

***Executive Summary***

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**CHARLES D. BAKER**  
GOVERNOR

**KARYN E. POLITO**  
LIEUTENANT GOVERNOR

To the Honorable Senate and House of Representatives,

The Baker-Polito Administration is pleased to submit our budget recommendations for Fiscal Year 2016. This year's proposal is crafted around a vision of creating better communities, better schools, and better jobs for all of Massachusetts. We accomplish this vision by focusing upon several principle areas of investment: *economic competitiveness and jobs, a commitment to cities and towns, education, an urban agenda including Gateway Cities, health and human services, transportation, and efficiency.*

For two consecutive years, our spending growth has outpaced our revenue growth. After over \$1 billion in budgetary reductions last year, state spending still grew at 7.8% more than the year before, while tax revenue only grew at 4%. This is simply an unsustainable path for Massachusetts - we must live within our means.

This proposal keeps spending growth around 3%, and allows us to begin to address long-term structural changes and reduce our reliance on one-time revenue. We protect our rainy day fund, because in a largely healthy economy it is clear our issues are based on a need to prioritize spending and make state government more efficient. We also avoid layoffs through an early retirement package that will reduce the size and cost of the state workforce.

Our plan curbs state spending at MassHealth, a traditional budget-buster, to 5.6% growth, down from a projected 16% hike. By achieving this, we are able to increase funding for other key priorities, including local aid, education, transportation, and other human service related programs such as the Department of Children and Families and rate increases for human service providers who offer direct services to those who need it most.

Every school district in the Commonwealth will see an increase in education funding. Unrestricted local aid will increase at 75% of projected revenue growth and we fund the recently created Commonwealth Community Compact to better partner with cities and towns on developing best practices. We will also begin phasing in the doubling of the Earned Income Tax Credit to help low and moderate income workers.

We follow the same common-sense approach that we implemented during our first few days in office when we instituted a hiring freeze that saved over \$22 million and helped stop a big spending problem

from becoming even bigger. We then focused our savings efforts largely on programs that had not started almost seven months into the fiscal year. Massachusetts should expect a similarly practical approach to Fiscal Year 2016.

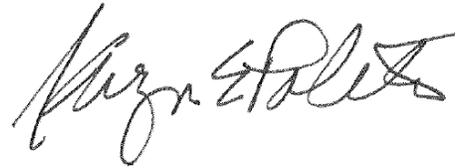
In our inaugural addresses, we pledged to work with you to solve what has become a serious spending problem. We thank you for your swift action concerning the Fiscal Year 2015 budget gap and look forward to collaborating again on our proposals in the coming months to return state government to a level of fiscal health that will enable the creation of innovative programs in the years to come.

Operating within our means will require difficult but responsible decisions. We are proud this proposal upholds the state's chief responsibilities to both our citizens and municipalities across the entire Commonwealth.

Sincerely,

Handwritten signature of Charles D. Baker in black ink.

Charles D. Baker  
Governor

Handwritten signature of Karyn E. Polito in black ink.

Karyn E. Polito  
Lieutenant Governor

### Fiscal Outlook

When we took office in early January, we inherited a budget gap fueled by excessive spending. We needed more than \$1 billion in mid-year revisions to balance Fiscal Year 2015 (FY15), including a \$768 million solve proposed by our administration and passed by the Legislature just weeks after taking office. Spending growth of almost \$3 billion in FY15, a 7.8% increase over Fiscal Year 2014, far outpaced the anticipated tax revenue growth of about \$1 billion, or 4%, which is simply unsustainable. Left unchecked, the trajectory of state spending in Fiscal Year 2016 (FY16) would have grown by approximately \$3 billion, more than 8%, and created an anticipated deficit of more than \$1.8 billion.

In our FY16 budget proposal, we present an opportunity for the Commonwealth of Massachusetts to enact a sensible fiscal plan while establishing spending growth that is in line with revenue growth. Through disciplined fiscal management, we are able to limit spending growth to 3.0%, less than the projected tax revenue growth of 4.8%.

This is a responsible, balanced budget that increases investments in priority areas such as education, communities and economic competitiveness, while level-funding most other programs to FY15 spending. Addressing fiscal reforms in FY16 will help the Massachusetts economy grow in the years to come.

	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016
<b>Spending (\$B)</b>	\$32.342	\$34.267	\$36.938	\$38.062
<b>% Growth</b>	4.4%	6.0%	7.8%	3.0% *
<b>Tax Revenue (\$B)</b>	\$22.123	\$23.370	\$24.307	\$25.479
<b>% Growth</b>	4.8%	5.6%	4.0%	4.8%

\* Spending growth in FY16 is below the projected rate of revenue growth, reflecting a reduction in the reliance of one-time budget solutions consistently used in previous budgets.

### Budget

We are filing a budget proposal that appropriates \$38.062 billion, a 3% increase over anticipated FY15 spending. To bring spending down to a sustainable level, we address several major programs and provide managers with new tools and greater flexibility in this constrained environment.

The largest single program in state government is MassHealth, which accounts for more than one-third of the state budget. Through aggressive reforms that minimally impact benefits, such as validating enrollee eligibility, we are able to significantly reduce the program's gross spending growth to 5.6%, down from a projected 13.7% growth in FY15, ensuring that each dollar spent is going to those who are truly in need.

Rather than going back to the hard working taxpayers again and raising taxes, we have curtailed annual double-digit percentage growth at MassHealth to a sustainable level, which allows us to not raise taxes or fees, avoid a withdrawal from the Stabilization Fund for the first time in four budget cycles, and focus resources on key priorities that will move Massachusetts forward. Some of the main areas of investment in this proposal include:

- An increase in unrestricted local aid funding by 3.6%, which is 75% of tax revenue growth
- An increase in Chapter 70 funding for local schools by \$105.3 million
- Direct aid increase to the MBTA by 53%, from \$122.5 million to \$187 million
- A rate adjustment to adequately fund (\$30 million) human service providers who offer direct services to those most in need
- An increase in Department of Children and Families-related funding of \$40 million
- A more realistic snow and ice budget that reflects the previous five-year average, while also creating the MBTA Weather Resiliency Fund

This plan also reduces the recent dependence on “one-time” solutions which have allowed the state to build structural deficits with non-recurring revenue source fixes. We must be clear that infusing more funding without real reform amounts to fiscal negligence.

We will continue to perform a top to bottom review of the delivery of core programmatic services and complete our review of all agencies to develop reforms throughout the upcoming year. Change is difficult, and not easily done in one budget cycle, but this proposal sets the foundation for future reforms to target streamlining and process.

We offer a tax reform proposal consistent with the Baker-Polito Administration's goal of doubling the Earned Income Tax Credit (EITC) up to 30% of the federal limit. We will begin to phase out the Film Tax Credit and use that revenue to support a phased in EITC increase, starting with a raise to 24% this year. The EITC is one of the most effective tax credits at putting money into the hands of low and moderate income workers, whereas the most recent Department of Revenue study on the Film Tax Credit showed that two-thirds of the spending generated went to out-of-state workers or businesses, and only 730 jobs were created at a cost of over \$100,000 per position.

## **Key Priorities**

### **Economic Competitiveness and Jobs**

The Baker-Polito Administration will work with Massachusetts businesses as a partner in growth to help create new jobs. Along with our pledge not to raise taxes or fees, we are committed to providing a predictable and stable business climate. We recently announced a 90-day pause on all new regulations to allow for our long-term goal of reducing burdens on the Commonwealth's small businesses and job creators. We will continue to conduct a full review of all existing regulations.

We recently announced the creation of a Workforce Skills Cabinet to create and implement a strategy to develop workforce skills to meet the varying needs of employers in the Commonwealth's regions, today and in the future. A talented workforce and growing economy are inseparable and Massachusetts has an opportunity to capitalize on both by ensuring our workers have the skills to meet the needs of employers in the 21<sup>st</sup> century economy.

We will aggressively pursue a bi-partisan strategy with other New England states to address high energy costs to improve our competitiveness.

### **Commitment to Cities and Towns**

We can embrace a sensible spending philosophy while still increasing support for essential services in our cities and towns. Unrestricted local aid funding to the cities and towns across the state will increase by 3.6% to \$980 million, and will grow even more if Gaming and Lottery revenue exceeds the conservative estimates used for this budget. We also provide funding for a new initiative, the Commonwealth Community Compact, led by

Lieutenant Governor Polito, to make the state a better partner to cities and towns and work with them to adopt best practices.

We also propose allowing the Department of Conservation and Recreation to increase the length of their permits from 5 years to 10 years. This will provide greater security for entrepreneurs and incentivize permit-holder investment in Commonwealth property, allowing towns to benefit from long term projects and businesses to grow more quickly.

### **Education**

As part of the Baker-Polito Administration's pledge to local aid, Chapter 70 funding for schools will increase by \$105.3 million to total \$4.5 billion, providing at least a \$20 per pupil increase to all 321 school districts. Consolidating eleven former grant programs into one, the Partnership Schools Network, will allow for a more effective and efficient grant program which will focus on turning around under performing schools. We propose to use \$1.5 million to improve the early education and care licensing process, including the use of hand-held devices for real-time, on-site data entry. We restore \$1.2 million to the METCO program. We also take steps towards fully funding the McKinney-Vento Homeless Education Assistance Act.

The University of Massachusetts system, state universities, and community colleges will receive an average increase of 3% to their campus budgets.

### **Urban Agenda and Gateway Cities**

The Transformative Development Fund will receive increased funding to spur strategic project plans in Gateway Cities. We will also provide additional funds to promote small businesses, create new jobs and support workforce development in urban communities. We provide funding for specialized police training to ensure officers have the tools that they need to work effectively within communities. The Safe and Successful Youth Initiative and Summer Jobs programs will also receive increased funding.

### **Health and Human Services**

#### **MassHealth**

Health and Human Services (HHS) accounts for \$21 billion in spending, or 53% of this year's budget proposal. The largest portion, over \$15 billion, is dedicated to MassHealth, a program that grew at 60% or \$5.4 billion over the past five years, and had a projected growth of 16% in FY16. Through a series of fixes that do not affect core benefits or services, our plan reduces MassHealth growth in FY16 to 5.6%, more than \$1.6 billion below original projected spending. Our plan will ensure that only the people who are truly eligible receive services and that revenue opportunities are maximized. The budget also provides \$174 million in new MassHealth investments including the full-year implementation of adult dental benefits and Applied Behavioral Analysis services for 10,000 children with autism.

There are several other much-needed reforms within MassHealth, including the allowance of bulk purchasing of critical medical equipment and the approval of shorter-term drug prescriptions to prevent waste and abuse.

By addressing this budget buster, we have not only reined in spending to a more manageable level, but also freed resources to address other important priorities, including \$30 million to resolve litigation and adjust rates for human service providers governed by Chapter 257. Going forward, the Commonwealth will comply with the provisions of Chapter 257.

#### **Homelessness**

In order to more humanely and effectively serve families in need, the budget reinvests \$20 million into programs that prevent families from becoming homeless and shortens the time homeless families

spend in shelters. Addressing homelessness requires a concentrated focus on the unique service needs of each family, which is why the Executive Office of Health and Human Services will lead in developing a solution along with Housing and Economic Development. Meeting families at the “front door” of emergency assistance, helping them achieve rapid housing stabilization and connecting them quickly with the resources they need is in the best interest of the families, and is also more cost-effective than placing a family in a shelter or motel where it may take months for them to receive services. Motels and shelters are disruptive to the needs of children and families. Pursuing this strategy will reduce the number of families in shelters and motels and allow the state to invest in other services for our most vulnerable families.

The budget also provides an additional \$2 million to reinvigorate the successful special initiative for homeless individuals with serious mental illness at the Department of Mental Health.

**Transportation**

The Baker-Polito budget proposal increases Transportation Funding by \$109 million, or 20%. The MBTA will receive a 53% increase in direct aid over FY15 spending, from \$122.5 million to \$187 million for operational improvements. Funding for snow and ice will total \$72 million, including an expected federal reimbursement in the wake of the FY15 winter storms, bringing the total budget close to the five-year average. In addition, we propose creating the MBTA Weather Resiliency Fund to support operating costs, projects and programs in weather related circumstances.

**Efficiency**

The Baker-Polito Administration believes that we can improve services to make state government more efficient. To that end, we offer a number of streamlined initiatives to reduce costs while still providing effective services.

We believe government can operate more effectively with fewer employees. We are conducting an agency review throughout the Executive Branch to ensure all departments have a defined message and effective operations. Rather than reducing the workforce through across-the-board layoffs, we have chosen to offer an Early Retirement Incentive Program (ERIP) to encourage employees at, or close to, retirement eligibility to move off the state payroll. This proposal, similar to successful offerings a decade ago, should reduce the workforce by 4,500, and we will limit the backfill of those positions to 20% of the gross savings. This is a responsible plan that also takes into account the related increases in the Group Insurance Commission and state pension funds. We estimate the total FY16 savings for this proposal at \$177.9 million.

