

Most state spending on MassHealth and related health coverage programs for low-income people occurs through the annual state budget appropriation process. However, significant spending on these programs—approximately \$2 billion in Fiscal Year (FY) 2013—also takes place through trust and other special funds that are not subject to annual budget appropriations. Although some of the spending from these funds is supported by transfers authorized in the annual budget, other forms of revenue go directly into the funds, and expenditures from the funds are not reported until after the end of the fiscal year. Understanding how each fund works and the interrelation between funds and the budget can help establish a clear picture of spending on publicly funded health coverage programs in Massachusetts.

This primer, published by the Massachusetts Medicaid Policy Institute (MMPI), supplements MMPI's [state budget analyses](#) by providing information on “off-budget” funds that support health coverage programs. It first describes the differences between on- and off-budget funds and then provides an overview of health-related trust funds, with descriptions of how some will change in FY 2014. A chart that provides more detail on each fund concludes the brief.

## THE DIFFERENCE BETWEEN ON- AND OFF-BUDGET FUNDS

Governments typically use various types of funds to pay for services and other activities they undertake. While there are several types of governmental funds, two common fund types are budgeted funds (“on-budget”) and non-budgeted special revenue funds, often set up as trust funds (“off-budget”).

### On-Budget Funds

On-budget funds hold general tax and other revenue that is used to pay for the operating expenses of state government. The legislature appropriates money for on-budget funds through budget line items; each appropriation allows the government to spend a certain amount from budgeted funds for a specific purpose and for a specific period of time, typically the fiscal year covered by the budget. The line item appropriation often contains language specifying the activities the item can pay for and setting additional conditions on the use of funds. Usually, the amount appropriated is fully spent, but if dollars remain at the end of the fiscal year they revert to the fund they came from, unless a specific authorization allows those funds to be spent without further appropriation in the next fiscal year. Such authorizing language (a “prior appropriation continued,” or PAC) is often included in supplemental budgets passed near the end of the fiscal year.

The main budgeted fund in Massachusetts is the General Fund, which holds most tax and other general revenue and is the source of funding for most budget appropriations. Other on-budget funds may segregate

from the rest of the General Fund budgeted revenue that is used for a particular purpose—for instance, the Transportation Fund holds gasoline tax revenue that supports transportation budget costs. Another example of an on-budget fund is the Children's and Seniors' Health Care Assistance Fund, created by health reform legislation passed in 1996, to hold revenue from a tobacco tax increase. The Children's and Seniors' Health Care Assistance Fund was used to fund an expansion of health coverage. (When an appropriation is supported by a fund other than the General Fund, the budget indicates the percentage of the appropriation drawn from that fund.) In previous decades there were a larger number of budgeted funds, but during the past decade a number of them (including the Children's and Seniors' Health Care Fund) were eliminated in order to allow more flexibility in the use of state dollars.

### Off-Budget Funds

The state also uses a variety of non-budgeted special revenue funds, typically referred to as “off-budget funds.” Examples include the Commonwealth Care Trust Fund and the Health Safety Net Trust Fund. Such funds are created to receive revenue from a specific source (often special fees or assessments) that is dedicated to a specific function or purpose. For example, the Health Safety Net Trust Fund collects assessments from hospitals and insurers that are used to fund reimbursements for uncompensated care. The statute or legislative act that creates the fund sets aside revenue and includes provisions concerning administration of the fund and uses of fund revenue.<sup>1</sup> In addition to the dedicated revenue sources, some of these funds also receive transfers of revenue from the General Fund, which can be made through a line-item appropriation. Starting with the Governor's budget proposal for FY 2012, the operating transfers from the General Fund into these trusts have been included in the budget documents as a new section 2E, and are included in the official budget totals. This change in the presentation and tracking of spending into these off-budget trusts has been a significant improvement in budget transparency.

Spending from trust funds does not require appropriation language in the annual budget, and this spending is generally not included in budget totals—that is why the funds are considered “off-budget.” Once the revenue goes into an off-budget fund, it may be spent without further legislative action, and it remains in the fund: if all revenue in a fund is not spent during the course of the fiscal year, the off-budget fund will end with a positive balance that will be carried forward automatically. The Governor's House 1 budget contains some information about expected trust fund expenditures, but the actual revenue and expenditures of each off-budget fund are not publicly reported until the Comptroller

<sup>1</sup> From a technical legal perspective, the act of setting money aside in a trust fund and allowing further expenditure of it without annual legislative appropriation itself constitutes a form of appropriation.

issues audited financial statements at least three months after the end of a given fiscal year. Furthermore, the Comptroller reports expenditures by broad agency categories, and it can be difficult to identify specific uses of funds.

Another key difference between on- and off-budget funds relates to the sources and uses of revenue in each type of fund. On-budget funds hold tax and other revenue and are used for the regularly recurring operating costs of state programs. As noted above, some budgeted funds segregate revenue for a particular purpose, but in most cases this is revenue that would otherwise go into the General Fund. Off-budget funds typically collect revenue from special fees or targeted assessments, and in some cases also receive operating transfers from the General Fund. While these funds are sometimes used to pay for program costs, such as use of the Commonwealth Care Trust Fund for the costs of Commonwealth Care discussed below, they generally do not fund regular operating expenses. Off-budget trust funds may also be used in cases where revenue and the spending it supports do not fit into the annual budget time frame. For instance, the Workforce Training Trust Fund receives revenues from a surcharge on the unemployment tax paid by employers based on employee wages and uses them for grants to support training programs. Funds may accumulate when employment is high and thus still be available when employment is low and surcharge revenue drops. There are no strict rules about when to use each type of fund, however, and the choice can be somewhat arbitrary. And over the years, some funds have shifted from on- to off-budget and vice versa, including some of the health trust funds described below.

**HEALTH TRUST FUNDS: AN OVERVIEW**

Most spending on MassHealth (the Massachusetts Medicaid program) and other health coverage programs comes from the General Fund and occurs through the regular budget appropriation process. Massachusetts differs from most other states in the way it treats federal Medicaid reimbursements: federal revenue is deposited in the General Fund, and then appropriations for MassHealth and related programs are made fully from the General Fund. Since the state receives a 50 percent reim-

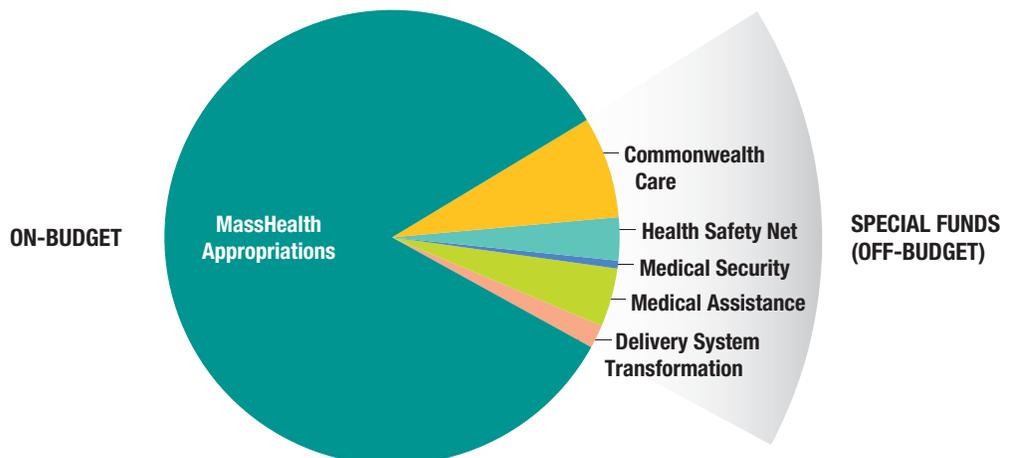
bursement for most Medicaid costs, MassHealth appropriations reflect an approximate 50-50 split between state and federal revenue. In most other states, federal Medicaid reimbursement revenue is segregated in a separate trust or other special fund, and the General Fund expenditure for the state’s Medicaid program reflects only the use of state-source revenues.

Though the General Fund is the source of most health care spending, a significant portion also occurs off-budget. In some cases off-budget funds have financed expenditures that traditionally occurred outside the budget—for example, the Health Safety Net Trust Fund, which redistributes hospital and insurer assessment revenue to reimburse hospitals for services provided to uninsured patients. Some off-budget funds were created to isolate and protect revenue that comes from a particular source, such as payments from tobacco companies made after the settlement of a multi-state lawsuit. This protection is not guaranteed, however, because the legislature may divert revenue—as it did with the tobacco settlement payments—from the special fund into the General Fund for use in the regular budget. Other funds are used as mechanisms to help draw down federal Medicaid reimbursements. The largest off-budget health fund, the Commonwealth Care Trust Fund, is used mainly to pay for the operating costs of the Commonwealth Care program.

The use of off-budget health funds has changed over time, and there have been some shifts between on- and off-budget spending—for instance, nursing home supplemental rate payments originally made from an off-budget fund moved on-budget in FY 2009. In FY 2014 there will be further changes in the use of funds. The pie chart below reflects actual FY 2013 expenditures from the trust funds and final FY 2013 appropriations for MassHealth programs and administration. The remainder of this brief provides more detail about the off-budget funds that support health coverage programs and describes how some of them will change in FY 2014. It also describes some new special funds created as part of Chapter 224 of the Acts of 2012, spending from which will affect MassHealth and related programs.

**FY 2013 BUDGETED AND TRUST FUND HEALTH SPENDING**

**TOTAL SPENDING: \$13.13 BILLION**



## SELECT TRUST FUNDS THAT SUPPORT HEALTH COVERAGE PROGRAMS

Fund Authorizing Statute	FY 2013 Revenue (Reviewed totals as of Nov. 1, 2013)	FY 2013 Spending (Reviewed totals as of Nov. 1, 2013)
<p><b>Commonwealth Care Trust Fund</b> <b>MGL C. 29 §2000</b></p> <p>The Commonwealth Care Trust Fund (CCTF) was created in 2006 health reform legislation as a funding mechanism for the Commonwealth Care health insurance program.</p> <p>In practice, most of the revenue received by the CCTF comes from general state revenues—transfers from the General Fund and the tobacco tax (which would go directly into the General Fund if it were not diverted to the CCTF). This funding structure resembles a regular budget appropriation in which state-source funds are allocated to support ongoing program costs.</p> <p><i>In FY 2014 the CCTF's revenue sources and uses will change. The current "Fair Share" assessment that is deposited in the CCTF has been eliminated. Starting on January 1, 2014, a separate assessment that is now deposited in the Medical Security Trust Fund (see below) will be renamed the Employer Medical Assistance Contribution and will be deposited in the CCTF. The Commonwealth Care program will end as current enrollees move to new federally subsidized coverage plans under the Affordable Care Act (ACA). Revenue from the fund will support the cost of additional subsidies—to be known as ConnectorCare—intended to maintain existing benefit levels for these low-income enrollees. New statutory language now requires that at least \$30.0 million of the employer contribution revenue be transferred from the CCTF to the HSNTF.</i></p>	<p><b>\$881.92 million</b></p> <p>The CCTF receives revenue from:</p> <ul style="list-style-type: none"> <li>• Transfers from the General Fund (\$661.2 in FY 2013).</li> <li>• A portion of the tobacco tax.</li> <li>• "Fair Share" assessments on certain employers that do not provide insurance, and surcharges on individuals who do not purchase insurance that is deemed affordable.</li> <li>• Premiums paid by Commonwealth Care enrollees.</li> </ul>	<p><b>\$935.55 million</b></p> <p>The CCTF pays for the Commonwealth Care program, which provides subsidized health coverage to low-income people who are not eligible for MassHealth. In addition, at least \$30.0 million is usually transferred from the CCTF to the Health Safety Net Trust Fund (HSNTF; see below) each year. FY 2013 spending from the CCTF exceeded FY 2013 revenue because a positive balance was carried forward from FY 2012.</p>
<p><b>Medical Assistance Trust Fund</b> <b>MGL C. 29 §20QQ</b></p> <p>The Medical Assistance Trust Fund (MATF) provides supplemental Medicaid payments to certain safety-net hospitals. These payments and other certified hospital expenditures receive federal Medicaid reimbursements, resulting in little or no state cost for these payments.</p>	<p><b>\$542.89 million</b></p> <p>The MATF receives revenue through an operating transfer from the General Fund and from provider payments.</p>	<p><b>\$544.28 million</b></p> <p>The fund makes supplemental rate payments to three hospitals (Boston Medical Center, Cambridge Health Alliance, and UMass Medical Center) authorized to receive them under the state's Section 1115 Medicaid waiver.</p>
<p><b>Health Safety Net Trust Fund</b> <b>MGL C. 118E §66</b></p> <p>The Health Safety Net Trust Fund (HSNTF) was established in the 2006 health reform legislation to replace the Uncompensated Care Trust Fund. Like the earlier fund, the HSNTF redistributes revenue from hospitals and health insurers based on a formula that is designed to spread the cost of providing care to uninsured and underinsured patients more equitably among providers and payers. Spending from the HSNTF draws federal Medicaid reimbursements that go into the General Fund. Historically, a portion of this federal revenue was returned to the HSNTF via a transfer from the General Fund.</p>	<p><b>\$364.4 million</b></p> <p>The HSNTF receives revenue from assessments on acute hospitals and insurers designed to raise a total of \$320.0 million per year (actual revenues sometimes exceed this amount). The HSNTF also receives a transfer of at least \$30.0 million from the Commonwealth Care Trust Fund; starting in FY 2014 this transfer will be statutorily required. The HSNTF also receives a \$45 million cash advance from the General Fund at the beginning of the year, which is returned to the General Fund at the end of the fiscal year.</p>	<p><b>\$397.83 million</b></p> <p>The fund reimburses hospitals and community health centers for a portion of the cost of care they provide to low-income uninsured or underinsured patients, and for uncollectable debt related to emergency services. In FY 2013, spending exceeded revenue because of a positive balance carried forward from FY 2012.</p>
<p><b>Delivery System Transformation Initiatives Trust Fund</b> <b>MGL C. 10 §35UU</b></p> <p>The Delivery System Transformation Initiatives (DSTI) Trust Fund makes incentive payments to hospitals that are designed to support payment reform activities, including development of alternative payment systems intended to promote coordinated health care and improve health outcomes.</p>	<p><b>\$209.33 million</b></p> <p>The DSTI Trust Fund receives an operating transfer from the General Fund and payments from one hospital.</p>	<p><b>\$208.47 million</b></p> <p>The fund makes payments to seven safety net hospitals authorized to receive them under the state's Section 1115 Medicaid waiver.</p>

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**Fund Authorizing Statute****FY 2013 Revenue**  
(Reviewed totals as of Nov. 1, 2013)**FY 2013 Spending**  
(Reviewed totals as of Nov. 1, 2013)**Health Information Technology Trust Fund**  
**MGL C. 10 §35RR**

The Health Information Technology Trust Fund was created in 2011 to help support the development of health information technology infrastructure in Massachusetts.

**\$91.60 million**

The fund receives a small transfer from the General Fund, as well as a mix of federal reimbursements and private contributions to fund the development of health information technology.

**\$107.4 million**

The fund makes incentive payments to Medicaid providers to support adoption of electronic health records and health information exchanges.

**Medical Security Trust Fund**  
**MGL C. 151A §14G**  
**[as of Jan 1, 2014: C. 149 §189]**

The Medical Security Trust Fund (MSTF) was created in 1988 health reform legislation to fund the Medical Security Program, which provides health insurance for people who are receiving unemployment insurance benefits using revenue received from an employer assessment.

**\$197.50 million**

The MSTF receives unemployment health insurance contributions that are paid by employers based on their payroll (the assessment is similar to the Unemployment Insurance tax employers pay). It also receives premiums paid by enrollees.

**\$80.60 million**

The Fund pays for health insurance for people receiving unemployment compensation. One dollar per employee goes to the Catastrophic Illness in Children Relief Fund (see below).

*In January 2014 the Medical Security Program will end and current enrollees will become eligible for new forms of coverage under the federal Affordable Care Act. The employer assessment that is currently deposited in the MSTF will be renamed the Employer Medical Assistance Contribution, and revenue from it will be deposited in the Commonwealth Care Trust Fund (see above). New statutory language also requires that \$30 million of the employer assessment revenue be transferred from the CCTF to the HSNTF.*

**Catastrophic Illness in Children Relief Fund**  
**MGL C. 29 §2ZZ; 111K**

The Catastrophic Illness in Children Relief Fund was created to help families pay for the costs of catastrophic illnesses of children who are not otherwise covered by insurance. It is administered by a Catastrophic Illness in Children Relief Fund Commission.

**\$572**

Revenue comes from a portion of the same employer assessment that currently funds the Medical Security Trust Fund. One dollar per employee is paid by each employer and is deposited in the Catastrophic Illness Fund.

**\$229,448**

The Commission oversees an application process to distribute the fund. Families may receive payments from the fund when medical and related expenses exceed a certain percentage of the family's annual income (10 percent of the first \$100,000 and 15 percent of income above \$100,000).

**Distressed Hospital Trust Fund**  
**MGL C. 29 § 2GGGG**

Created in 2012 by Chapter 224, the Distressed Hospital Trust Fund will be administered by the Health Policy Commission (HPC) and will support activities, particularly at community hospitals, that are designed to help meet health cost growth benchmarks set out in Chapter 224.

**\$25.99 million**

Revenue will come from one-time assessments collected over a four-year period:

- A one-time surcharge assessment on acute-care hospitals that receive the majority of their revenue from private payers, designed to raise \$60 million.
- An assessment on insurers designed to raise \$165 million.

**\$0**

Funds will be awarded through a competitive grant process to acute hospitals for activities that speed the adoption of electronic health records and health information exchanges, support other infrastructure needed to adopt alternative payment methodologies and promote integrated care, and support the development of Accountable Care Organizations (ACOs).

Chapter 224 directs 5 percent of the total assessment to the Healthcare Payment Reform Fund (see below), and then 60 percent of the remainder to the Distressed Hospital Trust Fund. Providers subject to the assessment have sought a reduction in the assessment, which will reduce the total amount deposited in the fund. The Prevention and Wellness and E-Health Institute Funds (not included in this table) will receive the remaining 40 percent of assessment revenue.

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**Healthcare Payment Reform Fund**  
**Chapter 194 §100 of the Acts of 2011**  
**(amended by Chapter 3 of the Acts of 2013);**  
**MGL C. 6D §7**

Originally established in legislation that legalized gambling in Massachusetts and then amended in subsequent legislation, the Healthcare Payment Reform Fund will support the activities of the Health Policy Commission (HPC). The HPC was created as part of FY 2012 payment reform legislation and is charged with overseeing the state's efforts to control health care costs, in accordance with 2012 legislation (Chapter 224). Chapter 224 directs the HPC to manage the fund and to use the money to support its activities and to "foster innovation in health care payment and service delivery."

*Expenditures from the fund will begin in FY 2014 and will include the use of \$20.0 million for rate increases for providers who adopt alternative payment methods. Section 211 of the FY 2014 GAA allocates an additional \$12.3 million for rate increases for behavioral health services provided by safety-net hospitals.*

**\$2.28 million**

The fund will receive one-time revenue from casino licensing fees (estimated at \$40 million). It will also receive 5 percent of funds from a one-time assessment on certain hospitals. This share of the assessment was initially estimated at \$11.25 million over four years but will be somewhat lower (see the Distressed Hospital Trust Fund discussion above).

**\$0**

The money is to be used to support activities that will help the state meet health cost growth benchmarks set out in Chapter 224.

**Money Follows the Person Rebalancing**  
**Demonstration Grant Trust Fund**  
**MGL C. 10 §35TT**

The Money Follows the Person Fund was created in FY 2012 as a financing mechanism for home- and community-based programs that serve seriously functionally impaired individuals who have disabilities or long-term illnesses or who are seniors. These services will be provided under two five-year federal Section 1915(c) Medicaid waivers that run through June 2016. The goal of the program is to help individuals receive necessary care in home- and community-based settings, rather than in nursing homes or other facilities.

**\$1.32 million**

The fund receives the enhanced portion of federal reimbursement for qualified services provided to participants in the Money Follows the Person Demonstration.

**\$0**

The fund will pay for services provided to participants in the waiver program, including assistive technology, case management, and mobility training.