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Bulletin

May 6, 2015

House Budget Shifts Spending Priorities

The House finalized its 2016 budget last week with a bottom line spending proposal of \$38.1 billion, \$1.1 billion or three percent more than what the state expects to spend in FY 2015.¹

The House proposal is nearly identical to the Governor’s in its size, its plan to close the \$1.8 billion shortfall, its use of one-time revenue sources, and its reluctance to raise new revenues. However, the House reduces expenditures in some discretionary accounts and increases others to emphasize its own spending priorities.

To close the \$1.8 billion shortfall, the House adopts the same large-scale budget fixes employed by the administration, including:

- \$172 million in projected savings from the Employment Retirement Incentive Program (ERIP);²
- \$210 million in net savings from MassHealth redeterminations;
- \$70 million from adjusted MassHealth rate increases; and
- \$600 million in one-time revenues outlined in Table 1.

Table 1 – One-Time Revenues in the House FY 2016 Budget (in \$ millions)

One-Time Revenues	
Capital Gains Tax Revenues in Excess of \$1.087 Billion Cap	300
Tax Amnesty	100
Courthouse Sale	30
MassHealth Cash Management	116
FAS 109	46
FEMA - Reimbursement	17
Total One-Time Revenues	609

The House, like the Governor, suspends the transfer of \$300 million of capital gains tax revenues to the Stabilization Fund; delays the implementation of the FAS 109 deduction for another year to avoid a revenue reduction of \$46 million; creates a tax amnesty program for non-filers to capture \$100 million of new tax revenues (\$20 million of which is expected to be recurring); and postpones \$116 million of MassHealth payments to FY 2017.

¹ The \$38.1 billion figure does not include \$3.8 billion in pre-budget transfers for pensions, the Workforce Training Fund, and dedicated sales tax revenues to the MBTA and the MA School Building Authority.

² The ERIP was signed into law on May 4, 2015.



Each of these actions has been used to balance previous budgets, and as the Foundation noted in its analysis of the Governor's budget proposal, the reliance on significant one-time revenues will compound problems for FY 2017.

In addition to these one-time revenues, the House projects an extra \$50 million in non-tax budgeted revenues for FY 2016 from federal reimbursements, department revenues, and consolidated transfers that include lottery proceeds, tobacco settlement funds, and gaming revenues.

Spending Shifts Reflect House Priorities

The House budget differs significantly from the Governor's with respect to expenditures. Since there is limited flexibility to increase discretionary spending, the House addresses its own spending priorities by shifting more than \$160 million from the Governor's proposal to different programs.

The bulk of the House's reductions to the administration's FY 2016 appropriations – approximately \$78 million – is attributable to five areas: private counsel compensation (\$35 million); sheriffs (\$18 million, but \$6 million more than FY 2015); judgments and settlements (\$7 million); a social innovation program (\$7.5 million); and the ERIP (\$10 million).

The House also deletes an \$84 million direct appropriation from tobacco settlement funds to the state's trust fund for retiree health care benefits (State Retirement Benefits Trust Fund). In its place, the House renews the FY 2015 budget language that funds the contribution from unspent balances in four debt service accounts. Should the unspent balances fall short, the state would be responsible for the remainder. Worth noting, the appropriation proposed by both the Governor and the House is equal to 30 percent of tobacco settlement funds which is less than the statutorily- required 40 percent, or \$115 million. As a result, the state could be required to fund the additional \$30 million.

The House uses these reductions to increase funding to health care and education, among other budget items.

Discretionary health care accounts are increased by \$75 million in the House budget, representing the most significant differences from the Governor's proposal. Most notably, the House did not align the premium contributions of employees hired before 2003 with those hired since then by raising their premium share from 20 percent to 25 percent. As a result, funding for the Group Insurance Commission (GIC) is increased by \$29 million over the administration's proposal.

Other increases to health care related spending include \$12 million for autism services, \$8.8 million for higher MassHealth rates for nursing facilities, and \$7.5 million for MassHealth providers.

The House also allocates approximately \$46 million more to education than the Governor's budget. It adds \$18 million for kindergarten expansion grants, \$8 million for special education reimbursements (the circuit breaker program), \$5 million for regional transportation, and \$15 million for early education which includes \$5 million in child-care vouchers to move 800 children off the wait list.

The remaining differences from the Governor's proposals are additional funding for trial courts (\$17 million) and state tourism efforts (\$10 million), along with smaller increases totaling approximately \$14 million spread across the budget.



Policy Proposals

In contrast to previous years, the FY 2016 House budget includes a limited number of policy proposals. Several of the policy proposals that are included pertain to various aspects of the MBTA, which remains one of the state's most critical challenges.

The House budget includes several recommendations from the Governor's Special Panel on the MBTA related to procurement protocols. The most notable proposal is a five-year moratorium of the Pacheco Law, a statute that discourages outsourcing or privatization of services. In addition, the House provides the MBTA with the statutory authority to use design-build and construction management at-risk procurement methods to accelerate project delivery and to alleviate the bottlenecks in its capital spending. It also makes the MBTA Board of Directors' service coterminous with the Governor and extends the scope of a special audit unit under the direction of the Inspector General to monitor MBTA capital and operating programs.

Other policy recommendations in the House budget, some of which align with the Governor's budget, include:

- Redesign the science, technology, engineering, and math (STEM) advisory council to advise the administration on STEM related education and careers;
- Require each secretariat to develop outcome-based performance goals with metrics to measure progress and improve government performance;
- Adopt an administration proposal to move the Center for Health Information and Analysis under the direction of the Secretary of Health and Human Services; and
- Adopt an administration recommendation that expands MassHealth's authority to contract with manufacturers of equipment and supplies.

The Senate President has stated that the House budget is a so-called "money bill," meaning that it includes a tax provision, a key interpretation because tax bills must originate in the House. The Senate asserts that the adoption by the House of an amendment to increase the annual tax credit for conservation land from \$2 million to \$5 million transforms the budget into a tax bill, and opens the door for the Senate to include tax provisions in its version of the budget to support increased spending. This distinction could not only alter the dynamics of budget negotiations, it may also result in a Senate FY 2016 proposed budget that is materially larger than the versions proposed by the Governor and adopted by the House.

The Senate will release its version of the budget next week and debate it the following week.



Massachusetts Taxpayers Foundation - Fiscal 2016 Budget Summary

	FY 14 Final	FY 15 GAA	FY 15 Projected	FY 16 H1	FY 16 House	FY 16 House vs H1
Health Care	13,615	14,735	15,042	15,884	15,899	15
MassHealth	12,121	13,602	13,838	14,737	14,753	17
Connector	600	268	268	229	229	0
Trust Funds ¹	661	622	701	654	654	0
Other Health Care	232	242	235	264	263	-1
Local Government Support	5,919	6,080	6,018	6,146	6,176	30
Chapter 70 Education Aid	4,303	4,404	4,401	4,506	4,509	3
Other K-12 Education Aid	602	633	581	572	598	27
Unrestricted Local Aid	948	973	973	1,007	1,007	0
Other Local Aid	67	70	63	61	62	1
Other Education	1,612	1,714	1,705	1,706	1,728	21
Early Education	524	550	544	545	560	15
Higher Education	1,088	1,164	1,161	1,162	1,168	6
Human Services	5,404	5,610	5,626	5,777	5,819	42
Developmental Services	1,553	1,720	1,715	1,825	1,843	18
Family Services	977	1,025	1,059	1,117	1,117	0
Cash Assistance	794	743	716	718	717	-1
Mental Health	708	736	714	728	743	16
Public Health	560	590	585	534	544	11
Housing Support	420	379	422	423	422	-1
Senior Support	253	272	271	282	281	-1
Veteran Services	140	145	143	150	151	0
Public Safety	2,523	2,563	2,593	2,628	2,609	-19
Corrections	591	602	605	609	610	1
Sheriffs	542	553	560	584	566	-18
Judiciary	828	824	859	847	840	-7
Police	310	319	308	323	326	3
District Attorneys	103	108	108	108	112	5
Attorney General	43	44	44	44	45	1
Other Public Protection	106	113	109	112	109	-3
Transportation	1,423	1,573	1,583	1,631	1,631	0
MassDOT	272	416	440	409	409	0
Regional Transit	68	40	40	40	40	0
Registry	9	9	9	10	10	0
MBTA	1,074	1,108	1,094	1,172	1,172	0
Sales Tax Revenues	799	811	971	985	985	0
Discretionary Assistance	275	297	123	187	187	0
Economic Development	417	404	340	386	396	10
Business and Labor	197	169	114	150	158	7
Environment and Energy	220	236	227	236	238	2
Employee Benefits	3,445	3,793	3,981	4,187	4,132	-55
GIC ²	1,395	1,496	1,683	1,698	1,727	29
State Retiree Benefits (OPEB)	420	505	505	518	433	-85
Pensions	1,630	1,793	1,793	1,972	1,972	0
Capital Support	2,429	2,498	2,498	2,529	2,529	0
Debt Service	2,125	2,219	2,219	2,252	2,252	0
Contract Assistance	304	279	279	278	278	0
MA School Building Authority	729	772	772	804	804	0
Other/General Government	707	624	615	401	382	-19
Total (Including Pre-Budget Transfers)	38,222	40,366	40,773	42,080	42,105	25

¹ Includes the Medical Assistance Trust Fund and the Delivery System Transformation Initiatives Trust Fund

² Includes health care costs for municipalities and authorities that reimburse the state