

The Governor's Budget for FY 2015

Edited January 2015

The Governor's budget proposal is a statement of priorities; it describes the things he thinks we should do together through state government in the coming year – and how we will pay for those things.

Unlike his proposal last year, the Governor's FY15 budget does not include significant new revenue, which means that the investments he specifies for education, human services, and elsewhere are relatively modest. These include:

- **Higher Education**, which would see a third straight year of increases – albeit to levels still 22% below where they were in 2001 (adjusted for inflation)
- **Elder Services**, where increases would expand access to home care and improve quality
- **Early Education & Care**, where continued funding growth would help move more children off the wait list and into early education and care programs

In addition to these new investments, the Governor's proposal continues support for a number of prior commitments, including a multi-year plan to fix and improve our transportation system and another multi-year effort to update and standardize the rates paid to contracted human and social service providers ("Chapter 257").

To support these kinds of targeted investments – and to help fill a preliminary budget shortfall we estimated at roughly \$500 million – the Governor's budget includes \$334 million in *temporary* revenue, meaning revenue that will be available for just this year and will not support ongoing initiatives. It also includes \$132 million in new *ongoing* revenue, which would be available both this year and in future years. This ongoing revenue comes from a variety of different sources.

- Eliminating the tax exemption for candy and soda – which raises roughly \$68 million while potentially helping to curb obesity and improve public health
- Expanding the 5 cent bottle deposit to include non-carbonated beverages (like water) – along with which the Governor proposes to restore funding for recycling and redemption centers
- Making changes to corporate taxes, most of which would eliminate loopholes and increase tax fairness

Using the money from these and other revenue changes, the Governor's budget does include some important initiatives to help our families and our communities. But without a more ambitious revenue proposal which could offset the long-term cost of the income tax cuts of 1998-2002, it is difficult to give our children the opportunities they deserve and to build a vibrant economy for the future.

The sections that follow describe these initiatives, and others, in greater detail.

EDUCATION

Early Education & Care

The Governor's FY 2014 budget proposal of \$545.8 million is a 6.6 percent increase over projected FY 2014 spending levels. Although not as ambitious as last year's budget proposal, the current proposal includes increases for children and families who need help accessing affordable child care and early education in the state.

| | Line Item # | FY14 GAA | FY14 Projected | FY15 |
|----------------------------|-------------|---------------|----------------|---------------|
| Supportive Child Care | 3000-3050 | \$76,991,445 | \$77,957,330 | \$81,241,142 |
| TANF Child Care | 3000-4050 | \$128,063,499 | \$131,351,486 | \$136,549,668 |
| Income Eligible Child Care | 3000-4060 | \$214,340,742 | \$221,080,459 | \$241,894,678 |
| I.E. Wait List | 3000-4040 | | | \$15,000,000 |
| I.E. Wait List | 3000-4070 | \$15,000,000 | \$15,000,000 | |

The table above outlines increases over last year for each of the three early education subsidy accounts. The Income Eligible account receives a \$20.8 million increase over FY 2014 Projected spending. This increase annualizes the \$15 million directed towards the Income Eligible wait list (3000-4070) in FY 2014.

The waiting list for Income Eligible care receives another \$15.0 million in the FY 2015 budget proposal (3000-4040) which will enable EEC to offer subsidies to approximately 1,700 new children currently on the wait list. Approximately 3,000 spots for children on the wait list will be opened by the end of FY 2014 as a result of increases in funding during the current fiscal year.

Although funding increases help EEC support more kids with subsidies, wait lists remain high. The number of kids waiting for a subsidy through the Income Eligible account remains above 40,000 and does not appear to be shrinking significantly. There is also a waiting list in the Supportive account of around 600 kids in foster care. Supportive care provides early education and care opportunities to children in the care of the Department of Children and Families, the primary child welfare agency serving kids who have been abused and neglected. Although only 600 kids in the child welfare system are officially waiting for a subsidy, the actual need is likely much greater. More children would utilize a spot if there were enough resources to support a larger increase in access to care.

The Quality Rating and Improvement System (QRIS), a rating system used by EEC to assess the quality of early education and communicate guidance to providers, receives \$2.5 million for IT costs to embed QRIS into EEC's current computer system. This will combine QRIS with licensing and waiting list information allowing EEC to utilize QRIS information more effectively in decisions that impact providers.

The K1 Classroom Grant Program, a new line item, is funded at \$2.0 million in FY 2015. This grant will fund new pre-k classrooms in cities and towns around the state with a goal of increasing school readiness and improving 3rd grade reading. Gateway cities and districts with struggling schools receive preference. EEC and the Department of Elementary and Secondary Education will jointly evaluate grants with preference going to applications filed collaboratively between local public schools, private providers and other human service agencies or non-profits. Proposed classrooms will need to meet certain standards including teacher qualifications, curriculum and class size requirements.

A STEM focused pre-k grant introduced in FY 2014 and funded at \$250,000 is not continued in the Governor's FY 2015 proposal.

The Administrative account for EEC receives a small increase of \$736,000 (5.7 percent) over last year.

The special commission studying the cost of administering early education services submitted a final report earlier this month. A summary of the report can be accessed [here](#). The \$150,000 cost of the consultant comes off the books in FY 2015. Funding of \$500,000 for a 2 year assessment of services administered by EEC also comes off the books in FY 2015. Although funding is available through the end of FY 2015, the funds were all allocated in the FY 2014 budget. An initial progress report is due by March 3, 2014. Goals of the assessment include identifying efficiencies in the distribution of subsidies, analyzing the needs of eligible families by region, and evaluating the importance of providing quality programming to children while also providing workforce support to guardians.

K-12

Education plays an important role in cultivating the next generation of engaged citizens and in helping strengthen state economies. In Massachusetts, as is the case across the nation, there is an increasingly strong connection between improving the skills of the state workforce and creating a high-wage economy – see [A Well-Educated Workforce is Key to State Prosperity](#) for more detail.

The Governor's FY 2015 budget makes important investments in education, but it does not propose ambitious new investments of the magnitude proposed in his FY 2014 budget. Mostly, the Governor's FY 2015 education proposals provide modest increases, roughly in line with annual cost growth.

For FY 2015, the Governor proposes increasing **Chapter 70 education aid** by \$99.5 million, or 2.3 percent, over FY 2014 and increasing other targeted K-12 programs by a combined \$12.9 million. All told, K-12 education funding under the Governor's proposal (including \$782.4 million in School Modernization and Reconstruction Trust Fund money) would still be \$95 million below pre-recession levels (FY 2009 GAA, adjusted for inflation).

Specifically, the Governor's Chapter 70 proposal:

- Calculates district foundation budgets using updated enrollment and inflation data.
- Includes all pre-kindergarten students currently attending public schools in district foundation budgets, meaning they are counted when calculating state aid. Currently, districts can only count towards their foundation budgets up to two times as many regular education pre-kindergarten students as they have special education pre-kindergarten students. Further, these

regular education students must be learning alongside special education students in an inclusive setting. The Governor's proposal would lift the cap for FY 2015 and allow districts to count towards foundation pre-kindergarten students in non-inclusive settings. As with all grade levels, students can only count towards foundation if they are not charged tuition for attending.

Since enrollment counts are set for calculating FY 2015 foundation budgets, this policy change would only cost a modest \$2.3 million in its first year. If continued for future years, however, this change could significantly increase the provision of public early education.

- Phases-in an additional portion of the formula reforms planned in the 2007 budget, but slowed due to the ongoing fiscal crisis. Specifically, the budget provides 50 percent effort reduction and 35 percent downpayment aid. For more information on the reforms of 2007, please see MassBudget's [Demystifying the Chapter 70 Formula](#).
- Provides a minimum \$25 per pupil increase over FY 2014 aid for all districts that wouldn't otherwise receive an increase of this amount.

The Governor's budget includes an outside section calling for a **foundation budget review commission** to review the state's approach to determining district foundation budgets. This provision would require the commission to convene at least 4 public hearings and file recommendations to the legislature every four years.

Among K-12 grant programs, the Governor's budget provides:

- An increase of \$4.0 million for **Extended Learning Time Grants**.
- An increase of \$3.6 million for **Innovation Schools**.
- An increase of \$3.1 million for **Kindergarten Expansion Grants**.
- Level funding for the **Special Education Circuit Breaker, Regional School Transportation, METCO, and Charter School Reimbursements**.
- A modest cut of \$150,000 for **Adult Basic Education**.
- A cut of \$476,000 for the **School Breakfast Program**.

Additionally, the Governor's budget projects receipt of \$782.4 million from an automatic transfer of sales tax revenue to the **School Modernization and Reconstruction Trust Fund**, which is used to help school districts pay for school construction and renovation projects. When someone pays Massachusetts sales tax, one percent of the retail value of the purchase goes toward this fund. This represents an increase of \$50.4 million over FY 2014, due in part to higher anticipated sales tax revenue resulting from eliminating the current sales tax exemption for candy and soda.

Higher Education

The Governor's FY 2015 budget proposes a third year of continued reinvestment in public higher education, building on progress begun in FY 2013 and continued this year. Driven largely by state level income tax cuts that cost the state roughly \$3.2 billion annually and by the lingering effects of the Great Recession, higher education was cut dramatically between FY 2001 and FY 2012 – roughly 33 percent,

adjusted for inflation. Even with the Governor's proposed \$54.5 million increase over FY 2014, funding for higher education would still be 22.4 percent below FY 2001 levels.

Appropriations to each of the three campus types are detailed in the table below. It is important to note that starting in FY 2012, all campuses began retaining tuition payments from out-of-state students, rather than remitting that revenue back to the state. MassBudget adds in an estimate of these payments for FY 2012 to the present, allowing for more accurate year to year comparisons. Additionally, MassBudget adds collective bargaining accounts and other programs located at particular campuses to their respective campus totals.

| | FY 2014 | FY 2015 Governor | FY15 - FY14 |
|---------------------|-------------|---------------------|-------------|
| UMass | 497,469,691 | 531,501,214 | 34,031,523 |
| State Universities | 232,907,944 | 246,202,891 | 13,294,946 |
| Community Colleges | 253,338,549 | 266,533,781 | 13,195,232 |
| Total, all campuses | 983,716,184 | 1,044,237,886 | 60,521,702 |

The FY 2014 budget made a commitment to freeze student tuition and fee increases for another year if state support to **UMass** were to rise by \$40 million in FY 2015. It is unclear whether the Governor's proposed \$36.9 million increase for the primary UMass line item is sufficiently close to that target to guarantee a freezing of tuition and fees for FY 2015 (due to MassBudget adjustments, this total differs slightly from the UMass increase shown in the table above).

Accompanying release of his FY 2015 budget, the Governor filed supplemental FY 2014 budget legislation, which includes \$7.5 million for **community college** engagement in urban communities, with \$3.0 million of this total targeted for Roxbury Community College.

Offsetting some of the increases in direct campus appropriations are cuts (sometimes to zero-funding) to a few other higher education programs including the STEM Starter Academy, the Performance Management Set Aside account, the Advanced Technology and Manufacturing Center, and Adult College Transition Services.

The Governor proposes roughly level funding for the **State Scholarship Program**.

ENVIRONMENT & RECREATION

The state budget funds environment and recreation programs that protect our air, water and land, preserve fish and game habitats and maintain and staff state parks, campgrounds, beaches and pools.

Some highlights of the Governor's FY 2015 budget proposal for environment and recreation programs include:

- \$2.0 million for a new account to help the state adapt to and prepare for climate change. The Executive Office of Energy and Environmental Affairs will work with other agencies to determine the steps the state can take to address the effects of climate change. Outside Section 6 of the Governor's Budget also proposes appointing a state climatologist located at UMass Amherst. Among other things the climatologist will monitor the climate, promote research on the climate and educate the public about climate issues.
- \$4.0 million more for recycling and redemption centers to \$4.4 million. In years past the Governor has proposed this increase and paid for it through an expansion of the bottle bill to water, juice, coffee and tea drinks. The Legislature, however, has not included this proposal in its budgets. The FY 2015 budget proposed by the Governor estimates that the expansion of the bottle bill will raise an additional \$24.2 million. (Please see the Revenue section for more discussion of this issue.)
- \$900,000 increase in funding above the FY 2014 current budget for beaches, pools and for state employees who work at state recreation facilities. This brings total proposed funding for this account to \$13.6 million in FY 2015.
- \$1.6 million decrease for state parks below the FY 2014 current budget to \$41.3 million. In recent years DCR has had to reduce maintenance, hours and staffing for many state recreation facilities because of budget cuts. The FY 2014 budget provided an increase in the amount of revenue raised from fees and fines collected by DCR to improve maintenance and staffing at state recreation facilities. The Governor's budget recommends level funding DCR's retained revenue account at \$14.1 million.

HEALTH CARE

MassHealth (Medicaid) & Health Reform

The Governor's FY 2015 budget includes funding to annualize the costs of the expansion of health coverage under the federal Affordable Care Act (ACA.) As of the beginning of this calendar year, all adults in Massachusetts (citizens or qualified non-citizens) with incomes below 133 percent of the Federal Poverty Level are now eligible for MassHealth, the state's Medicaid program.

Interestingly, the budgetary impact of this health care expansion works both ways. In some instances, the state will receive an increase in federal reimbursement rate for spending that in prior years was reimbursed at 50 percent or perhaps not reimbursable at all. The Governor estimates that the health care expansions will shift approximately 135,000 persons from programs previously funded solely with state funds to programs that are now eligible for federal reimbursement. Another 190,000 people will have shifted from other subsidized programs to the expanded MassHealth program in FY 2014, and the Governor also anticipates that an additional 20,000 people not currently in subsidized health insurance programs will become eligible in FY 2015.

Many of the funding increases for MassHealth included in the Governor's budget will allow for the continuation of health care investments made over the course of FY 2014. In addition to the implementation of the Affordable Care Act, the Commonwealth has passed several significant health care initiatives. Some of the increased funding in the FY 2015 budget proposal will annualize funding increases associated with these initiatives begun in FY 2014. The Governor's budget includes full-year funding for capitation rate increases for the Mass. Behavioral Health Partnership, continues the increases in base hospital rates as well as adds a 2 percent increase in FY 2015, increases fee-for-service provider rates, and continues coverage for dental fillings for adults. The Governor's proposal would also restore funding for adult dentures in the second half of the fiscal year.

Also newly-specified in the Governor's FY 2015 budget proposal is \$34.3 million for persons with acquired brain injuries to allow for transition from long-term care facilities to community-based care associated with the settlement of a lawsuit.

Because of all the major changes to the organization of health care (such as the FY 2014 phasing out of the Commonwealth Care program and its replacement by the ConnectorCare program), it is very difficult to provide detailed across-year comparisons of health care funding. MassBudget, in conjunction with the Mass. Law Reform Institute and the Mass. Medicaid Policy Institute, will be publishing a detailed brief about MassHealth and health reform finance in the Governor's budget proposal within the next few weeks.

Mental Health

The Governor's does not make any significant new investments in mental health services in his FY 2015 budget proposal. Notably, the Governor's budget does not designate funding for the Mass. Child Psychiatry Access Project (MCPAP), a program designed to provide information and consultation for pediatricians in their diagnosis and treatment of children with mental health concerns. This program is currently expanding to include screening for postpartum depression.

Public Health

One of the Governor's key public health initiatives is the elimination of the sales tax exemption for candy and soda, and the creation of a Commonwealth Health and Prevention Fund to receive that revenue. The Governor estimates that this tax change would generate approximately \$67.8 million in FY 2015, \$57.0 million of which would contribute to the funding of a variety of public health programs.

The Governor's proposal includes an increase of approximately \$2.6 million in support for substance abuse and addiction programs, and an increase of \$4.6 million for programs to address youth violence.

HOUSING

The state budget provides affordable housing assistance, including shelter for homeless families, to low and moderate income people in the state. The Governor's budget proposes spending \$405.6 million in FY 2015 for affordable housing.¹ This is \$35.6 million less than the amount the state expects to spend in FY 2014. In part the FY 2015 proposal is lower than current spending because it does not include \$20.0 million provided in FY 2014 for the Low Income Housing Energy Assistance Program (LIHEAP) which helps low income people pay their energy bills. Historically the budget passed at the start of the fiscal year does not provide funding for LIHEAP. Instead the Legislature determines whether or not to fund the program as winter approaches.

About half of the state's affordable housing budget, overseen by the Department of Housing and Community Development (DHCD), funds shelter and short-term housing supports for low-income homeless families who are eligible for the Emergency Assistance program (EA). The state budget funds EA shelters, as well as hotels and motels that have been housing homeless families because the state shelters are full. The state also provides short-term housing supports through the HomeBASE program for families who are eligible for EA. HomeBASE, created in FY 2012, initially included multi-year rental assistance² which was designed to help families to move into and pay for housing. [Read more on Homelessness Assistance.](#)

In his FY 2015 budget the Governor recommends providing a total of \$179.6 million for EA which includes funding for shelters as well as hotels and motels. This is \$24.4 million more than the state expects to spend in FY 2014. Most of this increase is to expand the state's family shelters so that fewer homeless families are housed in hotels and motels. While hotels and motels shelter homeless families, they do not provide the services and supports available to families housed in family shelters.

The Governor's FY 2015 proposal reduces funding for HomeBASE to \$24.3 million, a cut of more than 50 percent below the \$59.0 million that the state expects to spend in FY 2014. This reduction reflects the fact that the state ended the HomeBASE rental assistance program and now only provides one year of support to help homeless families move into housing. This support includes paying a portion of the rent, first or last months' rent or a security deposit in order to help families secure housing. Thousands of families, who signed up for HomeBASE rental assistance before it closed, have now run out of these short-term rental benefits. While some families may have managed to stay in permanent housing once their HomeBASE support ended, others could not afford to pay market-rate rents and have turned to DHCD for shelter or affordable housing supports.

In recognition that many low income families do not have the income to afford to pay market-rate rents, particularly in high cost regions like metro Boston, the state has increased funding for long-term housing supports. Last year's budget provided a significant increase (\$15.5 million) for the Massachusetts Rental Voucher Program (MRVP) which provides vouchers to low-income renters. With this increase the state created an additional 1,400 vouchers of which about half are going to families served by the HomeBASE and EA programs. While helping some families pay for permanent housing, the FY 2014 increase for MRVP was not sufficient to meet the needs of thousands of other families who

¹ The analysis in this Budget Monitor looks only at annual spending and not capital spending on housing programs. In 2013 the Legislature passed a \$1.4 billion Housing Bond Bill. Funding from this bill will contribute to affordable housing production and preservation including updating public housing units in the state.

² When HomeBASE was created in FY 2012 it offered three years of rental assistance. When the program first opened, demand far exceeded funding and DHCD quickly closed it to new applicants. The FY 2013 budget reduced the amount of rental assistance for families who applied for the program from 3 to 2 years. Many of these families, who have been in the program for two years, are now losing their rental assistance.

are either living in shelter or who have lost their HomeBASE benefits. The Governor's budget proposes that the state spend \$57.5 million for MRVP in FY 2015. This is the same amount appropriated in the FY 2014 budget but is \$4.6 million below the \$62.1 million the state expects to spend in FY 2014. If spending for MRVP in FY 2014 or 2015 exceeds the funding level, additional money is available in the Housing and Preservation Stability Trust Fund.³ [Read more on MRVP.](#)

While most of the other programs in the housing budget are essentially level-funded the Governor's FY 2015 proposal does recommend \$9.5 million for Residential Assistance for Families in Transition (RAFT) which provides short term assistance to prevent low income families from becoming homeless. This is \$500,000 less than the amount the state expects to spend in FY 2014. The Governor's FY 2015 proposal eliminates a provision that provides \$500,000 in RAFT funding to provide temporary accommodations to families who are at imminent risk of homeless but are not eligible for EA. [Read more on RAFT.](#)

³ This fund was created in the FY 2014 budget to expand the state's affordable housing resources for low income homeless families and individuals. It would receive surpluses from state affordable housing programs rather than having those surpluses revert to the General Fund. The Trust Fund currently has about \$10 million from FY 2013 surpluses.

HUMAN SERVICES

Human services programs form a crucial part of the Commonwealth's "safety net," with a variety of programs to help vulnerable children, the elderly, and people living with disabilities.

Several years ago, Massachusetts introduced a new, multi-year initiative called "Chapter 257," to make the rates we pay contracted human and social service providers more consistent, and more fair. Prior to the passage of Chapter 257, some providers had not received increases in decades.

In FY 2015, chapter 257 will cost approximately \$211 million. Around \$25 million is put into a reserve fund (in case allocated funds prove insufficient). The rest is distributed through a variety of different human services accounts. This can have a sizeable effect on these budget accounts, but it does not mean additional services will be available or that those accounts will be able to provide services to more people.

Children Youth and Families

The FY 2015 Budget for Children, Youth and Families programs is \$996.4 million, an increase over FY 2014 levels, but still \$120.5 million (10.8 percent) lower than pre-recession levels. The **Department of Children and Families (DCF) Administration** receives \$74.6 million, a 7.5 percent increase over FY 2014 GAA. **Social Workers for Case Management** receives an increase of \$8.4 million (4.9 percent) compared to FY 2014 GAA. Both of these accounts also receive increased funding through a FY 2014 supplemental budget bill filed by the Governor this week. The Administration account would receive \$1.7 million and Case Management would receive \$1.1 million if the bill is passed. The overall increase for these two accounts together includes \$9.2 million to increase staffing. These funds would allow DCF to hire additional case workers limiting caseloads to 15 families and improving safety for kids.

Services for Children and Families receives an increase of \$14.2 million to \$265.4 million. Over \$10 million of that is tied to Chapter 257.

Placement Services for Juvenile Offenders gets cut by over 50 percent (\$524,000) to \$504,000. This program funds alternative placements for DCF youth who get arrested and detained by police.

The **Transitional Employment Program (ROCA)** receives \$2.0 million in the FY 2015 proposal, the same as last year. ROCA supports youth aging out of the child welfare system, the juvenile justice system, parolees and other high risk youth. Programming teaches youth about work building positive work habits helping youth stay connected. In 2013 ROCA and the MA Executive Office of Administration and Finance launched a social innovation financing project to reduce recidivism among youth aging out of the juvenile justice system and keep them out of the adult criminal justice system. The program is initially funded with private investment with the state only reimbursing if the program meets certain performance goals. In his FY 2015 budget proposal, the Governor allocates \$7.0 million for potential future payments to private investors if certain success benchmarks are met.

The Department of Youth Services receives significant increases in a few of their programs. The increases will allow DYS to accommodate 17 year olds in the juvenile system. Previously, 17 year olds were treated as adults. "Raise the Age" legislation passed in 2013 places these kids into the juvenile system with appropriate services tailored for a youth population through the juvenile court. These

youth will also be safer as youth face a much higher risk of being assaulted, including being the victims of sexual assault when they are held with adults. Increases over FY 2014 which will help support these new kids include:

- \$26.1 million for **Detained Youth**, an increase of 20.6 percent (4.5 million).
- \$118.3 million for **Residential Services for Committed Youth**, an increase of 11.0 percent (11.7 million).
- \$4.2 million for The **Department of Youth Services Administration**, a modest increase of \$147,000 (3.6 percent).

Non-Residential Services for Committed Youth actually gets cut slightly to \$22.7 million, \$253,000 below FY 2014 spending.

Disability Services

Disability services receives an increase of \$195.1 million (12.7 percent) compared to FY 2014. The major increase goes to **Community Residential Supports** which receives \$1.01 billion, an increase of \$161.8 million over FY 2014. Most of that increase is needed to cover Chapter 257 rate increases.

Community Day and Work Programs receives an increase of \$17.3 million (10.7 percent) to \$179.2 million. This increase supports moving more clients into integrated work environments. **Community Transportation Services** also receives an increase of \$2.9 million (22.1 percent) to \$15.9 million.

Respite Family Supports receives \$54.9 million, an increase of \$2.6 million (4.9 percent) compared to current FY 2014 spending. For many families with disabled children, the respite program is the only source of support for afterschool recreational programming or for specialized caregiving.

Elder Services

The FY 2015 Budget funds Elder Services at \$253.9 million, \$18.5 million more than FY 2014 spending. Specific increases over FY 2014 include:

- A \$10.1 million increase for Elder Enhanced Home Care Services to \$63.1 million. This increase will avoid wait lists for home care for the elderly allowing over 5,000 elderly to remain at home instead of living in a nursing home.
- A \$5.7 million increase for Elder Home Care Purchased Services to \$104.4 million. This will support an increase in services hours available for clients of this program.
- A \$1.3 million increase for Supportive Senior Housing to \$5.5 million

The Home Care Workforce Training Fund, a new program being proposed by the Governor, is funded at \$1.2 million. This fund will support training for outreach workers, case managers, home care aides and protective services investigators.

Transitional Assistance

For entitlement programs like transitional assistance, funding levels are significantly affected by anticipated caseload levels. These caseload levels have dropped over the past calendar year. For more detailed information on caseload levels for transitional assistance accounts, see “Research and Statistics” on the [DTA home page](#). The caseload for **Transitional Assistance for Families with Dependent Children (TAFDC)** has dropped from 52,659 in December 2012 to 46,546 in December 2013, an 11.6 percent drop. As caseloads drop funding needs drop as well.

The FY 2014 GAA budget funded **TAFDC** grants at \$302.0 million. Actual FY 2014 spending is now projected at \$287.6 million and the FY 2015 proposal calls for \$263.8 million in spending for this program, a 12.6 percent drop below the FY 2014 GAA budget. It is important to note that under this program, grants given to qualified families have lost significant value over time due to inflation. Instead of decreasing the appropriation, the Governor could have proposed increasing the value of the grant to help these children and families fight to stay out of poverty. For a more in depth analysis of the grants value, see [TAFDC: Declines in Support for Low-Income Children and Families](#).

The clothing allowance, a one-time payment made in September to help pay for back-to-school clothing, remains at \$150 and the rent allowance at \$40. These allowances have also lost significant value over time due to inflation.

Emergency Aid to the Elderly, Disabled and Children (EAEDC) receives \$88.9 million, a slight decrease from FY 2014 projected spending of \$89.1 million. The FY 2014 GAA budget appropriated \$93.2 million initially. EAEDC is a cash assistance program individuals who are disabled, caring for someone who is disabled, 65 or older, in a Mass. Rehab program, and children who are not able to get TAFDC benefits.

The **Department of Transitional Assistance Administration** receives \$66.1 million. The proposal moves SNAP Participation Rate Programs into the administration line item resulting in a slight cut when you add the two together and compare their FY 2015 appropriation to the \$67.5 million they received in FY 2014.

The **Employment Services Program** receives \$7.4 million, a decrease of \$280,000. This program provides TAFDC recipients with education, occupational skills and the employment support services needed to acquire and retain jobs. It has been cut 76.1 percent compared to FY 2009 GAA inflation adjusted levels.

LOCAL AID

The Governor's FY 2015 budget proposes level-funding **Unrestricted General Government Aid (UGGA)** at \$920.2 million. UGGA is a form of local aid, money that flows from the state budget to city and town budgets, helping them fund vital local services such as police and fire protection, parks, public works, and schools (UGGA comes in addition to direct school support that districts receive from Chapter 70 aid).

Driven largely by state level income tax cuts that cost the state roughly \$3.2 billion annually and by the lingering effects of the Great Recession, UGGA has been cut dramatically since FY 2001. Specifically, the Governor's proposed FY2015 spending level is \$804.9 million, or 47 percent, below FY 2001 levels, adjusted for inflation.

For more information on the history of how general local aid has been distributed, please see *MassBudget's* paper [Demystifying General Local Aid in Massachusetts](#).

TRANSPORTATION

The Governor's FY 2015 budget continues progress implementing last year's long-term transportation funding law, which committed gradual transportation spending increases each year from FY 2014 through FY 2018. Specifically, the Governor proposes a transportation spending increase of about \$141 million over FY 2014, helping MassDOT modernize its infrastructure, investing in capital improvements at the MBTA and Regional Transit Authorities, and making progress towards ending the practice of borrowing money to pay for MBTA operating costs.

Additionally, the Governor's budget projects receipt of \$811.3 million from an automatic transfer of sales tax revenue to the **MBTA State and Local Contribution Trust Fund**, an increase of \$12.0 million over FY 2014.

REVENUE

The Governor's FY 2015 budget is built upon the assumption that the Commonwealth will be able to rely on \$154 million in new tax revenue in Fiscal Year (FY) 2015 and \$312 million in additional non-tax revenue. Of this total, \$132 million can be described as ongoing revenue (in other words, providing an ongoing revenue stream beyond FY 2013), while the remaining \$334 million is "one time" (i.e., available only in FY 2015). Like permanent changes in spending levels, ongoing revenue changes affect the state's long term fiscal condition, whereas temporary revenue changes are useful for balancing the budget only in the current fiscal year (to read more about the state's projected FY 2015 budget gap, see [MassBudget's FY 2015 Budget Preview](#)).

| FY 2015 REVENUE PROPOSALS | Ongoing Source | One-Time Source |
|--|----------------|-----------------|
| TAX REVENUES | | |
| Eliminate exemptions for candy and soda | 67,800,000 | |
| Clarify rules for Internet room sellers | 8,100,000 | |
| Extend Room Occupancy Tax to short-term rentals and B&Bs | 2,600,000 | |
| Delay FAS 109 deduction for one year | | 46,000,000 |
| Reclassify certain securities investment businesses | 21,000,000 | |
| Close loophole for insurance company subsidiary income | 8,400,000 | |
| SUBTOTAL | 107,900,000 | 46,000,000 |
| NON-TAX REVENUES | | |
| Expand "bottle bill" to include water & other drinks | 24,200,000 | |
| Stabilization ("Rainy Day") Fund withdrawal | | 175,000,000 |
| Stabilization ("Rainy Day") Fund interest transfer | | 10,700,000 |
| Proceeds from gaming licenses | | 53,500,000 |
| Shift in payment schedule to hospitals | | 13,000,000 |
| Federal reimbursements for TANF | | 32,200,000 |
| Trust fund sweeps | | 4,000,000 |
| SUBTOTAL | 24,200,000 | 288,400,000 |
| TOTAL | 132,100,000 | 334,400,000 |

* Table does not include increased federal reimbursements related to ACA expansion

Notably, many of the new tax and fee proposals serve clear policy purposes beyond the simple generation of additional revenue, including improving public health, protecting the environment, and increasing tax fairness.

Tax Revenue

The Fiscal Year 2015 consensus tax revenue figure agreed to by the Administration, the House and the Senate is \$24.337 billion, an amount 4.9 percent above the revised FY 2014 revenue estimate of \$23.200 billion. The Governor, however, has proposed several changes to the Commonwealth's tax laws that would raise additional revenue in FY 2015 and beyond.

If enacted - and when fully implemented - the proposed tax changes would produce a net annual gain of \$139 million in ongoing revenues in future years. However, if enacted as part of the FY 2015 budget process, the changes would take effect only part way through the coming fiscal year and thus would generate less revenue in FY 2015 (an estimated \$108 million) than in future years. Added to this \$108 million, however, is \$46 million in *one-time* revenue that would be generated in FY 2015 by delaying, for one more year, implementation of the FAS 109 deduction, thus bringing the FY 2015 total to \$154 million.

| TAX PROPOSALS | Amount in FY 2015 | Estimated Annualized Amount |
|--|--------------------|-----------------------------|
| SALES AND EXCISE TAX | | |
| Eliminate exemptions for candy and soda | 67,800,000 | 74,000,000 |
| Clarify rules for Internet room sellers | 8,100,000 | 8,800,000 |
| Extend Room Occupancy Tax to short-term rentals and B&Bs | 2,600,000 | 6,800,000 |
| SUB-TOTAL SALES AND EXCISE TAX | 78,500,000 | 89,600,000 |
| CORPORATE TAX | | |
| Delay FAS 109 deduction for one year | 46,000,000 | |
| Reclassify certain securities investment businesses | 21,000,000 | 35,000,000 |
| Close loophole for insurance company subsidiary income | 8,400,000 | 14,000,000 |
| SUB-TOTAL CORPORATE TAX | 75,400,000 | 49,000,000 |
| TOTAL | 153,900,000 | 138,600,000 |

The Governor's FY 2015 Budget includes the following tax revenue proposals:

Sales and Excise Taxes

- Eliminating the sales tax exemption for soda and candy. In Massachusetts, most food items are exempt from the sales tax. At present, soda and candy purchases are included in this exemption. In general, soda and candy do not fit many people's definition of food, suggesting that a tax break for these non-essential items may not be appropriate.

The Administration estimates that application of the sales tax to candy and soda purchases would raise an estimated \$67.8 million in FY 2015 and \$74.0 million annually thereafter (see [Governor's FY 2015 budget documents](#)). Revenue from these sales that normally would flow

into the state's General Fund would be directed instead to the Commonwealth Health and Prevention Fund (see [Governor's FY 2015 budget documents](#)).

In addition, studies have linked consumption of these items to obesity and obesity is a substantial problem for adults and children, both nationally and here in Massachusetts. (see Babey, Susan H. et al., "Bubbling Over: Soda Consumption and Its Link to Obesity in California," UCLA Health Policy Research Brief)

While it would likely have positive public health effects, this change would increase the regressivity of the overall Massachusetts tax system, disproportionately affecting low and moderate income households; purchasing an identical quantity of these products, and paying the same amount in additional taxes, will consume more of a low-income person's income than it will for a high-income person.

- The Governor proposes clarifying the tax rules governing the collection by and remittance of the Room Occupancy Tax on the part of Internet room resellers to ensure that the tax is based on the reseller's full price to the consumer. At present, some Internet room sellers collect and remit the tax only on the portion of the total bill paid by the consumer that arises directly from the cost of the room itself, neglecting to collect tax on the portion of the total bill that reflects the Internet seller's service fee. Massachusetts hotels and motels, however, collect and remit tax on the full amount they receive from the customer. Clarification of the rules and accompanying enforcement efforts by DOR would help to equalize the tax costs associated with renting a room online vs. renting directly from a bricks and mortar operation here in Massachusetts. The Administration estimates that this initiative would raise an additional \$8.1 million in FY 2015 and \$8.8 million annually thereafter (see [Governor's FY 2015 budget documents](#)).

The Governor also proposes raising \$2.6 million in FY 2015 by extending the room rental tax to various short-term accommodation rentals that currently are exempted from the tax (see [Governor's FY 2015 budget documents](#)). These include short-term rentals of corporate executive apartments, B&B rooms, vacation condos and time shares. The Administration estimates that this tax law clarification would raise \$6.8 million annually thereafter.

Corporate Taxes

- Delaying the FAS 109 corporate tax break for another year - primarily affecting about a dozen multi-state businesses – would raise an estimated \$45.8 million in FY 2015 (see [Governor's FY 2015 budget documents](#)). While the details of this tax law change involve technical and complex interactions among a corporation's records for tax purposes and its public financial accounting records, the FAS 109 provision in essence is an attempt to offset certain costs to publically-traded companies resulting from the 2008 combined reporting tax reform package.⁴

As part of that package, rule changes were enacted that increased the cost of some tax liabilities of some companies operating in the Commonwealth. In some cases, these changes would have

⁴ As part of the combined reporting package, the tax rates applied to business profits were reduced significantly. This reduction in tax rates offset much of the gain in tax revenue the Commonwealth otherwise would have received through combined reporting (which closes a variety of corporate tax loopholes). For a more thorough discussion of Combined Reporting, please see MassBudget's Tax Primer (Chapter 7: Business Taxes).

required changes to a company's existing financial statements. The FAS 109 tax break would allow publically-traded companies to claim a new tax break that would offset the impact to their financial statements resulting from the effects of combined reporting on deferred tax liabilities.

The Department of Revenue (DOR) estimated that this provision would cost the Commonwealth \$535 million during the period in which it was originally scheduled to be in effect - tax benefits were to be distributed equally across seven years, 2012-2018 (see [DOR report to Legislature](#)). DOR has estimated further that 88 percent (or \$472 million) of the total tax reductions associated with the FAS 109 tax break will accrue to just fourteen corporations. When this provision was enacted the cost was unknown and a process was established that would allow an evaluation of the likely cost before the tax break would be implemented.

- Elimination of a special tax classification (with a special, low tax rate) for certain securities investment businesses will generate an estimated \$21 million in tax revenue in FY 2015 and \$35 million annually thereafter (see [Governor's FY 2015 budget documents](#)). This special classification is a provision that largely responds to circumstances that no longer exist.

The Security Corporation structure allowed investors to hold securities in a legal entity that would not be taxed as an ordinary corporation. That function is now generally served by mutual funds and investment partnerships, such as hedge funds, venture capital funds, and other pooled investments. The special rules for security corporations, however, still allow ordinary corporations to reduce their taxes by holding their investment assets in these special classified entities. The Governor's proposal would end the special tax status of both of these types of corporations and tax them like other companies.

- In Massachusetts, insurance companies (unlike other businesses) are not taxed based on their income. Instead, they pay a 2 percent tax on the premiums they charge customers. Because of this unique tax arrangement, insurance companies currently are able to avoid paying taxes on the income of non-insurance subsidiary companies they may own.

In recent years, Massachusetts has seen a marked increase in businesses operating as Limited Liability Companies (LLCs) and other "pass through" entities, a legal structure that allows the profits from these businesses to remain untaxed until those profits have been passed through to the ultimate owners of the LLC. Once the profits are claimed by the ultimate owner those profits are subject to whatever taxes apply to that owner's income. In the case of insurance companies, however, their corporate income is not subject to state taxes; as noted above, only their premiums from insurance policy sales are taxed. Insurance companies have taken advantage of this loophole to increase their after-tax profits by creating subsidiary businesses – for example a brokerage firm or a hotel – structured as LLCs from which the insurance company derives corporate income, but for which it pays no state income tax.

The Governor proposes subjecting "operating income from these non-insurance subsidiaries of insurance companies to the corporate tax as if these entities were business corporations." The administration estimates that this change would result in an additional \$8.4 million in tax revenue in FY15 and \$14.0 million annually thereafter (see [Governor's FY 2015 budget documents](#)).

Non-Tax Revenue

There are three types of non-tax revenue reflected in the state budget: federal revenues which largely come in as reimbursements for the state's Medicaid program or as block grants for other human service programs; departmental revenues which are mostly fees, assessments or premiums; and transfers from non-budgeted trusts into the state's General Fund to support ongoing operations. The Governor states that the FY 2015 budget relies on just half as much one-time revenue as did the previous year's budget. Revenues from the following non-tax sources are included in the Governor's FY 2015 Budget:

- One of the significant increases in non-tax revenue reflected in the Governor's FY 2015 budget proposal is a significant increase in federal revenue. These revenues will come to the Commonwealth as a partial reimbursement for increased spending on MassHealth and health reform expansions with the implementation of the federal Affordable Care Act (ACA).

With the ACA, MassHealth has increased enrollment in the publicly-subsidized health insurance programs which bring in federal reimbursement. At the same time, provisions in the ACA allow for Massachusetts to receive an enhanced reimbursement rate for many of these enrollees. Typically, the federal government reimburses Massachusetts for approximately 50 percent of its Medicaid spending. Under ACA, however, this reimbursement rate will increase in some instances to as much as 75-100 percent of state spending. The Governor estimates that these increases will provide an additional \$350 million in federal revenue for people who shifted from other publicly-subsidized programs to MassHealth with the implementation of ACA. Budget documents do not specify whether this \$350 million increase is relative to FY 2013 or FY 2014 revenue totals. This increase in federal revenue is not included in the chart above, but will be explained in more detail in an upcoming brief from MassBudget and the Mass. Law Reform Institute in conjunction with the Mass. Medicaid Policy Institute.

- The Governor's budget also includes \$24.2 million in increased departmental revenue associated with a proposed expansion of the state's "bottle bill." The Governor proposes expanding a 5-cent bottle deposit to non-carbonated beverages such as bottled water, flavored waters, iced teas, coffee based drinks and sports drinks. As with beverages currently covered by the "bottle bill," consumers are refunded this deposit if they return the empty bottles for recycling.
- The Governor also proposes withdrawing \$175 million from the state's Stabilization ("Rainy Day Fund") in order to balance the budget, a \$175 million decrease from FY 2014. This is a one-time revenue source. Other one-time non-tax revenue sources proposed by the Governor to balance the budget include the continued withdrawal of interest earned by the Stabilization Fund, the use of one-time funds anticipated from the granting of gaming licenses, shifting the timing of payments to hospitals, increased federal reimbursements for TANF expenditures, and sweeps of trust fund balances

| FY 2015 NON-TAX REVENUE PROPOSALS | Ongoing Source | One-Time Source |
|--|----------------|-----------------|
| | | |
| Expand "bottle bill" to include water & other drinks | 24,200,000 | |
| Stabilization ("Rainy Day") Fund withdrawal | | 175,000,000 |
| Stabilization ("Rainy Day") Fund interest transfer | | 10,700,000 |
| Proceeds from gaming licenses | | 53,500,000 |
| Shift in payment schedule to hospitals | | 13,000,000 |
| Federal reimbursements for TANF | | 32,200,000 |
| Trust fund sweeps | | 4,000,000 |
| TOTAL | 24,200,000 | 288,400,000 |

* Table does not include increased federal reimbursements related to ACA expansion

BREAKDOWN BY CATEGORY

The table below shows how the Governor's FY 2015 budget compares to other recent budgets and budget proposals.

Subsequent to publishing this Monitor, we received updated data for the adjustment to funding for state employee health insurance. With this new adjustment, the Governor's budget for this subcategory would be \$1,372,926,844.

| BUDGET BY CATEGORY AND SUBCATEGORY (millions) | FY 2014 GAA | FY 2014 Current | FY 2015 Governor |
|--|-------------|-----------------|------------------|
| Education | 7,235.9 | 7,252.4 | 7,502.9 |
| Early Education & Care | 500.9 | 512.6 | 545.8 |
| Higher Education | 1,108.8 | 1,112.6 | 1,167.1 |
| K-12: Chapter 70 Aid | 4,301.2 | 4,301.2 | 4,400.7 |
| K-12: Non-Chapter 70 Aid | 593.0 | 593.9 | 606.8 |
| K-12: School Building | 732.0 | 732.0 | 782.4 |
| Environment & Recreation | 188.3 | 188.7 | 197.8 |
| Environment | 85.2 | 85.2 | 94.1 |
| Fish & Game | 23.2 | 23.3 | 23.9 |
| Parks & Recreation | 79.8 | 80.2 | 79.8 |
| Health Care | 15,878.7 | 16,079.9 | 17,287.2 |
| MassHealth (Medicaid) & Health Reform | 13,322.5 | 13,516.6 | 14,588.4 |
| Mental Health | 703.8 | 707.3 | 712.4 |
| Public Health | 546.2 | 549.3 | 561.1 |
| State Employee Health Insurance | 1,306.2 | 1,306.7 | 1,425.4 |
| Human Services | 3,637.1 | 3,655.8 | 3,898.4 |
| Children, Youth & Families | 940.2 | 945.2 | 996.4 |
| Disability Services | 1,533.9 | 1,533.9 | 1,729.0 |
| Elder Services | 235.4 | 235.4 | 253.9 |
| Transitional Assistance | 776.0 | 778.1 | 737.1 |
| Other Human Services | 151.6 | 163.1 | 182.1 |
| Infrastructure, Housing & Economic Development | 1,961.0 | 2,035.4 | 2,131.5 |
| Commercial Regulatory Entities | 54.7 | 54.7 | 56.5 |
| Economic Development | 158.8 | 188.4 | 125.3 |
| Housing | 357.9 | 401.2 | 405.6 |
| Transportation | 1,389.6 | 1,391.2 | 1,544.1 |
| Law & Public Safety | 2,463.3 | 2,465.5 | 2,613.4 |
| Courts & Legal Assistance | 638.6 | 638.6 | 699.2 |
| Law Enforcement | 358.2 | 359.3 | 353.6 |
| Prisons, Probation & Parole | 1,271.6 | 1,272.1 | 1,361.7 |
| Prosecutors | 145.8 | 145.9 | 148.4 |
| Other Law & Public Safety | 49.0 | 49.6 | 50.4 |
| Local Aid | 961.2 | 987.3 | 950.3 |
| General Local Aid | 921.4 | 921.4 | 920.2 |
| Other Local Aid | 39.8 | 65.9 | 30.0 |
| Other | 4,583.6 | 4,624.0 | 4,818.0 |
| Constitutional Officers | 71.5 | 79.7 | 82.1 |

| | | | |
|-------------------------|----------|----------|----------|
| Debt Service | 2,422.5 | 2,422.7 | 2,497.6 |
| Executive & Legislative | 71.0 | 71.0 | 72.9 |
| Libraries | 22.2 | 22.2 | 22.7 |
| Pensions | 1,630.0 | 1,630.0 | 1,727.0 |
| Other | 366.3 | 398.4 | 415.6 |
| Total Budget | 36,909.1 | 37,288.8 | 39,399.5 |

The table above shows how the Governor's FY 2015 budget compares to other recent budgets and budget proposals.

Note: MassBudget's budget total is higher than other commonly-presented budget totals. We make a number of adjustments in order to allow for more accurate across-year comparisons of budget totals.

We include "pre-budget" transfers in our budget totals, which in FY 2015, adds \$3.55 billion. We include tax revenues dedicated to the MBTA and to school building assistance, the cigarette excise tax dedicated to the Commonwealth Care Trust Fund, the state contribution to the pension system, and the transfers to the Workforce Training Trust and to the State Retiree Benefits Trust.

We also make three additional adjustments. In FY 2015, these amount to approximately \$567.2 million subtracted from the budget total. We add approximately \$18.1 million to make up for budget reductions made when public higher education campuses were allowed to retain a greater share of the student tuition; we subtract approximately \$571.3 million to account for budget increases that simply reflect increased funding "passing through" the Group Insurance Commission from municipalities, we adjust for the shifting in funding of the State Office Pharmacy Services (\$14 million.)