

Analyzing the State Budget for FY 2017

After a series of vetoes and overrides, the state now has a budget that sets funding levels for the activities we accomplish through our government: keeping our communities safe, providing reliable infrastructure, ensuring high-quality education for our kids, protecting our air and water, assisting those of us who face difficult challenges, supporting working parents, strengthening our economy, and improving the quality of life in our communities.

In some ways this was an unusual year. The budget process began with overly optimistic assumptions about revenue growth. Although the stock market slumped in late 2015, budget writers in January 2016 increased their state revenue projections for Fiscal Year (FY) 2016 and adopted very optimistic projections for FY 2017. Late in the budget process, it became clear that the state would receive less revenue than had been projected for FY 2016 and that the revenue estimates undergirding the FY 2017 budget should be revised down significantly. While the conference committee was meeting to resolve differences between the House and Senate versions of the budget, the tax revenue estimate was reduced by \$750 million, prompting the committee to adopt a combination of budget cuts and other strategies to address that new gap.

The Governor's veto message was also unusual. In addition to vetoing spending, the Governor also identified accounts that the administration believed had been underfunded by the Legislature by \$172 million and would likely need supplemental funding during the year. The Governor filed a supplemental budget to fund these accounts. News reports at the time also indicated that the Administration was concerned that tax revenue for FY 2017 might fall even more than \$750 million below projections. In addition, the administration had concerns that the budget's assumption about non-tax revenue was a little too high and that there were several other accounts that would likely require additional funding during the year. To address all of these issues, the Governor vetoed \$267 million in direct appropriations for a net savings of \$247 million (since MassHealth spending is shared by the state and federal governments, the state saves only a portion of the amount vetoed from those accounts).

In other ways this year's budget process followed a familiar script. For the past fifteen years our Commonwealth has consistently faced budget problems – barely balancing in good times and cutting deeply in recessions: inflation-adjusted funding for higher education is down 14 percent since 2001; local aid is down 41 percent; early education 22 percent; public health 17 percent. Why? Between 1998 and 2002 the state adopted several income tax cuts that are [now costing over \\$3 billion annually](#). That revenue reduction paired with a long-term pattern of rising health care costs has reduced our Commonwealth's capacity to make important investments in our people and our economy, and has caused chronic budget problems.

The FY 2017 budget has a few bright spots: a 4.3 percent increase in local aid over last year; some modest increases in funding to combat opioid addiction; and a 2.6 percent increase in funding for Chapter 70 state aid for local schools. But this budget also imposes some painful cuts. It reduces funding for higher education, early education, housing, courts, parks, the environment, and libraries.

This *Budget Monitor* describes the funding decisions in each major section of the budget and compares proposed funding levels with current and, in some cases, historic funding. It also examines policy changes incorporated in various budget provisions. While vetoes and overrides are noted, the focus is on important budget items and the bigger picture in another difficult year.

For a full list of vetoes and overrides see the linked spreadsheet [HERE](#).

EDUCATION

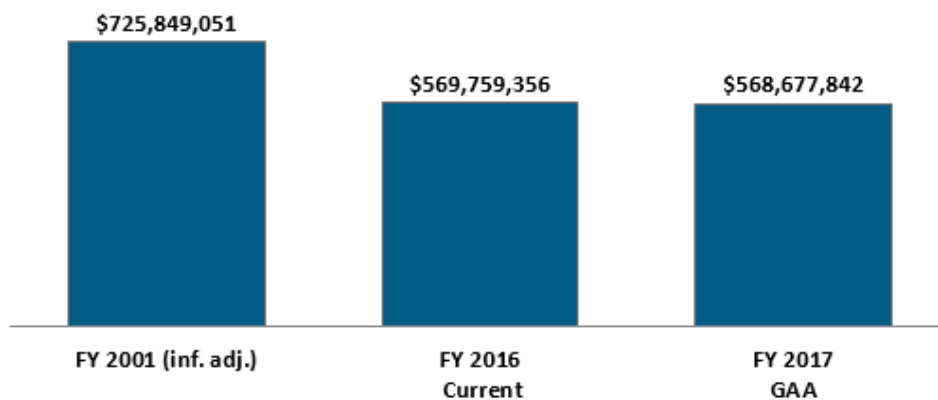
Early Education & Care

Quality early education and care helps prepare our young children for K-12 education and to thrive more generally. Early education and care is also a critical work support for parents with young children, by supporting safe and reliable child care for parents while they provide for their families.

The Fiscal Year (FY) 2017 budget slightly reduces state support for early education and care. However, the Legislature prevented further reductions in early education funding by overriding five vetoes made by the Governor, restoring \$8.8 million in total to early education. However, one veto of \$9.0 million to child care vouchers for disadvantaged young children was maintained (see discussion below).

The FY 2017 budget allocates \$568.7 million in funding for early education programs. Although there are significant changes and reorganizations of programs, this total amount is a small decrease of \$1.1 million (0.2 percent) below current FY 2016 levels. There have been significant long-term cuts in early education after state tax cuts in the late 1990s and early 2000s. Funding for early education in the FY 2017 budget is \$157.2 million (21.7 percent) below FY 2001 levels, adjusting for inflation (see chart below).

Early Education Funding Down 22 Percent Since 2001



The FY 2017 budget allocates \$219.4 million for [Supportive and TANF Child Care](#), in line with current FY 2016 levels. The Governor vetoed \$9.0 million in funding from this account based on the amount the administration projected to be necessary. Supportive and TANF Child Care provides subsidies for children in the care of the Department of Children and Families (DCF) and those receiving Transitional Aid to Families with Dependent Children (TAFDC).

The Senate proposed an additional \$13.1 million for Supportive and TANF Child Care. According to prior projections, that funding level would have allowed an additional 750 kids in TAFDC eligible families to receive vouchers and allowed a full year of services for 600 children under DCF care who had support through this program for only a part of FY 2016. Under the final FY 2017 budget, it is likely that fewer additional kids and families will receive these child care services.

The [Income Eligible Child Care](#) program provides subsidies for low- and moderate-income working families who do not qualify for other child care assistance. With insufficient funding to meet demand, the waitlist for these subsidies exceeded 24,500 children in April 2016. For the last three years, the budget provided dedicated funding to reduce the waitlist. The FY 2017 budget does not propose continuing specific funding to reduce the waitlist.

However, the FY 2017 budget includes \$12.5 million in additional support for salary increases for early education providers, \$7.5 million above current FY 2016 levels. Salary and benefit increases along with professional development for early educators are key mechanisms to improve the quality of services available for young children. Recent evidence suggests that recruitment and retention of an effective early education workforce presents a major challenge limiting the Commonwealth’s ability to provide high-quality early education and care for children.

Collectively, in the FY 2017 budget, funding for Income Eligible Child Care, efforts to reduce the waitlist, and salary increases for early educators are funded at \$265.0 million, which is \$628,000 (0.2 percent) above current FY 2016 levels (see chart below).

FUNDING FOR INCOME ELIGIBLE EARLY EDUCATION

| Line Item # | Line Item Name | FY 2016 Current (in FY 2017 GAA structure) | FY 2017 GAA | Difference: FY17 GAA - FY16 Current |
|--------------|---|--|--------------------|-------------------------------------|
| 1599-0042 | Early Ed and Care Provider Rate Increase | 5,000,000 | 12,500,000 | 7,500,000 |
| 3000-4040 | Income Eligible Waitlist (Birth Through Pre-School) | 12,000,000 | 0 | (12,000,000) |
| 3000-4060 | Income Eligible Child Care (Child Care Access) | 247,325,717 | 252,453,572 | 5,127,855 |
| TOTAL | | 264,325,717 | 264,953,572 | 627,855 |

*Budgets sometimes shift the allocation of funding among line items from one year to the next. The chart above presents those line items in the FY 2017 funding structure to make comparisons easier.

The FY 2017 budget consolidates and shifts funding from several early education and care accounts into a new [Quality Improvement](#) line item with slightly less funding than its predecessor programs. The purposes of this new organization of funding include meeting standards set in the state’s Quality Rating and Improvement System (QRIS), developing the early educator workforce, undertaking the accreditation of programs, and supporting administrative personnel overseeing quality efforts. The Department of Early Education and Care suggests this reorganization will help align the state’s goals for early education quality, concentrate funding towards common purposes, and identify gaps in resources and supports for young children.

All of the shifts and consolidations are represented in the table below. To allow for more accurate comparison to FY 2016, funding transferred between accounts is presented in the FY 2017 structure. The FY 2017 budget provides \$32.6 million for quality improvement efforts through the new line item and a pre-existing program, slightly below current FY 2016 levels.

SUPPORT FOR EARLY ED QUALITY IMPROVEMENT (QI) INITIATIVES

| Line Item # | Line Item Name | FY 2016 Current (in FY 2017 GAA structure) | FY 2017 GAA | Difference: FY17 GAA - FY16 Current |
|--------------|---|--|-------------------|-------------------------------------|
| 3000-1020 | Quality Improvement | 32,396,637 | 32,396,637 | 0 |
| 3000-6025 | Commonwealth Preschool Partnership Initiative | 500,000 | 200,000 | (300,000) |
| TOTAL | | 32,896,637 | 32,596,637 | (300,000) |

*Budgets sometimes shift the allocation of funding among line items from one year to the next. The chart above presents those line items in the FY 2017 funding structure to make comparisons easier.

Two programs were entirely consolidated into Quality Improvement:

- [Universal Pre-Kindergarten](#), which supports Pre-K quality improvements for kids between 2 years 9 months old and kindergarten age;
- [Early Childhood Mental Health Consultation](#), which focuses on early education and wraparound social services for kids facing great challenges. These services focus on prevention of school suspensions and other severe behavioral issues.

Four programs had some funding move into Quality Improvement:

- [Early Education and Care Administration](#), which supports the statewide oversight of all early education services and programs, will have \$6.8 million (54.4 percent) of its funding move into the new Quality Improvement account.
- Supportive and TANF Child Care will have a negligible amount of funding, \$600,000, move into the new Quality Improvement account.
- The Income Eligible Child Care program will have \$9.0 million (3.4 percent) of its funding move into the new program.
- [Family Support and Engagement \(Services for Infants and Parents\)](#), which provides outreach to families on caring for their young children, will have \$7.9 million (36.9 percent) of its funding move.

The FY 2017 budget creates another new line item for early education and care programs.

- **Multi-Generational Anti-Poverty Pilot Program**, which is funded at \$100,000. This pilot program will work with existing service providers, including early education and care agencies, to provide mentoring and support to parents, children, and other adults within specific households. The focus of support is to increase family stability and student achievement in education.

Two other key Early Education and Care programs are level funded in the FY 2017 budget:

- [Child Care Resource and Referral Centers \(Access Management\)](#), funded at \$6.7 million, helps families obtain care for their children through child care resources and referral agencies; and

- [Grants to Head Start](#), funded at \$9.1 million, supplements significant federal funding to support Head Start early education and care programs.

For a full list of vetoes and overrides in Early Education & Care accounts, please see the spreadsheet [HERE](#) and filter in the column heading entitled “Subcategory” for Early Education & Care.

K-12 Education

Providing a high-quality education to all children plays a central role in developing future generations in the Commonwealth, strengthening our communities and our economy over the long term. In the midst of ongoing fiscal challenges, including an unanticipated \$750 million revenue shortfall after the House and Senate had drafted their budget proposals, the Fiscal Year (FY) 2017 budget largely protects K-12 education from major cuts. The Legislature also preserved some funding for K-12 education by overriding all the vetoes made by the Governor (\$10.7 million in total) within K-12 education.

Chapter 70 Education Aid is increased and many other education programs are funded at levels similar to FY 2016. The largest cut within K-12 education is the elimination of **Kindergarten Expansion Grants**. See below for additional detail.

The FY 2017 budget increases **Chapter 70 Education Aid** by \$116.1 million (2.6 percent) to \$4.63 billion. This increase over last year includes:

- Guaranteeing a minimum increase of \$55 per-pupil to districts that would not otherwise receive more aid. This measure directs more funding in percentage terms to predominately higher-income districts.
- \$10.2 million for a hold harmless provision to support districts that would be negatively affected by changes to the student poverty measure (see discussion below).

The Chapter 70 formula for FY 2017 uses the new Economically Disadvantaged measure for calculating the number of low-income students educated in a given district. The change to the Economically Disadvantaged measure is driven by recent improvements to the federal school meals program that are increasing access to school meals and reducing administrative work for districts. A side effect of the federal changes is that the Commonwealth had to alter how low-income kids are counted. For more detail on the process for counting low-income kids, how it can be improved, and the impact on the FY 2017 budget, see [Direct Certification for School Meals: Feeding Students, Counting Kids, Funding Schools](#), and [Proposed Low-Income Student Changes Would Have Varied Chapter 70 Impact](#).

The number of kids considered Economically Disadvantaged is determined by a process called direct certification. This process directly enrolls kids for free meals if they are already enrolled in other public services, such as MassHealth and SNAP/food stamps, or fit other criteria such as being in foster care. The implementation of the new poverty measure by the Department of Elementary and Secondary Education (DESE) for FY 2017 resulted in a statewide drop in low-income headcounts compared to last year. In an attempt to offset this drop, the FY 2017 budget increases low-income rates used for calculating district foundation budgets.

Even with this mitigation measure, this shift still leads some communities to receive less Chapter 70 aid than they otherwise would have received. To further address this, the FY 2017 budget includes a hold

harmless provision that guarantees districts at least the amount of aid they would have received if the FY 2017 formula had been run under the prior system for measuring poverty. This hold harmless provision costs \$10.2 million. The low-income rates used by this hold harmless provision are lower than rates used by the Economically Disadvantaged measure.

Recognizing these transition challenges, the FY 2017 budget includes an Outside Section directing DESE, the Executive Office of Administration and Finance, and the Executive Office of Health and Human Services to conduct a study on ways to improve the process of direct certification for free school meals and counting low-income students. The study may look at possible improvements to using direct certification data for counting low-income students, ways to find students missed under current methods, and improvements to data matching processes for identifying students enrolled in different state programs. The budget directs the relevant agencies to file the study with the Legislature by the end of 2016.

The largest funding impact from the FY 2017 revenue shortfall within K-12 education is the reduction of the sales tax transfer to the [School Building Authority](#) to \$834.7 million, \$32.4 million below what was previously projected by the House and Senate. However, this amount is \$30.8 million (3.8 percent) above current FY 2016 levels.

Additionally, an Outside Section of the FY 2017 budget adjusts the calculation of community poverty used by the School Building Authority for school construction projects. The FY 2017 budget directs the School Building Authority to use low-income percentages from FY 2014, before the significant changes discussed above were made to measuring kids in poverty affecting school construction projects. A sunset provision makes this change apply only through the end of 2016.

Compared to FY 2016, the largest cut to K-12 grant programs in the FY 2017 budget is the elimination of [Kindergarten Expansion Grants](#) – down from \$18.6 million in FY 2016. This amount is below what both the House and Senate approved earlier in the budget process.

The FY 2017 budget *does not* include two Senate proposals that implement [recommendations](#) made by the 2015 Foundation Budget Review Commission. This Commission outlined steps to address current funding challenges for local school districts. The group found that the foundation budget is underfunded, reducing the capacity of schools across the state to implement the types of [effective strategies](#) that could help all children succeed in school. One Senate proposal would have amended Chapter 70 law to include higher rates recommended by the Commission for special education, low-income students, English language learners, and educator health care costs. The other proposal would have directed a group of stakeholders to design a multi-year implementation schedule for the increased Chapter 70 aid that would have resulted.

The FY 2017 budget includes \$80.5 million for [Charter School Reimbursements](#), in line with current FY 2016 levels, but below both proposals that were approved by the House and Senate before the downward adjustment was made to state revenues available for FY 2017. The current system, when fully funded, reimburses 100 percent of outgoing student funding in the first year and 25 percent of this amount for each of the subsequent five years. The account is currently \$47.1 million (37 percent) below the amount that would be necessary to fully fund the reimbursement formula in FY 2016.

According to recent projections from DESE, the FY 2017 budget underfunds the reimbursement formula by roughly \$54 million (40 percent) in FY 2017, in part because charter enrollment is projected

to increase by roughly 3,100 students. For additional detail on charter school funding, recent proposals from the Governor and the Legislature to alter the reimbursement system, and the impact of recent underfunding, see [Charter School Funding, Explained](#).

The FY 2017 budget contains a new K-12 line item, **Assessment Consortium**, funded at \$350,000. This program will support the development of alternative assessments of student performance that includes measures beyond traditional test score data.

Several other grant programs, including some that serve students in great need, are eliminated or significantly reduced in the FY 2017 budget including:

- [MCAS Low Scoring Student Support](#) is eliminated. The program, funded at \$4.3 million in FY 2016, provides support to high schoolers at risk of failing to graduate. According to the most recent estimate from DESE, students participating in this program over the course of a year increased their passing rates on state tests by 31 percentage points (see the [Department's 2014 legislative report on MCAS support](#)).
- [Alternative Education Grants](#) are eliminated. This program, funded at \$250,000 in FY 2016, helps schools establish customized educational approaches for youth who are struggling in traditional school settings.
- [English Language Acquisition](#), which provides professional development for educators of English Language Learners, is funded at \$1.7 million, 37.8 percent below current FY 2016 levels.

Conversely, the FY 2017 budget contains some increases to other education grants and services:

- [The Special Education Circuit Breaker](#), which provides additional state support for students with severe special needs, is funded at \$277.3 million, a \$5.6 million (2.0 percent) increase over current FY 2016 levels. However, according to a Senate estimate in May, this amount is \$4.4 million less than what would be required to fully fund these reimbursements.
- [After School and Out of School Grants](#), which support young people with after-school and summer enrichment programming, is funded at \$3.0 million, a \$645,000 (27.9 percent) increase over current FY 2016 levels. An Outside Section of the budget also extends the work of the After School and Out-Of-School Coordinating Council by two years, to 2018. This council focuses on increasing coordination, alignment, access, and quality of after school services.

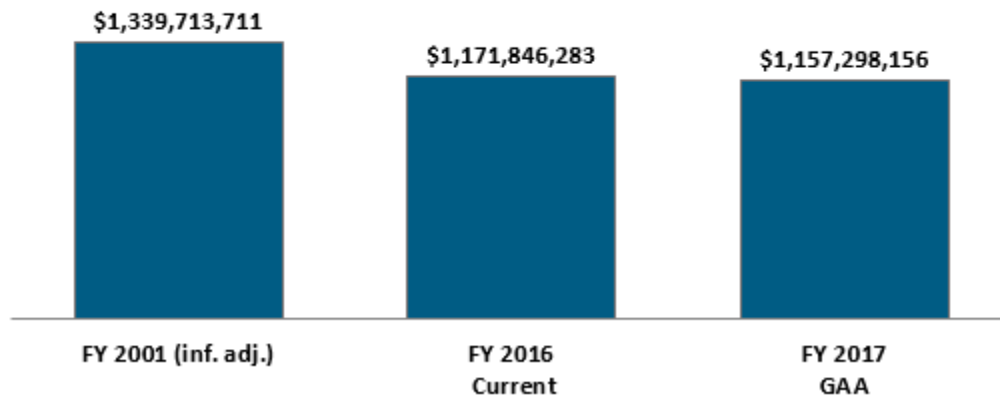
For a full list of vetoes and overrides in K-12 Education accounts, please see the spreadsheet [HERE](#) and filter in the column heading entitled "Subcategory" for K-12 Education.

Higher Education

Higher education helps the people of our state contribute to their communities and gain the skills to succeed in a knowledge-driven economy. Public higher education – which includes the University of Massachusetts, the state universities, and our community colleges – educates a majority of the high school graduates who remain in Massachusetts for college. Graduates from public higher education are also more likely to stay in Massachusetts after graduation, contributing to our state economy over the long term.

The FY 2017 budget for higher education is \$1.16 billion, which is \$14.5 million (1.2 percent) below current FY 2016 levels. The Legislature prevented deeper reductions by overriding all but a single veto (discussed below) made by the Governor, restoring \$11.6 million to higher education programs. However, this funding level is also 13.6 percent less than what was available in FY 2001, (after adjusting for inflation) before large tax cuts reduced the revenues available to support state services (see chart below).

Higher Education Funding Down 14 Percent Since 2001



Since 2001, as state support for public higher education declined substantially, student costs have increased. Tuition and fees for Massachusetts residents at state colleges and universities have roughly doubled between FY 2001 and FY 2016, after adjusting for inflation.

The following table details appropriations to each of the three campus types. MassBudget totals make the following adjustments in order to facilitate more accurate year-to-year comparisons:

- Including collective bargaining and other campus-specific programs.** MassBudget adds collective bargaining accounts and initiatives located at particular campuses, funded through separate line items, to their respective campus totals.
- Subtracting tuition remission.** Since FY 2001, different policies have dictated when public higher education campuses must send different categories of tuition revenue they receive back to the state. When revenue must be sent to the state, it is not available for campus operations and has the same effect as reduced state funding to the campuses. To provide more accurate comparison of state support to campuses over time, MassBudget deducts tuition revenue sent back to the state from the direct appropriations to each campus type. For details on the varying policies at different campuses, see [MassBudget’s Budget Browser section for Higher Education](#). Additionally, a provision from last year’s budget takes effect in FY 2017, allowing the University of Massachusetts to stop sending tuition revenue from in-state students that it had been required to send back to the state in prior years.

HIGHER EDUCATION FUNDING TO THE THREE CAMPUS TYPES

| Campus Type | FY 2016 Current | FY 2017 GAA | FY 2017 GAA - FY 2016 Current |
|----------------------------|----------------------|----------------------|----------------------------------|
| Community Colleges | 270,647,317 | 273,163,001 | 2,515,684 |
| State Universities | 241,464,094 | 244,247,713 | 2,783,619 |
| UMass | 522,269,415 | 515,192,447 | (7,076,968) |
| Total, all campuses | 1,034,380,826 | 1,032,603,161 | (1,777,665) |

The FY 2017 budget funds **University of Massachusetts (UMass)** line items at \$515.2 million, which is \$7.1 million (1.4 percent) below current FY 2016 levels. This reduction in state support to UMass contributed to the recently announced 5.8 percent increase to tuition and fees across the UMass system for 2016-2017.

The FY 2017 budget funds **State University** line items at \$244.2 million, which is \$2.8 million (1.2 percent) above current FY 2016 levels. The FY 2017 budget funds **Community College** line items at \$273.2 million, which is \$2.5 million (0.9 percent) above current FY 2016 levels.

The FY 2017 budget includes funding for three new line items:

- **UMass Center at Springfield**, funded at \$500,000, will support a center for the study of racial justice and urban affairs, operated by UMass Amherst.
- **UMass Medical School Research**, funded at \$250,000. This program will promote the commercialization of medical research and the recruitment of world-class medical researchers to UMass.
- **Northern Essex Community College Expansion**, funded at \$1.0 million.

The main **State Scholarship Program** is funded at \$95.6 million in the FY 2017 budget, in line with FY 2016 levels.

Several higher education grants and programs are significantly reduced in the FY 2017 budget:

- **National Guard Tuition and Fee Waivers** are funded at \$3.8 million, a 74.6 percent reduction from current FY 2016 levels. This reduction includes \$750,000 vetoed by the Governor, based on the Administration projecting that fewer service members than previously assumed will receive this benefit.
- **State University Incentive Grants** are funded at \$2.5 million, a 55.4 percent reduction from current FY 2016 levels. In prior years, this funding supported implementation of [the Vision Project](#), a Department of Higher Education strategic plan. This plan aims to increase quality, reduce achievement gaps, and improve the connection between higher education and workforce development. It is possible that public campuses could divert funding from other programs to support some of these initiatives.

- The [High Demand Scholarships](#) are funded at \$500,000, 50.0 percent less than current FY 2016 levels. These scholarships support students pursuing degrees which are in high demand in the Massachusetts labor market, such as engineering, teaching, and health care.
- The **Department of Higher Education** is funded at \$3.0 million, a 31.6 percent reduction from current FY 2016 levels. Cuts to the administration of higher education may impact the student experience on campus and the provision of student aid and support.

However, several higher education line items receive greater funding than last year, including:

- The **UMass Satellite Campus in Haverhill**, funded at \$2.5 million, through a trust first created in FY 2014, but which did not receive any support in FY 2016.
- **Foster Care Fee Waivers** are funded at \$4.5 million, a \$256,000 (6.0 percent) increase over FY 2016.

For a full list of vetoes and overrides in Higher Education accounts, please see the spreadsheet [HERE](#) and filter in the column heading entitled “Subcategory” for Higher Education.

ENVIRONMENT & RECREATION

The state budget funds programs that keep our air, land and water clean, maintain fish and wildlife habitats and staff parks, beaches, pools and other recreation facilities. The budget for Fiscal Year (FY) 2017 provides \$200.0 million for environment and recreation programs. The Governor vetoed \$9.2 million in funding from these programs, the largest of which cut funding for state parks (see discussion below). The Legislature overrode all of these vetoes except a \$261,000 veto to the information technology account at the Executive Office of Energy and Environmental Affairs. The FY 2017 budget for environment and recreation programs is \$12.8 million less than the \$212.8 million in the FY 2016 budget. Since the state adopted over \$3 billion in tax cuts in the late 1990s and early 2000s, funding for environment and recreation programs has fallen by 33.5 percent in inflation-adjusted dollars.

The FY 2017 budget provides \$59.2 million for **state parks and recreation facilities**. The Governor vetoed \$5.3 million, some of which earmarks funds for specific parks projects around the state, but the Legislature overrode his vetoes. As noted in the table below, state parks receive funding from two accounts. The budget provides \$41.5 million for the primary account that funds state parks, a cut of \$5.1 million below FY 2016. State parks also receive funding from an account that allows the Department of Conservation and Recreation (DCR) to retain the revenue it collects from parking and entry fees at state recreation facilities. The budget increases the amount of revenue that DCR can retain to \$17.7 million. While this amount is \$1.7 million above the FY 2016 current budget, it is \$1.5 million below the \$19.2 million that the House and Senate recommended in their final budgets for FY 2017. Even with this slight increase in retained revenue, total funding for state parks in the budget is \$3.4 million below the FY 2016 current budget. This lower funding level is likely related to DCR employees electing for an early retirement package offered in FY 2016. Because many of these staff will not be replaced, DCR may have difficulty carrying out its duties including fully staffing and maintaining recreation facilities around the state.

FUNDING FOR STATE PARKS AND RECREATION

| Line Item # | Line Item Name | FY 2016 Current | FY 2017 GAA | Difference: FY17 GAA - FY16 Current |
|-------------|----------------------------|--------------------|-------------------|---|
| 2810-0100 | State Parks and Recreation | 46,613,985 | 41,473,430 | (5,140,555) |
| 2810-2042 | DCR Retained Revenue | 16,000,000 | 17,700,000 | 1,700,000 |
| | Total | 62,613,985 | 59,173,430 | (3,440,555) |

*Budget proposals sometimes shift the allocation of funding among line items. The chart above presents those proposals in the FY 2016 funding structure to make comparisons easier.

The FY 2017 budget provides less funding than the amount proposed by the Senate to prepare for and adapt to **climate change**. The budget includes \$150,000 for climate change adaptation and preparedness, which is \$150,000 less than the FY 2016 current budget. The budget does not provide funding for a state climatologist. The Senate proposed providing \$150,000 for this position. The FY 2016 budget allotted \$200,000 for the climatologist but the funding was zeroed out when the Governor made emergency budget cuts earlier this year.

The FY 2017 budget also does not fund a program included in the House budget that would have provided the Department of Environmental Protection with \$535,000 to help municipalities provide **safe drinking water** to their residents.

For funding levels for all environment and recreation programs, please see the Environment and Recreation category of MassBudget's *Budget Browser* [HERE](#).

For a full list of vetoes and overrides in Environment & Recreation programs, please see the spreadsheet linked [HERE](#) and filter for Environment & Recreation in the column entitled "Category."

HEALTH CARE

MassHealth (Medicaid) and Health Reform

The Fiscal Year (FY) 2017 General Appropriations Act (GAA) relies on a number of strategies to reduce costs, including some payment and rate freezes, limiting access to payments from the Health Safety Net, and channeling MassHealth members to lower-cost managed health care. The FY 2017 budget holds down spending by deferring some FY 2017 health care payments to FY 2018, and by underfunding some programs, knowing that there will need to be supplemental funding provided during the course of the fiscal year. The budget also relies on the assumption that program restructuring and changes in the delivery system will have the effect of holding down MassHealth caseloads, thereby further limiting spending growth.

MassHealth Program and Administration

Funding for the MassHealth program and MassHealth administration totals \$15.44 billion. This is approximately \$129.9 million below the amount originally proposed by the Governor, and \$123.4 million below the Senate's proposal. Part of this reduction is due to what is known as "cash management." The Administration will be deferring a portion of this year's payments into the next budget year. The Administration is deferring \$45.0 million in what is known as **risk corridor payments**. This is a complicated component of the federal Affordable Care Act (ACA or "Obamacare") that helps

protect health insurers from some of the uncertainties of the early years of implementation of the ACA and health care re-structuring. This deferral reduces payments to managed care organizations by \$37.0 million, and to payments for MassHealth members covered by the ACA expansions by \$8.0 million. (The savings to the state will be less than \$45.0 million for these deferrals, as the state will receive less in federal reimbursement due to lower spending. The net savings impact of this “cash management” is approximately \$19.7 million.)

The FY 2017 GAA also reduces funding in other areas below levels previously recommended by the House or Senate, some of which result in totals below anticipated costs. The **Fee-for-Service** line item, for example, receives \$2.38 billion, \$49.6 million below the Senate’s amount, and \$48.0 million below the Governor’s original proposal. The Governor vetoed \$8.9 million in funding earmarked from this line item, including \$7.4 million targeted to pediatric providers. At the same time, the Governor proposed supplemental funding of an additional \$112.7 million for Fee-for-Service payments, primarily to cover new anticipated costs of medications for Hepatitis C. The Legislature overrode the Governor’s veto, and has not yet acted on the Governor’s proposed supplemental funding legislation.

The GAA funds **managed care** payments at \$69.0 million less than the amount proposed by the Senate and \$78.0 million less than proposed by the House and Governor. In addition to the \$37.0 million in deferred payments discussed above, \$20.0 million of this reduction is due to a recoupment of excess managed care capitation payments for behavioral health in FY 2016. The managed care funding in the GAA also does not include a specific amount for grants that help create the infrastructure and capacity to promote delivery system reform, but does include language that would allow for these grants. The Senate’s budget had included \$10.0 million for these grants for community health centers and hospitals, while the House budget had included \$20.0 million. The managed care line item does include a \$1.0 million increase for rates for **behavioral health and substance abuse** providers. This was a proposal included in the Senate budget, but not in the House.

The budget also includes a provision directing the Administration to study the costs of full **adult dental coverage**, but does not currently change those benefits. The study would look at the fiscal impact on the cost of care of changing MassHealth’s dental coverage.

Although not explicit in budget language, the GAA anticipates reducing coverage for certain **“optional” benefits** available to members in MassHealth’s Primary Care Clinician (PCC) plan. These benefits would continue to be available to members in managed care plans. This restriction is being put into place to encourage members to make the shift to this less-expensive (and better-coordinated) type of care. This proposal was initially presented in the Governor’s budget and would go into effect in October 2017. As in both the House and Senate budget proposals, the GAA specifies that the “optional” chiropractic benefits would be maintained through FY 2017 even for members in the PCC plan.

The Administration also intends to implement a **12-month lock-in policy** for MassHealth. This means that once members enroll in a particular plan, after a 90-day transition period, they would have to stay in that plan for 12 months. This policy will likely go into effect in October 2016.

The Administration hopes to increase enrollment in managed care by using “passive enrollment” in the **Senior Care Options and One Care programs** – the integrated programs for members eligible for both MassHealth and Medicare. Passive enrollment means that members are enrolled in these programs by default, unless they explicitly choose to opt out. The Governor returned with a proposed amendment an outside section of the budget that directed a feasibility study on the inclusion of a **spouse as a**

possible paid caregiver within MassHealth, potentially allowing more frail elders to remain in the community rather than having to move into nursing homes. The Governor wanted to allow for more time for this analysis, moving the deadline from December 2016 to 2017. The Legislature supported this amendment with legislation signed into law on July 22.

Nursing homes, on the other hand, receive \$347.9 million, providing a \$45.0 million increase in nursing home rates over FY 2016, as proposed by the House. This total includes \$35.5 million for a rate add-on for wages and benefits for direct care staff. The Governor vetoed \$17.8 million of this funding, but the Legislature overrode this veto.

Other Health Subsidies

The Administration is in the process of reforming health care delivery, and shifting MassHealth to a system of accountable care organizations (ACOs). This is a strategy to contain health care cost growth and to provide better integrated care. In the course of moving the rest of MassHealth into ACOs, and supporting the integration of community-based providers into the ACOs, the Administration is expecting that FY 2017 will be a transition year.

In May of this year, the Legislature enacted Chapter 115 of the Acts of 2016 which put into effect provisions that had been included in the House and Senate budgets. To help providers implement delivery system changes, this law provides additional payments to health care providers by increasing an **assessment on hospitals**. These assessments would also receive federal matching reimbursements, and the revenues would be deposited in the newly-created MassHealth Delivery System Reform Trust. According to the Administration, hospitals “as a class” will not experience an increase in costs associated with this assessment, as they will receive this assessment back in enhanced Medicaid rate payments, but some individual hospitals, however, would receive back more than they contributed, and some would receive back less. Because the revenues to the fund would cover a full 12-month period, but the rate payments from the fund would begin on October 1 and therefore cover only 9 months, the budget counts on \$73.5 million from the assessments being available to transfer into the General Fund to help balance the budget.

Payments to health safety net providers through a variety of trusts are funded by a combination of operating transfer appropriations, re-distributed assessments on providers, and federal reimbursements. The FY 2017 budget includes a \$9.3 million decrease to the **Delivery System Transformation Initiative** compared to prior budget proposals, for a total of \$196.3 million. Originally, hospitals receiving payments from this trust would have received a 10 percent increase in FY 2017 compared to FY 2016 payments, but the Legislature reduced that increase to 5 percent. The Governor vetoed an additional \$9.3 million of this transfer, but the Legislature overrode this veto.

In an outside section, the Legislature’s FY 2017 budget makes a \$15.0 million transfer into the **Health Safety Net** (via funds from the Commonwealth Care Trust Fund) to support the costs associated with providing care to uninsured or underinsured individuals. In previous years that transfer has been \$30.0 million. The Governor rejected the language proposed by the Legislature, and proposed that the budget instead authorize a transfer of **up to** \$15.0 million. As this amendment was not passed by the Legislature, the language in the original outside section no longer applies, so the transfer is no longer included in budget totals. In FY 2017, coverage by the Health Safety Net becomes more restrictive, limiting state-funded reimbursements for health care providers who provide care to these individuals. Health care providers that do not have a “third party” source of reimbursement for the care that they

provide must either absorb those costs or turn to the individual receiving the care for payment. The Health Safety Net reimburses acute care hospitals and community health centers for the costs of care provided to people who are uninsured or underinsured, and until recently provided full reimbursement for care provided to people with incomes up to 200 percent of the federal poverty level. People with incomes between 200 and 400 percent of the poverty level were billed for a portion of the costs of their care. Even with Massachusetts' nation-leading health coverage rates, there are still residents of the Commonwealth who do not have adequate health insurance, and for whom even emergency health costs can lead to significant medical debt. The new changes lower the eligibility threshold for partial coverage by the Health Safety Net from 400 percent to 300 percent of the federal poverty level, and impose a deductible starting at 150 percent of the poverty level. In part, the Administration hopes that these changes would encourage more residents to reduce reliance on emergency health care and obtain health insurance. The new rules also reduce retroactive coverage from the current six months to ten days from the date of service.

ConnectorCare (the "State Wrap") is the subsidized program for people previously covered by the Commonwealth Care Program who are not eligible for MassHealth coverage and have incomes at or below 300 percent of the federal poverty level. ConnectorCare plans have relatively low monthly premiums and out-of-pocket costs. This program is administered by the Health Connector, and is funded through the Commonwealth Care Trust Fund rather than by line-item appropriations in the budget. A portion of the state's tobacco tax revenue is directed into the fund to help pay for this program. There is also funding from tax assessments on individuals who do not choose to purchase health insurance and similarly from an assessment on employers. Because of the availability of federal revenue to pay for some of the health care costs previously borne by the state, as in FY 2016, the FY 2017 budget allows for transferring up to \$110.0 million from this trust into the General Fund to help balance the budget. In FY 2016, the actual expected transfer is \$81.8 million. In FY 2017, if there is no legislation that would re-direct some of these funds to the Health Safety Net (see discussion above), the Administration estimates that transfer from the Commonwealth Care Trust Fund to the General Fund will likely be \$86.8 million.

The budget also includes funding for other supplemental payments to health safety net providers, funding for other subsidized health programs, and other administrative and operational supports (see table.)

FUNDING FOR MASSHEALTH AND HEALTH REFORM

| | FY 2016 Current | FY 2017 Legislature | FY 2017 Governor's Final | FY 2017 GAA |
|--|-----------------------|------------------------|-----------------------------|-----------------------|
| MassHealth (Medicaid) | | | | |
| MassHealth Programs* | 14,683,088,419 | 15,286,553,833 | 15,372,553,833 | 15,286,553,833 |
| MassHealth Administration* | 151,650,594 | 154,401,087 | 151,459,648 | 154,401,087 |
| Subtotal | 14,834,739,013 | 15,440,954,920 | 15,524,013,481 | 15,440,954,920 |
| Supplemental Payments to Providers | | | | |
| Medical Assistance Trust | 1,027,500,000 | 462,000,000 | 462,000,000 | 462,000,000 |
| Delivery System Transformation Initiative | 189,141,606 | 196,252,001 | 186,906,667 | 196,252,001 |
| Subtotal | 1,216,641,606 | 658,252,001 | 648,906,667 | 658,252,001 |
| Other Health Subsidies | | | | |
| Commonwealth Care Trust | 55,732,786 | 62,203,947 | 47,203,947 | 47,203,947 |
| Prescription Advantage | 18,668,169 | 18,521,922 | 18,171,922 | 18,171,922 |
| Subtotal | 74,400,955 | 80,725,869 | 65,375,869 | 65,375,869 |
| Other Administration and Operations | | | | |
| Center for Health Info. & APCD | 31,140,523 | 28,131,406 | 28,131,406 | 28,131,406 |
| Information Technology* | 123,238,420 | 116,776,778 | 116,776,778 | 116,776,778 |
| Health Information Trust | 8,153,272 | 8,853,272 | 8,853,272 | 8,853,272 |
| Other Health Finance | 2,200,000 | 9,542,285 | 9,542,285 | 9,542,285 |
| Subtotal | 164,732,215 | 163,303,741 | 163,303,741 | 163,303,741 |
| TOTAL | 16,290,513,788 | 16,343,236,531 | 16,401,599,758 | 16,327,886,531 |

*FY 2016 Current totals include adjustments in funding for program operations to allow for more accurate across-year comparisons.

For a full list of vetoes and overrides in MassHealth (Medicaid) and Health Reform line items, please see the attached spreadsheet [HERE](#) and filter for "MassHealth (Medicaid) and Health Reform" in the column heading entitled "Subcategory."

Mental Health

Funding for mental health services in the Fiscal Year (FY) 2017 budget total \$761.1 million, essentially level with the Senate's funding, and slightly above the funding level proposed by the House. This budget represents an increase over FY 2016 funding, with a notable increase in funding for residential behavioral health treatment which is an important component of the Legislature's and Administration's commitment to treating substance abuse and addiction.

Funding for **adult mental health** services together total \$439.2 million (see table). This is a \$3.2 million increase. These services include \$4.0 million to support community-based placements for adults discharged from continuing care, and services for homeless adults who need mental health services.

FUNDING FOR ADULT MENTAL HEALTH

| Line Item # | Line Item Name | FY 2016 Current | FY 2017 GAA | Difference: FY17 GAA - FY16 Current |
|--------------|--|--------------------|--------------------|---|
| 5046-0000 | Adult Mental Health and Support Services | 377,312,663 | 379,754,252 | 2,441,589 |
| 5046-0006 | For People Discharged from Continuing Care | 4,000,000 | 4,000,000 | 0 |
| 5046-2000 | Statewide Homelessness Support Services | 21,134,979 | 22,038,690 | 903,711 |
| 5046-4000 | CHOICE Program Retained Revenue | 125,000 | 125,000 | 0 |
| 5047-0001 | Emergency Services and Mental Health Care | 24,258,428 | 24,101,834 | (156,594) |
| 5055-0000 | Forensic Services Program for Mentally Ill Persons | 9,183,472 | 9,147,474 | (35,998) |
| TOTAL | | 436,014,542 | 439,167,250 | 3,152,708 |

The GAA also includes a total of \$205.9 million for **facilities and inpatient care**. This total is \$9.3 million above FY 2016 current funding. This increase (4.7 percent) provides expanded support for residential behavioral health treatment. This funding would cover the costs of 45 substance use treatment beds at Taunton State Hospital, added in part to ensure that women would not need to be civilly-committed to MCI-Framingham for substance abuse treatment.

The GAA includes \$88.7 million for [child and adolescent mental health](#) services that is essentially level with the funding proposals from the House and Senate. The appropriation language includes an earmark of \$3.6 million for the Mass. Child Psychiatry Access Program (MCPAP). MCPAP is an innovative program that improves access to treatment for children with behavioral health needs and their families, by providing quick and ready access to psychiatric consultation for primary care providers across Massachusetts. The language also notes that \$500,000 of that total would help expand the program statewide in order to provide consultation for primary care providers who are seeing women with signs of postpartum depression. The budget includes a provision (Section 36) that would put into statute language for this program. The Governor returned that section providing alternate language that would permit pediatric patients to have access to those services even after age 19, but the Legislature rejected that amendment in legislation signed into law July 22.

For a full list of vetoes and overrides in Mental Health line items, please see the attached spreadsheet [HERE](#) and filter for “Mental Health” in the column heading entitled “Subcategory.”

Public Health

The Fiscal Year (FY) 2017 GAA includes a total of \$603.6 million for public health. The Governor vetoed \$9.7 million from the Legislature’s public health budget – most of which were earmarks for specific programs, but the Legislature overrode \$9.2 million of these vetoes. The FY 2017 budget shifts approximately \$24.2 million for services to support people at risk of domestic violence from the Dept. of Children and Families into the Department of Public Health. Excluding this funding shift, the public health budget is just below FY 2016 current levels.

Throughout this year’s budget debate, there has been attention directed at, and funding directed to, services to address the state’s continuing opioid addiction epidemic. Combined, funding for **substance abuse services** totals \$139.2 million, which is \$8.3 million more than in FY 2016 (see table).

FUNDING FOR SUBSTANCE ABUSE SERVICES

| Line Item # | Line Item Name | FY 2016 Current | FY 2017 GAA | Difference: FY17 GAA - FY16 Current |
|--------------|--|--------------------|--------------------|---|
| 1595-4510 | Substance Abuse Services Fund | 5,000,000 | 1,000,000 | (4,000,000) |
| 4512-0200 | Bureau of Substance Abuse Services | 113,439,903 | 125,692,987 | 12,253,084 |
| 4512-0201 | Substance Abuse Step-Down Recovery Services | 4,800,000 | 4,908,180 | 108,180 |
| 4512-0202 | Secure Treatment Facilities for Opiate Addiction | 2,000,000 | 2,000,000 | 0 |
| 4512-0203 | Substance Abuse Family Intervention & Care Pilot | 1,500,000 | 1,500,000 | 0 |
| 4512-0204 | Nasal Narcan Pilot Expansion | 1,000,000 | 1,000,000 | 0 |
| 4512-0211 | Recovery High Schools | 3,100,000 | 3,100,000 | 0 |
| 4590-0930 | Municipal Naloxone Bulk Purchase Program | 100,000 | 0 | (100,000) |
| TOTAL | | 130,939,903 | 139,201,167 | 8,261,264 |

The FY 2017 budget includes little other new investment. **Maternal and child health programs** have been cut by 2.7 percent from FY 2016 current totals. The budget includes \$12.5 million for the state supplement for the [WIC \(Women, Infants, and Children\) Program](#), the same amount as in FY 2016. WIC provides access to healthy food and nutrition counseling during pregnancy and in the early years of life. The budget also anticipates a \$2.0 million decrease in funding from manufacturer's rebates for that program.

The [early intervention program](#) is also essentially level-funded at \$28.6 million. Early intervention services are available to infants and toddlers who are at high risk for developmental delay or who already exhibit developmental delay. The budget also includes language directing a cross-agency initiative between the Department of Public Health, and various other agencies to issue a state-assigned student identifier for children participating in early intervention (funded at \$100,000 within the Department of Elementary and Secondary Education) to track and improve program outcomes.

The [Postpartum Depression Pilot Program](#), which funds community health workers at a handful of health centers who work with women who have been identified with postpartum depression, receives \$200,000 in the Legislature's budget. This is the same amount as in FY 2016.

The state's anti-smoking efforts, funded in DPH through [Smoking Prevention and Cessation](#), are funded at \$3.9 million, the same as in FY 2016. At one time, Massachusetts led the nation with its successful public health campaign to reduce smoking. In FY 2001, for example, before the state cut taxes dramatically, the state budgeted close to \$90 million (when adjusted for inflation) to support anti-smoking efforts. Since then, these efforts were at first cut significantly, and then have dwindled year by year. The FY 2017 funding is not even enough to keep up with inflation compared to last year. The department's oral health programs receive an increase (\$183,000) compared to FY 2016 totals, due to a slight increase to [Dental Health Services](#), for a total of \$2.2 million. The [SEAL](#) sealant and fluoridation program receives level funding of \$891,000.

Although it might seem that funding to prevent sexual assault and domestic violence receives a dramatic boost in the budget, this funding is in fact simply a shift of dollars previously provided to the Department of Children and Families (see table below and Child Welfare section of this *Budget Monitor*). With the shift of funding to better consolidate and coordinate domestic violence prevention and services, these services in fact are essentially level-funded with FY 2016. In addition, funding for the [Sexual Assault Nurse Examiner](#) program in the budget is \$273,000 higher than FY 2016 levels at \$4.6 million, and funding is flat at \$150,000 for the [Healthy Relationships](#) grant program.

FUNDING FOR DOMESTIC VIOLENCE PREVENTION AND SERVICES

| Line Item # | Line Item Name | FY 2016 Current* | FY 2017 GAA | Difference: FY17 GAA - FY16 Current |
|---|--|-------------------|-------------------|---|
| 4513-1130 | Domestic Violence and Sexual Assault Prev. | 30,647,153 | 30,907,153 | 260,000 |
| 4800-1400 | Services for People at Risk of Domestic Violence | 0 | 0 | 0 |
| Estimated amount added for DCF social workers | | 1,983,820 | 1,983,820 | 0 |
| TOTAL | | 32,630,973 | 32,890,973 | 260,000 |

*FY 2016 Current totals include adjustments in funding to show funding in FY 2017 line item structure to allow for more accurate across-year comparisons.

There are several programs in the FY 2017 budget that together are designed to provide community-based activities and supports for young people to keep them engaged and ultimately reduce violence (see table). Together, these programs are funded at \$753,000 less than in FY 2016. For example, the [Safe and Successful Youth Initiative](#) targets high risk young men in communities across the Commonwealth and provides a public health approach to reducing gun-related violence. This program receives \$6.6 million in the FY 2017 GAA, an increase over FY 2016.

FUNDING FOR YOUTH VIOLENCE PREVENTION AND YOUTH ENGAGEMENT

| Line Item # | Line Item Name | FY 2016 Current | FY 2017 GAA | Difference: FY17 GAA - FY16 Current |
|--------------|--------------------------------------|-------------------|-------------------|---|
| 4000-0005 | Safe and Successful Youth Initiative | 6,030,000 | 6,560,000 | 530,000 |
| 4000-0008 | Crossroads | | 25,000 | 25,000 |
| 4590-1506 | Violence Prevention Grants | 1,334,449 | 1,337,124 | 2,675 |
| 4590-1507 | Youth At-Risk Matching Grants | 3,950,000 | 2,639,000 | (1,311,000) |
| TOTAL | | 11,314,449 | 10,561,124 | (753,325) |

For a full list of vetoes and overrides in Public Health line items, please see the attached spreadsheet [HERE](#) and filter for "Public Health" in the column heading entitled "Subcategory."

State Employee Health Insurance

The Fiscal Year (FY) 2017 GAA includes \$1.69 billion for state employee health insurance. A \$30.0 million veto by the Governor would have changed the current structure of employee contributions to health insurance, but the Legislature overrode that veto. The GAA funding for **state employee health benefit** premiums is \$6.1 million below the amounts proposed by both the House and the Senate. A portion of this reduction (\$4.3 million) comes from a lower spending projection from the state's **Group Insurance Commission (GIC)**.

MassBudget's totals for state employee health insurance include adjustments that allow for more accurate across-year comparisons (see table). MassBudget removes from budget totals the amounts each year that are simply pass-throughs of funding for municipal health insurance. Municipalities have the option of taking advantage of the state's purchasing power by using the GIC to purchase their employees' health insurance. Municipalities reimburse the state for the costs of this insurance, so there is no cost to the state for adding these municipal employees to the GIC membership rolls.

STATE EMPLOYEE HEALTH INSURANCE FUNDING WITH MUNICIPAL PASS-THROUGH ADJUSTMENT

| Line Item # | Line Item Name | FY 2016 Current with MassBudget Adjustment | FY 2017 GAA | MassBudget Adjustment | FY 2017 GAA with MassBudget Adjustment |
|--------------|------------------------|--|----------------------|--------------------------|--|
| 1108-5200 | Group Insurance Prem. | 1,051,480,303 | 1,637,028,930 | (562,990,948) | 1,074,037,982 |
| 1108-5400 | Retired Muni. Teachers | 0 | 51,376,567 | (51,376,567) | 0 |
| TOTAL | | 1,051,480,303 | 1,688,405,497 | (614,367,515) | 1,074,037,982 |

For a full list of vetoes and overrides in State Employee Health Insurance line items, please see the attached spreadsheet [HERE](#) and filter for “State Employee Health Insurance” in the column heading entitled “Subcategory.”

State Retiree Benefits

The state has adopted a schedule to move towards full funding of health and other non-pension post-employment benefits (“OPEB”) for retirees. The Commonwealth funds the current and future costs of OPEB through a variety of transfers to the State Retiree Benefits Trust. The GAA includes \$440.0 million in an operating transfer directed to the State Retiree Benefits Trust.

In order to fully fund the cost of future retirees’ benefits, in FY 2012 the state decided to dedicate an increasing share of its annual Master Tobacco Settlement award to the State Retiree Benefits Trust. The intent was to use 40 percent of the Settlement award by FY 2016 and 50 percent of the award in FY 2017. Using a newly-upgraded Tobacco Settlement award amount, the FY 2017 total at 50 percent of the settlement would be approximately \$128.8 million to support these OPEB liabilities.

However, instead of transferring \$128.8 million, the Legislature’s budget had appropriated \$25.8 million (10 percent of the Settlement award) into the State Retiree Benefits Trust to fund OPEB. Language in the budget states that this funding would come either from unexpended debt payments or from the Master Tobacco Settlement money deposited into the General Fund. This total is \$103.0 million less than the amount indicated for FY 2017 in the statute. The Legislature accounted for this \$103.0 million in reduced spending as savings, in order to help balance the FY 2017 budget. The Governor vetoed this language, noting that this reduced spending for retiree benefits could have an impact on the state’s credit rating. The Governor proposed alternate language that would put the OPEB transfer at 30 percent of the Master Settlement as proposed in his initial budget. This amended language was not enacted by the Legislature, leaving the OPEB transfer at the statutory level of 50 percent of the Master Settlement, or a total of \$128.8 million--\$103.0 million more than proposed in the Legislature’s budget, and \$51.5 million more than recommended with the Governor’s vetoes. However, it is likely that over the course of the year there will ultimately be legislation passed that will reduce the OPEB payment to something between the Legislature’s recommendation of \$25.8 million and the Governor’s recommended \$77.3 million, funded out of debt reversions.

HUMAN SERVICES

Child Welfare

The Fiscal Year (FY) 2017 General Appropriations Act (GAA) for child welfare includes a total of \$940.9 million for child welfare and protection. The FY 2017 budget shifts approximately \$24.2 million for

services to support people at risk of domestic violence out of the Department of Children and Families (DCF) into the Department of Public Health (DPH), in order to better coordinate and consolidate those services (see discussion below.) Excluding this funding shift, the child welfare budget is 4.1 percent above FY 2016 current levels.

DCF has a dual mission: to protect children and to strengthen families, and funding for DCF is split between these two main functions. Funding for the [case workers](#) who work directly with vulnerable families and children totals \$223.5 million, the same as recommended by the House and Senate. This is a \$19.6 million increase over FY 2016 funding, or 9.6 percent. In part due to highly-publicized cases involving children and families involved with DCF, there has been broad attention to the challenges faced by DCF staff who work directly with at-risk families. Although the case workers’ union contract aims to limit caseloads to 15 cases each, the FY 2017 budget is not sufficient to reach that goal. Overall caseload ratios tend to be closer to 18:1. Funding to [train](#) these new workers is cut by \$1.0 million from FY 2016, for a total of \$2.5 million.

The vast majority of children connected to DCF are not in foster care, but rather live with their families with supports and services provided by, or coordinated with, DCF. Estimates from March 2015 suggest that close to 9 of every 10 children involved with DCF either live at home with their families or are in foster care but awaiting return to their homes. The FY 2017 GAA includes \$46.9 million for [family support services](#), a \$1.4 million increase over FY 2016 levels. This increase will help provide the services families might need to help them stay together safely and prevent child neglect.

Reflecting dramatic recent increases in the removal of children to out-of-home placements, but also reflecting the relative scarcity of foster families, the FY 2017 GAA targets additional funding to [congregate residential care](#). The budget includes \$265.1 million for group residential foster care, a \$5.9 million increase over FY 2016 totals. This amount incorporates a previously-planned rate increase, as well as additional funds to cover anticipated growth in the number of children sent to live in group foster care. Although fewer children live in group foster homes than with families, that service model is significantly more expensive than family foster care. After an override of a \$770,000 veto, funding for [family-based foster care and adoption](#) is \$283.7 million, essentially level with FY 2016 funding.

The FY 2017 budget shifts funding for support services for families at risk of domestic violence to DPH, in order to consolidate domestic violence prevention and support (see table). DCF will also expand expertise among the case workers in domestic violence prevention. Accounting for these shifts, funding for domestic violence prevention and services is essentially level in the FY 2017 budget.

FUNDING FOR DOMESTIC VIOLENCE PREVENTION AND SERVICES

| Line Item # | Line Item Name | FY 2016 Current* | FY 2017 GAA | Difference: FY17 GAA - FY16 Current |
|-------------|--|-------------------|-------------------|---|
| 4513-1130 | Domestic Violence and Sexual Assault Prev. | 30,647,153 | 30,907,153 | 260,000 |
| 4800-1400 | Services for People at Risk of Domestic Violence | 0 | 0 | 0 |
| | Estimated amount added for DCF social workers | 1,983,820 | 1,983,820 | 0 |
| | TOTAL | 32,630,973 | 32,890,973 | 260,000 |

*Budgets sometimes shift the allocation of funding among line items from one year to the next. The chart above presents line items in the FY 2017 funding structure to make comparisons easier.

The FY 2017 budget includes funding at DCF for [Family Resource \(or Access Centers\)](#), and also includes funding for administration of these centers within the Executive Office of Health and Human

Services (see table.) The centers provide resources and information for families related to public benefits and state and local services. Located throughout the Commonwealth, the centers are particularly targeted to providing community services for a “Child Requiring Assistance” working with the juvenile courts. Together, they receive \$10.5 million in the FY 2017 budget, a slight increase over FY 2016 funding.

FUNDING FOR FAMILY RESOURCE (ACCESS) CENTERS

| Line Item # | Line Item Name | FY 2016 Current | FY 2017 GAA | Difference: FY17 GAA - FY16 Current |
|--------------|-----------------------------|------------------|-------------------|---|
| 4000-0051 | Family Resource Centers | 2,500,000 | 500,000 | (2,000,000) |
| 4800-0200 | DCF Family Resource Centers | 7,398,054 | 9,978,898 | 2,580,844 |
| TOTAL | | 9,898,054 | 10,478,898 | 580,844 |

For a full list of vetoes and overrides in Child Welfare line items, please see the attached spreadsheet [HERE](#) and filter for “Child Welfare” in the column heading entitled “Subcategory.”

Disability Services

The state budget funds services for individuals with disabilities that support overall well-being, inclusion, and meaningful participation in our local communities. Overall, the Fiscal Year (FY) 2017 budget provides \$1.89 billion for disability services, a 2.4 percent increase from current FY 2016 levels. The Governor vetoed \$4.5 million from services for individuals with disabilities; however, the Legislature overrode the vetoes entirely.

The bulk of this increase—\$25.8 million—is for **Community Residential Services for the Developmentally Disabled**, a 2.4 percent increase from current FY 2016 levels. This program supports adults in various residential settings to live as comfortably and independently as possible.

The FY 2017 budget increases funding for the [Community Day and Work Programs for the Developmentally Disabled](#) by \$8.3 million (4.5 percent) from current FY 2016 spending levels. This program provides funding for a wide variety of group and individual supports to help adults to find work and build skills for future work.

Additionally, the FY 2017 budget increases [Turning 22 Services for the Developmentally Disabled](#) by \$500,000 (7.1 percent), which provides services to young adults with disabilities during the transition year in which they turn 22 and age out of special education programs into adult services. Also, [Respite Family Supports for the Developmentally Disabled](#) is increased by \$6.9 million (12.4 percent), which provides families with disabled children support with specialized caregiving or other flexible community-based resources. The Governor vetoed \$107,000 from these accounts, but the Legislature overrode those vetoes.

However, the FY 2017 budget level funds and eliminates most other workforce development programs for people with disabilities. For these programs, level funding may be tantamount to a cut because available resources do not keep pace with inflation.

- [Community Based Employment](#) remains at the current FY 2016 \$3.0 million funding level. This program moves individuals with disabilities from sheltered work to integrated work settings.

- [Commonwealth Corporation Transitions to Work](#), an employment-training program for unemployed young adults with disabilities that received \$150,000 in FY 2016, receives zero state funding.
- **Community Transportation Services for the Developmentally Disabled** is level-funded at current FY 2016 levels of \$21.7 million. These services offer transportation to and from work for individuals with disabilities.
- **Employment Assistance**, which provides vocational evaluation and employment services for severely disabled adults, receives \$2.2 million, which is a \$59,000 (2.6 percent) decrease from the current FY 2016 funding level.

The FY 2017 budget also reduces **Autism Omnibus Services** by \$233,000, which provides services to individuals with autism spectrum disorders.

For a full list of vetoes and overrides in Disability Services accounts, please see the spreadsheet linked [HERE](#) and filter in the column heading entitled "Subcategory" for Disability Services.

Elder Services

The Fiscal Year (FY) 2017 budget funds Elder Services at \$267.0 million, which is \$2.3 million (0.9 percent) above current FY 2016 spending levels. This amount will likely be a reduction in the real value of spending because the increase does not keep up with projected levels of inflation.

The majority of funding for Elder Services programing goes to support **elder home care services** which allow elders to age in place instead of living in a nursing home. In aggregate, the FY 2017 budget for elder home care services is \$206.9 million. This is a decrease of \$3.5 million (or 1.7 percent) when compared to FY 2016 current spending levels, which may affect service delivery. The budget also includes a \$1.1 million pilot program, which would raise the current income eligibility ceiling for home care services by 15 percent.

The program that receives the most significant increase over current FY 2016 spending is **Elder Protective Services**, which investigates elder abuse and neglect. The budget funds Elder Protective Services at \$28.0 million for FY 2017, which is \$4.9 million (or 21.3 percent) over current FY 2016 spending levels.

Grants to Council on Aging, which provide funding to Council on Aging centers that offer services to and advocate for elders around the Commonwealth, receives \$1.2 million more in FY 2017 than in FY 2016. The Governor vetoed roughly \$700,000 in earmarks from this line item, but the Legislature overrode his vetoes.

Lastly, an outside section of the budget establishes a 20-person, permanent **commission on older lesbian, gay, bisexual, and transgender (LGBT) adults** to study the health, housing, financial, psychological, and long-term care needs of this group and to recommend improvements to ensure equal access to benefits and services.

For a full list of vetoes and overrides for Elder Services line items please see the spreadsheet linked [HERE](#) and filter in the column heading entitled "Subcategory" for Elder Services.

Juvenile Justice

The Fiscal Year (FY) 2017 budget provides \$177.0 million for juvenile justice services administered by the Department of Youth Services. This is essentially level with current FY 2016 spending.

The final budget allocates an additional \$500,000 for a **Detention Diversion Advocacy Program**. The program would aim to prevent young people entering the court system from advancing further into the juvenile justice system. The program would be coordinated by a private non-profit that specializes in child welfare and juvenile justice programming. Meanwhile, funding was reduced by roughly \$539,000 compared to FY 2016 levels for secure facilities that house detained young people.

Lastly, monthly **probation fees**, which range from \$45 to \$60 per month, will be waived for any young person placed on probation while under the age of 18.

For a full list of vetoes and overrides in Juvenile Justice line items please see the spreadsheet linked [HERE](#) and filter in the column heading entitled "Subcategory" for Juvenile Justice.

Transitional Assistance

The Fiscal Year (FY) 2017 budget funds transitional assistance programs and services at \$660.5 million, which is \$33.3 million (4.8 percent) below FY 2016 current spending levels. The Legislature overrode \$23.7 million of the Governor's \$24.1 million vetoes for transitional assistance programs and services.

A large portion of this decrease is [Transitional Assistance for Families with Dependent Children \(TAFDC\)](#), which is reduced by \$29.5 million (13.4 percent) below current FY 2016 spending levels. The decrease assumes a reduction in caseloads, which one would expect with an improving economy that enables more people to secure employment and improve their circumstances rather than seek this assistance. However, current caseload reduction may partially result from new administrative changes that make it harder for clients to maintain their benefits.

The Governor vetoed \$23.6 million in TAFDC spending that the Legislature overrode. The Governor also vetoed language that the Legislature added that bars the Department of Transitional Assistance from including federal SSI disability benefits when calculating TAFDC eligibility. However, the Legislature overrode that Governor's veto too.

The FY 2017 budget increases the **clothing allowance** from \$200 to \$250 per eligible child receiving TAFDC. The Governor vetoed this language and the Legislature overrode the veto. The clothing allowance is for a one-time payment made in September to help low-income families pay for back-to-school clothing. The **rent allowance** remains at \$40 per month.

The FY 2017 budget reduces the following transitional assistance programs:

- [Employment Services Program](#) (ESP) funded at \$12.7 million, \$278,000 (2.1 percent) below current FY 2016 spending levels. ESP is the primary education and job-training program for TAFDC clients.
- [Pathways to Self-Sufficiency](#) funded at \$1.0 million, \$2.0 million (66.7 percent) below current FY 2016 spending levels. This funding supports job placement and training for TAFDC clients who, because of the 2014 welfare reforms, will no longer be exempt from the work requirement. The 2014 welfare reform mandated alignment of state disability standards with federal Supplemental Security Income (SSI) disability standards.
- **Caseworker Salaries and Benefits** funded at \$70.8 million is reduced by \$3.5 million (4.8 percent). This funding reduction may be based on the expected decrease in caseloads and Department of Transitional Assistance employees who retired under the early retirement incentive program included in FY 2016.

Additionally, **Transportation for Supplemental Nutrition Assistance Program (SNAP) Participants**, introduced in the Governor's FY 2017 budget proposal, is not funded. Currently, SNAP has a work requirement for "able-bodied" persons without dependents. These are adults between the ages of 18 and 49, not receiving SSI benefits or otherwise disabled, not living with minor children, and not pregnant. The program would have likely supported these SNAP recipients who are participating in the work program.

However, the FY 2017 budget increases funding to [Domestic Violence Specialists](#), which provides services to victims of domestic violence who are on public assistance, by \$323,000 (30.8 percent). In addition, the budget increases [Emergency Aid to the Elderly, Disabled, and Children](#) by \$3.0 million (3.9 percent).

For a full list of vetoes and overrides in Transitional Assistance accounts, please see the spreadsheet linked [HERE](#) and filter in the column heading entitled "Subcategory" for Transitional Assistance.

Other Human Services

The Fiscal Year (FY) 2017 General Appropriations Act (GAA) includes \$204.6 million for other human services. This funding includes allocations for veterans' services, food banks, and some cross-agency initiatives. This amount is \$10.6 million less than FY 2016 current funding, a 4.9 percent decrease. However, \$6.5 million of this decrease is due to simply the scheduling of rate increases held in a reserve account for a variety of health and human services providers that we include in this subcategory of this *Budget Monitor* (see discussion below.) Excluding this reserve account, many of the programs included in this total have either been level-funded or reduced only slightly.

The FY 2017 GAA funds the [Emergency Food Assistance Program](#) at \$17.7 million, \$505,000 above the FY 2016 current total, or 2.9 percent. This funding supports the statewide network of food banks that provide food to families struggling to make ends meet.

The FY 2017 budget includes \$148.0 million for **veterans' services**, a \$2.6 million (1.7 percent) decrease from FY 2016 totals. This reduction is mostly due to a \$2.9 million cut to the soldiers' homes, offset slightly by some increases to assistance for homeless veterans.

[Family Resource \(or Access Centers\)](#) receive administrative funding within the Executive Office of Health and Human Services and funding for services in the Department of Children and Families (see table.) The centers provide resources and information for families related to public benefits and state and local services. Together, they receive \$10.5 million in the FY 2017 budget, a slight increase over FY 2016 funding levels.

FUNDING FOR FAMILY RESOURCE (ACCESS) CENTERS

| Line Item # | Line Item Name | FY 2016 Current | FY 2017 GAA | Difference: FY17 GAA - FY16 Current |
|--------------|-----------------------------|------------------|-------------------|---|
| 4000-0051 | Family Resource Centers | 2,500,000 | 500,000 | (2,000,000) |
| 4800-0200 | DCF Family Resource Centers | 7,398,054 | 9,978,898 | 2,580,844 |
| TOTAL | | 9,898,054 | 10,478,898 | 580,844 |

Included in the total for “other human services” is \$36.2 million for legally required **Chapter 257 rate increases**. Chapter 257 standardizes rates paid to various types of providers in order to make the system more efficient and fair. The amount included in the Chapter 257 reserve account funds the planned rate increases for providers across many human and social service programs. For more information on the rate standardization and the timing of the implementation across state agencies, see the state’s [Chapter 257 update](#). After the state provides the increases initially funded by this reserve account agency by agency, those amounts are then incorporated into the line items that fund those service providers. The increased funding for the service providers would then be included in the totals in other sections of this *Budget Monitor*.

The FY 2017 budget did not include funding for an initiative to develop a **Common Application Portal**. Proposed by the Senate, this was an ambitious effort to develop a shared application for a wide range of public benefits, including MassHealth, child care subsidies within the Department of Early Education and Care, and SNAP (formerly known as “food stamps”) benefits. There are continuing efforts across these agencies to develop such an application so that individuals would be able to apply simultaneously for these particular programs. Applying for public benefits can be complicated and confusing, and a shared application for a variety of benefits would simplify and streamline this process for applicants, and would also improve administrative efficiency for the agencies.

For a full list of vetoes and overrides in Other Human Services line items, please see the attached spreadsheet [HERE](#) and filter for “Other Human Services” in the column heading entitled “Subcategory.”

INFRASTRUCTURE, HOUSING & ECONOMIC DEVELOPMENT

Transportation

Much state funding for transportation takes place through dedicated revenue sources and a separate capital budget process. In the Fiscal Year (FY) 2017 budget, funds allocated through formula funding increased slightly, while other programs generally remained at current FY 2016 levels, where their value is likely to decrease as the result of inflation.

The state’s 15 **Regional Transit Authorities** receive \$82.0 million in the FY 2017 budget, the same as the current FY 2016 amount. The Governor vetoed \$2.0 million of this amount, which the Legislature

overrode. The on-budget appropriation to the **Massachusetts Bay Transportation Authority (MBTA)** remains at \$187.0 million, the FY 2016 level.

The MBTA will also receive \$997.9 million in sales tax revenue transferred to the **MBTA State and Local Contribution Trust Fund**, an increase of \$12.7 million (1.3 percent) over FY 2016. As part of the broader downward adjustment in expected tax revenues, this amount is \$29.2 million below the projections in the FY 2017 Senate budget proposal, which was essentially the same as the House projection.

The FY 2017 budget also projects that funding for the **Merit Rating Board**, which maintains driving records and reports them to insurance companies, will remain more or less unchanged at \$9.7 million. This contribution is borne by companies doing motor vehicle insurance business with the Commonwealth.

The **Massachusetts Transportation Trust Fund (MTTF)** receives \$329.1 million in the FY 2017 budget. This appropriation is a transfer from the Commonwealth Transportation Trust Fund (CTF), and is \$1.9 million less than current FY 2016 levels. The Governor vetoed \$1.6 million in this line item for various targeted local transportation projects, which the Legislature overrode. Current FY 2016 spending at the MTTF is itself lower than it otherwise would have been as a result of 412 employees with salaries totaling \$28.8 million accepting early retirement incentives. It is not clear whether reduced staffing from early retirement incentives will downgrade the capacity of the Department of Transportation. Insofar as retirements are part of an efficiency-enhancing reorganization or a process to voluntarily replace long-standing employees with less expensive, but equally qualified workers, then agency capacity need not be compromised. But the law caps replacements overall at 20 percent of the cost of those retiring. Lack of personnel, such as skilled oversight of transportation contractors, has sometimes been very costly to the Commonwealth. Among the retiring employees are contract specialists, auditors, inspectors, accountants, and compliance officers, as well as engineers, mechanics, and inspectors of construction and safety. Employees at the MBTA have only recently been made eligible for early retirement incentives.

Outside sections of the FY 2017 budget also:

- **Cap MBTA fare hikes** at once every 24 months and no more than 7 percent, and clarifies that this policy extends to all types of fares and monthly passes. The Governor sought an amendment to allow bigger increases in the price of individual types of fares or passes, so long as the average weighted fares remained within the prescribed limit; but the Legislature did not accept this amendment.
- **Make E-Z Pass transponders** available at full-service Registry of Motor Vehicles (RMV) locations.

For a full list of vetoes and overrides in transportation accounts please see the spreadsheet [HERE](#) and filter in the column heading entitled “Subcategory” for Transportation.

The Governor’s supplemental budget (H.4506), which he filed alongside his vetoes, proposes \$30.0 million for a **Snow and Ice Deficiency Account**. The Administration had anticipated using approximately \$30.0 million in Federal Emergency Management Agency (FEMA) reimbursements from the 2015 winter storms for snow and ice control in FY 2017; but the Legislature did not act on this

proposal. The Governor's proposal would transfer \$30.0 million from the General Fund for snow and ice control.

FUNDING FOR TRANSPORTATION

| Line Item # | Line Item Name | FY 2016 Current | FY 2017 GAA | Difference: FY17 GAA - FY16 Current |
|-------------|--|--------------------|-------------|---|
| 1595-6368 | Massachusetts Transportation Trust Fund | 330,968,038 | 329,085,302 | (1,882,736) |
| 1595-6369 | Mass. Bay Transportation Authority | 187,000,000 | 187,000,000 | 0 |
| 1595-6370 | Regional Transit Authorities | 82,000,000 | 82,000,000 | 0 |
| 1595-6379 | Merit Rating Board | 9,553,119 | 9,695,430 | 142,311 |
| T0100340 | MBTA State and Local Contribution Trust Tax Transfer | 985,200,000 | 997,900,000 | 12,700,000 |

*Figures do not include \$30,000,000 the Governor has proposed for a Snow and Ice Deficiency Account (1595-1973) as part of a Supplementary Budget (H.4506) which is still under consideration by the Legislature.

Housing

The state budget funds affordable housing assistance and shelter for low-income homeless families and individuals. The budget for Fiscal Year (FY) 2017 provides \$432.7 million for affordable housing. The Governor vetoed \$6.2 million from affordable housing programs, including \$2.4 million from housing vouchers and \$1.4 million from shelter for homeless individuals. The Legislature overrode all of the Governor's housing vetoes. The FY 2017 budget is \$56.0 million less than the \$488.8 million in the FY 2016 budget.

The FY 2017 budget is lower than the FY 2016 current budget largely because it provides \$155.5 million to the [Emergency Assistance \(EA\)](#) family shelter program, which is \$40.5 million less than the FY 2016 current budget. Accompanying his vetoes, the Governor filed a supplemental budget which would provide an additional \$26 million to the EA program in FY 2017. The Administration believes this additional funding will fully fund the account for the fiscal year. The Legislature did not pass this supplemental budget before it recessed at the end of July. It is likely that the Legislature will have to provide supplemental funding for EA during FY 2017 because the cost of providing shelter for families who are homeless and eligible for shelter will likely exceed the amount appropriated in the FY 2017 budget.

The budget does not include a provision that would have eased eligibility restrictions for the EA shelter program. In recent years, the state has limited low-income, homeless families' access to EA shelters. (A full discussion of EA eligibility rules is available in MassBudget's Children's Budget [HERE](#).) Because of these restrictions, some homeless families have had to live in places not meant for human habitation, like a park, a car, or a hospital emergency room, before they would be eligible for shelter. The Senate included language in its budget that required the Department of Housing and Community Development (DHCD) to provide EA shelter to families who would otherwise have to sleep in such places. DHCD is setting up procedures to prevent families, who are applying for EA shelter, from having to live in unsafe places before they can move into shelter.

The FY 2017 budget provides \$85.3 million for the **Massachusetts Rental Voucher Program (MRVP)** which is \$5.6 million below the amount appropriated in the FY 2016 current budget. The Governor vetoed \$2.6 million from the program but the Legislature overrode his veto. Over the past several years, the state increased funding for this program to allow DHCD to create new vouchers, some of which low-income homeless families use to move out of shelter and into permanent housing. The

budget does not include a recommendation, made in both the final House and Senate budgets, to transfer over \$14 million in unspent funds from FY 2016 to FY 2017. This amount would have allowed DHCD to create 350-400 new vouchers according to House and Senate estimates.

The FY 2017 budget provides small increases for a few housing programs including:

- \$47.5 million for **shelter and services to homeless individuals**, including \$2.0 million for the Home and Healthy for Good program that helps individuals who have been chronically homeless. The Legislature overrode a \$1.4 million veto that the Governor made to both the account assisting homeless individuals as well as to the Home and Healthy for Good program. Total funding for these two programs is \$860,000 more than the FY 2016 budget.
- \$65.0 million for subsidies for [public housing authorities](#), which is a \$500,000 increase above FY 2016.
- \$13.0 million for [Residential Assistance for Families in Transition \(RAFT\)](#), which is \$500,000 above FY 2016 levels.

The FY 2017 budget does not include a number of new initiatives proposed by either the House or Senate in their respective budgets. Of these:

- The Governor vetoed an outside section of the Legislature's budget directing the **Interagency Council on Housing and Homelessness** to create a memorandum of understanding with the Secretaries of Housing and Economic Development, Health and Human Services, Education, and Labor and Workforce Development requiring the four secretariats to work together to coordinate services for low-income households that are facing economic instability and homelessness. The Legislature did not override the veto.
- The Legislature's budget did not include a proposal that the Senate recommended, which would have expanded the **state's housing courts** from five to six.
- The Legislature's budget did not include a House recommendation to create a commission to look into how the state could help to provide **economic mobility and financial stability** for families and individuals with very low incomes.

For funding levels for all housing programs, please see the Housing subcategory of MassBudget's *Budget Browser* [HERE](#).

For a full list of vetoes and overrides in Housing programs, please see the spreadsheet linked [HERE](#) and filter in the column entitled "Subcategory" for Housing.

Economic Development

In Massachusetts, we support workforce and business development programs in order to boost the skills of working people and stimulate economic growth. The Fiscal Year (FY) 2017 budget funds economic development at \$144.2 million, \$8.7 million (5.7 percent) below current FY 2016 levels. These reductions would have been steeper, but the Legislature overrode \$32.0 million of the Governor's \$32.4 million budget vetoes for economic development.

The FY 2017 budget reduces spending to the following workforce development accounts:

- [One-Stop Career Centers](#) receive \$4.0 million, which is \$500,000 (11.1 percent) below current FY 2016 spending levels. These centers help job seekers, particularly those receiving unemployment insurance, improve their skills, and navigate the job search process.
- [Workforce Competitiveness Trust Fund](#) (WCTF) receives \$1.0 million. This fund receives periodic deposits at the discretion of the Legislature. The most recent deposits were in 2016 for \$2.2 million and in 2013 for \$5.2 million, in inflation-adjusted dollars. Specific objectives of WCTF include supporting the unemployed to find suitable employment and improving employment opportunities for low-income individuals and low-wage workers.
- [YouthWorks](#) receives \$10.2 million, which is \$1.5 million (12.8 percent) below current FY 2016 spending levels. YouthWorks pays for the salaries of low-income and at-risk youth living in targeted communities for summer and some year-round jobs.

However, the FY 2017 budget also adds \$320,000 (9.2 percent) over current FY 2016 spending levels to the **Mass. Service Alliance**, which administers State Service Corps grants and provides training and support to volunteer and service organizations. The Governor vetoed \$2.4 million for this program, which represents more than 60 percent of the total in the Legislature's budget. The Legislature overrode this veto.

The FY 2017 budget also adds two small, new workforce development programs. First, the [Re-entry Demonstration Workforce Development Program](#), proposed in the Governor's budget, receives \$250,000. This program provides workforce development and supportive services to individuals transitioning from a correctional facility. Second, the [Digital Health Internship Incentive Fund](#), first proposed in the Senate's budget, receives \$100,000. This creates a new trust fund to prepare college and graduate students for careers in digital health fields such as e-health, cyber, and IT security, and integrated photonics. The Governor had vetoed this account, but the Legislature overrode the veto.

Finally, the **Mass. Office of Travel and Tourism** (MOTT) receives \$13.0 million, which is \$773,000 below current FY 2016 spending levels. Roughly, two-thirds of MOTT funding supports various local tourism projects throughout the Commonwealth. The remaining \$4.0 million comes from a change in the funding tourism formula. The budget transfers \$10.0 million in room occupancy tax revenue (from hotel room taxes) to the [Massachusetts Tourism Trust Fund](#), an entity the Legislature previously created and that will go into effect later this year. The FY 2017 budget amends the current statute by directing the \$10.0 million to the fund and adjusting the distribution of funding to 40 percent (\$4.0 million) to MOTT and 60 percent (\$6.0 million) to the Regional Tourism Councils. As shown below, the Legislature's budget for tourism is roughly \$782,000 below current FY 2016 levels.

The Governor vetoed both on-budget and off-budget tourism spending; however, the Legislature overrode those vetoes. See the table below for the net differences in funding between FY 2016 current spending and FY 2017 budget.

TOURISM FUNDING

| Line Item # | Name | FY 2016 Current | FY 2017 Budget On Budget | FY 2017 Budget Off Budget | FY 2017 Budget Totals | Difference: FY 2017 |
|--------------|------------------------------|--------------------|-----------------------------|------------------------------|--------------------------|---------------------------------|
| | | | | | | Budget minus FY 2016 Current |
| 7008-0900 | MOTT | 13,752,924 | 8,979,666 | 4,000,000 | 12,979,666 | (773,258) |
| 7008-1000 | Regional Tourism Councils | 6,000,000 | 0 | 6,000,000 | 6,000,000 | 0 |
| 7008-1300 | Mass. Intern'l Trade Council | 123,375 | 114,900 | 0 | 114,900 | (8,475) |
| TOTAL | | 19,876,299 | 9,094,566 | 10,000,000 | 19,094,566 | (781,733) |

For a full list of vetoes and overrides in Economic Development accounts, please see the spreadsheet linked [HERE](#) and filter in the column heading entitled "Subcategory" for Economic Development.

LAW & PUBLIC SAFETY

Overall, funding levels provided in the Fiscal Year (FY) 2017 General Appropriations Act (GAA) for Law & Public Safety (L&PS) programs total \$2.64 billion. The Governor vetoed a total of \$34.1 million from these accounts, imposing line-item reductions on 87 L&PS accounts. The Legislature overrode many of the Governor's reductions, restoring \$24.1 million to L&PS accounts. Many of the larger dollar-amount reductions that were not overridden were those that reduced funding for **Sheriff's Department** accounts, which together lost \$5.4 million to vetoes.

Overall, the GAA total for L&PS accounts is \$89.9 million (3.3 percent) below current FY 2016 funding levels. However, in an FY 2017 supplemental appropriations bill recently submitted by the Governor, L&PS accounts receive an additional \$74.0 million, almost all of which is directed toward underfunded accounts. The Legislature has yet to act on this bill, but if it is adopted, total FY 2017 funding then would fall below current FY 2016 levels by a substantially smaller amount: \$15.9 million rather than \$89.9 million.

Elements of the FY 2017 GAA present still further challenges in making apples-to-apples comparisons with FY 2016 funding levels. In particular, the GAA includes a \$40.6 million reduction relative to current FY 2016 funding levels for **Private Counsel Compensation (PCC)**, an account that typically is replenished mid-year through supplemental appropriations. As provision of legal defense for indigent defendants is constitutionally required, this account *ultimately has to* be funded. It therefore is very likely - given the apparent underfunding in the GAA - that this account will receive significant mid-year supplemental funding. Indeed, the Governor already has submitted a FY 2017 supplemental funding bill that would deliver an additional \$42.0 million to the PCC account, though the Legislature has yet to act on this request. The Administration believes this additional funding will fully fund the account for the fiscal year. Best budgeting practices would encourage including the full, anticipated cost for all programs as part of the annual budget, rather than assuming supplemental appropriations will be provided mid-year.

FUNDING FOR LAW & PUBLIC SAFETY ACCOUNTS

| Subcategory | FY 2016 Current | FY 2017 GAA | Difference: FY17 GAA - FY16 Current |
|-----------------------------|----------------------|----------------------|---|
| Courts & Legal Assistance | 738,128,768 | 702,562,347 | (35,566,421) |
| Law Enforcement | 382,639,892 | 390,878,575 | 8,238,683 |
| Prisons, Probation & Parole | 1,385,066,585 | 1,322,026,520 | (63,040,065) |
| Prosecutors | 161,233,756 | 164,585,246 | 3,351,490 |
| Other Law & Public Safety | 60,553,259 | 57,640,002 | (2,913,257) |
| TOTAL | 2,727,622,260 | 2,637,692,690 | (89,929,570) |

The overall decline in FY 2017 L&PS funding also includes a substantial reduction in total funding for **sheriffs' accounts** compared to current FY 2016 levels. As mentioned above, many of these accounts were reduced relative to the Legislature's FY 2017 budget due to vetoes from the Governor that were not overridden by the Legislature. Like the PCC account, however, the sheriffs often receive mid-year supplemental funding and it is likely they too will need and receive this supplemental funding in FY 2017. Should this prove true, the current appearance of a significant "funding drop" from FY 2016 to FY 2017 in these accounts would not be an accurate picture of ultimate funding differences between the two years. Bearing this in mind, relative to current FY 2016 funding levels, the FY 2017 GAA underfunds total sheriffs' accounts by some \$53.5 million. Notably, the Governor already has proposed \$28.0 million in supplemental FY 2017 funding for the sheriffs' reserve account, which the Administration believes is sufficient to fully fund the account for the fiscal year. Though again, the Legislature has yet to act on this request.

With passage of the FY 2017 GAA, the Legislature adopted provisions that will bring Massachusetts identification cards and licenses into compliance with requirements of the federal [REAL ID Act of 2005](#), overseen by the U.S. Department of Homeland Security. A primary element of the REAL ID program is the requirement that states verify documentation regarding the lawful residency - either U.S. citizenship or immigration status - of applicants prior to issuing REAL ID compliant licenses and identification cards. Under the adopted provisions, the Massachusetts registrar will continue to be able to issue *state-only* licenses and identification cards (i.e., licenses and ID cards that are not REAL ID compliant) to applicants "who provide documentation and demonstrate qualifications acceptable to the registrar" (see [Acts of 2016, Chapter 172](#)).

Under the approved provisions, the registrar will be permitted to issue REAL ID compliant licenses to non-U.S. citizens if they will be residing lawfully in Massachusetts for more than 12 months, though the expiration date of the license/ID must match the individual's documented departure date (and cannot exceed 60 months, in any case). If no documentation of departure date is provided, the expiration date of the REAL ID compliant license/ID will be no later than 12 months from the date of issuance. The Governor recommended an amendment to this section - that the Legislature adopted - that specifies that "no license of any type may be issued to any person who does not have lawful presence in the United States" (see [Acts of 2016, Chapter 172](#)).

As of October 2015, REAL ID compliant identification - or any one of a number of other official documents, including military IDs and passports - is required to enter many federal facilities. Starting in January of 2018, any of a similar set of IDs will be required for domestic air travel (though almost all states have received an extension to 2020 for compliance on this aspect of the REAL ID program). State-

only IDs (i.e., licenses and ID cards that are not REAL ID compliant) will not allow holders to enter many federal facilities or fly domestically.

Also in an outside section, the GAA includes a provision that will allow the [Committee for Public Counsel Services](#) to waive the cap on billable hours for private counsel working in the children and family law program, if there is limited availability of qualified counsel in that area of practice or if the use of private counsel is deemed most cost effective.

For a full list of vetoes and overrides in Law & Public Safety accounts please see the attached spreadsheet [HERE](#) and filter in the column heading entitled “Category” for Law & Public Safety accounts.

LOCAL AID

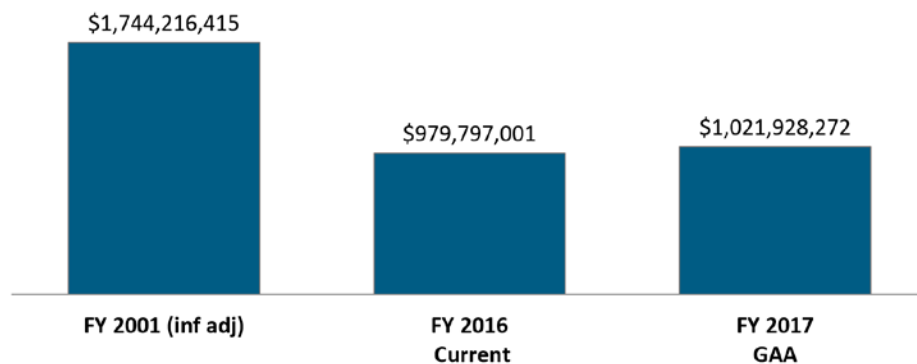
General Local Aid

The Fiscal Year (FY) 2017 budget includes \$1.02 billion for **Unrestricted General Government Local Aid**, a \$42.1 million increase (4.3 percent) over current FY 2016 levels. This is the same amount proposed by the Governor, the House, and the Senate.

General local aid helps cities and towns fund vital local services such as police and fire protection, parks, and public works. For more information on general local aid, please see MassBudget’s [Demystifying General Local Aid in Massachusetts](#).

The Commonwealth’s capacity to fund general local aid has been hindered by a series of significant state-level tax cuts during the late 1990s and 2000s combined with the Great Recession. While over the past several years, general local aid funding has increased in step with or slightly above the rate of inflation, it still remains 41.4 percent below the FY 2001 amount, after adjusting for inflation.

General Local Aid has been cut over 41% since 2001
Adjusted for inflation



Other Local Aid

Some cities and towns receive other forms of non-education local aid, but these categories represent much smaller total amounts and only go to a subset of qualifying cities and towns.

The Fiscal Year (FY) 2017 budget provides \$11.4 million for the **Municipal Regionalization and Efficiencies Incentive Reserve**, a compromise between the House and Senate that generally combined both chambers' proposals. The Governor's vetoes would have reduced spending on programs and local projects in this line item by \$8.0 million. The Legislature, however, overrode those vetoes. The final amount is about \$532,000 more than the current FY 2016 budget levels. More specifically, the program provides:

- \$3.4 million for a competitive **public safety grants** program for populous communities with low per-capita police funding.
- \$2.8 million for continuing a **District Local Technical Assistance Fund** administered by the Division of Local Services within the Department of Revenue.
- \$2.3 million for a set of locally targeted projects, such as public safety, bridges, school improvements, and technology upgrades.
- \$2.0 million to fund a competitive grants program for **regionalizing services or planning**.
- \$1.0 million for the **Community Compact** incentive program to support best local practices.

For a full list of vetoes and overrides in local aid accounts please see the spreadsheet linked [HERE](#) and filter in the column heading entitled "Category" for Local Aid.

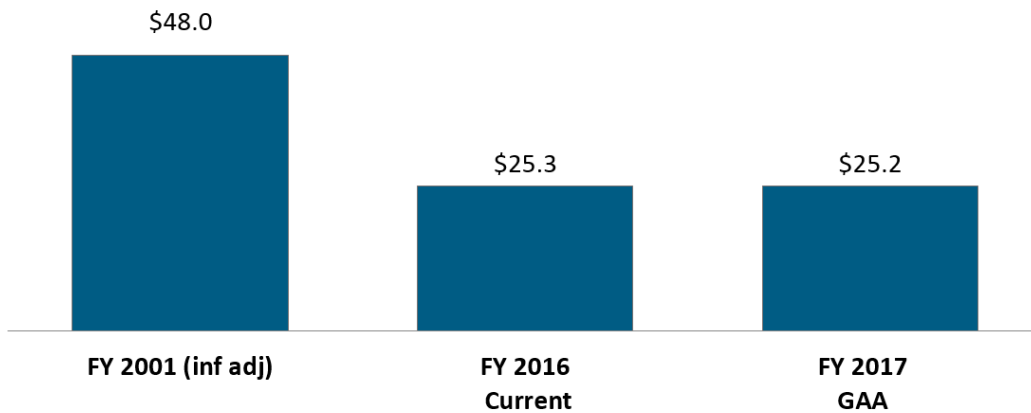
OTHER

Libraries

Overall, the Fiscal Year (FY) 2017 General Appropriations Act (GAA) provides \$25.2 million to fund libraries, a drop of \$158,000 (0.6 percent) from current FY 2016 levels. The Governor vetoed \$450,000 from library accounts, all but \$34,000 of which was restored by the Legislature. When the effects of inflation are taken into account, the relatively small percentage drop (0.6 percent) in nominal funding levels presents a larger challenge for library administrators.

More notable than the difference between the FY 2017 GAA funding levels and current FY 2016 funding levels, however, is the very steep drop in annual state support for libraries since FY 2001. Where libraries received \$48.0 million in FY 2001 (adjusted for inflation), in FY 2016 they currently are receiving \$25.3 million, a decline in annual funding of \$22.6 million or 47.2 percent.

Library funding has been cut dramatically since FY 2001 (\$ millions)



For a full list of vetoes and overrides in Other accounts please see the attached spreadsheet [HERE](#) and filter in the column heading entitled “Category” for Other.

Pensions

The FY 2017 budget makes the Commonwealth’s scheduled \$2.169 billion payment to the Pensions Reserves Investment Trust (PRIT) Fund, along with an additional contribution to cover the added costs associated with the Commonwealth’s recent early retirement program.

The early retirement program – in which almost 2,500 employees chose to participate – brings more retirees into the system sooner than previously anticipated. To offset the additional pension costs associated with the early retirement program, the annual contributions to the PRIT will need to increase by \$29 million going forward. Taking this added cost into account, the total FY 2017 contribution to the PRIT is \$2.198 billion. (The FY 2017 budget also establishes a process for providing retired state employees and teachers with a 3 percent cost of living adjustment on the first \$13,000 of their pension benefits.)

The specific amounts to be contributed annually by the Commonwealth to the PRIT are stipulated in Massachusetts General Law, with a five-year schedule included therein, currently running from FY 2012 through FY 2017. The schedule of annual pension contributions is updated every three years by the Secretary of Administration and Finance, drawing on the most recent actuarial valuation report. The Secretary of Administration and Finance will update the schedule again in early 2017.

Assets held and managed within the PRIT are designated to fund the anticipated retirement costs of current state employees, as well as the current and future retirement costs of now-retired former employees. The funds in the PRIT come from three sources: required pension contributions made by employees, the Commonwealth’s contributions toward employee pensions, and the investment returns generated from the PRIT (to learn more about the Massachusetts state pension system, see MassBudget’s report “[Demystifying the State Pension System](#)”).

REVENUE AND BUDGET BALANCE

Perhaps the largest challenge this year for budget writers was the realization, very late in the budget process, that the revenues available to support Fiscal Year (FY) 2017 spending were likely to fall well below the Consensus Revenue Estimate (CRE) of \$26.86 billion (the amount upon which earlier FY 2017 budget proposals had been based). The Legislature's FY 2017 budget assumed tax revenues of \$26.11 billion, a drop of \$750.0 million, which they addressed through a combination of draws on one-time revenues, savings, and line-item reductions. (For details see the Revenue section of the [Legislature's FY 2017 Budget Monitor](#)). While the Legislature's budget generally funded the appropriations it called for, it underfunded a number of accounts that would need to be funded eventually – meaning that there remained a gap that ultimately would need to be filled.

The Governor responded to the Legislature's budget with a list of vetoes and amendments. Among the reasons for these vetoes was the goal of freeing up revenue which then could be re-appropriated to what appear to be underfunded accounts. The Governor identified a total of \$172.0 million in underfunded accounts and has since presented the Legislature with a supplemental appropriations request. In addition to the goal of freeing up revenue for underfunded accounts, news reports at the time of the vetoes indicate the Administration was concerned that FY 2017 tax revenue could fall \$838 million below the original consensus revenue estimate (that is, \$88 million below the \$750 million shortfall with which the Legislature had been working). Finally, at the time of the vetoes the Administration estimated that there were about \$30 million of deficiencies in the budget other than those addressed in the supplemental budget and that the non-tax revenue estimate was about \$63 million too high.

During the year, projections for tax revenue, non-tax revenue, and spending fluctuate based on what is happening in the economy, changes in federal policy, and other factors. To acknowledge these uncertainties we present our shortfall estimates as ranges that take into account the amounts listed above. Thus, in the "Governor Final" column of the "New Challenges" table (see below), we show "problems" totaling between \$973.5 million and \$1,154.5 million. These amounts include the \$750 million shortfall first addressed in the Legislature's budget. Thus, the *additional* shortfall (above and beyond the \$750 million shortfall) identified and addressed by the Governor ranges from \$223.5 million to \$404.5 million. In total, the Governor's vetoes resulted in a reduction in net state spending of some \$247 million. The Administration also is expecting to generate an additional \$100 million in cost reductions through hiring freezes, salary caps, and other active cost control measures. Taking all the various "solutions" into account, the total of the Governor's Final column shows a range from a \$57.5 million shortfall to a \$123.5 million surplus for FY 2017.

The Fiscal Year (FY) 2017 General Appropriations Act (GAA) overrides all but \$35.5 million of the Governor's vetoes. (Note: The GAA -- the final budget agreement for each fiscal year -- is simply the amalgamated, end result of the Legislature's budget coupled with any of the Governor's vetoes not overridden and any amendments adopted by the Legislature.) At the same time, the Legislature has not yet approved the Governor's request for supplemental FY 2017 funds for the several accounts that appear to be underfunded both in the Legislature's budget and in the FY 2017 GAA (for example, Private Counsel Compensation, Sheriff's Departments, Emergency Shelter Assistance, and MassHealth).

As the "New Challenges" table below indicates, the FY 2017 GAA appears to have a budget gap of somewhere between \$36.5 million to \$129.5 million, assuming that the tax revenue shortfall is \$750

million. (While the administration used a larger estimate of the revenue shortfall at the time it filed its vetoes, there appears now to be a consensus that \$750 million should be the working estimate unless economic circumstances require an official change to the revenue estimate.) If the current revenue estimate (of \$26.11 billion, which includes the \$750 million downgrade) proves to be too optimistic, then this gap would grow. If the current estimate proves to be too pessimistic, with FY 2017 tax revenues coming in better than currently expected, the gap would shrink.

A variety of strategies are employed to address the downwardly adjusted revenues estimates that occurred in June 2016 and opened up the then-estimated \$750 million shortfall. The “New Challenge” table below lists both the problems addressed and the solutions used in each budget: the Legislature’s FY 2017 budget, the Governor’s final budget (including both vetoes and proposed supplemental funding), and the GAA. The table is followed by a set of brief bullet points describing problems and strategies. For more detailed discussions of these and other strategies used in the FY 2017 GAA, see the Tax Revenues, Non-Tax Revenues, and Other Temporary Budget-Balancing Strategies sections that follow, below.

| NEW FY 2017 BUDGET BALANCE CHALLENGES, POST HOUSE & SENATE BUDGETS (\$ millions) | FY 2017 Legislature | FY 2017 Governor Final* | FY 2017 GAA** |
|---|--------------------------------|------------------------------------|-------------------------|
| Problems Addressed | | | |
| Projected tax revenue shortfall | (750.0) | (750.0 - 838.0) | (750.0) |
| Underfunded accounts | 0.0 | (172.0) | (172.0) |
| Funding add'l OPEB amount | 0.0 | (51.5) | 0.0 |
| Add'l potentially underfunded accounts | 0.0 | (0 - 30.0) | (0 - 30.0) |
| Possible over-estimate of non-tax revenues | 0.0 | (0 - 63.0) | (0 - 63.0) |
| Subtotal | (750.0) | (973.5 - 1154.5) | (922.0 - 1015.0) |
| Solutions | | | |
| Elimination of projected capital gains deposit into Stab. Fund | 206.0 | 206.0 | 206.0 |
| Assume auto PIT rate trigger will not be activated | 79.0 | 79.0 | 79.0 |
| Reduced transfer to School Building Authority SMART Fund | 32.4 | 32.4 | 32.4 |
| Reduced transfer to MBTA | 29.2 | 29.2 | 29.2 |
| Net MassHealth savings | 72.9 | 72.9 | 72.9 |
| Add'l line-item reductions made by Legislature | 180.5 | 180.5 | 180.5 |
| Spending of anticipated FY 2017 end-of-year reversions | 100.0 | 100.0 | 100.0 |
| Add'l FY 2017 end-of-year reversions through active management | 0.0 | 100.0 | 100.0 |
| Updated revenue assumptions | 50.0 | 50.0 | 50.0 |
| Net state spending reductions through vetoes | 0.0 | 247.0 | 35.5 |
| Subtotal | 750.0 | 1,097.0 | 885.5 |
| TOTAL | 0.0 | (57.5) - 123.5 | (129.5) - (36.5) |

* The totals in the FY 2017 Governor Final column show the Governor’s recommendations incorporating his vetoes combined with his proposed FY 2017 supplemental budget legislation (H.4506).

** Because the legislature did not act on an amendment from the Governor, the GAA technically funds the OPEB contribution at the statutorily required level of \$128.8 million and funds that from general revenue – which adds \$128.8 million to the gap. But both the Governor and the Legislature had proposed funding this at lower levels and using reversions to provide the funding, so we assume that this item will ultimately be funded with reversions and therefore don’t add this \$128.8 million to the “problems” list.

- The Legislature’s budget included \$25.8 million for “**other post-employment benefits**” (“**OPEB**”) for state retirees, paid from debt reversions. The Governor proposed an amendment to this language that would have increased the OPEB contribution by \$51.5 million to \$77.3 million. Because the Legislature failed to act on the Governor’s recommendation, the FY 2017 GAA contribution reverts to the statutorily required amount of \$128.8 million, paid for out of general revenue. Because both the Legislature and the Governor intended to fund this obligation at lower than the statutory amount, and because both intended to pay for this with debt reversions, it is likely that this current \$128.8 million FY 2017 revenue challenge will be resolved over the course of the fiscal year. Therefore we don’t include it in the chart above.
- Elimination of an anticipated \$206.0 million deposit to the state’s Stabilization (“Rainy Day”) Fund. With lowered expectations for FY 2017 capital gains tax collections, the Legislature assumes that a previously projected, automatic deposit of “excess” capital gains revenue into the Stabilization Fund will no longer take place (see below for a more detailed discussion).
- A \$79.0 million savings from assuming that lower-than-expected FY 2016 revenue growth will prevent an automatic reduction in the state’s personal income tax rate (from the current 5.10 percent to 5.05 percent).
- A \$61.6 million savings (\$32.4 million + \$29.2 million) from reduced transfers from the General Fund to the School Building Authority’s SMART Fund and to the MBTA. (These transfers occur as a matter of law, with the specific transfer amounts determined as a share of total annual sales tax revenues. With lowered projections for sales tax revenues in FY 2017, transfers to these two accounts likewise would decline, producing the “savings” listed in the table, above.)
- A \$72.9 million assumed net MassHealth savings, due to a combination of funding reductions, and payment deferrals, as offset by reduced federal reimbursement (see MassHealth and Health Reform section of this *Budget Monitor*.) For the line items that the Legislature has underfunded, it may be necessary to provide supplemental funding over the course of the year.
- Approximately \$180.5 million in additional line item reductions incorporated into the Legislature’s budget, as compared to prior budget proposals.
- Spending \$100.0 million in assumed end-of-year “reversions” (money appropriated to specific accounts but that budget writers are assuming will go unspent and thus will be available to supplement other accounts late in the fiscal year.
- An additional \$100.0 million in expected reversions of budgeted funds that will come from active savings initiatives such as hiring freezes, payroll caps, and other spending controls.
- Approximately \$50.0 million in new non-tax revenues identified by the Legislature.

Overview of Revenue and Temporary Budget Solutions

Earlier FY 2017 budget proposals from the Governor, House, and Senate all were based on the original FY 2017 CRE (\$26.86 billion), and yet all still used significant one-time and temporary revenue sources to bring their proposals into balance. The FY 2017 GAA adopts all of these earlier budget balancing

strategies (increasing its reliance on some), while also bringing still other strategies into play in order to achieve balance.

The GAA draws on a total of \$742.1 million in one-time and temporary sources in order to achieve balance – in other words, sources that will not be replenished with new revenues beyond FY 2017 (see table, below). Such temporary revenue sources are useful for balancing the budget only in the current fiscal year, and their use most often adds to the challenge of balancing the budget in future years. (To read more about the projected FY 2017 budget gap as understood when budget writers were headed into this year’s budget season, see [MassBudget's FY 2017 Budget Preview](#).)

Among the “other temporary budget-balancing solutions” is the underfunding of several accounts that likely will require significant supplemental, mid-year funding. This too is problematic. Best budgeting practices would include fully funding these accounts as part of the initial budget, rather than assuming that additional funding will be provided mid-year. (The Governor already has proposed supplemental funding to address a substantial portion of this underfunding but the Legislature has not yet acted on his request.)

| FY 2017 TEMPORARY REVENUES & SAVINGS (\$ millions) | FY 2017 Legislature | FY 2017 Governor Final* | FY 2017 GAA |
|---|------------------------|-------------------------------|--------------|
| TAX REVENUES | | | |
| Cap on the Life Sciences tax credit | 5.0 | 5.0 | 5.0 |
| Portion of capital gains revenue diverted from Stabilization Fund | 150.0 | 150.0 | 150.0 |
| SUBTOTAL | 155.0 | 155.0 | 155.0 |
| NON-TAX REVENUES | | | |
| Civil litigation revenue | 20.0 | 20.0 | 20.0 |
| Court house sale | 30.0 | 30.0 | 30.0 |
| Transfer from the Delivery System Reform Trust | 73.5 | 73.5 | 73.5 |
| Transfers from human services trust funds | 12.7 | 12.7 | 0.0 |
| SUBTOTAL | 136.2 | 136.2 | 123.5 |
| OTHER MAJOR TEMPORARY BUDGET-BALANCING STRATEGIES | | | |
| Postponing MassHealth payments until FY 2018 (net of revenue loss) | 19.7 | 19.7 | 19.7 |
| Underfunding of Emergency Assistance | 26.0 | 0.0 | 26.0 |
| Underfunding of MassHealth | 25.0 | 0.0 | 25.0 |
| Underfunding of Private Counsel Compensation | 42.0 | 0.0 | 42.0 |
| Underfunding of Sheriffs' accounts | 27.5 | 0.0 | 22.1 |
| Using debt reversions to fund the State Retiree Benefits Trust** | 25.8 | 72.5 | 25.8 |
| Not funding the full required deposit to the State Retiree Benefits Trust** | 103.0 | 51.5 | 103.0 |
| Reversions and cash mgt initiatives*** | 100.0 | 200.0 | 200.0 |
| SUBTOTAL | 369.0 | 343.7 | 463.6 |
| TOTAL | 660.2 | 634.9 | 742.1 |

* The totals in the FY 2017 Governor Final column show the Governor’s recommendations incorporating his vetoes, combined with his proposed FY 2017 supplemental budget legislation (H.4506).

** MassBudget assumes that the Legislature will amend the GAA such that its OPEB funding mechanism will match that included in the Legislature's FY 2017 budget.

*** The second \$100 M (see Gov. Final and GAA columns) will be achieved through hiring freezes, payroll caps and other spending controls. MassBudget assumes most or all of these will prove to be temporary in nature, particularly given that the recent Early Retirement program already has reduced staff totals by more than 2,500 people. It is possible, however, that these strategies will produce ongoing cost reductions and thus would not be a "one-time" solution.

Tax Revenues

The starting point for every state budget is the Consensus Revenue Estimate (CRE). The Fiscal Year 2017 CRE figure agreed to by the Administration, the House, and the Senate was \$26.86 billion. As described above, however, with FY 2016 collections falling short and projections for FY 2017 collections likewise downgraded, the FY 2017 GAA assumes \$750.0 million less in revenue than originally anticipated. It thus is built around a tax revenue total of \$26.11 billion.

The various strategies, old and new, used to close the gap between anticipated tax revenue collections and budgetary spending are discussed in greater detail, below.

Strategies Affecting One-Time Tax Revenues

Diverting Capital Gains Taxes from the Stabilization Fund to the General Fund

Capital gains income tax collections that exceed an annually adjusted threshold (\$1.128 billion for FY 2017) are designated by law for deposit into the Stabilization Fund rather than being made available for budgetary appropriation. The FY 2017 GAA adjusts that threshold upward, requiring instead deposit to the Stabilization Fund only of capital gains income taxes that exceed \$1.278 billion (rather than above the \$1.128 billion threshold). With this change, the GAA makes available an additional \$150.0 million to support the FY 2017 operating budget (an approach also taken in the Governor's, the House's, and the Senate's budgets). In effect, this is similar to making a draw of \$150.0 million on the Stabilization Fund to help balance the FY 2017 budget.

Notably, because capital gains income tax revenue had been expected to total \$1.484 billion in FY 2017, all earlier budget proposals (Governor, House and Senate) planned to make a \$206 million deposit into the Stabilization Fund (\$1.484 billion - \$1.278 billion = \$206 million). The GAA instead assumes the Commonwealth will collect less in capital gains income taxes – \$1.278 billion rather than \$1.484 billion. (Declining capital gains revenue is an important element driving the estimated \$750.0 million or greater shortfall in FY 2017.) As a result, having set the deposit threshold at \$1.278 billion, the GAA assumes no deposit will be made to the Stabilization Fund. In effect, this offsets \$206.0 million of the projected FY 2017 revenue shortfall by assuming an otherwise expected \$206.0 million deposit to the Stabilization Fund won't be made.

Life Sciences Cap

The FY 2017 GAA limits the amount of funding to be transferred from the state's General Fund to the Massachusetts Life Sciences Fund. This limit on the funding available for distribution through the Massachusetts Life Sciences Credit program is expected to save \$5.0 million in FY 2017. This fund supports the cost of a corporate tax credit program that is intended to incentivize companies involved in "life sciences research and development, commercialization and manufacturing" to create and retain full-time permanent jobs within the Commonwealth. Companies must apply for and be awarded these credits, but credits are available only to the extent that funds are available.

Strategies Affecting Ongoing Tax Revenues

Automatic Personal Income Tax Rate Reduction

A number of assumptions had been “baked into” the original FY 2017 CRE (\$26.860 billion), including the revenue losses associated with several different tax cuts. These tax cuts included the automatic reduction in the tax rate on personal income that occurred January 1st, 2016 (from 5.15 percent to 5.10 percent), as well as the assumption that *another* automatic rate reduction would occur half way through the 2017 fiscal year (dropping the rate from 5.10 percent to 5.05 percent). Given that these automatic rate cuts only occur when certain conditions are met (including sustained revenue growth in the quarters preceding each New Year) and that FY 2016 revenue growth has been weaker than expected, it now appears likely that there will not be a further rate cut come January 1st, 2017. (For a more detailed discussion see MassBudget’s [Automatic Income Tax Rate Cuts: FAQ.](#))

The GAA assumes that this further rate cut will not occur, which if true, will prevent the (until recently) expected loss of some \$79.0 million in tax revenue during FY 2017. As a result, this \$79.0 million helps to close a portion of the \$750.0 million revenue hole. (The original FY 2017 CRE also took into account the recent increase in the value of the state’s Earned Income Tax Credit, as well as other smaller tax changes. The impact of these changes on FY 2017 collections will not be affected by downward revisions in projected FY 2016 and FY 2017 revenues.)

Funding Cuts to the Department of Revenue

Among its other activities, the Department of Revenue (DOR), through its Office of Tax Administration, makes sure that taxpayers are paying taxes they legally owe to the state. DOR hires auditors and collectors who identify taxes legally owed to the state that have not yet been paid, and works with taxpayers to collect these unpaid taxes. These activities are funded through two primary accounts including the DOR administrative account (1201-0100) and the Additional Auditors Retained Revenue account (1201-0130).

The GAA funds DOR’s tax activities at \$104.4 million, which is \$16.9 million (or 13.9 percent) less than the FY 2016 current budget amount of \$121.3 million. (This FY 2017 GAA total includes a \$1.0 million veto by the Governor that was not overridden by the Legislature.) Notably, current FY 2016 funding levels already have been reduced by \$1.5 million from the levels approved in the FY 2016 GAA due to mid-year emergency 9C cuts implemented by the Governor. Relative to FY 2016 GAA funding levels, the FY 17 GAA is still more severe (a 14.1 percent reduction).

FUNDING FOR DEPARTMENT OF REVENUE

| Line Item # | Line Item Name | FY 2016 Current (in FY 2017 GAA structure) | FY 2017 GAA | Difference: FY17 GAA - FY16 Current |
|-------------|--------------------------------------|--|-------------|---|
| 1201-0100 | Department of Revenue | 93,323,535 | 76,436,443 | (16,887,092) |
| 1201-0130 | Additional Auditors Retained Revenue | 27,938,953 | 27,938,953 | (0) |
| TOTAL | | 121,262,488 | 104,375,396 | (16,887,092) |

*Budget proposals sometimes shift the allocation of funding among line items. The chart above presents those proposals in the FY 2016 funding structure to make comparisons easier.

A substantial portion of the proposed cut reflects anticipated personnel reductions, as more than 220 DOR employees took part in the Commonwealth’s early retirement program. The combined salaries of

these retiring DOR employees totals \$19.0 million. While DOR will fill a portion of the vacated positions, a significant share of the positions will remain unfilled. Large staff reductions can have implications for DOR's ability to identify and collect all the taxes owed to the Commonwealth, such as those that lead to large tax settlements. As described in the Large Settlements & Judgments section (above), the Commonwealth relies on such large settlements both to fund annual operating expenses and to build reserves in our Stabilization Fund.

Auditors and collectors recover far more in unpaid taxes than they earn in salaries and benefits. During debate on the FY 2014 budget, a legislative proposal recommended a \$3.6 million cut in DOR's budget, which the Department estimated would cause the layoff of 60 full time positions, resulting in the loss of almost \$50 million in revenue.

The reduced funding levels for DOR in the FY 2017 GAA could result in the loss of tens of millions of dollars in revenue—or more—in FY 2017 and beyond. Moreover, if vacated positions are not filled in future years (which will require reversing some or all of the recent cuts), there is a danger that the cuts not only could reduce permanently the Commonwealth's *ability* to collect unpaid taxes that are legally owed to the state, but also that such cuts could engender greater levels of tax *evasion*. If sophisticated, well-financed individual and corporate taxpayers come to view DOR's audit and collection capacities as permanently degraded, some of these taxpayers could see this as an opportunity to reduce their tax payments through increased levels of tax evasion or other forms of non-compliance.

Non-Tax Revenue

The FY 2017 GAA relies on many of the same non-tax revenues as the House and Senate proposals did, however, there are some significant new strategies for balancing the budget.

There are three main types of non-tax revenue that support the state budget: federal revenues, which are mostly reimbursements from the federal government for state spending on the Medicaid (MassHealth) program; departmental revenues, which are fees, assessments, fines, tuition, and similar receipts; and what are known as "transfer" revenues, which include lottery receipts, revenues from the newly-licensed gambling facilities, and funds that the state draws from an assortment of non-budgeted trusts.

There are several non-tax revenue proposals that come from temporary initiatives and help to balance the budget. These include:

- The Commonwealth plans on selling the **Sullivan Court House** in East Cambridge in FY 2017; this would bring in approximately \$30 million in one-time revenue.
- The budget counts on \$73.5 million coming to the General Fund from the health care provider assessments generated in the **Delivery System Reform Initiative** (see MassHealth and Health Reform section of this *Budget Monitor*.)
- The Legislature proposed transferring \$12.7 million remaining in several **human services trust funds** to the General Fund to help balance the budget. These "trust sweeps" are uses of surplus funds that are available only on a one-time basis. However, the Governor returned that proposed outside section of the budget with technical revisions, and the Legislature failed to act

on the Governor's proposal. Accordingly, there are no "trust sweeps" currently included in the FY 2017 GAA.

- In late June, the Attorney General announced that a **major settlement with Volkswagen** over emissions fraud would bring in substantial funds to the states. The current estimate for Massachusetts for FY 2017 is \$20.0 million, as restitution for the violation of state consumer protection laws.

Other Budget-Balancing Strategies

In addition to the tax and non-tax revenues used to support the FY 2017 budget, a number of other strategies also were employed to bring the budget into balance (see "Other Major Budget-Balancing Strategies" in table above). These include underfunding several accounts that typically are provided with supplemental funding during the course of the fiscal year, as well as using funds appropriated for FY 2016 purposes to fund FY 2017 expenses.

- Relative to current FY 2016 funding levels, the GAA directs \$40.5 million less to the **Emergency Assistance** program, which provides shelter and assistance to low-income families that are homeless or at risk of becoming homeless. Massachusetts law requires that any family that meets certain eligibility criteria be provided with emergency assistance support. As such, lawmakers must provide supplemental funding to this account as needed. It is highly likely that such supplemental funding will be required in FY 2017. (The Governor already has filed a bill requesting \$26.0 million in supplemental FY 2017 funding for this account. The Legislature has not yet acted on this request.)
- The FY 2017 budget provides \$40.6 million less for the **Private Counsel Compensation** line-item than currently is provided to this account in FY 2016. (The Governor already has filed a bill requesting \$42.0 million in supplemental FY 2017 funding for this account. The Legislature has not yet acted on this request.) The Commonwealth hires private lawyers to represent some indigent defendants, though in recent years lawmakers have attempted to provide a larger share of indigent defense through the use of public defenders (employees of the state). Because the Constitution requires the Commonwealth to provide an adequate legal defense for qualifying indigent defendants – and therefore lawmakers are not at liberty simply to cap private counsel indigent defense funding -- it is very likely that this account will receive significant supplemental funding in FY 2017.
- The GAA provides significantly less funding to **sheriffs' accounts** in FY 2017. Often, sheriffs are provided with significant mid-year supplemental funding to cover expenses such as over-time pay, inmate medical expenses, salary increases and more. Assuming sheriffs will require total funding similar to current FY 2016 levels, the legislature underfunds Sheriffs' Departments by about \$53.5 million. (The Governor already has filed a bill requesting \$28.0 million in supplemental FY 2017 funding for the sheriffs' reserve account. The Legislature has not yet acted on this request.)

- The FY 2017 budget underfunds MassHealth accounts by about \$50 million, particularly in the **Fee-for-Service** and **Children’s Behavioral Health Initiative** line items. The net budget impact of this underfunding is approximately \$25.0 million. (The Legislature has not yet acted on FY 2017 supplemental funding for MassHealth, requested by the Governor that presumably would address this deficiency.)
- The Legislature’s budget included \$25.8 million for **“other post-employment benefits” (“OPEB”)** for state retirees, paid from debt reversions. The Governor proposed an amendment to this language that would have increased the OPEB contribution to \$77.3 million. Because the Legislature failed to act on the Governor’s recommendation, the FY 2017 GAA contribution reverts to the statutorily required amount of \$128.8 million, paid for out of general revenue from the Master Tobacco Settlement (see State Employee Health Insurance section of this *Budget Monitor*). However, because it is likely that over the course of the year there will ultimately be legislation passed that will reduce the OPEB payment to something between \$25.8 million and \$77.3 million funded out of debt reversions, the table above shows the structure of the GAA funding for the State Retiree Benefits Trust at the lower of this range.
- The FY 2017 budget pushes some FY 2017 **MassHealth** costs into FY 2018, generating a savings of \$19.7 million for FY 2017. While this strategy relieves some of the pressure on the FY 2017 budget, this is simply a postponement of spending and will add to the MassHealth budget for FY 2018. (It is worth noting that the MassHealth line items have been reduced by \$45.0 million, but because of reduced federal reimbursement, the budget impact of this is only \$19.7 million.)

Other Revenue-Related Elements

Apart from measures that would affect specific one-time or ongoing tax revenues, or that would produce temporary savings to help balance the FY 2017 budget, the GAA also included other provisions related to revenues. Among these is a provision that will increase funding for low-income tax clinics throughout the state (the Legislature overrode the Governor’s veto of this section). The GAA allows the Commissioner of Revenue to offer grant funding to qualified low-income taxpayer clinics to expand their work with low-income taxpayers, helping these taxpayers file complete and accurate tax returns, and helping them with any disputes they may have with the Department of Revenue. Increased and improved tax filings among low-income households likely will increase access to a number of federal and state tax credits, such as the Earned Income Tax Credit, Child Tax Credit and others. The GAA provides \$100,000 to support this initiative

TOTAL BUDGET BY CATEGORY AND SUBCATEGORY

In order to allow for more accurate comparisons from year to year and to better include all appropriated spending, MassBudget makes certain adjustments to the way budget data are presented by the Administration and Legislature.

The totals in the **FY 2017 Governor Final** column show the Governor’s recommendations incorporating his vetoes, combined with his proposed FY 2017 supplemental budget legislation (H.4506). This chart presents **FY 2016 Current*** totals in the structure of the FY 2017 budget in order to allow for more accurate across-year comparisons. MassBudget subtracts \$262.8 million from the FY 2016 budget in

"Other Administrative" to reflect the total net savings from early retirement in FY 2016. For other explanatory information, see details below the chart.

| BUDGET BY CATEGORY AND SUBCATEGORY (\$ millions) | FY 2001 Final Adjusted for Inflation to FY17 | FY 2016 Current* | FY 2017 Legislature | FY 2017 Governor Final | FY 2017 Gen. Approp. Act (GAA) |
|---|---|---------------------|------------------------|------------------------------|--------------------------------------|
| Education | 7,346.8 | 7,689.0 | 7,803.1 | 7,762.2 | 7,793.3 |
| Early Education & Care | 725.8 | 569.8 | 577.7 | 559.9 | 568.7 |
| Higher Education | 1,339.7 | 1,171.8 | 1,158.0 | 1,145.7 | 1,157.3 |
| K-12: Chapter 70 Aid | 4,148.1 | 4,515.0 | 4,628.0 | 4,628.0 | 4,628.0 |
| K-12: Non-Chapter 70 Aid | 682.3 | 628.5 | 604.6 | 593.9 | 604.6 |
| K-12: School Building | 450.8 | 803.9 | 834.7 | 834.7 | 834.7 |
| Environment & Recreation | 300.8 | 212.9 | 200.3 | 191.1 | 200.0 |
| Environment | 134.0 | 96.1 | 85.3 | 82.8 | 85.1 |
| Fish & Game | 24.3 | 28.2 | 28.1 | 27.7 | 28.1 |
| Parks & Recreation | 142.5 | 88.7 | 86.9 | 80.6 | 86.9 |
| Health Care | 10,011.2 | 19,248.3 | 19,295.4 | 19,369.4 | 19,382.4 |
| MassHealth (Medicaid) & Health Reform | 7,570.5 | 16,290.5 | 16,343.2 | 16,401.6 | 16,327.9 |
| Mental Health | 826.3 | 748.2 | 761.1 | 760.3 | 761.1 |
| Public Health | 725.5 | 604.6 | 604.0 | 599.4 | 603.6 |
| State Employee Health Insurance | 888.9 | 1,605.0 | 1,587.0 | 1,608.1 | 1,689.8 |
| Human Services | 3,737.3 | 4,101.7 | 4,141.4 | 4,129.8 | 4,141.0 |
| Child Welfare | 799.3 | 903.8 | 940.9 | 940.1 | 940.9 |
| Disability Services | 1,345.3 | 1,847.2 | 1,891.1 | 1,886.5 | 1,891.1 |
| Elder Services | 260.6 | 264.8 | 267.0 | 266.3 | 267.0 |
| Juvenile Justice | 165.2 | 177.1 | 177.0 | 176.5 | 177.0 |
| Transitional Assistance | 1,039.1 | 693.8 | 660.9 | 642.0 | 660.5 |
| Other Human Services | 127.7 | 215.1 | 204.6 | 218.3 | 204.6 |
| Infrastructure, Housing & Economic Development | 2,025.2 | 2,294.8 | 2,240.1 | 2,256.3 | 2,239.7 |
| Commercial Regulatory Entities | 59.9 | 58.4 | 57.1 | 57.0 | 57.1 |
| Economic Development | 293.3 | 152.9 | 144.6 | 112.2 | 144.2 |
| Housing | 346.2 | 488.8 | 432.7 | 455.0 | 432.7 |
| Transportation | 1,325.8 | 1,594.7 | 1,605.7 | 1,632.1 | 1,605.7 |
| Law & Public Safety | 2,590.2 | 2,727.6 | 2,647.8 | 2,687.7 | 2,637.7 |
| Courts & Legal Assistance | 784.7 | 738.1 | 703.2 | 739.1 | 702.6 |
| Law Enforcement | 378.7 | 382.6 | 392.2 | 389.3 | 390.9 |
| Prisons, Probation & Parole | 1,221.1 | 1,385.1 | 1,327.6 | 1,342.7 | 1,322.0 |
| Prosecutors | 160.2 | 161.2 | 164.8 | 163.1 | 164.6 |
| Other Law & Public Safety | 45.6 | 60.6 | 60.0 | 53.4 | 57.6 |
| Local Aid | 1,771.4 | 1,018.6 | 1,061.3 | 1,052.8 | 1,061.3 |
| General Local Aid | 1,744.2 | 979.8 | 1,021.9 | 1,021.9 | 1,021.9 |
| Other Local Aid | 27.2 | 38.8 | 39.3 | 30.9 | 39.3 |
| Other | 4,673.2 | 5,017.2 | 5,422.5 | 5,410.7 | 5,408.9 |
| Constitutional Officers | 109.1 | 76.8 | 84.0 | 82.6 | 83.6 |
| Debt Service | 2,207.6 | 2,630.7 | 2,642.5 | 2,636.2 | 2,636.2 |
| Executive & Legislative | 84.1 | 74.2 | 74.5 | 73.7 | 74.4 |
| Libraries | 48.0 | 25.3 | 25.2 | 24.8 | 25.2 |
| Pensions | 1,442.7 | 1,972.0 | 2,198.1 | 2,198.1 | 2,198.1 |
| Other Administrative | 781.7 | 238.2 | 398.2 | 395.4 | 391.3 |
| Total Budget | 32,456.0 | 42,310.3 | 42,811.8 | 42,859.9 | 42,864.3 |

- MassBudget’s totals include the “**pre-budget transfers**” of funds. Statutes require that the Legislature transfer portions of revenue prior to the appropriation process to support certain functions. Although these transfers function no differently from appropriations, the Governor and Legislature do not reflect these expenditures in their budget totals; instead, they are shown as amounts deducted or transferred from revenue prior to the budgeting process. To better reflect total state funding, MassBudget includes these pre-budget transfers in appropriation totals. In FY 2017, these add \$4.23 billion to the total: tax revenues dedicated to the MBTA and school building assistance, cigarette excises dedicated to the Commonwealth Care Trust Fund, the state contribution to the pension system, a transfer to the State Retiree Benefits Trust, and transfers to the Workforce Training Trust. The FY 2017 budget includes a new pre-budget transfer to the Mass. Tourism Trust in order to fund specific tourism-related line items.
- MassBudget’s totals include annual appropriations into **non-budgeted (“off-budget”) trusts**. The transfer of funds from the General Fund or another budgeted fund into a non-budgeted trust is a form of appropriation, and should be treated as any other appropriation. Prior to FY 2011, the budget authorized these transfers in Outside Section budget language. Starting in FY 2011, a new section of the budget, **Section 2E**, systematically accounted for the transfer of funds into off-budgeted trusts. MassBudget’s totals include these operating transfers in all budget years.
- When spending that is now included in the budget was previously “off-budget,” MassBudget’s totals include the prior years’ “off-budget” spending totals in order to reflect more accurate **year-to-year comparisons**. For example, funding directed to health care providers as partial reimbursement for uncompensated care was previously funded by a transfer of federal revenue directly into the off-budget Uncompensated Care Trust Fund. This spending was brought on-budget in FY 2009, and incorporated into the state’s budgeted health care appropriations. MassBudget health care budget totals include the off-budget spending for these services in order to reflect a more accurate across-year comparison.
- MassBudget reduces **State Employee Health Insurance** totals to exclude spending on health insurance for municipal employees and retired teachers for which the state is fully-reimbursed by municipal government.
- MassBudget reduces funding for the community colleges, state universities, and University of Massachusetts campuses by the amount of tuition that these campuses remit to the state treasury each year. These adjusted totals more accurately reflect the “net” appropriations available to the campuses to support operations, and allow for more consistent comparisons across the years, since the policies about **tuition remission** have varied from year to year and from campus to campus. For example, until FY 2003, all the University of Massachusetts (UMass) campuses were required to remit to the state treasury all tuition from all students. From FY 2004 – FY 2011, UMass Amherst (only) remitted only in-state tuition, and retained tuition from out-of-state students. Starting in FY 2012, the remaining UMass campuses were also allowed to retain tuition from out-of-state students. Starting in FY 2017, UMass will retain all tuition revenue, remitting none. The MassBudget adjustments make it possible to make meaningful comparisons of appropriations to these campuses even with these policy changes.

- MassBudget's totals include funding paid for out of **anticipated reversions**. For example, a portion of funding for health care for retired state employees has in some years come from anticipated reversions of funds.
- MassBudget's totals reflect legislatively-approved "**prior appropriation continued**" (PAC) amounts. In most instances, MassBudget shifts the PAC amount from the year in which the funding was first appropriated into the year in which the Administration expects to spend the totals.
- Because MassBudget totals reflect budgeted appropriations and not actual spending, there can be apparent fluctuations in the MassHealth and Health Reform totals that are simply due to the timing of payments to certain off-budget trusts. These budget variations may not reflect real differences in spending.