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Massachusetts Budget and Policy Center

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Analyzing the Governor's Budget for FY 2017

The Governor's budget proposal for Fiscal Year 2017 is best described as an austerity budget. It contains small cuts and spending reductions across government and includes few new initiatives. Many of the reductions are due to the early retirement program implemented this year. Perhaps the most important question this budget raises is how those cuts will affect the quality of services provided by our government. With fewer people working at the Department of Environmental Protection (where the Governor proposes a 7 percent reduction in funding), will our state's ability to enforce the laws that keep our air and water clean be degraded? With reductions at the Department of Revenue (where this budget proposes 13 percent less funding), will it be harder for honest taxpayers to get answers from the department and will it be easier for those corporations and other sophisticated taxpayers who seek to evade taxes to avoid paying the taxes they owe? Similar issues will arise across state government, and we won't know the answers until after the budget takes effect.

On the positive side, this budget proposal continues efforts to hire more social workers at the Department of Children and Families so that caseloads will decline and our front line workers can better protect children who are at risk of abuse or neglect. The proposal also funds new efforts to address the opioid addiction crisis, including an additional $9.1 million for the Department of Public Health's Bureau of Substance Abuse Services to support increased prevention and treatment efforts.

The budget does not provide significant new funding to address important long-term issues like the affordability of higher education, the availability of early education, or the need to fix our roads, structurally deficient bridges, and deteriorating public transportation systems. Overall funding for education in this proposal roughly keeps pace with inflation. And funding for transportation would decline by one percent.

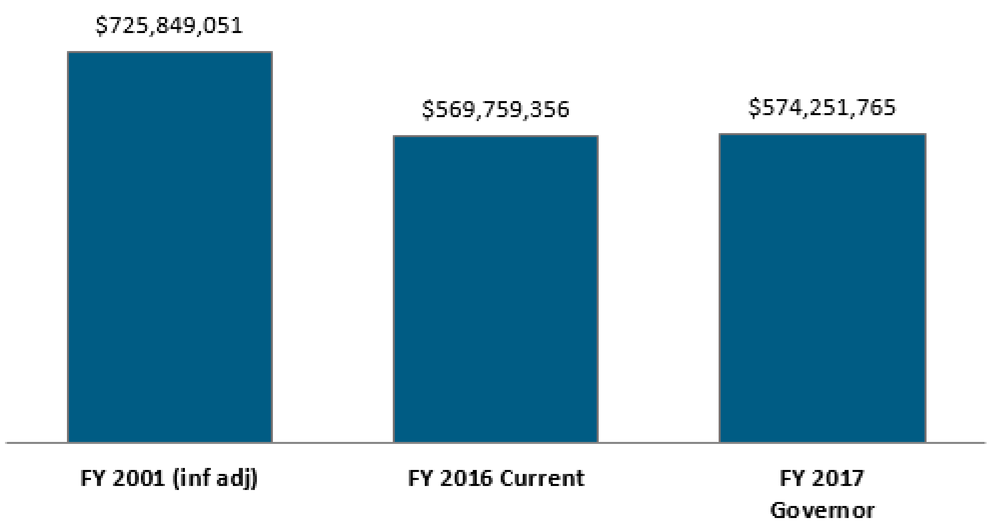
The budget reduces the state's reliance on temporary revenue and makes a small deposit into the Stabilization Fund. But six years into an economic recovery, the budget is still being balanced with temporary revenue, including $150 million that existing law dedicates to the Stabilization Fund. This continues a long-term pattern we have seen since the state cut income taxes by over $3 billion between 1998 and 2002: deep cuts in recessions, barely balanced budgets in the best of times, and chronic structural budget gaps. This pattern has real world consequences: our Commonwealth has not been able to make important investments in the education and skills of our workers and in the integrity of our transportation infrastructure that could strengthen our economy in the long run. This *Budget Monitor* examines the Governor's FY 2017 budget proposal in the context of these long-term trends.

Early Education & Care

Quality early education and care plays a major role in preparing young children for K-12 education and helping them thrive more generally. Early education and care is also a critical work support for parents with young children, providing safe and reliable child care while they provide for their families.

The Governor's budget for FY 2017 allocates $574.3 million for early education and care programs, a small increase of 0.8 percent over this year, less than the expected rate of inflation. Though the last two state budgets included modest increases for early education, these increases are small in the context of much larger long-term cuts in this area, after state tax cuts were implemented during the late 1990s and early 2000s. Looked at over this longer horizon, the Governor's FY 2017 proposal for early education is $151.6 million (21 percent) less than FY 2001 levels, adjusting for inflation (see chart below).

Early Education Funding Would Be Down 21 Percent Since 2001



The Governor's proposal does provide an increase of $17.5 million (8 percent) for **Supportive & TANF Child Care.** This funding provides child care 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). According to the administration, this increased level of funding should support 1,500 new vouchers for TAFDC Families and allow a full year of services for 600 children under DCF care who had this support for only part of FY 2016.

The **Income Eligible Child Care** program provides subsidies for low-income working families who do not qualify for other child care assistance. With insufficient funding to meet demand, the waitlist for these subsidies exceeded 27,000 children in November 2015. For the last three years, dedicated funding supported reducing the waitlist. The Governor's FY 2017 budget does not propose continuing this specific funding to reduce the waitlist. As a result, this proposal contains $6.9 million less in total Income Eligible funding compared to the current FY 2016 budget (see table below). This funding level could potentially drive up the waitlist and reduce the number of kids receiving subsidies. To allow comparison between these years, the figure for total Income Eligible funding for FY 2017 includes funds for the same purpose that are moved to another line-item in the Governor's FY 2017 budget proposal.

FUNDING FOR INCOME ELIGIBLE EARLY EDUCATION

		A	B	C	D	
Line Item #	**Name**	**FY 2016 Current**	**FY 2017 Governor**	***Amounts Gov. budget moves between line items***	**FY17 Gov. in FY16 structure**	**Column D - Column A**
3000-4040	Income Eligible Waitlist (Birth Through Pre-School)	12,000,000	0	*0*	0	
3000-4060	Income Eligible Child Care (Child Care Access)	256,344,993	252,453,572	*9,019,276*	261,472,848	
3000-1020	Portion of Quality Improvement for Income Eligible	0	9,019,276	*(9,019,276)*	0	
TOTAL		**268,344,993**	**261,472,848**	***0***	**261,472,848**	**(6,872,145)**

Note: The Governor proposes shifting some funding from Income Eligible Child Care into a new line item Quality Improvement. MassBudget moves this funding back into Income Eligible Child Care, based on materials from the Administration, to allow for clearer comparisons with FY16.

Several key grant programs in early education are level funded in this proposal including:

- **Access Management** at $6.7 million, which helps families obtain care for their children through child care resources and referral agencies; and

- **Grants to Head Start**, at $9.1 million, which supplements significant federal funding ($124 million in FY 2014) to support Head Start early education and care programs.

The Governor's FY 2017 budget proposal also consolidates $1.0 million in funding for **Reach Out and Read** into a new line-item **Early Literacy Initiatives**. The amount of funding is level with the current FY 2016 budget, but puts the program under joint oversight of the Department of Early Education and Care and the Department of Elementary and Secondary Education.

Notably, several early education and care accounts are consolidated or have funding shifted into a new **Quality Improvement** line-item**.** The Department of Early Education and Care suggests that these shifts 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 Governor's proposed FY 2017 shifts and consolidations are represented in the table below. In our budget tools, MassBudget moves funding transferred between accounts back to their original place to allow for more accurate comparison with prior years. All told, total funding for quality improvement initiatives increases by $500,000 over current FY 2016 levels.

SUPPORT FOR EARLY ED QUALITY IMPROVEMENT (QI) INITIATIVES

Line Item	Program	FY 2016 Funding for Quality Improvement	FY 2017 Funding for Quality Improvement in Gov Structure	Difference
3000-1020	**Quality Improvement**	**0**	**33,396,638**	
3000-1000	*Portion of Dept.of Early Education and Care Admin. for QI*	6,754,471		
3000-3060	*Portion of Supportive and TANF Child Care for QI*	600,000		
3000-4060	*Portion of Income Elgiible Child Care (Child Care Access) for QI*	9,019,276		
3000-5075	Universal Pre-Kindergarten	7,400,000		
3000-6025	Commonwealth Preschool Partnership Initiative	500,000		
3000-6075	Early Childhood Mental Health Consultation	750,000		
3000-7050	*Portion of Services for Infants and Parents for QI*	7,872,890		
TOTAL		**32,896,637**	**33,396,638**	**500,001**

Three programs are 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;

- **Commonwealth Preschool Partnership Initiative**, which supports existing providers expanding seat capacity, particularly for 3 year olds; and

- 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 have funding shifted into Quality Improvement:

- Early Education and Care Administration, which supports the statewide oversight of all Early Education services and programs, has $6.8 million (54 percent) of funding shift into the new Quality Improvement account.

- Supportive and TANF Child Care has a negligible amount of funding ($600,000) shift into the new Quality Improvement account.

- Income Eligible Child Care has $9.0 million (3 percent) of its funding shift.

- Family Support and Engagement (Services for Infants and Parents), which provides outreach to families on caring for their young children, has $7.9 million (37 percent) of its funding shift.

Quality Improvement funding in the Governor's FY 2017 should help early education providers improve the quality of services for kids and families. However, the Governor's proposal provides no funding for the Early Education and Care Provider Rate Increase (funded at $5.0 million in FY 2016). This program provides salary and benefit increases along with professional development to early education teachers, key mechanisms to improve the quality of services available for young children.

K-12 Education

Education plays a central role in developing our next generation in the Commonwealth, ultimately strengthening our communities and our economy.

This past October, the Legislature's Foundation Budget Review Commission issued a final report. The commission recommended steps to address several long-term challenges in how we as a Commonwealth fund our local school districts. This group of education policymakers and stakeholders found that funding for students in poverty and English language learners should be increased enough to support multiple effective strategies. Such strategies include after-school, summer learning, and wraparound social services for students facing poverty related barriers to success. The commission also found that the current foundation budget fails to account accurately for the actual costs of health care and special education. Specifically, the Commission found that schools are forced to divert resources away from important strategies that can improve the quality of education because these flaws in the foundation budget lead to at least $432 million less in Chapter 70 funding than should be provided. For more detail, see the final commission report.

While the Governor's FY 2017 budget proposal for Chapter 70 aid and other K-12 grant programs provides an increase of $81.0 million (1.6 percent) over FY 2016, this increase is only roughly in line with annual cost growth and would do little to address the many longer-term challenges identified by the Commission.

For FY 2017, the Governor proposes increasing **Chapter 70 Education Aid** by $72.1 million (1.6 percent over last year) to $4.58 billion. This proposed increase to Chapter 70 is 35 percent less than the $111.2 million increase from FY 2015 to FY 2016.

Specifically, the Governor's Chapter 70 proposal:

- Calculates districts foundation budgets by using updated enrollment and inflation data. Notably, the key inflation factor for Chapter 70 in FY 2017 was slightly negative (-0.22 percent) and enrollment is also down slightly (-0.21 percent.)

- Provides a minimum $20 per-student aid increase over FY 2016 for all districts that would otherwise not receive increases, at a cost of $12.9 million.

The Governor's Chapter 70 proposal also uses a new method for estimating the number of low-income students educated in a given district. This change is driven by recent improvements to the federal school meals program that are increasing access to school meals and reducing administrative work for districts. One side effect is that federal officials are forcing states to make changes to how low-income kids are counted for school funding and accountability purposes. For more detail, see FAQ: Expanding School Meals and Implications for School Funding Formulas.

For Chapter 70 enrollment purposes, the state has historically counted low-income students by using the number of kids receiving free and reduced price meals, as this was the best available data source on family income. To enroll for free or reduced price meals, parents filled out forms at the beginning of each school year demonstrating that their income was below 185 percent of the federal poverty level.

Recognizing that many low-income families are already enrolled in other public programs that use similar income criteria (e.g. MassHealth and food stamps/SNAP), the federal government recently began allowing districts to simplify this application process by directly enrolling kids for free meals if they are already enrolled in one of these other programs (a process called “Direct Certification”). While this new process provides more kids with school meals and reduces administrative work, it means that districts no longer uniformly collect data on student income levels.

In response, the Governor’s FY 2017 budget (following a recommendation from DESE) proposes using a new "economically disadvantaged" measure for counting low-income students. This measure essentially uses the number of kids directly certified for school meals instead of using the free and reduced price meal headcounts used to date. However, this new "economically disadvantaged" measure identifies many fewer low-income students than does the traditional free and reduced price meal application process. This gap is driven by two main factors: first, not all low-income families enroll in the public programs that they are eligible for; and, second, technical challenges in matching public program enrollment data with school enrollment lists mean that even some students enrolled in public programs are not being directly certified for free meals and thereby counted as “economically disadvantaged.”

Statewide, the new measure for “economically disadvantaged” students in FY 2017 is 17 percent lower than the free and reduced price meal count used in FY 2016, so swapping in these new estimates would lead to reduced Chapter 70 allocations for many districts. The Governor’s Chapter 70 proposal attempts to account for this reduction by making an upwards adjustment to the low-income rate in the Chapter 70 formula—from an incremental cost of $3,142 in FY 2016 to $3,775 in FY 2017, an increase of roughly 20 percent.

The size of this difference varies widely across districts, so this uniform adjustment to the rate doesn’t solve the problem for some districts with the largest gaps between the current and the newly proposed low-income measures. Ultimately, improving the enrollment of eligible families in public programs (e.g. MassHealth and food stamps/SNAP) and improving our data matching systems would serve to help close these gaps. This will also better ensure that the headcounts used by the new “economically disadvantaged” measure accurately reflect the student populations in every district. However, it will take time to make these improvements.

In addition to making the uniform adjustment to the low-income rate, the Governor’s budget proposes increasing to the low-income rate for districts with concentrated poverty. This proposal follows a similar recommendation made by the Foundation Budget Review Commission. Specifically, the Governor’s budget breaks districts out into deciles based on the percentage of students identified as “economically disadvantaged.” The decile with the lowest-poverty districts uses the $3,775 increment for each low-income student in their district, and then this increment is increased by $40 per student for each subsequent decile. The decile with the highest-poverty districts uses a $4,135 increment for each “economically disadvantaged” student.

Even with both of these upwards adjustments to low-income rates, some districts appear to be receiving less state support for their low-income students under the Governor’s FY 2017 proposal than they would have received if the formula had used current free and reduced price enrollment percentages.

The Governor's FY 2017 budget includes significant policy changes to **Charter School Reimbursements**. When students enroll in charter schools, the public school district they leave is required to pay tuition to the receiving charter school on their behalf. The Commonwealth sets charter school tuition rates each year, based roughly on average per-pupil spending in the sending district. The Charter School Reimbursement program provides some of this outgoing funding back to districts in the years after students leave for a charter school.

The current system reimburses 100 percent of outgoing student funding in the first year and 25 percent of this amount for each of the subsequent five years. Under current rules, reimbursements are available to all school districts that lose new students to charter schools. However, the present formula is not being fully funded (it is only 63 percent funded for FY 2016).

The Governor's FY 2017 budget would alter the reimbursement schedule to provide school districts with 100 percent, 50 percent, and 25 percent of outgoing student tuition in reimbursements during the three years after a student enters a charter school from a traditional district. It would also eliminate all reimbursements in the fourth, fifth, and sixth years after students depart. The proposal also limits reimbursements in the second and third years to the lowest performing districts in the state, which have a larger number of charter school seats, and thus lose a disproportionately large share of their funding to charter schools.

Ultimately, this proposal would shift Charter School Reimbursements funding to the primarily urban communities with a large share of charter school seats and away from a larger number of suburban and rural towns with more limited charter enrollment.

The Governor also proposes close to full funding of the revised system compared to current 63 percent funding of the existing reimbursement formula. These changes result in a FY 2017 proposal of $101.0 million, $20.5 million (25 percent) above current levels. This level of funding should allow funding of the newly proposed reimbursement formula, for charter school seats in their first and second years, with some funding available for those in their third year.

The Governor's FY 2017 proposal consolidates three K-12 initiatives, **Programs for English Language Learners in Gateway Cities**, **Bay State Reading Institute**, and **Literacy Programs** in the into a new line-item called **Early Literacy Initiatives**. Also, one early education and care account is merged into this program. Collectively these accounts would receive 1.5 percent less funding than current FY 2016 levels (see table below)**.**

GOVERNOR'S PROPOSED CONSOLIDATION INTO EARLY LITERACY INITIATIVES

Line Item #	Name	FY 2016 Current	FY 2017 Governor	FY17 Gov - FY16 Current
7010-0031	Early Literacy Initiatives	0	4,529,410	
3000-7070	Reach Out and Read	1,000,000	0	
7009-6400	ELL in Gateway Cities	1,200,000	0	
7010-0020	Bay State Reading Institute	400,000	0	
7010-0033	Literacy Programs	2,000,000	0	
TOTAL		**4,600,000**	**4,529,410**	(70,590)

Several small grant programs, including some that serve students of the greatest need, are eliminated or significantly reduced in the Governor's proposed budget, including:

- **MCAS Low Scoring Student Support** would be eliminated. The program, currently funded at $4.3 million, provides support to high schoolers at risk of failing to graduate from high school. According to recent estimates from the Department of Education students participating in this program increased their passing rates on state tests by 31 percentage points (see the department's 2014 legislative report on MCAS support).

- **Alternative Education Grants** would be eliminated**.** These grants, which are currently funded at $250,000, support struggling students who have not succeeded in traditional school settings.

- **Statewide College and Career Readiness** would be eliminated. Currently funded at $500,000, this program provides assessment and targeted instruction for high schoolers to help them be more ready for higher education and avoid remedial coursework in higher education, which generally reduces the chances of earning a degree.

- **English Language Acquisition**, which provides professional development to educators to support the achievement of English language learners, would be reduced by $905,000 over last year (32 percent).

The Governor's FY 2017 budget includes two increases to programs designed to provide more opportunities for youth to pursue career training, including:

- A $2.4 million (80 percent) increase to **School to Career Connecting Activities.** This program helps teens find employment through internships, career exploration activities, and apprenticeships. The Governor's proposal might help increase business investment in youth jobs because this program includes a required 2:1 funding match from private sector employers.

- A $1.0 million (100 percent) increase to **Dual Enrollment Grants,** which could support young people in high school enrolling in college course work that is related to vocational fields such as science, technology, engineering, and math.

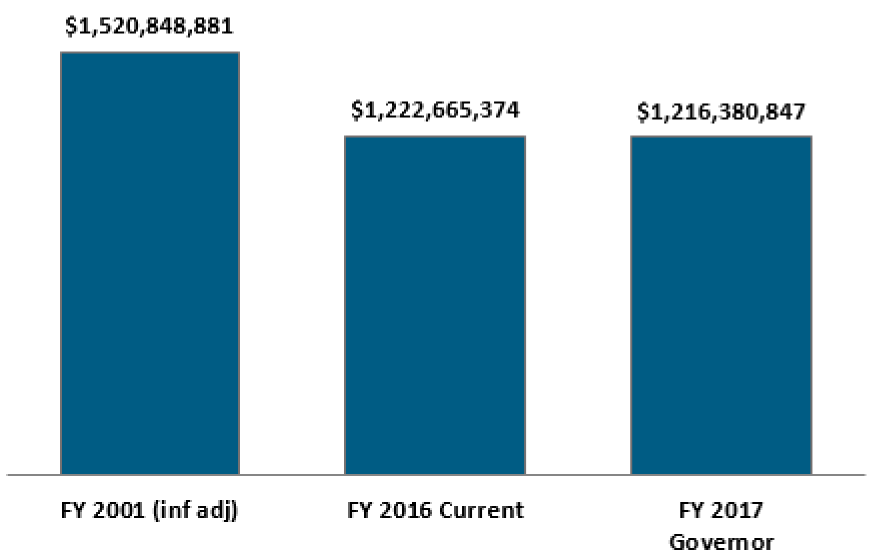
The state-level administration of K-12 schools through the **Department of Elementary and Secondary Education** is funded a $12.3 million in the Governor's FY 2017 budget proposal. This amount is $2.2 million (15 percent) less than current levels. This figure is reflective of the departure of around 20 staff from the department during the early retirement program in FY 2016. With fewer staff in place, it is unclear how the Commonwealth will ensure the same level of services to districts and students most in need of additional support.

Lastly, the Governor's budget contains a proposed $5.6 million (23 percent) increase to **School and Student Assessment**. This is intended to support the development of a new MCAS test (commonly known as MCAS 2.0) incorporating parts of the computer-based Partnership for Assessment of Readiness for College and Careers (PARCC) piloted by some districts in 2014-2015.

Higher Education

Higher education helps residents of our state become active members of their communities and gain the skills needed to succeed in a competitive global economy. Public institutions of higher education, including the University of Massachusetts, the state universities, and community colleges educate a large majority of the of the high school graduates who remain in Massachusetts for college. Public graduates are also more likely to stay in Massachusetts after graduation, contributing to our economy over the long term. Despite the evidence that a highly educated workforce helps strengthen our state economy, Massachusetts has cut state support for higher education by 20 percent since FY 2001, adjusting for inflation. For more detail on these long-term trends, see Debt Free Public Higher Education: What Would it Take?

Public Higher Education Would Be Down 20 Percent Since 2001



The Governor's FY 2017 budget proposal continues the trend of lower funding that took hold after a series of tax cuts were implemented in the early 2000s. All told, the Governor's FY 2017 proposal for higher education is $6.3 million (0.5 percent) lower than current FY 2016 levels.

Appropriations to each of the three campus types are detailed in the following table. MassBudget totals make adjustments in the following two areas in order to help facilitate more accurate year-to-year comparisons:

- **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.

- **Tuition Retention.** Starting in FY 2012, all campuses began retaining tuition payments from out-of-state students, rather than returning that revenue to the state. MassBudget adds in an estimate of these payments from FY 2012 to the present, allowing for more accurate year-to-year comparisons. Further, beginning in FY 2017, a provision from last year's budget takes effect, allowing the

University of Massachusetts to retain tuition revenue from in-state students that it had returned to the state in prior years. UMass estimates this funding to be $31.1 million in FY 2017. MassBudget adds this amount to the direct UMass appropriations to facilitate accurate comparisons.

HIGHER EDUCATION FUNDING TO THE THREE CAMPUS TYPES

Campus Type	FY 2016 Current	FY 2017 Governor	FY17 Gov - FY16 Current
Community Colleges	279,653,656	279,085,045	(568,611)
State Universities	254,141,469	253,960,217	(181,253)
UMass	551,404,791	554,804,682	3,399,891
Total, all campuses	**1,085,199,917**	**1,087,849,944**	**2,650,027**

The Governor's proposal funds **University of Massachusetts** line-items at $554.8 million (after accounting for tuition retention), $3.4 million more than last year. This negligible increase (0.6 percent) to state support makes it possible that tuition and fees will continue to rise at the University of Massachusetts. To meet a commitment to hold the tuition rate constant in FY 2015, the system received $40 million in additional funding over FY 2014. In contrast, tuition and fees at UMass increased last year, when it received funding roughly level with what the Governor proposes for FY 2017.

Several higher education grants and programs were eliminated in the Governor's FY 2017 budget proposal:

- The **High Demand Scholarship Program** would be eliminated (funded at $1.0 million in the current FY 2016 budget). This program provides support for student pursuing majors in fields such as engineering, finance, and education that are in high demand in the labor market. The main **State Scholarship Program** may have limited capacity to offset this cut because it is only funded at $412,000 more than current levels in the Governor's FY 2017 proposal ($96.0 million).

- **Community College Workforce Grants** would be eliminated (funded at $750,000 in the current FY 2016 budget). These grants support workforce training initiatives at the 15 community colleges and help connect campuses with local employers. However, this would be somewhat offset by a $250,000 appropriation for similar purposes to **BizWorks Grants** (formerly Rapid Response Grants).

- **Adult College Transition Service (Bridges to College)** would be eliminated (funded at $250,000 last year). This initiative helps people move from adult basic education to college level work.

The Governor's FY 2017 budget proposes significant reductions to a number of other grants and programs:

- **State University Incentive Grants** are proposed to be funded at $2.5 million, a $3.1 million cut (55 percent) from current levels. In prior years, this funding supported implementation of a Department of Higher Education strategic plan, called the Vision Project. This plan aimed to increase quality, reduce achievement gaps, and improve alignment between higher education and the workforce. It is possible that state university campuses could use other funding to support some of these initiatives.

- **STEM Starter Academies** would be reduced to $3.9 million, an $863,000 (18 percent) cut from current levels. These programs provide outreach, exploration, and mentorship activities to help students who may need additional support pursue coursework in high growth Science, Technology, Engineering, and Math (STEM) fields.

The Governor's proposal also contains significant cuts to state-level administration of public higher education:

- **Community College Administration** would be funded at $2.7 million, a $6.4 million (70 percent) cut over current FY 2016 levels.

- The **Department of Higher Education** would be funded at $2.1 million, a $2.4 million (53 percent) cut over current FY 2016 levels.

These administrative cuts may impede the Commonwealth's ability to improve student experiences on campuses, coordinate with industry and other partners, and direct student aid and support programs. Notably, these administrative cuts cannot be fully explained by staff reductions due to the early retirement program in FY 2016, because relatively few retirements (equaling $411,000 in salary and benefits) came from the Department of Higher Education in FY 2016.

Environment & Recreation

The state's environment and recreation budget funds programs that keep our air and water clean, preserve fish and wildlife habitats and maintain and staff recreation facilities in Massachusetts. The Governor's Fiscal Year (FY) 2017 budget recommends $197.1 million for environment and recreation programs, a cut of $14.9 million or 7 percent below the FY 2016 current budget. Since FY 2001 when the state implemented cuts to the income tax, funding for environment and recreation programs has fallen by 34.5 percent in inflation-adjusted dollars.

The Governor's FY 2017 budget cuts funding for several environment and recreation programs that have had significant cuts over the years. Many of the reductions in the Governor's FY 2017 proposal are likely related to staffing reductions as people took advantage of an early retirement package included in the FY 2016 budget. Because many of these staff will not be replaced, these agencies may have difficulty carrying out their functions effectively. Some agencies and programs affected by these staffing reductions include:

- The **Department of Environmental Protection** (DEP) which receives $25.1 million in the Governor's proposal, a cut of $4.4 million or 15 percent below the FY 2016 current budget. DEP is responsible for keeping our air, water and land clean and making sure businesses and other entities are complying with our state's environmental laws.

- The **Hazardous Waste Clean**-up program receives a proposed $12.3 million, a cut of $2.1 million, or 14.4 percent below the FY 2016 current budget.

- **State Parks and Recreation** programs receive $37.4 million, a cut of $9.2 million. The Governor's Budget recommends eliminating about $4 million in funding that was earmarked in the FY 2016 budget for specific parks and recreation programs. The Governor's budget does propose that the Department of Conversation and Recreation (DCR) retain $19.2 million that it collects from parking, camping and entry fees, an increase of $3.2 million. Even with this increase, however, funding for state parks in the Governor's FY 2017 budget proposal is $6.0 million below the FY 2016 budget.

MassHealth (Medicaid) & Health Reform

In his FY 2017 budget proposal, the Governor does not make any outright cuts to member eligibility or benefits, but instead focuses on a variety of strategies to control costs, including freezing rates for most providers (with the exception of behavioral health and substance abuse), and directing members to lower-cost health care. With these adjustments, the Administration hopes to hold growth in the state's Medicaid program (MassHealth) to 5 percent, and maintain enrollment at about 1.89 million members. This is approximately the current MassHealth caseload, meaning that the Administration does not anticipate that MassHealth will be insuring any additional members on net.

The Governor's budget includes $15.41 billion for MassHealth programs, and $157.9 million for MassHealth administration and operations (see detailed table. Note that the Governor has proposed shifting some funding to consolidate administrative and information technology costs; MassBudget adjusts this funding back in order to allow for more accurate across-year comparisons.) This is a 5.0 percent increase over current budget totals for MassHealth.

MASSHEALTH (MEDICAID) AND HEALTH REFORM

MassHealth	FY 2016 Current	FY 2017 Governor	FY17 Gov - FY16 Current
MassHealth Programs	14,675,823,778	15,412,989,192	737,165,414
MassHealth Administration	149,812,760	157,877,901	8,065,141
TOTAL	**14,825,636,538**	**15,570,867,093**	**745,230,555**

The Administration has several proposals to encourage MassHealth members to move towards managed or coordinated health care plans. Managed care has the potential to encourage more preventative and better integrated care, but its restricted networks can also limit access to certain specialists or providers.

Effective January 1, 2017, the Governor proposes eliminating "optional" benefits for MassHealth members who are enrolled in the Primary Care Clinician (PCC) plan. The Administration expects that eliminating these benefits would save approximately $11 million. These optional benefits would be retained for members in the in the Managed Care Organizations (MCO).

The Governor is also hoping 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 hopes to align MassHealth in more ways with the private health insurance market and proposes other strategies to manage enrollment. Effective October 1, 2016, the Governor proposes implementing an annual open enrollment for MassHealth, eliminating the current flexibility that members have to shift among MCO or PCC plans as their health needs change. The Administration also expects that maintaining a regular schedule for re-determining member eligibility will help control caseload growth.

To address the growing costs of long term care, the Administration is also planning to immediately (as of February 1, 2016) place a moratorium on new home health agencies. Apparently, 12 new home health agencies have been referred to the Medicaid fraud unit within the Attorney General's office, and the Administration is hoping that better regulation of that industry might help crack down on recent cost growth in home health care.

On the other hand, in order to continue to support the persons with disabilities who want to live at home, the Administration is providing a $54 million increase for personal care attendants to support both increases in utilization and compliance with new federal overtime guidelines.

Nursing home rates will increase from $302.9 million to $332.9 million, but this $30.0 million increase will have no net cost to the state. An assessment on the facilities will increase to the maximum allowed by the federal government, which will be a $15.0 million increase for a total of $235 million, and the federal reimbursement will also increase by $15.0 million.

The Administration is not proposing eligibility changes for the MassHealth program, but the Governor's budget proposes restricting reimbursements to hospitals and community health centers from the state's Health Safety Net. 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 currently provides full reimbursement for care provided to people with incomes up to 200 percent of the federal poverty level. People with incomes up to 400 percent of the poverty level are 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 health insurance, and for whom even emergency health costs can lead to significant medical debt. The Administration proposes lowering the eligibility threshold for partial coverage by the Health Safety Net from 400 percent to 300 percent of the federal poverty level.

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. The shift (described above) to the Senior Care Options and OneCare program is part of this initiative. 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. The Administration is increasing an assessment on hospitals by $250 million, an increase from 0.8 percent to 2 percent of their private pay revenue. 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 rate payments. The Administration will be using $73.5 million from this assessment as a transfer into the General Fund to help balance the budget.

MASSHEALTH (MEDICAID) AND HEALTH REFORM

Supplemental Payments to Providers	FY 2016 Current	FY 2017 Governor	FY17 Gov - FY16 Current
Medical Assistance Trust	1,027,500,000	462,000,000	(565,500,000)
Delivery System Transformation Initiative	189,141,606	205,597,334	16,455,728
TOTAL	**1,216,641,606**	**667,597,334**	**(549,044,272)**
Other Health Subsidies			
Commonwealth Care Trust	64,191,312	59,229,254	(4,962,058)
Prescription Advantage	18,668,169	18,521,922	(146,247)
TOTAL	**82,859,481**	**77,751,176**	**(5,108,305)**
Other Administration and Operations			
Center for Health Info. & APCD	31,140,523	28,453,693	(2,686,830)
Information Technology	121,340,895	117,665,406	(3,675,489)
Health Information Trust	8,153,272	12,853,272	4,700,000
Other Health Finance	2,200,000	9,542,285	7,342,285
TOTAL	**162,834,690**	**168,514,656**	**5,679,966**

In addition to funding for MassHealth, the Governor's health care budget proposal includes funding for supplemental payments to health safety net providers, funding for other subsidized health programs, and other administrative and operational supports (see table.)

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 reimbursement. Because of the variations in the timing of these payments and revenues, there can appear to be wide swings in the totals over the course of the budget process. Between FY 2016 and FY 2017, there are no significant changes anticipated in these trusts.

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 health care costs previously borne by the state, as in FY 2016, the FY 2017 budget allows for transferring up to $110 million from this trust into the General Fund to help balance the budget. In FY 2016 the actual transfer will likely total $81.8 million, and in FY 2017 will likely total $86.8 million.

Mental Health

The Governor's FY 2017 mental health budget proposal of $761.0 million is an increase of $12.8 million or 1.7 percent over FY 2016—just about enough to cover inflation overall. There is a notable increase in funding for residential behavioral health treatment, an important component of the Administration's commitment to treating drug addiction.

The Department of Mental Health (DMH) serves approximately 21,000 adults and children who have severe and persistent mental illness. The vast majority of persons receiving mental health services receive those services in the community, rather than in inpatient facilities. Funding for the administrative offices and operations at DMH would receive $27.4 million in the Governor's proposal, a decrease of $1.1 million compared to FY 2016 funding, which could have an impact on the ability of the Commonwealth to provide these essential services.

The budget proposes increasing funding for inpatient care by $9.7 million, for a total of $205.8 million. The Administration notes that this will 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 Governor proposes an increase of $1.8 million for statewide homeless support services (5046-2000), bringing funding to $22.9 million in order to continue funding for initiatives begun in FY 2016. Funding for children's mental health is essentially level-funded at $88.1 million, just $1.1 million more than in FY 2016. The Administration has indicated that the appropriation includes $3.6 million for the Massachusetts Child Psychiatry Access Project (MCPAP), 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. In past years there has been specific earmark language for this program.

Public Health

Funding for the state's public health programs in the Governor's FY 2017 budget proposal is $7.9 million more than in FY 2016, for a total of $584.6 million. This is a slight increase that is only enough to keep up with inflation, but it represents a dramatic reduction in support for public health programs compared to FY 2001, after which deep tax cuts reduced available resources to support essential government functions.

In keeping with the Administration's commitment to addressing the opioid addiction epidemic and combating substance abuse, the Governor's budget increases funding for substance abuse services in the Department of Public Health (DPH) by $9.3 million (7.1 percent) to $140.2 million. This is level funding for most of the department's substance abuse programs, with a $9.1 million increase directed to the Bureau of Substance Abuse Services, to support an increased level of prevention and treatment. Almost all other public health programs are essentially level-funded or cut. Maternal and child health programs are level-funded, with the exception of a $2.0 million decrease in expected manufacturers' rebate revenue for the WIC (Women, Infants, and Children) Program. The Governor proposes $12.5 million for the WIC Program state supplement, the same amount as in FY 2016. WIC is a nutrition program that serves low- and moderate-income pregnant women and small children. It provides access to healthy food and nutrition counseling during pregnancy and in the early years of life.

The early intervention program is also level-funded at $28.4 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 program is designed to help give these at-risk children a boost before they are preschool age.

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 to support anti-smoking efforts. Since then, these efforts were at first cut significantly, and then have dwindled year by year. FY 2017 funding levels are not even enough to keep up with inflation.

Other programs are cut or level-funded as well. There is a slight cut to the department's oral health program, for example, as Dental Health Services receive $67,000 less than in FY 2016, for a total of $2.0 million.

Although it might seem that funding to prevent sexual assault and domestic violence receives a dramatic boost in the Governor's 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*.) Funding for the Sexual Assault Nurse Examiner program is flat at $4.5 million, and funding is flat at $150,000 for the Healthy Relationships grant program. The Administration proposes to better consolidate and coordinate domestic violence prevention and services. Adjusting for this shift, these services in fact are essentially level-funded with FY 2016.

FUNDING FOR DOMESTIC VIOLENCE

		A	B	C	D	
Line Item #	**Name**	**FY 2016 Current**	**FY 2017 Governor**	***Amounts Gov. budget moves between line items***	**FY17 Gov. in FY16 structure**	**D - A**
4513-1130	Dom. Viol. and Sexual Assault Prev.	6,482,068	30,647,153	*(24,165,085)*	6,482,068	0
4800-0038	Services for Children and Families	280,394,460	282,777,853	*(2,238,179)*	280,539,674	145,214
4800-1400	Supports for At-Risk of Dom. Viol.	26,148,905	0	*26,403,264*	26,403,264	254,359
	TOTAL			***0***		**399,573**

Note: The Governor proposes shifting funding for domestic violence services from the Dept. of Children and Families to the Dept. of Public Health. Column B shows funding as it appears in the Gov's budget. Column C is based on materials from the Administration to allow for clearer comparisons with FY16, showing amounts from moved one line item into the other line items.

The only other notable increase in funding for public health programs is for the Safe and Successful Youth Initiative, administered through the Executive Office of Health and Human Services. This program targets high risk young men in communities across the Commonwealth and provides a public health approach to reducing gun-related violence. The Governor proposes adding $2.9 million to this program, while level-funding the other youth violence prevention grant programs at a total of $5.3 million within the department (4590-1506 and 4590-1507.)

State Employee Health Insurance

The Governor's proposal holds down the budget for health insurance for state employees by proposing to shift more of the costs onto the workers. The Governor proposes increasing the share of health insurance premiums paid by longtime employees (hired before June 30, 2003) from 20 percent to 25 percent. The Governor anticipates that these cost shifts would save the state approximately $30 million. Currently, only active employees hired since July 2004 pay 25 percent of their premiums. Retired employees now pay 20 percent of their health insurance, but the Governor proposes that employees who retire after June 30, 2016 would pay 25 percent. The Administration estimates that this shift would save the state $3 million.

State Retiree Benefits

The state has adopted a schedule to move towards full funding of health and non-pension post-employment benefits ("OPEB") for retirees. The Commonwealth funds the current and future OPEB through a variety of transfers to the State Retiree Benefits Trust.

The Governor's budget includes $450 million in an operating transfer directed to the State Retiree Benefits Trust (1599-6152). In order to fully fund the liability supporting future retirees' benefits, in FY 2012 the state decided to dedicate an increasing share of the its annual Master Tobacco Settlement award to the State Retiree Benefits Trust. By FY 2016, the intent was to use 40 percent of the Settlement award and 50 percent in FY 2017.

The FY 2016 budget held the transfer amount to the equivalent of only 30 percent of the Settlement award, approximately $24.4 million less than the amount directed by the statute. Instead of the Tobacco Settlement, in FY 2016 the state plans to use unexpended debt service appropriations at the end of the year, with the balance made up for by tax amnesty revenues in excess of $100 million. (The Dept. of Revenue, however, does not expect these excess tax amnesty revenues to materialize.)

The Governor's FY 2017 budget proposes again to suspend the required transfer from the tobacco settlement and to use unexpended debt service appropriations at the end of the year to fund state retirees' benefits, but does not indicate where the balance might come from if these so-called reversions are insufficient. The Governor's total proposed transfer to support state retiree benefits is $72.5 million, which is $48.3 million less than the amount stated in the statute. This reduced payment for retiree benefits functions as a one-time saving used to balance the budget. (See Non-Tax Revenue section of this *Budget Monitor*.)

Housing

The state's housing budget funds programs that create and maintain affordable housing and provide shelter and assistance to low-income homeless families and individuals. The Governor's FY 2017 budget proposes providing $465.4 million to housing programs. This amount is $20.1 million above the FY 2016 current budget but is about $6 million lower than the amount the state expects to spend in FY 2016.

Homelessness Assistance

A large portion of the state's housing budget funds shelter and short-term housing supports for low-income families with children who are homeless or at a risk of becoming homeless. In December 2015 the Emergency Assistance (EA) shelter program helped over 4,000 low-income homeless families of whom, almost 1,000 were living in hotels and motels because the family shelters were full.[1]

The Governor's FY 2017 budget proposes providing **EA** with $191.9 million, an increase of $36.8 million above the FY 2016 current budget but $6 million below the $198.0 million the state expects to spend in FY 2016.

In other homelessness assistance programs the Governor's FY 2017 budget recommends:

- Level-funding **Residential Assistance for Families in Transition (RAFT)** at $12.5 million. RAFT provides one-time assistance to families who are at risk of falling into homelessness

- Increasing funding by $694,000 for **HomeBASE** to $31.9 million. HomeBASE provides up to $8,000 in housing assistance per calendar year to help families living in EA shelters to move into housing. The Governor's budget proposal allows the Department of Housing and Community Development (DHCD) to use up to $300,000 in HomeBASE funds to help families who are eligible for HomeBASE, but are living in shelters run by state agencies other than DHCD. Under the Governor's proposal, the HomeBASE program can provide housing assistance to families who are living in shelters overseen by the Department of Children and Families, domestic violence shelters, or substance abuse shelters

- Increasing funding for the **End Homelessness Family Reserve Fund** by $500,000 for a total of $1.5 million. This account, housed at the Executive Office of Health and Human Services, will fund up to 5 regional consortiums to provide services to families at risk of becoming homeless.

- Level funding at $2.0 million a program that provides shelter and services to **homeless youth and young adults** who are up to 24 years old and are not in the care of a parent or guardian.

- Reducing funding for **shelter and services to homeless individuals** by $840,000 to $44.0 million. The Governor's budget level funds at $1.8 million the **Home and Healthy for Good** program, which helps chronically homeless individuals.

- Reducing funding for **caseworkers** working with homeless families and individuals by $1.4 million to $4.8 million. This funding level is likely related to staff reductions connected with the FY 2016 early retirement program. These lower staffing levels could harm the ability of caseworkers to effectively help homeless families and individuals.

Housing

The Governor's FY 2017 budget makes few investments in affordable housing with the exception of his proposed $5 million increase in the yearly allocation for the **Low Income Housing Tax Credit (LIHTC)** program. Once fully phased in over 5 years, this increase will cost the state an additional $25 million per year. Documents accompanying the budget estimate that this increase will help to produce an additional 1,500 new affordable units over the next five years. The Governor's budget proposes paying for this increase by reducing the amount the state pays for the film tax credit (See the Revenue section for a description of the Governor's recommended reform to the film tax credit.)

Under the LIHTC, private entities who invest in the creation or preservation of affordable housing get a credit on their taxes of $1 for every $1 in credit they purchase up to $1.3 million depending on the type of project being built.[2] To be awarded credits, developments must set aside a certain portion of total rental units to low- and middle-income renters who cannot afford market-rate rents.[3] Since it was created, the LIHTC has contributed to the creation of over 45,000 affordable rental units in Massachusetts. [4]

The Governor's FY 2017 budget proposes spending $82.9 million for the Massachusetts Rental Voucher Program, which is $8.0 million below the FY 2016 current budget. The FY 2016 budget provided MRVP with $90.9 million of which DCHD expects to spend $77.3 million to fund current vouchers and create

875 new vouchers. Should spending meet DHCD projections, MRVP will have a surplus of approximately $14 million at the end of FY 2016. DHCD will transfer this funding into FY 2017. The FY 2017 funding level proposed by the Governor, along with the transfer of the FY 2016 surplus, will allow DHCD to increase the value of existing vouchers but it will not allow the Department to create any new vouchers.

Over the last several years MRVP has received funding increases to allow DHCD to create new vouchers. These new vouchers both help to reduce the waiting list of families and elders who have applied for vouchers and allow families living in EA shelter, particularly those in hotels and motels, to move into permanent housing. However, because the voucher's value is set at the 2005 HUD Fair Market Rent (FMR), voucher-holders are often unable to find units they can rent particularly in high-cost areas like Greater Boston. [5] The Governor's budget allows DCHD to increase the value of the vouchers above the 2005 FMR on a case-by-case basis.

The Governor's budget provides several other housing programs with the same level of funding in FY 2017 as they were budgeted in FY 2016. Because the cost of providing the same level of services from one year to the next increases with the cost of inflation, agencies may have to cut services for programs that receive level funding. Housing programs that the Governor's budget recommends receive level funding in FY 2017 include:

- $64.5 million for subsidies to public housing authorities.
- $4.6 million for the program that provides rental vouchers to persons with disabilities.
- $5.5 million for the program that provides rental vouchers to clients of the Department of Mental Health.

Please see the Housing subcategory of MassBudget's Budget Browser for a full list of recommendations included in the Governor's Budget FY 2017 for housing and homelessness assistance programs. For additional descriptions of and funding history for housing programs that help families with children please see MassBudget's Children's Budget.

Child Welfare

The state supports child welfare primarily through its child protection agency, the Department of Children and Families (DCF). The agency has a dual mission: to protect children and strengthen families. The Governor's budget proposes a 5.1 percent increase over the current FY 2016 appropriated total for child welfare services, primarily for additional case workers and for administration and oversight. It is worth noting, however, that the Administration currently estimates that spending in FY 2016 for DCF will exceed current appropriations by approximately $16.8 million, suggesting that the Administration may need to seek a supplemental budget appropriation during the current fiscal year to avoid a deficit. The Governor's proposed FY 2017 budget for child welfare programs is $30.0 million more than FY 2016 estimated spending, a 3.2 percent increase.

The Governor's budget proposes $223.5 million, a $19.6 million, or 9.6 percent increase to fund the case workers who work directly with vulnerable families. In part due to highly-publicized cases of tragedy involving children and families involved with DCF, there has been broad attention to the challenges faced by DCF staff who work directly with vulnerable families. Although their union contract limits case worker caseloads to 15 cases each, the Governor's budget is not sufficient to reach that goal, but instead aims for a ratio of 18:1. This funding would, however, be sufficient to bring on 281 newly-hired staff, for a total of 236 new workers (net of retirements, etc.) Funding to train these new workers is cut slightly by $44,000 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 DCF budget includes $47.0 million for family support services, a $1.5 million increase over FY 2016 levels. This is an important increase, but not sufficient to provide all 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 Governor's budget level funds foster care and adoption at $280.5 million, and significantly increases funding for group residential foster care. The Governor proposes increasing group care funding by 5.4 percent or $13.5 million, to $263.9 million. This amount incorporates a previously-planned rate increase, as well as $2.7 million projected to cover anticipated growth in the number of children sent to live in group foster care. Although fewer children live in group foster homes, that service model is significantly more expensive than family foster care.

The Governor proposes shifting funding for support services for families at risk of domestic violence (formerly funded in 4800-1400) to the Department of Public Health, in order to consolidate domestic violence prevention and support services. MassBudget adjusts the Governor's funding and shifts this amount back to DCF for the purposes of making across-year comparisons (see table.) Accounting for these shifts, funding increases by approximately $400,000. However, a portion of the increase to the department's administrative funding would cover additional domestic violence specialists.

FUNDING FOR DOMESTIC VIOLENCE

		A	B	C	D	
Line Item #	**Name**	**FY 2016 Current**	**FY 2017 Governor**	***Amounts Gov. budget moves between line items***	**FY17 Gov. in FY16 structure**	**D - A**
4513-1130	Dom. Viol. and Sexual Assault Prev.	6,482,068	30,647,153	*(24,165,085)*	6,482,068	0
4800-0038	Services for Children and Families	280,394,460	282,777,853	*(2,238,179)*	280,539,674	145,214
4800-1400	Supports for At-Risk of Dom. Viol.	26,148,905	0	*26,403,264*	26,403,264	254,359
	TOTAL			***0***		**399,573**

Note: The Governor proposes shifting funding for domestic violence services from the Dept. of Children and Families to the Dept. of Public Health. Column B shows funding as it appears in the Gov's budget. Column C is based on materials from the Administration to allow for clearer comparisons with FY16, showing amounts moved one line item into the other line items.

The Governor also proposes consolidating funding for the family resource centers previously funded in the Executive Office and funded at DCF (see table.) These centers, located throughout the Commonwealth, help connect families to a variety of community and state services, and are particularly targeted to gaining community services for a "Child Requiring Assistance" working with the juvenile courts. The Governor proposes a total of $10.0 million for these centers.

FUNDING FOR FAMILY RESOURCE CENTERS

		A	B	C	D	
Line Item #	Name	FY 2016 Current	FY 2017 Governor	*Amounts Gov. budget moves between line items*	FY17 Gov. in FY16 structure	D - A
4000-0051	Family Resource Centers	2,500,000	0	*2,500,000*	2,500,000	0
4800-0200	DCF Family Resource Centers	7,398,054	9,978,898	*(2,500,000)*	7,478,898	80,844
TOTAL		**9,898,054**	**9,978,898**	***0***	**9,978,898**	**80,844**

Note: The Governor proposes consolidating funding for the Family Resource Centers. Column B shows funding as it appears in the Gov's budget. Column C is based on materials from the Administration to allow for clearer comparisons with FY16, showing amounts moved from the eliminated line item into the other line items.

Elder Services

The Governor's FY 2017 budget proposes funding Elder Services at $267.9 million, just slightly above FY 2016 current levels.

Of note, the Governor proposes combining some of the major accounts that provide funding for elder home care services. He accomplishes this by consolidating **Elder Enhanced Home Care Services** into the **Elder Home Care Purchased Services** and **Elder Home Care Case Management and Administration** line-items. This shift should not affect service delivery as the purpose of these programs is one in the same, namely to provide home care services for elder adults. The services provided through this funding include case management, homemaker and chore services, transportation, protective services, and others that help elders remain at home instead of moving to a nursing home. When accounting for this funding shift, elder home care services sees a slight decrease of approximately $770,000.

SHIFTS IN FUNDING FOR ELDER HOME CARE SERVICES

		A	B	C	D	
Line Item #	Name	FY 2016 Current	FY 2017 Governor	*Amounts Gov. budget moves between line items*	FY17 Gov. in FY16 structure	D - A
9110-1500	Elder Enhanced Home Care Services Program	70,255,327	0	*70,548,399*	70,548,399	293,072
9110-1630	Elder Home Care Purchased Services	104,595,483	158,143,535	*(52,861,223)*	105,282,312	686,829
9110-1633	Elder Home Care Case Management and Admin.	35,546,961	51,482,919	*(17,687,176)*	33,795,743	(1,751,218)
TOTAL		**210,397,771**	**209,626,454**	***0***	**209,626,454**	**(771,317)**

Note: The Governor proposes eliminating the Elder Enhanced Home Care Services line item (9110-1500) and shifts its funding into the two other line items above (9110-1630 & 9110-1633). Column B shows funding as it appears in the Gov's budget. Column C is based on materials from the Administration to allow for clearer comparisons with FY16, showing amounts moved from the eliminated line item into the other line items.

The only Elder Services program for which the Governor proposes a significant increase in is **Elder Protective Services**, which investigates elder abuse and neglect. He proposes an almost $5.0 million increase above FY 2016 levels, bringing the program to $28.1 million in FY 2017.

Lastly, **Grants to Council on Aging,** which provide grants to council on aging centers that provide services to and advocate for elders around the Commonwealth, see a decrease of $850,000 this year – bringing this program to $12.8 million.

Disability Services

The state budget supports a range of programs for individuals with disabilities. These include targeted job training programs that help people participate in the workforce as well as community-based supports to assist people and their families more broadly. In total, the Governor's FY 2017 budget provides $1.90 billion for disability services, a 2.7 percent increase from current FY 2016 levels.

Workforce programs for individuals with disabilities that receive notable increases under the Governor's proposal include the following:

- **Community Based Employment** receives $7.6 million, a $4.6 million increase from current FY 2016 levels. This program provides funding to move individuals with disabilities from sheltered work to competitive work opportunities in the community.

- **Community Day and Work Programs for the Developmentally Disabled** receives $192.2 million, a 4.9 percent increase from current FY 2016 levels. This program offers a wide variety of group and individual supports, helping people with developmental disabilities find work and build skills.

- **Community Transportation Services for the Developmentally Disabled** receives $22.7 million, a 3.0 percent increase from current FY 2016 levels. These services offer transportation assistance from home to community-based day or work programs.

In addition, **Respite Family Supports for the Developmentally Disabled** receives a 12.2 percent increase from current FY 2016 levels, a $ 6.8 million increase. Respite Family Supports provides families with disabled children support with specialized caregiving or other flexible community-based resources.

The Governor's budget proposes to decrease funding or level fund other disability programs, including:

- **Aging with Developmental Disabilities** is level funded at $250,000. This program provides direct support for older adults with developmental disabilities, staff training for identifying age-related conditions, and data collection on the effectiveness of support and training.

- **Autism Omnibus Services**, which provides services to individuals with autism spectrum disorders, receives $12.4 million, a 1.8 percent decrease from current FY 2016 levels.

- **Turning 22 Services for the Developmentally Disabled** receives $673,000, 10.3 percent below current FY 2016 levels. This program pays for a share of services to eligible young adults with disabilities during their transition year from services that they are no longer eligible for upon turning 22.

The Governor's budget proposes providing $32.8 million for rate increases to community-based human services providers under Chapter 257. A recent court ruling requires the state to comply with Chapter 257 of the Acts of 2008, mandating the state to pay nonprofit organizations for the full cost of providing essential services. This funding increase is spread across many programs, but we do not have an accounting of the impact on individual programs. For more information on the rate standardization paid to contracted human and social service providers, see this Chapter 257 update.

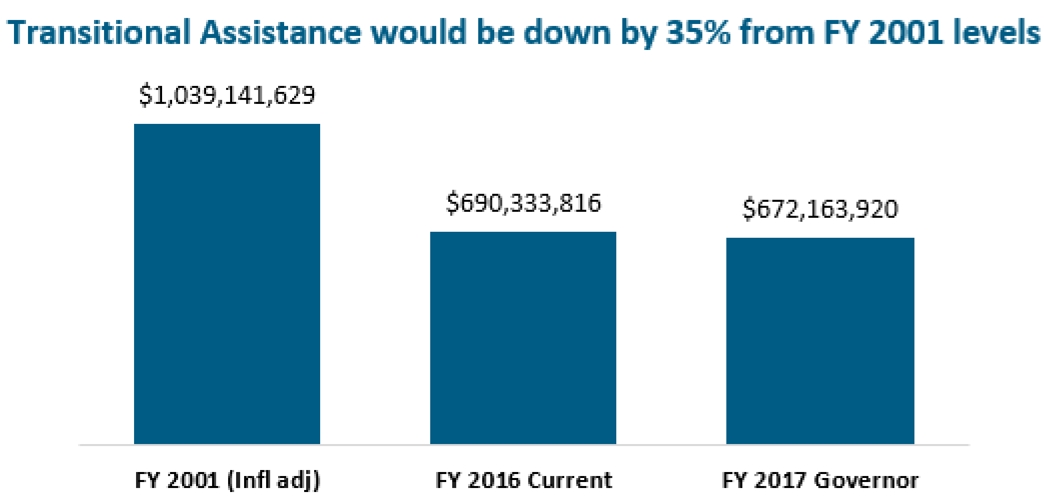
Juvenile Justice

The Governor's FY 2017 budget proposes $176.6 million for juvenile justice programs run by the Department of Youth Services (DYS), slightly below current FY 2016 funding levels. Most accounts at DYS are either level-funded or slightly decreased from last year.

The program that saw the largest increase was the **Alternative Lock Up Program,** which would receive $2.3 million, a 7.4 percent increase over the current FY 2016 budget. This program provides secure placements for youth arrested when courts are not in session and is designed to provide a safe (non-police) environment for youth who are awaiting a court appearance. Learn more about the state's Alternative Lock Up Program and its funding history in our Children's Budget.

Transitional Assistance

Transitional assistance programs help low-income individuals and families meet their basic needs and improve their quality of life when faced with an emergency. In total, the Governor's FY 2017 budget proposes a decrease to transitional assistance programs of $18.2 million from current FY 2016 levels.



For entitlement programs like transitional assistance, funding levels are significantly affected by anticipated caseload levels. As an "entitlement," any qualified person who applies must receive the service. Funding is directly tied to how many people are expected to qualify and apply. Transitional Assistance caseload levels have dropped significantly in recent years. For instance, caseloads for Transitional Assistance for Families with Dependent Children (TAFDC) dropped from 52,659 in December 2013 to 35,716 in December 2015—a 32 percent decrease. Some of this decline may be due to the overall improved economy; however, it may be partially due to new administrative changes that make it harder for clients to maintain their benefits. (For more detailed information on caseload levels for transitional assistance accounts, see "Research and Statistics" on the Department of Transition Assistance home page.)

TAFDC receives $181.2 million in the FY 2017 proposal, a 17.9 percent decline from current FY 2016 levels. This reduction assumes a continuation of declining caseloads.

The account that funds **Caseworker Salaries and Benefits** receives $72.3 million in the Governor's budget, a 2.1 percent increase from current FY 2016 levels. $3.5 million of the proposed increase goes to hiring 90 new caseworkers and employment specialists in FY 2017. Another $1 million would pay full year salaries of caseworkers hired in FY 2016. Part of these new initiatives would be funded through savings from Department of Transitional Assistance (DTA) employees who elected to retire under the early retirement incentive program included in FY 2016.

Emergency Aid to the Elderly, Disabled, and Children (EAEDC) receives $79.2 million in the FY 2017 proposal, a 3.9 percent increase over current FY 2016 levels.

DTA also funds some important workforce development programs. Specifically:

- **Employment Services Program** is proposed to receive $12.4 million in the Governor's budget, a 4.3 percent decrease from current FY 2016 levels. This is the primary education and job training program for TAFDC clients.

- **Pathways to Self-Sufficiency** is proposed to receive $15.1 million, a $12.1 million increase from current FY 2016 levels. This funding supports employment services for TAFDC clients who will no longer be exempt from the work requirement resulting from the 2014 welfare reform's mandated alignment of state disability standards with federal SSI disability standards.

Lastly, the Governor's budget proposal seeks to fund a new program, **Transportation for Supplemental Nutrition Assistance Program (SNAP) Participants**, at $2.6 million. Currently, SNAP has a work requirement for "able-bodied" persons without dependents. These are adults who are between the ages of 18 and 49, not receiving SSI benefits or otherwise disabled, not living with minor children, and not pregnant. The new program would likely support these SNAP recipients who are participating in the work program.

Other Human Services

There are a variety of other human service programs funded in the state budget, including supports for veterans, funding for the Soldiers' Homes, and a few particular cross-agency initiatives. Total funding for veterans' services (including the Soldiers' Homes) is $148.0 million, essentially level-funded with a $2.3 million decrease in administration at the Soldiers' Homes.

The state's Emergency Food Assistance Program (MEFAP), which is a state supplement to the federal funding for a network of food banks, is funded in the state budget under the Department of Agricultural Resources. The Governor proposes $17.0 million, not even enough to keep up with inflation. Although this state funding is just a supplement to federal dollars, the demand at food banks has been increasing, and there is concern that demand will grow again with the impending reduction in federal SNAP (food stamp) benefits for thousands of low-income people this spring.

The Governor also proposes consolidating funding for the family resource centers previously funded in the Executive Office and funded at DCF. See the Child Welfare section of this *Budget Monitor* for a discussion of funding.

Economic Development

Economic development programs aim to strengthen our state's workforce, support community investments, and stimulate economic activity. In total, the Governor's FY 2017 budget proposes a decrease to economic development programs of $16.3 million (11 percent) from current FY 2016 levels.

Under the Governor's proposal, **YouthWorks** (formerly Summer Jobs Program for At-Risk Youth) would receive $11.5 million, roughly level-funded from current FY 2016 levels. This program pays for the salaries of low-income and at-risk youth living in targeted communities for summer and some year-round jobs. The proposed funding decrease may cause the program to hire fewer youth as compared to previous years.

Further, the **Workforce Training Fund** receives $21.4 million, a 4.5 percent decrease from current FY 2016 levels. This trust is financed by an additional unemployment insurance assessment paid by Massachusetts employers. It provides grants to businesses to train current and newly hired employees.

Most other workforce and business development programs are close to level-funded, including **One-Stop Career Centers**, **Advanced Manufacturing Workforce Development Grants**, and the **Small Business Development Center at UMass**. For many programs, level funding may be equivalent to a cut because costs rise from year to year. For more information about various types of support for workforce training through the Massachusetts state budget, see MassBudget's **Jobs and Workforce Budget tool**.

Notable increases under the Governor's proposal include:

- **Workforce Competitiveness Trust Fund**, which would receive an increase of $1.8 million from current FY 2016 levels. This fund invests in training for unemployed workers, helping them build skills for high-demand industries such as health care, construction, and education. $2 million would be earmarked for a new economic opportunity fund to support individuals with chronic barriers to employment.

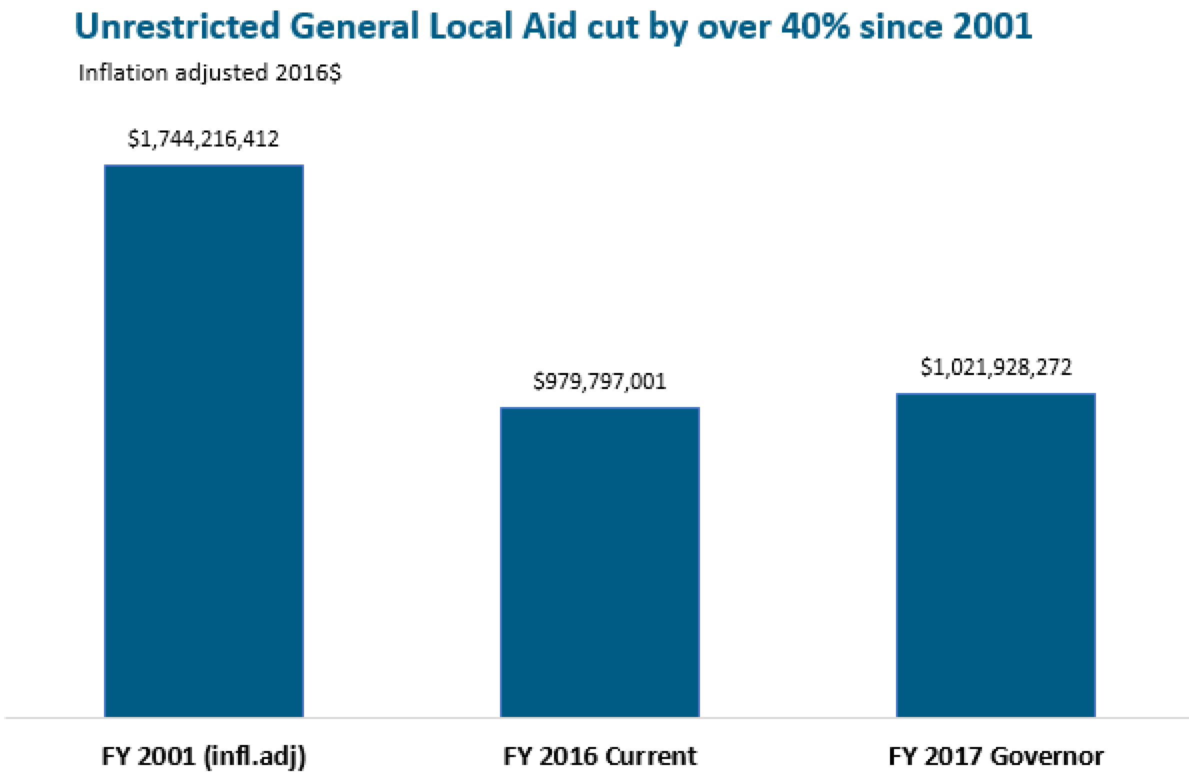
- **Demonstration Workforce Development Program**, a new program proposed to receive $1 million, would seek to expand statewide re-entry and job training opportunities to ex-offenders. For more information on this program, see the Prisons, Probation, and Parole section of this report.

General Local Aid

The Governor's FY 2017 budget proposes to increase Unrestricted General Government Aid (UGGA) by $42 million over current FY 2016 levels to $1.02 billion, an increase of 4.3 percent.

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 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 1990's and 2000's combined with the Great Recession. While over the past several years, general local aid funding has increased in step with or slightly above inflation, it still remains 41.4 percent below FY 2001 figures.



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. For example, local aid programs for libraries were level-funded, as was payments in lieu of taxes to communities with state-owned land that is not subject to local property taxes.

The proposed budget would reduce funding for the **Municipal Regionalization and Efficiencies Incentive Reserve** to $5.6 million, a 48.1 percent reduction from the amount that had already been reduced by $3 million as a result of the Governor's 9C budget cuts (to learn more about such cuts, read MassBudget's brief, What Are 9C Cuts?) In doing so, the FY 2017 budget proposal would increase available funds from $2 million to $2.65 million for the Community Compact program's incentive program to support best local practices. A competitive public safety grants program for populous communities with low per-capita police funding that last year received $4.25 million in available funds under this line-item would be capped at $1 million under the Governor's FY 2017 proposal. Also under this line-item, the proposed budget provides up to $2 million for continuing a District Local Technical Assistance Fund administered by the Division of Local Services within the Department of Revenue.

The largest form of local aid is for K-12 education, which is discussed separately in the K-12 Education section.

Transportation

In the Governor's FY 2017 budget proposal, the most significant change for transportation is a $30.9 million reduction to the **Massachusetts Transportation Trust Fund** as compared to the current FY 2016 budget. This fund contributes to highways, transit, intercity rail, small airports, the Massachusetts Turnpike, and Motor Vehicle Registry, while also receiving funds from the Commonwealth Transportation Trust Fund, tolls, and federal transportation sources. The proposed FY 2017 amount of $327.7 is 8.6 percent below the current FY 2016 budget of $358.5 million, which itself had been reduced $6.5 million by the Governor's January 9c cuts. The proposed amount roughly matches the $328.5 million that the Department of Transportation (MassDOT) projects it will spend from this fund in FY 2016, as a result of 412 employees with salaries totaling $28.8 million accepting early retirement incentives.

While early retirement offers are intended to save money, the Governor's budget could have proposed to reinvest those savings in other transportation programs. Instead, the budget proposes to level fund or slightly reduce other line-items. State aid to the **MBTA** would remain at the current FY 2016 level of $187.0 million. The Governor's budget also proposes $80.0 million for the state's 15 **Regional Transit Authorities**, a 2.4 percent reduction from the FY 2016 current budget.

Presentations by the Secretary of Transportation to the Legislature show that current capital funding levels are inadequate to improve—or even maintain—the current state of repair for highways, bridges, or the MBTA. For instance, the state's multi-year $3.0 billion Accelerated Bridge Program wraps up this year without renewal. At currently proposed spending levels for bridge repair and maintenance, the number of structurally deficient bridges would increase from about 400 today to over 700 in 2025. MassDOT calculates that the portion of state roads with poor or fair pavement will rise from 36 percent to 62 percent by 2020 at recent levels of investment on pavement surfacing. At the MBTA, about $83 million in additional investment in the state of good repair would be needed just to prevent a worsening of the current repair backlog, according to the Fiscal and Management Control Board's baseline report. (For more detail and citations on these investment projections, see Building a Strong Economy: The Roles of Education, Transportation, and Tax Policy).

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 are voluntarily replacing 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 not yet been eligible for early retirement incentives.

Most transportation funds are not allocated directly through the budget process. Spending on long-term capital assets are generally financed by borrowing against dedicated transportation revenues such as the gas tax, license fees, and federal funds. Since finances for the MBTA were reorganized in 2000 to rely heavily on a dedicated portion of the sales tax, these receipts have failed to keep pace with the economy due to an economic shift in consumption toward consumer health care spending, online transactions, and other services—all of which are exempt from sales taxes. The Governor's FY 2017 budget proposal projects receipt of $1.001 billion from an automatic transfer of sales tax revenue to the **MBTA State and Local Contribution Trust Fund**, an increase of $15.9 million over FY 2016.

The Governor's 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.

TRANSPORTATION

Line Item #	Name	FY 2016 Current	FY 2017 Governor	FY17 Gov - FY16 Current
1595-6368	Massachusetts Transportation Trust Fund	358,525,340	327,659,302	(30,866,038)
1595-6369	Mass. Bay Transportation Authority	187,000,000	187,000,000	0
1595-6370	Regional Transit Authorities	82,000,000	80,000,000	(2,000,000)
1595-6379	Merit Rating Board	9,553,119	9,695,431	142,312
T0100340	MBTA State and Local Contribution Trust Fund	985,200,000	1,001,100,000	15,900,000
TOTAL		**1,622,278,459**	**1,605,454,733**	**(16,823,726)**

Prisons, Probation & Parole

The Governor's FY 2017 budget proposes $1.36 billion for prisons, probation, and parole services in the Commonwealth, approximately the same as the current budget year. This includes funding for the state prison system run by the Department of Corrections (DOC), the House of Corrections (HOC) system overseen by 14 County Sheriffs, probation and parole services, the Correctional Industries program **(MassCor)**, and other related services.

While the Governor's proposal level funds most areas, funding for a few programs would be significantly increased:

- The **MassCor** program, which offers inmates training and work opportunities while providing affordable products to state and local government agencies and citizens, would be funded at $14.0 million, a 36.3 percent increase from previous FY 2016 levels. This proposed increase and the entire MassCor program is funded through retained earnings collected from the sale of products made by inmates, rather than funded by tax revenue.

- The **Sheriffs' Departments** in **Essex, Bristol, Plymouth,** and **Norfolk** would receive funding increases of between 10 to 20 percent above FY 2016 levels, which reflect the current and projected costs in these departments. Further reallocation of funding may continue as the Executive Office for Administration and Finance, along with the Sheriffs' Departments and consultants, develops a funding formula that may reallocate state funding to the 14 Sheriffs' Departments. This process should be completed by the end of February 2016.

- **The Demonstration Workforce Development Program** is a new program proposed to receive $1.0 million to expand statewide re-entry and job training opportunities to ex-offenders. This proposed funding would support the expansion of the Hampden County re-entry program model to one or more additional counties in Massachusetts. The program works with ex-offenders to overcome barriers to employment through connection with community and business partners.

Pensions

In his FY 2017 budget proposal, the Governor recommends increasing the state's contribution to the Pensions Reserves Investment Trust (PRIT) Fund by $226.1 million to a total of $2.20 billion. This represents an increase of 11.5 percent over the $1.97 billion contributed to the PRIT in FY 2016. This annual appropriation is in accordance with the 1988 state law that requires the Commonwealth to set aside money in the present in order to fund the future pension costs of public employees.6 The specific amounts to be contributed annually to the PRIT are stipulated in Massachusetts General Law, with a five year schedule included therein, running from FY 2012 through FY 2017.7 The schedule of annual pension contributions is updated every three years by the Secretary of Administration and Finance.8 The Governor's FY 2017 recommended transfer to the PRIT conforms to the amount designated in the General Laws.

Assets held and managed within the PRIT are used to fund future state employee retirement costs. The funds in the PRIT come from three sources: employee pension contributions, the state'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").[9]

Revenue

The Governor's FY 2017 budget proposal relies on additional revenues beyond those available as part of the Consensus Revenue Estimate. Together, these additional FY 2017 revenues total $473.0 million and they come from both tax ($270.0 million) and non-tax sources ($203.0 million) (see table, below). More than half of these revenues are one-time -- in other words, they are not derived from sources that will be replenished with new revenues beyond FY 2017. One-time 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 state's projected FY 2017 budget gap, see MassBudget's FY 2017 Budget Preview).

GOVERNOR'S FY 2017 REVENUE PROPOSALS	Ongoing	One-Time
TAX REVENUES	**($millions)**	**($millions)**
Portion of capital gains revenue diverted from Stabilization Fund		150.0
Large tax settlements	115.0	
Cap Life Sciences tax credit		5.0
SUBTOTAL	**115.0**	**155.0**
NON-TAX REVENUES		
Court house sale		30.0
Transfer from the Delivery System Reform Trust		73.5
Transfers from human services trust funds		12.7
Transfer from Commonwealth Care Trust	86.8	
SUBTOTAL	**86.8**	**116.2**
TOTAL	**201.8**	**271.2**

The Governor's budget was released in tandem with a separate "Sustainable Economic Development" bill. In the economic development bill, the Governor proposes reforms to the state's Film Tax Credit. It appears, however, that the revenue savings derived from the proposed Film Tax Credit changes would be redirected to other tax break programs rather than be used to help balance the FY 2017 budget.

Tax Revenue

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 is $26.860 billion, an amount 4.3 percent above DOR's updated FY 2016 forecast of $25.751 billion. *Baseline* revenue in FY 2017 would total $27.181 billion or 5.6 percent above the updated FY 2016 estimate (for more detail on the FY 2017 revenue adjustments see MassBudget's FY 2017 Budget Preview).[10] The CRE's lower 4.3% estimated growth rate for actual tax collections represents the baseline tax revenue growth figure reduced by the cost of several tax cuts.

These tax cuts include the automatic reduction in the tax rate on personal income that occurred January 1st, 2016 (from 5.15 percent to 5.10 percent) and another automatic rate reduction that likely will occur half way through the 2017 fiscal year, dropping the rate from 5.10 percent to 5.05 percent. The CRE also accounts for the recent increase in the value of the state's Earned Income Tax Credit, as well as other smaller tax changes. Notably, the CRE assumes collection of $1.484 billion in capital gains income taxes and assumes further that, as prescribed by law, $356 million of this total will be deposited automatically into the Stabilization Fund (see more discussion of capital gains taxes, below, and MassBudget's FY2017 Budget Preview).[11] More detailed discussion of particular elements of the Governor's FY 2017 budget that relate to tax revenues follows, below.

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) must be deposited into the Stabilization Fund rather than being made available for budgetary appropriation.[12] In his budget, the Governor proposes transferring capital gains income taxes above $1.278 billion to the Stabilization Fund (rather than revenues above the $1.128 billion threshold).[13] With this change, the Governor makes available an additional $150 million to support the FY 2017 operating budget.[14] In effect, this is similar to making a draw of $150 million on the Stabilization Fund to help balance the FY 2017 budget. While the use of these one-time revenues will help balance the FY 2017 budget, it will reduce the state's reserves for future emergencies and will add to the structural gap heading into FY 2018. Because capital gains income tax revenue is expected to total $1.484 billion in FY 2017, however, the Governor's plan also is expected to result in the deposit of about $206 million into the Stabilization Fund.[15]

Reforming the Film Tax Credit

In proposed legislation which the Governor released in tandem with his FY 2017 budget, the Governor proposes reforms to the state's Film Tax Credit. This credit currently costs the Commonwealth about $80 million annually in forgone tax revenue. As a tool for economic development, annual reports produced by the Department of Revenue (DOR) have shown the Film Tax Credit to be expensive relative to the number of jobs and additional tax revenue it generates. DOR estimates the five-year average annual cost at $119,000 per job created in Massachusetts.[16]

The Governor estimates his reforms will reduce the annual cost of the Film Tax Credit by $43 million.[17] These reforms include the following: [18]

- Reducing the credit's value from 25 percent to 20 percent of eligible salary costs for qualifying film productions
- Capping total credit value for any one production at $7 million
- Eliminating the refundability of the credit (though not the transferability of the credit which, in combination, in fact may increase rather than reduce program costs for the Commonwealth)

Savings from the proposed changes would be used to raise the cap on total tax credits available for the creation of low-income housing by $5 million in each of the next five years and to fund an expansion of the state's Single Sales Factor tax break for multi-state corporations. [19] (To learn more about changes to the low-income housing credit, see the Housing Section of this *Budget Monitor*. To learn more about the Governor's SSF proposal, see MassBudget's recent factsheet on the issue.)

Life Sciences Cap

The Governor's budget limits the amount of funding to be transferred from the state's consolidated net surplus to the Massachusetts Life Sciences Fund.[20] This limit on the funding available for distribution through the Massachusetts Life Sciences Credit program is expected to save $5 million in FY 2017.[21] 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.[22] Companies must apply for and be awarded these credits, but credits are available only to the extent that funds are available.

Large Settlements & Judgments Exceeding $10 Million Each

The FY 2015 budget amended the General Laws to allow much of the revenue derived annually from large tax-related and non-tax-related settlements and judgments to be used for budget appropriations rather than be deposited into the state's Stabilization Fund, as had been done in years prior. Under the new law, each year, the annual average for these types of collections over the prior five years is calculated and set as a threshold. Collections below the threshold are available for budgetary appropriations, but once total collections exceed the threshold, all additional such revenues are deposited into the Stabilization Fund.

In the five years from FY 2011 through FY 2015, annual collections from these excesses ranged considerably, from a low of $133 million in FY 2013 to more than $436 million in FY 2014. The 5-year average has hovered around $250 million, thus directing significant resources to the Stabilization Fund during years when collections exceeded this threshold. For FY 2015, the threshold was calculated at $263 million and for FY 2017 it likely will be a similar amount. Such collections in FY 2015 totaled $226 million.[23] In no recent year have collections from this source been below $130 million. The Governor's FY 2017 budget relies, conservatively, on $115 million from this source.[24] Funding cuts that affect the Department of Revenue's ability to hire and retain the staff who identify non-compliance and other issues that lead to these large settlements could reduce the amount of revenue available from this source in future years (see discussion, below).

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 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 Governor's FY 2017 budget proposes funding DOR's tax activities at $105.5 million which is $15.8 million (or 13.0 percent) less than the FY 2016 current budget amount of $121.3 million. 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 Governor's proposed cuts are still more severe (a 14.1 percent reduction).

DEPARTMENT OF REVENUE PROGRAMS

Line Item #	Name	FY 2015 Current	FY 2016 GAA	FY 2016 Current	FY 2017 Governor	FY 2017 Gov - FY 16 current
1201-0100	Department of Revenue	87,767,114	94,872,929	93,323,535	77,536,444	-15,787,091
1201-0130	Additional Auditors Ret. Rev.	27,938,953	27,938,953	27,938,953	27,938,953	0

A substantial portion of the proposed cut reflects anticipated personnel reductions, as more than 220 DOR employees took part in the Governor's early retirement program.[25] 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.[26] Large staff reductions can have implications for DOR's ability to identify and collect all the taxes owed to the Commonwealth. As an example, DOR staff are responsible for identifying and pursuing unpaid taxes 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 to fund both annual operating expenses (on the order of about $110 million a year) 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.[1] If the Governor's proposed FY 2017 funding level for DOR is included in the Legislature's final budget, this reduction could result in the loss of tens of millions of dollars in revenue -- or more -- in FY 2017 and beyond. Moreover, if these funding cuts are not restored in future years, 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 an opportunity to reduce their tax payments through increased levels of tax evasion or other forms of non-compliance.

Non-Tax Revenue

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.

Highlights in non-tax revenue include:

- The Administration had planned that the Commonwealth would sell the Sullivan Court House in East Cambridge this year, however, this sale is now budgeted for FY 2017, which would bring in approximately $30 million in one-time revenue.
- There have been continual downgrades in the expectations for revenues associated with the expansion of slot parlors in Massachusetts. Although initially the projections for FY 2016 were $105.0 million, the Governor's budget now assumes that revenues from slots will be $64.0 million in FY 2016 and $64.0 million in FY 2017.
- The Governor's budget assumes that $73.5 million will be available to the General Fund from the health care provider assessments generated in the Delivery System Reform Initiative (see MassHealth (Medicaid) and Health Reform section of this *Budget Monitor*.)
- The Governor's budget proposal counts on transferring $12.7 million remaining in several human services trust funds to the General Fund to help balance the budget.

Transfer of Revenue from Commonwealth Care Trust

A portion of the state's tobacco tax revenue is deposited directly into the Commonwealth Care Trust Fund (CCTF) to help pay for health care. As in FY 2016, there is language in the Governor's FY 2017 budget that allows up to $110.0 million of this revenue in FY 2017 to be transferred out of the CCTF and into the General Fund to help balance the budget. However, the amount actually transferred in FY 2016 is likely to be closer to $82 million, and the FY 2017 budget is currently counting on $86.8 million in revenue from this transfer.

Although this transfer from a trust into the General Fund could be considered a one-time source of revenue to balance the budget, as these revenue sources that create the surplus in the CCTF may not be available in the future, MassBudget accounts for these funds as an ongoing revenue source.

Overview of Temporary Revenue and Savings Used to Balance the Budget

The Governor relies on a number of temporary solutions to balance the budget. Temporary revenues and savings consist of items such as taking ongoing revenues that were initially intended for a particular use and redirecting them to balance the budget, selling state assets, pulling money out of dedicated trust funds, and postponing or delaying required payments.

The Governor's budget includes proposals totaling $319.5 million to:

- Divert $150.0 million in tax revenue from the Stabilization Fund (see Tax Revenue section above)
- Reduce the transfer to the life sciences credit program by $5.0 million (see Tax Revenue section above)
- Sell the Sullivan Court House for $30.0 million (see Non-tax Revenue section above)
- Transfer $12.7 million from dedicated human services trust funds to the General Fund (see Non-tax Revenue section above)
- Transfer $73.5 million from the Delivery System Reform trust to the General Fund (see Non-tax Revenue section above)
- Underfund the required contribution for "other post-employment benefits" ("OPEB") for state retirees by $48.3 million (see Non-tax Revenue section above)

GOVERNOR'S FY 2017 PROPOSALS FOR TEMPORARY REVENUES & SAVINGS

SOURCE	($millions)
Portion of capital gains revenue diverted from Stabilization Fund to General Fund	150.0
Life sciences tax credit cap	5.0
Court house sale	30.0
Funds in human services trusts transferred to General Fund	12.7
Funds in Delivery System Reform trust transferred to General Fund	73.5
Not funding the full required deposit to State Retiree Benefits Trust	48.3
TOTAL	**319.5**

To achieve balance, the Governor's budget also relies on an additional $159.3 million that could be considered temporary revenues or savings (see table below). Combining these would bring the total use of temporary revenues and savings in the budget to $478.8 million.

In addition to recommending depositing less than the full required amount to the State Retiree Benefits Trust, the Governor's budget proposal would use $72.5 million in reversions to fund that portion of this payment that the budget would make. Reversions are unspent budgeted funds that get returned to the General Fund at the end of the fiscal year. Funding an ongoing expense with money left over in other accounts at the end of the year is not generally considered as funding the ongoing expense with ongoing revenues, so this $72.5 million could be counted as an additional temporary revenue source. However, since there are reversions each year, this funding source is likely to be available in future years too and could also be considered an ongoing funding source. MassBudget therefore counts this in this separate category of proposals that could be counted as additional temporary revenue and savings but could also be counted as ongoing.

The Governor's FY 2017 budget proposal also counts on $86.8 million in revenue from a transfer from the Commonwealth Care Trust Fund (see Non-tax Revenue section above.) Because it is unclear whether or not this trust fund will have similar surpluses that could be used in future years, MassBudget includes these funds in this separate category of other items that could be temporary revenues or savings.

OTHER ITEMS THAT COULD BE CONSIDERED TEMPORARY REVENUES & SAVINGS	
SOURCE	**($millions)**
Using debt reversions to fund the State Retiree Benefits Trust	72.5
Transfer from Commonwealth Care Trust	86.8
TOTAL	**159.3**

BUDGET BY CATEGORY AND SUBCATEGORY ($ millions)	FY 2001 Final Adjusted for Inflation to FY17	FY 2016 GAA	FY 2016 Current	FY 2017 Governor with MassBudget Adjustments
Education	**7,528.0**	**7,715.7**	**7,738.1**	**7,880.5**
Early Education & Care	725.8	566.7	569.8	574.3
Higher Education	1,520.8	1,207.2	1,222.7	1,216.4
K-12: Chapter 70 Aid	4,144.0	4,511.9	4,511.9	4,584.0
K-12: Non-Chapter 70 Aid	686.5	626.1	629.9	638.7
K-12: School Building	450.8	803.9	803.9	867.1
Environment & Recreation	**300.8**	**211.2**	**211.9**	**197.1**
Environment	134.0	93.5	94.0	85.8
Fish & Game	24.3	27.5	27.5	27.6
Parks & Recreation	142.5	90.2	90.4	83.7
Health Care	**10,011.2**	**18,636.4**	**19,217.9**	**19,481.6**
MassHealth (Medicaid) & Health Reform	7,570.5	15,730.3	16,288.0	16,484.7
Mental Health	826.3	740.5	748.2	761.0
Public Health	725.5	560.3	576.7	584.6
State Employee Health Insurance	888.9	1,605.4	1,605.0	1,651.2
Human Services	**3,737.3**	**4,089.8**	**4,107.4**	**4,179.3**
Child Welfare	799.3	907.7	913.1	959.9
Disability Services	1,345.3	1,847.5	1,847.0	1,896.8
Elder Services	260.6	264.8	264.8	267.9
Juvenile Justice	165.2	177.2	177.1	176.6
Transitional Assistance	1,039.1	690.2	690.3	672.2
Other Human Services	127.7	202.4	215.1	205.9
Infrastructure, Housing & Economic Development	**2,025.2**	**2,276.2**	**2,279.1**	**2,267.8**
Commercial Regulatory Entities	59.9	58.2	58.4	60.1
Economic Development	293.3	157.2	153.2	136.9
Housing	346.2	431.9	445.3	465.4
Transportation	1,325.8	1,628.8	1,622.3	1,605.5
Law & Public Safety	**2,590.2**	**2,618.7**	**2,650.5**	**2,699.6**
Courts & Legal Assistance	784.7	693.5	697.8	725.2
Law Enforcement	378.7	384.3	382.4	395.5
Prisons, Probation & Parole	1,221.1	1,322.9	1,350.9	1,356.1
Prosecutors	160.2	158.7	158.7	168.6
Other Law & Public Safety	45.6	59.3	60.6	54.2
Local Aid	**1,771.4**	**1,021.6**	**1,018.6**	**1,055.5**
General Local Aid	1,744.2	979.8	979.8	1,021.9
Other Local Aid	27.2	41.8	38.8	33.6
Other	**4,673.2**	**4,887.7**	**4,992.9**	**5,446.8**
Constitutional Officers	109.1	76.3	76.3	83.0
Debt Service	2,207.6	2,517.5	2,630.7	2,644.5
Executive & Legislative	84.1	74.2	74.2	74.0
Libraries	48.0	25.3	25.3	25.2
Pensions	1,442.7	1,972.0	1,972.0	2,198.1
Other Administrative	781.7	222.4	214.3	422.0
Total Budget	**32,637.2**	**41,457.3**	**42,216.4**	**43,208.1**

The FY 2016 and FY 2017 MassHealth and Health Reform totals should not be compared directly because the timing of payments for certain trusts means that those amounts are shown in FY 2016 Current but not in FY 2017. 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. MassBudget also makes a number of adjustments to allow for better across-year comparisons, particularly when funding moves on- or off-budget. For example, some accounts are funded in some years through direct appropriations in some years and in "pre-budget" transfers; our totals include both. In FY 2017, these add $4.22 billion: tax revenues dedicated to the MBTA and school building assistance, the cigarette excise dedicated to the CCTF, the state contribution to the pension system, a transfer to the State Retiree Benefits Trust, and transfers to the Workforce Training Trust. We also reduce State Employee Health Insurance totals to back out revenue from municipalities that passes through this item but does not reflect state spending. We also add estimated amounts for retained tuition to our Higher Education totals.

[1] Caseload data for December 2015 from DHCD http://www.mass.gov/hed/docs/dhcd/hs/ea/eamonthlyreport.pdf
[2] DHCD description of the LIHTC available here: http://www.mass.gov/hed/housing/affordable-rent/low-income-housing-tax-credit-lihtc.html
[3] DHCD's Draft Qualified Action Plan for LIHTC: http://www.mass.gov/hed/docs/dhcd/hd/lihtc/2016draftqap.pdf pages 3-4
[4] DHCD's Draft Qualified Action Plan for LIHTC: http://www.mass.gov/hed/docs/dhcd/hd/lihtc/2016draftqap.pdf page 5
[5] The HUD FMR for 2005 for a two bedroom apartment in Greater Boston is $1,266. In 2016 the HUD Fair Market Rent for a two bedroom is $1,567. https://www.huduser.gov/portal/datasets/fmr/fmrs/docsys.html?data=fmr16
[6] MGL Ch. 32, Section 22C, Paragraph (l): https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIV/Chapter32/Section22C
[7] MGL Ch. 32, Section 22C, Paragraph (l): https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIV/Chapter32/Section22C
[8] MGL Ch. 32, Section 22C, Paragraph (l): https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIV/Chapter32/Section22C
[9] MassBudget, "Demystifying the State Pension System", March 2011 (pg. 3): http://www.massbudget.org/report_window.php?loc=Pension_3_11.html
[10] ANF Press Release on FY 2017 Consensus Revenue Estimate, January 14, 2016
[11] Governor's FY 2017 Budget (H.2), Outside Section 30: http://www.mass.gov/bb/h1/fy17h1/os_17/h30.htm
[12] Governor's FY 2017 Budget (H.2), Outside Section 30: http://www.mass.gov/bb/h1/fy17h1/os_17/h30.htm
[13] Governor's FY 2017 Budget (H.2), Outside Section 30: http://www.mass.gov/bb/h1/fy17h1/os_17/h30.htm
[14] $1.278 B - $1.128 B = $150 M
[15] ANF Press Release on FY 2017 Consensus Revenue Estimate, January 14, 2016 ($1,484 M - $1, 278 M = $206 M)
[16] Department of Revenue, 2014 Annual Report on the Film Tax Credit (see page 2, "Net Impact on FTEs"): http://www.mass.gov/dor/docs/dor/news/reportcalendaryear2012.pdf
[17] Governor's FY 2017 Budget (H.2), Highlights section (page 16) : http://www.mass.gov/bb/h1/fy17h1/dnld_17/fy2017h2.pdf
[18] An Act to Promote Sustainable Economic Development in Massachusetts, (see Sections 1-5): http://www.mass.gov/governor/legislationexecorder/legislation/an-act-to-promote-sustainable-economic-development.html
[19] An Act to Promote Sustainable Economic Development in Massachusetts, (see Sections 1-5): http://www.mass.gov/governor/legislationexecorder/legislation/an-act-to-promote-sustainable-economic-development.html
[20] Governor's FY 2017 Budget (H.2), Outside Section 27: http://www.mass.gov/bb/h1/fy17h1/os_17/h27.htm
[21] Governor's FY 2017 Budget (H.2), Section 1A (see "House 2 Tax Initiatives and Other Tax Revenues"): http://www.mass.gov/bb/h1/fy17h1/brec_17/hsect1a.htm
[22] Massachusetts Life Sciences Center: http://www.masslifesciences.com/programs/tax/
[23] Communication with DOR, 2-2-2016
[24] Governor's FY 2017 Budget (H.2), Section 1A (see "House 2 Tax Initiatives and Other Tax Revenues"): http://www.mass.gov/bb/h1/fy17h1/brec_17/hsect1a.htm
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[26] Communication with ANF, 2-2-2106