



Bulletin

December 17, 2014



MTF Analysis: Deficit Looms for Fiscal 2015

The Foundation’s analysis concludes that the state is facing an estimated budget deficit of \$1 billion for fiscal 2015, as summarized in Table 1.¹

Table 1: Summary of Fiscal 2015 Budget Risks

| Risk Category | \$ millions | |
|------------------------------------|--------------|----------------|
| Revenue Exposure | (288) | |
| Spending Exposure | (525) | |
| Temporary Medicaid | (180) | (300) |
| Total Risks to FY 15 Budget | (993) | (1,113) |

Tables 2 and 3 on the following pages detail the exposures and the estimated budget impact. The \$1 billion estimate assumes that tax revenues will meet projections for the remainder of the fiscal year; if tax revenues perform better or worse than expected over the next seven months, the gap would change accordingly.

There are other risks not included in the estimate that could increase the gap, and these are outlined in Table 4. For example, the state has received only \$25 million in one-time corporate tax settlements in excess of \$10 million through November, but the fiscal 2015 budget relies on \$240 million in revenues from such settlements.

¹ In November 2014, Governor Patrick implemented a plan to eliminate \$250 million of the shortfall which leaves a \$750 million gap between revenues and expenditures.

Table 2: Detail of Fiscal 2015 Revenue and Expenditure Risks

| Revenue Category | Exposure (\$ millions) |
|---|-----------------------------------|
| Tax Revenues | (43) |
| Tax collections below benchmark through November | |
| Non-Tax Revenues | (175) |
| Administration's estimate of department revenues below projections | |
| Income Tax Rate Trigger | (70) |
| Reduction in income tax rate from 5.20 to 5.15 percent effective January 1, 2015 | |
| Revenue Exposure | (288) |
| Spending Category | |
| Group Insurance Commission | (100) |
| May 8, 2014 GIC memo describes \$100+ million shortfall in FY 15 | |
| State Retirement Benefits Trust Fund | (75) |
| 30 percent of tobacco trust settlement funds used in FY 15 budget, state must repay the SRBTF | |
| Connector Health Exchange | (106) |
| -Development costs: state responsible for \$26 million of the \$106 million in development costs | (26) |
| -Forgone federal reimbursements: state loss of \$10 million per month due to lower reimbursements for enrollees in Commonwealth Care who could not be transferred to Connector Care | (60) |
| -Outreach and processing: Connector budget to determine eligibility for 400,000+ members in Temporary Medicaid and Commonwealth Care | (20) |
| Specialty Drugs (e.g. Solvaldi) | (25) |
| Net Medicaid costs for Solvaldi (for Hepatitis C) and other specialty drugs | |
| Caseload Driven Accounts | (110) |
| Higher than budgeted caseloads for emergency shelters, public defenders, and care for children and families | |
| Economic Development Legislation | (82) |
| Administration's estimate of costs of legislation passed after FY 15 budget | |
| Other Spending Bills | (27) |
| An Act to Foster Economic Independence; An Act Improving Drinking Water and Wastewater Infrastructure; FY 14 final deficiency budget paid in FY 15 | |
| Spending Exposure | (525) |
| Current FY 15 Exposure | (813) |

Table 3: Temporary Medicaid Risks in the Fiscal 2015 Budget

| Temporary Medicaid Risks | Range of Exposure (\$ millions) | |
|---|--|--------------|
| Through December 10, 2014, 20 percent of Temporary Medicaid enrollees determined ineligible; state responsible for full health costs | (30) | (50) |
| Through December 10, 2014, 50 percent of Temporary Medicaid enrollees determined eligible for permanent Medicaid; potential for at least 75,000 - 125,000 additional Medicaid enrollees above FY 15 budget assumptions (net costs to state) | (150) | (250) |
| Total Temporary Medicaid Risks | (180) | (300) |

Table 4: Additional Risks in the Fiscal 2015 Budget

| Additional Risks |
|--|
| <p>One-Time Tax Settlements</p> <p>FY 15 budget relies on \$240 million of one-time corporate tax settlements in excess of \$10 million but only \$25 million received through November</p> |
| <p>Commonwealth Care</p> <p>Through December 10, 2014, 17 percent of enrollees determined ineligible; state likely responsible for full health costs</p> |
| <p>US. HHS / OIG Report - MassHealth Overbilling</p> <p>U.S. HHS Inspector General seeks repayment of \$105 million by state</p> |