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FY2016 Massachusetts Budget Update: The Conference Committee Budget

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After many weeks of deliberation, the Massachusetts House and Senate sent a budget to Governor Baker's desk. This budget passed the Senate 31-5 and the House 153-1 and represents a compromise between the **House** and **Senate** versions, described in previous ML Strategies advisories. A conference committee aimed to resolve discrepancies between the two chambers and in doing so went past the June 31st deadline for the fiscal year. This required a $5.5 billion stop-gap funding measure, which is currently in effect and has kept the state government funded since the end of FY15 on July 1st.

The budget approved by the legislature totals $38.15 billion for FY16 and represents a 3.5% spending increase, lower than the projected 4.8% increase. While this reduced spending rate may surprise some in a year of record tax revenue, it comes after lawmakers struggled to close a $1.8 billion inherited budget deficit. Below, we have highlighted several key areas in this budget that address disagreements between the House's, Senate's, and Governor's initial proposals.

Transportation

- The legislature has given Governor Baker many of his requested MBTA reform measures, in line with both the House and the Governor's budgets. This includes a three-year suspension of the "Pacheco Law," which required that the state Auditor certify that any privatization plan will save costs without reducing services. Many consider this requirement excessively restrictive. Others believe that it protected jobs. This provision generated the majority of the opposition to the conference budget in both chambers.
- Also included in MBTA reform is a new five-member fiscal and management control board to oversee the T, which will aim to reduce costs for the transportation system. The legislature, however, adjusted the Governor's proposal slightly to integrate the board with preexisting transportation governance.
- Other measures in this budget include giving the Secretary of Transportation the ability to hire an MBTA general manager and an increase in the size of the state Transportation Board. A separate transportation bill is also under consideration this session.

Health Care

- The budget excludes a controversial initiative directing MassHealth, the state implementation of Medicaid, to contract with a health provider to establish an "accountable care organization." This would have allowed MassHealth to contract with a health care network to provide care for a certain population. Hospital networks such as Steward's advocated for the provision as a cost-saving measure, while current health plan providers accused the provision of creating insurance companies without the requirement of carrying insurance licenses.
- The conferees created an oversight board for the Center for Health Information and Analysis (CHIA). This independent board consists of industry and government stakeholders and matches language in the Senate budget.
- The budget excluded supplementary funding for "Disproportionate Share Hospitals." This money, which aids hospitals that serve large numbers of uninsured and low income patients, appeared in the FY2014 and FY2015 budgets but was dropped in the Governor's initial budget proposal for FY16.
- The conference committee excluded language that would have increased income eligibility requirements for home health care assistance. Advocates for this provision, such as Senate Ways and Means Chair Karen Spilka, had claimed the state would save money by reducing nursing home entry rates.
- Other drug treatment measures in this budget include $3 million for 250 new clinical stabilization beds to treat drug addicts, a bulk overdosing drug purchase program, and two new high schools specifically for youth recovering from addiction.

Education

- The budget increased local aid by $34 million and education aid by $111.2 million.
- The budget includes a 4% increase in funding for the University of Massachusetts system, although most believe attendance fees will still increase next year. The budget also allows the UMASS system to directly retain tuition revenue, rather than returning it to the general fund.

Economic Development

- The Massachusetts Life Sciences Center is funded up to $10 million, down from last year's funding cap of $25 million. The Governor's budget and the House budget originally defunded the Center while the

Senate budget funded it to $15 million.

- The budget includes a provision banning any use of public funds to support the proposed Boston 2024 Olympics without the specific permission of the legislature. Opponents of the Olympic bid claim this provision leaves major loopholes that could end up permitting public funding of the games.
- The conference committee provided $1.1 million in funding for the Massachusetts Capital Access Program, a successful small business loan program. Over the past 20 years, the program has provided over 5,000 loans to businesses with less than $5 million in revenue.

Tax Policy

- The film tax credit remains in the budget despite the Governor's push to use those funds to pay for an Earned Income Tax Credit increase. Speaker DeLeo and other lawmakers defended the tax credit as a mechanism for job creation.
- Despite retaining the film credit, the legislature has opted to expand the Earned Income Tax Credit for low-income families by 23%. They will pay for that expansion by eliminating a never-enacted tax cut for businesses, FAS-109. The Governor supports the legislature's alternative funding method, commenting that "I think that's a good thing and I don't believe it's a tax increase." Business groups such as the Massachusetts Taxpayers Foundation, Associated Industries of Massachusetts, the Greater Boston Chamber of Commerce, and the Massachusetts Business Roundtable have urged the Governor to veto the FAS-109 repeal.
- The budget empowers the Commissioner of Revenue to institute a Tax Amnesty program in FY2016. This will allow taxpayers with outstanding liabilities to pay their tax debts at face value without the additional penalties that they would otherwise incur.
- The conference committee rejected the Senate's plan to freeze state income taxes at 5.15%. This mans the tax will drop to 5% in the near future as a result of preexisting laws. The Senate proposal faced legal controversy from the beginning and required a ruling from the Supreme Judicial Court designating the budget a "money bill" so that the Senate could attach tax-related amendments such as this.

The Governor now has 10 days to sign the bill and issue line item vetoes. The House and Senate can then override any of these vetoes with a two-thirds majority vote in each chamber. The state leaders have until July 31st to finalize an FY16 budget before the current interim budget runs out.

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ML Strategies will continue to monitor the budget process and report on the remainder of the process.

View ML Strategies professionals.

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