

## The House Ways & Means Budget for FY 2014

In January, the Governor released his budget proposal for FY 2014, laying out his priorities for what we will do together as a Commonwealth in the coming year. This week, the House Ways & Means Committee did the same.

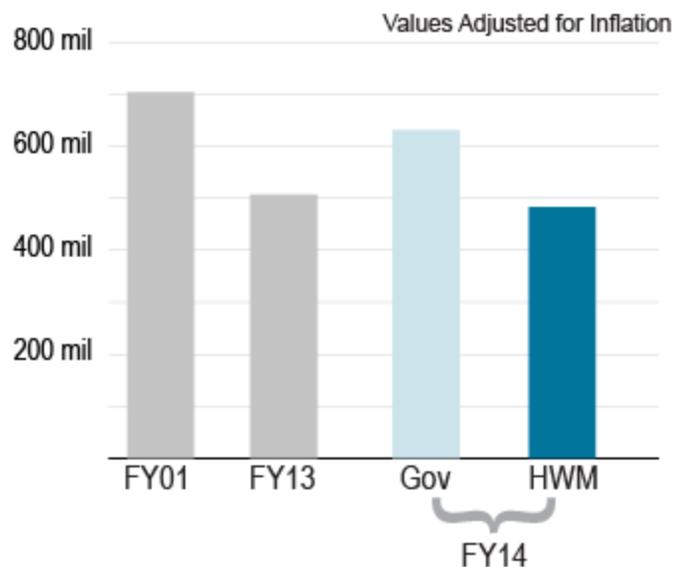
Although the House Ways & Means budget does include some new funding for Higher Education, Transportation, and Local Aid, it is significantly less than the Governor had proposed. The Governor's budget raises much more new revenue – both for FY 2014 and beyond – which would support larger investments to address the long-term needs of our communities and our state economy.

Most starkly, while the Governor's plan would have invested \$130 million to help expand access to high-quality Early Education & Care, the House Ways & Means budget actually cuts funding for Early Education & Care programs – leaving in place a long and growing waiting list for eligible families.

Another area that would see significant cuts under the House Ways & Means budget is Youth Employment. These programs that help young people find jobs and build careers would lose over 50% of their funding from last year.

The sections that follow describe the House Ways & Means budget in greater detail (hereafter HWM). Some of the issues we describe deserve greater space and greater attention than we provide in this document. We will be releasing a series of "Budget Briefs" over the coming weeks which will analyze important issues in more depth.

### Funding for Early Education & Care



## Early Education & Care

During debate, the House adopted amendments which affected Early Education & Care – and which may supersede the information described below. Read about them [here](#).

The Governor's FY 2014 proposal directed approximately \$130 million for new initiatives to increase access to early education and care and improve the quality of care received by children and families. Overall, the Governor proposed increasing funding for early education by 26.4 percent compared to FY 2013. Under the HWM proposal, programs and services for the Commonwealth's youngest children are cut by about 3 percent compared to FY 2013, and at \$482.7 million, receive almost \$150 million less than what the Governor proposed.

The **Income Eligible Child Care** subsidy currently has a wait list with 53,750 children waiting for care, an increase of around 3,500 children since January 1, 2013. The wait list currently includes 4,838 infants, 10,079 toddlers, 15,469 preschool, and 23,364 school age children. Almost 60 percent of those on the wait list, 30,386 children, are children not yet in the K-12 system.

The Governor's proposal directed over \$55 million to reduce the 30,386 infants, toddlers and preschool children waiting for care. Most families on the wait list have been unable to get a subsidy since February 2011. In contrast, the HWM proposal cuts Income Eligible Child Care by \$17.5 million (8 percent) compared to FY 2013 current spending. This funding level would ensure that the majority of families on the wait list would continue to wait for care increasing the number of infants, toddlers, preschool, and school aged children on the wait list.

**Supportive Child Care** which provides child care for children involved with the Department of Children and Families receives \$80.8 million, a \$3.5 million increase over FY 2013 and almost \$600,000 more than the Governor's proposal.

**TANF Related Child Care** receives \$128.1 million, the same as the Governor's proposal, and \$2.6 million more than FY 2013. This is essentially level funded after taking inflation into consideration. This subsidy account is facing a \$6.5 million deficit in FY 2013 due to higher than anticipated caseloads. The deficit will need to be funded before the end of the current fiscal year.

The Governor also directed almost \$72 million to programs dedicated to improving the quality of early education for children and families. A few of the initiatives which would have received funding under the Governor's proposal include:

- \$30.0 million for quality efforts tied to teacher training and professional development as well as class room grants and funding tied to the Quality Rating and Improvement System (QRIS)
- \$17.6 million to more safely transport children. Providing bus monitors to support drivers transporting a high number of kids.
- Approximately \$13 million to increase reimbursement rates paid to providers which would increase the pool of providers that families receiving a state subsidy could choose between. This would allow families to access higher quality programs for their children.

For a fuller description of all of the quality programs introduced by the Governor, see [Early Education & Care in the Governor's FY 2014 Budget](#).

The HWM proposal does not include any funding for these initiatives. The HWM proposal also results in significant cuts to existing early education programs. Programs receiving cuts compared to FY 2013 current spending include:

- **Universal Pre-Kindergarten** – cut \$2.4 million (33 percent)
- **Services for Infants and Parents** – cut \$2.0 million (11 percent)

For a full description of these programs, see the MassBudget brief, [Nurturing Kids, Supporting Families: Early Education & care in the Massachusetts State Budget](#).

**Access Management**, which received a \$2 million increase under the Governor's plan, is flat funded in the HWM proposal at \$5.9 million. Access Management funds child care resources and referral agencies (CCR&R) which help families with a subsidy attain child care. It remains 79 percent below pre-recession FY 2009 GAA inflation-adjusted funding levels.

The HWM proposal introduces one new line item. The **Early Education and Care Office of Compliance Management** funded at \$200,000 in the HWM proposal would essentially be tasked with auditing EEC. A manager would be appointed by the Executive Office of Administration of Finance to review and provide oversight to EEC procedures. Further, a special commission would be introduced to investigate EEC services in order to provide recommendations for improving access to and the quality of early education and care in the state. HWM introduces one new line item providing \$150,000 to hire a consultant for this commission.

## K-12 Education

**During debate, the House adopted amendments which affected K-12 Education – and which may supersede the information described below. Read about them [here](#).**

K-12 education programs in the House Ways and Means (HWM) budget receive only small increases over FY 2013, roughly in line with annual cost growth. The Governor's budget, by contrast, makes significant new investments in education, bringing education spending back in line with pre-recession levels. Further, once fully phased-in, the Governor's proposal would increase total education spending by about \$1 billion annually. Without a commitment to raise broad-based new revenue, the HWM proposal is unable to fund these future education investments.

The HWM budget funds **Chapter 70 education aid** at \$4.28 billion, which is \$116.6 million below the Governor's FY 2014 proposal and \$107.1 million above current FY 2013 levels. Overall, the HWM Chapter 70 aid proposal is roughly in line with annual cost growth, and it does not fund most of the initiatives included in the Governor's proposal. The HWM proposal does include a provision guaranteeing that each district receives a minimum \$25 per pupil increase over FY 2013 aid levels.

Formula modifications included in the Governor's FY 2014 proposal but not in the HWM proposal include:

- Phasing-in fully the formula reforms planned in the 2007 budget, but slowed due to the ongoing fiscal crisis. Whereas the Governor's proposal fully phases-in these reforms, the HWM proposal includes no phase-in at all. For more information on the reforms of 2007, please see MassBudget's [Demystifying the Chapter 70 Formula](#).
- Including all pre-kindergarten students currently attending public schools in district foundation budgets. 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. For more information on the early education investments made in the Governor's budget, please see MassBudget's [Early Education & Care in the Governor's FY 2014 Budget](#).
- Increasing the assumed cost of out-of-district special education students in the foundation budget by \$10,000 from \$25,848 to \$35,848. The foundation budget's current assumed cost for providing appropriate services has lagged well behind actual cost growth, and the Governor's proposal is designed to address this problem. The HWM proposal does not make this adjustment. For more information on how increasing special education costs have affected school budgets please see MassBudget's [Cutting Class](#) report.

As part of the Governor's broad education investment initiative, his budget provides greater funding than both the HWM and FY 2013 budgets for several K-12 education programs. Relative funding levels for these programs are detailed in the table below:

**SELECT K-12: NON-CHAPTER 70 AID LINE ITEMS**

Line Item	Name	FY 2013 Current	FY 2014 Governor	FY 2014 HWM	HWM - Gov
7061-9010	Charter School Reimbursement	70,454,914	80,270,928	70,454,914	-9,816,014
various	Gateway Cities School Programs	3,500,000	10,223,000	2,600,000	-7,623,000
7035-0002	Adult Basic Education	30,174,160	35,178,721	29,156,340	-6,022,381
7061-9412	Extended Learning Time Grants	14,168,030	19,040,030	13,918,030	-5,122,000
various	Literacy support programs	3,922,940	4,197,940	1,600,000	-2,597,940
7061-9408	Underperforming Schools Support	7,617,618	9,755,007	7,677,989	-2,077,018

Two school reimbursement programs – the Special Education Circuit Breaker and Regional School Transportation – would be funded at levels slightly above the Governor's proposal. These are:

- The **Special Education Circuit Breaker** program, which would be funded at \$235.5 million, roughly \$5.0 million above both current FY 2013 levels and the Governor's FY 2014 proposal.
- **Regional School Transportation**, which would be funded at \$45.5 million, roughly \$1.0 million above both current FY 2013 levels and the Governor's FY 2014 proposal.

## Higher Education

During debate, the House adopted amendments which affected Higher Education—and which may supersede the information described below. Read about them [here](#).

The House Ways and Means (HWM) budget would increase higher education support by \$95.6 million, ten percent above the FY 2013 levels. While this is a meaningful increase, the Governor had proposed roughly twice as much—investing \$199.7 million in Higher Education, or twenty percent more than last year. Both proposals would provide similar increases to higher education campuses, but the Governor's plan provides \$112.0 million more for the State Scholarship Program.

The HWM budget makes partial headway in reversing cuts accumulated over the last thirteen years—state funding for higher education was cut \$469.3 million between FY 2001 and FY 2013. For more information about historic funding levels, please see the Higher Education section of the MassBudget's Budget Browser available [HERE](#).

Both the HWM and Governor's budgets provide similar levels of support to the UMass System, state universities and community colleges. Specifically, the HWM plan would fund:

- **The UMass System** at \$492.5 million, an increase of \$39.3 million over FY 2013.<sup>1</sup> This increase helps move Massachusetts closer towards the goal of a 50/50 split between state support and student payments in the UMass System. However, this proposal still represents a 10 percent reduction from pre-recession levels and a 24 percent reduction from FY 2001.
- **Community Colleges** at \$252.7 million, an increase of \$37.2 million over FY 2013. The HWM budget provides every community college a one percent funding increase over FY 2013. Further, an additional \$20.0 million would be distributed across campuses using a new performance-based funding formula approved last year. In total, this represents an increase that is \$10 million greater than the Governor's proposal.
- **State Universities** at \$233.0 million, an increase of \$28.8 million over FY 2013, and \$6.5 million more than the Governor's proposal. Even with this increase, State Universities would still receive \$10.9 million less than they were slated to receive at the beginning of FY 2009.

While direct campus appropriations are similar under both budgets, the biggest difference between the HWM and Governor's higher education proposals is that the Governor's plan provides substantial new support for financial aid.

The HWM budget level funds the **State Scholarship Program**, including the MASSGrant program, which provides need-based financial assistance to Massachusetts undergraduates who enroll in any approved public or independent college, university, school of nursing or any other institution of higher education. While the Governor's proposal increases it from \$87.6 million to \$199.6 million for FY 2014, the House budget maintains FY 2013 funding levels.

---

<sup>1</sup> Starting in FY 2012, all campuses of public higher education began retaining tuition payments from out-of-state students, rather than remitting that revenue back to the state, so *MassBudget* adjusts upwards the campus allocations by these projected amounts so that one can compare reasonably the levels or resources available at an individual campus to previous years when this tuition was remitted to the state.

Programs that were proposed by the Governor but not included in the HWM proposal include the **State University Incentive Grant**, which would fund a new program to help State Universities advance the goals of the Vision Project, and the **Completion Incentive Grant**, which provides incentive grants of up to \$2,000 annually to low-income students for completing their degree over a maximum of four years.

Finally, the HWM budget proposes \$4.8 million for creation of a new a Science, Technology, Engineering, and Mathematics (STEM) academy, designed to prepare students for college-level courses and career readiness with a focus on STEM education at community colleges. This program is not included in the Governor's FY 2014 budget.

## Environment and Recreation

**During debate, the House adopted amendments which affected Environment & Recreation – and which may supersede the information described below. Read about them [here](#).**

The state's environment and recreation budget includes funding for environmental protection, protecting wildlife and fish habitats and maintaining and staffing state parks, pools, and beaches.

Between FY 2001 and the FY 2013 current budget, state funding for environment and recreation programs has been cut by 38 percent after adjusting for inflation. While the Governor's FY 2014 budget recommends providing \$18.8 million more than the FY 2013 current budget for environmental and recreation programs, the HWM budget provides many fewer increases in funding.

For instance, as in past years, the Governor's budget recommends expanding the 5 cents refundable deposit on non-carbonated beverages not covered under the current bottle deposit law. He recommends using \$4 million from this expansion to provide **recycling and redemption centers** with \$4.4 million in FY 2014. The HWM budget recommends level funding these centers at \$375,000.

The HWM budget provides \$2.5 million to the Department of Environmental Protection (DEP) to make sure that the state's environmental laws are being complied with which is about the same amount provided in the FY 2013 current budget and the Governor's FY 2014 proposal. The FY 2014 HWM budget does not include a request in the Governor's budget that allows DEP to retain an additional \$2.5 million in revenue that it receives through **compliance and permitting fees** to ensure that it has the staff to review environmental compliance issues in a timely manner.

Some of the increases for parks, beaches and pools included in the Governor's FY 2014 recommendation are not included in the HWM budget. The HWM budget recommends:

- \$40.3 million for **state parks** which is \$382,000 more than the FY 2013 current budget but is \$3.6 million below the amount recommended by the Governor. The HWM budget recommendation for parks funding is 36 percent lower than the amount provided to parks before the fiscal crisis hit in FY 2009, after adjusting for inflation. In addition to appropriations from the General Fund, the state budget now allows DCR to retain \$14.1 million in the revenue it receives through fees and other sources which is \$3 million more than it could collect in FY 2009 after accounting for inflation. When including this retained revenue, funding for parks has fallen by 26 percent in inflation adjusted dollars.

- \$12.6 million in funding for **beaches, pools and seasonal employees** who work at state recreation facilities. This amount is \$141,000 more than the FY 2013 current budget but is almost \$1 million less than the Governor's recommendation. The HWM budget is 27 percent below the amount funded for these activities before the onset of the fiscal crisis, after adjusting for inflation.

## MassHealth & Health Reform

During debate, the House adopted amendments which affected MassHealth & Health Reform – and which may supersede the information described below. Read about them [here](#).

Together MassHealth, the state's Medicaid program, and the Commonwealth Care program, provide health coverage for about 1.5 million Massachusetts residents, including more than one in three children in the state. In FY 2014 these programs will be significantly restructured due to implementation of the federal health reform law, the Affordable Care Act (ACA), starting in January 2014. While the number of MassHealth enrollees is expected to increase due to shifts of people from other subsidized health coverage and expanded eligibility criteria, ACA implementation is expected to benefit the state, which will receive a higher level of federal reimbursement for some current enrollees and will realize savings as some Commonwealth Care members move to Qualified Health Plans that are directly subsidized by the federal government.

Like the Governor's House 1 budget proposal, the HWM budget reflects the changes that implementation of the ACA will bring – in particular, the HWM budget adopts the Governor's proposal to create a new line item to fund costs associated with a new MassHealth "benchmark" plan for people who are newly eligible for Medicaid under the ACA (including people currently covered in MassHealth Basic and Essential plans) and other ACA-related costs. The HWM budget transfers an amount similar to that included in House 1 to the Commonwealth Care Trust Fund, an apparent reflection of similar assumptions about costs and savings in the Commonwealth Care health plan. The budget proposal also includes language proposed by the Governor in separate legislation that would maintain an existing employer assessment that funds health coverage for unemployed workers under the Medical Security Plan (MSP). Most MSP enrollees will transfer to federally subsidized coverage, and so the budget language directs the revenue to a new trust fund that will provide funding for subsidized health coverage generally.

Unlike the Governor's proposal, however, the HWM budget does not reinvest all the savings due to the ACA in health programs. This is not surprising – the Governor's budget indicated that the ability to make these investments, rather than diverting new federal revenue to other areas of the budget, depended on increasing overall revenues available to fund the budget. In the absence of these expanded resources, the HWM budget proposes total funding for MassHealth and other health reform programs that is \$266.5 million lower than what the Governor proposed in House 1.

- The Governor proposed to fully restore dental coverage for adults enrolled in MassHealth and Commonwealth Care, starting in January, 2014. The half-year cost of the restoration is about \$72 million (a net cost to the state of about \$36 million). The HWM budget does not appear to include funding for this restoration.

- The Governor's budget proposed an increase in MassHealth hospital rates, at a cost of about \$81.4 million (or a net cost of about \$40 million). A portion of the increase reflected restoration of mid-year "9C" budget cuts made last December to hospitals that serve high-risk populations. The HWM budget indicates that it includes \$68 million for rate increases for hospitals. In both cases, the increase will help restore rates that were cut during the recent recession.
- The HWM budget cuts funding for supplemental nursing home rates by \$15.0 million compared to current FY 2013 spending, in contrast to the Governor's proposed cut of \$5.0 million. The cut would be made in addition to a \$15.0 million reduction implemented when "9C" budget cuts were made last December, and so the House proposal represents a reduction of \$30.0 million compared to the amount originally appropriated in the FY 2013 budget.
- While the HWM budget includes funding for a new line item to fund the MassHealth expansion that will take place when the ACA is implemented in January, its proposed funding level of \$449.2 million is \$11.7 million lower than the appropriation proposed by in House 1. The difference appears to be due to the elimination of two items that the Governor proposed to fund through this line item: costs related to the maintenance of state coverage for a small group of legal immigrants who will not be eligible for federal tax credit health subsidies, and costs related to extending new income eligibility definitions that will go into effect under the ACA to disabled adults.
- The Governor's budget proposed increases to two line items created in the FY 2013 budget. One of these (4000-1602) provides support to MassHealth operations, in order to make the applications process more efficient and timely, and the other (4000-1604) support the development of new payment methodologies and other health system reforms. The HWM budget provides an increase for operations funding, but it is lower than that proposed by the Governor – \$334,000 compared to the \$2.4 million increase included in House 1, and it proposes to cut funding for health care system reform support by \$400,000, in contrast to the Governor's proposed increase of \$250,000.

After taking these differences into account, there is still a sizable gap – more than \$100 million – between the funding levels proposed by the Governor and the HWM Committee. It is possible that the difference reflects House assumptions about potential savings that go beyond the \$191.8 million already identified in House 1, but the HWM budget provides no indication of the assumptions that underlie its proposed funding levels; without such information it is difficult to gauge the potential effect of proposed spending on MassHealth and other health subsidy programs.

## Public Health

**During debate, the House adopted amendments which affected Public Health – and which may supersede the information described below. Read about them [here](#).**

Unlike the Governor's House 1 budget proposal, which took a modest step toward restoring public health funding, the HWM FY 2014 budget proposal continues the trend of cuts to public health that has prevailed over the past decade. The HWM budget includes a total of \$531.3 million for public health programs (including a youth violence program that is located in the Office of Health and Human

Services, but that is similar to two other programs within the Department of Public Health). After accounting for the addition of a \$14.0 million retained revenue account for the State Office of Pharmacy Services (SOPS) that was previously off-budget, proposed public health funding drops by \$3.7 million compared to current FY 2013 levels. Since FY 2001 funding for public health programs has been cut by 24.5 percent, after adjusting for inflation.

The funding decrease in the DPH budget is a net amount that reflects an increase in funding for some regulatory activities balanced by cuts to a number of other programs. The changes include:

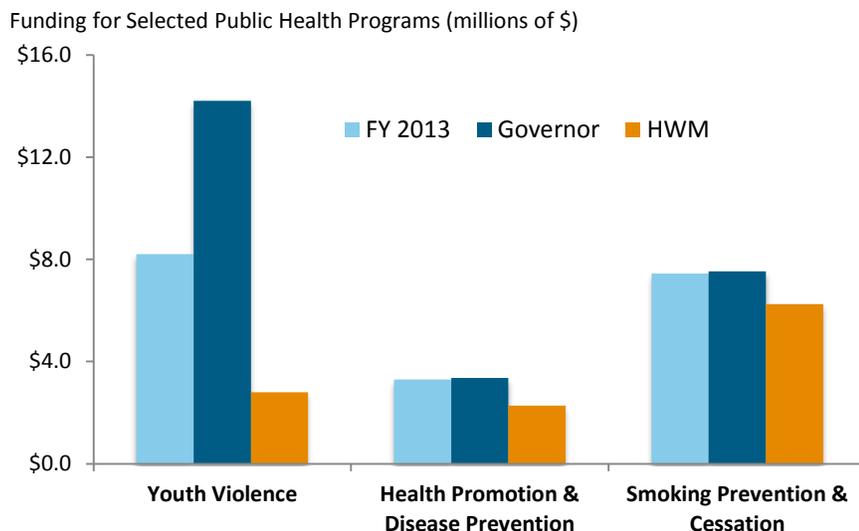
**Health Regulation**

Like the Governor, the House proposes \$1.3 million for the Board of Registration in Pharmacy, which received \$182,600 in FY 2013—a substantial new investment that is intended to support increased inspections of compounding pharmacies and increased training of inspectors. The HWM budget also follows the Governor in proposing new funding for other line items that fund regulatory activities, although the proposed increases are smaller than those included in the Governor’s House 1 budget plan. These include an increase of \$222,000 for Environmental Health Services (for which the Governor proposed an increase of \$1.0 million) and an increase of \$632,000 for the Division of Health Care Quality and Improvement, in contrast to the Governor’s increase of \$1.48 million.

**Youth Violence**

The HWM budget cuts proposes to reduce overall funding for three youth violence prevention programs by two-thirds compared to FY 2013 funding for these programs (see graph below). The proposed budget eliminates the Safe and Successful Youth Initiative, a youth violence grant program that is located in the Office of Health and Human Services. This program received \$4.0 million in FY 2013, and the Governor's budget proposed an increase to \$10.0 million in FY 2014. The HWM budget also cuts funding for two other DPH violence prevention programs for which the Governor proposed level funding, the Violence Prevention Grant program (cut from \$1.5 to \$1.0 million) and the Youth-at-Risk Matching Grants (cut from \$2.7 million to \$1.8 million). For further discussion of these and other youth programs, see the "Youth Jobs" section below.

**The HWM Budget Proposes New Cuts to Public Health Programs**



### Health Promotion and Disease Prevention

The HWM budget proposes to cut funding for Health Promotion and Disease Prevention programs that fund activities intended to help people lower their risk for developing chronic diseases and reduce health disparities. The Governor’s House 1 budget plan provided level funding of \$3.4 million for these programs, but the HWM budget reduces this amount by \$1.0 million – a cut of 30.8 percent.

### Smoking Prevention & Cessation

The HWM budget proposes to cut smoking prevention programs by about \$179,000, in contrast to the Governor, who proposed level funding. While this cut looks small, it represents a 4.3 decrease compared to FY 2013 current funding. Since FY 2001 funding for tobacco control programs has fallen from \$67.9 million to \$4.2 million in FY 2013.

### Substance Abuse

The HWM budget increases funding for the main Division of Substance Abuse Services line item by about \$6.7 million, an increase that is similar to that proposed by the Governor. However, the HWM budget also eliminates funding for two other substance abuse line items, Secure Treatment Facilities for Opiate Addiction and the Family Intervention program, and it cuts funding for a third substance abuse line item (Step-Down Recovery Services) nearly in half, from \$4.8 to \$2.8 million. The Governor proposed level funding for these three programs.

Taking these changes into account, overall funding for substance abuse programs in the HWM budget is \$5.7 million lower than the amount proposed by the Governor, and \$1.2 million lower than current FY 2013 funding.

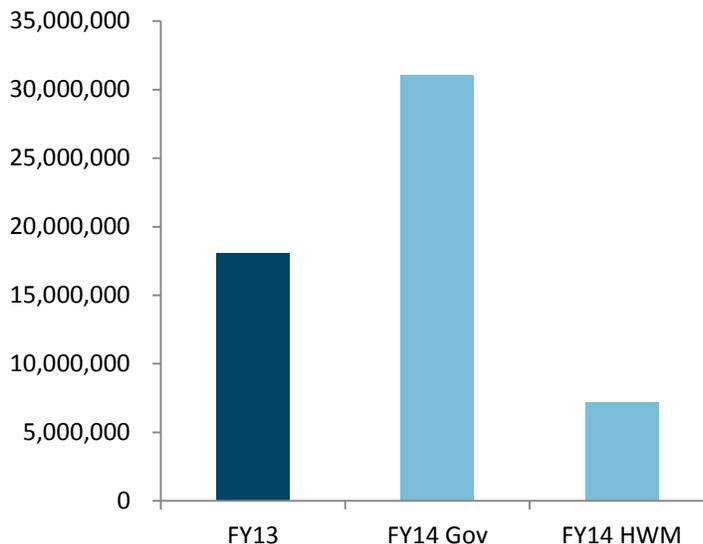
## Youth Empowerment

During debate, the House adopted amendments which affected Youth Empowerment – and which may supersede the information described below. Read about them [here](#).

In FY 2014, the House Ways and Means (HWM) budget proposes to cut funding to youth employment programs by more than fifty percent from FY 2013. While the Governor proposed \$31.0 million for these programs, the HWM plan only allocates \$7.2 million. The chart below compares funding for these programs in FY 2013 for the HWM and Governor’s FY 2014 proposals.<sup>2</sup>

Youth employment programs that would see a significant decrease under the HWM budget

**Youth Employment Programs Would See a Sharp Decrease in the House Ways and Means Budget**



<sup>2</sup> See the Budget Browser from the Massachusetts Budget and Policy Center and data provided by the Commonwealth Corporation.

include:

**Youth Works:** Funded at \$3.0 million in FY 2013, the HWM proposal reduces the funding to \$2.0 million in FY 2014. The Governor’s proposal would have allocated the program \$10.0 million in FY 2014.

**School to Career Connecting Activities:** The HWM budget proposes funding for this program at \$1.0 million in FY 2014, \$1.9 million below both FY 2013 levels and what the Governor has proposed for FY 2014. This is down significantly from \$8.2 million (inflation adjusted) allocated in FY 2007.

**Youth-Build Grants:** The HWM plan proposes \$1.0 million for this program in FY 2014, half of what is funded in both the FY 2013 budget and in the Governor’s FY 2014 proposal.

**The Safe and Successful Youth Initiative:** This anti-violence program would be completely eliminated in the HWM budget. It was funded at \$4.0 million in FY 2013 and the Governor's budget called for an increase to \$10.0 million. For more information on anti-violence programs, see the "Public Health" section of this *Budget Monitor*.

For more detailed information on these and other state programs that support children, see MassBudget's Children's Budget available online [here](#).

**Youth Empowerment: YOUTH EMPLOYMENT RELATED LINE ITEMS**

Line Item	Name	FY 2013 Current	FY 2014 Governor	FY 2014 HWM	HWM - Gov
4000-0005	Safe and Successful Youth Initiative	4,000,000	10,000,000	0	-10,000,000
7002-0012	Summer Jobs Program for At-Risk Youth (YouthWorks)	3,000,000	10,000,000	2,000,000	-8,000,000
7027-0019	School to Career Connecting Activities	2,870,000	2,871,370	1,000,000	-1,871,370
4800-0016	Transitional Employment Program (Roca)	2,000,000	2,000,000	400,000	-1,600,000
7061-9626	Youth-Build Grants	2,000,000	2,000,000	1,000,000	-1,000,000
4590-1507	Youth-At-Risk Matching Grants	2,700,000	2,700,000	1,800,000	-900,000
4590-1506	Youth Violence Prevention Grants	1,501,178	1,501,178	1,000,000	-501,178

## Human Services

During debate, the House adopted amendments which affected Human Services – and which may supersede the information described below. Read about them [here](#).

Human Services programs and services form a crucial part of the Commonwealth’s “safety net” for the state's most vulnerable residents. Programs provide support for our youngest and oldest residents, for families and for those living alone. The services help provide families and individuals with access to food, provide support for individuals with disabilities, care for our children and youth in foster care, and offer many other services that provide stability and support to the residents of Massachusetts.

The HWM proposal increases funding by around \$88 million (3 percent) compared to FY 2013 spending, about \$57 million less than the Governor's proposal. In FY 2014, implementation of a standardization and adjustment of rates paid to contracted human and social service providers, as instructed by Chapter 257 of the Acts of 2008 will cost approximately \$122 million if fully funded.

Before Chapter 257, many individual providers negotiated rates separately. Chapter 257 standardizes rates according to the services delivered by providers to make the system more efficient and fair. The total increase in funding for human services in the HWM proposal is less than the amount needed to fully fund Chapter 257.

Both HWM and the Governor fail to fund the \$20 million Human Services wage increase for low wage human service workers passed in the FY 2013 budget.

## Children, Youth & Families

Programs and services administered by the Department of Children and Families (DCF), the primary child welfare agency in Massachusetts protecting children from abuse and neglect, and the Department of Youth Services (DYS), which provides programming and detention services for children and youth detained by law enforcement, receive \$931.6 million, remaining 15 percent below pre-recession funding levels. Overall, the two departments receive an increase of \$22.4 million, but are essentially level funded after accounting for inflation. If fully funded, Chapter 257 funding would account for an increase of \$45.0 million.

**Group Care Services**, which funds DCF contracted congregate care programs, including residential and group care placements as well as intensive community-based services for some children, receives \$208.0 million, an increase of \$14.8 million. If fully funded, implementation of Chapter 257 would require an increase in Group Care Services of over \$30 million.

Some other programs receiving funding which does not cover planned Chapter 257 increases include:

- **Residential Services for Detained Population** – funded at \$21.5 million, approximately \$500,000 below Chapter 257 needs
- **Residential Services for Committed Population** – funded at \$106.7 million, \$3.5 million below Chapter 257 needs
- **Services for Children and Families** – funded at \$250.1 million, \$1.8 million below Chapter 257 needs

HWM completely eliminates funding for **DCF regional administration**. This line item, funded at \$6.0 million in FY 2013, and given the same in the Governor's proposal, funds contracts for "lead agencies" across the state that have specific oversight and service coordination responsibilities within the social service system.

The **Department of Children and Families** administration receives \$67.9 million, 2 percent below the Governor's proposal and 20 percent below pre-recession levels. The **Department of Youth Services** administration receives an increase of \$183,000 (4.7 percent), level with the Governor's proposal, but still 34 percent below pre-recession levels.

**Family Access Centers**, funded at \$1.5 million by the Governor is not funded under the HWM proposal. Funding would have supported centers which make it easier for children and families to access many public services including Transitional Aid to Families with Dependent Children (TAFDC),

Supplemental Nutrition Assistance Program (SNAP), Women, Infants, and Children's Program (WIC), Fuel Assistance, and MassHealth.

## Transitional Assistance

The HWM proposal calls for significant changes in the administration of public assistance in Massachusetts. These changes would affect recipients as well as the state agencies which administer public assistance programs, most notably the Department of Transitional Assistance (DTA).

For recipients, HWM adds a provision requiring photo identification on Electronic Benefit Transfer (EBT) cards for eligible users over the age of 18. While the exact cost is unknown, the Secretary of Health and Human Services noted there would be a fairly significant cost to implement this provision.

For DTA, HWM proposes a handful of changes which would:

- Introduce a "Computerized Integrated Eligibility System" to eliminate duplication of assistance and to deter fraud. A report would be due on October 31, 2013 including recommendations for data matching between multiple departments including the department of revenue, the department of elementary and secondary education, the department of unemployment assistance, the department of industrial accidents, the registry of motor vehicles, the department of criminal justice information services and the department of corrections
- Create a "Bureau of Program Integrity" with a director appointed by the Inspector General for a term of 4 years. The Bureau would monitor the quality, efficiency and integrity of programs administered by the Executive Office of Health and Human Services (EOHHS). Its aim would be to prevent, detect and correct fraud, waste and abuse in programs including: MassHealth, TAFDC, Emergency Aid to Elders, Disabled, and Children, SNAP, and any other assistance administered using EBT cards. The Bureau would also review the management and operational structure at DTA to make sure the organizational structure is optimally designed to make sure those who receive benefits should be receiving them.
- Require DTA and the Department of Elementary and Secondary Education to verify school attendance
- Create a task force focused on developing common eligibility standards for all agencies administering public assistance
- Begin a process to have DTA become a "State Law Enforcement Bureau" to conduct investigations into SNAP fraud. DTA would sign an agreement with the Food and Nutrition Service (FNS) of the US Department of Agriculture.

The HWM proposal of \$772.6 million is \$17.8 million below the Governor's proposal and \$635,000 below FY 2013. **Transitional Aid to Families with Dependent Children (TAFDC)** receives \$306.2 million, 2 percent below the Governor's proposal and 3 percent below FY 2013. The **Employment Services Program** receives just \$5.0 million, 32 percent below the Governor's proposal and 30 percent below FY 2013. This program which provides TAFDC recipients with education, occupational skills and the employment support services needed to acquire and retain jobs has been cut by 84 percent since pre-recession levels. The **Department of Transitional Assistance** receives an increase of \$7.2 million (13 percent) over FY 2013, but is \$2.0 million below the Governor's proposal.

## Disability Services

Disability services receives an increase of \$76.1 million (5.3 percent) compared to FY 2013, but is \$15.7 million below the Governor's proposal. If fully funded, Chapter 257 funding would account for an increase of \$69.9 million. **Community Residential Services for the Developmentally Disabled** receives the bulk of the total increase in this category, \$57.6 million. A significant portion of this increase, approximately \$53 million would be required if Chapter 257 is fully funded. Chapter 257 standardizes rates to make the system more efficient and fair.

**Community Day and Work Programs for the Developmentally Disabled** receives an increase of \$16.5 million compared to FY 2013, level with the Governor's proposal. Over \$15 million of that increase would be required if Chapter 257 is fully funded.

Other line items in this category are level funded or receive small increases, but remain well below pre-recession levels. **Turning 22 Services for the Developmentally Disabled** remains 28.9 percent below FY 2009 GAA inflation adjusted levels. The Turning 22 line item supports the entry of young developmentally disabled adults into the adult service system from the special education system

## Elder Services

The FY 2014 Budget proposal level funds Elder Services at \$226.5 million, \$3.9 million (1.7 percent) more than FY 2013 spending. Funding for these services remains 13.4 percent below FY 2009 GAA inflation adjusted levels. **Elder Protective Services** receives \$21.9 million, a \$4.7 million increase over FY 2013 and essentially level with the Governor's proposal. Approximately \$4.8 million is needed to fully fund Chapter 257. This service investigates elder abuse and neglect, and provides money management supports to prevent financial exploitation.

**Elder Enhanced Home Care Services** receives \$47.3 million, level with the Governor's proposal and FY 2013 spending. Funding for this program remains 11 percent below pre-recession levels and has contributed to a wait list for services including around 800 elders.

## Transportation

The HWM budget for transportation reflects the transportation funding bill that recently passed the full House. In its first year, FY 2014, this House bill is quite similar to the Governor's FY 2014 proposal for transportation, with both plans increasing support by around \$250 million over FY 2013 levels. Both proposals fund these higher spending levels through increased taxes, but the Governor raises more new revenue, primarily through an increase in the state income tax, enabling greater increases to transportation in future years. Over the long-term this lower House funding level would likely lead to fewer infrastructure investment projects such as bridge renovations, road resurfacing projects, highway interchange rehabilitations, and rail line extensions.

For FY 2014 the HWM budget would increase funding to:

- \$1.07 billion for the **Massachusetts Bay Transportation Authority (MBTA)**, an increase of \$127.7 million over FY 2013. This funding comes from two budgeted sources: \$799.3 million from an automatic pre-budget transfer from sales tax revenue and \$275.2 from the Commonwealth Transportation Trust Fund.

- \$206.5 million for the **Massachusetts Transportation Trust Fund (MTTF)**, an increase of \$49.7 million over FY 2013. The MTTF helps fund Massachusetts Department of Transportation (MassDOT) functions, which include supporting the Regional Transit Authorities; maintaining and improving state roads, highways, and bridges; maintaining and improving airports and rail and transit lines; administering the Registry of Motor Vehicles (RMV); and covering specific transportation-related debt service costs.
- \$98.6 million for **Regional Transit Authorities (RTAs)**, an increase of \$80.1 million over FY 2013. Currently, the state reimburses RTAs at the end of the year, rather than providing that support in advance, forcing them to borrow money to cover the coming year's budget. This FY 2014 proposal reflects a large one-year increase to forward-fund the RTAs so that they would no longer have to borrow this money to fund operations.

The Governor's FY 2014 budget distributes the above funding to the MBTA, the MTTF, and the RTAs in somewhat different ways, but total combined support for FY 2014 is almost identical.

It is important to note that a significant portion of the state's transportation-related capital spending shows up in separate debt service accounts, the largest of which is the **Consolidated Long-Term Debt Service** line item. For FY 2014, 42.8 percent of this \$2.0 billion account is projected to cover transportation-related debt.

## Housing

During debate, the House adopted amendments which affected Housing – and which may supersede the information described below. Read about them [here](#).

The state budget provides housing assistance, including shelter for low-income homeless families, to low- and moderate-income people in Massachusetts. The HWM FY 2014 budget continues the changes made in FY 2013 that severely limit low-income homeless families' access to shelter and cuts funding for shelter and assistance to these families. The HWM budget, like the Governor's, creates a new Housing Preservation and Stability Trust Fund to allow the state to provide more housing options for low-income families and individuals who are at risk of becoming homeless.

The state budget primarily supports low-income homeless families through two programs, Emergency Assistance (EA) and HomeBASE. EA provides shelter to homeless families with children under 18 who live at or below 115 percent of poverty. Based on changes made in the FY 2013 budget and implemented by the Department of Housing and Community Development (DHCD) in 2012, only families who lose their housing for specific reasons are immediately eligible for shelter. (For a description of these changes, please see MassBudget's Children's Budget: <http://children.massbudget.org/emergency-assistance-family-shelter-and-services>). Many other families who were once eligible for EA because they had left housing where they were doubling up with family or friends or were asked to leave are no longer allowed to move into shelter. Only when they have lived in a place not meant for human habitation like a car, a park or a hospital emergency room will they be eligible for EA.

The HWM budget recommends spending \$106.5 million on EA, a reduction of \$29.2 million below FY 2013 current spending. The HWM budget is \$4.7 million more than the Governor's FY 2014 request for EA largely because the HWM budget recommends providing \$5 million more than the Governor's proposal for families being sheltered in **hotels and motels**.

**HomeBASE** provides \$4,000 in assistance for up to 12 months to help low-income homeless families who are eligible for EA to secure housing. When it was created in FY 2012, HomeBASE provided up to 3 years of rental assistance to help low-income families who were homeless or at risk of becoming homeless secure housing. As demand quickly exceeded available funds the state closed the program to new families in October of 2011. Currently HomeBASE provides 1 year of assistance to new families. It has also cut its rental assistance program, for the 2,000 families who had already signed up, from 3 to 2 years. The HWM budget recommends reducing funding for HomeBASE by \$29.9 million below the FY 2013 current budget to \$58.8 million which is the same level recommended in the Governor's budget. Much of this reduction appears to reflect the fact that families receiving rental assistance will begin running out of their benefits during FY 2014 and into FY 2015. (For more information on HomeBASE please see MassBudget's Children's Budget: <http://children.massbudget.org/homebase>.)

As part of the effort to move homeless families out of shelters and into permanent housing, last year's budget also increased funding for several affordable housing programs including the Massachusetts Rental Voucher Program (MRVP), Residential Assistance for Families in Transition (RAFT) and subsidies for public housing authorities. The HWM FY 2014 budget recommends:

- Increasing funding for **MRVP**, which provides vouchers to low-income renters, by \$4.5 million to \$46.5 million. This additional funding, which was also included in the Governor's recommendation, would not create new vouchers but allow DHCD to fully-fund the 900 new vouchers it created in FY 2013 to move homeless families out of shelter and into permanent housing. (For more information on MRVP please see MassBudget's Children's Budget: <http://children.massbudget.org/massachusetts-rental-voucher-program>.)
- Level-funding **RAFT**, which provides \$4,000 for up to 12 months to help families avoid homelessness, at \$8.8 million. (For more information on RAFT please see MassBudget's Children's Budget: <http://children.massbudget.org/residential-assistance-families-transition>.)
- Reducing funding for **public housing authorities**, which manage over 45,000 state-supported units for low-income renters, by \$2.1 million to \$62.4 million. The HWM budget does not include \$5.0 million proposed in the Governor's FY 2014 budget to consolidate the state's 240 housing authorities into 6 regional authorities.<sup>3</sup> (For more information on public housing authorities please see MassBudget's Children's Budget: <http://children.massbudget.org/subsidies-public-housing-authorities>.)

Like the Governor, the HWM budget recommends creating a Housing and Preservation Stability Trust Fund in Outside Section 49. The HWM budget recommends that up to \$10.0 million in surplus funds from FY 2013 be transferred into the housing trust fund which is less than the Governor's recommendation of \$20.0 million. The fund would also receive any surpluses from the EA, HomeBASE, MRVP and RAFT programs rather than having them revert to the General Fund at the end of the fiscal year. This new trust fund would be used by DHCD to provide affordable housing for low-income families and individuals in the Commonwealth, particularly those who are most at risk of becoming homeless.

<sup>3</sup> The Governor's January 11, 2013 press release announcing the public housing consolidation is available here: <http://www.mass.gov/hed/economic/eohed/dhcd/improvements-to-oversight-of-local-housing-authorities.html>

In its budget, the HWM Committee recommends level funding most other housing programs with one exception. It recommends cutting funding for shelters provided to homeless individuals by \$2.4 million below FY 2013 current spending which is also \$2.3 million below the Governor's proposal. The HWM committee does increase funding for the Home and Healthy for Good Program for chronically homeless individuals by \$400,000 to \$1.8 million. The Governor's budget recommended providing the program with \$1.4 million which is the same amount as the FY 2013 current budget.

## Local Aid

Under the House Ways and Means (HWM) Committee's FY 2014 budget, **Unrestricted General Government Aid (UGGA)** would receive a small increase roughly in line with inflation, the first increase of any kind in five years. 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 districts get from Chapter 70 aid).

Specifically, the HWM budget funds UGGA at \$920.2 million, \$21.3 million above current FY 2013 levels. The Governor's budget included a greater increase for UGGA, proposing \$930.0 million in funding for FY 2014.

UGGA was cut dramatically between FY 2001 and FY 2013 – about \$778 million, or 46 percent, adjusted for inflation. These proposed increases, therefore, would only reverse a small portion of cuts accumulated over these years. Further, the HWM proposal only reflects an increase of 2.4 percent over FY 2013 levels, roughly in line with annual cost growth.

The HWM and Governor's budgets distribute UGGA in slightly differently ways. Both distribute the first \$899 million to cities and towns as a base funding amount equal to the appropriation they received every year since FY 2011. The HWM budget then distributes its \$21.3 million increase proportionally off of this base, increasing each community's aid by 2.4 percent. Because a portion of the \$899 million base includes historically problematic Additional Assistance allocations, the HWM approach of proportional increases misses an opportunity to begin distributing future local aid increases in a more equitable way. 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*, available [here](#).

Rather than building the FY 2014 increase amount off of the existing base, the Governor distributes his proposed additional \$31 million through a new distribution formula called "Annual Formula Local Aid." This new formula modified the existing lottery formula by adding a local income measure to the existing property wealth and population factors. Overall, this new funding would be distributed in a progressive manner with lower property wealth and lower income communities receiving greater aid.

Additionally, the HWM budget includes \$1.2 million in local aid payments to cities and towns from the Massachusetts Gaming (casino gambling) Commission. These payments would be in addition to UGGA payments, although the specific distribution method was not laid out in the budget.

## Libraries

The state budget supports free public libraries by providing direct aid to local libraries, supporting the regional library network that includes the interlibrary loan program, and providing funding for the talking book programs for the visually impaired in Worcester and Watertown.

The HWM FY 2014 budget recommends level funding all library programs with two exceptions. The HWM budget increases funding for the **Talking Book Program in Watertown** by \$55,000 to \$2.5 million which is the same as the Governor's recommendation. The HWM budget recommends reducing funding for **aid to local libraries** by \$100,000 to \$9.1 million. The Governor's budget recommends level funding this program at \$9.2 million. Between FY 2001 and FY 2013, funding for libraries has fallen by 52.3% after adjusting for inflation.

## Revenue

The Fiscal Year 2014 consensus tax revenue figure agreed to by the Administration, the House and the Senate is \$22.334 billion, an amount 3.9 percent above the revised FY 2013 revenue estimate of \$21.496 billion. The House Ways and Means (HWM) FY 2014 budget, like the Governor's, exceeds this consensus figure by relying on a combination of new tax and non-tax revenues. Some of these revenues would come from ongoing sources while others would be one-time.

The Governor's proposed tax increases are considerably larger than the tax package upon which the HWM budget is built. Accordingly, the HWM budget makes more limited investments in education than does the Governor. The HWM budget likewise has less revenue available to close the state's estimated \$1.28 billion FY 2014 budget gap, and thus must rely more heavily on cost reductions than does the Governor.<sup>4</sup>

In the sections below, we examine in closer detail the tax and non-tax revenue proposals included in the HWM and Governor's FY 2014 budget proposals.

## Tax Revenue

Just prior to the release of the HWM FY 2014 budget, the House approved a transportation financing bill that would generate an estimated \$447 million in new, ongoing tax revenue in FY 2014 (\$519 million annually once fully implemented). The HWM budget incorporates this revenue, as well as \$46 million for a one year delay of the FAS 109 business tax break.<sup>5</sup> While much of this would be used for new transportation spending, about \$250 million would be available for other uses in the HWM FY 2014 budget (\$447 M + \$46 M - \$240 M in dedicated transportation funding = \$253 M).

By contrast, in his FY 2014 budget, the Governor proposes a package of changes to the Commonwealth's tax laws that would raise an estimated \$1.9 billion in new, ongoing tax revenue once fully implemented, with \$754 million of the new revenue being available in FY 2014 (see MassBudget's

<sup>4</sup> See MassBudget's "Preview of the FY 2104 Budget": [http://www.massbudget.org/report\\_window.php?loc=budget\\_preview\\_2014.html](http://www.massbudget.org/report_window.php?loc=budget_preview_2014.html)

<sup>5</sup> The table detailing the House and Governor's respective tax packages includes in the House FY 2014 proposal \$46 million for delay of the FAS 109 business tax break. Technically, this was not part of the House tax package, but it is included in the HWM budget. For purposes of providing a better apples-to-apples comparison between the two budget proposals, we include all proposed FAS 109 revenue in the table.

earlier report on this: [http://massbudget.org/report\\_window.php?loc=revenue\\_gov\\_14.html](http://massbudget.org/report_window.php?loc=revenue_gov_14.html) ). The Governor further proposes pulling forward \$400 million of his new tax revenue from future years into FY 2014, providing him with an additional total of almost \$1.2 billion in ongoing revenue in FY 2014 (see a more detailed discussion of this proposal, below).

The Governor, like HWM, dedicates a substantial portion of his new tax revenues to investments in transportation, and then he makes additional investments in education. But even taking these expenditures into consideration, the Governor still would have some \$580 million of this new tax revenue available for other uses in his FY 2014 budget (see MassBudget's earlier reports on this: [http://massbudget.org/report\\_window.php?loc=concise\\_gov\\_14.html](http://massbudget.org/report_window.php?loc=concise_gov_14.html) ).

TAX INITIATIVES	Amount in FY 2014		Estimated Annualized Amount	
	Governor	House	Governor	House
<b>PERSONAL INCOME TAX</b>				
Increase rate from 5.25% to 6.25%	1,163,000,000		2,503,000,000	
Double value of personal exemption	(437,000,000)		(1,108,000,000)	
Eliminate more than 40 tax breaks	332,000,000		1,259,000,000	
<b>SUB-TOTAL PERSONAL INCOME TAX</b>	<b>1,058,000,000</b>	<b>0</b>	<b>2,654,000,000</b>	<b>0</b>
<b>SALES AND EXCISE TAX</b>				
Decrease rate from 6.25% to 4.5%	(591,000,000)		(1,433,000,000)	
Eliminate exemptions for candy and soda	22,000,000		53,300,000	
Increase cigarette tax by \$1.00/pack	63,000,000	137,500,000	150,000,000	150,000,000
Equalize tax rates for cigars & smokeless tobacco with cigarettes	7,000,000	14,750,000	16,100,000	15,000,000
Eliminate exemption for custom modifications of software and related services	65,000,000	150,000,000	259,000,000	161,000,000
Raise motor fuels tax by \$0.03/gallon		95,000,000		95,000,000
Index motor fuels tax to inflation	13,000,000		27,000,000	15,000,000
<b>SUB-TOTAL SALES AND EXCISE TAX</b>	<b>(421,000,000)</b>	<b>397,250,000</b>	<b>(927,600,000)</b>	<b>436,000,000</b>
<b>CORPORATE TAX</b>				
Eliminate FAS 109 deduction	46,000,000	46,000,000	76,000,000	
Clarify market sourcing rules for corporate excise sales factor	21,000,000	21,000,000	35,000,000	35,000,000
Reclassify utility businesses	29,000,000	29,000,000	48,000,000	48,000,000
Reclassify certain securities investment businesses	21,000,000		35,000,000	
Cap film tax credit at \$40 million annual cost			30,000,000	
<b>SUB-TOTAL CORPORATE TAX</b>	<b>117,000,000</b>	<b>96,000,000</b>	<b>224,000,000</b>	<b>83,000,000</b>
<b>TOTAL TAX INITIATIVES</b>	<b>754,000,000</b>	<b>493,250,000</b>	<b>1,950,400,000</b>	<b>519,000,000</b>

In addition to the tax revenue raised by the House and Governor's respective tax packages (see table above), each relies on additional tax revenue that is expected to come from some combination of enhanced tax enforcement by and/or additional reporting requirements to the Department of Revenue (see table below). The Governor also proposes raising \$2.6 million by extending the room rental tax to include short-term rentals of corporate executive apartments, B&B rooms, and vacation time shares. In the case of the HWM budget, these additional tax revenues total \$62.5 million, while the Governor's budget relies on some \$56 million from these sources (see MassBudget's report on this: [http://massbudget.org/report\\_window.php?loc=revenue\\_gov\\_14.html](http://massbudget.org/report_window.php?loc=revenue_gov_14.html) ).

## Non-Tax Revenue

House Ways and Means budget proposal also relies on several sources of non-tax revenues to balance the budget.

There are three main types of non-tax revenue: federal revenues, which are mostly reimbursements from the federal government for state spending on the Medicaid (MassHealth) program; departmental revenues, which are fees, assessments, fines, tuition, and similar receipts; and other revenues, which are mostly funds that the state draws from an assortment of non-budgeted trusts.

## FEDERAL REVENUE

The HWM budget proposal counts on approximately \$8.58 billion in federal revenues, less than the \$8.66 billion assumed in the Governor's budget proposal. The largest share of federal revenue comes in to the state as reimbursement for state spending on MassHealth and other health programs. The federal government generally reimburses the Commonwealth for approximately 50 percent of its spending on the Medicaid program. With the passage of the Affordable Care Act of 2010, however, the state will now receive an enhanced reimbursement rate for some share of increased health care spending. The lower federal revenue total in the HWM budget is largely a function of a lower proposed budget for MassHealth.

## DEPARTMENTAL REVENUE

The HWM budget proposal relies on \$3.03 billion in departmental revenues, about the same amount as the Governor's budget.

Some of the highlights in the HWM budget are:

- \$41.6 million in new revenue from the sale of certain state assets or properties. This is more than \$9 million above the Governor's estimate for these expanded sales.
- \$24.2 million less than the Governor in unclaimed bottle deposits. The HWM budget does not include the Governor's proposal to expand the "bottle bill" to include other bottled drinks such as bottled water, juices, sports drinks or coffee drinks. The state retains the revenue when eligible bottles are not redeemed.

With the expansion of gaming (gambling) in the Commonwealth, certain new departmental revenues will become available. Like in the Governor's budget, included in the HWM revenue totals are approximately \$83.1 million in revenues associated with gaming licenses.

## OTHER REVENUES

There are other significant revenues assumed in the HWM budget, some of which are one-time resources.

The HWM budget proposes a withdrawal of \$350 million from the state's Stabilization ("Rainy Day") Fund (compared to the Governor's withdrawal of \$400 million), as well as approximately \$5.8 million in interest earned by the balance in the fund. The net withdrawal from the fund is closer to \$170 million because of required statutory deposits.

Both HWM and the Governor's budget assume that \$46 million in unused funds from a variety of non-budgeted trusts would be available to balance the FY 2014 budget.

A recent change to state law requires that capital gains tax revenue above a certain threshold be deposited in the Rainy Day Fund. The Administration estimates that in FY 2014 there will be an approximately \$33 million capital gains deposit. In addition, a recent state law requires that one-time

settlements above a certain threshold also be deposited in the Rainy Day Fund. Both HWM and the Governor estimate that approximately \$125 million in one-time tax or other settlements in FY 2014 will be deposited into the fund. Finally, both budget proposals assume that with the expansion of gaming (gambling) in the Commonwealth, there will be \$20 million in revenue from licensing of gaming facilities to repay the Rainy Day Fund for money withdrawn to finance the start-up of gambling oversight.

In addition, the HWM budget also includes language that suspends for FY 2014 a current requirement that one-half of one percent of tax revenue each year be deposited into the Rainy Day Fund. The Governor's budget, on the other hand, would have permanently repealed this requirement. (In this current budget year, this would be approximately \$110 million.) In many years, this requirement has been suspended, and in those years we generally treated forgoing this deposit as a one-time savings solution to help balance the budget.

In FY 2014, we do not treat forgoing this deposit as a one-time savings to balance the budget primarily because the required deposits into the Rainy Day Fund of certain capital gains tax revenues and tax settlements (described above) now serve the purpose of building the rainy day fund balance that was previously served by this deposit of one-half of one percent of tax revenue.

The HWM budget also – similarly – suspends a requirement that one-half of one percent of tax revenue be available to carry forward into the next fiscal year. The Governor's budget would have repealed this requirement. Because this requirement was also suspended during the last fiscal year, forgoing this carry-forward is not a one-time budgetary savings. If \$110 million had been carried forward from FY 2013 to FY 2014, then a suspension of the carry-forward from FY 2014 to FY 2015 would have created one-time revenue in FY 2014. Since there will be no carry-forward of revenue from FY 2013 to FY 2014, there are no one-time savings in FY 2014 from the suspension of the carry-forward out of FY 2014 into FY 2015.

FY 2014 REVENUE INITIATIVES	FY 2014 Governor		FY 2014 HWM	
	Temporary Source	Ongoing Source	Temporary Source	Ongoing Source
<b>TAX REVENUES</b>				
<b>PERSONAL INCOME TAX</b>				
Increase rate from 5.25% to 6.25%		1,163,000,000		
Double value of personal exemption		(437,000,000)		
Eliminate more than 40 tax breaks		332,000,000		
<b>SALES AND EXCISE TAX</b>				
Decrease rate from 6.25% to 4.5%		(591,000,000)		
Eliminate exemptions for candy and soda		22,000,000		
Increase cigarette tax by \$1.00/pack		63,000,000		137,500,000
Equalize tax rates for cigars & smokeless tobacco with cigarettes		7,000,000		14,750,000
Eliminate exemption for custom modifications of software and related services		65,000,000		150,000,000
Raise motor fuels tax by \$0.03/gallon				95,000,000
Index motor fuels tax to inflation		13,000,000		
Eliminate hotel tax exemption for corporate executive apartment rentals		2,600,000		
<b>CORPORATE TAX</b>				
Eliminate FAS 109 deduction		46,000,000		
Delay FAS 109 deduction			46,000,000	
Clarify market sourcing rules for corporate excise sales factor		21,000,000		21,000,000
Reclassify utility businesses		29,000,000		29,000,000
Reclassify certain securities investment businesses		21,000,000		
<b>OTHER TAX INITIATIVES</b>				
Implement enhanced tax enforcement (DOR software upgrades, etc.)			36,300,000	
Implement enhanced tax reporting (liquor wholesalers, franchisees, electronic reporting, pass-through entities, etc.)		27,000,000		
Implement Amazon.com sales tax agreement		26,200,000		32,600,000
<b>DEPARTMENTAL REVENUES*</b>				
Sale or rent of state assets	32,500,000		41,600,000	
Expanded bottle redemption		24,200,000		
Gaming licenses	83,125,000		83,125,000	
<b>OTHER SOURCES OF FUNDS</b>				
Stabilization ("Rainy Day") Fund withdrawal	400,000,000		350,000,000	
Stabilization ("Rainy Day") Fund interest transfer	5,650,000		5,650,000	
Proceeds from various trusts	46,000,000		46,000,000	
Revenue anticipation notes (RANs)/Revenue from tax phase-in		400,000,000		
<b>TOTAL REVENUE INITIATIVES</b>	<b>567,275,000</b>	<b>1,234,000,000</b>	<b>608,675,000</b>	<b>479,850,000</b>

\*Does NOT include new departmental revenues proposed by either the Governor or the House specific to their respective transportation funding packages. For more details on these proposals see MassBudget's report: [http://www.massbudget.org/report\\_window.php?loc=transportation\\_leg\\_14.html](http://www.massbudget.org/report_window.php?loc=transportation_leg_14.html)

### ONE-TIME REVENUES AND SAVINGS USED TO BALANCE THE BUDGET

The HWM budget relies on about \$608.7 million in one-time revenues and savings. These are resources that are only available for use in the current fiscal year, and will likely have to be made up for in the following year.

The most significant source of one-time revenue in the HWM budget is the \$350 million withdrawal from the Rainy Day Fund. Other one-time or temporary revenues include:

- \$41.6 million from the sale of state-owned assets such as land or property
- \$83.1 million in one-time receipts from gaming licenses
- \$46.0 million that will be available from previously-unused funds "swept" from non-budgeted trusts

In addition to these one-time revenues, both the Governor and HWM rely on \$41 million in one-time savings by adjusting the timing of MassHealth payments to. It is possible that the HWM budget anticipates saving more than \$41 million, although this is not clear from the materials provided.

#### *One-time vs. Ongoing Revenue and RANs*

It is important to underscore the difference between "temporary" and "ongoing" revenues and to be aware of the impact each has on the state's budget gap. Temporary (or "one time") revenues are those which are available for use only once; they do not derive from a source that is replenished each year. The best example of temporary revenue is the money taken out of the state's "savings account", the Rainy Day Fund. Once this revenue has been tapped for use in a given fiscal year, those funds are gone. In general, temporary revenues are best used to close temporary gaps occurring during economic downturns.

By contrast, ongoing revenue sources are those which reliably can be expected to deliver new revenue in future years. Examples of ongoing revenues include taxes such as the income, sales, and various excise taxes. Revenue from these sources is generated on an ongoing basis and can be used to fund ongoing costs.

As noted, the use of these two different types of revenue has very different implications in terms of the state's budget gap. When recurring expenses cannot be fully paid with recurring revenues, a gap occurs in the budget. Budget writers then must cut costs, increase ongoing revenues, or turn to the state's limited one-time sources to close this gap. Unfortunately, the use of one time funds solves the problem only for a single year; with ongoing expenses exceeding ongoing revenues, the gap remains ongoing as well, carrying forward into future years.

Due both to the lingering effects of the Great Recession and to large income tax cuts enacted in the late 1990s, ongoing revenues have repeatedly fallen short of ongoing expenses in recent years. The result is that the Commonwealth faces an estimated \$1.28 billion budget gap headed into FY 2014 (see MassBudget's "Preview of the FY 2104 Budget":

[http://www.massbudget.org/report\\_window.php?loc=budget\\_preview\\_2014.html](http://www.massbudget.org/report_window.php?loc=budget_preview_2014.html) ).

In choosing among the three available options – cost reductions, tax increases and one-time revenues – the House relies more heavily on cuts than does the Governor. While the Governor proposes spending more overall in his FY 2014 budget than does the House, he pays for these additional investments with new, ongoing revenues (see MassBudget's "Investments and Revenues in the Governor's Budget": [http://www.massbudget.org/report\\_window.php?loc=concise\\_gov\\_14.html](http://www.massbudget.org/report_window.php?loc=concise_gov_14.html) ).

One issue that has generated some controversy is the Governor's use of \$400 million in RANs/revenue-from-tax-phase-in to balance the budget (RANs is a form of short term borrowing against anticipated revenue). Discussion has revolved around whether these revenues should be considered one-time or ongoing. In the table above, they are classified as ongoing revenue because the Governor's budget creates a new revenue source that would generate this revenue on an ongoing basis in future years. While the Governor's tax package would raise only \$754 million in FY 2014, it would raise \$1.9 billion in ongoing revenue in FY 2015 and beyond (it raises more in future years primarily because the income tax increase takes effect January 1, 2014 and thus generates new revenue only during half of fiscal year 2014). As a result, the \$400 million in RANs revenue would be replaced in future years by the additional revenue that would be collected in FY 2015 and beyond, once the Governor's tax package

was fully implemented. This new, ongoing revenue stream ultimately would help to reduce the state's budget gap rather than increase it.

The table below shows how the House Ways & Means FY 2014 budget compares to other recent budgets and budget proposals. FY 2001 and FY 2009 GAA are adjusted for inflation, FY 2013 is not.

BUDGET BY CATEGORY AND SUBCATEGORY (millions)	FY 2001 (Adjusted)	FY 2009 GAA (Adjusted)	FY 2013 Current	FY 2014 Governor	FY 2014 HWM
<b>Education</b>	<b>7,300.5</b>	<b>7,614.5</b>	<b>6,908.7</b>	<b>7,528.2</b>	<b>7,132.0</b>
Early Education & Care	703.9	646.6	499.3	630.9	482.7
Higher Education	1,474.9	1,196.8	1,005.5	1,205.3	1,101.1
K-12: Chapter 70 Aid	4,018.7	4,327.0	4,173.5	4,397.3	4,280.6
K-12: Non-Chapter 70 Aid	665.7	674.9	548.0	586.9	541.9
K-12: School Building	437.2	769.3	682.3	707.8	725.6
<b>Environment &amp; Recreation</b>	<b>291.7</b>	<b>235.2</b>	<b>175.9</b>	<b>194.7</b>	<b>178.8</b>
Environment	129.9	100.4	78.1	90.6	81.3
Fish & Game	23.6	23.3	21.2	21.5	20.2
Parks & Recreation	138.2	111.5	76.6	82.6	77.2
<b>Health Care*</b>	<b>9,708.6</b>	<b>14,067.1</b>	<b>15,158.5</b>	<b>16,095.4</b>	<b>15,784.7</b>
MassHealth (Medicaid) & Health Reform	7,341.7	11,384.8	12,720.8	13,515.6	13,249.1
Mental Health	801.3	751.1	673.9	696.5	693.7
Public Health	703.6	651.4	521.0	559.0	531.3
State Employee Health Insurance	862.1	1,279.8	1,242.8	1,324.4	1,310.6
<b>Human Services</b>	<b>3,624.3</b>	<b>3,844.7</b>	<b>3,507.9</b>	<b>3,652.5</b>	<b>3,595.9</b>
Children, Youth & Families	935.4	1,095.3	909.3	951.5	931.6
Disability Services	1,304.6	1,479.1	1,441.1	1,532.9	1,517.2
Elder Services	252.8	261.5	222.6	226.3	226.5
Transitional Assistance	1,007.7	850.7	773.2	790.4	772.6
Other Human Services	123.8	158.1	161.7	151.4	148.1
<b>Infrastructure, Housing &amp; Economic Development</b>	<b>2,019.4</b>	<b>1,611.9</b>	<b>1,692.8</b>	<b>1,972.3</b>	<b>1,917.9</b>
Commercial Regulatory Entities	58.1	56.4	50.9	54.1	54.3
Economic Development	291.2	189.5	103.2	175.6	126.2
Housing	329.0	303.1	407.9	353.2	348.7
Transportation	1,341.1	1,062.8	1,130.8	1,389.3	1,388.7
<b>Law &amp; Public Safety</b>	<b>2,511.3</b>	<b>2,784.6</b>	<b>2,446.6</b>	<b>2,493.0</b>	<b>2,426.5</b>
Courts & Legal Assistance	760.3	717.9	645.8	659.6	620.3
Law Enforcement	367.3	456.9	369.4	367.7	346.8
Prisons, Probation & Parole	1,184.2	1,400.5	1,242.9	1,274.3	1,274.5
Prosecutors	155.3	160.0	143.1	147.3	143.5
Other Law & Public Safety	44.2	49.3	45.4	44.0	41.5
<b>Local Aid</b>	<b>1,717.8</b>	<b>1,475.7</b>	<b>933.3</b>	<b>963.3</b>	<b>950.5</b>
General Local Aid	1,691.5	1,440.7	899.0	930.0	921.4
Other Local Aid	26.3	34.9	34.3	33.3	29.1
<b>Other</b>	<b>4,476.6</b>	<b>4,613.9</b>	<b>4,423.1</b>	<b>4,636.5</b>	<b>4,568.3</b>
Constitutional Officers	105.8	98.0	75.5	72.9	70.3
Debt Service	2,085.5	2,274.2	2,305.7	2,422.7	2,422.5
Executive & Legislative	81.5	75.8	70.7	71.0	71.0
Libraries	46.5	37.4	21.8	21.8	21.8
Pensions	1,399.1	1,605.3	1,552.0	1,630.0	1,630.0
Other	758.1	523.3	397.4	418.1	352.7
<b>Total Budget</b>	<b>31,650.1</b>	<b>36,247.6</b>	<b>35,246.9</b>	<b>37,535.8</b>	<b>36,554.5</b>

\* In order to make an accurate comparison across fiscal years, these totals include a number of adjustments.