



# Analysis of the HWM Budget

Heath W. Fahle

Director of Policy and Research



# 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.

## MTF Awards



# Topline Notes

- HWM budget has much in common with GOV proposal
  - Education finance reform as the centerpiece
  - MassHealth
    - Assumes the timing shift
    - Added \$30 million gross/\$15 million net for nursing home rates and commissioned further study into the nursing home industry
    - Includes savings from negotiating prescription drug prices directly with manufacturers, but language narrows the authority to do compared to GOV
  - Assumes EMAC expires on schedule at the end of calendar 2019
  - Includes two of the tax revenue initiatives proposed by the Governor regarding sales tax marketplace facilitators and the life science tax credit cap
    - Excludes seven others including the opioid gross receipts tax, extending the cigarette tax to e-cigarettes and vaping products, and sales tax acceleration
    - Also excludes sports wagering



# Fiscal 2020 Overview

## Summary Budget Outlook by Related Functions

Figures in \$ millions.

	<u>FY19 GAA</u>	<u>FY19 Spending</u>	<u>FY20 House 1</u>	<u>FY20 HWM</u>
Administration & Finance	2,504.9	2,564.5	2,564.5	2,527.9
Education	8,607.2	8,620.1	8,924.6	9,002.5
Energy & Environmental Affairs	258.5	263.0	273.3	277.8
Health & Human Services	23,261.7	23,168.0	23,825.3	23,889.4
Housing & Economic Development	570.3	587.3	571.0	573.9
Labor & Workforce Development	56.5	65.5	73.3	70.4
Public Safety & Security	1,133.8	1,230.6	1,269.8	1,249.2
Technology Services & Security	36.3	36.3	41.3	36.3
Transportation	708.3	739.9	741.6	691.6
<b><u>subtotal</u></b>	<b><u>37,137.4</u></b>	<b><u>37,275.2</u></b>	<b><u>38,284.8</u></b>	<b><u>38,319.0</u></b>
All Other	4,745.9	4,794.6	4,889.5	4,853.6
<i>reversion assumption</i>		-42.0		
<b><u>Total</u></b>	<b><u>41,883.3</u></b>	<b><u>42,027.8</u></b>	<b><u>43,174.3</u></b>	<b><u>43,172.6</u></b>

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

	HWM vs FY19GAA		HWM vs FY19 Spend		HWM vs GOV	
	\$ change	% change	\$ change	% change	\$ change	% change
Administration & Finance	23.1	0.9%	-36.5	-1.4%	-36.6	-1.4%
Education	395.3	4.6%	382.4	4.4%	77.9	0.9%
Energy & Environmental Affairs	19.3	7.5%	14.8	5.6%	4.5	1.7%
Health & Human Services	627.7	2.7%	721.4	3.1%	64.0	0.3%
Housing & Economic Development	3.6	0.6%	-13.4	-2.3%	2.9	0.5%
Labor & Workforce Development	13.9	24.5%	4.9	7.5%	-2.9	-4.0%
Public Safety & Security	115.4	10.2%	18.5	1.5%	-20.7	-1.6%
Technology Services & Security	0.1	0.1%	0.1	0.1%	-5.0	-12.0%
Transportation	-16.7	-2.4%	-48.3	-6.5%	-50.0	-6.7%
<b><u>subtotal</u></b>	<b><u>1,181.6</u></b>	<b><u>3.2%</u></b>	<b><u>1,043.8</u></b>	<b><u>2.8%</u></b>	<b><u>34.2</u></b>	<b><u>0.1%</u></b>
All Other	107.7	2.3%	59.0	1.2%	-35.9	-0.7%
<b><u>Total</u></b>	<b><u>1,289.3</u></b>	<b><u>3.1%</u></b>	<b><u>1,144.8</u></b>	<b><u>2.7%</u></b>	<b><u>-1.8</u></b>	<b><u>0.0%</u></b>

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

Starting Point	GOV	HWM
<i>FY19 Balance</i>	-36.2	-36.2
Revenue Changes	\$ Change vs FY19	\$ Change vs FY19
Tax Growth	1,105.6	1,133.7
Gaming Revenue	160.5	125.5
EJ Sullivan Courthouse	28.3	28.3
Abandoned Property	-43.4	-43.4
EMAC Expiration	-225.9	-225.9
<b><u>Subtotal, Revenue Changes</u></b>	<b><u>1,025.0</u></b>	<b><u>1,018.1</u></b>
Spending Changes		
Education	-323.0	-364.4
Pensions	-204.2	-204.2
<i>Other HHS</i>	-72.8	-67.1
<i>MassHealth</i>	-44.0	-59.0
<b><u>Subtotal, MassHealth and Other HHS</u></b>	<b><u>-116.8</u></b>	<b><u>-126.2</u></b>
State Employee Health Insurance (GIC)	-79.5	-52.5
Debt Service	-62.5	-62.5
All Other Changes	-200.1	-76.9
<b><u>Subtotal, Spending Changes</u></b>	<b><u>-986.1</u></b>	<b><u>-886.6</u></b>
<i>FY20 Balance</i>	2.6	95.3

Figures express net impact on balance. Figures in \$ millions.



# Highlight: Education

- Education finance reform as the centerpiece
  - Both 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 \$218 million (4.5%) vs FY19 spending for Chapter 70, \$17 million more than GOV
    - Makes changes to the funding formula for charter school reimbursements and adds \$23 million vs FY19
  - Addresses some of the concerns raised regarding funds for low-income students via a separate grant program rather than in the education funding formula directly



# Highlights: Tax Revenue

<b>HWM Tax Revenue Initiatives vs H.1</b>		<b>Figures in \$ millions.</b>	
<b>Already Enacted</b>	<b>GOV</b>	<b>HWM</b>	<b>\$ Change</b>
Recreational Marijuana	132.5	132.5	0.0
Transient Accommodation/Room Occupancy Tax	27.5	27.5	0.0
<b><u>Subtotal, Enacted</u></b>	<b><u>160.0</u></b>	<b><u>160.0</u></b>	<b><u>0.0</u></b>
<b>Proposed</b>			
Sales Tax Marketplace	41.7	41.7	0.0
Life Sciences	5.0	5.0	0.0
<b><u>Subtotal, Proposed</u></b>	<b><u>46.7</u></b>	<b><u>46.7</u></b>	<b><u>0.0</u></b>
<b>Other Projections</b>			
Tax-Related Settlements & Judgments	50.0	100.0	50.0
<b>Total, Tax Revenue Initiatives</b>	<b>256.7</b>	<b>306.7</b>	<b>50.0</b>
<b>Tax Transfers</b>			
Sports Wagering	35.0	0.0	-35.0
<b>Revenue Initiatives Not Included in HWM</b>			
Sales Tax Acceleration	306.0	0.0	-306.0
Opioid gross receipts tax	14.0	0.0	-14.0
Vaping	6.0	0.0	-6.0
Withholding on non-resident property sales	4.0	0.0	-4.0
Sales Tax Integrity	2.0	0.0	-2.0
Deeds/Climate Change	0.0	0.0	0.0
Stamp Smokeless Tobacco	0.0	0.0	0.0
<b><u>Subtotal, Revenue Initiatives Not Included</u></b>	<b><u>367.0</u></b>	<b><u>0.0</u></b>	<b><u>-367.0</u></b>





# 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

<b>Potential Exposures in the HWM Budget</b>	
<b>Starting Point</b>	
HWM Balance	95.3
<b>Revenue</b>	
Tax-Related Settlements & Judgments	-50.0
GIC Revenue	-27.0
Other	-21.8
<u>Subtotal, Revenue</u>	<u>-98.8</u>
<b>Spending</b>	
Snow and Ice	50.0
Sheriffs	45.8
CBA	26.4
DOC	14.2
Family Shelter	12.2
Other	31.8
<u>Subtotal, Spending</u>	<u>180.4</u>
<b>Net Impact of Potential Exposures</b>	<b>-279.2</b>

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, dated 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 &amp; 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 Committee on Ways and Means (HWM) unveiled their budget proposal on Wednesday, April 10, 2019
    - House members have a 5pm Friday deadline for filing amendments to the bill
    - Debate will occur the week of April 22-26
  - The Senate Committee on Ways and Means (SWM) will release their own proposal in early May (likely week of May 6-10)
    - Amendments likely 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



# Notes from Other States

- Taxes

- Only five states proposing tax or revenue changes worth more than two percent of general revenues (Massachusetts is not one of the five)
  - Several states are pursuing some form of sales tax modernization associated with marketplace facilitators
    - GOV and HWM include sales tax marketplace
  - Like MA, 11 states proposed to establish taxes on e-cigarettes and vaping products

- Spending

- Like Massachusetts, education policy is a major focus of executive budget proposals across the country
  - Numerous proposals across the country to adjust the funding formula for distributing aid to school districts
  - School safety initiatives
    - Governor's proposal included funding for school safety initiatives, HWM budget does not include these
  - Higher education scholarship expansion is a feature in at least 16 states
    - Governor's proposal included \$100 million in new support for scholarships and HWM added funding compared to fiscal 2019 for this purpose

Source: "Summaries of Fiscal Year 2020 Proposed Budgets" by the National Association of State Budget Officers (NASBO) published April 2, 2019.

