

PATRICK-MURRAY ADMINISTRATION FILES FISCAL YEAR 2014 BUDGET

Balanced, responsible budget will create growth and opportunity throughout the Commonwealth, Continues record of reforms to improve government performance

BOSTON – Wednesday, January 23, 2013 – Governor Deval Patrick today filed his Fiscal Year 2014 (FY14) budget recommendation, a balanced and fiscally responsible plan that will grow jobs and opportunity by continuing the Governor's unprecedented commitment to investing in education, innovation and infrastructure. These investments will create a better Commonwealth for the next generation. The FY14 budget also proposes a series of reforms to achieve savings, improve performance and increase transparency in state government.

“This is a growth budget that makes investments in education and transportation to grow jobs in the near-term and strengthen our Commonwealth in the long-term,” said Governor Patrick. “Each of us has a stake in promoting opportunity and prosperity throughout the Commonwealth, and each of us should contribute to improving it. And the number of new reforms we have also proposed continues our work to improve government performance and achieve savings.”

“This budget proposal reflects a growth strategy that engages municipalities to foster long-term sustainability across the Commonwealth,” said Lieutenant Governor Timothy Murray. “We want to continue our Administration’s unprecedented support for cities and towns while also implementing critical reforms, creating more efficiencies in the delivery of services, and making key investments that will benefit Massachusetts today and for future generations.”

“This budget is fiscally sound and continues to change the way government does business,” said Secretary of Administration and Finance Glen Shor. “It positions the Commonwealth well for the future by aggressively building on the many reforms and efficiency initiatives we have implemented over the past several years to ensure we stretch every taxpayer dollar as far as possible.”

The Governor’s FY14 budget recommendation proposes state spending of \$34.8 billion, a 6.9 percent increase from FY13. This rate of growth is consistent with pre-recession budgets.

Creating Growth and Opportunity

Education

Governor Patrick has called for renewed investment in education in order to create opportunity across the Commonwealth and to keep the Massachusetts economy growing. The proposed budget would provide universal access to high quality early education for children across the state, from birth through age five; fully fund K-12 education and allow for extended school days in high-need schools; make college more affordable and accessible for high school graduates; and allow community colleges to expand their efforts to provide students with the knowledge and skill training needed to succeed in the workplace.

The Administration will invest a total of \$6.79 billion in education in FY14, including over \$550 million in new targeted investments that will bring Chapter 70 funding to \$4.39 billion, the highest in state history. These investments include increased funding in achievement gap related programs, including:

\$131 million investment in the early education and care system will provide funding to work to eliminate the Department of Early Education and Care's (EEC) current birth to age-five waitlist; expand initiatives to ensure the highest educational quality among providers of early education and care; assist early educators and providers with attaining higher levels of proficiency, skill and quality; increase educational programs and supports for parents and family members to further engage them in their child's success; and expand efforts to provide comprehensive support services to children and their families.

\$226 million in increased Chapter 70 local aid will hold every district harmless for aid; keep every district at foundation levels of spending; finish the Chapter 70 equity reforms of 2007; guarantee an increase of \$25 per pupil for every district; calculate Out of District Special Education at \$35,000 per year, an increase of \$25,000 per year in prior years to appropriately compensate districts for the costs of providing special education; and eliminate the cap of pre-kindergarteners included in enrollment for Chapter 70.

\$5 million for a targeted expanded learning time initiative, allowing for middle school students in high-need schools to have the additional time and resources they need to build differentiated systems of learning, and ensuring that students have access to enrichment programs that will enhance their ability to succeed both in and out of the classroom. The proposal also includes an additional \$9 million in funding for comprehensive supports to students and their families in Gateway Cities.

Finally, the proposal includes \$152 million in FY14 to make college more affordable and accessible, particularly for lower- and middle-income students, including:

Significantly increasing funding to the MASSGrant program, which provides financial

assistance for students demonstrating the greatest need;

Expanding the Completion Incentive Grant Fund, which allows students enrolled at certain campuses to receive a maximum of \$8,000 over four years for credits earned towards their degree;

Providing annual increases for the community college funding formula developed as part of the Governor's community college proposal, totaling \$20 million in FY14; and

Furthering the Commonwealth's support for funding at least 50 percent of the educational costs at the University of Massachusetts.

Transportation

The Governor's FY14 budget proposes new investments in the Commonwealth's transportation system to maintain the current transportation assets we have today and launch a number of high-impact transportation projects across Massachusetts that, if built, will create thousands of jobs and spur economic development across the Commonwealth.

In addition to the Patrick-Murray Administration's \$13 billion capital investment over 10 years in transportation projects in the Commonwealth, a \$269 million increase is included in the Governor's FY14 operating budget recommendations to begin to fund the transportation needs highlighted in MassDOT's "The Way Forward: A 21-st Century Transportation Plan." In FY14, this investment will:

Eliminate the MBTA's structural operating deficit, which has been solved in recent years through the use of one-time, unsustainable funding sources;

Provide modest MBTA service enhancements such as expanding evening hours, restoring weekend service in areas that have been cut and improved customer service;

Take a significant step forward in discontinuing the decades-old practice of using borrowed funds (bonds) to pay for personnel and other operating costs

Sustainably fund Regional Transit Authorities (RTAs) by ending the practice of funding the RTA operating budgets in arrears, thereby eliminating the need for the RTAs to take on short-term debt in order to fund annual operating costs which, in turn, increases costs to the taxpayers and customer; and

Commence a \$13 billion Accelerated Transportation Program, including an additional \$100 million for chapter 90 local road and bridge funding.

Innovation and Job Creation

The Governor is proposing targeted investments to improve the Commonwealth's competitive business climate, especially in innovative fields, including: advancing innovation economies such as the life sciences and advanced manufacturing through research grants and accelerator loans; and funding an infusion of new MassWorks local infrastructure grants.

The Governor's FY14 budget provides \$75.5 million in additional funding for innovation and job creation, including:

\$25 million in the Massachusetts Life Sciences Center (MLSC), an increase of \$10 million above FY13, and further assumes that \$25 million in tax incentives will be distributed to companies expanding their life sciences activities and creating jobs within the Commonwealth. This funding will enable MLSC to provide research grants and accelerator loans to researchers and early-stage companies, a direct investment in business expansion and job growth in this critical sector;

MassDevelopment's Advanced Manufacturing Futures Program was created in the 2012 Jobs Bill to engage in small-to-medium-enterprise lending, drive workforce development, and provide competitive grants and contracts to facilitate growth and competitiveness in the field of manufacturing. The FY14 budget will invest \$18.75 million from gaming license revenue in this new program to begin this crucial work. The Administration estimates that a total of 1,856 jobs will be created or retained through this investment over the next five years;

The MassWorks Infrastructure Program is a one-stop shop for municipalities seeking public infrastructure funding that supports economic development and job creation. This budget will expand the program and allow for new competitive projects over a minimum of two years with an investment of \$19.25 million from gaming license revenue. With this expansion, local cities and towns will see up to \$88.1 million in infrastructure-related public construction activity during the 2013 construction season through the MassWorks Infrastructure Program. The Administration estimates this program would create or retain an estimated 2,927 jobs over the next two years;

\$5 million for an investment to set up six regional housing authorities that will consolidate over 240 state local housing agencies. By promoting regionalization and cost-effective energy

purchasing, the Commonwealth could save over \$10 million a year in administrative costs that could be redirected back into the housing; and

\$7.5 million to support a new financing vehicle for the nation-leading social innovation projects announced by the Administration for youth offender diversion and prevention of homelessness among unaccompanied adults.

Commitment to Municipalities

The FY14 budget continues the Patrick-Murray Administration's unprecedented commitment to building strong partnerships with cities and towns and supporting their efforts to operate more effectively and efficiently. The Governor's FY14 budget increases local aid funding for all communities, provides much-needed local aid reform and will include programs that enhance cooperation with municipalities to achieve key Administration priorities.

Aid to cities and towns, or local aid, grows to 14.6 percent of the annual budget, or \$5.57 billion in FY14. Unrestricted Aid will be funded at \$930 M, a \$31M increase over the original FY13 budget.

Other FY14 Local Aid Funding Includes:

The special education circuit breaker will allocate \$230 million directly to municipalities;

State Owned Land (PILOT) is level funded;

Library Aid is level funded at the FY13 estimated spending level of \$16 million;

Regional School Transportation is funded at the FY13 estimated spending level of \$44.5 million;

Charter School Reimbursement is increased by \$9.8 million to \$80 million, from the FY13 estimated spending level of \$70.5 million;

Tax Reimbursements to Veterans, the Blind and Widows is funded at \$25 million;

Caseload-driven increases to Veterans' Benefits bring the account to \$48.1 million for FY14;

The Department of Veterans' Services (DVS) will maintain its FY13 policy of 100 percent reimbursement to cities and town for the costs they incur providing homeless shelter benefits to veterans. In FY13, the total reimbursements to cities and towns exceeded \$888,000; and

The Administration's 21st Century Transportation plan includes an additional \$100 million per year for local roads and bridges (bringing the Chapter 90 program to \$300 million annually) and an additional \$40 million per year in capital funds for the Regional Transit Authorities.

Comprehensive, Dedicated and Fair Proposal to Accelerate Growth

To support almost \$2 billion in meaningful investments that will strengthen the state's economic future, the FY14 budget calls for the creation of a simpler and fairer tax system that lowers the sales tax from 6.25 percent to 4.5 percent, and raises the income tax to 6.25 percent. Proceeds from the cut in the sales tax will be dedicated to a public works fund that will support the transportation plan laid out last week, as well as the school building fund and other public infrastructure and will be off limits for any other purpose.

To make that increase fair to all according to their ability to pay, the Governor has proposed doubling the personal exemptions for every taxpayer and eliminating a number of itemized deductions. Making those changes gives us a tax code that is simpler and fairer. The changes to state sales, income and business taxes will leave Massachusetts comparable on taxation to our neighboring states and those with which we compete.

In addition, the budget proposes to:

Reinstate the deduction for life insurance and annuity interest.

Cap the film tax credit at \$40 million per fiscal year.

Repeal the exemption of candy and soda from the sales tax.

Increase the cigarette excise by \$1 to \$3.51 per pack, and increase other tobacco taxes (cigars, smokeless, roll-your-own, etc.) to reflect the previous and new cigarette excise increases.

All funds would go directly to the general fund.

Reforms to Make Government Work Better

The Governor also announced several reforms that complement the budget. Proposed reforms include:

Reforming our antiquated retiree health benefits system to save the Commonwealth and

municipalities \$20 billion over 30 years and sustainably ensure future generations receive adequate benefits;

Beginning the process to implement electronic tolling, allowing all traffic to travel at normal highway speed through the tolling areas and reduce operating costs by an estimated \$50 million annually;

Ensuring there is “no wrong door” to accessing state services, by expanding the network of Family Access Centers, a one-stop center that provide services targeted to the needs of families in their host community;

Reducing business health care costs by 23 percent by eliminating the Fair Share Contribution Program and Medical Security Programs while maintaining employer responsibility to maintain quality, affordable health care for all residents by implementing an “employer responsibility contribution”;

Modernizing the funding formula for community colleges to strengthen the role these schools play in preparing students for jobs in the state’s rapidly evolving innovation economy;

Implementation of necessary funding changes required under the federal Affordable Care Act (ACA) to streamline health care coverage while maintaining access and affordability;

Enhancing oversight of the Commonwealth’s sterile compounding pharmacies by reorganizing the Board of Pharmacy and increasing inspections for all sterile compounding pharmacies;

Providing a series of innovative tools for municipalities, including a one-stop online grant portal for municipalities, the Citizens Connect smartphone application, state support for municipal information technology challenges, upgraded Geographic Information System services, and municipal purchasing assistance; and

Continued review of state regulations on businesses to ensure that we employ the correct balance in ensuring corporate responsibility while not overburdening the regulated community.

Accountability and Transparency

The Patrick-Murray Administration is dedicated to ensuring that state government continues to become more effective and efficient so that every tax dollar it uses is stretched as far as possible. We must be smarter about how government operates and delivers services to the people of the

Commonwealth. We also need to ensure that government focuses its limited resources on the things it needs to do to achieve better results for the people of the Commonwealth.

The FY14 budget advances these goals with the presentation of the budget in a new program budget format for the first time. Program-based budgeting provides comprehensive information on how taxpayer dollars are being spent, making the budget more accessible and transparent to taxpayers. This budget is presented in a new, more accessible and easily understood program-based format. Instead of simply presenting the agency or line-item account for each area of spending, this budget shows how much is being spent on the real functions of state government. The new program-based budget also goes beyond simply making recommendations for annual operating funds and presents a broader and more transparent view of how state government invests the resources it has – whether from operating, federal, capital or trust fund sources.

The FY14 budget marks the launch of MassResults, the next phase of the Commonwealth's efforts to make state government more transparent, effective and efficient. Led by the Office of Commonwealth Performance, Accountability and Transparency (CPAT), this initiative builds on the work done to date to change the way state government does business. For the first time each Secretariat will publish strategic plans which will lay out their mission, vision, goals and actions that will be achieved over the FY13-FY15 period. MassResults aims to make state government more effective, more accountable and more open – building a results-oriented culture.

Responsible Fiscal Leadership

Once again, the Governor's FY14 budget proposal is structurally balanced and sustainable. The budget minimizes the use of the state's stabilization fund with a draw of \$400 million, which will leave a rainy day fund balance in excess of \$1 billion at the end of FY14, one of the highest rainy day funds in the nation. This practice is consistent with the Patrick-Murray Administration's long-term fiscal policy framework, which called for limiting the use of one-time solutions to operating budget shortfalls to levels that are sustainable within long-term forecasted tax revenues. Long-term financial planning is a best practice, and the Administration is committed to using long-term financial planning to inform the development of structurally balanced, sustainable budgets. In alignment with that policy, the Governor's FY14 budget proposes to utilize only \$555 million in one-time resources next year, down from \$919 million in FY13.

The Patrick-Murray Administration's fiscal management has been recognized by all three rating agencies. In September 2011, Standard and Poor's upgraded the Commonwealth's credit rating to AA+, resulting in all three of the state's credit ratings being just one notch below the highest possible rating and giving the Commonwealth the highest credit ratings in its history.

Other Budgetary Revenues in FY14 Include:

\$83 million in gaming revenues projected to be collected next year as new gaming facilities are licensed under the 2011 expanded gaming legislation;

\$94 million in employer assessments currently collected to support health care costs for laid-off workers to help support its restructured subsidized health insurance programs starting in 2014;

\$24 million from modernizing the state's existing bottle redemption law to include bottled water and sports drinks;

\$27 million in tax enforcement initiatives at the Department of Revenue; and

\$26.2 million associated with an agreement with the online retailer, Amazon, to begin to collect sales tax for goods sold in Massachusetts and from the expansion of the hotel surcharge to rental properties.

For more information on the Governor's FY14 budget, please visit

www.mass.gov/budget/governor.