



### Senate Ways and Means Budget Analysis

The Senate Ways and Means Committee (SWM) released its \$45.95 billion budget proposal for fiscal year (FY) 2019 today. This brief provides an overview of the major policy and spending provisions proposed by SWM and compares it with the FY 2019 plans put forward by the Administration and the House. The SWM budget will be debated by the full Senate the week of May 21<sup>st</sup>.

#### Budget Overview

The SWM budget includes \$45.95 billion in total spending, an increase of \$1.1 billion (2.45 percent) over FY 2018. The SWM budget proposes \$61 million more in spending than the Governor’s budget and \$97 million less than the final House budget. It is likely that after the Senate budget debate is completed, the Senate and House budgets will propose very similar levels of spending. The majority of the spending (\$41.42 billion) supports 681 programmatic line-items; the remainder of the spending (\$4.53 billion) goes to pre-budget transfers for the state pension fund, the MBTA and the School building authority.

Figure 1. SWM Budget Overview of Spending & Revenue

	Spending Comparison					
	FY 2018 Current	FY 2019 GOV	FY 2019 House	FY 2019 SWM	\$ SWM v. 2018	% SWM v. 2018
<b>Line item spending</b>	\$40,572.7	\$41,357.0	\$41,515.2	\$41,418.1	\$845.4	2.08%
<b>Off Budget</b>	\$4,273.2	\$4,526.9	\$4,526.9	\$4,526.9	\$253.7	5.94%
<b>Total spending</b>	\$44,845.9	\$45,883.9	\$46,042.1	\$45,945.0	\$1,099.1	2.45%
	Revenue Comparison					
	FY 2018 Current	FY 2019 Gov	FY 2019 House	FY 2019 SWM	\$ SWM v. 2018	% SWM v. 2018
<b>Consensus Tax Revenues</b>	\$26,661	\$27,594	\$27,594	\$27,594	\$933	3.5%
<i>Tax settlements</i>	\$125	\$125	\$125	\$125	\$0	0.0%
<i>Less cap gains transfer</i>	-\$25	-\$89	-\$89	-\$89	-\$64	NA
<b>New Revenue Sources</b>						
<i>Marijuana (sales tax &amp; excise)</i>	\$0	\$63	\$63	\$63	\$63	NA
<i>Resort casino</i>	\$0	\$44	\$44	\$44	\$44	NA
<b>Revenue initiatives</b>						
<i>Employer assessment</i>	\$215	\$260	\$260	\$260	\$45	20.9%
<i>Ongoing tax (new)</i>	\$0	\$13	-\$2	\$20	\$20	NA
<i>Repatriation</i>	\$0	\$65	\$65	\$65	\$65	NA
<b>Federal</b>						
<i>MassHealth related</i>	\$8,817	\$8,848	\$8,992	\$8,940	\$123	1.4%
<i>Other</i>	\$2,740	\$2,509	\$2,505	\$2,512	-\$228	-8.3%
<b>Departmental &amp; transfers</b>						
<i>Lottery</i>	\$1,084	\$1,084	\$1,105	\$1,105	\$21	1.9%
<i>Other</i>	\$5,358	\$5,591	\$5,613	\$5,612	\$254	4.7%
<b>Total</b>	\$44,974.5	\$46,107.5	\$46,275.3	\$46,251.0	\$1,276.5	2.84%

The SWM budget uses the \$27.594 billion consensus tax revenue number agreed to in January as its revenue foundation. Like the Administration and the House, the SWM budget adjusts its tax revenue figure to account for several policies either proposed in the budget or expected to impact revenues in the year to come:

Figure 2. Tax Revenue Assumptions in FY 2019

	Governor	House	SWM
<b>Consensus revenue</b>		<b>\$27,594</b>	
Tax settlements	\$125	\$125	\$125
Corporate repatriation	\$65	\$65	\$65
Marijuana sales & excise	\$63	\$63	\$63
Transient accommodations	\$13	\$0	\$20
Dairy farmer tax credit	\$0	-\$2	\$0
<b>Total tax revenue</b>	<b>\$27,860</b>	<b>\$27,845</b>	<b>\$27,867</b>
Capital gains transfer	-\$89	-\$89	-\$89
Pension contribution	-\$2,609	-\$2,609	-\$2,609
MBTA transfer	-\$1,032	-\$1,032	-\$1,032
SBA transfer	-\$863	-\$863	-\$863
Workforce training	-\$24	-\$24	-\$24
<b>Total tax revenue for budget</b>	<b>\$23,245</b>	<b>\$23,230</b>	<b>\$23,251</b>
<i>In millions, numbers may not total due to rounding</i>			

Like the Governor’s budget, the SWM budget opted to include revenue related to taxation of transient accommodations in its budget. The SWM assumption of \$20 million is based on the Senate’s plan to tax transient accommodations in the same manner as other hotel rooms and to extend the accommodation tax to the resale of hotel rooms. The House passed legislation which would tax Airbnb and similar entities in a different, more limited manner and does not address hotel resale. The SWM budget does not include language related to this tax, rather this revenue assumption is based on legislation passed by the Senate in April that is now in a legislative conference committee meeting to work out differences between the House and Senate plans before the end of session.

Following the lead of the two previous budgets, the SWM budget boosts the state’s Earned Income Tax Credit to a 30 percent match of the federal amount, effective in January of 2019, all but ensuring that the amount of the tax credit will increase in the final version.<sup>1</sup>

All three budgets have taken identical revenue approaches to marijuana, gaming and the impact of federal tax reform. Marijuana is expected to bring in \$63 million in total revenue (\$23 million in sales tax and \$40 million in excise tax), which implies \$315 million in industry sales in FY 2019. New federal requirements for international businesses to repatriate foreign profits are expected to provide Massachusetts with a one-time, \$65 million boost in the coming year, while the opening of resort casinos provides \$44 million to the state budget.

The SWM and House budgets use very similar estimates for non-tax revenues. Both budgets rely more on federal Medicaid reimbursements than the Governor’s budget due to their rejection of the proposal to move some MassHealth members to the Health Connector. However, as is discussed later in the Bulletin, the SWM budget generates \$52 million less in Medicaid revenues than the House. This difference is due primarily to a pharmacy savings proposal included in the SWM budget.

<sup>1</sup> Because the change is effective for tax year 2019, it has not fiscal impact in FY 2019

SWM is optimistic on lottery revenues. Like the House, they assume an increase of \$21 million over the original FY 2018 assumption. The SWM budget differs from the House and the Governor by sweeping the \$16.5 million balance from the Racehorse Development Trust Fund, a fund set up as part of gambling legalization. It also assumes an additional \$10 million in reimbursements for benefit costs related to higher education employees.

The chart below provides a quick comparison of major provisions in the three budgets:

Figure 3. FY 2019 Spending and Revenue Highlights

FY 2019 Budget in a Box									
	Spending			Revenue					
	Gov	House	SWM	Gov	House	SWM			
<b>Total spending</b>				<b>Consensus tax revenue</b>					
Increase	\$1,038	\$1,196	\$1,099					\$27,594	
Spending growth	2.31%	2.67%	2.45%					Increase \$933	
								Revenue growth 3.50%	
<b>MassHealth</b>				<b>Rainy Day Increase</b>					
Increase	\$301*	\$526	\$424				Cap gains	\$80 \$80 \$80	
MassHealth reforms	Yes	No	No						
<b>Chapter 70</b>							Other	\$16 \$16 \$17	
Increase	\$104	\$125	\$160				Budget gap closed	\$400 \$400 \$400	
<b>Other Non-discretionary</b>							One-time solutions	\$65 \$65 \$81	
Increase	\$482	\$428	\$441				New ongoing revenues		
<b>Discretionary spending</b>							Taxes	\$76 \$63 \$83	
Increase	\$151	\$118	\$73				Gaming	\$44 \$44 \$44	
<b>Total spending items</b>							Tax settlements	\$125 \$125 \$125	
New	23	18	8				OPEB Savings	\$150 \$150 \$150	
Increased	375	440	407				Real-Time Sales	FY 2021 Repealed Repealed	
Decreased/eliminated	214	143	143						

Numbers in millions

Spending in the SWM budget falls in the middle of the two other budgets, growing by 2.45 percent over FY 2018, as compared to 2.31 percent in the Governor’s budget and 2.67 percent in the House budget. All three of these spending growth rates are down significantly from last year when spending growth in all three budgets exceeded 3.3 percent. Even if the Senate were to add a further \$66.5 million in spending during debate (the average increase over the last three years), total spending growth would still fall well short of three percent.

As with revenue, the SWM budget is very similar to the House budget in big picture spending. Both budgets increase MassHealth spending by at least \$100 million more than the Governor. Both budgets prioritize new Chapter 70 education aid and special education reimbursements – though the SWM budget goes further in both areas. These increases in MassHealth and education funding mean that less is available for other areas of the SWM budget, leaving just \$73 million in new money for other non-discretionary spending. Similarly to the House, the SWM budget frees up resources for Senate priorities by underfunding several programs that will require supplemental funding later in the year.

The SWM budget projects a Stabilization Fund deposit of \$98 million in the coming year. This figure is \$1.2 million higher than the House and Governor.<sup>2</sup> The majority of this deposit (\$80 million) comes from capital gains tax revenues that exceed the statutorily sustainable benchmark, with the balance coming from dedicated gaming revenues and proceeds from the sale of abandoned property.

<sup>2</sup> The difference is because the SWM budget assumes an additional \$1.2 million in interest earned on the Stabilization Fund balance

Figure 4. FY 2019 Stabilization Fund Assumptions

Starting balance	\$1,366.9	
	Gov & House	SWM
Capital gains	\$88.5	\$88.5
Interest	\$6.8	\$8.0
Dedicated gaming	\$6.0	\$6.0
Abandoned property	\$3.7	\$3.7
Transfer to other trusts	-\$8.9	-\$8.9
Ending balance	\$1,463.1	\$1,464.2

The SWM budget does not include any language related to the Governor’s real time sales tax remittance proposal. This proposal, originally put forward by the Administration in the FY 2018 budget, would require debit and credit card sales tax collections to be remitted immediately, thereby providing \$125 million in one-time revenue. After DOR determined last year that it was not possible to implement this proposal in the original timeline, the state opted to advance sales tax revenue from FY 2019 to replace the revenue anticipated from the proposal for FY2018. Both the Governor and the House propose continuing to move sales tax revenue forward from FY 2020 to FY 2019 to temporarily fill the budget gap created last year. The Senate took a different approach in its recent supplemental budget, opting to end the practice of shifting sales tax revenue from one year to the next thereby eliminating the need to shift \$125 million. The Foundation strongly supports the Senate approach as it eliminates an unnecessary transfer of tax revenues from FY2019 to FY 2018, reduces the state’s structural deficit going forward and moves the state further away from the costly and ill-conceived real time collection proposal.

**Major Spending Areas**

**MassHealth**

Figure 5. MassHealth Spending and Revenue, FY 2018 & FY 2019

	FY 2018 Current	FY 2019 GOV	FY 2019 House	FY 2019 SWM
MassHealth spending	\$15,975,862,126	\$16,191,342,329	\$16,501,692,329	\$16,399,616,489
MH Connector spending	\$0	\$86,000,000	\$0	\$0
Federal reimbursement	\$8,816,789,565	\$8,847,588,548	\$8,992,263,548	\$8,939,904,756
Net cost	\$7,159,072,561	\$7,429,753,781	\$7,509,428,781	\$7,459,711,733
Reimbursement % of spending	55.19%	54.64%	54.49%	54.51%

The SWM budget provides \$16.4 billion for MassHealth, an increase of \$423.7 million (2.7 percent) over FY 2018. The state share of this amount is \$7.46 billion, an increase of \$300.6 million. To put this in perspective, this is almost double the increase to Chapter 70, the next largest line item spending increase.

Both the House and SWM budgets do not adopt the Governor’s proposal to shift 140,000 MassHealth members to subsidized coverage through the Connector, a move that would net \$60 million in savings for the state. These savings would be realized by utilizing enhanced federal tax credits that would reduce state spending while maintaining nearly identical levels of member costs and covered benefits under the Governor’s plan.

The SWM budget does include the Administration’s plan to grant EOHHS additional authority to negotiate supplemental pharmacy rebates that could reduce state costs and increase revenues over time and, in fact, goes

further than the Administration by requiring EOHHS to come up with an annual pharmacy savings target to achieve. In FY 2019, that target is 6 percent of net pharmaceutical spending, which SWM estimates will generate \$70 to \$80 million in gross savings (\$30 to \$40 million in net savings). In future years the target will be a minimum of 20 percent of projected net pharmaceutical cost growth compared to the prior year.

The chart below summarizes MassHealth spending differences between the three budgets (based on available information):

*Figure 5. MassHealth Spending Differences*

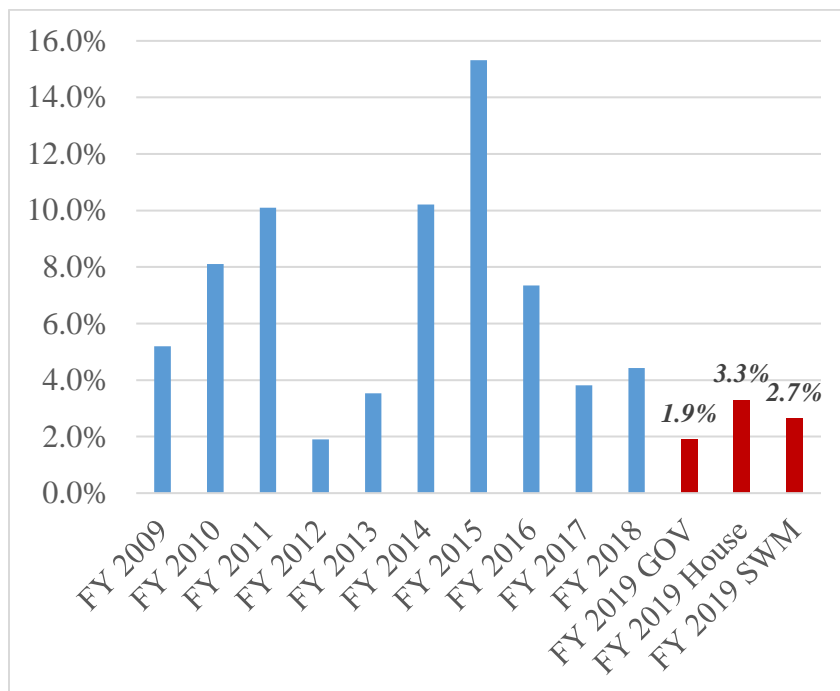
<b>Initial MassHealth estimate</b>	<b>\$16,709.4</b>		
<i>Savings efforts</i>			
	<b>Gov</b>	<b>House</b>	<b>SWM</b>
Program integrity: enrollment	-\$101.9	-\$101.9	-\$101.9
Program integrity: utilization	-\$38.0	-\$38.0	-\$38.0
Rates savings	-\$78.9	-\$78.9	-\$78.9
Premium assistance savings	-\$24.0	-\$24.0	-\$24.0
<b>Pharmacy savings</b>	<b>-\$5.2</b>	<b>\$0.0</b>	<b>-\$78.5</b>
<b>Connector shift</b>	<b>-\$270.1</b>	<b>\$0.0</b>	<b>\$0.0</b>
Nursing home rates	\$0.0	\$20.3	\$7.5
DSH rates	\$0.0	\$13.0	\$0.0
Behavioral health rates	\$0.0	\$0.0	\$4.0
Acute pediatric rates	\$0.0	\$14.8	\$0.0
Adult day health/foster care	\$0.0	\$4.0	\$0.0
Other investments	\$0.0	\$1.8	\$0.0
Misc. savings	\$0.0	-\$18.9	\$0.0
<b>Final MassHealth</b>	<b>\$16,191.3</b>	<b>\$16,501.6</b>	<b>\$16,399.6</b>

The SWM budget includes \$11.8 million in provider rate increases, significantly less than the \$53.9 million found in the House budget, although some additional rate increases may be adopted during Senate debate. The SWM rate increases break down as follows:

- Nursing home rate supplements - \$7.5 million
- Outpatient behavioral health rates - \$2 million
- Children’s behavioral health waiver services - \$2 million

MassHealth spending growth is 2.7 percent in the SWM budget. This level of growth is relatively low when compared to recent years (see chart 1), and yet it is still far greater than other areas of the budget. In order to fund this MassHealth spending increase, the other line items in the budget grow by just 1.7 percent.

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



**Local Aid**

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

	FY 2016	FY 2017	FY 2018	FY 2019 GOV	FY 2019 House	FY 2019 SWM
<b>C70</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>	<b>\$4,907,196,515</b>
\$ Increase	\$111,971,938	\$116,131,419	\$118,940,097	\$103,619,411	\$124,577,233	\$160,242,800
% Increase	2.54%	2.57%	2.57%	2.18%	2.62%	1.19%
<b>UGGA</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>	<b>\$1,098,945,897</b>
\$ Increase	\$34,094,433	\$42,131,271	\$39,855,203	\$37,162,422	\$37,162,422	\$37,162,422
% Increase	3.61%	4.30%	3.90%	3.50%	3.50%	3.50%

Since Governor Baker took office, the Legislature has followed the Administration’s lead in its approach to funding Unrestricted General Government Aid (UGGA). Since FY 2017, the Administration has increased UGGA funding by the same percentage as expected tax revenue growth and the Legislature has followed suit. In FY 2019, all three budgets propose \$1.099 billion for UGGA, an increase of \$37.2 million or 3.5 percent over FY 2018. UGGA is not distributed based on an active formula and so all communities will receive a 3.5 percent funding increase.

For the fourth straight year, the SWM budget provides more in Chapter 70 education aid (\$160.2 million) than either the House or the Governor. In addition to similar formula increases proposed by the House, the SWM budget increases funding for English Language Learners by more than \$20 million and provides \$12.5 million to a handful of communities that were negatively impacted by an FY 2017 formula change.<sup>3</sup>

<sup>3</sup> The House also provides \$12.5 million to these communities, but includes that funding in a separate account and so is not reflected in their C70 appropriation in Figure 6.

Figure 7. Chapter 70 Comparison

	FY 2019 Gov	FY 2019 House	FY 2019 SWM
Funding	\$4,850,573,126	\$4,871,530,948	\$4,907,196,515
Increase over FY 2017	\$103,619,411	\$124,577,233	\$160,242,800
Per pupil aid	\$20	\$30	\$30
Foundation changes for employee benefits	Yes - ~6%	Yes - ~ 9%	Yes - ~ 9%
English Language Learner Increase	No	No	Yes - 65% phase in
Change in Economically Disadvantaged count/funding distribution	Yes	Yes	Yes
Funds to mitigate impact for change in low-income student accounting	No	Yes (separate account)	Yes
Effort reduction	85%	92%	100%
Vocational headcount correction	No	Yes	Yes

This week, the Senate took separate action on Chapter 70-related legislation. Based on the recommendations of the Foundation Budget Review Commission, the legislation incorporates significant Chapter 70 formula changes into statute. The legislation phases in these changes over a number of years and makes the schedule for phasing in these funding increases part of the annual Consensus Revenue process. In total, these Chapter 70 changes would add more than \$1.2 billion in annual spending, yet a revenue source for this funding increase is not identified.

### Education Reimbursement Accounts

Figure 8. Education Reimbursement Accounts, FY 2018 & FY 2019

Program	FY 2018	FY 2018	FY 2019	FY 2019	FY 2019
	Funding	Reimb. %	GOV	House	SWM
SPED Circuit Breaker	\$293,731,181	65.0%	\$291,145,829	\$300,250,000	\$318,895,293
Charter School Reimbursement	\$84,500,000	52.0%	\$80,500,000	\$90,000,000	\$100,000,000
Regional School Transportation	\$61,521,000	72.0%	\$61,521,000	\$63,521,000	\$62,521,000
Homeless Student Transportation	\$8,099,500	35.0%	\$8,099,500	\$9,099,500	\$8,099,500
Non-Resident Pupil Transport	\$242,500	5.0%	\$242,500	\$250,000	\$250,000
Economically Disadvantaged Level Fund	\$12,548,162	NA	\$0	\$12,500,000	\$0*
Hurricane Maria Reimbursement	\$15,000,000	NA	\$15,000,000	\$15,000,000	\$15,000,000

\*SWM provides \$12.5 million for these communities through its C70 appropriation

In addition to Chapter 70, education reimbursement accounts are a primary focus in the SWM budget. Their plan provides \$504.8 million for education reimbursement accounts, \$48.3 million more than the Governor and \$14.1 million more than the House.

Reimbursable special education costs have been higher than anticipated in FY 2018. The SWM appropriation assumes this trend will continue, and provides \$318.9 million in FY2019 to fully fund the program (providing 75 percent reimbursement for eligible costs).



In contrast, charter school reimbursements will fall well short of full funding in FY 2019. Reimbursable costs will likely exceed \$170 million in FY 2019, meaning the \$100 million in state funding proposed by the Senate will cover just around 60 percent of full funding.

All three versions of the FY 2019 budget provide \$15 million to help impacted school districts educate students from Puerto Rico and other areas who were displaced by hurricanes. Both the House and SWM budgets also provide \$12.5 million to a handful of districts who have been negatively impacted by a change in the Chapter 70 formula related to low income students, though they use different methods for doing so. The SWM budget includes this \$12.5 million directly in its Chapter 70 appropriation, while the House sets the money aside in a separate account.

The House and Senate are currently negotiating an FY 2018 supplemental budget that would provide additional funds for special education and charter school reimbursements this year. Figure 8. assumes that the final supplemental budget will include increases for both programs.

**Early Education and Higher Education**

*Figure 9. Early & Higher Education, FY 2018 & FY 2019*

	FY 2018 Current	FY 2019 GOV	FY 2019 House	FY 2019 SWM
Early Education	\$586,287,544	\$590,875,455	\$620,691,484	\$597,060,049
University of Massachusetts	\$513,546,569	\$518,667,080	\$518,917,080	\$518,667,080
State Universities	\$250,471,512	\$252,971,381	\$252,996,380	\$259,950,875
Community Colleges	\$274,593,784	\$276,869,422	\$277,444,422	\$282,564,040

The SWM places more of a focus on K-12 spending items than the House requiring them to spend less than the House for early education. In total, SWM’s \$597.1 million in early education support is \$23.6 million less than the House but exceeds the Governor’s budget by \$6.2 million. The SWM budget does include \$5 million for a funding initiative to provide cities and towns with grants to expand preschool and prekindergarten. Figure 10. summarizes early education initiatives in the three FY 2019 budget.

*Figure 10. Early Education Funding Increases*

	Governor	House	SWM
Early education workforce initiative	\$0	\$8,500,000	\$0
Earl educator rates	\$0	\$20,000,000	\$0
Commonwealth Preschool Partnership Initiative	\$0	\$0	\$5,000,000

The SWM budget, like the House, mirrors the Governor’s approach for University of Massachusetts funding, providing a one percent increase over FY 2018 levels. For community colleges and state universities, SWM provides \$12.2 million more than the other FY 2019 spending plans. These new funds cover the additional collective bargaining costs borne by the campuses over the last two years. SWM does not follow the Governor and the House’s leads in increasing scholarship funding by \$7.4 million. The SWM budget essentially level funds scholarship support.



## Transportation

Figure 11. Transportation, FY 2018 & FY 2019

	FY 2018 Current	FY 2019 GOV	FY 2019 House	FY 2019 SWM
MassDOT Transfer	\$303,341,772	\$284,679,448	\$323,109,448	\$322,679,448
Snow & Ice Reserve	\$0	\$83,000,000	\$0	\$0
MBTA Transfer	\$127,000,000	\$127,000,000	\$154,000,000	\$127,000,000
Regional Transit Transfer	\$80,400,000	\$80,400,000	\$82,000,000	\$88,000,000
Merit Rating Board	\$9,404,567	\$9,768,209	\$9,404,567	\$9,768,209
MBTA Sales Tax	\$1,006,806,769	\$1,031,800,000	\$1,031,800,000	\$1,031,800,000

The SWM budget provides \$1.579 billion for transportation. Generally, the FY 2019 budget proposals are very similar on transportation funding, with three exceptions:

- *MBTA personnel shift* – The Governor’s budget proposed allowing MBTA employees who work exclusively on capital projects to be paid through the capital budget, thereby saving \$27 million in operating costs. The SWM budget adopts the Governor’s proposal but requires that the MBTA’s policy for classifying personnel costs as capital expenses be approved by the board, subject to certain criteria. In contrast, the House budget increases the MBTA subsidy by \$27 million to fund all personnel costs through the operating budget.
- *Regional transit authorities (RTAs)* – the SWM budget provides an \$8 million (10 percent) increase to RTAs, compared to a \$2 million increase in the House and level funding in the Governor’s budget. Like the House, the SWM budget ties a portion of RTA support (\$4 million in the SWM budget and \$2 million in the House budget) to new performance and accountability standards that will be agreed to with MassDOT through a memorandum of understanding and creates a task force on RTA performance and funding. The SWM budget changes the statutory requirement for annual RTA state funding to adjust for inflation in future years.
- *Snow and ice removal* – Both the SWM and House budgets provide \$45 million less than the Governor to cover MassDOT’s snow and ice removal costs. This strategy of underfunding major programs to free up spending in other areas of the budget, is a common theme for the House and SWM budgets.

## Other Non-Discretionary

Figure 12. Other Non-Discretionary Programs, FY 2018 & FY 2019

	FY 2018 Current	FY 2019 GOV	FY 2019 House	FY 2016 SWM
Debt Service	\$2,613,663,792	\$2,662,838,463	\$2,662,838,464	\$2,662,838,463
Retiree Health Care	\$432,404,000	\$441,179,578	\$441,179,578	\$441,179,578
Group Insurance Commission	\$1,683,153,734	\$1,645,981,013	\$1,645,981,013	\$1,645,981,013

SWM matches the Governor and House funding levels for other major non-discretionary spending. The apparent reduction in Group Insurance Commission (GIC) funding compared to last year is primarily the result of four municipalities leaving the GIC and the corresponding reduction in local reimbursements to the state. The GIC’s

recent reprourement efforts are expected to generate significant state savings and will hold net state costs essentially flat in FY 2019. The GIC expects these changes will reduce premiums for half of its members in the coming year.

Each FY 2019 budget expects debt service costs to grow by less than 2 percent in FY 2018; over the last five years, debt service obligations have grown by an average of 2.3 percent per year.

### ***Commonly Underfunded Accounts***

*Figure 13. Underfunded Accounts, FY 2018 & FY 2019*

	FY 2018 Projected	FY 2019 GOV	FY 2019 House	FY 2019 SWM
Indigent legal defense	\$233,752,758	\$236,938,646	\$189,739,504	\$193,250,115
Family homelessness	\$199,515,592	\$190,763,011	\$181,107,614	\$186,026,253
Sheriffs	\$607,777,940	\$626,715,238	\$573,039,125	\$579,545,616
Caseload Reserve	\$13,313,143	\$0	\$0	\$0
Collective bargaining	\$38,752,260	\$107,246,977	\$47,216,876	\$47,216,876
<b>Total</b>	<b>\$1,093,111,693</b>	<b>\$1,161,663,872</b>	<b>\$991,103,119</b>	<b>\$1,006,038,860</b>

Underfunded accounts are the chief fiscal risk of both the House and the SWM budget. The SWM budget falls \$155.7 million short of the Governor in five major programs in addition to the snow and ice funding mentioned earlier. SWM provides slightly more for these accounts (\$14.9 million) than the House, but both budgets propose starting the year with a significant funding shortfall.

Last year, the House and Senate added a \$104 million reserve during the Conference Committee process. The reserve has been used to mitigate areas of underfunding. The addition of a similar reserve during this year’s budget negotiations is essential if the state is to start FY 2019 without a budget deficit.

### ***Other Senate funding priorities***

In addition to the spending areas highlighted above, the SWM budget is notable in several other spending areas:

- *Transitional Aid to Families with Dependent Children (TAFDC)* – the SWM budget, like the House, eliminates a state policy that prevents children conceived after a family first qualifies for benefits from counting toward the size of the family for the purpose of determining the benefit amount. This change has an annual cost of \$10 million, but the SWM budget delays the change until January, cutting the FY 2019 cost in half. In addition, the SWM budget proposes allowing certain families receiving or applying for TAFDC benefits to earn more through employment. Finally, SWM increases the TAFDC annual clothing allotment for children from \$300 to \$350. In order to support these changes, SWM provides a \$16.3 million increase to the TAFDC account.
- *Gaming funds* – each of the three FY 2019 budgets sets aside \$5 to \$10 million in gaming revenue for other purposes. The Governor and SWM dedicate \$5 million in gaming revenues to the Workforce Competitiveness Trust Fund. SWM also uses \$2.7 million in gaming funds intended for “local capital projects” to support accessible affordable housing grants. This new program will fund upgrades or production of housing units for persons with disabilities – with a special focus on increasing housing options for the state’s Alternative Housing Voucher program.

- *DCF family resource centers* – long a priority of the Senate, the SWM budget provides \$15.1 million for family resource centers, which help eligible families access necessary supports and services. The SWM funding level is \$5 million higher than the Governor and \$7.3 million higher than the House.

### **Closing the Budget Gap**

The state’s annual budget gap has declined significantly over time, but remains at \$400- \$500 million in FY 2019. Budget writers are tasked with closing that gap and finding resources to support any new spending initiatives. Figure 14. compares how the various budgets propose closing the gap:

*Figure 14. Closing the Budget Gap*

<b>Closing the Budget Gap</b>			
Initial Gap			<b>\$525</b>
	<i>Real Time Sales in Revenue</i>		
	<i>Assumption</i>		-\$125
Initial gap			<b>\$400</b>
		Gov	House
		Budget	Budget
			SWM
			Budget
<b><i>New funding Initiatives</i></b>		<b>\$45</b>	<b>\$125</b>
MBTA capital to operating		\$0	\$27
LLC revenue impact		\$5	\$0
<b>Total Gap</b>		<b>\$450</b>	<b>\$552</b>
	<b><i>Solutions</i></b>		
Tobacco settlement/OPEB		\$151	\$151
Repatriation		\$65	\$65
Marijuana		\$63	\$63
MassHealth savings		\$60	\$0
MassHealth revenue offset		\$0	\$25
Employer assessment increase revenue		\$45	\$45
Gaming		\$34	\$34
GIC procurement		\$21	\$21
Transient accommodations		\$13	\$0
Lottery revenues		\$0	\$21
Racehorse Dev. Fund		\$0	\$0
Underfunded accounts		\$0	\$130
<b>Gap Solved</b>		<b>\$452</b>	<b>\$555</b>
			<b>\$581</b>
	<i>Numbers in millions</i>		

Generally, the three budgets use similar tools to balance the budget, but there are exceptions:

- *MassHealth* – the Administration used MassHealth reforms to generate \$60 million in budget savings by transitioning members to the Health Connector. The House and SWM rejected that proposal. Instead, SWM relies on \$30 million from expected pharmacy savings. The House provides approximately \$50 million in MassHealth rate supplements that generate additional federal revenue.
- *Underfunded accounts* – the House and SWM budgets free up resources to support other spending initiatives by underfunding several programs. Essentially, this approach creates a budget deficit to start the year in the hope that strong revenue collections or other savings will offset these spending needs. In three of the last four years, midyear budget cuts have been necessary to close midyear budget gaps.

- *Transient accommodations* – the Governor and SWM rely on expected revenue from transient accommodation taxation, while the House does not assume any revenue in its budget.
- *One-time resources* – the SWM budget uses \$16.5 million more in one-time resources by sweeping the balance of the Racehorse Development Trust Fund into the General Fund.
- *New spending initiatives* – both the House and SWM devote more resources to education-related increases, thereby adding to the budget gap.

### ***Shared Budget Gap Strategies***

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

Each budget diverts a large portion of expected tobacco settlement revenues that would have otherwise gone to the state’s OPEB obligations to the General Fund. In the budget 10 percent or \$25 million of these monies will go to OPEB in contrast to, the 70 percent of settlement revenues (\$175 million) that would have been transferred without the budget language. Strategies to delay or reduce amount of tobacco settlement revenues dedicated to OPEB have been consistently employed for a number of years.

#### ***Repatriation (\$65 million) & Marijuana tax revenue (\$63 million)***

These two sources of revenue are discussed earlier in the Bulletin.

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

All three 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.

### **Major Policy Provisions**

The SWM budget proposes 60 outside policy sections, a sharp reduction from the 99-section average of the past three years. Policy proposals in the SWM budget cover a wide variety of topics. Notable sections include:

#### ***Tax Expenditure Review Commission (sections 5, 10 & 15)***

A Tax Expenditure Review Commission is created within the Department of Revenue that would be tasked with evaluating each tax expenditure on a regular basis (every 10 years for personal income tax expenditures and every five years for all others). The review would use aggregated tax return information to determine effectiveness, fiscal impact and administrative factors according to criteria set forth in the language. The Commission would publish an annual report on its findings.

***Regional Transit Authority Funding and Performance Review (sections 11, 26 & 39)***

A new minimum funding level for RTAs is established; a portion of RTA funding is tied to a performance agreement with MassDOT; and a task force is created to focus on RTA finances, accountability and operations.

***TAFDC Family Cap and Earnings Disregard (sections 21, 30 through 37 & 62)***

The TAFDC “cap on kids” is eliminated and the amount that some recipients and applicants can earn and still qualify for benefits is increased.

***MassHealth Supplemental Rebates (sections 22 & 58)***

EOHHS is empowered to negotiate supplemental pharmaceutical rebates, apply penalties for excessive costs and establish an annual MassHealth pharmacy savings target.

***Juvenile Court Special Findings (sections 24 & 59)***

Children faced with possible deportation to their country of origin are allowed to petition Juvenile Court to consider whether or not parental reunification or return to the country of origin is in the best interests of the child and act accordingly.

***Private bar advocate raises (sections 28 & 29)***

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) are given a raise.

The SWM budget does not include a section proposed by the Governor that would prevent employers who have employees with MassHealth or subsidized Connector coverage from being subject to both a federal and state assessment. Last year, the state levied a temporary assessment on businesses which included an additional penalty based on the number of employees receiving publicly subsidized insurance. Part of the premise of this penalty was that a similar federal policy would never be implemented. However, that premise has proven incorrect as the IRS began enforcing the penalty last fall.

The SWM budget proposes the creation of six new off budget trust funds:

*Figure 15. New Trust Funds*

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

## **Conclusion**

The SWM budget and the House budget share many of the same strengths and weaknesses. Both budgets keep total spending growth in check and in-line with reasonable revenue projections by limiting the use of unsustainable revenues and providing targeted increases to their priorities – education, human services and workforce programs. The SWM budget is particularly notable for increases to Chapter 70 education aid, special education reimbursements and policy and funding changes for low-income families receiving state benefits.

Unfortunately, the SWM budget is only able to spend more in priority areas because it underfunds other critical programs. This type of strategy is neither new nor is it effective in the long-term. The midyear budget cuts of FY 2015, FY 2016 and FY 2017 speak to the downside of building a deficit into the budget at the start of the fiscal year. There is still time for the House and Senate to address this shared problem and they should do so during conference negotiations: following last year's example, the House and Senate leaders should agree to set aside at least \$100 million to cover underfunded accounts.

The SWM budget does deserve credit for including a new proposal to reduce MassHealth cost growth. While the Foundation supports the Governor's plan to reduce MassHealth costs while maintaining benefits by moving members to other forms of subsidized care because of its larger potential savings, the Senate's more modest reform is intended to provide EOHHS with tools to reduce drug costs, an area of healthcare spending that has experienced significant growth in recent years. Over the coming weeks the merits and feasibility of this proposal will become clearer, but MassHealth cost reform is only possible if policy makers are willing to consider new ideas and the SWM budget provision takes an important step forward in doing that.



## 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 HOUSE	FY 19 SWM
<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>17,440</b>	<b>17,337</b>
MassHealth	13,583	14,741	15,298	15,890	15,976	16,277	16,502	16,400
Trust Funds	701	651	593	639	934	452	452	452
Other Health Care	235	255	256	270	305	493	486	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>6,743</b>	<b>6,782</b>
Chapter 70 Education Aid	4,402	4,514	4,627	4,747	4,747	4,866	4,899	4,922
Other K-12 Education Aid	585	623	604	615	619	630	656	672
Unrestricted Local Aid	973	1,007	1,049	1,089	1,089	1,126	1,126	1,128
Other Local Aid	63	67	63	68	66	66	62	60
<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>1,812</b>	<b>1,787</b>
Early Education	544	566	540	577	586	591	621	597
Higher Education	1,167	1,194	1,167	1,174	1,178	1,193	1,191	1,190
<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>6,313</b>	<b>6,335</b>
Developmental Services	1,715	1,847	1,897	1,953	1,954	2,000	2,004	2,004
Family Services	1,077	1,156	1,141	1,207	1,179	1,225	1,220	1,235
Cash Assistance	716	714	657	644	660	675	677	682
Mental Health	719	740	749	773	777	870	871	873
Public Health	601	553	560	605	605	610	627	628
Housing Support	422	471	431	436	448	446	449	449
Senior Support	271	283	295	303	304	316	317	316
Veteran Services	143	152	141	148	155	149	148	148
<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>2,789</b>	<b>2,788</b>
Corrections	607	612	629	661	670	691	680	673
Sheriffs	582	606	603	566	608	627	573	580
Judiciary	863	889	916	878	939	956	919	926
Police	308	323	327	345	340	352	346	344
District Attorneys	108	115	119	117	118	124	126	127
Attorney General	44	45	46	49	49	50	52	52
Other Public Protection	120	119	99	87	94	91	92	88
<b>Transportation</b>	<b>803</b>	<b>637</b>	<b>625</b>	<b>520</b>	<b>539</b>	<b>585</b>	<b>569</b>	<b>547</b>
MassDOT	471	359	393	303	322	368	323	323
Regional Transit	40	82	82	80	80	80	82	88
Registry	9	10	10	9	9	10	9	10
MBTA Discretionary Assistance	283	187	140	127	127	127	154	127
<b>Economic Development</b>	<b>318</b>	<b>394</b>	<b>327</b>	<b>370</b>	<b>374</b>	<b>371</b>	<b>395</b>	<b>377</b>
Business and Labor	91	152	113	144	142	138	151	141
Environment and Energy	227	242	214	226	231	234	244	236
<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>	<b>2,188</b>
GIC	1,683	1,726	1,695	1,781	1,780	1,747	1,747	1,747
State Retiree Benefits (OPEB)	420	425	440	432	432	441	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>	<b>2,663</b>
Debt Service	2,219	2,240	2,280	2,388	2,373	2,418	2,418	2,418
Contract Assistance	279	278	248	240	240	245	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>605</b>	<b>614</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>	<b>4,527</b>
Pensions	1,793	2,001	2,394	2,394	2,394	2,609	2,609	2,609
MA School Building Authority	772	815	817	847	847	863	863	863
MBTA	971	986	992	1,007	1,007	1,032	1,032	1,032
Workforce Training	24	23	25	25	25	24	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>41,515</b>	<b>41,418</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>46,042</b>	<b>45,945</b>