

Analyzing the State Budget for FY 2016

At the end of July the Legislature overrode a number of the Governor's budget vetoes and largely completed the process of setting spending levels for the state programs that educate our children, keep our communities safe, protect our most vulnerable, strengthen our economy and improve the quality of life in our communities.

The budget contains several significant new initiatives, including:

- Increasing the value of the state earned income tax credit from 15% of the federal credit to 23%. This will provide additional income to over 400,000 lower wage workers and their families (click [HERE](#) for town-by-town detail). Besides improving lives now by helping parents to pay for necessities like food and clothing for their children, this additional support is also likely to expand opportunity for these children over the long run: there is growing evidence that when the income of a lower income family increases, the children often do better in school and earn more as adults.
- Providing significant new tools for the administration to improve management at the MBTA. The budget creates a new MBTA Control Board and authorizes the Secretary of Transportation to appoint the Director of the MBTA. The budget also suspends for three years the Taxpayer Protection Act (commonly called the Pacheco Law) that regulates privatization. The law requires that privatization efforts achieve savings by efficiency improvements rather than by reducing pay and benefits for workers (click [HERE](#) for more detail).
- Addressing substance abuse with targeted investments throughout MassHealth, public health and mental health. In particular, new initiatives support first responders and others in the community struggling to address the challenge of opioid addiction.

The final budget, like the budget proposed by the Governor back in March, relies heavily on temporary strategies to achieve balance. It spends \$300 million in capital gains tax revenue that would have gone into the Rainy Day Fund under current law. It also counts on \$100 million from a tax amnesty and \$116 million from putting off paying some of our FY 2016 MassHealth bills into FY 2017.

As has been the case for many years, state budget choices are being shaped by fiscal challenges that date back to the late 1990s: after cutting the income tax by over \$3 billion dollars between 1998 and 2002 our state has had to make deep cuts in areas like higher education, local aid, and public health. Meanwhile, the highest income residents in the Commonwealth are paying a substantially smaller share of their income in state and local taxes than do the other 99%. If our tax system were reformed so that the highest income 1% of taxpayers paid roughly the same share of their income in taxes as everyone else, that would raise about \$2 billion that could be invested in things like making college affordable, improving our transportation systems, and providing all children with the supports they need to thrive.

Early Education & Care

The FY 2016 Budget directs \$567 million for early education and care programs, an increase of \$23 million over FY 2015 current spending, but still far below the \$710 million appropriated in FY 2001 after adjusting for inflation. See [Declines in Work Supports for Low-Income Parents](#) for more information about the long term funding decline in early education and care.

The largest increase goes for **Supportive Child Care** subsidies which provide early education and care opportunities to children in the care of the Department of Children and Families (DCF), the primary child welfare agency in Massachusetts. The budget actually combines **Supportive Child Care** with **TANF Child Care** into one line item - **Supportive and TANF Child care**. TANF child care provides child care for children of families served by or transitioning from Transitional Aid to Families with Dependent Children (TAFDC). Taken together, the budget provides a total of \$219.9 million for these subsidies, \$8.8 million more than FY 2015 current funding. Just over \$100 million is for supportive care, about \$20 million more than the FY 2015 current funding level of \$79.7 million. Around \$119 million is for TANF care, about \$12 million below FY 2015 current spending. Because of the significant drop in the overall caseload for TAFDC, this should be enough to provide a subsidy to all families receiving TAFDC who need.

The substantial increase for supportive child care will help DCF provide child care to many more kids who need it. Although not publicized like the income eligible wait list, many children involved with DCF have had to wait for child care in the past even though budget language usually requires a subsidy to any child involved with DCF who needs it. This increase, although not quite up to the \$108.0 million the Department of Education and Care (EEC) projected as the need for FY 2016 will help alleviate most of the waiting.

Supportive & TANF Child Care

Line Item #	Name	FY 2015 Current	FY 2016	Difference	Notes
3000-3050	Supportive Child Care	79,730,057	0	(79,730,057)	See text above
3000-4050	TANF Child Care	131,354,300	0	(131,354,300)	See text above
3000-3060	Supportive & TANF Child Care	0	219,907,383	219,907,383	See text above
	Total	211,084,357	219,907,383	8,823,026	See text above

The budget provides \$252.9 million for **Income Eligible Child Care**, and approved \$12.0 million to the **Income Eligible Wait List**. Overall this results in an \$8.5 million increase over funding in the FY 2015 current budget. Income Eligible Child Care provides a subsidy for eligible low-income families, but underfunding has resulted in a waitlist for a subsidy that numbered around 30,000 children in June 2015, an increase of about 5,000 children since March. For families of kids on the waitlist who cannot find affordable and stable care for their children, it makes it harder for parents to succeed in the workplace. For a more in depth look at what it would take to provide support to the kids in Massachusetts who need it the most, see MassBudget's [Building a Foundation for Success](#).

INCOME ELIGIBLE CHILD CARE

Line Item #	Name	FY 2015 Current	FY 2016	Difference	Notes
3000-4040	Income Eligible Wait List	14,600,000	12,000,000	(2,600,000)	See text above
3000-4060	Income Eligible Child Care	241,894,678	252,944,993	11,050,315	See text above
	Total	256,494,678	264,944,993	8,450,315	See text above

The budget appropriated \$5.0 million for a **Rate Reserve** for center based providers. This rate reserve will allow providers to make small quality improvements in their centers, including providing teachers with small salary increases or improved benefits. Early education teachers in Massachusetts earn around \$26,000 per year on average – only \$2,300 more than the federal poverty level for a family of four.

Services for Infants and Parents receives \$21.3 million, \$3.9 million (22 percent) more than FY 2015 current spending. For information about these services, see the MassBudget [Children's Budget](#).

The budget provides \$500,000 for the **Commonwealth Preschool Partnership Initiative**. This initiative would provide grants to cities, towns, school districts or collaboratives that are already providing pre-k with funds to help them plan how to increase access for children ages 2.8 to 3.9 years old.

Head Start receives \$9.1 million, a \$1.0 million increase over FY 2015 current spending, but level with the initial FY 2015 budget approved last July.

The budget also provides \$300,000 to continue an assessment of EEC which began in FY 2014. The FY 2014 budget appropriated \$500,000. The FY 2015 GAA budget appropriated \$385,000, but that funding was eliminated in a midyear cut. The assessment will continue the work begun in FY 2014 of evaluating services administered by EEC. Goals of the assessment include identifying promising practices in the administration of subsidies, evaluating the businesses process involved in service delivery, and measuring the effectiveness of the current system in meeting the needs of children and families.

K-12 Education

Education plays a central role in developing the next generation of citizens in the Commonwealth and in strengthening our state economy – see [A Well Educated Workforce is Key to State Prosperity](#).

For FY 2016, the budget increases **Chapter 70 education aid** by \$111.2 million to \$4.51 billion. This is a 3 percent increase over last year.

More specifically, the Chapter 70 allocation:

- Calculates districts foundation budgets using updated (over FY 2015) enrollment, municipal revenue, and inflation data.

- Continues to phase in reforms adopted in the FY 2007 budget. The budget includes 50 percent effort reduction, to reduce the local contribution of districts who are above their target contribution based on the 2007 reforms.
- Provides a minimum \$25 per-student aid increase over FY 2015 for all districts that would otherwise not receive increases.

During the course of FY 2015, both Governor Patrick and Governor Baker made significant mid-year cuts to several K-12 grant programs. The mid-year cuts totaled \$56.3 million, representing 9 percent of all funding for education grants. While the FY 2016 budget does not fully restore this funding, it does fund K-12 grants at \$34.3 million above current levels. For more details, see the table below. Many K-12 grant programs are designed to support schools and students facing the greatest challenges.

K-12 Grant Programs				
FY 2015 GAA	FY 2015 Current	FY 2016	FY 2016 - FY 2015 GAA	FY 2016 - FY 2015 Current
638,063,907	591,866,950	626,144,500	(11,919,407)	34,277,550

Several K-12 grant programs received increases in the FY 2016 budget. This includes funding:

- [METCO](#) at \$20.1 million, a 12 percent (\$2.2 million) increase over current levels. It is unclear whether this additional funding will support more students participating in METCO, or increase the per-student grant amount received by districts that accept METCO students.
- The [Special Education Circuit Breaker](#) at \$271.7 million, a 7 percent (\$18.3 million) increase above current levels. This is likely sufficient to fully fund the Circuit Breaker formula, which reimburses school districts for the costs of educating severely disabled students.
- [Homeless Student Transportation](#) at \$8.4 million, 14 percent (\$1 million) over current levels.
- The **Department of Elementary and Secondary Education** at \$14.4 million, 11 percent (\$1.4 million) above current levels.

Notably, the budget level-funded [Kindergarten Expansion Grants](#) at \$18.6 million. The legislative conference committee ultimately rejected proposals by the Senate and the Governor to drastically reduce these grant opportunities to plan and support full-day Kindergarten.

However, other K-12 grants were scaled back in the FY 2016 budget, including:

- [English Language Learner Programs in Gateway Cities](#), reduced by \$940,000 (44 percent) to \$1.2 million. This program provides for summer academies for teens in the Gateway Cities, to enhance language proficiency.
- [Extended Learning Time Grants](#), reduced by \$445,000 (3 percent) to \$14.2 million, limiting the ability of more schools across the Commonwealth to provide additional academic support and enrichment to students through more time in school.

- [Student and School Assessment](#), reduced by \$5.0 million (17 percent) to \$23.9 million. This is the main line-item that supports the state's educational testing systems.
- [Chapter 40S Payments](#) (Smart Growth School Cost Reimbursements) reduced by \$250,000 (50 percent) to \$250,000. This program provides funding to offset new school costs when cities and towns undertake high density residential and commercial development.

An outside section of the budget extended the final deadline of the **Foundation Budget Review Commission** from June 30th to November 1st. This commission has recommended updates to the state's model school budget (the foundation budget) and the Chapter 70 funding system. The commission filed a preliminary report at the end of June. It will explore a range of additional topics over the next several months related to improving the foundation budget to better serve young people across Massachusetts. All of the commission findings will be included in its final report in November.

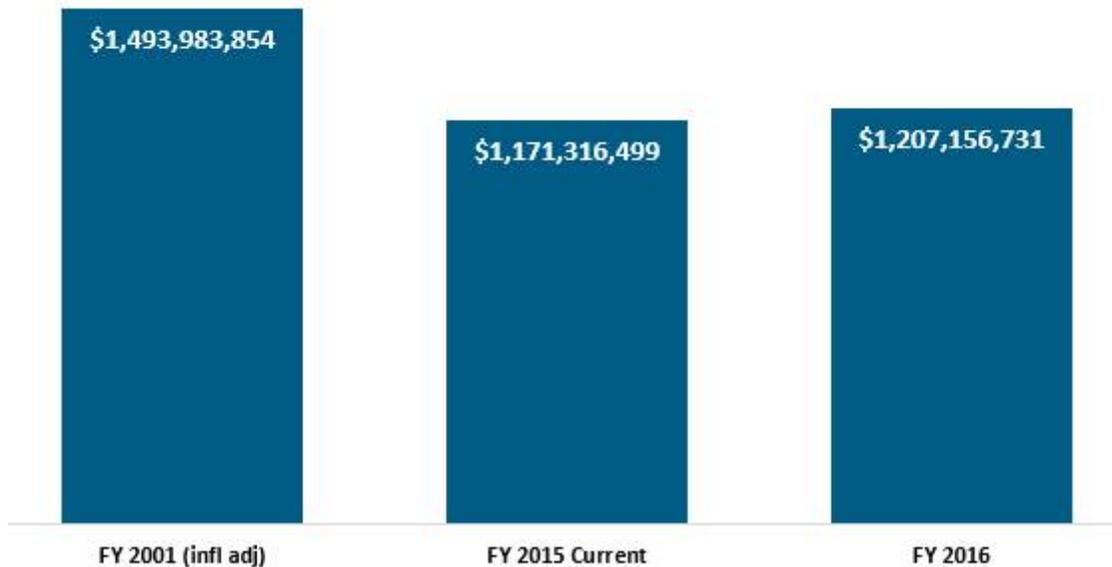
Higher Education

Higher education helps Massachusetts residents gain the knowledge and skills necessary to succeed in a competitive global economy. Our public higher education campuses--the University of Massachusetts, State Universities, and Community Colleges--educate roughly 70 percent of the state's high school graduates who remain in Massachusetts for college. In turn, graduates of public institutions are more likely to stay in Massachusetts after graduation, contributing to our state over the long haul - for more information see [Higher Learning, Lower Funding: Decline in Support for Higher Education in Massachusetts](#).

The FY 2016 budget does not contain significant new investments in public higher education— it funds higher education at \$1.21 billion, 3 percent higher (\$35.8 million) than current levels.

This funding level is \$286.8 million, or 19 percent, below FY 2001 levels (adjusted for inflation) a long-term trend that is in part the result of income tax cuts phased in over the late 1990's and early 2000's. These cuts continue to cost the state over \$3 billion a year.

Public Higher Education Has Been Cut 19 Percent Since 2001



The FY 2016 budget contrasts with FY 2015, where the state increased support for UMass by \$40 million, allowing a freeze in tuition and fees, helping to make the university more affordable for students. For FY 2016, UMass officials have announced that tuition and fees will increase by between 5 and 8 percent (per-student increases of \$900 and \$1,000 for in-state students at the UMass Amherst and UMass Lowell campuses).

The budget allows the **University of Massachusetts** to begin retaining tuition and fee revenue from in-state students starting in FY 2017. This is more expansive than the current practice that allows UMass (along with Community Colleges and State Universities) to retain revenue only from out-of-state students. UMass estimates that this change to tuition retention would result in roughly \$31 million in additional funding for UMass in FY 2017. However, the Legislature could reduce campus appropriations by some amount in response, so it is unclear what the net funding effect will actually be.

Appropriations to each of the three campus types are detailed in the table below. Totals below include three types of adjustments that help facilitate more accurate year-to-year comparisons.

These adjustments are:

- **Tuition Retention:** As referenced above, starting in FY 2012, all campuses began retaining tuition payments from out-of-state students, rather than remitting that revenue back to the state. MassBudget adds in an estimate of these payments for FY 2012 to the present, allowing for more accurate year to year comparisons.
- **Collective Bargaining and Other Campus Specific Programs.** MassBudget also adds collective bargaining accounts and other programs located at particular campus to their respective campus totals.
- **FY 2015 Mid-Year Cuts.** As part of mid-year budget cuts that were enacted in February 2015, campuses were required to remit additional campus-generated revenue back to the state. This is

tantamount to a cut in state funding and MassBudget makes an adjustment to FY 2015 Current levels to reflect this.

Campus Funding

Campus Type	FY 2015 Current	FY 2016	Difference	Notes
Community Colleges	268,538,226	277,533,112	8,994,886	Includes adj.
State Universities	292,930,204	300,196,874	7,266,671	Includes adj.
UMass	536,924,831	553,304,791	16,379,960	Includes adj.
Total, all campuses	1,098,393,260	1,131,034,777	32,641,517	Includes adj.

Several Higher Education programs were increased in the FY 2016 budget, including:

- A \$3.6 million increase (149 percent) to the [STEM Starter Academies](#), for a total of \$6.0 million. This increased funding should help support a more diverse array of students in pursuing majors in high-growth Science, Technology, Engineering, and Math fields.
- A \$250,000 increase (33 percent) to [Dual Enrollment Grants](#), for a total of \$1.0 million. This funding will facilitate more collaboration between high schools and public universities to provide early college experiences that can help students simultaneously complete high school and get a head start on higher education.

However, other Higher Education grants and programs were reduced in the FY 2016 budget, including:

- A \$2.5 million decrease (31 percent) to **State University Incentive Grants**, for a total of \$5.6 million. These funds help implement the [Vision Project](#), a Department of Higher Education strategic plan supporting efforts to increase college completion, close achievement gaps, and better align higher education with the workforce.
- A \$4.1 million decrease (31 percent) to the **Massachusetts Community Colleges** administration, for a total of \$9.1 million.

Environment & Recreation

The state budget funds programs that keep our air, land and water clean, maintain fish and wildlife habitats and staff parks, beaches, pools and other recreation facilities. The final budget for FY 2016 provides \$211.2 million in funding for environment and recreation programs. This amount is \$13.8 million more than the state expects to spend in FY 2015. Even with this increase, funding for environment and recreation have faced deep cuts since the state enacted over \$3 billion in tax cuts in the late 1990s and early 2000s. Since FY 2001 funding for these programs has fallen 29 percent in inflation-adjusted dollars.

Some highlights of the FY 2016 budget on Environment and Recreation programs include:

- \$300,000 to help the state **adapt to climate change** and \$200,000 for the **state climatologist**. The total for these two accounts is \$231,000 less than the FY 2015 final budget and \$700,000 less than

the amount appropriated in the 2015 General Appropriations Act (GAA). When revenues fell below expectations in FY 2015, Governors Patrick and Baker made about \$470,000 in emergency budget cuts to these programs.

- \$1.2 million for a new account that funds existing maintenance of **beaches in Metropolitan Boston**. This funding is in addition to the \$14.8 million account that provides funding to maintain beaches and pools in the state and to pay for seasonal staffing at Department of Conservation and Recreation's (DCR) recreational facilities. Outside Section 4 of the budget creates a permanent Metropolitan Beaches Commission to assess the needs of beaches in and around Boston, including maintenance and operations, and to provide recommendations.
- \$62.4 million for **state parks and recreation**, an increase of \$7.9 million above the FY 2015 budget and \$3.9 million above the FY 2015 GAA. As revenues did not meet expectations in FY 2015 Governors Patrick and Baker made \$4.0 million in emergency cuts to state parks. The state parks are funded through two accounts. One account provides funding for state parks and other recreation facilities. The second allows DCR to retain a certain amount of the revenue it collects through parking and access fees. The budget increases this retained revenue account by \$1.9 million above the FY 2015 budget to \$16.0 million. In early 2015, before the current Governor took office, DCR increased parking fees at some of its facilities. These increased fees will allow the Department to retain additional revenue to pay for more staff and improve maintenance of state parks and other recreational facilities.¹

MassHealth (Medicaid) and Health Reform

The FY 2016 budget for MassHealth and related programs does not include significant changes in benefits or in eligibility. MassHealth is the single largest program in the state budget. It provides health insurance to close to 1.7 million people in the Commonwealth (approximately 1 in 4), and is also one of the single largest sources of revenue for the Commonwealth, bringing in close to \$8 million each year (see "[Understanding the Actual Cost of MassHealth to the State.](#)") The program is funded jointly by the state and federal governments, with federal reimbursements covering more than half of MassHealth spending.

The FY 2016 budget – like the budget first proposed by the Governor in the spring – includes payment delays for providers, and builds in caseload assumptions based on being as efficient as possible in trimming program membership.

The FY 2016 MassHealth budget includes \$14.63 billion for the various MassHealth programs, as well as \$49.4 million to support funding to fund community supports for adults with brain injuries who are entitled to move from nursing homes to community residences (the *Hutchinson Settlement*), for a total of \$14.68 billion. The budget includes \$149.8 million for MassHealth administration and the Executive

¹ For a listing of DCR state parks fees please see: <http://www.mass.gov/eea/agencies/dcr/massparks/passes-and-fees/parking-fees.html>

Office, as well as funding for supplemental payments to health safety net providers, funding for other subsidized health programs, and other administrative and operational supports (see table below.)

MASSHEALTH AND HEALTH REFORM

	FY 2015 Current	FY 2016 Legislature	Difference	Notes
MassHealth (Medicaid)				
MassHealth Programs	13,479,711,668	14,682,448,673	1,202,737,005	
MassHealth Administration	154,952,123	149,812,760	(5,139,364)	
<i>Subtotal</i>	13,634,663,792	14,832,261,433	1,197,597,641	
Supplemental Payments to Providers				
Medical Assistance Trust	639,500,000	462,000,000	(177,500,000)	
Delivery System Transformation Initiative	218,961,639	189,141,606	(29,820,033)	
<i>Subtotal</i>	858,461,639	651,141,606	(207,320,033)	
Other Health Subsidies				
Commonwealth Care Trust	144,268,172	35,991,312	(108,276,860)	
Prescription Advantage	18,442,178	18,668,169	225,991	
<i>Subtotal</i>	162,710,350	54,659,481	(108,050,869)	
Other Administration and Operations				
Ctr for Health Info. & Analysis and APCD	33,467,893	31,140,523	(2,327,370)	
Information Technology	104,564,852	122,244,145	17,679,293	
Health Information Trust	8,122,697	8,153,272	30,575	
Other Health Finance	1,168,517	1,850,000	681,483	
<i>Subtotal</i>	147,323,959	163,387,940	16,063,981	
TOTAL	14,803,159,740	15,701,450,459	898,290,720	

The biggest “savings” in the FY 2016 MassHealth budget comes from \$456.8 million in what is referred to as “cash management.” This is a cost-shifting strategy that has been used in the MassHealth program over the past decade that involves pushing program payments from one fiscal year into the next. Of this total approximately \$340 million are costs that were carried forward from previous budget years that will again be shifted forward, and \$116 million are additional FY 2016 payments that MassHealth will delay paying until FY 2017.

To reduce program costs, MassHealth will step up its efforts to pare down the MassHealth rolls as quickly as possible when people become ineligible for the program (such as when they have access to other insurance or when they are no longer financially eligible.) This eligibility review, known as “re-determination,” is required by the federal government. The re-determinations could save the program close to \$400 million, or \$200 million in net savings. Re-determinations are supposed to happen annually, but had been put on hold for over a year during the roll-out of the Affordable Care Act enrollment website.

Within funding for the MassHealth program, the **Managed Care** program receives \$5.93 billion, including \$1.5 million for increased payments to mental health and substance abuse providers. This is half the amount recommended by the Senate.

The FY 2016 Budget appropriates \$2.98 billion for **Senior Care**, which supports elders in the community and in nursing homes. This total includes \$3.4 million to continue coverage for caregiver respite for participants in the Adult Foster Care program. The Adult Foster Care program allows

caregivers to provide for the care of an adult with a disability in their own home rather than having the individual move to a nursing or similar facility, and this funding provides respite for the caregiver by funding 14 days of replacement caregiving. The Senior Care line item also includes a Senate provision requiring MassHealth to reimburse nursing facilities for up to 20 days when a patient is on a medical “leave of absence”, and up to 10 days for a nonmedical leave.

In the funding for **nursing home rate supplements** the budget includes a \$6.0 million increase in the base rate, \$2.5 million for a wage add-on for nursing home staff, and \$2.8 million recommended by the House for incentive payments for facilities that established cooperative employment arrangements between workers at the facilities and their employers. These incentive payments were included in the FY 2015 budget. Total funding for the nursing home rate supplements in the FY 2016 budget is \$302.9 million, \$10.6 million more than in FY 2015.

The budget includes \$2.48 billion for the **Fee-for-Service** program. The budget estimates \$26.6 million in reduced costs due to newly-revised caseload estimates, and also anticipates \$3.0 million in savings from what is known as “academic detailing.” Academic detailing provides for academic or other health care professionals without ties to the pharmaceutical industry to provide research-based information to prescribers about the relative effectiveness of various prescription medications. Academic detailing programs have been shown to help reduce prescription drug costs. These funding assumptions are embedded in the Fee-for-Service program.

Funding for the Fee-for-Service program also includes \$137 million to cover services for approximately 10,000 children with autism. This benefit would bring MassHealth in line with other health insurance providers required to cover this benefit by a recently-passed state law, and was a priority recommendation from the recent Autism Commission.

For many years, MassHealth has not provided complete dental coverage for adults, but in recent years some coverage has been restored. The FY 2016 includes \$16 million for a full year’s coverage for adult dentures and fillings for all teeth. Budget language (Section 153) states that further restoration of adult dental services would require administrative and legislative review. The Fee-for-Service line item also includes \$6.0 million that will go to support state-operated emergency services in southeastern Massachusetts. This funding was previously appropriated to line items within the Department of Mental Health (see *Mental Health* section of this Budget Monitor.)

Language in the budget directs funding for payments to pediatric acute care facilities, which total \$7.4 million in the Fee-for-Service line item. Other than \$150,000 earmarked for Noble Hospital in Westfield, there are no additional funds designated for so-called DSH hospitals – those that provide a disproportionate amount of care to low-income patients.

In budget language describing the operations of the Executive Office of Health and Human Services, the budget includes language reimbursing managed care providers for the full costs incurred for their annual insurer fee under the federal Affordable Care Act, and assuming that the payment is federally reimbursable, also their tax liability. The budget also directs MassHealth to report on the feasibility of federal reimbursement for transitional support services– short-term services for persons recovering from addiction. Section 105 of the budget clarifies that MassHealth will cover all approved drugs for treatment of opioid or alcohol dependence. This coverage would include clinical stabilization services, such as 24 hour post-acute detoxification, relapse prevention, and aftercare services.

ConnectorCare

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 provides benefits similar to those previously provided by Commonwealth Care. This program 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 (in contradiction to the “individual mandate”) and similarly from an assessment on employers. Because of the new availability of federal revenue to pay for some of health care costs previously borne by the state, the FY 2016 budget will transfer \$110 million from this trust into the General Fund to help balance the budget.

Mental Health

The FY 2016 budget for mental health is \$740.5 million, \$26.8 million or 4 percent higher than the FY 2015 current budget. However, mental health services were cut by more than \$22.7 million mid-year in FY 2015, so this funding brings totals only slightly above the restoration of those cuts.

The Department of Mental Health 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, and the budget focuses some of its funding for community-based services.

The budget includes a total of \$434.1 million for a variety of **adult mental health services**. Although funding has shifted around, the total for adult mental health services includes the funding for the six state regional Recovery Learning Centers. Recovery Learning Centers provide a wide variety of peer-to-peer supports including support groups, employment supports, health and wellness programs, and assistance with accessing benefits and services. The budget also allocates \$4.0 million as recommended by the House to expand services for adults in continuing care facilities who are ready for discharge into community placements.

ADULT MENTAL HEALTH SERVICES

Line Item #	Name	FY 2015 Current	FY 2016 Legislature	Difference	Notes
5046-0000	Adult Mental Health and Sup	351,956,369	375,349,785	23,393,417	
5046-0005	Adult Community-Based Place	10,000,000	4,000,000	(6,000,000)	
5046-2000	Statewide Homelessness Sup	20,134,629	21,134,979	1,000,350	
5046-4000	CHOICE Program Retained Rev	125,000	125,000	0	
5047-0001	Emergency Services and Acute	31,402,705	24,258,428	(7,144,277)	
5055-0000	Forensic Services Program for	8,878,876	9,183,472	304,596	
Total Adult Mental Health Services		422,497,578	434,051,664	11,554,086	

The FY 2016 budget follows the Senate's recommendation to fund [children's mental health](#) services at a total of \$87.0 million, an amount just under FY 2015 funding at the beginning of the year, and 8 percent above the FY 2015 current total. This funding restores cuts originally proposed for Individual Family Flexible Supports. These funds allow clients to access programs and supports such as youth groups, family systems intervention, and case management, and support such family needs as scholarships, direct assistance, and respite.

The FY 2016 budget includes \$3.6 million earmarked 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. Funding for MCPAP includes \$500,000 to expand "MCPAP for Moms" which provides psychiatric consultation for obstetricians, midwives as well as other primary care providers who have behavioral health concerns about their pregnant and postpartum patients.

The budget funds **state psychiatric hospitals** at a total of \$190.8 million. The budget language specifies that the state will maintain the same number of inpatient beds in FY 2016 as in FY 2015 (at least 671 beds), and includes language that requires at least 260 beds at the Worcester Recovery Center. The budget also limits changes at Taunton State Hospital pending the development of a comprehensive long-term use plan.

The FY 2016 budget also provides \$6.0 million to cover state-operated emergency services for mental health patients in southeastern Massachusetts who have MassHealth insurance coverage, but this funding is no longer included in the mental health appropriations, it is now incorporated into the MassHealth totals (see MassHealth (Medicaid) and Health Reform section of this *Budget Monitor*.)

Public Health

Funding for public health services in the FY 2016 budget includes approximately \$560.9 million, a \$20.8 million or 4 percent increase above FY 2015 current funding totals. Funding for public health programs is essential to helping keep the Commonwealth healthy. It supports a wide variety of prevention and wellness programs, substance abuse treatment initiatives, programs that help vulnerable populations get access to health care, and essential environmental health and regulatory programs that keep the air

and water clean. The FY 2016 public health budget increases funding for substance abuse treatment and prevention, public health hospitals, and services to support victims of domestic violence. The budget, however, directs less funding to the grant programs that aim to reduce youth violence.

There are several public health programs that work to reduce youth violence by promoting positive [youth engagement](#), including funding for afterschool programming at community centers such as YMCAs and Boys and Girls Clubs. Together, the budget provides a total of \$11.3 million, \$864,000 less than (7 percent below) FY 2015 current budget totals.

To support the provision of **substance abuse treatment and services**, the budget includes a total of \$116.3 million, a \$5.7 million increase in funding compared to FY 2015 current budget totals (see table below.)

In FY 2015, there was \$10.0 million to set up the Substance Abuse Treatment Trust, and in FY 2016, the budget includes \$5.0 million for the Trust. This fund was established to increase the number of people receiving services from the bureau of substance abuse services in the Dept. of Public Health.

The FY 2016 budget provides \$3.1 million for **Recovery High Schools** which provide a safe and therapeutic environment for youth working towards recovery from substance abuse disorders. This funding would allow for the creation of two new programs.

The budget also includes \$100,000 to cover the costs of a new **municipal Naloxone bulk purchase** program. This program (detailed in Section 48) allows for the state office of pharmacy services to assist municipalities in the bulk purchasing of naloxone (“Narcan”). Narcan is a drug that is often lifesaving in its ability to reverse opioid overdose. The funding would also assist municipalities in providing training of first responders in the use of the medication.

In addition to this new Narcan program, this year’s budget – like in FY 2015 – includes \$1.0 million to fund a naloxone distribution program (**nasal Narcan**) for use by first-responders and bystanders. It also includes \$1.5 million for treatment and care management for substance-dependent young adults and their families, and \$2.0 million for a program to keep nonviolent offenders with opioid addictions from going to jail.

PUBLIC HEALTH SUBSTANCE ABUSE SERVICES

Line Item #	Name	FY 2015 Current	FY 2016 Legislature	Difference	Notes
1599-1450	Health Policy Commission Sul	0	600,000	600,000	
4512-0200	Bureau of Substance Abuse S	91,317,333	98,239,903	6,922,570	
4512-0201	Substance Abuse Step-Down	4,800,000	4,800,000	0	
4512-0202	Secure Treatment Facilities fr	2,000,000	2,000,000	0	
4512-0203	Young Adult Treatment Progra	1,500,000	1,500,000	0	
4512-0204	Nasal Narcan Expansion Prog	1,000,000	1,000,000	0	
4512-0210	Substance Abuse Treatment 1	10,000,000	0	(10,000,000)	
4512-0211	Recovery High Schools	0	3,100,000	3,100,000	
4590-0930	Municipal Naloxone Bulk Pur	0	100,000	100,000	
1595-4510	Substance Abuse Services Fur	0	5,000,000	5,000,000	
Total Public Health Substance Abuse Services		110,617,333	116,339,903	5,722,570	

HIV Prevention receives a total of \$40.6 million in the FY 2016 budget, a \$890,000 increase over FY 2015 current budget totals. The state's office of HIV/AIDS supports a wide array of clinical and community-based services, including prevention, testing, and treatment activities, and medical and support services, particularly for vulnerable people most at risk of contracting HIV.

The budget includes \$28.4 million in funding for the [Early Intervention Program](#). This is a 4 percent increase over FY 2015 totals. This program provides a variety of community-based therapies to infants and toddlers who already are showing developmental delay or who are at risk of developmental delay. In particular, the program has seen an increase in referrals for children involved with the Dept. of Children and Families, and children born with prenatal exposure to alcohol, opioids, or other addictive drugs.

The budget includes \$200,000 for the [Postpartum Depression Pilot](#) program. There is also new funding for postpartum depression screening through the MCPAP for Moms postpartum screening program supported through the Department of Mental Health (see Mental Health section of this *Budget Monitor*.)

[Smoking prevention](#) programs receive \$3.9 million in the FY 2016 budget, essentially same as in FY 2015. The state's award-winning anti-smoking programs have been cut 96 percent since 2001 and 73 percent since before the recession in 2009. Other prevention and wellness programs receive \$39.0 million – just 4 percent above FY 2015 funding, but below the FY 2015 levels prior to mid-year cuts. It is important to remember that even though inflation is not currently very high, program costs tend to increase each year, and level funding from year to year is – in fact – a cut in available funding.

Funding for domestic violence and sexual assault prevention and intervention receive a total of \$11.0 million in the budget, an increase of \$1.5 million or 16 percent compared to FY 2015 totals. This includes \$4.4 million for the **sexual assault nurse examiner program**, \$6.5 million for **domestic violence and sexual assault prevention**, and \$150,000 for the **Healthy Relationships** grant program, which provides funding for public schools to address teen dating violence.

The budget also provides a total of \$190.9 million for the **public health hospitals**. This is \$9.9 million more than FY 2015 current funding, and supports the maintenance of operations at Lemuel Shattuck Hospital, the Mass. Hospital School, and Tewksbury Hospital.

State Employee Health Insurance

The FY 2016 budget maintains current state employee cost-sharing arrangements for their health insurance coverage. The Commonwealth is one of the largest employers in the Commonwealth and provides health insurance to thousands of current and retired employees. Although the state's Group Insurance Commission (that oversees the administration of this health insurance) has historically been an effective and aggressive negotiator with health insurance companies so as to keep health insurance costs for the Commonwealth as low as possible, like all employers, the Commonwealth has been confronting rising health care costs over the years.

Total FY 2016 state employee health insurance funding is \$1.61 billion, a 3 percent increase over FY 2015 current funding totals. (In order to allow for more accurate year-to-year comparisons, MassBudget adjusts the State Employee Health Insurance budget totals by excluding amounts associated with municipal and retired teacher participation in the Group Insurance Commission. This spending is fully-

funded by revenues from the municipalities, and therefore are not included in our analysis of the state budget.)

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 budget includes \$425.0 million in an operating transfer directed to the State Retiree Benefits Trust. In order to fully fund the liability supporting future retirees’ benefits, in FY 2012 the state decided to dedicate an increasing share of the Master Tobacco Settlement agreement funds awarded to the state to the State Retiree Benefits Trust. In FY 2015, the state suspended the required transfer from the Tobacco Settlement, and instead directed this portion of the Settlement funds back into the General Fund in order to help balance the budget. In order to provide funding for retiree benefits, the FY 2015 budget transferred unexpended debt service appropriations into the State Retiree Benefits Trust. If that amount were to be insufficient, the remainder would come from the Tobacco Settlement funds.

In FY 2016, the planned transfer amount from the Tobacco Settlement funds would be approximately \$108.8 million, but once again the Legislature’s budget suspends this transfer. The FY 2016 budget also reduces the amount to be directed to state retiree benefits from \$108.8 million to approximately \$81.6 million. The budget follows a Senate proposal to again use unexpended debt service appropriations at the end of the year, with the balance to be made up for by tax amnesty revenues in excess of \$100 million. These transfers to support state retiree benefits total \$27.2 million less than the amount stated in the statute.

Early Retirement & Pensions

The budget incorporates projected savings from the recent **Early Retirement Incentive Program (ERIP)** for state workers, which was enacted in early May. The FY 2016 budget includes \$171.9 million in anticipated savings from ERIP and related initiatives, in line with the amount outlined in the relevant law. However, the program had fewer participants than was expected earlier in the budget process. Only roughly 2,500 state employees took the option to retire, about 2,000 fewer workers than the administration had projected. Based on the number of workers who did retire, the administration currently estimates the savings achieved so far to be \$126.0 million.

In order to meet the \$171.9 million savings target, the administration will take further measures to reduce state personnel costs. The ERIP law allows the administration to continue a hiring freeze, offer one-time payments to encourage those who have reached their maximum pension benefit to retire, and lay off additional state workers.

Under the program, some state workers were eligible to receive incentives to retire early, including gaining up to five years of additional service to count towards their pensions. Early retirements were limited to workers not in public safety roles at executive branch agencies who had over 20 years of service or who had reached 55 years of age. The window for applications ran from May 11 through June 12, and those taking the incentive concluded their service to the Commonwealth on June 30.

Savings from early retirement are achieved by limiting the re-hiring of positions to roughly one in five of those who leave. Achieving long-term savings depends on the ability of state agencies to perform their essential functions at lower staffing levels. If they are unable to deliver the same services with less staff, then the quality of services may decline or the state may have to override the cap on re-hiring positions. A recent report from the State Comptroller suggests that several agencies had high numbers of early retirements under ERIP including:

- The Department of Revenue, which had 289 employees participate, 15 percent of its total workforce.
- The Department of Transitional Assistance, which had 239 employees participate, also 15 percent of its total staff.
- The Department of Transportation, which had 412 employees participate, 9 percent of its workforce.
- The Department of Public Health, which had 231 employees participate, 7 percent of its staff.

Separately, the FY 2016 budget proposal provides \$1.97 billion to the **State Pension Fund**, in line with the revised funding schedule adopted by the Legislature in January 2014. This represents an increase of \$179 million, or 10 percent, over FY 2015.

Housing

The state budget funds affordable housing assistance and shelter for low income homeless families and individuals. The final budget for Fiscal Year (FY) 2016 provides \$431.9 million for affordable housing programs which is \$2.6 million less than the \$434.5 million the state expects to spend in FY 2015. In his veto message the Governor returned with an amendment Outside Section 144 of the Legislature's budget which transferred \$5.0 million from the General Fund into the Housing Preservation and Stabilization Trust Fund (HPSTF). For a full explanation of this amendment see section on HPSTF below.

The final budget decreases funding for shelter for low income, homeless families while increasing funding for a number of programs that help families and individuals move from shelter into housing or prevent them from becoming homeless.

A large portion of the state's affordable housing budget provides assistance to eligible low income families who are homeless. In FY 2015 the state spent \$191.8 million for **Emergency Assistance** (EA) which funds both state-supported family shelters and hotels and motels when the family shelters are full. The FY 2016 budget provides \$155.1 million for EA which is \$36.7 million less than FY 2015. As noted in our Budget Monitor for the Senate Ways and Means Budget [HERE](#), previous year's budgets have reduced funding for EA at the beginning of each fiscal year in anticipation that fewer homeless families will need shelter. But over the course of each year the need for shelter has exceeded the amount provided in the original budget and the Legislature has approved supplemental funding.

In recent years the state has tightened eligibility for EA which has forced some homeless families with children to live in places not meant for human habitation like a car, a public park, or a hospital emergency room before they can move into an EA shelter. (For a full description of eligibility criteria

for EA please see MassBudget's Children's Budget [HERE](#).) The Senate's FY 2016 budget proposal included language that allowed homeless families to enter shelter rather than sleep in these unfit places but the final budget does not include this protection. The budget extends a pilot program to make sure that healthy food is available to homeless families who are living in hotels and motels and often don't have access to proper cooking facilities.

As the final budget reduces funding for EA below the FY 2015 level, it increases funding for housing resources above FY 2015 levels including:

- \$18.7 million more for the [Massachusetts Rental Voucher Program \(MRVP\)](#) to \$82.9 million. The budget also allows DHCD to transfer up to \$8 million in unspent MRVP funds from FY 2015 into FY 2016 making the total amount available as much as \$90.9 million. (Because this \$8 million is a transfer rather than new funding, MassBudget does not include it in its total for the program.) This total increase will allow DHCD to create from 900 to 1,000 new vouchers. The final budget also removes a restriction adopted in the FY 2015 budget that prevented DHCD from prioritizing new vouchers to help homeless families move from shelters, including hotels and motels, into permanent housing.
- \$2.3 million more for [HomeBASE](#) to \$31.2 million.
- \$1.5 million more for [Residential Assistance for Families in Transition \(RAFT\)](#) to \$12.5 million.

The final FY 2016 budget also increases funding above the FY 2015 level for a number of other housing programs including:

- \$1.7 million more for programs that provide assistance to homeless individuals to \$46.6 million. Of these programs, the final budget increases assistance for **homeless individuals** by \$1.9 million to \$44.8 million. It cuts funding for the **Home and Healthy for Good** program, which provides housing and supports to individuals who are chronically homeless, by \$200,000 to \$1.8 million.
- \$1.1 million more for the **alternative housing voucher program** to \$4.6 million. This program provides vouchers to people with disabilities.
- \$750,000 more for **housing consumer education centers** to \$2.9 million. These centers provide services and counseling to help low and moderate income people remain in stable housing.
- \$250,000 more for the [Secure Jobs Program](#) to \$750,000. Outside Section 189 of the budget also allows funding from HPSTF to support this program.
- Outside Section 144 transferred \$5.0 million from the General Fund into **HPSTF** which supports programs that prevent or alleviate homelessness. The Outside Section also directed the Massachusetts Housing Finance Agency to transfer \$6.5 million to HPSTF. In his veto message when signing the FY 2016 GAA the Governor disapproved of the transfer of \$5 million from the General Fund into HPSTF and recommended that the entire \$11.5 million contribution be

provided by MassHousing. The House enacted the Governor's recommendation with some amendments but the Senate has not. Because both chambers have not yet considered the Governor's amendment the FY 2016 GAA does not provide any contributions to HPSTF.

The FY 2016 budget also include a number of new programs:

- \$2.0 million to provide shelter and services to **unaccompanied homeless youth** who are up to 24 years old. The budget also provides \$150,000 for the **Commission on Unaccompanied Homeless Youth**.
- \$1.0 million for the **Urban Housing Agenda** which provides planning grants to develop new affordable rental or homeownership housing in urban areas.
- \$800,000 to help local housing authorities implement the **public housing reorganization** law.
- \$1.0 million for the **End Family Homelessness Reserve Fund** housed at the Executive Office of Health and Human Services. This fund, first proposed in the Governor's Budget, will provide short-term, tailored and flexible assistance to families who are homeless or are in danger of becoming homeless. An FY 2015 supplemental budget filed by the Governor recommends providing an additional \$5 million for this account which can be spent in FY 2016. Because this supplemental budget has not yet been approved by the Legislature, MassBudget does not include this \$5 million request in its final housing totals for FY 2016.

Child Welfare

The Department of Children and Families (DCF) is the state's child welfare agency. DCF's primary mission is protecting children from abuse and neglect. At the same time, DCF aims to provide families with the services they need to remain together, understanding that kids do better in life when their families receive the services they need to be able to safely care for them. And although many people think of foster care or group homes when they think of children involved with DCF, around 80 percent of kids receiving services from DCF live at home.

The number of children involved with DCF steadily increased between 1999 and 2009. Over the next 4 years, the number of children declined significantly, but in 2013 the number of children began to increase again. With the number of kids with open cases increasing, DCF needed and received an increase in funding through supplemental bills during FY 2015. The FY 2016 Budget provides \$907.7 million for Child Welfare programs and services, a \$43.1 million (5 percent) increase over FY 2015 current spending.

With the number of open cases increasing, the focus on caseworker's caseloads has grabbed an increasing amount of attention. The budget increases funding to hire more caseworkers by \$18.3 million (10 percent) to \$203.8 million. This increase should allow DCF to maintain current staffing levels. But even with the hiring of hundreds of new case workers in FY 2015, employee turnover and the increase in the number of open cases still has many case workers with caseloads over 20 cases each, much higher than the recommended 15 cases to keep kids safe. Language included in the

administrative account would require DCF to track the number of kids in placement, the kind of placement (foster care, group care, kinship care, etc.) and the services they receive.

The Child Welfare Training Institute, which provides training to all of the new case workers hired by DCF, also receives an increase for FY 2016 of \$415,000 (20 percent) to \$2.5 million. Even with the hiring of hundreds of new case workers last year, the institute was level funded in FY 2015.

For FY 2015, the Legislature provided \$8.0 million in a reserve to give small salary increases to human service workers making under \$40,000. The legislature did not provide a reserve for FY 2016. But the Governor, in a proposed Supplemental Budget bill, provides an additional \$5.3 million for the salary reserve in FY 2015. These funds can be spent in either FY 2015 or FY 2016.

The three largest programs delivering services to kids in the child welfare system, **Group Care Services, Services for Children & Families and Family Support & Stabilization** all receive modest increases that are essentially just enough to cover the increase in costs due to inflation. For more information on these programs, see the MassBudget Children's Budget [Child Welfare](#) section.

The budget also provides \$81.0 million for **DCF Administration**, a \$4.2 million (5 percent) increase. One of the administrative services supported here is the fair hearing system allowing families to appeal a DCF decision regarding child placement or a finding of neglect or abuse. A recent report by The Ripples Group for the Office of the Child Advocate (OCA) notes that DCF is getting better at holding timely fair hearings, but that a significant backlog of cases exists. Some families have yet to receive a decision for fair hearings held years old. For more information or for recommendations on how to reduce the backlog, see the [Ripples report](#).

For the first time, funding for the OCA is separated from the executive branch giving that office a degree of independence. The Legislature provides \$600,000. The primary goal of the OCA is to ensure that children involved with any state agency, including DCF, remain safe and receive quality services. The OCA:

- Helps people resolve problems with the agency their family is involved with
- Reviews critical incidents at state agencies including DCF and the Department of Youth Service
- Reviews reports of abuse and neglect in out-of-home settings (preschool, foster care, group homes, etc.)
- Makes recommendations based on its work with children, families and the state agencies to improve the services children and families involved with the state receive.

A separate earmark within **DCF Administration** provides \$500,000 for services to prevent kids from running away.

Other programs receiving increases include:

- **DCF Family Resource Centers** receiving a \$2.2 million (42 percent) increase to \$7.4 million. Another \$2.5 million is provided to these centers in line item 4000-0051, slightly more than FY 2015 current spending.

- **Support Services for People at Risk of Domestic Violence** receiving a \$1.7 million (7 percent) increase to \$26.1 million.

Also included in the budget is an outside section requiring fingerprint checks for all persons older than 14 in a family applying to become foster, kinship, or adoptive families; and also for many of the people contracting with DCF to work with these kids. Some of these checks are already required by Federal and/or state laws.

A recent court [ruling](#) requires the state to fully implement Chapter 257 rates by the beginning of FY 2016. The budget provides \$30.0 million for Chapter 257 required rate increases. This increase is spread across many programs, but we do not have an accounting of the impact on individual programs. For more information on Chapter 257's rate standardization paid to contracted human and social service providers, see this [Chapter 257 update](#).

The **Transitional Employment Program (ROCA)** receives \$2.0 million in FY 2016, the same as last year. ROCA supports kids aging out of the child welfare system, the juvenile justice system, parolees and other high risk young adults. Programming focuses on building positive work habits while helping these young adults stay connected. For more information about ROCA, see [MassBudget's Jobs & Workforce Budget](#). In 2013 ROCA and the MA Executive Office of Administration and Finance launched a social innovation financing project to reduce recidivism among youth aging out of the juvenile justice system and keep them out of the adult criminal justice system. The program is initially funded with private investment with the state only reimbursing if the program meets certain performance goals. The Social Innovation Financing Trust Fund received \$250,000 in a FY 2015 mid-year budget bill to support this and other social innovation projects. The FY 2016 budget does not currently provide funding.

The budget provides \$500,000 for the [LGBTQ Commission](#) and \$80,000 for the [Commission on Grandparents Raising Grandchildren](#).

Elder Services

The FY 2016 budget funds Elder Services at \$264.8 million, \$12.1 million (4.8 percent) over current 2015 levels.

Elder services programs receiving the most significant increases over FY 2015 include:

- **Elder Enhanced Home Care Services** and **Elder Home Care Purchased Services** at \$70.3 million and \$104.6 million, respectively. These items received a combined increase of \$8.9 million. This increase may allow more seniors to age in place instead of living in a nursing home.
- **Grants to Council on Aging** at 13.7 million, an increase of \$2.4 million. Some of this increase is earmarked for specific council on aging centers in cities and towns around the Commonwealth.

The budget also includes \$150,000 for a **Home and Community Based Services (HCBS) Policy Lab** to enhance the Department of Elder Affairs' research and evaluation efforts around providing quality, consistent, and cost-effective home and community-based services to seniors.

Additionally, the budget establishes a commission within the Executive Office of Health and Human Services that will study and make recommendations to ensure equal access, treatment, care and benefits for older LGBT adults.

Disability Services

The state budget funds services for individuals with disabilities that support overall well-being, inclusion and meaningful participation in our local communities. Overall, the FY 2016 budget provides \$1.85 billion for disability services, a 5 percent increase from current FY 2015 levels and a 40 percent increase from FY 2001 levels in inflation-adjusted dollars.

The bulk of this year's increase - \$35.8 million - is for **Community Residential Supports for the Developmentally Disabled**, which supports adults in various residential settings to live as comfortably and independently as possible.

The budget provides increases to workforce development programs for people with disabilities, including funding:

- [Community Based Employment](#) at \$3.0 million, a \$2.0 million increase over current FY 2015 levels. However, this is about 40 percent lower than the Senate and Governor's proposals. This program provides funding to move individuals with disabilities from sheltered work to integrated work settings.
- [Commonwealth Corporation Transitions to Work](#) at \$150,000. Governor Baker originally eliminated this program through mid-year budget cuts after \$150,000 in funding was appropriated in FY 2015. This is an employment-training program for unemployed young adults with disabilities.
- [Community Day and Work Programs for the Developmentally Disabled](#) at \$183.2 million, a \$12.5 million increase from current FY 2015 levels.
- **Community Transportation Services for the Developmentally Disabled** at \$22.0 million, a \$6.1 million increase from current FY 2015 levels. This significant increase will be used to maintain services that offer transportation to and from work for individuals with disabilities.

Other disability programs that receive increases include:

- **Autism Omnibus Services**, a new line item, funded at \$12.7 million, provides services to individuals with autism spectrum disorders. Much of this funding supports programs that in the past have been funded in the Respite Family Supports and Department of Developmental Disabilities Administration (DDS Administration) line items. This funding level is in line with the projected spending for these services for FY 2015. In addition, \$300,000 is earmarked to fund

the autism commission, which will examine the range of services and supports necessary for individuals with autism to achieve their full potential throughout their lives. In total, the budget for these services is \$6.4 million higher than the Senate proposal and \$300,000 higher than the House proposal.

- **[Turning 22 Services for the Developmentally Disabled](#)**, funded at \$7.0 million, a \$500,000 increase from current FY 2015 levels. This program pays for a share of services to eligible young adults with disabilities during their transition year when they turn 22.
- **Aging with Developmental Disabilities**, a new line item, funded at \$250,000. This new program provides direct support for older adults with developmental disabilities, staff training for identifying age-related conditions, and data collection on the effectiveness of their direct support and training.

The budget provides \$30.0 million for required Chapter 257 rate increases. Chapter 257 standardizes rates according to the services delivered by providers to make the system more efficient and fair. A recent court ruling requires the state to implement Chapter 257 rates fully by the beginning of FY 2016. The \$30.0 million 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](#).

The budget also requires that the Secretary of the Department of Transportation work in collaboration with a disabled rider advocate ensuring that interests and needs of individuals with disabilities are understood and considered. The advocate must be either mobility impaired, have a family member who is mobility impaired, be a caretaker to an individual who is mobility impaired, or represent an organization that serves those with physical disabilities.

Juvenile Justice

The budget provides \$177.2 million for juvenile justice services administered by the Department of Youth Services (DYS), essentially level with FY 2015 current spending after considering inflation. Most of the accounts receive slight increases of between 1 and 6 percent, however all but one are still below pre-recession appropriations.

Transitional Assistance

For entitlement programs like transitional assistance, funding levels are significantly affected by anticipated caseload levels. The “entitlement” part means that any qualified person who applies must receive the service. Funding for these then is directly tied to how many people qualify and apply. Transitional Assistance caseload levels have dropped significantly in the past few years, although they may be dropping partially because of new administrative changes that are making 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 [DTA home page](#). The caseload for **Transitional Assistance for Families with Dependent Children (TAFDC)** dropped from 52,659 in December 2013

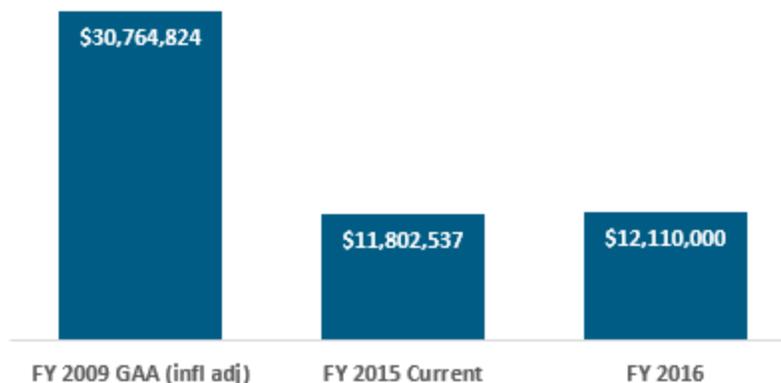
to 46,546 in December 2014. That trend has continued with the caseload dropping further to 37,427 in May 2015.

The FY 2016 Budget provides \$221.5 million for TAFDC, \$28.7 million less than FY 2015 current spending. It is important to note that under this program, grants given to qualified families have lost significant value over time due to inflation. For a more in depth analysis of the grants value, see [TAFDC: Declines in Support for Low-Income Children and Families](#). Instead of decreasing the appropriation in response to declining caseloads, the budget could have increased the value of the grant to help these children and families pay for basic necessities. The budget also could have directed these funds to the Income Eligible Child Care subsidy so more low-income working parents could find stable and affordable care for their children allowing them to succeed in the workplace. For more information on this subsidy, see the MassBudget [Children’s Budget](#).

For those families receiving TAFDC, the budget includes a rent allowance of \$40, and a clothing allowance was increased from \$150 to \$200 – the first increase to this allowance in almost 30 years. The clothing allowance is a one-time payment made in September helping poor families pay for back-to-school clothing.

The budget provides \$12.1 million for the **Employment Services Program**, a slight increase over FY 2015 current spending for the primary education and job training program for TAFDC clients. These supports received a big funding increase in FY 2015, but are still far below the level of support provided before the recession, over 60 percent lower than the FY 2009 GAA Budget. For a more in depth analysis on funding for education and job training programs, see [Declines in Work Supports for Low-Income Parents](#).

Funding for Employment Services Program still a fraction of pre-recession support



The **Pathways to Self Sufficiency** program, a new job training and counseling program administered by the Commonwealth Corporation receives \$3.0 million. It was initially funded at \$11.0 million in a FY 2015 supplemental budget bill in July which accompanied a welfare bill changing the disability standard. Implementation of the welfare bill has been delayed though and funding for this program was eliminated in two 9C cuts in November and February. An outside section in the budget provides

provide job support services to TAFDC recipients who will no longer be exempt from work requirements due to changes to the disability standard in the welfare bill. The program would utilize specialists in each community service area to help find jobs, training or education.

Emergency Aid to the Elderly, Disabled and Children (EAEDC) receives \$76.2 million, \$9.3 million below FY 2015 spending. EAEDC is a cash assistance program for individuals who are disabled, caring for someone who is disabled, 65 or older, in a Mass. Rehab program, and children who are not able to get TAFDC benefits.

Caseworker Salaries and Benefits receives \$70.8 million, \$5.6 million (9 percent) more than FY 2015 current spending.

Department of Transitional Assistance Administration receives \$64.4 million, \$3.3 million more than FY 2015 current spending.

In an outside section, the budget calls for developing a plan to place a representative from one stop career centers and DTA regional offices in the other's locations to offer resources for clients seeking employment and training opportunities.

Other Human Services

The budget provides \$17.2 million for **Food Banks**, an increase of \$2.1 million (14 percent) over FY 2015 and \$3.8 million (29 percent) over pre-recession levels.

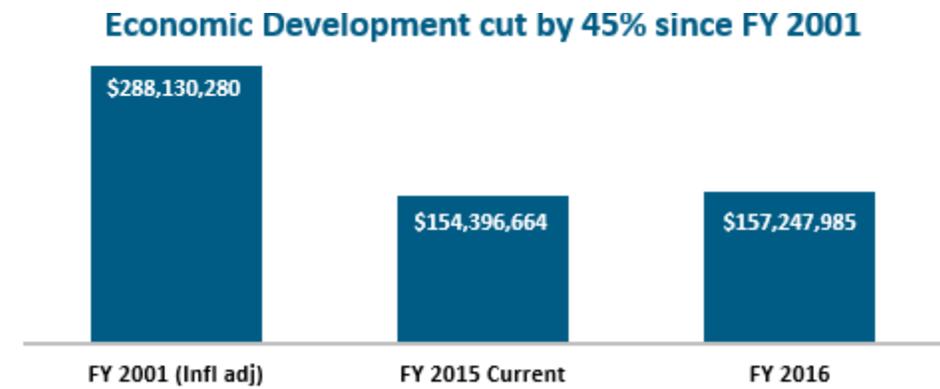
Programs and services for veterans receives \$148.8 million, \$8.7 million more than FY 2015 spending.

Some of the increases over FY 2015 include:

- \$32,000 (42 percent) for **Women Veterans' Outreach** to \$110,000.
- \$329,000 (11 percent) for **Outreach Centers** to \$3.4 million.
- \$237,000 (7 percent) for the **Veterans Services Administration** to \$3.5 million.
- \$3.0 million (4 percent) for **Veteran's Benefits** to \$77.2 million.

Economic Development

Economic development programs aim to improve the skills of our state's workforce, support community investments, and stimulate economic activity. Overall, the FY 2016 budget for economic development programs is \$157.3 million. Even with this slight increase of \$2.9 million (2 percent) from current FY 2015 levels, funding for economic development has fallen by 45 percent since FY 2001 in inflation-adjusted dollars with the implementation of over \$3 billion in tax cuts at the beginning of the last decade.



The FY 2016 budget includes several notable increases in workforce development, including funding:

- [Advanced Manufacturing Workforce Development Grants](#) at \$1.5 million, a \$675,000 increase from current FY 2015 levels. These grants provide training in precision manufacturing for unemployed and underemployed workers, including veterans.
- [One-Stop Career Centers](#) at \$4.5 million, a \$92,918 increase from current FY 2015 levels. In order to improve assistance for job seekers and increase the availability of career and job resources, the budget requires that a representative from the Department of Transitional Assistance (DTA) be placed at each one-stop career center, and that a representative from a one-stop career center must be placed at each DTA regional office.
- [Workforce Competitiveness Trust Fund](#) at \$2.2 million, which helps workers build skills necessary to attain work in high demand industries such as health care, construction and education.
- [YouthWorks](#) (formerly Summer Jobs Program for At-Risk Youth) at \$11.7 million, a \$1.9 million increase from current FY 2015 levels. Most of this boost will go towards satisfying the recent minimum wage increase and will not necessarily increase the number of kids enrolled into the program. YouthWorks pays the salaries to about 5,000 low-income and at-risk youth living in targeted communities for summer and some year-round jobs.

Other notable increases include funding:

- **Mass Cultural Council** at \$14.2 million, a \$2.4 million increase from current FY 2015 levels. This provides grants and services to nonprofit cultural organizations, schools, communities, and artists in Massachusetts.
- **Mass Service Alliance** at \$3.5 million, a \$1.4 increase from current FY 2015 levels. This serves as the state commission on service and volunteerism.

Other notable economic development programs are close to level-funded from FY 2015, including the [Workforce Training Fund](#), [Small Business Development Center](#), and the **Massachusetts Office of Travel and Tourism**. For many programs, level funding may be tantamount to a cut because costs rise from year to year.

The following new programs are included in the budget:

- **Community Compact Grants**, funded at \$650,000, supports communities and municipalities partnerships with state government to employ best practices determined by the [Community Compact Cabinet](#) created by the Baker Administration.
- **MassPort Authority Tourism**, funded at \$700,000, encourages tourism and travel from Israel, the Middle East and Asia to Massachusetts using direct flights to Logan International Airport.
- **North Shore InnoVentures**, funded at \$100,000, supports the development of early stage biotech and clean tech businesses.
- **Urban Agenda Economic Development Grants**, funded at \$2.0 million, supports entrepreneurs in urban communities to promote small businesses and support jobs and workforce development.

Finally, the budget enacts several new policy initiatives in economic development. They include clearly defining a “domestic worker,” and the creation of the Training Resources and Internship Networks (TRAIN) grant program, which will grant funds to community colleges to implement training programs for long-term unemployed workers. Also, the budget creates several commissions that seek to do the following: improve state agency information sharing capabilities in order to simplify new business registrations, enhance the economic vitality of rural communities, and study the impact of unemployment on older and long-term unemployed workers.

Local Aid

The FY 2016 budget funds **Unrestricted General Government Aid (UGGA)** at \$979.8 million, an increase of \$34.0 million over FY 2015 levels. UGGA is a form of local aid, money that flows from the state budget to city and town budgets, helping them fund vital local services such as police and fire protection, parks, public works, and schools (UGGA comes in addition to direct school support that districts receive from Chapter 70 aid).

The Commonwealth’s capacity to fund a range of vital programs, including local aid, has been limited by a series of state-level tax cuts phased-in during the late 1990's and early 2000's, combined with the lingering effects of the Great Recession. While over the past three years, funding for general local aid has increased with or slightly above inflation, in FY 2016 it will remain 43 percent below FY 2001 levels, adjusted for inflation. For historic funding detail, please see the Local Aid section of our [Budget Browser](#).

Additionally, the budget funds the **Municipal Regionalization and Efficiencies Incentive Reserve** at \$13.8 million, an increase of \$4.8 million (53 percent) FY 2015 levels. This program provides grants to supports improvements in the delivery of local services.

Transportation

Among the most notable aspects of the FY 2016 budget as regards Transportation are the changes it makes relative to the Massachusetts Bay Transit Authority (MBTA). The FY 2016 budget establishes a Fiscal and Management Control Board at the MBTA, consisting of 5 members appointed by the Governor.ⁱ Three of the members must come from the Massachusetts Department of Transportation board, with the goal of better integrating the functions of these two agencies, as per the goals of the broader 2009 reform of transportation agencies. The Board will “initiate and ensure the implementation of appropriate measures to secure the fiscal, operational and managerial stability of the (MBTA).”ⁱⁱ The Board is given broad powers to re-structure the operations and finances of the MBTA over the course of a three year period ending June 30, 2018, after which point the Board can remain in place for another two years, based on its own recommendation and the approval of the Governor. Once the Fiscal and Management Control Board is dissolved (not later than June 30, 2020), the regular board of directors of the Massachusetts Department of Transportation will again resume oversight and control of the MBTA.ⁱⁱⁱ

The FY 2016 budget also changes the rules governing the structure of the board of directors for the Massachusetts Department of Transportation, which typically oversees the MBTA. The budget changes existing law, increasing membership from 7 to 11 and would define more specifically the qualifications that would be required of members, including some members who must themselves be MBTA riders.^{iv} The new rules also set the length and timing of members’ appointment terms.^v Further, the budget establishes the Secretary of Transportation as the board chair.^{vi} Other transportation-related elements of the budget include the following:

- The Secretary of Transportation is directed to work in collaboration with a disabled rider advocate to understand and consider the interests of the disabled community.^{vii}
- The MBTA must create a plan to fully separate the operating and capital budgets, their respective revenue sources and expenditures. This plan must be submitted to the Legislature not later than December 15, 2015.^{viii}
- The budget adopts a set of provisions – very similar to those included in both the Governor’s and the House’s budgets - that would place a 3-year moratorium on “Pacheco Law” regulations for the MBTA.^{ix} The Pacheco Law requires public agencies to prove cost-savings (which may not be achieved through lower wages) before outsourcing publically funded projects to private contractors (for a detailed discussion of these regulations see MassBudget’s [Pacheco Law factsheet](#)). The MBTA will be required to submit an annual report to the Legislature detailing the number of service and procurement contracts executed under this moratorium, along with estimated and realized cost savings.

Another notable element of the budget is the increase in direct funding proposed for the MBTA. While the FY 2015 budget appropriated \$136.6 million to the MBTA, Governor Baker later reduced this amount to \$122.6 million through mid-year 9C cuts. The FY 2016 budget - like the Governor, the House and the Senate proposals - increases the MBTA’s direct funding to \$187 million.

The budget’s appropriation to this MBTA account represents only a relatively small part of the total funding provided to the MBTA. In addition to the funding provided through this specific line-item account, the MBTA also receives a portion of state sales tax revenues, which in FY 2016 will total \$985.2 million (a \$14.6 million increase over FY 2015). Beyond state-provided funding, support for the MBTA also comes from the communities the MBTA serves, as well as from other sources.

Looking at transportation funding as a whole, the Legislature boosts the FY 2016 total to \$1.63 billion or \$72.0 million (4.6percent) over current FY 2015 levels. Notably, however, in recent years, both official commissions and independent research groups focused on transportation needs and financing in Massachusetts have reported on a decades-long trend of severe underfunding in our transportation systems.^x In order to repair and maintain the Commonwealth's transportation infrastructure, these studies concluded that there was a need for additional funding on the order possibly of a billion dollars annually over a twenty year period. While several hundred million dollars in additional annual revenue has been provided for transportation needs since the release of these studies (in particular through the Transportation Finance Act of 2013), it is clear that a very large transportation funding gap still remains.

Law & Public Safety

In the Fiscal Year (FY) 2016 budget, among the notable Law & Public Safety elements is the increase in funding provided to the trial courts. For the major accounts that fund trial court operations, the budget provides some \$24 million more than current FY 2015 funding levels. This is particularly notable because court budgets have been under pressure over the last few years as phased salary increases for judges and some court officers have gone into effect. Prior to enactment of the increases, a 2011 report by the National Center for State Courts found that, when adjusted for cost of living, judges in Massachusetts had the 47th lowest pay of state judges throughout the US.^{xi}

In 2013, the Legislature approved a series of phased increases to the salaries of judges throughout the court system. Because court clerks' salaries are pegged, in General Law, at between 60 percent and 80 percent (depending on the type of clerk) of the salaries of judges, the salaries of court clerks also increased as a result of the Legislature's action. Phased in over three years, the final total annual cost of these combined salary increases was estimated at \$22.6 million.

In the FY 2014 budget, the first set of phased increases was fully paid for through increased funding to the necessary court accounts. In FY 2015, the second phase of salary increases was paid for only in part, with increased funding provided to the primary account supporting such salary increases, but not to all affected court accounts. The third and final increase will take place at the beginning of FY 16. Given that the salary increases are mandated by law and thus must be implemented, in order to balance the court budgets, other court functions would have to be cut absent new additional funding from the Legislature. The Chief Justice for Administration of the trial courts [had stated](#) that, should the courts be funded at current levels, up to 550 court employees would have to be let go. The FY 2016 budget appears to make this course of action far less likely.

Other noteworthy elements of the budget include the following:

- The Legislature establishes a process for developing a formula to allocate state funding among the 14 Sheriffs' Departments.^{xiii} The Secretary of Administration and Finance, in conjunction with the sheriffs and expert consultants, is charged with designing a funding formula and submitting this proposal to the Legislature by March 1, 2016. The Legislature also increases by 3-6 percent current FY 2015 funding levels for most Sheriffs' Departments.
- Shannon Grants are funded at \$7 million. This amount is \$1.25 million below current FY 2015 levels and, adjusted for inflation, is \$7.4 million below FY 2009 levels (enacted just prior to the

onset of the Great Recession here in Massachusetts). [Shannon Grants](#) help fund anti-gang and youth violence prevention efforts undertaken by law enforcement, community-based organizations, and government agencies in communities throughout the Commonwealth.

- The budget provides \$7.0 million for training of municipal police, including \$1.8 million for training new municipal police recruits. These amounts are slightly above current FY 2015 funding levels. The budget also increases funding for the State Police Operations account by \$12.4 million (or 5 percent) over current levels (\$3.6 million over FY 2015 GAA) to \$268.9 million.
- The budget provides \$98.9 million for Private Counsel Compensation (PCC), \$34.7 million below current FY 2015 funding levels. (This account funds the work of private attorneys hired by the Commonwealth to provide constitutionally required legal counsel to indigent defendants.) Although the recommended amount is well below current funding levels, it is the common practice of the Legislature to provide supplemental funding to this account throughout the fiscal year, as need requires. Notably, however, the budget also increases funding for *public* defenders by \$1.5 million over current levels. Public defenders (attorneys who are state employees) perform a function very much like that of the private attorneys paid for through the PCC account. It therefore is possible that some of the work that otherwise would be performed by private attorneys, instead could be handled by public defenders, decreasing the need for as much supplemental funding of the PCC account during FY 2016. In any case, it is unlikely that final funding for the PCC account during FY 2016 will be as low as the amount proposed in the Legislature's budget.
- The budget increases funding for District Attorneys' offices by 2-3 percent. The budget also increases funding for a number of special units, including the Wage Enforcement Program, False Claims Recovery unit, Gaming Enforcement Division, and the Litigation and Enhanced Recoveries unit. Additional, significant increases are provided for the Witness Protection Board (an increase of \$156,000 or 165 percent) and Domestic Violence Court Advocacy Program (an additional \$116,000 or 13 percent).
- Using his line item veto authority, the Governor reduced FY 2016 funding for the Parole Board by \$1.9 million to \$16 million, the same level as provided in the current FY 2015 budget. In the notes accompanying his vetoes, the Governor states that he is reducing funding for the Parole Board "to the amount projected to be necessary." The Legislature did not override the Governor's veto for this account.

Revenue

The most notable revenue provisions in the Fiscal Year (FY) 2016 budget include a 50 percent increase in the state's Earned Income Tax Credit paid for through a delay in implementation of the FAS 109 corporate tax break; a tax amnesty program for residents who have failed to file a tax return in previous years; and a number of provisions that will result in the collection of revenues that are owed to the Commonwealth but which currently go unpaid.

More broadly, the FY 2016 budget relies on a significant amount of one-time revenue, beyond the revenue available as part of the Consensus Revenue Estimate. One-time and temporary revenues are

those that are derived from sources that will not necessarily be replenished with new revenues beyond FY 2016. Temporary revenue sources are useful for balancing the budget in the current fiscal year and their use most often adds to the challenge of balancing the budget in future years. Together, the additional one-time or temporary revenues and savings included in the budget total \$578 million and are generated from both tax and non-tax sources.

FY 2016 REVENUE PROVISIONS	Ongoing Sources	One-Time Sources
TAX REVENUES		
Non-filer tax amnesty		100,000,000
Increase state EITC	<i>No FY 2016 Impact</i>	
Delay of FAS 109 deduction	46,000,000	
Divert excess capital gains revenue from Stabilization Fund to GF		300,000,000
Large tax settlements	100,000,000	
Additional DOR auditors	10,000,000	
Enhanced tobacco enforcement	7,000,000	
Life Sciences Tax Credit program cap		5,000,000
SUBTOTAL	163,000,000	405,000,000
NON-TAX REVENUES		
Court house sale		30,000,000
Maximization of federal revenue	10,000,000	
Reduce OPEB payment		27,200,000
Delay provider payments in MassHealth		116,000,000
SUBTOTAL	10,000,000	173,200,000
TOTAL	173,000,000	578,200,000

The budget also includes a half dozen sources of additional *ongoing* tax revenue. Together, these total \$173 million and are generated from both tax and non-tax sources. The higher EITC match rate will not impact FY 2016 revenues, though the delay of the FAS 109 corporate tax credit to which the EITC increase is tied will provide \$46 million in FY 2016. Two other sources of ongoing revenue are created through enhanced enforcement - collecting taxes already due to the Commonwealth, but which currently go unpaid. These include dedicated funding for the Department of Revenue (DOR) to hire additional auditors and creation of a task force to target illegal tobacco sales. In each case, taxes already

owed to the Commonwealth now will be collected, together resulting in an estimated \$17 million revenue gain. In addition, the Governor vetoed a provision that would have closed a loophole in corporate tax law. Closing this loophole would have generated another \$5 million in ongoing annual revenue. The Legislature did not override the Governor's veto (see more discussion, below).

Tax Revenue

The starting point for every state budget is the Consensus Revenue Estimate (CRE). The Fiscal Year 2016 CRE figure agreed to by the Administration, the House and the Senate is \$25.479 billion, an amount 4.8 percent above DOR's FY 2015 forecast of \$24.312 billion. The FY 2016 CRE assumes another automatic reduction in the tax rate on personal income will occur half way through the fiscal year, dropping the rate from 5.15 percent to 5.10 percent. (For more detail on the effects of these automatic rate reductions, see MassBudget's [Automatic Income Tax Rate Cuts: FAQ](#).) The CRE likewise assumes collection of \$1.387 billion in capital gains income taxes and, as prescribed by law, that \$300 million of this will be deposited automatically into the Stabilization Fund. The budget instead directs this \$300 million to the General Fund to help balance the FY 2016 budget (see more discussion, below).

Increasing the Earned Income Tax Credit

In the FY 2016 budget, lawmakers increased the value of the state's Earned Income Tax Credit (EITC) by a little over 50 percent. The [state Earned Income Tax Credit \(EITC\)](#) is a refundable tax break provided by the Commonwealth to lower-income workers in order to increase the after-tax rewards to work. It is available only to tax filers with earned income and provides benefits primarily to workers with children. A tax filer's federal EITC eligibility and credit value depend on marital status, the amount of income the filer(s) has/have earned during the tax year, and the number of dependent children the filer(s) claim.

The Massachusetts EITC operates under the same eligibility rules as the federal EITC, with the state credit value calculated as a percentage of the federal EITC amount claimed by the tax filer. Currently, this percentage (or "match rate") stands at 15 percent. The budget increases the match rate to 23 percent, effective January 1, 2016.

Under the current 15 percent structure, in Tax Year 2015 the maximum value of the Massachusetts EITC will be \$937 for a family with three or more children and \$832 for a family with two children. Under the higher match rates, these maximum amounts would jump to \$1,436 and \$1,276 respectively (an increase of some \$500 and \$440, respectively).^{xiii} Under the plan, the additional costs associated with the match rate increase will be offset for the first five years by delaying implementation of the FAS 109 corporate tax break (see discussion below).

Typically, between 415,000 and 430,000 filers claim the Massachusetts state EITC each year (for data on the number of EITC recipients in each town in Massachusetts, see MassBudget's [The Reach of the MA State EITC](#)). The program costs between \$125 million and \$135 million annually. Increasing the matching rate from the current 15 percent to 23 percent will result in a final program cost of approximately \$200 million annually, an increased annual cost of some \$70 million.

FAS 109

The FAS 109 corporate tax break is a tax break that primarily affects about a dozen multi-state businesses. In recent years, the implementation of this tax break - which originally was connected to a package of corporate tax reforms enacted in 2008 - has been delayed on a recurring, one-year basis. The FY 2016 budget, however, adopted a compromise proposal that will delay implementation of this tax break for five years. The Legislature's FY 16 budget had eliminated FAS 109 altogether, but legislators then worked with the Governor to craft the final plan, which includes the extended delay rather than outright elimination of the deduction. Delay of FAS 109 will postpone the loss of an estimated \$46 million in corporate income tax collections in FY 2016 and some \$79 million in each of the next several years. Under the FY 2016 budget, this revenue will be used to pay for the additional costs associated with increasing the state EITC. The adopted compromise - in addition to extending the period of delay - also will spread claims for the FAS 109 deduction over 30 years instead of over seven years, as was the deduction's original design.

While the details of the FAS 109 deduction involve technical and complex interactions among a corporation's records for tax purposes and its public financial accounting records, the deduction, in essence, is an attempt to offset certain costs to publically-traded companies resulting from the 2008 tax reform package. As part of that "combined reporting" tax package, rule changes were enacted that increased the cost of some tax liabilities of some companies operating in the Commonwealth. In certain cases, these rule changes would have required changes to a company's existing financial statements. The FAS 109 tax break will allow publically-traded companies to claim a new tax break that will offset the impact to their financial statements resulting from the effects of combined reporting on deferred tax liabilities.

DOR has estimated that this provision, if implemented as originally designed, would have cost the Commonwealth \$535 million during the period in which it was originally scheduled to be in effect - tax benefits were to be distributed equally across seven years, 2012-2018 (see [DOR report to Legislature](#)). DOR has estimated further that 88 percent (or \$472 million) of the total tax reductions associated with the FAS 109 tax break will accrue to just fourteen corporations. Notably, when this provision was enacted, the cost was unknown and a process was established that would allow an evaluation of the likely cost before the tax break would be implemented.

Non-filer Tax Amnesty

In the tax reform bill accompanying his FY 2016 budget, the Governor proposed instituting a tax amnesty program for people and business that have failed to file returns for tax years 2013 and prior. In the FY 2016 budget, lawmakers adopt this proposal^{xiv} and rely on \$100 million in additional revenue from this source to balance its FY 2016 budget. While some of the particulars of the program would be defined later by DOR (including which tax types would be included and when the 60-day program period would start),^{xv} as outlined in the budget this amnesty appears similar to one provided in 2002. The 2002 amnesty applied to a broad range of tax types and raised \$176 million.

Typically, tax amnesty programs are structured such that, during a limited period, taxpayers who have failed to file or have not paid the full amount of taxes due in years past are allowed to file and to pay their outstanding taxes without incurring penalties. Taxpayers are required to pay interest on the previously unpaid tax. Those taxpayers who already are the subject of a criminal investigation or prosecution related to their tax filings and/or payments are not allowed to participate in the program. The proposal additionally bars anyone who participates in this amnesty program from participating in any future amnesty during the next ten years.

This is the third tax amnesty program offered in the Commonwealth in less than two years - most recently, a limited corporate tax amnesty went into effect for 60 days, in March through mid-May of 2015. While tax amnesty programs can result in the collection of taxes that otherwise may have gone uncollected, if such programs are offered too regularly, they can become part of some filers' approach to tax planning. This has the potential to negatively impact collections on an ongoing basis, as filers delay or avoid paying their taxes, anticipating they will have the opportunity to settle up at a later date with no added penalty. Documents that accompanied the Governor's budget at the time he proposed such an amnesty, however, suggest the possibility that, by bringing non-filers into the system, future tax collections may increase as these newly compliant filers continue to file and pay taxes in future years.

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

Under current law, for revenue derived from capital gains income taxes, any amount that exceeds approximately \$1 billion annually must be deposited into the Stabilization Fund rather than being made available for budgetary appropriation. (The specific threshold amount for this deposit is adjusted annually to account for economic growth.) The FY2016 budget removes this requirement. The FY 2016 Consensus Revenue Estimate assumes capital gains collections of \$1.387 billion, while DOR has certified the Stabilization Fund threshold for capital gains deposits at \$1.087 billion. Accordingly, the budget relies on directing \$300 million to the General Fund and away from the Stabilization Fund.

While the use of these one-time revenues will help balance the FY 2016 budget, it will reduce growth of the state's reserves for future emergencies and will add to the structural gap heading into FY 2017.

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 depositing these revenues into the state's Stabilization Fund, as had been done in years prior. Under the new law, each year the annual average of these type 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 2010 through FY 2014, annual collections from these excesses ranged from about \$140 million to more than \$400 million, thus directing significant resources to the Stabilization Fund during these years. For FY 2015, the threshold was calculated at \$263 million and for FY 2016 it likely will be a similar amount (the official FY 2016 threshold has not yet been made available). Such collections in FY 2015 total \$183 million through mid-June (which represents most of the FY 2015 period).^{xvi} The budget relies, conservatively, on \$100 million from this source.

Tax Revenue Enhancements

The FY 2016 budget provides \$122.8 million for DOR's tax collection activities. This is \$6.0 million above the FY 2015 final budget and is \$693,000 above the FY 2015 General Appropriations Act (GAA). In FY 2015, as revenues fell short of the amount projected, Governors Patrick and Baker made a combined \$6.4 million in emergency cuts to DOR's Office of Tax Administration (OTA). The final budget for FY 2016 is \$7.4 million below the \$130.2 million that the Senate recommended in its budget

for the new fiscal year. As discussed in more detail below, the Senate estimated that its budget would allow DOR to hire additional auditors and collect additional revenues legally owed to the state but not yet paid.

The OTA, which makes sure that taxpayers are paying taxes they legally owe to the state, is funded through two primary accounts. The Administrative Account (1201-0100) pays the salaries of auditors and collectors, as well as support staff and lawyers. The Additional Auditors Retained Revenue account (1201-0130), created in FY 2004, allows DOR to retain a certain portion of the unpaid revenue it collects to help pay auditors' salaries.

DEPARTMENT OF REVENUE PROGRAMS

Line Item #	Name	FY 2015 GAA	FY 2015 Current	FY 2016	FY 2016 – FY 2015 current	Notes
1201-0100	Department of Revenue	94,179,565	87,767,114	94,872,929	7,105,815	See text above
1201-0130	Additional Auditors Ret. Rev.	27,938,953	27,938,953	27,938,953	0	See text above
Total		122,118,518	115,706,067	122,811,882	7,105,815	

In documents accompanying its FY 2016 budget proposal, the Senate noted that \$4.0 million of the increased funding it provided to DOR would have allowed the OTA to hire 40 additional auditors. This, in turn, would have allowed the state to collect an estimated \$20 million in additional revenue in FY 2016.

Many audits, particularly of multinational and multistate corporations that owe taxes to the Commonwealth, can be highly complex and time-consuming. By allowing the OTA to hire additional auditors, the Senate budget proposal would have increased the OTA's ability to collect taxes legally owed to the Commonwealth. It is also likely that the Senate's proposal to increase the OTA's capacity to conduct complex tax audits, would make it more likely that taxpayers, including large corporations, would comply with the Commonwealth's tax laws rather than engage in complex evasion schemes to avoid paying taxes they legally owe to the state.

As noted above, the FY 2016 budget provides less revenue to DOR than was proposed in the Senate's budget. Nevertheless, the budget earmarks \$2 million in the DOR administrative account to hire an additional 20 auditors. The budget assumes that these auditors will generate an additional \$10 million of revenue in FY 2016.

Two Other Tax Revenue Enhancements

First, the FY 2016 budget creates a multi-agency taskforce to combat illegal tobacco distribution and sales, including new enforcement measures against certain violators.^{xvii} The task force will consist of not less than 20 personnel from various agencies who will carry out enforcement and investigations. The task force also would be required to submit a report not later than July 1st, 2016 recommending changes to various enforcement options and associated penalties to enhance the task force's future efforts. From there on out, the task force would be required to submit to the Legislature an annual report on its activities over the course of the prior year and any recommendations arising from those

efforts. The budget assumes that increased compliance with current laws governing tobacco sales will result in collection of an additional \$7 million in tax revenue in FY 2016.

Second, the budget limits the amount of funding to be transferred from the state's consolidated net surplus to the Massachusetts Life Sciences Fund.^{xviii} This limit on the funding available for distribution through the Massachusetts Life Sciences Credit program is expected to save \$5 million in FY 2016. 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.^{xix} Companies must apply for and be awarded these credits, but credits are available only to the extent that funds are available.

Additionally, the Legislature's budget included a fix to existing corporate tax laws, closing a loophole that currently costs the Commonwealth about \$5 million annually. The Governor vetoed the following provision, noting that it would "impose additional taxes on certain businesses with operations in Massachusetts." The Legislature did not override the Governor's veto, so the provision was not included in the final budget. In July of 2008, Massachusetts enacted legislation aimed at reducing corporate tax avoidance. The most significant reform in the legislation was the adoption of "combined reporting." This system, now used in about half of the country, makes it more difficult for multi-state companies with numerous subsidiaries to reduce their taxes by shifting income between subsidiaries. It does this by requiring businesses with numerous subsidiaries that are engaged in what is termed a "unitary business" to file a combined return, with the income and losses of all of the subsidiaries included (Massachusetts then taxes only a portion of the corporation's total income, a percentage calculated from the share of the corporation's sales, payroll and property located in Massachusetts)).^{xx} As a result, shifting income between subsidiaries -- as multi-state companies previously had been able to do to exploit loopholes in the tax system -- no longer works as a tax avoidance strategy.

The Massachusetts definition of "gross income," however, is linked to the federal definition used by the IRS. The IRS definition draws a distinction between businesses incorporated in the U.S and those formed in some U.S. possessions, such as Puerto Rico. For corporations formed in the U.S. proper, "U.S. gross income" includes the income generated by all of the corporation's subsidiaries, world-wide. For corporations formed in certain U.S territories and possessions, however, the IRS income definition includes only "U.S. source income." Companies in this latter category therefore may be profitable yet show no "U.S. source income," and thus reduce or eliminate their federal and state income taxes.

The Legislature's FY 2016 budget included a fix to the existing Massachusetts combined reporting law that would have closed this loophole, but again, the Governor vetoed this provision of the budget. The worldwide income of companies formed under the laws of U.S. territories and possessions would be included in the combined report when filing as part of a unitary business group for Massachusetts tax purposes. These companies, like others, then also would owe a portion of their corporate income taxes to the Commonwealth (according to the Massachusetts-based share of their worldwide sales, payroll and property). The Legislature estimated that this would have generated an additional \$5 million annually.

Non-Tax Revenue

There are three main types of non-tax revenue: 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 other revenues, which are mostly funds that the state draws from an assortment of non-budgeted trusts.

The FY 2016 budget presumes that the Commonwealth will sell the Sullivan Court House in East Cambridge, and anticipates this will bring in approximately \$30 million in one-time revenue.

A special task force created in Section 183 will focus on maximizing federal revenues, such as grants, contracts and reimbursements, and the FY 2016 budget relies in part on \$10 million in federal revenues gained from revenue maximization efforts.

The budget also relies on \$105 million in ongoing revenue transferred into the General Fund from slot parlors.

The FY 2016 budget takes \$110 million from the Commonwealth Care Trust Fund to help balance the budget. The budget does not rely on a transfer of funding from the state's Stabilization ("Rainy Day") Fund, but does, however, propose retaining up to \$300 million in excess capital gains tax revenues in the General Fund, rather than directing them to replenish the Rainy Day Fund as prescribed in statute.

Other Savings or Reductions in Spending

The state has adopted a schedule to move towards full funding of health and other post-employment benefits ("OPEB") for retirees (see State Employee Health Insurance section of this *Budget Monitor* for description.) However, by funding this liability at less than the amount established by statute, the Legislature is "saving" \$27.2 million.

The budget also saves money in FY 2016 by delaying until FY 2017 \$116 million in FY 2016 MassHealth payments. This cash management savings (by shifting costs into future years) is in addition to approximately \$340 million in MassHealth costs that were carried forward from previous budget years and will again be shifted forward.

BUDGET BY CATEGORY AND SUBCATEGORY

BUDGET BY CATEGORY AND SUBCATEGORY (\$ millions)	FY 2001 Final Adjusted for Inflation to FY15	FY 2009 GAA Adjusted for Inflation to FY15	FY 2015 Current	FY 2016 GAA
Education	7,395.0	7,712.1	7,479.0	7,715.7
Early Education & Care	713.0	654.9	543.6	566.7
Higher Education	1,494.0	1,212.1	1,171.3	1,207.2
K-12: Chapter 70 Aid	4,070.8	4,382.5	4,400.7	4,511.9
K-12: Non-Chapter 70 Aid	674.4	683.5	591.9	626.1
K-12: School Building	442.9	779.1	771.5	803.9
Environment & Recreation	295.5	238.2	197.4	211.2
Environment	131.6	101.7	90.3	93.5
Fish & Game	23.9	23.6	26.7	27.5
Parks & Recreation	140.0	112.9	80.4	90.2
Health Care	9,834.3	14,247.4	17,616.2	18,608.2
MassHealth (Medicaid) & Health Reform	7,436.7	11,530.7	14,803.2	15,701.5
Mental Health	811.7	760.7	713.6	740.5
Public Health	712.7	659.8	540.1	560.9
State Employee Health Insurance	873.2	1,296.2	1,559.2	1,605.4
Human Services	3,671.3	3,894.0	3,957.0	4,089.8
Child Welfare	785.2	928.3	864.6	907.7
Disability Services	1,321.5	1,498.0	1,765.2	1,847.5
Elder Services	256.0	264.8	252.7	264.8
Juvenile Justice	162.3	181.0	174.1	177.2
Transitional Assistance	1,020.8	861.6	715.8	690.2
Other Human Services	125.4	160.2	184.6	202.4
Infrastructure, Housing & Economic Development	1,989.5	1,568.3	2,201.4	2,276.2
Commercial Regulatory Entities	58.9	57.2	55.7	58.2
Economic Development	288.1	191.9	154.4	157.2
Housing	340.0	307.0	434.5	431.9
Transportation	1,302.4	1,012.2	1,556.8	1,628.8
Law & Public Safety	2,544.4	2,820.3	2,644.5	2,618.7
Courts & Legal Assistance	770.8	727.1	699.0	693.5
Law Enforcement	372.0	462.8	371.0	384.3
Prisons, Probation & Parole	1,199.5	1,418.5	1,369.6	1,322.9
Prosecutors	157.3	162.1	149.9	158.7
Other Law & Public Safety	44.8	49.9	54.9	59.3
Local Aid	1,740.1	1,494.6	982.7	1,021.6
General Local Aid	1,713.4	1,459.2	945.8	979.8
Other Local Aid	26.7	35.4	37.0	41.8
Other	4,590.6	4,737.3	4,862.1	4,887.7
Constitutional Officers	107.2	99.2	81.3	76.3
Debt Service	2,168.6	2,367.5	2,497.6	2,517.5
Executive & Legislative	82.6	76.8	73.1	74.2
Libraries	47.1	37.8	25.3	25.3
Pensions	1,417.2	1,625.9	1,793.0	1,972.0
Other	767.9	530.0	391.8	222.4
Total Budget	32,060.7	36,712.1	39,940.2	41,429.1

Note: MassBudget subtracts \$325.1 million from FY 2016 budget proposal in the "Other" subcategory to reflect the anticipated gross savings from early retirement. Net savings from early retirement also include costs accounted for elsewhere in this subcategory. MassBudget also includes a transfer of \$81.6 million to the State Retiree Benefits Trust within State Employee Health Insurance. For details, see the "State Employee Health Insurance" section of this Budget Monitor. In general, MassBudget's budget total differs from other commonly-presented budget totals. We include "pre-budget" transfers in our budget totals, which in FY 2016, adds approximately \$3.9 billion: tax revenues dedicated to the MBTA and to school building assistance, the cigarette excise tax dedicated to the Commonwealth Care Trust Fund, the state contribution to the pension system, and the transfers to the Workforce Training Trust. We also make a number of adjustments in order to allow for more accurate across-year comparisons of budget totals. For example, we reduce State Employee Health Insurance costs to account for use of the Group Insurance Commission by retired teachers and by municipalities for their employees' health benefits, and we also add estimated amounts for retained tuition to our Higher Education totals.

ⁱ Legislature's FY 2016 Budget, Outside Sections, Section 200:

<https://malegislature.gov/Bills/189/House/H3650>

ⁱⁱ Legislature's FY 2016 Budget, Outside Sections, Section 200:

<https://malegislature.gov/Bills/189/House/H3650>

ⁱⁱⁱ Legislature's FY 2016 Budget, Outside Sections, Section 200:

<https://malegislature.gov/Bills/189/House/H3650>

^{iv} Legislature's FY 2016 Budget, Outside Sections, Section 10:

<https://malegislature.gov/Bills/189/House/H3650>

See also Section 2 of chapter 6C of the General Laws:

<https://malegislature.gov/Laws/GeneralLaws/PartI/TitleII/Chapter6C/Section2>

^v Legislature's FY 2016 Budget, Outside Sections, Section 10:

<https://malegislature.gov/Bills/189/House/H3650>

^{vi} Legislature's FY 2016 Budget, Outside Sections, Section 10:

<https://malegislature.gov/Bills/189/House/H3650>

^{vii} Legislature's FY 2016 Budget, Outside Sections, Section 10:

<https://malegislature.gov/Bills/189/House/H3650>

^{viii} Legislature's FY 2016 Budget, Outside Sections, Section 169:

<https://malegislature.gov/Bills/189/House/H3650>

^{ix} Legislature's FY 2016 Budget, Outside Sections, Section 196: <https://malegislature.gov/Bills/189/House/H3650>

^x Massachusetts Transportation Finance Commission, Sept 2007: https://www.mma.org/resources-mainmenu-182/doc_view/103-transportation-finance-in-massachusetts-building-a-sustainable-transportation-financing-system

Transportation for Massachusetts (T4MA), "Maxed Out", October 2011:

http://d3n8a8pro7vhmx.cloudfront.net/t4ma/legacy_url/52/Maxed-Out.pdf?1428292580

^{xi} National Center for State Courts, "An Honorable Salary?", July 2011:

<http://www.ncsc.org/~media/Files/PDF/Information%20and%20Resources/Budget%20Resource%20Center/An%20Honorable%20Salary%20Small%202.ashx>

^{xii} Legislature's FY 2016 Budget, Outside Sections, Section 172:

<https://malegislature.gov/Bills/189/House/H3650>

^{xiii} The Tax Year 2016 maximums likely will be slightly higher than the figures shown here, as the IRS recalculates federal EITC income brackets each year to adjust for inflation.

IRS website, Credits and Deductions: <http://www.irs.gov/Credits-&-Deductions/Individuals/Earned-Income-Tax-Credit/EITC-Income-Limits-Maximum-Credit-Amounts-Next-Year>

^{xiv} Legislature’s FY 2016 Budget, Outside Sections, Section 151: <https://malegislature.gov/Bills/189/House/H3650>

^{xv} Legislature’s FY 2016 Budget, Outside Sections, Section 151: <https://malegislature.gov/Bills/189/House/H3650>

^{xvi} MA DOR, Mid-Month Revenue Report, June 2015, Press Release:
<http://www.mass.gov/dor/docs/dor/news/pressreleases/2015/june2015-mid-month-revenue-report.pdf>

^{xvii} Legislature’s FY 2016 Budget, Outside Sections, Section 71: <https://malegislature.gov/Bills/189/House/H3650>

^{xviii} Legislature’s FY 2016 Budget, Outside Sections, Section 194: <https://malegislature.gov/Bills/189/House/H3650>

^{xix} Massachusetts Life Sciences Center: <http://www.masslifesciences.com/programs/tax/>

^{xx} For example, if a corporation owned a television assembly plant in Massachusetts and also owned out-of-state subsidiary businesses that produced parts used in the television assembly plant, this collection of subsidiaries likely would be considered a “unitary business” and would be subject to combined reporting requirements. On the other hand, if a corporation owned both an in-state car dealership and an out-of-state sheep farm, these business entities likely would have little overlap in operations and therefore likely would not be considered a “unitary business.” Thus, the corporation would be free from the combined reporting requirements as regards these two separate business operations; that is, the state could tax the profits of the car dealership, but could not require it to combine its profits with the out-of-state sheep farm.