

BUDGET MONITOR

The FY 2005 Conference Budget

Overview

After a quick conference process the Legislature enacted the fiscal year 2005 budget on June 15th, more than two full weeks before the start of the fiscal year. The Governor has 10 days from the passage date to sign the budget and offer line-item vetoes, after which the Legislature will have the opportunity to override his vetoes. While the enacted budget leaves in place most of the \$3 billion of cuts to important government services implemented over the prior three years, it begins to make progress in starting to reverse some of the most painful cuts – particularly in healthcare and public health.

In examining this budget, however, it is important to remember that it relies on \$831 million in temporary revenues (primarily, \$340 million from the rainy day fund, \$270 million in emergency federal aid, and \$168 million of tobacco settlement payments that should, under existing law, be deposited into the Health Care Security Trust Fund). While it makes sense to use reserve funds during a fiscal crisis, the reserve funds spent this year will not be available next year. Revenue growth is exceeding expectations for FY 2004 and will likely

exceed the official projections for FY 2005, but it is unlikely that this growth alone will close the structural budget gap that still exists.

The Governor has proposed a new tax cut for next year, arguing that without it the Legislature would start spending money on new programs. This logic ignores the immediate fiscal crisis facing the Commonwealth. First, the state is not yet at the point where the budget can be balanced without extensive use of reserves. Second, when that point is reached, the issue will not be creating new programs – it will be restoring adequate funding levels for core services such as education, health, and safety net programs. For example, adjusted for inflation, public higher education and public health each have been cut by over 25 percent during the fiscal crisis. If those cuts are not restored, there will likely be significant harm done to the future of the state economy and to the health of Massachusetts' residents.

This Budget Monitor will examine the budget proposal approved by the Legislature, comparing funding levels to prior years and describing how it compares in various areas to House 1 and to the FY05 budgets approved by the

House and Senate. In general, this analysis will compare nominal spending levels. It is important to note that in many areas where there are small increases in appropriations, these increases pay for only the cost of inflation and do not allow for the restoration of services that have been eliminated.

How the Budget Balances

Consistent with previous versions of the budget, the Conference Report depends heavily on “one-time” sources of revenue – that is, revenue that can not be expected to recur in future years or that

was originally slated to be dedicated to other purposes. Altogether, the Conference Report uses at least \$831 million from such sources to support spending in FY05. The Conference Report does make some progress however, when compared to prior versions of the FY05 budget, in generating additional permanent revenue. Changes in tax policy and administration, as well as new lottery initiatives and modest fee increases, are expected to generate roughly \$224 million in FY05, funds that the Commonwealth will be able to count on in the years ahead as well.

RESPONSES TO FY 2005 DEFICIT				
<i>all figures are in millions of dollars</i>				
Projected FY 2005 Deficit				1,155.2
	<u>CONF.</u>	<u>SENATE</u>	<u>HOUSE</u>	<u>H. 1</u>
Recurring Revenue	211.5	174.0	127.0	160.0
Tax policy and administration	154.5	106.5	70.0	70.0
<i>Corporate tax loophole closures</i>	89.0	70.0	70.0	70.0
<i>Commuter tax break</i>	-	(6.5)	-	-
<i>Sales tax rebate for retailers</i>	-	(7.5)	-	-
<i>Enhanced DoR enforcement</i>	65.5	50.5	-	-
Fees and assessments	-	10.5	-	33.0
<i>Assessment on insurance companies</i>	-	10.5	-	-
<i>Net new fees</i>	*	*	*	33.0
Lottery initiatives	57.0	57.0	57.0	57.0
Temporary and Other Measures	831.0	831.0	831.0	700.0
Stabilization Fund transfer	340.0	340.0	340.0	-
FMAP Escrow Fund transfer	270.0	270.0	270.0	139.0
Transfers from other funds	28.0	28.0	28.0	28.0
Sale of surplus property	25.0	25.0	25.0	25.0
Turnpike Authority transfer	-	-	-	190.0
SBA restructuring	-	-	-	150.0
Diversion of tobacco settlement payments	168.0	168.0	168.0	168.0
Diversion of tobacco settlement interest earnings	*	-	*	-
Spending Cuts & Underfunding	44.9	62.6	218.5	314.5

Healthcare

MassHealth Programs

MassHealth is the state program which provides healthcare coverage and services to low-income and disabled residents of the Commonwealth, as well as nursing home care and other health services not provided by Medicare to low-income seniors. The Conference budget provides \$6.539 billion in FY05.

FY 2004	\$6,197,625,027
FY 2005	<u>\$6,539,372,119</u>
Increase (decrease)	\$ 341,747,092
Percentage Change	5.5%

The FY04 enrollment for MassHealth is lower than originally expected. Since January, 50,000 fewer individuals than were anticipated are accessing MassHealth benefits. The Conference Committee adopted the Senate's totals for MassHealth programs CommonHealth, Medicaid Managed Care, and MassHealth Standard, which are lower than the budgets proposed by House 1 and the House because they account for lower enrollment estimates. The amount allocated to MassHealth Essential (\$160.0 million through the Uncompensated Care Pool) is also sufficient for the anticipated enrollment of 36,000.

The Conference budget restores MassHealth Basic coverage for 2,800 elderly and disabled legal immigrants who lost their coverage in the current fiscal year. In FY04, all benefits excluding emergency coverage were

eliminated for these individuals. This move by the Conference Committee would extend MassHealth Basic benefits, which include primary and preventive care, through fiscal year 2005.

Two programs vital for the health of the Commonwealth's low-income children receive full funding in the Conference budget. The Conference Committee funds the Healthy Start program at \$14.2 million – the amount proposed by the Senate – which is more than double the FY04 funding level of \$6.2 million. This is also more than the \$10.6 million proposed by the House. The Conference Committee's level of funding for Healthy Start will eliminate the waiting list for this program and will prevent cuts in benefits for the low-income uninsured women who receive prenatal care from this program.

The Children's Medical Security Plan (CMSP) is receives \$21.4 million in funding, up \$9.5 million from its FY04 level. This amount is likely to be sufficient to eliminate the waiting list of more than 14,000 children who have been denied CMSP insurance benefits due to underfunding of this program over the past several years.

Uncompensated Care Pool

The Uncompensated Care Pool, which funds the healthcare services that hospitals and community health centers provide to uninsured patients as well as the MassHealth Essential program, is supported through a combination of state and federal funding and assessments on hospitals and insurance companies. The

state appropriates money into the Uncompensated Care Pool and receives reimbursements from the federal government for spending by the fund. The Conference budget appropriates \$358 million into the pool this year; \$75 million of this total comes from an FY04 surplus in the MassHealth Essential account.

Public Health

The Conference Committee budget finally reverses the downward trend in funding for the Department of Public Health and public health programs. Although many public health programs are only level-funded, there are several important programs that receive substantial increases.

Funding for the Department of Public Health as a whole increases from \$373.8 million in FY04 to \$393.1 million in FY05, a 5.2 percent increase. This amount is still \$19.1 million below the FY 2003 funding level of \$412.2 million.

FY 2004	\$373,796,136
FY 2005	<u>\$393,063,903</u>
Increase (decrease)	\$ 19,267,767
Percentage Change	5.2%

The Conference budget rejects the Governor’s House 1 proposal to eliminate the Department of Public Health’s funding for Community Health Centers. The Conference Committee funds a 5.8 percent increase for the Community Health Centers, for a total of \$7.3 million.

Programs to prevent the spread of HIV/AIDS and Hepatitis C are essentially level-funded. The Conference Committee appropriates \$31.6 million for the prevention and treatment of HIV/AIDS, and approximately \$563,000 for similar programs targeting Hepatitis C. Funding is restored for the universal distribution of Hepatitis A, Hepatitis B, influenza, and Pneumococcal vaccines. In FY04, funding for these vaccines totaled \$19.2 million; the Conference budget spends \$25.1 million for FY05. This funding would help restore the adult vaccination program, and continue the provision of vaccines for children.

The Conference Committee also increases funding for substance abuse services, in spite of proposed cuts from the Governor. The Governor had proposed \$31.7 million, while the House and Senate had proposed \$36.2 million. The Conference Committee’s recommendation of \$36.8 million represents an 8 percent increase over FY04 funding. The Legislature expects that this funding level is sufficient to maximize the Commonwealth’s ability to receive available federal funding for these prevention and treatment services, but various earmarks for certain programs funded through this line-item divert money away from these services and may result in the Commonwealth not spending at the level required to receive federal funding.

Education: Chapter 70 and Grants

Funding for Chapter 70 Aid and the Department of Education's grants programs is increased by \$199.6 million or 5.7 percent in the Conference budget. While this amount is higher than current appropriations, it is \$47.8 million below the initial FY03 level.

Total Education Spending¹

FY 2004	\$3,501,934,249
FY 2005	<u>\$3,701,574,727</u>
Increase (decrease)	\$ 199,640,478
Percentage Change	5.7%

Chapter 70 Aid

FY 2004	\$3,111,124,259
FY 2005	<u>\$3,183,282,601</u>
Increase (decrease)	\$ 72,158,342
Percentage Change	2.3%

Chapter 70 Aid serves as the largest single transfer of revenue from the state to cities and towns for the funding of public education. The Conference budget increases funding for Chapter 70 Aid from \$3.111 billion in FY04 to \$3.183 billion in FY05, a \$72.3 million or 2.3 percent increase. Still, this amount of funding is \$194.3 million or 6 percent below the FY03 appropriation after adjusting for inflation.

¹ The numbers in this section do not include appropriations or debt service for the School Building Assistance program. Figures for grants and reimbursements include support for the Office of Educational Quality and the department's administrative costs.

Grants and Reimbursements

FY 2004	\$390,809,990
FY 2005	<u>\$518,292,126</u>
Increase (decrease)	\$127,482,136
Percentage Change	32.6%

The Conference budget appropriates \$518.3 million for the Department of Education's grants programs, a \$127.5 million increase over current appropriations.

METCO and the special education circuit breaker program in particular, received increased appropriations in this budget. In FY04 funding for METCO totaled \$13.6 million. The Conference budget includes \$15.6 million for FY05, roughly the level of funding provided in FY03. Funding for the special education circuit breaker program is also higher. The Conference budget increases the appropriation from \$121.6 million to \$201.6 million, an \$80.0 million or 66 percent increase.

Although the Conference budget increases funding for MCAS remediation, school transportation, and early literacy programs, the amount of funding provided would not restore spending in these areas to the FY03 level:

- MCAS remediation programs are funded at \$14.1 million in FY05 compared with \$50 million in FY03;
- Funding for regional school transportation is increased from \$26.4 million to \$38.0 million, a \$11.6 million increase. This amount is still

below the FY03 appropriation of \$41.7 million. Moreover, funding for non-regional school transportation – funded at \$51.8 million in FY03 – was not funded in FY04 or in this budget;

- Early literacy programs, which were cut by nearly 80 percent in FY04 – from \$18.3 million to \$3.9 million – would only increase by roughly \$230,000 in this budget.

Higher Education

State spending on higher education includes operations support for the University of Massachusetts and the state and community college systems. Higher education funding also includes student financial aid and scholarship programs. Although this budget would increase overall funding for higher education by \$42.1 million or 4.9 percent, it does not fully restore funding cuts that occurred between FY03 and FY04 totaling \$129.0 million.

FY 2004	\$862,437,905
FY 2005	<u>\$904,489,719</u>
Increase (decrease)	\$ 42,051,814
Percentage Change	4.9%

The Conference budget funds contracts for employees of UMass and state and community colleges in two reserve accounts. The total amount appropriated - \$70.1 million – matches the amount proposed by the Senate. When the appropriations are included in the campus totals, funding for state colleges climbs 3.7 percent, appropriations to

community colleges go up by 1.7 percent, and support for the University of Massachusetts rises by 7.1 percent.

Despite increases in funding for each campus, support for financial aid decreases slightly in this budget. The Conference Committee provides \$82.4 million to fund scholarships in FY05, nearly \$41,000 less than FY04. This reduction is compounded by the \$9.2 million reduction that occurred between FY03 and FY04. In addition to this reduction, funding for library reference materials – which was eliminated in the FY04 budget – is not restored in this budget.

Cash Assistance

The \$599.5 million appropriated for cash assistance program appears to be sufficient to maintain current caseload levels.

FY 2004	\$595,927,196
FY 2005	<u>\$599,465,955</u>
Increase (decrease)	\$ 3,538,759
Percentage Change	0.6%

The Conference budget essentially level-funds Emergency Aid for the Elderly, Disabled, and Children (EAEDC) at \$70.1 million. The Conference Committee rejected proposals by the House and Governor to restrict benefits by narrowing eligibility criteria. The Governor proposed to eliminate benefits for many legal immigrants by narrowing the eligibility criteria for non-citizens to the federal SSI standard. The House 1

budget would have further removed many disabled individuals from the caseload by both narrowing the disability standard to the federal SSI standard as well as removing automatic coverage for clients of the Massachusetts Rehabilitation Commission (MRC). The House rejected the proposal to narrow the disability criteria to the federal SSI standard, but adopted the Governor's proposal to narrow eligibility criteria for immigrants to the federal SSI standard and was aligned with the Governor in stopping automatic coverage for MRC clients. This budget does not adopt any of these measures, and appears to provide sufficient funding for FY05.

The Conference budget provides \$317.8 million for Transitional Assistance for Families with Dependent Children (TAFDC). This budget also rejects the Governor's proposal to restrict benefits under this program for certain low-income individuals. The Governor would have imposed time limits and additional work requirements and would have reduced the monthly grant amount for many low-income, disabled individuals who did not meet the federal SSI disability criteria. The amount appropriated in this budget is sufficient to maintain the current caseload.

Under current law, all non-exempt TAFDC parents with children older than 2 years of age are required to work 20 hours per week. The Conference budget implements new work requirements. Under this budget, parents with children between 6 and 9 years of age would work 24 hours per week; parents with

children older than 9 years of age would work 30 hours per week.

The Conference Committee also proposes to allow all parents to meet their work requirement by participating in education or training programs, an option which is currently extended only to parents of children under 6 years of age. Additionally, parents residing in homeless shelters are permitted to use their time spent searching for housing to count toward work requirement hours.

The Employment Services Program (ESP) provides job search assistance as well as education and training programs to current and former TAFDC recipients. Under the Conference Committee's budget funding for ESP increases from roughly \$17.0 million in FY04 to about \$22.0 million in FY05.² Although funding is increased by \$5.1 million or 30 percent, this amount would completely undo funding reductions over the past couple of years. In FY03, initial appropriations for ESP totaled \$28.0 million, \$11 million more than FY04 and \$6.0 million more than FY05.

Office of Child Care Services

Funding for the Office of Child Care Services (OCCS) is essentially held constant at \$368.1 million.

² In FY04, funding for ESP totaled \$16.9 million after accounting for federal Reed Act funding. The totals proposed for FY05 include \$3.0 million dollars in reimbursements for food stamp recipients.

FY 2004	\$365,783,476
FY 2005	<u>\$368,093,830</u>
Increase (decrease)	\$ 2,310,354
Percentage Change	0.6%

The Conference budget includes a \$5.0 million reserve account to increase child care providers' reimbursement rates in FY05. This funding will go toward increasing salaries, expanding benefit levels, and providing professional development for child care providers across the state. The average child care worker earns \$20,322 annually;³ this funding would help preserve workforce levels for an industry which experiences relatively high turnover.

The Conference budget provides level-funding for home visits for at-risk newborns and Child Care Resource and Referral agencies, both of which received reduced appropriations in other FY05 budgets. The Conference budget essentially level-funds home visits for at-risk newborns at \$12.2 million, as did the budgets proposed by the House and Senate. The Governor proposed to reduce funding by \$6.1 million or 50 percent.

Child Care Resource and Referral Agencies are level-funded at \$12.0 million in the Conference budget. Budget proposals by the Governor and House would have reduced funding by \$2.0 million and \$1.5 million respectively.

³ Traill, Saskia and Jen Wohl, "The Economic Impact of the Child Care and Early Education Industry in Massachusetts." National Economic Development and Law Center. 2004.

Funding for subsidized child care is reduced from \$281.9 million in FY04 to \$278.9 million, a \$3.0 million decline. Although this is enough to fund the current caseload, it is not enough to provide services to the nearly 15,000 children currently on the waitlist.

Social Services

The Conference budget provides \$705.2 million for social services in FY05.

FY 2004	\$685,571,761
FY 2005	<u>\$705,150,762</u>
Increase (decrease)	\$ 19,579,001
Percentage Change	2.9%

Group care services, which include community-based services for children who would otherwise be placed in residential facilities, are funded at \$217.0 million in this budget. This amount is \$6.2 million or 3 percent higher than current appropriations. Other services for families and children including, foster care, adoption, and family reunification, are funded at \$261.6 million. This \$12.5 million increase is close to the amount proposed by the Senate; the House proposed a smaller increase of \$9.4 million.

Department of Mental Health

Funding for the Department of Mental Health is essentially level in the Conference budget.

FY 2004 **\$592,826,152**
FY 2005 **\$594,558,781**

Increase (decrease) **\$ 1,732,629**
Percentage Change **0.3%**

The Conference budget increases funding for child and adolescent mental health services as well as adult mental health support services. The appropriation for child and adolescent mental health services, which include support services for youth upon discharge from hospitals or mental health facilities, increases from \$65.8 million in FY04 to \$68.6 million in FY05. Funding for adult support services increases from \$271.6 million to \$274.4 million, a \$2.7 million difference.

The increase in funding for adult support services corresponds with a decrease in funding for adult inpatient facilities. Currently funded at \$156.8 million, the Conference budget reduces funding to \$151.2 million. This reduction is the same amount proposed by the House. The Senate proposed to reduce funding to \$149.3 million.

Department of Mental Retardation

The Conference budget increases funding for the Department of Mental Retardation by \$49.5 million. The increase includes full funding for the Boulet Settlement as well as higher appropriations for respite services and day/work programs for mentally retarded individuals.

FY 2004 **\$1,014,330,235**
FY 2005 **\$1,063,844,604**

Increase (decrease) **\$ 49,514,369**
Percentage Change **4.9%**

The Boulet Settlement, which requires the state to provide services to mentally retarded individuals on the waitlist for residential placements, is funded at \$70.0 million. The House proposed a smaller appropriation of \$60.0 million, but the Conference Committee adopted the amounts proposed by the Governor and Senate.

The Conference Committee also increases funding for respite services and day/work programs for mentally retarded individuals. Respite services are funded at \$48.8 million, \$2.0 million more than current appropriations. Day and work programs are funded at \$109.2 million or \$2.7 more than FY04. The amounts appropriated for these programs and services match those proposed by the Senate. The House proposed to level-fund respite services and included a smaller increase (\$2.1 million) for day and work programs. The Governor proposed to reduce funding by \$9.4 million.

Elder Affairs

The Conference Committee funds Elder Affairs close to the higher level proposed by the House. This represents a slight increase over the FY04 budget, with the majority of programs receiving level-funding.

FY 2004	\$191,182,677
FY 2005	<u>\$195,301,585</u>
Increase (decrease)	\$ 4,118,908
Percentage Change	2.2%

The enhanced home care program, which provides intensive services and case management for frail elders who wish to remain in their homes, is funded at \$37.5 million. The Governor, the House and the Senate all proposed level-funding this program in FY05.

The Conference Committee follows the House recommendation to fund the Elder Residential Assessment and Placement Program (ERAPP) at \$50,000. This program, which had been funded at \$250,000 in FY03, was unfunded in FY04 and neither the Governor nor the Senate had recommended funding for this program.

The Conference Committee also funds home care case management at the FY04 level of \$34.9 million. The Governor recommended increasing this slightly to \$36.4 million, but both the House and Senate recommended the lower FY04 level. Funding for direct services to elders in the home care program rises by \$2.9 million over the FY04 level.

The Conference Committee has recommended funding elder services contracts at \$97.0 million, which is less than the \$101 million recommended by the Governor. Taken together, elder home care would increase by 2.2 percent, from \$129.1 million in FY04 to the Conference recommendation of \$132.0 million in FY05.

The Elder Protective Services Program, which provides guardianship, case and money management, and other support services for abused or neglected elders, receives a 5 percent increase in funding, going from \$9.6 million in FY04 to the \$10.1 million. The Governor and Senate both proposed level-funding this program, while the House recommended an increase to \$10.5 million.

The Conference Committee also recommends an increase in funding for Councils on Aging, community-based organizations that provide recreation, meals, and a variety of activities and services for elders. The Conference budget appropriates \$6.5 million, a \$600,000 increase over FY04. The Governor recommended level-funding the Councils at \$5.9 million.

The Prescription Advantage drug insurance program is funded at \$110 million, with an additional \$5 million to support copayment reduction for elders at or above 188 percent of the poverty level. Together, these changes represent a 19.3 percent increase in this program from the FY04 level.

Other Human Services

Funding for other human services grows by \$40.3 million or 8.5 percent under the Conference budget.

FY 2004	\$476,664,379
FY 2005	<u>\$516,951,920</u>
Increase (decrease)	\$ 40,287,541
Percentage Change	8.5%

The Conference Committee appropriates \$20.0 million to fund salary increases for human service providers who earn less than \$40,000 annually. Half of the appropriation supports raises for workers earning less than \$25,000 per year; the other half supports raises for workers earning between \$25,000 and \$40,000 per year.

The Targeted Cities Program –which aims to reduce high rates of juvenile delinquency, teen pregnancy, and high school dropouts – is funded at \$2.0 million in this budget. The Conference Committee appropriates more than that proposed by both the House and Senate, \$1.7 million and \$1.6 million respectively. (The Governor did not fund this program in House 1.) This program was last funded at \$455,000 in FY03, down from a \$1.4 million appropriation the previous year.

Funding for emergency shelter assistance for families is reduced by \$2.0 million, roughly the same amount devoted to a new program called Rental Assistance for Families in Transition (RAFT), which is described in more detail in the Housing section of this document.

The Conference budget also includes an escrow account proposal for families residing in shelters, which was included in the House and Senate budgets. Under the plan, families whose income exceeds federal poverty level would be permitted to remain in the shelter up to six months, and, upon departure, the surplus income could be used to transition to permanent housing.

Environmental Affairs⁴

The Conference Committee funds the Executive Office of Environmental Affairs (EOEA) at \$185.8 million. It appears that the budget transfers \$7.9 million that is currently used for Watershed Management off-budget. If this amount is included with all other budget appropriations, EOEA would be funded at \$193.6 million.

FY 2004	\$187,569,839
FY 2005	<u>\$193,679,379</u>
Increase (decrease)	\$ 6,109,540
Percentage Change	3.3%

The Conference budget essentially level-funds operations costs for the Department of Environmental Protection at \$28.4 million. Budget proposals by the Senate and Governor would have cut funding by \$2.5 million. The House proposed to cut funding by \$1.6 million. Based on cuts in the FY04 budget, DEP has reduced compliance and monitoring activities. This funding will help to maintain current staffing levels for an agency which lost 289 staff positions due to budget cuts over the past two years.

Overall, funding to implement the Clean Air Act is reduced by nearly \$250,000 or 5 percent in the Conference budget. The Governor and Senate proposed to provide level-funding for these purposes. The House budget reduced funding by a larger amount – about \$292,000. Funding for hazardous waste clean-up is

⁴ In order to provide a direct comparison, the FY04 total includes zoo operations, which is moved to the FY05 operating budget.

also reduced in the Conference budget. Funding is cut from \$15.3 million in FY04 to \$14.2 million in FY05.

Transportation

The Conference budget provides \$113.7 million for transportation in FY05. The budget also includes a proposal to reorganize transportation agencies, which will likely result in administrative savings.

FY 2004	\$139,892,844
FY 2005	<u>\$113,654,228</u>
Increase (decrease)	(\$26,238,616)
Percentage Change	-18.8%

In addition to the reorganization of transportation agencies, the Conference Committee provides less money for snow and ice removal in FY05. Current appropriations – which include \$35.0 million in supplemental funding – total \$50.0 million. The Conference budget appropriates \$35.0 million, more than the amounts proposed by both the House (\$20.0 million) and Senate (\$15.0 million). This amount is less than the Governor’s appropriation of \$45.0 million.

Housing

The Conference budget increases funding for the Department of Housing and Community Development by \$9.9 million or 14.9 percent. This increase includes a \$2.0 million transfer from the

General Fund to the Affordable Housing Trust Fund.

FY 2004	\$66,660,641
FY 2005	<u>\$78,597,284</u>
Increase (decrease)	\$11,936,643
Percentage Change	17.9%

The Conference budget includes funding for a new program called Rental Assistance for Families in Transition (RAFT), which would provide up to \$3,000 to help families who are at-risk of homelessness pay for utilities, security deposits, rent, or moving expenses. Both the House and Senate proposed to fund this program – the House provided \$2.0 million, the Senate \$4.0. The Conference Committee adopted the Senate version of the program which also requires that the program be funded through and administered by the Department of Housing and Community Development.

This budget also increases funding for community-based housing services. The appropriation for these services nearly doubles from \$421,925 to \$821,925. The allocation in this line-item for Consumer Education Centers increases from \$200,000 to \$505,000.

The Conference budget appropriates \$24.3 million for the Massachusetts Rental Voucher Program. This level of funding is sufficient to maintain the program at its current level. The Governor proposed to freeze vouchers upon turnover, which would reduce the total number of vouchers available and

reduced funding from \$22.7 million to \$20.1 million.

Public Safety

This budget provides \$1.3 billion for public safety, a \$22.4 million or 1.9 percent increase over FY04.

FY 2004	\$1,263,636,855
FY 2005	<u>\$1,286,030,945</u>

Increase (decrease)	\$ 22,394,090
Percentage Change	1.9%

Increased funding for public safety efforts includes additional funding for the Chief Medical Examiner’s office and two new state police classes. Under this budget, funding for the Chief Medical Examiner’s office increases from \$3.7 million to \$6.3 million, a \$2.5 million increase. The Conference budget adopts the proposals by the Governor and the Senate to fund two new state police classes, though this budget appropriates \$6.9 million while the other budget proposals provided \$11.0 million.

Judiciary

The Conference budget proposes \$579.3 million for the Judiciary, \$17.2 million or 2.9 percent less than the current funding level.

FY 2004	\$596,510,619
FY 2005	<u>\$579,294,635</u>

Increase (decrease)	(\$17,215,984)
Percentage Change	-2.9%

The Conference budget appears to underfund counsel pay, which compensates private attorneys assigned to criminal and civil cases. Currently, \$82.5 million is appropriated for these purposes, \$16.0 million of this total is supplemental funding passed earlier this year. The Conference budget provides \$67.4 million for counsel pay, the same amount proposed by the Senate. The House proposed a higher amount of \$72.1 million.

This budget did not adopt the Senate’s proposal to consolidate funding for court operations. This Conference budget maintains the current funding structure for Superior, District, Family, Probate, and Juvenile courts.

Revenue

Temporary and Other Revenue Measures

Most notably, the Conference Report transfers \$340 million from the Commonwealth Stabilization Fund and \$270 million from the Federal Medicaid Assistance Percentage (FMAP) Escrow Fund into the General Fund to be spent in FY05. (The House and Senate versions of the FY05 budget included these transfers as well.) While these transfers will leave relatively diminished balances in each of these funds, it is likely that higher than anticipated revenue collections in FY04 will help to replenish the Commonwealth Stabilization Fund. What’s more, monies held in the FMAP Escrow Fund were originally provided by the federal

government to help the Commonwealth weather the effects of the 2001 recession; given that Massachusetts continues to struggle to recover from that downturn, it is not inappropriate to use those monies now.

Also significant is the Conference Report's diversion of funds related to the master tobacco settlement agreement. The Conference Report transfers to the General Fund the full amount of the FY05 payment that Massachusetts is scheduled to receive as part of that agreement. Under current law, 70 percent of the payment is required to be deposited into the Health Care Security Trust for funding future health related services generally and tobacco control and reduction programs specifically. For FY05, the total payment is projected to be \$240 million; thus, in spending that amount, the Conference Report uses \$168 million that existing law would have set aside for future use. (Both the House and Senate versions of the budget also would have dedicated the full amount of the FY05 tobacco settlement payment to current spending, with the Senate continuing the practice indefinitely and the House returning to current law by FY 2008).

In addition, under current law, 30 percent of the annual investment earnings of the Health Care Security Trust are to be transferred to the Tobacco Settlement Fund and are permitted to be used for current expenditures. The Conference Report uses 50 percent of such earnings for expenditure in FY05. The amount of money that will become available for current spending as a result of this latter

change is uncertain, though, as such earnings are obviously tied to the market performance of those investments. For example, while the FY 2004 transfer of investment earnings to the Tobacco Settlement Fund amounted to about \$44 million, there was no such transfer in FY03, as the investments held by the Health Care Security Trust posted a loss. (By way of comparison, the House, for FY 2005 through FY 2007, would have used a larger proportion of the annual investment earnings for current expenditures than is presently allowed; the Senate would not have made any changes to current law regarding those investment earnings.)

Finally, like the House and Senate budgets, the Conference Report depends on \$28 million in transfers from several smaller budgetary funds, as well as on \$25 million from the sale of surplus state property. The transfers consist of the following: \$7 million from the Debt Defeasance Fund, \$17 million from the Renewable Energy Trust Fund, and \$4 million from the Massachusetts Housing Finance Agency.

Permanent Revenue Measures

The Conference Report assumes that legislation to close a variety of tax loopholes, originally proposed by the Governor in January, will generate \$89 million in FY 2005. That legislation has been adopted by both the House and the Senate but awaits conference. The House and Senate versions of the FY05 budget had counted on this legislation for only \$70 million.

The Senate version of the FY05 budget would have made several other changes in tax policy beyond those contained in the Governor's January legislation. More specifically, it would have created two new tax breaks – one that would have allowed commuters to deduct certain expenses in determining their income taxes and another that would have provided retailers with a rebate of the sales taxes they collect – and expanded a third – the property-tax exemption available to low-income seniors. The Conference Report does not include either of the first two changes, but does give cities and towns the option of providing a new property tax exemption, equal to five percent of the average assessed value of certain kinds of property in the municipality, to residents who are eligible for the state-level “senior circuit breaker” tax credit. It does not appear, however, that allowing municipalities to grant such exemptions will lead to an increase in the amount that the Commonwealth now provides to cities and towns to compensate them for revenue losses related to property tax abatements.

The Conference Report does take up the Senate's initiative to improve tax administration and enforcement. Specifically, the Conference Report increases funding for the Department of Revenue's administrative accounts by slightly more than \$3 million. The Conference Report, in turn, assumes that this boost in resources, as well as heightened auditing efforts already underway, will help generate an additional \$65.5 million in tax revenue in FY05.

With regard to fees and other charges, the Conference Report drops the Senate's proposed \$10.5 million assessment on health insurers in the Commonwealth. It repeals some existing fees, such as those the FY04 budget required blind individuals to pay in order to receive identification cards or certificates of blindness; at the same time, it increases several other fees, such as those for motorboat registrations, requests for information regarding criminal offenders, and licenses for wholesalers and vending machine operators.

Lastly, the Conference Report begins to phase out the cap on lottery payments to municipalities in FY 2007, completing the task in FY 2011. It also makes changes in current law regarding the assignment of lottery prizes, such that winners will be permitted to sell their prizes to commercial enterprises. As a result, the timing of tax payments on such prizes will be altered, with larger tax payments being realized in the short run and smaller payments (relative to the current stream of payments) occurring over the long run. Thus, the Conference Report anticipates that these changes will generate \$12.7 million in additional revenue in FY05 and a similar amount in FY 2006, but will reduce tax payments by several million dollars per year after that. Accordingly, the Conference Report specifies that any additional revenue generated by these changes in lottery prize assignment will be set aside in the Stabilization Fund for future use.

SPENDING BY PROGRAM AREA

PROGRAM	FY04 - Current	House 1	House	Senate *	Conference	Conference vs. FY04	% Change Conference vs. FY04
Debt Service	1,609,915,318	1,785,535,468	1,753,766,468	1,753,766,468	1,753,766,468	143,851,150	9%
Pensions ¹	704,625,766	1,234,226,766	1,217,436,000	1,217,436,000	1,217,436,000	512,810,234	73%
MassHealth/Medicaid ²	6,427,625,027	6,860,407,167	6,885,030,872	6,956,999,052	6,897,372,119	469,747,092	7%
Cash Assistance	595,927,196	584,007,566	591,474,385	601,266,193	599,465,955	3,538,759	1%
Group Insurance	811,131,373	839,159,672	830,745,587	830,885,587	830,885,587	19,754,214	2%
K-12 Educ (non Ch 70)	390,809,990	434,031,829	514,469,020	495,413,075	518,292,126	127,482,136	33%
School Building Debt Asst ³	405,150,327	251,019,076	418,019,076	418,019,076	418,019,076	12,868,749	3%
Local Education Aid (Ch. 70)	3,111,124,259	3,180,748,022	3,186,162,654	3,186,162,654	3,183,282,601	72,158,342	2%
Unrestricted Local Aid	390,267,936	390,267,936	392,267,936	394,767,936	394,767,936	4,500,000	1%
Lottery Aid	661,378,162	661,378,162	661,378,162	661,378,162	661,378,162	0	0%
Higher Education ⁴	862,437,905	893,434,007	894,534,961	902,194,579	904,489,719	42,051,814	5%
Child Care Services	365,783,476	357,999,293	367,233,518	366,591,594	368,093,830	2,310,354	1%
Public Health (DPH)	373,796,136	337,881,129	381,402,905	385,863,501	393,063,903	19,267,767	5%
Social Services (DSS)	685,571,761	702,397,410	700,043,189	705,919,088	705,150,762	19,579,001	3%
Mental Health (DMH)	592,826,152	587,653,558	587,123,295	590,179,441	594,558,781	1,732,629	0%
Mental Retardation (DMR)	1,014,330,235	1,044,318,458	1,051,473,604	1,062,647,473	1,063,844,604	49,514,369	5%
Elder Affairs	191,182,677	191,250,572	195,406,671	194,639,194	195,301,585	4,118,908	2%
Senior Pharmacy Program	96,372,765	96,372,765	110,000,000	119,000,000	115,000,000	18,627,235	19%
Other Health & Human Services	476,664,379	497,884,299	507,117,273	519,460,817	516,951,920	40,287,541	8%
Environmental Affairs ⁵	187,569,839	190,617,196	182,972,244	186,752,332	193,679,379	6,109,540	3%
Transportation ⁶	139,892,844	128,180,676	98,454,228	92,454,228	113,654,228	-26,238,616	-19%
Housing & Community Dev. ⁷	66,660,641	69,951,248	76,183,151	76,003,352	78,597,284	11,936,643	18%
Judiciary	596,510,619	585,552,589	580,925,500	574,775,313	579,294,635	-17,215,984	-3%
Exec. Office of Public Safety	1,263,636,855	1,251,139,203	1,258,595,175	1,287,640,025	1,286,030,945	22,394,090	2%
Economic Dev	106,003,767	112,441,198	115,103,983	119,989,641	126,186,701	20,182,934	19%
District Attorneys	76,857,589	76,777,126	76,073,470	78,984,558	79,234,459	2,376,870	3%
Attorney General	33,478,910	36,091,482	35,933,616	35,852,310	35,950,917	2,472,007	7%
Libraries	25,500,525	25,158,714	27,020,644	25,750,525	27,100,525	1,600,000	6%
Other administrative	699,388,540	701,996,567	668,354,882	679,833,289	687,445,561	-11,942,979	-2%
Total	22,962,420,969	24,107,879,154	24,364,702,469	24,520,625,463	24,538,295,768	1,575,874,799	7%
Total (excluding pensions)⁸	22,257,795,203	22,873,652,388	23,147,266,469	23,303,189,463	23,320,859,768	1,063,064,565	5%

Notes:

(1) Off-budget pension funding in FY04 is \$687.3 million; the House 1, House, Senate, and Conference budgets propose \$1.216 billion.

(2) While Senate appropriations are \$73.0 million higher than the House, the Senate budget uses \$80.0 million in revenue not used by the House for FY05 expenditures. This includes \$30.0 million in additional federal reimbursement and a \$50.0 million surplus in the FY04 MassHealth Essential account. The House 1, House, and Senate MassHealth/Medicaid numbers include Uncompensated Care Pool allocations of \$156.0 million, \$235.0 million, and \$368.0 million respectively. The Conference budget provides \$358.0 million for the Uncompensated Care Pool. The Governor proposed to transfer \$9.24 million from Medicaid to Elder Affairs. These figures do not include this transfer to facilitate year to year comparisons. The FY04 MassHealth/Medicaid total includes \$160.0 million in additional retained revenue as well as \$230.0 million for the Uncompensated Care Pool.

(3) The Conference, Senate, and House budgets propose to reduce available revenue by \$418 million to cover the costs of School Building Assistance. The table includes that amount as an appropriation.

(4) The higher education totals include \$30.6 million tuition revenue retained by the campuses.

(5) The Senate FY05 budget transfers \$8.2 million for the Watershed Management program off-budget, and the Conference budget transfers \$7.9 million off-budget for these purposes. These figures are included in the respective totals to enable comparisons to FY04 as well as to FY05 budget proposals. For a direct comparison, the FY04 total includes \$4.3 million for zoo operations since it is proposed as an appropriation in each of the FY05 budget proposals but was funded off-budget in FY04.

(6) Transportation figures for House 1 do not include the \$274.9 million that would be brought on budget as a result of the proposed Turnpike merger.

(7) The Conference and Senate budgets propose to transfer \$2.0 million from the General Fund to the Affordable Housing Trust Fund. This amount is included in the totals above.

(8) Including pensions in the FY04 and FY05 totals distorts the comparison because pensions are significantly underfunded in FY04.

** To facilitate comparisons to prior years and other budget proposals for FY05, this analysis does not deduct leasing costs for each affected EOHHS agency as is included in the Senate's proposal to consolidate funding for these purposes.*