COMPARING REVENUE PROPOSALS FOR TRANSPORTATION, EDUCATION, AND OTHER INVESTMENTS

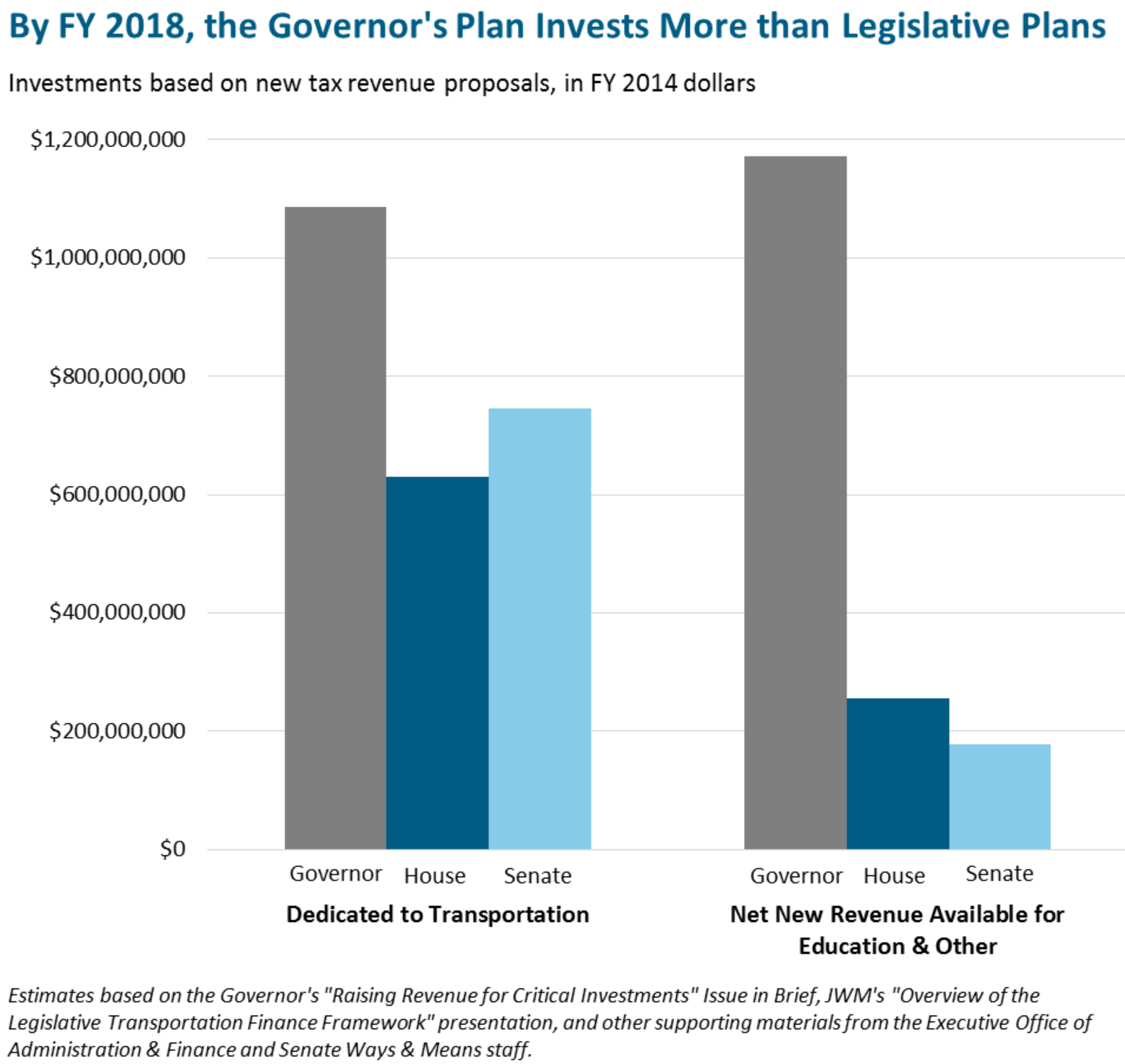
Our annual state budget is a statement of priorities, describing what we want to do together as a Commonwealth, and stating how we will pay for these things. The FY 2014 budget deliberation process has for the first time in several years included consideration of raising significant new tax revenue to support investments in important public programs.

First in the process came the Governor's budget, which prioritized new investments in education and transportation, as well as some additional funding for health care, public health, and local aid. The Governor's budget paid for these through changes to the tax system that would have raised about $2 billion once fully implemented. For more detail on the Governor's plan, please read MassBudget's description HERE.

After release of the Governor's budget, the House and Senate each passed revenue bills of their own, both of which focus more specifically on investing in our state's ailing transportation system. While the House and Senate revenue plans are pretty similar to each other, they differ from the Governor's broader investment plan in two primary ways:

- Both legislative plans (House and Senate) focus almost entirely on transportation investments, raising only limited money for education and other areas of the budget, especially in the long term.
- Both plans invest less in transportation than does the Governor's plan.

The graph below shows the relative scope of these plans for the first year in which each plan would be fully implemented, FY 2018.



It is important to note that revenue shown in the graph above would come from multiple sources, not just new taxes. These plans raise new revenue from taxes, business fees, MBTA fares, tolls, RMV fees, and possibly from MBTA and MassDOT savings initiatives. For more detail on each, please see the Revenue Detail section of this Brief.

When analyzed in the context of the Governor's more comprehensive plan, as seen in the graph above, both legislative plans appear pretty similar. Specifically:

- Both bills are significantly smaller in scope than the Governor's revenue proposal. The Governor's proposal raises new revenue to support long-term investments in education, transportation, and other areas of the state budget. By contrast, the legislative bills mostly fund transportation initiatives, investing very little in education and other state programs.
- By 2018, both bills dedicate somewhat less revenue for transportation than the Governor's plan. Over time, these lower transportation spending levels would likely lead to fewer transportation

infrastructure investment projects such as bridge renovations, road resurfacing projects, highway interchange rehabilitations, and rail line extensions.

Calculating the difference in transportation support between legislative plans and the Governor's is somewhat challenging since twenty to thirty percent of the revenue raised in the legislative plans is not tied directly to transportation. Budget documents accompanying the original Joint House and Senate Ways and Means transportation finance plan, which served as a starting point for both the House and Senate plans, discuss targeting to transportation much of the remaining new revenue not dedicated to transportation. If only revenue explicitly dedicated to transportation is assumed to be spent on transportation, the House and Senate plans would be about $460 to $340 million below the Governor's proposed transportation spending levels. If, however, all revenue raised under both plans were assumed to be spent on transportation, the gap would be significantly smaller, with House and Senate plans about $200 to $165 million below the transportation component of the Governor's plan.

- Both bills raise about $450 in new tax revenue for FY 2014, with this total ramping up to about $560 million by FY 2018 (in FY 2014 dollars). The primary revenue sources under both plans are: an increase in the gas tax, increases to tobacco taxes, extending the sales tax to certain computer services, and reforming a couple of business taxes. The Governor's proposal, by contrast, raises roughly $750 million in FY 2014 and $2.0 billion by FY 2018 (in FY 2014 dollars).
- Both bills require higher MBTA and MassDot revenue and savings targets than does the Governor's plan. Higher targets would likely lead to higher increases to transportation user-fees such as MBTA fares, RMV fees, and tolls.

Revenue proposals in the legislative bills are actually identical for FY 2014 (see table below). There are, however, differences between the bills in later years, as the Senate bill raises some additional new revenue and redirects some existing revenue from the General Fund. These differences will have to be reconciled by a joint House/Senate conference committee before ultimately sending a final legislative bill to the Governor. If the Governor vetoes this final bill, the legislature would require a 2/3 majority in each chamber in order to override.

Ways in which the House and Senate bills differ from each other:

- The Senate bill includes two non-tax revenue sources not in the House bill:
  - **Utility right of way revenue**. Starting in FY 2016, a new targeted fee on utility companies that own infrastructure on state highway right-of-ways would raise roughly $40 million annually, according to Senate Ways and Means projections.
  - **MBTA naming rights revenue**. A successful amendment to the original Senate Ways and Means (SWM) bill instructs the MBTA to sell sponsorship naming rights for MBTA stations. Since the Senate did not produce estimates for how much revenue would be generated by the selling of naming rights, this Brief does not include revenue from this provision in its calculations. Further, it is unclear whether the Senate bill considers this revenue raised towards meeting MBTA own source targets outlined in the original SWM bill or whether it would be considered new revenue on top of those targets. Under the

amendment, the MBTA would issue a request for proposals by the beginning of 2014, so new revenue from this source would likely begin sometime after the end of FY 2014.

- Starting in FY 2015, the Senate bill dedicates to transportation roughly $80 million that is currently deposited into the General Fund. Specifically, it dedicates to transportation the revenue from a currently existing 2.5 cent gas tax related to the **underground storage tank petroleum cleanup program**. It is important to note that this does not represent new revenue raised overall, meaning that under the Senate plan there would be $80 million less in new revenue to support other state programs than under the House plan.

There are also a few policy differences between the House and Senate plans that are unlikely to have a direct effect on revenue raised, at least in the near future. These include Senate floor amendments on specific tolling issues. These differences will have to be reconciled in conference committee.

Revenue Detail

The two tables below outline in more detail the revenue streams proposed under each of the three plans. First, we show detail for FY 2014, the common first year of implementation.

As seen below, revenue proposals under the House and Senate bills are actually identical for FY 2014.

Revenue Proposal Comparison, FY 2014

Amounts in millions	Governor		House		Senate	
	Not Dedicated	Trans.	Not Dedicated	Trans.	Not Dedicated	Trans.
New tax revenue						
Computer Services	$65		$150		$150	
Business Taxes*	$71		$50		$50	
Tobacco Excise	$70		$152		$152	
Gas Tax		$13		$95		$95
Addl. revenue in Gov's plan**	$304	$231				
Existing tax revenue redirected to transportation						
Motor Vehicle Sales			-$129	$129	-$129	$129
State General Fund support			-$20	$20	-$20	$20
Total tax revenue	*$510*	*$244*	*$204*	*$244*	*$204*	*$244*
New non-tax revenue						
AET/MassPort/MCCA/Gambling		$25		$25		$25
Total non-tax revenue		*$25*		*$25*		*$25*
Total net new revenue	*$510*	*$269*	*$204*	*$269*	*$204*	*$269*

*Includes clarifying market sourcing rules for corporate sales factor and reclassifying utility and certain securities investment businesses. Only the Governor proposes rule changes affecting securities investment businesses, thus producing the Governor's higher estimate.

**Includes income tax changes, sales tax changes, elimination of FAS 109 deduction, and capping of film tax credit at $40 mil annually.

In order to dedicate to transportation much of the non-transportation-specific revenue raised by their plans, the House and Senate effectively swap some of this new revenue for existing transportation-based revenue currently supporting the General Fund. Specifically, the existing 2.5 cent gas tax related to the underground storage tank petroleum cleanup program and revenue from the motor vehicle sales tax would become dedicated to transportation under these plans, with the loss of this money to the

General Fund backfilled by revenue raised from new general tax revenue (e.g. computer services and tobacco excise taxes). See the "Existing tax revenue dedicated to transportation" sections in tables for more detail.

It should be noted that state General Fund support in FY 2014 is a bit different in nature from these other two redirected revenue streams. Under legislative plans, new revenue raised for FY 2014 through FY 2016 is insufficient to meet fully their projected transportation funding gaps. Therefore both plans pledge increased general fund support for transportation in these years--$20 million in FY 2014, $75 million in FY 2015, and $56 million in FY 2016—in order to close the projected gaps.

Finally, since different components of each plan phase-in at different times, we show detail for FY 2018, the first year in which all revenue proposals would be fully implemented.

Revenue Proposal Comparison, FY 2018

Amounts in millions, in FY 2014 dollars

	Governor		House		Senate	
	Not Dedicated	Trans.	Not Dedicated	Trans.	Not Dedicated	Trans.
New tax revenue						
Computer Services	$259		$138	$24	$138	$24
Business Taxes*	$118		$83		$83	
Tobacco Excise	$166		$167		$167	
Gas Tax		$65		$145		$145
Addl. revenue in Gov's plan*	$628	$769				
Existing tax revenue redirected to transportation						
Gas surcharge redirect (underground storage tanks)					-$77	$77
Motor Vehicle Sales			-$133	$133	-$133	$133
Total tax revenue	*$1,171*	*$833*	*$255*	*$303*	*$178*	*$380*
New non-tax revenue						
MBTA own source (e.g. savings & fare increases)		$53		$125		$125
MassDot own source (e.g. savings & toll/fee increases)		$86		$86		$86
AET/MassPort/MCCA/Gambling		$115		$115		$115
Utility Right of Way						$38
Total non-tax revenue		*$254*		*$327*		*$365*
Total net new revenue	*$1,171*	*$1,087*	*$255*	*$629*	*$178*	*$745*

*Includes clarifying market sourcing rules for corporate sales factor and reclassifying utility and certain securities investment businesses. Only the Governor proposes rule changes affecting securities investment businesses, thus producing the Governor's higher estimate.

**Includes income tax changes, sales tax changes, elimination of FAS 109 deduction, and capping of film tax credit at $40 mil annually.

Through a new Utility Right of Way revenue stream, the Senate plan raises $38 million in additional new revenue over the House plan by FY 2018. Additionally, the Senate plan redirects to transportation revenue from the existing underground storage tank petroleum cleanup program that currently goes to support the state's General Fund. While this proposal increases transportation support under the Senate plan, it decreases new revenue support for other state programs by an equal amount—$77 million—since this is an existing revenue stream redirected away from the General Fund.

Adjusting the Gas Tax for Inflation

Contributing to the state's growing transportation funding gap is the fact the **gas tax** was last adjusted for inflation in 1991 and has steadily lost value ever since. If the gas tax were to have the same purchasing-power today as it had in 1991 (i.e., if we adjust for inflation), we now would be paying 36 cents per gallon rather than the flat 21 cents per gallon we have paid since 1991.

A feature shared by all three revenue plans is that they each attempt to address this problem by directly tying the gas tax to inflation. The House and Senate plans actually first increase the gas tax by 3 cents, reversing a small portion of the value lost since 1991, and then adjust it annually for inflation starting in FY 2015. The Governor's plan does not make this initial increase but starts making annual inflation adjustments in FY 2014.