Beacon Hill Byline by Mary Rogeness November 1, 2001

Crunch Time for the budget

Recent Bylines have closed with a note about budget negotiations, assuming that a final budget agreement would soon be announced in Boston. The budget is now fully four months late. The Massachusetts economy continues to show signs of weakness. The budget is now so late and the state's fiscal condition so changed that the budget dominates this week's Byline.

It is important to note that our state's budgeting practices since 1991 have been sound. The Weld, Cellucci and Swift administrations have worked with the legislature to assure that the state lives within its means, setting money aside each year for the Rainy Day Fund. The integrity of our processes have been noted by Wall Street with multiple bond upgrades since 1990, when Massachusetts had the lowest rating of any state in. the nation. Throughout the prosperous years of the '90s we prepared for the changing times that have now arrived.

The downturn, forecast by falling tax revenues in July and August, worsened after the September 11 attacks on the nation. Receipts for the first quarter of the fiscal year were almost $300 million lower than last year. The budget delay, now viewed by bond rating agencies as a sign of instability, has led to the first drop in the Massachusetts bond rating in more than a decade.

What comes next? Last week a group of leading economists announced at a State House briefing that the proposed state budget is at least $1.1 billion out of balance. The books must be 'balanced, and legislators must make finite choices to achieve that balance. The reserves can be spent to fill the deficit, or the budget must be cut by that amount or the two options can be combined.

The first option can be termed the ostrich choice because it is hiding our head in the sand. Massachusetts has a reserve in excess of $2 billion that has been built up over ten years. Tapping that fund would quickly cause it to evaporate. Spending half in this fiscal year would present worse problems for next year's budget writers. Using this year's revenue and this year's expenditures as baseline, the state would start next year's budget process with a billion dollar shortfall. Consumers would expect more business as usual, but the state reserves fund would be exhausted.

The second option is harder to characterize. It is either biting the bullet or Chicken Little. Slashing five percent from the budget when one-third of that budget has been spent would cause significant cuts to all state programs and hardships for the people who rely on them. In preparing, for Chicken Little's proverbial warning that the sky is falling, the state might be overreacting if it relies solely on spending cuts. A strong rebound to the economy might negate the need for drastic cuts.

The final budget is likely to be a combination of the two options. Today's economy is certainly a rainy day by anyone's definition, and I expect that the Rainy Day Fund will help Massachusetts through the period. But budget cuts are also necessary. The '90s economy has enabled our state to initiate new programs and enhance others, and every project and line item must now be reexamined.

We cannot predict the future, but we must show that we have learned from the past. It may be that economic recovery is just around the comer. If it is not, however, we will all benefit from facing today's reality. Immediate action will protect the Massachusetts fiscal soundness that has been so carefully nurtured for a decade.