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Senate Ways and Means Budget Preview

The next step in the fiscal year (FY) 2018 budget process is the release of the Senate Ways and Means (SWM) budget on Tuesday, May 16th. This brief provides five major questions that the SWM spending plan will have to address.

1. ***How will the Senate react to disappointing revenue collections?***

Despite the fact that the House budget was finalized just over two weeks ago, the state's fiscal landscape has changed considerably since then. April revenues collections fell $241 million short of expectations, leaving the state $462 million below its targeted tax revenue benchmark for the year. This is the second straight year that the state confronts a sizeable tax revenue shortfall heading into the final two months of its fiscal year, a scenario made more perilous than last year because there are fewer options for addressing it.

Table 1. FY 2017 Revenues Compared to Benchmark at Time of Budget Proposals
Numbers in Millions

Budget proposal	Revenues v. Benchmark
Governor	-$38
House	-$220
Senate	-$462

It is apparent that the tax revenue picture has changed materially since January when the Administration, House and Senate agreed to the estimated revenue available for FY 2018. Deterioration of revenues since that time means that revenue growth in excess of 5 percent is required to meet current projections – a rate of growth that is unlikely given the recent trends. Therefore, the question for the Senate is whether to revise tax revenue projections for their FY 2018 budget now given the April tax collection figures or wait until later.

Unilaterally reducing revenue estimates in its budget has several serious drawbacks for the Senate. Practically speaking, SWM will have had insufficient time to make major spending and revenue changes to their budget plan and to fully assess the impact of those changes. In addition, were the Senate to base its budget on a lower revenue figure, it makes the negotiation process with the House that follows far more complicated and is counter to the goal of tax estimates that are shared by the House, Senate and Administration.

The more likely course of action is for the Senate to wait until after the completion of its budget before conferring with the House and Administration about how best to address the revenue shortfall. Waiting will allow budget makers to consider May collections information prior to taking any action. The downside to this approach is that it delays taking action until the last possible opportunity leaving little room for error.

2. ***Will the SWM budget include House 1 revenue proposals and if so, what form will they take?***

The FY 2018 budget process began with two controversial revenue proposals in the Governor's budget –a new health care assessment on employers and a plan to speed up collection of sales taxes by imposing a daily remittance obligation on credit card companies and other payment processors. Both have been subject to criticism regarding scope of application, likelihood of successful implementation and potential for unintended impacts; however, the $425 million in additional revenue they generate makes them difficult to ignore.

The House budget includes amended versions of both proposals. The House directs the Administration to develop plans for a new employer assessment which address many of the concerns raised with the original proposal and as a result reduces the assumed revenue from the assessment to $180 million from the $300 million in the Governor's budget. The Senate could adopt an approach similar to the House thereby providing additional time to finalize the details or it could opt to go in an entirely new direction.

Similarly, with respect to the sales tax collection proposal, the House budget assumes revenue from the proposal but directs the Department of Revenue to explore alternative ways to expedite sales tax collections (and assumes $125 million in revenue related to these efforts), without specifying the method for doing so. In both cases, the House provides additional time for determining an approach that is more acceptable to affected parties but avoids requirements as to what the final policy will look like. The Senate must decide whether it wants to address expected sales tax collections and if so, whether it will mirror the Governor's plan, more closely resemble the House's approach or do something else.

3. ***Will the Senate put forward other new revenue proposals?***

Senate President Rosenberg has made clear that he believes that the state's tax base is insufficient to support current needs. This, in conjunction with the fact that many of Senate's priorities will require new money to fund them, may encourage the Senate to consider further tax or assessment revenues in its budget.

The Senate may choose to pursue revenue raising ideas that have already been proposed in recent years. These ideas include limiting or repealing the state's film tax credits; extending the sales tax to candy and soda; and taxation of Airbnb and other temporary accommodations. The Senate could easily use the budget process for adopting these previously vetted proposals or introduce novel ones.

4. What will the Senate do on Chapter 70 and early education?

The Senate has made clear its intent to overhaul the state's Chapter 70 formula that determines state and local funding for K-12 education. On two separate occasions during the last legislative session, the Senate passed a package of Chapter 70 reforms based on the work of the 2015 Foundation Budget Review Commission that include increasing formula cost assumptions for employee benefits and other fixed costs, special education, limited English proficient and low-income students changes. Those changes, when fully phased in, would increase state K-12 education spending by approximately $1.3 billion annually.

In this year's budget, both Governor Baker and the House took modest, initial steps to implement recommendations of the Foundation Budget Review Commission and while the fiscal impact of those changes is relatively small – approximately $16 million in the Governor's budget and $26 million in the House budget – it sets a bar for FY 2018 that the Senate may want to surpass.

The Senate recently signaled its intent to also increase support for early education funding with the release of a report from its Kids First working group. While the report does not specify short-term funding goals, it lays out an ambitious plan that includes eliminating the subsidized childcare waitlist for children five years old or younger and increases early educator pay rates to 75 percent of the market rate. The House budget includes $20 million to increase salary rates for early educators; opening the door for the Senate to meet or exceed this figure.

5. How will the Senate address health care cost growth?

The Governor's budget included several major proposals to reduce or offset health care cost growth in both the public and private sector. In addition to the employer assessment designed to mitigate MassHealth cost growth, the Administration proposed implementing health care cost caps for the Group Insurance Commission (where insurance payments would be tied to Medicare payments) and in the private insurance market (where insurance payments to providers would be capped depending on provider price tier).

The House budget incorporated a version of the Governor's employer assessment and re-forecasted MassHealth enrollment numbers to reduce spending by a $130 million, but did not adopt either of the Administration's policy proposals to cap health care cost growth. Whether the Senate opts to use the budget as a vehicle for making health care policy change as the Governor did or pursues the more limited approach of the House remains to be seen. Given the recent release of the Price Variation Commission's report, and the legislature's preference for more comprehensive reform packages, it seems more likely that the Senate may address the issue in separate legislation.

Conclusion

The consistent themes of the House and the Administration budgets – new revenue proposals, the need to control health care costs, amending the process for dedicating money to the Stabilization Fund and the goal of increasing education resources – are also likely be the focal point of the Senate Ways and Means spending plan. Unlike the previous budget proposals, however, the Senate will be tackling these issues with the knowledge that the basic tax revenue assumptions for FY 2018 are likely invalid as a result of April revenue collections. Even if the Senate waits for the Conference Committee process to make any adjustments to revenue projections, the reality that available resources in FY 2018 will be even scarcer than initially thought will have a major impact on the Senate budget deliberations.