



ML Strategies Alert

FY18 Massachusetts Budget Update: Governor Baker Signs FY18 Budget

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BY [JULIE COX](#), [STEVE BADDOUR](#), [DAVID O'CONNOR](#), [DAN CONNELLY](#), [CAITLIN BERESIN](#), AND [OLIVIA CASTOR](#)

On Monday, July 17th, Governor Charlie Baker signed a budget for FY2018 that includes \$39.4 billion in spending. This comes ten days after the Legislature approved a state budget with a \$40.2 billion bottom line. The Senate and House legislators struggled for weeks prior to arriving at a compromise, and an interim budget kept the state government afloat since the new fiscal year began on July 1st.

Governor Baker vetoed \$320 million from the Legislature's proposed budget as a result of an anticipated \$749 million decrease in tax revenues. Governor Baker's vetoes included \$42 million in earmarks and \$222 million in spending on MassHealth.

Although Governor Baker did not add new taxes or fees to the spending plan, his budget signals a \$652 million, or 1.7 percent, spending increase over FY2017 levels. In addition to this, Governor Baker's budget would strengthen the state's financial stability by depositing approximately \$98 million into the state reserves.

Additional budget highlights include:

Health Care

- Governor Baker vetoed \$221.9 billion in MassHealth spending and returned to the Legislature an amendment to the assessment on employers. The amendment adds a series of proposed changes to the MassHealth program — changes which were originally submitted by the Administration to the Legislature ten days prior to the close of the fiscal year, which is discussed [here](#). He also filed separate, stand-alone legislation — An Act Promoting Affordable Health Care Options ([HB3829](#)) — that includes changes to the commercial insurance market.

The amendment maintains the increases to the Employer Medical Assistance Contribution, or EMAC, contemplated by the Legislature in the final budget compromise. According to this proposal, the EMAC would be increased by \$26 per employee and would add an additional charge of up to \$750 for any employee receiving public health coverage. The Governor's amendment also included proposed changes to the MassHealth system. Several of these changes, like one requiring that employer-sponsored health insurance be the primary source of health insurance and another shifting non-disabled adults who have incomes over 100 percent of the federal poverty limit to the Connector, would require a federal waiver. These individuals would be removed from the MassHealth system, but the costs of the change would be subsidized through federal tax credits or cost sharing subsidies, which are based on the Affordable Care Act. The Administration has applied for the federal waiver necessary to achieve these savings.

The administration's amendment also proposes to give the Executive Office of Health and Human Services (EOHHS) the ability to unilaterally restructure or eliminate covered Medicaid services that are deemed optional under federal Medicaid rules. Services that would be affected include prescription drugs, physical therapy, occupational therapy, and dental, among others. It would also allow MassHealth to restructure pharmacy benefits. The amendment also calls for a five-year moratorium on the addition of any new mandatory healthcare benefits except as required by federal law.

In addition to submitting this amendment, Governor Baker requested that the Legislature hold a public hearing on the changes within 30 days and act upon it within 60 days. The public hearing is scheduled for July 25th before the House and Senate Ways and Means committees and the Joint Committee on Health Care Financing. Without this package, Governor Baker warned that the budget will have a \$350 million hole that could potentially lead to future mid-year budget cuts.

- In short, a total of \$15.6 billion was allocated for the MassHealth budget, representing a 3.7 percent increase over FY2017. Baker's administration also aims to maintain a 1.6 percent rate of enrollment growth in MassHealth.
- In his budget, Governor Baker vetoed \$3 million in funding that state legislators had allocated to Baystate Health.

Public Health & Human Services

- Governor Baker allocated \$185.3 million in the FY2018 budget for programming targeting the treatment and prevention of substance abuse. This marks a \$5 million increase in funding for the Department of Public Health's substance misuse programs. Included in this funding is \$13 million to Taunton State Hospital to support addiction treatment beds for women.
- The Department of Children and Families also received a \$9.8 million increase which places their funding at \$941 million for FY2018. The \$28 million allocated to DCF in Baker's budget will go towards sustaining 450 new hires at the agency.

Life Sciences and Innovation

- The budget included the creation of a new \$2 million program that will subsidize the cost for companies and start-ups that use University of Massachusetts facilities and labs. The Innovation Voucher Fund will support companies with not more than 50 employees with grants that will ultimately help build the state's workforce and develop new companies across the state.
- Baker also included a requirement that companies that manufacture or distribute controlled substances out of state, but have a principal place of business in Massachusetts, register with and pay a fee to the department of public health on an annual basis. This language helps simplify and streamline registration processes for companies that operate both in and outside of Massachusetts.

Education

- Governor Baker's budget includes \$4.75 billion, or a 2.5 percent increase, in funding for Chapter 70 local school aid to cities and towns. This represents a minimum spending increase of \$30 per pupil for 322 operating school districts.
- Language was included authorizing the Board of Higher Education to enter into interstate reciprocity agreements that authorize accredited, degree-granting institutions of higher education located in Massachusetts to voluntarily participate in reciprocity agreements. The State Authorization Reciprocity Agreement (SARA) is an agreement among member states, districts, and territories that establishes comparable national standards for interstate offering of postsecondary distance education courses and programs. It is intended to make it easier for students to take online courses offered by postsecondary institutions based in another state.

- The budget also allocates approximately \$513 million for the University of Massachusetts system.
- The final budget directs \$38.5 million for Early Education Care rate increases.

Local Aid

- In keeping with the Legislature's draft budget, Governor Baker allocated an additional \$39.9 million in unrestricted payments to cities and towns bringing the total amount of local aid to \$1.062 billion. This marks a 3.9 percent increase from FY2017.

Transportation

- Governor Baker's budget transfers \$127 million in operating funds to the MBTA. These funds will be controlled and managed by an oversight board appointed by Governor Baker. The state budget also contains an additional \$60 million in new capital funding which will supplement the \$1 billion in sales tax money that the MBTA receives.
- This budget gives the Pension Reserves Investment Management Board authorization to manage the MBTA retirees' pension fund.
- Governor Baker's budget cuts approximately \$1.1 million from the Pioneer Valley Transit Authority, bringing their funds to \$22.4 million.

Policy Provisions of Note

- Sales tax modernization provisions included in the budget would require the payments industry to receive and remit sales tax from retail merchants on a real-time basis. The initiative poses myriad cost and implementation challenges to the payment industry. The final version of the language calls for the Department of Revenue to hold a public hearing and to make a determination by November 1st that implementation is not cost effective and therefore no further action would need to be taken.
- Baker included a provision allowing local licensing authorities, with Alcoholic Beverage Control Commission approval, to grant to a manufacturer a license to sell and consume alcoholic beverages produced by the manufacturer on their premises. This establishes an exception to the current three-tiered system, which only permits manufacturers to sell their beverages to an entity licensed to sell alcoholic beverages in the state.
- The budget also includes an authorization for the Massachusetts Gaming Commission to extend the hours during which alcohol may be served on the gaming floor through 4 a.m. as a condition of a gaming beverage license.
- Governor Baker returned to the Legislature an amendment on "community benefit districts" — areas in which a group of property owners, with the approval of the city or town, agree to a program of assessments to pay for benefits that accrue to the properties assessed. The Governor returned this section of the bill with changes to ensure that, to create such a district, there is support from the majority of the affected property owners before such a district can be created, along with other adjustments to ensure municipalities have the tools to implement the law. Additionally, Baker's language ensures that existing tax-exempt property will maintain tax-exempt status and not be required to pay assessments under the district plan.
- An outside section establishes a commission to study the feasibility, administration, and economic impact of a battery testing facility that could be located in one of the four western counties of the state. The commission will consist of the House and Senate Chairs of the Joint Committee on Economic Development and Emerging Technologies, who will serve as chairs of the commission, the Commissioner of the Department of Energy Resources, the CEO of the Massachusetts Clean Energy Technology Center, and the Chancellor of UMass Amherst. The commission is tasked with submitting any recommendations by February 1, 2018. The budget allocates \$50,000 for the

commission to use in completing the study.

What's Next?

The House and Senate will immediately begin consideration of Governor Baker's vetoes and amendments. The Legislature has the power to override vetoes and can choose whether to take up parts of the bill that were returned with amendment. This process begins amid shakeup in the House, as longtime Chairman of House Ways and Means, Brian Dempsey, resigned and Speaker Deleo appointed a new Chair, Jeffrey Sanchez, to take the helm. Governor Baker's health care package is also up for consideration, as the Governor has requested the Legislature act on the bundle within 60 days. Part of those reforms will be for consideration by the Ways and Means Committee, while additional aspects are in legislation before the Health Care Financing Committee, previously run by Sanchez and now chaired by Peter Kocot. The Governor has indicated that if the healthcare reforms are not adopted in short order, midyear cuts are a mere certainty, as the budget balances on cost savings achieved by the measures.

ML Strategies will continue to monitor this process and report periodically on significant updates.

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