

BUDGET MONITOR

The FY 2006 Senate Ways and Means Budget

Overview

Taking advantage of strong recent revenue growth and the resources protected by closing some tax loopholes, the Senate Ways and Means budget makes more progress than the House and the Governor’s proposals in restoring funding for essential services that were cut deeply during the fiscal crisis. While inflation adjusted funding levels for education, public health, local aid, and other vital areas of the state budget remain hundreds of millions of dollars below where they were five years ago, this budget would restore some specific services – such as dental care for low-income pregnant women and new mothers – that were cut during the fiscal crisis.

This budget technically maintains the tax revenue estimate initially adopted in January which, in light of recent revenue growth, now appears to be extremely conservative. It also, however, uses a series of accounting devices and reserve funds to fund a higher level of expenditures than that January revenue estimate would appear to allow.

As is explained in the final section of this *Budget Monitor*, these two sets of actions – using a now artificially low revenue estimate and then using reserve funds and accounting devices to make additional revenue available – are likely to come close to canceling each

other out. Ultimately, if revenue growth remains strong, this budget may be in structural balance: ongoing revenues may be sufficient to cover ongoing costs. If revenue growth weakens, however, the Commonwealth’s fiscal condition could be precarious.

Inside:

Local Aid	2
K-12 Education.....	3
Higher Education.....	4
Early Education and Care	5
Income Support Programs	6
Medicaid and Other Health Care Programs	7
Public Health	12
Mental Health	13
Mental Retardation.....	14
Social Services.....	14
Elder Affairs	15
Other Human Services	15
Environmental Affairs	16
Housing.....	16
Public Safety	17
Judiciary.....	17
Group Insurance Commission.....	18
Revenue and FY 2005 - FY 2006 Fiscal Outlook.....	19

The budget also relies on revenue that would be generated by closing \$100 million of the \$170 million in tax loopholes identified by the Department of Revenue earlier this year. One of the provisions recommended by the Department of Revenue would, as the Governor wrote on January 26th, “require transactions between affiliated companies to be conducted at fair value, so as to prevent the distortion of taxable income through related-party transactions.” While the Governor originally supported closing this type of loophole, he recently changed his position and proposed keeping open the corporate tax loopholes that this provision would close. If the Legislature chooses to close all of the loopholes identified by the Department of Revenue, it would generate \$70 million more in revenue than the Senate Ways and Means proposal anticipates. This revenue could strengthen the Commonwealth’s fiscal condition and some of it could be used to restore funding for education, health care, and other essential services.

The Senate Ways and Means Budget makes progress on health care: funding is increased to enroll additional people in Medicaid, particularly in the MassHealth Essential program; the Uncompensated Care Pool is funded at a higher level than was recommended in the Governor’s and House’s budgets, and some MassHealth dental coverage is restored.

This budget also seeks to address the deep cuts that have been made in state support for public education. Besides providing the same level of Chapter 70 unrestricted aid to education as the House did, the Senate Ways and Means Committee also establishes a \$55 million reserve fund that could be used to improve the Commonwealth’s public schools. The budget does not, however, allow this money to be released from the

reserve fund until future legislation is enacted dictating how the money is to be allocated.

The Senate Ways and Means budget also restores a modest portion of the funding cut from higher education, public health, housing and several other significant areas during the fiscal crisis. This *Budget Monitor* describes the funding levels recommended by the Senate Ways and Means Committee, compares them to prior years and the other budget proposals offered this year, and examines the revenue assumptions and policy choices in this proposal.¹

Local Aid

The Senate Ways and Means Committee offers a total of \$1.2 billion for unrestricted local aid, \$1.0 million more than the proposals by the Governor and the House.

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

The Senate Ways and Means budget, like the budgets by the Governor and House of Representatives, includes \$761.4 million for lottery distributions to cities and towns, which is \$100.0 million more than the initial FY 2005 level. However, after adjusting for \$75.0 million in supplemental funding in FY 2005 for this purpose, the result is a net increase of \$25.0 million dollars.

The Senate Ways and Means Committee also proposes to increase support for Payments in Lieu of Taxes (PILOT). The

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

current appropriation of \$13.0 million would grow to \$16.1 million in FY 2006. Budget proposals by the Governor and the House would increase funding to \$15.1 million in FY 2006. The Senate Ways and Means Committee follows the Governor and the House in level-funding additional assistance at \$379.8 million.

K-12 Education

The Senate Ways and Means Committee proposes \$3.816 billion for K-12 education. The budgets proposed by the Governor and House, respectively, offer \$3.741 billion and \$3.764 billion for FY 2006. The proposals by the Governor and the House do not include a \$55.0 million reserve for Chapter 70 Aid, which is offered in the proposal by the Senate Ways and Means Committee. Funding for the School Building Assistance program totals \$488.7 million for FY 2006. The following sections do not include funding for the School Building Assistance program, as that has been moved off-budget.

Total K-12 Education Spending

FY 2005	\$3,646,485,481
FY 2006 SW&M	\$3,816,065,138
Increase (decrease)	\$ 169,579,657
Percentage Change	4.7%

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 Senate Ways and Means Committee proposes \$3.344 billion for Chapter 70 in FY 2006,

which includes a \$55.0 million reserve account 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. By comparison, the Governor and the House propose \$3.260 billion and \$3.289 billion respectively for Chapter 70 Aid; neither budget includes the \$55.0 million reserve. The tables below compare the Senate Ways and Means budget for Chapter 70 Aid with FY 2005.

Including Reserve Account:

FY 2005	\$ 3,183,282,601
FY 2006 SW&M	\$ 3,343,931,062
Increase (decrease)	\$ 160,648,461
Percentage Change	5.0%

Excluding Reserve Account:

FY 2005	\$ 3,183,282,601
FY 2006 SW&M	\$ 3,288,931,062
Increase (decrease)	\$ 105,648,461
Percentage Change	3.3%

While the Senate Ways and Means Committee proposes an increase in funding for Chapter 70 Aid for FY 2006, this amount is still \$171.6 million (five percent) below its FY 2002 level, adjusted for inflation, even in if the reserve funding is spent.

Grants and Reimbursements

FY 2005	\$463,202,880
FY 2006 SW&M	\$472,134,076
Increase (decrease)	\$ 8,931,196
Percentage Change	1.9%

Overall, funding for the Department of Education's grants and reimbursement

programs would increase by \$8.9 million under the Senate Ways and Means recommendation. This increase is smaller than those proposed by the Governor (\$18.2 million) and the House (\$12.1 million more).

The Senate Ways and Means Committee is aligned with the House in the amounts proposed for the METCO program, regional transportation, and MCAS remediation programs:

- This budget, like the House, offers \$17.6 million for the METCO program, a \$2.0 million increase over FY 2005. The Governor level-funds this program at \$15.6 million.
- Both the Senate Ways and Means Committee and the House offer \$42.5 million for regional transportation. This amount is \$4.5 million higher than both the current appropriation and the Governor’s proposal.
- Funding for MCAS remediation programs is identical to the House proposal. Both budgets include \$10.0 million for this line item and establish a new \$5 million line item, not included in the House 1 budget, dedicated to services similar to those that had been funded by a \$4.1 million earmark in the FY 2005 MCAS line item. The Governor proposes \$20.0 million dollars for MCAS remediation programs.

Although the Senate Ways and Means Committee is aligned with the House in many areas, there are some differences. For example, the House budget increases funding for kindergarten expansion grants from \$23.0 million in FY 2005 to \$25.0 million in FY 2006. Budgets by both the

Governor and Senate Ways and Means provide level-funding.

While this budget begins to reverse cuts that have occurred over the past few years, the proposed funding level is well below that of FY 2001. Adjusted for inflation, funding for the Department of Education’s grants and reimbursements is \$80.6 million or 15 percent lower than in 2001.

Higher Education

The Senate Ways and Means Committee proposes \$946.9 million for public higher education in FY 2006. Directly comparing this amount to current appropriations shows a \$706,000 increase. However, comparing the Senate Ways and Means 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 \$42.6 million increase.

Including one-time funding in FY 2005²

FY 2005	\$946,058,046
FY 2006 SW&M	\$946,861,933
Increase (decrease)	\$ 706,299
Percentage Change	0.1%

Excluding one-time funding from FY 2005

FY 2005	\$904,212,307
FY 2006 SW&M	\$946,861,933
Increase (decrease)	\$ 42,649,626
Percentage Change	4.7%

² 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.

Under the Senate Ways and Means recommendation, funding for state and community colleges would increase by seven and six percent, respectively. The House would increase funding for both by four percent each; the House 1 budget would grow funding by two percent each. The Senate Ways and Means Committee also would increase appropriations to UMass campuses by four percent (\$18.3 million). The House, on the other hand, would increase the budget for UMass campuses by nearly two percent. The Governor's budget proposal would result in a 3 percent decline (\$11.4 million) once a 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 for FY 2006, 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 - House	435.7	185.7	206.0
2006 - SWM	445.8	191.3	210.0
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.

In addition to increasing allocations to campuses, the Senate Ways and Means Committee offers a higher appropriation for the main budget account for financial aid. This budget provides \$83.7 million for this purpose, up \$1.3 million compared to FY 2005. The House provides a smaller increase of \$800,000; the Governor level-funds this line item at \$82.4 million.

Although this budget makes some progress in restoring cuts, the level of funding is still

below where it was a few years ago. In real terms, the Senate Ways and Means budget for public higher education is \$270.0 million or 23 percent lower than in FY 2001.

Early Education and Care

Funding for Early Education and Care programs totals \$478.2 million in the Senate Ways and Means budget, which is higher than both current appropriations and proposals by the Governor and the House.

FY 2005	\$449,845,031
FY 2006 SW&M	\$478,186,910
Increase (decrease)	\$ 28,323,879
Percentage Change	6.3%

Support for subsidized child care for low-income families would increase by at least \$13.5 million. Legislative language included in the budget creates a \$12.0 million reserve account for the anticipated costs of increased demand for services created by imminent changes to the state's welfare program. Of this total, \$6.0 million would additionally be available for child care subsidies and referral services. The House 1 budget increases funding for subsidized care by \$6.4 million and does not include the reserve account for additional services. The House budget included an additional \$6.8 million for these services, and, like the Senate Ways and Means Committee, includes the \$6.0 million from the reserve account.

The Senate Ways and Means Committee proposes \$12.2 million for the Healthy Families Newborn Visiting Program. This amount is level with FY 2005, slightly more than is offered by the House, and double the amount proposed by the Governor. While the appropriation for this program is close to

that of the House, the Senate is aligned with the Governor's proposal which funds this program separate from the Department of Early Education and Care.

This budget doubles the budget account designated for increased child care provider rates. The current appropriation would rise from \$5.0 million to \$10.0 million. The Governor level-funds this account; the House increases funding by \$3.0 million.

Income Support Programs

Funding for income supports totals \$598.2 million in the Senate Ways and Means budget.

FY 2005	\$601,481,017
FY 2006 SW&M	\$598,150,207
Increase (decrease)	(\$ 3,330,810)
Percentage Change	-0.6%

In its budget proposal for FY 2006, the Senate Ways and Means Committee modifies the Transitional Assistance for Families with Dependent Children (TAFDC) program to maintain safeguards for low-income families that would likely lose their assistance because of the expiration of state waivers and federal changes to the program. Massachusetts 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. The Senate Ways and Means budget includes many of the elements of An Act Relative to Responsible Welfare Reform, sponsored by Representative Cabral

and Senator Creem, which is currently before the Committee on Children and Families. This legislation would create a separate state program to allow the Commonwealth to meet federal work requirements and retain exemptions for individuals with documented barriers to employment. Rather than establishing a separate state program, the Governor, in the House 1 budget, proposes to implement time limits and work requirements for roughly 14,000 individuals with documented barriers to employment. The House chose not to alter the TAFDC program in its version of the FY 2006 budget, but will likely recommend changes when the issue is considered in committee.

The Senate 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 when determining eligibility.

Although the Senate 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 Senate Ways and Means budget includes \$314.2 million for TAFDC and \$70.1 million for EAEDC, declines of \$3.6 million and \$970,000, respectively, compared to FY 2005. It is not

clear whether these amounts are enough to support the current caseload, but, in this budget, the Senate Ways and Means Committee, like the House, restores a previous requirement that the Department of Transitional Assistance (the state agency which oversees these programs) 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, an assortment of education, training, and job search programs administered by the Department of Transitional Assistance, would rise from \$22.0 million in FY 2005 to \$30.0 million in FY 2006, the same amount proposed by the Governor and the House.³ The Governor asserts that the higher amount would support services for individuals newly required to work under his proposal. The House and Senate Ways and Means Committee do not alter current work requirements, but the proposed amounts would begin to restore cuts to this program. Between fiscal years 2002 and 2005, funding for the Employment Services Program was cut, in real terms, by \$16.7 million or 43 percent.

³ 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.

Medicaid and Other Health Care Programs

Combined funding for Medicaid, other health care programs, the Senior Pharmacy Assistance program and the Uncompensated Care Pool is \$145.1 million more in the budget recommended by the Senate Committee on Ways and Means than recommended by the House. The Governor's FY 2006 budget had counted on \$327.6 million from the FY 2005 budget to fund a portion of FY 2006 program costs, so an apparent \$537.0 million difference between the Governor's budget and the Senate Ways and Means recommendation is more accurately only a \$209.4 million difference.

Moreover, because of over-budgeting during FY 2005, the FY 2005 Medicaid budget of \$6.908 billion is \$533.6 million (\$529.5 million in on-budget Medicaid costs and \$4.1 million in off-budget Medicaid costs) more than actual estimated FY 2005 Medicaid spending. In the Governor's budget, \$327.6 million of this difference between budgeted dollars and estimated spending would have been used to pay a portion of FY 2005 Medicaid bills that would have come due in FY 2006 (see above), and the remainder reverted to the General Fund to balance the budget. The Senate Ways and Means budget, on the other hand, accounts for paying FY 2006 Medicaid bills with FY 2006 budgeted dollars.

FY 2005	\$ 7,235,179,344
FY 2006 SWM	\$ 7,423,318,493
Increase (decrease)	\$ 188,139,149
Percentage change	2.6%

The Senate Ways and Means budget provides enough funding to allow for

enrollment growth in some programs, as well as certain coverage expansions.

Medicaid and Other Health Care Programs <i>In Millions of \$</i>				
	FY 2005 Budget	FY 2006 House 1	FY 2006 House	FY 2006 SWM
On-Budget Medicaid	6,535.8	6,519.6	6,825.5	6,936.8
Off-Budget Medicaid	372.4	36.5	36.5	36.5
Use of Prior Year's Surplus	0.0	327.6	0.0	0.0
Medicare "Clawback"	0.0	120.0	120.0	120.0
Other Pharmacy	115.0	90.2	90.2	97.2
Uncompensated Care Pool	212.0	120.0	206.0	232.8
Total Medicaid and Other Health Care Programs	7,235.2	7,213.9	7,278.2	7,423.3

"On-Budget" Medicaid includes the Healthy Start and Children's Medical Security Plan programs. "Off-Budget" Medicaid does not include \$288.5 million Health Care Quality Improvement Trust.

Medicaid/MassHealth

The Senate Committee on Ways and Means budget for Medicaid is \$6.973 billion, including \$6.937 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 in the Senate Ways and Means recommendations also accounts for the Medicare "Clawback" provision, discussed in the "Pharmacy Programs" sub-section in this section of this *Budget Monitor*.

Total Medicaid Budget <i>In Millions of \$</i>			
	FY 2006 House 1	FY 2006 House	FY 2006 SWM
On-Budget Medicaid	6,519.6	6,825.5	6,936.8
Off-Budget Medicaid	36.5	36.5	36.5
Use of Prior Year's Surplus	327.6	0.0	0.0
Medicaid Budget	6,883.7	6,862.0	6,973.3
Medicare "Clawback"	120.0	120.0	120.0
Total	7,003.7	6,982.0	7,093.3

Off-Budget Medicaid does not include \$288.5 million Health Care Quality Improvement Trust; MassHealth Essential goes on-budget 10/05.

Like the House, the Senate Ways and Means budget appropriates funding to cover a full year's worth of services, rather than relying on one-time uses of the prior year's surplus

budgeted dollars to cover a portion of the current year's Medicaid bills. Unlike the Governor or the House, the Senate Ways and Means proposal takes \$150.0 million of FY 2005 surplus Medicaid dollars to fund costs in the Uncompensated Care Pool (see sub-section on the Uncompensated Care Pool below).

The Senate Ways and Means budget proposal for Medicaid differs from the House proposal in several ways. The Senate Committee on Ways and Means does not include the \$67.0 million carved out of the Senior Care Plan and Senior Care Options line items designated for home health care services as proposed by the House, but does fund expanded services in the related line items. In the Governor's budget, total funding for the the MassHealth Senior Plans administered by the Department of Elder Affairs (Senior Care Plan and Senior Care Options) was \$1.87 billion, and in the House budget (including the new line item for home health care) it was \$1.96 billion. The Senate Ways and Means budget recommendation for these combined items is \$1.99 billion, a \$33.7 million net increase over the House recommendation.

Like the House and the Governor, the Senate Committee on Ways and Means 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.)

Program Enrollment

The Senate Committee on Ways and Means projects that their recommended funding for the FY 2006 Medicaid/MassHealth programs will be sufficient to fund a caseload of more than one million members. (MassHealth membership currently stands at approximately 980,000 members.) The Senate Ways and Means budget proposes accomplishing this goal in several ways, including increasing funding for the MassHealth programs compared to the Governor's budget, and going beyond the House budget recommendations in the Senior Care programs, Managed Care program and MassHealth Essential. The Senate Committee on Ways and Means budget:

- Funds the MassHealth Managed Care Plan line item at \$2.123 billion, \$49.7 million more than the House.
- Provides even more funding than the House for the on-budget funding of the MassHealth Essential program, bringing the total recommended appropriation to \$152.2 million, an increase of \$22.6 million more than in the House budget, and \$32.8 million more than the Governor recommended. The expectation is that this increase would be sufficient to fund the enrollment of up to 10,000 more long-term unemployed low-income individuals.
- Includes language in an outside section of the budget that would lift enrollment caps for adults in certain programs (the HIV Program, the CommonHealth Program, and employees covered through the Insurance Partnership Program).

- Allows approximately 3,000 elderly or disabled adults legal immigrants to be eligible for the MassHealth Essential Program, regardless of their immigration sponsors' income. This follows the House budget recommendation, but differs from the Governor who would have required "deeming" the sponsors' income.
- Funds outreach enrollment grants at \$250,000, an amount that matches the Governor's recommendations, but is half the amount recommended by the House, and well below the \$1.0 million dollars allocated to enrollment outreach in the past.

Programmatic Changes Proposed for Medicaid

The Senate Committee on Ways and Means budget includes language that would effect several significant programmatic changes:

- Adult dental benefits would be restored, but only for pregnant women and women with children under age three. This provision was not included by either the House or the Governor.
- Smoking cessation and treatment programs would be covered by MassHealth, but again, only for pregnant women and mothers with children under age three. Coverage for these services was not included in either the Governor's or House budget proposals.
- Any proposed changes to MassHealth coverage or covered services would require a public hearing prior to adoption.
- An outside section of the budget directs the Commonwealth to seek a Medicaid

waiver to cover home and community based services for children with autism spectrum disorders.

Medicaid Provider Issues

Like the House, the Senate Ways and Means 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. With the re-introduction of dental benefits for certain adults, this section is part of a concerted campaign to improve access to oral health care services in the Commonwealth.

The Senate Ways and Means budget also restores \$18.8 million to reinstate MassHealth coverage for inpatient stays greater than twenty days. MassHealth payment for these “outlier benefits” had been eliminated in April 2003. Funding for this line item had been proposed by the House Committee on Ways and Means, but then removed by the full House.

Like the Governor’s budget and the House budget proposal, the Senate Committee on Ways and Means 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*.

The “Elder Affairs” section of this *Budget Monitor* discusses a wage increase for homemakers in the Senior Care Options program.

Pharmacy Programs

The Senate Committee on Ways and Means budget proposal adds a total of \$7.0 million to the House proposal for the Prescription Advantage Program, which serves approximately 80,000 elders and low-income persons with disabilities. The program places a limit on the out-of-pocket premiums and co-payments enrollees pay on their prescriptions, and then will cover its members as a “wrap-around” benefit when the new federal Medicare benefit is implemented in January 2006.

The Senate Committee on Ways and Means budget reduces funding for Prescription Advantage from the \$110.0 million budgeted in FY 2005, to \$92.2 million in FY 2006, \$2.0 million more than the proposed funding level in the House. The Senate Ways and Means budget proposal also allows for an “open enrollment” period in the spring. Also included in the Senate Ways and Means budget is \$5.0 million for co-payment subsidies through December 2005 for low-income elders. Although part of the FY 2005 budget, this item had been dropped by both the Governor and the House.

The Senate Ways and Means budget includes a 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 Senate Committee on Ways and Means follows the House budget proposal 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, \$544,000 more than recommended by the Governor. 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, \$871,000 more than proposed by the Governor. Estimated FY 2005 spending is \$15.5 million. Line item language in the budget also restructures premiums for this program, including the elimination of premiums for families under 200 percent of the federal poverty level.

Uncompensated Care Pool

The Senate Committee on Ways and Means adds significant funding to the Uncompensated Care Pool, adding \$112.8 million more than the Governor, and \$26.8 million more than the House proposal. 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.

	FY 2005	FY 2006 House 1	FY 2006 House	FY 2006 SWM
Transfer from the General Fund	297.0	85.9	171.9	198.7
Surplus from 4000-0896	75.0	34.1	34.1	34.1
Sub-Total	372.0	120.0	206.0	232.8
MassHealth Essential	(160.0)	0.0	0.0	0.0
Total Funding	212.0	120.0	206.0	232.8

MassHealth Essential goes "on-budget" 10/05, \$36.5 million will carry over from FY 2005 to cover 7/05-9/05.

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 Uncompensated Care Pool dollars budgeted during FY 2005.

The Senate Ways and Means budget proposes \$232.8 million in funding for the Uncompensated Care Pool. This amount includes \$150.0 million from the FY 2005 Medicaid surplus, \$48.7 million in transfers from the General Fund, and a continuation of an estimated \$34.1 million in surplus dollars in the old off-budget MassHealth Essential line item.

In the Senate Committee on Ways and Means proposal, payments to acute care hospitals from the Pool increase from the House recommendation of \$466.0 million to \$500.0 million, the same as the payment level in FY 2005. Like in the House proposal, language within the Senate 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 Senate Committee on Ways and Means budget funds public health programs at \$424.9 million, 3.1 percent more than the Governor’s proposal, and 1.8 percent more than the recommended funding levels in the House budget. Non-hospital spending is increased by 1.6 percent over the House recommendations, and hospital spending increases by 2.4 percent.

FY 2005	\$398,898,612
FY 2006 SWM	424,937,666
Increase (decrease)	\$ 26,039,054
Percentage change	6.5%

The Senate Committee on Ways and Means adds a new item to the FY 2006 budget, \$250,000 for a training program for nurses’

aides and direct care workers. This line item, last funded in FY 2004, had received as much as \$1.0 million (not adjusted for inflation) in FY 2001.

The Senate Committee on Ways and Means increases funding over the House budget in several areas by small amounts, but there were more significant increases in a few line items:

- Early intervention services receive a \$1.0 million increase over the House recommendation, and \$1.5 million more than in FY 2005; and expected Medicaid reimbursement for eligible children in the Early Intervention program is budgeted for an additional \$800,000 more than in the House proposal. This is also an \$800,000 increase over FY 2005 levels.
- Family Health services increase by \$918,000 more than the House proposal, to a total of \$8.6 million. Most of this difference is an earmark of \$800,000 for the RISE domestic violence program, which is simply a transfer of funding from the Department of Social Services. Compared to FY 2005, however, the Senate Ways and Means proposal represents a \$1.6 million increase.
- Substance Abuse services increase by \$833,000 over the House budget recommendation, for a total of \$47.3 million. The Senate Committee on Ways and Means presumes that this funding level should be sufficient to allow the Commonwealth to receive the full amount of federal substance abuse dollars for which it is eligible. Although this is \$10.7 million more than budgeted in FY 2005, there is still supplemental legislation pending to bring up the current year’s funding level.

- Funding for Community-Based Suicide Prevention programs increases in the Senate Ways and Means budget, to \$500,000. This is twice the level funded in FY 2005, and twice the level recommended by the Governor and the House.
- Funding for Colorectal Screening programs more than doubles from the House recommendation, to \$185,000. There had been no funding for this program in FY 2005, and the Governor did not include this in his budget either.
- Teen Pregnancy Prevention program funding increases by \$500,000 from the Governor's and House recommended funding, for a total of \$1.5 million. Funding in FY 2005 had been \$990,000.
- Funding for public health hospitals increases by \$1.6 million from the House and Governor's budgets. Also included in the Senate Ways and Means budget is a new item for \$1.6 million, designed to develop a program to increase the stability of staffing at public health hospitals.

Several items in the public health budget receive less funding in the Senate Ways and Means proposal than in the House:

- Dental health services receive \$122,000 less than the House proposal.
- Funding for prostate cancer screening programs receive \$1.0 million – slightly more than in the FY 2005 budget, but less than the \$1.3 million recommended by the House.
- Smoking prevention programs receive the same amount as recommended by the

Governor - \$3.75 million. This amount, although level with FY 2005 funding, does not account for inflation, and represents a 12 percent decrease from the funding level recommended by the House. This is a 92 percent decreases (when adjusted for inflation) from FY 2001 funding levels.

Mental Health

Support for the Department of Mental Health totals \$626.1 million in the Senate Ways and Means budget, \$28.8 million more than current appropriations. This proposal is roughly \$6 million more than those of the Governor and the House.

FY 2005	\$597,245,276
FY 2006 SW&M	\$626,092,016
Increase (decrease)	\$ 28,846,740
Percentage Change	4.8%

The Senate Ways and Means Committee provides increases in a few areas to meet increasing demand and costs. For example, funding for child and adolescent mental health services would grow from \$70.3 million to \$71.4 million, a \$1.1 million increase. The House 1 and House budgets propose similar increases for these services. The Senate Ways and Means budget also increases funding for adult mental health and support services from \$274.9 million to \$293.3 million, an \$18.4 million increase. This rise incorporates \$3.0 million to expand services for individuals aging into the adult system from either the Department's child/adolescent mental health system or other systems of care. The House and Governor proposed smaller increases of \$13.4 million and \$12.5 million respectively, and did not include a specific

allocation to fund transitional services for adolescents.

investment with increases in other areas of the Department's budget.

Mental Retardation

The Senate Ways and Means Committee provides \$1.1 billion for the Department of Mental Retardation, a \$59.0 million increase over its current level of funding.

FY 2005	\$1,063,894,604
FY 2006 SW&M	\$1,122,884,973
Increase (decrease)	\$ 58,990,369
Percentage Change	5.5%

This proposal is slightly higher than the House's budget (\$172,000 more), and the Governor's budget (\$748,000 more). The following reviews the Senate Ways and Means FY 2006 proposal for the Department of Mental Retardation:

- The Senate Ways and Means Committee, like the Governor and the House, meets the Boulet Settlement's legal requirement by providing \$85.6 million to fund interim services for individuals on the waitlist for residential placements.
- This budget, like the House proposal, would increase funding for respite family supports from \$48.8 million to \$51.3 million, a \$2.5 million difference. The House 1 budget offers a smaller increase of \$1.9 million.
- The Senate Ways and Means Committee follows the House in providing \$1.0 million for a new line item which would fund support services for families with autistic children. The Governor does not include this new budget account, but nearly equals the amount of this

Social Services

Support for the Department of Social Services totals \$740.5 million in the Senate Ways and Means budget, \$31.5 million more than FY 2005.

FY 2005	\$708,999,852
FY 2006 SW&M	\$740,472,898
Increase (decrease)	\$ 31,472,898
Percentage Change	4.4%

Under the Senate Ways and Means proposal, appropriations would increase in a number of areas. The Committee follows the House's proposal to fund services for children and families at \$271.5 million, a \$9.9 million rise over its current level. The Governor's \$270.5 million appropriation would offer a smaller increase for these services.

The Senate Ways and Means Committee also follows the House in providing a greater increase for group care services. The \$235.9 million allocation is \$15.4 million more than FY 2005 and higher than the Governor's appropriation of \$231.2 million.

While the Governor's and the House's budget proposals level-fund the budget account which funds social workers at \$134.4 million, the Senate Ways and Means Committee provides a \$1.9 million increase for FY 2006. It is unlikely that this increase is sufficient to provide cost of living increases for social workers whose salaries are funded through this budget account.

Elder Affairs

The Senate Committee on Ways and Means funds programs for elders at \$213.8 million, \$9.4 million more than the House, and \$14.2 million more than the Governor. 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 SWM	\$213,776,341
Increase (decrease)	\$ 17,099,756
Percentage change	8.7%

The Senate Ways and Means budget includes \$137.1 million for elder home care and case management services, \$1.5 million more than the House recommendation.

The Senate Ways and Means budget also includes \$3.9 million in a new FY 2006 line item for wage increases for homemakers and personal care homemakers in the elder home care programs.

Of the elder services programs, the Elder Protective Services program receives the biggest increase in the Senate Ways and Means budget over the House recommendation, climbing almost 11 percent. The Senate Ways and Means budget recommends \$13.7 million for this program.

With an additional \$2.5 million more than the House budget, the Senate Ways and Means Committee expands funding for the Enhanced Community Options program, which provides extensive community-based services for frail elders.

Other Human Services

The Senate Ways and Means Committee proposes \$586.1 million for other human services, more than current appropriations as well as proposals by the Governor and the House.

FY 2005	\$555,672,842
FY 2006 SW&M	\$586,090,806
Increase (decrease)	\$ 30,417,964
Percentage Change	5.5%

The following are highlights from various human services programs:

- The Senate Ways and Means Committee follows the House’s proposal to increase funding for homeless shelters for adult individuals from \$30.0 million in FY 2005 to \$35.0 million in FY 2006. The House 1 budget proposes a smaller increase of \$2.8 million.
- Funding for emergency shelters for families totals \$73.6 million in the Senate Ways and Means budget. This amount is higher than the proposals by the Governor (\$70.4 million) and the House (\$72.6 million), but it is lower than the \$78.4 million currently appropriated for this purpose.
- This budget proposes \$20.0 million to grant salary increases for employees of privately-contracted human service providers. This amount is higher than the \$5.0 million proposed by the Governor, and the House’s \$10.0 million appropriation.
- The Senate Ways and Means Committee provides \$3.0 million to fund grants to youth development organizations, nearly \$1 million more than the current level

and slightly more than the House's \$2.9 million appropriation. The Governor did not include this line item in the House 1 budget.

Environmental Affairs

The Senate Ways and Means budget includes \$199.5 million for environmental affairs in FY 2006. Without adjusting for one-time funding for FY 2005, this proposal shows a \$54.9 million decrease. However, after adjusting for one-time funding in FY 2005, the Senate Ways and Means proposal shows a \$13.8 million increase.

Including one-time funding in FY 2005:

FY 2005	\$254,488,531
FY 2006 SW&M	\$199,542,266
Increase (decrease)	(\$ 54,946,265)
Percentage Change	-21.6%

Excluding one-time funding from FY 2005:

FY 2005	\$185,756,791
FY 2006 SW&M	\$199,542,266
Increase (decrease)	\$ 13,785,475
Percentage Change	7.4%

The Senate Ways and Means Committee, like the House, does not adopt the Governor's plan 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 for the Executive Office of Environmental Affairs.

The Senate Ways and Means budget provides increases in a variety of areas, including:

- An additional \$1.6 million over FY 2005 to support the Department of

Environmental Protection. The House proposes to increase funding by \$700,000 while the Governor's budget would result in an overall decline of roughly \$74,000.

- Nearly \$12 million more for the Department of Conservation and Recreation, which would help to extend the season for public swimming pools and beaches from Memorial Day to Labor Day. The House proposed a smaller increase of \$9.2 million; the Governor's budget would increase funding by \$1.6 million.

While this budget recommends aggregate increases for environmental affairs relative to FY 2005, it would not restore the budget cuts of the past few years. In real terms, the Senate Ways and Means budget is 25 percent below its FY 2001 level.

Housing

Funding for the Department of Housing and Community Development (DHCD) totals \$90.2 million in the Senate Ways and Means budget, higher than proposals by both the Governor (\$77.1 million) and the House (\$85.9 million). Current appropriations for DHCD are higher than the proposals for FY 2006 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.

FY 2005	\$ 95,522,284
FY 2006 SW&M	\$ 90,156,589
Increase (decrease)	(\$ 5,365,695)
Percentage Change	-5.6%

In many areas, funding for housing in the Senate Ways and Means budget matches the

proposal by the House. For example the Committee adopts the House's higher level of funding for the Massachusetts Rental Voucher Program (MRVP), housing services offered by nonprofit organizations, and subsidies to public housing authorities. While the Governor proposed level funding for housing services and MRVP, his budget would reduce funding for subsidies to public housing authorities. Additionally, the Senate Ways and Means Committee, like the House, rejects the Governor's proposal to implement work requirements and time limits for individuals receiving assistance through the MRVP program.

The Senate Way and Means Committee proposes other increases that are either not included in the other budget proposals for FY 2006 or are higher than those offered by the Governor and the House:

- The Senate Ways and Means Committee invests \$2.5 million for the Soft Second Loan Program, which helps low- and moderate-income families to buy their first home. Neither the Governor nor the House provide funding for this purpose.
- Funding for housing subsidies for individuals with mental illness increases from \$2.0 million to \$2.5 million. The budget proposed by the Governor and House provide level-funding for FY 2006.
- Funding for Rental Assistance for Families in Transition (RAFT) would increase from \$2.0 million to \$5.0 million. The Governor proposes level-funding for this program, while the House would increase funding to \$3.0 million.

Public Safety

The Senate Ways and Means Committee provides \$1.3 billion for public safety. This amount is \$3.2 million more than the Governor, and \$17.7 million more than the House.

FY 2005	\$1,286,977,760
FY 2006 SW&M	\$1,308,402,652
Increase (decrease)	\$ 21,424,892
Percentage Change	1.7%

The Senate Ways and Means budget for public safety is more closely aligned with the Governor's than the House's. For example, both the Governor and the Senate Ways and Means Committee provide \$10.2 million to support the administrative costs of the Department of Fire Services, a \$1.1 million increase over FY 2005. The House proposes a smaller increase of roughly \$710,000. On the other hand, the Senate Ways and Means Committee provides \$1.1 million for smoking cessation and prevention programs administered by the Department of Public Safety. Funding for this purpose is not included in the budgets offered by the Governor and the House. Each proposal provides \$4.4 million for one new state police class in FY 2006.

Judiciary

Funding for the Judiciary totals \$642.7 million in the Senate Ways and Means recommendation, a \$15.4 million increase over FY 2005.

FY 2005	\$615,206,661
FY 2006 SW&M	\$642,669,051
Increase (decrease)	\$ 15,411,614
Percentage Change	2.5%

The Senate Ways and Means budget for the Judiciary is higher than that proposed by the Governor or the House - \$11.5 million and \$25.1 million more, respectively. Although both the Senate Ways and Means Committee and the Governor propose to consolidate various administrative functions within the Judiciary, the Governor's proposal is more sweeping than that of Senate Ways and Means. For example, the House 1 budget would merge operations for the Superior, District, Family, Probate, and Juvenile Courts into one budget account. The Senate Ways and Means Committee proposes mergers within each of these categories, but would not consolidate all of them. The Governor proposes to also consolidate funding for various legal services, including the Massachusetts Legal Advisors Corporation, Massachusetts Correctional Legal Services, and Mental Health Legal Advisors, which the Senate Ways and Means, like the House, keeps in separate budget accounts.

Group Insurance Commission

The Senate Committee on Ways and Means follows the House budget recommendations for funding the costs of health insurance for state employees and retirees, with group insurance costs totaling \$1.023 billion. Because of under-budgeting in FY 2005, there is a supplemental budget request for the current fiscal year for group insurance costs, which will bring total FY 2005 funding levels closer to the proposed budget for FY 2006.

FY 2005 prior to supplemental	\$ 830,885,587
FY 2006 SWM	\$ 1,023,190,489
Increase (decrease)	\$ 192,304,902
Percentage change	23.1%

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, yet the Group Insurance Commission has been charged with providing comprehensive and affordable health insurance coverage for active and retired state employees.

The House and Senate Ways and Means budgets differ from the Governor's group insurance cost-sharing proposals. The Governor proposed that active employees contribute 25 percent towards the premium costs of their health insurance, and 25 percent towards their dental benefits. The Senate Ways and Means budget, however, maintains the House recommendation for cost-sharing structures: 15 percent for employees earning under \$35,000, 20 percent for other employees, and 25 percent for all employees hired after June 30, 2003. These are the rates that have been in place during FY 2005. The Senate Ways and Means Committee also follows the House provision that 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 Senate Ways and Means budget removes language that would have included coverage for the Board of Bar Examiners.

Like the House, the Senate Ways and Means Committee estimates that the cost of keeping health insurance premiums for employees at these levels costs \$75.0 million more than the Governor recommended for that line item. This brings the appropriation for Group Insurance Premium and Plan Costs up to \$949.0 million, an increase of 8.6

percent more than the Governor's appropriation for that line item.

Revenue and FY 2005 - FY 2006 **Fiscal Outlook**

As the preceding sections demonstrate, the budget proposed by the Senate Ways and Means Committee would increase aggregate spending in FY 2006, both relative to current levels and relative to the levels envisioned by the House of Representatives. It achieves that end by relying on the revenue that would be generated by anticipated changes in tax law as well as by enhanced auditing efforts at the Department of Revenue. It also depends to a noticeable degree on several rededications of revenue, originally intended for use in FY 2005, to support FY 2006 expenditures, plus one new transfer from the Stabilization Fund to the General Fund. This section of the *Budget Monitor* describes the major revenue policy changes included in, or anticipated by, the Senate Ways and Means budget and examines how those policy changes interact with current tax collection trends. It shows that, while the recent growth in tax collections may be sufficient to offset all of the various "one-time" revenue sources found in the budget proposed by the Senate Ways and Means Committee – and, thus, to close structural budget gaps in FY 2005 and FY 2006 – the Senate Ways and Means version of the budget could still leave the Commonwealth suffering some fiscal stress.

Anticipated Tax Law Changes

Section 1A of the Senate Ways and Means budget suggests that changes in tax law sufficient to generate \$100 million in FY 2006 will soon be enacted.⁴ Given the

⁴ The Massachusetts Constitution requires that all "money bills" originate in the House of

Representatives; any bill reducing or increasing general state tax revenue is considered a "money bill." Thus, since the budget adopted by the House of Representatives contains no changes in tax law, the Senate can not amend it in a way that would make it a "money bill."

ongoing debate over tax loophole legislation initially proposed by the Governor in January – and subsequently revised in March – it seems all but certain that those anticipated changes will be based on provisions contained in that legislation. The legislation initially proposed by the Governor in January – House 21 – would put an end to a variety of tax avoidance techniques, impose new penalties on the firms that market abusive tax shelters, and improve the extent to which Massachusetts tax law reflects key facets of the modern economy. In so doing, House 21 would generate \$170 million in FY 2006. The version of the legislation that the Governor introduced in March – House 2606 – was intended as a substitute for House 21, but, rather than strengthen or supplement the original bill, House 2606 significantly undermines it. Specifically, House 2606 deletes three major sets of provisions from the original bill, provisions that would have:

- prevented companies from using differences between federal and Massachusetts law pertaining to entity classification to avoid taxation;
- enhanced the Department of Revenue's authority to combat distortionary tax planning practices, such as those intended to shift income out of Massachusetts through the use of transactions with subsidiaries and other related entities, and;
- prevented companies from using intermediaries to avoid the deeds excise when selling real estate in Massachusetts.

As these latter two changes would have produced \$70 million in FY 2006, it appears that the changes in tax law anticipated by Senate Ways and Means would include all of the provisions of House 21, save these two. Yet, these two provisions would help to ensure that Commonwealth has a more sound, fair, and modern means of funding vital public services.

Some have alleged that providing the Commissioner of Revenue with such enhanced authority would allow him to exercise excessive discretion in determining corporations' tax liabilities, but, in the view of at least one nationally recognized tax expert, such authority is "consistent with the authority that [the Commissioner's] counterparts in other states already have and employ, and ... is consistent with authority provided to the Commissioner of the Internal Revenue Service under Section 482 of the Code."⁵ Others have argued that the changes in law contemplated by House 21 would adversely affect employment and economic growth in Massachusetts, but it is entirely unclear how, for example, permitting a select group of taxpayers to avoid the deeds excise – while everyone else still has to pay it – would help to increase the number of jobs in Massachusetts.

Transfers, Tax Collections, and Structural Budget Balance

On paper, the Senate Ways and Means budget uses the same tax revenue assumption for FY 2006 as the version of the budget adopted by the House in late April – \$17.1 billion. In practice, though, the Senate Ways and Means budget appears

to assume that tax collections in both FY 2005 and FY 2006 will be significantly higher than previously anticipated. That is, the Senate Ways and Means budget would rededicate a sizable portion of two key fund transfers, originally intended for use in FY 2005, and a share of the MassHealth surplus anticipated for the current year, to support FY 2006 expenditures.

Under current law, \$340 million is scheduled to be transferred from the Commonwealth Stabilization Fund to the General Fund in FY 2005. Similarly, \$270 million is scheduled to be transferred to the General Fund from the FMAP Escrow Fund, a fund created in 2003 to receive and to hold fiscal relief funds distributed by the federal government. The budget proposed by the Senate Ways and Means Committee would divert a significant portion of both of these transfers into FY 2006. Specifically, it would split the \$340 million Stabilization Fund transfer so that \$104 million would be used for FY 2005 purposes and \$236 million would be dedicated to FY 2006; \$150 million of the FMAP transfer would still occur in FY 2005, but \$120 million would be moved to FY 2006. Moreover, as noted in a previous section of this *Monitor*, the Senate Ways and Means budget would use \$150 million of the expected \$530 million FY 2005 surplus within MassHealth to support Uncompensated Care Pool spending in FY 2006. In addition to these FY 2005 diversions, the Senate Ways and Means budget would also make another, separate transfer of \$150 million in FY 2006 from the Stabilization Fund to the General Fund. All told, then, the Senate Ways and Means budget would rely on impermanent revenue sources totaling \$656 million in FY 2006.

⁵ Richard Pomp, Loiselle Professor of Law, University of Connecticut School of Law, Testimony to the Joint Committee on Revenue, May 2, 2005.

IMPACT OF SENATE WAYS & MEANS BUDGET ON STRUCTURAL BALANCE

**AMOUNT
(in \$million)**

FISCAL YEAR 2005

Initial FY05 Tax Revenue Benchmark	15,930
Anticipated FY05 Tax Collections	16,650 to 16,966
Anticipated Tax Revenue in Excess of Initial FY05 Benchmark	720 to 1,036
Anticipated Net FY05 MassHealth Surplus	190
<i>Anticipated Gross FY05 MassHealth Surplus</i>	<i>530</i>
<i>Partial Diversion of FY05 MassHealth Surplus to FY06</i>	<i>(150)</i>
<i>Loss of FY05 MassHealth Federal Reimbursements Due to Lower Spending</i>	<i>(190)</i>
Apparent FY05 Surplus (Additional Tax Revenue + Net MassHealth Surplus)	910 to 1,226
Additional FY05 Costs	(869)
<i>Enacted FY05 Supplemental Appropriations</i>	<i>(403)</i>
<i>Pending FY05 Supplemental Appropriations</i>	<i>(110)</i>
<i>Reduced FY05 Stabilization Fund Transfer</i>	<i>(236)</i>
<i>Reduced FY05 FMAP Escrow Fund Transfer</i>	<i>(120)</i>
FY05 Surplus without Adjusting for Temporary Revenue Sources	41 to 357
Temporary Revenue Sources	(254)
<i>Net Transfer from Stabilization Fund to General Fund in FY05</i>	<i>(104)</i>
<i>Net Transfer from FMAP Escrow Fund to General Fund in FY05</i>	<i>(150)</i>
Estimated FY05 Structural (Deficit) / Surplus	(213) to 103

FISCAL YEAR 2006

FY06 Tax Revenue Benchmark (Legislature)	17,100
Projected FY06 Tax Collections	17,233 to 17,763
Projected FY06 Tax Revenue in Excess of FY06 Benchmark	133 to 663
Temporary Revenue Sources	(656)
<i>FY06 Stabilization Fund Transfer</i>	<i>(150)</i>
<i>Partial Rededication of FY05 Stabilization Fund Transfer to FY06</i>	<i>(236)</i>
<i>Partial Rededication of FY05 FMAP Escrow Fund Transfer to FY06</i>	<i>(120)</i>
<i>Diversion of FY05 MassHealth Surplus to FY06</i>	<i>(150)</i>
Estimated FY06 Structural (Deficit) / Surplus	(523) to 7

While this sum exceeds, to a considerable degree, the \$380 million the House of Representatives uses from temporary sources in its budget, annual tax collections may ultimately prove sufficient to offset all of the various “one-time” revenue sources found in the Senate Ways and Means budget – and, thus, to close structural budget gaps in FY 2005 and FY 2006. As the preceding table indicates, under slightly less optimistic scenarios, the Senate Ways and Means version of the budget could still leave the Commonwealth suffering some fiscal stress.

As of April, year-to-date tax collections for FY 2005 stood at \$13.937 billion – or \$316 million ahead of the Department of Revenue’s latest set of benchmarks. While the Department’s current benchmark for total FY 2005 collections is \$16.650 billion, if monthly tax collections simply meet their benchmarks for May and June, then total FY 2005 tax collections would amount to \$16.966 billion. Thus, total tax collections for FY 2005 are likely to exceed the tax revenue figure on which the FY 2005 budget was originally based by anywhere from \$720 million to \$1.036 billion. Taken in combination with an anticipated net MassHealth surplus of \$190 million in FY 2005, this means that an additional \$910 million to \$1.226 billion could be available in FY 2005. (The anticipated gross MassHealth surplus for FY 2005 is \$530 million, but the Senate Ways and Means budget would reallocate \$150 million of that sum to the Uncompensated Care Pool in FY 2006, while half of the remaining surplus, \$190 million, consists of federal reimbursements that would be returned to the U.S. Treasury.)

Both FY 2005 supplemental appropriations and the Senate Ways and Means version of the FY 2006 budget have already laid significant claims against this apparent surplus, however. Supplemental

appropriations enacted since the General Appropriations Act was written into law have increased FY 2005 spending by \$403 million, while additional supplementals proposed by the Governor would raise spending another \$110 million. In diverting portions of the Stabilization Fund and FMAP Escrow Fund transfers originally scheduled for FY 2005 into FY 2006, the Senate Ways and Means budget would require another \$336 million of the apparent FY 2005 surplus to be used to finance the previously approved spending that the full amount of FY05 transfers would have supported. After taking these adjustments into account, the apparent surplus falls to \$41 million to \$357 million.

That \$41 to \$357 million range does not account for the remaining “one-time” sources of revenue used to support FY 2005 spending. Specifically, the Senate Ways and Means budget still calls for a \$104 million transfer from the Stabilization Fund to the General Fund – and a \$150 million transfer from the FMAP Escrow Fund to the same destination – for use in FY 2005. In the end, then, the recent growth in tax collections could result in a very modest structural surplus in FY 2005, but continued fiscal stress is also still entirely possible. If total FY05 tax revenue simply reaches its current benchmark of \$16.65 billion, then there will be a gap of some \$213 million.

Alternatively, if tax collections continue at their current pace, they should amount to at least \$16.996 billion in which case a surplus of approximately \$100 million or more would emerge. Admittedly, though, several factors could alter the estimated structural balance presented in the above chart. On one hand, still higher tax collections or further reversions would serve to increase any surplus (or reduce any deficit); on the other hand, additional supplemental appropriations, to pay for deficiencies or

other spending, would work in the opposite direction.

Turning to FY 2006, both the House of Representatives as a whole and the Senate Ways and Means Committee base their versions of the budget on the assumption that tax collections will total \$17.1 billion. Both arrive at this sum by assuming that FY 2005 collections will be approximately \$16.33 billion and then grow by roughly 4.7 percent in the coming year. However, as noted previously, tax collections for FY 2005 could amount to as much as \$16.966 billion. If FY 2006 tax collections were to grow 4.7 percent from this base, then they would total \$17.763 billion. Alternatively, if FY 2005 collections simply achieve their current benchmark of \$16.65 billion and then grow at a slightly slower pace – 3.5 percent – then they would be \$17.233 billion in FY 2006. Overall, then, FY 2006 tax collections could range from \$133 million to \$663 million above the figure on which the Legislature will premise its budget. (Of note, that range encompasses the \$400 million by which the Romney Administration’s FY 2006 tax benchmark of \$17.5 billion exceeds the Legislature’s mark of \$17.1 billion.) Nevertheless, this does not mean that the Senate Ways and Means budget is structurally balanced. Indeed, when the whole assortment of transfers this budget uses to finance FY 2006 spending are taken into account, it appears that, if this budget were enacted, the Commonwealth could continue to face a structural budget gap in FY 2006.

Spending by Program Area

(in Millions of \$)

Program	House 1	FY 2006		FY 2005*		Nominal Change SWM vs.		
		House	SWM	in 2006 \$	Nominal	House 1	House	FY05
Local Aid - Lottery	761.4	761.4	761.4	752.2	736.4	0.0	0.0	25.0
Local Aid - Additional Assistance and PILOT	397.4	397.4	398.4	403.8	395.3	1.0	1.0	3.1
Local Education Aid (Ch. 70) ¹	3,260.2	3,288.9	3,343.9	3,251.7	3,183.3	83.7	55.0	160.6
K-12 Educ (non Ch. 70) ²	481.4	475.3	472.1	473.2	463.2	(9.3)	(3.2)	8.9
School Building Debt Assistance ³	488.7	488.7	488.7	404.2	395.7	0.0	0.0	93.0
Higher Education ⁴	921.7	926.2	946.9	966.4	946.1	25.2	20.6	0.8
Early Education and Care ⁵	450.2	468.9	478.2	459.5	449.8	28.0	9.3	28.3
Income Support Programs ⁶	579.1	597.0	598.2	614.4	601.5	19.0	1.2	(3.3)
Medicaid and Other Health Care Programs ⁷	7,213.9	7,278.2	7,423.3	7,390.7	7,235	209.4	145.1	188.1
Public Health	412.2	417.2	424.9	407.5	398.9	12.8	7.7	26.0
Mental Health	619.9	620.3	626.1	610.1	597.2	6.2	5.8	28.8
Mental Retardation	1,122.1	1,122.7	1,122.9	1,086.8	1,063.9	0.7	0.2	59.0
Social Services	731.1	737.5	740.5	724.2	709.0	9.4	2.9	31.5
Elder Affairs	199.5	204.4	213.8	200.9	196.7	14.2	9.4	17.1
Other Health & Human Services	561.3	567.7	586.1	567.6	555.7	24.8	18.4	30.4
Environmental Affairs ⁸	189.3	194.7	199.5	260.0	254.5	10.3	4.9	(54.9)
Transportation	162.1	149.6	148.5	184.4	180.5	(13.6)	(1.1)	(32.0)
Housing & Community Development ⁹	77.1	85.9	90.2	97.6	95.5	13.0	4.2	(5.4)
Economic Development	127.1	127.8	135.7	136.5	133.7	8.6	7.9	2.0
Public Safety	1,305.2	1,290.7	1,308.4	1,314.6	1,287	3.2	17.7	21.4
Judiciary	617.6	631.2	642.7	640.7	627.3	25.1	11.5	15.4
District Attorneys	82.6	80.8	84.7	80.9	79.2	2.1	3.9	5.5
Attorney General	36.6	35.1	37.0	37.0	36.2	0.4	1.9	0.8
Libraries	27.2	28.4	28.8	27.7	27.1	1.6	0.4	1.7
Debt Service	1,793.1	1,793.2	1,793.2	1,791.5	1,753.8	0.0	0.0	39.4
Pensions ¹⁰	1,275.2	1,275.2	1,275.2	1,243.6	1,217.4	0.0	0.0	57.7
Group Insurance	946.9	1,023.2	1,023.2	848.7	830.9	76.3	0.0	192.3
Other Administrative	709.2	658.0	660.3	688.9	674.4	(48.9)	2.2	(14.1)
Total	25,549	25,726	26,053	25,665	25,125	503	327	927

Notes:

(1) The Senate Ways and Means figure for Local Education Aid includes \$55 million set aside in a reserve account. The House 1 and House 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 budget keeps in a separate department. Proposals by the House and Senate Ways and Means move these appropriations to the Department of Early Education and Care. The House and Senate Ways and Means total 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) 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.