

Analyzing the Governor’s Budget for FY 2016

The Governor’s budget proposal (House 1) identifies important priorities: “creating better communities, better schools, and better jobs for all of Massachusetts.” It does not, however, propose the types of significant investments in these areas that could make a meaningful difference in the lives of working people across the state. With the budget, the Governor filed a tax reform proposal that would significantly help lower-wage working people across the state: a doubling of the state earned income tax credit. This is a tax credit that increases the after tax wages of people with incomes under about \$52,000 a year. The largest benefits go to low-wage workers with children. It helps these families to make ends meet and be able to pay for basic necessities like food, clothing and rent. The Governor proposes paying for the increase in the earned income tax credit by eliminating the state’s tax subsidies for movie producers.

One of the most notable features of the Governor’s budget proposal is how heavily it relies heavily on temporary revenue and savings and on proposals that may prove to provide only temporary savings. As the chart below describes, the budget relies on over \$600 million in temporary solutions that will help balance the budget this year but will leave in place a longer term structural gap.

The Gov's Budget Relies on \$616 Mil in One-Time Solutions

One-Time Solutions	FY 2016 (in millions)
Divert excess capital gains revenue from Stabilization Fund	\$300
Non-filer tax amnesty	\$100
Delay FAS 109 deduction for one year	\$46
Delaying provider payments in MassHealth	\$116
Court house sale	\$30
Reducing OPEB payment	\$24
TOTAL	\$616 million

In addition, the budget counts on \$178 million in savings from an early retirement program. To achieve this savings the state would have to leave unfilled most of the positions of people who take the early retirement option. The legislation caps total payroll for new hires in these positions as 20% of the cost of the retiring employees. While the savings estimates assume that most of the positions of people who retire would not be filled, it is not clear that doing so would be possible, or in the best interests of the Commonwealth. In recent years, for instance, we have seen how understaffing has undermined the ability of the Department of Children and Families to protect children at risk of abuse or neglect. While many workers in that department may not be eligible for this early retirement, it is a reminder that real people can be harmed when important public functions are not adequately staffed. And in less popular parts of state government, like the Department of Revenue, the loss of staff can have financial costs to the Commonwealth. Auditors who examine the complex tax schemes large corporations sometimes use to avoid paying taxes generate much more in revenue than their salaries cost the Commonwealth.

Cutting staff at the Department of Revenue can cost the Commonwealth tens of millions of dollars in taxes that are owed but never paid.

If the early retirement plan does produce savings, then there will be significant cuts across state government that are not being shown in the appropriations in the House 1 proposal. The savings from early retirement are presented as separate from line item appropriations. But if the savings are achieved, it will mean that actual spending in a number of parts of government will be much less than what is shown in the budget, and cuts will be larger than those described in this Budget Monitor.

The pages that follow describe funding levels in different parts of state government. In many areas the Governor proposes level funding (at least before the effects of early retirement).

In a few areas the budget proposes increases, including the following:

- In addition to continuing new supplemental funding for the Department of Children and Families from FY2015, the Governor proposes an extra \$29 million to help the department protect a growing number of vulnerable children in its care. This includes a new \$2.2 million for Family Resource Centers.
- In order to bring MassHealth in line with a law requiring coverage for certain services for children with autism, the budget includes additional funding in MassHealth to cover therapeutic services for children with autism.
- The budget proposal includes a 2.4% increase in funding for Chapter 70, the major state program that provides education aid to cities and towns.

The budget also proposes a number of cuts, including the following:

- The elimination of a program to increase the number of districts offering full day kindergarten.
- A cut in funding for health insurance for state employees that could require employees to pay as much as \$1,000 more a year for their health insurance.
- A reduction in funding for income eligible child care that will make it harder for low wage working parents to afford child care and be able to work.

Ultimately, the shortcomings of this budget proposal reflect ongoing problems that our Commonwealth has faced for more than a decade: after cutting the income tax by over \$3 billion dollars we have seen deep cuts to things that are important to people across the commonwealth and to the strength of our economy. Between 2001 and 2015, for instance, funding for higher education has been cut 21 percent, environmental protection and recreation (parks, swimming pools, rinks) has been cut 33 percent, local aid has been cut 45 percent, early education and care has been cut 23 percent and funding for public health has been cut 25 percent (all numbers adjusted for inflation).

Early Education & Care

The Governor’s FY 2016 budget proposal of \$544.8 million for programs and services administered by the Department of Early Education and Care (EEC) is virtually the same as current spending. Nine programs serving these children and their families receive exactly the same amount as current spending.

The proposed appropriation for **TANF Related Child Care** of \$121.4 million is \$10.0 million less than FY 2015. This program provides child care for children of families served by or transitioning from Transitional Aid to Families with Dependent Children (TAFDC). The decrease is mostly due to a projected decrease in the TAFDC caseload next year. The Department of Early Education and Care (EEC) also projected a decrease in the caseload, but recommended an appropriation of \$127.8 million for this account. The Governor’s proposal is \$6.4 million less than the EEC recommendation. The number of families and children receiving TAFDC has decreased significantly in the last few years. For more detailed information on caseload levels for transitional assistance accounts, see “Research and Statistics” on the [DTA home page](#).

Supportive Child Care, which provides early education and care opportunities to children in the care of the Department of Children and Families, the primary child welfare agency serving kids who have been abused and neglected, received an increase of \$20.5 million (26 percent) to \$100.2 million in the Governor’s proposal. This recommendation falls \$7.8 million below EEC’s recommended appropriation of \$108.0 million to meet the needs of these children. In the past, budget language has stated that all children with open DCF cases receive a subsidy. However, many children have had to wait for a subsidy even though there has not been an official wait list. The Governor’s increase should help eliminate waiting periods for most of these children. And for those who do have to wait, an official wait list is required in the budget language proposed by the Governor.

INCOME ELIGIBLE SERVICES & SUPPORT

	FY 2015 Current	FY 2016 Governor	FY 2016 Gov. - FY 2015 Current	Notes
Birth Through Pre School	14,600,000	0	(14,600,000)	
Income Eligible Care	241,894,678	252,944,993	11,050,315	
Total	256,494,678	252,944,993	(3,549,685)	

Income Eligible Child Care provides a subsidy for eligible low-income families, but underfunding has resulted in a waitlist for a subsidy that numbered 25,436 children at the beginning of March. The Governor proposal provides \$252.9 million in FY 2016. In FY 2015, the budget included a **Birth Through Pre School** account which provided access to around 2,500 children who were on the waiting list. After combining these two accounts in FY 2015 (see the table below), this year’s appropriation is \$3.5 million below FY 2015 spending for Income Eligible children and families. Providing less money than last year in these two accounts could lead to a further increase in the number of children waiting. And when families can’t find affordable and stable care for their children, it makes it harder for parents to succeed in the workplace. See [Declines in Work Supports for Low-Income Parents](#) for more information about the long term funding decline in early education and care.

K-12 Education

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

Despite a modest increase to Chapter 70 aid in the Governor’s proposal, targeted grant programs, some of which support students who face the greatest challenges, would be reduced by a combined \$13.2 million from current levels. In many cases, the Governor’s proposals for FY 2016 continue the mid-year cuts made throughout FY 2015.

In total, the Governor proposes funding K-12 grant programs at a level \$64.4 million below the original state budget for FY 2015. A large portion of that reduction is the Governor’s proposal to eliminate [Kindergarten Expansion Grants](#), which support free full-day Kindergarten across the state.

For FY 2016, the Governor proposes increasing **Chapter 70 education aid** by \$105.3 million, or 2.4 percent, over FY 2015.

More specifically, the Governor’s Chapter 70 proposal:

- Calculates districts foundation budgets using updated enrollment, municipal revenue, and inflation data.
- Continues to phase in reforms adopted in the FY 2007 budget. The proposal includes 45 percent effort reduction, to reduce the local contribution of districts who are above their target contribution based on the 2007 reforms.
- Provides a minimum \$20 per-student aid increase over FY 2015 for all districts, who would otherwise not receive increases, at a cost of \$11.4 million.

For K-12 grant programs the Governor’s proposal includes:

- Elimination of [Kindergarten Expansion Grants](#) (which was funded at \$23.9 million in the original FY 2015 budget and \$18.6 million currently).
- Continuing several of the FY 2015 mid-year cuts to K-12 grant programs including:
 - The cut to **Regional School Transportation** (\$18.7 million cut from the initial FY 2015 budget, level with current funding) a form of local aid to districts.
 - A \$3.1 million cut to [Charter School Reimbursement](#) from the initial FY 2015 budget, continuing at the level set by a mid-year cut.
 - A reduction to [Special Education Circuit Breaker Reimbursements](#) by 2 percent or \$4.1 million from the original FY 2015 budget. An outside section of the budget also holds constant the rates paid to private special education providers.

The Governor also proposes increases to several K-12 grant programs and the creation of two new K-12 education programs:

- **Education Information Technology**, would be increased by \$4.1 million or 24 percent over current levels.
- **[Homeless Student Transportation](#)**, would be increased by \$1.0 million or 14 percent over the amount in the FY 2015 budget adopted by the Legislature.
- **Educator Evaluation System Implementation**, a new program, would receive \$500,000, to support district and school efforts to undertake teacher effectiveness, support, and evaluation initiatives.
- **School Safety & Supports**, a new program, which would provide \$200,000 in aid to districts and schools to administer safety initiatives, some of which began under the [School Safety and Security Task Force](#) in FY 2015.

The Governor proposes consolidating eleven student support programs focused on academically struggling schools and students into the **Targeted Intervention in Underperforming Schools** line item, which would be renamed the **Partnership Schools Network**. The Administration proposes funding these programs at \$17.5 million, \$1.5 million below the current levels and \$4.2 million below what the legislature originally adopted for FY 2015. These services include literacy programs, initiatives in the Gateway Cities, and supports to those scoring low on state tests.

Programs Consolidated Into Partnership Schools Network (Targeted Intervention)	FY 2015 Current	FY 2016 Governor	FY 2016 Gov. - FY 2015 Current
ELL in Gateway Cities	2,139,754	0	
Gateway Cities Career Academies	116,419	0	
Bay State Reading Institute	394,000	0	
Literacy Programs	1,895,016	0	
Reading Recovery	295,500	0	
Office of Educational Quality and Accountability	979,650	0	
Innovation Schools	731,625	0	
MCAS Low-Scoring Student Support	4,162,804	0	
Statewide College and Career Readiness Program	360,339	0	
Targeted Intervention in Underperforming Schools	7,706,297	17,483,679	
Alternative Education Grants	242,448	0	
Total	19,023,852	17,483,679	(1,540,173)

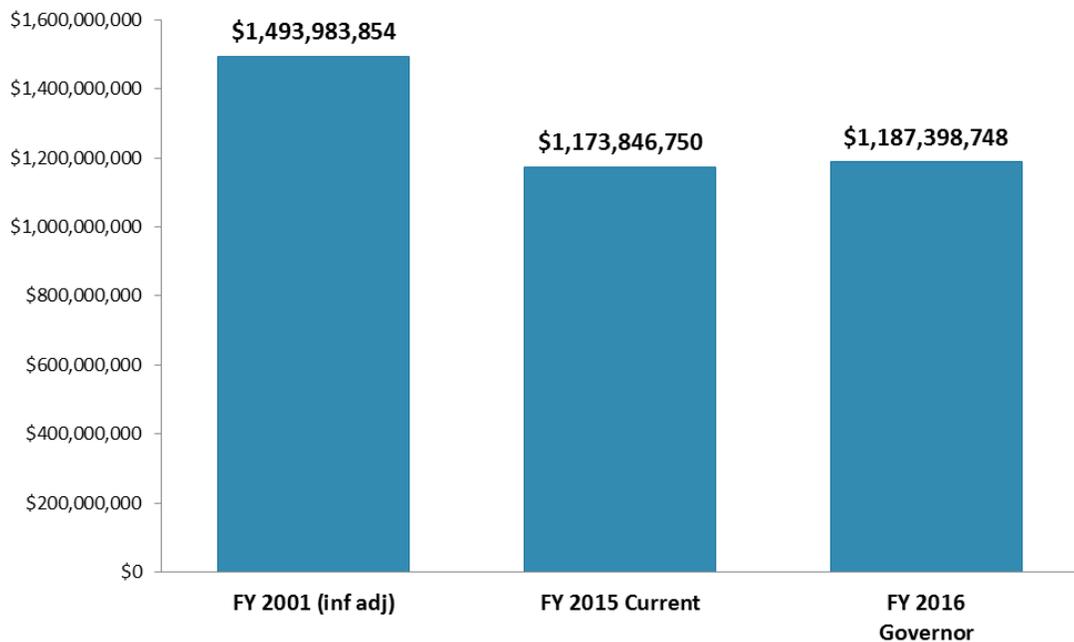
Higher Education

Higher education helps young people gain the knowledge and skills needed to succeed in a competitive global economy. Our public institutions of higher education including the University of Massachusetts, State Universities, and Community Colleges educate 70 percent of the state's high school graduates who remain in Massachusetts for college. In turn graduates of these public institutions are also more likely to stay in Massachusetts after graduation, contributing to our state over

the long haul – for more information please see [Higher Learning, Lower Funding: Decline in Support for Higher Education in Massachusetts](#).

The Governor's FY 2016 budget proposal does not contain significant new investment in public higher education. Together the Governor's FY 2016 proposal for higher education is \$1.19 billion, 1.2 percent higher (\$13.6 million) than current levels. This FY 2016 funding level would be \$306.6 million, or 21 percent, below FY 2001 levels (adjusted for inflation). This long-term funding reduction is in part a result of income tax cuts phased in over the late 1990's and early 2000's that continue to cost the state over \$3 billion a year.

Public Higher Education Has Been Cut Significantly Since 2001



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:** 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 Type	FY 2015 GAA	FY 2015 Current	FY 2016 Governor	FY 2016 Gov. - FY 2015 Current	Notes
Community Colleges	275,183,782	273,268,477	272,215,201	(1,053,276)	inc. MB adjustments
State Universities	246,977,939	243,531,398	249,025,432	5,494,035	inc. MB adjustments
UMass	538,728,525	534,724,831	541,804,319	7,079,488	inc. MB adjustments
Total, all campuses	1,060,890,246	1,051,524,705	1,063,044,953	11,520,247	inc. MB adjustments

The Governor's proposal increases funding to **UMass** by \$7.1 million or 1.3 percent over current levels to \$541.8 million. Last year, the state increased support for UMass by \$40 million, allowing for a freeze in tuition and fees, which helped make the university more affordable for students, particularly those from lower-income backgrounds. The small proposed increase for FY 2016 is unlikely to be enough to prevent such increases again.

Under the FY 2016 Governor's budget funding for the **State Universities** is increased by \$5.5 million or 2.3 percent over current levels.

The Governor proposes \$272.2 million in funding to the **Community Colleges** a decrease of \$1.1 million from last year.

The above table accounts for campus specific programs as well several system wide initiatives. On these types of initiatives, the Governor's proposal includes:

- Cutting **State University Incentive Grants** by 31 percent. These grants go to state university campuses to implement initiatives outlined in the Vision Project, a Department of Higher Education Strategic Plan adopted several years ago.
- Eliminating several workforce related initiatives at the Community Colleges. This includes eliminating the [STEM Starter Academy](#) which could reduce the ability of students, particularly those with academic barriers from enrolling in high growth Science, Technology, Engineering and Math fields.
- Level funding or eliminating several scholarship and other higher education access programs. These include elimination of the [High Demand Scholarship Program](#) which supported students in pursuing degrees that are highly sought after in the labor market and [Adult College Transition Services](#) which supports adult basic education students in moving on to college level coursework. The Governor's proposal level-funds the **State Scholarship Program** at \$93.6 million for FY 2016, which is 31 percent lower than it was in FY 2001.

Environment & Recreation

The state budget funds programs that keep our air and water clean, maintain fish and wildlife habitats and staff parks, beaches, pools and other recreation facilities. The Governor proposes spending \$202.8 million on Environment and Recreation Programs which is \$5.4 million more than FY 2015. Even with

this increase, funding for these programs has fallen 31 percent in inflation-adjusted dollars since FY 2001 after the state implemented more than \$3 billion in cuts to the income tax.

Some highlights of the Governor's budget proposal for these programs include:

- \$27.9 million for the Department of Environmental Protection which, among other responsibilities, works to make sure our air, water and land are kept clean. This is a reduction of \$1.1 million below the FY 2015 current budget and another \$1 million below the amount appropriated in the original budget for FY 2015. In November Governor Patrick made \$1 million in emergency cuts to the department.
- \$300,000 for climate change adaptation and preparedness which is \$432,000 less than the FY 2015 current budget and \$700,000 below the amount appropriated in the FY 2015 GAA. Earlier in FY 2015, when revenues did not meet projections, Governor Baker made \$269,000 in emergency cuts to the account funding climate change and adaptation.
- The Governor's budget does not propose funding the State Climatologist, a new position included in the FY 2015 GAA with \$200,000 in funding. Earlier in FY 2015, when revenues did not meet projections, Governor Patrick made \$125,000 in emergency cuts from the account funding the State Climatologist. Earlier this year, when he made additional emergency budget cuts, Governor Baker cut the remaining \$75,000 for the position.
- \$15.3 million for the Division of Fisheries and Wildlife which oversees the preservation of our natural resources include fish and wildlife species. This is an increase of almost \$1 million. Much of the Division's funding comes from the revenue it generates from fines and fees for providing licenses for fishing, boating and other activities.
- \$57.2 million for state parks, beaches, pools, and parkways overseen by the Department of Conservation and Recreation (DCR). The state budget funds state parks through two accounts. One provides funding for state parks and other recreation facilities. The Governor's budget proposes a \$3.2 million reduction to this account below the amount appropriated in the FY 2015 GAA. The parks also receive funding through an account that allows DCR to retain a certain amount of the funding it collects through parking and access fees. The Governor's budget increases funding for 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 fees at some of its facilities. This will allow the Department to retain additional revenue to pay for more staff and improve maintenance of state parks and other recreational facilities.¹

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>

Parks and Recreation

Program	Account Number	FY 2015 GAA	FY 2015 Current	FY 2016 Governor	FY 2016 Gov. - FY 2015 Current	FY 2016 Gov. - FY 2015 GAA
State Parks & Recreat	2810-0100	44,344,381	40,364,735	41,161,322	796,587	(3,183,059)
DCR Retained Revenue	2810-2042	14,141,673	14,141,673	16,000,000	1,858,327	1,858,327
Total Parks & Recreation		58,486,054	54,506,408	57,161,322	2,654,914	(1,324,732)

MassHealth (Medicaid) & Health Reform

The Governor's budget proposal digs deep into MassHealth and related programs in order to find savings to help balance the budget. The biggest form of savings proposed by the Governor, comes from \$456.8 million in what is referred to as "cash management." This is a 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. The Governor also proposes savings by being as efficient as possible in trimming program membership, and implementing several other operational efficiencies. The Governor states that this budget proposal constrains MassHealth cost growth by \$761 million, once reduced federal reimbursement is taken into account.

MassHealth is the single largest program in the state budget; it helps pay for health insurance to close to 1.7 million people in the Commonwealth (approximately 1 in 4); and it also is one of the single largest sources of revenue for the budget, bringing in close to \$8 billion 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 anywhere from half to almost all of the costs of MassHealth spending.

The Governor's budget assumes getting federal approval to delay payments to providers by pushing them into the next fiscal year in order to save the FY 2016 budget \$116.7 million net of federal reimbursement. These delays include deferring the timing of payments in MassHealth Fee-for-Service (\$37.9 million), delaying payments to selected hospitals as made through the Delivery Systems Transformation Initiative (\$45 million), and delaying supplemental payments to safety net hospitals (\$33.4 million). These are only accounting savings, as those payments would now increase the liabilities for FY 2017. These new savings are on top of \$340.5 million in net accounting savings associated with continuing to delay payments from previous years.

Because the Governor has stated that he does not seek to find savings in the program by changing eligibility criteria, one of the strategies to reduce program costs is to ensure that the state steps 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 no longer meet the financial eligibility for the various MassHealth programs.) This eligibility review, known as "re-determination," is required by the federal government. The Governor anticipates that the re-determinations, along with better more regular data matching to update member eligibility information and improved use of the Premium Assistance program could save MassHealth close to \$418.9 million, or \$209.5 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. During this period, people were

enrolling in MassHealth, but less likely to be un-enrolling. The expectation built into these savings estimates is that MassHealth is still providing health insurance to some percentage of its membership who are no longer eligible.

The Governor anticipates allowing for purchasing of certain medications in smaller amounts to reduce waste. The Governor's budget for the most part also holds provider rates at FY 2015 levels, and assumes continued savings associated with reduced nursing facility use. These and other assorted changes including efforts to maximize federal reimbursement for services as much as possible are expected to save \$95.2 million net of federal reimbursement.

The Governor proposes ensuring the continuation of current coverage for adult dental services, including dental fillings in all teeth for adults, and coverage for dentures which is expected to be restored before the end of FY 2015. The Governor's budget does, however, include language eliminating coverage for chiropractic services.

One benefit expansion is the inclusion of an Applied Behavioral Analysis benefit for an estimated 10,000 children on MassHealth with autism. This benefit would bring MassHealth in line with other health insurance providers required to cover this benefit by ARICA (the Act Relative to Insurance Coverage), and was a priority recommendation from the recent Autism Commission. Estimates for the cost of this benefit are approximately \$137 million.

PROPOSED MASSHEALTH SAVINGS

		FY 2015 Current	FY 2015 Projected Spending	FY 2016 Governor	FY 2016 Anticipated Savings/Reductions
4000-0320	MassHealth Recoveries	225,000,000	225,000,000	225,000,000	0
4000-0430	MassHealth CommonHealth	111,115,925	107,204,797	119,495,216	0
4000-0500	MassHealth Managed Care	4,792,819,941	5,162,825,921	5,931,539,597	(613,003,112)
4000-0600	MassHealth Senior Care	3,197,069,129	2,986,699,932	2,972,950,333	(285,086,117)
4000-0640	MassHealth Nursing Home Supplemental Rates	292,300,000	292,300,000	291,600,000	(9,800,000)
4000-0700	MassHealth Fee-for-Service Coverage	2,336,044,642	2,558,152,397	2,489,792,092	(207,324,608)
4000-0875	MassHealth Breast and Cervical Cancer Treatment	5,725,199	5,725,199	6,011,459	0
4000-0880	MassHealth Family Assistance	204,795,301	238,231,570	253,769,135	(22,900,000)
4000-0885	Small Business Employee Premium Assistance	30,877,115	30,877,115	32,420,971	0
4000-0940	ACA Expansion Populations	1,702,696,743	1,569,631,096	1,712,110,508	(223,844,754)
4000-0950	Children's Behavioral Health Initiative	207,371,693	211,389,021	221,798,049	0
4000-0990	Children's Medical Security Plan	13,214,180	13,214,180	13,214,180	0
4000-1400	MassHealth HIV Plan	23,693,668	23,693,668	24,878,351	0
4000-1420	Medicare Part D Phased Down Contribution	302,670,132	311,352,456	334,396,782	(31,421,620)
	SUBTOTAL	13,445,393,668	13,736,297,352	14,628,976,673	(1,393,380,211)
4000-1425	Hutchinson Settlement	34,318,000	34,318,000	49,412,000	0
1595-1067	Delivery System Transformation Initiatives Trust	218,961,639	116,167,223	189,141,606	(43,837,453)
1595-1068	Medical Assistance Trust Fund	639,500,000	637,500,000	465,000,000	(226,500,000)
	SUBTOTAL	892,779,639	787,985,223	703,553,606	(270,337,453)
	TOTAL	14,338,173,307	14,524,282,575	15,332,530,279	(1,663,717,664)

The Governor's budget includes language that would continue his proposed consolidation of various functions under the Executive Office of Health and Human Services. The Governor has already brought in the Secretary of Health and Human Services to oversee the Health Insurance Connector, and

in the budget proposal, the Governor proposes bringing the Center for Health Information and Analysis under this Secretariat as well.

ConnectorCare

ConnectorCare is the subsidized “State Wrap” 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 employers who do not provide health insurance. 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 Governor’s budget proposal funds [children’s mental health services](#) at same level as in FY 2015, after taking into account mid-year funding reductions. Children’s mental health services had been reduced by over \$7 million in FY 2015, when then-Governor Patrick and Governor Baker cut funding directed to a Family Partner Pilot program and funding for individual and family flexible supports. The Governor’s budget language does not include explicit mention of the Mass. Child Psychiatry Access Project (MCPAP) which provides consultation to pediatricians on child mental health and also now on maternal mental health, but includes \$3.1 million in funding to cover the program.

Funding for adult mental health services is also essentially level-funded at the FY 2015 amounts after mid-year reduction by the governors. Adult mental health services were cut by \$13.8 million mid-year in FY 2015, and the Governor’s budget maintains that reduced level. Funding for mental health facilities increases by approximately 5 percent.

Public Health

The Governor’s budget for public health does not include any major new initiatives, with the exception of a small (\$300,000) set-aside to cover women’s preventive health services for individuals who have employer-sponsored health insurance offered by businesses that have opted out of covering certain women’s preventive health (for example contraceptives).

The Governor recommends \$13.1 million for a variety of [youth violence prevention](#) programs disbursed across several line items. This is a 7 percent increase over FY 2015 funding, assuming the passage of the Governor’s proposed supplemental FY 2015 budget legislation that would add \$2.2 million to the Safe and Successful Youth Initiative program. These programs support grants to municipalities and to local organizations, often targeting high risk communities. The intent of these

grant programs is to develop creative and engaging programs for young people, in order to direct them away from violent behavior.

At the same time, other than the support for youth engagement programming, the Governor's public health budget shows little in new initiatives and many of the department's more recent and innovative small programs received funding cuts during mid-year FY 2015 9c reductions, and receive no FY 2016 funding. For example, the Governor's budget does not fund last year's new [Down Syndrome Clinic](#) (a \$150,000 cut from initial FY 2015 funding), as well as the [Post-Partum Depression Pilot Program](#) (a \$200,000 cut from initial FY 2015 funding) and the Academic Detailing Program (a \$500,000 cut from FY 2015).

Other important preventive care or population health programs also do not see new investment. Smoking prevention programs receive \$3.9 million, same as in FY 2015; substance abuse and addiction services receive \$110.7 million, just under FY 2015 levels; other prevention and wellness programs receive \$37.9 million – also level with FY 2015 funding. 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. The Governor does increase funding for public health hospitals, by \$8.3 million, or 5 percent.

State Employee Health Insurance

The Governor's budget proposal includes a provision that would have current state employees pay a larger share of their health insurance coverage. This change will affect approximately 45,000 employees. The Commonwealth is one of the largest employers in the Commonwealth and provides health insurance to thousands of current and retired employees. The costs of this coverage are shared, with the state paying for a portion of the coverage and employees (or retirees) paying a portion. 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.

The Governor's budget proposes increasing the share of the costs paid by the employee from 20 percent of the premium to 25 percent. This is an increase for longer-term employees, those hired on or before June 30, 2003 (as those hired since then already pay this higher rate). Individuals would pay \$300-\$480 more per year, and people enrolled in family plans could pay \$720-\$1,200 more per year. There are also planned increases for Fiscal Year 2016 in out-of-pocket costs for copayments for prescription drugs, inpatient hospital costs, outpatient surgery, and in deductibles. These changes should save approximately \$30 million in FY 2016.

Funding for the Group Insurance Commission has been running at a deficit for all of FY 2015, as the funding appropriated during FY 2015 never matched amount the agency needed to meet its anticipated costs for the year. The Governor has just proposed an additional \$190 million for this current fiscal year in supplemental budget legislation, and with this projected increase, the proposed FY 2016 appropriation for state employee health insurance is just slightly above the appropriation for FY 2015.

(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.)

Pensions & Retirement

The Governor's FY 2016 budget proposal allocates \$1.97 billion to the **State Pension Fund**, in line with the revised funding schedule agreed to by the legislature in January 2014. This represents an increase of \$179 million, or 10 percent over FY 2015.

Along with the FY 2016 budget proposal, the Governor filed legislation that would create an early retirement plan for some state workers. The program is limited to workers at executive branch agencies classified as [Group 1](#) who are at least 55 years old or have over 20 years of service. The opportunity to take early retirement offers up to five years of additional service to count towards one's pension and would be made available in April and May of 2015.

The administration projects a net savings from this plan of \$177.9 million (\$325.1 million in gross savings offset by \$147.2 million in added salary and benefit costs). Part of the FY 2016 costs is a \$48.7 million pension increase, which is projected to continue as an additional \$48.7 million cost in FY 2017.

Costs of the early retirement plan are limited by paying out accrued vacation and sick time over four years and by limiting the total payroll of newly hired workers to re-staff affected agencies at 20 percent of payroll costs for current employees who join the program.

It is important to note that over time, if agencies end up needing to hire back more staff in order to perform their basic functions, some of these savings will disappear.

It is difficult to determine how much the early retirement plan will save in practice because it is unclear which workers will take early retirement and how agencies will fill these positions. The administration is basing its projections on having 4,500 workers participate in the program, but the legislation does not set a limit on the number of participants. Early retirement plans tend to save more upfront as remaining payroll is less than the benefits paid out to early retirees when they leave. Over time, however, salary and benefits to newly entering workers take away from the savings, while some additional retiree costs could remain.

Housing

The state budget provides affordable housing assistance and support programs that shelter low-income homeless families and individuals. The Governor's budget for Fiscal Year (FY) 2016 proposes \$425.9 million for housing programs which is \$1.4 million above the amount the state expects to spend in FY 2015. In late February the Governor asked the Legislature for an additional \$44.5 million in funding in FY 2015 for housing programs. A large portion of the state's housing budget goes to helping low-income families and individuals who are homeless. Massachusetts is one of the few places in the U.S. that provides shelter, through its Emergency Assistance (EA) program, to all low-income homeless families who meet certain eligibility criteria.

Since the onset of the Great Recession when many low-income parents lost their jobs and housing, the number of homeless families living in state-supported shelters has increased to almost 5,000 as of November 2014. This has forced the state to house many families in hotels and motels because the family shelters are full. Often hotels and motels do not have adequate facilities, like kitchens, and are often far from public transportation and other services.

The Governor's housing budget seeks to reduce the number of families living in shelters. He proposes funding a new **End Family Homelessness Reserve Account** with \$20.0 million which would be managed by the Executive Office of Health and Human Services. Funding from the reserve would provide short-term, tailored assistance to help individual families become stable whether they need housing assistance or other services such as child care or job training.² While it is important to provide families with the services they need to remain housed and stable, it is also worth noting there are other reasons why the number of homeless families has grown. As found in *Shelter and Housing for Homeless Families: Historical Funding and the Governor's FY 2015 Budget Proposal* while funding for shelter has increased the number of housing vouchers available to low-income renters through the Massachusetts Rental Voucher Program (MRVP) has dropped from 20,000 in the late 1980s to less than half that today. It is unclear whether funding in the new reserve will be sufficient to help these families remain permanently housed. Many families who are homeless earn extremely low incomes and are unlikely to remain housed without receiving long-term supports like rental vouchers to help them pay for housing and child care vouchers so they can pay for someone to care for their children while they work. (Please see the *Early Education and Care* section of this Monitor for more discussion on state funding for child care vouchers.)

In addition to \$20.0 million for this new reserve, other highlights of the Governor's housing budget proposal include:

- \$154.9 million for **EA** which is \$29.6 million below the amount the state expects to spend in FY 2015. The week prior to filing his budget, the Governor filed a bill to provide an additional \$44.2 million for EA in FY 2015. The Governor's budget recommends further restricting a family's eligibility for shelter. The Governor's budget proposal appears to no longer allow homeless families to move into shelter if they have been living in irregular sleeping arrangements, such as couch surfing with family or friends. The Governor's proposal also appears to prevent families from moving into shelter if they are living with family or friends whose housing does not meet the state sanitary code.
- \$26.2 million for **HomeBASE** which is the same amount the state expects to spend in FY 2015. In his supplemental budget request made in late February, the Governor requested \$300,000 in additional funding for HomeBASE in FY 2015. The Governor's budget increases the total amount that a family can receive in housing assistance through both the HomeBASE and Rental Assistance for Families in Transition program (RAFT) – described below – from \$6,000 in FY 2015 to \$8,000 in FY 2016.
- \$11.0 million for **RAFT** which is the same level of funding as in FY 2015.

² See Governor Baker and Lt. Governor Polito's press release on the new reserve here: <http://www.mass.gov/governor/press-office/press-releases/fy2015/initiatives-to-reduce-homelessness-unveiled-.html>

- \$42.6 million for the two accounts that provide **shelter to homeless individuals** which is \$2.3 million below the FY 2015 current budget. The line item that funds shelter for homeless individuals is cut by a proposed \$2.1 million below FY 2015 to \$40.8 million. The Home and Healthy for Good Program which provides shelter and services to chronically homeless individuals is cut by a proposed \$200,000 below the FY 2015 budget of \$2.0 million.
- \$64.0 million in [subsidies for public housing authorities](#) which is a slight cut from FY 2015. The Governor also proposes the addition of two new public housing accounts. One provides \$800,000 to continue the implementation of the **public housing reform law** passed in 2014. And another \$1.0 million in **planning grants** that urban housing authorities can use develop plans for building new rental or owner housing.
- \$75.4 million for [MRVP](#). This amount will most likely allow DHCD to support the amount of vouchers it has issued through the end of FY 2015. As noted above, funding for MRVP has dropped dramatically since the late 1980s. In recent years, as the state has sought to reduce the number of homeless families living in shelter, funding for MRVP has more than doubled since the Great Recession allowing DCHD to issue new vouchers. It is unlikely that this level of funding will allow the state to create additional vouchers in 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. Family preservation, though, is also an important goal. 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 increased funding to support these kids. Over the course of FY 2015, increased funding allowed DCF to hire more case workers and to support more kids whether at home, in a relative's home (also called kinship care), in a foster home or a group facility. A recent supplemental budget proposal by the Governor, not yet passed into law by the legislature, would further increase funding for FY 2015 to \$871.3 million allowing DCF to support kids through the remainder of the current fiscal year. The proposal directs \$35.0 million to DCF - \$27.4 million to supplement services for kids in group homes (**Group Care Services**) and \$7.6 million for services primarily for kids outside of group homes (**Services for Children and Families**).

The Governor's FY 2016 Budget proposal of roughly \$900.5 million for child welfare services would add an additional \$29.2 million on top of FY 2015 projected spending.

Programs that receive an increase over last year include:

- **DCF Family Resource Centers** receiving a \$2.2 million (41 percent) increase to \$7.4 million.

- **DCF Administration** receiving a \$3.8 million (5 percent) increase to \$80.7 million. Language requiring DCF to hold fair hearings in a timely manner is not included in the budget language. Fair hearings allow children and families to appeal a DCF decision regarding child placement or a finding of neglect or abuse.
- **Services for Children and Families** receiving an \$8.3 million (3 percent) increase to \$277.5 million.
- **Social Workers for Case Management** receiving an \$8.9 million (5 percent) increase to \$201.8 million. This increase will allow DCF to maintain current staffing levels after adding a significant number of new caseworkers during FY 2015. The Governor's FY 2015 projected spending for case workers is actually \$7.4 million more than FY 2015 current appropriation levels. That difference will need to be accounted for before the end of the current fiscal year.

For more information about these child welfare programs, see the MassBudget Children's Budget at <http://children.massbudget.org/child-welfare>.

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

Chapter 257, which standardizes rates according to the services delivered by providers to make the system more efficient and fair will continue to have an impact on this and future budget proposals for FY 2016. A recent court [ruling](#) requires the state to fully implement Chapter 257 rates by the beginning of FY 2016. For more information on Chapter 257's rate standardization paid to contracted human and social service providers, see this [Chapter 257 update](#).

Elder Services

The Governor proposes a modest increase for Elder Services of \$5.4 million (2.1 percent) over projected FY 2015 funding levels. This increase accounts for mid-year salary adjustments for home care aides passed by Governor Patrick's administration. This increase will also eliminate waiting lists prompted by mid-year cuts in FY 2015 and allow seniors to age in place.

Line items affected by the salary adjustment include:

- **Elder Enhanced Home Care Services** at \$70.3 million, an increase of \$5.6 million over projected FY 2015. Part of this increase will likely be used to sustain salary increases from the previous fiscal year. This program allows elders who need a high level of services to remain at home instead of moving into a nursing home.
- **Elder Home Care Purchased Services** at \$106.7 million is level funded at projected FY 2015 figures. The projected FY 2015 funding level likely accounts for \$3.8 million in salary increases which would be sustained in FY 2016. This program also supports services which allow elders to remain at home.

Disability Services

Together through our state government, we support a range of programs for individuals with disabilities. These include targeted job training programs that help people participate more freely in the state's workforce as well as community-based supports to assist people and their families. In total, the Governor proposes funding disability services at \$1.83 billion, a \$63.4 million increase (4 percent) from current FY 2015.

The bulk of this total increase - \$35.8 million - is for **Community Residential Supports for the Developmentally Disabled**, a 3 percent increase from current FY 2015 levels. This program supports adults in various residential settings to live as comfortably and independently as possible.

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

- [Community Based Employment](#), which provides funding to move individuals with disabilities from sheltered work to integrated work settings. This program receives a significant \$4.0 million increase - from \$1.0 million in current FY 2015 to \$5.0 million in the Governor's proposal.
- [Community Day and Work Programs for the Developmentally Disabled](#), which offers a wide variety of group and individual supports, helping people with developmental disabilities find work and build skills. This receives a modest \$2.8 million increase (2 percent) compared to current FY 2015 levels.
- [Community Transportation Services](#), which offers transportation assistance to people who are disabled from home to day or employment services. This receives an increase of \$3.1 million (19 percent) compared to FY 2015.

The Governor's proposal reflects an increasing emphasis on supporting integrated work programs where people with disabilities work alongside people without disabilities in a competitive work environment. It is important to ensure that we continue to support individuals who require extensive support as well, since some people with severe disabilities are not able to work in integrated programs.

Other disability programs that receive increases under the Governor's proposal include:

- [Respite Family Supports for the Developmentally Disabled](#), which receives an increase of \$7.4 million (14 percent) over budgeted FY 2015 levels. However, projected FY 2015 costs (\$57.9 million) far exceed current FY 2015 levels (\$52.4 million). Therefore, the Governor's proposal is only \$1.9 mil above these projected costs. Respite Family Supports offer families with children who are disabled support with specialized caregiving or other flexible community-based resources.
- [Turning 22 Services for the Developmentally Disabled](#), which is level funded and has been cut 31 percent since FY 2001. This program provides services to eligible young adults with disabilities who have graduated from special education programs during the transition year in which the young adult turns 22.

Juvenile Justice

The Department of Youth Services (DYS) receives enough funding to offer a similar level of services as last year. The Governor's FY 2016 proposal provides \$175.9 million, 2 percent more than FY 2015 current spending – enough to likely cover increases in costs due to inflation. DYS Administration receives \$4.4 million, a \$256,000 (6 percent) increase over last year. However, funding for administration is still 29 percent below the FY 2009 GAA budget.

Most of the other accounts were either funded at the same level as last year which means they might not be able to offer the same level of services due to cost increases; or were funded at a slightly higher level which should cover cost increases, but not allow an increase in services.

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. 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 2012 to 46,546 in December 2013. That trend has continued with the caseload dropping further to 40,542 in December 2014.

The FY 2015 GAA budget funded TAFDC grants at \$255.7 million. FY 2015 projected spending is \$251.3 million and the Governor's FY 2016 proposal assumes a continuation of declining caseloads, providing \$229.1 million, 9 percent less than FY 2015 projected 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, the Governor could have proposed increasing the value of the grant to help these children and families pay for basic necessities. The Governor 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](#).

The **Employment Services Program**, the primary education and job training program for TAFDC clients receives \$11.8 million, virtually the same amount as last year and about 80 percent below the FY 2001 funding level. For a more in depth analysis on funding for education and job training programs, see [Declines in Work Supports for Low-Income Parents](#). **Pathways to Self Sufficiency**, a new job training program, receives \$3.3 million in the Governor's proposal. This program was funded at \$11.0 million in Chapter 188 of the Acts of 2014. However, it received two different 9C cuts during the year eliminating the program in FY 2015.

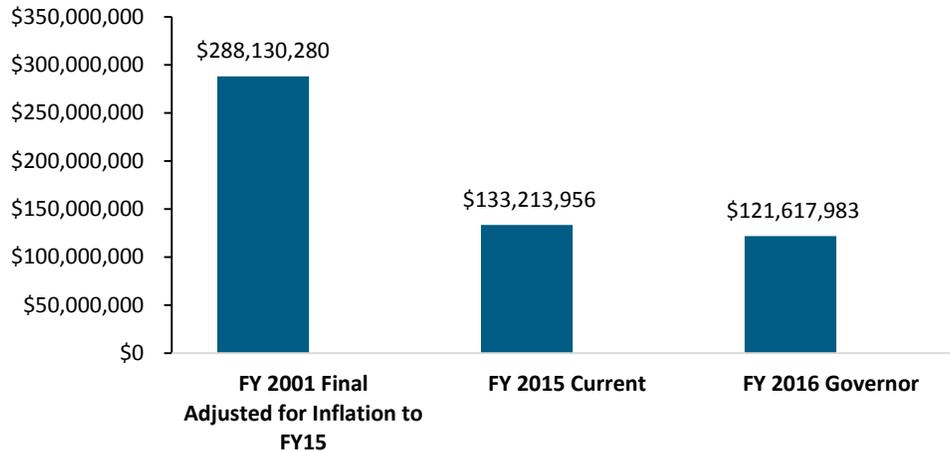
Emergency Aid to the Elderly, Disabled and Children (EAEDC) receives \$78.9 million, \$6.5 million below FY 2015 projected spending. EAEDC is a cash assistance program for individuals who are disabled, caring for someone who is disabled, 65 or older, in a Mass. Rehab program, and children who are not able to get TAFDC benefits.

Caseworker Salaries and Benefits receives \$70.8 million, \$3.0 million (4 percent) more than FY 2015 projected spending. Even with this increase, the Governor’s proposal does not project increasing the number of case workers at DTA. The **Department of Transitional Assistance Administration** receives \$65.1 million, \$3.8 million more than FY 2015 projected spending.

Economic Development

Economic development programs aim to improve workforce and business development, support community investments, and stimulate economic activity. In total, the Governor’s FY 2016 budget proposes a decrease to economic development programs of \$11.6 million (9 percent) from current FY 2015 levels. This represents a 58 percent decrease since FY 2001. The bulk of the decrease in the FY 2016 Governor’s budget comes from the Mass. Office of Travel & Tourism where grant funding is converted into a competitive program.

Economic Development Reduced 58%



Workforce development gives people the skills they need to find good jobs, support their families, and contribute to the Massachusetts economy. Several of these programs are targeted at youth, including:

- [YouthWorks](#) (formerly Summer Jobs Program for At-Risk Youth), which receives a \$10.5 million in funding, a 3 percent increase, from FY 2015 GAA levels. This program is a summer and year-round jobs program for low-income and at-risk youth living in targeted, high-risk cities across the Commonwealth.

- [Gang Prevention Grant Program \(Shannon Grants\)](#), which receives \$7.0 million in funding, a decrease in 15 percent compared to FY 2015 GAA. This program helps fund employment and training opportunities as part of the comprehensive youth violence prevention strategy.

Most other workforce and business development programs are close to level-funded, including the [Workforce Training Fund](#), [One-Stop Career Centers](#), [Small Business Development Center](#), and [Advanced Manufacturing Workforce Development Grants](#). For many programs, level funding may be tantamount to a cut because costs rises from year to year. For more information about various ways we support workforce training through the Massachusetts state budget see Massbudget's [Jobs and Workforce Budget](#) tool.

Notable new community investment initiatives under the Governor's proposal include:

- **Urban Agenda Economic Development Grants:** This \$2.0 million grant program receives would help entrepreneurs in urban communities to promote small businesses and support jobs and workforce development.
- **Community Compact Grants:** This initiative receives \$650,000 as an incentive program for communities and municipalities to partner with state government in order to work together to employ best practices determined by the [Community Compact Cabinet](#) created by the Baker Administration.

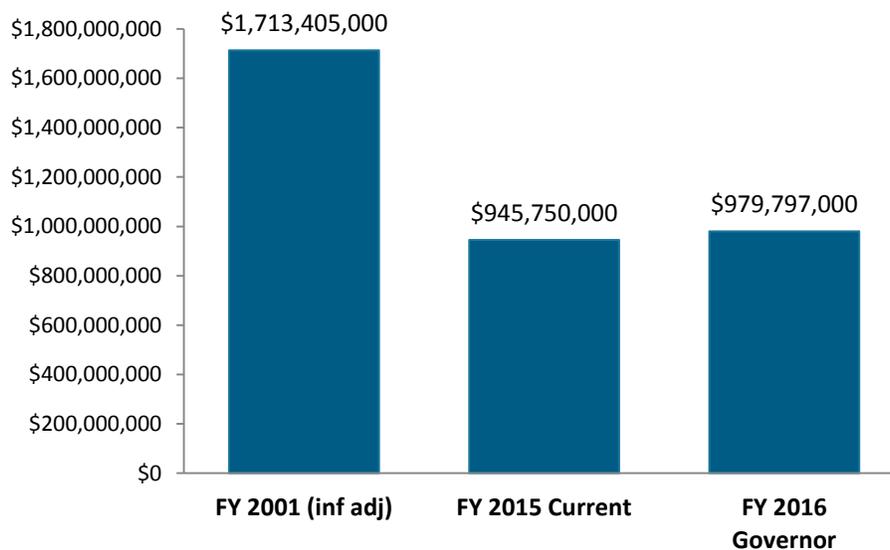
Local Aid

The Governor proposes a modest increase of \$34.0 million (3.6 percent) for Unrestricted General Government Aid (UGGA). This money helps cities and towns fund vital local services such as police and fire protection, parks, and public works. For more information on general local aid, please see [Demystifying General Local Aid in Massachusetts](#).

The Commonwealth's capacity to fund a range of vital programs, such as general local aid, has been hindered by a series of significant state-level tax cuts during the 1990's and 2000's combined with the Great Recession. While over the past several years general local aid funding has increased with or slightly above inflation, it still remains 43 percent below FY 2001 figures.

Unrestricted General Local Aid cut by over 40 % since 2001

inf. adj. 2015\$s



Some cities and towns receive other forms of local aid – for example, payments in lieu of taxes to communities with state-owned land that is not subject to local property taxes – but these categories represent much smaller total amounts and only go to a subset of qualifying cities and towns. Of note, the Municipal Regionalization and Efficiencies Incentive Reserve that rewards cities and towns for meeting selected benchmarks was decreased by \$4 million in the Governor’s proposal, a 45 percent decrease from FY 2015.

Transportation

In the Governor’s FY 2016 budget, the most notable decision with regards to Transportation is the increase in direct funding to 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 Governor’s FY 2016 budget recommends increasing the MBTA’s direct funding to \$187 million. Having convened a working group to study the MBTA’s finances and recommend operational and funding reforms, the Governor has stated that the additional FY 2016 funds will be allocated in accord with the findings of the working group. Whether in fact the additional funds represent a true increase in funding is a question among some transportation experts and advocates.

Notably, the recommended appropriation to this MBTA account (\$187 million in FY 2016 under the Governor’s proposal) is, under any circumstances, 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 more generally, the Governor recommends an increase in overall funding for transportation in FY 2016, relative to FY 2015 levels. In the FY 2015 GAA, all transportation accounts together received \$1.55 billion, an amount later reduced through 9C cuts to \$1.51 billion. For

FY 2016, the Governor recommends total funding of \$1.63 billion, a 5 percent increase over the FY 2015 GAA and an 8 percent increase over current FY 2015 (post-9C cuts) funding levels.

In response to the significant operating difficulties experienced by the MBTA and commuter rail system during this winter’s heavy snowfalls, the Governor also would establish a “Weather Resiliency Fund.” This fund would be financed from the operating budget of the MBTA and would be used to pay for “operating costs, projects and programs to prevent and eliminate vulnerabilities within the authority to temperature, precipitation, flooding, drought and wildfire.”

Law & Public Safety

In the Governor’s FY 2016 budget, the most notable decision with regards to Law & Public Safety is the funding provided to the courts. For several major accounts that in whole or in part are used to fund judges or clerks salaries, the Governor proposes modest decreases of 1-2 percent from FY 2015 GAA amounts. While any decrease can create budgeting challenges for the affected area of operation (in this case, the courts), the real impacts of this seemingly modest funding decline are more complex.

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 and, as noted above, the Governor’s budget cuts rather than increases the most heavily impacted court accounts. Given that the salary increases are mandated by law and thus must be implemented, in order to balance the court budgets, other court functions will have to be cut more deeply than the Governor’s 1-2 percent reductions would suggest. The Chief Justice for Administration of the trial courts has stated that, should the courts be funded at the levels proposed by the Governor, up to 550 court employees would have to be let go.

Revenue

The Governor's FY 2016 budget (with accompanying tax reform legislation) relies on additional revenues beyond those available as part of the Consensus Revenue Estimate. Together, these additional FY 2016 revenues total \$709.3 million and they come from both tax and non-tax sources. Few of these revenues can be described as ongoing (in other words, they are not derived from sources that will be replenished with new revenues beyond FY 2016). Instead, they primarily come from one-time or temporary sources. Temporary revenue sources are useful for balancing the budget only in the current fiscal year and their use most often adds to the challenge of balancing the budget in future years (to read more about the state's projected FY 2016 budget gap, see [MassBudget's FY 2016 Budget Preview](#)).

FY 2016 REVENUE PROPOSALS	Ongoing Source	One-Time Source
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TAX REVENUES		
Non-filer tax amnesty		100,000,000
Delay FAS 109 deduction for one year		46,000,000
Phased elimination of Film Tax Credit	<i>No FY16 impact</i>	
Divert excess capital gains revenue from Stabilization Fund to GF		300,000,000
Large tax settlements	100,000,000	
	SUBTOTAL	100,000,000
		446,000,000
NON-TAX REVENUES		
Court house sale		30,000,000
Maximization of federal revenue	10,000,000	
Reduce OPEB payment		24,300,000
Additional delayed provider payments in MassHealth		116,000,000
	SUBTOTAL	10,000,000
		153,300,000
	TOTAL	110,000,000
		599,300,000

The Governor's revenue proposals include both tax (\$546 million) and non-tax (\$163.3 million) revenues, with the large majority (over 80 percent) of these revenues being one-time. Two proposed sources of additional FY 2016 revenue – 1) a tax amnesty program and 2) the phased elimination of the state's Film Tax Credit - are included as part of a separate tax reform bill that accompanies and is integral to the Governor's FY 2016 budget bill. Also included in the tax reform bill is a proposal that would raise the value of the state earned income tax credit, paying for this increase by phasing out the state's Film Tax Credit.

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 \$24.325 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. 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 Governor instead directs this \$300 million to the General Fund to help balance his FY 2016 budget – see more discussion, below).

Increasing the Earned Income Tax Credit

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 straight 15 percent of the federal EITC amount claimed by the tax filer. The Governor has proposed a phased increase of the matching rate to 24 percent in 2016, 27 percent in 2017 and 30 percent in 2018.

In 2014, the maximum value of the Massachusetts EITC was \$921. Typically, between 415,000 and 430,000 filers claim the Massachusetts state EITC each year, for a total cost of between \$125 million and \$135 million annually. Increasing the matching rate - from the current 15 percent to 30 percent - would roughly double the annual cost of the program.

Eliminating the Film Tax Credit

In order to help pay for the EITC increase, the Governor proposes a phased elimination of the state's Film Tax Credit. This credit costs the Commonwealth \$80 million annually in forgone tax revenue. As a tool for economic development, [annual reports](#) produced by the Department of Revenue (DOR) have shown the Film Tax Credit to be expensive relative to the number of jobs and additional tax revenue it generates. DOR estimates the five-year average net cost at \$119,000 per job created in Massachusetts.

Elimination of this credit would not provide all the funding required to support the Governor's EITC proposal. Adding to this funding challenge is a difference in the proposed timing of when the EITC increases would take effect and when additional revenues would become available through elimination of the Film Tax Credit. Major elements of the tax credit would not be eliminated until the middle of 2016, with "holdover" losses continuing for several years beyond that date as filers continue to redeem credits from earlier years. Substantial increases in EITC costs would begin in the early part of 2017.

Non-filer Tax Amnesty

In the tax reform bill accompanying his FY 2016 budget, the Governor also proposes instituting a tax amnesty program for people and businesses that have failed to file returns for tax years 2013 and prior. The Governor's budget currently relies on \$100 million in additional revenue from this source. While some of the particulars of the program would be defined later by DOR (including which tax types would be included and when the program period would start), documents accompanying the Governor's budget suggest that this amnesty would be 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.

If enacted, this would be the third tax amnesty program offered in the Commonwealth in less than two years. 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 accompanying the Governor's budget, 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.) In his budget, the Governor proposes removing this requirement for FY 2016. 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 Governor's 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 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 FY14, 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 FY2016 it likely will be a similar amount. Such collections in FY 2015 total \$148 million to date (as of February 2015). The Governor's FY 2016 budget relies, conservatively, on \$100 million from this source.

FAS 109

The FAS 109 corporate tax break is a tax break that primarily affects about a dozen multi-state businesses. Delaying implementation of this tax break for another year (the tax break has been delayed on a one-year basis in prior budgets) would postpone the loss of an estimated \$46 million in corporate income tax collections in FY 2016 (see [Governor's FY 2016 budget documents](#)). While the details of this tax law change involve technical and complex interactions among a corporation's records for tax purposes and its public financial accounting records, the FAS 109 provision, in essence, is an attempt to offset certain costs to publically-traded companies resulting from the 2008 combined reporting tax reform package.

As part of that 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 would allow publically-traded companies to claim a new tax break that would offset the impact to their financial statements resulting from the effects of combined reporting on deferred tax liabilities.

The Department of Revenue (DOR) estimated that this provision would 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. 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.

Funding Cuts to the Department of Revenue

Among its other activities, the Department of Revenue (DOR), through its Office of Tax Administration makes sure that taxpayers are paying taxes they legally owe to the state. DOR hires auditors and collectors who identify taxes legally owed to the state that have not yet been paid and works with taxpayers to collect unpaid taxes.

The Governor’s FY 2016 budget proposes funding DOR’s tax activities at \$88.9 million which is \$1.1 million above the FY 2015 current budget but \$5.3 million below the amount appropriated in the FY 2015 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.

DOR’s tax collection efforts are funded through two primary accounts including the Administrative Account (1201-0100) that pays the salaries of auditors and collectors, as well as support staff and lawyers, who work to make sure that DOR collects the taxes that are legally owed to the state but have not been paid. The Additional Auditors Retained Revenue account (1201-0130), which was created in FY 2004, allows the DOR to retain a certain portion of the unpaid revenue it collects to help pay auditor’s salaries.

DOR Office of Tax Administration						
Program	Account Number	FY 2015 GAA	FY 2015 Current	FY 2016 Governor	FY 2016 Gov. - FY 2015 Current	FY 2016 Gov. - FY 2015 GAA
DOR Administrative A	1201-0100	94,179,565	87,767,114	88,872,929	1,105,815	(5,306,636)
Additional Auditors R	1201-0130	27,938,953	27,938,953	27,938,953	0	0
Total		122,118,518	115,706,067	116,811,882	1,105,815	(5,306,636)

During debate on the FY 2014 budget, a legislative proposal recommended a \$3.6 million cut in DOR’s budget which the Department estimated would cause the layoff of 60 full time positions resulting in the loss of almost \$50 million in revenue.³ This means, on average, the DOR collects \$800,000 in unpaid taxes per staff person who works on auditing and collection efforts. While most of the revenue is

³ Letter from DOR Commissioner Amy Pitter to the State Senate from April 2013: http://massbudget.org/reports/pdf/SWM_FY2014_Impact_letter-04-24-2013.pdf

collected by the auditors and collectors, who bring in over \$1 million in unpaid revenue each, they work with lawyers and support staff in their collection efforts. If the Governor's proposed FY 2016 reduction of \$5.3 million for DOR is included in the Legislature's final budget, this could result in the loss of tens of millions of dollars in revenue owed to the state in FY 2016. In addition to immediately reducing the amount of revenue recovered through audits, such cuts are also likely to lead to long term reductions in revenue if public awareness of the lack of enforcement encourages greater use of complex tax evasion schemes.

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.

Although the Governor has made a commitment not to raise any fees to balance the budget, there are several non-tax revenue initiatives in place. For example, the Governor proposes selling the Sullivan Court House in East Cambridge, and anticipates this will bring in approximately \$30 million. Notably, the Governor's budget proposal also relies on \$82.4 million in ongoing revenue from slot parlors.

There are also initiatives designed to maximize the amount of federal revenue brought in to the state, including increased reimbursements from the Federal Emergency Management Administration (FEMA) to support clean-up from the recent winter storms. The Governor anticipates that these initiatives will bring in approximately \$27 million.

Budgets often rely on funds from off-budget trusts. The Governor does take \$110 million from the Commonwealth Care Trust Fund to help balance the budget, and transfers \$6.9 million from the Community First Trust to help support expanded autism services, but these function more as shifts of existing funding, rather than as one-time uses of off-budget trust funding.

The state has adopted a schedule to move towards full funding of health and other post-employment benefits ("OPEB") for retirees. In Fiscal Year 2012, the state decided to gradually dedicate an increasing share of the Master Tobacco Settlement agreement funds awarded to the state to the State Retiree Benefits Trust to fund this liability. In FY 2015, this transfer was not made, and these settlement funds were directed back into the General Fund in order to help balance the budget. The Governor in FY 2016 is similarly suspending the required transfer, and instead is making a direct appropriation of \$84.6 million into a reserve account to partially cover the OPEB liability. This transfer is approximately \$24.3 million less than the statutorily required amount, and is a one-time savings.

The Governor also "saves" money in FY 2016 by delaying until FY 2017 \$116 million in FY 2016 MassHealth payments. This cash management strategy is in addition to approximately \$340 million in cash management (payment delays) carried forward from previous budget years.



BUDGET MONITOR

BUDGET BY CATEGORY AND SUBCATEGORY (millions)	FY 2001 Final Adjusted for Inflation to FY15	FY 2009 GAA Adjusted for Inflation to FY15	FY 2015 GAA	FY 2015 Current	FY 2016 Governor
Education	7,395.0	7,712.1	7,546.1	7,476.5	7,615.7
Early Education & Care	713.0	654.9	550.2	543.6	544.8
Higher Education	1,494.0	1,212.1	1,185.6	1,173.8	1,187.4
K-12: Chapter 70 Aid	4,070.8	4,382.5	4,400.7	4,400.7	4,506.0
K-12: Non-Chapter 70 Aid	674.4	683.5	638.1	586.9	573.7
K-12: School Building	442.9	779.1	771.5	771.5	803.9
Environment & Recreation	295.5	238.2	203.4	197.4	202.8
Environment	131.6	101.7	90.3	90.3	92.3
Fish & Game	23.9	23.6	27.5	26.7	27.9
Parks & Recreation	140.0	112.9	85.5	80.4	82.7
Health Care	9,834.3	14,247.4	17,327.8	17,609.0	18,676.1
MassHealth (Medicaid) & Health Reform	7,436.7	11,530.7	14,680.7	14,801.1	15,818.8
Mental Health	811.7	760.7	736.4	713.6	727.6
Public Health	712.7	659.8	542.3	535.9	541.2
State Employee Health Insurance	873.2	1,296.2	1,368.4	1,558.4	1,588.4
Human Services	3,671.3	3,894.0	3,894.6	3,917.6	4,067.2
Child Welfare	785.2	928.3	827.2	829.6	900.5
Disability Services	1,321.5	1,498.0	1,721.7	1,761.8	1,825.2
Elder Services	256.0	264.8	255.4	252.7	263.4
Juvenile Justice	162.3	181.0	176.0	173.1	175.9
Transitional Assistance	1,020.8	861.6	728.2	715.8	703.0
Other Human Services	125.4	160.2	186.1	184.6	199.1
Infrastructure, Housing & Economic Development	1,989.5	1,568.3	2,129.6	2,075.7	2,239.5
Commercial Regulatory Entities	58.9	57.2	56.7	55.7	60.9
Economic Development	288.1	191.9	143.9	133.2	121.6
Housing	340.0	307.0	381.5	380.0	425.9
Transportation	1,302.4	1,012.2	1,547.5	1,506.8	1,631.0
Law & Public Safety	2,544.4	2,820.3	2,612.0	2,609.6	2,628.3
Courts & Legal Assistance	770.8	727.1	671.8	664.3	697.0
Law Enforcement	372.0	462.8	377.8	384.7	381.3
Prisons, Probation & Parole	1,199.5	1,418.5	1,352.5	1,355.6	1,343.6
Prosecutors	157.3	162.1	152.9	149.9	152.6
Other Law & Public Safety	44.8	49.9	57.0	54.9	53.7
Local Aid	1,740.1	1,494.6	986.9	982.7	1,012.7
General Local Aid	1,713.4	1,459.2	945.8	945.8	979.8
Other Local Aid	26.7	35.4	41.2	37.0	32.9
Other	4,590.6	4,737.3	4,871.8	4,847.4	4,915.1
Constitutional Officers	107.2	99.2	81.7	80.7	73.0
Debt Service	2,168.6	2,367.5	2,497.6	2,497.6	2,517.5
Executive & Legislative	82.6	76.8	73.1	73.1	71.2
Libraries	47.1	37.8	25.8	25.3	25.3
Pensions	1,417.2	1,625.9	1,793.0	1,793.0	1,972.0
Other	767.9	530.0	400.6	377.7	256.0
Total Budget	32,060.7	36,712.1	39,572.3	39,715.9	41,357.4

Note: The FY16 Governor's budget proposal includes \$147.2 million in anticipated costs associated with his early retirement initiative included in the "Other" subcategory above; MassBudget also subtracts \$325.1 million from "Other" to reflect anticipated savings from this initiative. Together these reflect the Governor's anticipated net savings of \$177.9 million from early retirement. 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 fully-funded 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.