

## Lawmakers begin work on Baker's \$42.7 billion budget

By Colin A. Young – State House News Service  
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The new chairmen of the Joint Ways and Means Committee understand the task ahead of them: in the coming weeks, they must craft a more-than-\$40-billion budget for a fiscal year that starts in July while the economic picture of the current fiscal year shifts beneath their feet.

Using the \$42.7 billion fiscal year 2020 budget (H 1) Gov. Charlie Baker filed in January as a starting point, the budget-writing committee began its slate of public hearings Tuesday to give lawmakers their first real opportunity to grill the administration on its spending plans.

Senate Ways and Means Chairman Michael Rodrigues said he recognizes "the enormity" of the task facing he and House Chairman Aaron Michlewitz and called it "an undertaking that requires us to share responsibility as stewards of taxpayers' dollars and put forward a fiscally responsible budget that places our state on firm financial footing."

Fiscal responsibility was an early theme of Tuesday's hearing and was the subject of the first question for Administration and Finance Secretary Michael Heffernan. Michlewitz noted that "we had a rough December" and that state tax collections have come in below expectations in recent months, leaving the state staring at a \$403 million revenue gap more than halfway through fiscal 2019.

Though he did not reveal any new information to the committee, Heffernan noted that state tax collections for February -- a month during which the state expects to have collected \$1.303 billion in tax revenue -- would be announced later Tuesday.

"We'll have made a little bit of progress against that deficit," he foreshadowed.

The recent downward trend in state revenue collections, though not as serious as previous years, "reminds us that we have to exercise great caution and maintain awareness for continued fiscal challenges" during the budget process, Rodrigues said.

"As we all know, the state budget has an impact on our children, hard-working families, small businesses and the communities where our constituents live," he said.

At the outset of Tuesday's hearing, Heffernan laid out the governor's \$42.7 billion budget proposal -- "a responsible budget for FY20 that reflects our shared priorities but most importantly meets the needs of the people of Massachusetts" -- which raises state spending by 1.5 percent and is built on the assumption that state tax revenues will meet projections this year and then grow by 2.7 percent next fiscal year.

The administration is counting on collecting \$133 million in taxes on recreational marijuana sales, \$28 million from new taxes on short-term housing rentals, \$14 million from a tax on opioid manufacturers and \$6 million from an expansion of tobacco excise taxes to e-cigarettes and vaping products.

Not all of that revenue is a sure thing. For example, the governor has proposed to tax opioid manufacturers 15 percent of their gross receipts from the sale of opioid products but the Legislature has not authorized the new levy. Heffernan said the state spends \$266 million annually to fight the opioid epidemic.

"To ask the drug manufacturers who are partially responsible, if not wholly responsible, to pay \$14 million as a downpayment towards our \$266 million seems extremely reasonable to us," he said.

The Legislature has also not OK'ed Baker's proposed new excise taxes on vape and e-cigarette products. Heffernan said e-cigarettes and other paraphernalia would be subject to an effective tax rate of 20 percent -- mirroring marijuana products -- and that the actual vaping liquids would be taxed at a 40 percent rate.

"Vaping has really come into the under-21 community all across the state and putting it on a level playing field with tobacco products seems to be at least the first step," Heffernan said. "It's a fairness issue, but it's also trying to slow down the illegal use of vaping products."

At MassHealth, the state-run Medicaid program that serves 1.86 million residents and has grown to consume about 40 percent of state spending, Heffernan said the administration's efforts to "bend the MassHealth cost curve" have delivered "solid results" that have made the program not as great of a concern heading into the FY20 budget.

"In large part due to more sustainable growth at MassHealth, tax-supported spending growth in Massachusetts is now lower than tax revenue growth on a sustained basis," he said.

The governor's budget would fund MassHealth at \$16.539 billion which Heffernan said represents a growth rate of 0.1 percent over the current budget year. Though gross MassHealth spending would increase just 0.1 percent, the net amount the state pays after federal reimbursements would rise 4.3 percent under Baker's budget plan to \$6.586 billion.

The secretary said the budget assumes \$80 million in savings at MassHealth's pharmacy program from two reforms: allowing MassHealth to negotiate drug prices directly with manufacturers and imposing new requirements on pharmacy benefits managers.

Responding to questions from Rep. Hannah Kane, Heffernan said \$70 million of the savings MassHealth expects to see would come from direct negotiations on the price of the 20 most expensive drugs MassHealth purchases.

"It starts at about \$100,000 and runs up ... that narrow list can run hundreds of millions of dollars to MassHealth," he said.

Heffernan also confirmed the \$200 million Employer Medical Assistance Contribution assessments that lawmakers and Gov. Charlie Baker approved in 2017 to help defray the cost of MassHealth "will sunset by the end of calendar year 2019" as is called for in law. Business groups have pushed for those assessments to end sooner.

While Heffernan touched upon Baker's revamped plan to accelerate the process for large retailers to remit sales taxes to the state in a more timely manner -- netting \$306 million in fiscal 2020 as one-time revenues -- Sen. Joan Lovely questioned how the administration planned to use that money for education.

"One-time needs and education don't usually go in the same sentence. I'm not trying to be flip, but can you just elaborate on how that \$306 million will kind of be parsed out and how we don't depend on this funding source in years going forward," she asked.

Heffernan explained that the funding is "set up as one-time funds, not set up as recurring initiatives." He said \$39 million would flow to the MBTA and another \$39 million would flow to the School Building Authority. Then, \$100 million would be deposited into a college scholarship initiative, \$50 million would go into a public school improvement fund, \$30 million would be dedicated for school safety improvements and \$20 million would be marked for eliminating lead from school drinking water.

Though the state is expecting a relatively stable budget year 2020, economists have warned that the national economy, and the state's economy with it, could be headed toward a recession in the next 18 to 24 months.

"Our consensus view in light of a growing number of emerging risks and economic and political uncertainties is that caution is the watchword," economists at MassBenchmarks reported Monday.

Heffernan said the administration is expecting to make \$297 million in deposits into the state's rainy day fund during FY20 as part of an effort "to protect the state budget from recession or other future disruption in the economy." Last year, the fund's balance topped \$2 billion for the first time since fiscal 2008.

Rep. Russell Holmes noted that the last time the rainy day fund had a balance of \$2 billion, the state budget was about \$15 billion smaller, meaning the state had a greater share of its annual expenses socked away in the event of a downturn. He asked how the administration sees its longterm goal for the account's balance.

"I don't have a specific goal and I don't mean to be flip, but more is better," Heffernan said in response. "I take your point that the budget was larger than it was the last time we were at \$2 billion."

The Joint Ways and Means Committee budget hearings continue next Monday in Needham. Lawmakers will hold a total of eight hearings on the governor's budget proposal around the state through early April before the House rewrites the budget and debates its version of the spending plan in mid-April. The Senate is expected to follow suit and debate its own budget bill in May.