

Understanding the State Budget is Getting Easier

In the past several years it has become much easier to see what our state budget pays for, and what major changes are being proposed. This is important because the budget is the document that describes how people in Massachusetts spend our tax dollars to accomplish things together through our government. How much do we spend to keep our communities safe, to educate our children, and to protect our environment and maintain our state parks? What do we spend on public transportation and on our roads? What is the cost of protecting access to health care and other safety net protections for people facing special challenges or hard times? This *Budget Brief* provides an overview of the recent reforms that make it easier to understand the state budget (or, that make it more transparent), highlights some new improvements in that regard this year, and offers an example of how the budget could present important information even more clearly.

RECENT TRANSPARENCY REFORMS

There have been a number of improvements to the transparency of the state budget in the last several years. The budget, and related information, is now easily searchable on-line. For each line-item and section of the budget you can see the Governor's proposal, how much the state expects to spend in the current year, and the amounts spent in the prior two years. (This [link](#)¹ has the summary, and more detail is available when you click on each category of spending.) The budget also now contains – in both its paper and on-line versions – more background information about the programs it funds and their underlying policy goals. The [Budget Narrative](#)² describes most of the budget's major policy choices and significant spending increases and decreases, and the budget website contains [more than two dozen issue briefs](#)³ that explain major initiatives.

There have also been changes that simply provide more information about spending and revenue, and that can help readers navigate the budget document. Residents can now see how many people work in each area of government and how that has changed over time [at this link](#).⁴ The budget website contains a clear explanation of [the budget gap](#)⁵ and [the Governor's strategies for closing it](#).⁶ There is also now a [glossary](#)⁷ that explains the terms used in the budget, and a budget navigation guide, the "[User Guide](#),"⁸ that helps people find what they're looking for in the document.

¹ http://www.mass.gov/bb/h1/fy11h1/brec_11/ga_11/hhdefault.htm

² http://www.mass.gov/bb/h1/fy11h1/exec_11/hdefault.htm

³ http://www.mass.gov/bb/h1/fy11h1/exec_11/hbriefs.htm

⁴ http://www.mass.gov/bb/h1/fy11h1/brec_11/ga_11/hfdefault.htm

⁵ http://www.mass.gov/bb/h1/fy11h1/exec_11/hbuddevchall.htm

⁶ http://www.mass.gov/bb/h1/fy11h1/exec_11/hbuddevsol.htm

⁷ http://www.mass.gov/bb/h1/fy11h1/lnk_11/hglossary.htm

⁸ http://www.mass.gov/bb/h1/fy11h1/lnk_11/hnavguide.htm

NEW IMPROVEMENTS THIS YEAR

There are two important transparency improvements in this year's budget, building on the good work of the last several years. The budget now contains clear [mission statements](#)⁹ for most of the state agencies and offices that it funds. It also now includes, in addition to information on budget spending, better information on the cost of various tax breaks, also known as tax expenditures. While a list of tax expenditures (called the tax expenditure budget) has been available for many years, this year that document includes a more complete explanation of each expenditure (see [here](#)¹⁰ and click through categories for more information).

A KEY AREA FOR IMPROVEMENT: INCREASING TRANSPARENCY ON BUDGET BALANCE

All of the changes described above make a significant difference in the public's ability to understand how our state raises and spends money for public purposes. One area in which there has been progress, but where the budget is still not as clear as it could be, however, is in providing a clear and complete statement of all revenue and all spending and how they balance.

The Governor's FY 2011 budget proposal is better in this regard than previous years' budgets because of the inclusion of two new sets of information. First, it provides a clear list of temporary revenue sources, how much the budget relies on them, and how that has changed over time (at this [link](#),¹¹ near the bottom of the page under the title: Total Use of One-Timers (Federal Stimulus and Other One-time Solutions)). Second, the budget improves the reporting of spending that had previously been in "outside sections" – language at the end of the budget that contains new laws, proposed changes in laws, and appropriations that are accomplished by language directing transfers of funds from the general fund to accounts for specific programs – through the creation of a new Section 2E of the budget that lists this spending (available at this [link](#)).¹²

While these are important improvements, the budget still falls short in clearly presenting all of the state's revenue and spending choices. It does not include the spending that occurs automatically each year as the result of pre-existing laws – such as the dedication of one penny of the state sales tax to fund the MBTA – sometimes called "pre-budget transfers." Moreover, it does not present all revenue and spending information together, in one clear chart, so that readers can easily compare the two and make sense of structural budget issues.

A SOURCES AND USES CHART

In the chart below, *MassBudget* provides an example of how total spending and revenue could be presented. This chart includes all types of spending: line-item appropriations, appropriations for Section 2E transfers (that had in prior years been included in outside sections of the budget), and pre-budget transfers. It also includes all revenue sources, indicating which are recurring and which are not. This chart is described in more detail in the Appendix.

⁹ http://www.mass.gov/bb/h1/fy11h1/brec_11/dpt_11/hndph.htm

¹⁰ http://www.mass.gov/bb/h1/fy11h1/tax_11/hall.htm

¹¹ http://www.mass.gov/bb/h1/fy11h1/exec_11/hbuddevsol.htm

¹² http://www.mass.gov/bb/h1/fy11h1/brec_11/ga_11/hsection2e.htm

REVENUES AND OTHER SOURCES

This chart outlines the four main sources of funds used in the budget: tax revenue, federal revenue, departmental fees and assessments, and money withdrawn from special trust funds for use in the current year. As the chart indicates, the Governor's budget includes approximately \$32.9 billion in total revenues and other sources of funds (money from reserve accounts). Further information about revenue sources is available in MassBudget's *Budget Monitor* at this [link](#).¹³

APPROPRIATIONS AND OTHER USES

The chart includes all appropriations, including line-item appropriations, appropriations included in the budget document in section 2E (previously included in outside budget sections), and pre-budget transfers (not currently presented in the Governor's budget totals, but included in this *Budget Brief*). The Governor's budget would result in total spending of \$32.9 billion in FY 2011. More information about budget appropriations in both the Governor's proposal and in prior years, including the ability to calculate increases and decreases in specific areas of the budget, is available by using MassBudget's Budget Browser tool, which can be found [here](#).¹⁴

BALANCE

The Governor's FY 2011 budget is balanced, showing approximately \$8.8 million more in total revenue than in total spending. The Governor's budget, however, is not "structurally balanced" – that is, it does not rely exclusively on ongoing revenues to pay for ongoing costs. Temporary revenues and savings make up for the gap between the costs of services and funding the state can rely on on an ongoing basis. There is a \$1.96 billion structural deficit – the difference between recurring revenues and recurring spending.

For a more detailed explanation of each component of the chart, please see the Appendix.

¹³ <http://massbudget.org/doc/720>

¹⁴ <http://browser.massbudget.org/>

SOURCES AND USES
(in millions of dollars)

SOURCES	FY 2011 Governor (Revised)		
	Temporary	Recurring	Total
Tax Revenues			
Baseline tax revenue	80.0	19,267.1	19,347.1
Cigarette excise tax		19,050.0	19,050.0
Proposed tax law changes		105.0	105.0
<i>Limit film tax credits</i>	80.0	81.6	161.6
<i>Limit life sciences tax credits</i>	75.0	5.0	
<i>Elimination of exemption for aircraft sales</i>		5.0	
<i>Elimination of exemption for cigars and smokeless tobacco</i>		15.0	
<i>Elimination of exemption for soda and candy sales</i>		61.6	
Tax enforcement and administrative improvements		30.5	30.5
Federal Revenues	1,579.1	7,311.1	8,890.2
Baseline federal revenue		7,282.6	7,282.6
Anticipated increased federal revenue	1,579.1	28.5	1,607.6
<i>Enhanced FMAP 7/10-12/10</i>	690.1		
<i>Anticipated enhanced FMAP 1/11-6/11</i>	607.4		
<i>ARRA Fiscal Stabilization Funds</i>	96.1		
<i>ARRA Transitional Assistance for Needy Families Funds</i>	22.6		
<i>ARRA Adoption and Foster Care</i>	2.9		
<i>Reimbursement from Medicare for SSDI Medicaid</i>	160.0		
<i>Federal revenue associated with proposed managed care assessment</i>		28.5	
Departmental Revenues	34.0	2,611.1	2,645.0
Baseline departmental revenue		2,572.8	2,572.8
Proposed increased departmental revenue	34.0	38.3	72.3
<i>Expansion of bottle bill</i>		20.0	
<i>Expansion of fraud and abuse recoveries</i>	15.0		
<i>Managed care organizations assessment</i>		18.3	
<i>Sale or use of state property</i>	19.0		
Transfers into the General Fund from Other Funds	181.0	1,843.4	2,024.4
Transfer lottery proceeds From Lottery Funds		962.4	962.4
Transfer tobacco settlement from Health Care Security Fund		329.9	329.9
Transfer proceeds from other sources		551.1	551.1
Proposed increased transfers	181.0		181.0
<i>Transfer unused funds from various trusts</i>	35.0		
<i>Transfer from Stabilization Fund</i>	146.0		
TOTAL SOURCES	1,874.0	31,032.7	32,906.8
USES	FY 2011 Governor (Revised)		
	Temporary	Recurring	Total
Appropriations and Transfers from the General Fund	(100.0)	32,998.0	32,898.0
Education		6,732.8	6,732.8
<i>Line Item Appropriations</i> 6,077.8 <i>Other Appropriations and Transfers</i> 655.0			
Environment and Recreation		185.7	185.7
<i>Line Item Appropriations</i> 185.7			
Health Care		13,775.5	13,775.5
<i>Line Item Appropriations</i> 12,069.0 <i>Other Appropriations and Transfers</i> 1,706.5			
Human Services		3,347.1	3,347.1
<i>Line Item Appropriations</i> 3,347.1			
Infrastructure, Housing & Economic Development		1,620.5	1,620.5
<i>Line Item Appropriations</i> 378.2 <i>Other Appropriations and Transfers</i> 1,242.2			
Law and Public Safety		2,299.1	2,299.1
<i>Line Item Appropriations</i> 2,299.1			
Local Aid		964.7	964.7
<i>Line Item Appropriation</i> 964.7			
Other	(100.0)	4,072.6	3,972.6
<i>Line Item Appropriations</i> 2,530.8 <i>Other Appropriations and Transfers</i> 1,441.8			
TOTAL USES	(100.0)	32,998.0	32,898.0
BALANCE	FY 2011 Governor (Revised)		
BALANCE	1,974.0	(1,965.3)	8.8

Appendix – Sources and Uses (Detailed Explanation)

This appendix provides detailed descriptions of the sources and uses of funds listed in the chart in this *Budget Brief*.¹⁵

SOURCES

There are four main sources of money that fund the state budget: taxes, money from the federal government, fees and assessments, and money withdrawn from special trust funds – “savings accounts” – for use in the current year. When the Governor and the Legislature publish their budget proposals, they include these totals in “Section 1A - Revenue by Source and Fund.”

TAX REVENUES

The largest single source of funds available for the budget is tax revenue. In this *Budget Brief* we divide FY 2011 tax revenues into four parts: total taxes as estimated by what is known as the Administration’s “consensus” or “baseline” revenue estimate; estimated taxes brought in by an increase in the cigarette excise tax; estimates of how much tax law changes proposed in the budget would bring in; and the totals from increased tax enforcement and other administrative improvements.

Baseline Tax Revenue. In January 2010 the Administration determined that the baseline consensus tax revenue total for FYr 2011 is \$19.05 billion.

Cigarette Excise Tax. In January 2010 the Administration estimated that the 2008 increase in the cigarette excise tax will generate \$105 million in FY 2011. This tax increase is dedicated to paying for a portion of the state’s health care costs.

Proposed Tax Law Changes. The Governor’s budget includes proposals to raise revenues by eliminating certain tax breaks (“tax expenditures”). These proposals would generate \$161.6 million in FY 2011, \$15 million of which would be added to cigarette excise tax revenue to pay for a portion of the state’s health care costs.

Tax Enforcement and Administrative Improvements. The Governor’s budget proposes charging interest on certain deferred income tax payments, and pushing forward the dates of certain tax payments. His budget estimates that these changes would generate \$30.5 million in FY 2011.

FEDERAL REVENUES

The largest share of federal revenue that helps pay for the state budget comes from federal Medicaid dollars that support the Commonwealth’s health care programs. With the passage of the American Recovery and

¹⁵ An item that is not included in this chart is the amount associated with the requirement that $\frac{1}{2}$ of 1 percent of tax revenues in each year be “carried forward” into the following year; because the transfer in at the beginning of the year and out at the end essentially cancel each other out, for simplicity’s sake they are not included in this chart.

Reinvestment Act (the “Recovery Act” or ARRA) in February 2009, the federal government has also provided billions of dollars in additional temporary federal dollars to help balance the state’s budget.

The Governor uses several types of ARRA funding to balance the budget. The Recovery Act provides a more generous – but temporary – reimbursement for Medicaid services. This is known as “enhanced Federal Medical Assistance Percentage (FMAP).” The Governor estimates that \$690.1 million in ARRA funds will be available from this enhanced FMAP through December 31, 2010. The Governor’s budget also counted on an additional six months of enhanced FMAP. Both the US House and Senate have now approved legislation providing for that extension, but the extension has not yet become law. The Governor had estimated that this extension would generate an additional \$607.4 million in federal revenue for the Commonwealth. Current estimates suggest this extension could bring in as much as \$84 million more than that.

The Recovery Act also includes funding to support state budgets by providing what is known as State Fiscal Stabilization Funds. Most of these funds were used in the FY 2009 and FY 2010 budgets, but the Governor’s budget directs \$96.1 million of the remaining funds to maintain education funding levels in the coming fiscal year. The Governor’s budget also assumes that \$22.6 million in ARRA funding will be available for transitional assistance to needy families programs, and \$2.9 million will be available to support the state’s foster care and adoption programs for needy children and families.

The Governor’s budget also assumes that the federal Medicare program will reimburse states for the health care costs associated with certain persons eligible for the Social Security Disability Insurance Program (SSDI). It is unclear at this time whether the federal government will go forward with this reimbursement. Without these funds, the Governor’s revenue totals will be short by \$160 million.

DEPARTMENTAL REVENUES

Many state government departments and programs charge fees for their services. These fees, premiums and assessments are called “departmental revenues” because the money is generated by department activities. These revenues include such items as fees generated by the Registry of Motor Vehicles, a variety of other permitting fees, special assessments paid by certain health care providers, and health insurance premiums paid by retired teachers who participate in the state’s Group Insurance health plan.¹⁶

The Governor’s budget includes \$72.3 million in new fees. It estimates that there will be \$20 million in additional revenue from a proposed expansion of the Bottle Bill to include water, flavored waters, coffee-based drinks, juices and sports drinks. The budget also estimates that there will be \$15 million in new revenue from enhanced efforts to eliminate fraud and abuse throughout state government. In addition, the Governor proposes the increased sales or use of state-owned property, and estimates that this would generate \$19 million in increased departmental revenues.

The Governor also extends an assessment for the costs of the health safety net currently paid by hospitals and insurance companies to managed care organizations. The Governor’s budget proposes that this assessment

¹⁶ The revenue totals also incorporate adjustments that allow for the comparison of the Governor’s proposed budget to the FY 2010 budget. Most notably, in order to make a more accurate year-to-year comparison, this *Budget Brief* excludes from its departmental revenue totals \$93.3 million to the state’s Group Insurance Commission from Mass. Bay Transit Authority and the Mass. Turnpike Authority for health care costs for employees now covered within the state system. This *Brief* also excludes this amount from the total appropriations.

total \$18.3 million in new departmental revenues. This assessment would in turn generate an additional \$28.5 million in federal Medicaid reimbursements.

TRANSFERS INTO THE GENERAL FUND FROM OTHER FUNDS

The budget documents provided by the Governor include a total referred to as “Consolidated Transfers.” Transfers of funds are “sources” of funding when the transfer moves money into the General Fund for use in the budget.¹⁷ There are four major categories of transfers into the Commonwealth’s General Fund.

Transfer lottery proceeds from Lottery Funds. The Governor’s budget estimates that \$962.4 million would be transferred into the General Fund from Lottery proceeds in FY 2011. This total includes \$787.5 million that will then be available for distribution to cities and towns, and \$174.8 million to support the administration of the Lottery, the Massachusetts Cultural Council, and other specified purposes.

Transfer tobacco settlement proceeds from Health Care Security Fund. In FY 2011, the budget counts on approximately \$329.9 million distributed to Massachusetts from the proceeds of the Tobacco Settlement agreement that requires tobacco companies to make payments to states for the health care costs associated with tobacco use.

Transfer proceeds from other sources. Other transfer sources include funds associated with reimbursements to the General Fund from federal grants for the payment of grant-associated fringe benefits, proceeds from the dispersal of abandoned property, revenues from the State Racing Commission, and assorted other sources.

Proposed increased transfers. The Governor’s budget relies on several new transfers out of other trust funds into the General Fund. Withdrawing funds to pay for ongoing expenses with dollars that had been previously set aside for specific purposes is another example of using non-recurring or temporary funding to balance the budget. The Governor proposes “sweeping” \$35 million in unused funds from a variety of trust funds. His initial budget proposed transferring \$175 million from the Commonwealth’s Stabilization Fund (the “Rainy Day” fund) into the General Fund in order to balance the budget. With revisions to his budget on March 5, the Governor decreased his proposed Stabilization Fund withdrawal by \$29 million, proposing a \$146 million withdrawal.

TOTAL SOURCES

The Governor’s budget includes \$32.9 billion in total revenues and other sources of funds. It is important to remember that the transfers from the Stabilization Fund or other trust funds are temporary or non-recurring sources of revenue, as are federal ARRA funds.

It is also important to remember that many of the revenues included in this budget proposal are projections. The economy will change over the course of the year, and that will have a significant impact on income tax revenues, projected sale tax revenues, fees, etc. Moreover, a portion of the Governor’s estimated temporary federal revenues are dependent upon decisions that have yet to be made at the federal level.

¹⁷ A transfer of funds can be a “use” of funds when money is transferred from the General Fund into specialized trusts to be spent for particular purposes.

USES

The total “bottom line” for a budget includes line item appropriations, and other appropriations such as transfers out of budgeted funds, and various other uses of funds. This total gives the best picture of the Commonwealth’s budget, because it comprises all of the uses of funding for which there must be revenue available over the course of the year. Most references to the budget, however, show a smaller total, since they typically include only the total from line item appropriations.

APPROPRIATIONS AND TRANSFERS FROM THE GENERAL FUND

Line Item Appropriations. The Governor’s budget includes “Line Item Appropriations” itemized in Section 2A of the budget. One of the savings proposed in the Governor’s budget is the refinancing of \$100 million in debt service, thereby postponing payment of \$100 million in debt service costs. In this *Budget Brief*, this one-time saving is reflected by increasing the debt service amount in the “Recurring” budget total by \$100 million to reflect what the total would have been without this one-time saving, and then showing this \$100 million as a one-time saving in the “Temporary” column. The Governor also proposes “smoothing out” the payment of an additional \$200 million in debt service. (This is explained more fully in *MassBudget’s Budget Monitor: The Governor’s Fiscal Year 2011 Budget (Updated)*).¹⁸ This number is not reflected as one-time savings here, although it would be reasonable to do so. (Debt service is included in the “Other” category.) Total line item appropriations are the largest component of spending (or “uses”).¹⁹

Other Appropriations and Transfers. In addition to the line-item appropriations, the Governor’s budget proposal includes a new Section 2E which itemizes operating transfers, directing the transfer of funds from the General Fund to specific trusts for certain designated uses. Accordingly, these transfers are a type of spending (“uses”) of funds.

There are three transfers related to health care spending: a transfer into the Commonwealth Care Trust; a transfer into the Medical Assistance Trust; and a transfer into the State Retiree Benefits Trust. The first two of these trusts help fund the Commonwealth’s health reform efforts, and the third helps pay for retired state employee health benefits. There is also a fourth transfer of \$475.1 million into the Mass. Transportation Trust to finance the state’s transportation costs.

There are also four particular transfers of state revenue that state law requires the Commonwealth makes prior to any appropriation. The budget documents show these transfers in the form of direct subtractions from the consensus tax revenue total. This *Budget Brief* refers to these transfers as “pre-budget transfers.” The pre-budget transfers are: the transfer of one percentage point (“one penny”) of the sales tax to the School Modernization and Reconstruction Trust for school building assistance; the transfer of a portion of the Commonwealth’s excise tax on cigarettes into the Commonwealth Care Trust Fund to support health care costs ; the transfer of one percentage point (“one penny”) of the sales tax and certain special assessments to the Massachusetts Bay Transit Authority State and Local Contribution Trust for public transportation costs; and

¹⁸[Budget Monitor: The Governor’s Fiscal Year 2011 Budget \(Updated\)](http://www.massbudget.org/documentsearch/findDocument?doc_id=720&dse_id=1099),
http://www.massbudget.org/documentsearch/findDocument?doc_id=720&dse_id=1099

¹⁹ The line item appropriations totals also incorporate adjustments that allow for the comparison of the Governor’s proposed budget to the FY 2010 budget. Most notably, in order to make a more accurate year-to-year comparison, this *Budget Brief* excludes from its totals \$93.3 million for the proposed new health care costs for employees of the Mass. Bay Transit Authority and the Mass. Turnpike Authority. This *Brief* also excludes this amount from total revenues.

the legislatively scheduled transfer of funding into the Pension Reserves Investment Trust to fund the state's pension system.

OTHER USES

State law (M.G.L. Chapter 29, Section 5c) requires that "1/2 of 1 per cent of the total revenue from taxes in the preceding fiscal year shall be transferred to the Stabilization Fund." The Governor's budget includes language in Outside Section 31 that would suspend in FY 2011 the required deposit into the Stabilization Fund. In so doing, the Governor's budget forgoes using, or "saves," the amount of the required transfer. This would be a one-time saving, but since it is associated with the transfer of a surplus once the budget is balanced, it is not included here. The Governor's budget also includes language in Outside Section 13 that proposes depositing a certain portion of capital gains revenue into the Commonwealth's Stabilization Fund. There are no amounts included with this proposal. For simplicity's sake, this *Budget Brief* does not include these uses of funds in its totals.

TOTAL USES

Appropriations and other uses in the Governor's budget total \$32.9 billion.

BALANCE

Based on the best available information, the Governor's FY 2011 budget shows approximately \$8.8 million more in total sources than in total uses. The Governor's budget, however, relies on close to \$1.87 billion in non-recurring or temporary revenues, and the difference between recurring sources and recurring uses is \$1.97 billion. Taking into account the \$8.8 million surplus, the Governor's budget has a structural deficit of \$1.96 billion.