TRANSPARENCY AND BALANCE: 
FY 2009 HOUSE BUDGET

The Governor and now the House have both made significant progress in making it easier for everyone to see and understand the priorities within our state budget. This improved transparency in the budget process implements many of the recommendations made in Creating a Transparent Budget for Massachusetts,1 a report by the Massachusetts Budget Transparency Project.

This MassBudget Brief takes the information provided by the House and creates a complete “Sources and Uses” statement, comparing the House proposal to the Governor’s proposal. Because the “Sources and Uses” lists all proposed state spending and all sources of revenue, the reader can determine how the budget balances (i.e. whether there are sufficient revenues to pay for all of the expenses), and can determine whether the budget is structurally balanced – whether ongoing spending is supported by permanent, rather than temporary or one-time revenues. As the chart on the next page and the analysis that follows show, FY 2009 House budget, although nominally balanced, is out of structural balance by approximately $600 million.

Although neither the House nor the Governor included a Sources and Uses statement within the budget documents made available to the public, for the first time they both provided most of the information needed to construct such a chart.2 Making all of this information publicly available represents a major improvement in the transparency of the budget.

Sources and Uses

A “Sources and Uses” document (sometimes referred to as “Income and Expenses”) summarizes the various types of revenue or “sources” of funds available for the budget, and the various types of spending or “uses” to which these dollars will be put. The benefits of a “Sources and Uses” format is that it allows the reader to understand quickly and clearly whether a budget is balanced.

The following chart summarizes Sources and Uses as proposed by the House budget. A detailed explanation of each line follows.

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1 Published jointly by the Massachusetts Budget and Policy Center, the Massachusetts Taxpayers Foundation and the John W. McCormack Graduate School of Policy Studies at the University of Massachusetts, October 2006. For a discussion of progress on these recommendations, see also A More Transparent Budget: Continuing the Progress from the John W. McCormack Graduate School of Policy Studies at the University of Massachusetts, the Massachusetts Budget and Policy Center.

2 For the House Committee on Ways and Means budget documents as amended by the full House, see http://www.mass.gov/legis/09budget/house/html/waysmeans.htm.
### Sources and Uses

#### (in Millions of Dollars)

<table>
<thead>
<tr>
<th>Revenues and Other Sources</th>
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<td>Baseline tax revenue</td>
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<td><strong>Total</strong></td>
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<td>412.0</td>
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<td>From Other Sources</td>
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<td>From Gaming Licensing Fee Trust Fund</td>
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<td><strong>Total</strong></td>
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<td><strong>BALANCE</strong>*</td>
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<td>369.0</td>
<td>5.0</td>
<td>(608.5)</td>
<td>610.5</td>
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* State law requires carrying forward 1/2 of 1% of tax revenue into the General Fund for use in the next year.

** State law requires deposit of 1/2 of 1% of tax revenue into the General Fund. In FY 2009, H.2 proposes applying interest earned by the Stabilization Fund (approximately $100 million) towards the amount required by this deposit, with the remainder ($7.2 million) transferred from the General Fund. The House budget's transfer interest earned by the Stabilization Fund into the General Fund, and completely forgo the Stabilization Fund deposit.

*** Because the Governor's budget proposal changes the law regulating the required statutory deposit into the General Fund, this chart shows the Governor's forgone $100.0 million deposit as ongoing savings, suggesting that the Governor's budget is $100.0 million less out of structural balance than if this were counted as a one-time savings. The House budget forgoes the deposit as well, but does not make a statutory change. To make an accurate comparison to the Governor's budget, we should count these forgone deposits in the same way, so it would be accurate to say that the House budget is $142 million less out of structural balance than the Governor's.
REVENUES AND OTHER SOURCES

There are five primary sources of funds available for use in the budget: money carried over from the previous year, tax revenue, federal revenue, fees and assessments, and money that has been taken out of special trust funds for spending in the current year. Each of these sources of funds is described in more detail below.

Revenue Carry-Forward from Previous Year

“Revenue Carry-Forward” consists of funds from the previous year’s tax receipts that must remain unspent in that year so that they are available for use in the current year. State law (M.G.L. Chapter 29, Section 5c) states that “an amount equal to 1/2 of 1 per cent of the total revenue from taxes in the preceding fiscal year shall be available to be used as revenue for the current fiscal year.” In other words, each year, one-half of one percent of the year’s total tax revenue must be available to carry forward into the following year for use as revenue.

At the time the House published their budget proposal, total estimated tax revenue in Fiscal Year 2008 was $20.247 billion.\(^3\) One-half of one percent of this total is $101.2 million, which is a source of funds for the Fiscal Year 2009 budget.

Tax Revenues

The largest single source of funds available for the budget is tax revenue. Tax revenue includes personal income tax revenue, corporate income tax revenue, sales taxes, and others. Each year the Executive Office of Administration and Finance and the Legislature work with leading economists in the Commonwealth to estimate the amount of tax revenue that will likely be available for the budget in the coming fiscal year, assuming there are no changes in tax laws. This is referred to as the “baseline” tax revenue of the consensus revenue estimate.

Tax revenues in the House budget proposal consist of three parts: the total gross tax revenue based on consensus revenue estimates; the total estimate of the revenues that would be generated by proposed tax law changes, and the revenue that the Commonwealth anticipates collecting due to increased enforcement of existing tax laws. Each of these totals is included in the House budget proposal in Section 1A - Fiscal Year 2009 Revenue by Source and Budgeted Fund.

- **Baseline tax revenue.** The baseline consensus tax revenue total for Fiscal Year 2009 is $20.987 billion (see “Total Tax Revenues”).

- **Tax law changes - corporate.** The House budget accounts for tax law changes already approved by the House, including corporate combined reporting and conformity in entity

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classification to federal rules (so-called “check the box” conformity). The House estimates that these changes would bring in $188.0 million and $101.0 million respectively, for a total of $289.0 million. This budget also account for the costs of two items in legislation that the House approved that would reduce the total anticipated revenue: a proposed excise rate reduction and tax incentives for the life sciences. The House estimates that the excise rate reduction would result in $85.0 million in forgone revenue, and that the incentives for investments in the life sciences would result in $25.0 million in forgone revenue.\(^4\) Total revenues associated with these tax law changes, therefore, are $179.0 million (see “Corporate Tax Total,” “Excise Rate Reduction,” and “Life Sciences Tax Incentives”). These totals may not fully account for the revenue impacts of changes to the corporate tax reform bill made by amendments on the House floor.

- **Increased tax enforcement.** The House estimates that increased tax enforcement through “DOR Enforcement and Efficiencies” should bring in $166.1 million (see “DOR Collection Totals”).\(^5\)

- **Tax law change – increased tobacco tax.** The House budget proposal assumes that with the passage of an increased tobacco tax, there will be $174.6 million more available for spending within the budget. The House proposal has been that those dollars be targeted specifically for spending on health reform (see “Pre-Budget Transfers” below).\(^\)\(^6\)

Total tax revenue available for the budget is $21.506 billion.

**Federal Grants and Reimbursements**

Federal revenues are an important source of funding for the Commonwealth’s budget. The largest components of these federal revenues are the federal Medicaid dollars that help support the Commonwealth’s health care programs, federal dollars for transitional assistance to needy families and federal and federal social services block grant funds. In Fiscal Year 2009, the House estimated that there would be $6.850 billion in “Non-Tax Revenue – Federal Reimbursements” to support the Commonwealth’s budget. Due to amendments to the HW&M budget proposal made on the floor of the House, this estimate is now $6.920 billion. In particular, increases associated with the MassHealth program and with health reform are likely to generate additional federal


\(^6\) See House 4672, “An Act Improving Tax Fairness and Business Competitiveness,” which states: “Notwithstanding the provisions of section 28, an amount equal to 50 mills for each cigarette so sold during the calendar month covered by the return filed under section 16 of chapter 62C shall be credited to the Commonwealth Care Trust Fund, established pursuant to section 2000 of chapter 29.”
Medicaid revenue. Because the MassHealth/Medicaid program is jointly funded by state and federal dollars, increased spending increases federal revenues for the program.\footnote{This total includes $47.5 million in federal revenues associated with a $95 million increased transfer from the General Fund into the Medical Assistance Trust Fund. This increase is pending federal approval, and is therefore not assured. Without approval, both spending and total revenues (including this $47.5 million in federal revenues) would be reduced by $95 million.}

**Departmental Revenues into Budgeted Funds**

The Commonwealth assesses a large variety of fees and charges that generate substantial revenue for use by the budget. These revenues include such items as fees generated by the Registry of Motor Vehicles, a variety of other permitting fees, special assessments levied on certain health care providers, health insurance premiums paid by retired teachers who participate in the state’s Group Insurance health plan, and interest earned by the budgeted funds. The House budget documents include an estimate for “Total Departmental Revenue” of $2.533 billion, however $91.0 million of this total is actually interest earned by the Stabilization Fund which is not counted as revenue in this *MassBudget Brief*. The House budget proposal does recommend transferring this interest into the General Fund, but this transaction is included in the “Transfers into Budgeted Funds” section below. Excluding interest earned within the Stabilization Fund, the total Departmental Revenues into Budgeted Funds under the HWM proposal was $2.442 billion. With amendments to the HWM proposal made on the House floor, some of which affect departmental revenues, the total in the House budget is $2.499 billion.\footnote{This total includes $47.5 million in departmental revenues associated with a $95 million increased transfer from the General Fund into the Medical Assistance Trust Fund. This increase is pending federal approval, and is therefore not assured. Without approval, both spending and total revenues (including this $47.5 million in departmental revenues) would be reduced by $95 million.}

**Transfers into Budgeted Funds**

Like in the Governor’s budget documents, the House budget documents include a total referred to as “Consolidated Transfers.” Transfers of funds are “sources” of funding when the transfer moves money from a non-budgeted fund into the General Fund for use in the budget. A transfer of funds can be a “use” of funds when money is transferred from the General Fund into specialized trusts. The House consolidated transfer total combines sources of funding with the uses of funding. Unlike in the Governor’s budget documents, the House documents did not include the details on these transfers, but they did make that information available. This *MassBudget Brief* breaks the single consolidated transfer total into its components, and identifies which of these transfers constitute “sources” of funds. These sources are included here, whereas the transfers that are uses are included in the “uses” section of the chart.

There are six major categories of transfers from special purpose trusts into the Commonwealth’s General Fund.

- **From Lottery proceeds.** House estimates $1.031 billion will come from Lottery proceeds. (See "Section 1B – Total Non-Tax Revenue", Lottery Commission.) This total includes
$810.9 million that is then available for distribution to cities and towns in what is referred to as “lottery aid.” The total also includes $220.1 million for administration of the lottery, support for the Massachusetts Cultural Council and other specified purposes.

- **From Tobacco Settlement proceeds.** House estimates that there will be $288.5 million distributed to Massachusetts in conjunction with proceeds from the Tobacco Settlement agreement that requires tobacco companies to make restitution payments to states for the health care costs associated with tobacco. The House budget proposes that for Fiscal Year 2009, all of these proceeds would be transferred into the General Fund and would be a source available for use in the state budget.

- **From the Stabilization Fund.** The House budget proposes language that would make a one-time transfer of $412.0 million from the Stabilization Fund into the General Fund.

- **From Other Sources.** The House budget also includes a total of $455.0 million from a variety of other sources. These include funds associated with reimbursements to the General Fund from federal grants to non-budgeted funds for the payment of grant-associated fringe benefits.

- **From Gaming Licensing Fee Trust Fund.** House does not follow the Governor’s budget proposal which included $124.2 million transferred from a “Gaming Licensing Fee Trust Fund” that would have come from casino licensing.

- **From Interest Earned by the Stabilization Fund.** The House budget proposes that $91.0 million in interest earned by the Stabilization Fund be transferred into the General Fund.

The House budget proposes that a total of $2.278 billion from transfers would be available as a source for the Fiscal Year 2009 budget.

**Total Revenues and Other Sources**

Adding up the revenues and other sources of funds, the House budget proposal includes a total of $33.304 billion available for the Fiscal Year 2009 budget.

**APPROPRIATIONS AND OTHER USES**

There are three primary ways in which the House budget proposal uses funds: some funding is taken “off the top” from revenues to fulfill certain statutory funding requirements; most of the available funds are designated for appropriation; and certain other funds are required to meet specific statutory uses. Each of these uses of funds is described in more detail below.
Pre-Budget Transfers from General Fund

State law requires three particular transfers of state revenue for specified uses, prior to any appropriation. The House budget documents subtract these transfers directly from the consensus tax revenue total. Because these transfers would happen prior to any appropriation and would decrease the sources of funding available for appropriation, this MassBudget Brief refers to these transfers as “Pre-Budget Transfers from the General Fund.” The Governor’s budget also included a new proposed transfer of revenue from the General Fund to a special trust, but this transfer is not specified in the House budget. The House, on the other hand, incorporates a new tax transfer into its budget assumptions in order to pay for health reform (see “Tax Revenues” above).

For each of the following three pre-budget transfers, see “Section 1A – Fiscal Year 2009 Revenue by Source and Budgeted Fund.”

- **Mass. School Building Authority.** State law (M.G.L. Chapter 10, Section 35bb) requires the transfer of one percent of sales tax revenue to the Massachusetts School Building Authority. In Fiscal Year 2009 this total is $702.0 million.

- **Massachusetts Bay Transit Authority.** State law (M.G.L. Chapter 10, Section 35T) requires the transfer of one percent of sales tax revenue and certain special assessments to the Massachusetts Bay Transit Authority and Local Contribution Fund. In Fiscal Year 2009 this total is $768.0 million.

- **Pensions.** The House budget also transfers $1.465 billion to fund the state’s pension system.

The House budget includes a pre-budget transfer of $5.5 in fees collected by the Registry of Motor Vehicles. The Governor’s budget specified that these fees would support the Transportation Fund, but this specification is not included in the House budget.

The House budget proposal assumes that $174.6 million in revenues available from a proposed increase in the tobacco tax will go directly to the Commonwealth Care Trust Fund to pay for some of the costs associated with health reform.

Total pre-budget transfers from the General Fund for Fiscal Year 2009 in the House budget are $3.110 billion.

Appropriations

A budget proposal includes two types of appropriations: line-item appropriations itemized in Section 2 of the budget, and then “outside section appropriations” described in Sections 3 and above. The outside sections of the budget often include language directing the transfer of funds from the General Fund to specific funds for certain designated uses.
The House budget includes $27.262 billion in line item appropriations. For details on proposed House appropriations, see the Massachusetts Budget and Policy Center *Budget Monitor: The FY 2009 House Budget.*

The outside sections of the budget propose specific transfers of funds from the General Fund into specific trusts. The House budget includes these transfers in a “Consolidated Transfers” total, but this *MassBudget Brief* differentiates between the transfers into the General Fund that serve as “sources” for the state budget, and those transfers out of the General Fund that are “uses” of the state budget. There are three transfers related to health care spending: transfers into the Commonwealth Care Trust, the Medical Assistance Trust, and the Essential Community Provider Trust. These trusts help fund the Commonwealth’s health reform efforts and provide payments to health safety net providers. There is also a transfer that directs money into the State Retiree Benefit Trust, which supports funding of state retiree health benefits.

Unlike the Governor’s budget proposal, the House budget also directly transfers $124.2 million from the General Fund into an account referred to as a “FY 2009 General Fund Supplement to Hold Harmless Lottery Aid.” This amount, equivalent in amount to the anticipated shortfall from lottery revenues and equivalent to the funds the Governor had anticipated raising through licensing fees associated with casinos, would be directed to local aid for municipalities. House also includes $15.1 million in outside section appropriations for economic development projects.

Total outside section appropriations in the House budget are $2.823 billion.

**Other Uses**

There are two other uses of funds each year that are required by statute as a part of creating a balanced budget. As described above, state law (M.G.L. Chapter 29, Section 5c) requires that “an amount equal to 1/2 of 1 per cent of the total revenue from taxes in the preceding fiscal year shall be available to be used as revenue for the current fiscal year.” One-half of one percent of the House estimated Fiscal Year 2009 total tax revenue of $21.506 billion is $107.5 million. Just as the Fiscal Year 2009 budget has $101.2 million available as a source from revenues carried forward from Fiscal Year 2008, the Fiscal Year 2009 must carry forward (use) $107.5 million as a source for the Fiscal Year 2010 budget.

In addition, state law (M.G.L. Chapter 29, Section 5c) also requires that “1/2 of 1 per cent of the total revenue from taxes in the preceding fiscal year shall be transferred to the Stabilization Fund.” As indicated above, one-half of one percent of Fiscal Year 2009 tax revenue is $107.5 million. As the law currently stands, one could argue that in Massachusetts, a “balanced budget” is not actually balanced when revenues equal expenses, but rather it is balanced when there is a “surplus” of one-half of one percent of tax revenue that can be transferred into the Stabilization Fund, in this year a “surplus” of $107.5 million. In the Sources and Uses format in this

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10This total includes a $95 million increased transfer from the General Fund into the Medical Assistance Trust Fund. This increase is pending federal approval, and is therefore not assured. Without approval, both spending and revenues would be reduced by $95 million.
MassBudget Brief, this required transfer is a statutory use of funds within the fiscal year, and the budget is “balanced” when all sources of funds equal all required uses of funds.

The House budget includes language specifying that the Commonwealth forgo its required deposit into the Stabilization Fund, thereby “saving” $107.5 million. In the attached Sources and Uses chart, this $107.5 million is reflected as a forgone deposit, or “not using” $107.5 million and a one-time savings.

Adding together the required carry-forward amount and the net cost of forgone statutory deposit into the Stabilization Fund, the total “Other Uses” in the House budget proposal is $107.5 million.

**Total Appropriations and Other Uses**

Appropriations and Other Uses in the House budget total $33.302 billion in Fiscal Year 2009.

**Balance**

The House Fiscal Year 2009 budget is balanced, with a minimal “surplus” of $2.0 million. However, like the Governor’s budget, the House budget proposal does not achieve “structural balance,” because there are not sufficient ongoing revenues to meet ongoing expenses. The structural deficit in the House budget is approximately $600 million.

The House budget is not in structural balance because it relies on a one-time source of $503.0 million transferred from the Stabilization Fund, and has a one-time saving associated with forgoing $107.5 million of the currently-required deposit into the Stabilization Fund.¹¹

Finally, like the Governor, the House relies on several one-time savings initiatives, particularly in the MassHealth program. The House budget proposal includes at least $50.0 million in one-time net MassHealth savings (after accounting for reduced federal reimbursement), achieved largely by postponing into Fiscal Year 2010 one-quarter of certain Fiscal Year 2009 payments to health care providers such as nursing homes, hospitals and managed care organizations.

¹¹ Unlike the House, the Governor proposed changing the law regulating the required deposit into the Stabilization Fund. So while the Governor’s budget also included aforgone Stabilization Fund deposit, one could argue that the Governor’s forgone deposit should not count against structural balance. The House, on the other hand, does not make any changes in the required Stabilization Fund deposit, so its proposed forgone deposit is clearly one-time savings and must count against structural balance. To make an accurate comparison between the Governor’s proposal and House proposal, it is probably useful to include the Governor’s forgone Stabilization Fund deposit against structural balance, thereby showing that instead of by $242 million, the House budget is approximately $142 million more out of structural balance than the Governor.