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CHARLES D. BAKER
GOVERNOR

KARYN E. POLITO
LIEUTENANT GOVERNOR

January 27, 2016

To the Honorable Senate and House of Representatives,

The Baker-Polito Administration is pleased to submit our attached budget recommendations for Fiscal Year 2017. This year's proposal builds upon the successful efforts between the administration and the Legislature in Fiscal Year 2016 to bring state spending in line with revenue growth, reduce our reliance upon one-time budget solutions, avoid tax increases or Stabilization Fund withdrawals, provide over 400,000 low-income working families tax relief through an increase in the Earned Income Tax Credit, and invest in important priorities such as local aid, education, transportation, addressing substance misuse, and the Department of Children and Families.

Our FY17 House 2 budget proposal makes significant progress towards eliminating the long-term structural imbalance we identified last year by reducing the identified gap from \$1.8 billion in FY16 to \$635 million in FY17. We have reduced the use of one-time budget solutions by nearly \$1 billion over the past two years, from \$1.2 billion in FY15 to \$253 million in FY17. And our budget assumes a sizeable deposit, ranging from \$206 million to \$282.5 million, into the state's Stabilization Fund to ensure we are saving money in good economic times to protect us from future economic downturns.

Our proposal also keeps spending growth around 3.5% above the FY16 General Appropriations Act and continues progress in keeping MassHealth spending, which accounts for over one-third of the state budget, to 5% gross growth over the FY16 GAA.

Bringing the Commonwealth's budget back towards structural balance allows us to continue investments in many important areas.

Keeping our promise to invest in our communities, we propose increasing unrestricted local aid by 4.3%, equal to 100% of the consensus revenue growth rate for state tax revenue. We will continue our successful Community Compact program, which has already provided technical assistance to over 100 communities for best practices in financial planning, economic development, regionalization and other areas.

We are increasing Chapter 70 education funding by \$72.1 million, supporting \$18.6 million for a redesigned quality kindergarten grant program to assist communities in achieving tuition-free, full-day kindergarten, adding over \$20 million to a revised charter school reimbursement formula and boosting support for developing a next generation MCAS by \$5.6 million.

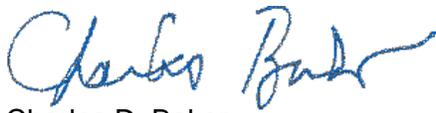
Our House 2 proposal builds upon the investments we have made in reforming the Department of Children and Families, by supporting an increase in staffing that will result in 600 new employees at the agency since we took office.

We continue to address the Commonwealth's substance misuse epidemic by adding 150 adult residential treatment beds and for programs to cover prevention, intervention, treatment and recovery services.

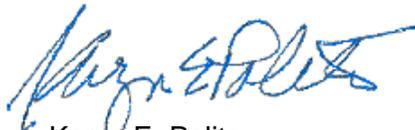
Finally, we are able to continue our commitments to expanded workforce training, early education, public safety, environmental, and transportation programs.

Since the beginning of our administration, we have appreciated the collaborative efforts with the Legislature to address the budget and other critical issues. Our strong working relationship and shared vision to improve the Commonwealth has delivered real results, and we look forward to our continued partnership in the year ahead.

Sincerely,



Charles D. Baker
Governor



Karyn E. Polito
Lieutenant Governor



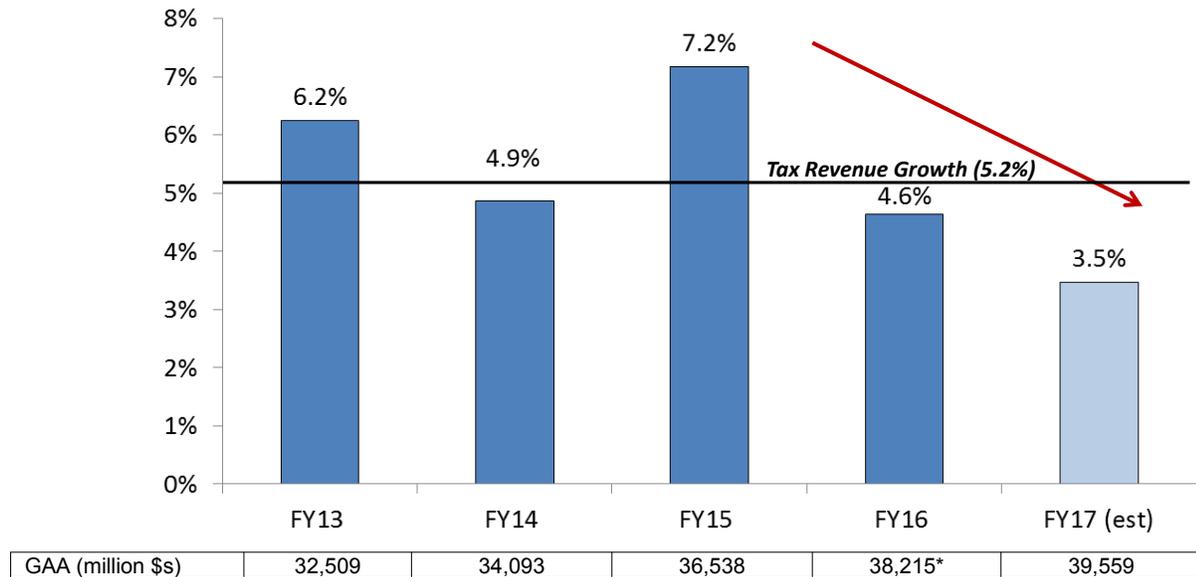


Fiscal Outlook

When the Baker-Polito Administration took office in January 2015, we quickly acknowledged that a multi-year recovery effort would be necessary to rein in state spending to a responsible level. We first identified a \$768 million state budget gap more than half-way through Fiscal Year 2015 (FY15). Working with the Legislature, we balanced the FY15 budget without raising taxes, while protecting core state services and local aid to cities and towns. Those corrective actions, together with higher-than-anticipated capital gains in the final five months of the fiscal year, allowed us to begin to fund opioid abuse prevention programs, make initial investments at the Department of Children and Families (DCF), and avoid a scheduled withdrawal of \$120 million from the Stabilization Fund.

Working collaboratively with the Legislature, we solved an additional \$1.8 billion structural gap in Fiscal Year 2016 (FY16). The final FY16 General Appropriations Act (GAA) held overall spending growth to 4.6% above the FY15 GAA, responsibly in line with revenue growth. We also reduced the state's reliance on one-time revenue sources by half and did not raise taxes or draw down on the Stabilization Fund. In addition, in the FY16 budget, we held MassHealth, which was projected to grow at 19%, to a gross spending increase of 8.5% over FY15 GAA, slowing down years of unsustainable growth in the program.

Growth GAA to GAA



Spending Growth:

FY13-FY15: 6.0%

FY15-FY17: 4.0%

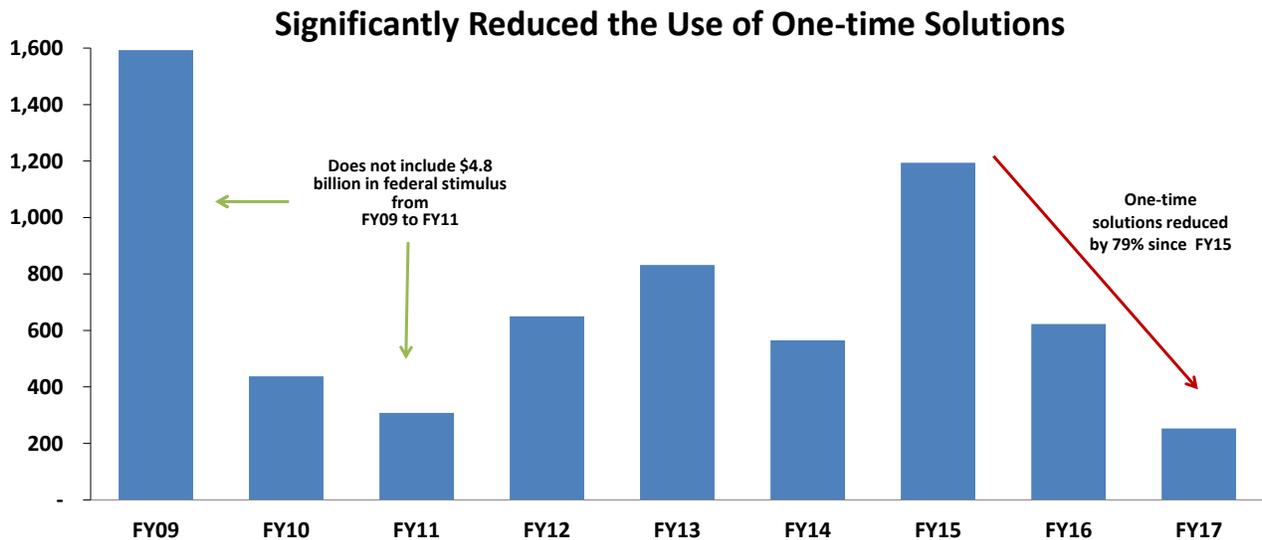
* Post overrides (adds \$98 M).

Sources: General Appropriations Acts; Official Statements; A&F estimates; Tax Revenue is the four-year CAGR from FY13-FY17

While we made major progress in restoring fiscal discipline in the FY16 budget, a modest number of mid-year corrections were required due to lower than expected non-tax revenues and identified deficiencies in certain accounts.

The Baker-Polito Administration remains fully committed to a Fiscal Year 2017 (FY17) state budget that keeps spending in line with projected revenue growth, further decreases the structural budget gap, and provides funding for core state services and priorities. We believe three key factors are essential to the Commonwealth's long-term fiscal health: aligning spending with recurring revenue, curbing MassHealth spending growth, and making deposits into the Stabilization Fund when our economy is strong.

A driving force for the recent budget challenges has been a reliance on "one-timers" to achieve balance. The FY15 budget relied on \$1.2 billion worth of one-time solutions to balance the budget. In FY16, the administration reduced one-time solutions by half, to approximately \$600 million. This FY17 budget proposal will continue our progress by reducing one-time solutions to \$253 million, which represents an overall reduction in one-time solutions of almost 80%, or nearly \$1 billion since taking office in January 2015. The \$253 million this fiscal year marks the lowest reliance upon one-time revenues since at least 2009.



Our commitment to curtailing the budget's reliance on one-time solutions, aligning spending with recurring revenue, controlling the cost of MassHealth, and making more sizable deposits into the Stabilization Fund will ensure greater long-term fiscal stability for the Commonwealth.

Responsibly managing the growth of MassHealth, which accounts for more than one-third of all state spending, will ensure our ability to make investments in additional priorities. We will continue to closely manage that gross spending growth this year at 5% over FY16 GAA, while still maintaining the state's ability to deliver core medical services to those in need.

Budget

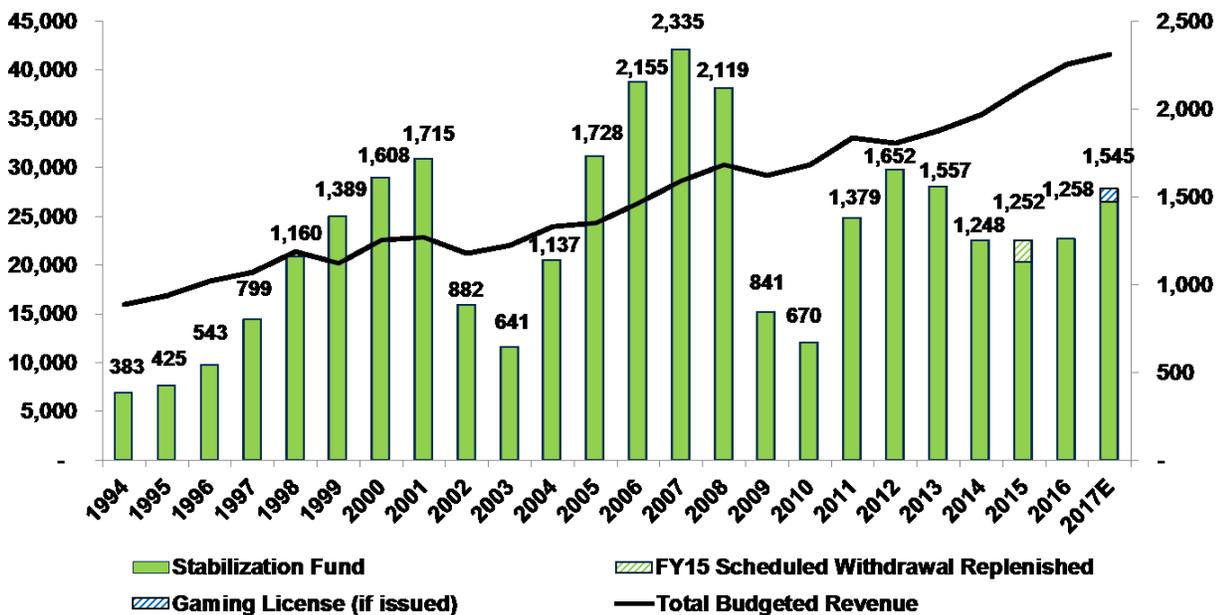
Fiscal overview

We are filing an FY17 budget proposal that appropriates \$39.559 billion, a 3.5% increase over the FY16 GAA. The budget relies on a consensus revenue estimate of \$26.860 billion in state tax revenue, a 4.3% growth over the revised FY16 tax revenue projection.

While state tax revenue growth remains steady, we still entered the FY17 budget development process facing a structural gap of approximately \$635 million. The FY17 gap is due to the rolling structural deficit, mandatory obligations (pensions, MBTA, debt service, School Building Authority), and essential spending (local aid, MassHealth, Chapter 70).

Consensus revenue projects \$1.484 billion in capital gains revenue, which is \$356 million more than the established threshold of \$1.128 billion. House 2 will make an anticipated deposit of at least \$206 million of capital gains revenue into the Stabilization Fund. In addition, should the Mass Gaming Commission issue a license to the Region C (Southeastern, MA) Facility in FY17, our proposal directs 10% of the fee into the existing Community Mitigation Fund and deposits the remainder of the fee, currently estimated at \$76.5 million, into the Stabilization Fund.

**Total Budgeted Revenue vs. Stabilization Fund Balance
FY94 - FY17**



For the second consecutive year, consensus tax revenue responsibly assumes that the Massachusetts economy will continue to grow, triggering an additional reduction in the personal income tax rate from 5.10% to 5.05% on January 1, 2017.

Highlights

The administration is submitting a budget proposal that does not raise taxes, controls state spending to a sustainable growth level, maintains core state services and invests in key priorities like local aid, education, addressing substance misuse, workforce development, and systemic reforms in the Department of Children and Families (DCF).

Some increased investments include:

- Unrestricted local aid funding by 4.3%, or \$42 million, which is 100% of tax revenue growth.
- Chapter 70 funding for local schools by \$72.1 million.
- Workforce training by \$20.6 million.
- Career technical skills programs by \$3.1 million.
- Charter school reimbursement by \$20.5 million.
- Opioid-related annual spending by \$40 million since November 2015.
- DCF by \$30.5 million in new annual spending.
- Early Education child care vouchers by \$12.6 million.
- Fun and Safe Summer Program at DCR, started in summer 2015, by \$300,000.

In addition to these key investments, the administration is filing a bill contemporaneously with this budget proposal to make several important tax changes. These changes will have no budgetary impact on the balance sheet in FY17 and will be implemented in the following fiscal year.

The state's film tax credit program was originally passed in 2005 with several tools that maintained some fiscal control on the use of the program. Two years later, the state expanded the program with several provisions, including the removal of a per-project cap and making the credits refundable, which have resulted in a significant drain on the state's revenues. Our proposal predominantly returns the film tax credit to its original format to control the administration of the incentives, saving approximately \$43 million annually.

Our proposal reinvests savings from the changes to the film tax credit program to help address two important priorities:

- Increasing the supply of affordable and workforce housing.
- Improving our economic competitiveness and job growth opportunities.

The first tax program will increase the current Low Income Housing Incentive Program annual cap by \$5 million from \$20 million to \$25 million effective calendar year 2017 for a period of five years. This program will produce an estimated additional 1,500 affordable and workforce housing units over the next five years.

The administration also offers a phased-in single sales factor tax system to companies with a physical presence and payroll in Massachusetts and who do business in multiple states. This change will encourage companies to expand their presence and create more jobs in Massachusetts.

The tax proposal comes after a successful agreement last year between the Baker-Polito Administration and the Legislature to increase the state Earned Income Tax Credit from 15% to 23% of the federal credit, effective January 1, 2016. This is an important boost for nearly 400,000 low-income working taxpayers and its budgetary impact begins in FY17.

The House 2 proposal supports \$20 million for the Massachusetts Life Sciences Center's "Job Creation Tax Incentive Program," which rewards companies for creating jobs in Massachusetts and plays a major role in attracting new companies looking to relocate or expand. Another \$10 million will be directed to operating the Massachusetts Life Science Center, consistent with previous years' funding mechanism for the agency.

House 2 also provides \$200,000 for an office of faith-based and community initiatives, reporting jointly to the Executive Office for Administration and Finance and the Office of the Governor. The office will engage community, faith-based, and not-for-profit organizations to assist them in identifying resources that can advance their service offerings and promote volunteerism, civic engagement, and grassroots community development.

Key Priorities

Education

The Baker-Polito Administration has made significant investments in education over the past year. Chapter 70 funding in FY16 for school districts across the Commonwealth reached \$4.512 billion, its highest level ever. Governor Baker filed legislation adding up to 12 new Commonwealth charter schools annually, limiting growth to districts performing in the bottom 25% statewide, enabling enrollment preferences for high-need and low-income students, and facilitating collaboration with local school districts.

As part of a continued commitment to bolstering education funding at the local level, we propose increasing Chapter 70 funding for schools by \$72.1 million to a total of \$4.584 billion, providing at least a \$20 per pupil increase to all 322 operating districts across the Commonwealth.

House 2 also supports \$18.6 million for a redesigned "quality kindergarten grants" program to assist communities across Massachusetts in providing tuition-free, full-day kindergarten in their districts. These grants will reach over 270 districts in FY17, including 121 districts that did not receive any grants in FY16.

In addition, more than \$100 million is dedicated to funding charter school reimbursements to local school districts, an increase of \$20.5 million over FY16. In FY17, all districts whose charter school tuition payments are higher than FY16 will receive a 100 percent reimbursement of the increase; districts whose total charter tuition payments exceed 9% of net-school spending will be eligible for a 50% second year reimbursement, as well.

We propose \$5.6 million in new support for developing a next generation Massachusetts Comprehensive Assessment System (MCAS) test, in order to ensure Massachusetts maintains our national leadership position in student achievement.

This budget makes key investments in early education and care, including:

- \$8.3 million to support over 1,500 vouchers for the Department of Transitional Assistance's (DTA) Stabilizing the Working Poor initiative, which will provide child care benefits for relative caregivers and DTA clients at Early Education and Care;
- \$4.3 million to annualize 600 childcare vouchers for children in DCF care; and
- \$1 million to focus on quality improvements at Early Education and Care for better assessments, accreditation assistance, and professional development.

Workforce Development and Job Training

Since taking office, the Baker-Polito Administration has focused on addressing the workforce skills gap, to ensure we are training future employees in the skills they need to meet the demand of our growing industries, and to prepare individuals to enter the workforce. Our FY17 proposal includes more than \$136.2 million in workforce training initiatives across several secretariats, a \$20.6 million (17.8 %) increase over last year.

Executive Order 561 created the State Task Force on Economic Opportunity for Populations Facing Chronically High Rates of Unemployment, and \$3 million in new funding this year will support its recommendations to fund two programs: \$2 million for the Workforce Competitiveness Trust Fund, dedicated to training and education programs for certain unemployed and underemployed workers, and \$1 million for the expansion of the Hampden County re-entry program model to help formerly incarcerated individuals re-enter the workforce.

Our FY17 budget proposal provides an additional \$3.1 million for a total of \$17 million in funding for career technical education and STEM programs by focusing on regional collaboration, alignment with local economic and workforce development needs, and employer partnerships. The funding in the FY17 budget will be coupled with a substantial capital grant program for vocational equipment that further aligns our investments with local economic and workforce development needs and employment partnerships.

The FY16 budget increased funding for the Summer Jobs for At Risk Youth program from \$10 million to \$11.5 million, a 15% increase, and we propose to continue funding the program at the same level in FY17. Massachusetts is the only state in the country to offer a summer jobs program directly funded by the state government.

The Department of Transitional Assistance (DTA) will receive \$12 million to provide employment support services to help an estimated 3,200 new work-required clients through the Pathways to Self-Sufficiency Program, and include 30 new workers to implement the program and its new requirements.

Health and Human Services (HHS)

Since taking office, the Baker-Polito Administration has made critical advancements in the area of health and human services.

- Fixed the Massachusetts Health Connector, which had seen massive failures in customer service and open enrollment in 2014, that resulted in more than 300,000 individuals being placed into temporary MassHealth coverage.
- Implemented system-wide reforms in partnership with frontline social workers at DCF to support social workers and honor their chief responsibility to protect the Commonwealth's children.
- Launched a multi-pronged strategy to combat the opioid epidemic, including filing legislation that prohibits the commitment for addictions to MCI-Framingham, controls the spread of addictive prescription opioids, improves treatment and prevention access, and increases education and awareness about substance use disorder for families and communities.

Building upon our accomplishments to date, the FY17 budget proposal supports a number of additional investments.

Substance Misuse

The FY17 House 2 proposal provides increased support for 2,150 adult residential recovery opioid treatment beds, 150 more beds than previously funded in FY16. In FY17, more than \$140 million will support investments in substance misuse prevention, intervention, treatment, and recovery services at the Department of Public Health (DPH). Another \$13 million in new funding for the Department of Mental Health (DMH) will support 45 substance use treatment beds at the Taunton State Hospital, in order to end the long standing practice of civilly committing women to MCI-Framingham.

Department of Children and Families

The Baker-Polito Administration worked in partnership with frontline child protection social workers and their union to implement long neglected, system-wide reforms, including new intake and supervisory policies. The FY17 budget supports 281 new hires at DCF, fortifying the ongoing commitment to reducing the workload and meeting an 18:1 caseload standard. Combined with last year's investments, the additional staff in this proposal will result in over 600 new hires at DCF since the start of the Baker-Polito Administration. To improve administrative and clinical oversight, \$5 million in new funding will go toward initiatives to decouple area offices, achieve a 4:1 ratio of supervisors to area program managers, and support additional domestic violence and substance abuse specialists.

MassHealth

The Health Connector's earlier failures to enroll individuals in health insurance had significant negative impact on MassHealth's spending and internal controls. One consequence of that failure, in 2015, MassHealth undertook a massive redetermination effort to ensure that enrollment was limited to eligible participants. An unprecedented 1.2 million individuals had to have their eligibility redetermined. This effort helped drop enrollment figures by more than 250,000 people, from 2 million in January 2015 to 1.74 million in May. By managing enrollment growth and making other critical adjustments, the FY17 budget holds MassHealth line item spending growth to a gross projected increase of 5% over FY16 GAA.

Other Highlights

We are proposing \$50 million in new spending for human services providers governed by Chapter 257 across several HHS line items. This additional funding will allow the continued implementation of the recently negotiated rate adjustments and provide fair and reasonable payments to providers affected by the delay in implementation. We also provide \$2 million in assistance to the Department of Veterans' Services for housing programs.

Public Safety

In the Baker-Polito Administration's first budget, we supported the 82nd Massachusetts State Police Recruit Training Troop. This year's budget proposal provides \$9.7 million in new funding to support the salaries for 150 graduates of that training class.

The FY17 budget invests \$714,000 in new funds for the State Police crime lab to support 22 new full-time employees and expanded workstations. The Sex Offender Registry Board (SORB) will also be able to hire nine new positions to address a two-year backlog and comply with the Supreme Judicial Court's recent decision to require new classification hearings for all offenders with pending appeals. An additional \$250,000 will allow the Office of the Chief Medical Examiner to retain and attract medical examiners. The FY17 budget proposal also provides \$1.4 million to aid state and local police in their fight against drug traffickers, particularly in many Gateway Cities.

This budget also supports the expansion of the operations at MassCor through an increase in retained revenue. The MassCor program provides affordable commodities for public-sector agencies, municipalities, and citizens while offering inmates the chance to develop skills that will help their re-entry into the workforce and reduce recidivism. MassCor has operations at several facilities across the Commonwealth and manufactures items such as eyeglasses, furniture, and clothing. MassCor also operates a printing press that printed this House 2 budget proposal.

Transportation

The FY17 House 2 proposal supports the ongoing needs of both the Massachusetts Department of Transportation (MassDOT) and the MBTA. The proposed funding levels, coupled with substantial capital investments, will support the important work of both MassDOT and the MBTA as we continue to invest in transportation to support economic development, prosperous cities and towns and the quality of life for the Commonwealth's residents, workers, and visitors.

MBTA

As requested by the MBTA Fiscal and Management Control Board (FMCB), the FY17 House 2 proposal includes \$187 million in additional contract assistance to the MBTA, an amount which was increased by over \$64 million (53%) in the first Baker-Polito budget in FY16. This amount is on top of the statutorily-required Base Revenue Amount that is automatically provided to the MBTA from sales tax and other general revenue, which increases to \$1.001 billion in FY17.

The FMCB is hard at work implementing a combination of internal cost controls, increases in own-source revenue, strategic privatization, carefully considered changes to high-cost low-ridership services and predictable and moderate fare increases to close the MBTA's structural operating deficit. The proposed additional contract assistance of \$187 million – which brings total state assistance to the MBTA to nearly \$1.2 billion annually – should be viewed as a resource that will allow the MBTA to increase spending on maintenance, State of Good Repair, and other capital needs. The FY17 House 2 proposal limits the use of these funds to a variety of capital-related needs, including repayment of so-called "legacy debt", the movement of costs from the capital to operating budget, pay-as-you-go capital programs, and debt service for new MBTA borrowing for the purposes of improving the system's State of Good Repair.

Registry of Motor Vehicles

Over the past year, our administration has made investments at the Registry of Motor Vehicles (RMV) which have led to significant progress in customer service and reduced wait times. Customers no longer experience a half hour or more of “hidden wait time” just getting in the door and waiting for their ticket. In the final quarter of calendar year 2015, nearly three-quarters of all customers served at RMV branches were served within 30 minutes. The busiest RMV branches, which serve approximately half of all customers, have been equipped with dual-line queuing; the rest of branches which can accommodate similar changes should be upgraded by the end of the first quarter of calendar year 2016. The FY17 House 2 proposal builds upon this progress by providing an additional \$500,000 in operating costs dedicated to IT-support, dual-line queuing, and other enhancements.

Environmental Affairs

House 2 enables the Department of Agricultural Resources (DAR) to provide over 20 million meals through the Massachusetts Emergency Food Assistance Program which supplies nutrient-rich food products for citizens of the Commonwealth in need.

Building upon the Department of Conservation and Recreation’s (DCR) successful Fun and Safe Summer Program, started by the Baker-Polito Administration, our budget includes \$300,000 in new funds to support positive recreational activities for urban youth by extending hours at certain pools and athletic complexes across the Commonwealth. The FY17 proposal also invests an additional \$3.2 million at DCR for maintenance and improvements to the parks and recreation system.

The FY17 budget proposal funds a new Secretariat-level climate change and preparedness position and invests \$300,000 to ensure Massachusetts continues to lead the nation in addressing climate change through the ongoing development and implementation of climate change and energy resiliency projects including multiple initiatives to safeguard critical coastal infrastructure. We also propose investing \$375,000 to support commercial fishing in the Commonwealth through an expanded biotoxin monitoring program, as well as additional resources for surveying and analyzing fishery performance.

Commitment to Cities and Towns

The Baker-Polito Administration's FY17 budget demonstrates our continued commitment to partner with and empower cities and towns across the Commonwealth to build great schools and safe, thriving communities. As former members of the Board of Selectmen in their hometowns, Governor Baker and Lieutenant Governor Polito are committed to providing the predictable, reliable local aid cities and towns need to budget and manage effectively.

In FY16, we were able to fulfill our campaign commitment to increase local aid by 75% of revenue growth in year one. We also created and launched the Community Compact Cabinet, led by Lieutenant Governor Polito, which exceeded expectations by signing up and providing technical assistance grants to more than 100 communities for financial planning, economic development, regionalization, and other best practices. The administration also filed Municipal Modernization legislation, with over 240 sections that address many technical challenges and mandates hindering municipalities' ability to manage.

Local Aid

Fulfilling the second phase of our commitment on local aid, our FY17 budget provides an increase in unrestricted general government aid (UGGA) by 100% of the growth projected in the consensus revenue agreement. Based on these projections, unrestricted local aid funding to cities and towns is proposed to increase by over \$42 million (4.3%) to \$1.021 billion. Including UGGA, our FY17 budget proposal supports \$5.920 billion in local aid programs, representing a \$135 million (2.3%) increase in the Commonwealth's support of cities and towns.

Local aid is categorized as the programs that impact a municipality's "Cherry Sheet," the vehicle used by the Commissioner of Revenue to notify municipalities and regional school districts of estimated state aid to be paid and charges to be assessed over the next fiscal year. Below is a summary of funding for local aid cherry sheet accounts:

		FY16 Estimated Spending	FY17 H.2
Section 3 Aid	Chapter 70 Education Aid	4,511,882,199	4,584,008,961
	Unrestricted General Government Aid (UGGA)	979,797,001	1,021,928,272
Cherry Sheet Aid	Regional School Transportation	59,021,000	59,021,000
	Charter School Reimbursement	80,500,000	100,975,474
	School Lunch Program	5,426,986	5,426,986
	Local Share of Racing Taxes	1,150,000	1,150,000
	Regional Libraries Local Aid	9,938,482	9,883,482
	Public Libraries Local Aid	9,029,000	9,000,000
	Veterans' Benefits	77,151,193	77,405,362
	Tax Abatements for Vets/Widows/Blind/Elderly	24,038,075	24,038,075
	State Owned Land (PILOT)	26,770,000	26,770,000
		5,784,703,936	5,919,607,612

Community Compact

The Community Compact Cabinet has had an exceptionally positive reception from local officials. More than 100 communities have signed a community compact, and nearly half of all communities in Massachusetts have filed applications to participate in the program. This budget proposal provides \$2.6 million in funding to continue this successful program. In addition, new funding is provided at the Executive Office for Public Safety to create domestic violence prevention training and a best practice toolkit for communities.

Urban Agenda

Consistent with the Governor's economic development priorities, \$3 million in grants will fund grassroots economic development in urban communities and unlock community-driven responses to local economic opportunities through partnership building, problem solving, and shared accountability. The grants will fund community-driven partnerships in entrepreneurship, workforce development, and housing production.

