



ML Strategies Alert

Governor Baker Files FY2018 Budget

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On Wednesday, January 25th, Governor Charlie Baker announced a \$40.508 billion [budget](#) for FY2018 that increases state spending by a projected \$1.65 billion, or 4.3 percent, over FY2017 levels. The budget proposal, Baker's third since assuming office, is the first in state history to exceed the \$40 billion mark. It relies on a forecasted \$27 billion in state tax revenues next year, a 3.9 percent growth over the FY2017 tax revenue projection, as well as another \$187 million from other proposed tax changes.

Baker's budget includes a \$997 million spending increase for MassHealth, a \$117 million increase in education spending, a \$29 million increase in debt service, and an over \$40 million increase in unrestricted local aid. The plan also calls for reforms to the health insurance market, including an assessment on certain employers that do not provide health insurance to their employees and growth caps on providers, and tax policy changes aimed at responding to modern forms of commerce. We have outlined the budget's highlights below:

Health Care

- The budget proposes the establishment of permanent tiered caps on the rate of growth for all acute hospitals and professional service providers, except behavioral health and primary care providers. Providers would be placed into three tiers using a to-be-determined methodology based on relative costs developed by the Division of Insurance (DOI) and the Center for Health Information & Analysis (CHIA). DOI is permitted to review and revise the growth caps every three years. The lowest-cost providers would face no cap, while growth in the middle tier would be limited to 1 percent over the current year rate, and no growth would be allowed for the highest tier. The caps would not apply to primary care or behavioral health providers. This new system of growth capping differs slightly, by allowing a higher than 1 percent growth rate, for providers with certain alternative payment contracts, accountable care organizations, or other value based payment arrangements with carriers. Additionally, this budget directs DOI to establish standards to eliminate administrative facility fees for services provided in clinics.
- In order to discourage avoidable enrollment in MassHealth and slow rising costs in the state's Medicaid program, the budget proposes a "fair share assessment" that institutes a \$2,000 per employee assessment on employers that fail to provide health insurance for their employees. This assessment applies to employers with 11 or more (full-time equivalent) employees.
- Group Insurance Commission (GIC) payments to providers are capped at 160 percent of the Medicare rate. This would also prohibit all providers licensed to provide medical care from denying

care to GIC members. Additionally, language is included ensuring that balanced billing protections are available to all plans offered through the GIC.

- The budget establishes a 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. Non-acute hospitals are expected to receive these funds and the corresponding federal matching revenues in the form of increased Medicaid payments.
- CHIA is required to make available the weighted average payer rate, by provider, for the most common procedures and services using aggregated data reported by the health plans as a healthcare cost transparency provision.
- Authorizes the Department of Public Health to license home health agencies, which include any organization that provides skilled nursing services and other therapeutic services in a patient's home, with supervision of such services provided by a physician or registered nurse. It is of note that licensure of said agencies shall not apply to those operated by the federal government or the Commonwealth.
- A five-year moratorium on new health insurance mandates in the commercial market is imposed.

Public Health & Human Services

- The budget recommends a \$10.7 million increase in funding for the state Home Care Program; commits \$5.7 million in level funding for the Supportive Senior Housing program; and recommends \$29.2 million, a \$1.1 million increase over FY2017, to investigate cases of elder abuse.
- In response to the ongoing opioid addiction crisis in the Commonwealth, the proposal includes funding of \$145 million for sustaining Department of Public Health (DPH) programming for substance misuse, prevention and treatment services.
- Bridgewater State Hospital's clinical contract is increased by \$37 million, resulting in a net budget increase of \$22 million.
- The budget for the Department of Children and Families is increased by \$26.9 million.
- \$4 million is allocated for expected expenses to regulate the new recreational marijuana market.

Education

- Chapter 70 Education Aid is increased by \$91.4 million. This aid provides at least a \$20 per pupil increase to all 322 operating districts across the Commonwealth, supporting an 85 percent effort reduction to bring under-aided districts closer to their spending targets.
- Funding for higher education is increased by \$10.3 million.
- The budget proposes a \$2 million increase in the newly consolidated "Targeted Assistance and Innovation" account; provides \$31.1 million for the continued implementation of the next generation of the Massachusetts Comprehensive Assessment System Exam; and provides a \$7 million rate increase for center-based child care providers to maintain quality and support staff retention.

Local Aid

- Unrestricted General Local Aid to cities and towns is increased by 100 percent of the projected consensus revenue growth rate of 3.9 percent, or \$40 million.

- The proposal allocates \$6.8 million to Community Compact related programs for competitive and discretionary grant programs to continue encouraging cities and towns to engage in best practices, improve management principles and identify new opportunities for regionalization efforts.
- An additional \$2 million, including an additional \$1.2 million in funding in FY2018, is committed for the Massachusetts State Police to expand a multi-agency anti-opioid drug trafficking program through which state and local police and the Massachusetts District Attorneys' Offices jointly identify, target and dismantle drug trafficking organizations. The new funding will expand the program from 9 to 20 communities in the state.

Workforce Development and Job Training

- The budget proposal includes nearly \$200 million in workforce development programs, a \$10.5 million increase from FY2017.
- Up to \$45 million in new capital spending is committed to make important long-term investments in capital equipment upgrades at vocational schools and community colleges.
- Newly proposed is a veteran's tax credit for smaller businesses: companies with 100 or fewer employees that hire an unemployed veteran will be eligible for a \$2,000 annual tax credit, good for the first two years of employment of the new hire.

Transportation

- The budget recommends \$561 million in funding for MassDOT and recommits \$187 million for the MBTA, on top of the over \$1 billion transferred per year to the authority as part of sales tax collections.

Taxes and Revenue

- The budget makes short-term online rentals – like those available through websites such as Airbnb and VRBO – that are rented 150 days or more during the previous calendar year subject to the same room occupancy tax applied to regular hotel and motel rooms. The administration estimates this proposal would generate approximately \$12 million in FY2018.
- Credit card companies will be required to provide a 1099-K form to individuals who earn more than \$600 from credit or debit card transactions in a calendar year. This is a change from the current threshold for a 1099-K form, which is \$20,000 in income from 200 or more transactions a year. \$20 million in revenue is expected from this change.
- Third party credit card processors are required to remit sales, room occupancy and meals taxes to the state on a daily basis, instead of holding it in a trust for up to 50 days as is the current practice. The change would shift the timing of tax collections, resulting in a one-time lump sum of \$125 million in fiscal 2018.
- Of that \$125 million, \$95 million would go to the General Fund, representing the only use of one-time revenues in the governor's budget and a 90 percent reduction from the \$1.2 billion in temporary revenues included in the last budget filed by the previous administration. The remaining \$30 million would be split between the MBTA and Massachusetts School Building Authority.

Economic Development

- The Infrastructure Investment Incentive Program's (I-Cubed) budget is increased by \$3 million, for a

total of \$11.5 million, to support current pipeline projects.

- \$1.5 million for a new grant round for the Urban Agenda Economic Development Grant Program is also provided.

Energy and Environment

- Funding for the Executive Office for Energy and Environmental Affairs (EOEEA) is increased by \$8.2 million, a 4 percent increase over FY2017 spending.
- As part of an effort to join 46 other states in securing federal delegation status to administer the National Pollutant Discharge Elimination System program, the budget includes \$1.4 million to implement the first year of the program.

Next Steps

Baker's proposal is the first step in the budget process. The budget proposal now goes to the House, which will develop its own version and will likely debate the plan by mid-April. The Senate will then draft its version and finalize the bill by the end of May. A conference committee will likely 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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