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Analysis of Governor Baker’s FY 2019 Budget

Governor Baker has proposed a \$45.9 billion budget for fiscal year (FY) 2019. This bulletin provides an overview of notable spending, revenue and policy proposals included in the document.

Budget Overview

The Governor’s budget recommends \$45.9 billion in spending which is an increase of \$1.04 billion (2.31 percent) over estimated current year spending. This total spending level is comprised of \$41.4 billion in line-item spending and \$4.5 billion in budgetary transfers to the state pension fund, the MBTA and the school building authority – commonly referred to as “off-budget” spending.¹

Figure 1. Governor’s Budget Spending & Revenue Summary

	Spending Comparison			
	FY 2018	FY 2019	\$	%
	Current	GOV	Difference	Difference
Line item spending	\$40,740.7	\$41,357.0	\$616.3	1.51%
Off Budget	\$4,273.2	\$4,526.9	\$253.7	5.94%
Assumed reversions	-\$168.0	\$0.0	\$168.0	-100.00%
Total spending	\$44,845.9	\$45,883.9	\$1,038.0	2.31%
	Revenue Comparison			
	FY 2018	FY 2019	\$	%
	Current	House 1	Difference	Difference
Consensus Tax Revenues	\$26,661	\$27,594	\$933	3.5%
<i>Tax settlements</i>	\$125	\$125	\$0	0.0%
<i>Less cap gains transfer</i>	-\$25	-\$89	-\$64	254.0%
New Revenue Sources				
<i>Marijuana (sales tax & excise)</i>	\$0	\$63	\$63	NA
<i>Resort casino</i>	\$0	\$42	\$42	NA
Revenue initiatives				
<i>Employer assessment</i>	\$215	\$260	\$45	20.9%
<i>Ongoing tax (new)</i>	\$0	\$13	\$13	NA
<i>Repatriation</i>	\$0	\$65	\$65	NA
Federal				
<i>MassHealth related</i>	\$8,817	\$8,848	\$31	0.4%
<i>Other</i>	\$2,740	\$2,509	-\$231	-8.4%
Departmental & transfers				
<i>Lottery</i>	\$1,084	\$1,084	\$0	0.0%
<i>Other</i>	\$5,358	\$5,593	\$235	4.4%
Total	\$44,974.5	\$46,107.5	\$1,133.0	2.52%

¹ The \$41.357 billion in line item spending referenced in this Bulletin differs from the Administration’s stated total of \$40.905 billion because the Foundation total includes \$452.5 million spending for the state’s Medical Assistance Trust Fund.

The Governor’s budget relies on \$27.594 billion in tax revenue – the amount agreed to as part of the Consensus Revenue process – with \$88.5 million of this amount designated for deposit into the Stabilization Fund as above-threshold capital gains revenue.² The second largest source of revenue is federal reimbursements related to MassHealth totaling \$8.8 billion. These revenues, which are directly linked to MassHealth spending, are expected to grow by just \$31 million (0.4 percent) over FY 2018. This low growth rate is partially related to an Administration proposal to move 140,000 MassHealth members onto subsidized care offered through the Health Connector.

The chart below provides a quick summary of major highlights of the Governor’s budget:

Figure 2. Spending and Revenue Highlights

Gov's Budget in a Box			
<i>Spending</i>		<i>Revenue</i>	
Total spending		Consensus tax revenue	\$27,594
<i>Increase</i>	\$1,038	<i>Increase</i>	\$933
<i>Spending growth</i>	2.31%	<i>Revenue growth</i>	3.50%
MassHealth		Increases to the Rainy Day Fund	
<i>Increase</i>	\$301*	<i>Cap gains</i>	\$80
Chapter 70		<i>Other</i>	\$16
<i>Increase</i>	\$104	Budget gap closed	\$400
Other Non-discretionary		One-time solutions	\$65
<i>Increase</i>	\$461	New ongoing revenues	
Discretionary spending		<i>Taxes</i>	\$76
<i>Increase</i>	\$156	<i>Gaming</i>	\$42
Total spending items		Tax settlements	\$125
<i>New</i>	23	OPEB Savings	\$150
<i>Increased</i>	375		
<i>Decreased/eliminated</i>	214		
<i>Numbers in millions</i>			

*MassHealth increase includes \$86 million that would be transferred to the Connector to account for members transitioning to ConnectorCare

A remarkable element of the Governor’s spending plan is the sharp reduction in the growth trend for MassHealth. The Governor’s budget estimates that MassHealth spending will grow by just \$215 million (1.3 percent) on a gross spending basis. The Foundation’s estimates for MassHealth spending differ slightly, as we include \$86 million in spending the Connector will assume for covering former MassHealth members. Even after this adjustment, MassHealth spending growth, at \$301 million (1.9 percent), would be at its lowest level in a decade.

For the third consecutive year, the increase to Unrestricted General Government Aid is linked to expected tax revenue growth. In Chapter 70, the Governor adopts the same approach as last year, with small changes to the foundation budget calculation accounting for \$24 million in new state aid.

FY 2019 is the first budget that relies on revenue from marijuana sales and resort casinos. The \$63M marijuana revenue projection reflects some uncertainty as to the pace of growth for this new industry. Projected resort

² \$8.5 million of this amount is then transferred to other state reserves

casino revenue of \$42 million in FY19 will grow substantially in FY 2020 as Wynn Boston Harbor opens and MGM Springfield will be open for the full fiscal year. There are additional resort casino revenues that are dedicated to trust funds not subject to appropriation and therefore not included in this budget.

The Administration’s FY 2019 budget relies far less on new revenue initiatives than was the case in its FY 2018 budget plan. This year, the administration is proposing just \$78 million in ongoing and one-time new revenues, compared to \$487 million in FY 2018. Specific revenue initiatives proposed in the Administration’s budget are covered later in this bulletin.

Other forms of state revenue, such as the lottery and departmental fees are expected to grow by just \$53M – remaining essentially flat over FY 2018. The majority of this increase, \$45 million, is due to higher than originally anticipated revenue from the employer assessment adopted as part of last year’s budget.

Another revenue proposal from last year – generating \$125 million in one-time revenue by accelerating the remittance of sales tax collections from debit and credit card purchases – is again reflected in the Governor’s budget, although the proposed collection process is very different. Last year, the proposal was tabled after it drew a host of concerns related to cost, timeline and implementation requirements, but the associated revenue was still included in the budget, by moving \$125 million in tax revenue from July to June of 2018. The Governor’s budget proposes that DOR continue to explore ways to accelerate sales tax collection, but gives a deadline of May 2021 for DOR to develop regulations. Until then, the state would continue to move \$125 million in tax revenue forward each year. In FY 2019, that revenue was already included in the Consensus Revenue tax agreement.

Major Spending Areas

MassHealth

Perhaps the single most noteworthy provision in the Governor’s budget is that MassHealth spending grows by just \$301 million (1.9 percent), for a total spending level of \$16.3 billion. After accounting for new federal revenues, MassHealth spending increases by \$222.7 million, \$205 million less than the average MassHealth state spending increase since FY 2015. While this is a welcome reduction in the growth trend, the increased state cost of MassHealth in FY 2019 is more than double the increase to Chapter 70 education aid, a fact that illustrates why additional reforms to the program are still necessary.

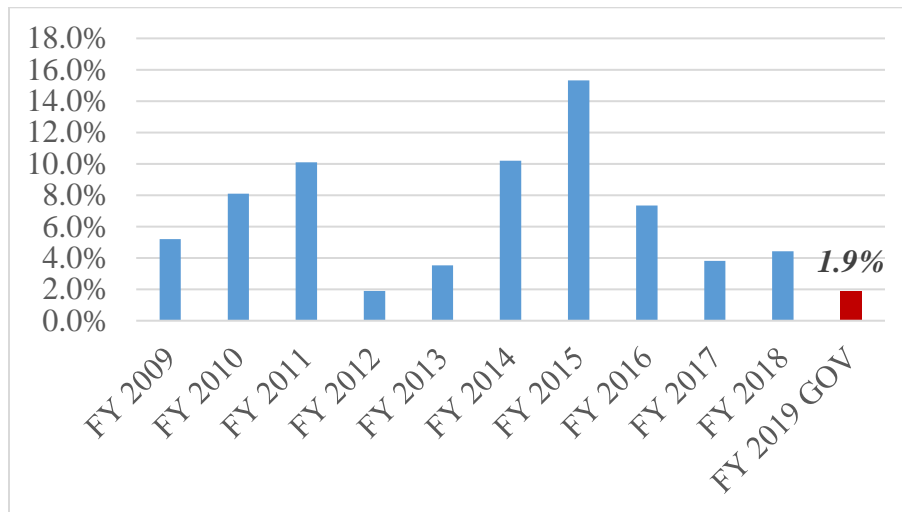
Figure 3. MassHealth Spending & Revenue, FY 2018 & FY 2019

	FY 2018 GAA	FY 2018 Current	FY 2019 GOV
MassHealth spending	\$15,889,733,552	\$15,975,862,126	\$16,191,342,329
MH Connector spending	\$0	\$0	\$86,000,000
Federal Reimbursement	\$8,905,158,084	\$8,816,789,565	\$8,895,588,548
Net Cost	\$6,984,575,468	\$7,159,072,561	\$7,381,753,781
Reimbursement Share of Spending	56.04%	55.19%	54.94%

The limitation in MassHealth cost growth is primarily due to lower than expected enrollment levels. MassHealth enrollment in FY 2018 has fallen well short of original projections. The Administration now expects MassHealth enrollment of 1.89 million members at the end of FY 2018 – 200,000 fewer members than originally anticipated. The Governor’s budget assumes enrollment will grow by a further 1.2 percent in FY 2019. This lower level of enrollment growth is due to numerous program integrity measures that have been introduced to ensure member

eligibility, higher utilization of premium assistance programs to move members to other forms for available insurance and the assumption that a number of MassHealth members will receive health insurance through the Connector beginning in January of 2019.

Chart 1. MassHealth Spending Growth, FY 2009 – FY 2019



The proposal to move approximately 140,000 non-disabled adults on MassHealth to Health Connector Coverage was originally put forward by the Administration in June of 2017. That proposal, which was part of a comprehensive health care reform package, was not fully considered by the Legislature because of concerns about the process and potential impacts on affected members. This revised version of the proposal included in the Governor’s budget attempts to address these concerns. The Administration indicated that they will adjust the Connector plan offering for MassHealth members in response to concerns raised regarding dental coverage and out of pocket costs, although these adjustments are not reflected in budget language. According to their projections, this enrollment change will save \$60 million in FY 2019 and \$120 million on an ongoing basis. These savings figures are net of any loss of federal funds.

The Governor’s budget also includes provisions designed to reduce MassHealth’s pharmaceutical costs by allowing for a closed formulary and empowering the Executive Office of Health and Human Services to negotiate supplemental pharmaceutical rebates with manufacturers. Similar language related to the MassHealth formulary was included in last year’s reform package.

In recent years, the state has transferred funds from the Commonwealth Care Trust Fund (CCTF), administered by the Health Connector, to the General Fund to help close annual budget gaps. The Governor’s budget reverses this trend by transferring \$130.8 million from the General Fund to the CCTF. The majority of this transfer, \$85.8 million, is to cover the cost associated with transitioning MassHealth members to the Connector. The remainder of the transfer, \$45 million, is to support ongoing Connector operating costs.

The Governor’s budget also proposes a new Safety Net Provider Trust Fund, funded at \$167.6 million, to provide service delivery incentive payments to eligible providers. This new trust fund is, in many ways, a successor to the Delivery Systems Transformation Initiative program which expired in FY 2018. Both programs were created under the state’s Medicaid waiver and are subject to federal reimbursement.

Local aid

This budget increases funding for the state’s two largest local aid programs, Chapter 70 education aid and Unrestricted General Government Aid (UGGA) by \$140.8 million.

Figure 4. Chapter 70 & UGGA Funding, FY 2015 – FY 2018

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019 GOV
C70	\$4,399,910,261	\$4,511,882,199	\$4,628,013,618	\$4,746,953,715	\$4,850,573,126
\$ Increase	\$99,975,095	\$111,971,938	\$116,131,419	\$118,940,097	\$103,619,411
% Increase	2.33%	2.54%	2.57%	2.57%	2.18%
UGGA	\$945,702,568	\$979,797,001	\$1,021,928,272	\$1,061,783,475	\$1,098,945,897
\$ Increase	\$25,472,275	\$34,094,433	\$42,131,271	\$39,855,203	\$37,162,422
% Increase	2.77%	3.61%	4.30%	3.90%	3.50%

For the past three years, the Administration has increased UGGA funds at the same rate as tax revenue growth; this increase works out to \$37.2 million (3.5 percent). This increase is distributed based on a prorated basis in contrast to Chapter 70 aid which is subject to an annual formula.

For the second straight year, the Administration’s Chapter 70 proposal includes a small funding increase related to the recommendations of the Foundation Budget Review Commission. In this year’s budget, the Administration adjusts the formula by increasing assumed costs for “employee benefits and fixed charges” by approximately 6 percent. These changes result in \$24 million in new state aid. Other elements of the Administration’s Chapter 70 plan include:³

- \$25 million in “effort reduction” to enable eligible districts to reduce required location spending contributions to move closer to local spending levels called for by the formula;
- \$14 million in “per-pupil” aid to ensure that each district receives additional state of at least \$20 per student;
- \$40 million in “foundation” aid necessary for some districts to meet their minimum foundation budget spending level.

In recent years, the state has employed a new method to account for low-income students in the funding formula. The Governor’s budget uses this new “economically disadvantaged” student approach.⁴ The Governor’s budget does not include transitional funds for school districts that would have received higher levels of aid under the previous low-income student system. In each of the last two years this “hold harmless aid” was added in both the House and Senate budgets.

The Governor’s spending plan includes \$456.5 million for education reimbursement accounts. This amount funds two of the largest reimbursement programs – charter school and regional transportation – at the same amount as last year, but includes an additional \$10 million for special education reimbursements. This budget includes \$15 million in new money to offset district costs related to approximately 2,400 students from Puerto Rico who have enrolled in Massachusetts schools in the aftermath of Hurricane Maria. These funds would be distributed based on the Chapter 70 formula, but would be one-time in nature.

³ Financial impacts of each provision are rough estimates based on available information

⁴ The Governor’s budget proposes specifying which EOHHS programs students will be matched against to determine eligibility

Figure 5. Education Reimbursement Accounts, FY 2018 & FY 2019

Program	FY 2018 Funding	FY 2018 Reimb. %	FY 2018 GOV
SPED Circuit Breaker	\$281,231,181	65.0%	\$291,145,829
Charter School Reimbursement	\$80,500,000	52.3%	\$80,500,000
Regional School Transportation	\$61,521,000	72.0%	\$61,521,000
Homeless Student Transportation	\$8,099,500	35.0%	\$8,099,500
Non-Resident Pupil Transport	\$242,500	5.0%	\$242,500
Hurricane Maria Reimbursement	\$0	NA	\$15,000,000

Italics denotes estimates based on prior year information

Early education and higher education

Early education is funded at \$590.9 million in the Governor’s budget, an increase of \$4.6 million (1 percent) over FY 2018. The majority of this funding, \$505.9 million, is devoted to providing childcare subsidies for approximately 50,000 children around the state, leaving approximately 20,000 children on a waitlist for subsidies. Over the past few years, the number of children receiving subsidized childcare has declined by more than 10 percent.

The Governor’s budget proposes a one percent increase in funding for public higher education campuses as well as a \$7.2 million (7.5 percent) increase in scholarship funding. For state universities and community colleges, increased funding would be distributed based on a funding formula which takes into account individual school characteristics and achievement outcomes. Additional funding for higher education collective bargaining costs are included in the budget as part of a separate funding reserve.

Figure 6. Early Education & Higher Education, FY 2018 & FY 2019

	FY 2018 GAA	FY 2018 Current	FY 2019 GOV
Early Education	\$576,994,336	\$586,287,544	\$590,875,455
University of Massachusetts	\$513,545,371	\$513,546,569	\$518,667,080
State Universities	\$250,468,692	\$250,471,512	\$252,971,381
Community Colleges	\$274,593,784	\$274,593,784	\$276,869,422

Transportation

The substantial increase in transportation funding in the Governor’s budget compared to the FY 2018 General Appropriations Act (GAA) is due to the inclusion of \$83 million in funds for snow and ice removal. These costs have historically been underfunded in the budgets passed at the start of the fiscal year, which creates the need for supplemental spending down the road.

For the MBTA, the Governor’s budget includes the \$1.032 billion transfer related to expected sales tax revenues, as well as a separate transfer of \$127 million – the same about as FY 2018. In total, transfers to the MBTA would increase by \$25 million over FY 2018 in the Governor’s budget. This budget also includes an outside section that would allow the MBTA to include personnel costs related to the design and construction of capital projects in the capital budget rather than the operating budget.

	FY 2018 GAA	FY 2018 Current	FY 2019 GOV	\$ Diff	% Diff
MassDOT Transfer	\$303,341,772	\$303,341,772	\$284,679,448	-\$18,662,324	-6.15%
Snow & Ice Reserve	\$0	\$0	\$83,000,000		
MBTA Transfer	\$127,000,000	\$127,000,000	\$127,000,000	\$0	0.00%
Regional Transit Transfer	\$80,400,000	\$80,400,000	\$80,400,000	\$0	0.00%
Merit Rating Board	\$9,404,567	\$9,404,567	\$9,768,209	\$363,642	3.87%
MBTA Sales Tax	\$1,006,806,769	\$1,006,806,769	\$1,031,800,000	\$24,993,231	2.48%

Other non-discretionary spending

Group Insurance costs are expected to decline by \$37.2 million in the Governor’s budget. Last week, the Group Insurance Commission approved a proposal to reduce the insurers with which it contracts. This proposal, which would consolidate health insurance benefit plans among three carriers from the current six carriers, is estimated to save \$20.8 million in FY 2019. While savings directly attributable to the GIC’s vote are not included in the Governor’s budget, the appropriation does reflect an assumption of savings from re-procurement and other efforts.⁵

Debt service and retiree health benefit costs remain flat in the Governor’s budget, growing by just \$49.1 million (1.8 percent).

The Governor’s budget limits the amount of tobacco settlement revenue that will be dedicated to the State Retiree Benefit Trust Fund (SRBTF) to \$25.1 million, effectively taking the remaining \$150.7 million that would have otherwise gone from the tobacco settlement to the SRBTF to help balance the budget.

Figure 8. Other Non-Discretionary programs, FY 2017 & FY 2018

	FY 2018 GAA	FY 2018 Current	FY 2019 GOV
Debt Service	\$2,628,287,940	\$2,613,663,792	\$2,662,838,463
Retiree Health Care	\$432,404,000	\$432,404,000	\$441,179,578
Group Insurance Commission	\$1,683,153,734	\$1,683,153,734	\$1,645,981,013

Commonly underfunded programs

The FY 2018 budget included a separate reserve fund to support \$104 million in costs otherwise unaccounted for in the budget. This reserve was a step in the right direction, but still leaves the GAA well short of actual spending needs. This year, the Governor’s budget attempts to fully account for these commonly underfunded accounts with an additional \$89.5 million to address these costs. However, the Governor’s budget assumes a continued reduction in family homelessness/emergency assistance caseload. These caseloads have already declined by more than 20 percent since the start of FY 2016 and further reductions may not be feasible.

⁵ This paragraph has been updated to reflect information learned after initial publication.

Figure 9. Underfunded Accounts, FY 2017 & FY 2018

	FY 2018 GAA	FY 2018 Projected	FY 2019 GOV
Indigent legal defense	\$172,754,716	\$233,752,758	\$236,938,646
Family homelessness	\$186,026,253	\$199,515,592	\$190,763,011
Sheriffs	\$566,380,254	\$607,777,940	\$626,715,238
MassDOT (snow and ice)	\$303,341,772	\$303,341,772	\$367,679,448
Caseload Reserve	\$104,100,000	\$13,313,143	\$0
Total	\$1,332,602,995	\$1,357,701,205	\$1,422,096,343

Closing the Budget Gap

The FY 2019 budget gap is \$400 million, a significant decrease from the past three budgets.. The Governor’s budget closes that gap as follows:

Figure 10. Closing the Budget Gap

<i>Budget Gap</i>	
Estimated gap	\$400
New funding Initiatives	\$45
LLC revenue impact	\$5
Total Gap	\$450
<i>Governor's Budget</i>	
Tobacco settlement/OPEB	\$151
Repatriation	\$65
Marijuana	\$63
MassHealth Connector Savings (net)	\$60
Employer assessment increase revenue	\$45
Gaming	\$32
GIC plan change	\$21
Temporary accommodations	\$13
Total solutions	\$450

Tobacco settlement/OPEB (\$151 million)

As noted earlier, this budget dedicates 10 percent (\$25 million) of expected tobacco settlement revenue to the state’s OPEB obligations. Without the language included in this budget, the transfer would be 70 percent of settlement revenues (\$175 million).

Repatriation (\$65 million)

The recently enacted federal tax law requires companies to repatriate accumulated foreign profits, which are then subject to taxation. Profits attributable to Massachusetts will be subject to taxation as dividends generating one-

time revenues. The actual amount Massachusetts stands to receive is still uncertain, but the Governor's budget conservatively estimates that amount at \$63 million.

Marijuana tax revenue (\$63 million)

The Governor's budget assumes \$63 million in marijuana sales and excise tax revenue. Of this amount, \$40 million from excise tax is dedicated to the new Marijuana Regulation Fund where expenditures are limited to administration of the Cannabis Control Commission, oversight of the industry and related public health and public safety initiatives. This revenue estimate assumes that recreational marijuana sales will total between \$350 and \$400 million in FY 2019. The timing of retail store openings and the impact of federal marijuana policy will heavily influence total sales in the year to come.

MassHealth Connector Savings (\$60 million net)

The Governor's proposal to transition 140,000 MassHealth members to the state's Health Connector is discussed earlier in this bulletin.

Employer Assessment (\$45 million)

The Governor's budget assumes that the employer assessment levied as part of the FY 2018 budget will generate \$45 million more in revenue in FY 2019 than in FY 2018. In total, the Administration expects \$259 million from the assessment this year – 30 percent more than the original FY 2018 estimate of \$200 million. This increase in revenue is due to a full year of implementation and better data on impacted businesses. The assessment is scheduled to expire at the end of calendar year 2019.

Gaming (\$32 million)

The opening of the state's first resort casinos provides approximately \$42 million in budget revenue, but \$10 million of this is dedicated to the Stabilization Fund leaving \$32 million to close the budget gap. This total does not include gaming revenues dedicated to off-budget trust funds.

GIC plan changes (\$21 million)

The proposal to reduce the number of health plans available to state employees and retirees is discussed earlier in the bulletin.

Temporary accommodations (\$13 million)

For the second straight year, the Governor has proposed extending the state's room occupancy tax to short-term rental arrangements, such as Airbnb. Under the Governor's plan, only those renting properties for 150 days or more in a year would be subject to the tax.

Policy Changes

The Governor's budget includes 73 policy sections, slightly fewer than in FY 2018 (83 sections), but substantially more than in his first two budgets (44 and 43 respectively). Major policy changes proposed in those sections include:

Earned Income Tax Credit (section 28)

The Governor's budget proposes an expansion of the state's Earned Income Tax Credit (EITC). Under the plan, the state would match 30 percent of the federal EITC beginning in tax year 2019. Currently, the state matches 23 percent of the federal credit. This expansion will cost \$65 million in FY 2020 when tax year 2019 returns are filed.

EMAC Tax Credit (sections 29 & 30, 58)

These sections ensure that businesses will not be forced to pay both the federal Employer Shared Responsibility Assessment (ESRA) and the state's new EMAC surcharge assessment in the same taxable year for the same employees. The intent of the state's EMAC surcharge was to replace, not complement, a possible federal assessment. Recently, the federal government began moving forward with the ESRA making language to prevent double taxation necessary.

Temporary Accommodation (sections 32 and 59)

See earlier discussion of the Governor's temporary accommodation taxation proposal.

MassHealth Reforms (sections 42, 68 and 71)

See earlier discussion of these proposals in the MassHealth section of the Bulletin.

Sales Tax Modernization (sections 49 and 60)

This language requires the Department of Revenue to develop sales tax modernization regulations by May 31, 2021. Until then, the Comptroller is directed to move \$125 million in tax revenue forward by each year to reflect the assumed one-time revenue benefit of sales tax modernization efforts. The language to modernize sales tax collections focuses on, but is not limited to, same day remittance of debit and credit card sales. That daily remittance plan raised a number of concerns when proposed in FY 2019.

Consolidated Net Surplus (section 54)

The Governor proposes devoting up to \$20 million of any FY 2018 budget surplus to the state's Life Sciences Investment Fund and the Community Preservation Trust Fund. The funds would be divided evenly.

Stabilization Fund Deposit (section 55)

This section guides the FY 2019 Stabilization Fund deposit related to above threshold capital gains. It assumes a Stabilization Fund transfer of \$88 million, of which \$8.8 million is then transferred to other long-term liability trust funds.

Sick Leave Buyback (sections 26, 61 – 63)

The Governor is once again proposing a 1,000 hour cap on unused sick leave for state employees. Employees who currently have more than 1,000 in unused time would be prohibited from accruing additional time.

Trust Funds (sections 13, 24 & 25, 38)

The Governor's budget creates 8 new off budget trust funds across a number of policy areas:

Figure 11. New Trust Funds

Trust	Section	Purpose	FY 2019 Revenue
Substance Use Prevention Education & Screening	10	Support school based addiction & substance misuse programs	\$5M appropriation
Commonwealth Facility	10	Support of energy efficiency projects in state agencies	At least \$500K from other energy trust fund
DPU Siting Board	24	Replace existing on budget spending account	\$500K appropriation
DPU Unified Carrier Registration	24	Replace existing on budget spending account	\$75K appropriation
Long-term Liability reduction	25	Receives gaming funds dedicated to debt reduction	\$6M in gaming funds
Underground Storage Tank Petroleum Product Cleanup	25	Dedicate minimum level of funds to underground storage tank cleanup	\$30M from existing fee cleanup
Safety Net Provider	25	Provide incentive payments to health care providers	\$167.6M appropriation
Public Health Grant	38	Support public health grants in cooperation with partnering non profits	Donations

As the Foundation pointed out in a recent report on health care trust funds, while trusts have several benefits, they raise concerns regarding oversight, potential for duplication and long-term relevance.

Conclusion

Governor Baker’s FY 2019 spending plan is a strong start to the budget development process. The structural budget deficit is the smallest it has been in a decade and his proposal limits new spending – most notably in the area of MassHealth – to a sustainable rate, while reducing reliance on one-time or unreliable revenues. The Administration also proposes a number of policy initiatives, including important MassHealth reforms, which will put the state on more sound fiscal footing going forward.

This good start may be undercut by the high degree of revenue uncertainty we face in FY 2019. As the Foundation highlighted in our Consensus Revenue Hearing testimony, outstanding ballot questions that could impact revenue collections (the income tax surcharge and the sales tax rate reduction proposals) make it impossible to forecast revenue collections with any degree of certainty. Left unanswered is the question of how the state will revise its spending plan should the sales tax be reduced with no other revenue offsets. A clearly articulated plan for this contingency is necessary and the Governor should collaborate with the Legislature to develop it. A key

component of the plan must be the dedication of above benchmark tax collections and unexpected one-time revenues to state reserves.

Massachusetts Taxpayers Foundation - Fiscal 2019 Budget Summary

	FY 15 Final	FY 16 Final	FY 17 Final	FY 18 GAA	FY 18 EST	FY 19 GOV
Health Care	14,519	15,647	16,147	16,799	17,214	17,223
MassHealth	13,583	14,741	15,298	15,890	15,976	16,277
Trust Funds	701	651	593	639	934	452
Other Health Care	235	255	256	270	305	493
Local Government Support	6,023	6,211	6,344	6,519	6,521	6,687
Chapter 70 Education Aid	4,402	4,514	4,627	4,747	4,747	4,866
Other K-12 Education Aid	585	623	604	615	619	630
Unrestricted Local Aid	973	1,007	1,049	1,089	1,089	1,126
Other Local Aid	63	67	63	68	66	66
Other Education	1,710	1,760	1,706	1,751	1,764	1,783
Early Education	544	566	540	577	586	591
Higher Education	1,167	1,194	1,167	1,174	1,178	1,193
Human Services	5,665	5,916	5,870	6,070	6,082	6,292
Developmental Services	1,715	1,847	1,897	1,953	1,954	2,000
Family Services	1,077	1,156	1,141	1,207	1,179	1,225
Cash Assistance	716	714	657	644	660	675
Mental Health	719	740	749	773	777	870
Public Health	601	553	560	605	605	610
Housing Support	422	471	431	436	448	446
Senior Support	271	283	295	303	304	316
Veteran Services	143	152	141	148	155	149
Public Safety	2,632	2,709	2,738	2,704	2,818	2,891
Corrections	607	612	629	661	670	691
Sheriffs	582	606	603	566	608	627
Judiciary	863	889	916	878	939	956
Police	308	323	327	345	340	352
District Attorneys	108	115	119	117	118	124
Attorney General	44	45	46	49	49	50
Other Public Protection	120	119	99	87	94	91
Transportation	803	637	625	520	539	585
MassDOT	471	359	393	303	322	368
Regional Transit	40	82	82	80	80	80
Registry	9	10	10	9	9	10
MBTA Discretionary Assistance	283	187	140	127	127	127
Economic Development	318	394	327	370	374	371
Business and Labor	91	152	113	144	142	138
Environment and Energy	227	242	214	226	231	234
Employee Benefits	2,104	2,151	2,135	2,213	2,212	2,188
GIC	1,683	1,726	1,695	1,781	1,780	1,747
State Retiree Benefits (OPEB)	420	425	440	432	432	441
Capital Support	2,498	2,518	2,528	2,628	2,614	2,663
Debt Service	2,219	2,240	2,280	2,388	2,373	2,418
Contract Assistance	279	278	248	240	240	245
Other/General Government	617	502	531	623	603	673
Off budget spending	3,559	3,825	4,228	4,273	4,273	4,527
Pensions	1,793	2,001	2,394	2,394	2,394	2,609
MA School Building Authority	772	815	817	847	847	863
MBTA	971	986	992	1,007	1,007	1,032
Workforce Training	24	23	25	25	25	24
Other off budget	0	0	0	0	0	0
Total on-budget spending	36,888	38,444	38,950	40,197	40,741	41,357
Total (Including Pre-Budget Transfers)	40,447	42,269	43,193	44,470	45,014	45,884