

## Budget Transparency and Balance: The FY 2010 Budget Proposals

This *Budget Brief* describes and compares the budgets presented by the Governor (first as presented in January, then as amended in April and finally as revised in May), and by the House, the Senate, and the Conference Committee, in order to determine how these budgets balance, and how they differ in their uses of revenues.<sup>1</sup>

One of the biggest challenges facing the Commonwealth in crafting a budget for the upcoming fiscal year has been trying to predict how much revenue will be available. The deteriorating economy has had an unprecedented and unpredictable impact on tax revenues – the largest source of funding for the state’s budget. In January, when the Governor first proposed his budget, the official estimates for FY 2010 tax revenues (the “consensus tax revenue estimate”) was \$19.53 billion. By May, however, when the Senate began developing its version of the budget, tax revenue estimates for the upcoming year had dropped by close to \$1.5 billion.<sup>2</sup> Accordingly, all other things being equal, the Senate faced a \$1.5 billion larger budget gap than either the House or the Governor originally did.

In fact, because consensus tax revenues have dropped precipitously, the Governor filed a revised and dramatically scaled-back version of his budget,

reflecting the lowered revenue estimates. This budget proposal is referred to as the Governor’s “revised” budget in this *Budget Brief*.

The second significant change in revenues for FY 2010 has been the funding made available through the American Reinvestment and Recovery Act (ARRA), also referred to as federal stimulus funding.<sup>3</sup> When the Governor first published his budget proposal, the federal stimulus bill had not yet been signed, so there was no way to know exactly how much new federal revenue would be available. Accordingly, the Governor’s original budget proposal includes an estimate of \$711 million in new federal revenue. When estimates for the amount of federal stimulus money became available in April, the Governor amended his original budget proposal, reducing the proposed cuts in his original budget by adding more than \$830 million in spending paid for by these new federal funds. The House and the Senate both had more reliable estimates for how much new federal revenue would be available for the state to use in FY 2010. Accordingly, the House budget proposal, the Senate budget proposal and the Governor’s revised budget proposal include approximately \$1.5 billion in these new federal revenues, mostly in the form of enhanced federal Medicaid reimbursements (FMAP), as well as “State Fiscal

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<sup>1</sup> For details on these various budget proposals, refer to the MassBudget *Budget Monitors*, available at [www.massbudget.org](http://www.massbudget.org).

<sup>2</sup> In addition to this total, the Administration anticipated \$145 million from cigarette excise taxes associated with a recent increase in tobacco tax that would be directed to pay for a portion of the costs of health reform. By April, this estimate dropped to \$105 million.

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<sup>3</sup> For a description of the American Recovery and Reinvestment Act, see Massachusetts Budget and Policy Center, “*The American Recovery and Reinvestment Act: Federal Stimulus in Massachusetts*,” March 20, 2009, available at <http://www.massbudget.org/doc/664>.

Stabilization Funds” made available primarily to support education funding.<sup>4</sup>

As crucial as these new dollars are for the Commonwealth’s FY 2010 budget, they are not a permanent solution to the Commonwealth’s budget challenge. First and foremost, these new dollars are temporary revenues which will disappear after FY 2011 (unless the federal government passes additional stimulus legislation); and second, the amounts that will be available in FY 2011 from these sources are significantly less than the amounts that are available for FY 2010.

The federal stimulus funding is designed to help states address the elements of the fiscal crisis brought on by the national economic recession. The federal government has determined that it is important to the national economy that states maintain spending for essential services during the recession. Such spending increases economic activity, pushes back against the downward cycle of the economy, and makes investments in people and infrastructure that will create a strong foundation for future economic growth. The federal stimulus money also allows the state to avoid budget cuts that would harm the safety net for vulnerable populations affected by the economic downturn.

While this new federal money will help the Commonwealth weather the recession, it will not solve the state’s longer term structural budget problems. As the economy recovers, the state will need to make difficult choices to address its structural budget challenges. To be prepared for periods of recession, states should strive to maintain fiscal policies that allow them to generate

surpluses in periods of economic growth so that they can build substantial reserves and do not immediately fall into deficit in down business cycles.

In the decade leading up to the current recession, Massachusetts had adopted revenue policies that eliminated surpluses that the state was able to maintain during the economic recovery of the 1990s. This left the Commonwealth with a budget deficit even before the effects of the current recession were felt in Massachusetts.<sup>5</sup>

In examining the budget gap the Commonwealth now faces, it is important to recognize that there are both cyclical revenue declines that are appropriately addressed with one-time revenues, and structural problems that the Commonwealth will have to address with longer term solutions.

## AN OVERVIEW OF THE COMPLETE STATE BUDGET

Section 2 of Article LXIII of the state Constitution reads as follows:

*The Budget.* – “Within three weeks after the convening of the general court the governor shall recommend to the general court a budget which shall contain a statement of all proposed expenditures of the commonwealth for the fiscal year, including those already authorized by law . . . .”<sup>6</sup>

<sup>4</sup> The federal stimulus bill’s “state fiscal stabilization funds” are made available for use by the Governor, and do not require legislative appropriation. Accordingly, the Legislature’s budgets do not include these dollars (approximately \$330 million) in their appropriations. Even so, the Legislature’s budgets assume that the Governor will use certain amounts of federal funds in FY 2010. This *Budget Brief* includes these funds that are under the control of the Governor in the totals for each of the budget proposals.

<sup>5</sup> For details on the history of the Commonwealth’s fiscal policy, see *Substantial Surpluses to Dangerous Deficits: A Look at State Fiscal Policies from 1998 to 2008 I* (Massachusetts Budget and Policy Center, January 14, 2009), available at <http://www.massbudget.org/doc/638>

<sup>6</sup> Although the Constitution also references spending financed by loans (i.e. capital spending), that issue is beyond the scope of this brief.

While the budget documents filed by the Governor ultimately contain all of this information, the totals that are described as the “Budgetary Recommendations” on the budget website actually reflect only a portion of the proposed budget, as defined by the state Constitution. Specifically, the totals do not include expenditures previously authorized, which we call “pre-budget transfers” (such as the automatic transfer of a portion of the sales tax to the MBTA), nor do they include appropriations that are made not in the form of line-item appropriations, but rather as outside section transfers (such as the transfer of funds to the Commonwealth Care Trust Fund that finances much of the state’s health reform initiatives). As a result of these omissions, widely available budget documents usually list budget totals of approximately \$28 billion, while the complete state budget actually totals approximately \$32 billion.

This discrepancy does not appear to be the result of any effort to limit transparency. In fact, the Administration readily provides the data needed to calculate the size of the complete state budget. Using that information, this *Budget Brief* estimates the size of the full state budget and explains each type of spending and revenue.

In the future, the Administration and the Legislature should provide simple summary documents (similar to the “Sources and Uses” statement in this *Brief*) that list all spending of state money in the fiscal year as well as all revenue sources, and show how the budget balances. Ideally, such documents should also identify which revenue sources are non-recurring revenue sources (such as money pulled from reserve funds) and which are ongoing revenue sources, so that readers can clearly understand the budget challenges that the Commonwealth will face in next few years.

By presenting a clear description of the complete state budget, our state government can make it easier for readers to monitor changes in spending

levels over time. Because some spending items are funded in line item appropriations in some years and through pre-budget transfers in other years, summary documents that include only line item appropriations limit the ability of people to see an accurate picture of changes over time.<sup>7</sup>

## BUDGET TRANSPARENCY

Over the past three years the state has made significant progress in creating a more transparent budget process. Many of the recommendations from the Massachusetts Budget Transparency Project<sup>8</sup> have now been implemented, as have additional reforms. Any visitor to the state budget website ([www.mass.gov/budget](http://www.mass.gov/budget)) can now find detailed information on appropriations, historic spending levels by line item, details on numbers of public employees, spending on direct assistance, and related breakdowns. The website also provides detailed policy reports on new budget initiatives, descriptions of the budget gap and the strategies proposed to close it, a glossary to explain the technical terms, a budget navigation guide and numerous other helpful documents. In addition, the Legislature is now posting its budget proposals on line along with texts and summaries of proposed amendments, journals of the budget debates, and other information.

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<sup>7</sup> To help people make accurate comparisons of spending over time, MassBudget has developed a “Budget Browser” that allows users to search historic spending levels for each category and subcategory of the state budget and see spending totals that include total spending – not just line item appropriations. Consistent with a strong trend towards greater transparency, the Executive Office of Administration and Finance and the Office of the State Comptroller provided the spending data needed to compile this database. See the Budget Browser at the MassBudget website, [www.massbudget.org](http://www.massbudget.org).

<sup>8</sup> See, John W. McCormack Graduate School of Policy Studies, Massachusetts Budget and Policy Center and Massachusetts Taxpayer Foundation, “Creating a Transparent Budget for Massachusetts,” October 6, 2006, available at [http://www.massbudget.org/file\\_storage/documents/Creating\\_a\\_Transparent\\_Budget.pdf](http://www.massbudget.org/file_storage/documents/Creating_a_Transparent_Budget.pdf)

For the first time, the Governor's budget materials also now include supplemental data with a spending and revenue statement describing his budget proposal. This document is not quite a complete statement of budget balance, but does begin the process of listing all proposed state spending and sources of revenue.

There remain, however, two important reforms that have not been implemented:

1. The publication of a complete overview of the budget (a "Sources and Uses" document as described above) listing all spending proposed for the fiscal year and all revenues relied upon for the fiscal year. This document allows a reader to determine if the budget is balanced, and what spending and revenue decisions were necessary to achieve that balance.
2. The publication of a "maintenance" or "current services" budget estimate that would estimate the appropriation levels necessary to continue into the next year the current year's level of service after accounting for cost changes due to inflation and caseload changes. This would allow readers to see how a budget proposal reflects real cuts or expansions in programming. Nevertheless, through the impressive amount of information included in the policy reports and narratives that accompany the budget and in other ways, the Governor in particular has started to make available information about FY 2010 "maintenance."

Providing more of this detailed information would have been particularly helpful in the budget debates for FY 2010, since the rapidly changing economic climate has had a dramatic impact on revenues available for use in the budget, and consequently a dramatic impact on proposed spending levels.

## SOURCES AND USES

A "Sources and Uses" statement (sometimes referred to as "Income and Expenses") summarizes the various types of revenue or "sources" of funds available for the spending within the budget, and the various types of spending or "uses" to which these dollars will be put. They are not only important for determining budget balance, they also allow the reader to understand the extent to which the Commonwealth is relying on ongoing revenues to pay for ongoing expenses, or whether the budget balances with temporary or non-recurring revenues.

To compare the FY 2010 budget proposals, this *Budget Brief* includes a comparative "Sources and Uses" statement using available budget information, and using revenue data provided to MassBudget by the Administration and the Legislature. The Sources and Uses statement included in this *Budget Brief* allows the reader to compare how each version of the budget balances, and how the different spending levels within each budget is supported by different combinations of revenue.

The chart on the following page summarizes the Governor's and Legislature's budget proposal. The data are current as of the publication of the Conference Committee budget. A detailed explanation follows.

<b>SOURCES AND USES</b> (In Millions of Dollars)						
	FY10 Gov.	FY10 Gov.†	Revised FY10 Gov.†	FY10 House†	FY10 Sen.†	FY10 Conf.†
<b>Revenues and Other Sources</b>						
Revenue Carry-Forward from Previous Year	97.5	97.5	97.2	97.2	92.2	92.2
<b>Tax Revenues</b>						
Baseline tax revenue	19,530.0	19,530.0	17,988.3	19,530.0	17,988.3	17,988.3
Cigarette excise tax revenue	145.0	145.0	105.0	145.0	105.0	105.0
Tax law changes	299.2	299.2	262.2	857.0	737.7	883.7
Enforcement and administrative improvements	26.0	26.0	26.0	26.0	26.0	26.0
<b>Total</b>	<b>20,000.2</b>	<b>20,000.2</b>	<b>18,381.5</b>	<b>20,558.0</b>	<b>18,857.0</b>	<b>19,003.0</b>
<b>Federal Revenues</b>						
Baseline federal grants and reimbursement revenue	6,738.2	6,738.2	6,741.6	6,962.3	6,955.5	6,944.4
Additional temporary federal revenue*	784.0	1,616.9	1,849.2	1,532.8	1,587.1	1,657.2
<b>Total</b>	<b>7,522.2</b>	<b>8,355.1</b>	<b>8,590.7</b>	<b>8,495.1</b>	<b>8,542.6</b>	<b>8,601.6</b>
<b>Departmental Revenues into Budgeted Funds</b>						
Baseline departmental revenue	2,619.5	2,619.5	2,545.7	2,398.6	2,412.7	2,433.8
Proposed increased departmental revenues	170.3	170.3	220.3	149.5	219.0	196.5
<b>Total</b>	<b>2,789.8</b>	<b>2,789.8</b>	<b>2,766.0</b>	<b>2,548.1</b>	<b>2,631.7</b>	<b>2,630.3</b>
<b>Transfers into Budgeted Funds</b>						
From Lottery Proceeds	963.8	963.8	937.4	961.9	972.2	962.4
From Tobacco Settlement Proceeds	294.8	294.8	294.8	292.0	292.0	292.0
From Other Sources	475.4	475.4	435.5	419.9	421.0	421.2
From Various Trusts*	5.0	5.0	44.3	0.0	31.0	31.0
From the Stabilization Fund*	489.0	489.0	225.0	0.0	314.0	214.0
<b>Total</b>	<b>2,228.0</b>	<b>2,228.0</b>	<b>1,936.9</b>	<b>1,673.9</b>	<b>2,030.2</b>	<b>1,920.6</b>
<b>Other Sources</b>						
From Previous Year's Unspent Funds*			77.0			
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>77.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total Revenues and Other Sources</b>	<b>32,637.6</b>	<b>33,470.5</b>	<b>31,849.4</b>	<b>33,372.3</b>	<b>32,153.7</b>	<b>32,247.7</b>
<b>Appropriations and Other Uses</b>						
<b>Appropriations</b>						
<b>Line Item Appropriations</b>	<b>27,973.1</b>	<b>28,786.0</b>	<b>27,522.7</b>	<b>28,466.6</b>	<b>27,666.1</b>	<b>27,734.5</b>
Education	5,985.9	6,312.5	6,186.4	6,286.9	6,106.8	6,095.5
Environment and Recreation	213.4	213.4	198.2	208.6	201.7	201.6
Health Care	11,438.6	11,873.9	11,187.7	11,566.6	11,397.0	11,458.1
Human Services	3,502.2	3,553.2	3,429.9	3,521.8	3,497.9	3,492.4
Infrastructure, Housing & Economic Development	484.0	484.0	429.9	520.4	452.6	456.9
Law and Public Safety	2,448.3	2,448.3	2,351.7	2,463.5	2,387.4	2,381.4
Local Aid	1,126.8	1,126.8	1,042.6	1,125.6	893.3	964.8
Other	2,773.9	2,773.9	2,696.3	2,773.3	2,729.4	2,683.7
<b>Outside Section Appropriations (Transfers Out)</b>	<b>1,490.7</b>	<b>1,510.7</b>	<b>1,481.0</b>	<b>1,495.3</b>	<b>1,339.0</b>	<b>1,364.7</b>
Health Care	1,470.7	1,490.7	1,471.0	1,493.3	1,339.0	1,362.7
Infrastructure, Housing & Economic Development	20.0	20.0	10.0	2.0	0.0	2.0
<b>Pre-Budget Transfers</b>	<b>2,975.1</b>	<b>2,975.1</b>	<b>2,728.4</b>	<b>3,221.7</b>	<b>3,031.7</b>	<b>3,031.7</b>
Infrastructure - MBTA State and Local Contribution Trust	767.1	767.1	767.1	767.1	767.1	767.1
Other - Pension Reserves Investment Trust	1,376.6	1,376.6	1,376.6	1,376.6	1,376.6	1,376.6
Education - School Modernization & Reconstruction Trust	669.2	669.2	479.7	640.7	490.7	490.7
Health Care - Commonwealth Care Trust	145.0	145.0	105.0	145.0	105.0	105.0
Infrastructure - Central Artery/Tunnel Maintenance Fund	17.3	17.3	0.0	17.3	17.3	17.3
Infrastructure - Massachusetts Transportation Fund				275.0	275.0	275.0
<b>Total</b>	<b>32,438.9</b>	<b>33,271.8</b>	<b>31,732.0</b>	<b>33,183.6</b>	<b>32,036.7</b>	<b>32,130.9</b>
<b>Other Uses</b>						
Statutory Deposit into Stabilization Fund	99.3	99.3	91.4	102.1	93.8	94.5
Forgone Statutory Deposit into Stabilization Fund*	(99.3)	(99.3)	(91.4)	(102.1)	(93.8)	(94.5)
Revenue Carry-Forward into Next Year	99.3	99.3	46.6	102.1	46.9	47.2
<b>Total</b>	<b>99.3</b>	<b>99.3</b>	<b>46.6</b>	<b>102.1</b>	<b>46.9</b>	<b>47.2</b>
<b>Total Appropriations and Other Uses</b>	<b>32,538.2</b>	<b>33,371.1</b>	<b>31,778.6</b>	<b>33,285.6</b>	<b>32,083.6</b>	<b>32,178.1</b>
<b>BALANCE</b>	<b>99.4</b>	<b>99.4</b>	<b>70.7</b>	<b>86.6</b>	<b>70.1</b>	<b>69.6</b>
<b>*Total temporary or non-recurring revenues used to balance budget:</b>	<b>1,377.3</b>	<b>2,210.2</b>	<b>2,286.8</b>	<b>1,634.9</b>	<b>2,025.8</b>	<b>1,996.7</b>

†Includes funding from the American Recovery and Reinvestment Act state fiscal stabilization fund.

## REVENUES AND OTHER SOURCES

There are five primary sources of funds available for use in the budget: tax revenue, federal revenue, departmental fees and assessments, money taken out of special trust funds for spending in the current year, and funds carried over from the previous year. Although budget debates often focus on tax revenues or on fees, each of these revenue sources is necessary for the Commonwealth to balance its budget. Some of these revenue sources are on-going revenues, and some are one-time revenues proposed for use to balance the budget. When the Governor and the Legislature publish their budget proposals, they include these totals in “Section 1A - Revenue by Source and Fund.” These totals are described in more detail below.

### REVENUE CARRY-FORWARD FROM PREVIOUS YEAR

“Revenue Carry-Forward” of 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.<sup>9</sup>

### TAX REVENUES

The largest single source of funds available for the budget is tax revenue. In this *Budget Brief* we divide tax revenues into four parts: the total baseline tax revenue based on consensus revenue

<sup>9</sup> State law (M.G.L. Chapter 29, Section 5c) indicates 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. As of January 28, 2009, the date the Governor published his original budget proposal, total estimated tax revenue (currently calculated by excluding the increased cigarette tax revenue) for Fiscal Year 2009 was \$19.50 billion. This total consists of \$19.45 billion from base consensus tax revenue, and \$49.9 million associated with the Governor’s proposed tax increases. One-half of one percent of this total is \$97.5 million, which is a source of funds for the Fiscal Year 2010 budget. Tax revenue estimates for FY 2009 have dropped since January, thereby reducing the amount of the revenue carry-forward included in subsequent budget proposals.

estimates; tax revenues associated with the increase in the cigarette excise tax; estimates of revenues that would be generated by proposed tax law changes; and total revenues associated with increased tax enforcement and other administrative improvements.

**Baseline (Consensus) Tax Revenue.** In January 2009, the baseline consensus tax revenue total for Fiscal Year 2010 was \$19.53 billion. 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. In May, because of changes in economic conditions, the consensus tax revenue estimate was lowered to \$17.988 billion.

**Cigarette Excise Tax Revenue.** In January 2009, there were estimates that the increase in the cigarette excise tax would generate \$145.0 million in Fiscal Year 2010. This tax increase is dedicated to paying for a portion of the state’s health care costs. By May 2009, this estimate was lowered to \$105.0 million. The additional cigarette excise tax could be included as part of the consensus tax revenue estimate, and perhaps should be, as it is not a separate tax, but simply a share of the total cigarette tax. Moreover, this revenue – although dedicated to pay for health care – simply added to the total appropriated elsewhere. It would make sense for the Commonwealth to include this amount both in its baseline tax total, and therefore in its appropriation totals.

**Tax Law Changes.** The Governor’s budgets and the Legislature’s budgets include proposals to raise revenues with tax increases. The Governor recommends increasing state meals (\$125 million) and hotel room (\$24.2 million) taxes, as well as eliminating sales tax exemptions on alcohol, soda and candy (\$150 million). In his revised budget, he lowers the estimates of revenues that would be

generated by his proposed tax increases (in part because of changing economic circumstances and in part to reflect less than a full year's worth of revenue), and he also recommends modifying the film tax credit (\$25 million). The House and Senate both recommend increasing the sales tax from 5 percent to 6.25 percent, although the Senate proposal would exempt meals (for a total of \$633 million). The Senate proposal removes the exemption on alcohol (\$78.8 million), and also recommends a new excise tax on satellite broadcast services (\$25.9 million). The Conference budget includes a total of \$883.7 million in new taxes: \$759 million from a sales tax increase, \$78.8 million from eliminating the sales tax exemption for alcohol, \$25.9 million from taxes on the sales of satellite television subscriptions, and \$20 million from a modification of the film tax credit.

The projections for increased tax revenue in FY 2010 reflect less than a full year's worth of revenue, as implementing a tax law change necessarily takes some time. In FY 2011, the estimates for the revenues from these tax changes will reflect a complete year.

#### **Enforcement and Administrative Improvements.**

In Fiscal Year 2009, the budget included funding for hiring additional auditors at the Department of Revenue. The FY 2010 budget proposals anticipate that the continued tax enforcement efforts provided by these auditors would bring in a total of \$26.0 million in additional tax revenue.

#### *FEDERAL REVENUES*

Since the beginning of the FY 2010 budget process, there have been significant changes in the estimates of federal revenue available for use in the Commonwealth's budget. When the Governor first proposed his budget in mid-January, he estimated that there would be \$7.522 billion in federal revenues available for the FY 2010 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 social services block grant funds.

Included in this total was \$784 million in federal revenues that will only temporarily be available: \$73 million in federal revenues available for Transitional Assistance for Needy Families (TANF), and an estimate of \$711.0 million in federal revenue from enhanced Federal Medical Assistance Percentage (FMAP) dollars that will come to Massachusetts associated with the federal economic stimulus legislation.<sup>10</sup> Because these sources of funding will not be available after Fiscal Year 2011, the Commonwealth cannot count on these dollars as an on-going revenue source. As the budget cycle progressed, it became clear that there would be more temporary federal money available to balance the budget. Each of the budget proposals relies on between \$1.1 and \$1.2 billion in temporary increased FMAP reimbursements, and approximately \$330 million in additional federal state fiscal stabilization funds – stimulus funding targeted primarily to education. On top of that, the Governor's revised FY 2010 budget proposal counts on an additional \$230 million from the state fiscal stabilization funds. Using this additional money would deplete these particular funds, leaving nothing for use in FY 2011.

#### *DEPARTMENTAL REVENUES INTO BUDGETED FUNDS*

The Commonwealth assesses a large variety of fees and charges that generate substantial revenue for use in the budget. These revenues include such items as fees generated by the Registry of Motor Vehicles, a variety of other permitting fees, special

<sup>10</sup> Since the Governor first published his budget proposal, President Obama signed the "American Recovery and Reinvestment Act of 2009" which will provide for substantial additional federal Medicaid revenue for Massachusetts. Current estimates put FY 2010 enhanced Federal Medical Assistance Percentage (FMAP) dollar totals at approximately \$1.2 billion, significantly more than the \$711 million included in the Governor's initial budget proposal. In addition to the FMAP increase, the law also includes substantial increases in other federal revenues, including additional TANF funds and funding for education. See "*The American Recovery and Reinvestment Act: Federal Stimulus in Massachusetts*," (Massachusetts Budget and Policy Center, March 20, 2009), available at <http://www.massbudget.org/doc/657>.

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 Governor's original budget included \$170.3 million in several new fees: \$20.8 million in additional revenue from a proposed expansion of the Bottle Bill; \$75 million from an increase in a fee levied on nursing homes; and \$74.5 million in increased fees at the Registry of Motor Vehicles. In his May budget revision, the Governor includes a new fee: \$50 million in assessments on health insurance providers to pay for the costs of universal immunizations. The House budget includes the increased nursing home assessment and Registry fees. In addition to the fees included in the House budget, the Senate budget includes the immunization assessment and several other new fees. The Conference budget includes the registry fees, the nursing home fees and the immunization assessment.

#### *TRANSFERS INTO BUDGETED FUNDS*

The budget documents include a total referred to as "Consolidated Transfers." Transfers of funds are "sources" of funding when the transfer moves money 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 to be spent for particular purposes. The budget documents combine these sources and uses of funds into one consolidated (or "net") number. This *Budget Brief* breaks this single total into its components, and identifies which of these transfers constitute "sources" of funds, and which constitute "uses" of funds. The sources are included here, whereas the transfers that are uses are included in the "uses" section of the chart.

There are five major categories of transfers into the Commonwealth's General Fund.

**From Lottery Proceeds.** When the Governor first proposed his budget, he estimated \$963.8 million would be transferred into the General Fund from Lottery proceeds. This total includes \$768.6 million that is then available for distribution to

cities and towns, and \$195.2 million that supports administration of the Lottery, the Massachusetts Cultural Council, and other specified purposes. By the time of the Governor's revised budget, this estimate dropped to \$937.4 million. The Senate and Conference budgets include an additional \$25 million in revenue associated with the expansion of the lottery program to include the "Powerball" game.

**From Tobacco Settlement Proceeds.** In FY 2010, the budget proposals count on approximately \$293 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 Governor's budgets propose that 90 percent of these proceeds would be further set aside into the State Retiree Benefits Trust to pay for retired state employee health benefits, and that the remaining 10 percent would be transferred into the General Fund and would be a source available for use in the state budget.

**From Other Sources.** Other transfers of funding into the General Fund include funds associated with reimbursements to the General Fund from federal grants to non-budgeted funds for the payment of grant-associated fringe benefits, proceeds from the disbursal of abandoned property, revenues from the State Racing Commission, and assorted others.

**From Various Trusts.** The Governor's revised budget and the Legislature's budgets all rely on transfers of funding out of other trust funds into the General Fund. Withdrawing funds to pay for ongoing expenses with these dollars that had been previously set aside for specific purposes is another example of using non-recurring funds to balance the budget.

**From the Stabilization Fund.** The Governor's original budget proposes transferring \$489.0 million from the Stabilization Fund (the "Rainy Day Fund") into the General Fund. In his revised budget proposal, he proposes reducing this transfer

to \$225 million. This is a “one-time” source of revenue. The House budget does not include a transfer from the Stabilization Fund. The Senate budget includes a transfer of \$299 million from the Stabilization Fund into the General Fund, and the Conference budget includes a transfer of \$199 million. The Senate and Conference budgets also recommend transferring the interest earned by the Stabilization Fund (approximately \$15 million) into the General Fund. (Each of the budget proposals also include forgoing a statutorily required deposit into the Stabilization Fund, which is described in the “Appropriations and Other Uses” section of this *Budget Brief*.)

#### OTHER SOURCES

The Governor’s revised budget proposal includes a provision that unspent funds in the FY 2009 Governor’s and Legislature’s budgets would be available in FY 2010, and that these funds would reduce the FY 2010 appropriations accordingly. In this *Budget Brief*, we reflect this total (estimated to be \$77 million) as a non-recurring revenue.

### Total Revenues and Other Sources

The Governor’s original budget included approximately \$32.638 billion in total revenues and other sources of funds. His revised budget totals \$31.849 billion. The House budget totals approximately \$33.372 billion, and the Senate budget totals approximately \$32.154 billion. The Conference budget totals \$32.248 billion. In each of these budget proposals, it is important to remember that the transfers from trust funds or from the Stabilization Fund are one-time or non-recurring sources of revenue. Moreover, it is also important to keep in mind that the federal ARRA funds and the TANF contingency funds are temporary revenues available only through part of FY 2011.

It is also important to remember that many of the revenues included in these budget proposals are projections. The economy will change over the course of the year, and that will have a significant impact on income tax revenues, projected sale tax

revenues, fees, etc. A large share of the federal revenue comes in the form of reimbursement for MassHealth spending, and as that spending total changes, so will the reimbursement. The formula for the federal stimulus enhanced FMAP reimbursement rate is also highly dependent upon the state’s unemployment rate. If the unemployment rate changes significantly, so could the FMAP reimbursement rate.

### APPROPRIATIONS AND OTHER USES

The total “bottom line” for a budget includes appropriations, transfers out of budgeted funds, and various other uses of funds. This total gives the best picture of the Commonwealth’s budget, because it comprises all of the necessary uses of funding that for which there must be revenue available over the course of the year.

Most references to the budget, however, show a smaller total, since they typically include only the total from line item appropriations. The total included in this *Budget Brief* includes line item appropriations, and also certain amounts that are transferred from the General Fund into special funds for use by the various agencies of state government, as well as funding taken “off the top” from certain revenues to fulfill certain statutory funding requirements (such as funding for the Mass. Bay Transit Authority). Each of these uses of funds is described in more detail below.<sup>11</sup>

#### APPROPRIATIONS AND TRANSFERS

**Line Item Appropriations.** Each of the budget proposals include “Line Item Appropriations” itemized in Section 2 of the budget. This is the total many people refer to when they talk about the budget.

<sup>11</sup> For details on appropriations and transfers in each of the budget proposals, refer to the MassBudget *Budget Monitors*, available at [www.massbudget.org](http://www.massbudget.org).

### Outside Section Appropriations (Transfers Out).

While Section 2 of the budget details line item appropriations, the remaining sections often include language directing the transfer of funds from the General Fund to specific trusts for certain designated uses. Accordingly, these transfers are “uses” of funds.

When the Governor and the Legislature publish their budgets, these totals are included in what is called the “Consolidated Transfers” total. The Consolidated Transfer total, however, combines transfers into budgeted funds and transfers out of budgeted funds as one net number, thereby obscuring the amount of General Fund dollars that are shifted into special trusts to pay for certain state services. The state’s health reform initiative, for example, is paid for out of General Fund dollars transferred into the Commonwealth Care Trust. It is important to be able to track these uses of funds, because from a fiscal perspective, there is no difference between money put in a line item, and money put into a trust: both are uses of the current year’s revenue.

This *Budget 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” within the state budget.

These “Outside Section Appropriations (Transfers Out)” are described in each of the budget proposals in Sections 3 and beyond. There are three transfers related to health care spending: a transfer into the Commonwealth Care Trust; a transfer into the Medical Assistance Trust; and a transfer into the State Retiree Benefit Trust. The first two of these trusts help fund the Commonwealth’s health reform efforts, and the third trust helps pay for retired state employee health benefits. The Governor’s original budget includes a \$20 million transfer for the purposes of economic development into the Massachusetts Life Sciences Investment Trust, but this was revised to \$10 million in his later budget proposal. The House budget transfers \$2 million into the District Local Technical Assistance Fund. The Senate budget includes no

transfers other than the health care transfers, and the Conference budget includes the transfer to the District Local Technical Assistance Fund.

**Pre-Budget Transfers.** There are four particular transfers of state revenue that state law requires the Commonwealth makes, prior to any appropriation. The budget documents subtract these transfers directly from the consensus tax revenue total. The Legislature’s budgets also create a new pre-budget transfer associated with a proposed increase in the sales tax. The budget proposals also include one transfer of fees.

- **Education – School Modernization and Reconstruction Trust.** State law (M.G.L. Chapter 10, Section 35bb) requires the transfer of one percentage point (“one penny”) of sales tax to the School Modernization and Reconstruction Trust for the purposes of school building assistance. The actual estimates for this transfer vary, in part because of changing tax revenue assumptions and in part because of proposed changes in the sales tax. The Senate and Conference budgets further reduce the total transfer by \$150 million.
- **Health Care - Commonwealth Care Trust.** Chapter 168 of the Laws of 2008 increased the Commonwealth’s excise tax on cigarettes, and specified that a portion of that increase would be deposited directly into the Commonwealth Care Trust Fund to support payment for the costs of health care in the Commonwealth. The Department of Revenue originally estimated that in FY 2010 the amount of this transfer would be \$145 million, but changing revenue estimates have lowered this transfer amount to \$105 million. Just as the revenue from the cigarette excise tax to pay for this transfer is not included in the Commonwealth’s consensus tax revenue total, this transfer total does not appear in any of the budget proposals. Nevertheless, it is a part of the Commonwealth’s health care spending, so we include it in these totals here.
- **Infrastructure, Housing and Economic Development – MBTA State and Local**

**Contribution Trust.** State law (M.G.L. Chapter 10, Section 35T) requires the transfer of one percentage point (“one penny”) of sales tax and certain special assessments to the Massachusetts Bay Transit Authority State and Local Contribution Trust for the support of public transportation. In Fiscal Year 2010 this total is \$767.1 million.

- **Other – Pension Reserves Investment Trust.** The budget proposals transfer \$1.377 billion into the Pension Reserves Investment Trust to fund the state’s pension system.
- **Infrastructure – Central Artery/Tunnel Maintenance Fund.** Most of the budget proposals include a transfer of fees from the Registry of Motor Vehicles towards highway maintenance. The Governor’s revised budget does not include this transfer.
- **Infrastructure – Massachusetts Transportation Fund.** The Legislature’s budget proposals create a new Massachusetts Transportation Fund, supported with funding diverted from a proposed increase in the sales tax.

#### OTHER USES

There are two other uses of funds each year that are required by statute as a part of creating a balanced budget. State law (M.G.L. Chapter 29, Section 5c) states 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.” Each of the budget proposals, however, includes language in an outside section that would suspend in FY 2010 the required deposit into the Stabilization Fund. In so doing, these proposals in effect forgoes using or “save” the amount of the required transfer. This is a one-time saving.<sup>12</sup>

<sup>12</sup> In years with higher than estimated capital gains tax revenue, the Governor’s budget also proposes replacing this required deposit into the Stabilization Fund with the portion of the capital gains tax revenue that exceeds the estimate.

Just as the Fiscal Year 2010 budget has available as a source revenues carried forward from Fiscal Year 2009 (see “Revenue Carry-Forward from Previous Year “ above), the Fiscal Year 2010 must carry forward (use)  $\frac{1}{2}$  of one percent of tax revenue as a source for the Fiscal Year 2011 budget.<sup>13</sup> The Governor’s revised budget proposal, the Senate proposal, and the Conference budget, however, reduce this required transfer to  $\frac{1}{4}$  of one percent of tax revenue.

#### Total Appropriations and Other Uses

Appropriations and other uses in the Governor’s original budget total \$32.538 billion, and \$31.779 billion in his revised budget. The House budget totals approximately \$33.286 billion, the Senate budget totals approximately \$32.084 billion, and the Conference budget totals \$32.178 billion.

#### BALANCE

Based on the best available information, but limited by that information, our calculations determine that the Governor’s revised FY 2010 budget shows approximately \$71 million more in total sources than in total uses. The House budget shows a “surplus” of approximately \$87 million, and the Senate and Conference budgets shows a surplus of approximately \$70 million.

#### Total temporary or non-recurring revenues used to balance budget

In one sense, these budgets are balanced, but there are not sufficient ongoing (as opposed to one-time) revenues to meet ongoing expenses. Temporary revenues include the use of the temporary federal stimulus funding, funding pulled from various trust funds, and funding taken from the Stabilization Fund. The Governor’s budget

<sup>13</sup> State law (M.G.L. Chapter 29, Section 5c) requires that “an amount equal to 1/2 of 1 per cent of the revenue from taxes in the preceding fiscal year shall be available to be used as revenue for the current fiscal year.”

includes also funding drawn from the previous year's budget.

The Governor's revised budget relies on \$2.287 billion in non-recurring or one-time revenue. The House counts on \$1.635 billion, and the Senate on \$2.026 billion. The Conference budget relies on \$1.997 billion in non-recurring or temporary revenue.

Just as it is important to determine whether the budget is balanced using non-recurring revenues, it would be useful to understand whether the budget is balanced by reliance on one-time savings strategies (such as postponing FY 2010 costs to FY 2011). The data available does not allow us to identify one-time savings embedded in the Commonwealth's spending totals. A fully "transparent" budget would identify both one-time revenue and one-time spending.

Because the Commonwealth is in the midst of a serious recession, it is not surprising that the FY 2010 budget requires the use of one-time revenues. During economic downturns – which occur periodically simply because of normal business cycles – it is reasonable to assume that a state would need to turn to revenues from savings (i.e. the Stabilization Fund) to maintain services. That is, in fact, a primary function of the Stabilization Fund. Nevertheless, the use of non-recurring revenues to pay for annual operating expenses creates structural budget problems for the future which will require that the Governor and Legislature make difficult choices about balancing the budget in the future.