

The Commonwealth of Massachusetts

MESSAGE FROM
HIS EXCELLENCY THE GOVERNOR
TRANSMITTING THE
ANNUAL BUDGET
OF THE COMMONWEALTH
FOR THE FISCAL YEAR
BEGINNING JULY FIRST,
NINETEEN HUNDRED
AND EIGHTY-FIVE.

January 23, 1985.

The Commonwealth of Massachusetts

In the Year One Thousand Nine Hundred and Eighty-Five.

MICHAEL S. DUKAKIS
GOVERNOR

THE COMMONWEALTH OF MASSACHUSETTS

EXECUTIVE DEPARTMENT

STATE HOUSE • BOSTON 02133

January 23, 1985

To the Honorable Senate and House of Representatives:

Enclosed are my budget recommendations for the fiscal year that begins next July. These recommendations call for a FY86 appropriation of \$8.69 billion, up a modest 6.8% from anticipated FY85 spending. This fulfills, for the third consecutive year, my commitment to keep the percentage growth in state spending below the percentage growth in estimated personal income, which for FY86 is 6.9%. Thus, state government has, and will, grow more slowly than the private incomes of the people of Massachusetts.

Of the proposed \$565 million in new FY86 spending, more than \$500 million is needed to fund a "maintenance budget", which includes uncontrollable fixed-cost increases for such things as pensions, medicaid rate increases, and collective bargaining agreements as well as total new local aid both direct and indirect of \$318 million. This year's increase in direct local aid of \$156 million will provide twice as many new dollars than can be raised from local property taxes to pay for essential services, such as police, fire and local education. Another \$170 million in both direct and indirect local aid will be disbursed in various line items of which \$65 million will be targeted to schools for education reform. When this new direct and indirect revenue sharing to the cities and towns is subtracted out, since this will support local rather than state spending, state spending will increase by only 5.2%. This is lower than the expected inflation rate for next year by half a percent.

On top of this \$318 million, but not subject to appropriation, is an estimated increase of lottery aid by \$44 million. Thus, there will be an increase in total local aid -- direct, indirect and off-budget -- of \$362 million.

State aid -- for the third year in a row -- will make it possible for cities and towns to meet the mandate of Proposition 2 1/2 and still provide essential municipal services. As a result, Massachusetts now ranks 16th, not first, in property taxes in the nation. And today we have the lowest property taxes of any state in New England and lower than New York and New Jersey.

This spending plan will require no new taxes. Nor will it rely on carrying over more than \$31 million of the projected surplus for the current fiscal year -- now estimated at \$137.7 million once all FY85 spending is subtracted out.

Fiscal stability has been the Commonwealth's signal achievement in the last three years, as we out-performed the nation economically, avoided tax increases and program cuts, and restored critical state government functions dismantled or drastically curtailed in the wake of Proposition 2 1/2.

Moreover, we have been able to expand essential services to the least fortunate amongst us, and continue to nurture productive partnerships with the private sector to foster increased momentum behind the state's economic miracle. This fiscal stability was rewarded with the first improvement in the State's credit rating since 1968.

However, the fiscal stability we enjoy today could be put in jeopardy if a substantial part of the large, one-time FY85 surplus were used to fund new, on-going expenditures in FY86.

As we enter a period of national economic uncertainty and threatened federal budget cuts, a Balanced Budget Stabilization Fund is recommended into which much of this year's surplus should be placed.

This Balanced Budget Stabilization Fund would protect the state from the effects of a weakening national economy, or federal budget cuts, which otherwise would necessitate a future state tax increase or potentially tragic cuts in essential services.

Moreover, our long term fiscal stability is jeopardized by a large unfunded pension liability. Therefore, any Unfunded Pension Liability Reserve should be established into which the remaining portion of this year's surplus could be placed.

Massachusetts has grown and prospered over the last two years. And state government has been managed well. It is appropriate, therefore, that all of our citizens should share -- even in a modest way -- with our good fortune. A one-time tax cut -- or "growth dividend" -- is proposed which is progressive, simple, and fiscally responsible. An increase of all deductions and exemptions by \$200 for 1985 would result in a total increase of deductions for an elderly couple of \$800 and a married couple with two children of \$800. The cost of this tax cut is \$64 million. And its importance to the continuation of our fiscally prudent, stable path and the creation of the stabilization and unfunded pension reserves is vital.

My commitment to improving the role of state government in the protection of our environment, the safety of our streets, the expansion of our economy, the education of our children, and the health and welfare of our people, is evident in this budget, which continues and broadens the state's humane and progressive tradition.

But this commitment to a more responsive and responsible state government is fulfilled, for the most part, by better management, greater efficiency, and more productivity. In fact, eighty percent of these new initiatives, will be paid for by savings identified in the current spending base.

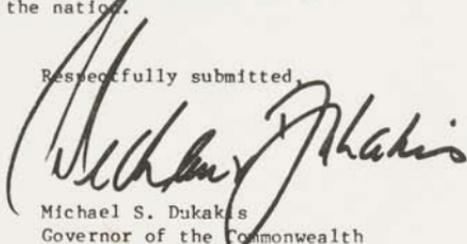
In the area of personnel alone, major savings will be obtained. In view of the uncertain revenue outlook for FY87 and future years, the state cannot afford to permanently maintain staffing at the levels funded by the FY85 budget. While staffing increases are necessary in the short run to address critical needs and start new programs, over a longer period agencies will be able to absorb these functions with no net increase in staff by rearranging activities, cutting back on lower priority programs and increasing productivity. Accordingly, we have set attrition targets for each secretariat that require them to bring their June 1986 staffing down to last year's levels. With these reductions, total state staffing in the executive agencies will be 2,400 less than it was in July 1981, before the drastic post-Proposition 2 1/2 staffing cuts.

The Commonwealth's economy has outperformed the nation's on all counts. Employment and income growth have been remarkable: over 140,000 new jobs were created in Massachusetts in 1984 and growth in per capita income in the Commonwealth was the highest in the nation. Massachusetts' unemployment rate during 1984 was the lowest of any of the major industrial states at 4.8% -- 50% below the national average.

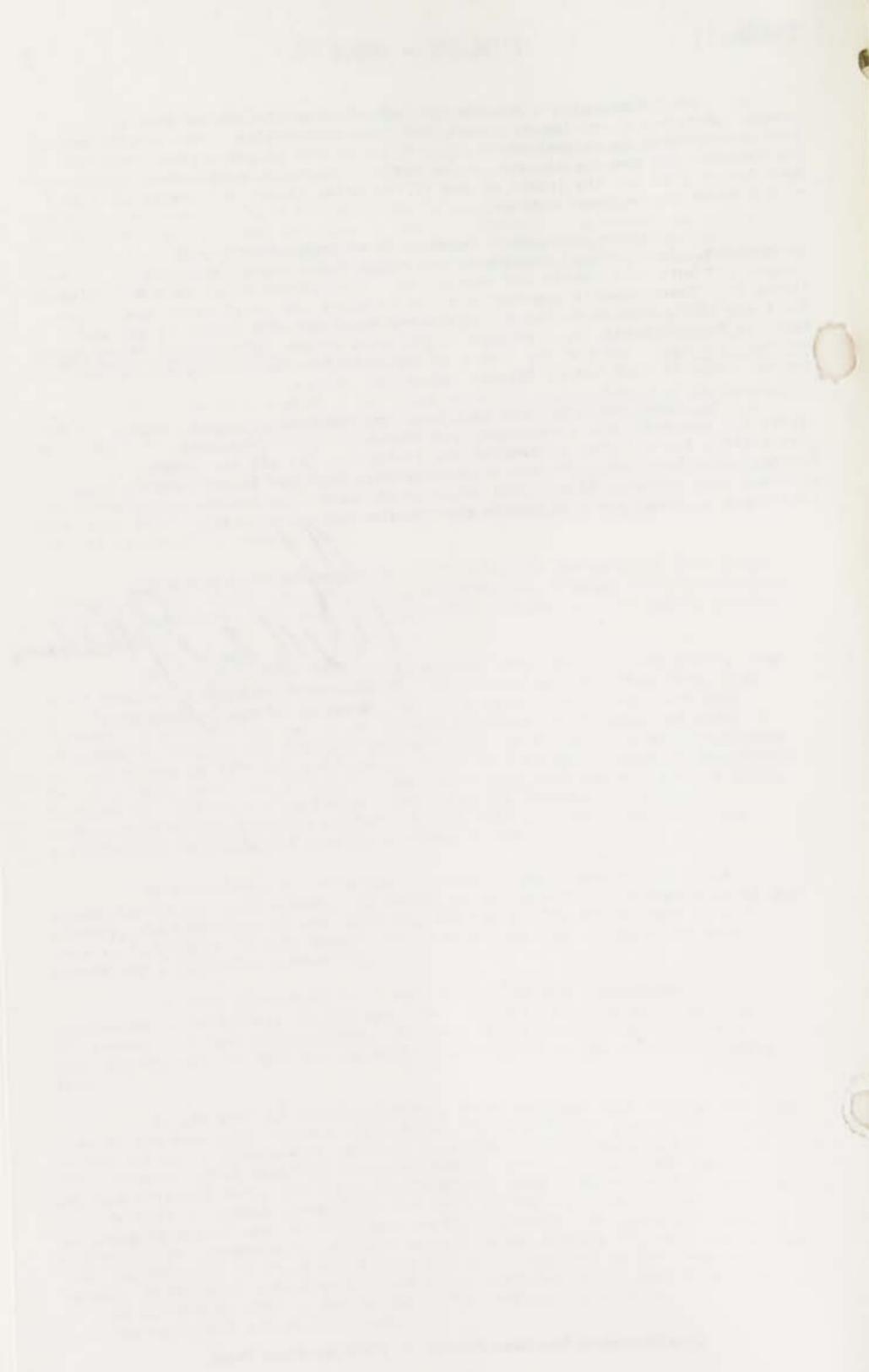
Our economic strength is matched by an impressive fiscal performance. Sound fiscal management has meant lower taxes, relative to income, for both individuals and businesses. The proportion of each \$1,000 of income that Massachusetts wage-earners pay in state and local taxes has fallen 22% since 1977. Better still, the state and local revenue burden (taxes and fees) in Massachusetts, as a percent of personal income, is now 8.4% below the national average. And the tax burden on business has also fallen and is now average compared with the 17 largest industrial states.

In short, Massachusetts is a model of economic strength, fiscal stability, compassionate government, and innovative public/private partnerships for a future of promise and prosperity for all our people. Massachusetts has lived down its reputation as a high-tax state. And we have achieved this enviable fiscal goal while at the same time demonstrating a commitment to human needs second to none in the nation.

Respectfully submitted,



Michael S. Dukakis
Governor of the Commonwealth



HOUSE OF REPRESENTATIVES
COMMITTEE ON THE BUDGET

REPORT

ON THE

PROPOSED BUDGET

FOR THE FISCAL YEAR

ENDING JUNE 30, 1964

BY

JOHN W. BRADLEY, Chairman

AND

Members of the Committee on the Budget
of the House of Representatives

PHOTO

UNITED STATES GOVERNMENT

WASHINGTON, D. C.

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