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Baker Proposes State Budget Focused on Savings

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Wednesday, the Baker-Polito administration revealed the details of their $38.1 billion FY2016 budget. Seeking to overcome a structural deficit, which at $1.8 billion, represents nearly five percent of the total budget, the Governor doubled down on cost-saving measures rather than raising taxes, increasing fees or drawing from the state's rainy day fund.

Baker, who has repeatedly emphasized that the Massachusetts government must start to live within its means, filed a budget that holds spending growth to three percent, even while revenues are projected to climb to 4.8 percent as the economy continues to grow. To balance the budget, Baker relied on $750 million in savings from MassHealth, a tax amnesty program, and $573 in one-time revenue streams, among other sources.

To address a mid-year deficit, Baker made cuts to the state budget weeks after he took office, and has made permanent some of those reductions in his FY2016 budget. With state funds constrained, the Governor squeezed savings from or level-funded many spending accounts, while making smaller, targeted investments to boost state transportation funding by 20 percent, increase education and local aid funding, and shore up the Department of Children and Families.

The Governor also filed companion bills to help balance his budget, including a bill that creates an early retirement incentive program to reduce the state's workforce by about 4,500 employees and limit the backfilling of open positions, which he expects would net $178 million in savings in fiscal 2016. Baker's second companion bill creates a year-long tax amnesty program for first-time filers in Massachusetts, which he estimates will generate $100 million in revenue this coming fiscal year. The legislation also diverts to the general fund $300 million in excess capital gains taxes that would have otherwise gone to the $1.2 billion rainy day fund. Additionally, the bill doubles the state's earned income tax credit to provide a 30 percent match of the federal dollars given to low-income workers over the next four years, ultimately providing up to $1,874 in annual tax relief for eligible working families. Governor Baker tied the increase in the earned income tax credit to a concomitant wind down of the state's $80 million in tax credits for the film industry.

The Legislature has previously derailed efforts to cap the film tax credit under Governor Deval Patrick, blocked Governor Baker's attempt to make cuts at MassHealth, and shot down early retirement plans. The budget proposal will present the first major test to the relationship between the Republican Governor, and the Democratic Speaker of the House Robert DeLeo and new Senate President Stanley Rosenberg, who each have their own priorities for the state's spending blueprint. See below for the details of the Governor's FY2016 budget proposal.

Health Care

MassHealth

Baker made savings at MassHealth, the state-federal health plan for low- and moderate-income residents, a focus of his mid-year budget fix, so his move to tamp down rising costs for the state's Medicaid program was not surprising. The program will grow by $950 million to $15.3 million, which is a 5.6 percent increase as opposed to the projected 16 percent increase for FY2016. The Governor predicts his plans for MassHealth, which insures nearly 25 percent of the state, will save $1.6 billion through:

- Delaying payment of about $456 million in costs until the next fiscal year, a strategy that state officials have used for the last decade;
  - The postponed payments account for over half of the savings Baker seeks to wrest from MassHealth;
- The federally mandated MassHealth eligibility redetermination process, which is expected to take up to a year, and save nearly $400 million, or about 3 percent of the $13.7 billion program;
- Holding provider reimbursement rates flat to FY2015, with few exceptions, whereas previously, MassHealth had provided hospitals with inflation updates;
- Eliminating administrative day payments for chronic and rehabilitation hospitals;
- Securing about $200 million in federal reimbursements;
- Pursuing bulk purchasing of medical equipment, with no requirement that the Center for Health Information and Analysis or the Executive Office of Administration and Finance review contracts;
- Eliminating coverage for chiropractic care to save about $300,000;

- Limit prescriptions for certain opioids to 14 days to produce some savings and limit abuse; and
- Rebasing rebates MassHealth receives from pharmaceutical companies.

While Baker's budget calls for a number of cost-saving measures at MassHealth, he also plans investments to:

- Fully implement adult dental benefits, including dentures;
- Allocate $300,000 for women's health care and contraception coverage;
- Provide 10,000 children with autism with applied behavioral analysis services;
- Direct $30 million to resolve litigation and adjust Chapter 257 rates for human service providers, and institute compliance with Chapter 257 provisions going forward;
- Provide funding for Infrastructure and Capacity Building grants to hospitals and community health centers, at the waiver-allowed level of $30 million, redeemable in FY2015 or '16; and
- Reinvigorate a special initiative for the homeless mentally ill that worked well in the 1990s by leveraging federal housing money and Medicaid funds to provide housing support and services for the mentally ill.

In his bid to rein in MassHealth spending, Governor Baker will likely have a partner in Speaker DeLeo, who earlier this week called the nearly 50 percent rise in costs at MassHealth "unsustainable."

Massachusetts Health Connector

There are no substantial changes to the ConnectorCare program, including no significant changes to base premiums, outside of what has been proposed in the recent affordability schedule in 2016, no changes to copays or plan designs, and no eligibility changes.

Commonwealth Care Trust Fund

Under the Governor's proposal, the Commonwealth Care Trust Fund, which mainly supports state premium and cost-sharing assistance for those purchasing insurance with the Connector, will continue to support the Health Safety Net. The budget plan transfers the customary $30 million from the Commonwealth Care Trust Fund to help fund the Health Safety Net; however, it is currently unclear whether the funding is for FY2015 or FY2016, as payments were delayed during the FY15 budget crunch. The Governor's budget also assumes a transfer of up to $110 million from the Commonwealth Care Trust Fund to the general fund.

Center for Health Information and Analysis

Governor Baker's proposal puts the Executive Office of Health and Human Services (EOHHS) in charge of the oversight of the Center for Information and Analysis (CHIA), and grants the EOHHS Secretary the power to remove the CHIA executive director at any time with the approval of the Governor. Currently, CHIA is an independent agency whose executive director is chosen by majority vote by the governor, attorney general, and state auditor. No changes were made in the financing of CHIA, which currently is paid for by hospitals, surcharge payers, and ambulatory surgical centers.

Group Insurance Commission

Governor Baker also looked for money-saving opportunities with the Group Insurance Commission, which insures public employees. Baker's plan increases deductibles and premium co-pays, while raising the employee health insurance contribution rate to 25 percent for employees hired after 2003, sparking public outcry from unions who insure public employees.

Delivery System Transformation Incentive Payments to Hospitals

Governor Baker's budget does not include funding for the 10 percent increase in FY2015 Delivery System Transformation Incentive (DSTI) payments, which qualifying safety hospitals expected to be paid in FY2016. The budget proposal makes a greater portion of the payment dependent on performance measures, as required by the new Medicaid Waiver agreement. DSTI payments, which have been available to seven hospitals with high Medicaid/low commercial insurance payer mix since FY2012, are conditional upon performance metrics related to enhancing access to healthcare, improving the quality of care and health of the patients, and developing payment reform strategies and models.

Transportation

Under Governor Baker's proposal, transportation funding will increase 20 percent. Baker's budget calls for increasing state funding for the MBTA by $64.5 million to $1.17 billion. Baker's investment plan also calls for a "weather resiliency fund" aimed at ensuring that MBTA operations run more smoothly next winter. It also includes a move to help the Massachusetts Department of Transportation produce some cash for its operations, by allowing it to sell, lease or contract for advertising on or in its own facilities.

The Special Panel formed by the Governor to investigate the MBTA is still conducting its assessment of the MBTA's financing, governance and capital planning. This group, consisting of Secretary of Transportation Stephanie Pollack and several outside experts in related fields, are expected to release their findings at the end of the month. The recommendations of this group will inform future decisions on where funding is to be directed and how much is needed to achieve the stated mission of the MBTA.

Education & Child Welfare

Governor Baker proposed a three percent increase in higher education funding. In the past, state colleges and universities have frozen tuition and fees when the state provided sufficient support; however, it is not yet clear if the Governor's proposed increase will be enough to allow them to do so.

The Chapter 70 school aid account in Baker's budget features a $105 million increase to $4.5 billion, which would mean a minimum increase of $20 per student. Baker also moved to consolidate 11 Partnership Schools Network programs into one streamlined grant program for underperforming schools, restore $1.2 million for METCO programming, and give the Massachusetts School Building Authority $805 million in funds.

Although Governor Baker focused on early child education and care during his campaign, his budget proposal did not reduce the number of low-income kids waiting to get into child care programs. However, he did provide $1.5 million to improve early education and care licensing, including the use of hand-held devices for real-time, on-site data entry.

For the Department of Children and Families, Baker proposed an increase in $29 million, on top of the $35 million he proposed in his FY2015 supplemental budget.

Family Homelessness

Governor Baker included in his budget $20 million for a new "End Family Homelessness Reserve Fund" focused on prevention and keeping families in their communities, although he plans to spend the same $180 million on emergency homelessness assistance as what was budgeted in FY2015. Baker's budget also included $1.5 million for the HomeBASE program, which provides short-term financial housing assistance, and $2 million for support services for the homeless battling mental illness. Although family homelessness is on the decline nationally, the number of families in Massachusetts currently living in emergency shelters, hotels and motels continues to rise.

Judicial Branch

Governor Baker allocated $847 million to the entire judiciary, up from $823 million in fiscal year 2015. The increase was due to additional funding for the public defenders' office, which was not provided with enough funding to pay for the public defenders' caseloads in 2015. The Supreme Judicial Court and the Appeals Court would both be close to level funded in Baker's budget, with funding decreases of a few hundred thousand dollars each, while funding for the Trial Court would be set at $603 million, a cut of around $10 million from fiscal year 2015. According to Supreme Judicial Court Chief Justice Ralph Gants, the funding level proposed by the Governor would require the elimination of 550 employees at the Trial Court and jeopardize the court's ability to keep all its courthouses open.

Workforce & Economic Development

Although Governor Baker's budget did not include the broad economic development proposals he had campaigned on, it did include targeted investments, including:

- The creation of a Workforce Skills Gap Cabinet, to get workers the skills they need to compete for the jobs of Massachusetts' future;
- An increase to the Transformative Development Fund to spur strategic project plans in Gateway Cities;
- Additional funds to promote small business, create jobs and support workforce development in urban communities;
- Funding for specialized training for the law enforcement community to ensure they have the tools needed to effectively work with the Commonwealth's communities;
- Increasing the Safe and Successful Youth Initiative and Summer Jobs programs; and
- Partial restoration of the Global Entrepreneur in Residence program, which aims to let talented international students stay in the Commonwealth after graduation. The Baker administration gave the program $100,000, and is proposing a public private partnership to continue the program.

Local Aid

Fulfilling a campaign pledge, Baker moved to increase aid to cities and towns by 3.6 percent to $980 million, helping to pay for things like road repair, police and fire departments, parks, and libraries, relying on $87 million in revenues from a soon-to-open slot parlor and the Massachusetts Lottery. Additionally, the Governor's budget calls for investment on $2.6 million in a newly-crafted Community Compact Cabinet, led by Lt. Governor Polito, to promote municipal best practices, and enhance the state's partnership with cities and towns.

Conclusions

The Governor's budget is now with the House of Representatives, where the Ways and Means Committee, chaired by Representative Brian Dempsey, will analyze it. The Public Service Committee, led by Representative James Murphy and Senator James Timilty, will simultaneously review the Governor's

proposal to shrink the government's workforce by 4,500, while the Revenue Committee, which Representative Jay Kaufman chairs with Senator Michael Rodrigues, scrutinizes the Governor's earned income and film tax credit proposals (for more please see **our recent alert on House leadership**).

It is too early to determine how the House will receive the Governor's proposal, although Chairman Dempsey has agreed generally with the Governor's aim to steer clear of the state's rainy day fund. Public hearings on Governor Baker's FY16 budget will begin next week, March 10 at the State House.

Over the coming months, the budget process will unfold, with the House releasing its budget in April, the Senate publicizing its plan in May, and with ultimate agreement by the beginning of July, if all goes well. ML Strategies will continue to monitor developments on Beacon Hill, as the budget makes its way through the legislative process.

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Authors

George Atanasov

Amarynth Sichel

Julie Cox