



## The Good, the Bad and the Ugly: Massachusetts's 2014 Status Quo Budget

by Iliya Atanasov

### Background

Pioneer has generally produced at the time of release of key budget documents a series of “The Good, the Bad and the Ugly” reports. The conference committee’s fiscal year 2014 budget was circulated on the first of the month, just as the new fiscal year started.

The conference committee budget is the culmination of the House and Senate budget processes. Now the legislative compromise goes to Governor Patrick for approval, amendment or veto.

As Pioneer has written [previously](#), the governor’s H.1 budget bill promised no real reform and was focused on raising taxes and spending billions more, ostensibly, on transportation and early education, although most of the proposed tax increases would have flowed into general revenues.

The conference committee’s budget is, unfortunately, a document mainly consisting of the Bad and the Ugly.

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Overall spending is projected to increase more than 5 percent in FY 2014, but tax revenues will rise about 4 percent.

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### The Numbers<sup>2</sup>

The budget includes few targeted changes in appropriations on the general background of spending increases of about 5 percent.

**Hiding the Ball on Transportation.** Taking up the governor’s stated priority in transportation, the legislature passed earlier a special “transportation” bill (H.3535), including a 3¢ hike of the gas tax that will add \$95 million to the Commonwealth Transportation Fund (CTF) on top of \$668 million expected from existing excise taxes on motor fuels. The catch is that the remaining \$344 million of new revenue in the bill – mostly from a sales tax on customized software, an extra \$1 in excise levies on cigarettes and some other patches to the sales tax – will go into the general fund.

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## The Good, the Bad and the Ugly: Massachusetts's 2014 Status Quo Budget

The transportation bill also recalibrates the allocation of the sales tax going for transport needs. In previous budgets, the vast proportion of that contribution came from the general sales tax and to a much lesser extent from sales on meals and motor vehicles. Now the transportation money will come entirely from car sales, which – at face value – seems to make sense in terms of matching expenditures and revenue sources. However, car sales are much more volatile in the business cycle than general spending, which is bound to cause new funding problems in the first downturn down the road. Indeed, the volatility of tax receipts is an argument consistently raised by policymakers resisting cuts in sales taxes offset by increases in the income tax. Such considerations seem to have been conveniently overlooked this time around.

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Almost half of the “transportation” bill revenue will go for general spending, not for transportation needs.

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Overall, the CTF is budgeted to get only \$231 million more than in FY 2013, which is a 15 percent increase, despite the trumpeted improvements in funding

through the transportation bill, which raises some \$440 million in new taxes. While the transportation bill H.3535 pledges additional transfers from the general fund averaging just under \$97 million annually in FY 2015-2020, those appropriations can be easily offset by the next budget or omnibus bill amendment; the current legislature simply cannot legally bind future legislatures on matters of appropriation.

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State revenue will rise by about \$1.6 billion from \$33.4 billion to \$35 billion, while spending will rise \$1.8 billion from \$35.2 billion to over \$37 billion.

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**Less Accountability in Local Aid, No Additional Money for School Reform.** Municipalities and school districts will bear the cost of rising spending elsewhere in the state budget. Local aid is allocated only \$21 million more than last year for an increase of 0.41 percent (Fig. 1). The entire amount of the increase will go to unrestricted aid. Overall school aid remains unchanged at \$4.3 billion or about 82 percent of local aid and 12.7 percent of the state budget.<sup>3</sup> The School

**Figure 1. Key Spending Areas (in millions)**

	FY2013	FY2014	Net Change	% Change
<b>Transportation</b>				
CTF	\$1,534.20	\$1,765.20	\$231.00	15.06%
MBTA	\$786.80	\$799.30	\$12.50	1.59%
<b>Total</b>	<b>\$2,321.00</b>	<b>\$2,564.50</b>	<b>\$243.50</b>	<b>10.49%</b>
<b>Local Aid</b>				
Chapter 70 district	\$661.09	\$661.09	\$0.00	0.00%
Chapter 70 muni	\$3,640.12	\$3,640.12	\$0.00	0.00%
Unrestricted	\$898.98	\$920.23	\$21.25	2.36%
<b>Total</b>	<b>\$5,200.19</b>	<b>\$5,221.44</b>	<b>\$21.25</b>	<b>0.41%</b>
<b>Other</b>				
CCTF*	\$1,534.20	\$1,765.20	\$231.00	15.06%
SMART Fund	\$689.40	\$703.60	\$14.20	2.06%
PRIT Fund	\$1,552.00	\$1,630.00	\$78.00	5.03%
WTF**	\$20.20	\$21.60	\$1.40	6.93%

\*Commonwealth Care Trust Fund    \*\*Workforce Training Fund

Figure 2. Summary of Budgeted Cash Flows (in millions)

Source	FY 2013	FY 2014	Net Change	% Change
Alcoholic Beverages	\$77.10	\$78.40	\$1.30	1.69%
Cigarettes	\$454.40	\$443.20	(\$11.20)	-2.46%
Corporations	\$1,836.50	\$1,691.00	(\$145.50)	-7.92%
Deeds	\$141.10	\$188.10	\$47.00	33.31%
Estate Inheritance	\$246.50	\$261.70	\$15.20	6.17%
Financial Institutions	\$112.70	\$51.30	(\$61.40)	-54.48%
Income	\$12,731.80	\$13,056.70	\$324.90	2.55%
Insurance	\$335.40	\$381.90	\$46.50	13.86%
Motor Fuels	\$678.70	\$667.50	(\$11.20)	-1.65%
Public Utilities	(\$32.30)	(\$10.80)	\$21.50	-66.56%
Room Occupancy	\$127.70	\$131.50	\$3.80	2.98%
Sales-Regular	\$3,625.60	\$3,700.90	\$75.30	2.08%
Sales-Meals	\$894.60	\$957.50	\$62.90	7.03%
Sales-Motor Vehicles	\$683.20	\$696.50	\$13.30	1.95%
Miscellaneous	\$16.80	\$17.00	\$0.20	1.19%
UI Surcharges	\$20.20	\$21.60	\$1.40	6.93%
<b>Total Consensus Tax Revenues</b>	<b>\$21,950.00</b>	<b>\$22,334.00</b>	<b>\$384.00</b>	<b>1.75%</b>
SMART Transfer	(\$689.40)	(\$703.60)	(\$14.20)	2.06%
MBTA Transfer	(\$786.80)	(\$799.30)	(\$12.50)	1.59%
PRIT Transfer	(\$1,552.00)	(\$1,630.00)	(\$78.00)	5.03%
Workforce Training Fund	(\$20.20)	(\$21.60)	(\$1.40)	6.93%
<b>Total Consensus Tax Revenue for Budget</b>	<b>\$18,901.60</b>	<b>\$19,179.50</b>	<b>\$277.90</b>	<b>1.47%</b>
Transportation Finance Tax Changes		\$439.60	\$439.60	NA
Amazon Tax Agreement		\$36.70	\$36.70	NA
Delay of FAS 109	\$45.90	\$45.90	\$0.00	0.00%
Tax Settlement Revenue	\$32.00	\$35.00	\$3.00	9.38%
Tax Revenue Enhancements	\$36.30	\$35.00	(\$1.30)	-3.58%
Increased Tobacco Excise to CCTF		(\$31.30)	(\$31.30)	NA
Increased SMART Transfer		(\$28.40)	(\$28.40)	NA
<b>Total Taxes Available for Budget</b>	<b>\$19,015.80</b>	<b>\$19,712.00</b>	<b>\$696.20</b>	<b>3.66%</b>
Federal Reimbursements	\$8,270.20	\$8,554.60	\$284.40	3.44%
Departmental Revenue	\$3,099.80	\$3,569.10	\$469.30	15.14%
Consolidated Transfers	\$1,805.00	\$2,022.80	\$217.80	12.07%
<b>GRAND TOTAL</b>	<b>\$32,190.80</b>	<b>\$33,858.50</b>	<b>\$1,667.70</b>	<b>5.18%</b>

## The Good, the Bad and the Ugly: Massachusetts's 2014 Status Quo Budget

Modernization and Reconstruction Trust (SMART) will get another \$43 million more than last year for a total of \$733 million in FY 2014.

**Other Big-Ticket Items.** Apart from the tax changes in the “transportation” bill, the other large new revenue source comes in the form of some \$470 million more in “departmental revenue” – amounting to a 15 percent increase over last year’s budget. These monies will go into the general fund. The state’s contribution towards employee pensions will rise about 5 percent to \$1.6 billion (§ 180), which is 4.7 percent of the actual budget. Meanwhile, a special commission is to examine the expansion of the gasoline tax into a general excise levy on fossil fuels (§ 207).

### Outside Sections

The outside sections of the budget are notorious for making controversial changes to the commonwealth’s laws without going through otherwise-required and appropriate public discussion and vetting.

**Undermining Accountability.** An amendment to MGL Chapter 32 in § 21 of the budget expands the Public Employee Retirement Administration Commission by two members – to nine. The Speaker of the House and the President of the Senate would each appoint one new commissioner, who would have to be a representative of a county, city or town contributory retirement system with assets above \$500 million. While it is a positive sign that the legislature is taking a more active interest in the supervision of the commonwealth’s pension systems, packing the board of their regulator with public pension fund managers would undermine the goals of effective oversight. Massachusetts public retirement boards have historically resisted PERAC’s regulatory responsibility as a perceived infringement on their independence; they should not be provided further opportunity to do so. Governor Patrick should veto this amendment without delay.

**Lowering the Bar, Then Double-Dipping.** The legislature has also decided to lower the bar on itself by redefining what a balanced budget is in § 40. While heretofore that required a half-percent surplus

and a similar contribution from tax revenue into the rainy-day fund, lawmakers will from now on be happy with a nonnegative value on their consolidated net surplus (note that this amount does not include certain off-budget items).

By § 43, any fund’s surpluses will be used to cover deficits in other funds before being swept into the stabilization fund, which will contribute some \$400 million to the government’s spending this year (§§ 172, 202). Even the Health Safety Net Fund loses its ability to retain up to \$160 million in surplus medical surcharges before its leftover money goes straight into general fund spending (§ 98) despite that the legislature has not even decided on how to levy medical assistance contributions from employers (§§ 109, 109A, 109B). Nor is income on the balance of the Health Care Security Trust spared the broom (§ 168). Just “to be on the safe side,” § 161 also sweeps any amounts from other funds unexpended as of April 2013 into the general fund.

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A special amendment in the budget effectively asks public pension fund managers to oversee their own regulator.

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**Highlighting Waste and Fraud in the Healthcare System.** The budget bill authorizes several new agencies and a special commission to try and contain soaring healthcare costs. A new hospital audit unit and a special study will try to stem abuses in MassHealth (§ 160), which has been riddled with waste and fraud like other social programs in the state and will also have to produce a report on possible savings (§ 167). Money will also be spent on a new HHS bureau on program integrity (§ 17).

**Only Band-Aid for Education.** The University of Massachusetts is the only substantial “budget priority” other than transportation and raising taxes. The legislature has allocated enough money for the next couple of years to keep tuition unchanged as costs continue to rise rapidly (§ 162). Special commissions are mandated to study early and higher

education and costs in the UMass system (§§ 162, 165, 166).

## **Context**

The 50 states are now reeling from the budget blues for a sixth year running. While Massachusetts has a stronger revenue base and retains more contingency cash in its stabilization fund than some states, the lack of needed reforms in this budget is disappointing. Not only have we not addressed persistent structural issues within the budget, but we have not planned for the long-term challenges that are soon to arrive.

The conference committee's bill highlights three pervasive issues, which are not at all confined to Massachusetts:

- higher-education costs and expenditures on public universities have been rising rapidly across the country;
- five years of fiscal problems have substantially worsened the condition of already deficient transportation investment programs;
- an aging population combined with the impacts of the Affordable Care Act is producing a spike in healthcare expenditures, especially in states like Massachusetts, which have chosen to expand Medicaid coverage (health care is the biggest driver of spending growth in the budget).

While it is encouraging that the conference committee mentions these important issues, the relevant special committees established in the budget should have submitted their reports years ago. With sluggish growth in the economy and in tax revenues – something experts had predicted as far back as 2009 – structural reforms are the only way to get back on track.

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The legislature's budget increases the commonwealth's cash-flow deficit by over \$200 million in FY 2014, from \$1.8 billion to over \$2 billion.

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## **Bottom Line**

There is too little to show for the new revenues to be raised in FY 2014. Spending increases are not tied effectively enough to specific reforms in key policy areas such as transportation. The budget shores up runaway government costs for another year with new taxes; it does not tackle critical structural issues in core services, the tax code and the commonwealth's debt management.

## **Endnotes**

1. 1 July 2013 is the first day of FY 2014; provisional appropriations will be made until the budget is finalized after the governor's vetoes.
2. For a complete breakdown of revenues and spending, please see the consolidated cash flow statements in the Appendix.
3. These figures do not include disbursements through SMART.

## **Appendix. Consolidated Cash Flow Statements for FY 2013 and 2014 (in millions) (See following page)**

Adopted Budget FY 2013						Conference Committee Budget FY 2014					
Source	All Budgeted	General Fund	Transportation	Tourism	Other	All Budgeted	General Fund	Transportation	Tourism	Other	
Alcoholic Beverages	\$77.10	\$77.10	\$0.00	\$0.00	\$0.00	\$78.40	\$78.40	\$0.00	\$0.00	\$0.00	
Cigarettes	\$454.40	\$454.40	\$0.00	\$0.00	\$0.00	\$443.20	\$443.20	\$0.00	\$0.00	\$0.00	
Corporations	\$1,836.50	\$1,836.50	\$0.00	\$0.00	\$0.00	\$1,691.00	\$1,691.00	\$0.00	\$0.00	\$0.00	
Deeds	\$141.10	\$141.10	\$0.00	\$0.00	\$0.00	\$188.10	\$188.10	\$0.00	\$0.00	\$0.00	
Estate Inheritance	\$246.50	\$246.50	\$0.00	\$0.00	\$0.00	\$261.70	\$261.70	\$0.00	\$0.00	\$0.00	
Financial Institutions	\$112.70	\$112.70	\$0.00	\$0.00	\$0.00	\$51.30	\$51.30	\$0.00	\$0.00	\$0.00	
Income	\$12,731.80	\$12,731.80	\$0.00	\$0.00	\$0.00	\$13,056.70	\$13,056.70	\$0.00	\$0.00	\$0.00	
Insurance	\$335.40	\$335.40	\$0.00	\$0.00	\$0.00	\$381.90	\$381.90	\$0.00	\$0.00	\$0.00	
Motor Fuels	\$678.70	\$0.00	\$677.80	\$0.00	\$0.90	\$667.50	\$0.00	\$666.60	\$0.00	\$0.90	
Public Utilities	(\$32.30)	(\$32.30)	\$0.00	\$0.00	\$0.00	(\$10.80)	(\$10.80)	\$0.00	\$0.00	\$0.00	
Room Occupancy	\$127.70	\$83.00	\$0.00	\$44.70	\$0.00	\$131.50	\$85.50	\$0.00	\$46.00	\$0.00	
Sales-Regular	\$3,625.60	\$3,402.30	\$223.30	\$0.00	\$0.00	\$3,700.90	\$3,700.90	\$0.00	\$0.00	\$0.00	
Sales-Meals	\$894.60	\$839.50	\$55.10	\$0.00	\$0.00	\$957.50	\$957.50	\$0.00	\$0.00	\$0.00	
Sales-Motor Vehicles	\$683.20	\$641.10	\$42.10	\$0.00	\$0.00	\$696.50	\$241.00	\$455.50	\$0.00	\$0.00	
Miscellaneous	\$16.80	\$16.80	\$0.00	\$0.00	\$0.00	\$17.00	\$17.00	\$0.00	\$0.00	\$0.00	
UI Surcharges	\$20.20	\$0.00	\$0.00	\$0.00	\$20.20	\$21.60	\$0.00	\$0.00	\$0.00	\$21.60	
<b>Total Consensus Tax Revenues</b>	<b>\$21,950.00</b>	<b>\$20,885.90</b>	<b>\$998.30</b>	<b>\$44.70</b>	<b>\$21.10</b>	<b>\$22,334.00</b>	<b>\$21,143.40</b>	<b>\$1,122.10</b>	<b>\$46.00</b>	<b>\$22.50</b>	
SMART Transfer	(\$689.40)	(\$689.40)				(\$703.60)	(\$703.60)				
MBTA Transfer	(\$786.80)	(\$786.80)				(\$799.30)	(\$799.30)				
PRIT Transfer	(\$1,552.00)	(\$1,552.00)				(\$1,630.00)	(\$1,630.00)				
Workforce Training Fund	(\$20.20)				(\$20.20)	(\$21.60)				(\$21.60)	
<b>Total Consensus Tax Revenue for Budget</b>	<b>\$18,901.60</b>	<b>\$17,857.70</b>	<b>\$998.30</b>	<b>\$44.70</b>	<b>\$0.90</b>	<b>\$19,179.50</b>	<b>\$18,010.50</b>	<b>\$1,122.10</b>	<b>\$46.00</b>	<b>\$0.90</b>	
Transportation Finance Tax Changes						\$439.60	\$344.20	\$95.40			
Amazon Tax Agreement						\$36.70	\$36.70				
Delay of FAS 109	\$45.90	\$45.90	\$0.00	\$0.00	\$0.00	\$45.90	\$45.90	\$0.00	\$0.00	\$0.00	
Tax Settlement Revenue	\$32.00	\$32.00	\$0.00	\$0.00	\$0.00	\$35.00	\$35.00	\$0.00	\$0.00	\$0.00	
Tax Revenue Enhancements	\$36.30	\$36.30	\$0.00	\$0.00	\$0.00	\$35.00	\$35.00	\$0.00	\$0.00	\$0.00	
Increased Tobacco Excise to CCTF						(\$31.30)	(\$31.30)				
Increased SMART Transfer						(\$28.40)	(\$28.40)				
<b>Total Taxes Available for Budget</b>	<b>\$19,015.80</b>	<b>\$17,971.90</b>	<b>\$998.30</b>	<b>\$44.70</b>	<b>\$0.90</b>	<b>\$19,712.00</b>	<b>\$18,447.60</b>	<b>\$1,217.50</b>	<b>\$46.00</b>	<b>\$0.90</b>	
Federal Reimbursements	\$8,270.20	\$8,264.70	\$0.00	\$0.00	\$5.50	\$8,554.60	\$8,549.00	\$0.00	\$0.00	\$5.60	
Departmental Revenue	\$3,099.80	\$2,547.10	\$535.90	\$0.00	\$16.80	\$3,569.10	\$3,001.70	\$547.70	\$0.00	\$19.70	
Consolidated Transfers	\$1,805.00	\$2,071.30	\$0.00	(\$0.40)	(\$265.90)	\$2,022.80	\$2,159.50	\$0.00	\$2.30	(\$139.00)	
<b>GRAND TOTAL</b>	<b>\$32,190.80</b>	<b>\$30,855.00</b>	<b>\$1,534.20</b>	<b>\$44.30</b>	<b>(\$242.70)</b>	<b>\$33,858.50</b>	<b>\$32,157.90</b>	<b>\$1,765.20</b>	<b>\$48.30</b>	<b>(\$112.80)</b>	