

BUDGET MONITOR

The FY 2007 Budget: Senate Floor Action and Conference Differences

OVERVIEW

Almost five years after the end of the 2001 national recession, the final Senate budget for FY 2007 shows the continuing challenges faced by the Commonwealth. In the years leading up to that recession, Massachusetts had been one of the most aggressive tax cutting states in the country.¹ To pay for those tax cuts the state made deep cuts to education, local aid, higher education, public health, and other basic services, yet balancing the state budget still remains a difficult challenge.

The budget enacted by the Senate on May 25th follows the budgets proposed by the Governor and the House of Representatives in restoring a significant share of the unrestricted local aid that was cut during the fiscal crisis. The Senate budget would also restore more of the funding cut from K-12 education and higher education than the Governor or the House proposed.

Two elements of the Senate’s budget, however, raise the danger that continuing

this progress in the years ahead could become increasingly difficult.

First, the budget relies on \$420 million in funding from the state’s Stabilization Fund (or “Rainy Day Fund”), which is more than the \$275 million used by the House. While it is possible that state revenue growth will

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¹ 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, January 12, 2005, available at: <http://www.cbpp.org/1-12-05sfp.pdf>.

exceed projections by a large enough amount that this withdrawal will not ultimately be needed, it is important to recognize that the budget spends \$420 million more than is officially projected to be produced by the permanent revenue sources on which it relies.

Second, the Senate adopted a budget amendment related to the income tax rate which could lead to an annual revenue loss of as much as \$690 million once fully implemented. The tax cut would begin to take effect only after the restoration of funding that has been cut from various local aid accounts. It would, however, be implemented even if other areas of state government remain severely under-funded. Comparing Senate funding levels, which in most cases are higher than those proposed by the House and the Governor, to FY 2001 spending, adjusted for inflation, shows that deep cuts remain across state government.

Higher education funding is down 17 percent. Public health is down 23 percent. Funding for programs within the Executive Office of Environmental Affairs is down 19 percent, and additional deep cuts remain in critical programs across state government. Even with the most optimistic of economic assumptions, it is hard to see how the Commonwealth could make up for the \$420 million Rainy Day Fund transfer, restore all of the cuts to local aid (including Chapter 70 education funding), cut taxes by over \$600 million, and continue to make progress in reversing the cuts to higher education, public health, and other vital services.

While a new major tax cut would undermine the state's capacity to restore funding for vital services under optimistic economic assumptions, the effect would be significantly more severe if the economy slows after enactment of such a tax cut. In

that case, we would likely repeat the cycle of last decade when expensive tax cuts enacted during a period of economic growth were eventually paid for by cuts to local aid, education and other essential services during a recession.

While there were few major policy changes related to line item spending during the Senate's debate on the budget, there was one particularly significant outside section adopted. By a vote of 39 to 0 the Senate voted to increase the state minimum wage from \$6.75 an hour to \$8.25 an hour in two steps beginning on September 1st of this year, and then to index the wage to inflation so that its real value will remain constant in the future. It has been estimated that this increase would raise the wages of approximately 480,000 low wage workers.²

This *Budget Monitor* describes the final Senate budget, reviewing the amendments adopted during the floor debate and highlighting important issues that the Conference Committee will have to resolve. It also examines whether the budget is structurally balanced and puts some of its recommendations in context by comparing them to current appropriations and to funding levels before the fiscal crisis began.

LOCAL AID

The Senate budgets \$1.328 billion for unrestricted local aid, a \$167.9 million or 14.5 percent increase over the FY 2006 level.

² *Minimum Wage Increase Could Help Close to Half a Million Low-Wage Workers*, Massachusetts Budget and Policy Center, March 20, 2006, available at: http://www.massbudget.org/Minimum_Wage_Update.pdf.

FY 2006	\$ 1,159,746,098
FY 2007 Senate	\$ 1,327,596,219
Increase (decrease)	\$ 167,850,121
Percentage Change	14.5%

The Senate is aligned with the House in its proposal to remove the cap on lottery distributions to cities and towns. This will provide an additional \$158.7 million in funding in FY 2007. The Senate, like the House, also provides level funding for Additional Assistance. The FY 2007 proposal includes \$379.8 million for this purpose.

The Senate differs from the House in the amount proposed for the Payment in Lieu of Taxes (PILOT) program. The Senate budget increases funding from \$16.1 million in FY 2006 to \$25.3 million in FY 2007, a \$9.2 million difference. The House budget offered \$5.9 million more than is currently appropriated.

Although overall funding for unrestricted local aid would grow by \$167.9 million over FY 2006, the proposed amount is, in real terms, still \$152.9 million or ten percent below its level in FY 2001.

K-12 EDUCATION

The Senate budget for K-12 education totals \$4.013 billion, a \$237.2 million or six percent increase over the current budget.

Total K-12 Education

FY 2006	\$ 3,775,789,300
FY 2007 Senate	\$ 4,013,011,438
Increase (decrease)	\$ 237,222,138
Percentage Change	6.3%

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.

Chapter 70 Aid

FY 2006	\$ 3,288,931,062
FY 2007 Senate	\$ 3,499,325,960
Increase (decrease)	\$ 210,394,898
Percentage Change	6.4%

Chapter 70 aid is distributed to cities and towns for public education. The Senate budget includes \$3.499 billion for Chapter 70 aid, \$210.4 million over the FY 2006 budget. The proposal by the Senate is \$25.0 million higher than the budget offered by the House. Differences between the two proposals will be resolved in Conference.

The Senate proposal adopts the approaches to calculating local contributions and foundation aid that were included in the House's budget proposals. Primarily to help growing districts it also includes "growth aid," which was included in the Governor's budget, but not in the one offered by the House. To provide additional aid to communities that are spending more local resources than the new formula will require, it adopts the House proposal to provide these towns with "down payment aid." The proposal begins to phase in a requirement that the state pay in the form of Chapter 70 aid at least twenty percent of the foundation budget costs of every district, regardless of need. In addition, the Senate proposal makes some changes to increase the foundation budget itself, particularly in lower income districts and for students with limited English proficiency. But the effects of these changes are limited because the proposal only partially adjusts an arbitrary cap that will prevent the foundation budget from keeping up with inflation, whereas the House removes this cap entirely. Finally, like the House, the Senate proposal provides that every district will get at least \$50 per student more than last year.

Grants and Reimbursements

FY 2006	\$	486,858,238
FY 2007 Senate	\$	513,685,478
Increase (decrease)	\$	26,827,240
Percentage Change		5.5%

The Senate budget appropriates \$513.7 million for the Department of Education's grants and reimbursement programs. This proposal would boost funding by \$26.8 million or 5.5 percent compared to FY 2006.

The Senate proposal adds \$4.4 million to the Ways and Means recommendation for grants and reimbursements, including increases in the following areas:

- The Senate increased the Senate Committee on Ways and Means recommendation for extended learning from \$5.0 million to \$6.5 million. Funding for this new initiative will help to support after school programs for districts where an extended school day is not necessary for the entire school, but where an extended school day would benefit a considerable portion of students.
- The Senate budget for the METCO program is \$1.0 million higher than the proposal by the Senate Committee on Ways and Means. This amount brings the total amount for this program to \$19.6 million, and, like the House, would provide a \$2.0 million increase over current appropriations.
- The Senate also offered smaller increases to the Senate Ways and Means budget, including an additional \$600,000 for YouthBuild Programs, \$370,000 more for programs to help students pass

the MCAS exam, and \$200,000 more for Adult Basic Education.

The Senate budget for grants and reimbursements is \$12.5 million lower than that of the House. Major differences between the two proposals are outlined below:

- The Senate's \$50.0 million appropriation for transportation reimbursements for regional school districts is lower than the \$55.0 million offered by the House. Both budgets would increase funding over the \$45.0 million that is currently appropriated.
- The Senate budget level-funds grants to support full-day kindergarten at \$25.0 million. The House increased funding to \$27.0 million.
- The Senate also fails to fund new items included in the House's budget, including \$5.2 million to support an education data warehouse, \$2.0 million for a program which would allow high school students with disabilities to earn both high school and college credit through coursework at local public colleges, and \$1.0 million for principal and superintendent leadership academies.
- Despite being lower than the House in a number of areas, there are instances where the Senate provides higher levels of funding than the House. For example, under the Senate budget funding for MCAS remediation programs would rise from \$10.3 million to \$10.7 million. The House offers \$9.1 million. (Both proposals for FY 2007 are well below the \$50.0 million that was appropriated in FY 2003.) The Senate also provides a higher level of funding for the Special

Education Circuit Breaker Program, which helps school districts with extraordinary special education costs. Under the Senate proposal, funding for this program would grow from \$201.6 million in FY 2006 to \$208.2 million, a \$6.1 million increase. The House offers a smaller increase to \$207.7 million (\$1.3 million more).

Although there are differences between the House and Senate budgets, they are alike in that they would only begin to restore budget cuts of the past few years. The House budget for the Department of Education’s grants and reimbursements, the higher of the two proposals, is, in real terms, \$52.6 million or nine percent below the FY 2001 level.

HIGHER EDUCATION

The Senate budget for public higher education totals \$1.048 billion. This total amount includes the proposal to allow all campuses to retain tuition revenues. The Senate proposal is \$72.0 million or seven percent higher than the current budget for higher education.

FY 2006	\$	975,906,491
FY 2007 Senate	\$	1,047,953,405
Increase (decrease)	\$	72,046,914
Percentage Change		7.4%

The Senate follows the recommendation by the Committee on Ways and Means to allow all campuses to keep all revenue collected through tuition. Under current law, most campuses return their tuition revenue to the Commonwealth, and that amount is deposited into the General Fund. The state reallocates this funding through budget appropriations. To provide a direct

comparison across years, all tuition retention amounts have been incorporated into the totals for higher education as detailed in Figure 1.

The proposal to allow campuses to retain their tuition revenue is one of main differences between the Senate budget for higher education and the one offered by the House. Additionally, the Senate budget is \$29.9 million higher than the House’s proposal for higher education. Consequently, funding for each of the campuses is also higher than in the House budget. Under the Senate proposal:

- Funding for UMass campuses would grow by \$31.5 million or seven percent over current appropriations. The House budget would provide a \$16.7 million or four percent increase.
- Appropriations to state colleges would increase by \$17.7 million or nine percent when compared to the current level of funding. The House proposal would increase funding by \$10.4 million or five percent.
- Support for community colleges would rise by \$17.6 million or eight percent over the current budget. The House budget would boost funding by \$9.8 million or five percent.

While the House and Senate budgets offer higher appropriations for higher education compared to FY 2006, neither proposal would restore the budget cuts in this area over the past few years. In real terms, the Senate budget – the more generous of the two branches – is \$215.8 million or 17 percent below the FY 2001 level.



Figure 1.

Comparing the FY07 Senate Budget for Higher Education with FY06		
<i>All \$ Figures in Millions</i>		
FY06 BUDGET		
General Appropriations Act		951.2
Supplemental Funding		24.7
CURRENT FY06 HIGHER EDUCATION BUDGET		975.9
FY07 SENATE BUDGET		
Proposed Appropriations		969.7
Proposed FY07 Tuition Retention		78.3
FY07 SENATE HIGHER EDUCATION BUDGET		1,048.0
FY07 SENATE vs. FY06 GAA	96.7	10.2%
FY07 SENATE vs. FY06 CURRENT	72.0	7.4%

Note: The FY06 GAA and FY07 Senate budget include \$31.5 million in tuition revenue which is currently retained by the UMass Amherst, the Mass. College of Art, and the Mass. Maritime Academy.

EARLY EDUCATION AND CARE

The Senate budget includes \$508.2 million for early education and care, which would provide a \$26.9 million increase over FY 2006.

FY 2006*	\$	481,309,479
FY 2007 Senate	\$	508,218,512
Increase (decrease)	\$	26,909,033
Percentage Change		5.6%

* All FY 2006 numbers include allocations from the Purchase of Service reserve as discussed on p. 8.

The Senate added very little in additional funding to the recommendation by the Senate Committee on Ways and Means. The final Senate budget is just \$383,000 higher than the Ways and Means proposal. This additional funding supports an increase

in funding for the administrative costs of the Massachusetts Children’s Trust Fund.

The Senate budget for early education and care is \$12.8 million higher than that of the House. Much of this difference is due to the Senate providing higher appropriations in the following areas:

- The Senate includes \$12.5 million for a reserve account that would increase providers’ reimbursement rates in FY 2007; the House offered \$10.0 million.
- Under the Senate budget, funding to support early education and care for children in custody of the Department of Social Services would rise from \$49.1 million to \$54.7 million, a \$5.6 million difference. The House provided a \$1.8 million increase.

- The Senate also provides a higher level of funding for subsidized care. In addition to changing the way this support for low income families would be funded (described in more detail below), the Senate provides an overall increase of \$21.4 million while the House offered a \$16.7 million increase.

In most areas, the Senate provides the same level of funding as the House, but there are differences in how the funding is structured. The examples below highlight the major differences in the two budgets:

- The Senate, like the House, provides funding for new initiatives that are central to the Department’s goal of improving quality and access. While both budgets provide \$1.4 million for a new initiative to provide early childhood mental health consultations, and \$3.0 million in new funding for professional development, they differ in how these funds would be appropriated. The House provided separate line items for these initiatives. The Senate includes earmarks within the professional development line item, and differs in the House by using language that indicates that the mental health consultations would be a one year pilot.
- Both the House and the Senate level-fund for Community Partnerships for Children (CPC) at \$68.7 million. The Senate budget appropriates this amount in one budget account, while the House budget divided this amount among several different line items. One new budget account in the House budget, from which CPCs would receive a portion of their funding, allocated \$5.0 million for Universal Pre-kindergarten. Although the net result is level funding, the degree of local control over how the funding would be spent could be

restricted under this proposal. The Senate budget does not include separate funding for this initiative.

- In the Senate proposal, the main budget account for subsidized care is separated into two accounts. One line item would fund services for families who are receiving cash assistance through Transitional Aid to Families with Dependent Children (TAFDC), working TAFDC recipients up to one year after their benefits end, and teen parents. The other line item would fund services for all other low-income families. Adding these two accounts together and comparing them to the main line item for subsidized care in FY 2006 shows a \$21.4 million increase. The House kept funding for subsidized care in one budget account, and the \$309.2 million recommendation is \$16.7 million higher than the current amount in the main line item.³

INCOME SUPPORT PROGRAMS

The Senate budget for income support programs totals \$613.7 million. These appropriations are lower than in FY 2006 primarily because, as the economy begins to improve, the caseloads for certain income support programs are declining.

FY 2006*	\$	631,629,138
FY 2007 Senate	\$	613,706,301
Increase (decrease)	(\$	18,643,074)
Percentage Change		-3.0%

All FY 2006 numbers include allocations from the Purchase of Service reserve as discussed on p. 8.

³ There is an additional \$6.0 million of a \$12.0 million reserve that may be available for FY 2006. If this amount is added to the amount in the main account for subsidized care, the proposals by the Senate and the House would provide slightly smaller increases over FY 2006.

The Senate adopted the Ways and Means funding recommendation for income support programs. There are only a few instances where the House and Senate differ in funding for income supports.

The Senate, like the House, leaves in place the current regulations for Transitional Aid to Families with Dependent Children (TAFDC), the state's main income support program for low-income families. Both budgets offer a smaller appropriation for this program, which reflects, in both budgets, a projected decline in the TAFDC caseload. Typically when the economy shows signs of improvement, there is less demand for income supports like TAFDC. The Senate reduces the \$312.9 million by \$16.6 million; the House provides a smaller decline – \$16.0 million lower. Although both branches leave the current structure of this program in place, legislation that would restructure TAFDC to meet federal standards and

safeguard vulnerable families is currently in conference.

The House and the Senate also differ in the amount appropriated to the Employment Services Program (ESP), the state's main source of funding for education, training, and job search services available to individuals receiving cash assistance. Under the Senate budget, funding for the main budget account which funds ESP would total \$27.1 million, and an additional \$5.0 million may be available in retained revenue from certain federal reimbursements. This would provide \$32.1 million or \$7.7 million more than the current amount for ESP, when compared to the same sources of funding in FY 2006. The House budget included \$26.1 million for the main account for ESP and \$3.0 million in retained revenue, which would provide a \$4.7 million boost over current funding.⁴

A Brief Explanation of the POS Reserve

The FY 2006 budget included a \$20.0 million reserve to fund salary increases to low-wage workers for providers that deliver human and social services under contracts with the Department of Early Education and Care, the Executive Office of Elder Affairs, and various departments within the Executive Office of Health and Human Services. The Senate and the House provide comparable funding in their budgets, and appropriate an additional \$28.0 million in new funding for FY 2007. In this *Budget Monitor*, we adjust the relevant FY 2006 numbers to reflect the allocation of the \$20.0 million reserve in that year. The additional \$28.0 million in FY 2007 would accordingly raise the bottom-line budgets for individual agencies, but it is not yet known how that funding would be allocated.

MEDICAID/MASSHEALTH AND OTHER HEALTH PROGRAMS

The full Senate added \$40.7 million more to the Senate Ways and Means budget recommendations for Medicaid/MassHealth and other Health Care Programs. Like the House, the Senate increases funding for the Medicaid program in order to implement health care reform as enacted by Chapter 58 of the Acts of 2006.

The Senate proposed budget recommends \$7.610 billion to cover existing health care programs as well as health care reform (a 3.6 percent increase over FY 2006).

⁴ There is an additional \$6.0 million of a \$12.0 million reserve that may be available for ESP in FY 2006. If this amount is incorporated into the total for ESP, the Senate Budget would only offer a \$1.7 million increase, while the House proposal would stand \$1.3 million below its current level.

However, FY 2006 actual spending in the Medicaid/MassHealth program is likely to be \$195.6 million less than budgeted, spending in other health care programs is likely to be \$8.7 million less than budgeted, and spending in the pharmacy programs is likely to be \$3.8 million less than budgeted. Comparing the Senate FY 2007 proposed budget to anticipated FY 2006 spending in Medicaid/MassHealth and other health care programs indicates that the real increase between FY 2006 and FY 2007 would be closer to 6.7 percent.

FY 2006	\$ 7,349,068,387
FY 2007 Senate	\$ 7,610,740,795
Increase (decrease)	\$ 261,672,408
Percentage Change	3.6%

Included in the totals for these health care programs are funding for Medicaid/MassHealth, funding for other health care programs for persons ineligible for Medicaid, and funding for uncompensated care. These totals also include program costs allocated to implement health care reform.

Figure 2.

Medicaid/MassHealth and Other Health Care Programs			
<i>In Millions of \$</i>			
	FY 2006	FY 2007	FY 2007
	Current	SW&M	Senate
Medicaid/MassHealth	6,999.5	7,472.3	7,513.0
Pharmacy Programs	96.0	63.6	63.6
Other Health Care Programs	37.6	34.2	34.2
Uncompensated Care Pool	206.0	0.0	0.0
Health Care Reform	10.0	0.0	0.0
Total	7,349.1	7,570.1	7,610.7

"Medicaid/MassHealth" includes the Medicare "Clawback" but does not include the \$288.5 million Health Care Quality Improvement Trust. "Other Health Care Programs" includes the Healthy Start and Children's Medical Security Plan programs, as well as funding for the Betsy Lehman Center. "Uncompensated Care Pool" only includes money budgeted from the General Fund, not other sources of funding. "Health Care Reform" does not include funding directed to the Division of Insurance.

Medicaid/MassHealth

The Senate budget recommendation includes \$7.513 billion for the Medicaid/MassHealth programs, which includes estimated programmatic costs of Medicaid expansion associated with the implementation of health care reform. (In FY 2006, a portion of the funding for the MassHealth Essential program had been funded for part of the year out of "off-budget" funds. We include those dollars in our FY 2006 Medicaid totals for year-to-year comparison purposes. There is also \$288.5 million funded off-budget for enhanced nursing home rates through the Health Care Quality Improvement Trust, but because this transaction does not include the expenditure of state funds, we do not include those dollars in our totals.)

Highlights of the program expansions associated with health reform in the Senate Medicaid/MassHealth budget include:

- Implementation and funding for the expansion of benefits associated with health care reform, including the restoration of dental services, eyeglasses, chiropractics, and prosthetics for adults; and the expansion of eligibility for children up to 300 percent of the federal poverty level.
- Recommended funding of \$4.7 million more for the Commonwealth program (for a total of \$68.2 million) and \$900,000 more for the MassHealth HIV program (for a total of \$13.0 million) in order to expand program enrollment and eliminate waiting lists. These are the same funding levels proposed by the Senate Committee on Ways and Means.
- Recommended funding of \$306.0 million for the MassHealth Essential program, \$137.4 million more than it

was funded in FY 2006. This the funding level proposed by Senate Ways and Means. The Senate anticipates that their recommended funding level would be sufficient to fund close to 17,000 more members in the program, including elderly and disabled legal immigrants. The Senate budget includes funding sufficient to prohibit “sponsor deeming” for legal immigrants. (During the budget debate, the Senate overrode one of the Governor’s remaining vetoes in the health reform law which would have allowed “sponsor deeming.”) “Sponsor deeming” means that an immigration sponsor’s income may be “deemed” (or counted) when considering income eligibility for MassHealth Essential members.

- Adding \$1.5 million to funding for the MassHealth Family Assistance Program (for a total of \$100.1 million) in order to cover the costs associated with expanding MassHealth coverage for young adults aging out of custody of the Department of Social Services. The language in the Senate budget proposal, like in the House proposal would continue coverage until the twentieth birthday.
- Allocating \$87.0 million in the MassHealth Managed Care Plan to implement hospital payments for safety net hospitals as indicated. The Senate budget also earmarks \$14.7 million in rate adjustments for certain pediatric hospitals, an increase from \$12.0 million earmarked for these hospitals in FY 2006.
- An amendment to the Senate Ways and Means proposal added \$15.0 million to the MassHealth Indemnity and Third Party Liability Plans, \$10.0 of which

would be earmarked for rate increases for community health centers. There is also language in an outside section of the budget that would reallocate any surplus dollars remaining in the Uncompensated Care Trust Fund that had been allocated to community health centers to defray the costs of these Medicaid rate increases.

The recently-enacted federal Deficit Reduction Act requires that persons receiving Medicaid provide copies of birth certificates or other similar verification in order to be eligible for coverage. There is language in the Senate budget (as there was in the Senate Ways and Means recommendation) that would assist applicants for coverage in obtaining this documentation at no cost to the applicant, but there is no increased funding associated with this language.

There are also several recommendations in the Senate budget proposal that would have an effect on nursing home eligibility, on elders in the community, and on persons with family members in nursing homes.

- The full Senate restored a House recommendation to include \$19.0 million in the MassHealth Senior Care Plan allocated for rate adjustments for nursing home providers. The House recommended amount for the Senior Care Plans is \$1.720 billion, whereas the Senate budget recommends \$1.721 billion. The House budget language included \$1.0 million earmarked for rate increases for homemakers and personal care homemakers. The Senate budget, on the other hand, funds this increase for homemakers in a line item in the elder affairs section of the budget, and includes a separate line item of \$4.0 million for home health worker wages.

- Language recommends changing the Community Spouse Resource Allowance from the minimum allowable to the maximum allowable. This allowance is the amount of assets that a spouse of a person in a nursing home who is still living in the community is allowed to retain. The Senate Ways and Means proposed budget had included this language.
- The federal Deficit Reduction Act limits the amount of home equity a nursing home resident may retain (unless the resident's spouse or dependent child is still living in the home) and still be financially eligible for publicly-funded long term care. The cap in the federal law is \$500,000, with the option that states may raise the level to \$750,000. Reflecting the high cost of housing in the Commonwealth, the Senate budget proposal keeps a recommendation from Senate Ways and Means that exercises the option to increase the cap to \$750,000.
- As in FY 2006, the Senate budget provides \$9.0 million through the off-budget nursing home assessment to fund holding nursing home beds for up to ten days for residents on leave of absence (either medical or non-medical).

Pharmacy Programs

On January 1, 2006, the federal Medicare Prescription Drug Improvement and Modernization Act (Medicare Part D) went into effect. Medicare Part D is intended to provide prescription drug coverage for persons on Medicare, and accordingly the Senate budget recommendations assume that neither the Medicaid program nor the Prescription Advantage program will be

necessary as a primary provider of health insurance coverage for medications for most elders.

Because of presumed savings to state Medicaid programs associated with this new federal program, the Commonwealth must pay a "Clawback" to the federal government to offset a portion of these savings associated with persons who are dually-eligible for Medicare and Medicaid. The "Clawback" amount in the Senate budget proposal is \$238.9 million, \$118.9 million more than in FY 2006 when this payment only covered half of the fiscal year.

In FY 2007, like the House, the Senate budget proposes that the Prescription Advantage program cover Medicare Part D co-payments, premiums and other out-of-pocket costs for eligible enrollees, and continue to provide primary prescription coverage for persons not eligible for Medicare.

The Senate budget proposal recommends \$63.8 million for the Prescription Advantage program, \$900,000 more than recommended by the House, and \$4.0 million more than recommended by Governor. Like the House, the Senate includes language recommending an open enrollment period for the program, and provides \$600,000 for an outreach program. This is the same as recommended by Senate Ways and Means.

Other Health Care Programs

The Senate budget proposal follows the recommendations of both the House and the Governor for the funding of other health care programs, including \$16.0 million for the Healthy Start program and \$18.2 million for the Children's Medical Security Plan. These are the same amounts as recommended by Senate Ways and Means.

Because FY 2006 spending has been less than budgeted, these proposed funding levels may be sufficient to cover the costs of the programs in FY 2007. The Senate proposal includes language that would codify a premium structure for the Children’s Medical Security Plan making the program more affordable for moderate-income families.

Uncompensated Care and Health Reform

The Senate budget recommendation, like the House budget recommendation, assumes that comprehensive health care reform will reduce demand on the Uncompensated Care Pool. The Senate budget proposal does not appropriate state dollars for uncompensated care. In FY 2006, \$206 million had been appropriated to cover a portion of the costs of uncompensated care. The recently-passed health reform legislation indicates that total hospital and surcharge payer assessments to cover the costs of uncompensated care remain at \$320 million as in FY 2006.

Because the Legislature already enacted comprehensive health reform legislation, the Senate budget does not include a \$200 million reserve set-aside to support anticipated costs of the implementation of health care reform, but instead recommends the allocation of that money across the Commonwealth’s health care programs as described above.

PUBLIC HEALTH

The Senate proposes \$465.8 million for public health services, \$16.7 million (3.7 percent) more than current FY 2006 funding, and \$509,000 less than the budget proposed by the House. The Senate proposal represents an increase barely over inflation;

however, there would be additional dollars available for certain public health accounts from the proposed \$28.0 million reserve to fund salary increases for low-wage human service workers. In FY 2006, when the salary reserve totaled \$20.0 million, there was \$555,000 added to the public health bottom line.⁵

FY 2006*	\$	449,186,238
FY 2007 Senate	\$	465,842,157
Increase (decrease)	\$	16,655,919
Percentage Change		3.7%

* All FY 2006 numbers include allocations from the Purchase of Service salary reserve as discussed on p. 8.

Even though the Senate budget continues to restore funding for the public health services that had been deeply cut during the state’s fiscal crisis, this recommendation is still 23 percent below funding in FY 2001 when adjusted for inflation.

The Senate budget proposes increases over FY 2006 in several areas, including:

- \$13.4 million more for substance abuse services, for a total of \$61.1 million. Included in this amount is \$250,000 added by an amendment to the Senate Ways and Means proposal. The House version of the budget proposed \$59.2 million for substance abuse services, as well as an additional \$5.0 million in a separate line item for step-down recovery services. Line item language in the Senate budget indicates that \$4.0 million of the FY 2007 appropriation

⁵ Furthermore, Chapter 58 of the Acts of 2006 (the health reform legislation) added \$14.5 million in funding for public health in FY 2006. Although budgeted in FY 2006, these dollars may not be spent until FY 2007. Shifting this funding from FY 2006 to FY 2007 would show that the Senate recommended funding level for public health would be a 10.5 percent increase over FY 2006.



would be available to support the creation of a program consisting of 60 beds for men who are civilly committed for substance abuse treatment. The Senate budget does not include the separate step-down recovery program.

- \$7.7 million more for universal immunizations, for a total of \$36.8 million. This is the same amount proposed by Senate Ways and Means and recommended by the House.
- \$608,000 more for early intervention services, for a total of \$31.5 million. Although this amount is \$1.5 million less than proposed by the House, the Senate budget retains the Senate Ways and Means proposal to include a new line item of \$1.4 million that would fund salary increases for workers in early intervention programs.
- \$2.0 million more for school health services, for a total of \$16.7 million. The House had recommended \$16.1 million for school health services. The Senate budget retains the total funding level recommended by the Senate Committee on Ways and Means, and specifies that \$15.0 million would be available for school nurses and school-based health centers, a \$3.0 million increase over the amount earmarked in FY 2006. The Senate budget recommendation does not include a House earmark of \$300,000 for mental health and substance abuse services in school-based health centers. Even with this increase over FY 2006 funding levels, when compared to funding in FY 2001, however, there has been a dramatic reduction in funding for school health. School health services had been funded partially within the Department of Public Health and partially within the

Department of Education. Since FY 2001, when adjusted for inflation, even with recommended increases, school health services have been cut 68 percent.

- \$5.6 million more for public health hospitals, for a total of \$129.0 million. The Senate budget adds \$2.8 million to the House recommendation targeted to establish a new rehabilitation unit at the Massachusetts Hospital School in Canton.

Other highlights of the Senate public health budget include:

- \$8.3 million in the health care quality and improvement line item. This is \$425,000 more than recommended by the House and \$350,000 more than recommended by Senate Ways and Means. The Senate earmarks \$350,000 for a new Shaken Baby Prevention initiative.
- \$9.6 million for family health services and domestic violence (in two separate line items). The House had recommended \$10.9 million, and funding in FY 2006 had been \$9.3 million. Unlike the House, the Senate did not fund a full separate domestic violence and sexual assault prevention program, but instead passed an amendment that would provide \$187,500 for a domestic violence intervention program in the gay, lesbian, bisexual, and transgender communities.
- \$37.5 million for HIV/AIDS prevention and treatment (the same as recommended by the Senate Ways and Means budget), which is \$1.5 million less than recommended by the House. The total includes \$35.7 million for direct funding for services and \$1.9

million available from drug rebates. Funding in FY 2006 was \$38.5 million. The Senate proposed funding is 38 percent below FY 2001 funding when adjusted for inflation.

- \$4.3 million for smoking prevention programs (the same as Senate Ways and Means). The recently-passed health reform legislation included \$4.0 million for smoking prevention and treatment programs, to supplement the \$4.3 million previously appropriated in FY 2006. The health reform legislation specifies that the amounts included for public health programs may be spent in FY 2007, so the total amount of funding available for the year could be more than the \$4.3 million recommended by the Senate. Nevertheless, funding for smoking prevention programs has been cut dramatically over the years – adjusted for inflation, funding in FY 2001 was \$58.4 million.

There is language in the funding for the Registry of Vital Records and Statistics that would exempt from fees people seeking copies of birth certificates in order to determine Medicaid eligibility (see section on “Medicaid/MassHealth and Other Health Care Programs”).

MENTAL HEALTH

The Senate budget includes \$645.5 million for mental health services, a \$12.4 million or two percent increase compared to FY 2006. While overall funding for the Department of Mental Health would increase, the proposed amount would not keep pace with the rate of inflation. It is important to note that there would be additional funding available for certain mental health budget accounts from the proposed \$28.0 million reserve to fund

salary increases for low-wage human service workers. The \$20.0 million reserve in FY 2006 added \$3.4 million to the Department of Mental Health’s bottom-line.

FY 2006*	\$	633,029,664
FY 2007 Senate	\$	645,457,419
Increase (decrease)	\$	12,427,755
Percentage Change		2.0%

* All FY 2006 numbers include allocations from the Purchase of Service reserve as discussed on p. 8.

The Senate added very little in additional funding to the Senate Ways and Means budget for mental health services. The final Senate budget is just \$100,000 higher than the proposal offered by Senate Committee on Ways and Means. This additional funding supports an increase in funding for adult mental health and support services.

Overall, the Senate budget for the Department of Mental Health is \$2.4 million more than that of the House. Differences between the two budgets are highlighted below:

- Under the Senate budget, the budget appropriation for adult mental health and support services would rise roughly \$8.0 million or 2.7 percent over FY 2006. The House proposed a \$6.8 million or 2.3 percent increase.
- The Senate offers a \$552,000 or nine percent increase for forensic services. The House budget included an \$83,000 or one percent increase over FY 2006.
- Both proposals would reduce funding for continuing care services. Under the Senate budget, funding would fall by 563,000; the House offers a \$1.3 million reduction.

- The budget account for children and adolescent mental health services would experience a \$518,000 boost over FY 2006. The House increased funding by \$636,000. Both the recommendations for FY 2007 are just under one percent.

MENTAL RETARDATION

Under the Senate proposal, funding for the Department of Mental Retardation rises by \$35.2 million or three percent compared to FY 2006. Increases in this department primarily reflect the rise in the cost of providing services, not new expansions. It is worth noting, however, that there would be additional dollars available for certain budget accounts within this Department from the proposed \$28.0 million reserve to fund salary increases for low-wage human service workers. The \$20.0 million reserve in FY 2006 added \$9.2 million to the Department of Mental Retardation's bottom-line.

FY 2006*	\$	1,137,059,567
FY 2007 Senate	\$	1,172,246,734
Increase (decrease)	\$	35,187,168
Percentage Change		3.1%

* All FY 2006 numbers include allocations from the Purchase of Service reserve as discussed on p. 8.

The Senate amended the Senate Ways and Means budget for the Department of Mental Retardation by transferring funding from one budget account to another, but maintained the \$1.172 billion budget offered by the Senate Committee on Ways and Means. During debate, the Senate moved \$304,000 from community-based residential supports to the line item which funds community-based day and work programs.

The Senate budget for the Department of Mental Retardation is \$1.8 million higher than the proposal by the House. There are a number of differences between the budgets offered by the two branches, but the primary funding difference is in the amounts proposed for Turning 22 services. These services provide supports to individuals with severe disabilities who require after aging out of the public school system. Under the Senate budget, funding for would rise from \$6.5 million in FY 2006 to \$8.5 million in FY 2007, a \$2.0 million difference. The House offered \$1.0 million increase.

SOCIAL SERVICES

The Senate budget includes \$768.7 million for the Department of Social Services, \$22.8 million or three percent more than FY 2006. However, the \$28.0 million salary reserve for low-wage workers would provide additional funding to this Department. The \$20.0 million reserve in FY 2006 added \$1.7 million to the Department of Social Service's bottom-line.

FY 2006*	\$	745,876,925
FY 2007 Senate	\$	768,739,624
Increase (decrease)	\$	22,862,699
Percentage Change		3.1%

* All FY 2006 numbers include allocations from the Purchase of Service reserve as discussed on p. 8.

The Senate added just \$187,500 to the Senate Ways and Means budget for the Department of Social Services. This total amount was added to the budget account which funds services for children and families.

The Senate budget for the Department of Social Services is roughly \$890,000 more than that of the House. The funding

differences between the two budgets exist in a number of areas, including the following:

- The Senate provides \$1.1 million more than the House for the Department’s administrative costs. The Senate budget would increase funding by \$6.0 million or 8.6 percent. The House budget would increase funding by \$4.9 million or 7.0 percent.
- The Senate offers \$4.1 million more than the House does for social workers. The Senate increases funding by \$10.9 million (eight percent), while the House included a \$5.8 million (five percent) boost in funding.
- The House budget included \$3.0 million more than the Senate for group care services. The House proposed to increase funding from \$235.9 million to \$238.5 million, a \$2.5 million difference. The Senate, on the other hand, reduced this appropriation to \$235.5 million, a \$481,000 drop compared to FY 2006.

ELDER AFFAIRS

The full Senate did not change any of the funding recommendations made by the Senate Committee on Ways and Means for services for elders. The Senate budget recommends \$221.2 million for elders, an increase of \$4.2 million (two percent) over FY 2006 funding, not even enough to keep pace with inflation. However, there would be additional dollars available for certain elder affairs accounts from the proposed \$28.0 million reserve to fund salary increases for low-wage human service workers. In FY 2006, when the salary reserve totaled \$20.0 million, there was \$2.3 million added to the elder affairs bottom

line. (These numbers do not include the funding for the Prescription Advantage pharmacy program, discussed in the “MassHealth/Medicaid and Other Health Programs” section of this *Budget Monitor*.)

FY 2006*	\$	216,955,945
FY 2007 Senate	\$	221,200,920
Increase (decrease)	\$	4,244,975
Percentage Change		2.0%

* All FY 2006 numbers include allocations from the Purchase of Service salary reserve as discussed on p. 8.

The final Senate recommendations include \$103.1 million for elder home care purchased services, just \$170,000 more than the House budget recommendation. The Senate and the House both recommend level funding of \$39.3 million for home care administration and casemanagement.

The Senate budget does not include two new line items proposed in the House budget for a new geriatric mental health services program and for a family caregivers program.

The Senate (but not the House) included an outside section of the budget re-constituting a Long Term Care Commission. This commission would identify ways in which the Commonwealth could save money on the costs of publicly-financed long term care, and make recommendations about the health care, housing, and pension needs of elders in the Commonwealth. The Commission would also make recommendations about meeting the needs of the workforce providing long term care for elders.

OTHER HUMAN SERVICES

Most of the increase in the larger category of “other human services” is contained in the \$28.0 million reserve account that would fund salary increases for low-wage human service workers. Ultimately, this amount will be distributed to the individual budget accounts in various departments which contract with private providers. Once this amount is allocated to the respective agencies, the increase in funding compared to FY 2006 will mostly cover increasing costs due to inflation and caseload composition.

FY 2006*	\$	541,514,952
FY 2007 Senate	\$	601,075,180
Increase (decrease)	\$	59,560,228
Percentage Change		11.0%

* All FY 2006 numbers include allocations from the Purchase of Service reserve as discussed on p. 8.

The Senate budget for this larger category of “other human services,” which represents smaller human services agencies, services funded through the Executive Office of Health and Human Services, and the Department of Transitional Assistance, is \$2.0 million higher than the recommendation by the Senate Committee on Ways and Means. Of this amount, \$1.0 million was added to Emergency Assistance for homeless families, \$500,000 was devoted to the Citizens Assistance Program to match the proposal by the House, and \$378,100 went to grants to promote positive youth development.

The following highlights the various differences between the budgets offered by the House and the Senate:

- The Senate appropriates \$1.0 million more than the House for Emergency

Assistance for homeless families. Under the Senate plan, funding would rise by \$1.1 million, while the House proposal basically level-funded these services at \$73.7 million.

- Funding for grants to support youth development programs would rise from \$3.6 million to \$4.3 million under the Senate budget. The House budget offered a slightly lower increase to \$4.2 million.
- The Senate budget includes \$3.5 million for a new line item in the Executive Office of Health and Human Services that would provide for the Executive Office to contract with Project Bread/The Walk for Hunger and other anti-hunger organizations. The House funded this budget account at \$1.5 million.

ENVIRONMENTAL AFFAIRS

The Senate budget for environmental affairs totals \$224.5 million, a \$20.6 million or ten percent increase over the current budget.⁶

FY 2006	\$	203,922,663
FY 2007 Senate	\$	224,482,294
Increase (decrease)	\$	20,559,631
Percentage Change		10.1%

The Senate added \$3.3 million to the Senate Ways and Means budget for environmental affairs. Much of this additional funding supports the state and urban parks system. The Senate provided an additional \$1.1

⁶ This total includes funding for the Commonwealth Zoological Corporation, which the House funded through a line item in the Department of Business and Technology, but is currently funded in the Department of Conservation and Recreation.

million to the administrative line item for state parks, and \$1.1 million more for the division of urban parks.

The Senate budget for environmental affairs is \$6.0 million higher than the budget offered by the House. There are a number of small differences in funding, but the primary distinction is in the amount appropriated to emergency food assistance, which is administered by the Department of Agricultural Resources. The Senate budget would increase funding from \$6.5 million to \$12.0 million to help accommodate the increased demand on regional food banks. The House provided level funding for these programs.

Another distinction between the two budgets is how the Commonwealth Zoological Corporation is funded. The Senate keeps funding within the Department of Conservation and Recreation and includes \$6.8 million, while the House proposal moves this budget account to the Department of Business and Technology and recommends \$6.4 million. Both proposals would provide an increase to the \$6.1 million that is currently appropriated.

Although both the House and Senate budgets for environmental affairs would boost funding over FY 2006, neither would restore funding cuts over the past few years. The Senate budget, which is higher than the House's, is, in real terms, \$53.2 million or 19 percent below its level in FY 2001.

HOUSING

The Senate budget provides \$106.4 million for the Department of Housing and Community Development in FY 2007, a \$5.5 million reduction compared to current appropriations. The proposed amount shows

a slight decline when compared to current appropriations because the current FY 2006 budget includes \$20.0 million in funding for energy assistance for low-income families. Should the same amount of supplemental funding for energy assistance re-occur in FY 2007, the budget would stand higher than it does in FY 2006.

FY 2006	\$	111,872,001
FY 2007 Senate	\$	106,400,370
Increase (decrease)	(\$	5,471,631)
Percentage Change		-4.9%

The Senate budget for housing is \$1.4 million higher than the recommendation by the Senate Committee on Ways and Means. The additional funding includes \$500,000 more for the Alternative Housing Voucher Program, \$500,000 in new funding for Individual Development Accounts, and \$250,000 more for the Tenancy Preservation Program.

The Senate budget for the Department of Housing and Community Development is \$4.5 million lower than the proposal by the House. The following highlights certain areas where the branches differ:

- The Senate appropriation for subsidies to Public Housing Authorities is \$2.0 million less than in the House budget. The Senate proposal would increase funding from \$34.9 million to \$43.1 million, an \$8.2 million or 24 percent increase. The House offered \$45.1 million to provide a \$10.2 million boost over the current level of funding.
- The House also provided a \$2.0 million transfer from the General Fund to the Affordable Housing Trust fund. The Senate budget does not include this amount.

- The Senate also provides a lower amount for rental subsidies to assist individuals with mentally illness. The Senate level-funds this budget account at \$2.5 million, while the House offered to raise the appropriation to \$3.0 million.

PUBLIC SAFETY

Under the Senate proposal, funding for public safety totals \$1.400 billion in FY 2007. This amount would provide a \$19.9 million increase over FY 2006, but that 1.4 percent boost in funding is not enough to keep pace with inflation

FY 2006	\$	1,380,553,044
FY 2007 Senate	\$	1,400,449,647
Increase (decrease)	\$	19,896,603
Percentage Change		1.4%

The final Senate budget for public safety is \$5.0 million higher than the recommendation by the Senate Committee on Ways and Means. This additional funding supports increased funding for sheriffs' departments, correctional facilities, and rehabilitation services.

Overall, the Senate's public safety budget is \$13.1 million more than the House's. The Senate offers higher appropriations than the House in the following areas:

- The Senate proposal includes \$1.2 million for a new state police class. The House does not include this appropriation in its budget.
- This budget would provide \$1.1 million for smoking and drug prevention programs administered by the Executive Office of Public Safety. The House did not provide funding for these programs.

Like the House budget, this proposal increases overall funding for public safety, but the additional amount does keep pace with the rate of inflation.

JUDICIARY

The Senate budgets \$728.2 million for the Judiciary, \$77.1 million more than the current level of funding.

FY 2006	\$	651,093,156
FY 2007 Senate	\$	728,167,368
Increase (decrease)	\$	77,074,212
Percentage Change		11.8%

The Senate added just \$505,400 to the Senate Ways and Means budget for the Judiciary. The Senate included additional support for the appeals court (\$441,000 more), alternative dispute resolution (\$24,000 more), and permanency mediation (\$40,000 more).

There are a number of differences between the Senate and House proposals for the Judiciary. Although both proposals provide a substantial increase in the line item which pays attorneys to criminal and civil cases, the Senate recommendation is more generous. Under the Senate budget, this appropriation would grow from \$95.1 million to \$125.2 million, a \$30.0 million increase. The House offers a \$24.6 million increase in its budget.

The main disparity between the two proposals is the funding structure for the various courts. The Senate proposes to consolidate funding for each of the major courts. The House kept the current structure in place in its FY 2007 budget proposal.

GROUP INSURANCE

The full Senate did not change any of the Senate Ways and Means budget proposals for the Group Insurance Commission. The Senate budget proposes \$1.067 billion for the Group Insurance Commission, a \$43.4 million or 4.2 percent increase over FY 2006 funding. This total is almost the same as in the House proposed budget.

FY 2006	\$	1,023,190,489
FY 2007 Senate	\$	1,066,531,827
Increase (decrease)	\$	43,341,338
Percentage Change		4.2%

As did the House, the Senate included line item language that would restrict the Group Insurance Commission from paying FY 2007 bills with FY 2007 appropriations during the period referred to as the “accounts payable period.” Currently, the Group Insurance Commission has what in effect is a “grace period” for paying bills after the end of the fiscal year. This proposed change would require that bills paid in July 2007 for services rendered in June 2007 be funded out of the FY 2008 budget. The effect of this shift is to push the costs of several weeks’ worth of FY 2007 bills into the FY 2008 budget. The estimated impact of this cost shift is approximately \$43 million.

As in the final version of the budget proposed by the House, the Senate budget maintains the existing cost-sharing structure in which employees hired before July 1, 2003 pay 15 percent of their health insurance premiums, and employees hired after June 30, 2003 pay 20 percent.

REVENUE

At present, the outlook for revenue for FY 2007 remains relatively bright, but the Senate’s version of the FY 2007 budget not only suggests that the fiscal tensions that have gripped the Commonwealth for nearly five years have not yet completely eased but could actually make those tensions worse. If recent trends continue and if the Department of Revenue’s expectations of future growth are realized, the Commonwealth could collect several hundred million dollars more in tax revenue than the figure on which the Senate’s FY 2007 budget is based. Nevertheless, over the course of its deliberations, the Senate adopted an amendment that would increase – from \$350 million to \$420 million – the size of the withdrawal the Commonwealth would make from its Stabilization Fund in order to support ongoing expenditures in FY 2007.

The Senate also adopted a number of amendments that would serve to reduce the amount of tax revenue the Commonwealth would collect, both in the coming year and in future years. These amendments range in size and scope from a phased-in reduction in the personal income tax rate to a variety of smaller tax breaks for certain businesses that were initially included in the Senate’s version of the economic stimulus bill that has been stalled in conference committee since last fall. Ultimately, the combination of stronger-than-anticipated tax collections and Stabilization Fund transfers appear to bring the Senate’s version of the FY 2007 budget into balance, but much will depend on how strong those collections are. If collections continue to grow at the same rate as over the past six to eight months, then a withdrawal from the Stabilization Fund of the size planned by the Senate may not be necessary; if the growth in collections slows below the officially-projected rate, then an

even larger withdrawal may be required. Moreover, if the personal income tax cut included in the Senate's version of the budget begins to take effect, then the Commonwealth's future fiscal outlook would darken considerably

Tax Revenue Outlook

The version of the FY 2007 budget adopted by the Senate, like the versions of the budget put forward by the Governor and the House of Representatives earlier this year, assumes that tax revenue will total \$18.975 billion. It now seems likely, however, that tax collections will exceed that total. More specifically, that \$18.975 billion figure assumes that FY 2006 tax collections will reach \$18.158 billion and then grow 4.5 percent over the course of FY 2007. Yet, through May, FY 2006 tax collections were \$16.453 billion or a little more than 1 percent above what was expected. If this pace continues, then FY 2006 tax collections will amount to over \$18.3 billion. In turn, if FY 2007 collections grow from this \$18.3 billion base at the expected 4.5 percent rate, then FY 07 collections may exceed \$19.2 billion.

Such totals should be viewed with caution, however, as they may, in part, be artificially inflated by unsustainable growth in capital gains and corporate income tax collections. As the Boston Business Journal reported in its May 26 edition "Massachusetts' tax revenue is soaring thanks to widespread gains among investors and property owners, a seemingly temporary boost fueled by the state's recent run up in real estate prices and a resurgent stock market ... the upward trend in tax collections is also being buoyed by a spike in corporate profits..."⁷

⁷ Douglas, Craig M. "Capital gains driving state tax receipts," *Boston Business Journal*, May 26-June 1, 2006 Vol. 26 No. 17, p. 1.

In fact, capital gains tax revenue in FY 2006 and FY 2007 is now expected to comprise a larger share of state tax revenue than at any time in the last 20 years. Documents distributed by the Department of Revenue at the December 2005 Consensus Revenue Hearing show that, in tax year 2000, capital gains taxes amounted to \$1.16 billion or 7.2 percent of the \$16.2 billion the Commonwealth collected that year. For FY 2006, capital gains taxes are projected to constitute 7.9 percent of total tax collections; for FY 2007, they may reach as high as 9 percent of total tax collections. Not since tax year 1986 have capital gains taxes constituted more than 9 percent of total taxes. Because capital gains are a much more volatile source of income than wages, surpluses that rely on dramatically increasing capital gains can vanish very quickly if the stock market falters.

Budgetary Transfers

Despite – or perhaps because of – the relatively bright outlook for revenue in FY 2007, the budget approved by the Senate would withdraw \$420 million from the Commonwealth Stabilization Fund to support expenditures in the coming fiscal year. This withdrawal is \$70 million larger than the withdrawal recommended in the version of the budget put forward by the Senate Ways and Means Committee and \$145 million more than the withdrawal mandated by the House of Representatives. It is unclear whether a withdrawal of this magnitude reflects the difficulties the Commonwealth faces in attempting to restore funding to vital public services cut sharply during the depths of its fiscal crisis or whether it reflects an expectation on the part of the Senate that current tax revenue projections are too conservative and that actual collections will ultimately prove sufficient to replenish the Stabilization

Fund. In any event, if monies are transferred from the Stabilization Fund to the General Fund in the final version of the FY 2007 budget, it would mark the sixth consecutive year in which the Legislature depended upon this impermanent source of revenue to reach at least initial budgetary balance

In addition, like the House of Representatives, the Senate would use all of the annual tobacco settlement funds received by the Commonwealth – as well as a larger portion of related interest earnings – to support expenditures in FY 2007 rather than setting them aside for future costs. This practice, which Governor Romney’s House 2 budget proposal would follow as well, has been used repeatedly in recent years and would mean that about \$191 million that would otherwise be saved would be spent in FY 2007.

Under current law, only 30 percent of the settlement payment – as well as 30 percent of the investment earnings of the Health Care Security Trust – is intended to be used for current expenditures. The remainder is set aside to fund health related services and programs in the years ahead. The Senate budget would devote 100 percent of the settlement payment and 50 percent of the Trust’s investment earnings to finance appropriations in FY 2007. Massachusetts is expected to receive a settlement payment of roughly \$260 million in FY 2007, while interest earnings are anticipated to be \$43 million. Consequently, this change would mean that about \$191 million that would otherwise be saved would be used for current purposes.

Tax Policy Changes

Despite its continued reliance on diverted or temporary sources of revenue like the

Commonwealth’s tobacco settlement payments or its Stabilization Fund, the version of the FY 2007 budget adopted by the Senate would make a number of changes in tax policy that would reduce the amount of revenue the Commonwealth would collect, both in the coming year and in future years. The overall impact of these changes on the amount of tax revenue collected by the Commonwealth – if they were to become law – is difficult to assess, however, since the largest single change, a reduction in the personal income tax rate, may not be triggered for several years. At minimum, though, it seems likely that, if all of the tax policy changes contained in the Senate’s version of the budget were to become law – save the reduction in the personal income tax rate – that the Commonwealth would lose at least \$30 million in tax revenue in FY 2007.

First and foremost, the FY 2007 budget approved by the Senate would, contingent on the restoration of three types of local aid to their FY 2002 levels, reduce the personal income tax rate, in three stages, to 5.0 percent. That is, due to an amendment adopted during floor debate, the Senate’s version of the budget would reduce the personal income tax rate, over the course of three years, from 5.3 percent to 5.2 percent in the first year, from 5.2 percent to 5.1 percent in the second, and from 5.1 percent to 5.0 percent in third and final year. However, these reductions would take place only after, as the amendment specifies, “the amount distributed to cities and towns as Chapter 70 aid, Additional Assistance, and Lottery Aid reach the amounts provided for such purposes in fiscal year 2002, as increased by inflation.”

For FY 2007, the budget approved by the Senate appropriates \$3.499 billion for Chapter 70 assistance, \$379.8 million for

additional assistance, and \$920 million for lottery aid. Yet, in order to restore funding for each of these three program areas to their FY 2002 levels (after adjusting for inflation) the Senate would have had to have provided \$3.659 billion for Chapter 70 assistance (or \$3.785 billion depending on the measure of inflation used⁸), \$542.9 million for additional assistance, and \$884.5 million for lottery aid. Thus, since it falls short in two of these three areas, the Senate budget would not trigger its personal income tax cut this year. If one were to assume an inflation rate of 2.2 percent – the rate projected by the Congressional Budget Office for calendar years 2007 and 2008 – then funding for these three areas would have to be \$3.74 billion, \$554.8 million, and \$903.9 million respectively in order for the tax cut to begin to take effect.

Because of the uncertainty regarding the timing of its implementation, the precise impact that this change in tax policy would have on the amount of tax revenue collected

⁸ It is worth noting that the personal income tax amendment adopted by the Senate does not stipulate the measure of inflation that should be used in determining whether Chapter 70, additional assistance, and lottery aid have been returned to their FY 2002 levels in inflation-adjusted terms. For the most part, the discussion above uses the Consumer Price Index for All Urban Consumers (or CPI-U) for its calculations. The CPI-U is compiled by the U.S. Bureau of Labor Statistics and is a particularly broad measure of inflation. However, Massachusetts law specifies that Chapter 70 funding should be adjusted by a different, more narrowly defined measure of inflation – the implicit price deflator for state and local government expenditures. If one were to use this measure to adjust Chapter 70 funding for inflation, it would have to reach \$3.785 billion in FY 2007, rather than \$3.659 billion, in order to cross the threshold set forth in the amendment. (As fiscal year data for the implicit price deflator are available only through FY 2005, this assumes that the deflator grows at the same rate as the rate projected by the Congressional Budget Office for growth in the CPI-U from 2005 through 2007.)

by the Commonwealth is difficult to assess, though it is fair to say that it would ultimately be quite substantial. For example, based on estimates from the Department of Revenue, if the personal income tax rate were 5.0 percent by January 1, 2009 – as the Senate floor amendment seems to envision – gross personal income tax collections would be reduced by nearly \$690 million in 2009. The net revenue loss would depend on whether the personal income tax rate reduction that is part of current law and that is contingent upon certain levels of economic growth has begun to be implemented by then.

During its deliberations over the budget, the Senate also agreed to an amendment that would create a statewide sales tax “holiday” on Saturday, August 12, and Sunday, August 13. On these two days, the Massachusetts sales tax of 5.0 percent would be suspended for purchases of all items priced less than \$2,500 (though excises on tobacco products, motor vehicles, and other items would still apply). If this change in tax policy were to become law, 2006 would be the third consecutive year in which Massachusetts held some sort of sales tax holiday. In 2004, the Commonwealth held a one-day holiday and expanded it to two days in 2005. According to the Department of Revenue, the two-day holiday in 2005 resulted in a reduction in sales tax revenue in FY 2006 of approximately \$15.4 million; the revenue loss in FY 2007 from a 2006 sales tax holiday is expected to be similar. While one of the arguments offered in favor of such holidays is that they stimulate retail sales, many public finance economists contend that such holidays do not generate additional sales, but, instead, simply change the timing of when those sales occur.

A variety of other tax-related amendments were adopted during the Senate’s

consideration of the FY 2007 budget. In particular, the Senate's version of the FY 2007 budget, as amended, would:

- offer tax credits worth up to \$50,000 (that could in turn be carried over for up to 10 years) to any taxpayer (including certain businesses) who donates land for conservation purposes to the Commonwealth;
- offer tax deductions and credits to individuals and businesses that purchase or use hybrid or alternative fuel vehicles;
- increase the value of the senior property tax "circuit breaker" tax credit for very low-income individuals, and;
- include multiple tax related provisions originally contained in Senate's version of the 2005 economic stimulus package.

Finally, the budget adopted by the full Senate affirms two changes in tax policy recommended by the Senate Committee on Ways and Means. The first, which was also contained in the FY 2007 budget approved by the House of Representatives in April, would provide a tax break for commuters, while the second would reduce the taxes paid by corporations who employ individuals participating in the Transitional Aid to Families with Dependent Children (TAFDC) program. Taken together, the impact of these two changes on tax collections would likely be fairly small – the documents released with the Senate Ways and Means version of the budget implied that these two changes would reduce tax revenue by approximately \$6 million in FY 2007.

The commuter tax break would provide a tax deduction for commuters who use FastLane transponders or who purchase

weekly or monthly MBTA passes. The deduction would permit taxpayers to subtract any commuting expenses in excess of \$150, up to a maximum of \$750, from their incomes in determining the taxes they owe. As a result, the maximum tax reduction anyone could receive in a given year would be \$39.75 (that is, the maximum deduction of \$750 multiplied by the personal income tax rate of 5.3 percent).

Commuting expenses would include all MBTA transit (bus, subway, and boat) and commuter rail passes as well as tolls paid for through a FastLane account. Thus, an individual who bought a monthly MBTA bus pass (which costs \$31 per month) for the entire year would receive a tax break of \$11.77; anyone who purchased a monthly MBTA subway pass (\$44 per month) for the entire year would receive a tax break of \$20.03; and anyone using a monthly MBTA commuter rail pass (all of which cost more than \$106 per month) would receive the maximum tax break of \$39.75. To receive the maximum tax break available through this deduction, an individual commuting to work by car on a daily basis and using a FastLane transponder would need to pay tolls in excess of \$1.80 per trip.

This proposal reprises an identical deduction that was enacted into law as part of a FY 2005 supplemental budget but that was available for 2004 only. According to the Department of Revenue, during 2004, 142,000 taxpayers claimed the commuter deduction, reducing tax revenue by a total of \$3.5 million. The revenue impact is expected to be the same on an annual basis if this amendment were to become law.

In addition, the budget approved by the Senate would create a "Work Opportunity Tax Credit" for corporations who employ individuals receiving assistance through the

Transitional Aid to Families with Dependent Children (TAFDC) program. Corporations could claim the credit for up to five years for each such employee hired and retained. If such an employee worked 400 or more hours each year (i.e., ten weeks of full-time work), the corporation could claim a credit equal to 40 percent of the first \$6,000 in wages paid to the employee (i.e., a maximum credit of \$2,400); if the employee worked only 120 to 400 hours each year, the credit would be worth 25 percent of the first \$6,000 in wages (i.e., a maximum credit of \$1,500). Corporations that retained such employees for more than one year would be allowed to apply for an additional credit of \$500 per employee (for a maximum of four years).

Spending by Program Area

(in Millions of \$)

Program	FY06*	H.2	House	SWM	Senate	Senate vs. SWM	Senate vs. House	Senate vs. FY06			
								Nominal		Real	
Local Aid - Lottery	761.4	920.0	920.0	920.0	920.0	0.0	0.0	158.7	21%	139.6	18%
Local Aid - Additional Assistance and PILOT	398.4	407.6	404.3	407.6	407.6	0.0	3.3	9.2	2%	(0.8)	0%
Local Education Aid (Ch. 70)	3,288.9	3,452.6	3,461.7	3,499.3	3,499.3	0.0	37.6	210.4	6%	128.2	4%
K-12 Education (non Ch. 70)	486.9	594.9	526.2	509.3	513.7	4.4	(12.5)	26.8	6%	14.7	3%
School Building Debt Assistance ¹	488.7	572.5	572.5	572.5	572.5	0.0	0.0	83.8	17%	71.6	14%
Higher Education ²	975.9	995.2	1,018.0	1,047.5	1,048.0	0.5	29.9	72.0	7%	47.6	5%
Early Education and Care ³	475.3	483.3	495.7	507.8	508.2	0.4	12.5	32.9	7%	21.0	4%
Income Support Programs	637.6	601.4	613.7	613.0	613.0	0.0	(0.7)	(24.6)	-4%	(40.6)	-6%
Medicaid and Other Health Care Programs ⁴	7,339.1	7,489.1	7,515.0	7,570.1	7,610.7	40.7	95.8	271.7	4%	88.2	1%
Public Health	449.2	455.7	466.4	464.7	465.8	1.1	(0.5)	16.7	4%	5.4	1%
Mental Health	633.0	642.1	643.0	645.4	645.5	0.1	2.4	12.4	2%	(3.4)	-1%
Mental Retardation	1,137.1	1,163.9	1,170.5	1,172.2	1,172.2	0.0	1.8	35.2	3%	6.8	1%
Social Services	745.9	762.4	767.8	768.6	768.7	0.2	0.9	22.9	3%	4.2	1%
Elder Affairs	217.0	218.9	220.8	221.2	221.2	0.0	0.4	4.2	2%	(1.2)	-1%
Other Health & Human Services ⁵	541.5	568.3	590.8	599.0	601.1	2.0	10.3	59.6	11%	46.0	8%
Environmental Affairs ⁶	203.9	207.8	218.4	221.2	224.5	3.3	6.1	20.6	10%	15.5	7%
Transportation	175.6	156.0	195.3	149.5	155.5	6.0	(39.8)	(20.1)	-11%	(24.5)	-14%
Housing & Community Development	111.9	97.2	110.9	105.0	106.4	1.4	(4.5)	(5.5)	-5%	(8.3)	-7%
Economic Development	146.0	134.8	147.6	145.6	151.5	5.9	3.9	5.5	4%	1.8	1%
Public Safety	1,380.6	1,366.4	1,387.4	1,395.4	1,400.4	5.0	13.1	19.9	1%	(14.6)	-1%
Judiciary	651.1	692.1	739.6	727.7	728.2	0.5	(11.4)	77.1	12%	60.8	9%
District Attorneys	85.3	87.7	88.5	90.6	90.6	0.0	2.1	5.3	6%	3.2	4%
Attorney General	37.5	37.6	38.6	38.3	38.6	0.3	(0.0)	1.1	3%	0.2	0%
Libraries	29.6	30.0	30.5	31.7	31.7	0.0	1.2	2.2	7%	1.4	5%
Debt Service	1,793.2	1,924.6	1,955.5	1,952.4	1,952.4	0.0	(3.1)	159.2	9%	114.4	6%
Pensions ⁷	1,275.2	1,335.7	1,335.7	1,335.7	1,335.7	0.0	0.0	60.5	5%	28.6	2%
Group Insurance	1,023.2	1,038.7	1,066.6	1,066.5	1,066.5	0.0	(0.1)	43.3	4%	17.8	2%
Other Administrative	751.4	687.1	697.3	686.0	686.4	0.4	(10.9)	(65.0)	-9%	(83.8)	-11%
Total	26,240.1	27,123.4	27,398.6	27,463.8	27,536.0	72.2	137.4	1,295.9	5%	639.9	2%

Notes:

- (1) The FY 2006 budget reduces available revenue by \$488.7 million to cover the costs of School Building Assistance. In FY 2007, revenue would be reduced by \$572.5 million. The table includes these amounts as appropriations.
- (2) The Senate budget would allow all campuses to retain their revenue raised through tuition, and certain campus would keep their revenue raised from student fees. This proposal would result in a total of \$109.8 million in funding retained by the campuses, and is included in the figure above. All other figures for higher education include \$31.5 million in tuition revenue currently retained by UMass Amherst, Mass. College of Art, and Mass. Maritime Academy.
- (3) The FY 2006 budget for Early Education and Care includes \$6.0 million from a \$12.0 reserve account created to comply with changes to federal welfare regulations. That amount is included in the total for that year. The remaining \$6.0 is incorporated in the FY 2006 figure for Income Support Programs.
- (4) As explained in the text of this Budget Monitor, the percentage increase from FY 2006 to FY 2007 is higher than suggested by this table because actual FY 2006 spending is expected to be less than the amount appropriated. Totals include "on-budget" and "off-budget" Medicaid, senior pharmacy, other state health care programs, off-budget state payments into the Uncompensated Care Pool, and reserves for health care reform. Totals do not include \$288.5 million off-budget funding for the Health Care Quality Improvement Trust.
- (5) The FY 2006 budget includes a \$20.0 million reserve to fund salary increases to low-wage human services providers, which is distributed to the relevant program areas. The Senate and the House provide \$28.0 million in new funding for FY 2007, which is reflected in this category since it is not yet determined how this funding would be allocated to each agency.
- (6) The House creates a new line item for the Commonwealth Zoological Corporation in the Department of Business and Technology. Since this appropriation typically falls under the purview of the Department of Conservation and Recreation, the House figure includes this amount here rather than in the Economic Development category.
- (7) Off-budget pension funding in FY 2006 totals \$1.273 billion; the FY 2007 budget includes \$1.335 billion for this purpose. These amounts are treated as appropriations for these years.

*The totals for FY 2006 reflect total amounts appropriated to date, including supplemental funding and prior appropriations that are continued for this year. The totals also incorporate off-budget spending for certain areas as noted above.

