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April 7, 2017

## House Ways and Means Budget Preview

The House Ways and Means Committee (HWM) will release its spending plan for Fiscal Year (FY) 2018 next week. The bill will reflect the House's spending and policy priorities, which could closely mirror or significantly differ from Governor Baker's proposal. This brief highlights five issues in the HWM budget that deserve close attention.

### Issue #1: How will HWM approach Governor Baker's employer assessment?

HWM's approach to the employer assessment proposed in House 1 will have major revenue and policy implications for its budget. In a tight budget year, the \$300 million in FY 2018 revenue the assessment is expected to generate is difficult to pass up and options to replace that money – substantially increasing one-time resources, major spending cuts or new ongoing tax revenues – each have significant drawbacks. If a version of the assessment is adopted by HWM, the problems with the original proposal's premise, scope, fairness, and vulnerability to legal challenge will need to be addressed. Determining an approach that offsets MassHealth cost growth, the rationale for the new assessment, while addressing the problems of the original proposal pose one of the biggest challenges HWM faces in this budget.

### Issue #2: Will the HWM budget adopt Governor Baker's tax proposals?

House 1 proposes three tax changes that are expected to generate \$127 million in net budget revenue and HWM will have to choose which, if any, of the proposals to adopt.

	Net revenue
Real-time sales tax	\$95
Income reporting requirements	\$20
Temporary accommodations	\$12
<b>Total</b>	<b>\$127</b>

As with the employer assessment, the benefits of this new revenue must be weighed against serious concerns of impacted taxpayers. Specifically, the real-time sales tax collection proposal in House 1 faces criticism from retailers whose remittance processes are complicated by this measure and from banks and credit card companies who will now be required to remit sales tax on a daily basis. These concerns, along with concerns related to implementation costs and collection accuracy, have led other states to reject similar measures.

The other two tax proposals – extension of the state's lodging tax to temporary rentals like Airbnb and the creation of a new threshold for reporting credit card income – have been less controversial, but also raise much less revenue.

### **Issue #3: Will the HWM budget include health care cost containment proposals?**

Controlling health care cost was a policy focus of the Governor's budget and the recently released report of the Price Variation Commission. The Governor's budget proposes capping Group Insurance Commission insurance rates at 160 percent of equivalent Medicare rates – a change that saves the Commonwealth \$40 million. In addition, House 1 creates a tiered approach to growth caps on provider rate increases. This proposal, although impacting the entire commercially insured insurance market, has no FY 2018 budget implications.

Limiting MassHealth spending growth is also essential to health care cost containment. Close to \$600 million in new MassHealth spending in the Governor's budget was directly related to assumed increases in the program's enrollment. Unexpected decreases in enrollment since the release of House 1 may generate MassHealth savings for the House and Senate budgets.

Given the importance of the issue to the state economy, containing health care costs is a topic that is likely to garner the House's attention. However, it is unclear if the House will use its budget document to address health care costs or opt for separate legislation.

### **Issue #4: Will the HWM budget include education aid Foundation Budget changes?**

Over the past several years, pressure has increased to overhaul the way the state calculates a school district's Foundation Budget – the spending level necessary to provide an adequate education to the district's students. In October of 2015, a group tasked with identifying ways to improve the Foundation Budget process released a report which recommended several changes that would increase state education spending by more than \$1 billion annually. In 2016, the Senate twice voted to phase in those changes to the Foundation Budget over a period of several years.

The Governor's FY 2018 budget includes approximately \$16 million in new state aid tied to increased cost assumptions for employee costs and fixed charges - a small initial step toward reexamining the Foundation Budget. How the House chooses to proceed on this issue will be an important policy statement, given the importance of this issue to municipalities and the impact that local aid has on the budget as the second largest spending category behind health care.

### **Issue #5: How would the HWM budget impact the state's long-term fiscal health?**

Governor Baker's budget improves the state's fiscal foundation by revising the system for how above-benchmark capital gains and other tax revenue are deposited into the Rainy Day Fund. These changes will make automatic deposits more likely and more predictable for budget makers and therefore should be seriously considered by HWM (more information about the plan can be found [here](#)) as a more reliable mechanism for rebuilding state reserves.

The Governor's budget also makes progress in narrowing the state's structural deficit by reducing reliance on the use of one-time revenues and fully funding accounts that have been typically underfunded so that supplemental spending later in the year is not necessary. However, much of this progress is made possible due to the ongoing revenues generated by the employer assessment and other tax provisions discussed above, which are controversial. If HWM amends or omits some of these revenue proposals, it may be difficult for the House to go as far as the Governor in reducing the structural deficit.