

## Analyzing the Senate Ways & Means Budget for FY2016

The Senate Ways and Means (SWM) budget recommends modest increases to education programs above levels proposed by the Governor and the House. These increases support early education, K-12 education overall (although the SWM budget eliminates most of the Kindergarten Expansion Grant funding provided by the House), higher education, and workforce training. The Governor's, House, and SWM proposals are similar in that they increase funding to fight substance abuse and increase local aid. To help pay for these initiatives, the budget provides new funding to the Department of Revenue that will strengthen its capacity to ensure that companies pursuing complex tax evasion strategies pay their fair share.

Like proposals by the Governor and the House, the SWM budget relies heavily on temporary strategies to balance the budget. All spend \$300 million in capital gains tax revenue that would have gone into the Rainy Day Fund under current law. They also all count on \$100 million from a tax amnesty and \$116 million from putting off paying some of our FY 2016 MassHealth bills into FY 2017.

### **Gov, House, and SWM Budgets Rely Heavily on Temporary Solutions**

Temporary solutions across all 3 proposals	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
<b>TOTAL</b>	<b>\$616 million</b>

The budget proposals by the Governor, the House, and the Senate are all 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 we have experienced deep cuts in areas like higher education, local aid, and public health. Meanwhile, the highest income residents in the Commonwealth pay a substantially smaller share of their income in state and local taxes than do the other 99%. If the 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 our people, our communities and our economy.

### **Early Education & Care**

The Senate Ways & Means FY 2016 budget proposal of \$564.0 million for programs and services administered by the Department of Early Education and Care (EEC) is a \$20.5 million increase over current FY 2015 spending and just slightly higher than the House proposal.

SWM combines **TANF Child Care** and **Supportive 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) while Supportive child care provides early education and care opportunities to children in the care of the Department of Children and Families, the primary child welfare agency in Massachusetts.

SWM provides \$222.1 million with \$100.5 million going to supportive care, \$20.8 million more than FY 2015 current and essentially level with the House and Governor; and \$121.6 million for TANF care, \$9.7 million below FY 2015 current spending, but also level with the House and Governor. Appropriations for both are below what the Department of Education and Care (EEC) projected as the need for FY 2016. EEC recommended \$108.0 million for supportive care, \$7.5 million more than SWM, and recommended \$127.8 million for TANF care, \$6.2 million more than SWM. Language included in the budget requires that all children with open DCF cases who need care receive a subsidy. In the past, many of these children had to wait for a subsidy. The House and the Governor did not include language requiring a subsidy, instead proposing to institute an official wait list to monitor the number of children in need, but not receiving care.

The SWM budget provides \$252.9 million for **Income Eligible Child Care**, level with the House and Governor, and gives \$12.0 million to the **Income Eligible Wait List**. The House appropriated \$5.0 million for the wait list and the Governor did not fund it at all. 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 25,000 children in March 2015. 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. See [Declines in Work Supports for Low-Income Parents](#) for more information about the long term funding decline in early education and care.

The SWM budget provides \$2.5 million for a **Rate Reserve** for center based providers. The House provided \$5.0 million while the Governor did not fund this reserve. This rate reserve might 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.

SWM provides **Grants to Head Start** with \$9.1 million, restoring \$1.0 million in funding that was cut in February and matching the initial appropriation in the FY 2015 GAA budget.

SWM also provides \$300,000 to continue an assessment of EEC which began in FY 2014. The FY 2014 budget appropriated \$500,000 to hire a nonprofit research organization to undertake a 2 year assessment of the services administered by EEC. The FY 2015 GAA budget appropriated \$385,000 for this assessment, but all of those funds were cut in November. 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. Neither the Governor nor the House provided funding for this assessment in their FY 2015 proposals.

The SWM proposal provides \$19.5 million for **Services for Infants and Parents**, \$2.0 million more than FY 2015 current spending and the Governor's proposal, but \$1.9 million less than the House. For information about these services, see the MassBudget [Children's Budget](#).

## K-12 Education

Education plays a central role in developing the next generation of engaged citizens and [strengthening our state economy](#).

The Senate Ways and Means (SWM) budget proposes increasing **Chapter 70 education aid** by \$111.2 million to \$4.51 billion, a 3 percent increase over last year. The SWM proposal is \$3.0 million above the House budget. This additional funding comes from providing additional support to districts that are contributing more to their local schools than their target identified in Chapter 70 reforms begun in 2007. This "effort reduction" is increased from 45 percent in the House budget to 50 percent in the SWM proposal.

Further, the SWM Chapter 70 proposal maintains a \$25 per-student minimum increase, which is in line with the House and above the \$20 per-student amount in the Governor's budget. For more details on FY 2016 Chapter 70 funding, see the education section of MassBudget's [Budget Monitor for the Governor's proposal](#).

Outside of Chapter 70, over the course of FY 2015, there were significant mid-year cuts made by both Governors to K-12 grant programs. These totaled \$56.3 million, 9 percent of all funding in this area. The budget proposals for FY 2016 generally do not fully restore this funding. The SWM budget proposal provides K-12 grant funding \$34.6 million below what was initially allocated for FY 2015. Many K-12 grant programs are designed to support schools and students facing the greatest challenges.

Despite providing less support than the original FY 2015 budget, the SWM budget for K-12 grants provides the greatest investment among the FY 2016 budget proposals. It also provides an increase of \$16.6 million over current levels. For more detail, please see the table below.

### K-12 Grant Programs

FY 2015 GAA	FY 2015 Current	FY 2016 Governor	FY 2016 House	FY 2016 SWM	FY16 SWM - FY15 GAA	FY16 SWM - FY15 Current
638,063,907	586,866,950	573,701,617	600,226,694	603,427,579	(34,636,328)	16,560,629

The SWM budget does not include two new education programs that were included in the Governor's budget, **Educator Evaluation System Implementation**, and **School Safety & Supports**.

The SWM budget, like the House proposal, does not include a plan proposed by the Governor to consolidate 11 student support programs in academically struggling schools into a single grant overseen by the Department of Elementary and Secondary Education. The SWM budget funds these programs at \$18.9 million, \$160,000 below current levels. For more detail, please see the table below.

**Programs Consolidated in the Governor's Budget into Partnership Schools Network**

Line Item #	Name	FY 2015 Current	FY 2016 Governor	FY 2016 House	FY 2016 SWM	FY16 SWM - FY15 Current	Notes
7009-6400	ELL in Gateway Cities	2,139,754	0	1,000,000	2,430,404	290,650	
7009-6402	Gateway Cities Career Academies	116,419	0	0	0	(116,419)	
7010-0020	Bay State Reading Institute	394,000	0	400,000	400,000	6,000	
7010-0033	Literacy Programs	1,895,016	0	1,700,000	2,100,000	204,984	Includes adj.
7030-1005	Reading Recovery	295,500	0	200,000	300,000	4,500	Includes adj.
7061-0029	Office of Ed. Quality and Accountability	979,650	0	979,650	978,747	(903)	
7061-9011	Innovation Schools	731,625	0	0	736,898	5,273	
7061-9404	MCAS Low-Scoring Student Support	4,162,804	0	4,094,804	4,094,804	(68,000)	
7061-9406	College and Career Readiness Program	360,339	0	500,000	0	(360,339)	
7061-9408	Targeted Int. in Underperforming Schools	7,706,297	17,483,679	7,938,413	7,580,375	(125,922)	
7061-9614	Alternative Education Grants	242,448	0	250,000	246,140	3,692	
<b>Total</b>		<b>19,023,852</b>	<b>17,483,679</b>	<b>17,062,867</b>	<b>18,867,369</b>	<b>(156,483)</b>	

The SWM proposal includes cuts or level-funding for several programs:

- **Kindergarten Expansion Grants** are cut to \$1.0 million, \$17.6 million (95 percent) below current levels. These grants received \$23.9 million in the original FY 2015 budget, but were reduced to \$18.6 million through a mid-year cut. The SWM budget mostly aligns with the Governor's proposal to eliminate state support to expanding full-day kindergarten. The SWM proposal differs from the House plan which maintains Kindergarten Expansion Grants at current levels.
- **Extended Learning Time Grants** are reduced to \$13.7 million, \$995,000 (7 percent) below current levels.
- **METCO** is level funded at \$17.9 million, which maintains a mid-year cut in FY 2015 of \$1.2 million.
- **Gateway Cities Career Academies** (\$116,000 in current funding) are eliminated, which could limit work-based learning opportunities for urban youth across the state.
- **Statewide College and Career Readiness Program** (\$360,000 in current funding) is eliminated, which could limit the ability of struggling high school students to gain remedial help to allow them to be prepared for college-level work after high school.

The SWM budget includes some increases to K-12 programs, including:

- An \$18.2 million (7 percent) increase to the **Special Education Circuit Breaker** over the current FY 2015 budget. This will allow full funding of the Circuit Breaker formula.
- An allocation of \$1.5 million to **Substance Abuse Counselors**, to provide additional counselors in schools across the state to address substance abuse challenges. This program was funded at \$5.0 million in the original FY 2015 budget, but was never implemented due to mid-year cuts in FY 2015. The program was not funded in either the Governor's or House budget proposals for FY 2016.

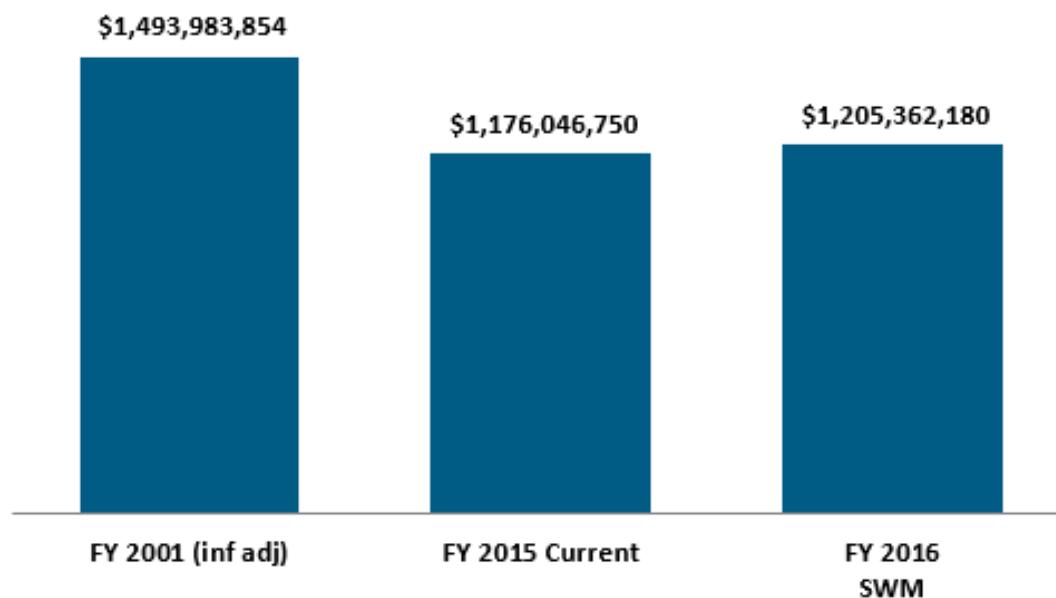
- An allocation of \$1.5 million to the **Massachusetts Computer Attainment Network** (MassCAN) to promote computer science education in public schools across the state. This program was initially funded as part of a 2014 economic development law, but was never launched due to mid-year cuts in FY 2015.

## Higher Education

Higher education helps residents of Massachusetts gain the knowledge and skills to succeed in a competitive global economy.

The Senate Ways and Means Committee (SWM) proposes funding public higher education at \$1.21 billion, a modest increase of \$29.3 million (2 percent) over current levels. The SWM proposal provides more investment in higher education than the Governor's or House proposals for FY 2016. However, the SWM proposal is \$288.6 million (19 percent) below 2001 levels (adjusted for inflation). This long-term funding reduction is in part a result of income tax cuts implemented by the early 2000's that continue to cost the state over \$3 billion a year.

### Public Higher Education Has Been Cut 19 Percent Since 2001



Notably, the SWM proposal 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. Barring any other adjustments, this change to tuition retention would result in roughly \$31 million in additional funding for UMass in FY 2017.

Appropriations to each of the three campus types are detailed in the table below. These totals include three types of adjustments that help facilitate better year-to-year comparisons:

- **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 adds collective bargaining accounts and other programs located at particular campuses 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.

### **Higher Education Funding**

Campus Type	FY 2015 Current	FY 2016 Governor	FY 2016 House	FY 2016 SWM	FY16 SWM - FY15 Current	Notes
Community Colleges	273,268,477	272,215,201	277,415,201	281,327,000	8,058,523	<i>Includes adj.</i>
State Universities	243,531,398	249,025,432	248,825,432	250,006,516	6,475,119	<i>Includes adj.</i>
UMass	536,924,831	541,804,319	538,652,791	555,156,018	18,231,187	<i>Includes adj.</i>
Total, all campuses	1,053,724,705	1,063,044,953	1,064,893,425	1,086,489,535	32,764,829	<i>Includes adj.</i>

Increases to some of the main line items for higher education campuses are somewhat offset by cuts to several higher education grants and programs. Several line items are also level-funded. These programs include:

- Elimination of [\*\*High Demand Scholarships\*\*](#) (currently funded at \$1.0 million), which could limit students' ability to pursue majors in high growth fields such as STEM, nursing, and finance;
- A cut of \$1.1 million (26 percent) to the [\*\*Tufts Veterinary Program\*\*](#);
- A cut of \$3.6 million (51 percent) to the [\*\*STEM Starter Academy\*\*](#);
- Level-funding [\*\*Dual Enrollment Grants\*\*](#) at \$750,000; and
- Level-funding the [\*\*State Scholarship Program\*\*](#), which helps make higher education more affordable.

Several higher education programs are increased in the SWM proposal, including:

- A \$1.5 million (40 percent) increase to [\*\*National Guard Tuition and Fee Waivers\*\*](#)
- A \$500,000 (200 percent) increase to the [\*\*Collins Center for Public Management\*\*](#) at UMass Boston.
- A \$500,000 (53 percent) increase to [\*\*Community College Workforce Grants\*\*](#).

- A \$483,000 (18 percent) increase to the Department of Higher Education

## Environment & Recreation

The state budget funds programs that keep our air, land and water clean, maintain fish and wildlife habitats and staff parks, beaches, pools and other recreation facilities. The Senate Ways and Means (SWM) Committee proposes spending \$205.5 million on Environment and Recreation programs in Fiscal Year (FY) 2016 which is \$8.1 million above FY 2015 current spending but \$2.6 million less than the amount proposed by the House. Funding for Environment and Recreation programs has fallen 30 percent in inflation-adjusted dollars since FY 2001 after the state implemented more than \$3 billion in cuts to the income tax.

The SWM Committee's FY 2016 budget makes few notable spending changes for Environment and Recreation programs compared with the FY 2015 current budget. Some highlights include:

- Small amounts of funding to help the state prepare for and adapt to climate change. The SWM Committee provides \$200,000 for a state climatologist. The FY 2015 GAA included funding for a state climatologist but the position was eliminated when Governor's Patrick and Baker made emergency budget cuts during FY 2015. The SWM Committee budget also proposes \$300,000 to plan for climate change adaptation which is \$432,000 less than the FY 2015 current budget.
- \$29.2 million for the Department of Environmental Protection which makes sure our air, water and land are kept clean. While the SWM budget is a small increase of \$132,000 above the FY 2015 budget it is \$328,000 less than the amount recommended in the House FY 2016 budget. Funding for DEP has fallen 33 percent in inflation adjusted dollars since FY 2001.
- \$57.8 million for state parks. The budget funds state parks through two accounts. One provides funding from the General Fund; the SWM Committee budget proposes increasing funding for this account by \$1.5 million over FY 2015 current spending to \$41.8 million. The parks also receive funding through an account that allows DCR to retain a certain amount of the revenue it collects through parking and entry fees. The SWM Committee budget proposes a \$1.9 million increase 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.<sup>1</sup>

### PARKS AND RECREATION

Line Item #	Name	FY 2015 GAA	FY 2015 Current	FY 2016 Governor	FY 2016 House	FY 2016 SWM	FY16 SWM - FY15 GAA	Notes
2810-0100	State Parks & Recreation	44,344,381	40,364,735	41,161,322	43,994,533	41,824,985	(2,519,395)	
2810-2042	DCR Retained Revenue	14,141,673	14,141,673	16,000,000	16,000,000	16,000,000	1,858,327	
	<i>Total Parks &amp; Recreation</i>	<i>58,486,054</i>	<i>54,506,408</i>	<i>57,161,322</i>	<i>59,994,533</i>	<i>57,824,985</i>	<i>(661,069)</i>	

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

## MassHealth (Medicaid) & Health Reform

The Senate Ways and Means (SWM) budget for MassHealth and health reform programs is \$54.7 million less than the House budget proposal, and \$40.0 million less than total proposed by the Governor. (For a table outlining funding differences among the FY 2016 MassHealth budget proposals, see below.) 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 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 close to half of the state's costs, and in certain instances significantly more than half of costs.

The biggest factor affecting the FY 2016 MassHealth budget as first proposed by the Governor and matched by both the House and SWM 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.

Also like the Governor and the House, SWM proposes savings by being as efficient as possible in trimming program membership, and implementing several other operational efficiencies. The MassHealth program has stepped 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 Administration 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 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 major difference between the House and SWM budget proposals is in \$29.0 million less in funding for Fee-for-Service coverage. (This line item also reflects an additional \$6.0 shifted from the Department of Mental Health into MassHealth totals to support mental health services for people eligible for MassHealth. MassBudget shifts this \$6.0 back to the mental health totals in order to make more accurate comparisons – see Mental Health section of this *Budget Monitor*.) This funding reduction reflects two changes proposed by SWM. First of all, SWM estimates \$26.6 million in reduced costs due to newly-revised caseload estimates, and that there would be \$3.0 million in savings from what is known as "academic detailing." This initiative is among the various proposals to help reduce health care costs. 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.

Like both the House and the Governor, SWM 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.

SWM also follows the Governor and House by including \$16 million for a full year's coverage for adult dentures and fillings for all teeth. Budget language (Section 61) states that further restoration of adult dental services would require administrative and legislative review.

SWM, like the House does not follow the Governor's proposal to eliminate chiropractic services as a covered benefit.

MassHealth coverage for elders in the community and in nursing homes does not change significantly under the SWM budget proposal, although SWM does not include \$6.0 million provided by the House for the MassHealth share of increased rates and \$2.8 million 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.

MassHealth funding does maintain funding for respite care for caregivers 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 facility, and this funding provides respite for the caregiver by funding 14 days of replacement caregiving.

The table below helps explain some of the differences in funding among the FY 2016 budget proposals for selected MassHealth program line items. (The italicized descriptions below the selected line items highlight the reasons for the funding differences.)

#### **SELECTED MASSHEALTH FUNDING DIFFERENCES**

Line Item #	Name	FY 2016 Governor	FY 2016 House	FY 2016 SWM	Notes
4000-0640	MassHealth Nursing Home Supplemental Ra	291,600,000	300,400,000	291,600,000	
	<i>Increase in nursing home rates</i>		6,000,000		
	<i>Nursing home pay-for-performance program</i>		2,800,000		
4000-0700	MassHealth Fee-For-Service	2,489,792,092	2,498,792,092	2,463,752,092	<i>Includes adj.</i>
	<i>Chiropractic services</i>		600,000	600,000	
	<i>Academic detailing</i>			(3,000,000)	
	<i>Revised caseload projections</i>			(26,600,000)	
	<i>Martha's Vineyard and Nantucket Travel Costs</i>		75,000		
	<i>Noble Hospital</i>		150,000		
	<i>High acuity patients supplemental payments</i>		7,400,000		

#### **ConnectorCare**

ConnectorCare is the subsidized health insurance program administered by the Health Connector that provides benefits similar to those previously provided by Commonwealth Care. ConnectorCare plans have relatively low monthly premiums and out-of-pocket costs, and are 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 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 Senate Ways and Means (SWM) budget for mental health is \$31.8 million or 4 percent above FY 2015 current budget totals, but only slightly higher than what FY 2015 funding was before mid-year budget 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. The House budget proposal restored funding for the community-based services cut in the Governor's proposal, and the SWM budget proposal restores even more.

SWM includes a total of \$439.1 million for a variety of adult mental health services, which is \$16.6 million more than FY 2015 current funding. This total includes \$18.2 million to support services for adults currently in mental health continuing care facilities who are ready for discharge into a community placement. This total is \$5.0 million more than the amount recommended by the Governor, and would support an additional 50 community placements.

Within the total for these services SWM largely restores funding cut by the Governor from the Recovery Learning Centers. These six regional 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 SWM budget proposal also includes \$6.0 million to cover emergency services for mental health patients who have MassHealth insurance coverage. This total is included in the funding for Emergency Services below.

### ADULT MENTAL HEALTH SERVICES

Line Item #	Name	FY 2015 Current	FY 2016 Governor	FY 2016 House	FY 2016 SWM	FY16 SWM - FY15 Current	Notes
5046-0000	Adult Mental Health and Sup	351,956,369	357,578,710	366,791,024	361,203,245	9,246,877	<i>Includes adj.</i>
5046-0005	Adult Community-Based Place	10,000,000	13,237,540	14,000,000	18,237,540	8,237,540	<i>Includes adj.</i>
5046-2000	Statewide Homelessness Sup	20,134,629	22,134,979	22,134,979	20,134,979	350	
5046-4000	CHOICE Program Retained Rev	125,000	125,000	125,000	125,000	0	
5047-0001	Emergency Services and Acute	31,402,705	24,258,428	24,258,428	30,258,428	(1,144,277)	<i>Includes adj.</i>
5055-0000	Forensic Services Program for	8,878,876	9,183,473	9,076,604	9,183,472	304,596	
<b>TOTAL</b>		<b>422,497,578</b>	<b>426,518,130</b>	<b>436,386,035</b>	<b>439,142,664</b>	<b>16,645,086</b>	

(Note that certain line items have been adjusted so in order to provide better year-to-year comparisons. These adjustments show shifts of funding from one line item to another.)

SWM funds children's mental health services at a total of \$86.9 million, which is 8 percent more than FY 2015 current funding totals, but just under the level of support provided at the beginning of FY 2015 before mid-year budget cuts were implemented. The SWM proposal includes \$3.6 million to fund the Massachusetts Child Psychiatry Access Project (MCPAP), including a new allocation of \$500,000 to support the MCPAP for Moms program. This innovative initiative provides mental health screening for pregnant and postpartum women, in order to identify postpartum depression or other mental health issues.

The SWM proposal also includes \$6.0 million for Individual Family Flexible Support services. These services had been cut by the Governor, but were included in the House proposal. These resources and services can be creatively used to develop such programs as youth groups, family systems intervention, and case management, and support such family needs as scholarships, direct assistance, and respite.

SWM funds state psychiatric hospitals at \$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 in the FY 2015 budget that requires at least 260 beds at the Worcester Recovery Center. SWM proposes language accommodating up to 54 beds at Taunton State Hospital. The House budget language reflected the FY 2015 budget which specifies 45 inpatient beds at Taunton State Hospital.

## Public Health

Funding for public health services in the Senate Ways and Means (SWM) budget proposal includes approximately \$553.6 million, a \$13.4 million or 2 percent increase above FY 2015 current funding totals. Funding for public health programs is essential to helping keep the Commonwealth healthy, as 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 SWM public health budget proposal is not dramatically different from either the House or the Governor's proposal, although there are a few areas where funding differs. SWM directs less funding to the various grant programs targeted to reducing youth violence, and recommends more funding for substance abuse programs and for HIV prevention and treatment.

There are several line items within the state budget that support programming for youth engagement, including funding for afterschool programming at community centers such as YMCAs and Boys and Girls Clubs. Together, SWM recommends a total of \$10.0 million, \$2.1 million less than (18 percent below) FY 2015 current budget totals. These various grant programs had received \$10.1 million at the start of FY 2015, but funding was cut mid-year.

To support the provision of **substance abuse treatment and services** within the budget, SWM directs a total of \$116.4 million, a \$5.8 million increase in funding compared to FY 2015 current budget totals, and \$4.3 million above the House proposal. There is a difference in the allocation of funds, and MassBudget makes some adjustments to these numbers in order to allow for more accurate comparisons (see table below). SWM proposes \$10.0 million for the Substance Abuse Services Fund, established to increase the number of people receiving services from the bureau of substance abuse services in the Dept. of Public Health. The House budget did not direct money to this trust, but instead

proposed more funding for the bureau. (The Governor's budget had also \$10 million to the trust, but funded it partially with revenues brought in by the proposed tax amnesty program. The MassBudget adjustment aligns the SWM and Governor's proposals.)

There are several substance abuse initiatives, including two new line items. SWM creates a new line item with \$3.1 million to focus on funding for **Recovery High Schools**, however only \$1.5 million of that is new funding and the remainder is simply a shift from the Bureau of Substance Abuse Services. (MassBudget adjusts the totals to reflect that shift.) Recovery High Schools provide a safe and therapeutic environment for youth working towards recovery from substance abuse disorders, and this funding would allow for the creation of two new programs.

SWM also creates a new line item with \$100,000 to cover the costs of a **municipal Naloxone bulk purchase** program. This program (detailed in Section 27) would allow 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. This program would also assist municipalities in providing training of first responders in the use of the medication.

#### PUBLIC HEALTH SUBSTANCE ABUSE SERVICES

Line Item #	Name	FY 2015 Current	FY 2016 Governor	FY 2016 House	FY 2016 SWM	FY16 SWM - FY15 Current	Notes
1595-4510	Substance Abuse Services Fur	0	0	0	0	0	<i>Includes adj.</i>
1599-1450	Health Policy Commission Sul	0	0	600,000	0	0	
4512-0200	Bureau of Substance Abuse S	91,317,333	90,424,903	98,570,501	95,469,903	4,152,570	<i>Includes adj.</i>
4512-0201	Substance Abuse Step-Down	4,800,000	4,800,000	8,387,220	4,800,000	0	
4512-0202	Secure Treatment Facilities fo	2,000,000	2,000,000	2,000,000	2,000,000	0	
4512-0203	Young Adult Treatment Progra	1,500,000	1,500,000	1,500,000	1,500,000	0	
4512-0204	Nasal Narcan Expansion Prog	1,000,000	1,000,000	1,000,000	1,000,000	0	
4512-0210	Substance Abuse Treatment T	10,000,000	10,000,000	0	10,000,000	0	<i>Includes adj.</i>
4512-0211	Recovery High Schools	0	0	0	1,500,000	1,500,000	<i>Includes adj.</i>
4590-0930	Municipal Naloxone Bulk Pur	0	0	0	100,000	100,000	
<b>TOTAL</b>		<b>110,617,333</b>	<b>109,724,903</b>	<b>112,057,721</b>	<b>116,369,903</b>	<b>5,752,570</b>	

Funding for services to prevent the spread of **HIV** and provide treatment for prevention and treatment receives a total of \$40.5 million in the SWM budget, a \$770,000 increase over FY 2015 current budget totals, and \$806,000 more than the House. 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.

SWM, like the House and the Governor, proposes \$27.6 million in funding for the [Early Intervention Program](#). This is the same amount as recommended by the Governor, and just slightly above 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.

SWM does not provide funding for the [Postpartum Depression Pilot](#) program, which received \$200,000 from the House. There is, however, 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 SWM budget, essentially same as in the House proposal and 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 \$37.3 million – slightly below the House budget and 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.

SWM also provides essentially the same as the House for the **public health hospitals**, for a total of \$189.3 million. This is \$8.2 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 Senate Ways and Means (SWM) budget proposal, like the House budget proposal, does not follow the Governor's recommendation to have current state employees pay a larger share of 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. 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.

Funding for the Group Insurance Commission had 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. In March, the Legislature appropriated an additional \$190.8 million to cover FY 2015 state employee health insurance costs.

## 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. 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, the state did not make the 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, and instead plans on making up the funding with unexpended debt service appropriations. If that amount is insufficient, the remainder would come from the Tobacco Settlement funds.

In FY 2016, the planned transfer amount would be approximately \$109 million, but all three of the FY 2016 budget proposals suspend this transfer, and also reduce the amount to be directed to state retiree benefits from \$109 million to approximately \$84.6 million. To make the transfer, SWM proposes using 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. The House proposed using unexpended debt service payment appropriations with the remainder coming from a transfer from the General Fund; the

Governor proposed an appropriation of \$84.6 million. In all instances these proposed transfers total \$24.3 million less than the amount stated in the statute.

(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.)

## Housing

The state budget provides affordable housing assistance to low-income renters and funds shelter and services for low-income homeless families and individuals. The Senate Ways and Means (SWM) Committee's Fiscal Year (FY) 2016 budget proposes \$431.7 million for affordable housing programs which is \$2.8 million below the FY 2015 current budget and is \$1.7 million more than the amount recommended by the House.

Since the onset of the Great Recession when many parents lost their jobs and housing, the number of families living in state-supported homeless shelters and hotels and motels, has increased. As of March 2015 over 4,500<sup>2</sup> low income, homeless families were either housed in family shelters or hotels and motels because the family shelters are full. Hotels and motels generally do not have adequate facilities like kitchens and are often far from public transportation and other services.

The SWM Committee budget like the House and Governor's proposals for FY 2016, increases funding for some housing supports while reducing funding for the Emergency Assistance (EA) program that provides shelter to low income families who are homeless. Previous budgets have tried similar approaches and have reduced funding for EA in anticipation of reduced need for shelter. But over the course of each year, the need for shelter has exceeded the amount provided in the budget and the Legislature has provided supplemental funding so that families can remain in shelter.

The SWM Committee provides \$154.9 million for [EA](#) which is \$36.9 million below the FY 2015 current budget and is in line with the amount provided in the House budget. EA provides shelter and services to low-income homeless families who meet certain eligibility criteria (for a full description please see MassBudget's Children's Budget [HERE](#).) In recent years the state has tightened the eligibility criteria 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 access shelter. The SWM budget includes language requiring that DHCD provide shelter to these families so they do not have to sleep in such places before they are permitted to live in shelter.

While reducing funding for shelter, the SWM Committee budget for FY 2016 increases funding for the [\*\*Massachusetts Rental Voucher Program\*\*](#) (MRVP) to \$85.4 million which is \$21.2 million above the FY 2015 current budget. The SWM budget is also \$2.5 million above the \$82.9 million provided in the House budget for FY 2016. In addition to providing an \$18.2 million increase for MRVP above the FY 2015 current budget, the House budget proposal also directs that up to \$8.0 million in unspent MRVP funds from FY 2015 be transferred into FY 2016. The SWM does not include this transfer; instead any unspent MRVP funds from FY 2015 will be transferred the Affordable Housing Preservation and

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<sup>2</sup> DCHD caseload data is available here: <http://www.mass.gov/hed/docs/dhcd/hs/ea/homelessnumberchart.pdf>

Stabilization Trust Fund which DHCD can use to support MRVP or other affordable housing programs. According to documents that accompany the budget, the SWM Committee estimates that its budget increase will allow DHCD to create between 600 and 750 new vouchers.

The SWM Committee budget also provides \$7.0 million in funding for a new **homelessness prevention program** at the Executive Office of Health and Human Services (EOHHS) to provide short-term, tailored and flexible assistance to families who are homeless or are in danger of becoming homeless. The funding will be used to give families housing and other benefits so that they do not need to enter the state's family shelter system. The Governor included this new initiative in his FY 2016 proposal with \$20 million. The House has not included it in its budget proposal for FY 2016.

In its budget the SWM Committee reduces funding for **HomeBASE** that provides short-term housing assistance to families who are moving from EA shelters into housing. The SWM budget provides \$26.2 million for HomeBASE which is \$2.7 million below the FY 2015 current budget. Like the House and Governor's budget proposals for FY 2016 the SWM Committee recommends that families can receive up to \$8,000 in housing assistance in one 12-month period from HomeBASE. This limit would also include any funding a family received through the RAFT program (noted below.)

The SWM Committee budget provides \$12.0 million for **Residential Assistance for Families in Transition** (RAFT) which provides one-time assistance to help families stay in housing and avoid homelessness. This amount is \$1.0 million more than the FY 2015 current budget.

Some other highlights of the SWM Committee's housing budget for FY 2016 include:

- \$2.0 million in new funding to provide **shelter and services to unaccompanied homeless youth** who are up to 24 years old.
- \$500,000 for a new **self-sufficiency pilot program**, outlined in Outside Section 93 of the SWM budget, which is modeled after the program that the Worcester Housing Authority is undertaking. The pilot program allows 4-6 Housing Authorities to provide admissions preference to applicants who agree to a self-sufficiency plan. Participants will commit to a plan that includes developing a family stability plan; spending 30 hours per week working, going to school or participating in community service; participating in an intensive skills training program; and/or making sure their children are attending school. Outside Section 93 also creates a small oversight committee that will advise DHCD on developing the program and performance standards. Housing authorities that show they have successfully increased employment, income and school attendance within the applicant's household will receive increases in funding half of which must be directed towards the self-sufficiency program.
- \$46.3 million for **homeless individuals**, including the **Home and Healthy for Good** program, which is \$1.4 million above the FY 2015 current budget. The SWM Committee budget proposal increases funding for shelter and services for homeless individuals by \$1.8 million while decreasing funding by \$400,000 for the Home and Healthy for Good Program that provides housing to chronically homeless individuals.
- \$64.0 million for subsidies to **Public Housing Authorities** which is essentially level with the FY 2015 budget. The SWM Committee budget also includes \$800,000 for a new account to

implement the public housing reform which is identical to the amount recommended by the House and the Governor. The SWM budget does not include \$1 million for the Urban Housing Agenda which was recommended by both the House and the Governor.

- \$4.6 million for the **Alternative Housing Voucher** program which provides housing vouchers to people with disabilities. This is a \$1.0 million increase above the FY 2015 current budget.

## Child Welfare

The Department of Children and Families (DCF) is the state's child welfare agency. DCF's primary mission is child protection. Keeping kids safe sometimes means placing kids outside the home in kinship foster care with extended family, non-family foster care or group care placements. The department's first choice though is to keep families together whenever possible. Children are most likely to thrive if they live in stable and loving homes; and their outcomes will be even better if these homes are familiar to 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 has received an increase in funding through supplemental budget bills during FY 2015. The FY 2016 Senate Ways & Means Budget provides \$902.6 million for Child Welfare programs and services, a \$38.0 million (4 percent) increase over FY 2015 current spending and essentially level with both the Governor and House budget proposals. Most programs receive an increase with:

- **Social Workers for Case Management** receiving a \$16.3 million (9 percent) increase to \$201.8 million - level with the House and Governor. 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 increased caseload still has many case workers with caseloads over 20 cases each, much higher than the recommended 15 cases.
- **DCF Administration** receiving a \$4.2 million (5 percent) increase to \$81.0 million – essentially level with the House and Governor. The SWM proposal includes language, not included in the House, requiring DCF to hold fair and timely hearings. The House proposed only tracking the fair hearing process. Fair hearings allow children and families to appeal a DCF decision regarding child placement or a finding of neglect or abuse. SWM proposes tracking caseload levels similar to House language. An earmark would provide \$500,000 for services to prevent kids from running away.

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

Funding for **Family Resource/Access Centers** is located in two line items (4800-0200, 4000-0051). SWM provides \$9.9 million in total, a \$2.2 million (29 percent) increase over FY 2015 current spending and \$2.5 million more than the House.

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, \$65,000 below the House. Even with the hiring of hundreds of new case workers last year, the institute was level funded in FY 2015.

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 SWM proposal provides \$6.0 million for **DCF Regional Administration**. The House proposal, as it has in past years, eliminated funding. Regional Administration funds contracts with nonprofit "lead agencies" that help coordinate services. Proponents of lead agencies note the important coordination function they fill between DCF social workers, families and other professionals involved in a child's case. Critics claim that lead agencies duplicate work done in the past by social workers and that funding should be spent on services.

The SWM proposal provides \$24.3 million for **Support Services for People at Risk of Domestic Violence**, \$150,000 below FY 2015 current spending and \$1.9 million below the House.

One amendment added during House debate is not included in the SWM proposal. The House amendment would require 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.

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. The SWM budget provides \$30.0 million for Chapter 257 required rate increases, the same as the House. 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](#).

## Elder Services

The Senate Ways and Means (SWM) budget proposal funds Elder Services programs at \$264.6 million, \$11.9 million over current FY 2015 levels. Most of this increase--\$11.0 million--is for investments in **Elder Enhanced Home Care Services** and **Elder Home Care Purchased Services**. These increases will likely eliminate waiting lists prompted by mid-year cuts in FY 2015 and allow more seniors to age in place instead of living in a nursing home.

SWM proposes two new items:

- \$150,000 for the **Home and Community Based Services (HCBS) Policy Lab** to provide a one-time investment 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. This line item was newly proposed in FY 2015 by SWM and was included in the initial FY 2015 budget, but funding was completely eliminated through a mid-year budget cut.
- A newly formed special commission to conduct a *Private Home Care Agency Study*. The commission would recommend and establish minimum criteria for the licensure and oversight of private-pay home care agencies and the services they provide to Massachusetts residents, many of whom are seniors. It would be chaired by Commissioner of Public Health and include the Secretary of Elder Affairs (or a designee) along with other public and private members, about half of the members would be appointed by the Governor.

The chart below shows all active Elder Services line items:

#### **ELDER SERVICES**

Line Item #	Name	FY 2015 Current	FY 2016 Governor	FY 2016 House	FY 2016 SWM	FY16 SWM - FY15 Current
9110-0100	Department of Elder Affairs Administration	2,197,063	2,343,832	2,343,832	2,343,832	146,769
9110-0104	HCBS Policy Lab	0	0	0	150,000	150,000
9110-1500	Elder Enhanced Home Care Services Program	63,077,339	70,255,327	70,255,327	70,255,327	7,177,988
9110-1604	Supportive Senior Housing Program	5,359,680	5,493,672	5,493,672	5,493,672	133,992
9110-1630	Elder Home Care Purchased Services	102,891,709	106,667,534	103,574,920	106,667,534	3,775,825
9110-1633	Elder Home Care Case Management and Adr	35,546,961	34,680,284	34,680,284	35,546,961	0
9110-1636	Elder Protective Services	22,785,663	23,173,139	23,173,254	23,073,139	287,476
9110-1660	Elder Congregate Housing Program	2,154,626	2,154,626	2,154,626	2,154,626	0
9110-1700	Residential Placement for Homeless Elders	186,000	186,000	186,000	186,000	0
9110-1900	Elder Nutrition Program	7,253,317	7,253,316	7,131,427	7,253,316	0
9110-9002	Grants to Councils on Aging	11,235,000	11,235,000	13,465,000	11,500,000	265,000
<b>Totals:</b>		<b>252,687,358</b>	<b>263,442,730</b>	<b>262,458,342</b>	<b>264,624,407</b>	<b>11,937,050</b>

## **Disability Services**

The state budget supports programs and services for individuals with disabilities with the goal to promote inclusion, well-being and meaningful participation in our local communities. In total, the Senate Ways and Means (SWM) budget proposes funding disability services at \$1.82 billion, a \$59.6 million increase (3 percent) over current FY 2015 levels.

SWM proposes increases to workforce development programs for people with disabilities, including funding:

- **Community Based Employment** at \$5.0 million, a \$4.0 million increase over current FY 2015 levels. This program provides funding to move individuals with disabilities from sheltered work to integrated work settings.

- **Commonwealth Corporation Transitions to Work** at \$150,000. Earlier this year, Governor Baker made mid-year budget cuts that eliminated this program. This is an employment training program for unemployed young adults with disabilities.
- **Community Day and Work Programs for the Developmentally Disabled** at \$173.5 million, a \$2.8 million increase from current FY 2015 levels.
- **Community Transportation Services for the Developmentally Disabled** at \$19.0 million, a \$3.1 million increase from current FY 2015 levels. The House proposed an even greater increase, bringing it up by another to \$3.0 million. These services offer transportation assistance to individuals with disabilities from home to day employments services.

Other disability programs that receive increases under the SWM proposal include funding:

- **Turning 22 Services for the Developmentally Disabled** at \$7.0 million, a \$500,000 increase from current FY 2015 levels. This program provides services to young adults with disabilities who have graduated from special education programs during the transition year in which the young adult turns 22 and ages out of receiving supports.

SWM proposes the following new programs:

- The SWM proposes \$6.0 million for **Autism Omnibus Services**. These services were previously funded under different line items. Taken altogether, these services receive an increase of \$532,000 under the SWM proposal.
- **Aging with Developmental Disabilities** receives \$250,000. This 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 SWM 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. As such, this 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. 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 SWM also proposes that the Secretary of the Department of Transportation work in collaboration with a disabled rider advocate to ensure 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 SWM budget proposal provides \$176.7 million for juvenile justice services administered by the Department of Youth Services (DYS), essentially level with FY 2015 current spending after considering inflation, but \$3.2 million below the House proposal. SWM deviates from the House on funding for **Residential Services for Committed Youth**, providing \$117.0 million, \$1.8 million more than FY 2015 current spending, but \$1.1 million below the FY 2015 GAA appropriation and \$3.2 million below the House proposal. SWM provides essentially the same level of funding as the House for all other programs.

## 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 37,674 in April 2015.

The FY 2015 GAA budget funded TAFDC grants at \$255.7 million. FY 2015 projected spending is \$251.3 million. The Governor’s FY 2016 proposal provided \$229.1 million, and the House Ways and Means Committee proposal assumed an even bigger drop in the caseload providing \$222.2 million. During budget debate the House increased the appropriation by \$6.0 million to \$228.2. The SWM budget proposal increases the proposed appropriation even more to \$231.8 million, slightly higher than the House and the Governor, but still 7 percent less than FY 2015 current spending.

SWM included a rent allowance of \$40, and proposes increasing the clothing allowance for the first time in over 25 years from \$150 to \$200. The clothing allowance, which is a one-time payment made in September for back-to-school clothing, will help families and their children. However, it is important to note that under this program, primary cash grants for families, which have not been raised in over 15 years, 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](#).

SWM 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. For a more in depth analysis on funding for education and job training programs, see [Declines in Work Supports for Low-Income Parents](#).

SWM also proposes \$5.0 million for the **Pathways to Self Sufficiency** program. The program 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. The program, a collaboration between DTA and the Commonwealth Corporation, aims to match clients

with full-time jobs. The \$6 million difference between the initial appropriation in FY 2015 and the SWM proposal means that this program will not have the reach it was originally intended to have.

In two outside sections (91 & 92) SWM proposes new programs for TAFDC recipients. In Section 91, SWM proposes the **Job Support Services Plan** which would 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. Section 92 would develop a **Family Well- Being** pilot program in at least two DTA offices to support participants who are still exempt from work requirements. The program would help assess barriers to employment and lay out a plan for helping them qualify for other services. SWM provides \$1.0 million specifically for transportation and child care services for participants of this program.

**Emergency Aid to the Elderly, Disabled and Children (EAEDC)** receives \$78.9 million, \$6.6 million below FY 2015 spending and \$2.1 million less than the House. 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.

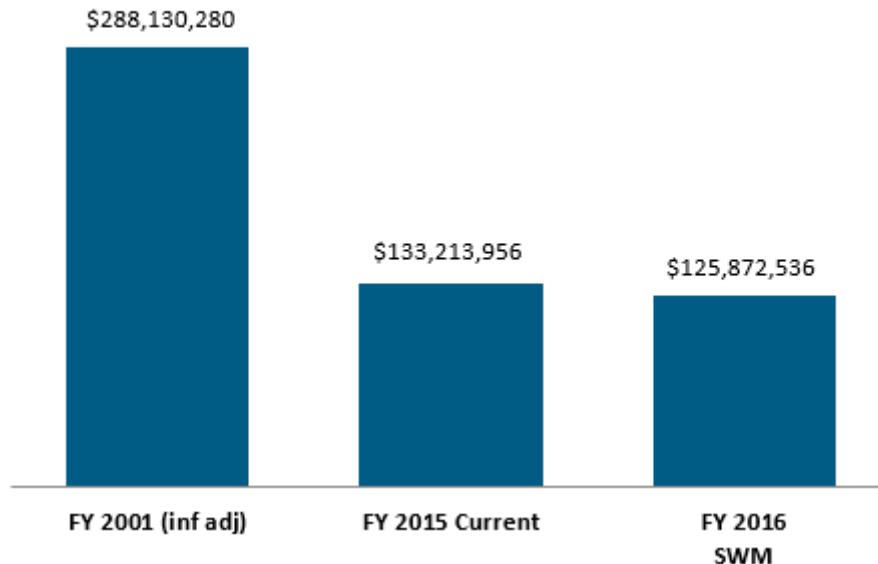
**Caseworker Salaries and Benefits** receives \$70.8 million, level with the House and Governor, and \$5.6 million (9 percent) more than FY 2015 current spending.

**Department of Transitional Assistance Administration** receives \$64.4 million, slightly below the House and Governor's proposals and \$3.3 million more than FY 2015 current spending.

## Economic Development

Together through the state budget, we support workforce and business development programs to boost the skills of working people and stimulate economic growth. In total, the Senate Ways and Means (SWM) budget proposes funding economic development at \$125.9 million, a \$7.3 million reduction (6 percent) from current FY 2015 levels. This proposal represents an even deeper cut when analyzed over the longer-term—economic development has been cut 56 percent since FY 2001, after the state implemented more than \$3 billion worth of income tax cuts.

## Economic Development Cut by 56% since FY 2001



The SWM budget proposes decreases to several notable economic development programs, including funding:

- **Massachusetts Manufacturing Extension Partnership** at \$1.5 million, a \$459,000 decrease from current FY 2015 levels. This seeks to address the shortfall of skilled workers and to provide technical assistance to small and mid-sized manufacturing companies.
- **Massachusetts Office of Travel and Tourism** at \$7.5 million, a 6.8 million decrease from current FY 2015 levels. SWM also proposes a suspension to the tourism funding formula.
- **Massachusetts Service Alliance** at \$900,000, a \$1.2 million decrease from current FY 2015 levels.

Also, the SWM budget proposes modest increases to several workforce development programs, including funding:

- **Advanced Manufacturing Workforce Development Grants** at \$945,000, an \$85,000 increase from current FY 2015 levels but a \$305,000 decrease from FY 2015 GAA levels. These grants provide training in precision manufacturing for unemployed and underemployed workers, including veterans.
- **One-Stop Career Centers** at \$5.1 million, a \$618,000 increase from current FY 2015 levels but level-funded from FY 2015 GAA levels. Also, in order to better connect Department of Transitional Assistance (DTA) recipients with work opportunities, SWM proposes to place a representative from DTA at each one-stop career center as well as a representative from a one-stop career center at each DTA regional office.
- **Workforce Competitiveness Trust Fund** at \$2.0 million, which helps workers build skills necessary to attain work in high demand industries such as health care, construction and

education. \$1.2 million is earmarked for a new initiative, the [Training Resources and Internship Networks](#) (TRAIN) grant program. TRAIN will grant funds to community colleges to implement training programs for the long-term unemployed. Rather than being funded yearly through the state budget process, this trust is funded through periodic deposits.

- [YouthWorks](#) (formerly Summer Jobs Program for At-Risk Youth) at \$11.5 million, a \$1.6 million increase from current FY 2015 levels. 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.

Finally, the SWM also proposes several new policy initiatives in economic development:

- Creating a new **Economic Empowerment Trust Fund** that would support financial literacy programs, college and career readiness programs - particularly in areas of STEM, and programs that support and promote wage equality.
- Reestablishing and continuing the **Long-Term Unemployed Commission**. This special commission would be required to file a report of its recommendations to the clerks of the Senate and House, the Joint Committee of Labor and Workforce, Joint Committee on Elder Affairs, and the House and Senate committees on Ways and Means.
- Supporting a **Skills Training Internship Pilot Program Feasibility Study** that would investigate opportunities to create a skills training internship pilot program. This includes estimating implementation costs and examining which specific industries or businesses would participate in the program. This study would also provide progress updates on the TRAIN grant program, which is mentioned above.

## Local Aid

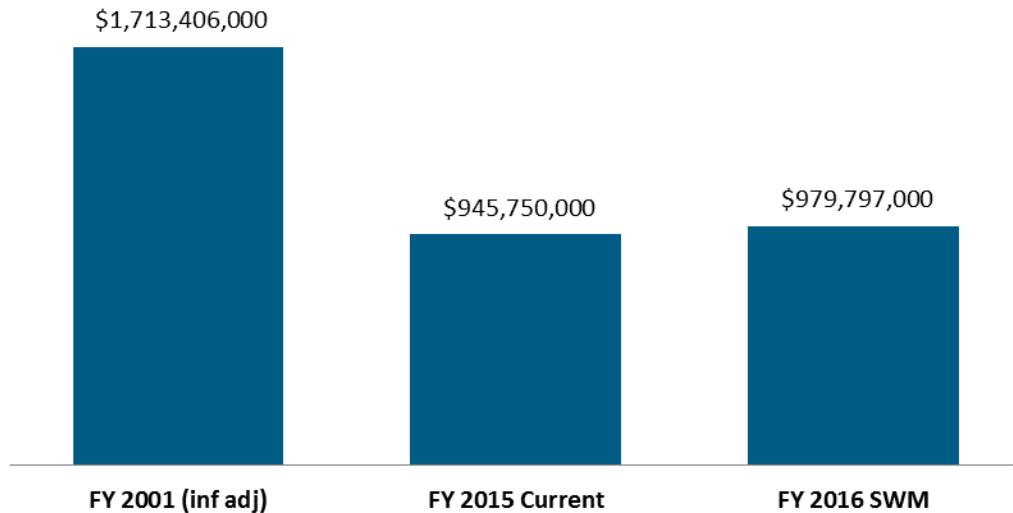
The Senate Ways and Means Committee (SWM) proposes funding **Unrestricted General Government Aid (UGGA)** at \$979.8 million in FY 2016, the same level the Governor and House proposed for the upcoming fiscal year. This level of funding is a modest \$34.0 million, or 4 percent increase, from current FY 2015 levels.

UGGA is a form of local aid that flows from the state budget to municipal budgets and 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](#).

Although this proposal aims to modestly increase UGGA, it is important to note that this funding still remains 43 percent below FY 2001 levels, adjusted for inflation. The Commonwealth's capacity to fund a range of vital programs, such as local aid, has been hindered 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. For historic funding detail, please see the Local Aid section of our [Budget Browser](#).

## Unrestricted General Local Aid cut by over 40% since 2001

inf. adj. 2015\$



Additionally, the SWM budget proposes funding the **Municipal Regionalization and Efficiencies Grant Program** at \$8.5 million, which is slightly below current FY 2015 levels. However, SWM's proposed funding for this program is above both the Governor and House's proposals, which were \$5.0 million and \$5.8 million, respectively. This program offers one-time grants to cities and towns to support municipal improvements.

## Transportation

Among the most notable aspects of the Senate Ways and Means (SWM) FY 2016 budget as regards Transportation are the changes it makes relative to the Massachusetts Bay Transit Authority (MBTA). SWM (like the House) proposes changes to the rules governing the structure of the board of directors for the Massachusetts Department of Transportation, which oversees the MBTA. This proposal would change existing law, increasing membership from 7 to 11 and would more specifically define the qualifications that would be required of members.<sup>i</sup> The proposed rules also would set the length and timing of members' appointment terms. Further, the proposal would establish the Secretary of Transportation as the board chair and provide said chair with the authority to hire and fire the general manager of the MBTA.<sup>ii</sup>

The SWM budget also requires the Secretary of Transportation to prepare a report detailing the MBTA's response to recommendations made by the Governor's special panel, organized earlier this year to review the T's finances and performance.<sup>iii</sup> Included in the report would be information regarding the T's progress in 1) creating a priority list of capital needs over the coming 5 years; 2) developing a 20-year capital plan to restore the T's physical infrastructure; 3) creating a plan to separate the T's operating and capital budgets; 4) developing a plan to reduce employee absenteeism; and 5) boosting own-source revenues, among other items. The SWM budget also directs the MBTA to fully separate its capital and operating budgets. The SWM budget, however, does *not* adopt a set of provisions - included in both the Governor's and the House's budgets - that would place a 5-year moratorium on "Pacheco Law" regulations for the MBTA. The Pacheco Law requires public agencies to prove cost-savings (which may not be achieved through lower wages) before outsourcing publicly

funded projects to private contractors (for a detailed discussion of these regulations see MassBudget's [Pacheco Law factsheet](#)).

Another notable element of the SWM 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 SWM FY 2016 budget, like the Governor and the House, proposes increasing the MBTA's direct funding to \$187 million.

The recommended appropriation to this MBTA account (\$187 million in FY 2016 under all three budget proposals) is 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.

Like the Governor, SWM also proposes establishing a "Weather Resiliency Fund" in response to the significant operating difficulties experienced by the MBTA and commuter rail system during this winter's heavy snowfalls.<sup>iv</sup> In addition, SWM directs up to \$17 million of the anticipated FEMA reimbursements for this last winter's record storms to be reserved and made available for snow and ice removal in FY 2016.<sup>v</sup>

Looking at transportation funding as a whole, the SWM budget boosts the FY 2016 total to \$1.63 billion or \$74.2 million (5 percent) over current FY 2015 levels. This is identical to the Governor's proposal and \$100,000 less than the House.

## Law & Public Safety

In the Senate Ways and Means (SWM) FY 2016 budget, among the most notable elements with regards to Law & Public Safety is the increase in funding provided to the courts. For the major accounts that fund court operations, SWM provides some \$34 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.

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 [has stated](#) that, should the courts be

funded at current levels, up to 550 court employees would have to be let go. The SWM FY 2016 budget appears to make this course of action far less likely.

Another major element in the SWM budget is a proposal to establish a process by which terminally ill or permanently and totally disabled inmates could apply for and be granted release from state prisons. The process would require medical and psychological assessment, assessment of potential risks, nature and severity of the prisoner's crime(s), etc. Prisoners granted early release under this plan would remain under the jurisdiction, supervision and control of the court.

Other noteworthy elements of the SWM proposal include the following:

- SWM establishes a process for developing a formula for allocating state funding among the 14 Sheriffs' Departments.<sup>vi</sup> The SWM budget also proposes a 2-4 percent increase over current FY 2015 funding levels for each of the Sheriffs' Departments.
- SWM funds Shannon Grants at \$6 million. This amount is \$1 million below current FY 2015 levels and \$2.25 million below FY 2015 GAA.
- SWM provides \$5.9 million to train a new class of State Police officers (\$5 million more than current FY 2015 funding and \$2.5 million more than FY 2015 GAA). SWM also increases funding for the State Police Operations account by \$11.2 million over current levels (\$2.5 million over FY 2015 GAA) to \$267.7 million.
- SWM recommends \$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, SWM also increases funding for *public* defenders by \$6.1 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 SWM budget.
- SWM increases funding for District Attorneys' offices by 2 percent. SWM also increases funding for a number of special units including the Wage Enforcement Program, False Claims Recovery unit, and the Litigation and Enhanced Recoveries unit.

## Pensions & Early Retirement

The Senate Ways and Means (SWM) 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.

The SWM budget also incorporates projected savings from the recently launched early retirement incentive program (ERIP) for state workers, initially proposed by the Governor and subsequently adopted by the Legislature. The SWM budget estimates net savings of \$191.9 million (\$325.1 million in savings offset by \$133.2 million in new costs). This savings estimate is above the \$171.9 million in net savings required under the final ERIP law.

Under the program, some state workers are now eligible to receive incentives to retire early, including gaining up to five years of additional service to count towards their pensions. Early retirements are limited to workers in non-public safety roles at executive branch agencies who have over 20 years of service or who have reached 55 years of age.

The final ERIP law also allows the administration to reach the required savings through several other measures. These including continuing a hiring freeze, offering one-time payments to encourage those who have reached their maximum pension benefit to retire, and laying off workers. Together with early retirement, these measures are capped at 5,000 employees.

Savings from early retirement are achieved by limiting the re-hiring of positions to roughly one in five of those who leave (the cap on re-hiring of 20 percent of previous salaries will likely allow more than one in five positions to be refilled because new workers will have lower salaries). It is important to note that achieving these savings over the long-term depends on the ability of government agencies to perform their essential functions at much lower staffing levels. If they are unable to deliver the same level and quality of services with less staff, then services may get cut or the state may override the 20 percent cap on salary costs.

The final ERIP law, signed by the Governor on May 4, 2015, allowed for early retirement applications to begin on May 11. They will be accepted through June 12.

## **Revenue**

The Senate Ways and Mean (SWM) Fiscal Year (FY) 2016 budget, like that of the Governor and the House, relies on a significant amount of one-time revenue, beyond the revenue available as part of the Consensus Revenue Estimate. Together, the additional one-time revenues included in the SWM budget total \$616.3 million and they come from both tax and non-tax sources. SWM also proposes three sources of ongoing tax revenue not included in either the Governor's or the House's proposal: increased funding for the Department of Revenue to hire additional auditors; creation of a task force to target illegal tobacco sales; and a technical fix to the state's corporate tax laws. In each case, taxes already owed to the Commonwealth now would be collected, together resulting in an estimated \$45 million revenue gain.

Overall, the SWM budget draws on a set of additional revenues similar but not identical to that of the Governor and House budget proposals. Relatively few of the additional revenues (all together totaling \$761.3 million) 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, the large majority (85 percent) 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](#)). The SWM revenue proposal includes both tax (\$581 million) and non-tax (\$180.3 million) revenues.

FY 2016 REVENUE PROPOSALS	FY 2016 Governor		FY 2016 HWM		FY 2016 SWM	
	Ongoing Source	One-Time Source	Ongoing Source	One-Time Source	Ongoing Source	One-Time Source
<b>TAX REVENUES</b>						
Non-filer tax amnesty		100,000,000		100,000,000		100,000,000
Delay FAS 109 deduction for one year		46,000,000		46,000,000		46,000,000
Divert excess capital gains revenue from Stabilization Fund to General Fund		300,000,000		300,000,000		300,000,000
Large Tax Settlements	100,000,000		100,000,000		90,000,000	
Enhanced DOR Collections					20,000,000	
Enhanced Tobacco Enforcement					20,000,000	
Combined Reporting Loophole Fix					5,000,000	
<b>SUBTOTAL</b>	<b>100,000,000</b>	<b>446,000,000</b>	<b>100,000,000</b>	<b>446,000,000</b>	<b>135,000,000</b>	<b>446,000,000</b>
<b>NON-TAX REVENUES</b>						
Court house sale		30,000,000		30,000,000		30,000,000
Maximization of federal revenue	10,000,000		10,000,000		10,000,000	
Reduce OPEB payment		24,300,000		24,300,000		24,300,000
Delay provider payments in MassHealth		116,000,000		116,000,000		116,000,000
<b>SUBTOTAL</b>	<b>10,000,000</b>	<b>170,300,000</b>	<b>10,000,000</b>	<b>170,300,000</b>	<b>10,000,000</b>	<b>170,300,000</b>
<b>TOTAL</b>	<b>110,000,000</b>	<b>616,300,000</b>	<b>110,000,000</b>	<b>616,300,000</b>	<b>145,000,000</b>	<b>616,300,000</b>

One of the sources of additional, one-time revenue included in the SWM budget – a tax amnesty program for previously non-filing individuals and businesses – was proposed originally by the Governor as part of a separate tax reform bill. This tax reform bill accompanied and is integral to the Governor’s FY 2016 budget bill and the same proposal was included in the House budget. All three proposals assume a revenue gain from this amnesty of \$100 million. Also included in the Governor’s tax reform bill – which now sits before the Legislature - is a proposal that would raise the value of the state earned income tax credit (EITC) and pay for this increase by phasing out the state’s Film Tax Credit. In their FY 2016 budget, SWM does not address either the EITC or the Film Tax Credit proposals.

The SWM budget also assumes \$90 million from “Large Tax Settlements.” These are not part of the CRE and thus are considered “additional revenue.” This revenue, however, is not actually new. Rather, it is revenue that the Commonwealth currently generates each year, but which, under the SWM proposal, would be used in a different way than usual (see further 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. Like the Governor and House, SWM instead directs this \$300 million to the General Fund to help balance their FY 2016 budget (see more discussion, below).

### 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. SWM adopts this proposal and relies on \$100 million in additional revenue from this source to balance its FY 2016 budget (as do the Governor and House). 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 - most recently, a limited corporate tax amnesty went into effect in March of 2015 and will continue for 60 days, through mid-May. 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 its FY2016 budget, SWM (like the Governor and House) 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, SWM relies on directing \$300 million to the General Fund and away from the Stabilization Fund. Unlike either the Governor or House proposals,

SWM specifies that any capital gains revenues above \$1.387 billion will again be directed to the Stabilization Fund (see further discussion of this in the Pensions & Debt section).

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 Department of Revenue has not yet made a final calculation). Such collections in FY 2015 total \$148 million to date (as of February 2015). The SWM budget relies, conservatively, on \$90 million from this source (the Governor and House each assume a \$100 million revenue gain from their own, otherwise identical proposals).

### **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. 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 publicly-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 publicly-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.

## Tax Revenue Enhancements

The SWM budget includes three proposals that would generate additional tax revenue for the Commonwealth from existing sources. The first provides additional funding to the Department of Revenue, allowing them to hire more auditors to identify and collect some \$20 million annually of revenue already owed to the Commonwealth under existing tax law, but which currently goes unpaid.

The SWM FY 2016 budget proposes funding the Department of Revenue's (DOR) tax activities at \$130.2 million. This is \$8.1 million above the FY 2015 GAA and is \$14.5 million above the FY 2015 current budget. 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 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 the DOR to retain a certain portion of the unpaid revenue it collects to help pay auditors' salaries.

### OFFICE OF TAX ADMINISTRATION

Line Item #	Name	FY 2015 GAA	FY 2015 Current	FY 2016 Governor	FY 2016 House	FY 2016 SWM	FY16 SWM - FY15 GAA	Notes
1201-0100	Department of Revenue	94,179,565	87,767,114	88,872,929	92,872,929	102,261,227	8,081,662	
1201-0130	Additional Auditors RR	27,938,953	27,938,953	27,938,953	27,938,953	27,938,953	0	
<i>Total</i>		<i>122,118,518</i>	<i>115,706,067</i>	<i>116,811,882</i>	<i>120,811,882</i>	<i>130,200,180</i>	<i>8,081,662</i>	

The SWM recommendation for DOR's tax collection efforts is \$13.4 million more than the amount in the Governor's FY 2016 budget proposal and \$9.4 million more than the House recommendation. While the House funding level for FY 2016 may not require DOR to lay off auditors and collectors, the Governor's funding level would most likely have forced the OTA to lay off staff. As noted in our Budget Monitor on the [Governor's budget](#), the level of funding recommended in that proposal is \$5.3 million below the amount provided in the FY 2015 GAA.

In documents accompanying its FY 2016 budget proposal, SWM notes that of its \$8.1 million increase, \$4.0 million of it would allow the OTA to hire 40 additional auditors allowing 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 SWM budget proposal would increase the OTA's ability to collect taxes legally owed to the Commonwealth. It is also likely that by increasing the OTA's capacity to conduct complex tax audits, taxpayers, including large corporations, will be more likely to comply with the Commonwealth's tax laws rather than engage in complex evasion schemes to avoid paying taxes they legally owe to the state.

The second revenue-generating proposal creates a multi-agency taskforce to combat illegal tobacco distribution and sales, including new enforcement measures against certain violators. The SWM budget assumes that increased compliance with current laws governing tobacco sales will result in collection of an additional \$20 million in tax revenue in FY 2016. The task force also would be required to submit a report not later than July 1<sup>st</sup>, 2016 recommending changes to various enforcement options and associated penalties to enhance their 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.<sup>vii</sup>

The third proposal creates a fix to existing corporate tax laws, closing a loophole that currently costs the Commonwealth about \$5 million annually. 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).<sup>viii</sup> 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.

SWM proposes a fix to the existing Massachusetts combined reporting law that would close this loophole. 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). SWM expects to generate an additional \$5 million annually from this technical fix.

### ***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.

SWM, like the Governor and the House, proposes selling the Sullivan Court House in East Cambridge, and anticipates this will bring in approximately \$30 million in one-time revenue. SWM relies on \$103 million in ongoing revenue transferred into the General Fund from slot parlors, about \$2 million less than included in the House budget, and \$20.6 million more than included in the Governor’s proposal.

The FY 2016 budget proposals all take \$110 million from the Commonwealth Care Trust Fund to help balance the budget. Like the House, the SWM budget proposal does not rely on a transfer of funding from the state’s Stabilization (“Rainy Day”) Fund. SWM 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 SWM budget is “saving” \$24.3 million. Both the House and Governor also include reduced OPEB spending as a one-time savings strategy to help balance the budget.

SWM, like the House and Governor, 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 (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	FY 2016 House	FY 2016 SWM
<b>Education</b>	<b>7,395.0</b>	<b>7,712.1</b>	<b>7,546.1</b>	<b>7,478.7</b>	<b>7,615.7</b>	<b>7,664.4</b>	<b>7,688.6</b>
Early Education & Care	713.0	654.9	550.2	543.6	544.8	559.6	564.0
Higher Education	1,494.0	1,212.1	1,185.6	1,176.0	1,187.4	1,191.9	1,205.4
K-12: Chapter 70 Aid	4,070.8	4,382.5	4,400.7	4,400.7	4,506.0	4,508.9	4,511.9
K-12: Non-Chapter 70 Aid	674.4	683.5	638.1	586.9	573.7	600.2	603.4
K-12: School Building	442.9	779.1	771.5	771.5	803.9	803.9	803.9
<b>Environment &amp; Recreation</b>	<b>295.5</b>	<b>238.2</b>	<b>203.4</b>	<b>197.4</b>	<b>202.8</b>	<b>208.1</b>	<b>205.5</b>
Environment	131.6	101.7	90.3	90.3	92.3	93.2	93.2
Fish & Game	23.9	23.6	27.5	26.7	27.9	27.6	27.7
Parks & Recreation	140.0	112.9	85.5	80.4	82.7	87.3	84.5
<b>Health Care</b>	<b>9,834.3</b>	<b>14,247.4</b>	<b>17,327.8</b>	<b>17,616.2</b>	<b>18,566.1</b>	<b>18,634.7</b>	<b>18,576.1</b>
MassHealth (Medicaid) & Health Reform	7,436.7	11,530.7	14,680.7	14,803.2	15,708.8	15,723.5	15,668.8
Mental Health	811.7	760.7	736.4	713.6	727.6	744.0	745.4
Public Health	712.7	659.8	542.3	540.1	541.2	550.9	553.6
State Employee Health Insurance	873.2	1,296.2	1,368.4	1,559.2	1,588.4	1,616.3	1,608.3
<b>Human Services</b>	<b>3,671.3</b>	<b>3,894.0</b>	<b>3,894.6</b>	<b>3,956.0</b>	<b>4,067.2</b>	<b>4,085.2</b>	<b>4,079.2</b>
Child Welfare	785.2	928.3	827.2	864.6	900.5	901.1	902.6
Disability Services	1,321.5	1,498.0	1,721.7	1,765.2	1,825.2	1,843.4	1,824.8
Elder Services	256.0	264.8	255.4	252.7	263.4	262.5	264.6
Juvenile Justice	162.3	181.0	176.0	173.1	175.9	179.8	176.7
Transitional Assistance	1,020.8	861.6	728.2	715.8	703.0	700.4	708.0
Other Human Services	125.4	160.2	186.1	184.6	199.1	198.0	202.5
<b>Infrastructure, Housing &amp; Economic Development</b>	<b>1,989.5</b>	<b>1,568.3</b>	<b>2,129.6</b>	<b>2,180.2</b>	<b>2,239.5</b>	<b>2,253.2</b>	<b>2,248.6</b>
Commercial Regulatory Entities	58.9	57.2	56.7	55.7	60.9	58.3	60.0
Economic Development	288.1	191.9	143.9	133.2	121.6	133.9	125.9
Housing	340.0	307.0	381.5	434.5	425.9	430.0	431.7
Transportation	1,302.4	1,012.2	1,547.5	1,556.8	1,631.0	1,631.1	1,631.0
<b>Law &amp; Public Safety</b>	<b>2,544.4</b>	<b>2,820.3</b>	<b>2,612.0</b>	<b>2,658.2</b>	<b>2,628.3</b>	<b>2,610.7</b>	<b>2,615.6</b>
Courts & Legal Assistance	770.8	727.1	671.8	699.0	697.0	682.9	698.0
Law Enforcement	372.0	462.8	377.8	384.7	381.3	382.8	382.6
Prisons, Probation & Parole	1,199.5	1,418.5	1,352.5	1,369.6	1,343.6	1,333.2	1,321.6
Prosecutors	157.3	162.1	152.9	149.9	152.6	158.4	156.4
Other Law & Public Safety	44.8	49.9	57.0	54.9	53.7	53.4	57.1
<b>Local Aid</b>	<b>1,740.1</b>	<b>1,494.6</b>	<b>986.9</b>	<b>982.7</b>	<b>1,012.7</b>	<b>1,013.5</b>	<b>1,016.2</b>
General Local Aid	1,713.4	1,459.2	945.8	945.8	979.8	979.8	979.8
Other Local Aid	26.7	35.4	41.2	37.0	32.9	33.7	36.5
<b>Other</b>	<b>4,590.6</b>	<b>4,737.3</b>	<b>4,871.8</b>	<b>4,861.0</b>	<b>4,915.1</b>	<b>4,880.3</b>	<b>4,876.5</b>
Constitutional Officers	107.2	99.2	81.7	81.3	73.0	76.2	76.1
Debt Service	2,168.6	2,367.5	2,497.6	2,497.6	2,517.5	2,517.5	2,517.5
Executive & Legislative	82.6	76.8	73.1	73.1	71.2	71.5	74.4
Libraries	47.1	37.8	25.8	25.3	25.3	24.9	25.4
Pensions	1,417.2	1,625.9	1,793.0	1,793.0	1,972.0	1,972.0	1,972.0
Other	767.9	530.0	400.6	390.7	256.0	218.2	211.1
<b>Total Budget</b>	<b>32,060.7</b>	<b>36,712.1</b>	<b>39,572.3</b>	<b>39,930.4</b>	<b>41,247.4</b>	<b>41,350.0</b>	<b>41,306.3</b>

Note: MassBudget subtracts \$325.1 million from the SWM and Governor's budget proposals (\$310.1 million from the House) 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 \$84.6 million to the State Retiree Benefits Trust in the SWM and House totals for 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.

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<sup>i</sup> SWM FY 2016 Budget, Outside Sections, Section 5: <https://malegislation.gov/Budget/FY2016/Senate>

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

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

<sup>ii</sup> SWM FY 2016 Budget, Outside Sections, Section 51: <https://malegislation.gov/Budget/FY2016/Senate>

<sup>iii</sup> SWM FY 2016 Budget, Outside Sections, Section 80: <https://malegislation.gov/Budget/FY2016/Senate>

<sup>iv</sup> SWM FY 2016 Budget, Outside Sections, Section 53: <https://malegislation.gov/Budget/FY2016/Senate>

<sup>v</sup> SWM FY 2016 Budget, Outside Sections, Section 77: <https://malegislation.gov/Budget/FY2016/Senate>

<sup>vi</sup> SWM FY 2016 Budget, Outside Sections, Sections 85: <https://malegislation.gov/Budget/FY2016/Senate>

<sup>vii</sup> SWM FY 2016 Budget, Outside Sections, Sections 15, 19, 33-35, and 104:

<https://malegislation.gov/Budget/FY2016/Senate>

<sup>viii</sup> 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.