

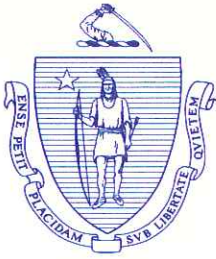
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CHARLES D. BAKER
GOVERNOR

KARYN E. POLITO
LIEUTENANT GOVERNOR

January 25, 2017

To the Honorable Senate and House of Representatives,

The Baker-Polito administration proudly submits our third budget recommendation since taking office. The Fiscal Year 2018 (FY18) House 1 budget proposal keeps the Commonwealth on a path of fiscal responsibility, essentially achieves our stated goal of bringing the state budget into structural balance, addresses long-term obligations, and funds important priorities.

House 1 responsibly budgets for a \$98 million deposit to the Stabilization Fund, accounts for a scheduled income tax rate reduction, provides a tax credit for businesses with 100 or fewer employees who hire veterans, and invests in important priorities such as addressing substance misuse, the Department of Children and Families (DCF), local aid, education, workforce skills and job training, and homelessness.

For FY18, we are pleased to make continued progress on our long-term goal of structural balance, reducing the use of one-time, non-recurring budget solutions from \$1.2 billion in Fiscal Year 2015 to under \$100 million in FY18, or more than 90%. Coupled with our new, more practical approach to building our Stabilization Fund, we have significantly improved the Commonwealth's fiscal outlook.

Spending increases by 4.3%, or 2.7% net of MassHealth revenue, over the Fiscal Year 2017 projected spending. We propose a comprehensive approach targeting affordability, flexibility, program integrity, and employer contributions to manage the spending and enrollment growth of MassHealth, which is now nearly 40% of the state's annual budget.

House 1 continues to support several important administration priorities. Spending at DCF has increased by \$114 million to support the hiring of almost 600 new employees. House 1 continues this support with a \$26.9 million increase in FY18. Since taking office, we have also increased spending to address substance misuse by 50%, from \$120 million to \$180 million annually.

Once again keeping our promise to our communities, we propose an increase of 3.9% in unrestricted local aid, equal to 100% of the consensus revenue growth rate for state tax revenue. We propose nearly \$7 million for the Community Compact program created in 2015,

which has partnered with approximately 250 municipalities to develop best practices such as financial and regionalization planning.

Chapter 70 education funding increases by \$91.4 million, including a minimum aid increase of \$20 per pupil in each district and effort reduction at under-aided schools. This funding also begins to address the rising cost of health care and retiree benefits in school districts.

We propose spending nearly \$200 million on workforce skills and job training in FY18, including a new "Learn to Earn" program that will train and place unemployed and underemployed individuals in occupations in high demand fields.

We continue to address homelessness prevention services by supporting \$500 million in funding individuals and families who seek suitable accommodations and permanent housing. Since the start of our administration, we have reduced overall emergency assistance caseload by 22%, and families housed in hotels and motels by over 90%.

Our administration has worked closely with the Legislature to achieve many accomplishments over the past two years, and we look forward to a continued collaboration as we address the critical needs of the Commonwealth.

Sincerely,

A handwritten signature in blue ink, appearing to read "Charles Baker", with a stylized, cursive script.

Charles D. Baker
Governor

A handwritten signature in blue ink, appearing to read "Karyn E. Polito", with a stylized, cursive script.

Karyn E. Polito
Lieutenant Governor

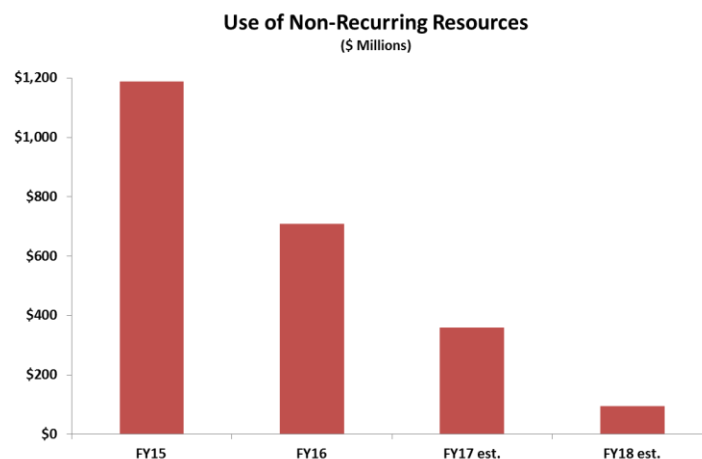
Fiscal Outlook

When the Baker-Polito administration took office, it faced an immediate structural deficit, including a mid-year Fiscal Year 2015 (FY15) budget gap of \$768 million and a Fiscal Year 2016 (FY16) projected budget gap of \$1.8 billion, which the administration quickly began to address. The structural deficit was the result of several years of spending far above tax growth, fueled by a reliance upon non-recurring revenue including annual withdrawals from the Stabilization Fund despite a period of positive tax growth.

Over the past two years, the administration has worked collaboratively with the Legislature to bring the state budget into structural balance despite slower revenue growth. Since taking office, the administration has:

- Nearly eliminated the inherited structural deficit by reducing the budgeted use of non-recurring revenue by over 90%, from \$1.2 billion in FY15 to under \$100 million in the proposed Fiscal Year 2018 (FY18) budget;
- Kept spending in line with expected revenue, including a significant reduction in the net spending growth of MassHealth;
- Committed to important fiscally responsible principles, including holding the line on new taxes, protecting the Stabilization Fund, and paying down long-term obligations such as keeping to the existing schedule to pay the Commonwealth's unfunded pension liability by 2036;
- Provided tax relief for working families by increasing the Earned Income Tax Credit;
- Implemented a scheduled income tax rate reduction from 5.15% to 5.10%; and
- Identified and invested in key priorities, including local aid, education, workforce training, substance misuse, the Department of Children and Families (DCF), housing, and transportation.

The FY18 budget proposal remains focused on continued fiscal responsibility. Spending growth is again in line with revenue projections, long-term obligations are funded, the scheduled income tax rate reduction is expected to trigger, tax collections are updated and modernized, and a new, more practical approach is proposed to reinforce our commitment to building the Stabilization Fund.



Budget Highlights

Fiscal overview

The Baker-Polito administration's House 1 budget proposes to spend \$40.508 billion in FY18, excluding the Medical Assistance Trust Fund transfer; an increase of 4.3% gross, or 2.7% net of MassHealth revenue, over Fiscal Year 2017 (FY17) estimated spending. The budget relies on a consensus state tax revenue estimate of \$27.072 billion, a 3.9% growth over the revised FY17 tax revenue projection.

The administration is committed to building the Stabilization Fund while revenue is growing. Since FY15, the Commonwealth has ended each year with a balanced budget without drawing down on its reserves, and the state's so-called rainy day fund has grown by nearly 20%, from \$1.1 billion to \$1.3 billion. The increase includes the reversal of a budgeted draw down of \$140 million in the budget signed prior to the administration taking office, plus additional deposits and interest over the past two years.

This House 1 budget proposal includes a new, practical approach to better ensure deposits to build the Commonwealth's Stabilization Fund are made and remain in reserves. If enacted, the new law would provide for two phases of rainy day fund deposits: (1) a budgeted transfer of 50% of the consensus revenue estimate's projected excess capital gains, and (2) a requirement that 50% of above-budget tax revenue at the end of a fiscal year be directed to the Stabilization Fund, prior to year-end closeout and the finalization of consolidated net surplus. This approach would replace a well-intentioned, but impractical mechanism passed in 2010 that has not resulted in a net increase deposit to the Stabilization Fund since its enactment. House 1 includes a \$98 million increase in the Stabilization Fund for FY18, including a \$52 million transfer of projected excess capital gains, under the guidance of this new proposal.

For the third straight budget cycle, the administration does not propose raising any tax rates.

The consensus tax revenue estimate for FY18 fully annualizes previous tax cuts, including the income tax rate reduction from 5.15% to 5.10% and the passage of an increased Earned Income Tax Credit from 15% to 23% of the federal credit in FY16. It also assumes that the Massachusetts economy will continue to grow, triggering another reduction in the personal income tax rate from 5.10% to 5.05% on January 1, 2018, which will return \$83 million to Massachusetts taxpayers.

The budget proposal also includes modernization proposals to ensure compliance with current tax laws and update collection processes.

House 1 proposes to apply the room occupancy tax to transient accommodation operators that serve as de facto businesses in order to level the playing field with hotels, motels, and certain bed and breakfasts. Transient accommodation owners who rent 150 or more days a year will be required to collect and remit room occupancy taxes. In addition, the proposal authorizes the Commissioner of the Department of Revenue (DOR) to enter into voluntary agreements with intermediaries serving the transient accommodation market, for the collection of room occupancy tax on behalf of all property owners the intermediary may represent.

Another proposal leverages advancements in automated financial processing to enable the Commonwealth to collect certain sales tax proceeds at the time of sale or shortly thereafter, versus the current practice which allows businesses to hold proceeds for up to 50 days. The law requires third-party processors to collect and remit to the Commonwealth, in real-time, sales tax paid by credit or debit cards at businesses with 50 or more employees, effective June 2018. This will improve compliance, increase the likelihood that sales tax paid by a consumer is received by the Commonwealth, improve the reliability of information used by DOR for economic forecasting, and position the Commonwealth for a future of increasingly electronic transactions.

Addressing long-term obligations, House 1 funds the administration's new three-year schedule to address the Commonwealth's pension liability. The FY18 annual contribution increases by nearly \$200 million, a 9% increase over FY17, which keeps the Commonwealth on track to fully-fund its pension obligation by the year 2036.

Strengthening Our Communities

Governor Baker and Lieutenant Governor Polito have drawn upon their prior experience as local town officials to lead on a number of important initiatives for our cities and towns.

As promised upon taking office, the Baker-Polito administration increased unrestricted general government aid (UGGA) by 75% of the projected revenue growth rate to \$980 million in FY16, and by 100% of the projected revenue growth rate to \$1.022 billion in FY17.

In addition, the administration has invested over \$1 billion in capital spending on community programs, including \$634.4 million in Chapter 90 funding over the past three years for local road and bridge projects, and \$165.6 million for MassWorks economic development infrastructure projects.

In 2015, the administration created the Community Compact Cabinet, chaired by Lieutenant Governor Polito, which affirms state government as a reliable partner to its cities and towns as they pursue innovative local initiatives on various topics, including: economic competitiveness, reformed financial policies, regionalization, and energy efficiency projects. With over \$15.5 million in operating and capital funds spent over the past two years, over 250 municipalities have signed compacts engaging in over 600 chosen best practice projects across the Commonwealth.

The administration worked with the Legislature and numerous local officials to enact a "Municipal Modernization" law in 2016 which removed obsolete laws, provided much-needed updates to statutes, and granted more management flexibility to cities and towns.

The FY18 House 1 proposal builds on previous commitments to strengthen our communities by once again increasing unrestricted local aid by 100% of the projected consensus revenue growth rate (3.9%), or \$40 million, to \$1.062 billion.

Community Compact related programs will receive \$6.8 million 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.

House 1 commits \$2 million, including an additional \$1.2 million in funding in FY18, 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 Commonwealth.

The FY18 budget plan also recommits \$6 million for the Shannon Grant program, which provides grants for gang prevention initiatives, including education, training, and employment programs.

Homelessness and Housing

The Baker-Polito administration has made it a top priority to address homelessness and housing insecurity in Massachusetts and find suitable accommodations and ultimately permanent housing for individuals and families. Working across several state agencies, the administration has made significant progress, and House 1 builds on this by investing over \$500 million in funding for housing and homelessness prevention services.

The administration has also utilized its capital resources to create and preserve affordable housing options for Massachusetts residents, and increased investments in housing capital projects by 19%, to \$1.1 billion, over five years.

The administration remains committed to ending the practice of using hotels and motels for homeless families. In January 2015, there were over 1,500 families in the Emergency Assistance (EA) family shelter system who were placed in hotel/motel rooms. By the end of 2016, there were only 126 families in EA overflow motel shelter, a reduction of 92% since the start of this administration.

Massachusetts has achieved a meaningful 22% reduction in the overall EA shelter caseload since January 2015. The program now has under 3,600 families participating, its lowest level since August 2013. By focusing investments into programs that address long-term homelessness, the administration has successfully reduced caseloads for temporary programs like EA and HomeBASE, the Commonwealth's re-housing program, and has reinvested this funding into other programs focused on long-term housing stability, like the Massachusetts Rental Voucher Program (MRVP).

House 1 provides an additional \$11 million in funding for MRVP in FY18, \$3 million of which increases supportive housing units by nearly 50% to a total of 620 units. It also includes language to allow families to keep their MRVP voucher eligibility as they work to grow their income, increasing qualifying standards from 50% of Area Median Income (AMI) to 80% AMI, ensuring individuals do not lose housing supports before they are able to become self-sufficient. We also include language to implement a voucher management system to help the Department of Housing and Community Development (DHCD) more efficiently track the program.

House 1 also commits \$13 million in FY18 to level fund Residential Assistance for Families in Transition (RAFT), a homelessness prevention program that provides short-term financial assistance to low-income families who are homeless or at risk of becoming homeless due to a catastrophic, one-time event. RAFT has provided over 2,760 families with assistance since the beginning of FY17.

Additionally, House 1 proposes \$4.6 million, an increase of \$200,000 over FY17 spending, for the Alternative Housing Voucher Program, which provides 520 rental vouchers to disabled individuals who are not elderly.

At the Executive Office for Health and Human Services (EOHHS), House 1 continues the Baker-Polito administration's \$3 million investment in eight homelessness consortiums in Boston, Fall River, Framingham, Greenfield, Lowell, Lynn, Springfield, and Worcester, that have been working to prevent family and youth homelessness using flexible supports. These include prevention and diversion strategies, like temporary rent support and child care vouchers, in addition to long-term supports like transitional assistance, legal support, and financial counseling.

House 1 proposes a \$904,000 increase to annualize funding for 33 beds in the Department of Mental Health's (DMH) Safe Haven program for the chronically homeless with mental illness, bringing the total number to 66 beds. House 1 also commits \$5.5 million to level fund the DMH Rental Subsidy Program, a collaboration through which DHCD funds state rental assistance and DMH funds mental health services. The funding will support full utilization of 1,400 supportive housing vouchers for DMH clients.

The administration continues funding of \$9.3 million for homelessness services for veterans, which includes \$6.9 million in funding for 11 transitional homes, 4 emergency shelters, and outreach services at 16 centers for veterans across the Commonwealth, and \$2.4 million that will support the New England Shelter for Homeless Veterans in Boston, which houses 250 veterans daily and helps over 400 veterans find permanent homes each year.

This FY18 budget plan funds the Chronic Individual Homelessness Pay for Success Initiative, a social innovation financing program, at \$1.45 million, an increase of \$883,000 from FY17. This program's

“housing first” model is projected to reduce the amount of emergency state funds needed by \$6,000 per individual per year.

House 1 also includes \$1 million to expand the Housing Court into additional counties, which will achieve the goal of having one in each county. These courts provide individuals opportunities to settle housing grievances more efficiently, with the goal of keeping people in their homes and out of shelter services.

Health and Human Services

Substance Misuse

The Baker-Polito administration continues to lead a multi-pronged approach in the fight against the opioid misuse epidemic and other substance misuse. Under Governor Baker’s leadership, the Commonwealth has increased annual spending for substance misuse prevention and treatment by 50%, from approximately \$120 million in FY15 to \$180 million in FY17, not including MassHealth.

Building on the past several years of budget increases, the FY18 budget proposal includes continued funding for the following programs:

- \$145 million for sustaining Department of Public Health (DPH) programming for substance misuse prevention and treatment services including:
 - \$63 million for residential services for individuals and families;
 - \$21 million for detox and transitional support beds;
 - \$4 million in youth detox, transitional, and residential services; and
 - \$4 million in Section 35 step-down beds.
- \$13 million for DMH to continue its funding commitment of 45 beds for women’s addiction treatment services at Taunton State Hospital;
- \$1 million to the Attorney General’s Office to investigate fraudulent prescribing practices, expand heroin and fentanyl trafficking enforcement, fund a statewide campaign to raise awareness of the Good Samaritan law, and for other programs;
- \$500,000 to fund student drug diversion and education programs conducted or supported by the 11 District Attorneys’ offices across the Commonwealth.

For FY18, the Baker-Polito administration proposes an increase of \$1.75 million, for a total of \$10 million, to refocus Section 35 treatment for males in the Commonwealth by repurposing the MCI-Plymouth facility into the Massachusetts Alcohol and Substance Abuse Center (MASAC) at Plymouth. This funding would increase available beds by 45, for a total of 255 beds. Men who have been civilly committed to the soon to be decommissioned MASAC center at Bridgewater will be transferred to the new facility in Plymouth.

Mental Health

In the fall of 2016, Governor Baker announced reforms at Bridgewater State Hospital (BSH) that would repurpose the facility to better address the clinical health needs of patients. Under the new model of operations, the clinical contract of caring for patients will increase by \$37 million. This will result in a net budget increase of \$22 million after accounting for moving the corrections officers outside of the facility and to other correctional facilities.

House 1 proposes a \$2 million increase over FY17, to a total of \$3.6 million, for Crisis Intervention Team (CIT) training, which will expand grant opportunities from the current 28 to 68 communities. CIT trains municipal police and first responders on how to recognize and respond to someone having a behavioral health crisis, and ensure that those who would be better served by mental health intervention than incarceration get the appropriate treatment.

The administration also commits \$1 million in House 1 to create four new fellowship programs to train clinicians in veterans' mental and behavioral health issues, including suicide prevention and substance misuse and treatment.

MassHealth

MassHealth provides vital health care coverage and access to care for our most vulnerable residents, and represents nearly 40% of spending in the state budget.

The Baker-Polito administration has made it a priority to control spending growth at MassHealth. Since taking office, the administration has implemented many program integrity measures, including the redetermination of 1.2 million enrollees in 2015 that resulted in approximately 270,000 individuals who were deemed ineligible and removed from coverage.

Following implementation of the Affordable Care Act (ACA), MassHealth has experienced significant growth in enrollment, in part due to the costly shift of employees from employer-sponsored plans to publicly-funded coverage. Between 2011 and 2015, MassHealth spending on employed individuals increased from \$648 million to \$1.659 billion.

Left unchecked, MassHealth was projected to grow by \$1.228 billion gross, or \$581 million net, in FY18. With the reforms filed in this budget, spending growth is instead \$997 million gross, \$140 million net. To protect taxpayers and ensure the sustainability of the MassHealth program, the Baker-Polito administration has developed the following multi-faceted approach to managing spending growth both at MassHealth and in the commercial health insurance market:

- **Affordability** - capping certain provider growth rates, eliminating certain facility fees that insurers and consumers pay to hospital systems, instituting a five-year moratorium on new mandates, and implementing additional transparency measures;
- **Program integrity** - ongoing redeterminations, fraud detections, and more efficient management of services;
- **Flexibility** - seeking federal flexibility to ease administrative burdens on employers, and waivers from certain provisions of the ACA; and,
- **Employer contribution** - reinstitute a cost-sharing requirement from the original Massachusetts health care law (Chapter 58) for employers with 11 or more full-time employees.

Children and Families

Since taking office, the Baker-Polito administration has increased funding for DCF by \$114 million. A major portion of the investment supported the hiring of almost 600 new employees to address the critical infrastructure needed to run the agency, including 279 social workers, 125 social worker technicians, 42 supervisors, 30 area program managers, and other support staff. The additional staff reduces the burden on caseworkers, allowing them to give more time and attention to each individual case, and supports continued progress toward achieving an 18:1 caseload ratio and a 4:1 supervisor to area program manager ratio.

The FY18 budget continues the administration's investments in DCF over the past two years and provides an increase of \$26.9 million, including:

- \$9.8 million to fully annualize positions hired in FY17;
- \$6.4 million for projected caseload increases including the annualization of the FY17 investment in 193 additional beds (120 in Departmental Foster Care, 55 in Stabilization Assessment and Rapid Reintegration, and 18 in Intensive Foster Care);
- \$3 million to re-procure contracts with agencies that manage certain out-of-home placements for children and in-home family support and stabilization services;
- \$750,000 to re-procure the child abuse hotline;

- \$500,000 for new online clinical training modules and procuring a dedicated space for training social workers; and
- \$500,000 for transportation services through Family Support and Stabilization providers to relieve more social workers from providing transportation to individual clients.

Youth Services

House 1 annualizes three programs totaling 45 beds at the Department of Youth Services' (DYS) new Northeast Region Youth Service Center in Middleton. This is a continued investment in a program that helps reduce recidivism among youths in DHS care and custody and sets them on a successful path forward.

The administration also proposes \$800,000 to sustain two DHS Parenting with Love and Limits pilot programs. These unique pilot programs utilize family and group therapy to ameliorate and support relationships between youths who exhibit emotional and/or behavioral issues and their families.

Caring for Older Adults

With a steadily growing senior population in Massachusetts, the administration has prioritized investments into services that help older adults receive proper support.

During the Baker-Polito administration's first two years, budget support for Medicare premiums for seniors on MassHealth has increased by over \$180 million. MassHealth will provide services to over 177,000 seniors in the Commonwealth through healthcare, nursing home care, and supportive services that allow members to remain in their homes.

In FY18, the administration recommends a \$10.7 million increase in funding for the state Home Care Program to provide seniors in need with wide-ranging services including transportation aid, personal care assistance, and home delivered meals. This increase will support coverage for over 1,200 new low-income seniors, ensuring that they are not placed on a waitlist to receive services.

House 1 commits \$5.7 million in level funding for the Supportive Senior Housing program, which allows 6,000 elderly residents of state-aided housing to remain in their homes and receive assisted living level of care. We also provide \$7.2 million in level funding for the Elder Nutrition Program which supports the delivery of over 1.1 million meals for seniors both in their homes and in the community.

The administration recommends \$29.2 million, a \$1.1 million increase over FY17, to investigate cases of elder abuse, including physical, emotional, and sexual abuse, as well as neglect or exploitation, in addition to \$14 million in funding for local Councils on Aging (COA). COAs provide local social and support services and also serve as advocates for over 1.5 million seniors in Massachusetts.

Other HHS Highlights

- \$50.8 million to fully fund the Chapter 257 rate increases for social service providers, and to annualize past rate increases. Total spending on Chapter 257 since FY15 totals more than \$144.7 million.
- \$16.7 million increase for the FY18 Turning 22 program, and \$31 million increase for a full year's services for individuals who turned 22 in FY17, allowing the Department of Developmental Services (DDS) to help more clients navigate the transition into the adult service system and furthering the administration's commitment to the Commonwealth's most vulnerable. The budget also supports \$18 million increase to cover costs associated with individuals whose needs are changing or whose aging parents can no longer act as primary caretakers.

- \$900,000 increase at DPH for Mobile Integrated Health, a new program that will oversee community paramedic services that deliver healthcare in an out-of-hospital environment. This will reduce the need for unnecessary and costly Emergency Room visits for patients in the communities served by the units.
- \$170,000 increase over FY17 for the Department of Transitional Assistance (DTA) to annualize funding for 8 domestic violence specialists and to achieve the placement of one specialist per DTA field office.

To fix inequities between clients in how Transitional Aid to Families with Dependent Children (TAFDC) benefits are calculated, the budget proposes counting adult Supplemental Security Income (SSI) in the eligibility calculation. This change aligns with the federal Supplemental Nutrition Assistance Program and treats SSI income the same as other types of income – like veterans' benefits – that are counted in determining eligibility. This change will result in \$16.2 million in net savings, \$4 million of which will be reinvested in a new Learn to Earn initiative (see *Workforce Skills and Job Training* section) to train and place unemployed and underemployed individuals in jobs in high-demand fields.

Education

In the first two years of the Baker-Polito administration, Chapter 70 aid to school districts has increased by \$227 million to \$4.628 billion, an all-time high, and Special Education Circuit Breaker funding has increased by nearly \$20 million.

In FY18, the administration builds on its investments in education and proposes a \$91.4 million increase in Chapter 70 aid, providing at least a \$20 per pupil increase to all 322 operating districts across the Commonwealth, supporting an 85% effort reduction to bring under-aided districts closer to their spending targets, and beginning to address the rising cost of healthcare and retiree benefits in foundation budgets.

As a key part of a newly consolidated “Targeted Assistance and Innovation” account, House 1 proposes a \$2 million increase to invest in our teachers and leaders, providing matching grants for cohort-based training and coaching in level 3, 4, and 5 districts, and for teacher residency programs that train effective new teachers working in urban schools. The \$28 million consolidated account at the Department of Elementary and Secondary Education (DESE) will help coordinate and align complementary school turnaround investments, including continued funding for: Targeted Intervention, Extended Learning Time Grants, After-School and Out-of-School Grants, Literacy Programs, and English Language Acquisition.

The administration also provides \$31.1 million for the continued implementation of the next generation of the Massachusetts Comprehensive Assessment System (MCAS) exam, which will first be administered to grades 3-8 in spring 2017.

In Early Education and Care, House 1 proposes a \$7 million rate increase for center-based child care providers to maintain quality and support staff retention.

The proposal also increases higher education campus budgets by \$10.3 million. Following the successful implementation of tuition retention at the University of Massachusetts, House 1 proposes an outside section to study the extension of tuition retention to more state universities and community colleges, which could rationalize and make more transparent the cost of attendance for students.

Workforce Skills and Job Training

House 1 proposes nearly \$200 million in funding for workforce development programs, a \$10.5 million increase from FY17.

Through an executive order in February 2015, the Baker-Polito administration created the cross-secretariat Massachusetts Workforce Skills Cabinet (WSC), aimed at connecting those looking for work with the requisite skills needed for jobs in today's economy.

Building on the success of the WSC, House 1 recommends \$4 million for a new Learn to Earn initiative, which will be led by a broader, cross-secretariat working group. This program will provide credentials and employment for unemployed and underemployed individuals in occupations in high demand fields through partnerships between public agencies, businesses, community-based organizations, and career centers. As part of the \$4 million request, the administration proposes \$1 million to be allocated to address barriers commonly encountered by this population while trying to gain and sustain employment, including transportation and child care expenses.

House 1 increases funding for a coordinated strategy to expand and improve high quality career pathways, based on aligning and maximizing existing workforce training and career education capacity, and building stronger connections with employers, including:

- \$1.3 million in new funding for an Adult Basic Education Pay for Success program contract, which increases access to vocational English for Speakers of Other Languages classes and skills training services over four years to 2,000 low-income, non-native English speakers with the goal of improving earnings and successful transitions to post-secondary education;
- \$1 million increase over FY17 for dual enrollment and STEM early college grants as part of a consolidated "STEM Starter Academy and College and Career Pathways" account. The \$8.1 million consolidated account at the Department of Higher Education will help coordinate and align complementary college and career pathway investments, including continued funding for: STEM Starter Academy, Dual Enrollment, Nursing and Allied Health Trust, Bridges to College, and Community College Workforce Grants; and
- \$500,000 increase to Connecting Activities at DESE that will double the number of STEM-related work-based learning experiences for high school students participating in this program.

In FY18, the administration proposes a new 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.

The administration has also committed up to \$45 million in new capital spending to make important long-term investments in capital equipment upgrades at vocational schools and community colleges, strengthening and expanding their capacity to prepare students for high-demand jobs.

Transportation / MBTA

Improving the Commonwealth's transportation system has been a priority of the Baker-Polito Administration, which had to quickly address the long-term neglect of the Massachusetts Bay Transportation Authority (MBTA) system during the historic weather in the winter of 2015, and transformed Registry of Motor Vehicles (RMV) branches to improve services and significantly reduce wait times. In 2016, the RMV served 75% of their customers in under 30 minutes.

The Governor and Legislature created the MBTA Fiscal and Management Control Board (FMCB) in 2015 to improve the operation of the transportation system, and the FMCB has met more than 70 times since its first formal meeting in July of that year. Through efficiency reforms that were enacted by recommendation of the FMCB, the MBTA:

- Held operating expense at its lowest rate in over 15 years in FY16;
- Decommissioned over 500 unused phones and devices saving over \$650,000 annually;
- Reduced dropped trips by 23%; and
- Reduced overtime expenses by 32%.

The MBTA has narrowed its structural deficit which, without action, was on track to reach \$242 million in FY17 and \$427 million by Fiscal Year 2020. Through implementation of FMCB reforms and the expectations the board has set for MBTA managers, the FY17 projected deficit has been reduced by half, from \$242 million to approximately \$125 million.

The administration also achieved significant long-term savings of \$81 million for the MBTA through a new four-year contract with the Carmen's Union negotiated in December 2016, which includes overtime reforms and revisions to the pay structure for new employees. The contract will produce an estimated \$10 million in savings in FY18 alone.

By partnering with Uber and Lyft in a pilot program that allows users of the RIDE to take subsidized trips through the ride sharing services, the MBTA has simultaneously reduced costs (because rides are 70% less expensive) and improved service (with participants increasing usage by 24%).

The FY18 budget builds on Governor Baker's work to strengthen MassDOT and the MBTA. House 1 recommends \$561 million in funding for MassDOT, and once again commits \$187 million for the MBTA, on top of the over \$1 billion transferred per year to the authority as part of sales tax collections, to upgrade and improve the state's transportation system. Consistent with the control board's philosophy of reducing operating costs and reinvesting the savings in fixing the system, this year's funding will be split between \$127 million in direct assistance from the operating budget for direct costs of the MBTA and \$60 million from the FY18 capital budget for capital investments, which include upgrades to T stations and replacing out-of-date signals and switches, among other items.

This budget contains an outside section which will authorize the Pension Reserves Investment Management board to manage the assets for the MBTA retirees, which will benefit these retirees by increasing returns and lowering administrative costs.

The MBTA is pursuing an aggressive capital investment plan which calls for investing over \$6 billion over the next five years, primarily to address the agency's State of Good repair backlog. The Good Repair Accelerator is led by a group of senior executives coordinating across reorganized engineering / maintenance and capital delivery organizations to more expeditiously design and deliver vehicle, track, signal and power investments.

Public Safety

House 1 funds a new State Police class for 130 recruits, the second supported by this administration, with costs for this class shared between the State Police, Massport, Massachusetts Gaming Commission, and MassDOT; and provides \$300,000 in new state funding for a program training first responders in recognizing and responding to veterans' mental health and behavioral health issues, like PTSD.

The administration has focused public safety funding towards recidivism efforts in order to keep individuals from relapsing into criminal behavior. House 1 proposes:

- Up to \$12 million for a Juvenile Justice Pay for Success program, which will allow Roca to provide approximately 1,000 at-risk young men with outreach, life skills, and unemployment training;
- \$4.6 million to MassCor, a program that equips inmates with marketable skills and work experience that will help them find employment post-release. For the second consecutive year, the administration has utilized MassCor's printing press for producing our budget proposal;
- \$3.5 million in new funding for the Justice Reinvestment Reserve to implement recommendations from the Council of State Governments aimed at recidivism; and
- \$3.3 million to level fund specialty drug courts that address the issues underlying criminal behavior.

As part of a long-term initiative to increase Assistant District Attorney (ADA) entry level salaries so the Commonwealth can attract, hire, and retain talented prosecutors, the Governor has proposed funding the ADA salary reserve at \$3 million, a \$2.5 million increase from FY17. Since FY16, ADA salary reserve funding has raised starting salaries from \$38,000 to \$46,000.

Economic Development

Governor Baker signed a comprehensive economic development bill in 2016 that leverages our state's capital resources to promote community development, workforce development, innovation, and economic competitiveness. The legislation includes \$1 billion in future potential investments including:

- \$500 million to MassWorks to support public infrastructure development;
- \$71 million for Massachusetts Manufacturing Innovation Initiative to create applied research institutes focused on manufacturing technologies;
- \$45 million for Transformative Development Initiative, which makes strategic property investments in Gateway Cities to revitalize these communities; and
- \$15 million to a new Community Innovation Infrastructure Fund to make capital grants that support community-driven growth efforts.

In FY18, the administration proposes a \$3 million spending increase for the Infrastructure Investment Incentive Program (I-Cubed), for a total of \$11.5 million, to support current pipeline projects. The program invests in public infrastructure projects that spur private development and lead to job growth in the Commonwealth.

House 1 also provides \$1.5 million for a new grant round for the Urban Agenda Economic Development Grant Program, which promotes community-driven responses to local economic development.

Energy and Environment

To progress towards meeting the Commonwealth's greenhouse gas reduction requirements, Governor Baker signed groundbreaking energy legislation in 2016 to diversify the Commonwealth's energy portfolio, and stabilize electric rates while issuing a comprehensive Executive Order which safeguards residents, municipalities and businesses from the impacts of climate change, and builds a more resilient Commonwealth.

House 1 recommends increasing the funding for the Executive Office for Energy and Environmental Affairs (EOEEA) by \$8.2 million in the FY18 budget, bringing the total amount allocated to \$236.4 million, a 4% increase over FY17 spending.

The administration also seeks to join 46 other states in securing federal delegation status to administer the National Pollutant Discharge Elimination System (NPDES) program, which will provide the state with the ability to ensure water quality protection. House 1 includes \$1.4 million to implement the first year of the program, including funding for staff, programming and up-to-date monitoring and analysis of water quality data.

House 1 prioritized some notable funding increases for EOEEA programs to protect citizens across the Commonwealth including:

- \$2.3 million increase over FY17 funding in retained revenue to support general Department of Conservation and Recreation (DCR) operations, as well as maintenance and improvements to the parks and recreation system;
- \$1.5 million increase over FY17 funding for the Safe Drinking Water Program to ensure the public drinking water delivered to our homes, schools, and offices is safe for consumption;

- \$500,000 increase over FY17 funding for field compliance staff at Department of Environmental Protection; and
- \$200,000 in additional funding for DCR to hire three additional dam safety specialists, an increase of seven employees since early FY17, to ensure hazardous dams comply with inspection standards.

Good Government Solutions

The FY18 budget proposal includes some commonsense restructuring of state agencies in an effort to streamline their functions and ensure we are spending the taxpayers' money in the most efficient manner.

The Administration proposes to transfer programs from the Department of Public Safety (DPS) to the Division of Professional Licensure (DPL) and the Department of Fire Services (DFS). Most DPS programs, including elevator inspections, refrigerator technicians, and ticket resellers, will be moved to the newly created Office of Public Safety and Inspections (OPSI), under DPL. The boiler and pressure vessel program will be moved to DFS. This transfer will result in \$800,000 in efficiency savings and better coordinated services to citizens.

We have included sick time reform in House 1 in order to bring Massachusetts in line with other states and private sector employees and to avoid excessive payouts for sick time to retiring employees. Accrued sick time will be capped at 1,000 hours, or six months of work, for state employees in the Executive Branch. Current employees who have already accrued over 1,000 hours of sick leave will be able to retain their accrued hours.