



News Release

For Immediate Release

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2004 Budget: Positive Reforms Undercut By Savings Claims

Governor Romney's 2004 budget is a comprehensive and long-overdue blueprint for reforming the way state government does business in Massachusetts. Many of the proposals -- revamping the school aid formula, modernizing personnel rules, providing greater management flexibility to the courts, streamlining archaic and confusing budget practices, enabling competition in the delivery of state services, increasing the share of health premiums borne by state workers, and others -- reflect long-time priorities of the Foundation. All of these initiatives deserve serious consideration.

It is unfortunate that this bold restructuring plan has been undercut by overstated claims about its short-term fiscal benefits. While the budget has been billed as eliminating \$2 billion in "waste, inefficiency, and mismanagement," more than \$1 billion of that total reflects new taxes, fees and other revenue, and another \$400 million derives from one-time fiscal gimmicks.

| Reform and Restructuring Proposals in the 2004 Budget (\$, Millions) | |
|--|--------------|
| New taxes and fees | |
| Probation/public defenders | 41 |
| Net tuition increases | 50 |
| Corporate taxes | 128 |
| Sales tax - used vehicles | 10 |
| Tax penalties (interest rate) | 28 |
| Registries of deeds | 230 |
| Health insurance assessment | 90 |
| Other fees and charges | <u>62</u> |
| Total | 639 |
| Other revenues | |
| Tobacco settlement dollars (100% of annual payment as in fiscal 2003) | 220 |
| Casinos | 75 |
| Redirect workforce training taxes | 23 |
| Federal reimbursements on increased Medicaid spending | <u>70</u> |
| Total | 388 |
| One-time measures | |
| Turnpike reserves/refinancing | 191 |
| Transfer land in lieu of pension payments | 180 |
| Sale of human services facilities | <u>30</u> |
| Total | 401 |
| Program cuts/reforms | |
| Health care | 176 |
| Human services | 60 |
| Higher education | 100 |
| Judiciary | 43 |
| Higher employee health premium share | 80 |
| Eliminate Medicare Part B reimbursement | 25 |
| Workforce and other reforms | <u>263</u> |
| Total | 747 |
| Grand Total | 2,173 |
| <small>Note: The figures shown here are based on tables in the "2004 Budget Summary" of the Executive Summary section of the Governor's House 1 budget submission (http://www.mass.gov/budget/downloads/execsummary.doc).</small> | |

At the same time, the administration's reform proposals, which the budget values at approximately \$750 million, are a combination of legitimate reforms, cost shifting, eligibility tightening, and program reductions. Once the administration has developed specific plans for its reorganization of human services, higher education and the courts, it should be possible to determine the extent of savings from efficiencies rather than cuts in programs and services.

While the administration has appropriately focused on reining in the skyrocketing costs of health care, several of the specific proposals to cut \$176 million of Medicaid costs -- in particular, difficult-to-collect new co-pays and rate reductions that come on top of those included in the recent "9C" cuts -- will further destabilize the already fragile finances of the state's hospitals and other health care providers.

Although the administration's proposed workforce changes -- including the overhauling of civil service, greater reliance on privatization, and a more flexible management structure -- represent a great leap forward in the ability to manage the delivery of state services, as a practical matter implementing such reforms is a notoriously slow process, raising significant doubts about the possibility of achieving meaningful savings in fiscal 2004.

In addition to the proposed reforms and restructuring shown in the table, the budget also includes major cuts in other parts of state government, most notably in health care and local aid, that come on top of the \$1.6 billion in reductions since the fiscal crisis began.

In the end, Governor Romney's budget seeks to close a \$3 billion gap in the coming fiscal year using the only realistic means possible -- a combination of new revenues and spending cuts across state government. At the broadest level, the payoff of reforms is almost never in quick and easy budgetary savings, but rather as a means of improving services and producing incremental savings over the long term. While the many positive reforms the Governor has put forth will contribute only modestly to solving the 2004 problem, they are tremendously important to the long-term fiscal health of the Commonwealth and deserve serious attention by lawmakers as they begin their 2004 budget deliberations.

The Foundation will continue to analyze the budget over the coming months and provide periodic updates on specific areas of concern.

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