the last two fiscal years largely attributable to compliance with legal mandates;
 Increase in Medical Assistance still insufficient to compensate for medical inflation
 Figures are not adjusted for inflation and therefore understate the effect of cuts*

A Matter of Choice – Examples of Cuts to Public Services

FY 2005 House 1 Budget Proposal vs. FY 2003 Funding

K-12 Education

- ❖ Funding for school readiness, full-day kindergarten, and early childhood education programs, as well as initiatives to ensure small class sizes in lower grades, were cut by more than \$57 million between FY03 and the Governor’s House 1 FY05 budget proposal (also referred to as H1 in this document):
 - Education collaborative programs: cut \$20.1 million (21.2 percent)
 - Kindergarten grants: cut \$4.9 million (17.7 percent)
 - Early literacy: cut \$14.4 million (78.8 percent)
 - K-3 class size reduction: cut \$18 million, thus completely eliminating funding
- ❖ Chapter 70 funding – the largest source of state education aid for cities and towns – was cut \$78.2 million between initial FY03 and H1 FY05.
- ❖ Even with the Governor’s proposed increase in MCAS remediation over FY04, the difference between House 1 and FY03 for this program would have been \$20 million (a 40 percent reduction from its FY03 level of \$50 million).

Higher Education

- ❖ Between FY03 and H1 FY05, financial aid appropriations were cut \$9.2 million or 10 percent. At the same time, tuition and fees are rising for students in the public higher education system.
- ❖ Including increases proposed in H1 over FY04 levels, if the Governor’s budget had been adopted, the entire Massachusetts higher education system would have seen a 9.9 percent reduction since FY03. It would have cost an additional \$98.0 million to bring the Commonwealth back to FY03 levels in this area from the Governor’s proposal, without taking inflation into account.

Public Health

- ❖ Between FY03 and H1, the Department of Public Health was cut \$74.3 million, or 18 percent.
- ❖ HIV/AIDS prevention and treatment was reduced by 22.8 percent, or \$9.0 million.

- ❖ Substance abuse treatment was cut by 14.6 percent, or \$5.4 million.
- ❖ Family health services saw a reduction of 64.5 percent, or \$7.2 million.
- ❖ In his House 1 proposal, the Governor eliminated prostate cancer outreach and treatment (\$1 million) and dramatically cut hepatitis C treatment while transferring it to the AIDS line item (a cut of \$1.4 million).
- ❖ Teenage pregnancy prevention was cut by \$3.0 million, or 87 percent.

Housing

- ❖ House 1 would have reduced the total number of vouchers provided through the Massachusetts Rental Voucher Program (a rental assistance program that provides vouchers to low-income families) by not re-issuing new mobile vouchers upon turnover. This proposal would have resulted in a reduction of \$2.6 million or 11 percent from FY04. In FY03, these programs were funded at \$5.5 million and House 1 would have provided \$4.8 million in FY05.
- ❖ House 1 also provided level-funding for various programs, including the Alternative Housing Voucher Program, rental subsidies for Department of Mental Health clients, and other housing services, but the proposed amounts would not have restored funding to their FY03 levels.

Cash Assistance

- ❖ House 1 proposed to restrict eligibility for certain disabled individuals and legal immigrants receiving cash assistance. These proposed changes would have reduced funding for Emergency Aid to the Elderly, Disabled, and Children by \$12.0 million or 18 percent. Funding for this program would have been cut from \$72.0 million in FY03 to \$54.3 million (the House 1 proposed amount), a 17.5 million reduction.

Child Care

- ❖ Overall, funding for the Office of Child Care Services (OCCS) would have been cut \$7.8 million (2 percent) between FY04 and FY05 under the Governor's proposed budget; relative to FY03, the drop would have been \$21.9 million or 6 percent.
- ❖ House 1 proposed to cut funding for a home visiting program for at-risk newborns, shrinking funding by 50 percent, from \$12.2 million in FY04 to \$6.1 million in FY05. Funding for this program was \$17.1 million in FY03.

- ❖ Funding for child care resource and referral agencies (CCR&R's) would have fallen from \$10.0 million to \$8.0 million in the Governor's budget. Compared to FY03, House 1 would have cut CCR&R's by \$4.2 million or 34 percent.

Department of Mental Retardation

- ❖ The Governor proposed to cut funding for day and work programs for mentally retarded individuals from \$13.2 million to \$8.9 million, a \$4.3 million or 32 percent reduction.
- ❖ Funding for transportation to day and work programs would also have been reduced by the Governor. The House 1 proposal would have cut funding by \$9.4 million.

Environmental Affairs

- ❖ The Governor's budget recommended decreasing funding for the Department of Environmental Protection's operations by \$2.5 million or 9 percent. Over the past two years, the entire staff has been reduced by 24 percent, or 289 positions. The House 1 amount would have reduced funding from \$28.8 million in FY03 to \$25.6 million in FY05, a \$3.1 million or 11 percent cut. Further reductions would likely diminish DEP's capacity to effectively carry out its duties.

Distribution of the Proposed Romney Tax Cut

All Massachusetts Taxpayers (2003 Family Income)

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less than \$17,200	\$17,200 to \$33,500	\$33,500 to \$51,200	\$51,200 to \$84,400	\$84,400 to \$167,600	\$167,600 to \$352,200	\$352,200 and above
Average Income for Group	\$10,100	\$25,600	\$41,800	\$65,800	\$112,100	\$240,700	\$1,273,900
Share of Total Tax Change	0.6%	5.5%	10.8%	20.0%	28.1%	17.3%	17.5%

