



# Bulletin

MTF

## FY 2017 House Ways and Means Budget Preview

The House Committee on Ways and Means (HWM) is expected to release its budget on Wednesday, April 13<sup>th</sup>. This brief poses three important questions to consider when assessing how this proposal would impact the long-term fiscal health of Commonwealth. This brief also identifies several of the Governor's budget proposals that could be adopted by HWM to help balance the budget.

### **FY 2017 HWM Budget – Most Important Things to Watch**

#### *How will spending growth compare to tax revenue growth?*

The Governor's budget limits line item spending growth to 3.19 percent, providing a solid fiscal foundation for the FY 2017 budget. In last year's budget, HWM proposed \$130 million less in spending than the Governor.

Limiting the rate of spending growth to less than the assumed rate of tax revenue growth (4.3 percent) is an essential indicator of fiscal sustainability to watch for in the HWM budget. While not the sole source of budget revenue, taxes are the largest revenue source and are the best proxy for economic conditions. Spending growth that exceeds tax revenue growth can lead to structural gaps and force budget writers to identify one-time budget solutions to balance the budget.

#### *How many one-time revenue solutions will HWM use?*

The HWM budget must sharply reduce the use of one-time solutions from the \$629 million used in the FY 2016 budget in order to address the state's structural deficit.

House 2 relied on \$266.5 million in one-time solutions in FY 2017, most notably the diversion of \$150 million in capital gains tax revenues from the state's Stabilization Fund. Ideally, HWM will propose a budget that uses even less in one-time revenues than proposed by the Governor, but keeping them below \$300 million is essential. The Foundation's [recent research](#) highlights the connection between the ongoing use of unsustainable revenues and the danger the Commonwealth faces in the next economic downturn. The FY 2017 budget must significantly reduce or eliminate use of these one-time solutions.

#### *How much will the House Deposit into the Stabilization Fund?*

Finally, the size of the Stabilization Fund deposit assumed in the HWM budget will tell us a great deal about the fiscal strength of the HWM proposal. The Stabilization Fund's balance is lower now than it was in FY 2013 and is \$1 billion less than it was prior to the Great Recession.

It's vital that the FY 2017 budget begins to rebuild reserves. The Foundation recommends that the House Ways and Means Committee deposit all \$356 million in excess capital gains revenue into the Stabilization

Fund rather than diverting a portion of it into the General Fund for operating purposes.<sup>1</sup> The Governor proposes a deposit of \$206 million in excess capital gains. This is the minimum the HWM budget should deposit. A more sizeable deposit into the Stabilization Fund will signal that the House is committed to replenishing reserves and balancing the budget with current resources in order to strengthen the state's long-term fiscal health.

### **Key House 2 Proposals**

Governor Baker's budget included the following proposals, worth more than \$400 million in total, to address the FY 2017 budget gap. Whether HWM's recommendations include these initiatives or alternative proposals will significantly shape the FY17 budget and the funds available for House spending priorities.

Given Speaker DeLeo's commitment to avoid new taxes and fees in the FY 2017 budget, it could be difficult for HWM to forego notable revenue and savings initiatives proposed in the Governor's budget.

#### ***Over-Threshold Capital Gains - \$150 million in FY 2017 revenue***

All capital gains tax revenues over a minimum threshold are statutorily required to be deposited into the Stabilization Fund or used for other long-term obligations. The Governor proposes increasing the threshold in FY 2017 by \$150 million, thereby making that revenue available for the budget. While this is an improvement over FY 2015 and FY 2016, when the threshold was suspended entirely and all capital gains revenue was used to balance the budget, it does not go far enough. MTF recommends that the House deposit the entire amount of excess capital gains into the Stabilization Fund.

#### ***Tobacco Settlement Revenues - \$120.75 million in FY 2017 savings and revenue***

House 2 suspends a statutory provision that would direct 50 percent of the state's FY 2017 tobacco settlement revenue (\$120.75 million of the expected \$241.5 million) to retiree health care obligations. House 2 limits this transfer to 30 percent of settlement revenue and relies on reversions to fund the transfer. These changes, which are similar to those that have been adopted in previous years, free up \$120.75 million in revenue for use elsewhere in the budget.

#### ***DSRIP assessment - \$73.5 million in FY 2017 revenue***

House 2 proposes implementing a \$250 million assessment on health care providers as part of the plan to create a new Delivery System Reform Incentive Program (DSRIP). This proposal has many policy and budgetary implications. If the House opts not to adopt the proposal, it would have to find \$73.5 million in savings or new revenue – the amount of money from the first year assessment that the Baker administration has assumed in its budget.

#### ***GIC premium changes - \$33 million in FY 2017 savings***

House 2 increases insurance premiums for some state workers, thereby reducing state costs by \$33 million. This proposal was rejected by the legislature in the FY 2016 budget.

#### ***TANF Eligibility Changes - \$28 million in FY 2017 savings***

House 2 proposes changing the income calculation used to determine eligibility for the state's Temporary Assistance for Needy Families (TANF) program. Based on these changes, House 2 assumes \$28 million in FY 2017 savings.

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<sup>1</sup> Under current statute, \$320.4 million of this amount would be remain in the Stabilization Fund with \$35.6 million then used to address long-term liabilities