O

*The Commonwealth of Massachusetts*

HOUSE OF REPRESENTATIVES
STATE HOUSE, ROOM 473G, BOSTON 02133-1054

REP. ALICE K. WOLF
REPRESENTING THE PEOPLE
OF CAMBRIDGE

STATE HOUSE TEL. (617) 722-2070
STATE HOUSE FAX (617) 722-2817
DISTRICT TEL. (617) 868-9653

E-Mail: Rep.AliceWolf@hou.state.ma.us

Committees on:
Education, Arts and Hu anities
Housing and Urban Dev opment

LEGISLATIVE AI ES
DANA S REICHM N
Dana.Reichman@hou.st e.ma.us
TRELLIS STEPT R
Trellis.Stepter@hou.stat .ma.us

February 6, 2002

Mayor Michael A. Sullivan & the Honorable Members of the Cambridge School Committee
Cambridge School Committee
495 Broadway
Cambridge, MA 02139

Dear Mayor Sullivan and the Honorable Members of the Cambridge School Committee:

As you know, tax cuts and the current recession in the Commonwealth have severely reduced revenues to the Commonwealth. As a result the State budget is way out of balance.

Therefore I am sending you a letter we received from Chairman John Rogers of the House Ways and Means Committee detailing the two billion dollar shortfall in the Commonwealth's FY'03 budget and the tough work ahead. Chairman Rogers has said that, "*local aid in the final FY'03 budget may be cut as much as ten percent from FY'02 levels.*" While we all hope that his prediction does not come true. I want you to be prepared for this possibility.

This presents a serious challenge to all of us in the Commonwealth, which goes beyond just this fiscal year. When there is a major deficit which requires budget cuts, there are only two areas with budgets are enough to make large cuts—education/local aid and health /human services. That pits schools and local services against the needs of our most vulnerable.

During the budget debate in November, I was a strong proponent of postponing the Question 4 tax cut. I voted against this year's State budget in part for this reason. A chunk of the two billion dollar deficit in next years budget is attributable to the implementation of that tax cut.

The Acting Governor's proposed FY'03 budget is predicated on a better economic recovery then we can expect. In spite of the continued shortfalls in the January revenue figures, the Acting Governor anticipates that the state will grow at a robust 5%. And various local aid programs are based, in the Acting Governor's budget, on other budget gimmicks. As Cambridge, and every city and town in the Commonwealth prepare their budget, we know that municipalities need accurate local aid figures.

I hope this information helps to clarify the tough work we face as we prepare our budgets for FY'03. And I look forward to working with you on this matter.

Sincerely,

Alice K. Wolf

Alice K. Wolf
State Representative

The Commonwealth of Massachusetts

HOUSE OF REPRESENTATIVES
STATE HOUSE, BOSTON 02133-1020

**JOHN H. ROGERS**
**REPRESENTATIVE**
12TH NORFOLK DISTRICT

Chairman
Committee on
Ways and Mean:

ROOM 243, STATE H OUSE
TEL. (617) 722-2: 90

February 4, 2002

Dear Colleagues:

Attached is the local aid letter that we discussed in the last two caucuses. I have incorporated your suggestions in the final draft.

I will be sending this letter to the Massachusetts Municipal Association in the near future, after House members have had time to digest this information.

You are strongly encouraged to forward the attached letter to all local officials in your district.

Sincerely,

John H. Rogers, Chairman
House Ways and Means Committee

*The Commonwealth of Massachusetts*

HOUSE OF REPRESENTATIVES
STATE HOUSE, BOSTON 02133-1020

JOHN H. ROGERS
REPRESENTATIVE
12TH NORFOLK DISTRICT

Chairman
Committee on
Ways and Mean:

ROOM 243, STATE HOUSE
TEL. (617) 722-2990

February 4, 2002

Dear Colleagues and Municipal Officials:

The Acting Governor proposes to spend money in FY03 that will not exist. In so doing, she recommends appropriation levels for local aid and other important programs that can not be met under the current revenue structure. Given the timing of the municipal budget process, **local officials must be warned immediately that local aid in the final budget for FY03 may be cut by as much as 10 percent from FY02 levels.**

Despite a general consensus that the Commonwealth faces a fiscal crisis, there is considerable disagreement about the magnitude of the crisis. The situation for FY03 is far more dire than suggested by the Acting Governor's House 1A document. The administration's proposed spending plan for FY03 is based upon overly optimistic revenue assumptions and overstated gains associated with risky proposals. Accordingly, House 1A misleadingly relies upon roughly $800 million to $1.1 billion in funding that will **not** materialize. In fact, the Massachusetts Taxpayers Foundation announced today that the administration's budget includes a *"long list of risky, dubious, or unwise assumptions which total well more than $1 billion."* (See MTF Bulletin, February 4, 2002.)

The legislature does not have the luxury of using risky revenue assumptions because we, unlike the Acting Governor, are constitutionally bound to submit a balanced budget. As we face the grim reality that our budget building process begins with $1 billion **less** than the administration claims is available, it is clear that the final budget must either reduce spending far below the levels recommended in House 1A or include measures to increase revenues significantly – or a combination of both.

**Background**

The magnitude of the fiscal crisis is not yet clear, but it appears that the Commonwealth will face a staggering $2.3 billion problem for fiscal year 2003. This problem is the result of many factors including the dramatic impact of the recession on the Commonwealth's declining tax revenues, the last two phases of the Question 4 income tax roll back that will account for a further reduction of $450 million in tax revenues for FY03, increases in non-discretionary areas of the budget like Medicaid, and decreases in federal funding. Though reserve funds total between $1.7 billion and $2 billion, it would be disastrous to deplete those reserves too quickly when fiscal difficulty may continue for several years. Faced with such menacing realities, state and local policymakers must prepare for unavoidable spending cuts and reject illusory schemes masquerading as potential solutions.

**Options**

To restate the matter, we must:

1.) identify spending cuts that go below those recommended in House 1A (obviously this would include painful cuts that no one wishes, but which may be unavoidable);

2.) consider all potential measures to increase revenues, including, but not limited to, freezing the final phase of Question 4 income tax reduction, other changes in tax policy, or non-tax revenue enhancements;

3.) evaluate proposals to provide cities and towns with the ability to raise revenues as they face this challenge on the local level; and

4.) identify efficiencies that can be implemented in the delivery of services or operation of agencies to lessen the degree of necessary cuts.

The degree of the fiscal crisis is so serious that isolated measures in and of themselves will address only a fraction of the problem. For example, freezing the final phase of the Question 4 tax cut would yield only $230 million in additional revenue for FY03. The legislature would still be left with up to $900 million in cuts over and above the amount recommended by the administration. Clearly, the circumstances warrant a thorough and deliberative discussion on this and other changes in the tax code. We must, however, exercise extreme caution when treading in an area of fiscal policy that could negatively impact economic recovery and fiscal health.

In short, there are no easy choices.

**What This Means for Local Aid**

It is clear that cities and towns require a measure of certainty relative to state aid before they adopt final local budget figures. Though we will work toward a timely local aid resolution, it may not be possible to produce early and reliable notice on final FY03 local aid figures. Considering that local aid represents nearly one quarter of the overall state budget and the revenues that support that spending have declined so precipitously, we must take the time to evaluate any and all proposals to resolve this crisis responsibly.

At this point, it is possible only to give a very general, and unfortunately bleak, estimate. We have a responsibility to maintain the utmost candor when working with our local officials on this matter. Though all options will be thoroughly examined and all legislators will work tirelessly to minimize painful cuts, **the safest course of action for**

**cities and towns is to prepare for a 10% reduction from FY02 in all forms of local aid,** except Lottery Aid, which, of course, depends solely upon lottery sales.

This is particularly grave news to some local officials already displeased with a House 1A proposal that they consider to be insufficient. Prudence and sound budgeting, however, demand that precautionary measures be taken now to avoid the ruinous consequences of adopting local budgets based upon unrealistic figures. **The "Cherry Sheet" estimates that the Department of Revenue will be distributing to cities and towns later this month should, therefore, be ignored.**

**Going Forward**

As you know, we in the House are working to identify ways to endure the fiscal crisis in a manner that will minimize pain, without resorting to shortsighted schemes that will create more difficult predicaments for future taxpayers. We must strive to identify the appropriate blend of responsible reserve fund consumption, painful but necessary spending reductions and appropriate revenue enhancing measures to ensure the security and welfare of the citizens of the Commonwealth. The House Ways and Means Committee continues to work with all House members to evaluate any and every proposal in an effort to address the $2 billion shortfall and the associated impact on cities and towns.

I sincerely regret presenting such news, but it would be irresponsible and dishonest to do otherwise. I look forward to working with municipal officials, the Speaker, and all members of the House in a mutual endeavor to lead our citizens through a dreadful period that demands prudence, resolve, candor and compassion.

Sincerely,

John H. Rogers, Chairman
House Ways and Means Committee

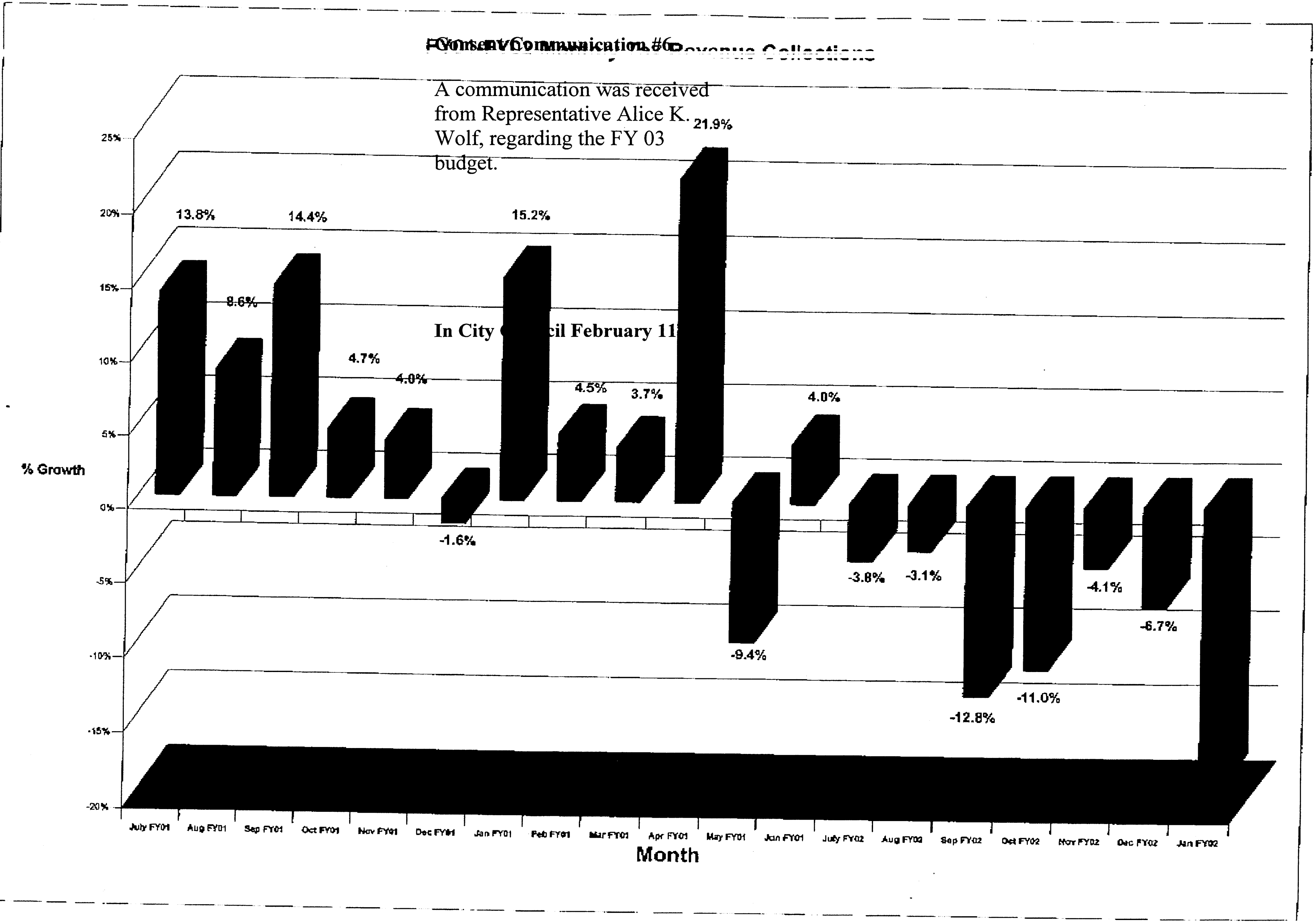
02/07/02 THU 12:43 FAX 617 722 2817 COMM.ON EDUCATION ☑010

02-07-02 12:33 RECEIVED FROM:617 722 2817 P.10

**Consent Communication #6**

A communication was received from Representative Alice K. Wolf, regarding the FY 03 budget.

**In City [illegible]cil February 11**



F-20

**Consent Communication #6**

A communication was received from Representative Alice K. Wolf, regarding the FY 03 budget.

**In City Council February 11, 2002**

Referred to Finance Committee on motion of Councillor Murphy

copies sent 2-13-02 mc