



October 16, 2019

## **Analysis: Closing the Books on Fiscal 2019**

*Legislative Proposal Would Appropriate \$365 Million in New Spending*

Though the Commonwealth's fiscal year 2019 ended June 30<sup>th</sup>, decisionmakers must make several important choices before the final accounting of the state's finances for the year can be completed. Most importantly, lawmakers will determine how to allocate the year-end budget surplus, which revised MTF calculations now estimate at approximately \$870 million.<sup>1</sup>

The House Committee on Ways and Means (HWM) offered an initial proposal for allocating the budget surplus on Tuesday, October 15, 2019 ([H.4127](#)). This policy brief summarizes the HWM proposal and highlights key differences between their approach and that offered by Governor Baker.

### **Key Takeaways**

- The HWM plan includes \$365 million in new spending, approximately \$19 million more than proposed by the Governor.
- As proposed, the HWM plan would result in a deposit of \$428 million to the Commonwealth Stabilization Fund, the state's "rainy day" fund, more than double the amount proposed by the Governor, and bring the fund balance to approximately \$3.3 billion.
- The HWM bill includes language that would decouple the state's tax code from a provision of federal tax law, known as 163(j), saving taxpayers \$37 million.
- MTF calculates the total fiscal impact of the bill is approximately \$544 million, excluding the impact of spending appropriations extended into fiscal 2020.

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<sup>1</sup> For more on the fiscal 2019 budget surplus calculation, please see [Big Decisions Ahead for \\$767 Million Budget Surplus](#), Massachusetts Taxpayers Foundation, October 1, 2019. Amounts exclude the impact of Prior Appropriations Continued (PAC).



## Budget Surplus

<b>Projecting the FY19 Budget Surplus</b>			
Budget Surplus	<u>GOV</u>	<u>HWM</u>	<u>Var</u>
Tax Surplus			
Budgeted Tax Revenue above estimate	1,076.9	1,076.9	0.0
Excess Capital Gains Transfer above estimate	-359.2	-359.2	0.0
<u>Tax Surplus</u>	<u>717.6</u>	<u>717.6</u>	<u>0.0</u>
All Other Non-Tax Revenue and Spending Changes	48.8	152.8	104.0
<b><u>Subtotal, Budget Surplus</u></b>	<b><u>766.5</u></b>	<b><u>870.4</u></b>	<b><u>104.0</u></b>
Proposed Surplus Allocation			
Transfer to Reserves			
Pre-Pay for Tax Cut	175.0	0.0	-175.0
Stabilization Fund Transfer	168.0	428.4	260.4
OPEB	47.3	47.3	0.0
<u>Subtotal, Transfer to Reserves</u>	<u>390.3</u>	<u>475.7</u>	<u>85.4</u>
New Spending			
Life Sciences and CPA	30.0	30.0	0.0
Proposed New Initiatives			
Education	104.9	85.4	-19.6
Transportation	54.6	60.2	5.6
MBTA	50.0	50.0	0.0
<u>Subtotal, Transportation &amp; MBTA</u>	<u>104.6</u>	<u>110.2</u>	<u>5.6</u>
Clean Water	55.0	55.0	0.0
Public Safety	24.9	17.4	-7.5
Housing	20.4	20.4	0.0
Other HHS	16.3	37.4	21.1
Environment	12.1	13.6	1.5
Other	7.9	15.5	7.6
MassHealth	0.0	9.9	9.9
<u>Subtotal, Proposed New Initiatives</u>	<u>346.1</u>	<u>364.7</u>	<u>18.6</u>
<b><u>Total Allocation</u></b>	<b><u>766.5</u></b>	<b><u>870.4</u></b>	<b><u>104.0</u></b>
<b><u>FY19 Surplus After Allocation</u></b>	<b><u>0.0</u></b>	<b><u>0.0</u></b>	<b><u>0.0</u></b>

Figures in \$ millions.



## Highlights

### Taxes

The HWM proposal includes three policy sections that decouple the Massachusetts tax code from a section of the federal tax code, IRS 163(j), for purposes of the interest deduction limitation. According to the Massachusetts Department of Revenue (DOR), this change likely represents \$37 million in “potential forgone tax revenue” in fiscal 2020.

HWM did not include two other tax law changes proposed by Governor Baker. These initiatives reduced the personal income tax rate to 5.0 percent starting January 1, 2020 and doubled the income tax deduction for dependents from \$1,000 to \$2,000.

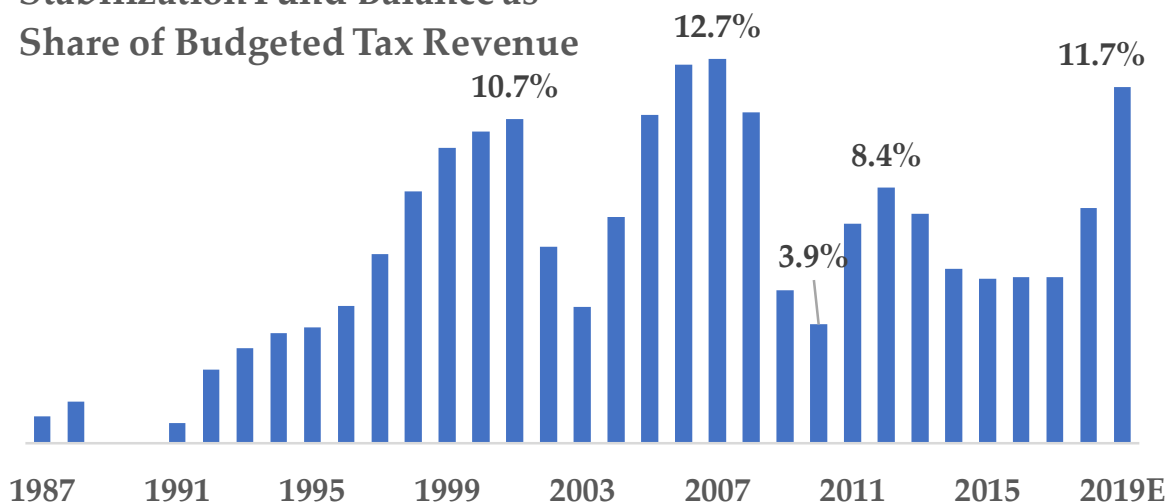
### Stabilization Fund Transfer

Absent other legislative actions, the HWM proposal would deposit approximately \$428 million in the Commonwealth Stabilization Fund, the state’s “rainy day” fund. This amount will be reduced by approved floor amendments.

A \$428 million deposit would more than double the amount proposed by Governor Baker and bring the Stabilization Fund balance to approximately \$3.3 billion, or 11.7 percent of budgeted tax revenue, the highest ratio since fiscal 2007.

This wise approach aligns with MTF recommendations to build up the state’s “rainy day” fund in advance of future economic downturns.

### Stabilization Fund Balance as Share of Budgeted Tax Revenue



## *New Spending Highlights*

### Education

HWM proposes to spend \$85 million of the budget surplus on education initiatives, including \$20 million for to further an existing program to incentivize private fundraising by public higher education institutions in Massachusetts. Of the \$20 million, \$10 million would be earmarked for the University of Massachusetts, \$5 million for state universities, and \$5 million for community colleges.

Other education investments include \$17.5 million for charter school reimbursements, \$17.5 million for higher education scholarships, \$10 million for the Commonwealth's Targeted Intervention program for schools and districts deemed "underperforming" by the state, and a variety of other smaller initiatives.

### Transportation

The HWM proposal allocates \$110 million for transportation, nearly \$6 million more than the Governor's plan. HWM proposed \$60 million for municipal transportation improvements and \$50 million for the Massachusetts Bay Transportation Authority (MBTA).

### Other Health & Human Services

HWM allocated \$38 million of the budget surplus to health and human services programs, far more than the \$16 million proposed by Governor Baker. New spending items include \$10 million to increase wages for workers providing home and community-based service programs, \$10 million in grants to municipalities for neighborhood-based gun and violent crime prevention efforts, and \$1 million for grants to support substance misuse prevention and recovery programs.

### **Conclusion**

Fiscal 2019 has been a particularly strong year for the Commonwealth's fiscal health. The HWM proposal extends this strength by depositing a significant amount of the budget surplus in the "rainy day" fund. Like the Governor's plan, however, the HWM plan represents a missed opportunity to do more to pay down the Commonwealth's unfunded pension and other postemployment benefit (OPEB) liabilities that will continue to challenge the state's long-term finances.

