



ML Strategies Alert

FY2018 Massachusetts Budget Update: House Ways and Means Budget

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On Monday, April 10th, the House Ways and Means Committee proposed a \$40.3 billion [budget](#) for FY2018 that calls for increasing spending by 3.8 percent, or about \$1.47 billion, above FY2017 levels. The spending increase is less than the 4.3 percent, or \$1.65 billion, increase in spending [proposed by Governor Charlie Baker](#), which is largely due to lower projections for MassHealth enrollment.

The budget notably alters the Governor's proposals to curb rising Medicaid costs, in particular the fair share assessment that aims to curb rising MassHealth enrollment. The budget also rejects three of the commercial insurance market restrictions that Baker recommended in his budget and his proposed five-year moratorium on new commercial health insurance mandates.

The budget boosts funding for local aid by increasing Chapter 70 aid by \$106.4 million to a total of \$4.734 billion and Unrestricted General Government Aid by \$40 million to a total of \$1.062 billion. It also makes targeted new investments in early education, developmental services, and affordable housing. Like Baker's budget, the Ways and Means plan makes several changes to tax law, including the state sales tax, while reducing one-time revenues for the fourth year in a row and depositing \$100 million into the state's "Rainy Day" account. Additional budget highlights include:

Health Care

- The budget authorizes the development of a "fair share contribution" to address rising MassHealth costs, but it does not establish the same thresholds as the Baker Administration's original proposal, which would have levied a \$2,000 per employee assessment on employers who do not contribute \$4,950 per full-time employee (FTE) annually or have an 80 percent uptake rate for all FTEs. Instead, the Ways and Means budget creates a six-month review process for the Administration, through the Department of Revenue (DOR), to develop an assessment. When developing the new assessment, the Administration is instructed to consider factors such as employer size, employer contributions towards the minimum qualified offer, employer premium contributions and comparable uptake rates, employee access to other qualifying insurance (spouse, parents, etc.), employee utilization of MassHealth, types of employees (seasonal), and compliance with federal and state law. The House also instructs DOR, the Executive Office of Health and Human Services (EOHHS), and the Connector to coordinate and apply to the federal government for a waiver of the Affordable Care Act's employer mandate and compelled enrollment (gate provision) in order to implement the assessment. The budget assumes that the assessment will generate \$180 million in revenue, as opposed to \$300 million proposed by the Governor.

- The House rejected three commercial insurance market restrictions that Baker recommended in his budget proposal related to growth caps on commercial payments to providers; a statutory provider payment cap for insurance plans serving members of the Group Insurance Commission (GIC); and a directive to the Division of Insurance to eliminate commercial insurance administrative facility fees for services provided in clinics.
- The House also rejected a five-year moratorium on new health insurance mandates in the commercial market proposed in the Governor's budget.
- The budget includes Baker's proposed new assessment on non-acute hospitals, including inpatient chronic, rehabilitation, and psychiatric facilities. The assessment would be proportional to the amount currently assessed on acute hospitals, resulting in an approximately \$16 million assessment. Like the Governor's plan, the House plan directs the funding to a new trust fund. Non-acute hospitals are expected to receive Medicaid payments that will equate to these funds and the total amount of the corresponding federal matching revenues. The increased Medicaid payments will total approximately \$32 million.
- \$4.75 million in new funding will be invested in several cross-agency initiatives around mental health, including \$2 million in new funding for the expansion of Crisis Intervention Teams; a \$1.25 million increase for Early Childhood Mental Health Consultations at the Department of Early Education & Care; \$1 million in additional funding for rental subsidies that will support new health clients at the Department of Housing & Community Development; and \$500,000 for multi-agency elderly adult home and community behavioral health services.
- The House directs \$15 million to be transferred from the Commonwealth Care Trust Fund to the Health Safety Net Fund.

Public Health & Human Services

- The House budget authorizes the Department of Public Health (DPH) to license home health agencies and excludes home health agencies operated by the federal government or the Commonwealth. Currently, the only official registration for agencies providing home health services is for those that accept Medicare or Medicaid patients. Under the House plan, DPH will be required to issue licenses for a term of three years and renew for a like term a license to maintain a home health agency to any organization considered responsible and suitable to maintain such an agency. Overall, the House budget commits \$528.4 million to home care and caregiver support.
- The Bureau of Substance Abuse Services at the Department of Public Health is funded with \$4 million more than Baker's proposal. The agency is also renamed to be the Bureau of Substance Addiction Services.
- \$131.7 million is allocated for substance addiction services, a slight increase over current levels and Baker's proposal. This increase will provide for new treatment beds, recovery centers, and 15,000 additional doses of Narcan.
- Funding for the Department of Children and Families is increased by \$34.2 million, allowing for 550 hires over two years.
- Building on previous investments, housing programs receive over \$18 million in new funding. Of note, the House budget proposes a \$15 million increase to the Massachusetts Rental Voucher Program. This increase will allow for up to 343 additional vouchers. The proposed budget also increases the Residential Assistance for Families in Transition program by \$2 million and adds \$1 million to programs assisting homeless individuals.
- \$16.7 million in additional spending is provided to the Department of Developmental Services for the Turning 22 program. This program provides a planning process for young adults with severe disabilities as they leave special education and transition into the adult service system.

- \$4 million is set aside for a reserve to support costs associated with the regulation of, possession, and sale of marijuana.

Education

- Funding for early education is prioritized with a \$15 million salary reserve for early educators and a new \$2.5 million investment in early education mental health consultation grants. The budget also proposes increases in local aid reimbursement accounts in special education, student transportation, and others to support district mandates. Additional investments are made in long-standing programming such as METCO, adult basic education, and various grant programs that target the most at-risk students.
- The Governor's proposed \$10.3 million increase in higher education is maintained.

Local Aid

- The House budget provides the same \$40 million increase in unrestricted local aid as proposed in the Governor's budget and boosts Chapter 70 spending for local schools to more than \$4.7 billion, a \$106.4 million increase and \$15 million more than the Governor proposed. The Chapter 70 investment includes a guaranteed minimum aid increase to each community of \$30 per pupil compared to the increase of \$20 per pupil in Baker's budget.

Workforce Development and Job Training

- The House maintains the Governor's allocation of \$47.5 million to the Executive Office of Labor and Workforce Development, a 7 percent increase over FY2017 spending.

Transportation

- The House recommends \$324 million in funding for MassDOT, a decrease from the \$561 million proposed by the Governor, and \$127 million in funding for the MBTA, a decrease from the \$187 million proposed by the Governor.

Taxes and Revenue

- To ensure that sales tax is collected and remitted daily, the House requires the DOR to issue proposed regulations in order to implement methods to effectuate daily sales tax remittance by payment processors. Currently, the DOR receives one payment per month per retailer. The new tax modification would result in DOR receiving a daily payment from multiple payment processors for each retailer.
- Out-of-state internet vendors who have significant sales in the Commonwealth, totaling over \$500,000 per year and more than 100 transactions, are required to collect and remit sales tax as instructed by DOR's [Directive 17-1](#). Under existing federal law, companies cannot be forced to collect sales taxes unless they have a physical presence in a state. However the new policy would interpret the use of software applications or invisible advertising-tracking code in web browsers as a physical presence, triggering tax collections. The Governor expects to raise \$30 million in FY2018 under the new legal interpretation.
- An outside section eliminates the income-only test for the Earned Income Tax Credit (EITC), leaving residency as the sole criteria. The provision aims to disqualify an estimated 20,000 out-of-state residents from claiming the credit.
- The House creates a \$2,000 tax credit for eligible businesses that hire veterans for each of the first two years that a veteran is employed.
- DOR is given the discretion to require additional reporting from credit card and third-party processor transactions on 1099-K forms, which is for reportable payment for such transactions.

- The House plans to deposit \$100 million into the state’s “Rainy Day” account, increasing the account to \$1.4 billion and reducing the state’s reliance on one-time revenues to balance the budget to \$110 million, only slightly more than the \$95 million in Baker’s budget.
- The House budget rejects the Governor’s effort to impose a tax on people who use short-term rental services like Airbnb from landlords who have a high-volume rental business.

Economic Development

- The House budget provides \$6 million for Regional Tourist Councils Assistance; \$2 million for the Big Data Innovation and Workforce Fund; \$1.7 million for MassCAN; \$1.5 million for the MassTech Collaborative; and \$1.5 million for Urban Agenda Economic Development Grants.
- The budget establishes an Innovation Voucher Program Fund, administered by MassDevelopment, which will provide vouchers to small corporations and startup companies for cost sharing use of core facilities at the University of Massachusetts.

Energy and Environment

- Funding for the Executive Office for Energy and Environmental Affairs (EOEEA) totals \$235 million, which includes \$82.1 million for the Department of Conservation and Recreation and \$52.3 million for the Department of Environmental Protection. This is a 3 percent increase over FY2017 spending.

Next Steps

The House budget is the second step in the budget process, which formally began with the Governor’s proposal. House members have filed a total of 1,210 amendments, including, for example, one amendment that prohibits the collection of personal information from a consumer without express written approval from the customer. The full House will debate the amendments the week of April 24th. The Senate will then draft its budget, and in doing so, review the House plan’s tax provisions and make its own proposals. The Senate will finalize its bill by the end of May. A conference committee will negotiate the differences between the House and Senate versions in June. The final budget must be signed into law by the beginning of the next fiscal year, on July 1, 2017.

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

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