

BUDGET MONITOR

The FY 2005 Budget: Final Numbers Including Vetoes and Overrides

Overview

In the early morning hours of July 31st, the Legislature finished work on the fiscal year 2005 state budget. The legislature overrode \$96.5 million in vetoes by the Governor, including \$5.0 million to help low-income senior citizens pay for prescription drugs, \$1.3 million for anti-smoking efforts, \$20.0 million to provide low paid human service workers with 2 percent salary increases, and \$6.9 million in funding for local school districts.

Looking forward, the fiscal year 2005 budget will likely close much, but not all, of the structural budget gap with which the Commonwealth has grappled for four years. The good news is that revenues in FY04 were higher than anticipated; thus, if revenue growth in FY05 matches the rates projected, the Commonwealth could take in as much as \$720 million more in revenue than the enacted budget assumes. The bad news is that the FY05 budget uses \$831 million in one-time or temporary revenue. This means that the extra revenue that is being generated by

economic growth will likely not be enough to bring the budget into structural balance.

It is also important to understand how this new balance was achieved. While the Commonwealth has taken some steps since the fiscal crisis began to generate new revenue – including closing corporate tax loopholes, repealing or delaying some tax cuts, and imposing new tobacco taxes – most of the budget gap was closed by deep cuts to important public services. Between fiscal years 2002 and 2004, Massachusetts cut per pupil state funding for education more than any other state in the nation. During the fiscal crisis, on an inflation-adjusted basis, public health was cut by 28 percent, public higher education was cut by 21 percent, appropriations within the Department of Housing and Community Development declined by 53 percent, and environmental affairs spending went down by 28 percent.

Between 1990 and 2001 there were about \$4 billion in tax cuts in Massachusetts. At the time, it seemed that these cuts could be adopted without sacrificing

basic services like education and health care. Yet, in communities across the state, residents are seeing the effects of the spending cuts that have now been made to pay for the tax cuts of the 1990s. It is worth asking whether it was in the Commonwealth's long-term interest to lead the nation in cutting K-12 education and to impose cuts of 20 percent or more in higher education, public health, housing and environmental protection in order to pay for large state tax cuts.

This *Budget Monitor* examines the final FY05 budget, taking into account vetoes by the Governor and overrides by the Legislature. It focuses primarily on FY05 appropriations and how they compare to last year. In several areas, however, it also provides more in-depth context, describing how current funding levels compare to pre-crisis levels.

Health Care

The Governor vetoed \$22.2 million dollars from the budget for medical assistance. The Legislature restored \$12.2 million of this funding. In FY05 the budget totals \$6.529 billion.

FY 2004	\$6,197,625,027
FY 2005	<u>\$6,529,372,119</u>
Increase (decrease)	\$ 331,747,092
Percentage change	5.4%

The MassHealth program is the state's Medicaid insurance program that provides health care coverage for low-income and disabled residents of the Commonwealth. It also pays for nursing

home care and other long-term and health care services not provided by Medicare to low-income elders. There are a number of different MassHealth programs, with varying eligibility and service coverage provisions. The federal government provides 50 percent reimbursement for most of the services provided by the MassHealth program. Historically, Massachusetts has provided coverage more generous than the coverage that is reimbursable by federal funds. Some of the Governor's vetoes are intended to scale back the Commonwealth's coverage to include only those populations or services that would be eligible for the federal government's partial reimbursement.

In particular, in an outside section of the budget, the Governor vetoed continuing MassHealth coverage for 3,000 elders and disabled adults who are legal immigrants. In his veto message, the Governor expressed resistance to providing health care coverage for these individuals because the federal government will not provide partial reimbursement for this population in the Medicaid program. The Legislature did not override this veto, nor did it override the associated veto of \$10.0 million in the MassHealth Basic program which is the estimated cost of coverage for this population. These residents of the Commonwealth had lost MassHealth coverage last year, but had that coverage briefly restored between June and September of 2004.

The Governor also vetoed \$11.7 million within the MassHealth program targeted to managed care organizations providing

services through the primary care clinician/mental health and substance abuse program, but the Legislature overrode this veto. This funding is designated for certain hospitals that serve a high proportion of “public payer” patients.

The Governor let stand the Legislature’s recommendations for funding for the CommonHealth program, the Senior Care Plan, Senior Care Options and MassHealth Standard program. The CommonHealth program will increase \$5.0 million over FY04 levels, an increase of 6 percent. Senior Care and Senior Care Options, funded at \$1.5 million in FY04, are appropriated at \$1.8 million in FY05. Funding for MassHealth Standard increases 5 percent over FY04, increasing to \$390.0 million. This figure represents a lower figure than originally proposed by the Governor in House 1, partly because MassHealth enrollment has not increased as quickly as anticipated.

The Governor vetoed an outside section of the budget which would have repealed the state’s authority to establish enrollment caps in the CommonHealth program for adults and children with disabilities, in the program for persons with HIV, and in the Premium Assistance/Insurance Partnership programs for low-income working adults. The Governor’s vetoes allowed enrollment caps to be put in place. The Legislature did not override this veto, and has let stand this authorization to establish enrollment caps.

The Governor also vetoed an outside section of the budget that would have required public hearings prior to implementing restrictions on eligibility for or services covered by MassHealth. The Legislature let stand these vetoes, thereby eliminating the requirement for the public hearings.

Another of the MassHealth programs is the MassHealth Essential program, funded in the fiscal year 2005 budget at \$160 million. This program, funded through the Uncompensated Care Pool, is expected to provide insurance coverage for approximately 36,000 long-term unemployed individuals.

The House had proposed an incentive program designed to encourage MassHealth participants to enroll in community health centers for their primary care. The Governor vetoed this \$500,000 incentive program, but the Legislature overrode this veto.

Also within the MassHealth program, the Governor let stand a recommendation that individuals with income levels up to 200 percent of the federal poverty level who have HIV would be eligible for MassHealth. In FY04, coverage had been restricted to those with incomes only up to 133 percent of the federal poverty level.

The Governor had originally proposed funding the Children’s Medical Security Plan (CMSP) at \$11.9 million. Funding at this level would have left more than 15,000 low-income children who are not eligible for MassHealth on a waiting list for this health insurance coverage. The

Legislature recommended a significant increase in funding for CMSP, proposing increasing funding to \$21.4 million. The Governor chose to let stand this recommendation, and the CMSP will now be able to lift its enrollment cap, and enroll all of the children on its waiting list. Along with the increased funding for this item, the budget recommends that the Executive Office of Health and Human Services seek a federal waiver that would allow the state to expand MassHealth coverage and include inpatient hospital coverage currently not covered by CMSP. If this waiver is granted, there would be some federal reimbursement available for certain services currently provided by CMSP.

The Governor also let stand a recommendation to increase funding for the Healthy Start prenatal care program for uninsured pregnant women. The Governor had initially recommended maintaining the \$6.2 million FY04 funding level for this program, which would have led to an enrollment cap on this program. In the final version of the budget, funding for this program is \$14.2 million. Healthy Start should be able to serve more than 5,000 women, and there should be no need to implement a waiting list.

Uncompensated Care Pool

The Uncompensated Care Pool funds the health care services that hospitals and Community Health Centers provide to people who do not have health insurance and cannot pay privately. The Pool is also the source of funding for the

MassHealth Essential program. The Pool is funded through a variety of complex mechanisms that include direct state appropriations, federal reimbursements and transfers, and assessments on hospitals and health insurance providers. The health care providers receive compensation for “free care” and some “bad debt” from the Pool, and then the state receives federal reimbursement for expenditures made from the Pool.

The state appropriates \$360 million into the Uncompensated Care Pool in FY05. However, because the federal government provides reimbursement to the state for expenditures made by the pool, the state appropriation for uncompensated care does not represent a net state cost.

Public Health

Throughout the budget debate, the Legislature attempted to restore some of the funding to public health programs that the Governor had initially proposed eliminating. The Governor’s original budget had proposed funding for public health programs at \$337.9 million, the Conference budget included \$393.1 million, and the final budget stands at \$392.4 million. In FY01, however, funding for the Department of Public Health had been at \$507.1 million. In inflation-adjusted dollars, this year’s budget represents a 28.2 percent decline in support since fiscal year 2001.

FY 2004	\$373,796,136
FY 2005	<u>\$392,363,903</u>
Increase (decrease)	\$ 18,567,767
Percentage change	5%

The Legislature overrode only two of the Governor's vetoes within the state's public health programs. The Governor had vetoed all of the funding in the department's suicide prevention program. These statewide and community-based suicide prevention and surveillance grants were completely eliminated from the Governor's initial budget recommendation (House 1), but restored to \$250,000 by the Senate during the budget debates, and approved by the Conference Committee. The Governor once again attempted to eliminate funding for these services, by vetoing the full amount of the recommended funding. The Legislature restored the funding by overriding the Governor's veto. Funding for suicide prevention returns to \$250,000, an amount that represents only half of what the funding was just three years ago.

Also overridden by the Legislature was the Governor's veto of funding for the smoking cessation and prevention programs at the Department of Public Health. Funded at \$2.5 million in fiscal year 2004, the Governor's initial recommendation had been level funding. In the Conference Committee, the Legislature had approved increasing funding to \$3.8 million. This increase was then vetoed by the Governor, but the veto was overridden. Funding for smoking cessation and prevention services for fiscal year 2005 will remain

at \$3.8 million. Although there is additional dedicated funding for anti-smoking education within the school-based health education programs, the Massachusetts Tobacco Control Program has experienced drastic cuts over the past several years.

The Legislature let stand the Governor's veto of funding for stroke prevention and education and scholarships for nurse's aides and direct care workers. The fiscal year 2005 budget does not include specially-dedicated funding for either of these programs.

In other public health items, the fiscal year 2005 budget maintains funding levels supported by the Conference budget. Among these budget items is level-funding for efforts to prevent the spread of HIV/AIDS and Hepatitis C. The Legislature recommended \$31.6 million for the prevention and treatment of HIV/AIDS, and approximately \$563,000 for efforts similarly targeting Hepatitis C. The Governor did not veto these funding levels. The Legislature also recommended restoring funding for the universal distribution of Hepatitis A, Hepatitis B, influenza, and Pneumococcal vaccines, at \$25.0 million. This is a \$5.9 million increase over FY04 funding levels, and should restore the adult vaccination program and continue the provision of vaccines for children.

The Governor had originally proposed cuts in substance abuse services, but the Legislature recommended increased funding. Funding in FY04 had been \$33.8 million, and the Governor had

originally recommended reducing funding to \$31.7 million. The Governor let stand, however, the Legislature's recommendation of \$36.6 million. Although this is an 8 percent increase from FY04 levels, it is an 18 percent decline from FY01.

Although the Governor had originally recommended eliminating the Department of Public Health's support for the state's Community Health Centers; the Legislature proposed an increase of \$398,000 over FY04 levels. The Governor did not veto this proposal, but even this modest increase represents a \$5.9 million reduction since FY01.

Education: Chapter 70 and Grants

Funding for Chapter 70 Aid and the Department of Education's grants programs increases by \$199.6 million or 5.7 percent in the FY05 budget.

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%

¹ The numbers in this section do not include appropriations 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.

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 budget provides \$3.183 billion for FY05. This amount is \$72.2 million or 2.3 percent higher than the FY04 level. This level of funding is \$201.1 million or 6 percent below the FY03 appropriation after adjusting for inflation.

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 FY05 budget includes \$518.3 million for the Department of Education's grants programs, a \$127.5 million increase over FY04.

The Legislature overrode the Governor's veto of the \$6.9 million appropriation for the educational expense reserve, which helps local municipalities meet funding shortfalls.

The Legislature also rejected the Governor's amendment to the outside section establishing the Department of Early Education and Care and its governing Board. The Governor's amendment would have placed the Department within the Executive Office of Health and Human Services and would have changed the makeup of the Board to exclude teachers nominated by the Massachusetts Teachers Association and the Massachusetts Federation of

Teachers. That amendment also would have removed the stipulation that a child care provider serve on the Board. The Legislature's rejection of this amendment upholds the Conference version, which establishes the Department of Early Education and Care as an autonomous state agency.

Although the FY05 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 in FY04 to \$38.0 million, an \$11.6 million increase. This amount is still below the FY03 appropriation of \$41.7 million. Moreover, funding for school transportation for non-regional districts – funded at \$51.8 million in FY03 – was not funded in FY04 or in the budget signed by the Governor;
- 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 the budget as approved.

Higher Education

State spending on public higher education includes operations support for the University of Massachusetts and the state and community college systems as well as funding for student financial aid

and scholarship programs. The higher education budget for FY05 totals \$904.5 million.

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

Overall, funding for public colleges and universities increases by \$42.1 million or 5 percent over the FY04 funding level. State support for UMass increases by 7 percent; appropriations to state colleges rise by 4 percent; and funding for community colleges goes up 2 percent.

The Legislature overrode all of the Governor's line-item vetoes for higher education, including the proposed reduction in funding for UMass' capital lease payments to the Massachusetts Development Finance Agency. The Governor reduced the appropriation to \$550,442, the same amount provided in the House 1 budget. The Legislature restored this line-item to the \$1.1 million provided in the Conference budget.

The Legislature let stand the Governor's veto which denies in-state tuition rates for certain immigrant students. The conference budget added provisions, ultimately vetoed by the Governor, which would have allowed many immigrant students to pay in-state tuition rates for the Commonwealth's public colleges and university system. This change would have allowed undocumented immigrants who have lived in the United States for at least 3

years and have graduated from a Massachusetts high school to pay the lower tuition rates that other in-state students pay.

Despite overall gains for higher education, this budget does not restore cuts to certain program resulting from reductions between FY03 and FY04. For example, scholarships and financial aid are level-funded at \$82.4 million, but this follows a \$9.2 million or 10 percent cut from the previous year. Public higher education has sustained significant funding reductions over the past few years. Since FY01, total funding for higher education has fallen by \$158.5 million or 5 percent (\$243.9 million or 21 percent in inflation-adjusted terms).

Transitional and Cash Assistance

The FY05 budget provides \$599.5 million for cash assistance programs. While the Governor kept funding intact, he removed important language allowing the Legislature to respond in the event of funding shortfalls.

FY 2004	\$595,927,196
FY 2005	<u>\$599,465,955</u>

Increase (decrease)	\$ 3,538,759
Percentage Change	0.6%

The Legislature did not act on the Governor’s removal of line-item language which would have required that Commissioners within the Executive Office of Health and Human Services provide 60 days notice prior to changing

eligibility criteria or benefit levels for the following programs: Temporary Assistance for Families with Dependent Children, Emergency Aid to the Elderly, Disabled, and Children, and family shelters. Removing these requirements eliminates processes which would have given the Legislature time to act on a funding shortfall by appropriating more money. Their failure to act on the veto upholds the Governor’s restrictions.

In addition to providing sufficient funding for the current cash assistance caseload, the FY05 budget implements new work requirements for parents receiving TAFDC. Under this budget, parents with children between 6 and 9 years of age are required to work 24 hours per week; parents with children older than 9 years of age are required to work 30 hours per week. This budget also permits parents to meet their work requirements by participating in education or training activities, an option which previously had been extended only to parents with children younger than 6 years of age. Additionally, parents residing in homeless shelters are allowed to use their time spent searching for housing to count toward work requirement hours.

Office of Child Care Services

Funding for the Office of Child Care Services (OCCS) is held essentially constant at \$368.1 million in the FY05 budget. The Governor did not veto appropriations to the Office of Child Care Services, despite funding

differences with the House 1 budget proposal.

FY 2004	\$365,783,476
FY 2005	<u>\$368,093,830</u>

Increase (decrease)	\$ 2,310,354
Percentage Change	0.6%

The budget for the Office of Child Care Services provides level-funding for many programs, a reduction in funding for subsidized child care, and funding to increase child care providers' reimbursement rates.

Home visits for at-risk newborns and Child Care Resource and Referral agencies are among several programs and services receiving level-funding. Funding for these respectively total \$12.0 million and \$10.0 million.

Funding for subsidized child care for low-income families is reduced from \$281.9 million in FY04 to \$278.9 million in FY05. While the amount appropriated is sufficient to maintain the current caseload, it is not enough to provide subsidies to the nearly 15,000 children currently on the waitlist.

The budget for FY05 includes a \$5.0 million reserve account to increase child care providers' reimbursement rates, expand benefits, and provide professional development opportunities. This funding will help preserve workforce levels in an industry which experiences relatively high turnover.

Social Services

The Governor approved the Conference budget's overall appropriation of \$705.2 million for social services.

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, benefit from a modest increase in appropriations. The FY05 budget includes \$217.0 million, a \$6.2 million or 3 percent increase over FY04. Funding for other services for families and children including, foster care, adoption, and family reunification, is also slightly higher than it was in FY04. The \$261.8 million line-item will provide a \$12.5 million or 5 percent increase.

Department of Mental Health

The Governor upheld the Conference budget's appropriations to the Department of Mental Health.

FY 2004	\$592,826,152
FY 2005	<u>\$594,558,781</u>

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

This budget provides relatively small increases in 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 increases from \$65.8 million in FY04 to \$68.6 million in FY05, a \$2.8 million increase. Funding for adult support services rises from \$271.6 million to \$274.4 million, a \$2.7 million difference.

The increase in adult support services corresponds with a decrease in funding for adult inpatient facilities. In FY04 \$156.8 million was appropriated for adult residential facilities; the FY05 budget reduces funding to \$151.2 million.

Department of Mental Retardation

The Governor adopted the Conference’s funding for the Department of Mental Retardation. The FY05 budget provides full-funding for the Boulet Settlement as well as higher appropriations for transportation and day/work programs for mentally retarded individuals. The Governor maintained these levels of funding.

FY 2004	\$1,014,330,235
FY 2005	<u>\$1,063,844,604</u>
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 in this budget. In FY04, \$49.5 million were appropriated for this purpose.

The enacted budget increases funding for transportation services as well as day/work programs for mentally retarded individuals. Funding for transportation services increases slightly from \$13.2 million in FY04 to \$13.8 million in FY05. Day and work programs are funded at \$109.2 million or \$2.7 million more than FY04. The House 1 budget would have reduced funding for these services by \$4.3 million and \$9.4 million respectively.

Elder Affairs

After the Governor’s vetoes, the total funding for elder services represents only a 2.2 percent increase over funding levels for FY04, which is approximately the same as the rate of inflation.

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

Included in the elder services funding is \$37.5 million for the enhanced home care program – level-funding these intensive services for frail elders who wish to remain in their homes.

The Governor’s vetoes had included wording changes to the Medicaid Home and Community-Based Waiver (the so-called 2176 waiver) that would increase income eligibility to 300 percent of the federal Supplemental Security Income benefit level, and set asset limits at \$20,000. The Governor expressed

concern that even though this wording would expand eligibility under the MassHealth program, the state would not be eligible for federal reimbursement under current guidelines. The Legislature overrode the Governor's veto, returning to less-restrictive language.

Home care case management for elders remains at the FY04 level of \$34.9 million, while home care direct services increase \$2.9 million over FY04 levels, to \$97.0 million. This is less than the original amount proposed by the Governor.

The Governor did not veto the \$50,000 in funding for the Elder Residential Assessment and Placement Program (ERAPP) for homeless elders. Although unfunded in FY04, this program had received \$250,000 in FY03.

Elder Protective Services, which provides guardianship, case management, money management, and other supports for abused or neglected elders, remains funded at \$10.1 million. This is slightly less than the House had originally recommended, but more than the level funding originally proposed by the Governor.

Councils on Aging, community-based and -operated organizations that provide recreation, meals, and a variety of activities and services for elders receive local grants of \$6.5 million. This is \$600,000 more than the funding originally proposed by the Governor.

Senior Pharmacy Program

The Governor vetoed only one line-item in the Department of Elder Affairs budget: the subsidies for assistance with co-payments for low-income elders participating in the Prescription Advantage program. Funding for these subsidies, originally proposed at \$9.0 million by the Senate, and later reduced to \$5.0 million by the Conference Committee, were vetoed by the Governor. The Legislature overrode the Governor's veto by unanimous votes in both the House and Senate, and restored \$5.0 million for co-payment subsidies for elders with incomes at or below 188 percent of the poverty level.

Other Human Services

Other human services receive \$517.0 million in the FY05 budget, including a \$20.0 million salary reserve for human service providers.

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

The Legislature overrode the Governor's veto of the salary reserve for human service providers. This \$20.0 million appropriation will fund a 2 percent salary increase for human service providers who earn less than \$40,000 annually. Half of the appropriation will provide raises for workers earning less than \$25,000 per year; the other half will

provide raises for workers earning between \$25,000 and \$40,000 per year.

The Legislature also overrode the Governor’s attempt to remove \$700,000 in earmarks within the Targeted Cities Program line-item. Funding for this program, which aims to reduce high rates of juvenile delinquency, teen pregnancy, and high school dropouts, is restored at \$2.0 million in FY05. It was last funded at \$455,000 in FY03.

In addition, the FY05 budget includes two new initiatives to prevent family homelessness. Funding for Rental Assistance for Families in Transition (RAFT) totals \$2.0 million. This program, which is funded through the Department of Housing and Community Development, provides service to families at risk of homelessness.

The FY05 budget also includes an initiative which will allow homeless families residing in emergency shelters to remain in the shelter system up to 6 months after their income exceeds the income threshold. Under the plan, families whose incomes exceeds the federal poverty level will be allowed to remain in the shelter up to 6 months, during which time their surplus income would be deposited in to an escrow account. Upon departure, the surplus income can be used to transition to permanent housing.

Environmental Affairs

The Legislature restored nearly \$2.0 million for environmental affairs. The budget for FY05 totals \$193.7 million.²

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

These legislative overrides restored funding to the Department of Environmental Protection (\$518,000); the Division of Urban Parks and Recreation (\$512,000); the Executive Office of Environmental Affairs (\$100,000); and the Division of Marine Fisheries (\$50,000).

The Legislature also returned the full amounts appropriated to the registration of watercrafts (a retained revenue account) and the Chicatawbut Hill Center and trailside museum. Appropriations respectively totaling \$400,000 and \$375,000 were restored to this budget.

While the overall budget for environmental affairs is higher than the FY04 level, there are a few areas where funding is reduced or not restored to the FY03 level. For example, funding for hazardous waste cleanup totals \$14.2 million in FY05, down 7 percent from the \$15.3 million appropriated in FY04. In FY05, recycling grants to municipalities are essentially level-

² In order to provide a direct comparison, the FY04 total includes zoo operations, which is moved to the FY05 operating budget.

funded at \$3.5 million, but 28 percent less than the \$4.9 million appropriated in FY03.

Transportation

The FY05 budget provides \$113.7 million for transportation. The Legislature restored a \$1.0 million reduction by the Governor.

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

The Legislature overrode the Governor’s veto which would have reduced funding for regional transit authorities from \$48.8 million \$47.8 million. In FY04, funding for these purposes totaled \$42.2 million.

The FY05 budget for transportation is nearly 19 percent lower than the previous year. The apparent underfunding of snow and ice removal contributes to this lower amount. The FY05 budget includes a \$35.0 million line-item for this purpose, whereas the FY04 budget provided \$50.0 million – \$35.0 million of this funding was passed as part of a supplemental budget.

Housing

The enacted budget provides \$78.6 million in funding for the Department of Housing and Community Development, which 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 FY05 budget includes a higher level of funding for the Massachusetts Rental Voucher Program (MRVP) compared to FY04. The \$24.3 million appropriation for MRVP is sufficient to maintain the program at its current level. This budget also provides \$30.3 million for subsidies for local housing authorities. This \$4.9 million increase in appropriations will help to restore funding to housing authorities that experienced budget cuts between FY03 and FY04.

As mentioned in the *Other Human Services* section of this document, this budget allocates \$2.0 million for a new program to help prevent family homelessness. Rental Assistance for Families in Transition (RAFT) will provide up to \$3,000 to help families pay for utilities, rent, security deposits, or moving expenses.

Public Safety

This budget provides \$1.3 billion for public safety, a \$22.4 million increase (roughly 2 percent) over FY04.

FY 2004	\$1,263,636,855
FY 2005	<u>\$1,286,030,945</u>
Increase (decrease)	\$ 22,394,090
Percentage Change	1.8%

The Legislature overrode the Governor's line-item vetoes to public safety funding. The majority of these vetoes reduced funding for correctional facilities. By vetoing earmarks for numerous programs and adjusting other line-items to projected spending levels, the Governor trimmed \$13.6 million from the Conference budget's appropriations for public safety. The Legislature restored this full amount.

Judiciary

The FY05 budget provides \$571.3 million for the Judiciary. The Legislature overrode the Governor's line-item vetoes totaling \$7.5 million.

FY 2004	\$596,510,619
FY 2005	<u>\$579,294,635</u>
Increase (decrease)	(\$17,215,984)
Percentage Change	-2.9%

The overturned vetoes include funding for translation services for low-income individuals accessing court services. Funding was restored for two line-items totaling approximately \$368,000.

The Legislature restored funding in other areas including: trial court administration (\$4.0 million), court officers (\$1.6 million), and the Boston Municipal Court (\$1.0 million).

Overall, the FY05 budget for the Judiciary is lower than it was in FY04. The apparent underfunding of counsel pay contributes to this lower amount. In FY04, the line-item that compensated

private attorneys assigned to criminal and civil cases totaled \$82.5 million, \$16.0 million of which was passed through a supplemental budget. In contrast, the FY05 budget appropriates \$67.4 million for counsel pay.

Economic Development

Funding for economic development totals \$125.2 million in this budget. The Governor's vetoes reduced the Conference budget by \$13.6 million, and the Legislature restored all but \$1.0 million of this funding.

FY 2004	\$106,003,767
FY 2005	<u>\$125,186,701</u>

Increase (decrease)	\$ 19,182,934
Percentage Change	18.1%

Although the Legislature let stand the Governor's veto for the Career Ladder Program, it restored \$500,000 for operating expenses for the Massachusetts Biotech Research Institute.

The Legislature also overrode the Governor's attempts to reduce funding for other programs which removed earmarks for specific programs, including \$6.8 million in allocations for programs that promote tourism and \$2.4 million in earmarks for one-time workforce development grants.

Revenue

The FY05 budget depends on revenue from four sources: taxes (\$15.955

billion), federal reimbursements for programs such as MassHealth or Temporary Assistance to Families with Dependent Children (\$5.029 billion), departmental revenues arising from fees and other charges (\$1.850 billion), and transfers and other receipts (\$1.449 billion), which consists largely of sums drawn from existing budgetary reserves. The first and last of these sources warrant particular attention.

Tax Revenue

On January 15, 2004, the chairpersons of the House and Senate Committees on Ways and Means, Representative John Rogers and Senator Therese Murray, as well as the Secretary of Administration and Finance Eric Kriss, announced the consensus revenue estimate for FY05 – that is, the agreed-upon projection for the amount of tax revenue the Commonwealth is expected to collect in the current fiscal year. At the same time, they announced that the tax revenue estimate for FY04 would be revised. Specifically, they announced that anticipated tax collections would be \$15.230 billion for FY04 and \$15.801 billion for FY05, implying a growth rate of 3.75 percent for FY05. Changes in tax policy and administration enacted either as part of, or in conjunction with, the FY05 budget will generate another \$154.5 million over and above the consensus revenue estimate. Specifically, House No. 5039, adopted by the Legislature on July 31, is projected to yield \$89 million in FY05 by closing a variety of corporate tax loopholes. In addition, the FY05 budget

assumes that improvements in tax administration and enforcement, the result of a \$3 million boost in funding for the Department of Revenue contained in that budget, and heightened auditing efforts already underway, will help generate an additional \$65.5 million this fiscal year.

Broader economic trends could push FY05 tax collections still higher. According to preliminary data from the Department of Revenue, tax collections for FY04 totaled \$15.954 billion, \$724 million more than anticipated. If the Commonwealth is able to sustain this resurgence and the initially projected FY05 tax revenue growth rate of 3.75 percent holds, then FY05 collections could rise to \$16.679 billion.³ Importantly, though, much of any FY05 surplus that could result from a robust economic recovery could already be spoken for, as the budget depends heavily on various “one-time”, non-recurring sources of revenue. In fact, Section 380 of the budget stipulates, “If tax revenues for the commonwealth exceed benchmarks set by the department of revenue ... by the third quarter of fiscal year 2005, consideration shall be given” to reducing the use of

³ This amount reflects growth of 3.75 percent from the FY04 total of \$15.954 billion, plus the effect of policy changes adopted as part of, or anticipated by, the FY05 budget, less the effect of Chapter 186 of the Acts of 2002. Specifically, the FY05 budget assumes that stepped up enforcement efforts at the Department of Revenue will yield an additional \$65.5 million in the current fiscal year, while pending legislation to close a variety of tax loopholes is estimated to produce an additional \$89 million this year. Provisions of Chapter 186 of the Acts of 2002 will likely lead to a roughly 8 percent increase in the personal income tax exemption for 2005, thus producing a revenue loss of approximately \$28.1 million in FY05.

monies from the Commonwealth Stabilization Fund, discussed in more detail below.

Transfers and “One-Time” Sources of Revenue

Of the roughly \$1.4 billion in transfers and other receipts on which the FY05 budget relies, some \$831 million is attributable to “one-time” sources of revenue – that is, revenue that cannot be expected to recur in future years or that was originally slated to be dedicated to other purposes. Most notably, the FY05 budget 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. These transfers will leave relatively diminished balances in each of these funds. Based on data from the Office of the Comptroller, once these transfers are made, those funds will hold just \$173 million and \$90 million respectively, although, again, higher-than-anticipated tax collections could help to replenish the Stabilization Fund. Also significant is the budget’s diversion of funds related to the master tobacco settlement agreement. The FY05 budget uses the full amount of the FY05 payment that Massachusetts is scheduled to receive as part of that agreement to support current spending. 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 budget uses \$168 million that existing law would have set aside for future use. 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 FY05 budget uses 50 percent of such earnings for expenditure. Finally, the FY05 budget 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.

Ultimately, this heavy reliance on “one-time” sources of revenue indicates that the structural budget deficit with which the Commonwealth has grappled over the past several years is likely to persist in the years ahead. That is, to avoid yet another budget deficit, revenue growth in FY06 will have to be sufficient not only to cover unavoidable cost increases due to population growth, to general and medical inflation, and to pension funding and debt service obligations, but also to compensate for the absence of these “one-time” sources of revenue.

SPENDING BY PROGRAM AREA

PROGRAM	FY04 - Current	FY05 Conference	FY05 After Vetoes	FY05 After Overrides	FY05 After Overrides	% Change
					vs. FY04 - Current	FY05 After Overrides vs. FY04 Current
Debt Service	1,609,915,318	1,753,766,468	1,753,766,468	1,753,766,468	143,851,150	8.9%
Pensions ¹	704,625,766	1,217,436,000	1,217,436,000	1,217,436,000	512,810,234	72.8%
MassHealth/Medicaid ²	6,427,625,027	6,897,372,119	6,875,172,119	6,889,372,119	461,747,092	7.2%
Cash Assistance	595,927,196	599,465,955	599,465,955	599,465,955	3,538,759	0.6%
Group Insurance	811,131,373	830,885,587	830,885,587	830,885,587	19,754,214	2.4%
K-12 Educ (non Ch 70)	390,809,990	518,292,126	511,422,126	518,292,126	127,482,136	32.6%
School Building Debt Asst ³	405,150,327	418,019,076	418,019,076	418,019,076	12,868,749	3.2%
Local Education Aid (Ch. 70)	3,111,124,259	3,183,282,601	3,183,282,601	3,183,282,601	72,158,342	2.3%
Unrestricted Local Aid	390,267,936	394,767,936	394,767,936	394,767,936	4,500,000	1.2%
Lottery Aid	661,378,162	661,378,162	661,378,162	661,378,162	0	0.0%
Higher Education ⁴	862,437,905	904,489,719	902,615,161	904,489,719	42,051,814	4.9%
Child Care Services	365,783,476	368,093,830	368,093,830	368,093,830	2,310,354	0.6%
Public Health (DPH)	373,796,136	393,063,903	390,898,903	392,363,903	18,567,767	5.0%
Social Services (DSS)	685,571,761	705,150,762	705,150,762	705,150,762	19,579,001	2.9%
Mental Health (DMH)	592,826,152	594,558,781	594,558,781	594,558,781	1,732,629	0.3%
Mental Retardation (DMR)	1,014,330,235	1,063,844,604	1,063,844,604	1,063,844,604	49,514,369	4.9%
Elder Affairs	191,182,677	195,301,585	195,301,585	195,301,585	4,118,908	2.2%
Senior Pharmacy Program	96,372,765	115,000,000	110,000,000	115,000,000	18,627,235	19.3%
Other Health & Human Services	476,664,379	516,951,920	495,251,920	516,951,920	40,287,541	8.5%
Environmental Affairs ⁵	187,569,839	193,679,379	191,724,379	193,679,379	6,109,540	3.3%
Transportation	139,892,844	113,654,228	112,654,228	113,654,228	(26,238,616)	-18.8%
Housing & Community Dev. ⁶	66,660,641	78,597,284	78,597,284	78,597,284	11,936,643	17.9%
Judiciary	596,510,619	579,294,635	571,822,021	579,294,635	(17,215,984)	-2.9%
Exec. Office of Public Safety	1,263,636,855	1,286,030,945	1,275,713,276	1,286,030,945	22,394,090	1.8%
Economic Development	106,003,767	126,186,701	112,612,670	125,186,701	19,182,934	18.1%
District Attorneys	76,857,589	79,234,459	79,234,459	79,234,459	2,376,870	3.1%
Attorney General	33,478,910	35,950,917	35,950,917	35,950,917	2,472,007	7.4%
Libraries	25,500,525	27,100,525	27,100,525	27,100,525	1,600,000	6.3%
Other administrative	699,388,540	687,445,561	673,119,083	687,195,561	(12,192,979)	-1.7%
Total	22,962,420,969	24,538,295,768	24,429,840,418	24,528,345,768	1,565,924,799	6.8%
Total (excluding pensions)⁷	22,257,795,203	23,320,859,768	23,212,404,418	23,310,909,768	1,053,114,565	4.7%

Notes:

(1) Off-budget pension funding in FY04 is \$687.3 million; the FY05 budget includes \$1.216 billion for this purpose.

(2) The FY05 MassHealth/Medicaid number after overrides includes \$360.0 million for the Uncompensated Care Pool. 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 FY05 budget reduces 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 in tuition revenue retained by the campuses.

(5) The FY05 budget transfers \$7.9 million off-budget for the the watershed management program. This amount is included in the total to enable comparisons to FY04. For a direct comparison, the FY04 total includes \$4.3 million for zoo operations since it is proposed as an appropriation in the FY05 budget but was funded off-budget in FY04.

(6) The FY05 budget transfers \$2.0 million from the General Fund to the Affordable Housing Trust Fund. This amount is included in the total above.

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