

Massachusetts Regulatory and Legislative Update March 2012

Article By:

ML Strategies

As the budget process heats up on Beacon Hill, ML Strategies will issue periodic updates regarding the process and politics that will shape this year's budget. We begin by providing an overview of the budget timeline and a brief analysis on the budget process.

Governor's Budget Proposal

The first official step in the budget process is the release of the Governor's budget, which he must propose within three weeks after the Legislature convenes. Governor Patrick filed his FY2013 budget with the House of Representatives on January 25, 2012.

The Governor's \$32.3 billion budget proposal is a 2.98% increase over the current year and calls for new tax revenues from several sources. Administration and Finance Secretary Jay Gonzalez defended the \$260 million in tax revenue increases in a House Ways & Means hearing on February 17, saying they were necessary to reduce the current \$1.3 billion gap between revenue and spending. The proposal requests a \$0.50 hike on the cigarette excise and corresponding tax increases on other tobacco products, a \$25,000 annual tax on roll-your-own tobacco machines, the end of a sales tax waiver on candy and soda, and an expansion of the bottle bill to include bottled water, juices, coffee, and sports drinks. In years past, the Legislature has rejected Patrick's call for taxing candy and soda and expanding the bottle bill.

The Governor's push for increased revenues along with targeted spending cuts is fueled by the anticipation of another lean year in tax revenues. The administration projects FY2013 tax collections to increase by \$940 million — or 4.5% over FY2012 — which is still below pre-recession levels and is \$94 million lower than FY2012 projections. Nonetheless, the Governor will likely see resistance to tax increases in the House and Senate where the leadership has already signaled opposition.

House Budget Proposal

After the Governor's proposal is submitted, it is referred to the House Committee on Ways & Means. Throughout February and March, the Joint Committee on Ways & Means holds public hearings and interviews cabinet and agency officials on the proposed budget.

The Governor's tax increase proposals have received little support in the House with Speaker Robert DeLeo leading the charge against new taxes and fees. DeLeo has stated repeatedly that consistency and predictability in the tax code are the most important factors for businesses in Massachusetts. He and other members of the House believe that any changes in revenue policy should be part of a broader tax package vetted by the Legislature. However, some House members have called for a tax overhaul that targets reducing tax credits for corporations. In the February 17 hearing, House Ways & Means Chair Brian Dempsey expressed his concern about the expected \$94 million shortfall in tax collections and an increase in immigrant health care and student transportation costs. Aid levels from Washington are another variable further affecting the state revenue base. We expect that the House will debate its version of the FY2013 budget the week of April 23.

Senate Budget Proposal

Once the House has passed its version of the budget, it is referred to the Senate. The Senate Ways & Means Committee reviews the House bill and develops its own recommendations. Although Sen. Stephen Brewer, the Chairman of the Ways & Means Committee, has expressed concern about lagging tax collections this year, he is likely to follow the lead of Senate President Therese Murray who announced her opposition to the Governor's proposed increased taxes and fees. We expect that the Senate will debate its version of the budget the week of May 21.

Conference Committee Budget

The differences between the House and Senate versions will be negotiated and resolved by a six-member conference committee. The House and Senate appoint three members each, typically the respective chairs of Ways & Means, as well as the ranking majority and minority members of each committee. Each branch will then vote to accept or reject the report of the conference committee. Once accepted in each branch by at least a two-thirds vote of approval, the bill is sent to the Governor.

Veto

The Governor has 10 days to review and approve the bill, or make vetoes or reductions. The Governor has line-item veto power within individual appropriations, which means that he may strike portions of language within specific items, in addition to reducing or eliminating funding. Outside sections appear at the end of the document. They are policy initiatives that have a fiscal impact. With respect to the outside sections, the Governor may approve, strike the section in its entirety, or return the section with an amendment. The goal is to complete this process by the end of the fiscal year on June 30.

The House and Senate may vote to override the Governor's vetoes. Overrides require a two-thirds majority in each chamber. All overrides must be completed by the conclusion of the formal sessions on July 31.

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