March 26, 2003

Representative Alice K. Wolf
State House, Room 238
Boston, MA 02133

Dear Representative Alice Wolf:

In recent months, we have received many calls and letters seeking clarity about FY 04 local aid and guidance in navigating through the local aid proposals offered in House 1. The Legislature continues to recognize the importance of ensuring financial adequacy for all school children across the state and seeks to work with local officials as they plan for the coming fiscal year. Although the Legislature continues to analyze the budget proposal of the Governor carefully, let us offer the following guidelines for budget preparation in coming months.

City, town and school officials should be aware that a worst case scenario would include 15-20% reductions in Lottery local aid, additional assistance and chapter 70 for fiscal year 2004. Further, officials should not assume that funding will be available for categorical grants that may have been received in past years, including, but not limited to, school transportation, regional school transportation, PILOT payments, class size reduction grants and a host of other programs affecting local aid that the Legislature may reluctantly need to eliminate in order to achieve budgetary balance.

In recent years, some cities and towns built local budgets on the assumption that House 1 local aid figures, at a minimum, would be adopted in the final state budget. To make such an assumption in these times would be very imprudent for the following reasons:

1.) The Governor's proposed local aid figures and contributions are predicated upon a series of sweeping legislative changes that may or may not be adopted. The Legislature is analyzing and considering each of the Governor's initiatives very carefully, but for each initiative, any number of outcomes is possible, including adoption, modification or rejection.
2.) The Governor's entire budget recommendation depends upon hundreds of millions in savings that may very well not occur, forcing the Legislature to cut appropriations hundreds of millions below House 1 figures.

If we reject certain aspects of the House 1 proposal, we must also reject those outcomes of House 1 that particular municipalities and districts may find appealing. Every FY04 chapter 70 figure released by the Department of Education (foundation budget, chapter 70 aid, local contribution, etc.) must not be relied upon because they will almost certainly change. At the same time, officials should know that the Legislature will make every attempt to assure, if possible in this unprecedented fiscal crisis, that every school district is at foundation.

Officials should not rely on House 1 chapter 70 aid as a final number and should not use the DOE local contributions as final contribution levels. Officials should also not rely on any "Cherry Sheet" estimates that the Department of Revenue or the administration may distribute in the weeks ahead.

Last year, municipalities were advised of a 10% reduction in local aid. [See attachment]. This deep cut was averted only because the Legislature voted for and enacted a tax package worth roughly $1 billion, more than half of which was directed by the Legislature to restore local aid. The fiscal crisis that we face is long term in nature and is far worse than the challenge of one year ago: the projected FY04 shortfall is larger; there are fewer areas to cut because many programs have already been eliminated; reserve funds are nearly depleted; and many legislators have signaled strong resistance to tax increases.

With this letter, the Legislature's objective is to prepare our cities and towns for deep cuts in local aid. We will work with local officials to craft a budget that lessens the depth of such cuts. We will consider every creative initiative proposed by Governor Romney, legislators, citizens and others in order to achieve efficiencies and find savings. At this point, however, preliminary analysis indicates that deep cuts in spending will be necessary to close the FY04 shortfall. Accordingly, the prudent course is for all local officials to plan for reductions of 15-20% in the three accounts cited above.

Sincerely,

John H. Rogers, Chairman
House Ways and Means Committee

Therese Murray, Chairwoman
Senate Ways and Means Committee

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

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The Commonwealth of Massachusetts

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March 27, 2003

Mayor Michael Sullivan and
The Members of the Cambridge City Council
Cambridge City Hall, 2nd Floor
795 Massachusetts Ave.
Cambridge, MA 02139

Dear Mayor Sullivan,

I am forwarding to you a recent letter on potential local aid levels sent to all members from the Chairs of the House and Senate Ways and Means Committees, Representative John Rogers of Norwood and Senator Therese Murray of Plymouth. As it continues to predict that local aid will have a dramatic decline in the state budget, I thought it was critical to share this information with you again.

As a member of the House Ways and Means committee, my colleagues and I have conducted hearings throughout the Commonwealth on the FY'04 budget. We have reviewed the Governor's proposed budget and its impact on municipalities. Many of the Governor's proposals for changing traditional funding formulas for schools and local aid are of grave concern to me.

The proposed transitional mitigation funding, with the zeroing out of Additional Assistance, potentially could reduce the local aid Cambridge receives another 15 Million dollars in the next year or two. The longevity of the proposed transitional mitigation to cities and towns in the Governor's budget is currently unknown.

I am also 100% opposed to the proposed elimination of categoric grants like reduced class size, early literacy, and full day kindergarten, which have been of benefit to the achievement of low income students in our cities classrooms. I am working to retain these programs.

I wanted to update you on these matters as the legislature prepares to close the over three billion dollar shortfall in the FY'04 budget. There is still a lot of work to be done on that gap, especially assuring that some of the gap is filled by additional revenue. I look forward to working with you on these matters of great concern.

I would be happy to speak with any or all of you about the budget.

Sincerely,

Alice K. Wolf

Alice K. Wolf
State Representative

S-132

Communication #1

A communication was received from Representative Alice K. Wolf, regarding local aid.

In City Council April 7, 2003

PLACED ON FILE.