

The Governor's Budget for FY 2014

A budget is a statement of priorities; it describes what we want to do together as a Commonwealth in the coming year – and how we will pay for those things.

The top priorities in the Governor's budget for this coming year are **Education** and **Transportation**. Both those areas will receive significant new funding, and there will also be additional funding for **Health Care, Public Health, and Local Aid**.

To pay for these, the Governor has proposed some significant changes to the tax system, including raising the income tax from 5.25 to 6.25 and lowering the sales tax from 6.25 percent to 4.5 percent. These changes – along with the others described in our "Revenue" section below – would raise about \$850 million of additional tax revenue for 2014 while also making our tax system [less regressive and more fair](#).

Ultimately, this money would be invested in a variety of areas across the budget. Some of the most prominent include:

- **Early Education & Care**, where funding increases will help young children gain access to high-quality child care, which is essential to working parents and which has been shown to increase the long-term prospects of children.
- **Higher Education**, which would make college more affordable by increasing public support for UMass, Community Colleges, and State Universities and by doubling the size of the **State Scholarship Program**
- **Transportation** systems in Greater Boston and across the state, to help repair our roads and bridges and improve our bus, subway, and train service.

Even with this new revenue, however, there are areas where the Governor's proposals may fail to meet important needs. In Housing, for instance, the Governor would continue to restrict low-income homeless families' access to state-supported shelters, instead providing limited assistance to help these families secure permanent housing. There is a question whether that assistance is sufficient to ensure that families can stay in housing over the long term.

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

Early Education & Care

The Governor's FY 2014 budget proposal of \$630.9 million for Early Education & Care is a 26.4 percent increase over current FY 2013 spending levels. Most pre-existing line items remain level or increase by a rate similar to inflation.

The Governor proposes a very significant increase to **Income Eligible Child Care**. The increase is split between Income Eligible and two new, related, line items. The Income Eligible line item, which receives \$226.7 million in the FY 2014 proposal, provides care for children of low-income parents who are working, disabled or in an education or job training program. Because of funding cuts many children and families who meet eligibility requirements have not received a subsidy in recent years and are placed on a growing waiting list that includes around 30,000 infants, toddlers and pre-school children.¹ The two new line items which would specifically provide care to children currently on this wait list include:

- **Pre-school Initiative** funded at \$25.2 million
- **Infant & Toddler Initiative** funded at \$31.6 million

Adding the three totals together, the FY 2014 proposes funding level for children and families receiving Income Eligible care is \$283.4 million, an increase of \$51.6 million (22.2 percent) over the FY 2013 budget. Early education and care is an essential resource for parents with young children who hope to work and a critical piece in preparing young children for success in school, and in life.²

Income Eligible Child Care	FY 2013 Current	FY 2014
Income Eligible	231,870,452	226,697,976
Pre-school Initiative	-	25,150,000
Infant & Toddler Initiative	-	31,600,000
Total	231,870,452	283,447,976

The Governor also proposes several other new line items devoted to the quality of early education and care received by children in Massachusetts. These line items, introduced in the Governor's FY 2014 proposal include:

- **Early Education Provider Quality Investments** funded at \$30.6 million. Funding would be devoted to increasing reimbursements for providers to increase salaries, benefits and professional development opportunities. It also includes an earmark of up to \$17.6 million for transportation which would increase rates for the first time since May 2006.

¹ For more information about funding for early education and care, see [Declines in Spending on Early Education and Care in Massachusetts](#)

² For more information about the economic gains of high quality early education and care on both parents and children, see [Economic Gains from Early Education and Care](#)

- **Quality Efforts** funded at \$30.0 million. Funding would be devoted to raising the quality of care provided to children by providing early education scholarships for teachers, professional development and class room grants to improve quality. Funding is tied to the Quality Rating and Improvement System (QRIS). QRIS assesses the current level of early education and care delivered by providers and supports initiatives that will raise quality for children in Massachusetts.³
- **Kindergarten Entry Assessment System** funded at \$3.2 million.
- **Family Engagement to Support Reading Proficiency by Grade 3** funded at \$3.0 million. Funding would support many different areas of programming devoted to increasing the reading proficiency of children by third grade: parenting classes, professional development for private early education and public k-12 providers, home visiting, parent-child playgroups, and adult literacy programming.
- **Comprehensive Support Services** funded at \$5.0 million. Funding would provide school readiness support for families with infants, toddlers and pre-school age children in communities with low-performing schools. Goals would be to improve child readiness when entering school so they can read proficiently by third grade.

Access Management receives a 34 percent increase over FY 2013 to \$7.9 million. Access Management funds child care resources and referral agencies (CCR&R) which help families with a subsidy attain child care. It does remain 71 percent below pre-recession FY 2009 GAA inflation-adjusted funding levels.

K-12 Education

Education plays an important role in helping grow state economies. In Massachusetts, as with most states in the nation, there is an increasingly strong connection between improving the skills of the state workforce and creating a high-wage economy.⁴ The Governor proposes some new investments in K-12 education through his FY 2014 budget, and he proposes to increase total education spending – for early education, K-12 education, and higher education – by close to \$1 billion in future years once his revenue reforms are fully phased in.

For FY 2014, the Governor proposes increasing Chapter 70 education aid by \$226.2 million over FY 2013 levels and to increase other targeted K-12 programs by a combined \$38.8 million. All told, K-12 education funding (including \$708 million in School Modernization and Reconstruction Trust Fund money) would come back in line with pre-recession levels under the Governor's proposal.

While the Governor's **Chapter 70 education aid** proposal is \$226.2 million above FY 2013 levels, much of this money would be needed to meet maintenance cost growth (reflecting enrollment changes and the increasing cost of providing baseline services), rather than enabling local districts to expand educational services. MassBudget projects that maintenance costs for FY 2014 would total \$167 million,

³ See <http://www.mass.gov/edu/birth-grade-12/early-education-and-care/provider-and-program-administration/quality-rating-and-improvement-system-qris.html>

⁴ See "The Wage-Education Link" within MassBudget's *The State of Working Massachusetts 2012*, available online at: http://www.massbudget.org/report_window.php?loc=swma_2013.html

leaving about \$59 million of the Governor's proposed increase to fund expanded services.⁵ All combined, this \$226.2 million increase funds:

- Including all pre-kindergarten students currently attending public schools in district foundation budgets. Since enrollment counts are set for calculating FY 2014 foundation budgets, this policy change would have modest funding implications in its first year. If continued for future years, however, this change could significantly increase the provision of public early education in future years.

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 2014 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.

- 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. For more information on how increasing special education costs have affected school budgets please see MassBudget's [Cutting Class](#) report.
- Phasing-in fully the formula reforms planned in the 2007 budget, but slowed due to the ongoing fiscal crisis. For more information on the reforms of 2007, please see MassBudget's [Demystifying the Chapter 70 Formula](#).
- Providing a minimum \$25 per pupil increase over FY 2013 aid.

In prioritizing state investments in education, most other K-12 education programs in the Governor's budget are either level-funded or provided increases. In particular, the Governor proposes increases to:

- **Supports for Schools in Gateway Cities** of \$6.7 million over current FY 2013 levels.
- **Adult Basic Education** by \$5.0 million, with all of this increase targeted to services for English language learners.
- **Extended Learning Time Grants** by \$4.9 million, with all of this increase earmarked to fund grants to support extended learning time in schools where the majority of students are low-income.
- **Targeted Intervention in Underperforming Schools** by \$2.1 million.
- **Charter School Reimbursements** of \$9.8 million.

⁵ See MassBudget's *A Preview of the FY 2014 Budget*, available online at: http://www.massbudget.org/report_window.php?loc=budget_preview_2014.html

Two school reimbursement programs – the Special Education Circuit Breaker and Homeless Student Transportation – would be equal to current FY 2013 levels, but at levels below what they were slated to receive at the beginning of FY 2013. Due to reduced mid-year revenue collections, several programs were reduced mid-year, including funding for:

- The **Special Education Circuit Breaker** program, which was slated to be funded at \$241.9 million in FY 2013. This would have enabled the state to reimburse school districts at close to the full 75 percent statutory reimbursement rate (of costs above four times the state foundation budget per pupil) for the first time since FY 2008. The Circuit Breaker was cut mid-year down to \$230.5 million, which will likely result in a lower reimbursement rate for school districts. This funding level is equal to what the Governor has proposed for FY 2014.
- **Homeless Student Transportation** which was slated to be funded at \$11.3 million in FY 2013. This program was reduced to \$6.1 million mid-year and is equal to what the Governor has proposed for FY 2014. This reduced funding is also likely to result in a lower reimbursement rate.

Higher Education

The Governor's Fiscal Year (FY) 2014 proposal for higher education makes steady progress in reversing many of the cuts accumulated over the last thirteen years. State funding for higher education was cut \$451.5 million between FY 2001 and FY 2013; therefore, the Governor's proposed \$197.0 million increase would help reverse a significant portion of this cut. When analyzing the Governor's plan in the context of more recent years, however, higher education funding would come back in line with pre-recession levels after more than five years of funding declines.

Most state funding for public higher education goes directly to campuses. Specifically, the Governor proposes funding:

- **The UMass System** at \$493.1 million, an increase of \$37.8 million over FY 2013.⁶ This funding moves Massachusetts closer towards the goal of a 50/50 split between state support and student payments in the UMass System, but still represents a 10 percent reduction from pre-recession levels. Currently, state support covers about 43.6 percent of education-related costs at UMass campuses.
- **Community Colleges** at \$242.6 million, an increase of \$32.2 million over FY 2013. Of this increase, \$20.0 million would be distributed across campuses using a new performance-based funding formula approved last year. The \$32.2 million increase for FY 2014 would cover about half of the Community College funding lost since FY 2001.
- **State Universities** at \$226.5 million, an increase of \$30.9 million over FY 2013. Of this increase, \$12.5 million would fund a new program to help State Universities advance the goals of the Vision Project.⁷ Even with this increase, State Universities would still receive \$16.9 million less than were slated to receive at the beginning of FY 2009.

⁶ 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.

⁷ For more information, see the Vision Project Website: <http://www.mass.edu/visionproject/home.asp>

In addition to campus appropriations, the state funds several programs that support higher education statewide. Of note, the Governor proposes:

- More than doubling funds for the **State Scholarship Program**, increasing it from \$87.6 million to \$199.6 million for FY 2014. Additionally, the Governor earmarks \$149.3 million of this total for 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. Furthermore, if this proposal passes, the State Scholarship Program would be the only higher education-related program to see a significant increase from FY 2001 (\$65.4 million, adjusted for inflation).
- Dedicating \$3.0 million of new funding for the **Completion Incentive Grant Fund** program, which provides incentive grants of up to \$2,000 annually to low-income students for persisting and completing their degree or certificate program of study over a maximum of four years.

Environment and Recreation

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

Between 2001 and the FY 2013 current budget, state funding for environment and recreation programs has been cut by 38 percent after adjusting for inflation. The Governor's FY 2014 budget recommends providing some increases in several environment and recreation programs. Yet in most cases, these increases still do not bring funding up to the level that was provided in the FY 2009 General Appropriations Act (GAA) after accounting for inflation.

As in past years, the Governor's budget recommends expanding the 5 cents refundable deposit on bottled beverages to include non-carbonated drinks not covered under the current Bottle Bill. It proposes using \$4 million of the \$24 million collected through this expansion to provide **recycling and redemption centers** with \$4.4 million in FY 2014. The FY 2013 current budget provides these centers with \$375,000.

The Governor also recommends increasing funding for parks, beaches and pools. In his FY 2014 recommendation the Governor

- Increases funding for **state parks** above the FY 2013 current budget by \$4.0 million, to \$43.9 million. Even with this increase, state funding for parks is \$18.9 million lower than FY 2009 General Appropriations Act (GAA) after adjusting for inflation.
- Level funds the amount of revenue that the Department of Conservation and Recreation (DCR) is allowed to retain. The FY 2013 budget, in an effort to provide more funding for parks, which

have been steadily cut since the onset of the fiscal crisis, did increase funding for this account by \$5.7 million to \$14.1 million.

- Increases funding for **beaches, pools and seasonal employees** who work at state recreation facilities by \$1.1 million to \$13.6 million. Despite this increase, funding for these activities in FY 2014 is \$3.7 million below the amount appropriated in the FY 2009 GAA after adjusting for inflation.

MassHealth & Health Reform

Together MassHealth, the state's Medicaid program, and the Commonwealth Care program, created in the 2006 Massachusetts health reform law, 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 Massachusetts reform law served as a model for the ACA, the federal law subsidizes health coverage in different ways than has been the case in Massachusetts, which will result in shifts in programs and funding for them, and will also bring in additional federal revenue.

Reflecting these shifts, the Governor's proposed FY 2014 budget includes a sizeable increase for MassHealth programs, but a reduction in the budget transfer to the Commonwealth Care Trust Fund. When spending for MassHealth programs and Commonwealth Care is taken together, the House 1 proposal represents an increase of about \$1.1 billion, but this is not an apples-to-apples increase, for several reasons. First, the total increase also includes funding to cover new enrollment in subsidized programs by people who are currently uninsured or who receive coverage under programs, such as the Medical Security Program, that are currently funded off-budget. Second, the state will receive higher levels of federal Medicaid reimbursement for many of the newly eligible enrollees, so the net new cost to the state will be less than half of the amount of the increase. Third, the state will no longer be responsible for the full cost of coverage for people who shift to new federally subsidized coverage. In addition to savings realized from implementation of the ACA, the proposed funding level also represents a mix of new investments and continued savings efforts.

Key assumptions and initiatives in the proposed budget include:

Population Shifts

- 325,000 people will newly enroll in the MassHealth program. These include people currently covered under the Commonwealth Care program (for whom the state will now receive a higher level of federal reimbursement) and people currently covered under the Medical Security Program. New enrollees also include some people who are currently uninsured or who are covered by other MassHealth programs (the state will also receive higher federal reimbursement for this group). The proposed budget contains \$460.9 million in a new line item to cover the costs of the expansion population for the second half of FY 2014, but much of this amount reflects shifts from existing spending for coverage outside the current MassHealth program.

- Unemployed people currently covered under the Medical Security program will shift to either MassHealth or Qualified Health Plans QHPs. The assessment that currently funds the MSP will be continued under a different name (the Employer Responsibility Contribution) and the funds will be used to support subsidized health programs (currently the MSP operates off-budget).
- People with incomes over 138 percent of the Federal Poverty Level (PFL) will move to new QHPs that are sold through the Health Connector and subsidized by federal tax credits. The state will no longer be responsible for the main cost of the subsidy for people eligible for QHPs, although it plans to provide "wrap" coverage for these plans in order to maintain coverage levels that are commensurate with those provided under the current Commonwealth Care program. The state expects to receive some federal reimbursement for the cost of the wrap coverage. The proposed transfer of \$470.6 million from the General Fund to the Commonwealth Care Trust Fund (CCTF), along with tobacco tax revenue that is automatically deposited in the CCTF, will support the Commonwealth Care program for the first half of the fiscal year and the cost of the wrap program for the second half.

Initiatives

- The Governor's budget proposes to restore coverage for dental costs for adults in MassHealth. Dental coverage was cut during the recent recession, although coverage for front teeth was included in the FY 2013 budget. Under the proposed budget, dental coverage would be fully restored starting in January, 2014.
- The budget proposes to increase MassHealth hospital rates, at a cost of about \$81 million (or a net cost of about \$40 million). The proposal includes higher rates for hospitals that serve higher-risk populations. Although hospitals and other providers received rate increases in the 2006 health reform law, rates were subsequently reduced during the recent recession.

Savings

- The state expects to save about \$94 million (or net savings of \$47 million) by deferring payments to the Delivery Systems Transformation Initiatives program into FY 2015.
- The proposed budget also relies on savings from a cut in funding for supplemental nursing home rate payments. Initial funding in the FY 2013 for these payments was \$318.7 million, but they were later reduced by \$15.0 million to \$303.6million; the Governor proposes a further reduction to \$298.6 million in FY 2014.
- As in past years, the administration also proposes savings from managed care rate adjustments, program integrity activities, and cash management strategies that will shift payments into the next fiscal year. Taken together, these total about \$436 million.

Public Health

The Governor's FY 2014 budget includes a total of \$559.0 million for public health programs (including a youth violence program that is located in the Office of Health and Human Services, but 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 increases by \$23.9 million, or about 4.6 percent. The proposed increase represents a step towards restoring DPH funding that has been cut over the past decade—after adjusting for inflation, the proposed funding level is 20 percent below the FY 2001 funding level for DPH programs, and 14 percent below the pre-recession FY 2009 funding level.

Key funding increases include:

- Funding of \$1.3 million for the Board of Registration in Pharmacy, which received \$182,600 in FY 2013. The funding represents a new investment that is part of a larger set of proposed reforms to state oversight of the pharmacy industry. The new funding is intended to support increased inspections of compounding pharmacies and increased training of inspectors.
- Increased funding for core public health accounts, including DPH administration, the Bureau of Substance Abuse, and Environmental Health Services, which together receive a funding increase of about \$8.7 million—these increases represent a partial restoration of spending cuts made over the past decade, and do not fully restore funding to its pre-recession levels.
- A total of \$10.0 million for the Safe and Successful Youth Initiative, a youth violence grant program that is located in the Office of Health and Human Services. The Governor also proposed \$10.0 million for this program in FY 2013; it was ultimately funded at \$4.0 million for that year. Two other DPH violence prevention programs receive level funding.
- A \$1.5 million increase for the Division of Health Care Quality and Improvement that includes support for a new initiative to update the current Determination of Need process that governs capital changes at health care facilities and reduce the review time for DoN applications.

In addition to funding contained in the budget, the Department of Public Health will administer a Prevention and Wellness Trust Fund that was created in 2012 health cost reform legislation. Revenues for the fund are expected to total \$57 million over the next four years, and will be used for grants to cities, towns, community groups, health providers and others for activities to reduce preventable health conditions such as diabetes and asthma, and to address health disparities.

Retiree Health Coverage

The Governor's House One budget proposal proposes an appropriation of \$425.0 million for the cost of providing health coverage to state retirees, a \$10.0 million increase over the FY 2013 level. The relatively modest increase reflects an expectation that the state can realize savings in this area from implementation of reforms recommended by a Commission that recently completed a study of retiree

health benefits. The reforms, which are contained in separate legislation filed by the Governor, would affect both state and municipal retirees, and include provisions such as an increase in the minimum number of years an employee must work to be eligible for retiree health coverage and a requirement that premium contributions be prorated according to number of years of service. The reforms will be phased in over several years and the administration projects that combined municipal and state savings from these reforms will amount to \$20.0 billion over the next 30 years. The proposed legislation is also expected to result in savings of \$20.0 million in prescription drug savings.

Human Services

Human services programs form a crucial part of the Commonwealth's "safety net" for the state's most vulnerable residents. Human services, which was cut just under 9 percent between the beginning of the recession and FY 2013 current funding, receives a 4.4 percent (155.5 million) increase to \$3.65 billion in the FY 2014 budget proposal. Approximately \$122 million of the total funding is due to costs associated with implementing a standardization and adjustment for rates to contracted human and social service providers, as mandated by Chapter 257 of the Acts of 2008. 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.

Children, Youth & Families

The FY 2014 Budget for Children, Youth and Families programs receives \$949.9 million, \$40.7 million higher than current FY 2013 levels, but still \$143.3 million (13.1 percent) lower than pre-recession levels. Much of the increase is due to Chapter 257 funds. (For more information on Chapter 257, see Human Services) **Group Care Services** receives an increase of \$19.8 million largely due to Chapter 257 funds. Group Care Services funds DCF contracted congregate care programs, including residential and group care placements. A further provision allocates funds for intensive community-based services for children who would otherwise be placed in congregate settings. According to DCF, the number of children in placements has been on a downward trend since FY 1995.

Other programs which receive Chapter 257 funds include:

- **Residential Services for Detained Population** which increases \$955,000 over FY 2013
- **Residential Services for Committed Population** which increases \$4.3 million over FY 2013.

The **Department of Children and Families** (DCF) administration receives \$69.3 million, a 3.5 percent increase over FY 2013. The **Department of Youth Services** administration which has been cut 33 percent from the beginning of the recession to current FY 2013 spending receives an increase of \$183,000 (4.7 percent) under the Governor's FY 2014 budget proposal. **Department of Youth Services Teacher Salaries** receives \$3.1 million, an 11.6 percent increase compared to FY 2013.

Transitional Assistance

For entitlement programs like transitional assistance, funding levels are significantly affected by anticipated caseload levels. The FY 2014 budget funds **Transitional Assistance for Families with Dependent Children (TAFDC) grants** at \$313.9 million, less than 1 percent below FY 2013. 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 lost significant value over time due to inflation.

Emergency Aid to the Elderly, Disabled and Children (EAEDC) receives \$95.1 million, an increase of \$8.0 million (9.2 percent) compared to FY 2013. The program was level funded in FY 2012 and received a small cut in FY 2013 despite an 8.0 percent increase in the caseload since the beginning of FY 2012. EAEDC is a cash assistance program for 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** receives \$64.3 million, a 16.7 percent increase over the FY 2013 current budget. A commission, part of the FY 2013 budget, studying the development of a fully cashless EBT system released its final report December 20, 2012. The commission recommended:

- Increasing education and enforcement of current policy. This would cost approximately \$300,000 annually.
- Restricting cash to clients who chronically misuse benefits at an annual cost of approximately \$350,000.

Other transitional assistance programs and services receiving significant increases compared to current FY 2013 levels include:

- **Teen Structured Settings Program** at \$8.7 million including Chapter 257 funds (17.6 percent increase). For more information on Chapter 257, see Human Services.
- **Domestic Violence Specialists** at \$893,000 (11.7 percent increase)

The **Employment Services Program** receives \$7.4 million, an increase of \$295,000. This program provides TAFDC recipients with education, occupational skills and the employment support services needed to acquire and retain jobs. Even with the increase the employment services program has been cut 75.6 percent compared to FY 2009 GAA inflation adjusted levels.

Disability Services

Disability services receives an increase of \$102.8 million (7.2 percent) compared to FY 2013. **Community Residential Services for the Developmentally Disabled** receives the bulk of this increase, \$71.8 million. A significant portion of this increase is tied to Chapter 257 funding. (For more information on Chapter 257, see Human Services)

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 28.8 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 \$226.3 million, \$3.7 million (1.7 percent) more than FY 2013 spending. Funding for these services remains 13.3 percent below FY 2009 GAA inflation adjusted levels. **Elder Protective Services** receives \$22.1 million, a \$4.8 million increase over FY 2013 current spending partly due to Chapter 257 funds. (For more information on Chapter 257, see Human Services) This service investigates elder abuse and neglect, and provides money management supports to prevent financial exploitation.

Other Human Services

The FY 2014 budget funds Other Human Services at \$152.9 million, a decrease of \$8.9 million from FY 2013 spending. However, there is a \$20.0 million human service salary reserve included in the FY 2013 budget as a separate line item which is not in the FY 2014 budget accounting for the entire decrease. Excluding the reserve from the FY 2013 "Other Human Services" total results in an \$11.1 million increase (7.9 percent) compared to FY 2013. Most of the other line items in this category received increases over FY 2013 accounting for the \$11.1 million increase.

Family Access Centers, a new line item highlighted by the Governor, receives \$1.5 million. This new line item supports centers which make it easier for children and families to access many public services including Transitional Aid for Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP), Women, Infants, and Children's Program (WIC), Fuel Assistance, and MassHealth. Families can apply for these services and receive referrals for programs which they cannot apply for at the centers.

Transportation

A growing body of research makes the case for the economic development benefits of investing in Massachusetts's transportation system. A significant portion of revenue raised through the Governor's tax reform proposal would be dedicated to repairing and maintaining the state's existing transportation infrastructure as well as to making long-delayed network expansions and improvements. Investing in modernizing the state's subway, bus, road, and bridge networks would help stimulate the economy both by creating new construction jobs and by reducing travel times statewide, providing residents more reliable access to work and helping businesses bring goods to market more efficiently.⁸

For FY 2014 the Governor proposes investing an initial \$253.6 million for transportation above current FY 2013 levels. Once his revenue reforms are fully phased in, transportation spending increases would grow to \$600 million in FY 2015, and \$700+ million for FY 2016 and beyond.

⁸ For more information on the economic development effects of infrastructure investments in New England states, see Jeffrey Thompson's [Prioritizing Approaches to Economic Development in New England: Skills, Infrastructure, and Tax Incentives](#).

Specific projects targeted for funding under the Governor's multi-year proposal include improving highway interchanges; increasing annual funding for Regional Transit Authorities; resurfacing several major roadways; completing the Green Line extension into Somerville and Medford; connecting rail service between Springfield and Boston, Boston and Hyannis, and Pittsfield and New York City; replacing outdated buses and Red, Orange, and Green Line cars; completing the South Coast rail extension; and expanding South Station.

For FY 2014, the first year of the Governor's investment proposal, funding would rise to:

- \$1.13 billion for the **Massachusetts Bay Transportation Authority (MBTA)**, an increase of \$178.8 million over FY 2013. This funding, which supports both operating activities and debt service costs, comes from two budgeted sources: \$799.6 million from an automatic pre-budget transfer from sales tax revenue; and a \$326.0 annual withdrawal from the Commonwealth Transportation Trust Fund.
- \$239.7 million for the **Massachusetts Transportation Trust Fund (MTTF)**, an increase of \$78.0 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.

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, 43.5 percent of this \$2.0 billion account is projected to cover transportation-related debt.

In addition to funding these spending increases with revenue from the Governor's broad-based tax reform package (described in the Revenue section of this *Budget Monitor*), these spending increases would be funded in part by indexing to inflation various transportation-specific revenue sources: the gas tax, tolls, MBTA fares, and RMV fees. Specifically, the Governor proposes:

- Indexing the **Gas Tax** to inflation, first rising in July of 2013 and generating about \$13 million next year. The gas tax would then rise from 21 cents per gallon to 24.6 cents in 2021, resulting in \$118 million in new revenue. Since the flat per gallon gas tax has not been adjusted for cost growth since 1991, these future inflation adjustments would only serve to fend off additional real declines in future years.
- Increasing **tolls** by 5 percent every two years, beginning in FY 2015.
- Increasing **MBTA fares** by 5 percent every two years starting in fiscal 2015.
- Increasing **RMV fees** by 10 percent every five years starting in fiscal 2016.

Housing

The state budget provides housing assistance, including shelter for low-income homeless families, to low- and moderate-income people in Massachusetts. The Governor's FY 2014 budget for housing

continues the changes made in FY 2013 that severely limit low-income families' access to shelter and services while increasing some housing assistance for these families.⁹

The state budget primarily supports low-income homeless families through two programs. The **Emergency Assistance (EA)** program provides shelter to homeless families living at or below 115 percent of poverty. Families are eligible for EA if they are forced to leave their housing because of domestic violence; they have lost their housing to fire or natural disaster; they have been evicted because of loss of income or disability; or because their current housing is deemed unhealthy or unsafe. In his FY 2014 proposal the Governor provides \$101.8 million for EA, an increase of \$5.1 million above the FY 2013 current budget.

HomeBASE provides \$4,000 in either rental or housing assistance for up to 12 months to help EA-eligible families to secure housing. When it was created in FY 2012, HomeBASE provided up to 3 years of rental assistance. As demand quickly exceeded available funds the state closed the program to new families. The FY 2013 budget reinstated rental assistance but limited it to 1 year for new families and reduced it to 2 years for families already receiving the assistance. The Governor's FY 2014 budget recommends reducing funding for HomeBASE by \$24.6 million below the FY 2013 current budget to \$58.8 million. 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 2015.¹⁰

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. In his FY 2014 budget proposal the Governor recommends

- Increasing funding for **MRVP**, which provides vouchers to low-income renters, by \$4.5 million to \$46.5 million
- Level-funding **RAFT**, which provides \$4,000 for up to 12 months to help families avoid homelessness, at \$8.8 million
- Slightly decreasing subsidies for **public housing authorities**, which manage over 45,000 state-supported units for low-income renters, to \$64.4 million
- Providing \$5.0 million to begin the process of consolidating the state's 240 housing authorities into 6 regional authorities.¹¹

In his housing budget the Governor also recommends creating a Housing and Preservation Stability Trust Fund with \$20.0 in surplus funds from FY 2013. The fund could also receive any surplus funds from programs such as EA, HomeBASE, MRVP and RAFT rather than having those monies revert to the General Fund. The Department of Housing and Community Development will use this trust fund to provide affordable housing for low-income families, particularly those who are most likely to become homeless.

⁹ For a full description of the changes in the FY 2013 budget, please see the Housing description in MassBudget's Budget Monitor: The FY 2013 Budget: http://www.massbudget.org/report_window.php?loc=budget_monitor_gaa_fy13.php

¹⁰ The Governor filed a Supplemental Budget requesting an additional \$39.0 million for EA and \$5.3 million in HomeBASE for FY 2013. These totals are not included in MassBudget's current budget noted above. Should the Supplemental Budget become law, the Governor's FY 2014 proposal for EA would be a \$27.2 million decrease in funding from FY 2013 while his proposal would reduce HomeBASE by almost \$30.0 million.

¹¹ 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>

Local Aid

Under the Governor's FY 2014 proposal, **Unrestricted General Government Aid (UGGA)** would receive increased funding for the first time 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 Governor proposes funding UGGA at \$930 million, \$31 million above current FY 2013 levels. UGGA was cut dramatically between FY 2001 and FY 2013 – about \$790 million, or 47 percent, adjusted for inflation. The Governor's proposed increase, therefore, would only reverse a small portion of cuts accumulated over these years.

Of the \$930 million total, the Governor proposes distributing the first \$899 million to cities and towns as a base funding amount equal to the appropriation they each received every year since FY 2011. The additional \$31 million would be appropriated on top of this base through a new distribution formula called "**Annual Formula Local Aid.**" This new formula would essentially modify the existing lottery formula by adding a local income measure to the existing property wealth and population factors. Overall, this new funding would still be distributed in a progressive manner with lower property wealth and lower income communities receiving greater aid.

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 at massbudget.org/814.

It should be noted that due to mid-year revenue shortfalls, the Governor recently proposed cutting UGGA by 1 percent, or about \$9 million, for FY 2013. Since the Governor does not have 9C authority to cut local aid, this proposal is pending legislative approval and has not yet been voted on. If passed, this proposal would reduce FY 2013 UGGA levels to \$890 million but would not affect the Governor's FY 2014 proposal.

Libraries

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

In his FY 2014 budget, the Governor recommends level funding all library programs with the exception of a slight (\$20,000) increase for the **board of library commissioners** to \$1.0 million. Since the onset of the fiscal crisis in 2008, funding for libraries, after adjusting for inflation, has fallen by more than \$15.0 million or 41 percent.

Tax 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 Governor, however, has proposed a package of changes to the Commonwealth's tax laws that would raise additional revenue in FY 2014 and beyond. If enacted - and when fully implemented - the Administration estimates the proposed changes would produce a net annual gain of \$1.9 billion.¹² If enacted as part of the current FY 2014 budget process, the changes would take effect only part way through the fiscal year and thus total revenue gains in FY 2014 would be less than the estimated \$1.9 billion annualized total. The Governor's budget documents state that the administration expects the tax package to deliver \$791 million in additional tax revenue in FY 2014.

The Governor, however, suggests ramping up FY 2014 investments in education and transportation more quickly than the increased FY 2014 tax collections (\$791 million) alone would allow. In order to put more of the expected \$1.9 billion in new *annualized* tax dollars to work starting in FY 2014, the Governor proposes pulling forward into FY 2014 some of the additional revenue that will be raised through his tax package in FY 2015 and FY 2016. The Governor's budget pulls \$275 million from FY 2015 revenues and \$125 million from FY 2016 revenues into FY 2014 (this "pull" is achieved through borrowing against the anticipated revenue that will be generated in these future years). The result, according to the Governor's budget documents, is that the tax package would make available about \$1.2 billion in additional funds in FY 2014, \$1.6 billion in FY 2015, \$1.8 billion in FY 2016, and the full \$1.9 billion in fiscal years thereafter.

The Governor's tax package - having been modified slightly since its original release last week - now includes the following proposals (for a discussion of the likely impacts of various tax changes on households of different income levels, please see [this MassBudget factsheet](http://massbudget.org/863) at massbudget.org/863:

- Increasing the income tax rate from 5.25 percent to 6.25 percent (raises \$2.6 billion a year)
- Doubling the personal exemption amount from \$4,400 to \$8,800 for a single filer and from \$8,800 to \$17,600 for married filers (reduces taxes by \$1.1 billion a year)
- Reducing the sales tax rate from 6.25 percent to 4.5 percent (reduces taxes by \$1.4 billion a year)
- Applying the sales tax to the purchase and installation of custom-modified computer software (raises \$265 million per year)
- Eliminating dozens of special tax breaks that reduce personal income taxes for eligible filers (raises \$1.1 billion a year)¹³
- Eliminating a number of special tax breaks for businesses and clarifying the corporate tax code to prevent certain kinds of tax avoidance (raises \$194 million per year)

¹² Many of the numbers in this section are drawn from the Governor's FY 2014 budget documents: http://www.mass.gov/bb/h1/fy14h1/exec_14/hbuddevnontax.htm

¹³ This figure is updated from the estimate included in the documents released last week when the Governor's tax package proposal was first announced.

- Indexing the Motor Fuels Tax to inflation, which would prevent the further erosion of collections from this source. [For a more detailed discussion of new revenues available specifically for transportation funding, please see the section on Transportation in this report.]
- Eliminating the sales tax exemption for soda and candy (raises \$53 million a year)
- Increasing the cigarette tax by \$1 per pack, thus raising the tax to \$3.51 per pack (raises \$150 million a year).
- Updating of tobacco tax laws in order to equalize tax rates on cigars and "smokeless" tobacco products with the tax rate applied to tobacco sold in the form of cigarettes (raises \$16 million a year). (Smokeless tobacco products include items such as chewing tobacco, snuff, and nicotine-containing breath mints and lozenges.)
- Capping the revenue lost through the Film Tax Credit at \$40 million (raises \$40 million a year)

As shown in his FY 2014 budget documents, the Governor relies on tax revenues totaling \$23.182 billion.¹⁴ This indicates that he is counting on an additional \$848 million in tax revenues above the consensus revenue amount, a total that is \$57 million higher than the \$791 million the administration is expecting the Governor's tax package will deliver in FY 2014. It appears that this additional \$57 million in tax revenue will come from the following sources:

- \$27 million from enhanced tax enforcement by the Department of Revenue, using special software and processes to identify promising collection and audit opportunities.
- \$26.2 million from the agreement the Administration reached with Amazon.com for the online retailer to collect sales taxes from its sales to Massachusetts customers
- \$2.6 million from the eliminating the exemption from the room occupancy excise tax for certain types of short term room rentals (such as B&Bs, rental vacation homes, and corporate executive temporary apartments).

Non-Tax Revenue

In addition to the tax revenues recommended by the Governor, the 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.

¹⁴ Governor's FY 2014 budget documents: http://www.mass.gov/bb/h1/fy14h1/brec_14/hsect1a.htm

FEDERAL REVENUE

The budget counts on approximately \$8.6 billion in federal revenues. 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 for a share of increased health care spending.

DEPARTMENTAL REVENUE

The Governor's budget proposal also includes approximately \$127 million more in departmental revenues than estimated for FY 2013. There are two significant proposals in the Governor's budget that he anticipates will bring in new departmental revenues: an expanded bottle bill and the sale of state assets.

The Governor's budget includes language that would 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. The Governor estimates that the expansion of the bottle bill could net the state \$24 million in additional revenue.

The Governor's budget also proposes selling certain state assets or properties. Were these sales to go through, the Governor anticipates that the state would receive \$32 million in new revenue. This revenue would be a one-time or temporary resource.

With the expansion of gaming (gambling) in the Commonwealth, there will certain new departmental revenues available. Included in the Governor's revenue totals are approximately \$83 million in revenues associated with gaming licenses.

OTHER REVENUES

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

The Governor's budget proposes a withdrawal of \$400 million from the state's Stabilization ("Rainy Day") Fund, as well as approximately \$5.7 million in interest earned by the balance in the fund. At the same time, the Governor's budget includes significant deposits into the Rainy Day Fund. On net, the Rainy Day fund balance would drop by approximately \$220 million.

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. The Governor estimates that approximately \$125 million in one-time tax or other settlements in FY 2014 will be deposited into the fund. Finally, the Governor assumes 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.

The Governor's budget also includes language that repeals a current requirement that one-half of one percent of tax revenue each year (in FY 2013, this would be approximately \$100 million) be deposited into the Rainy Day Fund. In many years, this requirement has been suspended, and in those years has served as a temporary solution to help balance the budget. The budget also – similarly – repeals a requirement that one-half of one percent of tax revenue be available to carry forward into the next fiscal year. Instead, the budget language directs all undesignated surplus into the Rainy Day Fund.

The Governor's budget also assumes that \$40 million in unused funds from a variety of non-budgeted trusts would be available to balance the FY 2014 budget.

ONE-TIME REVENUES AND SAVINGS USED TO BALANCE THE BUDGET

The Governor's budget relies on approximately \$555 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 is the \$400 million withdrawal from the Rainy Day Fund. As noted above, the Governor has stated that this withdrawal will be partially offset by statutory deposits into the fund, and that at the end of the fiscal year, the Rainy Day Fund should carry a balance of approximately \$1 billion.

Other temporary revenues include one-time receipts from gaming licenses. The Governor's budget notes that \$32 million from these one-time revenues would support ongoing operating budget costs, and another \$10 million would pay for one-time health care costs.

There are other one-time resources used in the budget, including:

- \$40 million estimate that will be available from previously-unused funds "swept" from non-budgeted trusts
- \$32 million estimate from sale of state-owned assets such as land or property
- \$41 million saved by adjusting the timing of certain payments to hospitals serving low income patients

Notably, not included in the Governor's budget in FY 2014 is the expectation for a share of tax revenue carried forward from FY 2013 and a share of tax revenue designated for carry forward to FY 2015. As noted above, the Governor proposes repealing the long-standing statute requiring these transfers. In some years, the required carry forward is suspended and is a source of savings for the budget. This was the case in FY 2013. (Accordingly, the amount of that carry forward that would have come from FY 2013 – approximately \$100 million – is not available to help balance the FY 2014 budget.)

Finally, as discussed above, the Governor proposes to pull forward into FY 2014 some of the additional revenue that will be raised through his tax package in FY 2015 and FY 2016. This borrowing of a total of \$400 million from future tax revenues should not be considered a one-time revenue source, since these are funds that will be available in the future.

The table below shows how the Governor's 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 (adj. for Inflation)	FY 2009 GAA (adj. for Inflation)	FY13 Current (not adjusted)	FY 2014 Governor
Education	7,289.3	7,602.7	6,916.1	7,528.2
Early Education & Care	702.6	645.5	499.3	630.9
Higher Education	1,474.4	1,196.7	1,008.3	1,205.3
K-12: Chapter 70 Aid	4,011.4	4,319.1	4,171.1	4,397.3
K-12: Non-Chapter 70 Aid	664.5	673.6	548.0	586.9
K-12: School Building	436.4	767.8	689.4	707.8
Environment & Recreation	288.9	232.7	175.4	194.7
Environment	127.4	98.1	78.1	90.6
Fish & Game	23.5	23.3	20.7	21.5
Parks & Recreation	137.9	111.3	76.6	82.6
Health Care*	10,175.6	14,133.9	15,227.4	16,250.8
MassHealth (Medicaid) & Health Reform	7,773.1	11,363.9	12,720.8	13,609.6
Mental Health	799.8	749.7	673.9	696.5
Public Health	702.3	650.2	521.0	559.0
State Employee Health Insurance*	900.4	1,370.0	1,311.7	1,385.8
Human Services	3,621.4	3,837.7	3,496.9	3,652.5
Children, Youth & Families	933.7	1,093.3	909.3	949.9
Disability Services	1,305.9	1,476.4	1,430.1	1,532.9
Elder Services	252.3	261.0	222.6	226.3
Transitional Assistance	1,005.9	849.2	773.2	790.4
Other Human Services	123.6	157.8	161.7	152.9
Infrastructure, Housing & Economic Development	2,013.2	1,608.9	1,652.2	1,971.7
Commercial Regulatory Entities	58.0	56.3	50.3	54.1
Economic Development	290.6	189.1	102.7	175.1
Housing	325.9	302.6	363.6	353.2
Transportation	1,338.7	1,060.9	1,135.7	1,389.3
Law & Public Safety	2,507.3	2,779.5	2,372.8	2,493.0
Courts & Legal Assistance	759.6	716.6	620.8	659.6
Law Enforcement	366.6	456.1	339.4	368.1
Prisons, Probation & Parole	1,182.0	1,398.0	1,223.7	1,274.3
Prosecutors	155.0	159.7	143.5	146.9
Other Law & Public Safety	44.1	49.2	45.4	44.0
Local Aid	1,714.7	1,473.0	933.3	963.3
General Local Aid	1,688.4	1,438.1	899.0	930.0
Other Local Aid	26.3	34.9	34.3	33.3
Other	4,475.2	4,605.4	4,527.6	4,637.0
Constitutional Officers	105.6	97.8	76.3	72.9
Debt Service	2,086.1	2,270.0	2,416.0	2,422.7
Executive & Legislative	81.4	75.7	71.5	71.0
Libraries	46.4	37.3	21.8	21.8
Pensions	1,396.6	1,602.4	1,552.0	1,630.0
Other	759.1	522.4	390.0	418.6
Total Appropriations and Transfers	32,085.6	36,273.8	35,301.7	37,691.2

* In order to make an accurate comparison across fiscal years, we have made two adjustments to Health Care: 1) The State Employee Health total includes an adjustment to account for the increased use of the Group Insurance Commission by municipalities for their employees' health benefits; 2) The MassHealth total includes an adjustment to account for the Medical Security Program coming on to the state budget half way through FY 2014.