



ML Strategies Alert

## Baker Administration Announces Budget Fix Plan

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Governor Charlie Baker and Lieutenant Governor Karyn Polito announced on Tuesday a series of proposals aimed at closing the Commonwealth's substantial budget gap for Fiscal Year 2015. According to the current administration, even after Governor Patrick's attempts to close the fiscal gap, a \$768 million budget shortfall persists.

Baker's plan seeks to plug the budget hole with \$254 million in revenue and \$514 million in spending cuts, proposing Executive Branch budget reductions, legislation for additional spending reductions, non-tax revenue adjustments, and other one-time fixes.

Before taking office, Baker pledged to not raise taxes or fees, take money out of the state's emergency fund, or cut aid to cities and towns. His budget proposal remains true to these commitments, although it does divert funding that would have otherwise gone to the state's rainy day fund. Even with proposed spending reductions, Governor Baker says that FY15's budget is 7.7 percent higher than the FY14 budget.

### Executive Branch Spending Cuts

The Governor proposed close to 300 cuts to Executive Branch spending, using the budget revision powers granted to the Governor under section 9C of chapter 29 of the General Laws. Baker's proposal includes a 10 percent reduction in funding for the Governor's Office, and amounts to around \$145 million in savings. Although the proposal mandates broad reductions, almost 60 percent of the line items he adjusted still provide funding above FY14 levels. Baker's plan stays true to his word, and spares from cuts the Department of Children and Families as well as programs that serve homeless individuals.

According to Administration & Finance Secretary Kristen Lepore, the cuts will have a minimum impact on core state services, as most of the reductions are focused on administrative savings and programs not yet implemented. For example, while the administration proposes significant funding reductions to the state's embattled transportation system, officials claim that portions of the spending cuts will come from not filling job vacancies. Similarly, many of the reductions to mental health funding are cuts in administrative costs and should not impact services, according to a Lepore spokesman.

Specific reductions include:

- \$40 million from transportation;
- \$11 million in reductions to mental health line items;
- \$5.8 million from the State Police;
- \$5 million from the Department of Revenue's child support enforcement division;
- \$5 million for kindergarten expansion grants;
- \$5 million for substance abuse counselors;

- \$839,648, on top of Governor Patrick's \$3.1 million from state parks and recreation;
- \$100,000 from the state Parole Board; and
- Funding to establish an office of the state climatologist.

## MassHealth Changes

The Governor is looking to save \$168 million from spending solutions related to MassHealth, the state's Medicaid program. According to Baker, federal law requires Massachusetts to make eligibility redeterminations, and the state has not done so since the Health Connector's website issues. Baker plans to re-determine eligibility of individuals enrolled in the MassHealth insurance program beginning in February, and will hold back on spending state funds on services not covered by the federal government.

Additionally, Baker is seeking approval from the Legislature to eliminate a rate increase that MassHealth would have otherwise been required to pay to organizations that use alternative payment methodologies, such as accountable care organizations. He will also ask the Legislature to authorize MassHealth to restructure its benefits in FY15 within state appropriation limits and as allowed by federal law, and require reporting on the fiscal impact of any proposed restructuring.

## Additional Solutions Requiring Legislative Approval

Baker is seeking the Legislature's approval on a number of initiatives to plug holes in the Commonwealth's budget, totaling around \$282 million. These include:

- **Tapping capital gains revenue**  
Although state law dictates that capital gains tax revenue in excess of \$1 billion must go to the state's rainy day fund this year, Baker is requesting that the Legislature send at least \$131 million of that revenue to the General Fund. This solution allows Baker to stand by his earlier promise to not touch the Stabilization Fund; while it takes money that would have gone into the pool, it does not take any out. On Monday, both Speaker of the House Robert DeLeo and Senate President Stanley Rosenberg indicated they would likely be willing to authorize the one-time fix.
- **Creating a tax amnesty program**  
Baker is suggesting a two-month corporate tax amnesty program that waives penalties for corporate taxpayers that come into compliance with tax laws. His administration suggests that this will bring \$18 million to state coffers.
- **Reducing appropriations at state agencies**  
Baker is asking the Legislature to authorize 1.79 percent spending reductions for agencies not under his 9C powers, amounting to \$53 million in cuts for the Judiciary branch and constitutional and legislative officials. Baker's proposition seeks to protect some of his priorities, by requesting a 1.5 percent decrease for public institutions of higher education, and not touching local aid, Chapter 70 education aid, or PILOT payments to cities and towns. Additionally, the proposed legislation would allow agencies and institutions to meet his reduction goals by contributing non-appropriated resources to the Commonwealth's General Fund.
- **Transfers from other funds**  
Baker is asking for \$30 million from the Commonwealth Care Trust Fund, which currently has a \$50 million surplus, according to a Lepore spokesman. The Governor is also requesting the Legislature send to the General Fund a portion of the Gaming Commission's payments to the Healthcare Payment Reform Fund, and \$210,000 from the new Seafood Marketing Program Fund.

For details on the parts of the Governor's plan that require legislative action, see [a copy of his proposed legislation](#).

Baker makes up the remainder of the deficit by suggesting \$73 million in savings from programs not yet started, including \$37 million from an economic development bill, \$200,000 from a parking management study, \$2.3 million from a clean water planning and technical assistance program, and \$600,000 from a water technology innovation program. Additionally, the Governor is counting on \$108 million in revisions, or money that is budgeted but not used and then given back to the state's General Fund.

The initial budget gap was pegged at about \$1 billion, which former Governor Patrick cut by \$252 million, according to Baker officials. Baker's plan, which has received a favorable reception from budget watchdogs thus

far, closes the remainder of the \$768 million hole.

The Baker administration would like to have this year's budget deficit handled before March 4, 2015, which is the deadline for him to file his first budget plan for the new fiscal year, beginning July 1. Baker's first budget will show how he plans to handle the structural deficits that his current plan's one-time solutions address.

ML Strategies will continue to monitor developments, as the Legislature reacts to the Governor's proposal, and as the Baker administration sets its priorities for the FY16 budget.

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