



Analysis of the SWM Budget

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Mission Statement

Founded in 1932, the Massachusetts Taxpayers Foundation is a non-partisan, non-profit research organization that serves as the independent source of information for the Commonwealth's decision-makers.

Our mission is to provide accurate, unbiased research with balanced, thoughtful recommendations that strengthen the state's finances and economy in order to foster the long-term well being of the Commonwealth.

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Topline Notes

- SWM budget can reasonably be called the “education first budget”
 - Education finance reform as the centerpiece
 - Increases funding for Chapter 70 to nearly \$5.2 billion in fiscal 2020, an increase of \$268 million (nearly 6%) over fiscal 2019 spending, \$68 million more than GOV and \$50 million more than HOU
 - Proposes to make funding formula much more progressive, with nearly 10% increase to top incremental rate for low-income students
 - MassHealth
 - Assumes the timing shift
 - Added \$30 million gross/\$15 million net for nursing home rates
 - Includes savings from negotiating prescription drug prices directly with manufacturers, consistent with GOV and HOU, but with language much more like GOV
 - Assumes EMAC expires on schedule at the end of calendar 2019
 - Includes seven tax revenue initiatives with a total value of \$80 million in fiscal 2020
 - Also excludes sports wagering



Fiscal 2020 Overview

Appropriation Summary by Related Function

Figures in \$ millions.

	<u>FY19 Spending</u>	<u>FY20 House 1</u>	<u>FY20 HOU</u>	<u>FY20 SWM</u>
Administration & Finance	2,564.5	2,564.5	2,529.6	2,529.6
Education	8,620.1	8,924.6	9,010.9	9,012.4
Energy & Environmental Affairs	263.0	273.3	286.2	276.2
Health & Human Services	23,168.0	23,825.3	23,907.4	23,886.2
Housing & Economic Development	587.3	571.0	585.5	575.7
Labor & Workforce Development	65.5	73.3	73.0	70.9
Public Safety & Security	1,230.6	1,269.8	1,259.0	1,250.3
Technology Services & Security	36.3	41.3	36.3	41.3
Transportation	739.9	741.6	694.1	696.1
<u>subtotal</u>	<u>37,275.2</u>	<u>38,284.8</u>	<u>38,381.9</u>	<u>38,338.7</u>
All Other	4,794.6	4,889.5	4,861.5	4,850.1
<i>reversion assumption</i>	-42.0			
<u>Total</u>	<u>42,027.8</u>	<u>43,174.3</u>	<u>43,243.4</u>	<u>43,188.8</u>

Note: Fiscal 2019 estimated spending adjusted to be comparable to other figures.
FY19 figures are as of the filing of H.1 on January 23, 2019.



Fiscal 2020 Overview

	SWM vs FY19 Spend		SWM vs House 1		SWM vs HOU	
	\$ change	% change	\$ change	% change	\$ change	% change
Administration & Finance	-34.9	-1.4%	-34.9	-1.4%	-0.1	0.0%
Education	392.3	4.6%	87.8	1.0%	1.5	0.0%
Energy & Environmental Affairs	13.1	5.0%	2.9	1.0%	-10.0	-3.5%
Health & Human Services	718.2	3.1%	60.8	0.3%	-21.2	-0.1%
Housing & Economic Development	-11.5	-2.0%	4.7	0.8%	-9.7	-1.7%
Labor & Workforce Development	5.5	8.3%	-2.4	-3.3%	-2.1	-2.8%
Public Safety & Security	19.6	1.6%	-19.6	-1.5%	-8.7	-0.7%
Technology Services & Security	5.0	13.8%	0.0	0.0%	5.0	13.7%
Transportation	-43.8	-5.9%	-45.5	-6.1%	2.1	0.3%
<i>subtotal</i>	<i>1,063.5</i>	<i>2.9%</i>	<i>53.9</i>	<i>0.1%</i>	<i>-43.2</i>	<i>-0.1%</i>
All Other	55.5	1.2%	-39.4	-0.8%	-11.4	-0.2%
<i>Total</i>	<i>1,161.0</i>	<i>2.8%</i>	<i>14.5</i>	<i>0.0%</i>	<i>-54.6</i>	<i>-0.1%</i>

Note: Fiscal 2019 estimated spending adjusted to be comparable to other figures. FY19 figures are as of the filing of H.1 on January 23, 2019. Figures in \$ millions unless otherwise noted.



Major Moving Pieces

- SWM budget leaves a balance of \$70 M, presumably for floor amendments
- Education increases and inclusion of tax changes put these big items in play for conference
- MassHealth nursing home rates adds \$15 million gross/\$7.5 million net to that program, but otherwise remarkable for being unremarkable
- Aggressive revenue assumptions and underfunded accounts add \$254 million in potential exposures

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.



Highlight: Education

- Education finance reform as the centerpiece
 - All three budgets make significant changes to the education funding formula that distributes more than \$5 billion in funding to school districts across the Commonwealth (Chapter 70)
 - Adds more funding for English Language Learners (ELL) and low-income students
 - Phases in the recommendations of the Foundation Budget Review Commission (FBRC) from 2015
 - Adds \$268 million (5.5%) vs FY19 spending for Chapter 70, \$50 million more than HOU
 - Does not make changes to the charter school funding formula, as was included in the GOV and HOU budget proposals



Highlights: Tax Revenue

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>



Potential Exposures

- Potential exposures
 - Revenue assumptions that do not appear to be supported by existing or recommended policy parameters, or historical experience
 - Volatility of Tax-related S&J
 - Spending assumptions that likely represent unavoidable costs the Commonwealth will incur, regardless of legislative authorization
 - “Blue skies” snow and ice budget
- Does not include additional spending items added through the amendment process
 - For example, earmarks

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

Figures in \$ millions.



Potential Exposures



“The seeds of midyear budget cuts are usually sown during the budget development process.”
– Eileen McAnneny op-ed April 10, 2019

A screenshot of a news article from CommonWealth. The article title is "On budget planning, be cautious" and the subtitle is "Be conservative on spending because winter is coming". The author is Eileen McAnneny, and the date is April 10, 2019. The article text begins with "THE MASSACHUSETTS LEGISLATURE'S House Ways and Means Committee will unveil on Wednesday its budget proposal for state fiscal year 2020, which begins on July 1. Their budget document will describe proposals". The website header includes "CommonWealth" and "POLITICS, IDEAS & CIVIC LIFE IN MASSACHUSETTS". A navigation menu lists categories: TRANSPORTATION, EDUCATION, POLITICS, ENERGY, OPINION, HEALTH CARE, and CRIMINAL JL. The article is categorized as "OPINION". Social media sharing icons for Facebook, Twitter, and others are visible.

Timeline

- Timeline
 - Governor Baker announced his budget proposal (House 1/H.1) on January 23, 2019
 - The House of Representatives debated and adopted their budget the week of April 22-25
 - The Senate Committee on Ways and Means released their budget on Tuesday, May 7, 2019
 - Amendments due May 10, Debate week of May 20-24
 - In theory, Conference committee resolves differences and the Governor signs the General Appropriations Act (GAA) before June 30
 - In recent years, the process has drifted into July



Big Questions for Conference

- Taxes
 - After heroic April tax collections, it seems plausible there will be discussion of upgrading tax revenue estimates used to build the FY20 budget
 - Which, if any, tax initiatives will be included?
- Spending
 - Potential for increased tax revenue makes higher education number likely
 - Both budgets contain significant potential exposures that could be partly mitigated by revised tax number (Snow and Ice, Collective bargaining, Sheriffs, HHS IT)
- Policy
 - Allowing MassHealth to purchase prescription drugs directly from manufacturers; HOU version or GOV/SWM version of proposal?
 - Will they include behavioral health clawback?

