

Examining the Plan to Close the Budget Gap

On October 30th, the Legislature enacted a supplemental budget designed to help the state meet an estimated \$1.421 billion budget gap. The legislation includes many of the provisions proposed by Governor Patrick which he announced along with 9C cuts on October 15th to close this gap. (For an explanation of 9C, see www.massbudget.org/documentsearch/findDocument?doc_id=632.) This budget gap is primarily due to new projections indicating that the nation's weakened economic condition will lead to tax revenue falling \$1.1 billion below the level anticipated when the budget was enacted. The remaining \$321 million of the gap is caused by two factors. First, there are a series of accounts in which spending is expected to exceed the amount appropriated. These are referred to as "deficiencies." This can occur when economic conditions lead to increased need for safety net protections or because insufficient funding was appropriated initially. Secondly, some non-tax revenues are projected to fall short of the amounts assumed in the budget.

OVERVIEW

This *MassBudget Brief* provides an overview of the plan to close the budget gap and describes what programs and services are being cut and by how much. The 9C spending reductions account for approximately half of the solutions to the budget gap. This brief also describes the supplemental budget enacted by the Legislature which implements additional cost savings proposed by the Governor, along with others initiated by the Legislature. The supplemental budget also transfers \$200 million from the state's Stabilization ("Rainy Day") Fund to the General Fund.

The Governor's approach to the budget gap and the changes made by the Legislature are illustrated in the tables below. The top of each table lists the budget cuts or savings by section of the budget. These cuts are explained in more detail later in this brief. The next sections of the tables list other elements of the plans to close the budget gap. These items include the transfer from the Stabilization Fund, savings from unmet deficiencies and revenue enhancements (while this number is the same in both versions, the details are different, as is explained later in this brief).

Our October 16 brief on the governor's plan counted the full cuts to the state Medicaid program as savings, but did not describe likely offsetting loss of federal revenue. This brief reflects the fact that these cuts will likely result in decreased federal revenue for the program, as shown in both the table and chart below. The state could lose as much as \$122 million in forgone federal Medicaid reimbursements due to the 9C cuts to Medicaid

programs. The state receives 50 cents in federal reimbursement for each dollar spent on Medicaid, so any cuts to Medicaid would result in reduced federal reimbursements.

Governor's Plan to Close the Budget Gap

(in Millions of Dollars)

Budget Category	FY09 Budget as of 10/14/08	9C cuts	Other Cuts (Not Requiring Legislation)	Cuts Proposed in Legislation	Total Savings from Cuts
Education	6,960.6	(101.5)			101.5
Environment and Recreation	232.8	(17.6)			17.6
Health Care	13,045.4	(340.2)		(69.0)	409.2
Human Services	3,614.9	(46.4)			46.4
Infrastructure, Housing and Economic Development	1,368.9	(63.1)		(10.0)	73.1
Law and Public Safety	2,506.7	(22.5)	(36.5)		59.0
Local Aid	1,346.7	0.0			0.0
Other	4,242.1	(33.0)	(67.4)	(100.0)	200.4
Total	33,318.1	(624.4)	(103.9)	(179.0)	907.3
GOVERNOR'S OTHER SOLUTIONS					
				Deficiencies Not Met	146.0
				Revenue Enhancements	168.0
				Stabilization ("Rainy Day") Fund Transfer	200.0
				Total Governor's Other Solutions	514.0
				Total Governor's Plan	1,421.3
				Forgone federal revenue due to cuts in Medicaid spending	(153.9)
				Total Governor's Plan less forgone revenue	1,267.4

The supplemental budget enacted by the Legislature includes most of the cost saving provisions suggested by the Governor, including allowing the Executive Office of Administration and Finance to transfer funds within agencies to fund programs and meet necessary costs.

In addition, the supplemental budget awaiting the Governor's signature includes a tax amnesty provision that would allow people to pay the state taxes they owe without risk of prosecution for violating tax laws. The tax amnesty allows corporate and individual taxpayers who owe back taxes, interest, and penalties to avoid the penalties if they come forward, acknowledge the taxes they owe, and pay them. The general danger with tax amnesty laws, particularly when they happen frequently, is that they can reduce the incentive for taxpayers to file returns that accurately reflect all of the taxes they owe. Particularly corporate and other sophisticated taxpayers may be encouraged to be more aggressive in using complex tax avoidance strategies knowing that even if their schemes are found not to be legitimate they can still avoid penalties by taking advantage of an amnesty.

In addition to this general concern, the language of the amnesty in this legislation raises additional questions. There are companies that have used tax avoidance strategies that courts have ruled are improper and that are now being required to pay back taxes and

penalties. It is unclear from the language of this amnesty whether those companies would now be able to avoid the penalties – which would cost the state money.

The supplemental budget does not include the elimination of a \$64 million payment to the Boston Medical Center or changes to the state employee health insurance premium system, valued at approximately \$30 million, both proposed by the Governor.

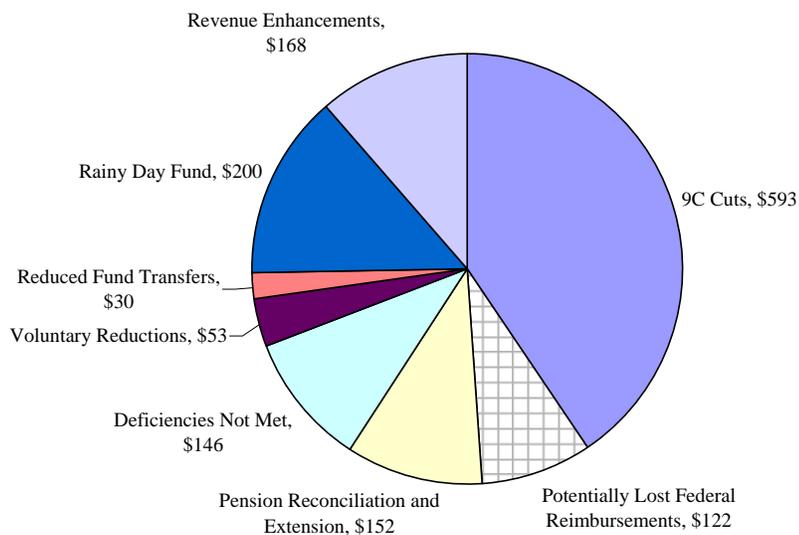
Final Plan to Close Budget Gap after Passage of Supp. Budget (in Millions of Dollars)

Budget Category	FY09 Budget as of 10/14/08	9C cuts	Other Cuts		Total Savings from Cuts
			(Not Requiring Legislation)	Cuts Proposed in Legislation	
Education	6,960.6	(101.5)			101.5
Environment and Recreation	232.8	(17.6)			17.6
Health Care	13,045.4	(308.5)		(10.0)	318.5
Human Services	3,614.9	(46.4)			46.4
Infrastructure, Housing and Economic Development	1,368.9	(63.1)		(20.0)	83.1
Law and Public Safety	2,506.7	(22.5)	(36.5)		59.0
Local Aid	1,346.7	0.0			0.0
Other	4,242.1	(33.0)	(65.6)	(102.5)	201.1
Total	33,318.1	(592.7)	(102.1)	(132.5)	827.3
OTHER SOLUTIONS					
				Deficiencies Not Met	146.0
				Revenue Enhancements	168.0
				Stabilization ("Rainy Day") Fund Transfer	200.0
				Total Other Solutions	514.0
				Total Plan	1,341.3
				Forgone federal revenue due to cuts in Medicaid spending	(121.9)
				Total Plan less forgone revenue	1,219.4

Table 2 reflects the changes to the Governor’s plan made by the Legislature. Specifically:

- \$31.7 million less is included in the Health Care 9C cut, because the Legislature does not include any changes to the state employee health insurance system
- \$64 million less in Health Care Cuts Proposed in Legislation because the Legislature does not eliminate a transfer to the Boston Medical Center proposed by the Governor
- \$15 million more in reduced transfers to the E-Health Institute, the Clean Energy Investment Fund and the Massachusetts Life Science Investment Fund
- \$2.5 million more in the Other Cuts Proposed in Legislation because the legislature includes a \$2.5 million cut to the Commonwealth Corps not proposed by the Governor
- The Revenue Enhancements figure is the same, but includes the Legislature’s Tax Amnesty Program instead of the Governor’s proposed repeal of property tax exemptions for telecommunications equipment.

**Current Proposal for Closing the Budget Gap
(\$ in millions)**



This pie chart shows the component parts of the current plan to close the budget gap. This includes:

9C Cuts – this \$593 million represents all cuts made under the Governor’s 9C statutory authority. The savings achieved by these cuts will be less because the Medicaid cuts will reduce federal reimbursements by as much as \$122 million. Therefore, the 9C cuts represent a net savings of only \$472 million. The programmatic areas for these cuts are shown in the accompanying chart.

Pension Reconciliation and Extension – this \$152 million represents two actions, one of which was included in the Supplemental Budget. Of this total, \$52 million in savings is accounted for by more up to date projections for state pension responsibilities, as estimated by the Public Employee Retirement Administration Commission. It is important to note that these savings could be reduced by the downturn of the financial markets. An additional \$100 million in savings is included in the supplemental budget which would extend the state’s pension schedule by two years to 2025.

Deficiencies Not Met – the estimated \$1.4 billion budget gap includes approximately \$300 million in costs that were not anticipated when the budget went into effect, due in large part to increased demand for certain government services (“deficiencies”). This \$146 million represents savings realized by the state through not providing supplemental appropriations for some of these costs.

Voluntary Reductions – this \$51.9 million represents voluntary budget cuts made by state offices not subject to the Governor’s 9C authority. These offices include the Legislature, the State Treasurer and the Attorney General’s office. These reductions are shown in the “Cuts – Not Requiring Legislation” column of the table.

Reducing Fund Transfers – this \$30 million represents savings realized by reducing transfers from the General Fund to the E-Health Institute, the Clean Energy Investment Fund and the Massachusetts Life Science Investment Fund. The Governor proposed reducing the transfers to these three funds by \$15 million, but the recently signed Supplemental Budget increased that amount to \$30 million. The Legislature did not include in the supplemental budget the Governor’s proposal to eliminate a \$64 million transfer to the Boston Medical Center.

Rainy Day Fund Transfer – the supplemental budget proposes transferring \$200 million from the state’s Stabilization Fund (“Rainy Day Fund”) to the General Fund. This transfer is listed below the table.

Revenue Enhancements – \$168 million of the budget gap is closed through revenue increases that were not anticipated when the FY09 budget was signed. These revenue enhancements include \$100 million received by the Department of Revenue through a court settlement, and \$55 million in federal TANF Contingency funds. The Legislature accounted for the remaining \$13 million through a tax amnesty program. This program replaces the Governor’s proposal to raise funds through the taxation of telecommunications poles and wires.

EDUCATION

Early Education

The Governor’s 9C reductions eliminate \$17.1 million in funding for early education and care programs. These cuts include:

- \$3.5 million reduction in funding for low income child care payments to eligible early education and child care providers.
- \$3.5 million reduction in funding for early education and care services for children with active cases with the Department of Social Services. This reduction anticipates a proportional reduction in caseload.
- \$1.6 million reduction in funding for early education and care professional development grants. This represents a 34 percent cut to this program.
- \$3 million reduction to the early education and child care rate reserve for providers. This represents a 60 percent cut to the reserve funded in the FY09 GAA.
- \$1.1 million reduction the Mass Family Networks, a statewide education and support program for the families of children age 0 through 3. This represents a 20 percent reduction to this program.

K-12

The Governor's 9C reductions eliminate \$30.2 million in funding for elementary and secondary education. These cuts include:

- \$13.5 million reduction in reimbursements to school districts for special education costs. These reductions eliminate an \$11.3 million program that partnered the Department of Elementary and Secondary Education with health agencies to provide community based support services for children who otherwise might require residential placements.
- \$827,000 reduction to the YouthBuild program. This represents a 26% reduction to the program.
- \$1.0 million reduction in funding available for targeted interventions for underperforming schools. This program received a funding increase of approximately \$1.8 million in the FY09 budget.
- Eliminates \$400,000 in spending to reduce class sizes in grades K-3
- \$3 million reduction in grants to communities to provide quality full day kindergarten. The reduction eliminates an earmark to fund expanding half day kindergarten programs to full day.

Higher Education

The Governor's 9C reductions eliminate \$54.2 million in funding for higher education. These cuts include:

- \$9.3 million reduction in funding for state colleges. Each of the 9 state colleges received a 5 percent reduction in state support.
- \$24.6 million reduction in funding for the University of Massachusetts. This represents a 5 percent reduction in state support. The reduction includes the elimination of a \$1.5 million program at the UMass Medical Center to increase the number of graduating medical students specializing in primary care.
- \$12.2 million reduction in funding for state colleges. Each of the 15 community colleges in the state received a reduction of approximately 5 percent in state support.

INFRASTRUCTURE, HOUSING AND ECONOMIC DEVELOPMENT

Housing and Community Development

The Governor eliminates \$11.5 million from the Department of Housing and Community Development's (DHCD) \$141.9 million budget. This represents an 8 percent cut in the DHCD's total budget. Of those cuts, about \$2.5 million comes from eliminating funding for earmarks. The remaining \$9.0 million in cuts are made up by independent authorities, including cuts that:

- Reduce the soft second mortgage program by \$2.0 million dollars. MassHousing has committed to providing this funding so that the state can still provide soft second loans to first time home buyers who are low-and moderate-income.
- Reduce the Mass Rental Voucher Program (MRVP) by \$2.5 million. The Mass Housing Finance Agency has committed to funding this \$2.5 million shortfall for the program. As noted in MassBudget's Budget Monitors for the FY 2009 GAA, even with this current level of \$33.0 million for MRVP, it is unlikely that funding will be sufficient to meet current demands.
- Reduce funding for interest subsidies to developers who build affordable housing by \$4.5 million. Again, the Mass Housing Finance Agency has committed to cover this funding shortfall.

Economic Development

The Governor cuts \$27.5 million in funding for economic development. This includes a \$20.3 million reduction to the Massachusetts Office of Travel and Tourism. This cut eliminates earmarks for local programs that promote tourism around the state.

Workforce Development and Labor

The Governor's 9C reductions eliminate \$19.1 million in funding for workforce development and labor programs. These cuts include a \$9.0 million, or 42.8 percent, reduction in funding for workforce training programs.

ENVIRONMENT AND RECREATION

The Governor cuts \$17.7 million from the \$241.3 million Environment and Recreation budget. The largest cuts are as follows:

- \$ 8.3 million from the Department of Conservation and Recreation, which manages all of the state parks. Half of these cuts are the result of eliminating some earmarks and reducing staff in the accounts that provide money for the management of state parks and urban parks.
- \$3.4 million from the Department of Environmental Protection. \$400,000 of the cuts will be funded by the Water Pollution Abatement Trust, which provides technical assistance for water and sewer projects. The remaining cuts are from eliminating earmarks and reducing staff.

The Governor did not cut any funding from the \$12.0 million that the Legislature appropriated in the FY 2009 budget for the state's four regional food banks.

LAW & PUBLIC SAFETY

Funding for Law & Public Safety programs is reduced by \$48.1 million, from \$2.507 billion to \$2.459 billion.

Courts & Legal Assistance

Although the judicial branch is not subject to the Governor's 9C authority, it voluntarily cuts \$22.1 million from its budget. The judiciary will determine specific cuts by October 31st.

Prosecutors

The Attorney General and District Attorneys are not subject to the Governor's budget cutting authority. However, the Attorney General voluntarily reduces its budget by \$500,000, from \$27.4 million to \$26.9 million. The District Attorneys also voluntarily cuts its budget by a little over \$3.0 million, reducing funding for the District Attorney's Association and each of the 11 District Attorneys offices throughout Massachusetts.

Prisons, Probation and Parole

The Governor cuts funding for Prisons, Probation and Parole by \$2.3 million, from \$1.216 billion to \$1.214 billion.

- The Department of Corrections budget is reduced by \$1.4 million by eliminating earmarked spending.
- Funding for Re-entry Programs is cut by \$267,200 by eliminating earmarked spending and reducing other spending.
- The Parole Board budget is cut by \$251,000.

Law Enforcement

Law Enforcement funding is reduced by \$14.8 million, from \$420.9 million to \$406.1 million.

- The Governor eliminates all funding, \$4.0 million, for the municipal police grant program. This was one of the Governor's public safety initiatives and would have provided grants to municipalities with high crime rates in order to hire new police officers.
- Funding for the community policing grant program is cut by \$5.0 million, from \$21.4 million to \$16.4 million.
- The Governor reduces funding for the Municipal Police Training Committee, which provides training for municipal police officers and law enforcement officers from other agencies, from \$2.9 million to \$700,000. He proposed that the commissioner of insurance assess the costs associated with these training programs on companies that provide auto insurance policies in Massachusetts, but this provision was not included in the Supplemental Budget.
- Funding for the Department of State Police is cut by \$2.3 million, from \$256.8 million to \$254.4 million. The Governor also proposed that the commissioner of insurance assess the costs associated with hiring, equipping, and training state police recruits on companies that provide auto insurance policies in Massachusetts, but this provision was not included in the Supplemental Budget.

Other Law & Public Safety departments

Funding for other Law & Public Safety departments is reduced by \$5.4 million, from \$54.1 million to \$48.7 million.

- The Governor cuts funding for the Department of Fire Services by a little over \$3.0 million by reducing earmarked funding.
- The Merit Rating Board, which is not subject to the Governor's 9C authority, voluntarily cuts its budget by \$1.0 million.

HEALTH CARE

The Governor's 9C cuts reduces funding for health care programs by \$340.2 million, including \$243.8 million for MassHealth and Health Reform, \$33.5 million for mental health programs, \$31.2 million for public health, and \$31.7 million for state employee health benefits. Highlights of these reductions include:

MassHealth (Medicaid) and Health Reform

- Although the Governor reduces funding for MassHealth enrollment and outreach grants by \$2.5 million, he has arranged for the Health and Education Facilities Authority (HEFA) and the Commonwealth Care Connector Authority (CCA) to cover the costs of funding this program.
- The reductions in the MassHealth program seem to focus on reductions in payments to providers, rather than on reductions in benefits or eligibility. The Governor concentrates the reductions in the Managed Care Program (\$101.9 million), the Indemnity/Third Party Liability Program (\$51.0 million), and the Senior Care Program (\$60.2 million).
- The Governor reduces spending in the Community First Initiative from \$20.0 million to \$6.5 million. Because this is a new program implemented under a federal waiver, no one will lose services, but there may be a slowing-down of this effort to encourage community-based long term care.
- The Governor reduces funding set aside in a new reserve to fund the implementation of MassHealth funded mental health evaluations (the so-called *Rosie D.* program) from \$25.0 million to \$21.5 million. The administration anticipates that this reduced amount, however, will still be sufficient to fund the costs of this new service.
- The Governor cuts \$500,000 from a new reserve allocated to focus on strategies for health care cost containment, leaving \$1.0 million. The Governor states, however, that health care cost containment efforts will continue.
- The Governor proposes returning to the General Fund \$5.0 million of the \$25.0 million transferred to a new eHealth Institute designed to encourage the statewide use of electronic health records.

Mental Health

- The Governor reduces funding for adult mental health services by nine percent, from \$322.1 million to \$294.1 million. Of the \$28.0 million, \$22.0 million would be covered by transferring the obligation to various trusts. Similarly, the \$2.1 million reduction to the statewide homeless program would be covered by the transfer of the funding obligation to various trusts.
- The 9C cuts reduce funding for child and adolescent mental health services by \$2.3 million, from \$76.2 to \$73.9 million. The Governor states that with the redesign of its service delivery system, this reduction should not significantly affect service levels.

Public Health

- The Governor cuts \$2.9 million from funding of \$5.8 million for youth violence prevention grants, eliminating funding for earmarked programs.
- The Governor cuts a new initiative intended to improve the health care delivery system: a \$200,000 cut to a \$500,000 academic detailing program, designed to improve the appropriate use of prescription medications.
- The cuts include a total of \$8.1 million cut from substance abuse programs: \$2.9 million from the Division of Substance Abuse Services; \$200,000 from a step-down recovery program; and the elimination of a new \$5.0 million program providing secure treatment services for people with opiate addictions.
- The 9C cuts reduce funding for AIDS/HIV prevention services by \$1.5 million, from \$37.7 million to \$36.1 million.
- The Governor reduces funding for smoking prevention and treatment programs from \$12.8 million to \$12.2 million.
- The Governor reduces funding for family health services by \$1,760,000, from \$7,620,000 to \$5,860,000.

State Employee Health Insurance

The Governor proposes a \$31.7 million cut to the Group Insurance Commission (GIC), the agency that provides health insurance for the state's current and retired employees. However, this change was not reflected in the bill enacted by the Legislature.

HUMAN SERVICES

The Governor's 9C reductions eliminate \$46.4 million in funding for Human Services programs. These cuts include:

- \$4.0 million (from a \$106.7 million appropriation) for the elder home care program. The savings is achieved by changing eligibility requirements.
- \$3.1 million from the Department of Mental Retardation by closing Glavin Regional Center, an intermediate care facility in Shrewsbury that currently houses 54 residents.

- \$3.1 million (from a \$27.7 million appropriation) for the Employment Services Program (ESP). The ESP program offers education, training and job search assistance to current and former recipients of cash assistance through the Transitional Aid to Families with Dependent Children (TAFDC) program for up to one year after their financial benefits cease.
- \$1.0 million from a \$5.0 million item that was added this year to hire additional social workers within the Department of Children and Families (DCF). The additional hires would enable DCF to reduce social workers' caseloads.
- \$1.1 million (from an \$8.6 million appropriation) for a program that provides employment assistance for severely-disabled adults within the Massachusetts Rehabilitation Commission.

PENSIONS

The Governor anticipates a savings of \$100 million from extending the payment schedule currently used to pay off the Commonwealth's unfunded pension obligation. The deadline is extended from 2023 to 2025. For many years, the state did not set aside funding for its future state employee pension costs, creating an unfunded liability. Now, three quarters of the state's annual payment into the pension system is to fund benefits that have already been earned.

The Governor also anticipates a savings of \$52 million as a result of actual pension costs registering below their projected levels in 2008. The Governor refers to this savings as "pension reconciliation." As noted earlier in the brief, economic difficulties could eliminate these potential savings by the end of the fiscal year.

OTHER

Legislative and Executive

- The Legislature voluntarily cuts \$9.0 million from its budget and will determine specific reductions by October 31st. While this reduction is expected, it was not included in the Supplemental Budget.
- The Governor's Office voluntarily cuts \$1.2 million from its budget and will determine specific reductions by October 31st.
- The Supplemental Budget includes a \$2.5 million cut to the Commonwealth Corps volunteering program. This reduction was not included in the Governor's original proposal.

The Governor's 9C cuts eliminate \$32.5 million in funding for various programs within the Department of Revenue, the Bureau of State Office Buildings, and the Human Resources Division. These cuts include:

- \$2.9 million reduction in payroll and administration for child support collection within the Department of Revenue.

- \$20.0 million cut in funding for the Water and Sewer Rate Relief program. The Massachusetts Water Resource Authority will absorb this reduction in FY 2009 without increasing rates for cities and towns.