

# FY 2024 BUDGET RECOMMENDATION BUDGET BRIEF

*Maura T. Healey, Governor | Kimberley Driscoll, Lt. Governor*

## ***Fair Share Investments in Education & Transportation***

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### **Introduction**

In November 2022, the voters of Massachusetts approved a new 4 percent surtax on income above \$1 million annually, known as the Fair Share amendment. This new revenue source is constitutionally dedicated to “quality public education and affordable public colleges and universities, and for the repair and maintenance of roads, bridges, and public transportation.”

The Healey-Driscoll administration is committed to maximizing this historic funding opportunity and utilizing Fair Share revenues to make impactful investments in education and transportation. In FY24, \$1 billion in new investments are recommended for programs ranging from financial aid for public higher education to implementing means-tested fares at the MBTA – all focused on improving affordability, equity, and competitiveness across the Commonwealth.

This brief will discuss both the impactful investments made using Fair Share resources and the safeguards the administration is recommending to ensure the long-term sustainability of critical programs and services funded by Fair Share.

### **Historic Investments in Education and Transportation**

In FY24, the Healey-Driscoll administration proposes \$1 billion in historic new investments in our education and transportation systems. A total of \$510 million is budgeted for use on early education and care, K-12 education, and higher education, and \$490 million is invested in transportation.

Investments are spread across multiple segments of education and transportation, with a focus on achieving meaningful, equitable impacts for each. Fair Share investments are planned in the context of other, significant investments across the budget.

Some of the guiding principles that informed the spending decisions around Fair Share investments included:

#### Education

- Stabilization of the early education and care system
- Increased child care slots for income-eligible families
- Investments that put the Commonwealth on a path toward universal Pre-K, starting in Gateway Cities
- Expanded access for high school students to high-quality college and career pathways
- More accessible and affordable public higher education through MassReconnect, financial aid expansions, and tuition and fee stabilizers

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**Budget Brief: Fair Share Investments in Education and Transportation**

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Education	
<i>\$ in millions</i>	Fair Share Investment
<b>Early Education &amp; Care</b>	<b>140</b>
Childcare Grants to Providers	100
Income Eligible Waitlist	25
CPPI Pre-K Initiative	15
<b>K-12 Education</b>	<b>10</b>
Early College and Innovation Pathways	10
<b>Higher Education</b>	<b>360</b>
Financial Aid Expansion: MASSGrant Plus	93
Tuition & Fee Stabilization	59
Student Support Services	30
Higher Education Capital Funding	140
MassReconnect	20
UMass & State University Equity & Inclusion Initiatives	18
<b>Total</b>	<b>510</b>

Transportation

- Strengthened state-municipal partnerships to develop and implement critical local transportation projects
- Preservation of critical highway bridge infrastructure
- Improved and more accessible MBTA stations
- Initiation of means-tested MBTA fares
- Innovative service pilots and increased rural connectivity for RTAs

Transportation	
<i>\$ in millions</i>	Fair Share Investment
<b>Municipal Assistance</b>	<b>100</b>
Municipal Partnership Programs	100
<b>MassDOT Highway</b>	<b>164</b>
Federal Matching Funds	50
Highway Bridge Preservation	100
Roadside Maintenance and Beautification	14
<b>MBTA</b>	<b>186</b>
Capital Investments	181
Means-Tested Fares	5
<b>MassDOT Rail and Transit</b>	<b>40</b>
Regional Transit Funding & Grants	25
Palmer and Pittsfield Rail Projects	12.5
Water Transportation	2.5
<b>Total</b>	<b>490</b>

## ***Budget Brief: Fair Share Investments in Education and Transportation***

Each investment is described in detail in Budget Briefs on individual topics. Please refer to the budget briefs listed below for details on individual investments.

- **Child Care**
- **Historic Higher Education Investments**
- **MassReconnect**
- **Mass Mobility: Transportation in the Commonwealth**

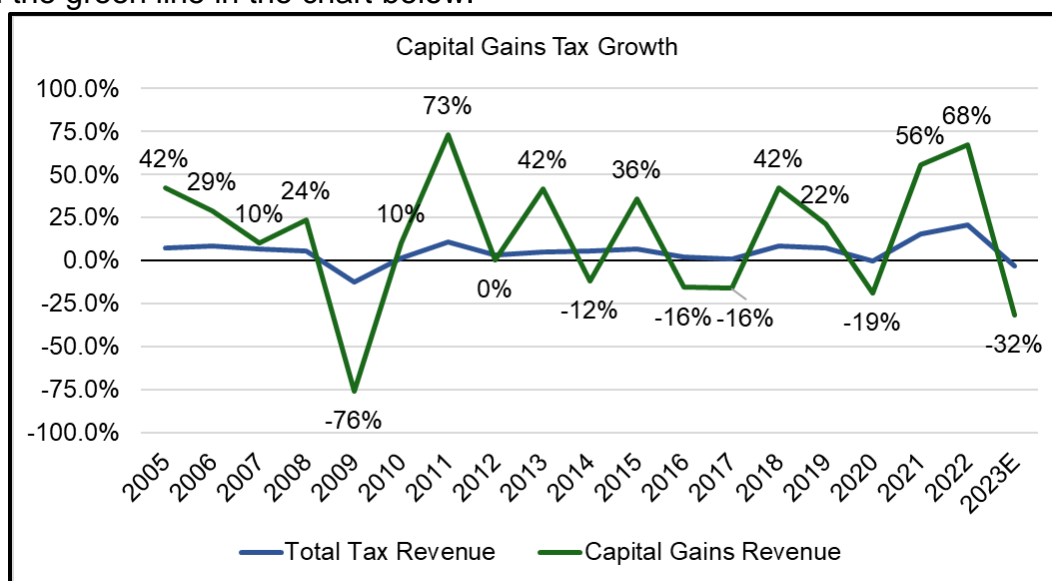
### **A Focus on Long-Term Impact**

Investments funded from Fair Share are made sustainably, ensuring the future of programs for years to come. This new revenue source is an exciting opportunity to make critical, lasting investments in education and transportation. However, in the near term, estimates of collections from the new surtax will be uncertain as more data is collected on exactly how much revenue will be generated annually.

\$1 billion will be available for spending from Fair Share in FY24, consistent with the consensus revenue agreement reached with House and Senate leaders in January. This spending limit ensures that meaningful investments will be made in the first year of Fair Share, while also allowing time to gather data and develop models forecasting future collections.

Fair Share is fundamentally based on collections from highly volatile revenue sources including capital gains, which data from the Department of Revenue demonstrates are inherently more volatile than taxable income as a whole. As a result, fluctuations in economic conditions have the potential to significantly impact collections from Fair Share, and thus, the programs funded by it.

This is demonstrated by the chart below, which depicts capital gains tax collections relative to overall tax revenues. Much of the Fair Share revenue will come from capital gains because of the income mix of those subject to the surtax. Even in strong economic periods, capital gains are volatile as they reflect stock market and other investment activity, as well as individual taxpayer decisions on when to recognize gains and losses for tax purposes. This volatility is evident in the green line in the chart below.



## **The Education and Transportation Fund: Accountable and Transparent**

The Healey-Driscoll administration is focused on ensuring that programs funded by Fair Share are insulated from volatility and periods of economic downturn. To do so, the administration is proposing a number of safeguards focused on accountability, preservation, predictability, stability, and transparency.

Accountability: The Education and Transportation Fund will be established and restricted only for spending on education and transportation. The fund will receive all Fair Share revenues and will not revert to the General Fund at the end of the year. This ensures that Fair Share funds are only invested in education and transportation, as intended by the voters.

Preservation of Programs: A required minimum fund balance will be established that can only be used in the event of significant revenue declines and to preserve base programs. In the event of economic downturn, this balance would be used to preserve programs from reductions that may otherwise be necessary. The required balance will be set at one-third of the annual recurring spending limit, which is described below. After initial funding of the balance, annual contributions to maintain the required fund balance will be minimal and tied to the annual increase to the spending limit.

Predictability: Annual, recurring spending will be limited to protect programs from volatile revenues during periods of economic downturn. Recurring spending will be identified in each line item appropriated from the Education and Transportation Fund. These appropriations are meant to include expenditures that are reasonably expected to be base-building, annual programmatic expenses. These types of expenditures are limited in order to ensure sustainability as revenues fluctuate. This annual limit on recurring expenses will be set permanently in FY26, and thereafter will grow annually based on the ten-year rolling average of surtax growth.

Stability: Revenues collected in excess of the annual limit will be used for one-time investments in education and transportation. One-time investments may include pay-as-you-go capital, pilot programs, start-up grants, studies, enabling projects, and other critical investments that do not reoccur each year.

Transparency: The Department of Revenue and Comptroller will certify revenues and transfer collections to the Education and Transportation Fund quarterly, ensuring both public awareness of how much revenue has been collected and that funds are only available for their intended purposes. The Comptroller will also report annually on expenditures from the Education and Transportation Fund, providing further transparency.

## **Near-Term Implementation**

In the first years of the Fair Share surtax's implementation, a phased approach will be taken as better understanding of the revenue source is developed. In FY27, full implementation of the mechanisms described above will be achieved. Until then, each year will have unique aspects, described below.

- FY23: Revenues will not be certified until December 2023. Because of the particular uncertainty surrounding FY23 collections, which began mid-year, all collections from

### Budget Brief: Fair Share Investments in Education and Transportation

FY23 will be used to establish the required minimum fund balance and are not proposed for appropriation. As a result, all FY24 revenues can be invested immediately in education and transportation programs.

- **FY24:** \$1 billion in investments will be made. Additional FY24 revenue beyond the \$1 billion limit will be available for one-time uses following certification in December 2024.
- **FY25:** The recurring spending limit will be set at \$1.03 billion, 3% growth over FY24. This ensures expansions in Fair Share investments are possible while revenue forecasts are refined with new data.
- **FY26:** The recurring spending limit will be set legislatively during the budget process based on experience with Fair Share collections in the early years. The limit will be set at a level reliably expected to recur in future years.
- **FY27:** The permanent Education and Transportation Fund state begins, with the recurring spending limit growing based on ten-year rolling average of surtax growth (including years prior to its implementation).

The below table depicts the revenues available in coming years.

	FY24	FY25	FY26	FY27
Minimum Fund Balance	\$333 M*	\$340 M	\$340 M+	\$340 M+
Recurring Spending Limit	\$1.0 B	\$1.03 B	TBD**	TBD***
One-Time Resources	TBD	TBD	TBD	TBD

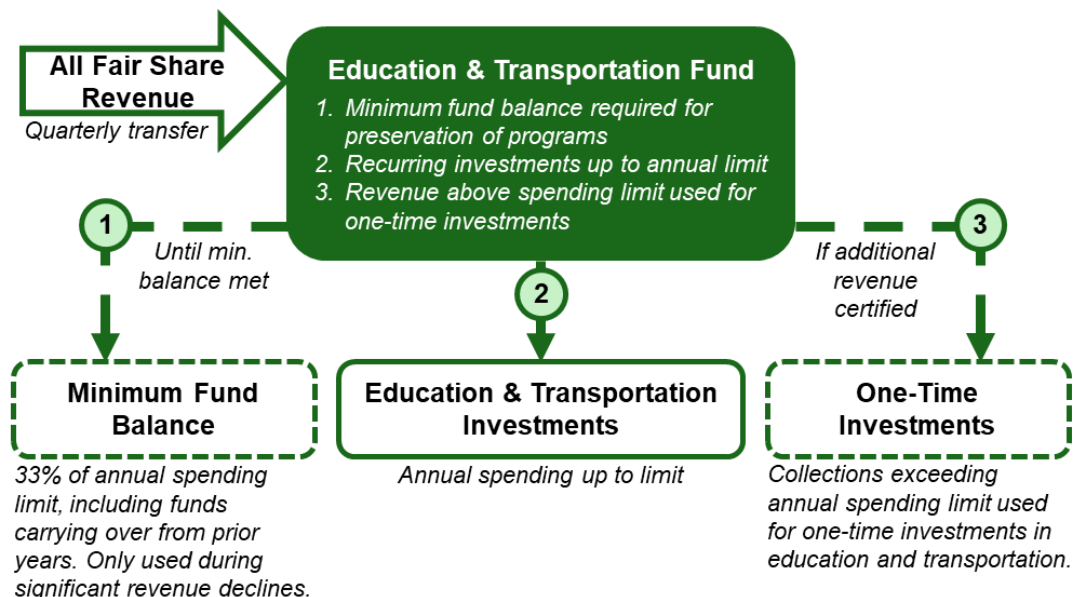
\*FY24 minimum balance funded by FY23 revenues

\*\*Set legislatively in FY26 at a level reliably expected to recur in future years

\*\*\*Grows from FY26 based on ten-year rolling average of surtax growth

### Permanent Fund Mechanics

In its permanent state, the Education and Transportation Fund will ensure sustainable annual investments in our public schools and transportation system, while also making impactful one-time investments. The graphic below demonstrates how funds will flow from revenue collections to ultimate investment.



## ***Budget Brief: Fair Share Investments in Education and Transportation***

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### **Additional Fund Features**

In addition to the Education and Transportation Fund's key features described above, a number of additional mechanisms are included to ensure sustainability and accordance with the will of the voters.

Fair Share revenues will not be subject to capital gains excess calculations (M.G.L. c.29 §5G) or excess revenue calculations under M.G.L. c.62F. Exempting surtax revenues from these provisions ensures the funds are only used for their constitutionally-dedicated purposes of education and transportation.

To ensure maximum transparency, appropriations made from the Education and Transportation Fund will be made in a new section of the annual budget, Section 2F. All appropriations will be easily identifiable as coming from Fair Share in one place. Additionally, all appropriations will be designated as either recurring or one-time. This aligns with the annual spending limit described above. One-time appropriations will be available for five years from the date of authorization, ensuring that large capital projects have multiple years to spend the funds but cannot last indefinitely.

Additionally, appropriations from the Education and Transportation Fund will be subject to the allotments and emergency reductions process defined in M.G.L. c.29 §9B & §9C. Appropriations would only be reduced when emergency reductions are required within the Education and Transportation Fund. General Fund shortfalls alone will not impact investments funded by Fair Share. The minimum fund balance described above provides additional relief from reductions in the event of unforeseen revenue shortfalls.

### **Certification Process**

Quarterly, the Department of Revenue and Comptroller will certify Fair Share collections made in the previous quarter and transfer funds to the Education and Transportation Fund. Additionally, an annual certification will be made in December of collections made in the previous fiscal year. The below tables depict the certification process and key dates.

<b>Certification Dates</b>	<b>Action</b>
<b>Quarterly</b>	
February 20 May 20 July 20 October 20	DOR and Comptroller certify estimated quarterly collections and any adjustments to prior quarters; Collections transferred to Education & Transportation Fund
<b>Annually</b>	
December 15	DOR and Comptroller certify preliminary annual collections in the prior fiscal year and any adjustments to prior years
<b>Other Comptroller</b>	
October 31	Comptroller completes Statutory Basis Financial Report (SBFR), including education and transportation expenditures on one-time and recurring uses