

BUDGET MONITOR

The FY 2005 House Ways and Means Budget

Overview

After three billion dollars in budget cuts since the fiscal crisis began, the state continues to face a structural budget gap of more than a billion dollars. The House Ways and Means budget released April 14, 2004 proposes some painful cuts, but relies less than the Governor's proposal on such cuts. Instead, it proposes the use of additional reserve funds to balance the budget this year. Both proposals also use some new revenues that would be generated by closing corporate tax loopholes and other means.

The House Ways and Means proposal rejects the Governor's proposals to eliminate funding for school nurses and the Department of Public Health's support for community health centers. It does not cut millions in funding for day programs and transportation for clients of the Department of Mental Retardation. It does not eliminate basic income supports for low-income disabled people who would lose benefits as a result of the Governor's proposal to change disability definitions for the state's Emergency Aid to the Elderly, Disabled, and Children program (EAEDC).

But in many other areas the Ways and Means budget proposal follows House 1 in imposing deep additional reductions beyond the \$3 billion in cuts already made over the past three years. Such cuts include those in child care, hazardous waste clean-ups, the Department of Public Health's HIV/AIDS programs, and the elimination of EAEDC cash benefits for approximately 1,800 low-income legal immigrants.

The House Ways and Means proposal also introduces new cuts, including a reduction in funding for MassHealth Essential, which provides health insurance for very low-income adults. This budget also proposes to further reduce the state's anti-smoking programs.

The House 1 proposal failed to address the state's structural gap, using temporary savings and revenue to achieve balance in FY 2005. The House Ways and Means Budget suffers from similar flaws but it recognizes this problem openly, spending \$340 million from the rainy day fund and \$270 of federal fiscal relief funding. Relying on

these sources and others, the House Ways and Means proposal uses more temporary funding than the Governor proposed. These are reserve funds that exist to protect vital services in a fiscal crisis, and that is what the state is experiencing. It is important to remember, however, that the state also faces a structural budget gap that was primarily caused by over \$4 billion in tax cuts between 1990 and 2001. This structural gap can not be closed by the use of one-time solutions. It can only be closed by further permanent cuts to basic government services or by restoring some of the revenues lost to tax cuts.

This Budget Monitor will look inside the numbers of the budget proposed by the House Ways and Means Committee. The analysis will examine how the budget is balanced, compare funding levels to existing appropriations—and to the Governor’s proposal—and look at the details of services that have been cut, restored, or increased. In general, this Budget Monitor will compare FY05 funding levels to FY04 without accounting for inflation. It is important to remember that even in areas where funding remains constant between FY04 and FY05, services are likely to be reduced as the cost of providing them increases with inflation.

The HWM budget proposes a total spending level of \$24.4 billion, approximately \$280 million more than was proposed by House 1. One hundred-fifty million of this difference is due to the Ways and Means Committee’s rejection of the Governor’s proposal to restructure the school building assistance

program in a way that would save \$150 million in FY05 while pushing costs into future years. The remaining \$130 million gap is accounted for by the use of additional reserves by the Ways and Means Committee to mitigate some of the cuts proposed in House 1.

As discussed in the February 6, 2004 issue of the *Budget Monitor*, Massachusetts faces a budget deficit of approximately \$1.2 billion as it heads into FY05. The difference between the amount of revenue that Massachusetts is expected to collect under current law and the amount of spending that will be necessary to provide the same level of services in FY05 as the Commonwealth provided in FY04 is projected to be \$1.2 billion.

The budget put forward by the House Ways and Means Committee appears to close this gap by making policy changes to generate \$127 million in revenue from permanent and recurring sources, and, at a minimum, an additional \$831 million in revenue from sources that are either impermanent or that were originally intended for other purposes. It also reduces net spending by approximately \$200 million relative to the level necessary to maintain current services. Thus, while the House Ways and Means budget relies more heavily on temporary sources of revenue, its proposed cuts in spending are neither as extensive nor as deep as those contained in the Governor’s budget.

Revenue Proposals

The House Ways and Means budget is similar to the one proposed by the Governor in that it would employ a number of different methods – from tax law changes to the diversion of tobacco settlement monies – in order to produce additional revenue for use in FY05. The two budgets are dissimilar in that the House Ways and Means budget depends, to a somewhat greater degree, on revenue sources that are either impermanent or were once slated for other uses. The House Ways and Means version of the budget would produce at least \$831 million from such sources, while the gubernatorial version would yield \$700 million.

HOUSE WAYS & MEANS RESPONSES TO FY05 DEFICIT	
<i>all figures are in millions of dollars</i>	
Projected FY 2005 Deficit	1,190
New Recurring Revenue	127
Tax loophole closures	70
Lottery initiatives	57
Fees	*
Temporary and Other Measures	831
Stabilization Fund	340
FMAP Escrow Fund	270
Transfers from other funds	28
Sale of surplus property	25
Diversion of tobacco settlement payment	168
Diversion of Health Care Security Trust earnings	*
Approximate Net Spending Cuts <i>(from baseline)</i>	200

- ***Recurring Revenue Proposals:***
Based on the Chairman’s Executive Summary, a key premise of the House Ways and Means budget is that the Commonwealth will take in an additional \$70 million in FY05 from “tax loophole closures filed by

the Governor.” Those closures are included in House No. 4485, which Governor Romney filed on January 28 in conjunction with House 1. Among its various provisions, House No. 4485 would create a distinction between business income (that is, profits arising from the normal course of business) and non-business income (profits that do not arise from everyday operations, such as those derived from the sale of assets). This distinction would allow Massachusetts to exercise its legal authority – reaffirmed in a 1992 U.S. Supreme Court decision – to tax in full such non-business income. Massachusetts does not take advantage of this authority under current law, thus reducing state tax revenues and permitting corporations to earn millions of dollars in profits that are not subject to taxation in any other state. The House has not yet acted on House No. 4485, nor are any of its provisions included in the House Ways and Means version of the budget.

In releasing House 1, the Romney Administration indicated that it expected the Massachusetts Lottery to generate an additional \$57 million in FY05, due to more extensive marketing and a new scratch ticket game; it is assumed that the House Ways and Means budget counts on these funds as well. Finally, several outside sections of the House Ways and Means proposal would impose higher fees, such as an increase in the fee for registering motor boats in the Commonwealth, but the budget does not

indicate how much additional revenue these changes would produce.

- **Non-recurring Revenue Proposals:** Most notably, the House Ways and Means budget would transfer \$340 million from the Commonwealth Stabilization Fund to the General Fund in order to support FY05 spending; that amount represents two-thirds of the \$510 million balance in the Stabilization Fund as of the end of February. The House Ways and Means budget would also move \$270 million from the Federal Medicaid Assistance Percentage (FMAP) Escrow Fund, established last year to hold fiscal relief funds received from the federal government, into the General Fund.

In contrast, the budget put forward by the Governor would continue to reserve the entire balance of the Commonwealth Stabilization Fund and would use only \$139 million from the FMAP Escrow fund; it would, however, use \$190 million in reserves presently held by the Massachusetts Turnpike Authority for current spending, an approach that the House Ways and Means budget rejects. The House Ways and Means budget also does not adopt the Governor's School Building Assistance plan, which House 1 counts on for \$150 million in savings in FY05. The Legislature, in conjunction with Secretary of the Treasury Tim Cahill, has reportedly crafted its own school building plan, but that plan does not appear to produce temporary savings in the coming fiscal year, as the Governor's plan would.

Lastly, both the gubernatorial and the House Ways and Means versions of the budget use a total of \$28 million from several smaller funds, as well as \$25 million from the sale of surplus land and property, in order to support FY05 spending. Specifically, both would transfer the \$7 million balance of the Debt Defeasance Fund, plus \$17 million from the Renewable Energy Trust Fund, into the General Fund. Where House 1 would take \$4 million from the Lead Abatement Trust Fund, the House Ways and Means budget gets the same sum from the Massachusetts Housing Finance Agency.

- **Other Proposals:** The House Ways and Means budget would transfer to the General Fund the full amount of the FY 2005 payment that Massachusetts is scheduled to receive as part of the master tobacco settlement agreement. Under current law, 70 percent of that payment is required to be deposited into the Health Care Security Trust for funding health related services generally and tobacco control and reduction programs specifically. For FY05, the total payment is projected to be \$240 million; therefore, in spending that amount, the House Ways and Means budget uses \$168 million that existing law would have set aside for future use. This budget would also reduce the percentage of annual payments that are to be transferred to the Health Care Security Trust in FY 2006 and FY 2007 to 20 percent and 45 percent respectively. In contrast, Governor Romney's budget would use 100

percent of the annual tobacco settlement payments for current spending not just in FY05, but in every year thereafter.

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. This budget would increase that to 50 percent for fiscal years 2005 through 2007. The full effect of this change is unclear, as such earnings are 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 FY 2003, as the investments held by the Health Care Security Trust posted a loss. Governor Romney's budget would not make any changes to current law in this respect.

Healthcare

MassHealth Programs

MassHealth is the state program which provides healthcare coverage and services to low-income, elderly and disabled residents of the Commonwealth. This budget calls for an increase of approximately \$441 million in actual MassHealth spending from FY04. Although there is an increase in MassHealth spending, the appropriated level still appears to be significantly below maintenance for FY05. According to expenditures detailed in the

House Ways and Means budget and outside sections, following are the amounts slated to be spent during FY05 on MassHealth provision.¹

FY 2004	\$6,197,025,027
FY 2005	<u>\$6,742,530,872</u>
Increase (decrease)	\$ 544,905,845²
Percentage Change	8.8%

The House Ways and Means budget assumes a lower rate of enrollment growth next year than the Governor projected in House 1 – this budget assumes 4 percent growth as opposed to 7 percent. Accordingly, appropriations for CommonHealth, Medicaid Managed Care and MassHealth Standard are below those called for in House 1. Funding for MassHealth Essential – the state's health insurance program for the long-term unemployed – is \$110 million, \$50 million below the \$160 million necessary to re-enroll the 36,000 individuals who lost coverage when their benefits were cut off in FY04. This \$110 million would only be enough to enroll 25,000 individuals in MassHealth Essential. In addition, this budget would not restore benefits to the 9,800 legal immigrants whose benefits were eliminated last year.

¹ These numbers do not include appropriations for the Uncompensated Care Pool or the nursing home assessment. It is also important to note that only half of any spending increase is covered by the state, as our Medicaid program receives 50 percent reimbursement from the federal government.

² While the total increase in spending called for in the HWM budget is \$545 million, \$103 million of that can be accounted for by an increase in retained revenue projected for FY05.

This budget rejects \$70 million of cuts in hospital payments proposed by Governor Romney. The Governor's proposal included not only reductions in hospital payments, but also denied patients' access to hospitals for primary care services. This budget increases funding for the senior pharmacy Prescription Advantage program by \$13.7 million, which would allow it serve more seniors by re-opening enrollment. Enrollment had not re-opened this past fall, despite the existence of a number of qualified seniors who were not able to enroll due to lack of funds. Full funding for Mass Health breast and cervical cancer coverage is maintained.

The Children's Medical Security Plan (CMSP) – the program that covers children of low-income working parents who cannot afford market rate insurance but earn too much to qualify for Mass Health – does increase in this budget, from \$11.9 million in FY04 to \$13.9 million in FY05. However, this level of funding is still far below the estimated \$19 million which would be necessary to cover all eligible children. There are currently 12,000 children on the CMSP waitlist. Healthy Start, the pre-natal health program, would increase from \$6.2 million in FY04 to \$8.6 million in FY05. This appropriation would still be \$8 million below what is needed to fully support the program, however. Funding for those with HIV/AIDS who qualify for MassHealth (\$8.3 million) is substantially below the FY04 appropriation of \$15 million, but is \$2 million above actual expenditures in FY04.

Other Healthcare Spending

Two significant Medicaid-related items are funded such that they are not counted as traditional appropriations, the nursing home assessment and the Uncompensated Care Pool. The nursing home assessment would be unchanged in FY05 if the House Ways and Means budget is adopted.

The care pool, which funds the healthcare services that hospitals and community health centers provide to uninsured patients, 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. This budget appropriates \$230 million into the pool this year. The Governor's budget would have decreased this year's allocation by close to \$75 million.

Public Health

In the Governor's FY05 budget, state support of the Department of Public Health (DPH) fell for the fourth year in a row. The House Ways and Means budget would halt – although not reverse – that trend. Between FY01 and FY04, the department's funding fell by over \$133 million, a 26.6 percent decrease (30.9 percent in inflation-adjusted terms). The House Ways and Means budget would essentially level fund the Department of Public Health; however, if approved, this budget would still signal a

cut of 9.4 percent from FY03 funding levels.

FY 2004	\$373,796,136
FY 2005	<u>\$373,539,744</u>
Increase (decrease)	(\$ 256,392)
Percentage Change	-0.1%

In his FY05 budget, the Governor proposed to eliminate public health funding for community health centers (a cut of \$6.9 million) and school health nurses (which totaled \$12.6 million in FY04). Instead, House Ways and Means calls for a small increase of roughly \$148,000 over FY04 levels for these programs. Community health centers serve as the primary care provider for thousands of low-income people, especially pregnant women, children, and adolescents under the age of 18. School health nurses are often the first point of contact for low-income, uninsured children, who have few healthcare alternatives.

In this budget, substance abuse would experience a notable increase of \$2.4 million, or 7.2 percent – from \$33.8 million to \$36.2 million (this funding level is 14 percent higher than the Governor’s proposal – he would have cut funding by 6 percent). Funding for substance abuse programs fell by 24.2 percent between FY01-FY04, even before accounting for inflation. During FY04, six out of the 22 public detoxification centers closed, due to lack of funds. DPH estimated that over 4,000 individuals had lost services because of 54 percent decrease in ambulatory services. Meanwhile, heroin use has

more than doubled in Massachusetts over the past ten years and a recent survey found that this state has the highest rate of youth substance abuse nationwide.³

Smoking cessation would lose 31 percent of its funding, dropping to \$1.75 million – the state tobacco control program budget was \$50.5 million in FY01 – if adopted, the House Ways and Means funding level would be 97 percent below the state’s support of four years ago. At a time when youth smoking is on the rise in communities which have cut their tobacco control and education programs, this cut could have lasting effects on our healthcare system for years to come (most regular smokers begin in adolescence).

The HIV/AIDS line item would decline by 5.3 percent to \$30.4 million, 22.8 percent lower than its FY03 funding of \$39.3 million. In this budget, prostate cancer prevention and treatment would remain at \$1 million – House 1 would have eliminated this item. Teen pregnancy prevention would still lose more than 50 percent of its funding – to \$450,000, an 86 percent drop from its support of \$3.5 million in FY03.

Education: Chapter 70 and Grants

In the Governor’s FY05 budget, funding for Chapter 70 Aid and the Department of Education’s grants programs increased by \$112.8 million, or 3.2 percent. The House Ways and Means proposal calls

³ Massachusetts Organization for Addiction Recovery, Inc., *Substance Abuse in Massachusetts – The Problem and the Solution*

for an increase of \$185 million, or 5.3 percent. However, this level of funding remains \$62 million (1.7 percent) below original FY03 levels (a 7 percent drop if one accounts for inflation).

Total Education Spending⁴

FY 2004	\$3,501,934,249
FY 2005	<u>\$3,687,270,934</u>
Increase (decrease)	\$ 185,236,685
Percentage Change	5.3%

Chapter 70 Aid

FY 2004	\$3,108,140,588
FY 2005	<u>\$3,186,162,654</u>
Increase (decrease)	\$ 75,038,395
Percentage Change	2.4%

Chapter 70 Aid is the general purpose education aid that serves as the largest single source of state public education revenue. Communities use this aid to supplement local revenue and Department of Education grants and reimbursements. The House Ways and Means FY05 budget calls for an increase in Chapter 70 Aid of \$75 million – \$5.4 million more than the Governor proposed – 2.4 percent higher than in FY04. This level of funding is necessary to keep districts at the foundation funding levels required by the Education Reform Act of 1993, and would leave

⁴ 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.

Chapter 70 funding 2.2 percent below what it was in FY03.

Grants and Reimbursements

FY 2004	\$393,793,661
FY 2005	<u>\$501,108,280</u>
Increase (decrease)	\$107,214,619
Percentage Change	27.2%

This budget calls for a level of K-12 funding in FY05 that is \$72 million more than proposed in House 1. Much of this increase is concentrated in a few specific line items.

Of the proposed increase, \$80 million is allocated for reimbursements to local school districts for special education costs. The special education “circuit breaker” program was under-funded by about 50 percent in FY04. Districts were supposed to receive reimbursement for up to 75 percent of their qualifying expenses, but the state was only able to cover about 35 percent with the funds allocated in FY04.

If this budget is adopted, funding would be \$2 million higher than FY04 for the METCO program (from \$13.6 million in FY04 to \$15.6 million in FY05), which provides transportation for children of color living in Boston to commute to suburban schools. Regional school transportation would rise by \$11.6 million (from \$26.4 million to \$38 million) if HWM is approved. In addition, reimbursements to traditional public schools that have charter schools in their districts would increase by \$24.7 million (from \$13 million to \$37.7 million). MCAS funding would increase

slightly to \$14 million from \$10 million in FY04, though this amount is below the \$30 million the Governor proposed and the program's \$50 million support in FY03.

The House Ways and Means budget rejects Governor Romney's proposal to create five new educational grants programs. House 1 included: a \$5 million appropriation for alternative schools and programs; \$9.9 million to seven low-income districts, enabling them to provide full-day Kindergarten; \$3 million for recruiting and retaining math and science teachers; \$1 million for professional development; and a \$1 million incentive program for new science and math teachers.

If this budget were adopted, no restorations would be made to cuts experienced in FY04 in the following programs: the class size reduction initiative (funded at \$18 million in FY03, but not supported in FY04 or in this budget); non-regional district transportation (funded at \$51.8 million in FY03, but not supported in FY04 or in this budget); kindergarten grants (which decreased by \$5 million, to \$23 million in FY04 and in this budget); or early literacy programs (funding fell by almost 80 percent, from \$18.3 million to \$3.9 million, in FY04 and would remain the same 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. The budget for higher education fell by 19 percent from FY01-FY04 (24 percent if inflation is taken into account).

FY 2004	\$862,437,905
FY 2005	<u>\$885,745,078</u>
Increase (decrease)	\$ 23,307,173
Percentage Change	2.7%

In this budget, the total amount allocated for higher education would increase by \$22.3 million, though the costs of funding existing contracts with employees exceeds this amount. For the University of Massachusetts, total funding increases by \$20.9 million, but this is less than the \$53.6 million required to fund contractual obligations. State colleges' funding increases by \$1.9 million, though they will spend \$10.5 million on employee contracts. Finally, community colleges gain \$773,000 but \$5.4 million is necessary to support contracts for their employees.

This budget fails to address the large decreases borne by the system over the past few years. Funding for library reference materials, completely eliminated in FY04, is not restored. The House Ways and Means committee rejects the Governor's proposed Adams Scholarship Program and reduces appropriations for financial aid by \$3.2 million (\$79.2 million would be allocated this year, compared with \$82.4 in FY04).

Cash Assistance

Overall, the House Ways and Means budget would cut funding for cash assistance programs by approximately \$6 million dollars or 1 percent. This cut is due mainly to changes to the legal immigrant criteria for Emergency Aid to the Elderly, Disabled, and Children, which would eliminate benefits for approximately 1,800 legal immigrants.

FY 2004	\$595,927,196
FY 2005	<u>\$589,974,385</u>
Increase (decrease)	(\$ 5,952,811)
Percentage Change	-1%

Emergency Aid to the Elderly, Disabled, and Children (EAEDC) provides cash support to low-income elderly and disabled individuals or those charged with caring for disabled family members. Funding for this program would be cut by \$6.0 million or 9 percent. This reduction in funding would result from the proposal to narrow the eligibility for assistance. The criteria for legal immigrant status would be narrowed to the federal SSI standard, as was also proposed by the Governor. In addition, this budget would eliminate automatic coverage for clients of the Massachusetts Rehabilitation Commission. The House Ways and Means budget, however, rejects the Governor's proposal to deny EAEDC benefits to disabled individuals who did not meet the definition of "disabled" under the federal SSI program. This budget also rejects the House 1 proposal to permit DTA to cut benefits any time during the year if the

agency found that appropriations would not be sufficient.

The House Ways and Means budget would essentially level-fund Temporary Assistance for Families with Dependent Children (TAFDC), a cash assistance program for low-income families. The budget proposes to increase work requirements for parents of school aged children to 34 hours per week; parents of pre-school aged children would be required to work 24 hours per week. Currently, all eligible parents of children older than 2 years of age are required to work 20 hours per week. Although parents of pre-school aged children would be allowed to participate in education or training activities to meet the work requirement, parents of school aged children would not have this opportunity extended to them.

While the House Ways and Means budget was aligned with House 1 in extending work requirements for TAFDC recipients, the following proposals by the Governor **were not** included in this budget:

- Ending benefits for many disabled individuals by narrowing the disability criteria to match the Federal SSI standard.
- Excluding the \$150 annual September clothing allowance.
- Permitting DTA, at the request of the landlord, to deduct rent from the monthly benefit.
- Allowing DTA to cut benefits at any time during the year if appropriations are thought to be insufficient.

The Employment Services Program, which provides training and job search assistance to current and former TAFDC recipients, would essentially be level-funded under the proposed budget.⁵ The amount appropriated, \$17 million overall, is likely to be inadequate to meet increased demand due to the proposed increase in work requirements for TAFDC recipients as well as the poor state of the economy. House 1 proposed \$13 million more than House Ways and Means by funding ESP at \$30 million.

Office of Child Care Services

Overall, the House Ways and Means budget would provide level funding for the Office for Child Care Services (OCCS), the state agency that oversees child care and related services for families. Although the budget would provide \$5.0 million dollars to increase providers’ reimbursement rates, a few programs would experience reductions in funding.

FY 2004	\$365,783,476
FY 2005	<u>\$366,902,518</u>
Increase (decrease)	\$ 1,119,042
Percentage Change	0.3%

The House Ways and Means budget would essentially level-fund the Healthy Families/Newborn Home Visiting Program at \$12.1 million. This program, which provides services to first time

⁵ In FY 2004, funding for ESP totaled \$16.9 million dollars after accounting for federal Reed Act funding. House Ways and Means budget proposes a total of \$17.0 million, which includes \$3.0 million dollars in reimbursements for food stamps recipients.

parents under the age of 21 and their families, has never been fully funded to serve all first-time parents for the three-year commitment. The Governor’s budget would have cut funding by \$6.1 million or 50 percent.

This budget proposes to cut subsidized child care for low-income families by \$3.0 million. Roughly 20,000 children are on the waitlist for subsidized child care,⁶ and changes in the work requirements for parents receiving TAFDC would likely increase demand for subsidized child care. The House Ways and Means Committee does not consolidate teen parent voucher programs currently in separate agencies (OCCS and DTA) as was proposed in House 1. With the consolidation of these program, the Governor’s budget would have reduced funding by approximately \$5 million. The House Ways and Mean Committee also rejects the Governor’s proposal that requires low-income parents receiving subsidized child care to participate in parent orientation and child development workshops.

The budget proposed by House Ways and Means would cut funding for Child Care Resource and Referral agencies by \$1.5 million dollars. House 1 proposed to cut funding for CCR&Rs by \$2.0 million.

This budget, unlike the one proposed by the Governor, would provide \$5.0 million dollars to increase the reimbursement rate for child care

⁶ Office of Child Care Services, *Waitlist for Subsidized Child Care in Massachusetts*, August 2003.

providers. This funding would go toward increasing salaries, expanding benefit levels, or providing professional development for child care workers. The average child care worker earns \$20,322 annually; this funding would help preserve workforce levels in an industry which experiences relatively high turnover.

House Ways and Means proposes to increase funding for child care for children who are in the Department of Social Services' custody. The House Ways and Means budget would increase funding by \$1.0 million; the Governor's proposed to level-fund this account at \$48.3 million.

Social Services

Funding levels for social services are kept relatively constant in the House Ways and Means budget. Increased spending is proposed for domestic violence prevention and reimbursement rates to foster care families.

FY 2004	\$685,571,761
FY 2005	<u>\$700,043,189</u>
Increase (decrease)	\$14,471,428
Percentage Change	2%

The House Ways and Means budget proposes to increase funding for domestic violence programs by \$1.1 million or 6 percent. This increase will nearly restore the \$1.3 million reduction that occurred between FY 2003 and FY04. The House 1 budget proposed a smaller increase of \$57,988.

Both the House Ways and Means budget and the one proposed by the Governor propose to increase foster care reimbursement rates by \$5.0 million dollars.

Department of Mental Health

Overall, the budget proposed by House Ways and Means would cut funding for mental health services by \$6.7 million, which is slightly larger than the \$5.2 million cut proposed by the Governor.

FY 2004	\$592,826,152
FY 2005	<u>\$586,123,295</u>
Increase (decrease)	(\$ 6,702,857)
Percentage Change	-1%

The House Ways and Means budget would cut funding for adult in-patient facilities by \$4.8 million, which is smaller than the \$7.4 million dollar cut proposed by the Governor. The rest of the reductions for the Department of Mental Health occur in the administrative account. House Ways and Means proposes to cut this account by \$3.1 million, but the budget does not explain how it will achieve these savings. House 1 included an increase of approximately \$460,000.

This budget would increase funding for the following services:

- Nearly \$500,000 for emergency services and in-patient care for mentally ill individuals; House 1 proposed to cut funding by \$1.0 million.

- Adult mental health and support services would receive \$520,617 more than the FY04 funding level; the Governor proposed a \$970,928 increase.

House Ways and Means would essentially level-fund children and adolescent services; House 1 included a \$1.7 million increase.

Department of Mental Retardation

Funding for the Department of Mental Retardation would increase by \$33.4 million, as proposed by the House Ways and Means budget.

FY 2004	\$1,014,330,235
FY 2005	<u>\$1,047,734,604</u>
Increase (decrease)	\$ 33,404,369
Percentage Change	3%

The House Ways and Means budget would level-fund transportation and day/work programs for mentally retarded individuals at \$9.0 million and \$106.5 million respectively. The Governor's budget proposed to reduce funding for transportation by \$4.3 million or 32 percent; day and work programs would be cut by \$9.4 million or 9 percent under House 1.

The Boulet Settlement requires the state to provide services to mentally retarded individuals waiting for residential placements. House Ways and Means provides an increase of \$8.5 million for these services, while House 1 includes a \$20.5 million increase, which would

meet the FY05 funding requirement under the settlement.

Elder Affairs

House Ways and Means proposes to level-fund Elder Affairs. The increase that is provided in this budget is below the rate of inflation.

FY 2004	\$191,182,677
FY 2005	<u>\$194,356,671</u>
Increase (decrease)	\$ 3,173,994
Percentage Change	2%

Under the House Ways and Means budget proposal, Home Care through privately-contracted providers, which is currently funded at \$129.1 million, would receive a \$2.8 million dollar increase. The Governor proposed to transfer a total of \$9.2 million from Community Choices (a MassHealth program for elders) to home care contracts. The House Ways and Means budget does not propose such a transfer.

The House Ways and Means budget would also increase funding for Local Councils on Aging by \$600,000. These community-based centers provide a variety of services to elders, including transportation, meals, health screening, and recreation programs. House 1 level-funded this account at \$5.9 million.

Other Human Services

Funding for other human services would be increased by \$24.4 million or 5

percent overall. The House Ways and Means budget would reinstate funding for the salary reserve for human service providers as well as for the Targeted Cities Initiative. Funding for homelessness services would be reduced in this budget proposal.

FY 2004	\$476,664,379
FY 2005	<u>\$501,121,318</u>
Increase (decrease)	\$ 24,456,939
Percentage Change	5%

Funding for individual and family shelter assistance would be cut by \$4 million (\$2 million for each program) in the House Ways and Means budget. This budget also proposes to establish an escrow account for families whose income exceeds program eligibility for shelter assistance (federal poverty level). These families 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. The Governor's budget level-funds individual and family shelters at \$30.0 million and \$75.7 million respectively. House 1 does not include the escrow account initiative for families in emergency shelters.

The House Ways and Means budget proposes to reinstate the salary reserve for privately-contracted human service providers at \$20.0 million. The salary reserve, which was last funded at \$5.0 million in FY 2002, would provide salary increases for as many as 30,000 health care and human service providers. Half of the appropriation would fund salary increases for individuals earning

between \$25,001 and \$40,000 per year; the other half would fund raises for workers earning less than \$25,000 per year. The Governor's budget did not provide funding for this account. This budget also proposes to reinstate funding for the Targeted Cities Initiative, which was eliminated from the budget in FY 2003. This program which helps to prevent high rates of juvenile delinquency, teen pregnancy, and high school dropouts would be funded at \$1.1 million, \$620,000 more than its amount in FY03, but approximately \$330,000 less than when it was fully funded in FY02. House 1 did not provide funding for this initiative.

House Ways and Means did not adopt the Governor's proposal to invest in new mental health services for girls committed to the Department of Youth Services. House 1 funds this initiative at \$2.0 million.

Environmental Affairs

Overall, the budget for Executive Office of Environmental Affairs was reduced by \$6.6 million or 4 percent. Funding cuts for specific programs include: recycling, hazardous waste clean-ups, and implementation of the Clean Air and Safe Drinking Water Acts.

FY 2004	\$183,319,839
FY 2005	<u>\$176,708,991</u>
Increase (decrease)	(\$ 6,610,848)
Percentage Change	-4%

House Ways and Means would reduce overall funding for recycling by nearly \$1.0 million or 28 percent. The Governor's budget includes level-funding for recycling at \$3.5 million.

FY 2004	\$139,892,844
FY 2005	<u>\$ 97,420,972</u>
Increase (decrease)	(\$42,471,872)
Percentage Change	-30%

Cuts within the Department of Environmental Protection (DEP) include a reduction in funding for hazardous waste clean-up, which would be cut by \$1.0 million or 7 percent, under the proposed budget. Proposed reductions would likely compound previous cuts, which forced DEP to reduce compliance and monitoring activities. The House Ways and Means budget proposed to cut administrative funding for DEP by \$2.5 million, which is the same amount proposed by the Governor.

The House Ways and Means budget appears to under-fund snow and ice removal at \$20.0 million, which is approximately \$30.0 million below the current FY04 appropriation.⁷ The Governor proposed \$45.0 million for snow and ice removal.

Funding to meet federal standards on air and water quality would be reduced in this budget. House Ways and Means would reduce funding used to implement the Clean Air Act by \$292,244 or 10 percent. Funding for the Safe Drinking Water act would be cut by \$96,509 or 10 percent. The Governor's budget proposed to level-fund these programs at \$2.4 million and \$1.5 million respectively.

The House Ways and Means Committee rejected the Governor's proposal to merge the Highway Department with the Turnpike Authority. This merger would have moved \$161.6 million of the Turnpike Authority's costs onto the operating budget.

House Ways and Means proposes to create an oversight entity called the Transportation Coordination Council, which would work to improve transportation policies in the Commonwealth.

Transportation

The House Ways and Means budget would reduce the budget for transportation by \$42.5 million or 30 percent. The House Ways and Means budget does not adopt the Governor's proposal to merge the Highway Department with the Turnpike Authority.

Housing

Overall, funding for housing would increase by \$6.8 million dollars or 10 percent, as proposed in the House Ways and Means budget. The Massachusetts Rental Voucher Program would receive sufficient funding to operate at FY04 levels. Funding for Local Housing

⁷ The FY 2004 conference budget appropriated \$15.0 million for snow and ice removal. An additional \$35.0 million was appropriated in a supplemental budget which was passed in March.

Authorities and community-based housing services, which includes Housing Community Education Centers, would increase under the proposed budget.

FY 2004	\$66,660,641
FY 2005	<u>\$73,482,151</u>

Increase (decrease)	\$ 6,821,510
Percentage Change	10%

The Massachusetts Rental Voucher Program (MRVP) would receive a \$1.6 million increase as proposed by the House Ways and Means budget. This increase in funding would be sufficient to maintain current program levels. The Governor proposed to reduce the total number of vouchers available by not re-issuing them upon turnover. This would result in a \$2.6 million or 11 percent cut for MRVP.

House Ways and Means adopts the Governor’s proposal to increase funding for operating subsidies to Local Housing Authorities by \$4.9 million dollars. In contrast to the Governor’s budget—which proposed a minimum rent of \$50 per bedroom—House Ways and Means proposes to implement a monthly minimum rent of \$50 per household. Both budgets would allow housing authorities to grant exemptions in cases of “severe hardship.”

House Ways and Means also proposes to increase funding for community-based housing services and would earmark \$400,000 for Housing Community Education Centers. House 1 proposed to

increase funding for housing services by approximately \$119,000.

This budget does not adopt the Governor’s proposal to reinstate the rent escrow program for residents in public subsidized housing. Under this proposal, residents who wish to eventually move to private housing would deposit a portion of their rent into an escrow account and the state would provide a partial match of the amount. House 1 proposed that the program, which was eliminated in FY04, be funded at its FY01 level of \$5.0 million.

Public Safety

The House Ways and Means budget slightly reduces funding for public safety, rejects a few proposed mergers by the Governor, and invests in some areas that the House 1 budget did not.

FY 2004	\$1,263,636,855
FY 2005	<u>\$1,256,050,953</u>

Increase (decrease)	(\$ 7,585,902)
Percentage Change	-1%

Initiatives by the Governor that were not adopted by House Ways and Means include:

- Moving the Alcoholic Beverage Control Commission from the Treasurer’s Office to the Executive Office of Public Safety.
- Establishing two new State Police Classes; the Governor’s proposal provided \$11.0 million.

House Ways and Means does, however, propose to increase funding for the Office of the Chief Medical Examiner. Increased funding would provide investments in toxicology testing as well as provide 3 additional pathologists.

The House Ways and Means budget would establish a Citizens Correctional Review Board to monitor and report on conditions and operations within the Department of Corrections.

Judiciary

Overall, funding for the courts would experience a \$14.4 million dollar or 2 percent decrease as proposed by the House Ways and Means budget. While the total finding level for the judiciary appears higher in House 1 than in the House Ways and Means Budget (refer to the table on the last page), this is due to higher retained revenue authorizations in House 1. House Ways and Means proposes \$545.5 million in general fund resources for the judiciary and \$35.3 million in retained revenue. House 1 had proposed \$501.6 million in general fund resources and \$84.0 million in retained revenue. The retained revenue amounts would be available for expenditure only if those amounts of revenue are generated by the courts, and it is unclear if they will be.

FY 2004	\$706,847,118
FY 2005	<u>\$692,298,421</u>
Increase (decrease)	(\$ 14,548,697)
Percentage Change	-2%

House Ways and Means rejected the Governor’s proposal to consolidate various legal services, without corresponding earmarks. The House Ways and Means budget would provide separate accounts and level-funding for the Massachusetts Legal Assistance Corporation, Mental Health Legal Advisors Committee, and Correctional Legal Services Committee.

House Ways and Means also rejected the Governor’s proposal to increase fees for indigent defendants in criminal cases.

Administrative Cuts

In addition to the administrative cuts described above, the following administrative cuts are proposed in the House Ways and Means Budget:

- Funding for administrative costs at the Department of Social Services would be cut by \$861,072, the Governor proposed to increase funding by \$1.8 million.
- The administrative account in the Executive Office of Elder Affairs would be cut by \$131,537 or 8 percent; House 1 proposed to increase funding by \$93,213 or 6 percent.
- The Department of Revenue would experience a \$7.8 million cut to funding for its operations; the Governor’s budget proposed to level fund this line-item.

Cuts to administrative and staffing levels and will likely reduce the state’s ability to provide cost-effective services. For

example, if cuts to the Department of Revenue's administrative account lead to a reduction in the number of auditors working to stop tax evasion, these reductions could cost the Commonwealth a far greater amount in lost revenue than the apparent savings.

SPENDING BY PROGRAM AREA

PROGRAM	FY04 - Current	House 1	HWM	H1 vs. FY04	% Chg H1 vs. FY04	HWM vs. FY04	% Chg HWM vs. FY04	HWM vs. H1	% Chg HWM vs. H1
Debt Service	1,609,915,318	1,785,535,468	1,753,766,468	175,620,150	11%	143,851,150	9%	-31,769,000	-2%
Pensions ¹	849,625,766	1,234,226,766	1,217,436,000	384,601,000	45%	367,810,234	43%	-16,790,766	-1%
MassHealth/Medicaid ²	6,427,625,027	6,860,407,167	6,972,530,872	432,782,140	7%	544,905,845	8%	112,123,705	2%
Cash Asst.	595,927,196	584,007,566	589,974,385	-11,919,630	-2%	-5,952,811	-1%	5,966,819	1%
Group Insurance	811,131,373	839,159,672	830,745,587	28,028,299	3%	19,614,214	2%	-8,414,085	-1%
K-12 Educ (non Ch 70)	383,809,990	434,031,829	501,108,280	50,221,839	13%	117,298,290	31%	67,076,451	15%
School Building Debt Asst ³	405,150,327	251,019,076	418,019,076	-154,131,251	-38%	12,868,749	3%	167,000,000	67%
Local Education Aid (Ch. 70)	3,118,124,259	3,180,748,022	3,186,162,654	62,623,763	2%	68,038,395	2%	5,414,632	0%
Unrestricted Local Aid	390,267,936	390,267,936	392,267,936	0	0%	2,000,000	1%	2,000,000	1%
Lottery Aid	661,378,162	661,378,162	661,378,162	0	0%	0	0%	0	0%
Higher Education ⁴	862,437,905	893,434,007	885,745,078	30,996,102	4%	23,307,173	3%	-7,688,929	-1%
Child Care Services	365,783,476	357,999,293	366,902,518	-7,784,183	-2%	1,119,042	0%	8,903,225	2%
Public Health (DPH)	373,796,136	337,881,129	373,539,744	-35,915,007	-10%	-256,392	0%	35,658,615	11%
Social Services (DSS)	685,571,761	702,397,410	700,043,189	16,825,649	2%	14,471,428	2%	-2,354,221	0%
Mental Health (DMH)	592,826,152	587,653,558	586,123,295	-5,172,594	-1%	-6,702,857	-1%	-1,530,263	0%
Mental Retardation (DMR)	1,014,330,235	1,044,318,458	1,047,734,604	29,988,223	3%	33,404,369	3%	3,416,146	0%
Elder Affairs	191,182,677	191,250,572	194,356,671	67,895	0%	3,173,994	2%	3,106,099	2%
Senior Pharmacy Program	96,372,765	96,372,765	110,000,000	0	0%	13,627,235	14%	13,627,235	14%
Other Health & Human Serv	476,664,379	497,884,299	501,121,318	21,219,920	4%	24,456,939	5%	3,237,019	1%
Environmental Affairs	183,319,839	190,617,196	176,708,991	7,297,357	4%	-6,610,848	-4%	-13,908,205	-7%
Transportation ⁵	139,892,844	128,180,676	97,420,972	-11,712,168	-8%	-42,471,872	-30%	-30,759,704	-24%
Housing & Community Dev.	66,660,641	69,951,248	73,482,151	3,290,607	5%	6,821,510	10%	3,530,903	5%
Judiciary	596,510,619	585,552,589	580,731,500	-10,958,030	-2%	-15,779,119	-3%	-4,821,089	-1%
Exec. Office of Public Safety	1,263,636,855	1,251,139,203	1,256,050,953	-12,497,652	-1%	-7,585,902	-1%	4,911,750	0%
Economic Dev	106,003,767	112,441,198	111,294,551	6,437,431	6%	5,290,784	5%	-1,146,647	-1%
District Attorneys	76,857,589	76,777,126	75,923,470	-80,463	0%	-934,119	-1%	-853,656	-1%
Attorney General	33,478,910	36,091,482	35,643,451	2,612,572	8%	2,164,541	6%	-448,031	-1%
Libraries	25,500,525	25,158,714	26,670,644	-341,811	-1%	1,170,119	5%	1,511,930	6%
Other administrative	699,681,290	701,996,567	664,302,837	2,315,277	0%	-35,378,453	-5%	-37,693,730	-5%
Total	23,103,463,719	24,107,879,154	24,387,185,357	988,146,359	4%	1,283,721,638	6%	279,306,203	1%

Notes:

- (1) Off-budget pension funding in FY04 is \$832.3 million; the House 1 and House Ways and Means budgets propose \$1.216 billion.
- (2) The FY04 Medicaid total includes \$160.0 million in additional retained revenue as well as \$230.0 million for the Uncompensated Care Pool. The House 1 and House Ways and Means MassHealth/Medicaid numbers include funding 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.
- (3) House Ways and Means reduces available revenue by \$418 million to cover the costs of School Building Assistance.
- (4) The higher education total includes \$30.6 million tuition revenue retained by the campuses.
- (5) 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.