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From the Boston Business Journal:

<https://www.bizjournals.com/boston/news/2020/01/15/state-budget-gap-pegged-at-900m-in-new-report.html>

## State budget gap pegged at \$900M in new report

Jan 15, 2020, 2:48pm EST

With a slowdown in tax revenues expected and spending pressures escalating, Gov. Charlie Baker and the Legislature will grapple with a gap between likely revenues and spending of nearly \$900 million, according to a new report.

The Massachusetts Taxpayers Foundation on Wednesday predicted the upcoming budget cycle will differ significantly from the last two, during which tax receipts shattered projections and enabled the state to bulk up its cash reserves, pass one-time investments, and push the state budget up to \$43.3 billion.

"The presence of such a gap provides early warning that significant changes will be considered in order to balance the budget, such as tax increases or spending cuts," the foundation concluded. "Stakeholders and opinion leaders should prepare to consider such actions as budget deliberations begin."

The chief spending pressures on state government will come from delivering on the first installment of a seven-year promise to boost K-12 education spending and picking up costs associated with the mammoth MassHealth program in the face of a curtailment in federal aid, according to the report.

The report estimates that the bulk of new tax revenues next fiscal year, about \$428 million, will be funneled into the revamped school funding formula that was at the center of the Student Opportunity Act signed by Gov. Baker in November. A \$428 million increase represents 8.3 percent growth for Chapter 70 aid, the report said.

Separately, the Massachusetts Budget and Policy Center, in what it called a "rough estimate," wrote this week that the Baker administration expects \$303 million per year in increased Chapter 70 aid from fiscal 2020 through fiscal 2027.

Legislators last year refused to release community-by-community or aggregate fiscal 2021 education aid estimates as they pushed the education bill through.

The MTF report arrives a week before Baker is scheduled to deliver his State of the State address and unveil his fiscal 2021 state budget proposal, which will offer the first official look at planned K-12 education aid under the new education reform law. Chapter 70 school aid totaled \$5.2 billion this year.

### How Slow Can it Go?

In arriving at its estimate of a projected budget gap, the business-backed foundation, which monitors state spending and revenues, used a more conservative revenue base than the one agreed to Monday by the Baker administration and legislative leaders. While budget writers officially agreed that fiscal 2021 tax revenues will grow by 2.8 percent, the model used by MTF in its budget preview is based on tax revenues rising by 1.7 percent.

The foundation said strong capital markets and federal tax reform impacts helped push state tax revenues upwards in recent years, but may have obscured the negative impacts on income tax revenues associated with a decline in the state's working-age population.

The revenue slowdown is already occurring, and the big question in 2020 is how slow can it go. Tax collections midway through fiscal 2020 are up 4.7 percent, down from the 6.9 percent growth rate in fiscal 2019 and a 8.5 percent increase in fiscal 2018, but still higher than the forecasted growth rates.



W. MARC BERNSAU  
Massachusetts State House on Boston's Beacon Hill

Foundation analysts also expect new challenges ahead in paying for MassHealth, a program that provides health insurance to about 1.8 million low-income, disabled and elderly individuals. MassHealth costs could jump by \$432 million in fiscal 2021, with the state's share rising \$297 million, or 4.6 percent, due to cost-shifting impacts and changes in federal reimbursements for a program that is a partnership between the states and the federal government.

Matching assistance for the Children's Health Insurance Program (CHIP) will decrease, the report said, with federal reimbursements falling by about \$79 million next fiscal year. Federal aid associated with coverage expansions under the Affordable Care Act will be reduced by \$41 million, the report said.

Other big cost centers within state government, like public employee pensions and other health and human services programs, are projected to grow larger, and at a faster rate than state revenues, according to the report.

The state budget line item for public employee pensions, for instance, is expected to surge to \$3.1 billion, a 9.6 percent increase over the \$2.84 billion in the current state budget.

The report said costs associated with providing public services through the Department of Developmental Services, Department of Mental Health, Department of Public Health and Department of Children and Families have increased about 5 percent per year in recent years.

"Given spending of more than \$6 billion annually, even a below-trend growth rate assumption of 4.7 percent implies more than \$304 million in new costs for other health and human services in fiscal 2021," the report said.

The MTF budget model assumes state programs and services outside of the major ones identified in the report will see a 2.5 percent funding increase, with about 2 percent accounting for inflation and 0.5 percent tied to population growth.