ML STRATEGIES

Governor Baker Files FY2019 Budget

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On Wednesday, January 24, 2018, Governor Charlie Baker released a $40.9 billion **budget proposal** for FY2019. The plan, commonly referred to as House 2, is the fourth Baker has proposed since assuming office and increases spending by 2.6% over FY2018 levels.

The proposal relies on $27.594 billion in revenues, a 3.5% increase over FY2018 levels. The budget does not call for any new broad-based tax increases, though new revenue is estimated to be generated through a tax on short-term rentals, corporate repatriation, and retail marijuana sales, among other sources.

Although the budget contains few major new policies, it notably revives the Governor's earlier proposal to shift 140,000 low-income individuals from MassHealth to private plans on the Health Connector and expands the state's Earned Income Tax Credit. New investments are also called for in education, substance misuse treatment, and mental health services.

Below we have outlined the budget's highlights:

Health Care

- MassHealth is funded at $15.9 billion, which the Executive Office of Health and Human Services (EOHHS) says represents a 1.3% increase over FY2018 spending.
- Aiming to control rising MassHealth spending, the budget proposes transitioning 140,000 non-disabled adults between 100% and 138% of the federal poverty line off MassHealth and onto comparable plans at the Massachusetts Health Connector. Baker made a similar proposal to the legislature last summer that was rejected by lawmakers, and the Governor says the new proposal responds to the concerns of that plan. Those being transitioned will not be required to pay more out of pocket and they would not need to pay for extra dental benefits. The move would yield $120 million in additional revenue for the state.
- The budget includes language permitting changes to the financing and coverage of prescription drugs in MassHealth. EOHHS is permitted to directly negotiate supplemental rebate agreements with drug manufacturers outside of existing state procurement rules. EOHHS can require pricing information from the manufacturer if a supplemental rate cannot be agreed upon and impose monetary penalties if the manufacturer does not comply or if the agency determines the drug's pricing is unreasonable or excessive.
- Group Insurance costs are expected to decline by $37.2 million. Last week, the Group Insurance Commission (GIC) approved a proposal that would consolidate health insurance benefit plans among three carriers from the current six carriers. This accounts for $20.8 million of the spending reduction. This proposal has generated pushback from the Attorney General and public employees, however, and the GIC has said that it will be reconsidering this decision.
- As a follow up to the recently filed Medicaid waiver amendment request, EOHHS is permitted to institute a closed formulary in the MassHealth program subject to federal approval.
- Reimbursement rates for most providers are assumed to be held at current levels. Wages for skilled nursing and personal care attendants are assumed to be raised to $15 per hour, and a 2% utilization increase is expected.
- A new trust fund called the Safety Net Provider Trust Fund is created for hospitals that qualify for Safety Net Provider Payments under the current MassHealth waiver. The proposed budget allocates $167.64 million for this fund.
- The Department of Mental Health's budget is increased by $93.2 million, which includes additional funding for the adult community clinical services model to improve community-based services for adults with mental illness.

Public Health & Human Services

- $149.2 million is provided to the Department of Public Health to combat the state's ongoing opioid epidemic. This includes $63 million in residential services; $21 million in step-down and transitional beds; $4 million in youth step-down, transitional, and residential services; and $4 million in Section 35 step-down beds for civilly committed individuals.
- $5 million is provided for a new Substance Use Prevention, Education, and Screening Trust Fund, which will help identify and implement prevention and intervention programs and tools for students.
- $550,000 in additional funding is provided for the Attorney General's office for investigations into fraudulent prescribing practices, the expansion of heroin and fentanyl trafficking enforcement, and the expansion of youth-based efforts to address addiction.
- The Massachusetts Alcohol and Substance Abuse Center in Plymouth receives an extra $3 million to support the hiring of new substance abuse counselors and implementation of a new Medication

Assisted Treatment Reentry Initiative.

Tax and Revenue

- The budget estimates that the state will receive $63 million in revenue from the state's portion of marijuana taxes. Retail marijuana sales are set to begin on July 1, 2018.
- $96 million is transferred to the Stabilization Fund, bringing the size of the rainy day fund to $1.463 billion.
- The fee for creating a limited liability company is reduced from $500 to $250.
- For the second year in a row, the Governor proposed extending the state's room occupancy tax to short-term rentals, such as Airbnb. Under the plan, those renting properties for 150 days or more in a year would be subject to the tax. It is estimated that this will generate $13 million annually.
- The Earned Income Tax Credit is expanded to increase the state match of the federal credit from 23% to 30%. It is estimated that this expansion will cost $65 million in FY2020.
- The budget assumes that $63 million will flow into state coffers as a result of the requirement in the recently enacted federal tax law for companies to repatriate accumulated foreign profits.
- Employers who are required to pay both the Employer Shared Responsibility Payment to the federal government for Massachusetts employees and the recently increased Employer Medical Assistance Contribution supplement to the state are allowed to claim a refundable tax credit.

Education and Local Aid

- State funding for the University of Massachusetts, state universities, and community colleges is increased by 1%.
- $4.865 billion is provided in local education aid for K-12 schools, an increase of $118.6 million. The increased funds include a $15 million appropriation for school districts that have experienced significant enrollment of students from Puerto Rico and the U.S. Virgin Islands and $24.3 million for healthcare costs for retirees.
- $1.1 billion is proposed for unrestricted local aid, an increase of $37.2 million or 3.5%.
- The MassGrant scholarship for community college students is provided with an extra $7.1 million.
- $1.2 million is proposed to fully fund tuition and fee waivers for children in the custody of the Department of Children and Families to attend public colleges.

Transportation

- $584.8 million is invested in the Massachusetts Department of Transportation, an 8% increase over FY2018 spending.
- Sales tax revenue transfers to the Massachusetts Bay Transportation Authority (MBTA) would increase by $25 million over FY2018 levels.

Other

- The Department of Revenue is required to promulgate regulations by May 31, 2021, which would require third-party processors to remit to the Commonwealth, on a daily basis, the portion of a sale that is attributable to sales tax. There would be no change to the current schedule for reporting and remitting the sales tax for cash sales. The Department of Revenue is also required to treat sales tax revenue remitted in July as revenue for the previous fiscal year for fiscal years 2019 and 2020.
- $2 million is provided for the Small Business Technical Assistance Program to provide technical assistance, education, and access to capital for small businesses.
- The Executive Office for Housing and Economic Development will receive $1.7 million in new funding to provide grants to regional workforce organizations to train unemployed and underemployed individuals in advanced manufacturing.
- An additional $2 million is allocated to support cities and towns in their climate adaptation planning and to accelerate statewide hazard mitigation planning.

Next Steps

The filing of Governor Baker's budget kicks off the annual budget process, which now shifts to the House Ways and Means Committee. The Committee's spending plan will be the first developed under the leadership of Chairman Jeffrey Sánchez and is likely to be debated in April. Once the House finalizes its plan, the Senate, under the leadership of Chairwoman Karen Spilka, will draft its own version and debate the bill by the end of May. Senator Spilka has already pushed back on the Governor's renewed attempt to shift MassHealth enrollees to Health Connector plans, saying she's "not aware of new circumstances" that would convince the Senate to support it.

After the House and Senate finalize their versions of the budget, a conference committee will then negotiate the differences between two spending plans. The final budget must be signed into law by the beginning of the next fiscal year on July 1, 2018.

ML Strategies will continue to monitor and report on the budget process and policy proposals coming out of the House and Senate.

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