Massachusetts Taxpayers Foundation

MTF

333 WASHINGTON STREET

BOSTON, MA 02108-5170

617-720-1000

May 26, 2017

Senate Final Budget Analysis

The Senate finalized its fiscal year (FY) 2018 budget yesterday after three days of debate. Through the amendment process, the Senate added $52.1 million in new spending and added 150 policy sections to the spending plan released from the Senate Committee on Ways and Means last week. Budget conferees will now work to reconcile the differences between the House and Senate versions over the next month so that a budget can be in place for the start of the fiscal year on July 1st. That reconciliation is likely to be complicated by the possibility of revisions to the FY 2018 tax revenue estimate.

Spending Comparison						
	FY 2017 Current	**H1**	**House Final**	**SWM**	**Senate Floor**	**Senate Final**
Line item spending	$39,617.3	$40,909.0	$40,830.0	$40,791.3	$51.9	$40,843.2
Non-line item	$4,026.6	$4,300.6	$4,300.6	$4,300.6	$0.2	$4,300.8
Total spending	$43,643.9	$45,209.6	$45,130.6	$45,091.9	$52.1	$45,144.0

Spending Added During Debate

The Senate's $52.1 million in new spending is distributed among 118 different line-items. The majority of new spending – $30.3 million – is earmarked for local projects, with the balance funding program increases which include:

- $3 million increase to charter school reimbursements for public school districts. The new funding level of $83.5 million is approximately $75 million short of the amount necessary to fully fund the reimbursement program;
- $2 million to bring the Massachusetts Legal Assistance Corporation's funding level to $20 million.
- $2 million added to the Shannon Grant program for a final funding level of $7 million. Shannon Grants support a variety of local efforts to support gang prevention and assist at risk youth;
- $1.25 million in additional funding for regional school transportation reimbursements for a new funding level of $62.27 million;
- $1.25 million for Small Business Technical Assistance grants, doubling the $1.25 million funding level included in the SWM budget;
- $1 million for the METCO program, for a new funding level of $22 million; and
- $1 million to increase support for the state's Safe and Successful Youth Initiative which provides a variety of services to at-risk youth. Total program funding is now $7.545 million.

The Senate organized amendments around 10 policy topics. The chart below summarizes new spending by policy area, while separating out earmark spending:

Category	Floor Spending
Earmarks	$30,252,042
Local	$0
Education	$7,325,000
General Government	$332,749
Health & Human Services	$3,780,000
Tourism & Economic Development	$2,725,000
Environment	$1,800,000
Judiciary	$2,250,000
Public Safety	$2,200,000
Transportation	-$250,000
Other spending	$200,000
Technical Adjustments	$1,470,000
Total	***$52,084,791***

The $30.3 million in earmark spending is comprised of 305 discrete earmarks, remarkably similar to earmark spending during the Senate's FY 2017 debate ($31.4 million for 318 earmarks).

In addition to the spending listed above, the Senate also adopted an amendment to direct $10 million of any FY 2017 budget surplus to the state's Life Science Center and created a new Wellness Trust Fund which would be funded through revenues from an expanded tax on flavored cigarette products.

Revenue to Support New Spending

The Senate restricted eligibility for the state's film tax credit. Under the Senate amendment language, film production salaries of $1 million or greater would no longer be eligible for the production expense credit. In addition, the amount of production spending required to be expended in Massachusetts would increase from 50 percent to 75 percent. These changes are expected to reduce the cost of the film tax credit by $14 million in FY 2018.

The spending added on the floor will be paid for by the changes to the film tax credits and $47 million in revenue not spent in the Senate Ways and Means budget in anticipation of these changes.

Policy Sections

The Senate added 150 new policy sections through the amendment process that are in addition to the 111 sections included in the original SWM budget. The 261 total policy sections in the final Senate budget are far greater than the 156 sections in the House spending plan. Notable policy amendments include:

Community Preservation Act

The Senate adopted an amendment to increase the deeds surcharge that funds the state Community Preservation program. Under the program, participating communities generate local revenue (through a property tax surcharge) to support allowable community projects and those revenues receive a state match. The state match is made possible through a maximum $25 surcharge on recorded deeds which generates approximately $25 million per year. In recent years, as more communities have joined the CPA, the state match percentage has declined. The Senate amendment would increase surcharge amounts (the new maximum would be $45) and would more than double the amount of funds available for the annual state match.

Group Insurance Commission

This section would substantially alter the Governor's appointments to the Group Insurance Commission (GIC), the entity that oversees health insurance coverage for all state employees. Currently, the Governor makes 13 appointments to the GIC, six of whom must meet specific criteria or be nominated by specific organizations. Under Senate language, the Governor would make 9 appointments all of whom would be subject to specific criteria or subject to nomination. Six of the Governor's nine appointments in the Senate language would be nominated by public employee unions. Currently, three of the Governor's 13 appointments are nominated by public employee unions.

Local Aid Revenue Sharing Commission

The Senate proposes a commission to examine ways to improve the fairness of local aid distribution. Currently, there is no formula for distribution of local aid increases – increases are simply divided proportionally based on the distribution from the prior year – and any connection to two previous local aid distribution formulas has long since been lost. The Commission would examine the appropriate criteria for distributing aid and methods to distribute aid equitably.

MBTA Pacheco Law Exemption

The Senate adopted a section which would require the MBTA General Manager to affirm to the Fiscal & Management Control Board, prior to pursuing privatization of MBTA core or maintenance services, that good faith negotiations occurred with the union representing MBTA employees performing those services. Those good faith negotiations would have to occur prior to the consideration of privatization, with dates, times and length of negotiation sessions documented by the General Manager, along with declaration on whether an impasse had occurred.

In addition, the section allows the Control Board to review and amend any proposed or existing outsourced contracts the MBTA has entered into under the same terms as above – including those entered into prior to the Board's creation. The language explicitly includes paratransit and commuter rail contracts as eligible for review.

Foundation Budget Changes

For the second straight year, the Senate adopted an amendment to implement major changes to the state's Foundation Budget that determines and allocates state and local education funding requirements. This year's language is similar to that adopted by the Senate in FY 2017, but amends several definitions and reflects cost increases related to inflation. When fully implemented, the Foundation Budget changes adopted by the Senate would increase state costs by more than $1 billion annually.

Educator Evaluations

The Senate adopted an amendment that prohibits the Board of Education from mandating that "student impact ratings" be used in teacher evaluations. In addition, the amendment requires that the selection and implementation of teacher evaluation principles, as well as the procedure for conducting those evaluations, be subject to collective bargaining.

Community Benefits Districts

Like the House, the Senate adopted language allowing the creation of "Community Benefit Districts." These districts would be formed by a collection of property owners who would create and fund a non-profit entity that would be responsible for a variety of shared goals in their geographical area. A similar provision was included in last year's economic development bill but was vetoed by the Governor due to his concerns with the scope of the bill and its cost to property owners.

Conclusion

The Senate debates focused more on policy initiatives than new spending, a likely result of softening revenue collections. The $52.1 million in spending added by the Senate is the lowest amount added through amendment by either the House or the Senate in at least seven years. The new spending that was added is largely in the form of local earmarks.

The budget now heads to Conference Committee where the House and Senate spending plans will have to be reconciled. The similarities between the two budgets in terms of approach to spending and revenue usually make it easier to resolve fiscal issues quickly, but once again Conferees will be faced with the task of reevaluating basic tax revenue assumptions. A substantial downgrade to revenue is likely, and if it occurs, will require major spending reductions to plans approved by both the House and Senate.