

Five Things to Look for in the FY 2020 Budget

By MassBudget staff

Anyone who has set foot in a public school, driven on a road, or gone to a public park has been touched by the state budget. What we fund in our state budget reflects what we deem important.

None of these essential services would be possible without the revenue to pay for it. Further, it is important to consider whether the state is raising revenue fairly.

As the Fiscal Year (FY) 2020 budget debates kick off this week, here are five questions to consider.

(More information on how the budget process works at the end of this report. Readers can learn more about individual budget proposals through MassBudget's [budget analyses](#).)

1. Does this budget adequately fix the state's outdated school funding formula and offer all young adults a chance at public higher education?

Massachusetts schools receive funding based on a formula known as "Chapter 70." The formula was designed in 1993 so all school districts – regardless of wealth – can provide quality education for all of their students.

But the outdated Chapter 70 formula is not keeping up with current education needs and has left some lower-wealth school districts with chronic under-staffing, class sizes of more than 30 students, and other challenges in offering their students a good education.

Fixing this will require significant additional funds. A comprehensive update to the Chapter 70 formula phased in over five years to include updates for special education students, English-Language Learners, and to increase the allotment for low-income students would require as much as \$316 million more aid (33 percent increase) each year, on average, for Massachusetts schools, according to some estimates.¹ Compare this with the amount of additional funding lawmakers budgeted for schools this fiscal year (FY 2019) – \$161 million.

Reform of the state's education funding can come through the state budget or through separate legislation, as has already been proposed.²

During FY 2020 budget discussions, it's worth watching whether the Governor's or Legislature's budgets will catch up to current needs or just keep up with the typical, annual increases of the outdated formula (similar to last year's \$161 million increase).

Beyond K-12 education, budget watchers can ask whether the budget proposals advance opportunity for all our young adults to attend college without being overburdened by debt. This year (FY 2019) the state budgeted \$1.23 billion towards higher education – 13 percent less than FY 2001 (adjusting for inflation). From FY 2001 to FY 2018, the funding per student dropped by about \$4,000. This has

contributed to sharp increases in tuition and fees.³ A storyline to track in public higher education is whether lawmakers will meaningfully boost this funding, which they can do through the state budget or through the separately proposed legislation.

2. Does this budget meaningfully improve our transportation future?

In the state budget most transportation-related spending goes toward paying off capital projects – like buying new train cars and fixing bridges – that the government finances through bonds (paying back borrowed funds).⁴ But other important decisions about the quality of transportation infrastructure get decided through the budget process.

In past years, the Massachusetts Bay Transit Authority (MBTA) has used money intended for our public transit system’s day-to-day operations and redirected it to pay off capital projects. If the MBTA continues this practice in FY 2020, it is worth watching whether the Authority counts these redirected funds as part of its operating budget deficit when calling for anticipated increases to transit fares.

For those living outside the MBTA’s reach, the state’s regional transit authorities (RTAs) provide a lifeline for rural Massachusetts residents and those in Gateway Cities traveling to work, school, and doctors’ appointments. In recent years, the Governor has proposed freezing the RTAs budget at \$80 million. But the Legislature last year pushed funding for RTAs up to \$88 million, slightly more than Fiscal Year 2016 levels, adjusting for inflation.

In FY 2020 budget debates, those outside the Boston region may be particularly interested in whether state lawmakers give a boost to these transit systems, which are vital for rural and Gateway Cities residents.

The state budget also typically includes some small, but significant, items in the “outside sections” of the budget.⁵ Innovative ideas – like adjusting tolling to encourage drivers to travel during off-peak times or allowing local governments to collect taxes to support local and regional transportation projects – will likely show up in the outside sections of a budget proposal.

3. Does this budget maintain or expand our nation-leading health care coverage without shifting the costs of health care onto low-income consumers or reducing access to needed benefits?

Massachusetts leads the country in making sure everyone is covered by health insurance. This is partly because the state provides health insurance to cover more than 1.8 million people, including about half the state’s children.

Further, the state budget ensures low-income patients and nursing home clients can receive much-needed care by paying hospitals and other health providers for the care they give to patients that have publicly subsidized health insurance.

As lawmakers continue talking about how to rein in health care costs, they may propose solutions through the budget or through free-standing legislation. In accordance with health care cost-containment legislation passed in 2012, the state is expected to hold down health care cost growth in FY 2020 to a current benchmark of 3.1 percent over the prior year. But efforts to cut costs can sometimes

mean sacrificing patients' access to necessary benefits,⁶ so the impact on patient access and care will be an important issue as proposals are scrutinized.

Other areas of concern likely to emerge during the FY 2020 budget debate include: how to rein in the high cost of prescription medication; how to ensure the viability of community hospitals, particularly in light of recent hospital mergers; how to better respond to the state's opioid crisis; how to address continuing unmet mental health care needs; and how to implement newly designed accountable care organizations (ACOs). Moreover, there is likely to be discussion about whether to continue a special assessment on employers to help cover the costs of health care. This assessment, which brings in about \$260 million per year, will expire at the end of 2019 (for more details about this, see item five regarding revenue).

4. Does this budget account for the minimum wage increase, while ensuring state providers can maintain high quality services?

Thousands of people who care for children, the elderly, and people with disabilities do so for low wages, at workplaces funded through state contracts. These workers will benefit from the newly passed minimum wage increase from \$11 to \$12 per hour, which took effect at the beginning of this year.⁷

But, without more funding from the state, some providers may struggle to maintain the same level and quality of essential services while paying their workers at the higher wage. This challenge will only grow if state funding fails to account for providers having to maintain high quality services while increasing their workers' wages as the minimum wage reaches \$15 in 2023.

5. Does this budget include adequate revenues to overcome emerging shortfalls and plan for the future?

Revenues include taxes and fees the state collects to pay for the many essential services discussed above, from schools and public buses, to social workers and publicly subsidized health insurance.

The revenue forecast is mixed and will depend greatly on whether the state economy's decade-long upturn will slow or falter. Massachusetts saw exceptionally strong tax revenue growth last year (FY 2018) and the beginning of this year (FY 2019), but December saw a plunge in collections (though many revenue watchers expect to see them rebound in January).⁸ Looking to FY 2020, the Commissioner of the Department of Revenue (DOR) expects tax revenue growth to be much more modest than it was in FY 2018 and FY 2019.

Budgeting in the face of such ebbs and flows makes it a challenge to provide adequate funding for the many services that people throughout our Commonwealth depend on. In addition, over the next two years, the state expects to see some substantial holes develop in a number of its revenue sources — and neither the Governor nor the Legislature has yet offered specific plans that would fill those holes with new revenues.

The current strong economy and robust revenue collections through November triggered a previously established policy that decreased the personal income tax rate from 5.1 percent to 5.05 percent. This rate change kicked in on Jan. 1. If FY 2020 revenue collections go as predicted, the tax rate will drop further

on Jan. 1, 2020 to 5.00 percent.⁹ The Department of Revenue estimates that these rate cuts will result in a combined loss of \$263 million in annual revenue in FY 2020, revenue that otherwise could pay for public services and staff – like caseworkers, teachers, and court administrators.¹⁰

And the scheduled revenue-reducing changes don't end there. Assuming the drop to a 5.00 percent income tax rate occurs, it will trigger the introduction of a new state tax deduction for charitable donations, similar to the federal version. This state-level deduction also would be heavily skewed toward high income-earners. As a result of this new provision, the state would additionally lose about \$300 million in annual revenue.¹¹

Finally, the state is slated to see a big drop in *non-tax* revenue collections. A temporary assessment on some businesses – that brings in about \$260 million per year to help pay for subsidized health care for businesses – is set to expire at the end of 2019.¹² This revenue comes from an assessment created in 2017 on employers that use MassHealth or the subsidized state Connector Care to cover their employees. The Legislature created this assessment as a temporary, two-year supplement to the Employer Medical Assistance Contribution, but the Legislature has not presented any plan to make up the loss or continue the assessment at the end of that period.

For those paying attention to revenue, the House's budget proposal is particularly important to watch. The Governor, who kicks off the budget process, can suggest new taxes or fees, but the Massachusetts Constitution requires all "money bills" to originate in the House. If the House does not propose tax- or fee-changes, the Senate cannot either.

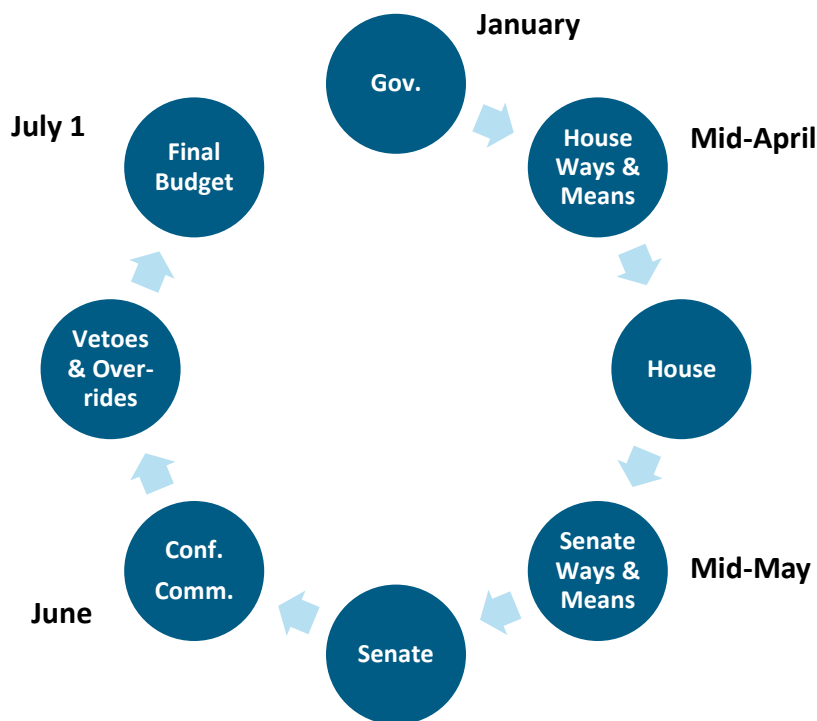
It will be worth considering whether new taxes or fees make the state's tax system fairer. Massachusetts' state and local tax system is currently "regressive," meaning people with modest incomes pay a larger percentage of their incomes in those taxes than people with higher incomes. "Progressive" tax systems have the opposite effect – people with more income pay a larger percentage of their incomes. Some types of new taxes or fees would make the system more regressive while others would balance the scales by requiring top income-earners to pay a share of their income that's more similar to what everyone else pays.¹³

Following the state budget process ahead

The state budget process kicks off with the release of the Governor's budget proposal in January (see illustration). The House Ways and Means Committee presents its proposal to the full House by mid-April, giving House members time to propose amendments before the House votes on a final version of its budget proposal. The Senate goes through a similar process, with the Senate Ways and Means Committee presenting the Senate with its initial proposal by mid-May and the Senate passing a final version usually two weeks later.

The Conference Committee, a committee made up of members of the House and Senate, then resolves the differences between the two versions of the budget. This resolved version then becomes the Legislature's proposed budget.

The Governor then has 10 days to sign the budget, and may veto (reject) specific funding or language within the budget. With a two-thirds majority in both chambers, the Legislature may override any or all of the Governor's vetoes.



Budget watchers can track funding recommendations in each budget proposal using MassBudget’s [Budget Browser](#), which is updated shortly after each proposal is published.

The Browser enables users to look at the funding for each line item (account) of the state budget since FY 2001. Inflation adjusters in the Browser help users make more accurate comparisons over time.

¹ Colin Jones, Noah Berger, and Roger Hatch, MassBudget, *Building an Education System that Works for Everyone: Funding Reforms to Help All Our Children Thrive*, July 18, 2018: http://massbudget.org/report_window.php?loc=Building-an-Education-System-that-Works-for-Everyone.html

² Commonwealth of Massachusetts, Bill SD.101, *An Act Providing Rightful Opportunities and Meaningful Investment for Successful and Equitable Education*: <https://malegislature.gov/Bills/191/SD101>

³ Jeremy Thompson, MassBudget, *Educated and Encumbered: Student Debt Rising with Higher Education Funding Falling in Massachusetts*, March 1, 2018: http://massbudget.org/report_window.php?loc=Educated-and-Encumbered.html

⁴ This was \$1.36 billion in the FY 2019 budget.

⁵ Outside sections (which are listed at the end of each budget document) can govern funding in the budget, create laws that only apply for one fiscal year, or make permanent changes to state laws.

⁶ http://massbudget.org/report_window.php?loc=Analyzing-the-Governor%27s-Budget-for-FY-2019.html#MassHealth

⁷ Jeremy B. Thompson, MassBudget, *Impact of the Increase in the Massachusetts Minimum Wage to \$12*, December 26, 2018, [http://massbudget.org/report_window.php?loc=Impact-of-\\$12-Massachusetts-Minimum-Wage.html](http://massbudget.org/report_window.php?loc=Impact-of-$12-Massachusetts-Minimum-Wage.html)

⁸ Michael P. Norton, State House News Service, *State Tax Haul Plunges in December but Revenue Chief Sees January Rebound*, Jan. 5, 2019: <https://www.statehousenews.com/email/a/201925?key=d34be6>

⁹ Commissioner of the Department of Revenue, Consensus Revenue Estimate hearing testimony, 12-5-2018, page 7: <https://www.mass.gov/lists/dor-briefing-book#fy2020->

¹⁰ Because these losses are baked already into DOR’s estimates, they do not, technically, create a hole in the FY 2020 budget. The budget will be built off the Consensus Revenue Estimate, which takes these losses into account.

¹¹ The most recent IRS data show almost \$6.1 billion in charitable deductions claimed by Massachusetts tax filers in 2016. If the same amount was deducted on state income taxes and applied to the state's the 5 percent tax rate, revenues would be reduced by \$305 million.

¹² *Learn about the Employer Medical Assistance Contribution (EMAC) Supplement*: <https://www.mass.gov/service-details/learn-about-the-employer-medical-assistance-contribution-ematic-supplement>

¹³ Phineas Baxandall, MassBudget, *Who Pays? Low and Middle Earners in Massachusetts Pay Larger Share of their Incomes in Taxes*, October 25, 2018, http://massbudget.org/report_window.php?loc=Who-Pays-Low-and-Middle-Earners-in-Massachusetts-Pay-Larger-Share-of-their-Incomes-in-Taxes.html