



Bulletin

April 13, 2016



MTF's Analysis of the House Ways & Means Budget

Key Takeaways

When measured against three key metrics of a fiscally responsible spending plan, the House Ways and Means (HWM) budget get good grades. Similar to the Governor's budget in several key respects, the HWM budget spends \$70 million less. This HWM budget proposal:

- Limits line-item spending growth (3.01% over FY 2016 estimated spending) to below expected tax revenue growth (4.31%);
- Substantially reduces the structural deficit by limiting the use of one-time revenues (\$266.5 million compared to \$629 million in FY 2016);
- Assumes a Stabilization Fund deposit of \$206 million (same as H2), a critical step to replenishing our reserves. When the deposit is made by the end of FY 2017, the fund balance will be approximately \$1.47 billion.

The spending priorities of the House include funding increases for:

- Education aid
- Local aid
- Substance abuse
- Child welfare

However, there are several areas of concern:

- The continued diversion for the third consecutive year of capital gains revenues in excess of the statutory cap from the Stabilization Fund to pay operating expenses. While the \$150 million in FY17 is less than the previous two years, there should be no diversion at all.
Underfunding several accounts now will require supplemental funding later in FY 2017.
- Using \$266.5 million in one-time revenues will cause the structural deficit to persist in FY 2018.

Today, the House Ways and Means Committee (HWM) released its FY 2017 budget. The HWM budget, includes \$39.48 billion in line-item spending, an increase of \$1.15 billion (3%) over FY 2016 projected spending. When pre-budget transfers are included, the HWM budget exceeds FY 2016 spending by \$1.45 billion (3.4%). This spending level is \$70.1 million less than the Governor's House 2 recommendations. However, over the course of the House budget debate (scheduled for the week of April 23rd), new spending is typically added through the amendment process. In FY 2016, the final House budget added \$94.3 million in spending during debate.

Table 1. House 2 Spending

	FY 2016 Projected	H2	HWM	\$ Change v. FY 2016	\$ Change v. H2	% Change v. FY 2016
Line Item Spending	\$38,329.7	\$39,553.4	\$39,483.3	\$1,153.6	-\$70.1	3.01%
Pre-Budget Transfer	\$3,824.3	\$4,113.6	\$4,113.6	\$289.3	\$0.0	7.56%
Off-budget	\$229.4	\$233.2	\$233.2	\$3.8	\$0.0	1.66%
Total	\$42,383.4	\$43,900.2	\$43,830.1	\$1,446.7	-\$70.1	3.41%

Closing the Budget Gap

The HWM budget relies on \$266.5 million in one-time solutions, the same amount used by the Governor, to help close the \$700-900 million budget gap. This \$266.5 million represents a sharp reduction from the \$629 million used in the FY 2016 budget and is directionally correct.

Table 2. One-Time Solutions

	FY 2016 GAA	H2	HWM	HWM v. GAA	HWM v. H2
Cap. Gains Diversion	\$300	\$150	\$150	-\$150	\$0
Tax Amnesty	\$100	\$0	\$0	-\$100	\$0
Land Sales	\$30	\$30	\$30	\$0	\$0
MassHealth Cash Management	\$116	\$0	\$0	-\$116	\$0
MassHealth One Time Revenue	\$0	\$74	\$74	\$74	\$0
EOHHS Trust Sweep	\$0	\$13	\$13	\$13	\$0
Other	\$83	\$0	\$0	-\$83	\$0
Total	\$629	\$267	\$267	-\$362	\$0

Note: Land sales which were expected in FY 2016 have been delayed and revenue associated with those sales is now assumed in FY 2017

The largest one-time solution used in the HWM budget is the diversion of \$150 million in capital gains revenues from the Stabilization Fund to the General Fund. This is accomplished by raising the statutory cap on capital gains tax revenues. In FY 2017, \$356 million in capital gains tax revenue in excess of the statutory cap is projected and under current statute, the entire amount should be deposited into the Stabilization Fund, also referred to as the Rainy Day Fund (RDF).¹ The HWM budget, like the Governor's, increases the statutory cap by \$150 million thereby increasing the amount of money available for operating expenses.

FY 2017 will mark the third consecutive year in which the state will sacrifice rebuilding reserves in order to balance the budget. While the amount of money being diverted is less than in FY 2015 and FY 2016, when all excess capital gains were diverted, this practice has caused the RDF balance to be almost \$1 billion less than it was ten years ago and raised concerns with credit rating agencies.

¹ By statute, 90 percent of above threshold capital gains revenue is retained in the Stabilization Fund with the remaining 10 percent applied to long-term pension and retiree health care obligations.

In addition to one-time solutions, the HWM budget uses a number of other revenue initiatives to close the budget gap. Many of these gap-closing provisions are employed by the Governor too.

Table 3. Notable FY 2017 Budget Gap Solutions

Initial Budget Gap of Between \$700 - \$900 million		
	<i>House 2</i>	<i>House Ways and Means</i>
Supporting OPEB payment through reversions	\$120	\$120
Cap Gains Diversion	\$150	\$150
Other One-Timers	\$117	\$117
One Time Tax Settlements	\$115	\$125
CommCare Trust Fund Payment	\$86	\$86
Other Revenue Enhancements	\$106	\$116
GIC Premium Increase	\$33	\$0
Increased Lottery Revenues	\$24	\$24
Reduced TANF Payments	\$43	\$20
Reduced MassDot Transfer	\$31	\$31
Tourism revenue	\$44	\$44
Identified Solutions	\$869	\$833

The HWM budget uses different strategies than House 2 with respect to Group Insurance Commission premiums and Transitional Assistance for Needy Families (TANF) eligibility changes. House 2 proposed increasing employee contributions for health insurance premiums for some state employees by requiring all employees, regardless of hire date, to pay 25% of the cost of health insurance. In addition, House 2 tightened TANF eligibility requirements. HWM’s rejection of these two proposals increases spending by more than \$50 million.

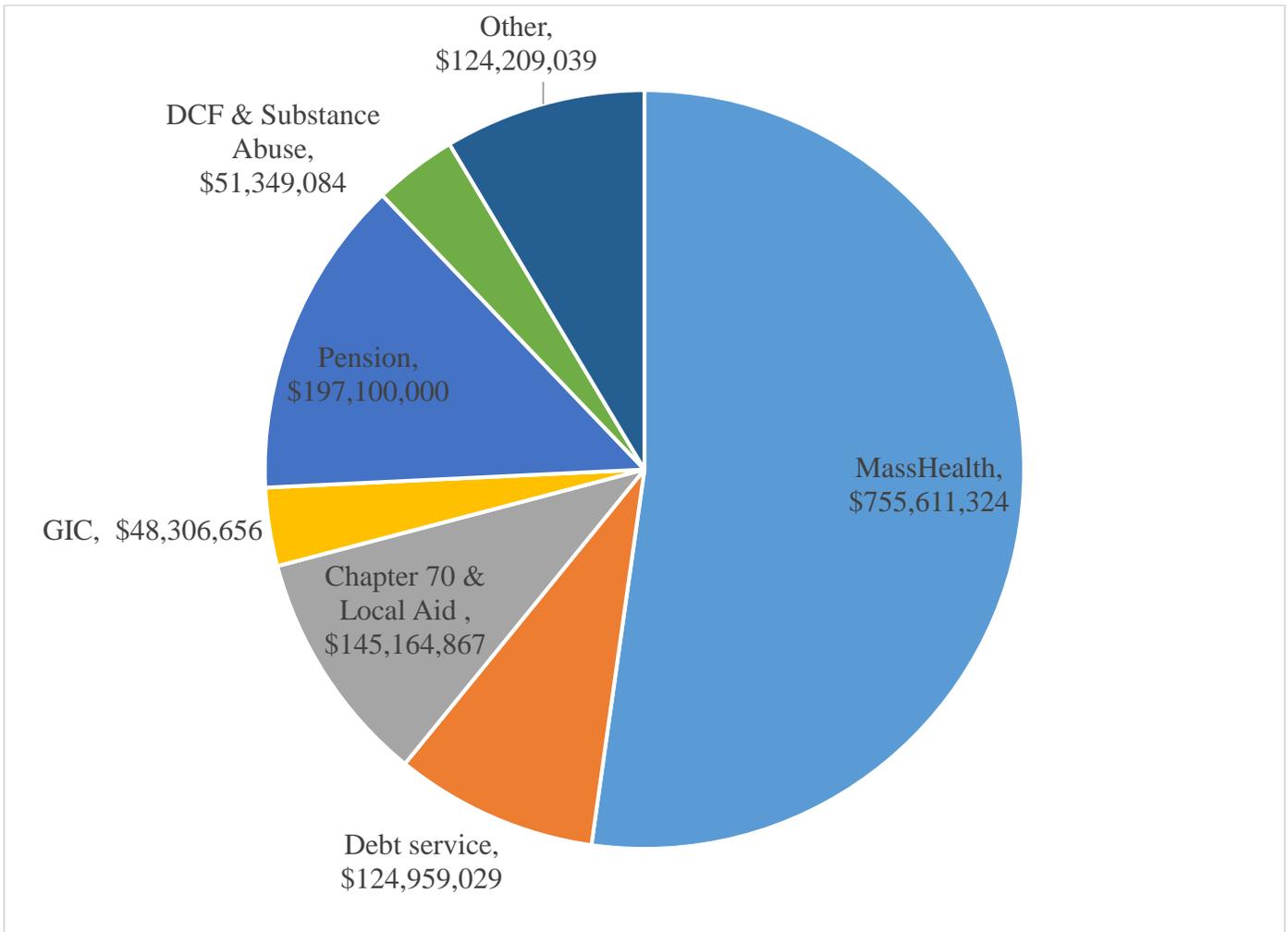
The HWM budget differs from the Governor’s budget in two notable ways: \$14 million in additional federal Health Reform revenue related to information technology and an increase of \$10 million in the tax settlement revenue assumption. Both of these revenue increases were identified by the Secretary of Administration and Finance as reasonable revenue upgrades in a recent letter to the House and Senate Committees of Ways and Means.

The HWM budget spends \$70 million less than the Governor requiring fewer gap closing solutions.

Budget spending

The HWM budget increases total spending by \$1.45 billion (3.4%) over projected FY 2016 spending, more than half (52%) of which goes to MassHealth.

Chart 1. New Spending in HWM Budget



MassHealth

Table 4. MassHealth Funding

Title	FY 2016 Projected	FY 2017 H2	FY 2017 HWM	\$ Change v. FY16	\$ Change v. H2
MassHealth Spending	\$14,741	\$15,469	\$15,497	\$756	\$27

In the HWM budget, MassHealth spending totals \$15.497 billion, an increase of \$755.6 million (5.1%) over the current fiscal year. However, this gross spending increase is offset by an increase of \$474.8 million in federal revenues. Once these federal reimbursements are accounted for, net MassHealth spending in the HWM budget increases by \$280.8 million.

The HWM budget largely adopts the enrollment and rate assumptions put forward by the Governor. However, the HWM budget does include \$29.8 million in provider rate support and other new spending not proposed in House 2. Highlights include

- Nursing homes: In total, the HWM budget includes \$45 million in increased rate support for nursing homes over FY 2016, a \$15 million increase over House 2.

- Acute care pediatric hospitals: HWM doubles the amount of rate support for acute care pediatric hospitals to \$14.8 million from \$7.4 million in FY 2016. House 2 did not include this funding.

HWM also provides a minimum of \$10 million in funding for community health centers. House 2 allows up to \$20 million to go community health centers and/or hospitals to improve service, but provides no minimum level of funding for community health centers.

HWM includes \$3.9 million in funding for MassHealth auditing and utilization revenue, while the Governor proposed eliminating this line-item.

In total, HWM provides \$27.3 million in additional support for MassHealth than House 2. This increase is less than the sum of the individual funding items identified above most likely due to more updated MassHealth numbers or slightly different spending assumptions.

Similar to House 2, the HWM budget creates a new Delivery System Reform Trust Fund and uses a \$250 million assessment on providers to generate \$73.5 million in FY2017 for the fund; however, unlike House 2, the HWM budget sunsets this assessment after five years.

Unrestricted Local Aid (UGGA) and Chapter 70 Education Aid

Table 5. Local Aid Funding

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017 H2	FY 2017 HWM
UGGA	\$899	\$920	\$946	\$980.0	\$1,022.0	\$1,021.9
Chapter 70 funding	\$4,171	\$4,301	\$4,401	\$4,512	\$4,584	\$4,608

Local aid to cities and towns is a priority in the HWM budget. Like House 2, HWM provides \$1.022 billion for unrestricted local aid, an increase of \$42 million over FY 2016.

HWM provides \$4.608 billion in Chapter 70 education aid, an amount that exceeds the FY 2016 level by \$96 million and House 2 by \$23.7 million. This increase guarantees each district at least \$55 per pupil in additional Chapter 70 aid, \$35 per pupil more than in House 2.

HWM and House 2 both propose moving to a new system for counting economically disadvantaged students and HWM establishes a \$10 million education reserve to assist those school districts negatively impacted by this change.

Other Education Aid

Table 6. Other Education Aid Funding

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017 H2	FY 2017 HWM
Special Education Reimbursements	\$242	\$252	\$253	\$272	\$272	\$277
Charter School Reimbursements	\$78	\$103	\$77	\$81	\$101	\$86
Regional School Transportation Reimbursements	\$46	\$52	\$57	\$59	\$59	\$60
Total	\$365	\$407	\$387	\$411	\$432	\$422

HWM increases total funding for other local education aid to \$422 million or by \$11 million more than FY 2016. Of this amount, \$4.9 million is directed to special education reimbursement. This funding level is close to the amount necessary to fully fund the program.

The House budget differs from the Governor’s budget proposal significantly when it comes to charter schools. HWM leaves the current formula for reimbursing school districts for charter school costs intact. HWM increase charter school reimbursements by \$5 million over FY 2016 for a total funding level of \$86 million. This amount is \$15 million short of the Governor’s proposal and will likely cover between 60-70 percent of costs eligible for reimbursement.

Transportation

Table 7. Transportation Funding

	FY 2016 GAA	FY 2016 Estimated	FY 2017 H2	FY 2017 HWM	\$ Change v. FY16	\$ Change v. H2
MassDot	\$365	\$338	\$328	\$328	-\$10	\$0
MBTA	\$187	\$187	\$187	\$187	\$0	\$0
Regional Transit Authorities	\$82	\$82	\$80	\$80	-\$2	\$0
Merit Rating Board	\$10	\$10	\$10	\$10	\$0	\$0
Total	\$644	\$616	\$604	\$604	-\$12	\$0

The HWM budget is identical to House 2 for transportation funding. Total funding is slightly lower (\$12 million) than estimated FY 2016 spending due to assumed MassDot savings from the recent early retirement program. Unlike House 2, HWM does not include language specifying how the \$187 million in additional assistance to the MBTA must be spent. By omitting the language in House 2 that requires this money to be used solely for debt service, paygo capital projects and moving operating costs of out the capital budget, the House is giving the MBTA latitude in how this money can be spent. While the HWM language does not preclude the MBTA from using the funding for these purposes, the money could be spent on operating expenses – something the Foundation has advocated strongly against.

Other notable funding increases

Table 8. Other Funding Increases

	FY 2016	H2	HWM	Change v. FY16	Change v. H2
Substance abuse	\$117.1	\$141.6	\$141.6	\$24.5	\$0.0
Child welfare	\$911.9	\$938.1	\$930.6	\$18.7	-\$7.5
Rental vouchers	\$82.9	\$82.9	\$100.0	\$17.1	\$17.1
Drug courts	\$3.2	\$3.3	\$6.0	\$2.8	\$2.7
Big data workforce and MassTech Collaborative	\$4.7	\$0.0	\$5.2	\$0.5	\$5.2
Councils on Aging	\$13.7	\$12.8	\$14.1	\$0.4	\$1.3

Table 8 outlines several other notable funding increases proposed in the HWM budget. Like House 2, HWM prioritizes support for child welfare, substance abuse services and an expansion of the state’s drug court pilot program.

Housing is another spending priority in the HWM budget. It includes language allowing \$14.7 million in unexpended FY 2016 funds to support housing vouchers in FY 2017. This use of FY 2016 funding that would otherwise revert to the General Fund, combined with an FY 2017 appropriation of \$85.3 million would provide \$100 million for the program. Each \$1 million in new funding for the program allows for approximately 65 new families to receive vouchers.

The HWM budget also includes funding for several programs to support the state’s high-tech sector that were eliminated in the Governor’s budget. Of this \$5.2 million in funding, \$2 million goes to the Big Data Innovation and Workforce Fund, while \$3.2 million will fund Mass. Tech Collaborative programs related to computer science and entrepreneurship.

Notable funding reductions

Table 9. Funding Reductions

	FY 2016	H2	HWM	Change v. FY16	Change v. H2
Emergency assistance	\$196.1	\$191.9	\$155.1	-\$41.0	-\$36.8
CPCS	\$210.9	\$196.1	\$172.8	-\$38.1	-\$23.3
Sheriffs	\$577.9	\$588.3	\$573.8	-\$4.1	-\$14.5
At-risk youth programming	\$28.7	\$31.4	\$22.0	-\$6.7	-\$9.4

The HWM budget reduced funding from the FY 2016 estimated spending level in several areas and provides less for these line-items than House 2. Two of the programs highlighted above, CPCS and Emergency Assistance, are often underfunded in the annual budget and require supplemental funding later in the year. This approach is problematic as it means that the state begins its fiscal year with known spending exposures of approximately \$70 million that will, in all likelihood require additional spending during the fiscal year.

Total funding for sheriffs is reduced by \$4.1 million below FY 2016 levels in the HWM budget once the \$18 million in FY 2016 supplemental spending is considered; however this funding level represents an increase of 2.5 percent over the amount included in last year’s original budget for each sheriff’s department.

The HWM budget decreases year-over-year funding for four programs targeting at-risk youth. In FY 2016, the House increased funding for three of these four programs through amendments.

Budget Revenues

The HWM budget is built on the FY 2017 Consensus Revenue figure of \$26.860 billion as well as \$16.7 billion in federal, departmental and other forms of revenue. As the table below shows, the primary difference between the HWM budget and the Governor is \$15.8 million in additional federal reimbursement related to HWM’s spending increases in MassHealth.

Table 10. Revenue Sources

	FY 2016 Projected	H2	HWM	Diff. from H2
Consensus Tax Revenues	\$25,752.0	\$26,860.0	\$26,860.0	\$0.0
<i>Less transfers</i>	\$21,949.9	\$22,746.4	\$22,746.4	\$0.0
<i>Less cap gains transfer</i>	\$21,949.9	\$22,540.4	\$22,540.4	\$0.0
Tax Settlements	\$125.0	\$115.0	\$125.0	\$10.0
Tax changes not in consensus	\$0.0	\$49.0	\$49.0	\$0.0
Departmental Revenues	\$3,943.5	\$3,821.1	\$3,821.2	\$0.1
Federal Reimbursements	\$10,749.2	\$10,784.3	\$10,800.1	\$15.8
Other Revenues	\$2,029.4	\$2,203.9	\$2,125.5	-\$78.4
Revenues for budget	\$38,797.0	\$39,513.7	\$39,461.2	-\$52.5

HWM Policy Changes

The HWM budget includes 47 outside sections many of which are related to spending and revenue assumptions. However, there are several important policy proposals:

DSRIP Trust Fund – the HWM budget includes a proposal from House 2 which creates a new trust fund that will be used to incentivize more efficient and cost-effective health care delivery models. Like House 2, the fund is partly supported by a \$250 million annual provider assessment. HWM sunsets this assessment in 2022.

Health Safety Net – the HWM budget directs the Executive Office of Health & Human Services (EOHHS) to contribute up to \$15 million to the Health Safety Net Trust fund (HSN) in FY 2017. House 2 proposed eliminating an annual state contribution of \$30 million to the fund. The HWM budget does not do anything to delay or alter regulatory changes to HSN that the Administration has proposed. These changes would limit eligibility for reimbursement through the fund. The HWM budget also includes a section requiring EOHHS to report to the Legislature on the HSN and the impact that regulatory changes have on the fund.

Substance Use Disorder Pilot – the HWM budget creates a two year pilot program to be run by the Health Policy Commission and Department of Public Health. The pilot program, which could access up to \$3 million in state funding, would look into methods of connecting emergency room care for substance use disorders with effective outpatient treatment.

Substance Use Protective Custody – the HWM budget includes several sections defining a process for law enforcement officers to place substance users in protective custody for the purpose of treatment.

HWM v. House 2 Comparison

In general, the HWM budget is very similar to House 2 in terms of fiscal assumptions and spending priorities. The chart below provides a quick comparison of some of the notable elements of each budget.

<i>Fiscal Basics</i>			<i>Spending & Policy</i>		
	<i>H2</i>	<i>HWM</i>		<i>H2</i>	<i>HWM</i>
Line item spending growth	3.19%	3.01%	MassHealth increase	\$739.3	\$755.6
Total new spending	\$1.52 billion	\$1.45 billion	Creation of DSRIP trust fund	Yes	Yes
Use of one time solutions	\$266.5	\$266.5	Amount of new hospital assessment	\$250.0	\$250.0
Cap gains diverted to GF	\$150.0	\$150.0	Sunset on hospital assessment	No	Yes
Assumed RDF deposit	\$206.0	\$206.0	Change GIC premiums	Yes	No
Tax settlement revenue	\$115.0	\$125.0	Change TANF eligibility	Yes	No
FY 2016 Surplus earmarked	\$20.0	\$0.0	Unrestricted local aid increase	\$44.0	\$44.0
			C70 increase	\$72.1	\$95.7
			Change to charter school tuition reimbursement	Yes	No

Conclusion

The HWM budget presents a sensible spending plan that will reduce the state's structural deficit. Using many of the same fiscal strategies employed by the Governor, the HWM budget proposes modest spending growth and sharply reduces one-time solutions used to balance the budget; the \$206 million deposit into the Stabilization Fund included in this budget and in House 2, is a much needed step toward rebuilding reserves.

In spite of the positive steps in this budget, there are lingering areas of concern. Like House 2, the HWM budget continues to divert excess capital gains tax revenue from the Stabilization Fund. Unlike House 2, the HWM budget underfunds several large programs – including CPCS and Emergency Assistance – in the hopes that additional revenues will be available later in the year to cover the shortfall.

When the House debates this budget at the end of April, the total spending proposed by HWM will most likely increase. However, it is vital that the final House budget maintain the fiscally disciplined approach put forward by HWM in the budget released today.

Massachusetts Taxpayers Foundation - Fiscal 2017 Budget Summary

	FY 13 Final	FY 14 Final	FY 15 Final	FY 16 GAA	FY 16 Projected	FY 17 H2	FY 17 HWM
Health Care	12,619	13,615	14,787	15,876	15,906	16,632	16,658
MassHealth	10,874	12,121	13,583	14,740	14,741	15,469	15,497
Connector	905	600	268	229	259	233	233
Trust Funds ¹	580	661	701	651	651	668	668
Other Health Care	260	232	235	256	255	262	261
Local Government Support	5,765	5,919	6,023	6,213	6,211	6,333	6,344
Chapter 70 Education Aid	4,186	4,303	4,402	4,514	4,514	4,584	4,618
Other K-12 Education Aid	571	602	585	622	623	638	614
Unrestricted Local Aid	927	948	973	1,007	1,007	1,049	1,049
Other Local Aid	81	67	63	70	67	62	63
Other Education	1,490	1,612	1,710	1,750	1,760	1,732	1,735
Early Education	499	524	544	567	566	573	573
Higher Education	990	1,088	1,167	1,184	1,194	1,159	1,162
Human Services	5,105	5,404	5,665	5,833	5,916	6,008	5,946
Developmental Services	1,441	1,553	1,715	1,847	1,847	1,897	1,892
Family Services	921	977	1,077	1,126	1,156	1,162	1,150
Cash Assistance	786	794	716	707	714	689	684
Mental Health	659	708	719	740	740	761	760
Public Health	522	560	601	549	553	595	594
Housing Support	406	420	422	427	471	459	425
Senior Support	240	253	271	283	283	286	286
Veteran Services	130	140	143	152	152	158	156
Public Safety	2,430	2,523	2,632	2,617	2,709	2,701	2,658
Corrections	579	591	607	608	612	611	611
Sheriffs	529	542	582	560	606	588	574
Judiciary	794	828	863	849	889	882	861
Police	293	310	308	326	323	339	338
District Attorneys	102	103	108	113	115	119	117
Attorney General	40	43	44	45	45	48	48
Other Public Protection	93	106	120	116	119	113	109
Transportation	1,191	1,423	1,774	1,629	1,623	1,631	1,631
MassDOT	162	272	471	365	359	328	328
Highways	56	0	0	0	0	0	0
Regional Transit	19	68	40	82	82	80	80
Registry	9	9	9	10	10	10	10
MBTA	947	1,074	1,254	1,172	1,173	1,214	1,214
Sales Tax Revenues	787	799	971	985	986	1,027	
Discretionary Assistance	160	275	283	187	187	187	
Economic Development	346	417	341	421	417	391	381
Business and Labor	147	197	114	179	175	164	155
Environment and Energy	199	220	227	241	242	227	226
Employee Benefits	3,207	3,445	3,897	4,152	4,152	4,391	4,424
GIC ²	1,240	1,395	1,683	1,726	1,726	1,743	1,776
State Retiree Benefits (OPEB)	415	420	420	425	425	450	450
Pensions	1,552	1,630	1,793	2,001	2,001	2,198	2,198
Capital Support	2,362	2,423	2,498	2,518	2,518	2,645	2,643
Debt Service	2,068	2,118	2,219	2,240	2,240	2,372	2,370
Contract Assistance	294	304	279	278	278	272	272
MA School Building Authority	669	729	772	804	815	867	867
Other/General Government	554	707	617	304	502	570	544
Total (Including Pre-Budget Transfers)	35,738	38,216	40,715	42,116	42,528	43,900	43,830