

# BUDGET MONITOR

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## House Floor Action on the FY 2006 Budget

### Overview

On April 29<sup>th</sup>, the House of Representatives completed its debate on the fiscal year 2006 budget. During five days of debate, the House added \$113 million to the bare-bones budget initially proposed by the House Committee on Ways and Means.<sup>1</sup> This is an increase of slightly less than one half of one percent. While the House did not approve any revenue measures to pay for this spending, House leadership did indicate that the full House will soon consider legislation that the Governor filed, but no longer fully supports, that could generate \$170 million by closing a variety of tax loopholes.

Among the amendments adopted by the House was one to increase local aid for education by \$28.4 million and another to increase by \$86 million the payments to hospitals that treat uninsured patients. While these amendments represent a serious effort to address severe funding problems, it is important to recognize that, after adjusting for inflation, Chapter 70 funding is still 6.4 percent below what it was in FY 2002, and that the payments hospitals receive for providing services to uninsured patients are still substantially below the costs they incur.

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<sup>1</sup> The net state cost increased by approximately \$2.5 million more than this because reduced Medicaid expenditures in the final House budget will lead to reduced federal reimbursements.

The full House also rejected an amendment, identical to a proposal offered by the Governor, for a new tax cut that would cost \$225 million in fiscal year 2006 and over \$550 million in fiscal year 2007. This tax cut would have made it very difficult – even with a strong economic recovery – for the state to restore the \$3 billion cut from basic public services over the past five years.

Recent data on tax revenue, described later in this *Monitor*, suggest that the state's fiscal situation is beginning to improve. The question facing the Legislature is whether to use this revenue to restore some of the hundreds of millions of dollars cut from education, health care, public safety and other essential services, or to make those cuts permanent and begin another round of aggressive tax cutting.

This *Budget Monitor* describes the House floor action on the budget, compares the House approved budget to the Governor's proposal, and puts the debate in context by examining how current spending levels compare to state budgets before the fiscal crisis began.<sup>2</sup>

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<sup>2</sup> Budget figures for FY 2005 reflect amounts authorized by the General Appropriation Act and supplemental budgets.

## Local Aid

The House approved the \$1.158 billion that the House Ways and Means Committee appropriated for local aid.

<b>FY 2005</b>	<b>\$1,131,646,098</b>
<b>FY 2006 House</b>	<b>\$1,158,746,098</b>

<b>Increase (decrease)</b>	<b>\$ 27,100,000</b>
<b>Percentage Change</b>	<b>2.4%</b>

The amount for lottery distributions to cities in towns totals \$761.4 million. This matches the amount proposed by the Governor, and is \$25.0 million more than current appropriations, after adjusting for \$75.0 million in one-time supplemental funds for FY 2005.

The House also matches the Governor in its \$2.1 million increase for the PILOT (Payment in Lieu of Taxes) program and level-funds additional assistance at \$379.8 million.

## K-12 Education

The House final budget increases overall funding for Chapter 70 Aid and the Department of Education's grants and reimbursement programs from \$3.645 billion to \$3.764 billion, a \$117.8 million difference. The Governor's proposal would increase funding by \$95.2 million. Funding for the School Building Assistance program totals \$488.7 million for FY 2006. The following sections do not include funding for the School Building Assistance program, as that has been moved off-budget.

## **Total K-12 Education Spending**

<b>FY 2005</b>	<b>\$3,646,485,481</b>
<b>FY 2006 House</b>	<b>\$3,764,264,127</b>

<b>Increase (decrease)</b>	<b>\$ 117,778,646</b>
<b>Percentage Change</b>	<b>3.2%</b>

*Note: The numbers in this section do not include appropriations or debt service for the School Building Assistance program. Figures for grants and reimbursements include support for the Office of Educational Quality, and deduct the amounts which would be transferred to the Department of Early Education and Care under the proposed budget.*

## **Chapter 70 Aid**

<b>FY 2005</b>	<b>\$ 3,183,282,601</b>
<b>FY 2006 House</b>	<b>\$ 3,288,931,062</b>

<b>Increase (decrease)</b>	<b>\$ 105,648,461</b>
<b>Percentage Change</b>	<b>3.3%</b>

Chapter 70 Aid is distributed to cities and towns for public education. During its budget debate, the House increased Chapter 70 Aid to \$3.289 billion, \$28.4 million more than was proposed by the House Ways and Means Committee. This amount would boost funding for FY 2006 by \$105.6 million relative to current levels, slightly more than enough to compensate for inflation. The Governor proposes to increase funding by \$77.0 million. Proposals offered by both the House and the Governor fail to restore the \$258.2 million cut, in real terms, between FY 2002 and FY 2005.

## **Grants and Reimbursements**

<b>FY 2005</b>	<b>\$ 463,202,880</b>
<b>FY 2006 House</b>	<b>\$ 475,333,065</b>

<b>Increase (decrease)</b>	<b>\$ 12,130,185</b>
<b>Percentage Change</b>	<b>2.6%</b>

The House adds \$10.5 million to the budget proposed by the House Ways and Means Committee for the Department of Education's grants and reimbursement programs. The following increases were included in this budget:

- The House proposes \$2.5 million for the foundation budget reserve. This funding will aid school districts in meeting their local contribution toward the foundation budget. The budget proposals by the House Ways and Means Committee and the Governor leave this line item unfunded. Current appropriations total \$6.9 million.
- Funding for the METCO program would increase from \$15.6 million to \$17.6 million under the final House budget. The Governor and the House Ways and Means Committee offer level funding for this program. With the exception of FY 2004, appropriations for METCO have remained around \$15 million each year. In FY 2004, funding fell to \$13.6 million.
- The House voted to increase reimbursements for regional school transportation by \$4.5 million. The Governor and House Ways and Means Committee propose to level-fund these services at \$38.0 million. All of these proposals are considerably below the \$51.1 million appropriated in FY 2002.
- Appropriations for programs for gifted and talented children would increase from roughly \$100,000 to \$500,000. The Ways and Means and House 1 budgets included \$250,000 and \$1.0 million, respectively. These programs received no funding in fiscal years 2003 and 2004, and were funded at \$370,830 in FY 2002.

- The House provides \$100,000 for a commission to study after school and out of school time programs. The Governor does include funding for this purpose in the House 1 budget.

While the House increases overall funding for the Department of Education's grants and reimbursement programs for FY 2006, the proposed amount is well below the FY 2001 level (14 percent after adjusting for inflation).

### Higher Education

The House budget offers \$926.2 million for public higher education, higher than the recommendations by the House Ways and Means Committee (\$6.2 million more) and by Governor Romney (\$25.5 million more).

*Including one-time funding in FY 2005<sup>3</sup>*

<b>FY 2005</b>	<b>\$946,155,634</b>
<b>FY 2006 House</b>	<b>\$926,212,154</b>
<b>Increase (decrease)</b>	<b>(\$ 19,943,480)</b>
<b>Percentage Change</b>	<b>-2.1%</b>

*Excluding one-time funding from FY 2005*

<b>FY 2005</b>	<b>\$904,212,307</b>
<b>FY 2006 House</b>	<b>\$926,212,154</b>
<b>Increase (decrease)</b>	<b>\$ 21,999,847</b>
<b>Percentage Change</b>	<b>2.4%</b>

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<sup>3</sup> To provide an "apples-to-apples" comparison, the FY 2005 total includes the appropriation for the Office of Dispute Resolution, which the Governor and House propose to move to UMass Boston and fund through the operating budget for the UMass campuses.

A direct comparison of the FY 2006 House budget to current appropriations reveals a \$19.9 million decline. However, comparing this budget with current appropriations after removing supplemental funding intended to pay for costs for FY 2004 as well as other one-time funding for FY 2005 shows a \$22.0 million or 2.4 percent increase.

The FY 2006 House budget would increase funding for state and community colleges by roughly four percent each. Appropriations for UMass campuses would grow by nearly two percent. The Governor’s budget, on the other hand, would increase funding for state and community colleges by two percent each, and would result in a three percent decline for UMass campuses, after a one-time capital expense for UMass Lowell is deducted from operating expenses. The following table compares appropriations in FY 2001 and FY 2005 to budget proposals by the Governor and the House of Representatives for FY 2006 as well as to the Board of Higher Education’s (BHE’s) FY 2006 budget request.

Fiscal Year	UMass	State Colleges	Community Colleges
2001	552.6	219.5	265.7
2005	436.7	183.3	202.8
2006 - H. 1	416.0	183.2	203.2
2006 - House	435.7	185.7	206.0
2006 - BHE Request	431.9	193.3	211.9

\* Totals include tuition revenue retained for out-of-state students at UMass Amherst and the Massachusetts College of Art, and deduct one-time funding included in the FY 2005 and FY 2006 House 1 budgets.

During its debate, the House removed a provision that would allow many immigrant students to pay in-state tuition rates at public colleges and universities. The House Ways and Means Committee proposed to extend in-state tuition rates to immigrants who have resided in the state for three years, graduated

from a Massachusetts high school, and are in the process of obtaining citizenship or permanent residency. Under current law, undocumented immigrant students are not eligible for in-state tuition rates and face additional difficulties securing financial aid, scholarships, or student loans. A measure permitting immigrant students to pay in-state tuition rates was included in the FY 2005 Conference budget, vetoed by the Governor, and never taken up by the Legislature in the process of overriding other vetoes.

In addition to increasing funding for operating expenses, the House proposes to increase the appropriation that provides financial aid assistance to students from \$82.4 million to \$83.2 million. The additional \$800,000 would help fund scholarships through the One Family Scholars Program, which helps homeless individuals move toward economic self-sufficiency. The line item for financial aid has remained level since FY 2004, down from \$100.1 million in FY 2001.

Overall, the level of funding for public higher education does little to reverse budget cuts in recent years. In real terms, funding for public higher education is 24 percent below the FY 2001 level.

### **Early Education and Care**

The House proposes \$468.9 million for early education and care. This amount is \$3.0 million more than the proposal by the House Ways and Means Committee. The Governor proposed \$450.2 million for early education and care.

<b>FY 2005</b>	<b>\$449,845,031</b>
<b>FY 2006 House</b>	<b>\$468,893,575</b>
<b>Increase (decrease)</b>	<b>\$ 19,048,544</b>
<b>Percentage Change</b>	<b>4.2%</b>

This budget includes \$7.0 million to provide salary increases to child care providers. Proposals by the Governor and the House Ways and Means Committee offer \$5.0 million for this purpose.

The House budget also increases funding for the Parent-Child Home Program from \$1.0 million in FY 2005 to \$1.5 million in FY 2006. This home-visiting program provides parenting and early literacy supports for at-risk children and their families. The House 1 budget provides level-funding for this program.

This budget also moves a \$500,000 earmark for the Reach Out and Read program from the Department of Education to a separate account within the Department of Early Education and Care. The budgets offered by the House Ways and Means Committee and the Governor maintain funding for this program within the Department of Education. The amount of funding proposed for the Reach Out and Read program is the same as FY 2005.

### **Income Support Programs**

The House offers \$596.5 million for cash assistance programs, roughly \$513,000 more than the House Ways and Means budget, but still below current levels.

<b>FY 2005</b>	<b>\$601,481,017</b>
<b>FY 2006 House</b>	<b>\$596,963,269</b>
<b>Increase (decrease)</b>	<b>(\$ 4,517,748)</b>
<b>Percentage Change</b>	<b>-0.8%</b>

During debate, the House increased funding for the Transitional Aid for Families with Dependent Children (TAFDC) program to \$313.0 million. This amount is less than the \$317.8 million currently appropriated for this program. The House budget, however, includes a provision which would require the Department of Transitional Assistance (the state agency that administers this program) to notify the Legislature of its intent to cut benefits or change eligibility criteria if funding proved insufficient. This may give the Legislature enough time to provide supplemental funding should a shortfall occur. The Governor does not include this safeguard in the House 1 budget.

The House leaves in place the current regulations for the TAFDC program. Given the approaching expiration of Massachusetts' waivers from federal welfare regulations and reauthorization of the federal law, the Commonwealth must alter its current welfare program or risk losing federal funding. To meet federal regulations, Governor Romney proposed, in the House 1 budget, to impose time limits and work requirements for approximately 14,000 individuals who currently do not face such restrictions. While the state must modify the TAFDC program, it does not have to eliminate crucial safeguards to do so. One alternative, which is outlined in a bill in the Legislature (an Act Relative to Responsible Welfare Reform), would shift existing resources to create a separate state program, allowing Massachusetts to meet federal work requirements and retain exemptions for individuals with barriers to work. The House will likely make changes to the TAFDC program when the issue is considered in the committee review process.

## **Medicaid and Other Health Care Programs**

Combined funding for Medicaid, other health care programs, the pharmacy program and the Uncompensated Care Pool is \$5.0 million less in the House budget (only half of which would be state funds) than originally recommended by the House Committee on Ways and Means, but \$391.9 million more than recommended by the Governor. The Governor's budget, however, did not reflect full fiscal year 2006 spending because it assumed that \$327 million worth of bills coming due in FY 2006 would be paid with FY 2005 dollars. The House budget assumes that a full twelve months' worth of costs would be paid out of the FY 2006 budget.

<b>FY 2005</b>	<b>\$ 7,235,179,344</b>
<b>FY 2006 House</b>	<b>\$ 7,278,199,129</b>
<b>Increase (decrease)</b>	<b>\$ 43,019,785</b>
<b>Percentage change</b>	<b>0.6%</b>

Just as in the House Ways and Means budget, there are no provisions in this budget for any major health reform initiatives that would expand coverage for the close to one-half million residents of the Commonwealth without health insurance.

### ***Medicaid/MassHealth***

The House Medicaid budget is approximately \$6.981 billion. This is \$91.0 million less than the House Ways and Means proposal – a reduction that reflects new assumptions about caseload mix within the various Medicaid programs. The House budget is \$305.8 million more than proposed by the Governor in House 1. (See the discussion above for a description of Medicaid accounting in the Governor's budget.)

The total \$6.982 billion Medicaid budget includes both "on-budget" spending and "off-budget" spending. In the House budget, on-budget Medicaid spending totals approximately \$6.945 billion.

<b>Total Medicaid Budget</b>				
<i>In Millions of \$</i>				
	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2006</b>	<b>FY 2006</b>
	<b>Spending</b>	<b>House 1</b>	<b>HW&amp;M</b>	<b>House</b>
"On-Budget" Medicaid	6,334.0	6,639.0	7,036.5	6,945.4
"Off-Budget" Medicaid	372.4	36.5	36.5	36.5
<i>MassHealth Essential</i>	<i>155.9</i>	<i>36.5</i>	<i>36.5</i>	<i>36.5</i>
<i>Medicare Buy-In</i>	<i>216.5</i>			
Sub-Total Medicaid	6,706.4	6,675.5	7,073.0	6,981.9
Prior Year's Surplus	251.8	327.0		
Current Year's Surplus	(327.0)			
<b>Total Medicaid Budget</b>	<b>6,631.2</b>	<b>7,002.5</b>	<b>7,073.0</b>	<b>6,981.9</b>

"Off-Budget" does not include \$288.5 million Health Care Quality Improvement Trust  
MassHealth Essential goes "on-budget" 10/05.  
Medicare Buy-In goes "on-budget" 7/05

The most significant change made by the House in the on-budget portion of the Medicaid budget is a proposed net reduction of \$80.5 million across the managed care and senior care line item categories. This includes a \$147.5 million reduction in several line items, off-set by a \$67.0 million increase in a restored line item. These reductions incorporate new assumptions about caseload, and more clearly articulate a focus on community-based long term care rather than institutional care. Specifically, the \$67.0 million increase is targeted to funding for home health care.

In FY 2005, off-budget Medicaid costs included the full year's funding for the MassHealth Essential Program and the costs of the MassHealth Medicare Buy-In Program. The House budget includes these programs in on-budget funding. The MassHealth Essential Program is brought on-budget in October 2005, funded through a new line item appropriation. The House budget includes \$129.6 million for the on-budget portion of the MassHealth Essential Plan, \$1 million more than proposed by the

House Committee on Ways and Means, and \$9 million more than proposed by the Governor. It is estimated that \$36.5 million in off-budget funding will still be necessary off-budget to pay for the program during the first three months of the fiscal year; that sum will come from money budgeted for the MassHealth Essential program in FY 2005 and then carried over into the first part of the current fiscal year.

### *Program Enrollment*

Although the House budget assumes that Medicaid funding levels are sufficient to accommodate full Medicaid enrollment, there are still some significant program limitations, particularly for the population of long-term unemployed who lost coverage during the fiscal crisis.

The House budget includes \$10.2 million in the MassHealth Essential line item (\$1.0 million more than in the House Ways and Means budget) to cover approximately 3,000 “special status” legal immigrants who are elderly or disabled. The House budget explicitly prohibits the Office of Medicaid from “deeming” the income of immigration sponsors as a way of limiting eligibility. The Governor and the House Committee on Ways and Means had included a provision that would limit eligibility only to those individuals whose sponsor’s income was under 200 percent of the federal poverty level. With this additional funding, there is hope that the appropriation will be sufficient to accommodate all who are eligible for this coverage.

In an attempt to increase total Medicaid enrollment, the House amendments increase funding in a new line item (also included in House 1) which would provide grants to non-profit and private organizations to help enroll some portion of the uninsured in the

state’s health insurance programs. The House amendments double these outreach grants to a total of \$500,000. In previous years, however, there had been over \$1 million allocated to such outreach grants.

### *Medicaid Provider Issues*

The House amendments keep the proposed Section 15 of the budget that would allow dental providers to limit the number of Medicaid patients they allow into their practice. The intent of this section is to increase the number of dental providers willing to take any MassHealth patients at all. Notable, however, is that like the Governor’s budget, the House budget does not propose restoring coverage for adult dental services, so this section is primarily relevant for children.

Access to dental care for people receiving MassHealth has been an issue of significant concern. There are estimates that fewer than 700 of the Commonwealth’s 5,000 dentists participate in the MassHealth program, partly because of an unwillingness to accept the paperwork requirements and the low reimbursement rates associated with the program. Currently, if a provider chooses to accept Medicaid, that provider is not allowed to place a limit on the number of Medicaid patients they treat.

The House budget eliminates a line item added by the House Ways and Means budget that would have provided \$18.8 million to reinstate MassHealth coverage for inpatient stays greater than twenty days in length. These “outlier benefits” had been eliminated in April 2003.

Like the FY 2005 budget and Governor’s House 1 proposal, the House budget proposal includes an off-budget Medicaid payment of \$288.5 million for enhanced

nursing facility rates, listed in Section 21 of the budget. Because this amount is fully funded by an assessment on the nursing facilities and matched by federal money (“federal financial participation” or FFP), this amount is not included in the totals used in this *Budget Monitor*, but is included in the Governor’s and House budget’s off-budget Medicaid totals.

### ***Pharmacy Programs***

The House amended budget makes no changes to the House Ways and Means proposal for the Prescription Advantage Program, which serves approximately 80,000 elders and low-income persons with disabilities. The program places a limit on out-of-pocket premiums and co-payments enrollees pay on their prescriptions.

The House amended budget reduces funding for Prescription Advantage from the \$110.0 million budgeted in FY 2005 to \$90.2 million in FY 2006, just slightly more than the Governor’s proposed funding level. The House proposal aims to provide sufficient funding to cover the current level of enrollment in the program in its current form through the beginning of FY 2006, and then to cover its current members as a “wrap-around” benefit when the new federal Medicare benefit is implemented in January 2006. There is no provision, however, for an “open enrollment” period for new participants in the program.

The House budget includes a line item for \$120 million to pay the federally-mandated assessment for the Medicare Part D Prescription Program (known as the “Clawback” provision). Unfortunately, this amount will likely offset most of the savings the Commonwealth could have recognized from the implementation of the federal program. Furthermore, this amount is only

an estimate at this point, and may need to be changed as more information about the program’s implementation becomes available.

### ***Other Health Care Programs***

There are two health care programs that are administered under the umbrella of the Office of Medicaid but that are technically programs for people who do not qualify for MassHealth coverage.

The House budget proposes funding for the Healthy Start program, a state-funded program that ensures prenatal care to low-income uninsured pregnant women, at a level \$1.8 million more than the previous year, and at a level \$544,000 more than the Governor’s proposal in House 1. The House proposal assumes that this budgeted amount will be sufficient to cover the anticipated caseload of 6,500 women.

Similarly, the Governor’s budget proposes funding for the Children’s Medical Security Plan, a primary and preventive health insurance program for otherwise uninsured children, at a level expected to support the anticipated caseload of 30,000 children and adolescents. The House budget proposes \$21.1 million for the program, \$871,000 more than the Governor’s proposal.

### ***Uncompensated Care Pool***

The House budget adds \$86.0 million to the House Ways and Means recommendations for funding for the Uncompensated Care Pool. The Pool pays for a portion of the costs of uncompensated care provided by health care providers such as acute care hospitals and community health centers. State payments into the Pool are matched by federal dollars (“federal financial participation” or FFP) and are also

supplemented by assessments on hospitals and private payers, as well as by intergovernmental transfers. The state payments therefore do not represent the full amount of funding available to health care providers for the partial compensation for free care and bad debt that they will accrue over the course of the year.

As the chart indicates, when comparing Uncompensated Care Pool funding across years, it is necessary to account for funding for the MassHealth Essential Program, which, has in the past, been funded by the Pool. In FY 2005, the state budgeted \$372 million for the Uncompensated Care Pool, which included \$160 million for off-budget funding of the MassHealth Essential Program. Therefore, in FY 2005 only \$212 million remained from state funding for the Pool.

	FY 2005	FY 2006 House 1	FY 2006 HW&M	FY 2006 House
Transfer from the General Fund	297.0	85.9	85.9	171.9
Surplus from 4000-0896	75.0	34.1	34.1	34.1
Sub-Total	372.0	120.0	120.0	206.0
MassHealth Essential	(160.0)	0.0	0.0	0.0
<b>Total Funding</b>	<b>212.0</b>	<b>120.0</b>	<b>120.0</b>	<b>206.0</b>

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

In FY 2006, funding for the MassHealth Essential Program has been moved on-budget as a distinct line item within the Executive Office of Health and Human Services, so funding for program need no longer be subtracted from Uncompensated Care Pool funding. To complicate matters further, the MassHealth Essential program comes on-budget starting only in October 2005, when hospital fiscal year 2005 ends. Between July 1 and September 30, 2005, approximately \$36.5 million will be

necessary in off-budget funding for the MassHealth Essential program from Uncompensated Care Pool dollars budgeted during FY 2005.

The House budget proposes \$206 million in funding for the Uncompensated Care Pool. This amount includes \$171.9 million in transfers from the General Fund and a transfer of an estimated \$34.1 million in surplus dollars in the old off-budget MassHealth Essential line item. This is \$86.0 million more than recommended by the House Committee on Ways and Means, but \$6.0 million less than budgeted in FY 2005.

In the House amendments, payments to acute care hospitals from the Pool increase from the Governor's recommended \$380.0 million to \$466.0 million. This is still \$34.0 million less than in FY 2005 when payments to acute care hospitals were \$500.0 million. Language within the House budget also indicates that \$56 million of the payments from the Uncompensated Care Pool would be earmarked for community health centers. This is an increase from the \$41 million earmarked in FY 2005.

## Public Health

The consolidated amendment modifying the House Ways and Means FY 2006 public health budget proposal made several changes, adding more than \$6.5 million to public health programs. Non-hospital spending is increased 2.1 percent above the House Ways and Means recommendation, and hospital spending is increased 0.4 percent.

<b>FY 2005</b>	<b>\$398,898,612</b>
<b>FY 2006 House</b>	<b>417,242,133</b>
<b>Increase (decrease)</b>	<b>\$ 18,343,521</b>
<b>Percentage change</b>	<b>4.6%</b>

The House added \$25,000 to the End of Life Care Commission, for a total appropriation of \$100,000. Another relatively small program receiving a significant increase over FY 2005 is the Prostate Cancer Screening Program. This program had received \$1.0 million in FY 2005, but the Governor had recommended only \$250,000. The House amendments bring funding up to \$1.3 million. Receiving funding for the first time in a separate line item since FY 2002 is the Colorectal Cancer program. The House budget recommends \$75,000 for this program. The Suicide Prevention program, funded at \$250,000 by the Governor and not recommended for funding by the House Ways and Means budget, receives \$250,000 in the House amended budget.

The immunization program received a \$2.0 million increase over the House Ways and Means recommendation, for total funding of \$27.1 million. Public health hospitals in western Massachusetts received a \$563,000 increase.

The smoking prevention and cessation programs at the Department of Public Health received a funding increase of \$500,000 in the House budget, a 13 percent increase, bringing the total appropriation to \$4.3 million. This increase, however, still represents a 92 percent decrease in funding since FY 2001, when funding for these programs totaled \$56.2 million, adjusted for inflation.

Environmental health programs receive an additional \$20,000 in the House amended budget, AIDS prevention programs receive

\$600,000 more, and the AIDS retained revenue account (rebates on AIDS drugs) received an additional \$700,000. The House budget added \$122,000 to dental services, added \$120,000 to Family Health services, and \$250,000 for community health centers.

School health services received an additional \$549,000 from the House amendments, including a new \$150,000 pilot school lunch program designed to focus on reducing childhood obesity. There is also language in this line item directing \$12.0 million towards school nurses and school-based health centers.

### **Department of Mental Health**

The House changed very little in support of mental health services. Funding for these services totals \$620.3 million, nearly \$500,000 more than the House 1 budget.

<b>FY 2005</b>	<b>\$597,245,276</b>
<b>FY 2006 House</b>	<b>\$620,314,218</b>
<b>Increase (decrease)</b>	<b>\$ 23,068,942</b>
<b>Percentage Change</b>	<b>3.9%</b>

This budget, like the House 1 budget, would increase funding to meet growing demand and costs. For example, funding for adult mental health and support services and for child and adolescent mental health services would grow respectively by \$13.4 million and \$1.1 million. The Governor proposed increases of \$12.5 million and \$1.1 million for these services.

### **Department of Mental Retardation**

The House budget provides \$1.123 billion for the Department of Mental Retardation, \$550,000 more than the House Ways and

Means Committee recommendation and \$576,000 more than the Governor.

<b>FY 2005</b>	<b>\$1,063,894,604</b>
<b>FY 2006 House</b>	<b>\$1,122,163,473</b>
<b>Increase (decrease)</b>	<b>\$ 58,818,869</b>
<b>Percentage Change</b>	<b>5.5%</b>

The final House budget includes an additional \$50,000 for community residential supports for mentally retarded individuals, bringing the total appropriation to \$499.4 million. The Governor’s proposal was slightly smaller (\$71,500 less than the House), but both are higher than the current level, which totals \$476.6 million.

The House’s appropriation for respite family supports is \$500,000 over that of the House Ways and Means Committee and the Governor. Currently, the state provides \$48.8 million for these services.

**Department of Social Services**

The House’s proposal offers \$737.5 million for the Department of Social Services, adding \$3.1 million during debate. The total amount is \$6.4 million higher than the House 1 budget.

<b>FY 2005</b>	<b>\$708,999,852</b>
<b>FY 2006 House</b>	<b>\$737,544,198</b>
<b>Increase (decrease)</b>	<b>\$ 28,544,346</b>
<b>Percentage Change</b>	<b>4.0%</b>

The House includes additional funding for services for children and families as well as for domestic violence prevention and treatment. The House adds \$2.6 million in funding for services for children and families. The House also increases funding

for domestic violence services by adding \$490,000 to this budget account. Overall, the House budget for the Department of Social Services is four percent higher than current appropriations.

**Elder Affairs**

The House amendments added \$5.3 million to funding for programs for elders. These numbers do not include the MassHealth programs administered by the Department of Elder Affairs and the senior pharmacy program, which are addressed in the “Medicaid and Other Health Care Programs” section of this *Budget Monitor*.

<b>FY 2005</b>	<b>\$196,676,585</b>
<b>FY 2006 House</b>	<b>\$204,352,734</b>
<b>Increase (decrease)</b>	<b>\$ 2,530,000</b>
<b>Percentage change</b>	<b>1.3%</b>

Included in the amendments was \$750,000 more for elder home care and case management services, of which \$75,000 is earmarked for a pilot home health care program. This brings the total home care appropriation to \$135.6 million. Like the funding level recommended by the House Committee on Ways and Means, this amount makes up for inflation, but may be insufficient to meet the home care needs of hundreds of frail elders on the waiting list.

The amendments also added an additional \$1.0 million for the Enhanced Community Options program. The House Ways and Means budget proposal had recommended a \$1.0 million increase over the Governor’s proposal, and these new amendments bring the total budget for this program, which provides extensive community-based services for frail elders, to \$39.5 million.

The House amendments add back \$200,000 to the congregate housing program, but the \$1.28 million total is still \$40,000 less than the Governor's proposal and 23 percent less than funding in FY 2001, when adjusted for inflation. Funding for the Elder Residential Assessment and Placement program, however, which supports newly homeless elders, was funded at \$50,000 by the Governor, and at \$250,000 by the House Committee on Ways and Means. The House amendments added an additional \$50,000.

The House amendments also add \$530,000 to funding for the elder nutrition program. This appropriation is a 13 percent increase over the recommendation by the House Committee on Ways and Means, but a 25 percent decrease from the level of funding in FY 2001, when adjusted for inflation.

**Other Human Services**

The House provides \$569.7 million for other human services programs, \$3.9 million more than the House Ways and Means recommendation. This level of funding is \$6.4 million more than the House 1 budget and \$12.1 million greater than current appropriations.

<b>FY 2005</b>	<b>\$555,672,842</b>
<b>FY 2006 House</b>	<b>\$567,734,709</b>
<b>Increase (decrease)</b>	<b>\$ 12,061,867</b>
<b>Percentage Change</b>	<b>2.2%</b>

The following describes a number of the adopted amendments:

- Overall funding for shelter services for homeless veterans would grow from \$3.9 million in FY 2005 to \$4.2 million in FY 2006, a \$270,260 difference. Budgets proposed by the House Ways

and Committee and the Governor increased funding by roughly \$35,450.

- Compared to the House Ways and Means and House 1 budgets, the House offers a \$2.2 million higher appropriation for emergency shelters for families, although the \$72.6 million that is proposed is lower than FY 2005. Funding for this purpose currently totals \$78.4 million.
- The House also includes additional funding for grants to youth development organizations. The House Ways and Means Committee propose to keep funding for FY 2006 at \$2.0 million, its current level. The House budget increases funding to \$2.9 million. The Governor did not include this line item in the House 1 budget.

**Environmental Affairs**

During its floor debate, the House added \$5.8 million to the House Ways and Means budget for environmental affairs, bringing the total in this area to \$194.7 million. The House 1 budget provides \$189.3 million. Compared to current appropriations, the House proposal reflects a \$59.8 million decline. However, after adjusting for what appears to be one-time funding in FY 2005, this amount is \$8.9 million or 4.8 percent higher than the current operating budget.

*Including one-time funding in FY 2005:*

<b>FY 2005</b>	<b>\$254,488,531</b>
<b>FY 2006 House</b>	<b>\$194,661,697</b>
<b>Increase (decrease)</b>	<b>(\$ 59,826,834)</b>
<b>Percentage Change</b>	<b>-23.5%</b>

*Excluding one-time funding from FY 2005:*

<b>FY 2005</b>	<b>\$185,756,791</b>
<b>FY 2006 House</b>	<b>\$194,661,697</b>
<b>Increase (decrease)</b>	<b>\$ 8,904,906</b>
<b>Percentage Change</b>	<b>4.8%</b>

The House proposes to increase funding in various areas. This budget is \$3.6 million over the House Ways and Means Committee's proposal for the Department of Conservation and Recreation. The House budget would increase funding for seasonal hires and other administrative personnel. The House also increases funding for the Department of Environmental Protection. The House adds \$100,000 to each of the budget accounts for hazardous waste site cleanup and for implementation of the Clean Air Act. The Governor essentially level-funded these line items at their FY 2005 amounts.

While the House's budget proposal for FY 2006 is nearly five percent higher than the current level, it does little to restore budget cuts over the past few years. After adjusting for inflation, this budget is 27 percent below the FY 2001 amount.

### **Housing**

Funding for the Department of Housing and Community Development (DHCD) totals \$85.9 million in the House budget proposal, \$5.4 million over the House Ways and Means recommendation and \$8.8 more than the House 1 budget. Current appropriations for DHCD are higher than the proposals by the Governor and the House only because funding for much needed services like energy assistance for low-income families and economic development grants have been included in recent supplemental budgets.

<b>FY 2005</b>	<b>\$ 95,522,284</b>
<b>FY 2006 House</b>	<b>\$ 85,927,866</b>
<b>Increase (decrease)</b>	<b>(\$ 9,594,418)</b>
<b>Percentage Change</b>	<b>-10.0%</b>

Of the \$5.4 million that the House added to the House Ways and Means budget, \$1.2 million is meant to pay for the Department's administrative costs. The House also proposes to increase appropriations in the following areas:

- Funding for Rental Assistance for Families in Transition (RAFT) would grow from \$2.0 million in FY 2005 to \$3.0 million in FY 2006. The House Ways and Means Committee proposed \$2.5 million; the Governor level-funded the program.
- The House proposes \$34.9 million for operating subsidies to public housing authorities, \$3.6 million more than the House Ways and Means Committee, but only about \$100,000 higher than current appropriations. The House 1 budget would reduce funding for operating subsidies by \$3.5 million.
- Support for housing services offered by nonprofit organizations would rise from \$821,925 to \$1.2 million in the House budget. The House Ways and Means Committee offered \$1.0 million, and the Governor proposes level-funding for these services.

### **Economic Development**

During debate, the House added \$9.9 million in economic development funding. The House proposal for FY 2006 is \$5.9 million less than current appropriations. However, removing one-time funding from the FY

2005 total reveals a \$2.6 million (or two percent) increase for the FY 2006 House budget.

*Excluding one-time funding from FY 2005:*

<b>FY 2005</b>	<b>\$ 133,674,201</b>
<b>FY 2006 House</b>	<b>\$ 127,769,564</b>
<b>Increase (decrease)</b>	<b>(\$ 5,904,637)</b>
<b>Percentage Change</b>	<b>-4.4%</b>

*Including one-time funding in FY 2005:*

<b>FY 2005</b>	<b>\$ 125,186,701</b>
<b>FY 2006 House</b>	<b>\$ 127,769,564</b>
<b>Increase (decrease)</b>	<b>\$ 2,582,863</b>
<b>Percentage Change</b>	<b>2.1%</b>

The House budget would increase funding in a number of areas. Listed below are a few examples from this proposal:

- Of the nearly \$10 million added by the House, more than half would support increased appropriations for the state's Office of Travel and Tourism. The House added \$5.1 million to the \$12.5 million included in the House Ways and Means budget. The House 1 budget provides \$12.0 million for this Office.
- Under the House budget, funding for workforce development grants for nonprofit organizations would increase from \$5.0 million in FY 2005 (\$650,000 of which is one-time funding) to \$5.6 million. The House Ways and Means Committee proposes \$4.0 million, and the Governor proposes \$3.8 million.
- Two line items which are not included in the budget proposed by the Governor and the House Ways and Means Committee would receive funding in the House budget. The House budget

includes \$500,000 for the Massachusetts Biotechnology Research Institute and \$600,000 for the Massachusetts Manufacturing Extension Partnership. Current appropriations total \$500,000 and \$850,000 respectively.

Although this budget provides increased funding in many areas, the proposed appropriations would not restore funding cuts of recent years. In real terms, the level of funding for economic development in the FY 2006 House budget is 23 percent below the FY 2001 level.

### **Public Safety**

Funding for public safety is roughly the same as in FY 2005. The House budget proposes \$1.290 billion, \$3.0 million more than the House Ways and Means Committee but \$14.6 million less than the Governor.

<b>FY 2005</b>	<b>\$1,286,977,760</b>
<b>FY 2006 House</b>	<b>\$1,290,677,473</b>
<b>Increase (decrease)</b>	<b>\$ 3,699,713</b>
<b>Percentage Change</b>	<b>0.3%</b>

During debate on the budget, the House added \$3.0 million, mostly to increase funding to pay for administrative costs: \$1.1 million would pay for state police operations, and an additional \$1.1 million would fund operations for the Department of Corrections. The House also provides extra funding for community policing programs (\$25,000) and the Criminal Justice Training Council (\$150,000).

### **Judiciary**

The FY 2006 House budget includes \$631.2 million for the Judiciary. During debate, the House added \$1.1 million to the House Ways and Means budget. The House 1

budget includes \$617.6 million for the Judiciary.

<b>FY 2005</b>	<b>\$615,206,661</b>
<b>FY 2006 House</b>	<b>\$631,198,779</b>
<b>Increase (decrease)</b>	<b>\$ 3,941,342</b>
<b>Percentage Change</b>	<b>0.6%</b>

Most of the funding added by the House will support administrative and personnel costs of the Judiciary. An additional \$1.1 million would pay for trial court administration and court security. The House also includes \$47,000 more for the Mental Health Legal Advisors Committee. The total appropriation of \$585,905 is slightly less than the current level of support. The House 1 budget consolidated funding for services provided by this committee with various other legal services organizations.

### **Group Insurance Commission**

In the amended version of the budget proposed by the House, funding for the costs of health insurance to state employees and retirees is \$1.023 billion, \$15.0 million higher than the amount proposed by the House Committee on Ways and Means. Because of under-budgeting, there is a supplemental budget request for the current fiscal year, which will bring total FY 2005 funding levels closer to the proposed budget for FY 2006.

<b>FY 2005</b>	<b>\$ 830,885,587</b>
<b>FY 2006 House</b>	<b>1,023,190,489</b>
<b>Increase (decrease)</b>	<b>\$ 192,304,902</b>
<b>Percentage change</b>	<b>23.1%</b>

The Group Insurance Commission has been hard hit by rising health care costs over the past several years. Health care inflation

continues to run at about 8 percent annually, and health insurance premiums have been increasing at rates in the double digits.

The Governor's budget, the House Ways and Means budget, and the House amended budget all differ in how they propose cost-sharing for health insurance beneficiaries. The Governor's budget proposed shifting more of the costs of health insurance onto state employees and retirees. The Governor proposed that active employees would contribute 25 percent towards the premium costs of their health insurance, and 25 percent towards their dental benefits.

The House Ways and Means budget, however, maintained the cost-sharing structure in place during FY 2005: 15 percent for employees earning under \$35,000, 20 percent for other employees, and 25 percent for all employees hired after June 30, 2003. The amended House budget added a provision that after December 31, 2005, the premium share for recent employees would be reduced to 20 percent, and the share for employees earning more than \$35,000 would revert to 15 percent.

The House estimated that the cost of these reduced health insurance premiums for employees would add \$15.0 million to the state costs of health insurance premiums. This brings the appropriation up to \$949 million, an increase of 8.6 percent more than the Governor's revised House 1 appropriation.

### **Revenue**

The House budget debate produced no direct changes in the amount of tax revenue available for FY 2006, as neither amendments to close tax loopholes nor proposals to reduce the personal income tax

rate were approved. Provisions from the budget put forward by the Ways and Means Committee, which mandated a \$380 million transfer from the Stabilization Fund to the General Fund, as well as a diversion of \$183 million in tobacco settlement related funds, were both preserved. Similarly, legislation to put an end to a variety of tax avoidance schemes, on which the Governor relied in formulating his House 1 budget proposal but which the Ways and Means Committee excluded from its version of the budget, was not added during the House's deliberations. However, as noted elsewhere in this *Monitor*, the House as a whole did increase FY 2006 spending above the levels countenanced in the Ways and Means version of the budget; there have been some indications by House leadership that, in order to offset those higher spending levels, the full House will take up some version of that tax loophole legislation – and thus generate as much as \$170 million in additional revenue for FY 2006 – once the Joint Committee on Revenue has completed its review of the matter. The Revenue Committee held its second day of hearings on the two versions of Governor Romney's tax loophole legislation – House Bill Nos. 21 and 2606 – on May 3 and is expected to produce its own draft of such legislation shortly. Finally, the House, in effect, voted down an amendment to put Governor Romney's proposed personal income tax rate reduction into the budget. That amendment would have brought the personal income tax rate to 5.0 percent, ultimately reducing tax revenue by more than \$550 million per year and overwhelmingly benefiting the wealthiest citizens in Massachusetts.

While no revenue-related policy changes were made over the course of the House budget debate, fiscal circumstances have nevertheless changed somewhat in recent

days; it remains to be seen whether such changes are lasting or ephemeral. On May 2, the Department of Revenue announced that tax collections for April 2005 amounted to \$2.024 billion, the most the Department has ever collected in one month and enough to push year-to-date FY 2005 tax collections nearly \$1 billion above the amount anticipated when the budget was enacted last summer. (Importantly, the Governor's House 1 budget proposal was premised on the assumption that FY05 tax collections would exceed initial benchmarks by roughly \$720 million, while the House budget depends on them being \$400 million above those initial benchmarks.)

It is still unclear, though, to what extent such a spike in collections reflects capital gains earned over the course of 2004 and subsequently reported in individuals' April tax returns and to what extent it is indicative of future economic growth. At the very least, even if the jump in tax collections is the result of underlying – and sustainable – economic trends, it may be unreasonable to expect that difference between actual and expected tax collections going forward will be as sizeable as it was in April.

It is also important to keep in mind that a portion of any surplus that may result in FY 2005, as well as some fraction of any higher than anticipated tax revenue in FY 2006, will need to be dedicated to plugging existing holes in the budget. For instance, the FY 2005 budget relies on approximately \$831 million in revenue from impermanent or diverted sources, including a \$340 million transfer from the Commonwealth Stabilization Fund. Similarly, the budget proposed by the Governor in January depends on accounting shift within the MassHealth program that artificially reduces state spending obligations by \$160 million in FY 2006; it depends as well on a

diversion of \$183 million in tobacco-settlement related funds, funds that, under current law, would be set aside for future purposes. The House version of the budget counts on the same tobacco settlement diversion as the Governor, plus another withdrawal from the Stabilization Fund, this time in the amount of \$380 million. Thus, while both FY 2005 and FY 2006 tax collections may prove to be significantly higher than initially anticipated, only part of those additional funds is available for restoring cuts made over the past several years.

## Spending by Program Area

(in Millions of \$)

Program	FY 2006			FY 2005*		House vs.		
	House	HWM	House 1	Nominal	in 2006 \$	HWM	H. 1	FY05
Local Aid - Lottery	761.4	761.4	761.4	736.4	752.2	0.0	0.0	25.0
Local Aid - Additional Assistance and PILOT	397.4	397.4	397.4	395.3	403.8	0.0	0.0	2.1
Local Education Aid (Ch. 70)	3,288.9	3,260.5	3,260.2	3,183.3	3,251.7	28.4	28.7	105.6
K-12 Educ (non Ch. 70) <sup>1</sup>	475.3	464.8	481.4	463.2	473.2	10.5	(6.1)	12.1
School Building Debt Assistance <sup>2</sup>	488.7	488.7	488.7	395.7	404.2	0.0	0.0	93.0
Higher Education <sup>3</sup>	926.2	920.0	921.7	946.1	966.4	6.2	4.5	(19.8)
Early Education and Care <sup>4</sup>	468.9	465.9	450.2	449.8	459.5	3.0	18.7	19.0
Income Support Programs <sup>5</sup>	597.0	596.5	579.1	601.5	614.4	0.5	17.9	(4.5)
Medicaid and Other Health Care Programs <sup>6</sup>	7,278.2	7,283.2	6,886.3	7,235.2	7,390.7	(5.0)	391.9	43.0
Public Health	417.2	410.7	412.2	398.9	407.5	6.5	5.1	18.3
Mental Health	620.3	620.3	619.9	597.2	610.1	0.0	0.5	23.1
Mental Retardation	1,122.7	1,122.2	1,122.1	1,063.9	1,086.8	0.5	0.6	58.8
Social Services	737.5	734.5	731.1	709.0	724.2	3.1	6.4	28.5
Elder Affairs	204.4	201.8	199.5	196.7	200.9	2.5	4.8	7.7
Other Health & Human Services	567.7	563.8	561.3	555.7	567.6	3.9	6.4	12.1
Environmental Affairs <sup>7</sup>	194.7	188.9	189.3	254.5	260.0	5.8	5.4	(59.8)
Transportation	149.6	147.1	162.1	180.5	184.4	2.6	(12.5)	(30.9)
Housing & Community Development <sup>8</sup>	85.9	80.5	77.1	95.5	97.6	5.4	8.8	(9.6)
Economic Development	127.8	117.9	127.1	133.7	136.5	9.9	0.7	(5.9)
Public Safety	1,290.7	1,287.6	1,305.2	1,287.0	1,314.6	3.0	(14.6)	3.7
Judiciary	631.2	630.1	617.6	627.3	640.7	1.1	13.6	3.9
District Attorneys	80.8	79.9	82.6	79.2	80.9	0.9	(1.8)	1.6
Attorney General	35.1	34.4	36.6	36.2	37.0	0.7	(1.5)	(1.1)
Libraries	28.4	27.4	27.2	27.1	27.7	1.0	1.2	1.3
Debt Service	1,793.2	1,793.2	1,793.1	1,753.8	1,791.5	0.0	0.0	39.4
Pensions <sup>9</sup>	1,275.2	1,275.2	1,275.2	1,217.4	1,243.6	0.0	0.0	57.7
Group Insurance	1,023.2	1,008.2	946.9	830.9	848.7	15.0	76.3	192.3
Other Administrative	658.0	650.5	709.2	674.4	688.9	7.5	(51.1)	(16.4)
<b>Total</b>	<b>25,726</b>	<b>25,613</b>	<b>25,222</b>	<b>25,125</b>	<b>25,665</b>	<b>113</b>	<b>504</b>	<b>600</b>

### Notes:

(1) The FY 2006 budget proposals would consolidate functions that are currently funded separately by the Department of Education and Office of Child Care Services. To enable a year-to-year comparison, the FY 2005 total adjusts for these transfers by subtracting \$81.8 million from the K-12 Education total and adding it to the total for Early Education and Care.

(2) The FY 2005 budget reduces available revenue by \$395.7 million to cover the costs of School Building Assistance; In FY 2006, revenue would be reduced by \$488.7 million. The table includes these amounts as appropriations.

(3) The higher education totals include \$30.6 million in tuition revenue retained by the campuses. The total for FY 2005 also includes supplemental funding to pay costs for FY 2004.

(4) The FY 2006 House 1 total for Early Education and Care includes funding for the Office of Child Care Services that budget keeps in a separate department. The House proposal moves these appropriations to the Department of Early Education and Care. The House total for Early Education and Care also includes \$6.0 million in a reserve account created to comply with changes to federal welfare regulations.

(5) The FY 2006 House 1 budget proposes to move a portion of funding for the State Supplement to Supplemental Security Income (SSI) to Elder Affairs for beneficiaries residing in rest homes. This appropriation is incorporated in the total for Income Support Programs and, therefore, is deducted from the Elder Affairs figure for House 1.

(6) Totals include "on-budget" and "off-budget" Medicaid, senior pharmacy, other state health care programs, and off-budget state payments into the Uncompensated Care Pool. Totals do not include \$288.5 million off-budget funding for the Health Care Quality Improvement Trust.

(7) This FY 2005 number includes all FY 2005 appropriations, including one-time funding. While all categories in this chart use that same methodology, there were an unusually large number of one-time appropriations in environmental affairs, which is why it appears that funding is cut substantially in the FY 2006 proposals.

(8) The FY 2005 budget transfers \$2.0 million from the General Fund to the Affordable Housing Trust Fund. This amount is included in the total above.

(9) Off-budget pension funding in FY 2005 totals \$1.216 billion; the FY 2006 budgets include \$1.275 billion for this purpose. These amounts are treated as appropriations for these years.

\*The totals for FY 2005 reflect total amounts appropriated to date, including one-time supplemental funding and prior appropriations that are continued for this year. The totals also incorporate off-budget spending for certain areas as noted above.