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BUDGET MONITOR

Governor Romney's FY 2005 Budget: The Fiscal Crisis and the Human Crisis Continue

As the fiscal year 2005 budget process begins, the state faces two problems.

The first is that spending on essential services like education and public health has been cut dramatically. Over the last two years Massachusetts led the nation in cutting per pupil K-12 education funding. Public health funding has been reduced by 27 percent over three years, causing the elimination of Massachusetts' anti-smoking program and deep cuts to substance abuse services, HIV/AIDS programs, domestic violence and sexual assault programs, and family health programs. Altogether there have been approximately $3 billion of spending cuts since the fiscal crisis began.

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The second problem the Commonwealth must confront is that, as the fiscal year 2005 budget process begins, the state faces a structural budget gap of more than a billion dollars. That means that projected FY 2005 revenues are more than $1 billion less than the cost of maintaining current services.

The House 1 budget proposal submitted by the Governor on January 28th would not solve either of these problems. Virtually none of the funding for essential services that was cut during the last three years is restored, and approximately $400 million in new cuts are proposed. In addition, the budget relies on about $700 million in temporary revenues, temporary savings, and accounting changes. This means that if this budget were to be approved, a substantial structural deficit would remain in fiscal year 2006 and beyond.

While this budget fails to restore most of the cuts made between FY 2003 and FY 2004, the Governor proposes to maintain

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Chapter 70 education aid at the minimum levels required by law. House 1 includes what is referred to as the *Legacy of Learning Initiative*. The Governor announced this program in his recent State of the State address, and put its price tag at approximately $44 million – an amount roughly equivalent to 10 percent of the total decline in state support for public education from 2002-2004.

House 1 also includes several other small new initiatives, including cell phones for DSS Social Workers ($1.0 million), consultations to prevent the over-prescription of psychotropic drugs to children and youths ($2.7 million), and increased payment rates for foster families ($4.6 million).

Among the areas hardest hit in this year's budget are health care and safety net programs. Within the Department of Public Health, funding has been completely eliminated for school health services, community health centers, prostate cancer prevention, suicide prevention and gamblers' treatment programs.

In addition, low income disabled people who do not meet the narrow Federal SSI definition of disability will no longer be eligible for Transitional Assistance to Families with Dependent Children (TAFDC) and Emergency Aid to the Elderly Disabled, and Children (EAEDC). Eligibility for EAEDC is further narrowed to exclude legal immigrants who don't meet the federal SSI standard. Proposed changes also include increased work requirements for parents receiving TAFDC. Although the Employment Services Program, which assists TAFDC recipients with training and job search assistance, would receive $13.0 million more than its FY 2004 level, it is uncertain whether this increase would be sufficient to meet new demand stemming from work requirement changes.

In the following pages we look inside the numbers of the FY 2005 House 1 budget proposal. This Budget Monitor examines the mix of strategies used to balance the budget, describes the major cuts and limited expansions the Governor proposes, looks at whether prior year cuts have been restored, and explains some proposed tax law changes that affect the revenues available in FY 2005.

FY 2005 Outlook

Before reviewing House 1 in more detail, it is first necessary to understand the scope of the fiscal challenges it must address in FY 2005. As has been the case in each of the past three fiscal years, "baseline" revenue – or the amount of revenue the Commonwealth could expect to collect under current law – is projected to fall short of "baseline" spending – the level of funding required to maintain the same level of public services from one year to the next – by more than one billion dollars. For the coming fiscal year, the gap is estimated to be $1.2 billion.

FY 2005 OUTLOOK AND HOUSE 1 RESPONSES *all figures are in millions of dollars*		
Projected FY05 Baseline Revenue	$	23,428
Projected FY05 Baseline Spending		24,618
FY05 Deficit		(1,190)
House 1		
New recurring revenue		160
Tax loophole closures		*70*
Fees		*33*
Lottery initiatives		*57*
One-time measures		382
Approximate net spending cuts *(from baseline)*		378
Other proposals		318
SBA restructuring		*150*
Tobacco settlement diversion		*168*

FY 2005 "Baseline" Spending

For FY 2004, total spending – defined as "on-budget" appropriations plus certain categories of "off-budget" health care and pension funding – is expected to reach $23.0 billion.[1] To provide that same level of services in FY 2005, the Commonwealth will need to spend approximately $24.6 billion. To be more specific, this FY 2005 "baseline" spending figure assumes that pension funding, per the January 14th agreement between the Executive Office of Administration and Finance and the Legislature, will be $1.2 billion and that debt service costs, consistent with existing schedules, will amount to approximately $1.8 billion. Of note, these two program areas alone account for $560 million of the $1.6 billion increase in baseline spending for FY 2005. In addition, the FY 2005 baseline spending figure further assumes that the cost to provide existing MassHealth and other health care services will grow in line with medical inflation – which is currently in excess of 10 percent. Further, it increases other spending by the general rate of inflation, which, based on the latest estimates from the Congressional Budget Office, is anticipated to be 1.7 percent for FY 2005. Lastly, it attempts to adjust for caseload changes in several program areas.

FY 2005 "Baseline" Revenue

The Administration estimates that FY 2005 revenues – the sum of tax collections, federal reimbursements, departmental revenue (which includes fees and other charges) and a category of funds known as consolidated transfers – will total $22.9 billion. However, as will be discussed in more detail below, this includes revenue generated from policy changes proposed in conjunction with House 1 that should not be considered as baseline revenue for FY 2005. In addition, this revenue figure excludes the tax revenue that will be used to finance the Commonwealth's $1.2 billion state pension fund commitment for FY 2005. Finally, the Romney Administration's estimate for federal reimbursements is premised on MassHealth spending totals

[1] This figure further includes $30.6 million in tuition that the Massachusetts College of Art and the University of Massachusetts retain to finance current spending at those campuses; the above "baseline" revenue figures contain this sum as well. The above figure for total FY 2004 spending assumes that an additional $40 million will be appropriated in FY 2004 for the purpose of snow and ice removal; a bill appropriating such funds has been proposed in the Legislature but has not yet been approved.

that are lower than those necessary to maintain current services; bringing such spending up to the current services baseline means that Massachusetts would receive higher federal reimbursements as well. Once all of these adjustments are made, baseline revenue for FY 2005 rises to $23.4 billion.

Projected FY 2005 Deficit

Thus, it appears that Massachusetts faces a budget deficit of $1.2 billion in FY 2005. Again, this represents the difference between the amount of funds necessary to maintain current services in FY 2005 – $24.6 billion – and the amount of revenue that current law is expected to produce – $23.4 billion. Of course, this current services baseline spending level for FY 2005 is much lower than it would be if any of the spending cuts enacted within the past three years were restored. As a result, a deficit of $1.2 billion understates the scope of the problems facing the Commonwealth.

To close this gap, House 1, along with two pieces of accompanying legislation, institutes policies that yield $160 million in recurring revenue, makes $382 million in one-time revenue available for FY05, reduces spending by approximately $378 million relative to the FY05 baseline, and puts in place other deficit reduction measures worth a total of $318 million. (The $378 million of spending cut is after netting out areas in which House 1 would increase spending relative to the FY05 baseline, as described below, but does not take into account the impact of lost federal reimbursements due to MassHealth cuts.)

Revenue Proposals, One-Time Measures, and Other Initiatives

House 1 employs a variety of different approaches for generating both recurring and one-time revenue for use in the FY 2005 budget.

- ***Tax law changes*:** In conjunction with his submission of House 1, Governor Romney filed legislation to close several tax loopholes, which, in the Governor's words, "cost the Commonwealth millions of dollars a year in lost revenue by permitting corporations to shelter certain activities that were intended to be subject to taxation." Among other changes, the legislation would create a distinction between business income (that is, profits arising from the normal course of business) and non-business income (profits that do not arise from everyday operations, such as those derived from the sale of assets). This distinction would allow Massachusetts to exercise its legal authority – reaffirmed in a 1992 U.S. Supreme Court decision – to tax in full such non-business income. Massachusetts does not take advantage of this authority under current law, thus reducing state tax revenues and permitting corporations to earn millions of dollars in profits that are not subject to taxation in any other state. In addition, the legislation would prevent corporations from establishing a "Massachusetts Business Trust

Holding Company" to shelter the profits they earn from the sale of subsidiaries or from loans that they might make to such subsidiaries. House 1 anticipates that, if adopted, such legislation would generate $70 million in FY 2005 – $47 million from changes in the corporate income tax and $23 million from changes to the sales tax. Nonetheless, for FY05, corporate taxes, as a share of total state taxes, are expected to remain significantly below their average level of the past 35 years.

- ***Fees and Other Recurring Revenue*:** House 1 counts on an additional $33 million in new or higher charges. Two of the largest – a registration fee for retail stores that use computer-assisted checkout systems and compliance fees for hazardous materials disposal sites – are anticipated to yield $5 million and $3.8 million respectively in FY 2005.

  In addition, House 1 expects to generate an additional $57 million in lottery revenue in FY 2005, the result of more extensive marketing efforts and the introduction of a new scratch ticket game.

- ***One- time measures*:** In closing the FY 2005 budget gap, House 1 depends heavily on a variety of "one-time" measures – that is, policies that either draw upon existing reserves or generate savings in the current fiscal year but that do not bring revenue and expenditures into permanent alignment. All told, these measures produce $382 million for use in the upcoming fiscal year.

  In particular, House 1 transfers $139 million from the Federal Medicaid Assistance Percentage Escrow Fund – a fund established last year to hold the remaining fiscal relief monies the Commonwealth will receive as a result of the federal Jobs Growth Reconciliation Act of 2003 – to the General Fund in order to finance current spending.

  As has been much discussed, House 1 proposes to merge the Massachusetts Turnpike Authority with the Massachusetts Highway Department. As part of that plan, the Governor's budget would, in effect, transfer the funds currently held by the Turnpike Authority in security of the bonds it has issued into the General Fund to support current spending. House 1 stipulates that the amount of the transfer would be $190 million, but a recent advisory released by the House Post Audit and Oversight Bureau suggests that the reserves currently held by the Turnpike Authority amount to somewhere in the range of $145 to $180 million. If existing Turnpike reserves were insufficient to cover the cost of this transfer or if the merger were not approved, House 1 would need to use other reserves (such as balances in the Commonwealth Stabilization Fund) to make up the difference.

  Lastly, House 1 contains several other policies that would generate funds for use in FY 2005 and FY

2005 alone. Specifically, the Governor's budget would eliminate three existing trust funds – Renewable Energy Trust Fund, the Debt Defeasance Trust Fund, and the Lead Abatement Trust Fund – and transfer their remaining balances – a total of $28 million – to the General Fund for use in FY 2005; House 1 also expects the Commonwealth to sell $25 million worth of surplus property in FY 2005.

- ***Other Proposals*:** House 1, if passed, would transfer to the General Fund, in FY 2005 and every year thereafter, the full amount of the annual payment that Massachusetts is scheduled to receive as part of the master tobacco settlement agreement. Under current law, however, 70 percent of that payment is supposed to be held in the Health Care Security Trust for the "exclusive purpose of funding health related services and programs, including, but not limited to, services and programs intended to control or reduce the use of tobacco in the commonwealth." For FY 2005, the payment is projected to be $240 million; thus, in spending that full amount, House 1 uses $168 million that existing law would have set aside for future use.

  In addition, the Governor has put forward legislation to restructure the existing School Building Assistance (SBA) program. If adopted, it would yield a one-time savings of $150 million in FY 2005, but at the expense of another 20 years of debt service. Under the current SBA program, cities and towns independently issue debt to construct school facilities, with the Commonwealth providing contract assistance payments to aid them in servicing such debt. For FY 2005, those payments are expected to be roughly $400 million. The Governor would restructure this system so that the Commonwealth would borrow $4 billion that would then be deposited in an escrow account to meet the Commonwealth's future contract assistance payments; the cost of servicing this new $4 billion debt is projected to be $250 million per year for the next forty years. Thus, the difference between anticipated contract assistance payments and projected service on the new debt – $150 million – amounts to a savings for the Commonwealth. However, since another element of the Governor's SBA proposal would lead to the issuance of an additional $4 billion in debt – in order to shrink the existing the school building waiting list – that $150 million savings will be spent in future years.

Healthcare

MassHealth Programs

MassHealth is the state program which provides healthcare coverage and services to low-income, elderly and disabled residents of the Commonwealth. This year, the Governor proposed a budget for MassHealth which is at least $150 million below maintenance for FY 2004. According to expenditures detailed in House 1 and the Governor's figures for projected spending in FY 2004, following are the amounts slated to be spent during FY 2005 on MassHealth provision.

FY 2004	**$6,187,785,027**
FY 2005	**$6,695,167,167**
Increase (decrease)	**$ 507,382,140**
Percentage Change	**8.2%**

As the price of healthcare increases across the nation at a rate much higher than inflation, the cost of providing services to MassHealth clients and their families continues to rise. Maintaining current benefits and eligibility levels for these programs would cost at least $150 million more than House 1 proposes. (In order to arrive at this figure, the Governor uses a healthcare inflation rate of just over 10 percent. Some analysts believe this estimate understates the real impact of rising costs in FY 2005.)

Cost-cutting strategies employed in House 1 include: reducing payments to hospitals, nursing homes and other providers; tightening eligibility and capping assistance for the MassHealth HIV program; changing the personal care assistant (PCA) evaluation process; expanding nursing facility return and reuse drug program; and disallowing outpatient hospitals from serving as primary care physicians. By decreasing payments to hospitals, these changes will lead to a shifting of costs to privately insured patients and their employers.

In addition to the aforementioned changes, level funding of items like the Children's Medical Security Plan (CMSP) and the Healthy Start program could lead to enrollment caps, since it is not anticipated that demand will fall in the next fiscal year. Reductions in funding in FY 2004 have already led to a cap in CMSP's enrollment this year, leaving a current waitlist of 8,000 uninsured children. Funding for Healthy Start remains $1 million below its FY 2003 level. This budget decreases the Insurance Partnership program's subsidies for small business employees and employers by $4 million. Breast and cervical cancer treatment for low-income women is maintained at its initial FY 2004 level of 2.6 million. House 1 also initiates funding for the Senior Care Options program, which is designed to streamline Medicare and Medicaid benefits for eligible seniors, providing them with more flexibility in plans and care. The $140 million in program costs would be transferred from pre-existing accounts which currently serve seniors.

This budget does not restore the major cuts made to MassHealth in FY 2004. Benefits are not reinstated for the 7,000 immigrants left without health insurance at the end of 2003 and there is no provision for continuing care for those 2,800 elderly and disabled immigrants who recently had their health benefits restored. The premiums and co-pays recently introduced remain in place, enrollment caps for those covered by the HIV and CommonHealth programs are maintained, and asset tests are still enforced. New disability standards, which will restrict the eligibility criteria for the Emergency Aid for Elders, Disabled and Children (EAEDC) program, could lead to a decline in the number of people able to access EAEDC medical benefits. Current EAEDC participants will be allowed to maintain their health coverage, regardless of their new status; however, new enrollees will be subject to the more stringent disability guidelines.

Other Healthcare Expenditures

Two significant Medicaid-related items are funded such that they are not counted as traditional appropriations: the nursing home assessment and the Uncompensated Care Pool. The former is an assessment levied on nursing homes designed to leverage federal funding for this type of care. The Uncompensated Care Pool, which funds the healthcare services that hospitals and community health centers provide to uninsured patients, is supported through a combination of state and federal funding and assessments on hospitals and insurance companies. The state both appropriates money into the uncompensated care pool and receives reimbursements from the federal government for spending by the fund. House 1 does not clearly indicate the net state cost of providing financing to the Uncompensated Care Pool. It appears, however, that the state contribution proposed in House 1 is about $47 million below the fiscal year 2004 level. The nursing home assessment would be unchanged in FY 2005 if the Governor's budget were adopted.

This budget maintains funding for MassHealth Essential (a program for low-income, chronically unemployed individuals supported through the Uncompensated Care Pool) at $160 million, continuing the 36,000 cap on persons enrolled and the lower income restrictions introduced in FY 2004. (MassHealth Essential recipients now must live at or below 100 percent of poverty, as opposed to 133 percent of poverty in FY 2003).

Public Health

In the Governor's FY 2005 budget, state support of the Department of Public Health (DPH) declines for the fourth year in a row. Between FY 2001 and FY 2004, the department's funding fell by over $133 million, a 26.6 percent decrease (30.9 percent in inflation-adjusted terms): if approved, this budget would signal a cut of 18 percent from FY 2003 funding levels.

FY 2004	**$372,434,136**
FY 2005	**$337,881,130**
Increase (decrease)	**($ 34,553,006)**
Percentage Change	**-9.3%**

House 1 eliminates state support for school health services, a cut of $12.6 million. Funding for prostate cancer prevention, suicide prevention and gamblers' treatment would also be completely cut. In this budget, teen pregnancy prevention is reduced by $525,000 or 54 percent; since FY 2003, this program has lost $3.0 million or 87 percent of its funding. The Family Health Services appropriation would be cut for the fourth year in a row, this time by $881,000, or 18.2 percent. If approved by the Legislature, this level of funding would signify a cut of 64.5 percent since FY 2003. Support for HIV/AIDS programs and the Bureau of Substance Abuse Services would also be cut for the fourth year in a row, resulting in total decreases of 22.8 percent and 14.6 percent respectively since FY 2003. These cuts are proposed despite the fact that the number of people requiring these services has increased over the past few years. As AIDS patients live longer, they require more ongoing care, while the state's level of substance abuse (especially heroin use) is increasing, particularly among youth in the Commonwealth.

Both line items that appropriate DPH funding for community health centers are eliminated in this budget, resulting in a total cut of close to $8 million. The Community Health Center support account, which the Governor proposes to eliminate, provides relatively flexible funding enabling centers to expand their programs and the populations they serve and thereby improve health care access for those who would otherwise remain untreated. The Center Care program, which provides coverage to over 4,000 individuals, was also cut. Although House 1 would increase the Uncompensated Care Pool reimbursement ceiling for Community Health Centers, this type of funding restricts the types of patients and services centers can provide such that it is not a true replacement for a loss of DPH support.

Although the state appropriation for Early Intervention Services (a program which serves young children with developmental disabilities) does not change in House 1, outside sections in the Governor's budget call for an increase in the amount insurance companies have to pay for these children's coverage. Whereas the cap on insurance liability per child is currently $3,200 per year and $9,600 over the enrollment period, this language calls for liability levels of $5,200 per year and $15,600 over the enrollment period.

Finally, the Governor's budget does not restore the cuts made in FY 2004. Funding for smoking cessation and prevention, domestic violence prevention, Hepatitis C prevention and treatment, and family planning services all remain below FY 2003 spending levels.

Education: Chapter 70 and Grants

A study recently released by Andrew Reschovsky, a public finance professor at the University of Wisconsin, shows that Massachusetts led the nation in cutting per pupil education spending between 2002 and 2004. In the Governor's FY 2005 budget, funding for Chapter 70 Aid and the Department of Education's grants programs increased by $112.8 million, or 3.2 percent. Although House 1 calls for an increase in education spending over FY 2004, its funding remains $134.6 million (3.6 percent) below original FY 2003 levels (a 7 percent drop if one accounts for inflation).

Total Education Spending

FY 2004	**$3,501,934,249**
FY 2005	**$3,614,779,851**
Increase (decrease)	**$ 112,845,062**
Percentage Change	**3.2%**

Note: The numbers in this section do not include appropriations or debt service for the School Building Assistance program. Figures for grants and reimbursements include support for the Office of Educational Quality.

Chapter 70 Aid

FY 2004	**$3,118,124,259**
FY 2005	**$3,180,748,022**
Increase (decrease)	**$ 62,623,763**
Percentage Change	**2.0%**

Chapter 70 Aid is the unrestricted local aid that serves as the largest single source of state public education revenue. Communities use this aid to supplement local revenue and Department of Education grants and reimbursements. The Governor's proposed FY 2005 budget calls for an increase in Chapter 70 Aid of $62.6 million, or 2.0 percent. However, this level of funding appears to just meet the state's legal requirements under the Education Reform Act of 1993, and would leave Chapter 70 funding 2.4 percent below what it was in FY 2003 (5.8 percent lower if inflation is taken into account).

Grants and Reimbursements

FY 2004	**$383,809,990**
FY 2005	**$434,031,829**
Increase (decrease)	**$ 50,221,839**
Percentage Change	**13.1%**

As noted above, funding for educational grants and reimbursements would grow by 13.1 percent in the Governor's FY 2005 budget. Although funding would increase $50.2 million from FY 2004, it would remain $56.3 million below FY 2003 levels. The Governor created five new grants programs in House 1, two of which – full-day Kindergarten grants and MCAS remediation – essentially replace all or parts of programs that were cut or eliminated in FY 2004.

The Governor's budget would appropriate $5 million in grants for alternative schools and programs. This funding is designed to provide a way for disruptive children to be removed from mainstream classrooms, helping districts "resolve behavioral issues." In House 1, $9.9 million is designated for seven low-income school districts to allow them to offer full-day Kindergarten to all eligible students. (Before it was eliminated in FY 2004, class-size reduction funding was used for these purposes as well.) The Governor sets aside $20 million for a new MCAS remediation program, leaving total funding for MCAS programs at $30 million – $20 more than last year, but still 40 percent below the FY 2003 appropriation of $50 million.

House 1 allocates a total of $3 million to recruiting and retaining qualified math and science teachers: $1 million devoted to professional development; $500,000 to develop a new diagnostic test; a little over $1 million for an incentive program where new science and math teachers receive bonuses during their first five years teaching; and $440,000 for third year bonuses for Mass Institute for New

Teachers' participants. Finally, this budget sets aside $4 million for parent orientation and school preparation. This funding supports a parent orientation program for families enrolled in state-subsidized child care as well as parent-school participation incentives for parents of students in low-income, low performing districts.

The Governor's budget fails to restore class-size reduction funding or school transportation for non-regional districts – both programs that were cut in FY 2004. It would provide funding for regional district transportation (cut 36 percent in FY 2004) and early literacy (cut 79 percent in FY 2004) at levels equal to FY 2004, without restoring the major cuts these programs experienced last year.

Higher Education

State spending on higher education includes operations support for the University of Massachusetts and the state and community college systems. Higher education funding also includes student financial aid and scholarship programs. The budget for higher education fell by 19 percent from FY 2001-FY 2004.

FY 2004	**$862,437,905**
FY 2005	**$893,434,007**
Increase (decrease)	**$ 30,996,102**
Percentage Change	**3.6%**

According to Statehouse News (Michael Levenson, February 2, 2003), at a House and Senate Ways and Means hearing, Higher Education Chancellor Judith Gill said the state's 29 public colleges and universities would need an additional $280 million more than Romney proposed to reach "full funding" in 2005 - an additional $210 million for the 24 state and community colleges and $70 million for the five University of Massachusetts campuses.

House 1 also fails to address the large decreases borne by the system over the past few years. Funding for library reference materials, completely eliminated in FY 2004, is not restored in House 1. Level funding is requested for financial aid, which would leave it at 10 percent below its FY 2003 appropriation despite a rise in tuition and fees during that time. In House 1, the Governor introduces the John and Abigail Adams Scholarship program, which provides $4.3 million in scholarships to students who score in the top 25th percentile on the MCAS exam. Unlike other scholarship programs, this one would not consider financial need. The funding would provide free tuition to students scoring in the top 25 percent who attend the University of Massachusetts or one of the state or community colleges, as well as an additional stipend to offset a portion of student fees for those who score in the top 10 percent.

Cash Assistance

The Department of Transitional assistance administers the state's cash assistance programs to families in need. Overall, the Governor's budget proposes to reduce funding for cash assistance by $3.7 million, roughly 1 percent.

FY 2004	**$587,714,695**
FY 2005	**$584,007,566**
Increase (decrease)	**($ 3,707,129)**
Percentage Change	**- 0.6%**

House 1 proposes changes in eligibility for Transitional Assistance to Families with Dependent Children (TAFDC) and Emergency Aid to the Elderly, Disabled, and Children (EAEDC) that would likely remove several thousand disabled individuals from both caseloads. The proposed change in the disability criteria for TAFDC would increase the number of individuals subject to both the work requirement and time-limit on benefits. Outside sections of the Governor's budget proposal would also change the name of EAEDC to Transitional Supplementary Security Income, narrow the eligibility criteria for legal immigrants to the federal SSI standard, and remove language that would prohibit the Department of Transitional Assistance from cutting benefits during the fiscal year. Changes in eligibility for EAEDC would shrink its caseload, which is reflected in the $12 million decrease in appropriations.

The Governor's budget also proposes to increase the work requirement for parents receiving TAFDC. Parents with children between 2 and 5 years of age would be required to work 24 hours per weeks versus the current level of 20 hours per week; the work requirement for parents of school-aged children would increase from 20 to 34 hours per week. Outside sections also allow landlords to have DTA deduct rent from a family's monthly stipend, and remove the annual September clothing allowances from the standard of need.

The Governor's budget, which includes $27.0 million in direct appropriations for the Employment Services Program, and an additional $3.0 million from a Federal Food Stamp reimbursement, provides $13.1 million more than the FY 2004 level.[2] It is yet to be seen whether this increase will be sufficient for the added work requirements put forth in TAFDC reforms.

Despite the proposed $4.0 million increase in funding for TAFDC, this additional money would not restore budget cuts that occurred in FY 2004. If House 1 is adopted, TAFDC would experience an overall reduction in funding totaling $12.6 million since FY 2004. The proposed changes in EAEDC would compound cuts to this program that will take place during FY 2004; the overall reduction for EAEDC would total $17.6 million or 25 percent of its FY 2003 budget.

Office of Child Care Services

The Office of Child Care Services (OCCS) is the state agency that oversees child care as well as other services for children and families. Overall, the Governor proposes to reduce the budget for OCCS by $7.8 million or 2 percent.

[2] The FY 2004 total includes $5.9 million one-time funding from the Federal Reed Act.

FY 2004	**$365,783,877**
FY 2005	**$357,999,293**
Increase (decrease)	**($ 7,784,183)**
Percentage Change	**- 2.1%**

House 1 proposes to reduce funding for the Newborn Home Visiting Program by $6.1 million or 50 percent of its FY 2004 level. The budget also proposes to revise the reimbursement policy for Child Care Resource and Referral agencies, resulting in a $2.0 million or 20 percent loss in funding. Funding for both of these line items was reduced in FY 2004. The combined effect of two years of substantial cuts in Newborn Home Visiting Program and Child Care Resource and Referral would result in decreases of 64 percent and 34 percent respectively.

Other changes include the consolidation of teen parent voucher programs previously in separate agencies (DTA and OCCS) into one account administered by OCCS. As a result, funding for child care for low-income families would be cut approximately $4 million. Changes in the disability criteria as well as work requirements for parents receiving TAFDC would likely increase the demand for subsidized child care. Additionally, the Governor's budget proposes an initiative that would require parents who receive subsidized child care to participate in parent orientation programs.

Social Services

Overall, House 1 preserves FY 2004 funding levels for the Department of Social Services and proposes a few small initiatives.

FY 2004	**$685,571,761**
FY 2005	**$702,397,410**
Increase (decrease)	**$ 6,825,649**
Percentage Change	**2.5%**

The budget proposes to consolidate two separate line-items for group care and services for families into one account. Overall, funding would increase $15.6 million or 3 percent. A portion of this increase is due to the Governor's allocation of $5.5 million to improve foster care, which includes increasing payments to foster care families by 11.3 percent.

House 1 also proposes modest increases in funding for domestic violence specialists and shelters for victims of domestic violence, approximately $94,000 overall. The Governor also devotes $1.0 million toward Social Work Safety Technology.

Department of Mental Health

House 1 proposes a net reduction of $5.1 million from the Department of Mental Health. The Governor proposes to cut $8.4 million from adult in-patient facilities, emergency services, and acute in-patient care for mentally ill individuals.

FY 2004	**$592,826,152**
FY 2005	**$587,653,558**
Increase (decrease)	**($ 5,172,594)**
Percentage Change	**0.9%**

House 1 reduces funding for adult in-patient facilities by $7.4 million or 5 percent. Emergency services and acute in-patient care for mentally ill individuals would be reduced by $1.0 million or 3 percent. Decreased funding in these areas could have costly consequences if medical treatment is delayed for mentally ill individuals.

The Governor proposes to save money on prescription drugs by funding an initiative to reduce the over-prescription of psychotropic drugs to children and youth. House 1 also proposes to increase funding for support services, including $2.5 million for homeless mentally ill individuals.

Although continuing care services are level funded, the $1.5 million or 25 percent cut from Fiscal Year 2004 is not restored. These services are important in transitioning mentally ill individuals back into community-based settings or their home environments.

Department of Mental Retardation

House 1 proposes a $30.0 million increase in funding for the Department of Mental Retardation. This increase in funding is mostly to provide services the state is bound to provide pursuant to legal decisions as well as increased caseloads.

FY 2004	**$1,014,330,235**
FY 2005	**$1,044,318,458**
Increase (decrease)	**$ 29,988,223**
Percentage Change	**3.0%**

House 1 proposes to reduce funding for transportation and day/work programs $4.3 million (32 percent) and $9.4 million (9 percent) respectively. This reduction in funding may end these supports for approximately 800 mentally retarded individuals.

Governor's proposal includes an increase of $1.36 million for respite services, but the reduction in funding of $14.1 million since FY 2003 is not reinstated.

Elder Affairs

The Governor's budget spares Elder Affairs from significant reductions in funding by providing level funding for many programs including protective services, housing assistance and homeless prevention, and local councils on aging.

FY 2004	**$200,422,667**
FY 2005	**$200,490,572**
Increase (decrease)	**$ 67,895**
Percentage Change	**0.0%**

Note: Funding for Medicaid programs, Senior Care and Senior Care Options, are included in the category entitled MassHealth Programs. The totals net transfers from the Community Choices Program.

Despite level funding for many programs that benefit elderly individuals, cuts implemented in the FY 2004 budget are not restored. Level funding for

Prescription Advantage represents an actual cut in services because prescription drug costs are rising at double digit rates. Additionally, while the program was intended to provide services to all seniors, the proposed budget would continue to limit enrollment.

Environmental Affairs

Overall, proposed funding for the Executive Office of Environmental Affairs would roughly keep pace with inflation.

FY 2004	**$181,904,797**
FY 2005	**$191,617,196**
Increase (decrease)	**$ 4,712,399**
Percentage Change	**2.5%**

Note: In order to provide a direct comparison, the FY 2004 total includes zoo operations, which is moved to the proposed FY 2005 operating budget.

House 1 proposes to reduce funding for hazardous waste cleanup by $1.0 million or 7 percent. Based on cuts in the FY 2004 budget, the Department of Environmental Protection (DEP) has already had to reduce compliance and monitoring activities.

The Governor’s budget proposes to decrease funding for DEP’s operations by $2.5 million or 9 percent. Over the past two years, the entire staff has been reduced by 24 percent, or 289 positions. Further reductions would likely diminish its capacity to effectively carry out its duties.

Proposed level funding for other agencies and programs, including environmental law enforcement as well as recycling grants to municipalities, is inadequate to restore reductions in funding that occurred between FY 2003 and FY 2004. Overall, the Executive Office of Environmental Affairs would experience a $8.3 million (4 percent) reduction in funding from its FY 2003 level if House 1 were adopted.

Transportation

House 1 proposes to merge the Massachusetts Turnpike with the Massachusetts Highway department. This change complicates comparisons of fiscal year 2004 spending and fiscal year 2005 spending.

FY 2004	**$144,892,844**
FY 2005	**$128,180,676**
Increase (decrease)	**($16,712,168)**
Percentage Change	**- 11.5%**

So that FY 2004 costs can be properly compared to FY 2005 proposed spending, the numbers provided above have been adjusted to remove costs that in FY 2004 had been paid by the Massachusetts Turnpike Authority and House 1 brings on budget. In addition, the 2004 number is adjusted to account for $40 million in supplemental funding that will need to be provided in fiscal year 2004 to pay for costs of plowing snow and ice that have exceeded appropriated amounts.

Housing

House 1 proposes to restore a portion of the cuts to the Department of Housing and Community Development that have been implemented in the past several years. While DHCD would experience a net increase in funding, several housing programs are level funded, and the Massachusetts Rental Voucher Program is cut.

FY 2004	**$66,660,641**
FY 2005	**$69,951,248**
Increase (decrease)	**$ 3,290,607**
Percentage Change	**4.9%**

House 1 would reduce the total number of vouchers provided through the Massachusetts Rental Voucher Program (a rental assistance program that provides vouchers to low-income families) by not re-issuing new mobile vouchers upon turnover. This proposal would result in a reduction of $2.6 million or 11 percent.

The Governor's budget would increase funding for operating subsidies to local housing authorities by $4.9 million. Community-based housing services, which include Housing Consumer Education Centers, would receive an additional $119,075, but allocations for specific programs are eliminated. The Governor also proposes to revive the rent escrow program, which provides partially matched funding to residents in public subsidized housing who put a portion of their rent into an escrow account with the intent of ultimately moving into private housing. This program was eliminated in FY 2004, but House 1 funds this program at its FY 2001 level of $500,000.

Level funding is provided for the Alternative Housing Voucher Program, rental subsidies for DMH clients, and other housing services, though previous cuts to these programs are not restored.

Public Safety and the Judiciary

Overall, proposed funding for public safety and courts is relatively stable.

Public Safety

FY 2004	**$1,257,036,855**
FY 2005	**$1,251,139,203**
Increase (decrease)	**($ 5,897,652)**
Percentage Change	**- 0.05%**

Judiciary

FY 2004	**$686,798,637**
FY 2005	**$698,418,197**
Increase (decrease)	**$ 11,619,560**
Percentage Change	**2.6%**

House 1 provides numerous consolidations within public safety and the judiciary, which, the Governor maintains, will achieve administrative savings for both systems.

Proposals within Public Safety include:

- Consolidation of county corrections programs and combined funding for the state crime lab with general operations for department of state police.

- New spending ($13.7 million overall) on upgrades to the State Police Counterterrorism Unit and two new State Police classes.
- Moving the Alcoholic Beverage Control Commission from the Treasure's Office to the Executive Office of Public Safety.

Proposals for the courts include:

- Merged operations for Superior, District, Family, Probate and Juvenile Courts.
- Consolidation of various legal services, including the Massachusetts Legal Advisors Corporation, Massachusetts Correctional Legal Services, and Mental Health Legal Advisors.
- Increased fees for indigent defendants in criminal cases.

HOUSE ONE: PROPOSED FY05 SPENDING

	Initial FY03	FY04 Current	Proposed FY05	% Change FY04 - FY05	% Change FY03 - FY05
Judiciary					
Judiciary	547,377,135	574,752,138	585,552,589	1.9%	7.0%
Attorney Gen, DAs	108,517,996	112,046,499	112,865,608	0.7%	4.0%
Administrative Costs					
Pensions	814,048,766	849,625,766	1,234,226,766	45.3%	51.6%
Debt Service	1,505,700,968	1,609,915,318	1,785,535,468	10.9%	18.6%
Employee Health Insurance	794,862,213	811,131,373	839,159,672	3.5%	5.6%
Other Administrative	703,071,942	668,207,288	701,996,567	5.1%	-0.2%
Unrestricted Local Aid					
Local Aid (non-ed)	1,236,358,431	1,051,646,098	1,051,646,098	0.0%	-14.9%
Environment and Economic Development					
Housing	95,695,874	66,660,641	69,951,248	4.9%	-26.9%
Environment	199,434,811	185,904,797	190,617,196	2.5%	-4.4%
Transportation	98,958,139	144,892,844	128,180,676	-11.5%	29.5%
Other Economic Development	117,160,829	94,935,767	112,441,198	18.4%	-4.0%
Executive Office for Health and Human Services					
Elder Affairs	203,396,385	200,422,677	200,490,572	0.0%	-1.4%
MassHealth/Medicaid*	5,625,858,222	6,187,785,027	6,695,167,167	8.2%	19.0%
Public Health	429,728,242	372,434,136	337,881,129	-9.3%	-21.4%
Mental Health	605,493,000	592,826,152	587,653,558	-0.9%	-2.9%
Mental Retardation	987,321,067	1,014,330,235	1,044,318,458	3.0%	5.8%
Social Services	673,211,123	685,571,761	702,397,410	2.5%	4.3%
Other Human Services	505,948,719	475,919,212	497,884,299	4.6%	-1.6%
Child Care	379,940,877	365,783,476	357,999,293	-2.1%	-5.8%
Cash Assistance	613,403,774	587,714,695	584,007,566	-0.6%	-4.8%
Senior Pharmacy	97,609,000	96,372,765	96,372,765	0.0%	-1.3%
Education					
Chapter 70 Local Aid	3,258,969,179	3,118,124,259	3,180,748,022	2.0%	-2.4%
Other K-12 Education	510,667,075	383,809,990	434,031,829	13.1%	-15.0%
School Building Assistance	361,596,898	405,150,327	251,019,076	-38.0%	-30.6%
Higher Education	990,369,775	863,437,905	893,434,007	3.5%	-9.8%
Libraries	26,161,572	25,500,525	25,158,714	-1.3%	-3.8%
Public Safety					
All public safety programs	1,222,290,336	1,257,036,855	1,251,139,203	-0.5%	2.4%
Other Expenditures					
Uncompensated Care Pool	72,000,000	175,000,000	128,000,000	-26.9%	77.8%
Total	**22,785,152,348**	**22,976,938,526**	**24,079,876,154**	**4.8%**	**5.7%**
Total less scheduled increases occuring from pensions and debt service	**20,465,402,614**	**20,517,397,442**	**21,060,113,920**	**2.6%**	**2.9%**

* Medical Assistance includes the Senior Care and Senior Care Options programs, which fall under the purview of the Office of Elder Affairs but are funded through federal Medicaid reimbursement.

Notes on calculations:

(1) Pensions totals include off-budget spending.
(2) Higher Education totals include out-of state tuition retention.
(3) Transportation total for FY04 includes anticipated snow and ice supplemental of $40 million.
(4) Environment total for FY04 includes zoo operations to provide a direct comparison with FY05.