Governor Baker’s FY 2016 9C Reductions

On January 8th, 2016, Governor Baker announced $54 million in midyear budget cuts (9Cs) and $55.8 million in other solutions to help address an FY 2016 budget deficit estimated by the administration at approximately $320 million.

Notable Cuts

The Governor’s 9Cs, which are not subject to legislative ratification, impact 63 line-items in the state budget and total $54 million in gross reduction for a net savings of $49 million once associated revenue decreases are taken into account.

Notable budget reductions include:
- $16.3 million associated with cost offsets to the Early Retirement Incentive Program
  - These reductions are related to payroll for replacement hires and other non-payroll costs
- $10 million from the $2.5 billion MassHealth Fee for Service line item
  - This reduction reduces associated federal Medicaid reimbursements by $5 million and so has a net savings of $5 million.
- $6.5 million in funding for the Transportation Trust Fund
  - This reduces state funding for the trust fund from $365 million to $358.5 million
- $3.6 million in funding for the State Police
  - This reduction to the State Police from $268.9 million to $265.2 million is largely related to fuel savings
- $3 million in funding for Regional Incentive Grants
  - This reduces funding for this item from $14.4 million to $11.4 million
- $2 million in funding for domestic marketing within the Massachusetts Office of Travel and Tourism
  - This reduces funding for the office from $16.3 million to $14.3 million

Other Gap Closing Measures

In addition to the 9C budget reductions, Governor Baker also announced $54 million in FY 2016 budget revenue upgrades that will offset the estimated budget gap:
- $22.9 million increase in the revenue assumption for the Treasurer’s Abandoned Property Division
The original FY 2016 budget assumed $77.1 million in revenue from this source
- $32.9 million increase in revenues associated with MassHealth and federal Medicaid revenues

**Budget cuts in context**

Today’s 9Cs are unique in that they are not accompanied by a downgrade in expected tax revenues received in FY 2016. In fact, tax revenues have exceeded expectations by $113 million (not including one-time settlements) halfway through the fiscal year. While the Governor’s 9C authority is triggered by any downgrade in state revenues (both non-tax and tax), FY 2016 will mark the first year since at least FY 2001 when 9C cuts have been implemented in a year that did not include such a downgrade.

**Figure 1. Fiscal Years with 9C Reductions, FY 2001 – FY 2016**

<table>
<thead>
<tr>
<th></th>
<th>9C Total</th>
<th>Midyear Tax Downgrade</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2002</td>
<td>$120.3</td>
<td>$1,320.0</td>
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<tr>
<td>FY 2003</td>
<td>$419.9</td>
<td>$709.0</td>
</tr>
<tr>
<td>FY 2009</td>
<td>$631.4</td>
<td>$2,966.0</td>
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<tr>
<td>FY 2010</td>
<td>$223.7</td>
<td>$419.0</td>
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<tr>
<td>FY 2013</td>
<td>$202.0</td>
<td>$515.0</td>
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<tr>
<td>FY 2015</td>
<td>$411.1</td>
<td>$62.0</td>
</tr>
<tr>
<td>FY 2016</td>
<td>$54.0</td>
<td>$0.0</td>
</tr>
</tbody>
</table>

In many ways, the 9Cs in FY 2016 are similar to last year’s 9C reductions in that both were triggered by non-tax revenue shortfalls. In FY 2015, there was a slight downgrade in estimated tax revenues as well.

While today’s plan addresses $104.9 million of the administration’s estimated FY 2016 budget gap, fiscal challenges remain. Outstanding spending obligations in areas such as the Committee for Public Counsel Services, Emergency Assistance and MassHealth coupled with savings shortfalls from the Early Retirement Program are among the exposures that present ongoing budget challenges.

**9C Authority**

Under section 9C of chapter 29 of Massachusetts’ General Laws, the Governor is empowered to reduce spending if the Secretary of Administration and Finance determines that budgeted revenues will not be sufficient to meet budgeted expenditures. Spending cuts made through 9C are limited to the executive branch and spending areas such as Chapter 70 education aid and other local aid as well as higher education are not subject to 9C powers.