

Analyzing the State Budget for FY 2015

August 13, 2014 Note: This Budget Monitor was initially published on July 2, 2014, after the Legislature passed its budget for FY 2015 but before it had become law. In signing the budget into law on July 11, the Governor vetoed a few provisions, but by the end of the legislative session on July 31, 2014, the Legislature had overridden each of these vetoes except for one. This single vetoed provision, which was not overridden, does not affect direct appropriations discussed below. Thus, in this document, funding levels described as those of the "Legislature's budget" are also the funding levels of the enacted state budget as of the beginning of FY 2015.

While the Governor, House, and Senate had some different priorities for fiscal year 2015, there was significantly more agreement throughout this year's process than last year. With the limited revenue available, there was a consensus on the need to keep commitments made last year:

- to make needed investments in our transportation systems;
- to continue restoring some of the deep funding cuts made to the state's higher education system during the 2000's; and
- to fund reforms of the system for paying human service providers.

The final budget also reflects a shared commitment to begin to strengthen the capacity of the state Department of Children and Families and to make new investments in substance abuse treatment and prevention.

The Governor, House and Senate all opted against seeking the type of new tax revenue that could support long term investments to strengthen our economy, expand opportunity, and improve the quality of life in our communities. Such initiatives could include significantly expanding access to quality early education and improving K-12 education, and restoring more of the hundreds of millions of dollars that have been cut from local aid, public health, and higher education.

The final budget assumes higher overall levels of non-tax revenue than either branch had projected and thus includes higher overall spending than the Governor, House, or Senate had proposed. The budget also relies on a substantial amount of money from tax settlements and judgments that previously would have gone to the state's rainy day fund. This policy change is explained in the revenue section of this Budget Monitor.

In the sections that follow, this Monitor describes funding levels and initiatives throughout the state budget and compares them to years past.

Early Education & Care

The FY 2015 Budget directs \$550.2 million for early education and care programs, an increase of \$34.4 million over FY 2014 current spending. In FY 2001, early education and care programs received just under \$720 million in inflation adjusted dollars, almost \$170 million more than the FY 2015 Budget provides.

Income Eligible Child Care receives the bulk of the increase, but not as much as it first seems. This year’s appropriation of \$241.9 million is \$27.6 million more than last year’s appropriation for this account. However, funding for this subsidy is split between a few different line items. When these line items are combined, the overall increase in funding for Income Eligible Child Care is closer to \$19.4 million, see table below.

Income Eligible Services and Support				
	Line Item #	FY 14 Current	FY 15 Legislature	Difference
Income Eligible Care	3000-4060	\$214,340,742	\$241,894,678	\$27,553,936
FY 15 I.E. Wait List	3000-4040	\$0	\$15,000,000	\$15,000,000
FY 14 I.E. Wait List	3000-4070	\$15,000,000	\$0	(\$15,000,000)
Early Ed. Rate Increase	1599-0042	\$0	\$6,573,571	\$6,573,571
Family Child Care Reserve	1599-1206	\$3,232,824	\$0	(\$3,232,824)
Early Ed. Salary Reserve	1599-1690	\$11,500,000	\$0	(\$11,500,000)
Total		\$244,073,566	\$263,468,249	\$19,394,683

As the table above shows, funding from a few other accounts has shifted into the Income Eligible account this year. FY 2014 funding for the FY 14 Wait List, the Family Child Care Providers Reserve and the Early Education Salary Reserve are included in the Income Eligible account in FY 2015. In addition, two new accounts are introduced which support the Income Eligible subsidy – a new rate increase and a new initiative to reduce the number of children on the waitlist for subsidized care. The new initiative should provide a subsidy for around 2,500 children currently on the wait list for care.

The number of children on the wait list had been decreasing as a result of the \$15 million appropriation in FY 2014, but has begun to rise again in recent months. The new wait list appropriation will provide a subsidy for some still waiting, but will not provide support to the majority of children and families on the waitlist. For a more in depth look at what it would take to provide support to the kids in Massachusetts who need it the most, see MassBudget’s [Building a Foundation for Success](#).

The Children’s Trust Fund’s **Healthy Families Home Visiting Program** receives \$14.5 million, almost \$4 million more than FY 2014 current spending. This program provides home visits for first-time parents under the age of 21. Providing home visits to first time parents of very young children has been shown to decrease the need for child welfare interventions later.

Supportive Child Care, which provides early education and care opportunities to children in the care of the Department of Children and Families, the primary child welfare agency serving kids who have been abused and neglected, also received an increase of \$2.7 million over FY 2014. Although not documented publically, over 500 kids in foster care are waiting for care through the Supportive Child Care account.

The Legislature provides \$1.0 million for the **K1 Classroom Grant Program**. This grant would fund new pre-k classrooms in cities and towns around the state with a goal of increasing school readiness and improving 3rd grade reading. Gateway cities and districts with struggling schools receive preference.

The Legislature also provides \$385,000 to continue an assessment of EEC which began in FY 2014. The FY 2014 budget appropriated \$500,000 to hire a nonprofit research organization to undertake a two

year assessment of the services administered by EEC. Goals of the assessment include identifying promising practices in the administration of subsidies, evaluating the businesses process involved in service delivery, and measuring the effectiveness of the current system in meeting the needs of children and families.

Grants to Head Start receives a \$1.0 million increase over FY 2014.

K-12 Education

Education plays an important role cultivating the next generation of engaged citizens and helping strengthen state economies. In Massachusetts, as is the case across the nation, there is an increasingly strong connection between improving the skills of the state workforce and creating a high-wage economy – see [A Well-Educated Workforce is Key to State Prosperity](#) for more detail.

The Legislature's FY 2015 budget makes modest new investments in education, but absent significant new revenue, these increases are mostly in line with annual cost growth. All told, K-12 education funding is \$155.5 million, or 2.7 percent, above FY 2014. Even with this increase, K-12 education spending will be \$74.8 million below pre-recession levels (FY 2009 GAA, adjusted for inflation).

For FY 2015, [Chapter 70 education aid](#) will increase by \$99.5 million, or 2.3 percent, over FY 2014. Specific Chapter 70 provisions include:

- Calculating district foundation budgets using updated enrollment and inflation data.
- Including all pre-kindergarten students currently attending public schools in district foundation budgets, meaning they are counted when calculating state aid. 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 FY 2015 budget lifts this cap, allowing 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.

Since enrollment counts are set for calculating FY 2015 foundation budgets, this policy change will only cost a modest \$2.3 million in its first year. If continued for future years, however, this change could significantly increase the provision of public early education.

- Phasing-in an additional portion of the formula reforms planned in the 2007 budget, but slowed due to the ongoing fiscal crisis. Specifically, the budget provides 50 percent effort reduction and 35 percent downpayment aid. 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 2014 aid for all districts that wouldn't otherwise receive an increase of this amount.

The budget also calls for a **foundation budget review commission** to review the state's approach to determining district foundation budgets. The foundation budget was designed more than twenty years ago and many of its underlying assumptions are increasingly [out of date](#). Further, there is new evidence on what works best in schools that ought to be considered when reforming the foundation

budget. The budget requires the commission to convene at least 4 public hearings in different parts of the state and to file a report to the Legislature by June 30, 2015.

Additionally, the budget includes language allowing all districts to begin a four-year phase in of counting **health care costs for retired teachers** towards satisfying their net school spending requirements. Districts that counted retiree health care costs in FY 1994, when the current Chapter 70 formula was first implemented, have been allowed to continue counting them towards net school spending every year since. Districts that did not include retiree health care costs in FY 1994, however, have had to count them separately. While this change will equalize district spending requirements, it will ultimately allow many communities to spend less on public education.

Among K-12 grant programs, the FY 2015 budget increases funding for several programs, including providing an additional:

- \$18.7 million for [Regional School Transportation](#).
- \$5.0 million for the [Special Education Circuit Breaker](#).
- \$5.0 million for **Substance Abuse Counselors**, a new grant program created by the Senate budget aimed at helping schools better address substance abuse and mental health issues.
- \$501,000 for [Extended Learning Time Grants](#).
- \$500,000 for [METCO](#).
- \$200,000 for **Adult Basic Education**.

Notable decreases from current FY 2014 levels include cuts of:

- \$22.6 million for [Charter School Reimbursements](#). This reimbursement program was funded at \$75.0 million in the initial FY 2014 budget and received an additional \$27.6 million in a supplemental FY 2014 budget. The FY 2015 budget funds charter reimbursements at \$80.0 million. This funding level falls short of fully funding the reimbursements formula, which DESE estimates would require \$104 million.
- \$3.1 million for [MCAS Low-Scoring Student Support](#).
- \$540,000 for [English Language Acquisition](#) and \$500,000 for [Programs for English Language Learners in Gateway Cities](#).
- \$500,000 for [Gateway Cities Career Academies](#).

Additionally, the FY 2015 budget projects receipt of \$771.5 million from an automatic transfer of sales tax revenue to the **School Modernization and Reconstruction Trust Fund**, which is used to help school districts pay for school construction and renovation projects. When someone pays Massachusetts sales tax, one percent of the retail value of the purchase goes toward this fund. This represents an increase of \$39.5 million over FY 2014.

Higher Education

The Legislature's FY 2015 budget for higher education represents a third year of continued reinvestment in public higher education, building on progress begun in FY 2013 and continued this year. All told, higher education spending is roughly \$70 million above current FY 2014 levels.

Even with this increase, however, total spending on higher education for FY 2015 will still be roughly 21 percent below FY 2001 levels (adjusted for inflation). These long-term cuts were driven largely by state level income tax cuts that cost the state roughly \$3.2 billion annually, and by the lingering effects of the Great Recession.

The Legislature follows through on a commitment made in the FY 2014 budget to increase funding for the main **UMass** line item by \$40 million, or roughly 8 percent, in FY 2015. In exchange for receiving this increased funding, UMass has committed to freezing student tuition and fee increases for FY 2015.

Community Colleges receive increases of varying amounts in their direct appropriations, on average about 10 percent over last year. While increasing direct appropriations, the budget reduces funding from \$20.0 million in FY 2014 to \$13.2 million for **supplemental Community College funding**. This funding is distributed through a funding formula first used in the FY 2014 budget.

Individual **State Universities** are roughly level funded from FY 2014. State Universities do receive some additional support through a central collective bargaining account and an additional \$8.0 million **State University Incentive Grants** program to support projects at State Universities that advance goals of the [Commonwealth Vision Project](#).

For more detail on specific higher education campus appropriations, please see the higher education section of our Budget Browser [HERE](#).

Additionally, the FY 2015 budget increases funding by \$3.0 million for the **State Scholarship Program** and provides level-funding of \$1.0 million for [High Demand Scholarships](#). The High Demand Scholarship program provides scholarships to students who are majoring in a field classified as in high demand.

Youth Development

Youth Development programs aim to help young people find their path to a promising career. They foster engagement in the community, provide training or employment, and prevent violence or other antisocial behavior.

The Legislature's budget for FY 2015 proposes spending \$34.0 million on youth development programs which is \$2.7 million less than the FY 2014 current budget. The chart below provides a full listing of the Legislature's budget for individual Youth Development programs in FY 2015 compared with the FY 2014 current budget. For descriptions of each program please go to the Youth Development category of the *Jobs & Workforce Budget* at <http://workforce.massbudget.org/youth-development>.

YOUTH DEVELOPMENT PROGRAMS			
Line-Item name (number)	FY14 current	FY 15 Legislature	FY 15 Legislature - FY 14 Current
Safe and Successful Youth Initiative (4000-0005)	\$8,800,000	\$4,600,000	(\$4,200,000)
Shannon Gang Prevention Grant (8100-0111)	\$7,000,000	\$8,250,000	\$1,250,000
Youth Works (7002-0012)	\$10,000,000	\$10,200,000	\$200,000
School to Career Connecting Activities (7027-0019)	\$2,750,000	\$2,750,000	\$0
Youth-at-Risk Matching Grants (4590-1507)	\$3,600,000	\$4,150,000	\$550,000
Gateway City Career Academies (7009-6402)	\$500,000	\$0	(\$500,000)
Youth Build Grants (7061-9626)	\$2,000,000	\$2,000,000	\$0
Transitional Employment Program at Roca (4800-0016)	\$2,000,000	\$2,000,000	\$0
Total	\$36,650,000	\$33,950,000	(\$2,700,000)

Environment & Recreation

The state budget funds programs that keep our air and water clean, maintain fish and wildlife habitats and staff parks, beaches, pools and other recreation facilities. The Legislature's FY 2015 budget provides \$203.4 million for environment and recreation programs, \$14.1 million more than the FY 2014 current budget of \$189.3 million. Even with this increase, funding for environment and recreation programs has fallen about 30 percent in inflation-adjusted dollars with the implementation of over \$3 billion in tax cuts at the beginning of last decade.

The Legislature's final budget for FY 2015 does not include a proposal added to the Senate budget during its floor debate that would expand the bottle bill to include water, juice, coffee and sports drinks.

The Legislature's FY 2015 budget for environmental and recreation programs includes new funding to help the state address climate change. The budget provides \$1.0 million for climate change preparedness which will be overseen by the Executive Office of Energy and Environmental Affairs (EOEEA). In addition, Outside Section 24 of the budget creates a new office of the state climatologist within EOEEA. This office, which receives \$200,000 in the Legislature's budget, will work with UMass Amherst to gather data and conduct research on the state's climate and to inform citizens about climate change.

The Legislature's FY 2015 budget recommends increasing funding for parks and recreation by \$5.3 million to \$85.5 million. Among other increases, it boosts funding for state beaches and employees who work at state recreation facilities by \$2.6 million to \$15.3 million. It also increases funding for state parks by \$1.4 million to \$44.3 million. Outside Section 6 of the budget makes permanent the commission on the future of beaches in metropolitan Boston.

MassHealth (Medicaid) & Health Reform

Massachusetts leads in the nation in the share of population covered by health insurance, in large part because of the significant commitment of the state through the MassHealth, Commonwealth Care, ConnectorCare, and other programs that provide subsidized health insurance to low-income people. The Legislature's FY 2015 budget proposal includes \$14.69 billion in funding for MassHealth, but more than half of this spending will be covered by revenue coming from the federal government.

FY 2015 reflects the first full year of implementation of the ACA. The ACA expands Medicaid coverage with enhanced federal Medicaid reimbursement to some people previously without coverage, as well as others who previously had less substantial subsidized coverage. The ACA also reduces spending in the Health Care Connector as federal tax credits and subsidies assume most of the cost of bringing private insurance purchased through the Connector to affordable levels for individuals not eligible for MassHealth.

MassBudget, in conjunction with the Mass. Law Reform Institute and the Mass. Medicaid Policy Institute, publishes detailed briefs about MassHealth and health reform finance over the course of the budget debate. A brief describing the final FY 2015 budget signed by the Governor will be published shortly, and will provide a fuller discussion of these issues.

Highlights of the Legislature's MassHealth and Health Reform Budget include:

Managed care rates. The MassHealth Managed Care line item (4000-0500) includes \$4.79 billion for managed care, an amount that accounts for a 2 percent rate increase for MassHealth managed care providers. The language specifying this increase is in the 4000-0300 line item funding the Exec. Office of Health and Human Services.

Services for elders and nursing homes. The MassHealth Senior Care line item (4000-0600) in the Legislature's budget includes \$3.2 billion, the amount proposed by the House. This funding includes the House proposal to increase rates for nursing homes by about \$47.5 million over FY 2014. The Legislature re-bases the rates using 2007 costs rather than 2005, and follows the House proposal to start in October. The Legislature also states that if federal reimbursement is not available for these rate increases, the Commonwealth will make a one-time payment to the nursing homes of \$23.7 million, and rates will continue to be based on 2005 costs.

Also included in an outside section of the budget is language creating a Community First Trust Fund as part of a "balancing incentive" program in the Affordable Care Act. This program is intended to support and expand community-based long term care, and a portion of the funds from this trust would be directed to increase the wages for workers providing personal care to elders funded by the MassHealth Senior Care line item.

Adult dental services. The MassHealth Fee-for-Service line item (4000-0700) includes funding to maintain coverage for dental fillings for all teeth for adults. The Legislature also restores coverage for dentures by May 15, 2015. This represents a compromise, as the House had not included coverage for adult dentures, and the Senate included it starting April 1. The budget includes language that allows making changes to coverage for adult dental services but only upon filing a report with the Executive Office of Administration and Finance and the Committees on Ways and Means detailing the fiscal impact of the changes.

Hospital rates. The MassHealth Fee-for-Service line item also includes language increasing rates for hospitals. In addition to the funding for rate adjustments for the so-called "DSH" hospitals that serve a disproportionate share of low-income patients included in both Senate and House budget proposals, the Legislature's budget includes a supplemental payment of \$12.3 million to support behavioral and mental health services at these hospitals and a \$200,000 supplemental payment for pediatric intensive care.

Affordability Provisions

The Legislature's budget does not include language proposed by the House stating that for people with incomes up to 150 percent of the federal poverty level, the ConnectorCare must offer at least one health plan that has no required premium contribution. There is similar language in the statute that created the Commonwealth Care program which is the program ConnectorCare replaces.

Behavioral and mental health. The Legislature's budget includes \$2.0 million in a new reserve (1599-2012) to support behavioral health integration into patient-centered medical homes. This is the higher amount for this new initiative as proposed by the House in line item 1599-2004.

Health insurance for incarcerated prisoners. The Legislature's budget includes a Senate proposal to allow MassHealth enrollment for eligible inmates or persons awaiting trial. Their MassHealth membership would be suspended while in prison, but if they then required inpatient medical care outside of the prison, the MassHealth membership could immediately be reinstated. This would allow the Commonwealth to receive federal reimbursement for the costs of medical care for these inmates while they are outside the prison.

Cost of the delay in implementation of the Affordable Care Act. The Legislature's budget includes a House provision that directs the Executive Office of Health and Human Services to review the financial impact of the failure of the Health Connector's website with the roll-out of the federal Affordable Care Act. This review would include an analysis of state spending on temporary health insurance coverage, as well as forgone federal reimbursement.

Mental Health

The Department of Mental Health serves close to 21,000 children and adults with severe mental illness, providing inpatient services for only about 10 percent of these people, and community-based services for the remainder. The Legislature's FY 2015 budget reflects a continuing commitment over the past few years to restore funding cut during the past decade and to shift funding from facilities and institution-based services to community-based care.

The Legislature's budget includes \$87.6 million for **children's mental health services**, half-way between the House and Senate proposals and a \$2.3 million increase over FY 2014 levels, a 3 percent increase. The Legislature follows Senate language stating that the Mass. Child Psychiatry Access Project would be funded in part by an assessment on commercial insurers.

Adult mental health services in the Legislature's budget are funded at \$436.4 million, an amount higher than both the House and Senate proposals, taking the higher recommendations from each. This is a 4 percent increase over FY 2014 funding, but is level with pre-recession funding for adult mental

health services in FY 2009 when adjusted for inflation. The Legislature includes \$10.0 million in a line item focusing on community-based placements.

Funding for **mental health facilities** is \$184.4 million, a 5 percent increase over FY 2014 funding. The Legislature maintains 45 continuing care inpatient beds at Taunton State Hospital, and includes additional language that would prohibit eliminating any of the inpatient beds at that hospital over the course of the fiscal year. The budget would increase the number of inpatient beds to a total of 671 over the course of the year.

Public Health

The state's public health system is a necessary ingredient for keeping the Commonwealth healthy. The FY 2015 budget includes \$582.1 million for public health services such as screening for and preventing disease, preventing substance abuse, violence prevention programs, and regulating our health care providers and pharmacies. Although this total is a 5 percent increase over funding in FY 2014, public health funding has been hit hard over the years – starting with the implementation of tax cuts at the beginning of the last decade, and on through the recent recession. The FY 2015 budget is 12 percent less than pre-recession funding in FY 2009, and an even more significant 19 percent less than funding in FY 2001 when adjusted for inflation.

The most significant funding difference between the House and Senate public health proposals was in support for substance abuse and addiction services, and the Legislature's budget for the most part follows the higher funding recommendations from the Senate for a total of \$112.1 million. The Legislature's budget includes:

- \$91.3 million for the Bureau of Substance Abuse Services, a 9 percent increase over FY 2014
- \$10.0 million for a new Substance Abuse Services Fund to support expansion of substance abuse treatment services
- \$1.0 million for a new program to make nasal Narcan, an emergency medication to treat opioid overdoses, available for first responders
- Although the Legislature's budget does not include a Senate proposal for \$500,000 to a new program for the voluntary accreditation of Sober Homes, the budget does include language in an outside section of the budget creating these homes, which are community-based drug- and alcohol-free transitional housing for people in recovery.
- Language in an outside section also creates a substance abuse helpline within the Department of Public Health. This toll-free telephone number would provide information for people of all ages about inpatient and outpatient substance abuse treatment resources. The budget requires the department to develop a website providing up-to-date information about treatment and transitional support services across the Commonwealth, particularly regularly-updated information about facilities with open beds.
- (Not included in the public health totals in this *Monitor* but noteworthy is the inclusion of \$3.0 million in the trial court system to establish drug and other specialty courts. Also not included

in the public health totals is a new \$5 million grant program for substance abuse counselors in schools.)

The Legislature's budget includes \$26.3 million for health care access, a 7 percent increase over FY 2014, but a 42 percent cut compared to pre-recession funding in FY 2009, when adjusted for inflation. The Legislature's budget includes:

- \$1.7 million for community health centers (funded at \$8.3 million in FY 2009 adjusted for inflation);
- \$12.4 million for school health services (funded at \$19.5 million in FY 2009 adjusted for inflation);
- \$5.0 million for family health (family planning) services (funded at \$8.5 million in FY 2009 adjusted for inflation);
- \$150,000 for a new Down Syndrome Clinic, which would create a patient-centered medical home at the Univ. of Massachusetts Medical School Children's Medical Center for children with Down Syndrome.

The Legislature's budget proposal includes \$10.1 million for youth violence prevention programs, \$3.8 million less than FY 2014 levels and 3 percent less than in FY 2009. This total includes \$5.5 million in funding for the line items supporting grants to community agencies working to keep young people engaged, and \$4.6 million for the Safe and Successful Youth Initiative. For a listing of related youth development programs, see the "Youth Development" section of this *Monitor*.

The budget also includes \$150,000 for a new healthy relationships grant program to combat teen dating violence.

It is important to note that legislation has moved funding for the universal immunization program into an "off-budget" trust. For the purposes of this analysis, funding has been adjusted so that this shift of approximately \$53.8 million does not appear as a reduction in funding.

HOUSING

The state budget provides affordable housing assistance and supports programs that shelter low-income homeless families and individuals. The Legislature's FY 2015 budget provides \$381.5 million for housing and shelter which is \$51.2 million less than FY 2014 current budget.¹

A large portion of the housing budget funds programs that assist eligible low-income families who are homeless. As noted in [Shelter and Housing for Homeless Families: Historical Funding and the Governor's FY 2015 Budget Proposal](#) funding for shelter has increased while the number of vouchers available to low-income renters has dropped from 20,000 in the late 1980s to less than half that today.

¹ This analysis does not include \$20 million that the Legislature appropriated in FY 2014 to supplement the Low Income Home Energy Assistance Program (LIHEAP) which helps low-income people pay their heating bills. Often the Legislature provides LIHEAP funding in a supplemental budget in the late fall or early winter.

One of the largest reductions in housing assistance between FY 2014 and FY 2015 is to [HomeBASE](#). The Legislature's FY 2015 budget reduces funding for HomeBASE to \$26.0 million, \$33.0 million below the FY 2014 current budget. HomeBASE was created in FY 2012 to help families, who are eligible for the Emergency Assistance (EA) shelter program, secure housing. When it was created HomeBASE provided both housing assistance to help families living in shelters move into housing and short-term subsidies to help families pay rent. The rental subsidy program was closed in early FY 2012 as demand for the program exceeded funding. The remaining 5,000 families receiving these short-term rental subsidies will exhaust their benefits by the end of FY 2014. HomeBASE will continue to provide housing assistance to families leaving shelter for up to 12 months. The Legislature's budget increases the total assistance from \$4,000 to \$6,000 for 12 months with the possibility of increasing the benefit if it will help families leave shelter.

In FY 2014 the state provided \$161.3 million for [Emergency Assistance](#) (EA) which shelters low-income homeless families living in family shelters or hotels and motels. The Legislature's FY 2015 budget provides \$140.3 million for EA, a cut of \$21 million below the FY 2014 current budget. The budget also consolidates funding for families living in hotels and motels with the family shelter account. The Legislature often provides less funding for EA at the beginning of each fiscal year than the amount the state spent in the previous fiscal year. If demand for shelter exceeds funding over the course of the year, the Legislature provides supplemental funding. The FY 2014 General Appropriations Act provided \$96.8 million for EA including hotels and motels. During the course of the fiscal year the programs received an additional \$64.6 million.

Emergency Assistance--Family Shelters & Hotels and Motels					
Line Item	Line-Item Name	FY 2014 GAA	FY 2014 Current	FY 2015 Legislature	FY 2015 Legislature - FY 2014 Current
7004-0101	EA - Family Shelters and Services	90,406,700	125,095,872	140,299,718	15,203,846
7004-0103	EA - Hotels and Motels	6,347,538	36,241,549	0	(36,241,549)
Total		96,754,238	161,337,421	140,299,718	(21,037,703)

In the last several years, to help homeless families move out of shelter, particularly hotels and motels, and into permanent housing the state has increased funding for the [Massachusetts Rental Voucher Program](#) (MRVP). The Legislature's FY 2015 budget provides a \$7.5 million increase for MRVP to \$65.0 million. This increase will create about 600-700 new vouchers. The Legislature's budget also allows the Department of Housing and Community Development (DHCD) to spend up to \$2.5 million to create a new, state-wide housing application process and waiting list. The budget requires that any of the new vouchers created in FY 2015 be distributed to households on waiting lists and will not give priority to homeless families living in shelter. The budget also funds a pilot program in western Massachusetts to provide nutritious meals to families living in hotels and motels who often do not have access to cooking facilities.

A few other notable changes in funding between the FY 2014 current budget and the Legislature's FY 2015 budget for housing include:

- \$2.5 million increase in funding for programs that provide shelter and assistance to homeless individuals, including the Home and Healthy for Good Program, to \$44.7 million.

- \$1.0 million increase for housing vouchers to clients of the Department of Mental Health to \$5.1 million.
- \$1.0 million increase for [Residential Assistance for Families in Transition](#) (RAFT) to \$11.0 million. RAFT provides one-time assistance to help low-income families stay in housing.
- \$500,000 for a new Secure Jobs pilot program that provides job training and job search assistance to low-income families who receive assistance through EA, HomeBASE, MRVP or RAFT.

HUMAN SERVICES

Human Services programs and services form a crucial part of the Commonwealth's "safety net" for the state's most vulnerable residents. Programs provide support for our youngest and oldest residents, as well as for families and those living alone. The Fiscal Year 2015 budget provides \$3.89 billion for Human Services, \$194.2 million (5 percent) more than FY 2014.

The Legislature appropriates up to \$8.0 million for a rate reserve increase for human service workers making less than \$40,000 annually.

The Massachusetts Unaccompanied Homeless Youth Commission receives \$150,000 through an earmark included in the Executive Office of Health and Human Services account (4000-0300). This commission was introduced in the FY 2013 budget and also received \$150,000 in the FY 2014 budget. The commission is continuing to try and determine the amount of need that exists and how to deliver services to homeless youth under the age of 24.

The Legislature also increases the appropriation for the LGBTQ Commission to \$300,000.

In FY 2015, implementation of Chapter 257 which standardizes rates paid to contracted human and social service providers, will cost approximately \$186 million. Over \$166 million of the FY 2015 total is directed towards **Community Residential Supports for the Developmentally Disabled**. This program receives an increase of around \$150 million over FY 2014, but it seems as though the entire increase will go towards rate increases and not an increase in services. 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.

Child Welfare

Programs and services administered by the Department of Children and Families (DCF), the primary child welfare agency in Massachusetts protecting children from abuse and neglect receive \$827.2 million in the FY 2015 budget, \$29.4 million more than FY 2014.

The Legislature appropriates \$200,000 for an independent evaluation of the DCF family administrative hearing system. Findings from the evaluation would be due by March 15, 2015. Fair hearings allow children and families to appeal a DCF decision regarding child placement or a finding of neglect or abuse. Current requirements are not being met with wait times for fair hearings and subsequent decisions being much longer than what is stipulated in regulations.

Social Workers for Case Management receives an increase of \$12.5 million over FY 2014 to \$185.6 million. Coupled with a \$3.8 million increase over FY 2014 in **DCF Administration** to \$74.9 million, the Legislature believes DCF will be able to hire over 250 new workers with the intention of maintaining safe caseload levels – currently considered to be 15 cases or less for each caseworker. Currently, many caseworkers have caseload levels of more than 20. Due to annual turnover, and the training needs of all of the newly hired caseworkers, it is not clear if this funding will be enough to ensure average caseloads of 15. All of the new caseworkers must first be trained, and then also begin with a lower number of cases.

The Child Welfare Training Institute, which provides training to new case workers, is basically level with FY 2014 spending. This opens up questions as to whether the training institute has the available resources to train the influx of new case workers supported by the increase in funding.

In an outside section, the Legislature requires social workers to obtain a social worker’s license within 9 months of employment. A one-time 6 month waiver can be given. All current social workers have until July 1, 2015 to obtain a social worker’s license.

The Legislature also includes a few earmarks in the **DCF Administration** account. The first provides \$200,000 to conduct background checks on all family members over the age of 14 in current or prospective kinship, foster or adoptive families. In outside sections, the Legislature requires DCF to reject families with a member who has been convicted of a serious violent offense or of any number of offenses against children. Families with members who have been convicted of assault or drug related charges in the previous 5 years would also be rejected. DCF is given some discretion to either approve or reject families when members of a family have been convicted of other offenses.

Two other earmarks provide:

- \$1.0 million for IT solutions to better permit social workers to communicate with supervisors and upload important case information while out in the field.
- \$500,000 for the establishment of a runaway unit pilot program at one regional office to try and prevent kids from running away and to implement a recovery policy for kids who do run.

Family Support and Stabilization services receives \$44.6 million, level with FY 2014. These services help keep kids at home instead of in a group or foster home. Even though there are many more children receiving services at home or with extended family than those in out-of-home placements, family support funding has historically lagged well behind funding for group care. The Legislature provides \$216.4 for **Group Care Services** in FY 2015, a \$1.5 million increase over FY 2014. Although increased emphasis has been placed on keeping kids at home, funding for residential group homes is \$7 million less (3 percent) than its FY 2001 inflation adjusted level.

The Legislature appropriates \$5.2 million for **DCF Family Resource Centers**, a new account in the child welfare budget. These centers have been funded in **Services for Children and Families** (4800-0038) in the past. Funding of \$2.5 million for **Family Access Centers** (4000-0051) is also provided by the Legislature. Taken as a whole, these centers receive around \$2 million more in FY 2015 than in the FY 2014 budget. Centers make it easier for children and families to access many public services including

Transitional Aid to Families with Dependent Children (TAFDC), Supplemental Nutrition Assistance Program (SNAP), Women, Infants, and Children's Program (WIC), Fuel Assistance, and MassHealth.

The **Transitional Employment Program (ROCA)** receives \$2.0 million in FY 2015, the same as last year. ROCA supports youth aging out of the child welfare system, the juvenile justice system, parolees and other high risk youth. Programming teaches youth about work building positive work habits helping youth stay connected. For more information about ROCA, see [MassBudget's Jobs & Workforce Budget](#). In 2013 ROCA and the MA Executive Office of Administration and Finance launched a social innovation financing project to reduce recidivism among youth aging out of the juvenile justice system and keep them out of the adult criminal justice system. The program is initially funded with private investment with the state only reimbursing if the program meets certain performance goals. The Social Innovation Financing Trust Fund, the fund used to pay for this and a few other social innovation programs, will receive up to \$7.5 million if there are sufficient funds left over at the end of FY 2015.

Disability Services

Disability services receives \$1.71 billion, an increase of \$163.9 million (10.6 percent) compared to FY 2013. Chapter 257 rate increases are responsible for the bulk of the total increase.

Community Residential Supports for the Developmentally Disabled receives an approximate increase of \$150 million, but FY 2015 Chapter 257 costs for this program are estimated to be over \$166 million. For more information on Chapter 257 implementation, please see [HERE](#).

Community Day and Work Programs receives an increase to \$173.7 million, \$11.8 million above FY 2014. This increase supports moving more clients into integrated work environments. The legislature also provides \$2.0 million for a **DDS Employment First Initiative** to further support the transition from sheltered workshops to community-based employment and day support programs. An implementation plan is due by August 31, 2014 with subsequent reports due July 31 each year documenting the number of participants, the type of jobs, number of hours worked, and other important elements of the program.

Community Transportation Services receives an increase of \$2.9 million (22.1 percent) to \$15.9 million. **Respite Family Supports** receives \$54.9 million, an increase of \$2.6 million over FY 2014. For many families with disabled children, the respite program is the only source of support for afterschool recreational programming or for specialized caregiving. This program remains \$7.7 million (12 percent) less than FY 2009 GAA pre-recession levels.

Notable increases for programs and services administered by the Massachusetts Rehabilitation Commission (MRC) and the Massachusetts Commission for the Blind (MCB) include:

- \$3.4 million (28.2 percent) to \$15.7 million for **Head Injury Treatment Services**.
- \$1.2 million (10.5 percent) to \$13.0 million for the **MCB Turning 22** program.

Elder Services

The FY 2015 budget funds Elder Services at \$255.4 million, \$20.0 million (8.5 percent) more than FY 2014. The legislature also approved \$6.1 million to adjust rates for several programs treating the elderly which will increase salaries for around 17,000 home care aides by approximately \$0.75 an hour.

Elder Enhanced Home Care Services receives a \$10.1 million increase over FY 2014 to \$63.1 million. This increase will avoid wait lists for home care for the elderly allowing over 5,000 elderly to remain at home instead of living in a nursing home.

Other programs receiving significant increases over FY 2014 include:

- **Elder Home Care Purchased Services** at \$104.4 million, an increase of \$5.7 million.
- **Supportive Senior Housing** at \$5.5 million, an increase of \$1.3 million. This will support the opening of 10 new supportive housing sites.
- **Elder Congregate Housing** at \$2.5 million, an increase of \$428,000.
- **Elder Nutrition Program** at \$7.4 million, an increase of \$1.0 million. This increase will fund more than \$100,000 additional home delivered meals to the elderly.

The Legislature also includes \$250,000 for a **Home and Community Based Services Policy Lab** which would analyze and recommend improvements to programs providing long term home and community-based services for the elderly and persons with chronic illnesses or disabilities. The first annual report of the lab is due by September 30, 2015.

Juvenile Justice

Services administered by the Department of Youth Services (DYS), which provides programing and detention services for children and youth detained by law enforcement, receive \$176.0 million, \$7.7 million more than FY 2014. This increase will allow DHS to accommodate 17 year olds in the juvenile system. Previously, 17 year olds were treated as adults. "Raise the Age" legislation passed during FY 2014 places these kids into the juvenile system with appropriate services. These youth will be safer in the juvenile system as youth face a much higher risk of being assaulted, including being the victims of sexual assault, when they are held with adults. Increases over FY 2014 which will help support these 17 year olds include:

- \$26.0 million for **Detained Youth**, an increase of 5.3 percent (\$1.3 million).
- \$118.1 million for **Residential Services for Committed Youth**, an increase of 5.9 percent (\$6.6 million).

Non-Residential Services for Committed Youth actually gets cut slightly to \$22.6 million, \$339,000 below FY 2014 spending.

Transitional Assistance

The Senate and House recently passed welfare reform legislation prescribing significant changes to the administration of public assistance in Massachusetts. The Governor has yet to take up the bill – S.2211. The bill includes some provision which will improve service such as:

- Increasing the amount of time education and training count towards the work requirement.
- Making pregnant teenagers eligible for the teen living program for their entire pregnancy.
- Increasing the vehicle value limit to \$15,000.

However, the bill also includes provisions which limit eligibility, limit services, and increase requirements for the disabled and pregnant women. The bill:

- Allows a Governor to limit the disability standard.
- Would impose work requirements on some pregnant women even in their last trimester.

The FY 2015 budget provides \$728.2 million for Transitional Assistance programs, \$49.9 million (6.4 percent) less than FY 2014.

For entitlement programs like transitional assistance, funding levels are significantly affected by anticipated caseload levels. The “entitlement” part means that any qualified person who applies must receive the service. Funding for these then is directly tied to how many people qualify and apply. These caseload levels have dropped over the past calendar year. For more detailed information on caseload levels for transitional assistance accounts, see “Research and Statistics” on the [DTA home page](#). The caseload for **Transitional Assistance for Families with Dependent Children (TAFDC)** dropped from 52,659 in December 2012 to 46,546 in December 2013. That trend has continued this year with the caseload dropping further to 44,592 in May 2014. The decrease in caseloads has led to a decrease in the projected spending amount for FY 2014.

The Legislature has projected that spending amount for TAFDC at \$255.7 million, \$46.3 million less than FY 2014. This reduction is directly tied to projections that estimate continued caseload declines. However, instead of reducing funding, the Legislature could have increased the cash grant available for eligible families. The cash grant for these families has not changed in over a decade and has lost 25 percent of its buying power since FY 2001. Families, already struggling, have a harder time each year buying necessities with the grant provided under the TAFDC program. For a more in depth analysis of the grants value, see [TAFDC: Declines in Support for Low-Income Children and Families](#).

Savings from caseload reductions could also have been used to:

- Decrease the number of children and families waiting for subsidized child care through the income eligible child care account. The wait list for this subsidy currently has over 40,000 children on it. See [Building a Foundation for Success](#) to see how many children living below 200 percent of poverty have no access to subsidized child care.
- Further increase the funding available for employment training programs. Even with an increase this year, funding for the Employment Services Program is still 65 percent below FY

2001 funding levels. For more information on this program, see the [MassBudget's Jobs & Workforce Budget](#).

The \$40 rent allowance and the \$150 children's clothing allowances are included in the FY 2015 budget, but the value of these allowances also decreases each year they are increased with inflation. The legislature also includes a stipulation that the department must notify the legislature 67 days prior to any changes in eligibility or benefit levels for families.

Department of Transitional Assistance Administration receives \$61.1 million, \$3.5 million (5.4 percent) less than FY 2014. However, the Bureau of Program Integrity receives \$350,000, the same as last year. The Bureau monitors the quality, efficiency and integrity of programs administered by the Executive Office of Health and Human Services (EOHHS). It conducts reviews of the management and operational structure at DTA to make sure the department is effective in ensuring that only eligible recipients receive public benefits.

The **Employment Services Program (ESP)** receives an increase from \$7.7 million in FY 2014 to \$11.8 million in FY 2015, an increase of over \$4 million. The bulk of the increase would go towards the Competitive Integrated Employment Services program which helps clients find work by offering education, skills training, and job placement.

Emergency Aid to the Elderly, Disabled and Children (EAEDC) receives \$87.6 million, a \$5.7 million reduction compared to FY 2014 largely due to projected decreases in the case load. EAEDC is a cash assistance program 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.

Local Aid

In March, to help cities and towns better plan for their local FY 2015 budgets, both the House and Senate passed local aid resolutions committing the legislature to funding **Unrestricted General Government Aid (UGGA)** at \$945.8 million. The Legislature's FY 2015 budget reflects this commitment, which is \$25.5 million above FY 2014 levels. This increase is roughly in line with inflation and therefore does not reflect a significant new investment.

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 that districts receive from Chapter 70 aid).

Driven largely by state level income tax cuts that cost the state roughly \$3.2 billion annually and by the lingering effects of the Great Recession, UGGA has been cut dramatically since FY 2001. Specifically, general local aid for FY 2015 is \$765.1 million, or 44 percent, below FY 2001 levels, adjusted for inflation. 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](#).

Additionally, the FY 2015 budget funds the **Municipal Regionalization and Efficiencies Grant Program** at \$13.2 million, which is \$1.4 million below current FY 2014 levels. This program provides grants to help cities and towns improve their delivery of local services.

Transportation

The Legislature's FY 2015 budget for transportation follows the framework outlined in last year's long-term transportation finance law. Specifically, the budget continues ramping up transportation spending from FY 2014 through FY 2018, increasing for FY 2015 by roughly \$125 million over FY 2014. This new funding will help MassDOT modernize its infrastructure, invest in capital improvements at the MBTA and Regional Transit Authorities, and make progress towards ending the practice of borrowing money to pay for MBTA operating 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 2015, the Legislature projects that a little more than fifty percent of this \$2.07 billion account will cover transportation-related debt.

Law & Public Safety

The Legislature's Fiscal Year (FY) 2015 Budget appropriates \$2.612 billion to the state's various law and public safety programs, an amount 2 percent (or \$58 million) higher than current FY 2014 funding levels. This small increase helps keep pace with rising costs due to inflation. Though the total likely will grow somewhat during the course of FY 2015 as further supplemental appropriations are provided for indigent legal defense (as occurs in most years), notably, the FY 2015 appropriation is 8 percent (or some \$228 million) less than the amount appropriated in the 2009 GAA. The 2009 GAA was the last budget enacted before the full effects of the Great Recession became apparent in Massachusetts.

Noteworthy elements of the Legislature's budget in the area of Law & Public Safety include the following:

- A salary increase is provided for each of the fourteen sheriffs, ranging from \$24,500 to about \$28,500.
- A salary increase of some \$22,700 is provided for each of the eleven district attorneys.
- The second step of a two-step, \$30,000 salary increase is provided for each trial court judge, honoring a decision made as part of last year's FY 2014 GAA.
- Funding for the Massachusetts Legal Assistance Corporation (MLAC) is increased by \$2.0 million over current FY 2014 levels, to \$15.0 million. MLAC provides legal assistance (including information, advice and representation) to low-income people with serious, non-criminal legal problems.
- Eight new specialty drug courts are created and funded with an additional \$3 million. These courts focus on drug-related cases and combine incarceration with other forms of sentencing including rehab and counseling for these offenders. Two of the new courts will specialize in cases involving military veterans and one court will specialize in cases involving youth offenders.

- Funding for [Shannon Grants](#) is increased by \$1.25 million to \$8.25 million. Shannon Grants help fund anti-gang and youth violence prevention efforts undertaken by law enforcement, community-based organizations, and government agencies in communities throughout the Commonwealth.
- Funding for accounts used to train municipal police is increased by a combined \$2.3 million from current FY 2014 levels, to \$6.8 million.
- An additional \$2.8 million (for a total of \$10.8 million, paid for by inspection fees) is provided in order to hire 20 more elevator inspectors to clear the backlog of required inspections.

Libraries

The state budget supports libraries by providing funding for a number of programs including direct aid to local libraries; the regional library network including the interlibrary loan program; and, the talking book programs for the visually-impaired located in Worcester and Watertown. The Legislature's FY 2015 budget provides \$25.8 million for library programs, which is \$3.6 million more than the current FY 2014 budget. Even with this increase, funding for libraries has fallen by 46 percent since FY 2001 when over \$3 billion in tax cuts were being implemented by the state.

Among increases in funding for library programs in the Legislature's FY 2015 budget, direct aid to local libraries in the state received a \$2.2 million increase above the FY 2014 amount to \$9.0 million.

REVENUE

The Legislature's Fiscal Year (FY) 2015 Budget is built upon the FY 2015 consensus revenue estimate that was agreed to back in January (\$24.337 billion). The budget also relies on an additional \$612 million in revenue above and beyond this consensus figure, drawing on a combination of tax and non-tax revenues. Some of the new revenue will come from ongoing sources and some from one-time sources. The Legislature's budget, however, excludes most of the new, ongoing tax changes proposed by the Governor. (To read more about the Governor's tax package see [MassBudget's review of the Governor's FY 2015 budget](#).)

In the sections below, we examine in closer detail both tax and non-tax revenue proposals in the Legislature's FY 2015 budget.

Tax Revenue

Notable tax revenue proposals include a tax amnesty program, a one-year delay of the FAS 109 corporate tax break, a shift in venue for smaller tax appeal cases (to reduce backlogs and speed settlements), an extension of the state's Historic Building Rehabilitation Credit, and the creation of two commissions to study specific issues related to business taxation. The budget also establishes a new structure for redirecting large one-time tax settlements and judgments from the Stabilization Fund to the General Fund. Further discussion of these tax proposals follows, below.

FY 2015 REVENUE PROVISIONS	Legislature	
	Ongoing	One-Time
Tax Revenues		
Delay FAS 109 deduction for one year		45,800,000
Tax revenue enhancements		12,000,000
Redirecting large tax settlements to General Fund	240,000,000	
Tax amnesty		35,000,000
SUB-TOTAL	240,000,000	92,800,000
Non-Tax Revenues		
Stabilization ("Rainy Day") Fund withdrawal		140,000,000
Stabilization ("Rainy Day") Fund interest transfer		10,650,000
Proceeds from gaming licenses		53,500,000
Shift in payment schedule to hospitals		13,000,000
Federal reimbursements for TANF		32,200,000
Trust fund sweeps		10,000,000
Slot parlor gaming revenue	20,000,000	
SUB-TOTAL	20,000,000	259,350,000
TOTAL	260,000,000	352,150,000

TAX SETTLEMENT REDIRECTION

Under current law, for any tax settlement or judgment that exceeds \$10 million, the amount in excess of \$10 million is transferred to the Stabilization Fund. In recent years, annual collections from these excesses have ranged from about \$140 million to more than \$400 million, thus directing significant resources to the Stabilization Fund.

Drawing on earlier House and Senate proposals, the Legislature's budget includes a new, compromise structure that would redirect the typical excess amount collected annually from these large, one time settlements and judgments to the state's General Fund for direct appropriation to state programs and services. Specifically, the new structure would direct automatically from the Stabilization Fund to the General Fund an amount equal to the five-year average of the excess for large one-time settlements and judgments, even in years when total excess collections fall below the calculated average. The Legislature's budget relies on a transfer of \$240 million in such funding in FY 2015.

While the new structure may simplify state budgeting, providing a more predictable stream of revenue to the General Fund, it is important to note that this proposal does not generate *new* revenue. Instead, it simply redirects to the General Fund revenue that otherwise would have been deposited in the state's Stabilization Fund. The proposed change, therefore, would reduce future growth of the Stabilization Fund.

TAX AMNESTY PROGRAM

The Legislature's budget includes a Tax Amnesty Program that is expected to raise an estimated \$35 million in revenue during FY 2015. Five million of this total will go to the state's Substance Abuse

Services Fund, while the remainder will be available for appropriation through the state's General Fund.

Typically, tax amnesty programs are structured such that, during a limited period, taxpayers who have failed to file or have not paid the full amount of taxes due in years past are allowed to file and to pay their outstanding taxes without incurring penalties. Taxpayers are required to pay interest on the previously unpaid tax. Those taxpayers who already are the subject of a criminal investigation or prosecution related to their tax filings and/or payments are not allowed to participate in the program. The House proposal additionally bars anyone who participates in this amnesty program from participating in any future amnesty during the next ten years.

The Commonwealth has offered three tax amnesty programs during the last dozen years. The first of these occurred in 2002 and applied to almost every tax type, resulting in additional collections of \$177 million in outstanding taxes and interest. The two more recent amnesty programs, in 2009 and 2010, were more limited in scope, focusing on individual and then business taxes, respectively. Each of these amnesties resulted in the collection of about \$32 million.

While tax amnesty programs can result in the collection of taxes that otherwise may have gone uncollected, if such programs are offered too regularly, they can become part of some filers' approach to tax planning. This has the potential to negatively impact collections on an ongoing basis, as filers delay or avoid paying their taxes, anticipating they will have the opportunity to settle up at a later date with no added penalty.

FAS 109

The FAS 109 corporate tax break is a tax break that primarily affects about a dozen multi-state businesses. Delaying implementation of this tax break for another year (the tax break has been delayed on a one-year basis in prior budgets) would postpone the loss of an estimated \$45.8 million in corporate income tax collections in FY 2015 (see [Governor's FY 2015 budget documents](#)). While the details of this tax law change involve technical and complex interactions among a corporation's records for tax purposes and its public financial accounting records, the FAS 109 provision, in essence, is an attempt to offset certain costs to publically-traded companies resulting from the 2008 combined reporting tax reform package.

As part of that package, rule changes were enacted that increased the cost of some tax liabilities of some companies operating in the Commonwealth. In certain cases, these rule changes would have required changes to a company's existing financial statements. The FAS 109 tax break would allow publically-traded companies to claim a new tax break that would offset the impact to their financial statements resulting from the effects of combined reporting on deferred tax liabilities.

The Department of Revenue (DOR) estimated that this provision would cost the Commonwealth \$535 million during the period in which it was originally scheduled to be in effect – tax benefits were to be distributed equally across seven years, 2012-2018 (see [DOR report to Legislature](#)). DOR has estimated further that 88 percent (or \$472 million) of the total tax reductions associated with the FAS 109 tax break will accrue to just fourteen corporations. When this provision was enacted, the cost was unknown and a process was established that would allow an evaluation of the likely cost before the tax break would be implemented.

TAX REVENUE ENHANCEMENTS

The Legislature's FY 2015 budget relies on an additional \$12 million in revenue enhancements from a proposal to shift more small tax appeal cases from the state's primary Appellate Tax Board (ATB) process to a separate track within the ATB designed to handle these smaller claims in a less formal and speedier fashion. By reducing the backlog of cases pending before the ATB - and by allowing the ATB to focus on cases involving larger tax liabilities that require the ATB's formal procedural rules - the Department of Revenue estimates that the Commonwealth can collect additional revenue in FY 2015.

HISTORIC BUILDINGS REHABILITATION CREDIT

The Legislature's budget extends for another five years a tax credit that otherwise would have expired in December 2017. While this change will not affect the state's FY 2015 fiscal position, it will impact state finances in future fiscal years. Capped at a total cost of \$50 million annually, the Historic Buildings Rehabilitation Credit (HBRC) typically costs the Commonwealth between \$45 million and \$50 million a year in forgone tax revenues.²

COMMISSIONS

The House budget establishes a commission to study the impact of phasing out or eliminating the "inventory tax." While the Massachusetts tax code does not have an "inventory tax" per se, for the purposes of this commission the term "inventory tax" would include both the *local* tax applied to "tangible personal property" (which does not include real estate, such as buildings, land, etc.),³ and the *state* tax applied to the "tangible property measure and the net-worth measure of the non-income portion of the corporate excise tax."⁴

In general, businesses pay either the local or the state tax on their "inventory" - but not both - depending on how the business is legally structured. A wide variety of exemptions apply to both the local and state "inventory taxes." For the 2014 Tax Year, municipalities have levied \$677.5 million in personal property taxes.⁵ In 2010, the most recent year for which data is available online from the Department of Revenue (DOR), the state collected \$341 million in non-income excise taxes. DOR, however, does not have an estimate of the amount of this total derived from taxing corporations' "inventory" (i.e., tangible personal property) as opposed to other elements of corporations' net worth.⁶

The Inventory Tax Commission would look at potential fiscal impacts on state and local budgets as well as employment and other business effects that could result from phasing out or eliminating these taxes. The Senate proposes no such commission.

The House budget also establishes a commission to study the fiscal, employment and business effects of creating a tax credit for manufacturers of medical devices.

² Fiscal Year 2015 Tax Expenditure budget: (pg. 35, item 1.610 and pg. 62, item 2.610): <http://www.mass.gov/dor/tax-professionals/news-and-reports/state-budget-documents/tax-expenditure-budget/>

³ Further details on Massachusetts's taxable personal property can be found on the DOR website (<http://www.mass.gov/dor/local-officials/municipal-finance-law/frequently-asked-questions-personal-property.html#Q2>) and the Lincoln Institute of Land Policy (http://www.lincolnst.edu/subcenters/significant-features-property-tax/Report_Taxable_Personal_Property_Details.aspx?ReportID=429)

⁴ House FY 2015 Budget documents, Section 114: <https://malegislature.gov/Budget/FY2015/House/FinalBudget>

⁵ Data supplied by DOR's Department of Local Services upon request, 5-28-2014

⁶ DOR, 2010 Report on Corporate Excise Returns (Tables S1 and S2): <http://www.mass.gov/dor/docs/dor/stats/corpexcise/corp10.pdf>

Non-Tax Revenue

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.

There were few substantial differences between the House and Senate budget proposals for the use of non-tax revenues to balance the budget.

Both the Senate and House proposed withdrawing \$140.0 million from the state's Stabilization ("Rainy Day") Fund, and proposed balancing the budget with the continued withdrawal of interest earned by the Stabilization Fund. These are one-time revenue sources included in the Legislature's budget.

The Legislature's budget does not follow the Senate's proposal to change the way in which the state fund its liability to the State Retiree Benefits Trust. In FY 2012, the state passed a law directing that an annually increasing share of the funds from the Master Tobacco Settlement go into the State Retiree Benefits Trust in order to help fund this liability. The Senate proposed that the Commonwealth meet part of its \$75.9 million obligation for FY 2015 with 50 percent of capital gains tax revenues that would otherwise go to the Stabilization Fund (\$61 million in FY 2015) and the remainder from unused appropriations for debt service and from the Master Tobacco Settlement funds deposited into the General Fund. The Legislature instead funds this from just the unused appropriations for debt service and the remainder from the Master Tobacco Settlement Fund, an approach used in FY 2014.

BUDGET BY CATEGORY AND SUBCATEGORY (millions)	FY 2001 Final Adj. for Infla.	FY 2009 GAA Adj. for Infla.	FY 2014 Current	FY 2015 Legislature
Education	7,445.5	7,764.8	7,258.4	7,546.1
Early Education & Care	717.9	659.4	515.8	550.2
Higher Education	1,504.2	1,220.4	1,115.4	1,185.6
K-12: Chapter 70 Aid	4,098.6	4,412.4	4,301.2	4,400.7
K-12: Non-Chapter 70 Aid	679.0	688.2	593.9	638.1
K-12: School Building	445.9	784.4	732.0	771.5
Environment & Recreation	297.5	239.9	189.3	203.4
Environment	132.5	102.4	85.2	90.3
Fish & Game	24.0	23.8	23.9	27.5
Parks & Recreation	140.9	113.7	80.2	85.5
Health Care	9,901.5	14,344.8	16,157.1	17,381.2
MassHealth (Medicaid) & Health Reform	7,487.6	11,609.5	13,569.6	14,694.3
Mental Health	817.2	765.9	707.8	736.4
Public Health	717.6	664.3	555.3	582.1
State Employee Health Insurance	879.2	1,305.1	1,324.4	1,368.4
Human Services	3,696.4	3,920.6	3,678.2	3,881.1
Child Welfare	790.6	934.7	787.4	827.2
Disability Services	1,330.5	1,508.3	1,533.9	1,709.1
Elder Services	257.8	266.6	235.4	255.4
Juvenile Justice	163.4	182.2	168.3	176.0
Transitional Assistance	1,027.8	867.5	778.1	728.2
Other Human Services	126.3	161.2	175.0	185.1
Infrastructure, Housing & Economic Development	2,003.1	1,579.0	2,129.2	2,129.6
Commercial Regulatory Entities	59.3	57.6	54.7	56.7
Economic Development	297.0	193.2	206.7	143.9
Housing	335.5	309.1	446.6	381.5
Transportation	1,311.3	1,019.1	1,421.3	1,547.5
Law & Public Safety	2,561.8	2,839.6	2,518.9	2,612.0
Courts & Legal Assistance	776.1	732.0	646.7	671.8
Law Enforcement	374.6	465.9	359.5	377.8
Prisons, Probation & Parole	1,207.7	1,428.2	1,316.0	1,352.5
Prosecutors	158.4	163.2	146.6	152.9
Other Law & Public Safety	45.1	50.2	50.2	57.0
Local Aid	1,752.0	1,504.8	987.8	986.9
General Local Aid	1,725.1	1,469.2	920.2	945.8
Other Local Aid	26.9	35.6	67.5	41.2
Other	4,622.0	4,769.6	4,626.5	4,871.8
Constitutional Officers	107.9	99.9	79.7	81.7
Debt Service	2,183.4	2,383.7	2,422.7	2,497.6
Executive & Legislative	83.2	77.3	71.0	73.1
Libraries	47.4	38.1	22.2	25.8
Pensions	1,426.9	1,637.0	1,630.0	1,793.0
Other	773.1	533.7	400.9	400.6
Total Budget	32,279.8	36,963.0	37,545.3	39,612.2

Note: MassBudget's budget total is higher than other commonly-presented budget totals. We make a number of adjustments in order to allow for more accurate across-year comparisons of budget totals.