

BUDGET MONITOR

The FY 2006 House Ways and Means Budget

Overview

The House Ways and Means budget proposal, like the budget recommendation from the Governor, does little to restore funding for education, health care and other basic services that have been cut by close to \$3 billion during the fiscal crisis.

In addition, this budget fails to adopt proposals originally made by the Governor to save the Commonwealth \$170 million a year currently being lost because of tax loopholes and corporate tax avoidance. Closing those loopholes would provide significant resources to protect essential services.

However, the House Ways and Means budget is fiscally responsible in rejecting a proposal by the Governor, a \$550 million tax cut, that could have forced another round of deep cuts to basic public services in the years ahead.

The House Ways and Means budget, unlike House 1, uses \$380 million from the state rainy day fund. Nevertheless there are also specific ways in which the Ways and Means proposal is more fiscally responsible than the Governor's budget. The House Ways and Means budget assumes \$400 million less in tax revenue than the Governor's budget. Therefore, if the Governor's tax

revenue estimate is accurate, then the House Ways and Means budget would result in a year end surplus of \$400 million, which could be used to replenish the rainy day fund.

In addition, the House Ways and Means budget removes two elements of the Governor's budget that would cause structural budget problems next year. One is an accounting procedure within Medicaid through which the Governor would have paid some bills coming due in FY 2006 with money that was appropriated in FY 2005. His budget would not, however, have paid similar bills coming due in FY 2007 with FY 2006 money. As a result, the Governor's budget for FY 2006 was able to appropriate less than the full year costs of the program. This change artificially reduces the FY 2006 appropriation for Medicaid, but would result in a major increase in FY 2007 when the program would be forced again to pay for a full year of costs.

Finally, the House Ways and Means budget would protect the Commonwealth from a \$325 million problem that the Governor's budget would create in FY 2007. The Governor's budget proposes a tax cut that will cost \$550 million a year beginning in

FY 2007. Because the tax cut would not be in effect for all of FY 2006, the Governor's budget allocates only \$225 million for the cost of the tax cut. Therefore, if his proposal were to be adopted, the state would have to find an additional \$325 million next year to pay for the full year cost of the tax cut.

This *Budget Monitor* examines the House Ways and Means budget, explaining the proposal's revenue assumptions and policies, detailing spending by category, and comparing proposed appropriations to the current FY 2005 budget.¹ The *Monitor* also looks at the progress the state is and is not making towards reversing the deep cuts of the past five years.

Local Aid

The House Ways and Means Committee proposes a total of \$1.2 billion for local aid, the same amount included in the Governor's budget. This amount is 20 percent below the FY 2001 level, after adjusting for inflation.

FY 2005	\$1,131,646,098
FY 2006 HW&M	\$1,158,746,098
Increase (decrease)	\$ 27,100,000
Percentage Change	2.4%

This budget proposes \$761.4 million for lottery distributions to cities and towns, \$100.0 million more than was initially budgeted for FY 2005. However, after considering \$75.0 million in supplemental funding for this purpose, the House Ways and Means budget total results in a net

¹ Budget figures reflect amounts authorized in the General Appropriation Act and supplemental budgets.

increase of \$25.0 million over what is distributed in FY 2005.

The House Ways and Means budget also increases funding for Payment in Lieu of Taxes (PILOT) from \$13.0 million in FY 2005 to \$15.1 million in FY 2006, a \$2.1 million difference; additional assistance is level-funded at \$379.8 million.

K-12 Education

Overall, funding for Chapter 70 Aid and the Department of Education's grants and reimbursement programs would grow by \$78.8 million under the budget proposed by the House Ways and Means Committee. This amount is smaller than the \$96.2 million increase offered by the Governor in his FY 2006 proposal. Funding for the School Building Assistance program totals \$488.7 million for FY 2006. Beginning this fiscal year, funding for this program is generated from a dedicated portion of sales tax revenue. The following sections do not include funding for the School Building Assistance program.

Total K-12 Education Spending

FY 2005	\$3,646,485,481
FY 2006 HW&M	\$3,725,246,074
Increase (decrease)	\$ 78,760,593
Percentage Change	2.2%

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

FY 2005	\$ 3,183,282,601
FY 2006 HW&M	\$ 3,260,512,757
Increase (decrease)	\$ 77,230,156
Percentage Change	2.4%

Chapter 70 Aid is provided to cities and towns for public education. The House Ways and Means Committee appropriates \$3.3 billion for Chapter 70 Aid, roughly the same amount as in the House 1 budget. This should be enough to keep school districts at the foundation budget levels, but does not restore the \$258.2 million cut between FY 2002 and FY 2005.

Grants and Reimbursements

FY 2005	\$463,202,880
FY 2006 HW&M	\$464,785,548
Increase (decrease)	\$ 1,582,437
Percentage Change	0.3%

The budget for the Department of Education’s grants and reimbursement programs totals \$464.8 million in the budget offered by the House Ways and Means Committee. The Governor’s House 1 budget is higher in comparison at \$481.4 million.² The Ways and Means budget would provide small increases in a number of areas, including full-day kindergarten and Adult Basic Education programs, and programs for gifted and talented students.

This budget proposes \$25.0 million for kindergarten expansion grants, \$2.0 million more than FY 2005 and the House 1 budget proposal. House Ways and Means also would increase funding for Adult Basic Education programs from \$27.8 million to \$29.3 million, a \$1.5 million difference. The Governor’s budget proposed to increase funding for Adult Basic Education by nearly \$8.0 million. The budgets proposed by the House Ways and Means Committee and the Governor both would increase funding for gifted and talented programs, but the proposal by the House Ways and Means

² Both amounts adjust for transfers to the Department of Education and Care.

Committee is smaller than that of the Governor. The current appropriation of \$99,999 would increase to \$250,000 under the House Ways and Means budget compared to \$1.0 million under the House 1 budget.

The MCAS remediation line item is only \$10 million in the House Ways and Means budget, while this item was funded at \$14.1 million in FY 2005. The House Ways and Means Committee also establishes a new \$5 million item dedicated to services similar to those that had been funded by a \$4.1 million earmark in the FY 2005 MCAS line item. While this means that this budget only provides \$10 million for the types of after-school, summer school and tutoring programs that the state provided \$50 million a year for in fiscal year 2003, the budget also provides \$5 million for school-based initiatives that could help many of the students who may no longer be able to receive the direct remedial services for which funding has been cut by 80 percent since FY 2003.

The House Ways and Means Committee follows the Governor in level-funding the Special Education Circuit Breaker program, a system which reimburses cities and towns for a portion of their costs to provide appropriate services to students with disabilities. The \$201.6 million appropriation is seven percent less than the Board of Education’s budget request of \$215.0 million.

Despite the overall level of funding, the budget for the Department of Education’s grants and reimbursement programs, after adjusting for inflation, is \$8.4 million or 1.8 percent less than current appropriations. Furthermore, this budget is \$255.5 million below the FY 2002 level.

Higher Education

The House Ways and Means Committee proposes \$920.0 million for public higher education in FY 2006. Strictly comparing this amount to current appropriations shows a \$26.0 million decline. However, comparing the House Ways and Means proposal with current appropriations after removing supplemental funding produced in FY 2005 to pay costs in FY 2004 as well as other one-time funding for FY 2005 shows a \$15.8 million increase.

Including one-time funding in FY 2005³

FY 2005	\$946,058,046
FY 2006 HW&M	\$920,046,623
Increase (decrease)	(\$26,011,423)
Percentage Change	-2.7%

Excluding one-time funding from FY 2005

FY 2005	\$904,212,307
FY 2006 HW&M	\$920,046,623
Increase (decrease)	\$ 15,834,316
Percentage Change	1.8%

Under this budget, funding for the state and community colleges would increase by roughly three percent each; the Governor's budget proposed to increase funding by two percent each. The House Ways and Means Committee also would increase appropriations to UMass campuses by one percent (\$5.1 million). The House 1 budget proposal for UMass campuses would result in a 3 percent decline (\$11.4 million), once a

³ To provide an "apples-to-apples" comparison, the FY 2005 total includes the appropriation for the Office of Dispute Resolution, which the Governor and House Ways and Means Committee propose to move to UMass Boston and fund through the operating budget for the UMass campuses.

one-time capital expense for UMass Lowell is deducted from operating expenses. The following table compares appropriations in FY 2001 and FY 2005, budget proposals by the Governor and House Ways and Means, and the Board of Higher Education's (BHE's) FY 2006 budget request.

Fiscal Year	UMass	State Colleges	Community Colleges
2001	552.6	219.5	265.7
2005	436.7	183.3	202.8
2006 - H. 1	416.0	183.2	203.2
2006 - HWM	432.5	184.9	204.9
2006 - BHE Request	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.

The House Ways and Means Committee includes in this budget proposal a provision that would allow many immigrant students to pay in-state tuition rates at the state's public colleges and universities. The measure proposed by the House Ways and Means Committee would extend in-state tuition rates to immigrants who have resided in the state for three years, graduated from a Massachusetts high school, and are in the process of obtaining citizenship or permanent residency. Under current law, undocumented immigrant students are not eligible for in-state tuition rates and face additional difficulties securing financial aid, scholarships, or student loans. A measure permitting immigrant students to pay in-state tuition rates was included in the FY 2005 Conference budget, vetoed by the Governor, and never taken up by the Legislature in the process of overriding other vetoes.

Although overall allocations to campuses rise modestly in this budget, the House Ways and Means Committee follows the

Governor in level-funding the main account for financial aid assistance (\$82.4 million). House Ways and Means also follows the Governor in not restoring funding for library reference materials, which was last funded at \$1.2 million in FY 2003, down from \$14.0 million in FY 2001. In general, this budget does not restore cuts over the past few years. In real terms, overall funding for public higher education has fallen by \$296.7 million or 24 percent since FY 2001.

Early Education and Care

Funding for early education and care totals \$465.9 million in the budget proposed by the House Ways and Means Committee. This total includes a \$6.0 million earmark in a reserve account created to meet the demand for child care services which will likely result from changes in welfare regulations.

FY 2005	\$449,845,031
FY 2006 HW&M	\$465,893,575
Increase (decrease)	\$ 16,048,544
Percentage Change	3.6%

Funding for subsidized child care would rise by at least \$6.8 million in the House Ways and Means budget. The budget account for this purpose would go from \$278.9 million in FY 2005 to \$285.7 million FY 2006. Legislative language included in the budget sets aside an additional \$6.0 million for child care subsidies and referral services from the new reserve account that is created to offset costs likely due to new work requirements for parents receiving welfare benefits. The Governor proposes to increase funding for child care assistance by \$6.4 million to support new work requirements.

This budget also supports a higher level of funding for Head Start program grants.

Currently funded at \$6.1 million, the House Ways and Means Committee proposes to increase funding to \$7.5 million, a \$1.4 million difference. The Governor proposes to level-fund Head Start program grants.

The Healthy Families Newborn Visiting Program is essentially level-funded at \$12.1 million. The House 1 budget would have reduced funding to \$6.1 million, roughly half of the current appropriation. Both proposals offer funding considerably below its level prior to budget cuts. In FY 2002, \$21.2 million were appropriated for this program, which provides vital supports to pregnant and parenting teens.

Creating the separate Department of Early Education and Care is the first step in creating universal care for preschool aged children. There is still a considerable amount of work to do in both creating and funding this system, which the budgets proposed by the Governor and House Ways and Means Committee set in motion.

Income Support Programs

Overall, funding for income support programs falls from \$601.5 million in FY 2005 to \$596.5 million in FY 2006 as proposed in the House Ways and Means budget.

FY 2005	\$601,481,017
FY 2006 HW&M	\$596,450,195
Increase (decrease)	(\$ 5,030,822)
Percentage Change	-0.8%

The House Ways and Means Committee leaves in place current regulations for Temporary Assistance for Families with Dependent Children (TAFDC), the state's main cash assistance program for low-

income families. The Commonwealth currently operates the TAFDC program under waivers from federal welfare law, which enable the state to provide exemptions from the time limit and work requirements for individuals with serious barriers to employment without risking the loss of federal funding. These waivers will expire on September 30, 2005 and federal regulations are likely to change before then. Considering these circumstances, the Commonwealth needs to modify the TAFDC program so that it can meet federal work requirements and not risk loss of federal funding. One option, which is in a bill pending in the Legislature (an Act Relative to Responsible Welfare Reform), would create a separate state program that would allow Massachusetts to meet federal work requirements and retain exemptions for individuals with documented barriers to employment. This could be done at no additional cost by shifting existing resources. In the House 1 budget, the Governor chooses another option by recommending time limits and work requirements for roughly 14,000 individuals who are currently exempt from such regulations. The House Ways and Means Committee does not adopt the Governor's plan to impose time limits and work requirements for roughly 14,000 individuals, but will likely make changes to the TAFDC program when the issue is taken up during the typical committee review process.

The House Ways and Means Committee also chose not to adopt the Governor's proposal to alter another cash assistance program for low-income individuals. The Emergency Aid for the Elderly, Disabled, and Children (EAEDC) program provides assistance to low-income elderly or disabled individuals or those charged with caring for disabled family members. In the House 1 budget, the Governor proposes to change the

name of the program to "Emergency Transitional Assistance," impose work requirements for individuals receiving such assistance, and implement regulations that would make immigrants report their sponsors' income in addition to any that they might earn.

Although the House Ways and Means Committee does not adopt the Governor's policy changes for TAFDC and EAEDC, the Committee proposes lower appropriations for each program. The House Ways and Means budget includes \$312.5 million for TAFDC and \$70.1 million for EAEDC, respective declines of \$5.3 million and \$970,000 compared to FY 2005. It is not clear whether these amounts are enough to support the current caseload, but in this budget the House Ways and Means Committee restores a previous requirement that the Department of Transitional Assistance (the state agency which oversees these programs) would have to notify the Legislature of its intent to cut benefits or change eligibility criteria. This requirement gives the Legislature enough time to pass supplemental funding for these programs and prevent such changes. The Governor did not include this safeguard in the House 1 budget.

Funding for the Employment Services Program, which is an assortment of education, training, and job search programs administered by the Department of Transitional Assistance, would rise from \$22.0 million to \$30.0 million, the same amount proposed by the House 1 budget.⁴

⁴ In addition to the line item appropriation specifically for the Employment Services Program, the FY 2005 and FY 2006 totals include \$3.0 million from a federal reimbursement for state expenditures on education and training for individuals receiving food stamps. The House Ways and Means budget for FY 2006 also allocates \$6.0 million from a reserve account, which is reflected in this figure.

The Governor asserts that the higher amount would support services for individuals newly required to work under his proposal. The House Ways and Means does not alter current work requirements, yet adds an additional \$8.0 to this program. This additional funding lays the groundwork so that the full House can make necessary changes to the TAFDC work requirements.

Medicaid and Other Health Care Programs

The House Ways and Means budget does not differ dramatically from the Governor’s proposals for the state’s health care programs (Medicaid, pharmacy programs and uncompensated care), and similarly presents no notable program initiatives that would dramatically increase health care coverage for the close to one-half million uninsured residents of the Commonwealth.

Combined funding for these health care programs is only \$48.0 million more in the House Ways and Means FY 2006 budget than was budgeted in FY 2005. However, because actual spending in FY 2005 is projected to be approximately \$527 million less than budgeted (as explained below), the House Ways and Means FY 2006 budget represents an actual increase of close to half a billion dollars more than a comparison of the budgeted number indicates.

FY 2005	\$ 7,235,179,344
FY 2006 HW&M	\$ 7,283,199,129
Increase (decrease)	\$ 48,019,785
Percentage change	0.7%

Medicaid/MassHealth

The House Ways and Means Medicaid budget is approximately \$7.073 billion. This is a 6.7 percent increase above the Governor’s projected spending for FY 2005, and just 1.0 percent more than the Governor’s House 1 proposal. The Chairman of the House Committee on Ways and Means states explicitly that this funding level should be sufficient to accommodate an increased program enrollment of up to one million members. (Current enrollment stands at approximately 980,000.)

FY 2005 total appropriations for Medicaid were approximately \$6.908 billion. As shown in the accompanying chart, FY 2005 spending was projected to be \$6.63 billion, significantly less than budgeted. The Governor projected that there would be approximately \$527 million unspent in the FY 2005 Medicaid budget. Of these dollars, \$200 million “surplus” would be returned to the General Fund to help balance the state’s budget, and \$327 million would be used to pay a portion of FY 2006 bills that come due between July 1, 2005 and September 15, 2005. Unlike the Governor’s House 1 budget, the House Ways and Means budget does not appear to use FY 2005 Medicaid surpluses as revenues to balance the FY 2006 budget.

Total Medicaid Budget			
<i>In Millions of \$</i>			
	FY 2005	FY 2006	FY 2006
	Spending	House 1	HW&M
"On-Budget" Medicaid	6,334.0	6,639.0	7,036.5
"Off-Budget" Medicaid	372.4	36.5	36.5
<i>MassHealth Essential</i>	155.9	36.5	36.5
<i>Medicare Buy-In</i>	216.5	<i>On-budget</i>	<i>On-budget</i>
Prior Year's Surplus	251.8	327.0	
Current Year's Surplus	(327.0)		
Total Medicaid Budget	6,631.2	7,002.5	7,073.0

Note: Off-Budget totals do not include \$288,500,000 for Health Care Quality Improvement Trust

The total \$7.073 billion Medicaid budget is broken down into two sections: “on-budget spending” and “off-budget” spending. In the House Ways and Means budget, “on-budget” Medicaid spending totals approximately \$7.037 billion, close to 6 percent more than the Governor’s proposal. This difference is largely due to the Governor’s use of FY 2005 appropriations to pay a portion of the FY 2006 Medicaid costs.

In FY 2005, “off-budget” Medicaid costs included the full year’s funding for the MassHealth Essential Program and the costs of the MassHealth Medicare Buy-In Program. In FY 2006, both of these programs will come “on-budget”.

The cost of the MassHealth Medicare Buy-In Program in FY 2005 was approximately \$216.5 million. Up through FY 2005, these Medicare payments were made by reductions in the federal revenues coming into the Commonwealth. Starting in FY 2006, the costs of this program are incorporated into the costs of the MassHealth Indemnity and Third Party Liability line item, and reflected in increased federal revenues (with the elimination of the reductions.)

Bringing the costs of the MassHealth Essential Program “on-budget” is slightly more complicated. This program is brought “on-budget” in October 2005, funded through a new line item appropriation. The House Ways and Means budget includes \$128.6 million for the “on-budget” portion of the MassHealth Essential Plan, \$9 million more than budgeted by the Governor. It is estimated that \$36.5 million will still be necessary “off-budget” to pay for the program during the first three months of the fiscal year.

With health care inflation remaining close to 8 percent, assuming that the Commonwealth can hold program costs to a 6.7 percent increase while increasing enrollment by 20,000 persons may be optimistic. The Governor’s House 1 budget anticipates being able to hold program costs to a 5.6 percent increase.

Program Enrollment

The Massachusetts Division of Health Care Finance and Policy estimates that there are approximately 105,000 people in the Commonwealth who are currently uninsured but potentially eligible for MassHealth coverage. This number includes approximately 25,000 low-income parents potentially eligible for MassHealth Standard coverage, 5,000 disabled adults potentially eligible for MassHealth CommonHealth, 41,000 uninsured children eligible for either MassHealth Family Assistance or the Children’s Medical Security Plan, and approximately 33,000 low-income unemployed adults who could be eligible for the MassHealth Essential program if there were no caps places on program enrollment.

Although the House Ways and Means budget assumes that Medicaid funding levels are sufficient to accommodate full Medicaid enrollment, there are still some significant program limitations, particularly for the population of long-term unemployed who lost coverage during the fiscal crisis.

The House Ways and Means budget includes \$9.0 million in the MassHealth Essential line item to cover legal immigrants who are elderly or disabled. Like in House 1, however, the House Ways and Means budget specifies that this coverage should only be for persons whose immigration sponsors do not have incomes exceeding 200 percent of the federal poverty level.

There are estimates, however, that this new sponsorship requirement may exclude up to two-thirds of the 3,000 low-income elderly or disabled legal immigrants who would have been eligible for MassHealth coverage.

The House Ways and Means budget includes language in the MassHealth Essential Program line item that specifies that costs not exceed the appropriation, but that the budgeted amount will be sufficient to enroll up to 44,000 long-term unemployed adults. There is concern, however, that the appropriation is insufficient to meet the needs of all potentially eligible enrollees.

In an attempt to increase program enrollment, the House Ways and Means budget includes a new line item (also included in House 1) funded at \$250,000 which would provide grants to non-profit and private organizations to help enroll some portion of the uninsured in the state's health insurance programs. In previous years, however, there had been over \$1 million allocated to such outreach grants.

Programmatic Changes Proposed for Medicaid

The House Ways and Means budget does not include the Governor's proposal for new funding (\$1.5 million) for compliance auditing and review of Medicaid programming.

The House Ways and Means budget follows the Governor's budget proposal in that there is no language restoring benefits or services that had been eliminated during the state's fiscal crisis. Adult dental benefits and coverage for eyeglasses in particular are essential services that have not yet been restored.

Medicaid Provider Issues

Section 15 of the budget would allow 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. Access to dental care for people receiving MassHealth has been an issue of significant concern. There are estimates that fewer than 700 of the Commonwealth's 5,000 dentists participate in the MassHealth program, partly because of unwillingness to accept the paperwork requirements and the low reimbursement rates associated with the program. Currently, if any provider chooses to accept Medicaid, that provider is not allowed to place a limit on the number of Medicaid patients they treat. Notable, however, is that like the Governor's budget, the House Ways and Means budget does not propose restoring coverage for adult dental services. Coverage for these services (other than emergency extractions) had been eliminated in FY 2003.

A new line item in the House Ways and Means budget provides \$18.75 million to reinstate MassHealth coverage for inpatient stays greater than twenty days in length. These "outlier benefits" had been eliminated in April 2003.

Like FY 2005 budget and Governor's House 1 proposal, the House Ways and Means budget proposal includes an "off-budget" Medicaid payment of \$288.5 million for enhanced nursing facility rates, listed in Section 21 of the budget. 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*, but is included in the "off-budget" Medicaid totals

counted by the Governor and the House Committee on Ways and Means.

Pharmacy Programs

The Prescription Advantage Program serves approximately 80,000 elders and low-income persons with disabilities. The program places a limit on out-of-pocket premiums and co-payments enrollees pay on their prescriptions.

The House Ways and Means budget reduces funding for Prescription Advantage from the \$110.0 million budgeted in FY 2005, to \$90.2 million in FY 2006 (just slightly more than the Governor's proposed funding level), and like the Governor, eliminates \$5.0 million in a separate line item that had been designated for co-payment subsidies for low-income elders. The House Ways and Means proposal aims to provide sufficient funding to cover the current level of enrollment in the program in its current form through the beginning of FY 2006, and then to cover its current members as a "wrap-around" benefit when the new federal Medicare benefit is implemented in January 2006. Included in the House Ways and Means budget proposal is more specific information than the Governor was able to provide about the implementation of the federal Medicare Part D pharmacy benefit. As details of the implementation of the new program emerge, the relationship between the federal program and the state's Prescription Advantage Program becomes clearer.

Section 22 of the House Ways and Means budget requires that any participant in the Prescription Advantage Program who is also eligible for the Medicare Part D prescription benefit apply for the federal benefit. Furthermore, the budget language requires that any enrollee who is eligible for low-

income subsidies associated with the federal prescription benefit apply for those subsidies as well. For those persons receiving prescription benefits under the federal Medicare program, the state's Prescription Advantage program would provide supplemental assistance for premiums, deductibles, payments and co-payments based on a sliding scale.

Like in House 1, the House Ways and Means budget includes a new line item for \$120 million to pay the federally-mandated assessment for the Medicare Part D Prescription Program (known as the "Clawback" provision.) Unfortunately, this amount will likely offset most of the savings the Commonwealth could have recognized from the implementation of the federal program. Furthermore, this amount is only an estimate at this point, and may need to be changed as more information about the program's implementation becomes available.

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 Ways and Means budget proposes funding for the Healthy Start program, a state-funded program that ensures prenatal care to low-income uninsured pregnant women, at a level \$1.8 million more than the previous year, and at a level \$544,000 more than the Governor's proposal in House 1. The House Ways and Means proposal assumes that this budgeted amount will be sufficient to cover the anticipated caseload of 6,500 women.

Similarly, the Governor's budget proposes funding for the Children's Medical Security Plan, a primary and preventive health insurance program for otherwise uninsured children, at a level expected to support the anticipated caseload of 30,000 children and adolescents. The House Ways and Means budget proposes \$21.1 million for the program, \$871,000 more than the Governor's proposal. Budgeted funding in FY 2005 was \$21.4 million, however the Governor had anticipated that actual spending in FY 2005 would only reach \$16.3 million.

Uncompensated Care Pool

The House Ways and Means budget follows the Governor's recommendations for funding for the Uncompensated Care Pool. 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. This analysis only includes payments by the state into the Pool. These payments are a portion of the federal matching dollars generated by Uncompensated Care Pool spending. This amount is not the full amount of funding available to health care providers for the partial compensation for free care and bad debt that they will accrue over the course of the year. The following totals will not include funds generated by assessments on hospitals and private payer surcharges (\$160 million each), nor will it include the amounts incorporated into the intergovernmental transfers that generate significant amounts of federal revenue to help fund the Pool.

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 has been moved "on-budget" as a distinct line item within the Executive Office of Health and Human Services, so funding for this program need no longer be subtracted from Uncompensated Care Pool funding. To complicate matters slightly, 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 Uncompensated Care Pool dollars budgeted during FY 2005.

The House Ways and Means budget proposes \$120 million in funding for the Uncompensated Care Pool. This amount includes \$85.9 million in transfers from the General Fund and a transfer of an estimated \$34.1 million in surplus dollars in the old "off-budget" MassHealth Essential line item. The total House Ways and Means proposal is still \$92.0 million less than was budgeted in FY 2005, a 43 percent decrease.

Language within the House Ways and Means budget also indicates that \$56 million of the payments from the Uncompensated Care Pool would be earmarked for community health centers. This is an increase from the \$41 million earmarked in FY 2005.

Public Health

The House Ways and Means budget for public health programs shows a slight decrease from the Governor's proposal, and also represents only a three percent increase over funding in FY 2005. Included in the FY 2005 budget was \$6.0 million in retained revenue. However, these dollars were neither collected nor spent in FY 2005, and have been eliminated from the FY 2006 budget proposals. Even with this adjustment, public health funding is still way below the funding levels for public health activities in FY 2001 when funding in inflation-adjusted dollars reached close to \$580 million.

FY 2005	\$398,898,612
FY 2006 HW&M	410,718,133
Increase (decrease)	\$ 11,819,512
Percentage change	3.0%

Funding for the non-hospital costs in the Department of Public Health amounts to approximately \$278 million, and hospital costs are approximately \$133 million. These levels are slightly below the Governor's recommendations. The House Ways and Means budget proposes funding for public health administration at approximately \$500,000 less than the Governor's proposal, but a \$728,000 increase over FY 2005 levels (a four percent increase).

Although family health programs, which include family planning, preventive and primary care for low-income vulnerable women and children, and rape crisis center funding, received a \$1.3 million increase from the Governor over FY 2005 levels, the House Ways and Means proposal increases this line item by \$800,000 less than the Governor, for a total of \$7.5 million. The

House Ways and Means proposal also removes the Governor's \$800,000 earmark for services for non-English speaking victims of domestic violence.

The House Ways and Means budget also recommends a significant reduction in the Community Suicide Prevention program. Funded at \$250,000 in FY 2005 and in the Governor's House 1 proposal, this program receives no funding under the House Ways and Means proposal.

The House Ways and Means proposal recommends funding for early breast cancer detection at \$3.3 million, an increase of \$250,000 over the Governor's recommendation, and a \$255,000 recommended increase over FY 2005.

The House Ways and Means budget maintains the Governor's significant increase for funding for the Sexual Assault Nurse Examiner program. Because of supplemental funding increases during the course of the current fiscal year, funding in FY 2005 is up to \$861,000, and the House Ways and Means budget proposes approximately \$1.0 million more, bringing the total to \$1.74 million. In addition to funding for this line item, the House Ways and Means budget goes along with the Governor's recommendation for a new program for a Pediatric Sexual Assault Nurse Examiner program. The House Ways and Means budget, like the Governor's budget, proposes \$1.0 million for this program. The House Ways and Means budget assumes that this funding level should be sufficient for services for approximately 700 children under the age of twelve.

Funding for substance abuse services includes an additional \$9.3 million over what had been budgeted at the beginning of

FY 2005. The House Ways and Means budget proposal includes funding for substance abuse services at \$46.4 million, compared to the Governor's proposal of \$45.9 million. The House Committee on Ways and Means assumes that this funding level should be adequate to maintain federal reimbursement for substance abuse services.

The House Ways and Means budget does not follow the Governor's proposal to dramatically reduce funding for the state's prostate cancer screening program. The House Ways and Means budget includes \$1.1 million for these services, a 10 percent increase over FY 2005 levels. The Governor had recommended funding this program at only \$250,000. The prostate cancer program, which targets African-American men, a group disproportionately at risk of dying from prostate cancer, provides screening, prevention, education and treatment.

As in the Governor's proposal, the House Ways and Means budget recommends funding for HIV/AIDS prevention and treatment at \$34.7 million. When adjusted for inflation, funding for these prevention, education, outreach and screening services has been cut by 39 percent since FY 2001.

Many programs do not keep pace with inflation. For example, the CenterCare primary and preventive health care program has been cut by 52 percent in real terms since FY 2001. In real terms since FY 2001, the Hepatitis C screening and treatment program has been cut by 82 percent, and smoking prevention programs have been cut by 93 percent. Funding for teenage pregnancy prevention services has also been reduced by 84 percent in real terms since FY 2001, and school health services have been cut by 72 percent.

Department of Mental Health

The House Ways and Means budget provides \$620.3 million for the Department of Mental Health, approximately the same amount proposed by the Governor in the House 1 budget.

FY 2005	\$597,245,276
FY 2006 HW&M	\$620,314,218
Increase (decrease)	\$ 23,068,942
Percentage Change	3.9%

Like the House 1 budget, this proposal would increase appropriations to meet growing demand and costs. For example, funding for adult mental health and support services and for child and adolescent mental health services would grow respectively by \$13.4 million and \$1.1 million. The Governor proposed similar increases of \$12.5 million and \$1.1 million for these services.

Department of Mental Retardation

Funding for the Department of Mental Retardation totals \$1.1 billion in the House Ways and Means budget. This amount is just about the same amount proposed by the Governor.

FY 2005	\$1,063,894,604
FY 2006 HW&M	\$1,122,163,473
Increase (decrease)	\$ 58,268,869
Percentage Change	5.5%

Pursuant to the Boulet Settlement, the House Ways and Means budget provides \$85.6 million to fund interim services for individuals on the waitlist for residential placements. In addition, the House Ways and Means Committee increases funding for

various programs and services, matching the amounts offered in the House 1 budget:

- The appropriation for community-based residential supports would rise from \$476.6 million to \$499.5 million, a five percent increase.
- Support for community-based work programs would grow from \$109.2 million to \$113.1 million, a four percent difference.
- Funding for respite family support services would increase from \$48.8 million to \$50.8 million, a four percent change.

The House Ways and Means budget appropriates \$1.0 million for a new budget account which funds support services for families with autistic children. The House 1 budget does not include this new line item, but nearly equals the amount of this investment with increases in other areas.

Department of Social Services

The House Ways and Means Committee proposes \$734.5 million for the Department of Social Services, a 3.6 percent increase over current appropriations.

FY 2005	\$708,999,852
FY 2006 HW&M	\$734,471,225
Increase (decrease)	\$ 25,471,373
Percentage Change	3.6%

In many areas, the House Ways and Means budget matches the amounts proposed in the House 1 budget. For example, administrative costs to the Department of Social Services are level-funded at \$68.6 million in both budgets, and both increase funding for foster care review services from \$2.6 million to \$2.7 million. On the other

hand, the House Ways and Means Committee proposes a smaller increase for services for children and families (an increase of \$7.3 million versus \$8.9 million) and larger increases for group care services (a \$15.4 million rise versus \$10.7 million) and domestic violence services (\$271,000 more versus \$24,000). In all, the budget proposed by the House Ways and Means Committee for the Department of Social Services stands \$3.4 million higher than the budget proposed by the Governor.

Despite this increase and the overall rise in funding over the past few years, this agency has faced greater demand than available resources would allow it to meet. The *Boston Globe* recently reported that the Commissioner for the Department of Social Services, Harry Spence, acknowledges that, “the budget, about \$710 million this year, hasn’t kept pace with inflation and a growing caseload.”⁵

Elder Affairs

The House Ways and Means budget proposal differs very little from the Governor’s House 1 proposal for funding for elder affairs. These numbers do not include the MassHealth programs administered by the Department of Elder Affairs and the senior pharmacy program, which are addressed in the “Medicaid and Other Health Care Programs” of this *Budget Monitor* (p. 7).

FY 2005	\$196,676,585
FY 2006 HW&M	\$199,535,373
Increase (decrease)	\$ 2,858,788
Percentage change	1.5%

⁵ “Audit hits DSS on foster homes: Cites lack of licensing and criminal checks,” *Boston Globe*, April 15, 2005, p. A7.

The House Ways and Means budget proposes a \$2.9 million, or 1.5 percent, increase in funding for elder service programs. Unlike the Governor's House 1 proposal, the House Ways and Means budget does not move to Elder Affairs close to \$22 million in cash assistance payments for state supplements to Supplemental Security Income (SSI) payments for rest home residents.

The House Ways and Means budget proposes \$12.3 million for the elder protective services program, a 5.2 percent real increase compared to FY 2005, in order to accommodate an increasing caseload. This is the same level of funding recommended by the Governor. It is not clear whether this funding will actually be sufficient to address the increasing need for these services and eliminate the existing wait list.

The House Ways and Means budget adds \$1.0 million to the Governor's recommendation for case management of the elder home care program, for a total of \$134.9 for home care services. This funding level helps keep the program's funding in line with inflation, but may be insufficient to meet the home care needs of the close to 700 frail elders awaiting community-based services.

The House Ways and Means budget proposal also proposes an increase for the Elder Residential Assessment and Placement Program which supports newly homeless elders. This program, which received \$425,000 in FY 2001, no funding at all in FY 2004, and \$50,000 in FY 2005, was recommended for level-funding at \$50,000 by the Governor. The House Ways and Means budget recommended increasing funding to \$250,000 – the same amount the

program received in nominal terms in FY 2003.

The Enhanced Community Options program, designed to provide more extensive community-based services for frail elders, received \$1.0 million more from the House Ways and Means budget than from the Governor's budget. The House Ways and Means proposes funding these services at \$38.4 million, an amount that would just cover inflation-related cost increases of the existing caseload.

Funding for local councils on aging increases slightly under the House Ways and Means proposal, rising from the FY 2005 level of \$6.5 million to \$7.0 million, a 5.4 percent increase above inflation. The elder lunch program loses approximately \$47,000 compared to FY 2005, a reduction of 1.2 percent

The House Ways and Means budget proposes a reduction in funding for the state's elder congregate housing program. Funded at \$1.3 million in FY 2005 and at close to that same level in the Governor's proposal, these support services for frail residents of congregate housing receive only \$1.1 million under the House Ways and Means proposal.

Other Human Services

The House Ways and Means Committee proposes \$563.8 million for other human services programs, slightly more than the \$561.3 million included in the House 1 budget.

FY 2005	\$555,672,842
FY 2006 HW&M	\$563,833,614
Increase (decrease)	\$ 8,160,772
Percentage Change	1.5%

The following outlines highlights for various human service programs:

- Funding for homeless shelters for adult individuals would increase from \$30.0 million in FY 2005 to \$35.0 million in FY 2006, higher than the \$2.8 million increase proposed by the Governor.
- The House Ways and Means Committee rejects the Governor's plan to eliminate a provision of law that allows families whose income exceeds eligibility guidelines to remain in shelter housing for up to six months.
- This budget increases funding for residential services for youth committed to the Department of Youth Services by \$6.7 million over the FY 2005 appropriation. The Governor's budget provides \$10.0 million more for these services than in FY 2005.
- This budget proposes \$10.0 million to fund salary increases for privately-contracted human service providers, more than the \$5.0 million offered by the Governor, but less than the current appropriation totaling \$20.0 million.

Environmental Affairs

The House Ways and Means budget provides \$188.9 million for environmental affairs. Compared to current appropriations, this reflects a \$65.6 million decline. However, after adjusting for what appears to be one-time funding in FY 2005, this amount is \$3.2 million or 1.7 percent higher than the current operating budget.

Including one-time funding in FY 2005:

FY 2005	\$254,488,531
FY 2006 HW&M	\$188,910,206
Increase (decrease)	(\$65,578,325)
Percentage Change	-25.8%

Excluding one-time funding from FY 2005:

FY 2005	\$185,756,791
FY 2006 HW&M	\$188,910,206
Increase (decrease)	\$ 3,153,415
Percentage Change	1.7%

The House Ways and Means Committee did not adopt the Governor's proposal to move funding for employees currently paid for by the capital budget onto the operating budget, which would add \$3.2 million to the budget of the Executive Office of Environmental Affairs. This budget does, however, redistribute a portion of the funding from the Executive Office of Environmental Affairs throughout the Department of Conservation and Recreation (DCR), resulting in a \$5.6 million increase for DCR, if one-time funding in FY 2005 is not considered. Other environmental agencies will experience little or no additional funding in this budget. Moreover, the overall budget for environmental affairs has been cut considerably in the past few years. In real terms, the Ways and Means proposal is \$71.6 million or 27 percent below the FY 2001 level.

Housing

The budget for the Department of Housing and Community Development totals \$80.5 million in the House Ways and Means proposal. This amount is \$15.0 million less than current appropriations, but \$3.4 million more than the House 1 budget.

FY 2005	\$ 95,522,284
FY 2006 HW&M	\$ 80,491,240
Increase (decrease)	(\$ 15,031,044)
Percentage Change	-15.7%

The House Ways and Means Committee rejected the Governor's plan to implement time limits and work requirements for individuals receiving housing assistance through the Massachusetts Rental Voucher Program (MRVP). The House 1 budget also included language which would prevent the Department of Housing and Community Development from re-issuing mobile MRVP vouchers upon turnover. House Ways and Means did not adopt this measure, which would have reduced the number of vouchers available to families in need of affordable housing. The Committee also differs from the Governor in the amount proposed for FY 2006. The House 1 budget provides level-funding for MRVP at \$24.3 million; the House Ways and Means budget includes a \$2.0 million increase in the appropriation.

This budget also includes a rise in funding for another housing program, Rental Assistance for Families in Transition (RAFT). This program provides up to \$3,000 to help families who are at risk of homelessness to pay for utilities, security deposits, rent, or moving expenses. The House Ways and Means budget proposes to increase funding by \$500,000. The House 1 budget includes level-funding at \$2.0 million.

Funding for housing services offered by nonprofit organizations would also increase in this budget. The current appropriation of \$821,925 would grow to \$1.0 million in the House Ways and Means budget. The Governor's budget would keep funding at the FY 2005 level.

Current appropriations for FY 2005 are higher than the proposals by the Governor and the House Ways and Mean Committee, but only because funding for much needed services like energy assistance for low-income families and economic development

grants have been included in recent supplemental budgets.

Public Safety

Overall, funding for public safety is the same as in FY 2005. The House Ways and Means proposal of \$1.3 billion is \$17.6 million less than that of the Governor.

FY 2005	\$1,286,977,760
FY 2006 HW&M	\$1,288,637,473
Increase (decrease)	\$ 659,713
Percentage Change	0.1%

The House Ways and Means Committee follows the Governor in providing \$4.4 million for one new state police class. In general, there are other areas where the House Ways and Means budget does not increase funding or the increases are not as high as those proposed in the House 1 budget. For example, both budgets would increase funding for the state police crime lab. The House Ways and Means proposal includes a \$552,500 increase, while the House 1 budget provides \$2.8 million more.

Judiciary

Funding for the Judiciary totals \$617.6 million in the House Ways and Means budget, \$12.4 million more than the budget proposed by the Governor, but about the same as current appropriations.

FY 2005	\$615,206,661
FY 2006 HW&M	\$630,051,779
Increase (decrease)	\$ 2,794,342
Percentage Change	0.4%

The House Ways and Means Committee rejects the Governor's proposal to consolidate various administrative functions within the Judiciary. The House 1 proposal would merge operations for the Superior, District, Family, Probate and Juvenile Courts. The Governor also proposed to consolidate funding for various legal services, including the Massachusetts Legal Advisors Corporation, Massachusetts Correctional Legal Services, and Mental Health Legal Advisors. The House Ways and Means Committee did not adopt either of these plans.

The House Ways and Means budget increases funding for private attorneys assigned to criminal and civil cases. The FY 2005 appropriation of \$78.4 million would total \$95.1 million in FY 2006 under this proposal. This additional funding would help grant salary raises to these attorneys.

Group Insurance Commission

In the budget proposed by the House Committee on Ways and Means, funding for the costs of health insurance to state employees and retirees is \$1.008 billion, 6.5 percent higher than the amount proposed in the Governor's budget, and 21.3 percent more than FY 2005. The FY 2005 budgeted numbers, however, do not reflect the full anticipated cost of FY 2005 Group Insurance Commission costs. The Group Insurance Commission estimates that the FY 2005 budgeted amount for Group Insurance Premium and Plan Costs are approximately \$20 million short. This shortfall is due to an overestimation of anticipated savings from a switch in certain plans from a fully-insured model to a self-insured model. A FY 2005 supplemental budget appropriation is anticipated between now and the end of the fiscal year to fill the gap. The increase

between FY 2005 and FY 2006 is largely explained by an estimated 14 percent increase in health care premium rates and by increased plan utilization.

FY 2005	\$ 830,885,587
FY 2006 HW&M	1,008,190,489
Increase (decrease)	\$ 177,304,902
Percentage change	21.3%

The Group Insurance Commission has been hard hit by rising health care costs over the past several years. With health care inflation running at about 8 percent annually, and with health insurance premium rate increases only recently dipping below double digits, it has been the challenge of the Group Insurance Commission to continue to provide comprehensive and affordable health insurance benefits to active state employees and retirees.

The Governor first filed his proposed FY 2006 budget in January and recommended funding state employee health insurance at \$900.7 million. By April 5, 2005, the Governor had already determined that this budget proposal was insufficient. Rising health care costs forced the Governor to amend his House 1 budget submission for FY 2006, increasing the amounts budgeted for state employee health insurance by \$46.2 million to a total of \$946.9.

The Governor's budget and the House Ways and Means budget also differ in how they propose cost-sharing for health insurance beneficiaries. The Governor's budget proposed shifting more of the costs of health insurance onto state employees and retirees. The Governor proposed that active employees would contribute 25 percent towards the premium costs of their health

insurance, and 25 percent towards their dental benefits.

The House Ways and Means budget, however, maintains the cost-sharing structure in place during FY 2005: 15 percent for employees earning under \$35,000, 20 percent for other employees, and 25 percent for all employees hired after June 30, 2003.

Revenue

The budget proposed by the House Ways and Means Committee is premised on the assumption that baseline tax collections will total \$17.1 billion in FY 2006, an amount that is \$400 million below the Administration's current estimate of \$17.5 billion. Part of this difference is attributable to divergent assumptions about the rate at which tax revenue will grow between FY 2005 and FY 2006. The Administration projects that tax revenue will rise by 5.1 percent in the coming year, while the House Ways and Means Committee anticipates it will increase by 4.71 percent. Yet, divergent growth rates explain only about \$65 million of the \$400 million difference between the two estimates.

The far larger source of this critical difference lies in the Administration's and the Legislature's assumptions about the level tax collections will reach in the *current* fiscal year, FY 2005, and by extension, the base from which to calculate FY 2006 tax revenue. The Administration believes tax collections for FY 2005 will amount to \$16.65 billion; the Legislature expects them to be \$16.331 billion.

To put this in perspective, the most recent official tax revenue benchmark from the Executive Office of Administration and

Finance (from October 15, 2004) suggests that FY 2005 tax revenue will total \$16.231 billion. Year-to-date tax collections (through March) are running 2.4 percent ahead of that benchmark; if they were to continue on that pace, FY 2005 tax revenue would total \$16.62 billion. Alternatively, if tax collections were to slacken and simply hit their monthly benchmarks for the final quarter of the fiscal year, then FY 2005 tax revenue would total \$16.507 billion. In other words, the Legislature's current estimate for FY 2005 tax collections may be somewhat pessimistic, since, for it to be realized, tax collections over the next three months would need to be, on average, four percent below projected benchmarks. Yet, in only two of the first nine months of fiscal year 2005 have actual revenue collections fallen below expected benchmarks and in only one of those instances was the difference close to four percent.

The level of tax collections anticipated by the House Ways and Means, when combined with other permanent sources of revenue, such as fees and federal funds, is insufficient to support all of the various appropriations its proposed budget would make. Consequently, the Committee relies on approximately \$563 million in funding from sources that are either impermanent or were originally intended for other purposes. While that amount is below the level of one-time funds uses in prior years, it nevertheless points to persistent structural problems.

Specifically, the budget proposed by the House Ways and Means Committee would transfer \$380 million from the Commonwealth Stabilization Fund to the General Fund. If this transfer were approved, it would mark the fifth consecutive year the Legislature enacted a budget authorizing a portion of the

Stabilization Fund to be used to support ongoing expenses. The final version of the FY 2005 budget, approved June 15, 2004, transfers \$340 million from the Commonwealth Stabilization Fund to the General Fund, while transfers totaling \$1.03 billion, \$550 million, and \$99.8 million were made in FY 2002, FY 2003, and FY 2004 respectively.

According to the Office of the Comptroller, at the start of FY 2005, the balance in the Stabilization Fund stood at approximately \$1.137 billion. If FY 2005 tax collections total the amount assumed by the House Ways and Means FY 2006 budget, then at the start of FY 2006, the balance in the Stabilization Fund will likely exceed \$1.2 billion. (That is, the FY 2005 budget was based on total tax collections of \$15.93 billion, but the House Ways and Means Committee now expects they will reach \$16.331 billion, a roughly \$400 million surplus. However, as discussed above, the FY 2005 budget is also premised on a \$340 million transfer from the Stabilization Fund to the General Fund. The excess of that surplus over that transfer – plus the interest earned by the Stabilization Fund – would likely bring the balance of the Fund to over \$1.2 billion, assuming, of course, that final FY 2005 expenditures are no higher than the levels initially appropriated.) Thus, in transferring \$380 million out of the Stabilization Fund, the budget proposed by the House Ways and Means Committee would use more than a quarter of the Fund's anticipated balance to bring revenue into line with expenditures in FY 2006.

In addition, the House Ways and Means budget would follow the Governor's lead in reprising a set of policies, temporarily adopted in other recent budgets, which would increase the amount of funds related to the tobacco settlement that could be used to support current spending. Like House 1,

the House Ways and Means budget would, for FY 2006, transfer to the General Fund the full amount of the annual payment that Massachusetts is scheduled to receive as part of the master tobacco settlement agreement. The Commonwealth used the full amount of this payment to support current spending in FY 2005 as well, but, under current law, in FY 2006 and each succeeding year, 70 percent of that payment is supposed to be deposited in the Health Care Security Trust for future "funding health related services and programs, including, but not limited to, services and programs intended to control or reduce the use of tobacco in the commonwealth." For FY 2006, the payment is projected to be \$250 million; thus, in spending that full amount, House Ways and Means budget uses \$175 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 General Fund for current expenditures. For FY 2006, the House Ways and Means budget would increase that transfer to 50 percent of the annual investment earnings. As interest earnings are expected to total approximately \$40 million in FY 2006, this change would make an additional \$8 million available for use in the coming fiscal year, funds that otherwise would have been saved for the future.

Despite its dependence on impermanent or diverted sources of revenue, the House Ways and Means budget does not take any steps to prevent that problem from recurring in future years, as it does not contain any provisions to generate additional revenue from permanent sources in the years ahead. In particular, the House Ways and Means budget fails to include the tax loophole legislation that Governor Romney put forward at the start of the year. House 21, introduced by the Governor on January 26, would put an end to a variety of tax

avoidance techniques, impose new penalties on the firms that market such techniques, and improve the extent to which Massachusetts tax law reflects key facets of the modern economy. In so doing, it would generate \$170 million in FY 2006. The budget proposed by the House Ways and Means Committee does not take up any language from this bill, meaning that, if it were adopted, the Commonwealth would continue to lose over \$170 million each year to corporations and other sophisticated taxpayers who are able to exploit weaknesses in current law.

The House Ways and Means budget also rejects a proposal by the Governor that would significantly reduce revenue over the long-run. In his House 1 budget, Governor Romney recommended dropping the personal income tax rate to 5.0 percent, a move that would reduce tax revenue by \$225 million in FY 2006 and by roughly \$550 million each year thereafter.

Besides making it more difficult to balance the budget in future years, the Governor's proposal to reduce the personal income tax rate would be problematic in other ways as well. It would further reduce the progressivity of the Commonwealth's tax system, with the top fifth of taxpayers in Massachusetts enjoying nearly two-thirds of the total tax reduction arising from a rate of 5.0 percent. It would also be an ineffective means of fostering economic growth; the six states that cut taxes the most during the late 1990s - a group that includes Massachusetts - suffered larger job losses and slower personal income growth, in the aggregate, than the other 44 states during the latest economic downturn.⁶

⁶ Zahradnik, Robert, *Tax Cuts and Consequences: The States That Cut Taxes the Most During the 1990s Have Suffered Lately*, Center on Budget and Policy Priorities (Washington, DC), January 12, 2005.

Outside Sections: A Closer Look

The drafters of the House Ways and Means budget made a decision to reduce significantly the number of “outside sections” in the budget. Outside sections are sections of the budget that are not line item appropriations. Sometimes they are integrally related to the budget because they explain how appropriated money is to be spent or how revenue will be raised to support appropriations, but sometimes they are not.

The core purpose of the state budget is to set revenue and expenditure policies for the Commonwealth. In recent years, however, certain matters that are almost completely unrelated to these core purposes have been attached as outside sections of the budget. This use of the budget as a vehicle to enact laws that have nothing to do with how the state raises and spends revenue has created significant controversy.

In examining the issue of outside sections it is useful to consider three types of outside sections: those that relate directly to how revenue is raised or spent; those that involve significant non-budgetary policy issues but also affect the budget; and those that relate to significant policy issues and have no significant impact on the budget.

Outside sections that relate directly to how revenue is raised or spent

Some outside sections relate directly to how revenue is raised or spent and clearly belong in the budget. For example, each year Section 3 of the budget describes how various local aid accounts are to be allocated among cities and towns. This dictates how state money is to be spent and is clearly appropriate as an outside section to the budget. Section 27 of the House Ways and Means budget transfers certain tobacco settlement funds to the General Fund, and Section 30 transfers money from the Stabilization Fund to the General Fund. These sections identify funding sources for the appropriations made in the budget and are also clearly appropriate as outside sections. Similarly, the Governor’s budget proposal included an outside section that reduced the income tax rate. All of these sections affect the revenue available for appropriation in the budget and therefore are most appropriate to debate in the context of the budget.

Outside sections that involve significant non-budgetary policy issues but also affect the budget

Some outside sections make significant substantive changes to programs that are funded by the state budget. For example, in House 1, the Governor proposed significant changes to the state TAFDC program. These changes would have a direct effect on how much funding the state provides for child care, employment supports, grants, and administrative funding for various programs. But the reforms also go way beyond simply setting appropriation levels; they embody policy choices about how the state should design a safety net program for low-income families, particularly those with disabilities. There are, therefore, significant arguments for and against enacting these types of reforms as outside sections of the state budget.

Outside sections that have no significant impact on tax and spending policy

At times the Legislature has included outside sections that have nothing to do with how revenue is raised or spent. For example, Section 373 of the FY 2005 budget directed the Department of Education to “develop a statewide plan to establish and maintain an environment for students which is safe, positive, conducive to learning, and free of disruption and bullying.” Clearly, the safety of students in our schools is of real importance. But if the legislative process is functioning properly, a section like this probably does not need to be part of the budget, unless there is a need to provide a specific appropriation to pay for the development of the plan.

Spending by Program Area

(in Millions of \$)

Program	FY 2001	FY 2005*		FY 2006		Nominal	Nominal
	in 2006 \$	Nominal	in 2006 \$	House 1	HWM	% Change HWM vs. FY05	Change HWM vs. H. 1
Local Aid - Lottery	871.1	736.4	752.2	761.4	761.4	3.4%	0.0
Local Aid - Additional Assistance and PILOT	553.4	395.3	403.8	397.4	397.4	0.5%	0.0
Local Education Aid (Ch. 70)	3,330.0	3,183.3	3,251.7	3,260.2	3,260.5	2.4%	0.3
K-12 Educ (non Ch. 70) ¹	552.8	463.2	473.2	481.4	464.8	0.3%	(16.6)
School Building Debt Assistance ²	362.3	395.7	404.2	488.7	488.7	23.5%	0.0
Higher Education ³	1,216.4	946.1	966.4	921.7	920.0	-2.7%	(1.6)
Early Education and Care ⁴	583.3	449.8	459.5	450.2	465.9	3.6%	15.7
Income Support Programs ⁵	628.0	601.5	614.4	579.1	596.5	-0.8%	17.3
Medicaid and Other Health Care Programs ⁶	5,489.5	7,235.2	7,390.7	6,886.3	7,283.2	0.7%	396.9
Public Health	577.9	398.9	407.5	412.2	410.7	3.0%	(1.4)
Mental Health	652.8	597.2	610.1	619.9	620.3	3.9%	0.5
Mental Retardation	1,010.1	1,063.9	1,086.8	1,122.1	1,122.2	5.5%	0.0
Social Services	642.3	709.0	724.2	731.1	734.5	3.6%	3.4
Elder Affairs	209.4	196.7	200.9	199.5	201.8	2.6%	2.3
Other Health & Human Services	642.1	555.7	567.6	561.3	563.8	1.5%	2.5
Environmental Affairs ⁷	260.5	254.5	260.0	189.3	188.9	-25.8%	(0.4)
Transportation	312.3	180.5	184.4	162.1	147.1	-18.5%	(15.0)
Housing & Community Development ⁸	173.9	95.5	97.6	77.1	80.5	-15.7%	3.4
Economic Development	166.3	133.7	136.5	127.1	117.9	-11.8%	(9.2)
Public Safety	1,298.0	1,287.0	1,314.6	1,305.2	1,287.6	0.1%	(17.6)
Judiciary	670.7	627.3	640.7	617.6	630.1	0.4%	12.5
District Attorneys	90.1	79.2	80.9	82.6	79.9	0.9%	(2.7)
Attorney General	36.2	36.2	37.0	36.6	34.4	-5.0%	(2.2)
Libraries	38.5	27.1	27.7	27.2	27.4	1.3%	0.2
Debt Service	1,612.6	1,753.8	1,791.5	1,793.1	1,793.2	2.2%	0.0
Pensions ⁹	1,159.9	1,217.4	1,243.6	1,275.2	1,275.2	4.7%	0.0
Group Insurance	727.1	830.9	848.7	946.9	1,008.2	21.3%	61.3
Other Administrative	904.2	674.4	688.9	709.2	650.5	-3.5%	(58.7)
Total	24,772	25,125	25,665	25,222	25,613	1.9%	391

Notes:

- (1) The FY 2006 House 1 and House Ways and Means budgets propose to 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 it to the total for Early Education and Care.
- (2) 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.
- (3) 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. Removing these from the total results in a \$X million increase in the House Ways and Means Budget.
- (4) The FY 2006 House 1 total for Early Education and Care includes funding for the Office of Child Care Services that budget keeps in a separate department. The House Ways and Means proposal moves these appropriations to the Department of Early Education and Care. The House Ways and Means total for Early Education and Care also includes \$6.0 million included in a reserve account created to comply with changes to federal welfare regulations.
- (5) 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 Support Programs and, therefore, is deducted from the Elder Affairs figure.
- (6) Totals include "on-budget" and "off-budget" Medicaid funding, senior pharmacy program funding, the costs of other state-administered health care programs, and the "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. As noted in the MassHealth section of this Budget Monitor, the FY 2005
- (7) 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.
- (8) 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.
- (9) Off-budget pension funding in FY 2005 totals \$1.216 billion; the FY 2006 House 1 and House Ways and Means budgets includes \$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.