



May 8, 2019

SWM Budget Analysis

On May 7, the Senate Committee on Ways and Means (SWM) unveiled their budget proposal for state fiscal year 2020, which begins July 1, 2019. The proposal, the first under new Chair Michael J. Rodrigues, authorizes \$43.2 billion in spending in fiscal 2020.¹ This policy brief highlights key elements of the plan and provides an initial analysis of the SWM budget. This represents a “first look” at the SWM proposal and may require further analysis in coming weeks.

Key Takeaways:

- As calculated by SWM, anticipated **revenue exceeds spending by \$69.9 million**, presumably to support spending added by amendment during the floor debate.
- **Education finance is the centerpiece of the SWM proposal, including an increase of \$268 million over fiscal 2019** for the state’s education-aid program for municipalities and school districts, Chapter 70.
- The SWM budget includes **seven tax revenue initiatives** with a total value of approximately **\$79 million**. All seven proposals were included in the Governor’s budget proposal, but only two were in the House budget.
- The Senate budget contains **80 policy sections**, the majority of which are dedicated to four policy areas, including education funding, behavioral health, transportation, and expansion of the sales tax base.
- Initial analysis of potential exposures suggests **\$254 million in ambitious revenue assumptions or underfunded accounts** that may generate fiscal pressure in fiscal 2020.

¹ This calculation excludes \$617 million for intragovernmental service fund spending that has no net impact on spending or statutory balance. It has become practice to exclude transfers to the Medical Assistance Trust Fund (MATF) from total spending calculations, but these transfers represent real spending and are included the MTF calculations.

SWM Budget Summary		
Revenue	vs H.1	vs HOU
Taxes & Sports Wagering	-55.0	4.6
Ambitious Revenue Assumptions	79.5	7.7
Revenue Initiatives	43.5	13.9
Other Revenue Changes	16.3	-3.3
<u>Subtotal, Revenue</u>	<u>84.3</u>	<u>22.9</u>
Spending		
Education	90.8	67.8
Health and Human Services	67.7	-9.1
Other Notable Spending Changes	30.0	-22.4
Underfunded Accounts	-174.0	-15.6
<u>Subtotal, Spending</u>	<u>14.5</u>	<u>20.7</u>
Balance	69.8	2.2

Figures in \$ millions.

Figure 1: Major moving pieces of the SWM budget proposal

Taxes

The Consensus Tax Revenue (CTR) agreement between the administration and the legislature establishes common tax revenue assumptions for fiscal 2020 budget planning, including projected tax revenue growth of 2.7%, or \$770 million, over revised fiscal 2019 benchmarks, excluding tax revenue generated by the sale of recreational marijuana. Like the budget proposals offered by the Governor (hereafter House 1 or H.1), and the House of Representatives (HOU), the SWM budget is based on the CTR agreement assumptions regarding anticipated tax revenue.

As noted in MTF’s further analysis of the Governor’s budget, the CTR agreement assumes tax revenue base growth of 4.6%, which may be ambitious. The SWM budget includes several tax revenue initiatives as summarized in Figure 1 and described in greater detail below.

Further, the CTR agreement includes a “pre-budget” transfer to the Commonwealth’s Pension Liabilities Trust Fund. In fiscal 2020, this transfer will total \$2.84 billion, an increase of approximately \$233 million, or nearly nine percent, over fiscal 2019 levels.



This annual payment is based on a triennial funding schedule that will be reviewed during the development of the fiscal 2021 budget.

Tax Initiatives Already Enacted

A total of \$160 million included in the SWM budget is derived from two tax law changes that have already been enacted related to recreational marijuana and transient accommodation/room occupancy tax reform. After accounting for sales tax revenue pledged to the Massachusetts Bay Transportation Authority (MBTA) and the Massachusetts School Building Authority (MSBA), approximately \$144 million is available to support budgeted spending.

SWM Total Tax Revenue Initiatives			
Figures in \$ millions.	<u>GOV</u>	<u>HOU</u>	<u>SWM</u>
Already Enacted			
Recreational Marijuana	132.5	132.5	132.5
Transient Accommodation/Room Occupancy Tax	27.5	27.5	27.5
<u>Subtotal, Already Enacted</u>	<u>160.0</u>	<u>160.0</u>	<u>160.0</u>
Proposed			
Sales Tax Marketplace	41.7	41.7	41.7
Opioid gross receipts tax	14.0	0.0	14.0
Vaping	6.0	0.0	12.0
Life Sciences	5.0	5.0	5.0
Withholding on non-resident property sales	4.0	0.0	4.0
Sales Tax Integrity	2.0	0.0	2.0
Stamp Smokeless Tobacco	0.0	0.0	0.0
<u>Subtotal, Proposed</u>	<u>72.7</u>	<u>46.7</u>	<u>78.7</u>
Omitted Initiatives			
Sales Tax Acceleration	306.0	0.0	0.0
Deeds/Climate Change	75.0	0.0	0.0
<u>Subtotal, Rejected Initiatives</u>	<u>381.0</u>	<u>0.0</u>	<u>0.0</u>
Other Projections			
Tax-Related Settlements & Judgments	50.0	100.0	100.0
<u>Subtotal, Other Projections</u>	<u>50.0</u>	<u>100.0</u>	<u>100.0</u>
<u>Total, Tax Revenue Before Transfers</u>	<u>663.7</u>	<u>306.7</u>	<u>338.7</u>

Figure 2: SWM Tax Revenue Initiatives Before Transfers



Proposed Tax Initiatives

SWM includes seven tax revenue initiatives in their proposal with a total value of \$79 million. Under existing law, a portion of sales tax revenue is pledged to the MBTA and MSBA and capital gains tax revenue above the statutory threshold is credited to the Commonwealth Stabilization Fund, the state's "rainy day" fund. Further, as proposed by SWM, revenue generated by the opioid gross receipts tax is dedicated for substance use treatment and prevention while taxes from vaping and e-cigarettes are credited to the Commonwealth Care Trust Fund (CCTF), which support the Massachusetts Health Connector marketplace. After these allocations, the proposed tax initiatives would add \$44 million in budgeted tax revenue.

Opioid Gross Receipts Tax

Like H.1, the SWM budget proposes to impose a 15 percent tax on the gross receipts from sales of opioids dispensed in Massachusetts. However, in contrast to H.1, revenue generated from the initiative, estimated at \$14 million in fiscal 2020, is credited to the Substance Use Disorder Prevention and Treatment Fund and subject to appropriation by the legislature. The SWM budget does not identify line-item spending associated with this revenue. Compared to H.1, this represents a decrease in budgeted revenue of \$14 million. This initiative was not included in the HOU budget.

Vaping and E-Cigarettes

SWM proposes to impose an excise tax on e-cigarettes and vaping supplies sold in Massachusetts at a rate of 75 percent of the wholesale price. The Governor included a similar proposal in his budget, recommending an excise rate of 40 percent of the wholesale price of such products.² SWM assumes \$12 million in revenue from the initiative compared to the \$6 million assumed under the Governor's plan as the half-year impact of both proposals. As noted above, SWM allocates this revenue to the CCTF which funds subsidies for health insurance plans offered on the Massachusetts Health Connector marketplace. Compared to H.1, this represents a decrease in budgeted revenue of \$6 million. This initiative was not included in the HOU budget.

Life Sciences

Like H.1 and the HOU budget, SWM includes \$5 million associated with enforcing an administrative cap of \$20 million on life science tax credits claimed by qualifying businesses in the Commonwealth. The current statute allows DOR to approve up to \$25

² Governor's Budget Recommendation for Fiscal 2020, Section 33.



million in life science tax credits to qualifying applicants, but for several years DOR has administratively enforced a lower cap of \$20 million. This initiative assumes the lower cap of \$20 million for fiscal 2020.

Withholding on non-resident property sales

SWM includes \$4 million in revenue from requiring tax withholding on the sale of property in the Commonwealth by non-residents. There is no corresponding statutory change, because this action can be implemented administratively through regulation by DOR, although draft regulation language has not been published to date. While the \$4 million revenue estimate is assumed to be available for the budget, it is also assumed to be paid as capital gains tax revenue to the Commonwealth subject to the transfer to the Stabilization Fund if total capital gains revenue exceeds the statutory threshold in fiscal 2020. The SWM budget assumes all \$4 million will be transferred to the Stabilization Fund. This initiative was included in H.1 but was not included in the HOU budget.

Sales Tax Integrity

SWM includes \$2 million in total revenue associated with enforcement around so-called “zapper” software, which enables businesses to essentially erase certain transactions in point-of-sale systems in order to avoid paying or remitting tax revenues to the Commonwealth. The estimated \$1.8 million in budgeted tax revenue is comprised of approximately \$1.2 million in meals tax revenue, with lesser amounts from regular sales tax, corporate tax, and income tax revenues. This initiative was included in H.1 but was not included in the HOU budget.

Stamp Smokeless Tobacco

The SWM proposal includes language to require a tax stamp on smokeless tobacco products, like the tax stamps required for cigarettes. This measure is aimed at reducing the sale of untaxed smokeless tobacco products. The time required to implement this new regime, including acquiring and distributing the necessary equipment, makes it unlikely any additional revenue would be realized from this action until fiscal 2021. The SWM budget does not assume any revenue from this action. This initiative was not included in the HOU budget.

Omitted Initiatives

Sales Tax Acceleration

SWM does not include language or revenue associated with the sales tax acceleration initiative, the largest tax initiative proposed by the Governor in H.1. The measure was



not a tax rate change, but rather a tax remittance timing change with incremental value in fiscal 2020. The Governor's proposal would require sales tax trustees, such as retailers, restaurants, or hotels, to remit sales tax during the final week of each month, rather than on the 20th day of the subsequent month as is current law. The timing change would generate \$306 million in one-time revenue as affected businesses will be required to remit sales tax amounts twice in the month of implementation (one payment for "last month's sales tax collections" and one payment for "this month's collections"). This initiative was not included in the HOU budget.

Deeds/Climate Change

SWM does not include revenue associated with the Governor's proposed deeds excise tax rate increase, which the Governor proposed in companion legislation to H.1. The Governor proposed to change the deeds excise rate from 0.456% to 0.684% starting January 1, 2020, with the incremental value of the increase credited to the Global Warming Solutions Trust Fund.³ These funds were proposed to be allocated to cities and towns to address climate change without further appropriation by the legislature. This initiative was not included in the HOU budget, though the Speaker of the House announced a plan to address climate change issues through new bond-funded program.

Other Projections

Tax-Related Settlements and Judgments

SWM includes tax-related settlement and judgments revenue of \$100 million, an increase of \$50 million compared to H.1 and equal to the assumption included in the HOU budget. The Commonwealth received \$11 million from this revenue source in fiscal 2018 and expects to receive \$49 million in fiscal 2019. Without other policy changes that are not apparent in the SWM proposal, this represents an aggressive revenue assumption.

Other Notable Revenue Assumptions

New Proposals

Race Horse Development Fund Sweep

SWM proposes to make a one-time transfer of \$15 million from the Race Horse Development Fund to the General Fund in fiscal 2020. This fund supports the horse

³ Senate Bill 10



racing industry in Massachusetts. It is slated to receive approximately \$19 million in revenue in fiscal 2020 from gaming tax revenue.⁴

Lottery

On the heels of lottery revenue performance that exceeded expectations in fiscal 2019, SWM assumes revenue in excess of expenses of \$1 billion in fiscal 2020, an increase of approximately \$14 million compared to H.1.

Chapter 58 Payments

The Commonwealth receives so-called Chapter 58 payments from the University of Massachusetts at Worcester to reimburse the Commonwealth for certain fringe benefit costs and capital investments.⁵ These payments vary significantly from year to year. For example, the Commonwealth received \$96 million in fiscal 2017 and \$155 million in fiscal 2018. Like the HOU budget, SWM assumes \$144 million in fiscal 2020, compared to the \$123 million estimated in H.1. Without other policy changes that are not apparent in the SWM proposal, this represents an aggressive revenue assumption.

Commonwealth Care Trust Fund

SWM proposes to transfer an additional \$10 million from the Commonwealth Care Trust Fund (CCTF) compared to H.1, which supports subsidized health insurance plans on the Massachusetts Health Connector marketplace, to the General Fund, presumably to support the new behavioral health program in the SWM budget. As noted above, SWM also credited \$12 million in tax revenue from taxing e-cigarettes and vaping supplies to the CCTF, making a net deposit to CCTF of \$2 million in fiscal 2020.

Unclaimed Bottle Deposits

Unclaimed deposits on recyclable bottles escheat to the state annually. For example, in fiscal 2018, this revenue source generated nearly \$45 million. SWM assumes this will jump to nearly \$53 million in fiscal 2020. Without other policy changes that are not apparent in the SWM proposal, this represents an aggressive revenue assumption.

⁴ For more information about gaming tax revenue estimates in fiscal 2020, see MTF's technical backgrounder on gaming tax revenue published May 1, 2019 on the [MTF website](#).

⁵ Sections 130 and 131 of Chapter 58 of the Acts of 2006.



SWM Revenue Summary		
<i>Taxes</i>	vs H.1	vs HOU
Taxes	-20.0	4.6
Sports Wagering	-35.0	0.0
<u>Subtotal, Taxes</u>	<u>-55.0</u>	<u>4.6</u>
<i>Aggressive Revenue Assumptions</i>		
Tax-Related Settlements & Judgments	50.0	0.0
Chapter 58	21.8	0.0
Unclaimed Bottle Deposits	7.7	7.7
<u>Subtotal, Aggressive Revenue Assumptions</u>	<u>79.5</u>	<u>7.7</u>
<i>Revenue Initiatives</i>		
RHDF Sweep	15.0	15.0
Lottery	13.5	-16.1
CCTF	10.0	10.0
PFML Reimbursement	5.0	5.0
<u>Subtotal, Revenue Initiatives</u>	<u>43.5</u>	<u>13.9</u>
<i>Other Revenue Changes</i>		
Nursing Home Rates	7.5	-10.0
Other Revenue Changes	5.1	6.7
CCDBG	3.7	0.0
<u>Subtotal, Other Revenue Changes</u>	<u>16.3</u>	<u>-3.3</u>
Total Revenue Changes	<u>84.3</u>	<u>22.9</u>

Figure 3: Major revenue changes vs H.1 and HOU in the SWM budget

Paid Family and Medical Leave Reimbursement

SWM funds the \$5 million in anticipated startup costs associated with the new Department of Family and Medical Leave, which was created to administer the Commonwealth's new Paid Family and Medical Leave (PFML) program, from revenues paid by employers and employees to support the new program.

EMAC

Like H.1 and the HOU budget, the SWM budget did not assume continuation of the enhanced Employer Medical Assistance Contribution (EMAC) that is scheduled to expire at the end of calendar year 2019. This makes it unlikely the provision will be



extended. Enhanced EMAC will raise an estimated \$313 million in fiscal 2019 but drop to \$87 million as it phases out in fiscal 2020.

Other Revenue Changes

SWM includes several reasonable revisions to revenue estimates included in H.1, generating \$16 million in revenue for the budget. These include increased federal reimbursement associated with increased nursing home rates through MassHealth (\$8 million), additional funding from the federal Child Care Development Block Grant (CCDBG) program (\$4 million), and a collection of other changes (\$5 million).

Omitted Proposals

Sports Wagering

Like the House of Representatives budget, SWM does not include revenue associated with the legalization of sports betting in the Commonwealth. H.1 assumed \$35 million in taxes, licensing fees, and other revenues associated with legalizing sports wagering in the Commonwealth in fiscal 2020.



SWM Spending Summary		
Spending Changes	vs H.1	vs HOU
<i>Education</i>		
Local Aid	69.6	51.9
Special Education Residential	21.2	15.9
<u>Subtotal, Education</u>	<u>90.8</u>	<u>67.8</u>
<i>Health and Human Services</i>		
TAFDC	18.8	-0.8
Nursing Home Rates	15.0	-20.0
Substance Misuse	10.9	4.5
Behavioral Health	10.0	10.0
Other Health and Human Services	13.0	-2.8
<u>Subtotal, Initiatives</u>	<u>67.7</u>	<u>-9.1</u>
<i>Other</i>		
Judiciary	15.8	4.2
Housing	7.0	4.7
Fentanyl	-5.0	0.0
RTAs	4.5	3.5
Youth at Risk Grants	4.1	-1.8
Recidivism Reduction Grants	2.0	0.5
Other Spending Changes	1.6	-33.5
<u>Subtotal, Other Spending</u>	<u>30.0</u>	<u>-22.4</u>
<i>Underfunded Accounts</i>		
Snow and Ice	-50.0	-1.0
Sheriffs	-46.7	0.0
Collective Bargaining	-26.4	0.0
DOC	-16.9	-5.0
CPCS	-14.1	-14.7
HHS IT	-11.0	5.1
Settlements and Judgments	-9.0	0.0
<u>Subtotal, Underfunded Accounts</u>	<u>-174.0</u>	<u>-15.6</u>
Total Spending Changes	14.5	20.7

Figure 4: SWM spending summary. Figures in \$ millions. Note HOU includes value of amendments added during floor debate.

Spending

As proposed, SWM authorizes \$43.2 billion in spending in fiscal 2020.⁶ Compared to H.1, the SWM budget makes significant new funding for public education (\$91 million), health and human services (\$68 million), and other spending initiatives (\$30 million), such as the judiciary, housing, regional transportation authorities, and other spending changes. These investments are accounted for in the budget by underfunding \$174 million in likely costs in fiscal 2020.

Public Education

The centerpiece of the SWM proposal is a significant new investment in public education. This is accomplished by making changes to the funding formula that directs education-related aid to municipalities and school districts in the Commonwealth, known as Chapter 70, an action the SWM Chair characterized as a significant down payment on the Foundation Budget Review Commission's recommendations.

As proposed by SWM, Chapter 70 spending will increase \$268 million, or approximately 6 percent, over estimated fiscal 2019 levels, \$68 million above the amounts proposed by the Governor in H.1 and \$50 million beyond that included in the House budget.

SWM makes several significant revisions to the Chapter 70 formula, including increasing the incremental rates for municipalities and school districts with high concentrations of low-income students. For the neediest students, the SWM revision would increase the per pupil rate from approximately \$4,200 in the Governor's plan to nearly \$4,600, an increase of more than nine percent. The House budget included smaller per pupil rate increases but added a grant program for low-income students outside the Chapter 70 funding formula.

Like the House budget, SWM did not include at least two major elements of the Governor's recommended changes to public education finance. The Governor proposed an additional incremental per pupil rate for students in early college programs and sought expanded state accountability measures for underperforming school districts. Neither was included in the SWM plan.

⁶ Calculation excludes \$617 million for intragovernmental service fund spending that has no net impact on spending or statutory balance.



Reimbursements for local special education costs receive an increase of \$26 million, or eight percent, over fiscal 2019 estimated spending in the SWM proposal.

Other education spending items had offsetting changes. SWM reduced funding for charter school reimbursements compared to H.1 and HOU, but increased funding for other programs. For example, in the area of early education, SWM doubled funding for the Commonwealth Preschool Partnership from \$2.5 million in H.1 to \$5 million and a further \$2.5 million supported by fiscal 2019 revenue, a grant program that incentivizes municipalities and school districts to offer voluntary preschool programs. The proposal also increases grants for Head Start programs.

Funding for institutions of higher education was consistent with amounts recommended in H.1 and the HOU budget. Language included in the spending item for the University of Massachusetts bars tuition or mandatory fee increases for in-state students for the school year beginning in the fall of 2019.

Health and Human Services

SWM invested \$68 million above H.1 for health and human service programs in fiscal 2020.

TAFDC

The SWM proposal includes \$19 million in additional funding compared to H.1 and \$5 million above the HOU budget to support the additional costs associated with lifting the family cap on benefits through the Temporary Aid to Families with Dependent Children (TAFDC) program. SWM also included policy language and funding to exempt the value of one motor vehicle from the calculation of eligibility for TAFDC.

MassHealth/Nursing Home Rates

The fiscal 2020 budget process is notable for the fact that the state's more than \$16 billion MassHealth program, which provides health care benefits to qualified residents in the Commonwealth, grew at a much smaller rate than in recent years and the programmatic spending increase did not overshadow all other budgetary spending. SWM added \$15 million in gross MassHealth spending associated with supplemental payments for nursing home facilities, though 50 percent of this amount will be reimbursed by the federal government. The HOU budget added \$30 million in the form of higher payment rates to nursing homes.



Further, the SWM proposal authorizes the Commonwealth to negotiate directly with drug manufacturers for prescription drugs provided to individuals covered by MassHealth. The Governor included this proposal in H.1 and attached a savings estimate of \$70 million. The HOU budget included a similar proposal with different language. It is unclear whether the HOU proposal, as adopted, would produce the same \$70 million in savings. The Senate language is very similar to that proposed by the Governor.

Like H.1 and the House budget, SWM assumed \$222 million gross, \$100 million in net costs that could be paid in either fiscal 2019 or fiscal 2020 are “pulled forward” to fiscal 2019. Without this timing change, the total spending growth rate would be 2.8% over the adjusted fiscal 2019 base, and 3.7% growth on a net basis. In either scenario, the rate of growth is significantly smaller than the growth rate earlier in the decade but remains one of the most concerning aspects of state finance for the future.

Bureau of Substance Addiction Services

SWM included \$11 million in additional funding compared to H.1 for the Department of Public Health’s Bureau of Substance Addiction Services (BSAS), and an \$8 million increase over fiscal 2019 estimated spending and \$5 million more than the HOU budget.

Behavioral Health Initiative

The SWM proposal commits \$10 million for efforts to improve behavioral health services in Massachusetts, expand the number of behavioral health professionals in the state, and other related items. The funding includes earmarks of \$500 K for a public awareness campaign to increase awareness of available behavioral health services and \$2 million for a loan forgiveness program for mental health professionals.

Children’s Mental Health

Like the HOU budget, SWM adds \$3 M for children’s mental health services compared to H.1. This funding supports the cost of providing psychiatric care and other related services to children through the Department of Mental Health (DMH).

Elder Care Services Task Force

The SWM proposal includes \$200 K for a new Elder Care Services Task Force created by an associated policy section in the budget. The task force will be charged with examining the financial health of nursing homes and recommending new policies to improve the sustainability of nursing homes in the future.



Judiciary & ADA Salary Increases

The SWM plan includes \$16 million more than H.1 and \$4 million more than the HOU budget for the judiciary, including nearly \$5 million for the Commissioner of Probation, \$2 million more for trial court staff, and \$2 million for Superior Court Justice salaries. Additionally, SWM included \$3 million for salary increases for assistant district attorneys, with line item language aimed at boosting the minimum salary from \$56,000 to \$61,000 in 2020.

Housing

Efforts to improve access to affordable housing and address homelessness were increased by \$7 million compared to H.1 and \$5 million above the HOU budget. Most notably, SWM added nearly \$7 million for local housing authorities, \$4 million more for rental vouchers for eligible recipients and authorizes an additional \$6 million in spending from fiscal 2019 resources, and \$2 million more for transitional rental assistance to assist families with the cost of paying rent to prevent homelessness.

These increases are offset by the SWM's rejection of the Governor's proposed Housing Choice funding to provide incentives to change zoning laws to allow the construction of higher density housing stock in the Commonwealth, generating \$5 million in savings. The HOU also did not include this proposal.

Regional Transit Authorities

In total, support for the Commonwealth's fifteen regional transit authorities (RTAs) would increase \$2.5 million over fiscal 2019, \$3.5 million more than the HOU proposal, and \$4.5 million compared to H.1 with total support of \$90.5 million in fiscal 2020.

As proposed by SWM, the \$90.5 million would be subject to a statutory floor that increases by the lesser of the rate of inflation or three percent annually. Further, in order to receive a share of \$4.5 million, each RTA would be required to use performance targets developed by the Massachusetts Department of Transportation (MassDOT) and enter a memorandum-of-understanding (MOU) with MassDOT as to their plan for achieving the performance metrics. RTAs refusing to enter a MOU would receive the same amount of funding as fiscal 2019.

Youth-At-Risk Grants

SWM added \$4 million compared to H.1 to fund YMCAs, YWCAs, and Boys & Girls Clubs in the Commonwealth through the Youth-at-Risk grant program. HOU funding



for these programs after floor debate was approximately \$2 million higher, primarily as a result of floor amendments that added funding for these and other similar groups.

Fentanyl

Like the House, SWM did not include funding for a fentanyl interdiction task force as proposed in H.1. This generates savings of \$5 million.

Recidivism Reduction Grants

SWM proposes a new \$2 million grant program at the Executive Office of Public Safety and Security aimed at reducing recidivism among individuals exiting state prisons and correctional facilities. A similar proposal was included in the House budget.



Potential Exposures

Potential Exposures	
Revenue	
<i>Ambitious Revenue Assumptions</i>	
Tax-Related Settlements & Judgments	50.0
Chapter 58	21.8
Unclaimed Bottle Deposits	7.7
Subtotal, Ambitious Revenue Assumptions	79.5
Spending	
<i>Underfunded Accounts</i>	
Snow and Ice	-50.0
Sheriffs	-46.7
Collective Bargaining	-26.4
DOC	-16.9
CPCS	-14.1
HHS IT	-11.0
Settlements and Judgments	-9.0
Subtotal, Underfunded Accounts	-174.0
Total, Potential Exposures	253.6

Figure 5: Summary of potential exposures in the SWM budget

Ambitious Revenue Assumptions

As noted above, the SWM budget includes several revenue sources with ambitious revenue assumptions for fiscal 2020. In total, these add \$80 million in risk to the budget.

Underfunded Accounts

MassDOT Operations/Snow and Ice Control

The annual transfer to MassDOT primarily funds employee salaries, benefits, and costs associated with snow and ice control during the winter months. The Legislature typically funds this line item assuming a so-called “blue skies” budget (assuming no impact of unpredictable events) and then supplements the appropriation as needed during the fiscal year. This approach reduces fiscal 2020 authorizations by \$50 million in the SWM budget but needs to be accounted for in a balanced budget.



Sheriffs

Sheriffs' departments operate Houses of Correction across the Commonwealth and run various public safety-related programs in their jurisdictions. Despite numerous efforts to control costs in these departments, they represent a perennial point of contention in the state budget. SWM provides \$46 million less than requested in the Governor's budget for the various Sheriffs' departments.

The SWM proposal includes a policy section creating a Department of Correction and Sheriff Funding Commission. This group is tasked with evaluating the appropriate level of funding for both the Department of Correction (DOC) and the sheriffs. The study is required to include comparisons of staffing ratios across DOC and sheriffs' facilities, a review of discretionary programming, and an analysis of the impacts of the criminal justice reform law enacted in 2018 on these agencies. The policy also calls for the creation of a funding formula to allocate resources. The report is due to the legislature by September 1, 2020.

Collectively Bargained State Employee Salary Increases

The SWM proposal allocates \$19 million for collectively bargained state employee contracts, a reduction of \$26 million from H.1. Once contracts are agreed to and ratified by labor unions and the legislature, negotiated increases become contractual obligations of the Commonwealth.

Department of Correction

SWM provides \$674 million for the Department of Correction's primary appropriation, which is \$17 million less than requested by the Governor and \$3 million less than appropriated by the House. Considering the criminal justice reform package adopted in April 2018 and the ongoing challenges associated with hiring and retaining corrections' officers, it remains to be seen whether this amount represents an adequate level of funding. As noted above, the SWM proposal also creates a commission to study the finances of DOC and the sheriffs' departments.

Committee for Public Counsel Services (CPCS)

CPCS provides legal representation for the indigent and has traditionally been included in the set of caseload-driven accounts that are underfunded during the budget development process. After being fully funded in the fiscal 2019 GAA and the House budget, the SWM proposal reduces support by \$14 million compared to H.1. However, the SWM budget also includes a policy section that allows CPCS to waive an existing



statutory cap on billable hours in the case of limited availability of qualified counsel. This change is not expected to result in savings.

Health and Human Services Information Technology (HHS IT) Costs

Compared to H.1, HHS IT costs are underfunded by \$11 million. IT costs are an unappealing but unavoidable cost of providing public services in the modern era. Underfunding such costs typically goes unnoticed by the general public until there is a precipitating event, such as an emergency or critical failure, that exposes the weaknesses of existing infrastructure.

Settlements & Judgments

The Commonwealth maintains a reserve for rulings against the state that require financial remuneration. The average payout from this reserve is approximately \$11 million annually. SWM includes \$1 million in authorization for fiscal 2020.

Stabilization Fund

The Commonwealth Stabilization Fund would increase by approximately \$268 million in fiscal 2020 under the SWM plan. This revenue is anticipated from excess capital gains tax revenue over the statutory threshold transferred to the state's "rainy day" fund (\$225 million gross, \$202 million after statutory transfers toward the Commonwealth's unfunded obligations for pension and other post-employment benefits), interest on Stabilization Fund assets offset by projected adjustment to the value of assets invested in short-term bonds (\$44 million), and \$22 million from resort-style casinos. These estimates are consistent with both H.1 and the HOU budget.

Assuming the Stabilization Fund ends fiscal 2019 with a balance of \$2.5 billion as is currently projected, the fund would be on track to end fiscal 2020 with approximately \$2.8 billion, the highest total balance ever in nominal dollars.

Conclusion

The SWM budget has much in common with the two previous budget proposals offered by the Governor and the House of Representatives. All three have a similar thematic approach on education finance reform, though SWM invests the most in the effort by far. All three budgets maintain the Commonwealth commitments related to unrestricted local aid to municipalities, and all three deserve praise for their commitment to making a sizable deposit to the state's "rainy day" fund.



At the same time, SWM clearly highlights certain spending priorities that are different from those identified by the other budget proposals, such as behavioral health, regional transit authorities, and the judiciary.

Potential exposures in the budget total at least \$254 million, including \$80 million in ambitious revenue assumptions and \$174 million in underfunded accounts as described above. In a budget of more than \$40 billion, these exposures are moderate on a relative basis but will hinder the Commonwealth's ability to address financial challenges if the strong economic conditions change or unforeseen events arise that require action by the Commonwealth.

In sum, the SWM budget represents a strong starting point for the Senate debate and establishes the final piece of the frame within which the fiscal 2020 budget will be crafted.

