

BUDGET MONITOR

The FY 2006 Conference Budget

Overview

Before the next fiscal year begins on Friday, July 1st, the Governor is expected to sign the 2006 budget and issue his line item vetoes. Besides being on time, it appears that this budget will be structurally balanced. Although it uses \$600 million in rainy day fund money, the budget also incorporates a revenue estimate that is more than \$600 million from the Stabilization Fund the revenue level that can reasonably be expected for 2006. If the June revenue numbers hit their benchmark and growth next year is a modest 4.7 percent, then fiscal year 2006 revenues will exceed the estimate the budget is based on by \$727 million. This means that the entire transfer from the Stabilization Fund could be paid back.

Because of the strong revenue growth in fiscal year 2005, there will also be an end of the year one-time surplus when this fiscal year ends. The size of this surplus could be announced as early as Friday when the revenue numbers for June may be available. It is expected that revenue for fiscal year 2005 will exceed projections by over \$1 billion. It is important to remember, however, that the 2005 budget relied on over \$800 million in temporary revenue sources. Thus the real 2005 surplus will be far less than the amount by which actual tax revenue exceeds expected revenue.

When the “surplus” for 2005 is announced, there will likely be a debate over what to do with it. There are several options: deposit the surplus in the rainy day fund; spend it to restore some of the cuts in education, health care and other essential services; provide new tax cuts; or invest in capital projects

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that the state was unable to fund during the fiscal crisis, such as repairing buildings at the University of Massachusetts, addressing deferred maintenance at state parks and pools and at the MBTA, building schools, or paying down our existing debt burden.

Since most of the surplus is one-time – there is no evidence that permanent revenues exceed ongoing expenses by a substantial amount – it could be dangerous to use the surplus to finance permanent tax cuts or permanent spending increases. Just as the enactment of permanent tax cuts during the temporary revenue bubble experienced in the 1990s led to the recent fiscal crisis and to the deep budget cuts of the last four years, another round of permanent tax cuts financed by temporary budget surpluses would likely create new fiscal stresses. Such policies would weaken the capacity of the Commonwealth to restore the recent deep cuts to education, public health, local aid, environmental protection, higher education, and other essential services which are described later in this *Budget Monitor*.

This *Budget Monitor* describes the spending plan enacted by the Legislature. Appropriations are compared to last year and, in several cases, to funding levels from before the fiscal crisis. In addition, this *Monitor* describes the revenue assumptions on which the budget is built.¹

Local Aid

The Conference Committee includes \$1.2 billion for unrestricted local aid, \$28.1 million more than current appropriations.

¹ Budget figures for FY 2005 reflect amounts authorized by the General Appropriation Act and supplemental budgets.

FY 2005	\$1,131,646,098
FY 2006 Conference	\$1,159,746,098
Increase (decrease)	\$ 28,100,000
Percentage Change	2.5%

The Conference Committee level-funds Additional Assistance at \$379.8 million, the same amount proposed by both the House and the Senate. The Committee is also aligned with the recommendations by both branches to appropriate \$761.4 million for lottery distributions to cities and towns. This amount is \$100.0 million more than the initial FY 2005 level, and \$25.0 million higher than current appropriations, after adjusting for \$75.0 million in supplemental funding.

The Conference Committee adopts the Senate’s proposal for Payments in Lieu of Taxes (PILOT). The current appropriation of \$13.0 million increases to \$16.1 million in this budget. The House proposed a smaller increase of \$15.1 million.

K-12 Education

Overall, funding for K-12 education totals \$3.776 billion in the Conference Committee budget.² This amount is \$11.5 million higher than the House’s proposal, but \$43.7 million lower than the Senate’s recommendation. The Senate’s budget included a \$55.0 million reserve for Chapter 70 Aid, which was not included in the budgets offered by the Conference Committee or the House.

² This figure does not include funding for the School Building Assistance program, which totals \$488.7 million for FY 2006, as funding for this purpose has been moved off-budget.

Total K-12 Education Spending

FY 2005	\$3,646,485,481
FY 2006 Conference	\$3,775,789,300
Increase (decrease)	\$ 129,303,819
Percentage Change	3.5%

Note: The numbers in this section do not include appropriations or debt service for the School Building Assistance program. Figures for grants and reimbursements include support for the Office of Educational Quality, and deduct the amounts which would be transferred to the Department of Early Education and Care under the proposed budget.

Chapter 70 Aid

Chapter 70 Aid is provided to cities and towns for public education. The Conference budget includes \$3.289 billion for Chapter 70 Aid, the same amount proposed by the House. This amount does not include the \$55.0 million reserve account mentioned above. This reserve, offered by the Senate, was created to address perceived inequities in the current formula determining the distribution of Chapter 70 Aid and to fund targeted initiatives associated with educational quality and accountability.

FY 2005	\$ 3,183,282,601
FY 2006 Conference	\$ 3,228,931,062
Increase (decrease)	\$ 105,648,461
Percentage Change	3.3%

Although the Conference Committee's budget for Chapter 70 Aid is higher than the current level of funding, the total amount, after adjusting for inflation, is still \$226.6 million or six percent below its FY 2002 level.

Grants and Reimbursements

FY 2005	\$463,202,880
FY 2006 Conference	\$486,858,238
Increase (decrease)	\$ 23,655,358
Percentage Change	5.1%

The Conference Committee includes \$475.6 million for the Department of Education's grants and reimbursement programs.

The following reviews increases for various grants and reimbursements in the Conference budget:

- The Conference Committee adopts the House's \$25.0 million recommendation for full-day kindergarten grants. The Senate budget level-funded this budget appropriation at \$23.0 million.
- Funding for regional school transportation rises from \$38.0 million to \$45.0 million in the Conference budget. This amount matches the Senate's proposal for regional school transportation; the House proposed a smaller appropriation of \$42.5 million.
- The Conference Committee includes \$5.5 million to support a new line item that will fund targeted intervention for schools and districts that are at risk of or are determined to be underperforming. The House offered a \$5.0 million for this purpose.

Although the Conference Committee's budget for grants and reimbursements is five percent more than in FY 2005, it is \$65.9 million or 12 percent below the FY 2001 level, after adjusting for inflation.

Higher Education

The Conference Committee provides \$950.3 million for public higher education. Directly comparing the Conference budget for higher education to current appropriations shows a relatively small increase – \$4.2 million or 0.4 percent.

However, comparing this proposal with current appropriations after removing both supplemental funding provided in FY 2005 to pay costs in FY 2004 and other one-time funding for FY 2005 shows a \$46.1 million or 5.1 percent increase.

Including one-time funding in FY 2005³

FY 2005	\$946,058,046
FY 2006 Conference	\$950,309,350
Increase (decrease)	\$ 4,153,716
Percentage Change	0.4%

Excluding one-time funding from FY 2005

FY 2005	\$904,212,307
FY 2006 Conference	\$950,309,350
Increase (decrease)	\$ 46,097,043
Percentage Change	5.1%

Under the Conference Committee’s proposal, funding for state and community colleges increases by six and seven percent, respectively; support for UMass campuses grows by four percent. The following table compares appropriations in FY 2001 and FY 2005, the Conference budget for FY 2006, and the Board of Higher Education’s (BHE’s) FY 2006 budget request.

Higher Education Funding*				
In Millions of FY 2006 \$				
Fiscal Year	Central Admin.	UMass	State Colleges	Community Colleges
2001	160.9	552.6	219.5	265.7
2005	98.7	436.7	183.3	202.8
2006 - Conference	101.8	445.8	191.6	211.1
2006 - BHE Request	118.8	431.9	193.3	211.9

* Totals include tuition revenue retained for out-of-state students at UMass Amherst and the Massachusetts College of Art, and deduct one-time funding included in the FY 2005 and FY 2006 House 1 budgets.

³ To provide an “apples-to-apples” comparison, the FY 2005 total includes the appropriation for the Office of Dispute Resolution, which this budget moves to UMass Boston and funds through the operating budget for the UMass campuses.

In addition to increasing allocations to campuses, the Conference Committee provides extra funding for financial aid. The main budget account that provides financial assistance to students currently totals \$82.4 million. The Conference Committee appropriates \$84.7 million for this purpose. This budget also increases funding for financial aid that is awarded to children in the custody of the Department of Social Services. The \$850,000 appropriation grows to \$1.2 million under the Conference budget.

While this budget increases funding for FY 2006, it does not restore budget cuts over the last few years. In real terms, the Conference budget is \$266.6 million or 22 percent below the FY 2001 level.

Early Education and Care

The Conference budget provides \$481.1 million for early education and care, a \$31.3 million increase over FY 2005.

FY 2005	\$449,845,031
FY 2006 Conference	\$481,124,244
Increase (decrease)	\$ 31,279,213
Percentage Change	7.0%

The Conference Committee adopts the \$12.5 million reserve account proposed by the Senate that will fund rate increases for child care providers. The House appropriated \$7.0 million for this line item, which currently totals \$5.0 million.

This budget also provides a higher level of funding for subsidized child care. The budget account which funds child care subsidies for low-income families would increase from \$278.9 million to \$292.5 million, a \$13.5 million difference. In its

proposal, the House offers \$285.7 million for this purpose, a \$6.8 million increase over FY 2005. The Conference Committee set aside an additional \$6.0 million for child care subsidies and referral services in a reserve account for the anticipated costs of increased demand for services created by imminent changes to the state's welfare program. Both budgets include this reserve account, but the House provides a lower increase for the main budget account which funds subsidized child care.

While the level of funding for the Healthy Families Newborn Home Visiting program was similar in the proposals by both branches of the Legislature, the House moved funding for this purpose to the newly formed Department of Early Education and Care, whereas the Senate kept funding separate within the Office of Children, Youth, and Family Services. The Conference Committee follows the House's proposal to move this program to the new Department, but elects the Senate's slightly higher level of funding of \$12.2 million, which is roughly the same as in FY 2005.

Income Support Programs

Funding for income support programs totals \$596.9 million in the Conference budget, down slightly compared to FY 2005.

FY 2005	\$601,481,017
FY 2006 Conference	\$596,868,269
Increase (decrease)	(\$ 4,612,748)
Percentage Change	-0.8%

The Conference Committee left the current structure for the Transitional Aid to Families with Dependent Children program intact. TAFDC is the state's main cash assistance program for low-income families. The

Commonwealth currently operates this program under waivers from federal regulations, which enable the state to provide exemptions from time limits and work requirements for individuals with documented barriers to employment. These waivers expire on September 30, 2005. In light of these circumstances, the state must modify the TAFDC program to ensure that Massachusetts can meet federal work requirements and not risk losing federal funding. In its budget proposal, the Senate incorporated many elements from An Act Relative to Responsible Welfare Reform, two identical bills sponsored by Representative Cabral and Senator Creem. Senate's proposal would create a separate state program, which would retain exemptions for individuals with serious barriers to work and would allow the Commonwealth to meet federal work requirements. The House did not alter the TAFDC program in its version of the FY 2006 budget, but 81 members have signed a letter in support of a separate state program. On Tuesday, June 28th, the Joint Committee on Children and Families, the legislative committee charged with reviewing An Act Relative to Responsible Welfare Reform, reported the favorably the two identical versions of this bill to the House Committee on Ways and Means and the Senate Committee on Ways and Means.

Medicaid and Other Health Care Programs

The Conference Committee budget recommends total funding for Medicaid/MassHealth, the elder pharmacy program, the Uncompensated Care Pool and other health care programs at a level between what had been recommended by the Senate and the House.

FY 2005	\$ 7,235,179,344
FY 2006 Conference	\$ 7,330,286,420
Increase (decrease)	\$ 95,107,076
Percentage change	1.3%

The FY 2005 total, however, includes over-budgeting in the Medicaid program. As explained in the Medicaid section of this *Budget Monitor*, actual spending for FY 2005 was approximately \$277.7 million below the budgeted number included in the total above. Accounting for this adjustment, the total figures represents a 5.4 percent increase (see below).

FY 2005 (adjusted)	\$ 6,957,491,629
FY 2006 Conference	\$ 7,330,286,420
Increase (decrease)	\$ 372,794,791
Percentage change	5.4%

This funding level includes \$6.912 billion for the Medicaid program and \$120.0 million for the Medicare "Clawback" provision, totaling \$7.032 billion, a 6.1 percent increase over FY 2005 levels. The funding level proposed by the Conference Committee anticipates being able to fund

Medicaid and Other Health Care Programs		
<i>In Millions of \$</i>		
	FY 2005 Budget	FY 2006 Conf.
Medicaid/MassHealth/Other Health Programs	6,630.5	6,912.0
Medicare "Clawback"	0.0	120.0
Other Pharmacy	115.0	92.2
Uncompensated Care Pool	212.0	206.0
Total Medicaid and Other Health Care Programs	6,957.5	7,330.3
<i>"Medicaid/MassHealth/Other Health Programs" includes Healthy Start and the Children's Medical Security Plan, and does not include the \$288.5 million Health Care Quality Improvement Trust.</i>		

enrollment growth in certain programs, as well as certain coverage expansions. The Conference Committee total recommended funding for the Uncompensated Care Pool at the lower level recommended by the House.

Medicaid/MassHealth

The Conference Committee budget for Medicaid includes \$6.875 billion for on-budget Medicaid expenditures, and \$36.5 million for the off-budget funding of the MassHealth Essential program from July 1 through September 30. The Medicaid budget also accounts for the Medicare "Clawback" provision, discussed in the "Pharmacy Programs" sub-section of this *Budget Monitor*.

It is important to note, however, that because of over-budgeting during FY 2005, the FY 2005 Medicaid budget figure of \$6.908 billion is \$277.7 million more than actual estimated FY 2005 Medicaid spending. A FY 2005 budget that is comparable to the FY 2006 Conference Committee budget adjusts for the expected use of FY 2004 appropriations of \$281.5 million carried over into the FY 2005 year, and adjusts for the \$529.5 million not expected to be used in FY 2005. The Conference Committee budget appropriates

Total Medicaid Budget		
<i>In Millions of \$</i>		
	FY 2005 Budget	FY 2006 Conf.
On-Budget Medicaid	6,535.8	6,875.5
Off-Budget Medicaid	372.4	36.5
Budget Sub-Total	6,908.2	6,912.0
Prior Year Surplus Use	251.8	
Current Year Surplus Use	(529.5)	
Medicaid Budget	6,630.5	6,912.0
Medicare "Clawback"	0.0	120.0
Total	6,630.5	7,032.0
<i>"Off-Budget" Medicaid does not include \$288.5 million Health Care Quality Improvement Trust; Medicare Buy-In goes on-budget 7/05; MassHealth Essential goes on-budget 10/05.</i>		

funding to cover the full year's worth of services, rather than relying on the one-time use of the prior year's surplus dollars to cover a portion of the current year's Medicaid costs.

The Conference Committee budget does not follow the Senate recommendation to designate a portion of the difference between the FY 2005 Medicaid budget and the FY 2005 Medicaid estimated spending to fund costs in the Uncompensated Care Pool (see sub-section on the Uncompensated Care Pool below).

Accounting for the costs of the Medicaid program has been an area of disagreement during the budget negotiations. The Governor's budget recommendation for Medicaid had been notable for its use of prior year Medicaid dollars to fund a portion of the current year's budget.⁴ Language in the House version of the budget had specifically allowed for this use of current year Medicaid budgeted dollars to be spent in the following year during the "accounts payable period." Language in the Senate version of the budget had explicitly disallowed the use of FY 2005 budgeted Medicaid dollars during the "accounts payable period" at the beginning of FY 2006. The Conference Committee "held in conference" these provisions, adopting neither of the recommendations.

In previous years, Medicaid line item language had allowed for the free transfer of

⁴ The Governor had increased the Medicaid budget by the amount designated as "Prior Year Surplus Use," but had not comparably reduced the total by the amount designated as "Current Year Surplus Use." This accounting technique meant that the Governor's budget did not reflect a full year's worth of Medicaid payments, but rather only the period from the end of the "accounts payable" period (September 2005) until the end of the fiscal year (June 2006).

a portion of budgeted dollars among certain line items. The Conference Committee budget does not include this language either.

Clarifying accounting for the Medicaid program is also evident in that the Conference Committee budget includes funding for the MassHealth Medicare Buy-In Program and the MassHealth Essential Program as line items in the budget. Both of these programs had been off-budget in FY 2005. (It is still estimated that \$36.5 million will be necessary off-budget to pay for the costs of MassHealth Essential program between July 1 and September 30, 2005, at which point the on-budget funding will be available.)

For the most part, the Conference Committee funded the various Medicaid/MassHealth programs at levels between those recommended by the House and by the Senate.

- For the Medicaid programs for elders (Senior Care Plans and Senior Care Options), the House had recommended funding these programs at \$1.961 billion, with \$67.0 million of that specifically designated for support of home health programs for elders. The Senate budget proposal had increased the total to \$1.995 billion, but had removed the line item targeting home health dollars. The Conference Committee funded these programs at \$1.956 billion, but like the Senate did not include the home health line item. This amount represents a \$174.5 million increase over FY 2005 budgeted levels, and a \$330.2 million increase over projected FY 2005 spending levels.
- For the MassHealth Managed Care Program, the Conference Committee recommended funding at \$2.102 billion,

\$27.8 million more than recommended by the House, and \$21.9 million less than recommended by the Senate.

- For the MassHealth Indemnity and Third Party line item, the Conference Committee recommended funding of \$1.587 billion, compared to the House recommendation of \$1.508 billion, and the Senate recommendation of \$1.571 billion.

Program Enrollment

The Conference Committee budget includes \$500,000 for enrollment outreach grants to be awarded to community organizations conducting outreach for MassHealth enrollment. There had been no funding for these grants in FY 2005, although previously these activities had received \$1.0 million in support.

The Conference Committee resolved several differences between the House and Senate recommendations that would affect Medicaid/MassHealth enrollment:

- The Conference Committee did not follow the higher Senate recommendation for funding of the MassHealth Essential program, and instead recommended funding it at \$132.2 million, \$20.0 million less than the Senate and \$2.6 million more than the House. The budget language also allows limiting enrollment to only those whose coverage could be funded through the appropriation. There is already a waiting list in place for this program, and the recommended funding level is likely to be insufficient for fully covering all those potentially eligible for the program. To accommodate close to 10,000 potentially eligible additional enrollees, the Legislature will need to

appropriate additional dollars during the course of the fiscal year.

- The Conference Committee did not include the Senate budget recommendation to lift enrollment caps for adults in certain programs (the HIV Program, the CommonHealth Program, and employees covered through the Insurance Partnership Program). This recommendation had not been included in the House budget.

The Conference Committee budget allows approximately 3,000 elderly or disabled adults legal immigrants to be eligible for the MassHealth Essential Program, regardless of their immigration sponsors' income. Coverage for these immigrants would begin in July 2005.

Programmatic Changes Proposed for Medicaid

The Conference Committee budget includes language that would effect several significant programmatic changes in the Medicaid program:

- The Conference Committee budget includes MassHealth coverage for adult dental benefits for pregnant women and women with children under age three. This provision was not included by the House, but had been included by the Senate.
- The Conference Committee followed a Senate recommendation that smoking cessation and treatment programs be covered by MassHealth, but again, only for pregnant women and mothers with children under age three.
- The Conference Committee did not adopt a Senate recommendation that the

administration seek a Medicaid waiver to cover home and community based services for children with autism, nor did the Conference Committee adopt a Senate recommendation seeking a Medicaid waiver for family planning services.

The Conference Committee budget also includes language requiring that any proposed changes to MassHealth benefits or covered services would necessitate a public hearing prior to adoption.

Medicaid Provider Issues

The Conference Committee budget includes a few significant provisions affecting Medicaid provider rates:

- The Conference Committee budget includes \$18.8 million to reinstate MassHealth coverage for hospital inpatient stays greater than twenty days. MassHealth payment for these “outlier benefits” had been eliminated in April 2003.
- The “Elder Affairs” section of this *Budget Monitor* discusses a wage increase for homemakers in the Senior Care Options program.
- The Conference Committee includes \$45.8 million in funding through the Distressed Provider Expendable Trust fund, a targeted fund directed to specific health care providers. The House had recommended \$33.0 million, and the Senate had recommended \$46.5 million.
- The Senate version of the budget had recommended that nursing homes be reimbursed for holding a bed vacant for twenty days due to a resident’s medical or non-medical leave of absence,

whereas the House version of the budget had recommended only a ten day “bed-hold.” The Conference Committee followed the less-generous ten day provision as recommended by the House.

Although not affecting provider rates, another relevant provision in the Conference Committee budget allows dental providers to limit the number of Medicaid patients they allow into their practice. The intent of this section is to increase the number of dental providers willing to take any MassHealth patients at all.

The Conference Committee budget also includes an off-budget Medicaid payment of \$288.5 million for enhanced nursing facility rates. Because this amount is fully funded by an assessment on the nursing facilities and matched by federal money (“federal financial participation” or FFP), this amount is not included in the totals used in this *Budget Monitor*.

Pharmacy Programs

Funding for the elder pharmacy program follows the higher Senate funding level of \$92.2 million, but excludes the \$5.0 million the Senate had included for co-payment subsidies for low-income elders. The Conference Committee lays out recommendations that the Prescription Advantage program function as a “wrap-around” program for the new Medicare Part D benefit, and that it continue as a primary benefit for those elders ineligible for the Medicare prescription program.

The Conference Committee budget also includes language allowing for an “open enrollment” period for the Prescription Advantage program.

Included in the Conference Committee budget is an estimated \$120.0 million to pay for federally-mandated assessment for the Medicare Part D Prescription Program (“Clawback”). This amount will likely offset much of the savings the Commonwealth would have realized with the implementation of this new federal benefit.

Uncompensated Care Pool

Funding for the Uncompensated Care Pool follows the House recommendation of \$206.0 million. This includes \$171.9 transferred from the General Fund, and an estimated \$34.1 surplus remaining from the off-budget MassHealth Essential account. The Pool pays for a portion of the costs of uncompensated care provided by health care providers such as acute care hospitals and community health centers. State payments into the Pool are matched by federal dollars (“federal financial participation” or FFP) and are also supplemented by assessments on hospitals and private payers, as well as intergovernmental transfers. The state payments into the Pool therefore represent only a portion of the full amount of funding available to health care providers as partial compensation for free care and bad debt that

they will accrue over the course of the year.

As the chart indicates, when comparing Uncompensated Care Pool funding across years, it is necessary to account for funding of the MassHealth Essential Program which has in the past been funded by the Pool. In FY 2005, the state budgeted \$372 million for the Uncompensated Care Pool, which included \$160 million for “off-budget” funding of the MassHealth Essential Program. Therefore, in FY 2005 only \$212 million remained from state funding for the Pool.

In FY 2006, funding for the MassHealth Essential Program is moved on-budget as a distinct line item within the Executive Office of Health and Human Services, so funding for the program need no longer be subtracted from Uncompensated Care Pool funding. However, the MassHealth Essential program comes on-budget starting only in October 2005, when hospital fiscal year 2005 ends. Between July 1 and September 30, 2005, approximately \$36.5 million will be necessary in off-budget funding for the MassHealth Essential program from the Uncompensated Care Pool dollars budgeted during FY 2005.

Other Health Care Programs

There are two health care programs that are administered under the umbrella of the Office of Medicaid but that are technically programs for people who do not qualify for MassHealth coverage.

The House and Senate did not differ in their funding recommendations for both the Healthy Start program and the Children’s Medical Security Plan. Healthy Start, a state-funded program ensuring prenatal care for low-income uninsured pregnant women, is funded at close to \$16.0 million.

State Funding to the Uncompensated Care Pool		
<i>In Millions of \$</i>		
	FY 2005	FY 2006 Conf.
Transfer from the General Fund	297.0	171.9
Surplus from 4000-0896	75.0	34.1
Sub-Total	372.0	206.0
MassHealth Essential	(160.0)	0.0
Total Funding	212.0	206.0
<i>MassHealth Essential goes "on-budget" 10/05, \$36.5 million will carry over from FY 2005 to cover 7/05-9/05.</i>		

Estimated spending on this program in FY 2005 is \$12.3 million. The Children’s Medical Security Plan, a primary and preventive health insurance program for otherwise uninsured children, is funded at \$21.1 million. Estimated FY 2005 spending is \$15.5 million. Significantly, the Conference Committee restructures premiums for the Children’s Medical Security Program, including the elimination of premiums for families under 200 percent of the federal poverty level, and restructuring premiums for people with incomes between 200 and 300 percent of the federal poverty level.

Public Health

Funding for public health programs in the Conference Committee budget total \$430.8 million, \$13.5 million more than was recommended by the House, and \$2.3 million more than the Senate. The Conference Committee designates \$294.3 million for non-hospital spending, and \$136.4 million for hospital spending. Although this level represents a \$22.2 million increase over FY 2005 funding levels, it is still 25 percent below public health funding in FY 2001, when adjusted for inflation.

FY 2005	\$408,567,303
FY 2006 Conference	430,758,761
Increase (decrease)	\$ 22,191,458
Percentage change	5.4%

The Conference Committee funds certain items at levels even higher than recommended by either the Senate or the House. In many instances, however, these funding levels are still significantly below FY 2001 levels when adjusted for inflation:

- \$5.1 million for community health centers (funded at \$4.7 million in FY 2005, and at \$10.4 million in FY 2001 when adjusted for inflation)
- \$3.5 million for environmental health services (funded at \$3.2 million in FY 2005, and at \$4.6 million in FY 2001 when adjusted for inflation)
- \$35.6 million for AIDS prevention and treatment (funded at \$35.5 million in FY 2005, and at \$56.9 million in FY 2001 when adjusted for inflation)
- \$47.6 million for substance abuse services (currently funded at \$45.8 million in FY 2005)
- \$9.2 million for family health services (funded at \$7.0 million in FY 2005, and at \$15.1 million in FY 2001 when adjusted for inflation)
- \$10.3 million for the state laboratory (funded at \$9.8 million in FY 2005, and at \$11.4 million in FY 2001 when adjusted for inflation)
- \$3.4 million for early breast cancer detection (funded at \$3.0 million in FY 2005, and at \$11.1 million in FY 2001 when adjusted for inflation)
- \$120.2 million for the public health hospitals (funded at \$112.5 million in FY 2005)

The Conference Committee budget includes a new Senate line item for a \$250,000 training program for nurses’ aides and direct care workers. This line item, last funded in FY 2004, had received as much as \$1.1 million (adjusted for inflation) in FY 2001.

Areas that show increases over FY 2005 funding levels include:

- The Conference Committee budget recommends \$29.1 million for the universal immunization program. This represents a 13.8 percent increase in funding over FY 2005 levels.

- The sexual assault nurse examiner program receives \$1.7 million in the Conference Committee budget, \$879.2 million more than in FY 2005. In addition, the Conference Committee budget includes \$1.0 million for a new pediatric sexual assault nurse examiner program.
- \$1.7 million for dental health services is \$122,000 more than the FY 2005 funding level
- Funding for community based suicide prevention programs double in the Conference Committee budget, increasing from the \$250,000 in FY 2005 to \$500,000
- The Conference Committee budget recommends \$1.3 million for prostate cancer screening programs, \$300,000 more than in FY 2005
- Colorectal cancer screening programs, not funded in FY 2005, receive \$185,000 in the Conference Committee budget
- Stroke awareness and education programs, also not funded in FY 2005, receive \$300,000 in the Conference Committee budget
- The Conference Committee budget recommends \$2.0 million for teenage pregnancy prevention programs. These programs were funded at \$990,000 in FY 2005, and at \$5.5 million in FY 2001, when adjusted for inflation.
- School health services receive a \$715,000 increase in the Conference Committee budget, a 5.1 percent increase over FY 2005 levels.
- Smoking prevention and cessation programs increase by \$500,000 over FY 2005 levels to \$4.3 million. Funding for these services in FY 2001, however, were \$56.3 million when adjusted for inflation. The Conference Committee did not include language recommended by the Senate that would have focused anti-smoking efforts on youth.

Mental Health

The Conference budget includes \$626.1 million for the Department of Mental Health, the same amount proposed by the Senate.

FY 2005	\$597,245,276
FY 2006 Conference	\$626,092,016

Increase (decrease)	\$ 28,846,740
Percentage Change	4.8%

The Conference Committee uses the higher level of funding offered by the Senate to increase the appropriation for adult mental health and support services. The \$274.9 million budget account which funds these services would grow to \$293.3 million, an \$18.4 million difference. The House offered a smaller increase that would bring funding to \$288.2 million.

The Committee also follows the Senate's level of funding for state psychiatric hospital and inpatient services. The Conference budget includes \$159.9 million for FY 2006, a \$7.5 million boost over FY 2005. The House offered \$159.6 million for this purpose.

Mental Retardation

The Conference Committee budgets \$1.124 billion for the Department of Mental Retardation, nearly \$60.0 million more than FY 2005.

FY 2005	\$1,063,894,604
FY 2006 Conference	\$1,123,878,995

Increase (decrease)	\$ 58,984,391
Percentage Change	5.6%

The Conference budget meets the legal requirement for the Boulet Settlement by providing \$85.6 million to fund interim services for individuals on the waitlist for residential placements, a \$15.6 million increase over the current level.

The Conference Committee increases funding for community-based residential supports. The \$500.1 million appropriation for FY 2006 is \$23.6 million more than current appropriations. The amount offered by the Conference Committee is higher than those offered by both the House and the Senate.

This budget also provides \$1.2 million for a new budget account to provide support services for families with autistic children. Both the House and the Senate offered \$1.0 million for these services.

Social Services

Funding for the Department of Social Services totals \$744.2 million in the Conference Committee budget, a \$35.2 million or five percent increase over FY 2005.

FY 2005	\$708,999,852
FY 2006 Conference	\$744,191,750
Increase (decrease)	\$ 35,191,898
Percentage Change	5.0%

The Conference Committee increases appropriations in a number of areas including the following:

- Support for group care services totals \$235.9 million, the same amount proposed by both the House and the Senate. This level of funding is \$15.4 million more than in FY 2005.

- The line item which funds services for children and families increases from \$261.6 million in FY 2005 to \$272.7 million in FY 2006. The amount offered by the Conference Committee is higher than both proposals by the House (1.3 million more) and the Senate (\$1.1 million more).
- Funding for domestic violence services matches the Senate’s \$20.9 million appropriation. This amount provides a \$1.2 million increase over current appropriations, and is slightly higher than the House’s \$20.4 million.

Elder Affairs

Funding for elder service programs within the Conference Committee budget directly follows the recommendations in the Senate budget. These amounts, higher than the House’s recommendations by 5.0 percent, total \$214.5 million. These numbers do not include the MassHealth programs administered by the Department of Elder Affairs and the Senior Pharmacy Assistance program, which are addressed in the “Medicaid and Other Health Care Programs” section of this *Budget Monitor*.

FY 2005	\$196,676,585
FY 2006 Conference	\$214,531,327
Increase (decrease)	\$ 17,854,742
Percentage change	9.1%

The Conference Committee budget includes \$137.1 million for elder home care and case management services, \$1.5 million more than the House. Also included in the Conference Committee budget is a new line item first proposed by the Senate to fund a \$3.9 million wage increase for homemakers

and personal care homemakers in the elder home care programs.

The Conference Committee budget recommends \$13.7 million for the Elder Protective Services program. Funding in FY 2005 for this program was \$11.5 million.

With an additional \$2.5 million more than the House, the Conference Committee follows the Senate recommendation to expand funding for the Enhanced Community Options program, which provides extensive community-based services for frail elders.

The Conference Committee also followed the Senate’s proposal to fund the Congregate Housing program at \$1.32 million, compared to the House recommended of \$1.28 million. Funding for this program had been \$1.31 million in FY 2005, but when adjusted for inflation, FY 2001 funding levels for the Congregate Housing program were \$1.67 million.

Other Human Services

The Conference Committee offers \$587.6 million for other human services, \$31.7 million higher than in FY 2005.

FY 2005	\$555,672,842
FY 2006 Conference	\$587,406,832
Increase (decrease)	\$ 31,733,990
Percentage Change	5.7%

The following summarizes a few highlights in the Conference budget for other human services programs:

- The Conference Committee adopts the Senate’s \$73.6 million recommendation for emergency family shelters. This

amount is lower than the current \$78.4 million, primarily due to declining caseloads. The House offered a slightly lower amount than the Senate – \$72.6 million.

- The Committee also chose the Senate’s higher level of funding to grant salary increases to employees of privately-contracted human service providers. The \$20 million appropriation will remain level in FY 2006, under this budget. The House offered \$10 million for this purpose.
- The Conference budget also increases funding for grants to youth development organizations from \$2.0 million in FY 2005 to \$3.6 million in FY 2006. The Conference Committee chose a higher level of funding than was offered by both the House and the Senate.

Environmental Affairs

The Conference Committee provides \$203.3 million for environmental affairs. Without adjusting for one-time funding for FY 2005, this budget represents a \$55.4 million decline. However, after adjusting for one-time funding in FY 2005, the Senate proposal shows a \$17.5 million increase.

Including one-time funding in FY 2005:⁵

FY 2005	\$258,667,184
FY 2006 Conference	\$203,273,100
Increase (decrease)	(\$ 55,394,084)
Percentage Change	-21.4%

⁵ The total for FY 2005 includes \$4.2 million included in a recent supplemental budget for this year.

Excluding one-time funding from FY 2005:

FY 2005	\$185,756,791
FY 2006 Conference	\$203,273,100
Increase (decrease)	\$ 17,516,309
Percentage Change	9.4%

After removing one-time funding in FY 2005, funding for the administrative offices of Executive Office of Environmental Affairs falls by \$1.1 million in this budget. However there are increases for each agency within this Office:

- Support for the Department of Conservation and Recreation increases by \$14.0 million or 20 percent.
- The Department of Fish and Game experiences a \$1.7 million or 11 percent rise.
- Funding for the Department of Environmental Protection grows by \$2.0 million or four percent.
- Nearly \$475,000 is added to the Department of Agricultural Resources, five percent more than in FY 2005.

Although the Conference budget begins to restore recent budget cuts, the environmental affairs budget is well below its 2001 level. In real terms, this budget is \$63.2 million or 24 percent lower than the FY 2001 total for environmental affairs.

Housing

The Conference budget provides \$91.6 million for the Department of Housing and Community Development. This amount shows a decline compared to current appropriations because funding for much

needed services like energy assistance for low-income families, which was included in a supplemental budget for FY 2005, is not funded in the Conference budget.

FY 2005	\$ 95,522,284
FY 2006 Conference	\$ 91,625,281
Increase (decrease)	(\$ 3,897,003)
Percentage Change	-4.1%

The Conference Committee increases funding for the Massachusetts Rental Voucher Program. Under this budget, funding would grow from \$24.3 million in FY 2005 to \$26.3 million in FY 2006. The House and the Senate budgets proposed an increase of the same amount.

The Conference Committee follows the Senate's level of funding for the Soft Second Loan Program and for Rental Assistance for Families in Transition (RAFT). This budget includes \$2.5 million for a home loan program, which helps low- and moderate-income families to buy their first home. The House did not provide funding for this purpose. The Conference budget also appropriates \$5.0 million for RAFT; the House offered \$3.0 million for this program.

Public Safety

Funding for public safety totals \$1.306 billion in the Conference budget, roughly \$17 million or 1.3 percent more than in FY 2005.⁶

⁶ A recent supplemental budget increased the budget for public safety by \$2.4 million overall, and is reflected in the total for FY 2005.

FY 2005	\$1,289,222,803
FY 2006 Conference	\$1,306,217,598
Increase (decrease)	\$ 16,994,795
Percentage Change	1.3%

Increases in the Conference budget for public safety include the following:

- The Conference Committee appropriates \$21.3 million for community policing grants, higher than the Senate's \$20.8 million recommendation, and the \$20.3 million offered by the House.
- This budget also provides additional funding for the state's police crime lab. The \$12.2 million appropriation matches the recommendation by the Senate. The House budget provides \$9.9 million for this purpose.
- The Conference budget also follows the Senate's recommendation for county correctional programs. Funding grows from \$133.7 million in FY 2005 to \$140.3 million in FY 2006. The House budget included \$137.3 million for these programs.

Judiciary

The Conference Committee appropriates \$645.1 million for the Judiciary, a \$17.9 million increase over in FY 2005.

FY 2005	\$615,206,661
FY 2006 Conference	\$645,143,755
Increase (decrease)	\$ 17,886,318
Percentage Change	2.9%

Whereas the Senate proposed to consolidate funding for each of the major courts, the Conference Committee follows the House's

recommendation to keep the structure the same as in FY 2005. However, the level of funding in the Conference budget is more closely aligned with the Senate's proposal. Overall, the total amount budgeted for the Judiciary is \$13.9 million more than the House, and \$2.4 million higher than the Senate.

Group Insurance Commission

The House and Senate versions of the budget did not differ in their recommended funding levels for the health insurance costs for state employees and retirees.

Although a recent supplemental budget increased FY 2005 group insurance budget by \$21.4 million, the recommended FY 2006 budget still represents more than a 20 percent increase over the FY 2005 budgeted amount.

FY 2005	\$ 852,285,587
FY 2006 Conference	\$ 1,023,190,489
Increase (decrease)	\$ 170,904,902
Percentage change	20.1%

The Group Insurance Commission has been hard hit by rising health care costs over the past several years. Health care inflation continues to run at about eight percent annually, and health insurance premiums continue to rise by more than ten percent annually.

The Conference Committee budget recommends funding for the Group Insurance Premiums and Plans line item at \$949.0 million, and \$64.1 million for the retired teachers insurance line item.

Employee cost-sharing in the budget language specifies: 15 percent for

employees earning less than \$35,000, 20 percent for other employees, and 25 percent for all employees hired after June 30, 2003 – each of these rates were in place during FY 2005. After December 31, 2005, the premium share for recent employees would drop to 20 percent, and the share for employees earning more than \$35,000 would drop to 15 percent.

The Conference Committee followed the Senate's recommendation not to include coverage for the Board of Bar Examiners.

Revenue

The budget reported by the Conference Committee relies on a \$600 million transfer from the Commonwealth Stabilization Fund to the General Fund to support spending in FY 2006. This sum is considerably higher than the \$380 million transfer from the Stabilization Fund to the General Fund that was contained in the budget approved by the House of Representatives, but it is roughly comparable to the amount of temporary revenue on which the budget passed by the Senate relied. All told, the Senate's version of the FY 2006 budget counted on \$656 million in revenue from strictly temporary sources: \$516 million in resources rededicated from FY 2005, and a separate \$150 million transfer from the Stabilization Fund in FY 2006.

Nevertheless, if recent tax revenue growth continues, it should prove sufficient to compensate for this sizable transfer from the Stabilization Fund. As was the case with the Senate budget, the Conference Committee's dependence on temporary revenue reflects the Legislature's desire to preserve an artificially low tax revenue estimate for FY 2006 and, at the same time, use such recent tax revenue growth to begin to restore the

dramatic cuts in spending enacted over the past several years. That is, the budget reported by the Conference Committee assumes that tax revenue in FY 2006 will total \$17.1 billion, but, based on recent tax collection trends, it appears likely that tax revenue in the coming fiscal year will exceed that projection by several hundred million dollars. Through May, year to date tax collections for FY 2005 were \$15.26 billion; if collections reach their June benchmark of \$1.77 billion, then current year collections will total \$17.027 billion. Consequently, growth of just 0.4 percent in FY 2006 would be sufficient to reach the Legislature's FY 2006 estimate of \$17.1 billion. In contrast, tax revenue growth of 4.7 percent would yield baseline tax collections of \$17.827 billion, or \$727 million more than the amount on which the Conference Committee budget is based. (A growth rate of 4.7 percent is significant in that it is the growth rate that the Legislature used in deriving its original \$17.1 billion tax revenue estimate for FY 2006, albeit applied to a substantially lower FY 2005 tax revenue total than will ultimately be realized.) In short, if tax revenue grows by roughly 4 percent in FY 2006, the additional revenue that will be collected will be enough to replace the \$600 million withdrawn from the Stabilization Fund.

The budget reported by the Conference Committee, like the House and Senate versions of the budget before it, also diverts a total of \$183 million in tobacco settlement funds to cover current expenses, funds that otherwise would have been saved for the future. Under current law, only 30 percent of the annual tobacco settlement payment the Commonwealth receives each year – as well as 30 percent of the investment earnings of the Health Care Security Trust – is intended to be used for current expenditures. The remainder is set aside to

fund health related services and programs in the future. Yet, the Conference Committee budget alters current law to use 100 percent of the settlement payment and 50 percent of the Trust's investment earnings for immediate purposes. In fact, this marks the third consecutive fiscal year in which the entire annual settlement payment has been used to support ongoing expenses, rather than setting aside a portion of it. Such a string necessarily raises questions as to the Commonwealth's commitment to saving such funds and whether policymakers will permanently alter existing law, rather than circumventing it on an annual basis.

Finally, the Conference Committee budget depends on the enactment of pending tax loophole legislation to finance \$105 million worth of spending in FY 2006. Both the House of Representatives and the Senate, in crafting their budgets, expected that the enactment of such legislation would generate on the order of \$100 million in FY 2006. The Senate did so explicitly, including \$100 million from "anticipated changes to tax law" in its tax revenue estimate, while the House did so implicitly, increasing spending by \$113 million during its floor debate without identifying a revenue source to offset such additional costs. The Conference Committee employed the Senate's approach, including \$105 million from "anticipated changes to tax laws" in its tax revenue estimate.

House 4169, passed by the House of Representatives a week prior to the adoption of the Conference report on the budget, would close a variety of tax loopholes and would impose new penalties on the marketers and the users of abusive tax shelters. In its present form, it would, in fact, generate approximately \$105 million in FY 2006. However, while House 4169 contains many of the same provisions

originally included in legislation proposed by Governor Romney in January (House 21), it still leaves open some \$65 million in loopholes identified in that initial proposal. By leaving those loopholes open, House 4169 would allow large, multi-state corporations to continue to bend tax law to their advantage and to shift the Massachusetts tax burden onto working families and local businesses.

Spending by Program Area

(in Millions of \$)

Program	FY06 Conference	Nominal Change Conference vs.			FY05	Infl.-Adj. Change Conference vs. FY05
		House 1	House	Senate		
Local Aid - Lottery	761.4	0.0	0.0	0.0	25.0	9.2
Local Aid - Additional Assistance and PILOT	398.4	1.0	1.0	0.0	3.1	(5.4)
Local Education Aid (Ch. 70) ¹	3,288.9	28.7	0.0	(55.0)	105.6	37.2
K-12 Educ (non Ch. 70) ²	486.9	5.4	11.5	11.3	23.7	13.7
School Building Debt Assistance ³	488.7	0.0	0.0	0.0	93.0	84.5
Higher Education ⁴	950.3	28.6	24.1	2.5	4.3	(16.1)
Early Education and Care ⁵	481.1	30.9	12.2	0.5	31.3	21.6
Income Support Programs ⁶	596.9	17.8	(0.1)	(1.3)	(4.6)	(17.5)
Medicaid and Other Health Care Programs ⁷	7,330.3	116.4	52.1	(119.2)	95.1	(60.4)
Public Health	430.8	18.6	13.5	2.3	22.2	13.4
Mental Health	626.1	6.2	5.8	(0.0)	28.8	16.0
Mental Retardation	1,123.9	1.7	1.2	1.0	60.0	37.1
Social Services	744.2	13.1	6.6	1.1	35.2	19.9
Elder Affairs	214.6	15.1	10.3	0.1	17.9	13.7
Other Health & Human Services	587.4	26.1	19.7	1.2	31.7	19.8
Environmental Affairs ⁸	203.3	14.0	8.6	3.1	(55.4)	(61.0)
Transportation	150.2	(11.9)	0.5	1.7	(69.0)	(73.7)
Housing & Community Development ⁹	91.6	14.5	5.7	0.7	(3.9)	(6.0)
Economic Development	141.6	14.6	13.8	3.9	8.0	5.1
Public Safety	1,306.2	1.0	15.5	(3.4)	17.0	(10.7)
Judiciary	645.1	27.5	13.9	2.4	17.9	4.4
District Attorneys	84.9	2.2	4.0	0.0	5.6	3.9
Attorney General	37.5	0.9	2.4	0.5	1.3	0.5
Libraries	29.6	2.4	1.2	0.8	2.5	1.9
Debt Service	1,793.2	0.0	0.0	(0.0)	39.4	1.7
Pensions ¹⁰	1,275.2	0.0	0.0	0.0	57.7	31.6
Group Insurance	1,023.2	76.3	0.0	0.0	170.9	152.6
Other Administrative	661.3	(47.8)	3.3	(0.1)	(13.1)	(27.6)
Total	25,953	403	227	(146)	751	209

Notes:

- (1) The Senate figure for Local Education Aid includes \$55 million set aside in a reserve account. The House 1, House, and Conference budgets do not include funding for this purpose.
- (2) The FY 2006 budget proposals would consolidate functions that are currently funded separately by the Department of Education and Office of Child Care Services. To enable a year-to-year comparison, the FY 2005 total adjusts for these transfers by subtracting \$81.8 million from the K-12 Education total and adding the appropriate proposals to the FY 2006 totals for Early Education and Care.
- (3) The FY 2005 budget reduces available revenue by \$395.7 million to cover the costs of School Building Assistance. In FY 2006, revenue would be reduced by \$488.7 million. The table includes these amounts as appropriations.
- (4) The higher education totals include \$30.6 million in tuition revenue retained by the campuses. The total for FY 2005 also includes supplemental funding to pay costs for FY 2004.
- (5) The FY 2006 House 1 total for Early Education and Care includes funding for the Office of Child Care Services that this budget keeps in a separate department. Proposals by the House, Senate, and Conference Committee move most of these appropriations to the Department of Early Education and Care. The House, Senate, and Conference totals for Early Education and Care also include \$6.0 million in a reserve account to comply with changes to federal welfare regulations.
- (6) The FY 2006 House 1 budget proposes to move a portion of funding for the State Supplement to Supplemental Security Income (SSI) to Elder Affairs for beneficiaries residing in rest homes. This appropriation is incorporated in the total for Income Supports Programs, and, therefore is deducted from the Elder Affairs figure for House 1.
- (7) Comparing the Conference Committee total to FY 2005 understates the actual increase because budgeted spending in FY 2005 was significantly higher than actual spending, as explained in the Medicaid section of this Budget Monitor. Totals include "on-budget" and "off-budget" Medicaid, senior pharmacy, other state health care programs, and off-budget state payments into the Uncompensated Care Pool. Totals do not include \$288.5 million off-budget funding for the Health Care Quality Improvement Trust. FY 2006 House 1 totals include \$327.6 million use of FY 2005 budgeted but unspent Medicaid dollars.
- (8) This FY 2005 number includes all FY 2005 appropriations, including one-time funding. While all categories in this chart use that same methodology, there were an unusually large number of one-time appropriations in environmental affairs, which is why it appears that funding is cut substantially in the FY 2006 proposals.
- (9) The FY 2005 budget transfers \$2.0 million from the General Fund to the Affordable Housing Trust Fund. This amount is included in the total above.
- (10) Off-budget pension funding in FY 2005 totals \$1.216 billion; the FY 2006 budgets include \$1.275 billion for this purpose. These amounts are treated as appropriations for these years.

*The totals for FY 2005 reflect total amounts appropriated to date, including one-time supplemental funding and prior appropriations that are continued for this year. The totals also incorporate off-budget spending for certain areas as noted above.