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An Initial Look at FY 2018 Budget Vetoes

Governor Baker signed the FY 2018 budget after vetoing \$320.3 million in spending and striking or amending 34 policy sections. The Legislature now has until the end of formal sessions this year – likely in November – to override vetoes and finalize the FY 2018 General Appropriations Act (GAA). This brief provides an initial summary of the Governor’s vetoes and assesses the state’s fiscal position at the beginning of FY 2018.

Tax Revenue Condition

Final FY 2017 tax revenues will not be released until later this week, but the state is expected to end the year \$420-\$450 million short of the initial estimate used to build the budget that was agreed upon by budget makers during this year’s Consensus Revenue process. In light of this shortfall, the Conference committee reduced the FY 2018 tax revenue estimate by \$733 million to reflect this reduced revenue base and the slow-growth revenue trend; the Administration assumes that tax revenues will be \$99 million less than the amount used by the Conference committee.

	Conference Committee	Administration
Original Consensus revenue	\$27,072	
Downward revision	-\$733	-\$832
Income tax offset	\$83	\$83
Revised tax assumption	\$26,422	\$26,323

Budget Spending After Vetoes

	Spending Comparison			FY 2018 Current	Difference v. Conference
	FY 2018 Conference	Vetoes	Gov Supp		
Line item spending	\$40,407.6	-\$320.3	\$94.1	\$40,181.4	-\$226.2
Reversion assumption	\$205.0	-\$5.0	\$0.0	\$200.0	-\$5.0
Off Budget	\$4,273.2	\$0.0	\$0.0	\$4,273.2	\$0.0
Total spending	\$44,885.8	-\$325.3	\$94.1	\$44,654.6	-\$231.2

The Governor offered a supplemental budget along with his spending vetoes. That supplemental budget proposes \$94.1 million for a reserve fund that will support programs the Administration believes are underfunded in the Conference Committee budget – including the Department of Correction and costs to cover legal settlements and judgments. After accounting for both vetoes and proposed supplemental spending, total FY 2018 appropriations

stand at \$40.18 billion - \$226.5 million less than the amount included in the Conference budget. This appropriation total does not account for the \$200 million in anticipated reversions assumed by the Administration; the Conference budget assumed \$205 million in reversions.

Budget Gap

The Governor’s vetoes are based on the Administration’s assessment that the Conference committee budget was out of balance by \$193 million and his vetoes offset spending by that amount. This gap is composed of two components:

- Tax revenue – \$99 million. The Administration believes that the tax revenue estimate used in the Conference budget overstates tax revenues by \$99 million.
- Underfunded accounts – \$94 million. While the Conference budget included a \$104 million reserve to support underfunded accounts, the Administration estimates a further \$94 million will be necessary.

The Governor’s Spending Vetoes

The Governor vetoed \$320.3 million in 169 separate line items. The majority of the vetoes – \$202 million – are related to the MassHealth changes the Governor proposed in his June budget letter as part of his comprehensive health care reform package that also included a revised employer assessment as well as unemployment insurance reforms. A further \$19 million in vetoes unrelated to those reforms were also made to the MassHealth program. Because the MassHealth program is funded in part by the federal government, vetoes also result in a reduction of federal Medicaid revenue. The net impact of the vetoes – once federal revenues are accounted for – is \$193 million. In general, the Governor’s vetoes can be broken down as follows:

Area	Amount
MassHealth reform vetoes	\$202.0
Other MassHealth	\$19.9
Non-MassHealth earmarks	\$42.0
Line-items not included in H1	\$9.6
TAFDC eligibilty changes	\$6.6
Other	\$40.2
Total	\$320.3
Foregone MassHealth revenue	-\$127.6
Net impact of vetoes	\$192.7

Policy Vetoes

The Governor vetoed nine sections and amended a further 25 of the budget’s 150 total policy sections. Most notably, the Governor reinserts his MassHealth reforms and several other key elements of his June health care reform package by returning with amendment 17 budget sections related to the temporary employer assessment and freezing of next year’s Unemployment Insurance schedule at “D” (without action, the schedule will go to schedule “F”). These MassHealth reforms are expected to save \$202 million in FY 2018 and the budget he returned to the Legislature assumes these savings. Several private market insurance reforms proposed in June are not included in the amendment, rather they are part of companion legislation filed with the Governor’s veto actions. The Administration has made clear that the temporary employer assessment only makes sense when coupled with long-term reforms to MassHealth and the private insurance market. Because the MassHealth reforms

are associated with significant FY 2018 budget savings. The Governor’s amendment letter states that if no action on the reforms is taken within 60 days, he will take corrective action to balance the budget.

In addition, the Administration:

- Vetoed a section codifying health and safety requirements for long-term care facilities;
- Proposed an amendment to the FY 2018 Stabilization Fund transfer to ensure that a deposit of \$51.5 million occurs even if capital gains revenues do not meet the minimum threshold to trigger a deposit;
- Proposed an amendment to the Community Benefits District initiative included in the budget. Among other changes, the Administration’s language would clarify the level of support necessary to create a district; and
- Proposed an amendment that would allow workers to opt out of the home care employee registry created in the budget due to privacy concerns.

Bottom Line

The Administration asserts that, due to a combination of over-optimistic revenue assumptions and underfunded accounts, the recently completed Conference budget is \$193 million out of balance. The Governor closes this gap through \$320.3 million in vetoes which, after accounting for lost federal revenue, has a budget impact of \$193 million. If history is any guide, many of these vetoes will be overridden in the months ahead, as since FY 2012 almost 90 percent of all spending vetoes have been overridden by the Legislature. The more spending overrides, however, the greater the midyear budget cuts.

	Vetoes	Amount overridden
FY 2012	\$0.0	\$0.0
FY 2013	\$32.1	\$32.1
FY 2014	\$435.4	\$435.4
FY 2015	\$16.1	\$16.1
FY 2016	\$162.8	\$97.9
FY 2017	\$267.1	\$231.6
Total	\$913.5	\$813.1

While the Legislature’s response to most spending vetoes is predictable, its response to the Governor’s amendment to the employer assessment is not. Should the Legislature reject the Governor’s proposed amendment to couple long-term MassHealth reforms with a temporary assessment on employers, the Legislature will need to find \$283 million elsewhere (\$200 million from the assessment in addition to the \$83 million in MassHealth savings) a task that will be difficult on top of the spending reductions already made in Conference. The Legislature’s approach to the Governor’s proposal will be pivotal to the state’s fiscal condition in the months ahead.