

FY 2021 GOVERNOR'S BUDGET: Summary — Lack of new revenues constrains Governor's ability to make bold moves

Note: This is a summary of some key stories from the latest Fiscal Year (FY) 2021 budget proposal. Subsequent reports will take a deeper look at some of these stories. Find these reports on the [Budget Resources](#) landing page or join [MassBudget's email list](#).

To track funding proposals for specific line items, visit MassBudget's [Budget Browser](#), which will be updated shortly after each budget proposal is posted.

The big picture on the Governor's Fiscal Year (FY) 2021 budget proposal

Big changes are afoot for Massachusetts in the coming fiscal year. FY 2021 is the start of a seven-year overhaul of school funding and lawmakers have bold plans to modernize the state's transportation system.

But growth in the money to pay for these and other public services is expected to slow in the coming fiscal year and likely beyond.

This means the state cannot fully realize these bold plans in the long-term without shortchanging other essential programs unless lawmakers find a way to raise significantly more revenues. This reality of revenue constraints is evident in the Governor's FY 2021 budget proposal.

The Governor's budget keeps K-12 education funding on track for the seven-year timeline, proposing \$303.5 million in additional **Chapter 70** funding for FY 2021. But instead of fully-funding the first step to boost state funding for students facing poverty, the Governor's budget only delivers four percent of the necessary increase. Improving the supports for students in low-income families is central to the new school funding law. Slower progress on this issue will limit the capacity of districts to offer services and resources to improve opportunities for low-income kids.



In transportation, the Governor proposes more investment and increased staffing at the state's Department of Transportation (MassDOT) and the Massachusetts Bay Transportation Authority (MBTA). But these boosts, while meaningful, are unlikely to make up for years of lagging funding.

Beyond these two areas, many others like higher education and housing only see marginal increases under the Governor's budget – in some cases not even enough to keep up with inflation.

The Governor does propose tax changes that would generate some revenue, but most of these would be one-time increases. The Administration proposes, for instance, a change in how sales taxes are collected that would “pull forward” some sales tax revenue from FY 2022 to FY 2021. The Administration also proposes in separate legislation a tax on opioid manufacturers.

Notably, due to recent and pending changes in law, some revenues on which the Commonwealth has relied will no longer be available in FY 2021. While these losses already are factored into the underlying revenue expectations for FY 2021, they nevertheless represent lost opportunities to invest in communities around the state.

The Massachusetts House has the opportunity to propose new revenues in its FY 2021 budget proposal. With substantial, new, and **progressive revenue**, lawmakers would be able to fully fund existing programs *and* give meaningful boosts to services that have long been held back by lagging funding or deep cuts. (Under the state's Constitution, if the House does not propose new revenue in its budget proposal, the Senate cannot, either. More information about how to follow the state budget process can be found [here](#).)

The remainder of this report includes other highlights, sorted by issue, from the Governor's FY 2021 budget proposal.

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

Education

Early Education

- The Governor's FY 2021 budget increases early education funding overall by 8.6 percent. The bulk of this is a \$67.3 million increase to Supportive and TANF Child Care, which supports subsidies for youth under the care of the Department of Children and Families and those receiving Transitional Aid to Families with Dependent Children. This increase should provide subsidies for more children and reduce barriers to access for some disadvantaged kids.
- The Governor proposes a new \$10 million line item to reduce the fees families pay for early education. However, overall funding for rate increases paid to centers and fee relief for remains at \$20 million, in line with FY 2020 levels.

K-12 Education

The Governor proposes increasing K-12 aid and grants by \$347 million over current levels in three line-items to implement the **Student Opportunity Act (SOA)**. The increase in Chapter 70 aid heavily favors the Gateway Cities, districts that serve diverse and predominantly low-income students. This added funding should help provide expanded programs and support for disadvantaged youth.

Of this \$347 million:

- \$303.5 million is for Chapter 70 aid,
- \$18.2 million is for **Charter School Reimbursements**,
- \$15.3 million is for **special education circuit breaker grants**, and
- \$10.0 million is for the **21st Century Education Trust Fund**.

Most notable in the Governor's proposal to fund the first year of the SOA are the details.

The Governor delivers on one-seventh (14 percent) of the SOA reforms in most areas of the school funding formula – special education, health care for educators, social-emotional support, and English Language Learners – keeping them on track for full reform in seven years.

But in one major area – supports for students in low-income families – the Governor only delivers on four percent of the necessary increase.

The Administration says this discrepancy is because its FY 2021 budget uses the higher poverty threshold called for in the SOA (from 133 percent to 185 percent of the **Federal Poverty Level**). By ramping up to this higher threshold, the school funding formula includes 46,800 more students as being low-income. The Administration contends that counting more children as low-income counteracts the need to raise the low-income funding rate at the same level as other portions of the formula. But slower progress on this issue will limit the capacity of schools to provide resources and opportunities to children in low-income families.

The question of how to count low-income students beyond FY 2021, however, remains unsettled. The Department of Elementary and Secondary Education is working on how this process will unfold in FY 2022. It is not guaranteed that counts of low-income students stay where they are in FY 2021.

Beyond the SOA, the Governor's FY 2021 budget eliminates or significantly cuts several other educational grant programs like extended learning time, school safety, computer science, behavioral health, and civic education. Overall, this budget reduces K-12 grant programs by \$12 million compared to current levels.

Higher Education

Funding for higher education lags behind inflation in the Governor's FY 2021 budget proposal. The Governor proposes a 0.6 percent increase, which is less than expected inflation. This level of funding could stifle any progress towards more affordable public higher education, limit access to higher education, limit offerings at public colleges and universities, and worsen student debt.

Housing

Amid an intractable affordable housing crisis, the Governor’s budget proposes no significant funding increases for programs that help people afford housing and provide shelter to children and adults experiencing homelessness.

The Governor proposes little or no increases to housing voucher programs, which help those who face the most difficulty when trying to get housing. For example, he proposes a modest (2 percent) increase for the **Massachusetts Rental Voucher Program (MRVP)**, which helps low income people afford rent. This brings the proposed FY 2021 funding for MRVP to \$112 million, which would support 9,400 households. This is less than half the number of households – 20,000 – [supported by the state budget in the early 1990s](#).



The Administration proposes essentially the same amount of funding for public housing authorities, at \$72 million. Public housing authorities provide both affordable housing and housing vouchers to low-income renters, including the elderly.

Health and Human services

Health Care

The Governor’s budget proposes no major cuts in eligibility or benefits and predicts no major increases in caseload or costs for the state’s Medicaid program, known as MassHealth. The Governor proposes \$16.77 billion for MassHealth programs in FY 2021, and \$173.5 million for MassHealth administration. This is just 0.6 percent above anticipated spending in FY 2020. (It is important to note that the federal government reimburses the state for more than half of its spending on MassHealth. The Governor estimates the actual *state* cost of the MassHealth program in FY 2021 will be about \$6.74 billion.)

The Governor proposes a few rate increases in MassHealth, including increases for **community-based behavioral health services**. There are also increases in funding for wages for personal care attendants and for community-based long-term care services such as home health and day habilitation programs.

The Administration also proposes new funding, of \$1.0 million, for “integrated eligibility and enrollment.” Although details are not available, this will likely allow the state to pilot a system where people could apply for **Supplemental Nutrition Assistance (SNAP)** at the same time as applying for MassHealth or the Medicare Savings Plan. Hundreds of thousands of people across Massachusetts may currently be missing out on benefits they qualify for because the applications for these programs are separate.

Human Services

The Governor proposes initiatives to expand opportunity for workers and workers with disabilities. These include:

- \$6.9 million for a new Career Technical Institutes program. These institutes would work with Vocational Technical schools in partnership with industry and community stakeholders to retain and expand the workforce by providing skills training for adult learners in technical and trade fields.
- A **tax credit** encouraging businesses to hire and retain workers with disabilities for at least 18 months. This credit – up to \$2,000 per year for each employee with a disability – would become available in the 2022 tax year and therefore would not cost the state any money in FY 2021.

The Administration proposes eliminating funding for another program that helps lower-income tax filers get help to properly file their taxes – **Volunteer Income Tax Assistance (VITA)** sites. The last budget cycle was the first time state lawmakers provided some funding – \$200,000 – to support logistics for these all-volunteer sites certified by the Internal Revenue Service (IRS).

Public Health

The Governor’s FY 2021 budget proposal includes changes to state laws that would authorize the Department of Public Health to assess operators who are **decommissioning** nuclear power plants to ensure they are properly monitoring the radiation and accounting for emergency costs. This comes as residents of Plymouth voice concerns over the decommissioning of the Pilgrim Nuclear Power Plant.

In a possibly related move, the Governor also proposes a 29 percent increase for more staffing in Environmental Health Assessment and Compliance – which includes monitoring of nuclear power reactors.

Transportation

For years the Baker Administration has said progress in the state’s transportation system has been held back by its major operators’ inability to properly oversee projects, but has not sought additional resources to increase that capacity. In its FY 2021 budget, however, the Administration proposes more funding, including for additional staff, in various areas of transportation.

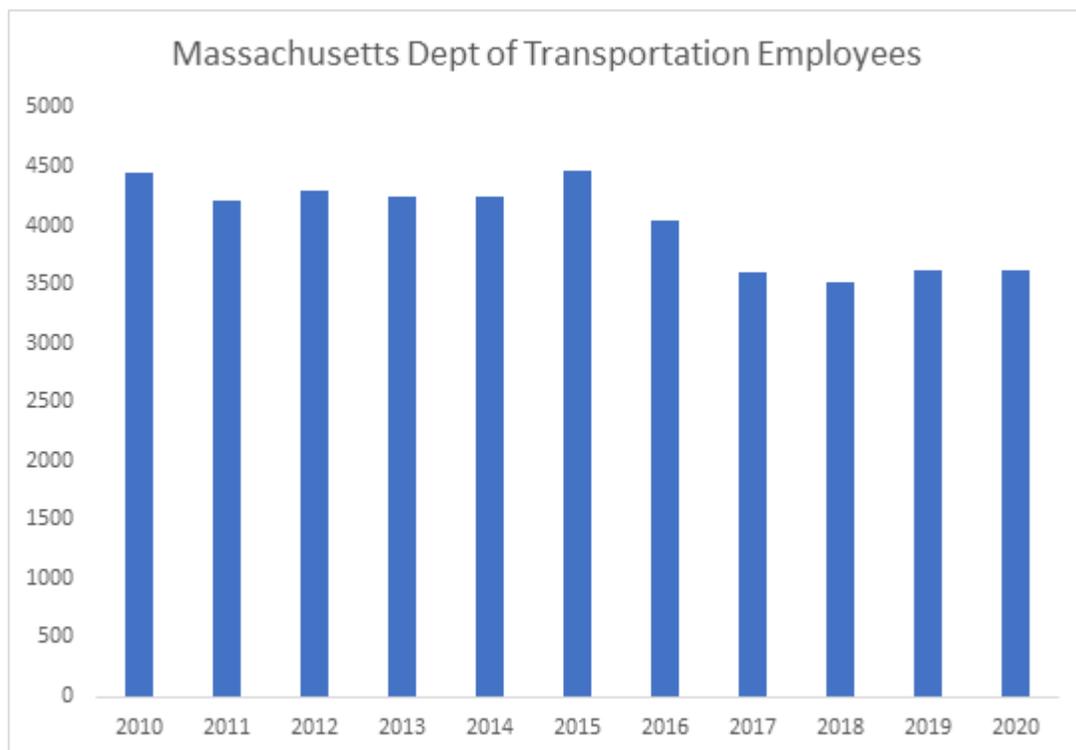
The Governor recognizes that improving the MBTA – which operates most of the state’s public transit – will require increasing rather than cutting its operating budget. The Governor’s budget anticipates an additional \$134.8 million in funding for the MBTA in FY 2021 from three sources:

- \$73 million from a proposed fee increase on ride-hailing services (also known as Transportation Network Companies, or TNCs) like Uber and Lyft;
- About \$21 million is already anticipated from the robust economy pushing up sales tax revenue (the law requires that approximately a penny of the sales tax is dedicated to MBTA operations); and

- \$40 million would come from a one-time boost in sales tax revenues, because of a proposal by the Administration to “pull forward” some sales tax collections from FY 2022 to FY 2021.

The Administration’s proposal to increase ride-hailing fees, as described above, would raise the fees from 20 cents to \$1 per ride. The remainder of the revenue from this fee increase will help support cities and towns.

The Governor proposes investing in improvements at the MassDOT, which operates the state’s highways and bridges. Of the \$77.6 million increase for MassDOT, the Governor proposes \$29 million for enhancing MassDOT’s capacity. Staffing levels at MassDOT are 19 percent below the level in 2010 and the additional funds may only help MassDOT make up some of that drop in capacity.



Tax Revenue

The Governor is proposing the use of some one-time tax and non-tax revenues on top of the \$31.151 billion [Consensus Revenue Estimate](#) agreed to with the Legislature as the revenue benchmark on which to build their budget proposals. Much of the Governor’s proposed additional revenue would be available only in the coming fiscal year (FY 2021) – it would not be available to help fund the budget in future years.

These revenues include:

- A **Sales Tax Modernization Initiative**, which would yield a one-time revenue gain of about \$317 million in FY 2021. This initiative would “pull forward” some sales tax revenues from FY 2022 into FY 2021, by asking larger businesses to remit (transfer) the sales taxes they collect to the state earlier than they currently do.

- A tax on opioid manufacturers, which the Governor has proposed in legislation separate from the FY 2021 budget. This tax — 15 percent of gross receipts on most opioids sales — would generate about \$16 million in ongoing revenue in FY 2021 and future years. These revenues would help fund programs for substance use prevention and treatment.

Another important aspect of the revenue picture in FY 2021 is that, because of recent and pending changes in law, the Commonwealth will be losing a number of ongoing tax and non-tax revenue sources that have provided substantial revenues in FY 2020 and recent prior years. Notably, much of this lost revenue will come from progressive sources — ones that collect a larger percentage of income from those with higher incomes than from those with lower incomes. Principal among these is the revenue lost due to reductions in the tax rate applied to personal income. This forgone revenue, tax and non-tax, diminishes the state’s ability to invest in communities across the state. (Look for our detailed brief about revenue in the Governor’s FY 2021 proposal in the weeks ahead.)

Related to scheduled tax changes, the Governor proposes that the Department of Revenue (DOR) examine the impact of an imminent change — the creation of a state deduction for charitable donations beginning Jan. 1, 2021. This new deduction will cost the state \$64 million in FY 2021 and \$300 million per year in subsequent fiscal years, according to the Department of Revenue. The Governor proposes evaluating this deduction and exploring alternative structures that could reduce the cost of the tax break, but he does not set a deadline for DOR to deliver its findings.

Non-tax revenue

The Governor’s budget assumes his proposal to legalize sports betting will pass in FY 2021 and includes \$35 million in revenue from that. Anticipated revenues from other forms of gambling (such as resort casinos and slot parlors) are down from the expectations of a year ago. For FY 2021, the Governor anticipates these gambling facilities will bring in about \$282.7 million to support the budget, down from the estimate of \$293.5 million a year ago.

There are some notable losses in non-tax revenue reflected in the Governor’s budget. The most significant is the anticipated reduction in federal reimbursements for the **Children’s Health Insurance Program (CHIP)**, which is a part of MassHealth. The Affordable Care Act had temporarily increased the reimbursement rate for CHIP-eligible services from 65 percent to 88 percent, but this enhanced reimbursement rate returns to 65 percent during FY 2021, reducing these federal revenues by about \$80 million.

The other notable reduction comes with the December 31, 2019 expiration of the **Employer Medical Assistance Contribution supplement**. This temporary assessment on employers was expected to generate \$230 million a year for each of the two years it was in effect. As it is phased out, it is expected to bring in \$92.0 million in FY 2020, but it will not continue in FY 2021.

Glossary

- **21st Century Education Trust Fund:** Newly created in the 2019 Student Opportunity Act school funding legislation, this trust fund is intended to increase educational opportunity for disadvantaged students and spread effective educational practices. The trust fund will issue

grants based on applications from school districts and individual schools. This process is overseen by the state department of education as well as an appointed board.

- **Chapter 70 aid:** 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.
- **Charter School Reimbursements:** When families choose to enroll a student in a charter school, state law requires the public school district in which they live to pay the student's tuition costs. The Charter School Reimbursement program helps ease the transition for districts that see a lot of their students leaving for charter schools.
- **Children's Health Insurance Program (CHIP):** A federal program, which in Massachusetts is part of the MassHealth program, that reimburses the state for a portion of its spending on health insurance for low- and moderate-income children and pregnant women.
- **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.
- **Community-based behavioral health services:** Services for people in need of care for mental health, substance use disorder, and other behavioral health needs provided by social workers, psychologists and other providers outside of an inpatient hospital setting.
- **Decommissioning:** In the context of nuclear power plants, decommissioning is the process of closing a power plant, safely removing and storing radioactive material, and cleaning up the site.
- **Employer Medical Assistance Contribution (EMAC) supplement:** The EMAC is an assessment on employers whose employees are covered under either MassHealth or receiving subsidized commercial coverage through ConnectorCare. Starting in 2017 the Legislature added this temporary (two-year) supplemental assessment to the EMAC. This supplement expired on December 31, 2019.
- **Federal Poverty Level (FPL):** The federal poverty level (FPL) is a measure of poverty, based on a household's income, determined annually by the federal government. In 2019, the FPL for a family of four was \$25,750. FPL is often used by government agencies to determine eligibility for programs and benefits in areas such as health care, food assistance, housing assistance, and educational enrichment. FPL and programs that use FPL (particularly the national school lunch program) are also connected to many education funds for students, including at the state level.
- **Massachusetts Rental Voucher Program (MRVP):** A program that provides vouchers to low-income renters in Massachusetts who are living at or below 50 percent of Area Median Income. Tenants using the MRVP spend 30 to 40 percent of their incomes in rent and the vouchers pay for the remainder.
- **Progressive revenue:** Revenue that comes from a source, like a tax, that asks those with more income to contribute a larger percentage of it than those with less income.

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- **Sales tax modernization initiative:** A multi-part initiative, much of which Governor Baker first proposed in his FY 2020 budget, to update how the state collects sales taxes. The first part would shorten the time between when larger businesses collect sales taxes and when they remit (transfer) them to the Commonwealth. The second part would require retailers and credit card processors to transfer sales taxes on a daily basis, beginning in 2023. The final part would create significant penalties for businesses that use special software to underreport sales totals, thereby reducing the amount of sales taxes businesses claim they owe.
 - **Supplemental Nutrition Assistance Program (SNAP):** A federal program that helps residents with low incomes purchase healthy foods. While SNAP is primarily a federal program, Massachusetts funds a small supplement through the state budget.
 - **Special education circuit breaker grants:** These grants help school districts cover the cost of sending students with severe special needs to specialized out-of-district schools. How much the state covers depends on funding each year. Under the 2019 Student Opportunity Act, transportation costs for out-of-district special education kids will be added to the circuit breaker program over the next four years.
 - **Student Opportunity Act (SOA):** A 2019 law that provides the largest education funding increase for Massachusetts since the Education Reform Act of 1993. The SOA made several other changes to the formula that determines how much state aid K-12 schools receive.
 - **Tax credit:** A tax credit helps offset the amount of taxes a person owes to the government and — if the tax is “refundable” and the credit is more than the amount a taxpayer owes — allows taxpayers to get money back.
 - **Volunteer Income Tax Assistance (VITA):** VITA sites provide free tax preparation to taxpayers with low income, taxpayers with disabilities, and taxpayers with limited English. This is done by volunteers who have been certified by the IRS.