

## Examining the Governor's Plan to Close the Budget Gap

Projecting a budget gap of \$1.421 billion, on October 15<sup>th</sup> Governor Patrick announced a series of 9C cuts (see [http://www.massbudget.org/documentsearch/findDocument?doc\\_id=632](http://www.massbudget.org/documentsearch/findDocument?doc_id=632) for an explanation of 9C) and other initiatives to close the gap. This budget gap is primarily due to new projections indicating that the nation's weakened economic condition will lead to tax revenue falling \$1.1 billion below the levels anticipated when the budget was enacted. The remaining \$321 million of the gap is caused by two factors. There are a series of accounts in which spending is expected to exceed the amount appropriated. This can occur when economic conditions lead to increased need for safety net protections or when insufficient funding was appropriated initially. Finally, some non-tax revenues are projected to fall short of the amounts assumed in the budget.

This *MassBudget* brief provides an overview of the governor's plan to close the budget gap and describes what programs and services are being cut and by how much. While the spending reductions described below account for most of the Governor's solutions to the budget gap, he also proposes a transfer of \$200 million from the state's Stabilization Fund, the use of \$168 million in other revenues, such as payments the department of revenue is expected to receive from judgments and settlements, and saving \$146 million by not providing additional funding for certain programs where costs are expected to exceed the amount appropriated.

### EDUCATION

#### Early Education

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

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

## **K-12**

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

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

## **Higher Education**

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

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

## **INFRASTRUCTURE, HOUSING AND ECONOMIC DEVELOPMENT**

### **Housing and Community Development**

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

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

### **Economic Development**

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

### **Workforce Development and Labor**

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

## **ENVIRONMENT AND RECREATION**

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

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

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

## **LAW & PUBLIC SAFETY**

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

### **Courts & Legal Assistance**

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

### **Prosecutors**

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

### **Prisons, Probation and Parole**

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

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

### **Law Enforcement**

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

- The Governor eliminates all funding, \$4.0 million, for the municipal police grant program. This was one of the Governor's public safety initiatives and would have provided grants to municipalities with high crime rates in order to hire new police officers.
- Funding for the community policing grant program is cut by \$5.0 million, from \$21.4 million to \$16.4 million.
- The Governor reduces funding for the Municipal Police Training Committee, which provides training for municipal police officers and law enforcement officers from other agencies, from \$2.9 million to \$700,000. He proposes that the commissioner of insurance assess the costs associated with these training programs on companies that provide auto insurance policies in Massachusetts.
- Funding for the Department of State Police is cut by \$2.3 million, from \$256.8 million to \$254.4 million. The Governor also proposes that the commissioner of insurance assess the costs associated with hiring, equipping, and training state

police recruits on companies that provide auto insurance policies in Massachusetts.

### **Other Law & Public Safety departments**

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

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

### **HEALTH CARE**

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

#### **MassHealth (Medicaid) and Health Reform**

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

- The Governor also, in accompanying legislation, proposes reducing a supplemental payment of \$64.0 million to the Boston Medical Center, one of the Commonwealth's safety net providers. This \$64.0 million, which had been allocated to the Commonwealth Care Trust Fund to make this special payment, would be returned to the General Fund. The Governor also proposes returning to the General Fund \$5.0 million of the \$25.0 million transferred to a new eHealth Institute designed to encourage the statewide use of electronic health records.

### **Mental Health**

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

### **Public Health**

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

### **State Employee Health Insurance**

The Governor proposes a \$31.7 million cut to the Group Insurance Commission (GIC), the agency that provides health insurance for the state's current and retired employees. This reduces the GIC budget from \$1.328 billion to \$1.296 billion. The Governor also proposes shifting health insurance costs onto state employees by implementing a three-tiered employee contribution schedule. Currently, a state employee's contribution is

determined by the employee's date of hire. The Governor's proposal bases state employee contributions on salary. See the chart below for more details.

<b>Shifting Health Benefit Costs on to State Employees</b>			
<b>Current Payment Schedule</b>		<b>Governor's 9C Proposal</b>	
<b>Current State Employees</b>		<b>Current State Employees</b>	
<u>Date of hire</u>		<u>Salary Level</u>	
Before June 30, 2003	15%	< \$35,000	15%
After June 30, 2003	20%	\$35,000 - \$49,999	20%
		\$50,000+	25%

## **HUMAN SERVICES**

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

- \$4.0 million (from a \$106.7 million appropriation) for the elder home care program. The savings is achieved by changing eligibility requirements.
- \$3.1 million from the Department of Mental Retardation by closing Glavin Regional Center, an intermediate care facility in Shrewsbury that currently houses 54 residents.
- \$3.1 million (from a \$27.7 million appropriation) for the Employment Services Program (ESP). The ESP program offers education, training and job search assistance to current and former recipients of cash assistance through the Transitional Aid to Families with Dependent Children (TAFDC) program for up to one year after their financial benefits cease.
- \$1.0 million from a \$5.0 million item that was added this year to hire additional social workers within the Department of Children and Families (DCF). The additional hires would enable DCF to reduce social workers' caseloads.
- \$1.1 million (from an \$8.6 million appropriation) for a program that provides employment assistance for severely-disabled adults within the Massachusetts Rehabilitation Commission.

## **PENSIONS**

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

## **OTHER**

### **Legislative and Executive**

- The Legislature voluntarily cuts \$9.0 million from its budget and will determine specific reductions by October 31<sup>st</sup>.
- The Governor's Office voluntarily cuts \$1.2 million from its budget and will determine specific reductions by October 31<sup>st</sup>.

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

- \$2.9 million reduction in payroll and administration for child support collection within the Department of Revenue.
- \$20.0 million cut in funding for the Water and Sewer Rate Relief program. The Massachusetts Water Resource Authority will absorb this reduction in FY 2009 without increasing rates for cities and towns.