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CREATING A TRANSPARENT BUDGET FOR MASSACHUSETTS

Executive Summary

Debates about the Massachusetts budget and the critical policy issues it shapes are often muddled by confusion about basic facts. Is there a budget surplus or not? How much new spending is being proposed and what will it be spent on? What existing programs are being cut? Is the budget addressing long term challenges?

While there always will be competing visions of what should and shouldn't be in the state budget, it should be possible for people to know what actually is in the budget as it moves through the legislative process. This report presents ideas for making Massachusetts' budget documents and budget process more transparent.

The budget affects much that matters to people: education; health and human services; public safety; parks and environmental protection; local aid; taxes; and much more. By making the process more transparent, ordinary people will have access to better information – directly on the state web site, or through the media or citizen groups – and therefore will be better able to hold elected officials accountable and have a more effective voice in debates about how our state allocates the tax dollars that everyone pays to fund public services.

The panel that developed these recommendations includes leading independent budget analysts, former House and Senate budget directors, and a former Secretary of Administration and Finance. Drawing on their experience, they have identified recommendations that do not simply reflect what the budget process might look like in a perfect world, but rather how our existing process can be significantly improved in a realistic and achievable way. Implementing these ideas would allow budget debates to begin with a common set of facts and allow everyone in the process to participate more effectively in meaningful debate about the substantive issues at stake.¹

¹ The Massachusetts Budget and Policy Center initiated the Massachusetts Budget Transparency Project. Participants are Stephen Crosby, Dean of the McCormack Graduate School for Policy Studies at the University of Massachusetts, Boston, and former Secretary of Administration and Finance; Katherine Craven, Executive Director, Massachusetts School Building Authority and former Policy Director for the House of Representatives; John McGinn, Finance Director, Town of Marblehead, and former Budget Director for the Senate Ways and Means Committee; Michael Widmer, President of the Massachusetts Taxpayers Foundation; Noah Berger, Executive Director of the Massachusetts Budget and Policy Center; Katharine Gibson, former Vice President responsible for budget and planning at the Federal Reserve Bank of Boston. The group began by comparing Massachusetts' practices to a "Budget Transparency Scorecard", developed by the Washington-based Center on Budget and Policy Priorities and based on best practices information from multiple professional finance organizations. Improvements proposed in this report address gaps identified through this review and judgments by the members of the project.

The common-sense reforms recommended in this report include the following:

- **Publish a comprehensive list of new spending initiatives (increases and decreases) proposed in the budget or enacted since the last budget was adopted.**

Each version of the budget is accompanied by a message that highlights major changes in the proposed budget; however this list of changes is not comprehensive. Including a more comprehensive chart of new initiatives can help the reader to understand how much of the growth in the budget is associated with new activities and how much with the changing cost of ongoing services. Including initiatives that reduce spending helps the reader to assess the extent to which funding for specific programs has been cut, and whether outmoded and ineffective programs have been eliminated in order to make those resources available for more valuable programs.

- **Publish a chart that shows the balance between all revenue and all expenditures, budget and off-budget. Identify any non-recurring revenue included in total revenue.**

To make it possible to determine whether the budget is balanced in a sustainable fashion, information must be provided detailing both on-budget and off-budget spending and any non-recurring revenue used to finance the budget must be clearly disclosed.

- **Publish a list of major risk factors, considering short-term and long-term revenues and spending.**

Examples of major risk factors include legal requirements that could lead to rapidly escalating costs or declining revenue, potential legal liabilities, and potential loss of federal revenue. The Commonwealth includes in its bond prospectuses an assessment of major risks to its ability to sustain its bond payments. Incorporating similar information in the budget document would improve public understanding of these risks.

Introduction: A Transparent Budget Process

“Budget transparency” is a term used loosely to describe a budget process that is clear, visible, and understandable to anyone who is interested.

Budget transparency boils down to two basic principles:

1. Budget documents provide sufficient information about spending, revenues, and program operations and do so in understandable language and in clear, consistent formats.
2. The budget process is open and accessible to the public.

In a transparent budget, the information used by policymakers in creating the budget is available to and understandable by the public. The public may obtain this information either directly or through the press or advocacy groups. Furthermore, this information is sufficient to enable policymakers and the public to identify the present and future impact of budget decisions, in both financial terms and the impact on the daily lives of everyday people.

In a transparent budget process, information on the budget proposal is publicly available in a timely fashion at each step of the budget development process and the public has an opportunity for input to the policymakers at each step.

Budget transparency increases public knowledge about government activities and can encourage vigorous public participation in the policy decisions embedded in the budget. While this participation can be strident and uncomfortable at times, it is crucial to good government. Public participation provides important information to policy makers about the impact of budget decisions on people’s daily lives. Public knowledge about government programs, their goals, and their costs strengthens the people’s ability to hold government accountable for appropriate, effective and efficient service. Government gains legitimacy when the public understands and supports its activities and feels that government is accountable for the results of its policies.

The following pages present the recommendations from the Massachusetts Budget Transparency Project. By accompanying their budget recommendations with the types of information described in this report, the budget writers of the executive and legislative branches could significantly increase the ability of the public to understand and participate meaningfully in the budget process. Examples of the ways in which the Massachusetts budget process already successfully implements the principles of budget transparency also are noted.

Goal 1: Provide Clear Information on New Initiatives and Changes in Each Budget Proposal

A transparent budget process provides sufficient information on changes in spending and funding from year to year as well as on changes from the original budget proposal to final authorizations so that a concerned citizen can track and understand such changes. Implementing the following recommendations would make it easier to follow budget changes.

- **Publish a comprehensive list of new spending and revenue initiatives (increases and decreases) proposed in the budget or enacted since the last budget was adopted.**

Each version of the budget is accompanied by a message that highlights major changes in the proposed budget; however this list of changes is not comprehensive. Including a more comprehensive chart of new initiatives can help the reader to understand how much of the growth in expenditures is associated with new activities and how much with the changing cost of ongoing services. Including initiatives that reduce spending helps the reader to assess the extent to which funding for specific programs has been cut, and whether outmoded and ineffective programs are eliminated in order to make those resources available for more valuable programs. Including a chart of new revenue initiatives helps the reader to understand how much of the revenue change is associated with new, revised or eliminated funding sources.

- **Publish information about budget changes during the budget process.**

The Governor's budget proposal is modified as it passes through the House, the Senate, and the Conference Committee. After the initial information is provided in the Governor's budget, each subsequent budget writer should update that information to reflect the choices made in its proposed budget.

- **Publish information about supplemental budgets.**

Supplemental budgets are adopted during the year when necessary to authorize spending above originally budgeted levels. These supplemental budgets merit the same analysis of spending as performed for the original budget.

Goal 2: Provide Clear Information on the Purposes of – and Costs for – Existing Programs

A budget that provides clear information about the utilization and objectives of individual government programs helps people to assess government's effectiveness and to make appropriate trade-offs between costs and benefits. Implementing the following recommendations would make existing program information available to the public.

- **Publish a short, simple description of each program, and a brief statement of its key goals, with each line item.**

A well-constructed budget helps the reader to understand not only how much government costs but also what we are getting for our money. Program descriptions can help the reader to understand what services the Commonwealth will provide, who will benefit, and the specific accomplishments by which a program's effectiveness will be judged. Program descriptions also could help to identify opportunities to streamline the provision of services through consolidation of similar programs. In many cases program descriptions and statements of objectives exist now, but they may not be available to the public or may be just hard to find. Linking program descriptions to the budget document would help people to understand and assess the services our government provides.

- **Publish key economic assumptions and demographic or caseload assumptions that were used to develop projections of program costs.**

The need for some state services can rise and fall through the phases of an economic cycle, with changes in population, and as a result of other factors. The reader needs to know the projected demand for government programs, and the key economic and demographic assumptions used to project demand, in order to understand whether the funding proposed in the budget provides a stable level of services for a stable, increasing, or decreasing client base, or whether it involves an enhancement or reduction in service levels.

Goal 3: Provide Clear Information about Revenue and the Balance between Revenue and Expenditures

The current process includes the development of a consensus revenue estimate for the budget year, based on data and testimony from respected economic forecasters and used in both the Governor's and Legislature's budget proposals. Agreement on a revenue forecast is valuable because it keeps the focus of the budget discussions on expenditure issues. Box 2 (on page 12) describes the consensus revenue estimating process.

The current process also includes an annual tax expenditure report that provides, for major state taxes, an estimate of the revenue foregone through tax preferences embedded in the state's tax code. Tax preferences, like direct appropriations, are enacted to achieve public goals, such as tax equity and economic stimulation, and affect the state's fiscal condition. A tax expenditure report puts a dollar value on these tax preferences. Massachusetts tax expenditures for fiscal 2006 were anticipated to total more than \$17 billion, or approximately two-thirds of the Commonwealth's operating expenditures. The magnitude of tax expenditures highlights the importance of this report. Adding information on the share of taxes paid by households within various income groups would enhance this report.

The Massachusetts constitution requires that the state budget be balanced. This balance may be achieved, however, through funding some ongoing expenditures with short-term revenues, thus creating pressure on future budgets. Implementing the following recommendations would provide better information on multi-year budget pressures and on the impact of tax decisions on various groups within the population.

- **Publish a chart that shows the balance between all revenue and all expenditures, budget and off-budget. Identify any non-recurring revenue included in total revenue.**

To make it possible to determine whether the budget is balanced in a sustainable fashion, information must be provided detailing both on-budget and off-budget spending and any non-recurring revenue used to finance the budget must be clearly disclosed. Figure 1 below provides an example of how information could be presented to incorporate off-budget spending and to show to what extent the budget balance is achieved with non-recurring revenue (which creates pressure on the following year's budget).

- **Publish key economic assumptions underlying projections of revenue.**

Tax revenue can rise and fall through the phases of an economic cycle. Receipts from the federal government can change as a result of legislative actions and regulatory decisions. The reader needs to know the key assumptions underlying these factors in order to understand and to evaluate revenue projections. This analysis also helps to identify the relationship between trends in expenditures and trends in revenue over time and to assess the risk that these trends will make it difficult to balance the budget in future years.

- **Publish an analysis of the incidence of any proposed broad-based tax changes.**

For example, the budget could group households by income and show the share of the tax increase or tax reduction experienced or received by households within each group. Such an incidence analysis can help the reader to understand how similarly or differently the proposal affects various segments of the population.

Figure 1.

REVENUES AND EXPENDITURES – BALANCE				
REVENUES¹			Total	
Recurring revenues²				
	Taxes			
	Departmental fees and other revenues			
	Federal grants and reimbursements			
	Other (list) ³			
	<i>A. Total recurring revenues</i>			
Non-recurring revenues⁴				
	Transfer (list)			
	<i>B. Total non-recurring revenues</i>			
C. TOTAL REVENUES (A + B)				
EXPENDITURES⁵		Budgeted	Off-budget⁶	Total
Recurring expenditures⁷				
	Local Aid			
	K-12 Education			
	Higher Education			
	Early Education and Care			
	School Building Debt Assistance			
	Medicaid and other Health Care Programs			
	Elder Affairs			
	Public Health			
	Mental Health			
	Mental Retardation			
	Social Services			
	Other Health and Human Services			
	Environmental Affairs			
	Transportation			
	MBTA			
	Housing and Community Development			
	Economic Development			
	Public Safety			
	Judiciary and Courts			
	Pensions			
	Group Insurance			
	Other Administrative			
	Debt Service			
	<i>D. Total recurring expenditures</i>			
Non-recurring expenditures⁸				
	List by category above			
	Other			
	Transfer to Stabilization Fund			
	<i>E. Total non-recurring expenditures</i>			
F. TOTAL EXPENDITURES (D + E)				
G. STRUCTURAL BALANCE (A - D)⁹				
H. BALANCE OF TOTAL REVENUES AND TOTAL EXPENDITURES (C - F)¹⁰				

NOTES ON FIGURE 1

¹ “Revenues” – all revenues and other sources of financing for the budget.

² “Recurring revenues” – sources of financing for the budget that one could reasonably expect to continue year after year.

³ “Other” – these sources of revenue might include annual assessments (such as assessments on health care providers to support health care costs).

⁴ “Non-recurring revenues” – sources of financing for the budget that are used to balance the budget in the current year. These sources would not necessarily be available in subsequent years. Examples of “non-recurring revenues” would include transfers from the Stabilization Fund or diversions of funding from Master Tobacco Settlement payments.

⁵ “Expenditures” – all expenditures and other uses of financing identified in the budget. These might be expenditures or direct appropriations by the various departments (“budgeted” expenditures), or they might be “off-budget” (“non-budgeted” expenditures).

⁶ “Off budget expenditures” – expenditures that are not listed in the line items in the budget. These expenditures are typically identified in the outside sections of the budget or occur automatically pursuant to existing law.

⁷ “Recurring expenditures” – spending by category that one could reasonably expect to continue year after year.

⁸ “Non-recurring expenditures” – spending that would not necessarily occur in the subsequent year. Examples of non-recurring expenditures would be one-time capital expenditures paid for out of the operating budget, or one-time start-up costs associated with establishing a new program.

⁹ “Structural balance” – the difference between total recurring revenues and total recurring expenditures. This calculation clarifies whether the budget requires the use of non-recurring revenue sources in order to achieve balance.

¹⁰ “Balance of total revenues and total expenditures” – the difference between total (recurring and non-recurring) revenues and total (recurring and non-recurring) expenditures. This calculation identifies whether the budget is balanced or in surplus. The balanced-budget requirement in the state constitution mandates that this number be either zero or greater.

Goal 4: Provide Sufficient Information to Put the Budget in Context

The current process includes the development of a full-year estimate of expenditures and revenues for the current fiscal year that incorporates as much information as possible about actual conditions and variances from the budget plan. A full-year estimate is important to establish a good base for projecting budget-year revenues and expenditures.

A transparent budget also provides clear information on longer-term trends and major risks. Implementing the following recommendations can help the reader to understand the future implications of budget decisions.

- **Publish a list of major risk factors, considering short-term and long-term revenues and spending.**

Examples of major risk factors include legal requirements that could lead to rapidly escalating costs or declining revenue, potential legal liabilities, and potential loss of federal revenue. The Commonwealth includes in its bond prospectuses an assessment of major risks to its ability to sustain its bond payments. Incorporating similar information in the budget document would improve public understanding of these risks.

- **Publish a statement of the state's liability for long-term obligations and the extent to which these liabilities are pre-funded.**

Accounting changes have brought attention to long-term liabilities for retiree benefits. Reviewing the funding status of these obligations is an important part of the budget development process and this information should be public. Desirable information includes a statement of the present value of future liabilities for pension and medical benefits; a comparison of this obligation to funds set aside to pay it; the projected growth in the liability during the budget year and the contribution to funding provided in the budget.

The Commonwealth maintains records on its future-year debt repayment obligations for all debt currently outstanding. Making this information available on the budget website would enhance public understanding of future-year budget pressures.

- **Publish actual prior-year spending for the past five years. (Currently the budget includes only one year.)**

To recognize the full extent and impact of increasing costs, or cutbacks in services, and to distinguish long-term trends from one-time factors, the reader needs multiple years of actual spending data.

- **Publish a comparison of actual and budgeted revenue for the past ten years (to cover a full economic cycle).**

Revenue fluctuates with the business cycle and other factors. For example, receipts from capital gains taxes, which fluctuate with stock market conditions, accounted for nearly eight percent of tax receipts in FY 2006 but only two percent of tax receipts in FY2000. A comparison of actual and budgeted revenue over a full economic cycle, typically no more than ten years, helps the reader to recognize where the budget year fits into the cycle. It also brings focus to the importance of contributing to the “rainy day” fund during periods when revenues exceed the budget projection, in order to provide funds to maintain stable service levels during downturns in the economic cycle when revenues may fall short of the budget projection.

- **Publish a projection of revenues and spending two years out (budget year plus one).**

A two-year projection can clarify the full-year impact of a change that has only a partial-year impact in the budget year. A two-year projection also can identify new issues that are likely to arise just beyond the budget-year horizon and enlarge understanding of the long-term trends at work in the budget. The second-year projection would simply be informational, however, and would not constitute a budget proposal leading to appropriations.

- **Publish information on future year debt repayment obligations for all debt currently outstanding.**

Budget planning requires an understanding of how easy or difficult it will be to sustain the current level of services in the future. Therefore it is important to know whether debt repayments are expected to grow or shrink in coming years.

Goal 5: Create Easier Public Access to Budget Information

Web access to each version of the budget, from the Governor's proposal to the final approved budget, is now available. Current practice also facilitates public participation by providing advance notice of the budget release date and by holding public hearings at multiple steps in the budget process: prior to submission of agency budget requests, prior to release of the proposed budget, and during legislative debate. The current process also is commendable for the length of time provided for legislative review and action on the budget, with the Governor's proposal submitted in January, almost six months before the start of the budget year.

The following recommendations would enhance the usefulness of web documents and make printed budget documents available as well.

- **Publish printed copies of the budget at the same time the budget is released. Distribute printed copies of the budget to public libraries around the state.**

Now that budget information is available on the web, printed copies are no longer available to the public. Both are needed. The budget is a complex, lengthy document and serious analysis can be easier with a printed copy than it is looking at one screen at a time. Furthermore, many people do not have the capacity to print out such a large document at home. Printed copies also should be available at libraries, as was formerly done, for those without computers and those not computer literate.

- **Publish downloadable and searchable budget information on the web.**

The FY2007 budget documents are all on the web, accessible via the Commonwealth's government home page. During budget season, the home page included an easily-identified "portal" – or single entry point – to relevant documents, arranged in a manner that clearly describes the budget process. Most of the year, however, this portal is removed from the home page, and a person would need to know where to look to find these documents.² Moreover, the links are not standardized, adding several confusing steps for someone seeking out basic budget information. The Governor's budget now includes accompanying spreadsheets listing funding by account number. These spreadsheets greatly ease analysis for those interested. The legislative budget documents, however, do not include spreadsheets. To allow for easy comparison, every version of the budget should have accompanying budget spreadsheets, laid out in consistent fashion. Each version of the budget also should be posted on the web in a format that is searchable by the search function of a standard web browser.

² Go to www.mass.gov, then click on these links in sequence: State Government/About State Government/Budgetary Processes.

- **Publish user guidance to facilitate reading the budget.**

Examples of useful guidance that could help to understand budget documents include: a summary of the budget process; a list of other relevant documents and where they are available; a glossary of budget terms; information on relevant fiscal rules, such as statutory or constitutional tax and expenditure limitations; information on account changes that distort year-to-year comparisons.

Box 1.

BUDGET BASICS: OPPORTUNITIES FOR PUBLIC INPUT AND REVIEW

The current state budget process provides several important opportunities for the public to participate in and review the budget as it moves through the legislative process:

1. Prior to the creation of the Governor's budget proposal, the various state agencies must submit their budget requests to the Executive Office of Administration and Finance. Public hearings are held prior to these submissions at which people may present their concerns to members of the administration about program or service needs.
2. The Governor's budget proposal is available in electronic form immediately upon its release. This proposal includes documents posted on the Governor's website that are in a searchable format, promoting ease of use by the public. The Governor's proposed line item appropriations are also posted in a spreadsheet format, which allows for easier analysis. The Governor's budget website allows for searching by line item number, a useful tool for someone who already knows the particular account number(s) associated with a particular program or service.
3. The House and Senate Committees on Ways and Means hold joint public hearings across the state prior to their development of a budget. The Legislature also provides electronic versions of its budget proposals upon their release, however these documents are not presented in a format consistent with the Governor's budget release, and they do not include budget spreadsheets or an easy search function. The budget documents get more difficult to follow as the budget moves through the legislative process, and tracking gubernatorial vetoes and legislative overrides can be very cumbersome.

Box 2.

BUDGET BASICS: THE CONSENSUS REVENUE PROCESS

Before the introduction of the Governor's budget each year, the Department of Revenue generates a tax revenue forecast based on projections for employment, wages, personal income and corporate profits from several respected economic forecasters — Economy.com, the New England Economic Partnership, and Global Insight — as well as on changes in tax law and certain one-time events that would affect tax revenue collections over the forecast period.

The Department then presents these estimates at a hearing chaired jointly by the Secretary of Administration and Finance and the House and Senate Chairs of the Committees on Ways and Means. Private economists and revenue analysts testify at this hearing as well and oftentimes offer their own tax revenue forecasts.

Following this hearing, the Secretary of Administration and Finance and the Ways and Means Chairpersons are expected to reach a consensus about the tax revenue total on which the Governor's and the Legislature's versions of the budget will be based. This total, in turn, is included in the Governor's budget submission and is adopted, via resolution, prior to the start of the House's and the Senate's respective budget debates.