TRANSPARENCY AND BALANCE: FY 2009 GENERAL APPROPRIATION ACT

The Commonwealth’s Fiscal Year 2009 budget is notable for the extent to which there has been enough information made publicly available for everyone to see and understand the priorities within the budget, and to see how it is balanced.1

Starting with the Governor’s original budget proposal in January, and continuing through the proposals made by the House and Senate and then the Conference Committee, there has been significant progress in the “transparency” of information, implementing many of the recommendations made in Creating a Transparent Budget for Massachusetts,2 a report by the Massachusetts Budget Transparency Project.

This MassBudget Brief takes the information provided by the Executive Office of Administration and Finance and creates a complete “Sources and Uses” statement for the Fiscal Year 2009 General Appropriation Act. Because the “Sources and Uses” lists all proposed state spending and all sources of revenue, the reader can determine whether the budget balances (i.e. whether there are sufficient revenues to pay for all of the expenses), and whether the budget is in structural balance – whether ongoing spending is supported by permanent, rather than temporary or one-time revenues.

Although neither the Governor nor either the Legislature included a Sources and Uses statement within their budget documents made available to the public, for the first time they both provided most of the information needed to construct such a statement.

The following chart summarizes the budget. A detailed explanation of each line follows.

---

1 For the final budget, see www.mass.gov/gaa.
2 Published jointly by the Massachusetts Budget and Policy Center (MBPC), the Massachusetts Taxpayers Foundation and the John W. McCormack Graduate School of Policy Studies at the University of Massachusetts, October 2006, and available at http://massbudget.org/Creating_a_Transparent_Budget.pdf. For a discussion of progress on these recommendations, see also A More Transparent Budget: Continuing the Progress from MBPC and the John W. McCormack Graduate School of Policy Studies at the University of Massachusetts, available at http://massbudget.org/MoreTransparentBudget.pdf.
## Sources and Uses

(in Millions of Dollars)

<table>
<thead>
<tr>
<th>FY 2009 General Appropriation Act</th>
<th>On-going</th>
<th>One-time</th>
<th>Total</th>
</tr>
</thead>
</table>

### Revenues and Other Sources

<table>
<thead>
<tr>
<th>Description</th>
<th>On-going</th>
<th>One-time</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Carry-Forward from Previous Year*</td>
<td>104.4</td>
<td></td>
<td>104.4</td>
</tr>
</tbody>
</table>

**Tax Revenues**

<table>
<thead>
<tr>
<th>Description</th>
<th>On-going</th>
<th>One-time</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline tax revenue</td>
<td>20,986.9</td>
<td></td>
<td>20,986.9</td>
</tr>
<tr>
<td>Tax law changes - corporate tax</td>
<td>281.0</td>
<td></td>
<td>281.0</td>
</tr>
<tr>
<td>Tax law changes - cigarette tax</td>
<td>145.5</td>
<td>29.5</td>
<td>175.0</td>
</tr>
<tr>
<td>Increased tax enforcement and other tax law changes</td>
<td>157.3</td>
<td></td>
<td>157.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>21,570.7</td>
<td>29.5</td>
<td>21,600.2</td>
</tr>
</tbody>
</table>

**Federal Grants and Reimbursements**

- 7,045.0

**Departmental Revenues into Budgeted Funds**

- 2,473.8

**Transfers into Budgeted Funds**

- From Lottery Proceeds: 1,032.0
- From Tobacco Settlement Proceeds: 288.5
- From the Stabilization Fund: 310.0
- From Other Sources: 390.8
- From Interest Earned by Stabilization Fund: 91.0

<table>
<thead>
<tr>
<th>Description</th>
<th>On-going</th>
<th>One-time</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>1,711.4</td>
<td>401.0</td>
<td>2,112.4</td>
</tr>
</tbody>
</table>

**Total Revenues and Other Sources**

- 32,905.4
- 430.5
- 33,335.8

### Appropriations and Other Uses

**Pre-Budget Transfers from General Fund**

- Mass. School Building Authority: 702.0
- Massachusetts Bay Transit Authority: 768.0
- Pensions: 1,465.0
- RMV fees to Transportation Trust: 174.6
- Tax law changes - cigarette tax to Commonwealth Care Trust: 174.6

<table>
<thead>
<tr>
<th>Description</th>
<th>On-going</th>
<th>One-time</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>3,109.6</td>
<td>0.0</td>
<td>3,109.6</td>
</tr>
</tbody>
</table>

**Appropriations**

- Line Item Appropriations: 27,231.7
- Outside Section Appropriations: 2,830.5

<table>
<thead>
<tr>
<th>Description</th>
<th>On-going</th>
<th>One-time</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>30,062.2</td>
<td>0.0</td>
<td>30,062.2</td>
</tr>
</tbody>
</table>

**Other Uses**

- Statutory Deposit into Stabilization Fund: 108.0
- Forgone Deposit into Stabilization Fund: 108.0
- Revenue Carry-Forward into Next Year: 108.0

<table>
<thead>
<tr>
<th>Description</th>
<th>On-going</th>
<th>One-time</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>216.0</td>
<td>(108.0)</td>
<td>108.0</td>
</tr>
</tbody>
</table>

**Total Appropriations and Other Uses**

- 33,387.7
- (108.0)
- 33,279.7

**BALANCE**

- (482.4)
- 538.5
- 56.1

---

* 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 Stabilization 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
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.

Total official estimated tax revenue in Fiscal Year 2008 is $20.888 billion. One-half of one percent of this total is $104.4 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 budget proposals 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 tax law changes, and the revenue that the Commonwealth anticipates collecting due to increased enforcement of existing tax laws, as well as due to minor tax law changes included as outside sections of the budget. The value of each of these totals is included in the budget 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 $20.9869 billion.

- **Tax law changes – corporate tax.** Between the time of the Governor’s first submission of his budget proposal in January and the passage of the FY 2009 budget, the Legislature

---

passed a significant piece of legislation reforming corporate taxation. Corporate tax reform will generate an estimated $188.0 million associated with combined reporting, and an estimated $101.0 million associated with requiring conformity in entity classification to federal rules (so-called “check the box” conformity). The budget also accounts forgoing $10.0 million associated with tax incentives for the life sciences, and $2.0 million in additional revenue associated with clarification of the earned income tax credit. Total revenue associated with these corporate tax law changes is $281.0 million.

- **Tax law change – cigarette tax.** In addition to corporate tax reform, the Legislature has also enacted an increase in the cigarette tax. The Department of Revenue estimates that the increased tobacco tax will generate $174.6 million. Language in the legislation targets these funds for spending on health reform. Revenue generated by the increase in the cigarette tax will taper off after the first year. The Mass. Department of Revenue estimates that revenue from the cigarette tax will drop to approximately $145.5 million in subsequent years. Accordingly, this brief counts $145.5 million of this revenue as ongoing revenue, and the remainder as one-time revenue.

- **Increased tax enforcement and other tax law changes.** The FY 2009 budget includes outside sections making certain minor tax changes. The revenue impacts of these changes as well as estimates from increased tax enforcement and other administrative changes would bring in $157.3 million.

Total tax revenue available for the budget is $21.6002 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. For Fiscal Year 2009, the budget estimates a total of $7.0706 billion in federal grants and reimbursements.

---


6 See Section 2 of Chapter 168 of the Acts of 2008 which states: “Notwithstanding section 28, an amount equal to 50 mills for each cigarette so sold during the calendar month covered by a 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.”

7 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. This estimate also includes $91.0 million in interest earned by the Stabilization Fund. These dollars are not counted as departmental revenue in this MassBudget Brief. Since the budget transfers this interest from the Stabilization Fund into the General Fund, this amount is included in the “Transfers into Budgeted Funds” section below. The General Appropriation Act includes $2.4771 in total departmental revenue.8

Transfers into Budgeted Funds

The budget includes 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 consolidated transfer total combines sources of funding with the uses of funding. The budget documents do not include this breakdown, but the Executive Office of Administration and Finance did make this 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.** The budget estimates $1.0320 billion would come from Lottery proceeds. 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 $221.1 million for administration of the lottery, support for the Massachusetts Cultural Council and other specified purposes.

- **From Tobacco Settlement proceeds.** The budget estimates $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. An outside section of the budget specifies 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.

---

8 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.
• **From the Stabilization Fund.** The budget makes a one-time transfer of $310.0 million from the Stabilization Fund into the General Fund.

• **From Other Sources.** The budget transfers a total of $390.8 million from a variety of other sources. These included transfers of funds associated with reimbursements to the General Fund from federal grants to non-budgeted funds for the payment of grant-associated fringe benefits. The budget estimates that there would be $390.8 million from other sources.

• **From Interest Earned by the Stabilization Fund.** The budget includes the recommendation that $91.0 million in interest earned by the Stabilization Fund be transferred into the General Fund.

The budget transfers a total of $2.1124 billion as a source for the Fiscal Year 2009 budget.

**Total Revenues and Other Sources**

Adding up the revenues and other sources of funds, the General Appropriation Act includes a total of $33.3358 billion available for the Fiscal Year 2009 budget.

**APPROPRIATIONS AND OTHER USES**

There are three primary ways in which the budget proposals use 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 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 budget also 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 budget also transfers $1.465 billion to fund the state’s pension system.

The Governor’s budget had originally included a pre-budget transfer of $5.5 in fees collected by the Registry of Motor Vehicles in order to support the Transportation Fund. The enacted budget did not include this specification, so this total is deducted from the “other sources” category described above.

The budget assumes that $174.6 million in revenues available from an 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. This amount is treated as a “pre-budget” transfer in this *MassBudget Brief.*

Total pre-budget transfers from the General Fund for Fiscal Year 2009 in the budget are $3.1096 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 General Appropriation Act includes $27.2317 billion in line item appropriations, and $2.8305 billion in outside section appropriations. The outside sections of the budget propose specific transfers of funds from the General Fund into specific trusts. The budget documents include 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 four transfers related to health care spending: transfers into the Commonwealth Care Trust, the Medical Assistance Trust, and the Essential Community Provider Trust and a new transfer to an e-Health Institute Trust. These trusts help fund the Commonwealth’s health reform efforts and provide payments to health safety net providers. There is also money transferred into specific trust funds for economic development, and to pay for state employee retirement benefits. There is also $124.2 million appropriated 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. For details on these appropriations, see the Massachusetts Budget and Policy Center Budget Monitors.\(^9\)

Total appropriations in the General Appropriation Act are $30.0622 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 estimated Fiscal Year 2009 total tax revenue of $21.6002 billion is $108.0 million. Just as the Fiscal Year 2009 budget has $104.4 million available as a source from revenues carried forward from Fiscal Year 2008, the Fiscal Year 2009 budget must carry forward (use) $108.0 million as a source for Fiscal Year 2010 in the 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 $108.0 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 $108.0 million. In the Sources and Uses format in this 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 budget includes language specifying that the Commonwealth forgo its required deposit into the Stabilization Fund, thereby “saving” $108.0. In the attached Sources and Uses chart, these “savings” are reflected as a forgone deposit, or “not using” this amount. This is a one-time saving.

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 budget proposal is $108.0 million.

Total Appropriations and Other Uses

Appropriations and other uses in the General Appropriation Act total $33.2797 billion in Fiscal Year 2009.

\(^9\) Available at [www.massbudget.org](http://www.massbudget.org).
Balance

The General Appropriation Act shows a surplus of $56.1 million. The budget does not achieve “structural balance,” however, because there are not sufficient ongoing revenues to meet ongoing expenses.

The structural deficit in the budget is approximately $538 million. The budget is not in structural balance because it relies on several one-time sources: $29.1 million in revenues from an increase in the cigarette tax that will be available in the first year only; $310.0 in direct withdrawal from the Stabilization Fund; and $91.0 million of interest earned by the Stabilization Fund transferred into the General Fund. The budget also relies on a one-time saving associated with forgoing $108.0 million of the currently-required deposit into the Stabilization Fund. Finally, the budget relies on several one-time savings initiatives, particularly in the MassHealth program. The budget 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.

It is important to realize also that these figures do not take into account whether all projected revenues would be realized over the course of the fiscal year or whether all anticipated expenditures would likely be at the levels as presented in the General Appropriation Act. The budget’s balance for the fiscal year could be dramatically affected if the Commonwealth did not receive revenues as anticipated, or if the Commonwealth’s expenditures were higher than budgeted.

This budget relies on assumptions about the amount of federal Medicaid reimbursement the Commonwealth will receive. It is possible that these amounts could be overestimated by several hundreds of millions of dollars. This budget also relies on tax revenue estimates that could be overly-optimistic if the weakening economy leads to declining receipts – particularly in capital gains tax revenue.

There are also certain expenditures that may exceed the amounts budgeted in the General Appropriation Act, such as payments for snow and ice removal, the costs of collective bargaining agreements, or health care cost increases.