October 27, 2016  
  
Senator Karen Spilka  
Senate Committee on Ways and Means  
State House, Room 212  
Boston, MA 02133  
  
Representative Brian Dempsey  
House Committee on Ways and Means

State House, Room 237  
Boston, MA 02133

Dear Chairwomen Spilka and Chairman Dempsey,

Pursuant to Section 9C of Chapter 29 of the Massachusetts General Laws, I advised the Governor on October 14, 2016 of a projected budget shortfall of $294 million in Fiscal Year 2017 (FY17).

At this time, we are not reducing allotments as authorized under Section 9C of Chapter 29 to close this gap. This letter details the alternative measures that I am undertaking to close the shortfall including budget closing measures identified but not implemented in Fiscal Year 2016 (FY16), increased non-tax revenue, smaller transfers to authorities due to the lower sales tax projection, and payroll savings.

As you are aware, this Administration undertook a variety of measures to close the budget gap in FY16, caused by a $484 million shortfall in tax revenue over the final five months. After closing the books on FY16, restrained year-end spending in certain areas resulted in higher-than-anticipated reversions. As a result, $145 million in budget closing measures that we had identified but not implemented remain available for the Commonwealth’s use in FY17.

In close consultation with my colleagues over the past two weeks, we undertook an exercise to identify savings and budget gap closing opportunities. We have identified certain measures that will increase non-tax revenue, primarily through claiming higher federal reimbursements on spending in previous fiscal years, resulting in $92 million in additional non-tax revenues for FY17.

When I lowered the FY17 revenue estimate by $175 million on October 14, I advised that we had done so because we expected lower-than-expected year-to-date sales tax collections to continue at 2.3% versus expected 5.2%. The lower sales tax projection will result in smaller transfers of sales tax revenue, as directed by statutory formula, to the School Building Assistance Authority ($25 million) and to the MBTA ($6 million), totaling $31 million.

On October 14, we also announced a payroll savings exercise beginning with a Voluntary Separation Incentive Program for Executive Branch employees. We expect to produce $25 million in FY17 payroll savings.

It is important to note that we are actively monitoring additional spending deficiencies identified during our veto and spending plan exercises which will likely require future corrective action. The largest exposure is in the MassHealth program which is currently tracking approximately a $100 million net deficiency driven largely by caseload increases. We are working with the Executive Office of Health and Human Services to identify solutions within the MassHealth program to manage spending within the current appropriation level. These solutions may include making future allotment reductions of items previously vetoed and overridden.

We will continue to monitor tax revenue and the spending exposures in the coming months before finalizing our decision on the extent of allotment reductions and additional actions in order to ensure that the FY17 budget is in balance.

I look forward to continuing to work with you to manage the Commonwealth’s finances.

Sincerely yours,



Kristen Lepore