

## Budget Transparency and Balance: The FY 2010 Governor's House 1 Budget

The Governor's Fiscal Year 2010 budget proposal, House 1 (H.1), continues the significant progress the Commonwealth has made in making it easier for everyone to see and understand the priorities within our state budget. The documents posted by the Governor on his website ([www.mass.gov/budget/governor](http://www.mass.gov/budget/governor)) provide extensive detail on the development of the budget as well as details on the major fiscal policies incorporated into the budget document. The Governor also provides usable downloadable files with appropriation details and historical spending information, allowing any user to conduct analysis of the Commonwealth's budget.

In future years the Governor should also release a maintenance budget to allow the public to understand how the Governor's budget proposal reflects real cuts or expansions in programming. A maintenance budget, sometimes referred to as a "current services" budget or a "level services" budget, estimates the cost of continuing into the next year the current year's level of service, while adjusting for inflation and caseload changes. Through the impressive amount of information included in the policy reports and narratives that accompany the budget and other ways, the Governor has started to make available information about Fiscal Year 2010 "maintenance" levels.

The Governor's budget materials also do not include an easy-to-understand and comprehensive "Sources and Uses" statement describing his budget proposal. This document would, on one page, list all proposed state spending and all sources of revenue, allowing the reader to

determine how the budget balances (i.e., whether there are sufficient revenues to pay for all of the expenses). "Sources and Uses" statements also are valuable tools for determining whether ongoing spending is supported by permanent, rather than temporary or one-time revenues.

Although the Governor's budget proposal does not include a "Sources and Uses" document, the Governor's budget documents do provide most of the information needed to construct such a chart. This *Budget Brief* takes the information provided by the Governor and compiles it in a "Sources and Uses" presentation, and shows how the Governor balances the budget. The data are current as of the publication of the Governor's budget.

### SOURCES AND USES

A "Sources and Uses" document (sometimes referred to as "Income and Expenses") summarizes the various types of revenue or "sources" of funds available for the spending within the budget, and the various types of spending or "uses" to which these dollars will be put. The chart on the following page summarizes the Governor's budget in a "Sources and Uses" format. A detailed explanation follows.

## Sources and Uses

(in Millions of Dollars)

	FY 2010 as of 1/28/09 H.1		
	On-going	One-time	Total
<b>REVENUES AND OTHER SOURCES</b>			
Revenue Carry-Forward from Previous Year*	97.5		97.5
<b>Tax Revenues</b>			
Base (Consensus) Tax Revenue	19,530.0		19,530.0
Additional Cigarette Excise Tax	145.0		145.0
Additional Tax Revenue from Tax Law Changes	299.2		299.2
Increased Tax Enforcement	26.0		26.0
<b>Total</b>	<b>20,000.2</b>	<b>0.0</b>	<b>20,000.2</b>
<b>Federal Revenues</b>			
Base federal revenue	6,738.2		6,738.2
Anticipated increased federal revenue	0.0	784.0	784.0
<b>Total</b>	<b>6,738.2</b>	<b>784.0</b>	<b>7,522.2</b>
<b>Departmental Revenues into Budgeted Funds</b>			
Base departmental revenue	2,637.5		2,637.5
Proposed increases in departmental revenue	152.3		152.3
<b>Total</b>	<b>2,789.8</b>	<b>0.0</b>	<b>2,789.8</b>
<b>Transfers into Budgeted Funds</b>			
From Lottery Proceeds	963.8		963.8
From Tobacco Settlement Proceeds	294.8		294.8
From Other Sources	420.6		420.6
From the Stabilization Fund		489.0	489.0
<b>Total</b>	<b>1,679.3</b>	<b>489.0</b>	<b>2,168.3</b>
<b>TOTAL</b>	<b>31,304.9</b>	<b>1,273.0</b>	<b>32,577.9</b>
<b>APPROPRIATIONS, TRANSFERS AND OTHER USES</b>			
<b>Appropriations and Transfers**</b>			
Line Item Appropriations	27,973.1		27,973.1
<i>Education</i>	5,985.9		5,985.9
<i>Environment and Recreation</i>	213.4		213.4
<i>Health Care</i>	11,438.6		11,438.6
<i>Human Services</i>	3,507.0		3,507.0
<i>Infrastructure, Housing &amp; Economic Development</i>	476.8		476.8
<i>Law and Public Safety</i>	2,448.3		2,448.3
<i>Local Aid</i>	1,126.8		1,126.8
<i>Other</i>	2,776.3		2,776.3
Outside Section Appropriations and Transfers	1,490.7		1,490.7
<i>Health Care</i>	1,470.7		1,470.7
<i>Infrastructure, Housing &amp; Economic Development</i>	20.0		20.0
Pre-Budget Transfers	2,957.9		2,957.9
<i>Education - School Modernization &amp; Reconstruction Trust</i>	669.2		669.2
<i>Health Care - Commonwealth Care Trust</i>	145.0		145.0
<i>Infrastructure - MBTA State and Local Contribution Trust</i>	767.1		767.1
<i>Other - Pension Reserves Investment Trust</i>	1,376.6		1,376.6
<b>Total</b>	<b>32,421.7</b>	<b>0.0</b>	<b>32,421.7</b>
<b>Other Uses</b>			
Statutory Deposit into Stabilization Fund***	99.3	(99.3)	0.0
Revenue Carry-Forward into Next Year*	99.3		99.3
<b>Total</b>	<b>198.6</b>	<b>(99.3)</b>	<b>99.3</b>
<b>TOTAL</b>	<b>32,620.2</b>	<b>(99.3)</b>	<b>32,520.9</b>
<b>BALANCE</b>	<b>(1,315.3)</b>	<b>1,372.3</b>	<b>56.9</b>
* State law requires carrying forward 1/2 of 1% of tax revenue into the General Fund for use in the next year.			
** Totals adjusted to account for the Governor's proposed consolidations of certain spending.			
*** State law requires deposit of 1/2 of 1% of tax revenue into the Stabilization Fund. The Governor proposes forgoing this deposit.			

## REVENUES AND OTHER SOURCES

There are five primary sources of funds totaling \$32.58 billion available for use in the budget: tax revenue, federal revenue, departmental fees and assessments, and money that has been taken out of special trust funds for spending in the current year, as well as money carried over from the previous year. Some of these revenue sources are on-going revenues, some are one-time revenues proposed for use by the Governor in FY 2010 to balance the budget. Each of these totals is included in the Governor's budget proposal in "Section 1A - Revenue by Source and Fund," and is described in more detail below.

### *REVENUE CARRY-FORWARD FROM PREVIOUS YEAR*

"Revenue Carry-Forward" of \$97.5 million consists of funds from the previous year's tax receipts that must remain unspent in that year so that they are available for use in the current year.<sup>1</sup>

### *TAX REVENUES*

The largest single source of funds available for the budget is tax revenue, totaling \$20.0 billion in Fiscal Year 2010. Tax revenues in the Governor's budget proposal consist of four parts: the total baseline gross tax revenue based on consensus revenue estimates; tax revenues associated with the increase in the cigarette excise tax; the total estimate from the Governor of the revenues that

<sup>1</sup> State law (M.G.L. Chapter 29, Section 5c) indicates that "an amount equal to 1/2 of 1 per cent of the total revenue from taxes in the preceding fiscal year shall be available to be used as revenue for the current fiscal year." In other words, each year, one-half of one percent of the year's total tax revenue must be available to carry forward into the following year for use as revenue. As of January 28, 2009, the date the Governor published his budget proposal, total estimated tax revenue (currently calculated by excluding the increased cigarette tax revenue) for Fiscal Year 2009 is \$19.50 billion. This total consists of \$19.45 billion from base consensus tax revenue, and \$49.9 million associated with the Governor's proposed tax increases. One-half of one percent of this total is \$97.5 million, which is a source of funds for the Fiscal Year 2010 budget.

would be generated by his proposed tax law changes, and total revenues associated with increased tax enforcement initiatives begun in FY 2009.

**Base (Consensus) Tax Revenue.** The baseline consensus tax revenue total for Fiscal Year 2010 is \$19.53 billion. Tax revenue includes personal income tax revenue, corporate income tax revenue, sales taxes, and others. Each year the Executive Office of Administration and Finance and the Legislature work with leading economists in the Commonwealth to estimate the amount of tax revenue that will likely be available for the budget in the coming fiscal year, assuming there are no changes in tax laws. This is referred to as the "baseline" tax revenue of the consensus revenue estimate. Since the adoption of the consensus tax revenue estimate, there have been changes in economic conditions that may result in actual tax revenues being lower than this estimate.

**Additional Cigarette Excise Tax.** An increase in the cigarette excise tax in Fiscal Year 2009 will generate \$145.0 million in Fiscal Year 2010. This tax increase is dedicated to paying for a portion of the state's health care costs. The additional cigarette excise tax could be included as part of the consensus tax revenue estimate.

**Additional Tax Revenue from Tax Law Changes.** The Governor's budget includes proposals to increase existing statewide meals and room occupancy taxes, and dedicating these revenues to aid to the Commonwealth's cities and towns. The revenue estimate for these tax increases is \$149.2 million. The Governor also proposes eliminating a tax exemption on alcohol sales, soda sales, and candy sales. The anticipated revenue from these tax initiatives in FY 2010 is \$150.0 million. Of this total, \$121.5 million would be dedicated to helping fund certain public health initiatives. Total revenue from tax law changes is \$299.2 million.

**Increased Tax Enforcement.** In Fiscal Year 2009, the budget included funding for hiring additional auditors at the Department of Revenue. The Governor's budget proposal anticipates that the

continued tax enforcement efforts provided by these auditors would bring in \$26.0 million in additional tax revenue.

#### FEDERAL REVENUES

The Governor's budget anticipates that there will be \$7.52 billion in federal revenues available for the FY 2010 budget. The largest components of these federal revenues are the federal Medicaid dollars that help support the Commonwealth's health care programs, federal dollars for transitional assistance to needy families and federal social services block grant funds. The Governor also expects that there will be an additional \$73.0 million in federal revenues available for Transitional Assistance for Needy Families (TANF). At the time he published his budget, the Governor's estimates include \$711.0 million in federal revenue associated with enhanced Federal Medical Assistance Percentage (FMAP) dollars that will come to Massachusetts associated with the federal economic stimulus legislation.<sup>2</sup> Because these funds are a temporary increase in funding, they are counted as "one-time" revenue.

#### DEPARTMENTAL REVENUES INTO BUDGETED FUNDS

The Governor estimates that departmental revenues in Fiscal Year 2010 will total \$2.79 billion. The Commonwealth assesses a large variety of fees and charges that generate substantial revenue for

use in the budget. These revenues include such items as fees generated by the Registry of Motor Vehicles, a variety of other permitting fees, special assessments levied on certain health care providers, health insurance premiums paid by retired teachers who participate in the state's Group Insurance health plan, and interest earned by the budgeted funds. The Governor's budget includes \$152.3 million in several new fees: \$20.8 million in additional revenue from a proposed expansion of the Bottle Bill; \$75.0 million from an increase in a fee levied on nursing homes; and \$74.5 million in increased fees at the Registry of Motor Vehicles.

#### TRANSFERS INTO BUDGETED FUNDS

The Governor's budget documents include a total of \$171.3 million referred to as "Consolidated Transfers." Transfers of funds are "sources" of funding when the transfer moves money into the General Fund for use in the budget. A transfer of funds can be a "use" of funds when money is transferred from the General Fund into specialized trusts to be spent for particular purposes. The Governor's consolidated transfer total combines sources of funding with uses of funding. This *Budget Brief* breaks this single total into its components, and identifies which of these transfers constitute "sources" of funds, and which constitute "uses" of funds. The sources are included here, whereas the transfers that are uses are included in the "uses" section of the chart.

There are four major categories of transfers into the Commonwealth's General Fund. Each of these sources of funds is documented in the Governor's budget as "Sources" in "Section 1C - Consolidated Transfers," and together total \$2.17 billion.

**From Lottery Proceeds.** The Governor estimates that there will be \$963.8 million transferred into the General Fund from Lottery proceeds. This total includes \$768.6 million that is than available for distribution to cities and towns, and \$195.2 million that supports administration of the Lottery, the Massachusetts Cultural Council, and other specified purposes.

<sup>2</sup> Since the Governor published his budget proposal, President Obama signed the "American Recovery and Reinvestment Act of 2009" which will provide for substantial additional federal Medicaid revenue for Massachusetts. Current estimates put FY 2010 enhanced Federal Medical Assistance Percentage (FMAP) dollar totals at approximately \$1.3 billion, significantly more than the \$711 million included in the Governor's budget proposal. In addition to the FMAP increase, the law also includes substantial increases in other federal revenues, including additional TANF funds and funding for education. So far, the Governor has announced the release of \$330 million in additional federal funds for education funding for FY 2010. See "The American Recovery and Reinvestment Act: Federal Stimulus in Massachusetts," (Massachusetts Budget and Policy Center, March 20, 2009), available at [http://www.massbudget.org/documentsearch/findDocument?doc\\_id=657](http://www.massbudget.org/documentsearch/findDocument?doc_id=657)

**From Tobacco Settlement Proceeds.** The Governor's FY 2010 budget estimates that there will be \$294.8 million distributed to Massachusetts in conjunction with proceeds from the Tobacco Settlement agreement that requires tobacco companies to make restitution payments to states for the health care costs associated with tobacco. The Governor's budget proposes that 90 percent of these proceeds would be further set aside into the State Retiree Benefits Trust to pay for retired state employee health benefits, and that the remaining 10 percent would be transferred into the General Fund and would be a source available for use in the state budget.

**From Other Sources.** The Governor's budget includes a total of \$420.6 million from a variety of other sources. This total includes funds associated with reimbursements to the General Fund from federal grants to non-budgeted funds for the payment of grant-associated fringe benefits, proceeds from the disbursal of abandoned property, revenues from the State Racing Commission, and assorted others.

**From the Stabilization Fund.** The Governor's budget proposes transferring \$489.0 million from the Stabilization Fund (the "Rainy Day Fund") into the General Fund. This is a "one-time" source of revenue. (The Governor also proposes forgoing a statutorily required deposit into the Stabilization Fund, which is described in the "Appropriations and Other Uses" section of this *Budget Brief*.)

### Total Revenues and Other Sources

Of the \$32.58 billion in total revenues and other sources of funds, \$31.3 billion comes from on-going or recurring sources of revenues, and \$1.27 billion is from one-time or non-recurring revenue sources.

## APPROPRIATIONS, TRANSFERS AND OTHER USES

Appropriations, transfers out of budgeted funds, and other uses in the Governor's FY 2010 budget total \$32.52 billion. Most references to the Governor's budget, however, show a smaller total, since they typically include only the total from line item appropriations. The total included in this *Budget Brief* includes line item appropriations, and also certain amounts that are transferred from the General Fund into special funds for use by the various agencies of state government, as well as funding taken "off the top" from certain revenues to fulfill certain statutory funding requirements (such as funding for the Mass. Bay Transit Authority). Each of these uses of funds is described in more detail below.<sup>3</sup>

### APPROPRIATIONS AND TRANSFERS

**Line Item Appropriations.** The Governor's budget proposal includes "Line Item Appropriations" itemized in Section 2 of the budget totaling \$27.97 billion. This is the total many people refer to when they talk about the Governor's budget.

**Outside Section Appropriations and Transfers.** While Section 2 of the budget details line item appropriations, the remaining sections often include language directing the transfer of funds from the General Fund to specific trusts for certain designated uses. Accordingly, these transfers are "uses" of funds. The Governor's budget includes these transfers in a "Consolidated Transfers" total, but this *Budget Brief* differentiates between the transfers into the General Fund that serve as "sources" for the state budget, and those transfers out of the General Fund that are "uses" within the state budget.

<sup>3</sup> For details on the Governor's appropriations and transfers, see also *Budget Monitor: The Governor's FY 2010 Budget Proposal* (Massachusetts Budget and Policy Center, February 6, 2009), available at [http://www.massbudget.org/documentsearch/findDocument?doc\\_id=650](http://www.massbudget.org/documentsearch/findDocument?doc_id=650).

These “Outside Section Appropriations and Transfers” described in the budget in Sections 3 and beyond total \$1.49 billion. There are three transfers related to health care spending: a transfer of \$697.3 million into the Commonwealth Care Trust; a transfer of \$379.0 million into the Medical Assistance Trust; and a transfer of \$394.3 million into the State Retiree Benefit Trust. The first two of these trusts help fund the Commonwealth’s health reform efforts, and the third trust helps pay for retired state employee health benefits. The Governor’s budget also includes a \$20.0 million transfer for the purposes of economic development into the Massachusetts Life Sciences Investment Trust.

**Pre-Budget Transfers.** State law requires four particular transfers of state revenue for specified uses, prior to any appropriation. These “Pre-Budget Transfers” in the Governor’s FY 2010 budget total \$2.96 billion. The Governor’s budget documents subtract these transfers directly from the consensus tax revenue total.

- **Education – School Modernization and Reconstruction Trust.** State law (M.G.L. Chapter 10, Section 35bb) requires the transfer of one percent of sales tax revenue to the School Modernization and Reconstruction Trust for the purposes of school building assistance. In Fiscal Year 2010, the Governor estimates a total pre-budget transfer of \$669.2 million, which includes approximately \$29.0 million associated with increased sales tax revenues due to the Governor’s proposed elimination of certain sales tax exemptions.
- **Health Care - Commonwealth Care Trust.** Chapter 168 of the Laws of 2008 increased the Commonwealth’s excise tax on cigarettes, and specified that a portion of that increase would be deposited directly into the Commonwealth Care Trust Fund to support payment for the costs of health care in the Commonwealth. The Governor estimates that in FY 2010 the amount of this transfer will be \$145.0 million.

- **Infrastructure, Housing and Economic Development – MBTA State and Local Contribution Trust.** State law (M.G.L. Chapter 10, Section 35T) requires the transfer of one percent of sales tax revenue and certain special assessments to the Massachusetts Bay Transit Authority State and Local Contribution Trust for the support of public transportation. In Fiscal Year 2010 this total is \$767.1 million.
- **Other – Pension Reserves Investment Trust.** The Governor’s budget transfers \$1.38 billion into the Pension Reserves Investment Trust to fund the state’s pension system.

#### *OTHER USES*

The Governor’s budget includes a total of \$99.3 million in other uses of funds in his FY 2010 budget. There are two other uses of funds each year that are required by statute as a part of creating a balanced budget. Both of these uses are identified in the Governor’s budget documents on the “Fiscal Year 2010 Projected Financial Statement - Budgeted Funds.”

State law (M.G.L. Chapter 29, Section 5c) states that “1/2 of 1 per cent of the total revenue from taxes in the preceding fiscal year shall be transferred to the Stabilization Fund.” One-half of one percent of the Governor’s estimated Fiscal Year 2010 total tax revenue (excluding the cigarette excise tax) of \$19.86 billion is \$99.3 million.

Outside section 33 of the Governor’s budget proposes suspending in FY 2010 the required deposit into the Stabilization Fund. In so doing, the Governor in effect forgoes using or “saves” \$99.3 million. This is a one-time saving.<sup>4</sup>

Just as the Fiscal Year 2010 budget has \$97.5 million available as a source from revenues carried forward from Fiscal Year 2009 (see “Revenue

<sup>4</sup> In years with higher than estimated capital gains tax revenue, the Governor’s budget also proposes replacing this required deposit into the Stabilization Fund with the portion of the capital gains tax revenue that exceeds the estimate.

Carry-Forward from Previous Year “ above), the Fiscal Year 2010 must carry forward (use) \$99.3 million as a source for the Fiscal Year 2011 budget.<sup>5</sup>

## Total Appropriations and Other Uses

Appropriations and other uses in the Governor’s budget total \$32.62 billion of recurring uses in Fiscal Year 2010, and \$99.3 million in one-time savings, for a total of \$32.52 billion in appropriations and uses.

## Spending Associated with New Federal Revenue

Since filing his budget proposal, the Governor has announced plans for spending some of the federal fiscal stimulus funding that was not anticipated in the spending estimates included in H.1. Specifically, the Governor has announced spending an additional \$162 million on public higher education, \$168 million on K-12 education, and \$574 million for a variety of health and human services in FY 2010.<sup>6</sup>

## BALANCE

The Governor’s Fiscal Year 2010 budget shows \$56.9 million more in total sources than the total uses. In one sense, this budget is balanced. New federal stimulus funds and the spending associated with them will not affect the balance of the state budget because new spending will be offset by new federal revenue. While the budget is balanced, there are not sufficient ongoing (as opposed to one-time) revenues to meet ongoing expenses.

<sup>5</sup> State law (M.G.L. Chapter 29, Section 5c) requires that “an amount equal to 1/2 of 1 per cent of the revenue from taxes in the preceding fiscal year shall be available to be used as revenue for the current fiscal year.” One-half of one percent of the Governor’s estimated Fiscal Year 2010 total tax revenue (currently calculated by excluding the cigarette excise tax) of \$19.86 billion is \$99.3 million.

<sup>6</sup> See announcements at [www.mass.gov/recovery](http://www.mass.gov/recovery).

Because the Commonwealth is in the midst of a serious recession, it is not surprising that the FY 2010 budget requires the use of one-time revenues. During economic downturns – which occur periodically simply because of normal business cycles – it is reasonable to assume that a state would need to turn to revenues from savings (i.e. the Stabilization Fund) to maintain services. That is, in fact, the primary function of the Stabilization Fund.

Similarly, the federal stimulus funding is designed to help states address the elements of the fiscal crisis brought on by the national economic recession. The federal government has determined that it is important to the national economy that states maintain spending for essential services during the recession. Such spending serves the national goal of increasing economic activity to push back against the downward cycle of the economy, and makes investments in people and infrastructure that will create a strong foundation for future economic growth. It also allows the state to avoid budget cuts that would harm the safety net for vulnerable populations affected by the economic downturn.

At the time the Governor initially published H.1 (prior to the release of federal stimulus funding), the budget relied on approximately \$1.37 billion in non-recurring revenues: \$784.0 million in temporary federal relief funds, \$489.0 million from the Stabilization Fund and forgoing a required \$99.3 million deposit into the Stabilization Fund. The actual amount of temporary federal relief funding for FY 2010 will be more than budgeted for in H.1. This funding provides additional non-recurring revenue to reduce state budget cuts during the current recession, and the Governor has proposed allocations of that funding to supplement his H.1 proposal.

While this new federal money will help the Commonwealth weather the recession, it will not solve the state’s longer term structural budget problems. As the economy recovers, the state will need to make difficult choices to address those particular challenges. To be prepared for periods

of recession, states should strive to maintain fiscal policies that allow them to generate surpluses in periods of economic growth so that they can build substantial reserves and do not immediately fall into deficit in down business cycles.

In the decade leading up to the current recession, Massachusetts had adopted revenue policies that eliminated surpluses that the state was able to maintain during the economic recovery of the 1990s. This left the Commonwealth with a budget deficit even before the effects of the current recession were felt in Massachusetts.<sup>7</sup>

In examining the budget gap the Commonwealth now faces, it is important to recognize that there are both cyclical revenue declines that are appropriately addressed with one-time revenues, and structural problems that the Commonwealth will eventually have to address with longer term solutions.

---

<sup>7</sup> For details on the history of the Commonwealth's fiscal policy, see *Substantial Surpluses to Dangerous Deficits: A Look at State Fiscal Policies from 1998 to 2008 I* (Massachusetts Budget and Policy Center, January 14, 2009), available at [http://www.massbudget.org/documentsearch/findDocument?doc\\_id=638](http://www.massbudget.org/documentsearch/findDocument?doc_id=638)