



2017/2018 Program Recommendations

A. Fiscal and Policy Issues

Over the past two years, the Foundation has been at the forefront of the state's fiscal crisis. During this period we have accurately forecast the budget problems engulfing the Commonwealth. MTF has also made dozens of presentations to public officials and groups across the state, responded to countless media inquiries, and produced timely analyses of the state's finances.

The Foundation will strive to play an equally constructive role in the years ahead as the state will continue to confront major fiscal challenges in 2017 and 2018 despite the improving economic picture. We estimate that the projected FY2018 shortfall is in \$800 million, less than in the previous two fiscal years, but requiring the inevitable cuts in programs and services that will come on top of almost \$2 billion in programmatic cuts over the past two years.

The Foundation has recently released its revenue projections for FY2018 which highlights the continued mismatch between spending and revenues. Budget makers have agreed upon a projected revenue growth rate of 3.9%, considerably higher than the 2.65% recommended by the Foundation. Throughout the year, the Foundation will closely track the FY2017 and FY2018 tax revenue collections and budgets, offering independent analyses on the scope of the fiscal problems and presenting a thoughtful and balanced view of the proposals put forth to close the budget gap.

Structural Reforms: The state's ongoing fiscal problems continue to present an opportunity to rethink and reform state government. The Foundation will focus on several areas of potential reform in the upcoming legislative session.

- **Capital Investments:** Building on our [Capital Primer](#) released last fall that outlined the differences between the capital and operating budgeting processes and which made a series of recommendations for improving the capital budgeting process, the Foundation will continue to be at the forefront on issues related to the funding of capital investments which are critical to the state's economic future.

The Foundation has played a pivotal role in chronicling the size and scope of the MBTA's capital needs and our transportation system more broadly. Our report entitled [The T: The End of Its Line](#) jumpstarted the conversation on the need for improved asset management and capital budgeting and procurement processes while [The Future of Transportation: Paving the Path to Progress](#) outlined the state's broader transportation infrastructure needs and the numerous obstacles to addressing them.

- **Transportation:** Using the Transportation Finance Commission’s seminal reports in March and September 2007 as a starting point, the Foundation will examine the many revenue and reform initiatives undertaken during the past ten years and assess the current infrastructure benchmark to measure progress made and the remaining challenges.

We will also review and analyze the numerous core reforms to stabilize the MBTA implemented by the Fiscal and Management Oversight Board, a management structure that the Foundation played a pivotal role in creating. MTF will update the progress in adopting important changes to the MBTA’s governance structure and its recruitment of senior talent to provide stability and lead the authority.

- **Privatization:** After winning a critical legislative victory last year with the three-year suspension of the anti-privatization or Pacheco law for the MBTA, the Foundation will continue to support efforts to fundamentally transform the way our public transit authority delivers services. The recent reforms to “The Ride” program, the management of the cash-counting, operations and the renegotiated contract with the Carmen’s Union that will provide improved services, operating efficiencies, and better use of taxpayer dollars are examples of the positive change that can result from an innovative approach to procurement.
- **Pensions:** Despite the state’s commitment to increase funding for the state employees’ pension system in recent years, more money will be necessary. Adoption of lower assumed rates of return in calculating the actuarial value of the fund and the recent volatility of the stock market have led to a growing unfunded pension obligation for the state. The Foundation will offer its views on the strengths and weaknesses of the various proposals to address the state’s unfunded liability.
- **OPEB (Other Post-Employment Benefits):** While the unfunded pension liabilities are a financial obligation of the state, retiree healthcare costs are borne by municipalities and this obligation will increase significantly as a growing number of the municipal workforce reaches retirement age and healthcare costs continue to increase. The Foundation will continue to highlight this growing financial albatross and work with others to develop sound and sustainable solutions.

Health Care: The next two years could be especially unsettling in health care given the likelihood that the ACA or Obamacare will be overhauled or repealed, and health insurance premiums will increase after a few years of modest growth. Recognizing the importance of the healthcare sector to the Massachusetts economy, but acknowledging the high cost structure is a drag on growth for other economic sectors, the Foundation will revive its central role on a wide range of important healthcare issues, focusing our efforts on the following:

- **MassHealth:** The continued growth of the state’s Medicaid program that now consumes 38% of the state budget and provides health insurance to almost 2 million residents and how that growth impacts the many competing spending needs of the Commonwealth. The Foundation will report on these enrollment population changes and cost growth resulting from state and federal health care reform. Massachusetts operates its MassHealth program under an 1115

waiver from the federal government that allows us to provide services in an innovative way. That waiver was renegotiated and renewed for a five year term. MTF will explore how the current terms of the federal Medicaid waiver and other federal law changes could impact the cost trend and whether or not the waiver could be subject to amendment or repeal under the Trump administration.

- **Commercial Health Insurance Costs.** As the largest payroll cost to employers after wages, the increasing cost of health insurance adds greatly to the cost of hiring. Despite several state reforms aimed at moderating the growth rate and the establishment of a health care cost growth benchmark, health care cost growth outpaces general inflation. The Foundation will advocate adherence to the statutory schedule that lowers the benchmark in 2018.

In addition, the Foundation will explore what makes Massachusetts health care among the most expensive in the nation by cataloging all of the assessments imposed on providers that are ultimately borne by purchasers. The Foundation will analyze the continued need for these funds in light of state and federal health care reform and numerous other changes to health care funding over the past decade.

B. Taxes and the Economy

The Foundation has long believed that the competitiveness of the Massachusetts economy depends on achieving a balance between important investments in infrastructure, education, health care and local aid on the one hand, and achieving a competitive cost structure that allows residents and businesses to thrive on the other. As [Stalled Progress](#), our most recent report on the costs of doing business clearly indicates, Massachusetts remains an outlier on several cost components, most notably, energy, unemployment insurance and health care.

While the state has made progress on our tax rates generally, Massachusetts is an outlier with respect to the estate tax and how we define the corporate tax base. As the Commonwealth and many other states struggle with slowing tax revenue growth, it is important to maintain balance by increasing taxes only when necessary and ensuring that new revenue proposals are broad-based and do not have unintended, negative impacts on economic growth.

- **Single Sales Factor Apportionment:** Although Massachusetts was a leader in adopting single sales factor apportionment for manufacturers and mutual fund service corporations in the 1990s, we have since fallen behind other states in adopting this apportionment methodology for other industry sectors. The Foundation supports efforts to expand to all industries apportionment of income based on sales only. In addition to benefitting companies that have a large workforce and significant property holdings in the Commonwealth, this policy change is likely to generate revenue. The Foundation will conduct an independent dynamic revenue analysis of this change to measure the positive revenue impact to the state. We will support efforts to make this important change to the tax code.
- **Estate Tax:** As one of only 14 states with an estate tax still on the books, and one of a few states that have not adopted the federal estate tax exemptions, Massachusetts is a clear outlier in this

regard. Many residents who engage in financial planning leave Massachusetts to avoid paying this onerous tax and as a result, the state forfeits the income, sales and other taxes they would otherwise pay, in many cases, for decades. The Foundation supports aligning our estate tax law with the federal code over time as a way to stop this emigration and to eliminate this tax for the unwary.

- **Unemployment Insurance:** The UI program is intended to be an economic stabilization program designed to provide a safety net for individuals that lose their jobs through no fault of their own. However, over time, the program has evolved into much more than that. Despite near record-low unemployment, the UI Trust Fund continues to pay out more money each year than it takes in due to a generous benefit structure and cross-subsidization of seasonal or cyclical employers who utilize the UI system each year. The Foundation will work with our partners in the employer community to better align Massachusetts UI benefits with those of other states. In addition, the Foundation will explore ways to provide and pay for special training programs for the chronically underemployed in order to provide them with the skills they need to obtain employment and to provide employers with a skilled workforce.
- **Tax Expenditures:** The Foundation supports reviewing all tax expenditures to ensure that tax dollars are spent wisely; however, business tax incentives should not be singularly targeted and the metrics for determining whether they are effective must be clearly articulated, reasonably measured and prospectively enforced.
- **Protecting Taxpayer Privacy:** The Foundation will continue to fight attempts to give any agency other than the Department of Revenue full access to tax returns. Privacy is a cornerstone of our voluntary tax compliance system and increasing the opportunities for privacy breach is a serious concern.
- **Millionaire's tax:** The ballot initiative that would amend the state's constitution to impose a marginal 4% tax on income over a million dollars has received much attention already and this attention will heighten as we get closer to 2018. The Foundation has a long track record of successfully opposing attempts to allow a graduated income tax in Massachusetts and we will oppose this latest attempt to increase taxes on a subset of taxpayers out of concern for the negative economic and fiscal consequences of this proposal.

The Foundation has offered public testimony and letters to the General Court prior to the Constitutional Convention outlining our concerns with this measure. We will continue to oppose this considerable new tax on fiscal, economic, competitive and fairness grounds and suggest a more balanced, targeted approach to raising revenue should it be necessary.

There are numerous other legislative proposals that impact the business climate in Massachusetts and the Foundation will work with other employer groups to ensure that the state adopts policies that are conducive to economic growth, adapt to the changing nature of employment and recognize the unique needs of the different economic sectors. Among these are:

Independent Contractors: As a leader in innovation, Massachusetts must repeal laws that unreasonably impede the ability of the innovative economy to grow. Almost 40% of workers in the

new economy work as independent contractors but current law makes it very difficult to be classified as such, thereby subjecting companies to onerous and expensive employment requirements. The overly-narrow statutory definition of who can be considered an independent contractor, which was originally intended to be applicable only to the building trades, adds an unnecessary cost burden to companies and should be addressed. Working with other representatives of the employer community, the Foundation will advocate for a change to this law.

Non-compete agreements: The Foundation was part of a broad coalition advocating for reasonable restrictions on the use of non-compete agreements while preserving them as an important tool for employers. While the House passed an acceptable compromise last session, the Senate passed an overly-restrictive version and the bill eventually died in conference committee. Anticipating that this issue will resurface in 2017, the Foundation will continue to oppose a ban on the use of non-compete agreements while working on reasonable restrictions.