

## FY 2021 BUDGET PREVIEW: Four items to watch in the budget debate

The state budget often is where public priorities are put into action. Take, for example, the new law to overhaul the state's education funding formula. It raised the standards on how much money it takes to provide a good education to every child in Massachusetts. And now lawmakers have to actually fund this law. This is done through the state budget.



At its heart, the state budget is about well-being. It funds public goods that enable us to have functional, thriving communities.

Massachusetts lawmakers make choices every year about how much money each program and service gets.

The yearly budget cycle kicks off this week with the Governor's proposal for the Fiscal Year (FY) 2021 budget. In preparation, MassBudget published a series of briefs that highlight some major stories to watch in the FY 2021 debate. (An explanation of how the state budget process works is in the *How to follow the state budget process* section of this brief.)

Below is a summary of four key stories highlighted in our series.

(Throughout this brief, you will see words in bold. These terms are defined in a glossary at the end of the report.)

### 1) **K-12 education: How will lawmakers deliver on the promise of a historic education funding overhaul?**

Late last year, Massachusetts lawmakers passed a landmark law to overhaul the state's K-12 education funding formula (known as "**Chapter 70**"). This overhaul is meant to better reflect the true costs of providing all children with a quality education — especially students facing poverty, students with less English proficiency, and students with special needs. This is the first year for lawmakers to fund this change through the state budget.

This new law, the **Student Opportunity Act**, calls for the state to provide \$1.5 billion in new funding over seven years to K-12 schools. This amount is in addition to the required yearly increases to keep pace with inflation.

Combining this new funding with typical increases means about \$303 million per year will be added to school funding aid from FY 2020 to FY 2027.

Key to successful implementation of the Student Opportunity Act, however, is adequate and growing state revenues. The next seven years will not necessarily be like past fiscal years – during which the state has enjoyed strong economic conditions, favorable revenue collections, and few other major priorities competing for funding.

For more details on this story, read [FY 2021 BUDGET PREVIEW: Delivering on the K-12 Education Funding Overhaul & the Student Opportunity Act \(SOA\)](#).

## 2) Transportation: Will lawmakers fund needed upgrades to our transportation system or maintain status quo?

Transportation has become an increasingly critical issue for people in Massachusetts. Pressure on lawmakers has mounted in the face of subway system failures and derailments, worst-in-the-nation traffic congestion, and a safety scandal at the Registry of Motor Vehicles (RMV).



The Governor’s FY 2021 proposal (which kicks off the budget debate) will signal whether the Administration has the appetite to develop an innovative, modern transportation system or whether progress will stay in the slow lane.

Some transportation-related items to watch in the Governor’s budget proposal include whether the Administration will include funds to advance a regional rail system, whether it will provide additional resources to support safety at the MBTA, and whether there will be signs of reform at the RMV.

Undergirding all these questions is whether lawmakers will seek the new revenues necessary to support a world-class transportation system that everyone can access.

For more detail on these items to track, read [FY 2021 BUDGET PREVIEW: Will the Transportation Budget Reflect New Realities? 6 Things to Look Out For](#).

## 3) Tax credits for working families: Will lawmakers select the option that helps those who most need it?

Last fall, the Baker-Polito Administration proposed doubling the tax deduction people can take off their **taxable income** based on the number of **dependents** (like a child or grandparent) they have at home.

Currently, Massachusetts taxpayers can deduct \$1,000 off their taxable income for each dependent. Governor Baker proposed doubling this dependent deduction to \$2,000. This proposal would have cost the state \$87.5 million in reduced tax collections while only saving working families up to \$50 more per dependent in taxes.

For about the same cost, lawmakers could increase the state's **Earned Income Tax Credit (EITC)** by 10 percentage points — from a 30 percent match of the federal credit to 40 percent. The EITC not only helps move people out of poverty, it also has been associated with better long term health and school outcomes.

Unlike the dependent deduction, the EITC is targeted to working families in greatest need.

One question to ask in the FY 2021 budget debate is whether the Baker Administration will reboot its proposal — that wasn't adopted by the Legislature last year — or whether state lawmakers will instead expand the EITC, which gives a better bang for the buck.

For more details on this story, read [FY 2021 BUDGET PREVIEW: Will the Governor reboot his dependent deduction proposal or take a more targeted approach?](#)

#### **4) Revenue estimates: Will anticipated tax and non-tax collections be enough to fund our Commonwealth's priorities?**

Before lawmakers begin creating the state budget for the next fiscal year, they first have to determine how much revenue (money from taxes and other sources) the state expects to collect. This agreed-upon anticipated amount is called the **Consensus Revenue Estimate (CRE)**.

Lawmakers have agreed on a CRE amount of \$31.151 billion for FY 2021. This amount is a modest \$862 million (2.8 percent) more than expected revenue collections for the current fiscal year. This rate of revenue growth is significantly lower than the rate Massachusetts has enjoyed in recent fiscal years.



This estimated amount could have been higher if not for some recent and scheduled changes to the state's tax code. These changes will take a big bite out of state revenues: about \$650 million in FY2021 and more in future years. These anticipated losses are factored into the FY 2021 CRE, but they still are dollars that otherwise could have been invested in communities throughout the Commonwealth.

Also notable is that many of these losses come from **recurring revenue** sources that are **progressive** (meaning people with more income pay a larger percentage of it in taxes). These changes include a recent drop in the state income tax rate and the scheduled introduction of a new state tax deduction for charitable donations.

This slower revenue growth, combined with expected losses, will make it a challenge for lawmakers to fund major priorities — like K-12 education, transportation updates, and others — without shortchanging other crucial services.

For more information about the CRE and the factors behind that estimate, read [FY 2021 BUDGET PREVIEW: Revenue Expectations for the FY 2021 State Budget](#).

## How to follow the state budget process

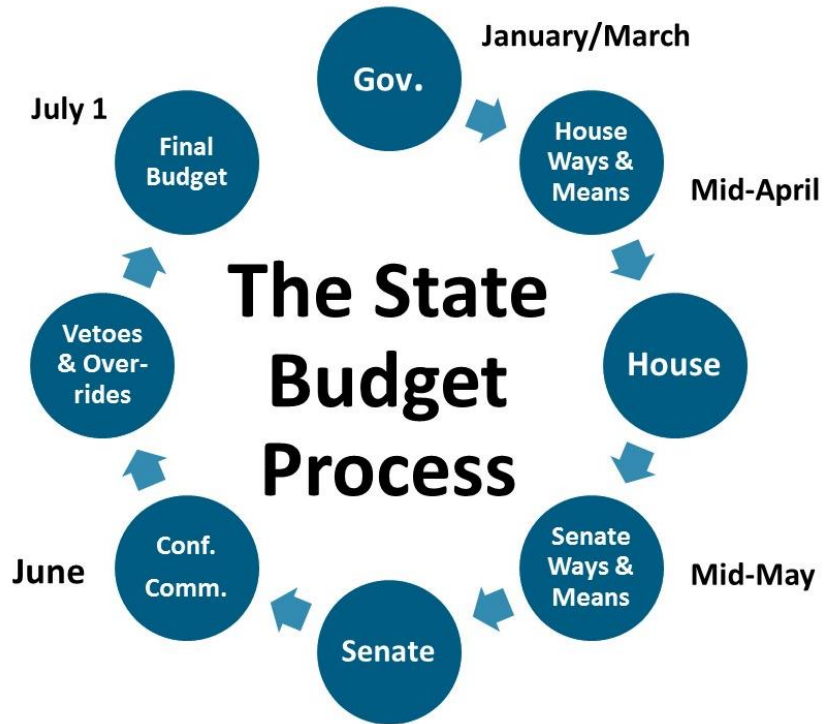
The Governor launches the process for the state to create its budget for the upcoming fiscal year when he releases his proposal in January (see illustration).

The House Ways and Means Committee (the committee that considers any legislation affecting the state’s finances) presents its proposal to the full House by mid-April, giving House members time to propose changes before the House votes on a final version of its budget proposal.

The Senate goes through a similar process, with the Senate Ways and Means Committee presenting the Senate with its initial proposal by mid-May and the Senate passing a final version usually two weeks later.

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

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



## Glossary

- **Consensus Revenue Estimate (CRE):** The amount of tax revenue available to fund the annual state budget, as anticipated and mutually agreed on by the Governor, the House, and the Senate. The CRE typically is agreed to in late December or early January, prior to the beginning of the annual state budget process. The Governor, House, and Senate use the CRE to determine how much revenue they have to fund budget items.
- **Chapter 70:** Massachusetts’ primary program for distributing state funding to K-12 public schools. The distribution occurs through a formula set by Chapter 70. It is called “Chapter 70” because the law that determines how much funding each school district receives is Chapter 70 of the Massachusetts General Laws.

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- **Dependent:** A child or relative — who is not a spouse — who depends on the tax filer’s income and meets other qualifications set by the Internal Revenue Service. These qualifications can include age or residency.
  - **Earned Income Tax Credit (EITC):** A refundable tax credit for lower-income workers — especially those with children. When eligible workers file their annual income taxes, they can subtract their credit amount from the taxes they owe and can receive a refund if the credit is more than the amount they owe in taxes. Massachusetts currently offers a 30 percent match of the federal EITC.
  - **Progressive revenue:** Revenue that comes from a progressive source. Progressive taxes, for instance, ask those with more income to pay a larger percentage of that income in taxes.
  - **Recurring revenue:** Revenue derived from a recurring source. These revenues can be replenished from this source in the future. Personal income taxes and sales taxes are examples of recurring revenues, as revenue from these sources is available on an ongoing basis. Revenue from the sale of a particular state property, however, is an example of non-recurring, one-time revenue: it is available only once, at the time of sale.
  - **Student Opportunity Act:** A 2019 law that overhauls the Massachusetts K-12 education funding formula.
  - **Taxable income:** The amount of income used to calculate how much a person or company owes in taxes.

*Note: During the FY 2021 budget cycle, track specific line items (programs or accounts) in each budget proposal through our interactive [Budget Browser](#), which is typically updated a few days after the release of each proposal.*