

November 19, 2014

To the Honorable Senate and House of Representatives:

Pursuant to Section 9C of Chapter 29 of the Massachusetts General Laws, Administration and Finance Secretary Glen Shor has advised me of a projected budgetary shortfall totaling \$329 million in fiscal year 2015.

The reasons for our shortfall are straight-forward.

While our economy is recovering and our revenues have consequently grown, this growth is likely to result in an automatic reduction in the personal income tax rate in January, the third in four years. This will result in a \$70 million loss in this fiscal year. In addition, fees and reimbursements are not achieving the levels forecast in the budget. Finally, investments through the economic development act (Chapter 287 of the Acts of 2014) were made with the expectation of even higher revenues than we have actually experienced.

I am therefore proposing reductions in the budget to bring spending and investments in line with available resources. They include \$198.1 million in net spending reductions at Executive Branch agencies that I am able to implement under my 9C authority and \$10 million of savings from the Massachusetts Department of Transportation. I am also filing legislation proposing 1.5% reductions to spending at most non-executive agencies (\$21.8 million), and a reduction to the fiscal year 2014 funding level for unrestricted local aid (\$25.5 million).

In addition, we have secured the commitment of several of our quasi-public partners that received funding in the economic development act to return a portion of those funds to the Commonwealth. In most cases, the agencies will continue to implement the aim of the legislation without support from the fiscal year 2015 budget. Additionally, we have found some modest additional federal and departmental revenues to bring the budget into balance. Taken together, these actions contribute \$73.6 million to the budget solve.

In crafting spending reductions, we have done our very best to protect investments that are critical to the Commonwealth's future, and to avoid negative impacts to the most vulnerable of our residents. For example, we have not proposed any cuts in Chapter 70 education aid, preserving funding which is once again at its highest level in history. Access to early education and care and scholarship funding for our neediest students are not reduced. We have not cut funding for the Department of Children and Families which, as part of our reforms, needs its significantly increased funding to staff up adequately. We have endeavored more broadly to protect current levels of service across a wide range of programs.

This letter, the attached supporting documents, and the legislation that I am filing with this letter provide detail on the spending reductions and other actions that I have identified to close this shortfall.

Working together, we have built a strong record of fiscal management during unusually challenging times. We have earned the highest bond ratings in the Commonwealth's history by carefully managing the budget throughout the year and taking decisive action when warranted. Consistent with our demonstrated commitment to fiscal responsibility, I am taking the foregoing steps to ensure that the fiscal year 2015 budget remains in balance.

With these reductions, the fiscal year 2015 budget is sound. It invests in broad-based opportunity and prosperity for Massachusetts. It likewise dramatically reduces our net Rainy Day Fund draw and

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dramatically increases payments towards our long-term pension and retiree health care costs.

I respectfully ask for your support.

Respectfully submitted,

/attachments