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An Initial Look at FY 2019 Budget Vetoes

Today Governor Baker signed a \$41.8 billion budget. The Governor exercised his veto powers by eliminating \$48.9 million in spending while proposing amendments to 19 of the 110 policy sections included in the conference budget.

Table 1. FY 2019 Budget and Vetoes

Spending Comparison				
	Conference	Vetoes	FY 2019 Current	v. Conference
Line item spending	\$41,883.3	-\$48.9	\$41,834.4	-\$48.9
Off Budget	\$4,546.3	\$0.0	\$4,546.3	\$0.0
Total spending	\$46,429.6	-\$48.9	\$46,380.7	-\$48.9

The Legislature has until the end of July to override gubernatorial vetoes with two-thirds votes of both branches.

The Fiscal Context

The Governor’s vetoes are intended to produce a starting budget (often called the general appropriations act or GAA) that pares down spending to fit within expected revenues and future obligations as well as to eliminate unnecessary spending. These vetoes – along with other revenue adjustments and assumptions related to unexpended appropriations – are sufficient to address several spending and revenue exposures in the Conference budget so that the budget is balanced.

Table 2. FY 2019 Budget Solutions

FY 2019 Exposures	
Legal settlements	-\$100.0
Sales tax holiday	-\$32.0
Underfunded accounts	-\$100.0
Total	-\$232.0

In recent years, state revenue from legal settlements has fallen sharply as many of the legal cases related to corporate tax classification changes have been resolved. In FY 2018, the state collected just \$11 million from tax settlements compared to a budget estimate of \$125 million. At the same time, a likely August sales tax holiday would reduce sales tax revenue by more than \$30 million.

Finally, the Conference budget still falls approximately \$100 million short of full funding for collective bargaining agreements as well as several other areas. The chart above does not account for a possible drop in marijuana revenue compared to budget estimates; those estimates will be reforecast later in the year.

Summarizing the Spending Vetoes

The Governor reduces spending by \$48.9 million in total. These reductions will lead to the loss of \$11.3 million in federal spending reimbursements and other revenues making the net impact of the vetoes \$37.6 million or less than one tenth of one percent of total spending.

Table 3. FY 2019 Vetoes by Category

Area	Gross	Net
MassHealth	-\$16.8	-\$8.9
Earmarks	-\$26.4	-\$23.0
Program expansions	-\$5.7	-\$5.7
Total	-\$48.9	-\$37.6

\$ in millions

The largest category of spending vetoes is local earmarks. The Governor vetoes 285 of the more than 800 earmarks included in the conference report for total savings of \$26.4 million. The next largest segment of vetoes is in MassHealth rates, where the Governor eliminated \$11.8 million in rate add-ons for acute care pediatric hospitals and \$4 million in additional rates for adult day health and adult foster care services. Notable program expansion vetoes include a reduction of \$2 million to the state’s Cultural Council and \$2.5 million for a new grant program to support prison reentry programs.

The \$48.9 million in spending vetoes eliminate one line-item and reduce 45 others, by far the smallest number of spending vetoes during the Governor’s term.

Table 4. Spending Vetoes, FY 2016 – FY 2019

	# of Line Items	\$ Amount
FY 2016	96	\$162.8
FY 2017	303	\$267.1
FY 2018	167	\$320.2
FY 2019	46	\$48.9

\$ in Millions

Summarizing Policy Vetoes

For the first time in his term, the Governor did not veto any sections outright, but he did return 19 sections with amended language. Each amendment becomes a separate bill to be acted upon by the Legislature. The amendment strategy is particularly effective this year because the budget was finalized so late in the session, it leaves very little time for legislative action on these bills.

Table 4. Governor Baker's Policy Vetoes and Amendments

	FY 2016	FY 2017	FY 2018	FY 2019
Conference sections	213	200	150	110
Sections vetoed	21	36	9	0
Sections amended	9	23	25	19

Sections returned with amendment include:

Tax expenditure review (section 12) – the Conference budget tasked the Department of Revenue with an ongoing responsibility to review and report on tax expenditures and their effectiveness. The Governor's amendment strikes this new responsibility of DOR and instead creates a standing Tax Expenditure Review Commission to undertake similar work. The commission would be a permanent version of a body that completed a one-time report in 2012.

Retired employee hour cap (section 29) – the Conference budget increased the cap on hours that retired state and local employees can work while still receiving a pension from 960 to 1,200 hours per year. The Governor's amendment would limit the cap increase to 975 hours, but provide the possibility for a "critical shortage" exemption for public safety employees.

Transitional aid family cap (sections 39, 52, 54, 56, 58-60) – the Conference budget would allow families to receive additional TAFDC benefits for children born after applying for benefits. The Governor's amendment would also eliminate this "cap on kids", but re-introduces the Administration's plan to count Social Security Insurance as income for the purpose of determining benefit eligibility.

Consolidated net surplus transfer (section 99) – the Conference budget dedicates \$10 million of any FY 2018 budget surplus to the state's Community Preservation Trust Fund. The Governor proposes adding a \$10 million transfer to the Massachusetts Life Science Center to the end of year surplus transfer.

Congestion Toll Pilot (section 104) – the Conference budget directed MassDOT to conduct a pilot program that would offer reduced toll rates at non-peak travel times in an effort to reduce congestion. Governor Baker's amendment would eliminate this pilot and instead empower MassDOT to study ways to reduce congestion with a report due to the Legislature by June 30th of 2019.

Next steps

The Legislature now has until the end of July to override vetoes and act on proposed amendments. It is likely, based on recent history, that most or all of the Governor's spending vetoes will be overridden. In FY 2018, the Legislature overrode 163 of the 166 spending vetoes.

Table 5. Spending Vetoes and Overrides, FY 2016 – FY 2018

	\$ Amount	\$ Overridden
FY 2016	\$162.8	\$97.9
FY 2017	\$267.1	\$231.6
FY 2018	\$320.2	\$109.6

\$ in Millions

With less than 10 days before the end of the legislative session, the House and Senate have limited ability to act upon the 19 policy sections sent back by the Governor and if they opt to reenact the original language it could prove ineffective, as Governor Baker could veto each bill after the year's session has concluded and the Legislature would have no recourse.