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### Analysis of HWM’s FY 2019 Budget

The House Ways and Means Committee (HWM) has released its \$45.96 billion budget for fiscal year (FY) 2019, its first under Chairman Sanchez. This bulletin provides an overview of this proposal, which will be debated by the full House during the week of April 23<sup>rd</sup>.

#### Budget Overview

The HWM budget includes \$45.96 billion in spending, an increase of \$1.12 billion (2.49 percent) over estimated current year spending and \$78.9 million (0.2 percent) over the Governor’s budget. Line-item spending makes up \$41.44 billion of the HWM total, while budgetary transfers (dedicated revenues to the MBTA and School Building Authority and the contribution to pension fund) add an additional \$4.53 billion.<sup>1</sup>

Figure 1. Budget Spending & Revenue Summary of FY 2019 Budget Proposals

	Spending Comparison				
	FY 2018 Current	FY 2019 GOV	FY 2019 HWM	\$ HWM v. 2018	% HWM v. 2018
<b>Line item spending</b>	\$40,572.7	\$41,357.0	\$41,435.9	\$863.2	2.13%
<b>Off Budget</b>	\$4,273.2	\$4,526.9	\$4,526.9	\$253.7	5.94%
<b>Total spending</b>	\$44,845.9	\$45,883.9	\$45,962.8	\$1,116.9	2.49%
	Revenue Comparison				
	FY 2018 Current	FY 2019 Gov	FY 2019 HWM	\$ HWM v. 2018	% HWM v. 2018
<b>Consensus Tax Revenues</b>	\$26,661	\$27,594	\$27,594	\$933	3.5%
<i>Tax settlements</i>	\$125	\$125	\$125	\$0	0.0%
<i>Less cap gains transfer</i>	-\$25	-\$89	-\$89	-\$64	256.0%
<b>New Revenue Sources</b>					
<i>Marijuana (sales tax &amp; excise)</i>	\$0	\$63	\$63	\$63	NA
<i>Resort casino</i>	\$0	\$44	\$44	\$44	NA
<b>Revenue initiatives</b>					
<i>Employer assessment</i>	\$215	\$260	\$260	\$45	20.9%
<i>Ongoing tax (new)</i>	\$0	\$13	\$0	\$0	NA
<i>Repatriation</i>	\$0	\$65	\$63	\$63	NA
<b>Federal</b>					
<i>MassHealth related</i>	\$8,817	\$8,848	\$8,905	\$88	1.0%
<i>Other</i>	\$2,740	\$2,509	\$2,505	-\$235	-8.6%
<b>Departmental &amp; transfers</b>					
<i>Lottery</i>	\$1,084	\$1,084	\$1,105	\$21	1.9%
<i>Other</i>	\$5,358	\$5,591	\$5,592	\$234	4.4%
<b>Total</b>	\$44,974.5	\$46,107.5	\$46,167.0	\$1,192.5	2.65%

<sup>1</sup> The \$41.44 billion in line-item spending referenced in this bulletin differs from the HWM stated total of \$40.98 billion because the Foundation total includes \$452.5 million spending for the state’s Medical Assistance Trust Fund.

The HWM budget uses \$27.847 billion in tax revenue. The comparison between this figure, the Consensus Revenue Agreement and the Governor’s tax revenue assumptions are summarized in Figure 2.

*Figure 2. Tax Revenue Assumptions in FY 2019*

	<b>Governor</b>	<b>HWM</b>
<b>Consensus revenue</b>	<b>\$27,594</b>	
Tax settlements	\$125	\$125
Corporate repatriation	\$65	\$65
Marijuana sales & excise	\$63	\$63
Transient accommodations	\$13	\$0
<b>Total tax revenue</b>	<b>\$27,860</b>	<b>\$27,847</b>
Capital gains transfer	-\$89	-\$89
Pension contribution	-\$2,609	-\$2,609
MBTA transfer	-\$1,032	-\$1,032
SBA transfer	-\$863	-\$863
Workforce training	-\$24	-\$24
<b>Total tax revenue for budget</b>	<b>\$23,245</b>	<b>\$23,232</b>
<i>In millions</i>		

The only tax revenue differences between the two budgets relates to the taxation of transient accommodations. The Governor’s budget uses \$13 million from the application of a uniform tax rate of 5.7 percent that applies to all transient accommodation rentals in excess of 150 days. HWM opted not to count on any transient accommodations revenue in the budget, although the House recently passed a separate transient accommodations bill that would apply differential rates to rentals based on the number of units owned by the renter. If enacted, the House approach would generate approximately \$17 million per year.

Like the Governor, the HWM budget assumes that \$88.5 million in above-threshold capital gains tax revenue will be transferred into the Stabilization Fund rather than be used for operating expenses.<sup>2</sup>

The second largest source of revenue is federal reimbursements related to MassHealth totaling \$8.91 billion. This figure is \$57 million more than the amount of reimbursements included in the Governor’s budget. This difference is due to HWM’s decision to exclude the Administration’s two reform proposals. This approach increases MassHealth spending, but also results in increased federal reimbursements. These policy differences are discussed at greater length later in the bulletin.

The HWM budget uses a more optimistic estimate for lottery revenue than the Governor. The \$1.1 billion HWM total revenue assumption, \$21 million more than the Administration, would be in line with collections between FY 2015 and FY 2017, but would be an increase over expected FY 2018 activity.

The HWM budget mirrors the Administration’s assumptions for both marijuana sales and resort casinos expecting the state will collect \$63.26 million and \$60 million respectively in FY 2019. The two budgets appropriate marijuana revenue in the same way, but diverge with respect to gaming revenue. The HWM budget dedicates 20 percent of new budgeted gaming revenue to a new early education workforce initiative.

The following chart provides a quick comparison of provisions in the HWM and Governor’s budgets. It is noteworthy that MassHealth spending represents the largest single difference at \$217 million.

<sup>2</sup> \$8.5 million of this amount is then transferred to other state reserves

Figure 3. FY 2019 Spending and Revenue Highlights

FY 2019 Budget in a Box					
Spending			Revenue		
	Gov	HWM		Gov	HWM
<b>Total spending</b>			<b>Consensus tax revenue</b>	\$27,594	
Increase	\$1,038	\$1,117	Increase	\$933	
Spending growth	2.31%	2.49%	Revenue growth	3.50%	
<b>MassHealth</b>			<b>Increases to the Rainy Day Fund</b>		
Increase	\$301*	\$518	Cap gains	\$80	\$80
Transition to Connector	Yes	Now			
<b>Chapter 70</b>			Other	\$16	\$16
Increase	\$104	\$125	<b>Budget gap closed</b>	\$400	\$400
<b>Other Non-discretionary</b>			<b>One-time solutions</b>	\$65	\$65
Increase	\$482	\$427	<b>New ongoing revenues</b>		
<b>Discretionary spending</b>			Taxes	\$76	\$63
Increase	\$150	\$47	Gaming	\$42	\$42
<b>Total spending items</b>			<b>Tax settlements</b>	\$125	\$125
New	23	9	<b>OPEB Savings</b>	\$150	\$150
Increased	375	387	<b>Real-Time Sales</b>	Effective FY 2021	Repealed
Decreased/eliminated	214	173			
<i>Numbers in millions</i>					

The HWM’s spending growth is 2.49 percent, slightly higher than the 2.31 percent in the Governor’s budget – a difference of just under \$80 million. Based on past practice, spending in the final version of the House budget will grow higher as amendments are adopted. Over the last three years, the House has added an average of \$76.8 million to their budget through the amendment process.

Nondiscretionary spending growth means that relatively little new spending is available for other program areas. MassHealth spending growth of \$518 million, combined with additional pension contributions and other non-discretionary spending, leaves just \$125 million for Chapter 70 and \$47 million for all other non-discretionary spending. The HWM budget follows the Administration’s lead in limiting the use of one-time and unsustainable revenues. Both budgets include \$65 million from a one-time spike in corporate excise due to federal tax reform and, but use of other one-time revenues are avoided. The HWM budget, like the Governor, continues troubling revenue practices related to tax settlements and the tobacco settlement. Both budgets assume that \$125 million in tax settlement revenues will be available for use in the budget – a figure that exceeds the \$58 million received in FY 2017 and projected settlements in FY 2018. Each budget also diverts \$150 million in expected tobacco settlement funds from state retiree health care obligations to the General Fund.<sup>3</sup>

The HWM budget requires the comptroller to once again move \$125 million in sales tax revenue forward from FY 2020 to fill a \$125 million budget gap in FY 2019. This approach was used in FY 2018 as well after it was determined that the original plan to generate this revenue – real time sales tax collections for debit and credit cards – was infeasible. Unlike the Governor’s budget, the HWM budget does not continue to pursue real time

<sup>3</sup> Beginning in FY 2013, the state committed to dedicate 10 percent of tax settlement revenues to the state’s retiree health benefit (OPEB) liabilities, and increase those dedicated funds by 10 percentage points until all settlement revenues were dedicated to this long-term liability. Under the original plan, 70 percent of tobacco settlement revenues should be dedicated to OPEB; both FY 2019 budget proposals cap the OPEB amount at 10 percent for this year.

sales tax as a potential way to address the \$125 million ongoing sales tax gap created last year, but instead creates a commission to study implementing a sales tax estimated payment system in Massachusetts.,

### Major Spending Areas

#### *MassHealth*

*Figure 4. MassHealth Spending & Revenue, FY 2018 & FY 2019*

	FY 2018 GAA	FY 2018 Current	FY 2019 GOV	FY 2019 HWM
MassHealth spending	\$15,889,733,552	\$15,975,862,126	\$16,191,342,329	\$16,494,192,329
MH Connector spending	\$0	\$0	\$86,000,000	\$0
Federal reimbursement	\$8,905,158,084	\$8,816,789,565	\$8,847,588,548	\$8,905,193,548
Net cost	\$6,984,575,468	\$7,159,072,561	\$7,429,753,781	\$7,588,998,781
Reimbursement share of spending	56.04%	55.19%	54.64%	53.99%

The HWM assumes \$16.49 billion in spending for MassHealth, an increase of \$518.3 million (net of federal reimbursements, the state increase is approximately \$400 million).<sup>4</sup> The majority of this spending increase is due to the exclusion of two major reforms proposed in the Governor’s budget: the transition of 140,000 non-disabled adults from MassHealth coverage to the state’s Health Connector; and providing MassHealth with additional authority to obtain relevant information from pharmaceutical companies and to exclude drugs from the program formula if certain cost or effectiveness criteria are not met. The chart below summarizes MassHealth spending differences between the HWM and Governor’s budget based on the information currently available:

*Figure 5. MassHealth Spending Differences<sup>5</sup>*

Initial MassHealth estimate	\$16,709.4	
<i>Savings efforts</i>		
	Gov	HWM
Program integrity: enrollment	-\$101.9	-\$101.9
Program integrity: utilization	-\$38.0	-\$38.0
Rates savings	-\$78.9	-\$78.9
Other reforms	-\$29.2	\$0.0
Connector shift	-\$270.1	\$0.0
Nursing home rates	\$0.0	\$17.8
DSH rates	\$0.0	\$13.0
Acute pediatric rates	\$0.0	\$14.8
Community health centers	\$0.0	\$0.8
Misc. savings	\$0.0	-\$42.9
Final MassHealth	\$16,191.3	\$16,494.1

As Figure 5 shows, the House approach of keeping all non-disabled adults on the MassHealth program increases MassHealth gross costs by \$270 million. These costs are partially offset by additional federal reimbursements

<sup>4</sup> The relatively high share of MassHealth increases in the HWM budget appears to be related to several revenue maximization efforts underway in FY 2018 that will provide one-time revenue increases in FY 2018 as well as the loss of federal revenue due to the end of payments from the state’s Delivery System Transformation Initiative Trust Fund.

<sup>5</sup> This is an initial analysis and will be updated as more information is available.

and an \$86 million reduction in the state transfer to the Health Connector, for a net cost of between \$60 and \$70 million in FY 2019.

The HWM budget also omits any language that would allow EOHHS to negotiate supplemental rebates with pharmaceutical companies, require those companies to provide information related to pricing and to close the MassHealth formulary to certain drugs. These initiatives, that were proposed by the Governor and which require federal approval, are unlikely to save a significant amount in FY 2019, but have the potential to reduce MassHealth drug costs going forward.

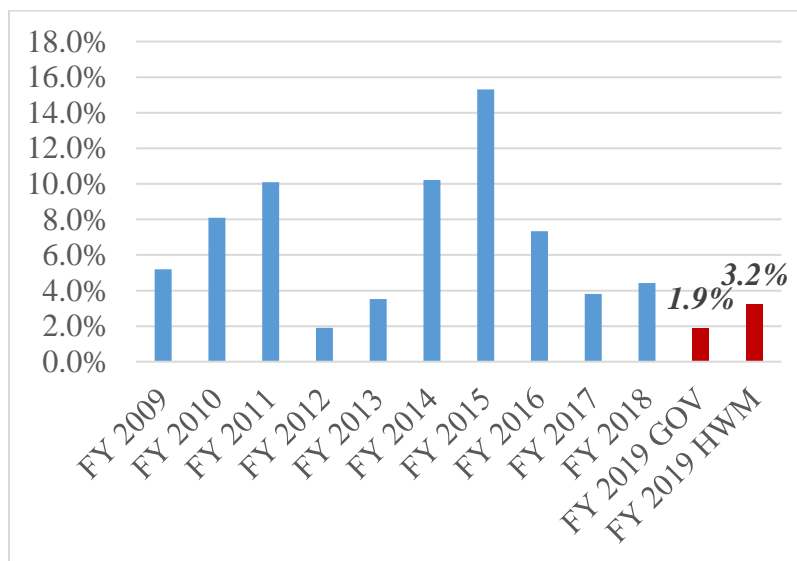
The HWM budget differs from the Administration’s MassHealth plans in terms of targeted funding increases and reporting requirements representing an additional \$46.35 million in earmarked MassHealth spending as outlined below:

- \$15 million for additional nursing home rates;
- \$2.8 million for nursing home direct care worker wage improvements;
- \$14.8 million for acute pediatric hospitals;
- \$13 million in rate supplements for disproportionate share hospitals; and
- \$750K for community health centers in Worcester, Lawrence and Boston.

After accounting for federal reimbursements, the state’s net cost is approximately \$23 spending.

Legislative budgets often include agency reporting requirements not proposed by the Administration and there are at least six such MassHealth reports in the HWM budget. Two of the more noteworthy ones are a detailed report on the state’s affordable care organization initiative and a monthly submission of MassHealth’s caseload information to the Ways and Means committees in a searchable electronic format.

*Chart 1. MassHealth Spending Growth, FY 2009 – FY 2019*



It may be too early to assess whether or not the House is open to meaningful MassHealth costs reforms as they are expected to take up health care reform legislation in the coming weeks. For the HWM budget, the financial impact of maintaining the status quo is clear. It requires \$160 million more in net state costs related to MassHealth as compared to the Governor’s budget and a programmatic spending growth that exceeds three percent in a budget

where total spending grows at 2.49 percent. Without any meaningful reforms to the MassHealth program, there will be fewer and fewer discretionary dollars for other spending priorities.

### Local aid

Figure 6. Chapter 70 & UGGA, FY 2015 – FY 2019

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019 GOV	FY 2019 HWM
<b>C70</b>	<b>\$4,399,910,261</b>	<b>\$4,511,882,199</b>	<b>\$4,628,013,618</b>	<b>\$4,746,953,715</b>	<b>\$4,850,573,126</b>	<b>\$4,871,530,948</b>
\$ Increase	\$99,975,095	\$111,971,938	\$116,131,419	\$118,940,097	\$103,619,411	\$124,577,233
% Increase	2.33%	2.54%	2.57%	2.57%	2.18%	2.62%
<b>UGGA</b>	<b>\$945,702,568</b>	<b>\$979,797,001</b>	<b>\$1,021,928,272</b>	<b>\$1,061,783,475</b>	<b>\$1,098,945,897</b>	<b>\$1,098,945,897</b>
\$ Increase	\$25,472,275	\$34,094,433	\$42,131,271	\$39,855,203	\$37,162,422	\$37,162,422
% Increase	2.77%	3.61%	4.30%	3.90%	3.50%	3.50%

The HWM budget adopts the Administration’s funding approach for Unrestricted General Government Aid (UGGA), while providing a larger increase to Chapter 70 education aid in order accelerate implementation of the Foundation Budget Review Commission (FBRC) recommendations. Together, these HWM appropriations increase funding for the state’s two largest local aid programs by \$161.8 million over FY 2018, and by \$21 over the Governor’s proposed \$140.8 increase.

The \$37.2 million UGGA increase in the HWM and Governor’s budgets is tied to expected tax revenue growth of 3.5 percent in FY 2019. Unlike Chapter 70 aid that uses a formulaic distribution to account for unique municipal characteristics, all cities and towns would uniformly receive a 3.5 percent UGGA increase under budget FY 2019 spending plans submitted to date.

The HWM approach to Chapter 70 aid is more generous than the Governor’s budget in several notable elements:

- Employee benefits and fixed charges – the HWM increases Foundation Budget allotments for benefits and fixed costs by 5 to 9 percent for each category of students, an amount that is consistent with the recommendations of the Foundation Budget Review Commission. The Governor’s budget proposed a similar, but smaller increase;
- Equity reforms – the HWM budget goes further than the Governor in allowing districts with local funding requirements that are deemed to be too high, to reduce local spending which will result in more state aid;
- Per-pupil guarantees – Each district receives at least \$30 per pupil in new aid compared to \$20 per pupil in the Governor’s budget.

The HWM adopts an administration proposal to revise the census methodology for counting economically disadvantaged students in the formula. This adjustment aligns how districts account for these students with other data systems used by the state and create a more accurate picture. Under this change, the number of economically disadvantaged students increases by 24,000 over FY 2018. Both the Administration and HWM budgets also adjust the foundation budget rates for economically disadvantaged students to ensure that the new census method does not significantly increase costs.



Figure 7. Education Reimbursement Accounts, FY 2018 & FY 2019

Program	FY 2018 Funding	FY 2018 Reimb. %	FY 2019 GOV	FY 2019 HWM
SPED Circuit Breaker	\$281,231,181	65.0%	\$291,145,829	\$300,000,000
Charter School Reimbursement	\$80,500,000	52.0%	\$80,500,000	\$90,000,000
Regional School Transportation	\$61,521,000	72.0%	\$61,521,000	\$62,521,000
Homeless Student Transportation	\$8,099,500	35.0%	\$8,099,500	\$9,099,500
Non-Resident Pupil Transport	\$242,500	5.0%	\$242,500	\$0
Economically Disadvantaged Level Fund	\$12,548,162	NA	\$0	\$12,500,000
Hurricane Maria Reimbursement	\$15,000,000	NA	\$15,000,000	\$15,000,000

Special Education (SPED) circuit breaker and charter school reimbursements receive significant increases in the HWM budget compared to both the Governor and FY 2018. In total, the HWM budget provides \$489.1 million for the major education reimbursement accounts, \$32.6 million more than the Governor. The \$300 million in SPED funding could fully fund the state’s 75 percent reimbursement commitment, although eligible costs have spiked in FY 2018 and so future trends are difficult to forecast.

The charter school reimbursement increase in the HWM budget (\$9.5 million more than both the Governor and FY 2018) is not sufficient for full funding (\$154.6 million in FY 2018), but would be the second highest appropriation level in the program’s history.

The House recently engrossed a supplemental budget that provided an additional \$12.5 million for SPED and \$2.5 million for charter school reimbursements in the current fiscal year. These funds were not included in the original spending bill that Governor Baker filed to address FY 2018 spending needs. The Senate will likely act on this supplemental budget in the coming weeks.

The HWM budget includes \$27.5 million to reimburse districts for two categories of expenses: \$15 million to reimburse districts for FY 2019 costs related to approximately 2,400 students displaced by hurricanes in 2017; and \$12.5 million for a third straight year of mitigation aid for districts negatively impacted by the change in how districts account for low-income students.

**Early education and higher education**

Figure 8. Early Education & Higher Education, FY 2018 & FY 2019

	FY 2018 Current	FY 2019 GOV	FY 2019 HWM
Early Education	\$586,287,544	\$590,875,455	\$620,241,484
University of Massachusetts	\$513,546,569	\$518,667,080	\$518,667,080
State Universities	\$250,471,512	\$252,971,381	\$252,971,380
Community Colleges	\$274,593,784	\$276,869,422	\$276,769,422

Early education continues to be a high priority for the House. The HWM budget increases early education funding by \$33.9 million over FY 2018. This increase has two major components:

- \$20 million for child care provider rate increases. This would be in addition to the \$15 million rate increase included in the FY 2018 budget and built into subsidized childcare spending in both FY 2019 spending plans;
- \$8.5 million for a new program to provide additional early educator professional development and training at the state’s community colleges. This initiative, which is supported by gaming revenue, would be directed by a new Early Education and Care Workforce Council, also created in the HWM budget.

HWM and Administration funding levels are identical for the two major subsidized childcare accounts (\$505.9 million). According to the most recent data, approximately 18,000 children are on the waitlist for state subsidized childcare.

Higher education campuses receive the same level of support under both FY 2019 spending proposals - a 1 percent increase over FY2018 levels, while both HWM and the Governor propose increasing scholarship funding by over \$7 million.

**Transportation**

*Figure 9. Transportation, FY 2018 & FY 2019*

	FY 2018 Current	FY 2019 GOV	FY 2019 HWM
MassDOT Transfer	\$303,341,772	\$284,679,448	\$322,679,448
Snow & Ice Reserve	\$0	\$83,000,000	\$0
MBTA Transfer	\$127,000,000	\$127,000,000	\$154,000,000
Regional Transit Transfer	\$80,400,000	\$80,400,000	\$80,000,000
Merit Rating Board	\$9,404,567	\$9,768,209	\$9,404,567
MBTA Sales Tax	\$1,006,806,769	\$1,031,800,000	\$1,031,800,000

There are two major differences in how the Administration and HWM approach transportation funding:

- Snow and ice removal costs – the HWM budget did not adopt the Governor’s approach of fully funding budget areas that have historically required supplemental funding later in the year. Snow and ice removal is a prime example of this, with HWM falling \$44.9 million short of the Administration’s estimated spending level. Snow and ice removal costs will likely exceed \$110 million in FY 2018; and
- MBTA personnel – HWM did not include an Administration provision to allow the MBTA to pay for the \$27 million in personnel costs directly related to capital projects out of the capital budget and that accounts for the difference between the two FY 2019 funding levels. The House adheres to the 2013 transportation reform legislation, in which it was agreed that all MBTA personnel cost should be paid for with operating funds by FY 2019.

**Other non-discretionary spending**

*Figure 10. Other Non-Discretionary Programs, FY 2018 & FY 2019*

	FY 2018 Current	FY 2019 GOV	FY 2019 HWM
Debt Service	\$2,613,663,792	\$2,662,838,463	\$2,662,838,464
Retiree Health Care	\$432,404,000	\$441,179,578	\$441,179,578
Group Insurance Commission	\$1,683,153,734	\$1,645,981,013	\$1,645,981,013



The HWM and Administration budgets are identical in their approaches to three other non-discretionary spending areas: the Group Insurance Commission (GIC), debt service, and state retiree health benefits.<sup>6</sup> The FY 2019 budget for the GIC is actually \$37.2 million less than the amount appropriated in last year’s budget. The year-over-year reduction is partially due to four municipalities leaving the GIC which means that the decreased appropriation is offset by a drop in local reimbursements to the state. However, recent re-procurements of member benefits have also significantly contributed to the reduction in GIC costs, which are expected to remain essentially flat in FY 2019. The GIC believes that these recent changes will provide substantial state savings and will reduce monthly premiums for approximately half of its members in FY 2019.

Both budgets assume that debt service costs will grow by less than 2 percent over FY 2018, a level of growth which is in line with recent trends. Between FY 2013 and FY 2018, debt service costs have grown by an average of 2.3 percent per year.

**Commonly underfunded programs**

*Figure 11. Underfunded Accounts, FY 2018 & FY 2019*

	FY 2018 GAA	FY 2018 Projected	FY 2019 GOV	FY 2019 HWM
Indigent legal defense	\$172,754,716	\$233,752,758	\$236,938,646	\$189,739,504
Family homelessness	\$186,026,253	\$199,515,592	\$190,763,011	\$180,607,614
Sheriffs	\$566,380,254	\$607,777,940	\$626,715,238	\$572,739,125
MassDOT (snow and ice)	\$303,341,772	\$303,341,772	\$367,679,448	\$322,679,448
Caseload reserve	\$104,100,000	\$13,313,143	\$0	\$0
<b>Total</b>	<b>\$1,332,602,995</b>	<b>\$1,357,701,205</b>	<b>\$1,422,096,343</b>	<b>\$1,265,765,691</b>

Many of the new spending investments included in the HWM budget are made possible by the significant underfunding of several programs that will likely require supplemental appropriations later in the year. Underfunding of programs like indigent defense counsel or family homelessness support is not uncommon in legislative budgets, but (as shown in Figure 11) the HWM budget takes a step back from the progress last year’s budget made in this area. The list above is not exhaustive and when other areas like collective bargaining or legal settlement reserves are added, the gap between HWM appropriations and likely spending needs grows.

Last year House and Senate budget makers created a new reserve to provide additional funding and flexibility to address some of these persistent supplemental spending areas. It was a very positive step in addressing a long-standing fiscal problem. This forward progress would be undone by not including that reserve or other means of funding in the FY 2019 GAA, thereby significantly increasing the likelihood of midyear budget problems.

**Closing the Budget Gap**

The FY 2019 budget gap is between \$400 million and \$500, a substantial decrease from the past three budgets. In order to present a balanced spending plan, budget makers have to close that gap, and find additional resources in order to support new funding initiatives. Figure 12 compares the gap closing strategies in the HWM and Governor’s budgets:

<sup>6</sup> The HWM budget proposes combining two smaller GIC benefit accounts with the primary program line item to reflect recent legislation. The numbers in figure 10 are adjusted to make direct comparisons possible.

Figure 12. Closing the Budget Gap

Closing the Budget Gap		
Initial Gap		<b>\$525</b>
	<i>Real Time Sales in Revenue Assumption</i>	-\$125
Estimated gap		<b>\$400</b>
	Gov Budget	HWM Budget
New funding Initiatives	\$45	\$100
MBTA capital to operating	\$0	\$27
LLC revenue impact	\$5	\$0
<b>Total Gap</b>	<b>\$450</b>	<b>\$527</b>
<i>Solutions</i>		
Tobacco settlement/OPEB	\$151	\$151
Repatriation	\$65	\$65
Marijuana	\$63	\$63
MassHealth Connector Savings (net)	\$60	\$0
Employer assessment increase revenue	\$45	\$45
Gaming	\$34	\$34
GIC procurement	\$21	\$21
Temporary accommodations	\$13	\$0
Lottery revenues	\$0	\$21
Underfunded accounts	\$0	\$130
<b>Gap Solved</b>	<b>\$452</b>	<b>\$530</b>
<i>Numbers in millions</i>		

The many similarities in how the two budgets close the budget gap are detailed below, but the differences in both the gap and the solutions are noteworthy:

- The HWM budget includes more in targeted funding increases, in areas such as K-12 education, early education, MassHealth rate increases and at-risk youth support programming, which increase the need for other budget solutions;
- MassHealth reform savings formed a large part of the Administration’s strategy to close the budget gap, but is not part of the HWM approach;
- HWM does not rely on any revenue from the taxation of transient accommodations like Airbnb. The House and Senate have two very different approaches to this issue, which they plan to resolve by the end of the legislative session; and
- As mentioned above, the HWM uses the underfunding of several major budget areas to help them balance their budget, though ultimately these costs will have to be paid.

**Strategies Shared by Both Plans**

**Tobacco settlement/OPEB (\$151 million)**

Both budgets dedicate 10 percent (\$25 million) of expected tobacco settlement revenue to the state’s OPEB obligations. Without the language included in this budget, the transfer would be 70 percent of settlement revenues (\$175 million). Strategies to delay or reduce the planned dedication of tobacco settlement revenues to OPEB have been consistently employed for a number of years.

### ***Repatriation (\$65 million)***

The recently enacted federal tax law requires companies to repatriate accumulated foreign profits. In Massachusetts these profits will then be subject to taxation as dividends, generating one-time revenues for the state. The actual amount Massachusetts stands to receive is still uncertain, but both budgets rely on \$65 million from this provision.

### ***Marijuana tax revenue (\$63 million)***

The HWM budget use the same estimate for marijuana sales (and related tax revenue) in FY 2019 as found in the Governor's budget. The \$63 million in tax revenue is divided into two components:

- \$40 million in excise tax revenue is dedicated to the Marijuana Regulation Fund which supports the operation of the Cannabis Control Commission as well as law enforcement and other programs costs connected to the marijuana industry;
- \$23 million in sales tax revenue which supports the General Fund.

### ***EMAC or Employer Health Care Assessment (\$45 million)***

Both budgets assume that the employer assessment levied as part of the FY 2018 budget will generate \$259 million in FY 2019, \$45 million more in revenue than in FY 2018. This increase in revenue is due to a full year of implementation and better data on impacted businesses. The assessment expires at the end of calendar year 2019.

### ***Gaming (\$34 million)***

The opening of the state's first resort casinos is expected to generate approximately \$44 million in budget revenue, but \$10 million of this is dedicated to the Stabilization Fund, leaving \$34 million to close the budget gap. This total does not include gaming revenues dedicated to off-budget trust funds.

### ***GIC procurement savings (\$21 million)***

GIC expects its various re-procurement efforts to save the state at least \$20 million in FY 2019, in contrast to the likely cost growth that would have occurred without these new initiatives.

## **HWM New Spending Initiatives**

There are several new spending initiatives proposed in the HWM budget. These include:

- \$5 million for a rapid rehousing program targeting homeless individuals;
- \$3 million for community based criminal justice reentry programs to be overseen by the Department of Probation; and
- \$100K to support the Office of Health Equity within the Executive Office of Health & Human Services. Historically, funding for this work has been at the discretion of the Administration; the HWM budget provides dedicated funding and codifies the office in statute.

## **Policy Changes**

The HWM budget includes 42 policy sections, fewer than the Governor's budget (73) and the Committee's budget last year (77). Major policy changes proposed in those sections include:

- State Police Audit Unit (section 13) – this section creates an independent audit unit within the State Police, with a director appointed by the Inspector General. The unit is charged with assessing “...the quality, efficiency and integrity” of State Police operations and management.
- Private bar advocate raises (sections 21 & 22) – the HWM budget provides raises for CPCS attorneys assigned to non-homicide superior court cases (from \$60 to \$68 per hour) and district court sex offender registry and mental health cases (from \$50 to \$53 per hour).
- Sales tax prepayment (section 30) – HWM creates a commission to examine the efficacy of implementing sales tax estimated payment system. If implemented, one-time revenues from this change would likely offset the \$125 million revenue shortfall created in FY 2018 by moving one month of sales tax revenue forward.
- State Police hiring and promotion commission (section 31) – HWM creates a commission to examine the hiring and promotion practices of the State Police. The commission is required to make recommendations to improve transparency and accountability in relation to hiring and promotion.
- Earned Income Tax Credit (section 16) – like the Governor’s budget, HWM proposes increasing the state’s EITC match to 30 percent of the federal level (current match is 23 percent). When fully phased in, this will cost \$60 million annually.
- TAFDC asset cap (section 23) – like the Governor’s budget, HWM increases the asset cap for families eligible for Temporary Assistance for Families with Dependent Children (TAFDC) from \$2,500 to \$5,000.

The HWM budget does not include a proposal from the Governor’s budget to reduce the LLC filing fee from \$500 to \$250, nor does it include language that would prevent Massachusetts businesses from being subject to both a state and federal penalty related to employee health insurance status. This latter provision was put forth by the Administration to address the concern that unanticipated federal action on employer health care penalties would exacerbate the impact of the temporary state health care assessment adopted in last year’s budget.

Both budget proposals create several new off-budget trust funds in support of a variety of goals:

*Figure 13. New Trust Funds*

Trust	In Gov Budget	In HWM Budget	FY 2019 Revenue
Substance Use Prevention Education & Screening	Y	N	\$5M appropriation
Commonwealth Facility	Y	Y	\$500K from other energy trust fund
DPU Siting Board	Y	N	\$500K appropriation
DPU Unified Carrier Registration	Y	N	\$75K appropriation
Long-term Liability Reduction	Y	Y	\$6M in gaming funds
Underground Storage Tank Petroleum Product Cleanup	Y	Y	\$30M from existing fee
Safety Net Provider	Y	Y	\$167.6M appropriation
Public Health Grant	Y	Y	Donations

## Conclusion

The HWM and Administration budgets share many similarities. They employ nearly identical revenue assumptions, use marijuana and casino revenues in similar ways, avoid the use of significant new one-time revenues and direct a large portion of available funds to education and local aid. Both budgets make a modest deposit into the Stabilization Fund which is a necessary but potentially insufficient step towards replenishing reserves, particularly if the outcome on the pending ballot initiatives causes a large revenue swing.

The HWM budget also differs from the Governor's budget in a few critical ways. It makes investments in House priorities, such as early education, as one would expect, but it does so by underfunding several programs; a tactic that could cause the state to start the year with a sizable deficiency. The budget also includes no MassHealth reforms and that means a sizeable portion of new tax revenues must be dedicated to support the program.

*Figure 14. House Floor Activity, FY 2016 – FY 2018*

	FY 2016	FY 2017	FY 2018
Spending added (millions)	\$94.2	\$58.6	\$77.7
Earmarks added	285	381	388
Policy sections added	78	91	79

The full House will debate this budget by the end of April. Recent history tells us that the debate is likely to increase total spending by \$50 to \$100 million. A key question is whether not any new spending can be added without increasing the warning signs of a difficult budget ahead.

## Massachusetts Taxpayers Foundation - Fiscal 2019 Budget Summary

	FY 15 Final	FY 16 Final	FY 17 Final	FY 18 GAA	FY 18 EST	FY 19 GOV	FY 19 HWM
<b>Health Care</b>	<b>14,519</b>	<b>15,647</b>	<b>16,147</b>	<b>16,799</b>	<b>17,214</b>	<b>17,223</b>	<b>17,432</b>
MassHealth	13,583	14,741	15,298	15,890	15,976	16,277	16,494
Trust Funds	701	651	593	639	934	452	452
Other Health Care	235	255	256	270	305	493	485
<b>Local Government Support</b>	<b>6,023</b>	<b>6,211</b>	<b>6,344</b>	<b>6,519</b>	<b>6,521</b>	<b>6,687</b>	<b>6,730</b>
Chapter 70 Education Aid	4,402	4,514	4,627	4,747	4,747	4,866	4,899
Other K-12 Education Aid	585	623	604	615	619	630	646
Unrestricted Local Aid	973	1,007	1,049	1,089	1,089	1,126	1,126
Other Local Aid	63	67	63	68	66	66	59
<b>Other Education</b>	<b>1,710</b>	<b>1,760</b>	<b>1,706</b>	<b>1,751</b>	<b>1,764</b>	<b>1,783</b>	<b>1,806</b>
Early Education	544	566	540	577	586	591	620
Higher Education	1,167	1,194	1,167	1,174	1,178	1,193	1,186
<b>Human Services</b>	<b>5,665</b>	<b>5,916</b>	<b>5,870</b>	<b>6,070</b>	<b>6,082</b>	<b>6,292</b>	<b>6,296</b>
Developmental Services	1,715	1,847	1,897	1,953	1,954	2,000	2,003
Family Services	1,077	1,156	1,141	1,207	1,179	1,225	1,218
Cash Assistance	716	714	657	644	660	675	676
Mental Health	719	740	749	773	777	870	870
Public Health	601	553	560	605	605	610	621
Housing Support	422	471	431	436	448	446	446
Senior Support	271	283	295	303	304	316	315
Veteran Services	143	152	141	148	155	149	147
<b>Public Safety</b>	<b>2,632</b>	<b>2,709</b>	<b>2,738</b>	<b>2,704</b>	<b>2,818</b>	<b>2,891</b>	<b>2,775</b>
Corrections	607	612	629	661	670	691	677
Sheriffs	582	606	603	566	608	627	573
Judiciary	863	889	916	878	939	956	918
Police	308	323	327	345	340	352	344
District Attorneys	108	115	119	117	118	124	124
Attorney General	44	45	46	49	49	50	52
Other Public Protection	120	119	99	87	94	91	88
<b>Transportation</b>	<b>803</b>	<b>637</b>	<b>625</b>	<b>520</b>	<b>539</b>	<b>585</b>	<b>566</b>
MassDOT	471	359	393	303	322	368	323
Regional Transit	40	82	82	80	80	80	80
Registry	9	10	10	9	9	10	9
MBTA Discretionary Assistance	283	187	140	127	127	127	154
<b>Economic Development</b>	<b>318</b>	<b>394</b>	<b>327</b>	<b>370</b>	<b>374</b>	<b>371</b>	<b>376</b>
Business and Labor	91	152	113	144	142	138	138
Environment and Energy	227	242	214	226	231	234	238
<b>Employee Benefits</b>	<b>2,104</b>	<b>2,151</b>	<b>2,135</b>	<b>2,213</b>	<b>2,212</b>	<b>2,188</b>	<b>2,188</b>
GIC	1,683	1,726	1,695	1,781	1,780	1,747	1,747
State Retiree Benefits (OPEB)	420	425	440	432	432	441	441
<b>Capital Support</b>	<b>2,498</b>	<b>2,518</b>	<b>2,528</b>	<b>2,628</b>	<b>2,614</b>	<b>2,663</b>	<b>2,663</b>
Debt Service	2,219	2,240	2,280	2,388	2,373	2,418	2,418
Contract Assistance	279	278	248	240	240	245	245
<b>Other/General Government</b>	<b>617</b>	<b>502</b>	<b>531</b>	<b>623</b>	<b>603</b>	<b>673</b>	<b>603</b>
<b>Off budget spending</b>	<b>3,559</b>	<b>3,825</b>	<b>4,228</b>	<b>4,273</b>	<b>4,273</b>	<b>4,527</b>	<b>4,527</b>
Pensions	1,793	2,001	2,394	2,394	2,394	2,609	2,609
MA School Building Authority	772	815	817	847	847	863	863
MBTA	971	986	992	1,007	1,007	1,032	1,032
Workforce Training	24	23	25	25	25	24	24
<b>Total on-budget spending</b>	<b>36,888</b>	<b>38,444</b>	<b>38,950</b>	<b>40,197</b>	<b>40,741</b>	<b>41,357</b>	<b>41,436</b>
<b>Total (Including Pre-Budget Transfers)</b>	<b>40,447</b>	<b>42,269</b>	<b>43,193</b>	<b>44,470</b>	<b>45,014</b>	<b>45,884</b>	<b>45,963</b>