Beacon Hill Byline by Mary Rogeness December 17, 2007

Here We Go Again

Last week marked an important step in Massachusetts budget development: the consensus revenue hearing in Boston. And reports from a number of sources were united in their dark predictions for the future.

Testimony came from the Treasurer (lottery growth is minimal), the secretary of Administration and Finance (MassHealth costs will increase by $700 million), the Department of Revenue (a time of true economic uncertainty). Massachusetts Taxpayers Foundation weighed in projecting tax growth of 4.5% this fiscal year, followed by a grim 2009 growth of 2.4%. The Beacon Hill Institute countered, projecting tax growth of 2.4% this year and 4.1 in 2009. Speakers talked of a budget shortfall in excess of $1 billion.

Words like "challenging" and "ominous" seemed to be part of each speaker's presentation. And the chairman of the House Ways and Means Committee is reported to have said that it's "the most challenging year that I think that we have had."

It's enough to make you understand why economics is called the dismal science.

And it reminds me of the story of the boy who cried wolf.

The experts may turn out to be right, but recent history of such predictions weighs against that result. In each of the past five years, revenue has outpaced the consensus projection, often in excess of $1 billion. Just last January Gov. Patrick worried about a billion dollar deficit in 2008, though the fiscal year ended five months later with a surplus in excess of $400 million.

I have paid attention to these projections in the past and taken them seriously. Here is the way things have worked in the State House.

Legislative leaders warn members that times are tough and we should not expect even needed programs to be well funded. The legislature then routinely crafts a budget that overspends the grim projections, calling on reserves to meet our constitutional requirement of a balanced budget.

Eventually, as the months roll by, tax revenues outpace those projections. Added budget items are authorized through supplemental appropriations. At the end of the fiscal year, reserves from the stabilization or "rainy day" fund are not needed because of unexpected tax receipts. Instead of being depleted, the fund is augmented with the surplus funds.

Why does the game of under-estimated tax revenue matter? Maybe legislators and lobbyists need the grim projections in order to restrain spending and enable each fiscal year to close in the black. But this year the projections came with other unrelated consequences.

They generated a search for extra receipts to balance the budget. The governor's casino plan would approve destination casinos, arguably changing the nature of our state. It is promoted as a way to fill the budget gap by adding $400 million in revenue. His corporate tax proposals add burdens to our state's struggling economic development position in order to provide new revenue. But what if that money already exists? If it is just missing from projections?

I would much prefer to see a financial forecast that considers the track record of recent years. Working with realistic numbers would add transparency to the whole budget process and test policymakers, legislative and administrative, to live within those historically documented limits.

Watch with me to see what "consensus revenue projection" emerges from last week's hearing – and how the budget-writers respond.