

**ADDRESS BY REPRESENTATIVE STEPHEN KULIK
"MASSACHUSETTS FISCAL OUTLOOK
AND PROSPECTS FOR PUBLIC HIGHER EDUCATION"**

Made to the Faculty Senate February 28, 2002

It's very nice to be with you today. As you all know from reading the newspapers and experiencing the cuts because of the budget cuts to the University that are affecting virtually everyone on the campus in one way or another, you know that the revenue picture is not great. It's probably going to continue that way for awhile. I know that my friend and colleague Senator Stan Rosenberg was with you about 2 months ago. We all wish we had a crystal ball to try to predict where we're going with the state budget and with our revenue picture.

At that time, I know Stan mentioned that many people were predicting that we had bottomed out in terms of the recession and its impact on state revenues, and things might look better after the first of the year. Unfortunately, that hopeful prediction has not really panned out, and we have continued to see a decline in state revenues in the month of January. Just to back up a little, we're now looking at seven months of continued steep drops in state revenue that were completely unpredicted when the House and Senate did their budgets last spring. That's what really exacerbated the resolution of the fiscal '02 budget. The budget revenue figures began to drop in June and July and people thought it wouldn't continue, but then it got worse in September, and got really bad after Sept. 11. There was a definite drop-off, as you know, in many retail sales, which affected sales tax income to the state, which is one of the largest sectors of economic revenue for the state. October, November, December, now January. January has seen an 18% decline in state revenues. The cause for further reductions mandated by the governor. The governor has that authority.

Although we passed a fiscal '02 budget finally in November and took up overrides in early December, if the revenues do not match the expenditures in the FY'02 budget, any governor has executive authority to cut spending. That bad news has come to the University in the last week or so based on the January revenues. It's happening throughout state government. It's not simply just affecting higher education or this campus. It is affecting every program and every department in state government with a few exceptions. Those are the fixed expenditures that we have very little control over. Debt service, pension obligations, Medicaid, the growth in healthcare. Healthcare is one of the real budget busters. For those of you who have been around for a long time and remember the last fiscal crisis in 1988-1991, you remember the identification of budget busters that were driving all of the cuts and were exacerbated by the recession at that time. We had the MBTA, we had pensions, we had Medicaid at that time. Most of them have been dealt with, but Medicaid is now 24% of all state spending. And, as a healthcare item, it is growing at about 12% a year--the rate of inflation in the healthcare field. So, it is one of those items that really needs to be brought under control. Yet, it's very difficult to do that.

We've done our best in the last few years, while the times have been good, to expand healthcare. That is one of the things that has driven growth in the Medicaid budget. We now have healthcare available for virtually every child in Massachusetts. That's a great thing. But it's also given us a fixed cost that we don't have a lot of control about. The governor did file her FY'03 budget about three weeks ago now. It starts out by all assessments independent as well as her legislative analysis, to be about a billion dollars out of balance. She uses a number of tricks and gimmicks to present a budget that is really not worth the paper it's printed on. It's not a good budget for the University. There's no question about that. It has a further cut. She's proposing about \$460 million I think in FY'03 spending. But she starts out with a structural deficit and certain economic assumptions, which are very unlikely to materialize. She bases her budget on revenue growth in fiscal '03 of over 5%. Right now we're experiencing negative 5% growth. So, we're losing money at that rate. She's predicting that somehow, beginning July 1 in '03, magically, we're going to suddenly reverse that and go on an aggressive period of economic growth. And I'll just point out by comparison, a couple of years ago, when we had the FY01 budget, when times were still pretty good and revenues were coming in strongly, the budget projections were based on a growth factor of about 4.5%. So, there's no basis whatsoever for the prediction she's making and basing her budget on. The only basis really is that she's seeking reelection, or election for the first time in November. It's a very political budget. Not based in reality.

There are other gimmicks in there such as underfunding the pension system, something that should be of concern to every state employee, because whenever they retire, they want to make sure that their pension benefits are there. We've been on a very aggressive schedule to fully fund that, so we can afford it on a pay-as-you-go basis, so that the trust fund is stable and secure. And she's proposing to delay payments into the pension system and pay off her pension liability. Doing that is a very risky thing. It frees up in the short term a little bit of money--about

\$134 million per year that we might be able to use to stop some of the budget cuts. But over a period of ten years, if you extend the pension funding schedule out ten more years, it's going to cost a total of \$8 billion in additional costs for doing that. It's a short-term gain, a long-term loss. Something we really shouldn't be entering into. So, how do we attack this problem? We're in FY'02. We've experienced a number of cuts, and we're likely to get some more unless revenues come up unexpectedly in the next couple of months. We have what's predicted to be about a \$500 million deficit in the current fiscal year, and what is perhaps a \$1.5-2 billion deficit for fiscal '03. What are we going to do about that? Well, there's really only 3 ways to attack a problem when it's that large. This past year we used a combination of a rainy day fund, our reserves that we put away, at a very good rate over the good years of the mid '90's to late '90's. We put about 2 billion dollars in the rainy day fund. And we also had a reserve fund from surplus from fiscal '01 and a little bit before that. So, we can use some of that. We used almost \$750 million in FY'02, reducing it now to about \$1.5 billion. We also will need to make additional spending cuts, probably on the order of a similar amount--\$750 million. And we have to look at new revenue.

There is no way to avoid the issue of additional revenue to help close this budget gap. It has to be a combination of three things, and the one most talked about is freezing the third portion of the income tax rollback that the voters voted for on the 2000 ballot. That was a reduction in the income tax rate from 5.95% down to 5.6%, down to 5.3%, and finally down to 5% which is to take effect in January of next year. At this point, it is just foolhardy to think that we can continue on that pace into a third year of an income tax rollback with our economy so dramatically different from what it was in November 2000 when the voters voted for it. I think we have to respect the fact that the voters did speak, and it was pretty overwhelming. It was 60-40% on that ballot question. But those were also very flush times. People were working. People were feeling good. State spending was at an all time high. We can't afford it anymore.

There's been a lot of discussion in the House and Senate, and as I say, on the campaign trail, among many of the candidates, about holding this off, not putting it into effect. What that would do, if we delay the final installment of the income tax rollback, is give us about \$235 million to use in fiscal '03. But more importantly, it will give us about \$450 million in fiscal '04 which starts about 18 months from now. And the reason it's so important to think in that longer term, 18 months or so, is because all people who look at this fiscal problem see it as a 2-3 year, possibly even more, problem. It's not going to go away this year or next year. It's probably going to be around for awhile, because even if the economy picks up next month, and revenues begin to grow, it usually takes 12-18 months for that economic recovery to manifest itself in increased revenues in the state budget. So, we have to plan for the long term. We have to look 2-3 fiscal years ahead. That's why we also cannot spend down the rainy day fund in one year. We could solve this problem completely if we used all \$1.5 billion in the rainy day fund for fiscal '03. We could minimize the cuts, but we have to save, probably divide what's left in at least 2, if not 3 parts and use it for fiscal '04 and possibly fiscal '05. So it has to be a combination of spending reductions, revenue enhancement, and use of the rainy day fund.

Now, I get a lot of questions, I get a lot of emails from people on this campus about "what can we do about it?" Especially as we're entering a budget year. It's a political year. Everyone in the state is up for reelection. You should have a lot to say about budget and spending priorities and how they affect this campus and the work that you do. Whether you're students, faculty, or administrators. Your voices really need to be heard this year. And I want to speak especially to students and their families. I've had an opportunity over the years, but particularly recently, to talk with some faculty members about effective lobbying of the legislature to try to maintain the position that the University has to make sure that you're not disproportionately cut. That whatever pain is spread out through the state budget, that it is spread equitably, so that higher ed, for example, is not bearing a larger burden of the cuts the way it did in the late 80's. There was no question that it happened then, it should not happen now. And I think you can do a lot to make sure that doesn't happen.

For students and their families: it is so very important for you to contact your own legislators in their districts. It is not very helpful for you to contact me for example, just because I'm adjacent to the Amherst campus. A lot of students live in my district, that's terrific, but where you really ought to be registered to vote is where you came from, and your parents ought to be registered to vote, and you should be contacting your own legislator. Because legislators are responsive to their constituents. They tend not to be responsive to other folks. They have so much time and so much to deal with, that they tend to just focus on the things that affect their own constituents. What makes UMass Amherst unique is it's really the only campus in the entire higher ed system of 29 campuses where we have people from every corner of Massachusetts. Every community of Massachusetts has people attending this campus. It is the Commonwealth's University, the flagship campus. So every legislator needs to know that they have a stake in what goes on on this campus. Whether it's in reduced services to students, academic programs, cuts in programs or oversubscription to classes, people have to stay here longer than 4 years which is costing them more money and preventing them from getting out into the workforce expeditiously and contributing as taxpayers.

There's a whole host of reasons and good arguments to make to legislators. And they have to hear it. I can count on both hands the number of legislators in the house who really, passionately care about UMass. Yet, all of the rest of the 150 have people going to school here. And they don't really stop to think about it. They need to be made to stop and think about it. They need to be called. Go see them in their districts. Go see them when they have office hours. If they don't have office hours, then make an appointment. They will meet with you, but they have to be asked, and they have to be asked directly what their position is on UMass--will they make UMass funding a priority in their legislative agenda this year? They have to be held accountable. They have to know about your parents and what sending you to school means to them. And the affordability issue is a big one. The faculty has a huge role to play in this. There is a major effort underway right now to get students to register to vote in their hometowns if they're not already. I know that many faculty have been around long enough to have done this lobbying themselves and can provide good tips on how to do that.

Right now we're in a holding pattern. If we don't fight for the University, we lose out all of the other worthy constituency groups who are fighting for their slice of the state budget also. In a time of dwindling resources, the loudest voices are usually the ones who make out the best. So, it's time for UMass to really rally together and put out its loudest voice to everyone in the legislature and the gubernatorial candidates. Don't forget that. It's a very competitive race on the democratic side, and in terms of the republican side, I think you'd be wasting your time to go lobby Jane Swift. So, stick with the democratic side.

I also wanted to mention a couple things that have gone on in the last week or so. Many people on this campus have been concerned that the Early Retirement Bill passed by the Legislature in late December is actually closing tomorrow in terms of applications. It has not included trust funded and federally funded employees, something that was a real inequity in terms of fairness to people who worked side by side with state funded employees. Many people did not know that they were not paid out of state funds. They've been working here for 20 or 30 years paying into the state retirement system, getting state benefits, then found out when the law was passed that they weren't able to partake of early retirement. A bill was filed to correct that. That bill was heard on Tuesday before the Public Service Committee. The Committee gave it an immediate favorable report on Tuesday, and it's now in the House Ways and Means Committee. That Committee may report it out favorably today, so it may be coming to the House floor in the very near future. It could possibly come up as early as tomorrow. The House is going to be in special session to deal with the Clean Elections Law. The only measure before us is appeal of the Clean Elections Law, but I'm optimistic that the super majority, 2/3 vote necessary to really repeal it over the veto of the governor, will not be achieved. Right now the Senate is debating it as we speak. So what we do depends on what the Senate does this afternoon.

The other thing I wanted to mention is backfilling of positions. I've read some comments by Ernie May and others about the impact that early retirement might have on some academic departments where the University as a whole is limited to 20% backfill of positions of people who take early retirement. That may work fine in the Registry of Motor Vehicles or some other agency, but it's very difficult to manage that in an academic institution. I'm well aware of how devastating it would be for a department to lose a disproportionate number of its faculty and not be able to replace most of them, especially in a small department. I spoke with the Chairman of the Public Service Committee on Tuesday, and he's very aware of the problem. He knows that higher ed needs some special consideration in this and he's very open to amendments to this law, but he wants to wait a few months to see how many actually leave, what the impact is, what the reality is in each department on each campus. He's very open to changing that by amendment. But, I made him aware that if he waits until June 15 when people have to be gone from higher ed, then it's going to be too late to affect the academic year that begins in September, and we probably need to look at this much sooner than that. We will know very soon how many are taking advantage of this. So, for those of you who are department chairs and department heads and are concerned about that, let's stay in touch because I think there is room for some remedy or some relief in that area.