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ML Strategies FY2015 Budget Update: The Governor's Proposal

January 29, 2014 | Alert | By **Julie Cox**, George Atanasov, Amarynth Sichel

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As the budget process heats up on Beacon Hill, ML Strategies will issue periodic updates regarding the process and politics that will shape this year's budget. We begin by providing an overview of the budget timeline and a brief analysis on the budget process.

Governor's Budget Proposal

The first official step in the budget process is the release of the Governor's budget, which he must propose within three weeks after the Legislature convenes in a new calendar year for formal session. Governor Patrick filed his FY2015 budget with the House of Representatives on January 22, 2014.

The Governor's $36.4 billion budget proposal is a 4.9 percent increase from FY14, in line with projected tax revenue growth. Unlike last year, when Governor Patrick sought a $1.9 billion tax increase to fund a major expansion of education and transportation programs, this budget outlines more modest tax increases totaling $97 million. The proposal relies on $334 million in one-time revenue, with around $175 million coming from the state's Rainy Day Fund, and $53.5 million from gaming license fees.

The Governor's proposal calls for an expanded bottle bill, applies sales tax to candy and soda, imposes room occupancy taxes on transient rentals and rooms rented through online travel sites, and applies the corporate tax rate to security corporations and non-insurance subsidiaries of insurance companies. The Legislature has rejected all these proposals in the past.

In a supplemental budget proposal, which was filed concurrently with the budget, the Governor also suggests updates to the Uniform Probate Code that will impact estate recovery, and expands the examination of banks under MGL Section 2, Chapter 167 to include electronic branches. Additionally, the supplemental budget calls for an increase to the threshold for appellants seeking to use the Appellate Tax Board Small Claims process from $5,000 to $25,000, and limits transfers of large one-time settlements to the Stabilization Fund to those exceeding the five-year median, which will decrease the amount of money that goes into the Stabilization Fund, directing it instead towards the General Fund.

Governor Patrick boosts spending on transportation by $141 million and spending on K-12 schooling by $100 million, in addition to increasing spending on higher education by $68 million and early education by $15 million. In an effort to shore up the Department of Children and Families, which has been struggling with scandal, the Governor proposes giving the agency a $185,000 bump, to $500,000.

Local aid, however, would be level funded, as would special education, charter school reimbursements, regional school transportation, and the school food services program. Critics allege that this will push cities and towns to reduce services and increase reliance on property taxes.

House Budget Proposal

After the Governor's proposal is submitted, it is referred to the House Committee on Ways & Means. Throughout February and March, the Joint Committee on Ways & Means holds public hearings and interviews cabinet and agency officials on the proposed budget.

House Speaker Robert DeLeo has already signaled that the House will recommend increases in local aid funding to cities and towns. At a Massachusetts Municipal Association meeting on January 24, 2014, the Speaker pledged that "the House will do better" by cities and towns, providing more local aid than the flat funding allotted in the Governor's budget. However, Speaker DeLeo and House Ways & Means Chairman Brian Dempsey have not yet determined how to structure the budget to allow for the increases.

Senate Budget Proposal

Once the House has passed its version of the budget, it is referred to the Senate. The Senate Ways & Means Committee reviews the House bill and develops its own recommendations. During the budget process, the Senate will experience several personnel challenges. Senate President Therese Murray faces a term limit in March 2015, and Majority Leader Stanley Rosenberg will take over after she departs. Chairman of the Senate Ways & Means Committee Stephen Brewer will retire from the Legislature at the

end of his term; however, both he and Senate President Murray will remain in office to work on the Senate's FY2015 budget.

Conference Committee Budget

The differences between the House and Senate versions will be negotiated and resolved by a six-member conference committee. The House and Senate appoint three members each, typically the respective chairs of Ways & Means, as well as the ranking majority and minority members of each committee. This conference committee meets privately to negotiate a final report, which could occur at any point during the remainder of the legislative session. Each branch will then vote to accept or reject the report of the conference committee. Once accepted in each branch by at least a two-thirds vote of approval, the bill is sent to the Governor.

Vetoes

The Governor has 10 days to review and approve the bill, or make vetoes or reductions. The Governor has line-item veto power within individual appropriations, which means that he may strike portions of language within specific items, in addition to reducing or eliminating funding. Outside sections appear at the end of the document. They are policy initiatives that have a fiscal impact. With respect to the outside sections, the Governor may approve, strike the section in its entirety, or return the section with an amendment. The goal is to complete this process by the end of the fiscal year on June 30.

The House and Senate may vote to override the Governor's vetoes. Overrides require a two-thirds majority in each chamber. All overrides must be completed by the conclusion of the formal sessions on July 31.

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