

BUDGET MONITOR

The FY 2009 House Ways and Means Budget

OVERVIEW

The House Ways and Means Committee (“HWM”) budget is a cautious, no-frills spending plan that features few new initiatives, the elimination of millions of dollars of earmarks, and a lower bottom line than that proposed by the Governor in his budget proposal (called “House 2”). As the national economy continues to weaken, this budget proposal appears to be aimed at preparing the state for challenging fiscal conditions.

While the bottom line appears to be \$168.5 million lower than the Governor’s budget, \$90.5 million of that difference relates to accounting changes: County Sheriffs have historically been funded partially by the state and partially by the counties and other sources. As a reform effort, the Governor proposed bringing that money onto the state budget and funding the sheriffs entirely under the state accounting system. The HWM proposal does not adopt this reform. After adjusting for this accounting difference, the HWM budget spends \$78 million less than House 2.

The largest differences are a number of new initiatives proposed by the Governor that the House either doesn’t fund, or funds at much lower levels than those proposed by the Governor:

- The Governor proposed \$45 million in funding for the Communities First initiative to re-direct long-term care funding away from institution-based care for elders and disabled adults and towards more flexible community-based long-term care.

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HWM, citing the likelihood that this program won't be fully operational until next spring, provides only \$15.0 million in funding.

- The Governor proposed a \$13 million increase in grants to local schools that seek to implement a longer school day or school year. The HWM budget provides only a \$2.5 million increase for this purpose.
- Compared to the FY 2008 GAA, the Governor proposed \$18.1 million in increases for additional police officers and grants to support anti-violence efforts whereas the House only provides a \$5.3 million increase. However, when compared to actual FY 2008 spending on these same grants, which includes supplemental budget appropriations, the Governor proposed \$3.1 million in increases. The House budget reduces funding by 9.7 million.

The HWM proposal does fund \$8.25 million, also included in House 2, for a new initiative to provide housing to homeless individuals and families. This funding, proposed by the Interagency Council on Homelessness, would be matched by \$1.75 million from MassHousing.

The budget also eliminates earmarks in a number of line items. In some cases, the Governor's budget had proposed replacing larger line items filled with earmarks with smaller appropriations to fund competitive grant programs aimed at the same purposes as the eliminated line items – for example, the promotion of tourism. The HWM budget does not create these grant programs, thus saving additional money. It is unclear, however, whether funding for these items will be added during the floor debate on the budget.

WHAT IS A "MAINTENANCE" BUDGET?

Throughout this document, we refer to a FY 2009 maintenance budget. Sometimes a maintenance budget is also referred to as a "current services" budget or a "level services" budget.

In brief, a maintenance budget estimates the cost of continuing the current year's service level into the next year. A maintenance budget assumes no programmatic expansions or contractions other than those previously committed to, and no policy changes that would affect funding levels.

There are a number of elements that are used to determine the FY 2009 maintenance budget. These include: any supplemental appropriations since the GAA that add new funding; any reserves that are transferred into a program account to pay additional personnel costs associated with collective bargaining agreements, any projected inflation costs, and any assumptions about projected caseloads for the following year.

Maintenance budgets also account for transfers from Purchase of Service (POS) reserves. For instance, the FY 2008 budget included a reserve account of \$23 million to pay for rate increases in human service programs. This money was allocated throughout the budget in a variety of human service programs.

Allocation of the FY 2008 Human Services Rate Reserve (1599-6901)

	<i>Amount from 1599-6901</i>
Early Education and Care	262,823
Income Supports	71,796
Health Care	542,060
Elder Affairs	2,542,341
Public Health	883,878
Mental Health	3,976,838
Mental Retardation	10,826,454
Social Services	2,159,146
Other Human Services	2,386,048
Total	23,651,385

There are some areas, most notably higher education, where the HWM budget increases funding levels above those recommended by the Governor. There are also several areas, including transitional assistance and GIC, where projected FY 2009 costs have risen since the Governor's budget was submitted (likely because of the deteriorating national economy) and the HWM budget therefore provides increased funding.

To avoid making deeper cuts, the HWM budget includes a series of tax enforcement initiatives recommended by the Governor, and relies on revenue from legislation approved by the House to reduce corporate tax avoidance and to increase the tax rate on cigarettes. This legislation is described in a MassBudget Brief available here: <http://www.massbudget.org/CorporateTaxReform.pdf>

LOCAL AID

The HWM budget proposes \$1.345 billion for unrestricted local aid to cities and towns in FY 2009. This total does not include aid for specific purposes, such as education.

FY 2008 GAA	\$ 1,345,296,219
FY 2009 HWM	\$ 1,345,296,219

Increase (decrease)	\$ 0
Percentage change	0.0%

In both FY 2007 and FY 2008, Lottery revenues failed to meet the projections on which the budget was based, forcing the state to transfer money from the General Fund to cover the shortfalls. In FY 2009, the HWM proposal anticipates this event and provides for a transfer from the General Fund in order to level-fund Lottery Aid to cities and towns. Lottery revenues are assumed to be \$810.9 million and an additional \$124.2 million will be transferred

from the General Fund into what the HWM proposal is calling the Hold Harmless Lottery Aid fund. Together, these will level fund Lottery Aid at \$935.03 million.

In addition, both Payments in Lieu of Taxes (PILOT) and Additional Assistance are level funded in the HWM proposal.

K-12 EDUCATION

The HWM budget proposes spending \$5.241 billion for K-12 education, a \$301.9 million increase over the FY 2008 GAA. This total includes Chapter 70 aid, other K-12 education aid and \$702 million for School Building Assistance, which is funded off-budget via a percentage of sales tax revenue.

FY 2008 GAA	\$ 4,939,039,932
FY 2009 HWM	\$ 5,241,036,202

Increase (decrease)	\$301,996,270
Percentage change	6.1%

Chapter 70

Chapter 70 Aid is provided to cities and towns for public education purposes. The HWM proposal would provide \$3.949 billion. This is an increase of \$223.2 million, or 5.9 percent, over FY 2008 GAA.

FY 2008 GAA	\$ 3,725,671,328
FY 2009 HWM	\$ 3,948,824,061

Increase (decrease)	\$ 223,152,733
Percentage change	5.9%

The HWM proposal mirrors the Governor's proposal. It represents an increase of 5.9 percent over FY 2008 GAA and continues the third year of reforms in the formula. (See our *Budget Monitor* on the Governor's FY 2009 proposal for further discussion: <http://www.massbudget.org/FY09GovProposal.pdf>)

Other K-12 Education Funding

The HWM budget provides \$590.2 million in funding for other K-12 initiatives, including grant programs and administration. This is an increase of \$11.5 million over the FY 2008 GAA.

FY 2008 GAA	\$ 578,668,604
FY 2009 HWM	\$590,212,141
Increase (decrease)	\$ 11,543,537
Percentage change	2.0%

While the HWM proposal marks an increase in funding over the FY 2008 GAA, it is \$46.9 million less than the Governor's proposal.

Among the cuts from the FY 2008 GAA are:

- School to Work Matching Grant program is funded at \$1.7 million, which is a \$1.13 million cut;
- Elimination of the \$5.5 million Foundation Reserve;

In comparison to the Governor's proposal, the program increases are much smaller in HWM. They include the following:

- \$33.8 million for Kindergarten Expansion Grants, which is level funding from the FY 2008 GAA and \$8.4 million less than the Governor proposed;
- \$20.6 million for METCO, which is level funding and \$1.5 million less than the Governor proposed;
- \$11.8 million for MCAS Low Scoring Student Support. This represents level funding, less several earmarks, from FY 2008 GAA. However, it is \$3.6 million less than the Governor proposed;
- \$15.5 million for Extended Learning Time Grants, an increase of \$2.5 million from the FY 2008 GAA and

\$10.5 million less than the Governor proposed; and,

- \$9.5 million for Targeted Intervention, a cut of \$625,000 from the FY 2008 GAA and \$5.3 million less than the Governor proposed.

The HWM proposal appears to include the amount necessary to fund the Special Education Circuit Breaker. This program provides relief to cities and towns for special education residential placements. According to statute, the Commonwealth is to pay 75% of the costs four times above foundation level. The HWM budget provides \$225.8 million, which is in line with the Department of Education's maintenance request. It is an increase of \$5.8 million over the FY 2008 GAA, which provided only 72 percent reimbursements to cities and towns. However, the Governor had proposed increasing this line item by \$14.3 million over the FY 2008 GAA.

Finally, the HWM budget includes an increase of \$4.3 million, from \$73.8 million to \$78.1 million, for Charter School Reimbursements. This amount is \$3.0 million below the Department of Education's maintenance estimate for FY 2009. The Governor had proposed increasing this line item by \$7.9 million

HIGHER EDUCATION

The House Ways and Means proposal would provide \$1.094 billion for public higher education. This represents a 3.8 percent increase over the FY 2008 GAA.

FY 2008 GAA	\$ 1,054,737,621
FY 2009 HWM	\$ 1,094,402,355

Increase (decrease)	\$ 39,664,734
Percentage change	3.8%

The HWM budget proposes an overall increase in Higher Education. It is not clear whether these are actual expansions or simply the funds necessary to provide level services. They include:

- \$493.24 million for the University of Massachusetts system, an increase of \$24.2 million over the FY 2008 GAA and \$3.5 million more than the Governor proposed.
- \$209.4 million for the state colleges, an increase of \$8.1 million over the FY 2008 GAA and \$1.3 million more than the Governor proposed;
- \$249.1 million for community colleges, an increase of \$8.9 million over the FY 2008 GAA and \$4.9 million more than the Governor proposed.

The proposal also contains cuts, including the following:

- Elimination of the \$13.0 million Private Fundraising Matching grant program, which was also eliminated in the Governor's budget proposal;
- In addition, the HWM proposal does not include funding for Dual Enrollment Grants, which had been proposed in the Governor's budget in the amount of \$2.0 million.

Finally, the proposal would transfer the Bay State Reading Institute into the Department of Education.

EARLY EDUCATION AND CARE

Funding for Early Education and Care in the HWM proposal totals \$581 million, a \$44.7 million or 8.3 percent increase over the FY 2008 GAA.

FY 2008 GAA	\$ 536,452,420
FY 2009 HWM	\$ 581,120,818

Increase (decrease)	\$ 44,668,398
Percentage change	8.3%

The state has three major child care programs: income-eligible child care, TAFDC child care and supportive child care.

Income-eligible child care serves lower income families with children up to 13 years of age. This program received \$209.8 million in the FY 2008 GAA. Like House 2, the HWM proposal allocates \$213.6 million to income-eligible child care. During the course of the year, \$3.1 million was transferred from the Child Care Rate Reserve to fund salary adjustments for early education and care workers. Therefore, the two proposals for this program are \$603,000, or 0.3 percent, higher than FY 2008 current spending.

TAFDC (Transitional Aid to Families with Dependent Children) child care serves families who are currently receiving or recently received TAFDC benefits. This program was funded at \$166.9 million in the FY 2008 GAA. During the course of the year, \$3.1 million was transferred from the Child Care Rate Reserve to fund salary increases for early education and care workers under this program. Under the

HWM proposal, this program would receive \$197.7 million, an increase of \$27.7 million, or 16.3 percent, over FY 2008 current spending. The HWM proposal is \$7.5 million higher than the Governor's proposal, because of a higher expected caseload.

Supportive Child Care serves families receiving services from the Department of Social Services (DSS). This program received \$67.3 million in the FY 2008 GAA. During the course of the year, \$731,000 was transferred from the Child Care Rate Reserve to fund salary increases for early education and care workers under this program. Under the HWM proposal, this program would receive \$79 million, an increase of \$11 million, or 16 percent, over FY 2008 current spending. The HWM proposal is \$2.1 million higher than the Governor's proposal, because of a higher expected caseload. Since FY 2007, the state has had a policy of providing child care for all families involved with DSS who need such care.

The HWM proposal also increases funding for the "Universal Pre-Kindergarten Program," which provides grants to pre-schools to increase the quality and to improve families' access to them. The HWM proposal boosts funding by \$3 million from \$7.1 million in FY 2008 to \$10.1 million in FY 2009. The HWM proposal is less than the Governor's recommended increase of \$15 million over FY 2008, for a total of \$22.1 million in FY 2009.

Like the Governor's budget, the HWM proposal does not include funding for the Child Care Rate Reserve. The FY 2008 budget included \$7 million for this reserve, which funds increases for early education and care workers' salaries, benefits and professional development stipends.

Like the Governor's proposal, this budget would increase funding for early education and care providers' professional development from \$3.7 million (after accounting for \$600,000 included in FY 2007 that was shifted to FY 2008) to \$4.3 million. This funding helps early childhood education and care providers to pursue professional development courses and to obtain associates and bachelors degrees.

Like the Governor's proposal, this budget would level fund both the Mass Family Networks and the Reach Out and Read Programs at \$5.4 million and \$1 million respectively. Mass Family Networks provides educational services (including family literacy activities) and family supports (including home visits, developmental screenings and parent support groups) to families with infants and toddlers. Reach Out and Read trains pediatricians and nurses to advise parents about the importance of reading aloud to their children and provides books for medical professionals to distribute to children at pediatric checkups.

The HWM budget for the Healthy Families Program (a home visiting program for teen mothers and their children) is \$172,000 higher than the Governor's proposal and \$428,000 higher than FY 2008 current spending.

INCOME SUPPORTS

Funding for income supports in the HWM proposal totals \$641.8 million, a \$42.9 million or 7.2 percent increase over the FY 2008 GAA.

FY 2008 GAA	\$ 598,932,022
FY 2009 HWM	\$ 641,843,262

Increase (decrease)	\$42,911,240
Percentage change	7.2%

The HWM proposal increases funding for the TAFDC (Transitional Aid to Families with Dependent Children) program from \$274.5 million in FY 2008 to \$302.7 million in FY 2009 because of a growing caseload. The Governor recommended a budget of \$291.4 million for this program.

The budget increases funding for the Emergency Aid to Elders, the Disabled and Children (EAEDC) program, which provides cash and limited medical benefits to about 17,000 individuals per year. The HWM proposal proposes increases funding for that EAEDC be increased from \$69.9 million in FY 2008 to \$74.8 million in FY 2009. The Governor recommended allocating \$69.1 million in FY 2009, a drop of \$804,000, or 1.1 percent, over last year's appropriation.

Funding for the Employment Services Program, which is available to individuals receiving cash assistance grants under TAFDC, would be essentially level-funded at \$27.2 million, as it was in the Governor's budget. In addition, both budgets indicate that \$7 million would be available in FY 2009 from federal reimbursements for specific education and job training/readiness services for food stamp recipients. The same amount was available in the FY 2008 budget.

HEALTH CARE

The HWM FY 2009 budget proposal includes \$10.267 billion for health care programs, a 9.6 percent increase over funding in the FY 2008 GAA. The Governor had proposed \$14.6 million more.

FY 2008 GAA	\$ 9,371,356,330
FY 2009 HWM	\$ 10,267,325,582

Increase (decrease)	\$ 895,969,252
Percentage change	9.6%

In thinking about the increases in the cost of health care from one year to another, it is important to keep several things in mind. First of all, private and public sector health care costs tend to increase more rapidly than the rate of inflation. Second, much of the Commonwealth's spending on health care is partially reimbursable by the federal government through the Medicaid program. Third, the state is implementing a series of reforms that are significantly reducing the number of people without health insurance in Massachusetts. Finally, Massachusetts recently reached a settlement (*Rosie D. v. Romney*) that will require the Commonwealth to expand mental health services for children funded through the Medicaid/MassHealth program.

In this *Budget Monitor*, we divide our analysis of Health Care into several sections. "Medicaid/MassHealth" includes Medicaid/MassHealth line items, as well as funding for Medicare "Clawback" and administrative costs associated with the Executive Office of Health and Human Services and the Office of Medicaid. It also includes the reserve designated for funding costs associated with the *Rosie D.* settlement. The totals for "Other Health Care Programs" include the Children's Medical Security Plan program, grants to encourage primary care practice, and a new

Office of Health Equity. “Health Care Finance” includes the costs of the Division of Health Care Finance and Policy, as well as the Health Care Quality and Cost Council.

In addition to the health care costs funded through line item appropriations, a significant portion of the Commonwealth’s health care – particularly the share of health care associated with the implementation of health reform – is funded through a variety of “off-budget” trust funds. These funds receive specially-designated transfers of funds from the General Fund or other sources. These transfers are explained in the section below referred to as “Health Care Transfer Spending (Health Reform).”

The HWM budget proposal assumes that \$174.6 million raised by an increase in the tobacco tax would be deposited directly into the Commonwealth Care Trust Fund to help pay for health reform. This funding has been included in the health care totals in this *Budget Monitor*.

Medicaid/MassHealth

The HWM budget proposal includes \$8.598 billion for the Medicaid/MassHealth program, \$14.6 million less than the Governor’s proposal, but \$390.6 million more than the FY 2008 GAA.

HWM includes language in its budget proposal implementing all of the benefit restorations, program expansions and rate increases associated with health reform, and also includes language that continues smoking cessation as a covered MassHealth benefit.

The most significant difference between the HWM budget and Governor’s budget is in the funding for “Communities First.” HWM recommends \$15.0 million for this program. The Communities First program is one of the Governor’s primary initiatives in the Medicaid/MassHealth program. It looks to re-direct long term care funding away from institution-based care for elders and disabled adults, and towards more flexible

community-based long term care. The Governor had recommended \$45.8 million for this program, but HWM asserts that because it will take the program close to eight months to get started, \$15.0 million should be sufficient funding in this first year of implementation.

HWM includes \$10.0 million more in funding for the Indemnity/Third Party Liability account than in the Governor’s proposal, most likely to fund an earmark of \$10.0 million targeted to provide for increased Medicaid rates for community health centers. This earmark was also in the FY2008 GAA.

Like House 2, the HWM budget targets the MassHealth program for

Health Care Programs			
<i>(in Millions of Dollars)</i>			
	FY 2008	FY 2009	FY 2009
	GAA	H.2	HW&M
Medicaid/MassHealth	8,207.9	8,613.1	8,598.5
Pharmacy Programs	60.5	57.6	57.6
Other Health Care Programs	16.9	19.2	18.2
Health Care Finance	15.6	20.5	21.9
Sub-Total Line Item Appropriations	8,300.9	8,710.4	8,696.2
Medical Assistance Trust*	251.0	251.0	251.0
Essential Community Provider Trust	28.0	28.0	28.0
Commonwealth Care Trust**	789.7	1,292.6	1,292.1
Medical Security Trust	1.8	0.0	0.0
Sub-Total Transfer Appropriations	1,070.4	1,571.6	1,571.1
Total	9,371.4	10,282.0	10,267.3

**In FY 2008, estimated spending out of the Medical Assistance Trust Fund includes significant one-time spending, including retroactive payments to providers of approximately \$375 million. The totals in this chart do not include this spending.*

***Estimated spending for FY 2008 from the Commonwealth Care Trust is \$1,073.2 million, but only \$789.7 million has been transferred so far from the General Fund. In FY 2009 House Ways and Means proposes transferring \$174.6 million in tobacco tax revenue directly into the Commonwealth Care Trust Fund.*



certain savings. Built into the recommendations are a total of approximately \$295 million in what HWM refers to as savings, including purchasing and rate reforms, care management initiatives, and administrative savings.

One notable difference between the HWM proposal and Governor's proposal, however, is that HWM does not include \$6.5 million in "savings" associated with a so-called "appropriate settings" initiative proposed by the Governor that would have re-assessed whether nursing home care remained an appropriate care option for certain elders, or whether they might be able to move into community settings.

As in the Governor's proposal, not all of these would be actual savings, however, because this total includes what are in effect one-time deferrals of payment (see details below). Furthermore, because some of these reforms require initial outlays to implement them, and because decreasing MassHealth spending results in decreased federal Medicaid revenue coming to the Commonwealth, the net impact of these cost savings is \$147.5 million. These "savings" show up in the budget as reductions in funding to the Managed Care, Senior Care, and Indemnity/Third Party Liability account line items.

Following the Governor, the HWM budget proposal finds savings from payments to providers and from administrative efficiencies, rather than finding savings by cutting benefits to members. These strategies include:

- \$53.6 million net in savings from several pay-for-performance initiatives. These initiatives withhold certain reimbursements for health care providers pending demonstration that the providers have met specified performance benchmarks. These are likely to be one-

time only savings, as these costs will be pushed into FY 2010;

- \$47.5 million in savings derived from eliminating special rates for certain health care providers and other rate changes;
- \$15.9 million (compared to the Governor's \$19.2 million) for several "right care, right setting" initiatives that focus on providing care in the least restrictive environment, and for chronic care management programs; and,
- \$9.5 million for efficient drug utilization.

Like the Governor, HWM proposes the continuation of \$3.5 million in grants to community agencies that conduct outreach to help people enroll in MassHealth and in the Commonwealth's other health care programs.

Like the Governor, HWM includes \$25 million set aside in a reserve to begin paying for the implementation of the *Rosie D. v. Romney* settlement which provides MassHealth reimbursement for mental health screenings and treatment for children. This is an increase from the \$7.8 million added to the budget during FY 2008, but only represents an estimate of what the first year cost of these new services might be.

Pharmacy Programs

Like the Governor, HWM recommends \$57.6 million for the Prescription Advantage pharmacy program for elders. This is \$2.9 million less than the FY 2008 GAA. With the continued implementation of the Medicare Part D prescription drug coverage for elders, enrollment in the Prescription Advantage program has stabilized. Nevertheless, it still remains an important part of the medical safety net for the 68,000 people who look to the program to help pay for prescriptions.

Other Health Care Programs

Both HWM and the Governor recommend \$16.5 million for the Children's Medical Security Plan. This is equivalent to the FY 2009 maintenance total, meaning that the amount should be sufficient to maintain the expected caseload.

Unlike House 2, the HWM budget did not include \$1.0 million for a new Office of Health Equity within the Executive Office of Health and Human Services. This new initiative proposed by the Governor would have been charged with developing protocols to eliminate disparities in health outcomes that could be the result of environmental, economic, social or other factors.

Both the HWM budget and the Governor's budget include \$1.7 million in grants to encourage health care professionals to choose primary care practice, the same amount that was funded in FY 2008. One of the challenges in ensuring universal access to health care has been a chronic shortage of primary care providers. These grants will provide loan forgiveness and other incentives to encourage physicians and other clinicians to practice in community health care settings.

Health Care Finance

Both the HWM budget and the Governor's budget include several relatively small health care finance accounts, and the HWM budget funds these accounts at the same level as the Governor's budget. The Division of Health Care Finance and Policy, which is responsible for administering the state's Health Safety Net (formerly the uncompensated care pool), and for rate-setting and other health care regulatory functions, receives \$17 million in the HWM budget proposal. This is a substantial

increase – 21.7 percent – over FY 2008 GAA levels, but is at the FY 2009 maintenance level.

The Governor's budget had included \$1.0 million in a reserve for Hale Hospital, but the HWM proposal increased this to \$2.4 million. Both HWM and the Governor and recommend \$1.9 million for the Health Care Quality and Cost Council, a real increase of \$500,000 over estimated FY 2009 maintenance costs.

Health Care Transfer Spending (Health Reform)

Much of the Commonwealth's health reform initiative is not paid for out of line item appropriations. Most of health reform is financed through what is commonly referred to as "off-budget" spending, which are actually transfers from the General Fund into a variety of special trust funds. Fiscal Year 2008 saw a dramatic change in health care programming, with the implementation of the first full year of the Commonwealth's health reform legislation. Like the Medicaid/MassHealth program, however, there are significant federal funds that contribute to the costs of the Commonwealth's health reform. Although the exact level of available federal funding is not yet known, the federal government typically reimburses Massachusetts for half of the costs of its health care programs for low-income people.

The Commonwealth Care Trust Fund pays for the Commonwealth Care health insurance program, certain provider rates, and the costs of the Health Safety Net. HWM recommends transferring \$1.118 billion into this fund from the General Fund. HWM also anticipates that \$174.6 million will be deposited into this fund directly as a result of a proposed increase in the tobacco tax. This total deposit of \$1.292 billion into

the Commonwealth Care Trust Fund is almost the same as the total transfer recommended in the Governor's budget.

The FY 2009 proposed transfer is an increase of \$502.9 million from the transfer of \$789.7 million in the FY 2008 GAA. (FY 2008 spending will likely be greater than this total as the costs of health reform have been greater than initially projected. The Governor has proposed an additional transfer into the Commonwealth Care Trust Fund for FY 2008 of \$153 million.)

In the FY 2009 budget, however, off-setting this increased transfer amount, the HWM and Governor's budget proposals estimate that federal revenues will also increase by \$220.3 million. Accordingly, if the federal government does reimburse the state at the levels anticipated, the net cost to the General Fund of providing more than \$500 million more in health care services would be approximately \$282.6 million.

The FY 2008 GAA projected that the Commonwealth Care health insurance program would cost \$471.9 million. Just a few months into the fiscal year, however, it became quite clear that Commonwealth Care costs were going to be substantially higher than predicted. Instead of \$471.9 million, it was expected that FY 2008 costs will actually be closer to \$618.5 million. The Legislature has not yet increased the FY 2008 transfer into the Commonwealth Care Trust Fund to cover these new unanticipated costs of Commonwealth Care. In FY 2009, the Governor's and HWM budget estimate that the costs of Commonwealth Care will increase to \$869.4 million. This amount is expected to be sufficient to cover the 225,000 people expected to enroll in the Commonwealth Care insurance program.

In addition to funding for the Commonwealth Care insurance program and

provider reimbursements, the Commonwealth Care Trust Fund transfer includes funding for the Health Safety Net (formerly the uncompensated care pool.) The Health Safety Net is funded with state funds, federal funds, and \$160 million assessments from both hospitals and insurance providers. The FY 2008 GAA included \$33.9 million transferred from the Commonwealth Care Trust Fund to the Health Safety Net Trust, for total projected spending of \$353.9 million. Actual FY 2008 costs are expected to be closer to \$517 million. The HWM budget (like the Governor's budget) includes \$63 million from state funds for the Health Safety Net, projecting total spending of \$453 million.

It is also noteworthy that the FY 2008 GAA had anticipated \$23.6 million in revenue to the fund from employers' contributions through the "fair share assessment." Actual revenues from this assessment will be closer to only \$6 million. Moreover, the administrative costs associated with implementing the fair share assessment would be subtracted from this revenue. The HWM and Governor's budget estimates anticipate \$5.0 million in available revenue from this assessment.

The HWM FY 2009 budget proposal also includes a transfer of \$251 million from the General Fund into the Medical Assistance Trust Fund, in order to make supplemental payments to certain publicly-funded health care providers. This is the same amount as transferred in the FY 2008 GAA. During FY 2008, an additional \$30 million was transferred into this fund through a supplemental budget, and there were additional significant one-time retroactive payments made from the fund. This is same amount recommended in the Governor's budget proposal.

The HWM budget proposal also includes \$28 million transferred into the Essential Community Provider Trust which is the same as the allocation in the FY 2008 GAA, and is the same amount recommended by the Governor. This fund provides grants to safety net providers and community health centers that provide health care to low-income persons across the Commonwealth.

ELDER AFFAIRS

The HWM FY 2009 budget proposal includes \$235.8 million to pay for services to elders. This budget proposal represents a 1.5 percent increase over funding levels in the initial FY 2008 GAA, and a slight decrease from the Governor’s recommended funding levels.

FY 2008 GAA	\$ 232,277,232
FY 2009 HWM	\$ 235,772,979
Increase (decrease)	\$ 3,495,747
Percentage change	1.5%

(For a discussion of the funding associated with the Prescription Advantage pharmacy program and MassHealth programs for elders such as the Senior Care Plans, nursing homes and long-term care, see the “Health Care Programs” section of this *Budget Monitor*.)

The HWM budget proposal for elder services includes \$40.4 million for elder home care administration and case management, and \$106.6 million for elder home care purchased services, essentially the same as the Governor’s proposed funding level. It is important to realize, however, that in FY 2008, elder affairs received a transfer of more than \$2.5 million from the human services rate reserve in order to cover certain increases in costs. Once taking into account these and other

costs associated with maintaining existing services provided in FY 2008, these funding levels do not represent an increase in services. In fact, the funding for elder home care in the HWM budget represents a \$700,000 decrease over projected maintenance funding levels.

Compared to estimated FY 2009 maintenance levels, the HWM budget proposal includes slight decreases in two programs:

- the elder enhanced community options program receives a proposed \$47.8 million in funding which is \$437,000 more than the FY 2008 GAA, but \$177,000 less than maintenance (the Governor had recommended \$48.0 million); and,
- the elder nutrition (lunch) program receives \$6.4 million which is \$39,000 more than the FY 2008 GAA, but \$590,000 less than maintenance.

Although the funding levels for the following programs do not represent significant increases over projected FY 2009 maintenance levels, other highlights in the elder services budget include:

- \$4.2 million for supported housing (same as the Governor);
- \$225,000 for a geriatric mental health program (same as the Governor);
- \$253,000 for a family caregivers program (same as the Governor);
- \$2.6 million for congregate housing (same as the Governor); and,
- \$7.9 million for grants for local Councils on Aging (same as the Governor).

PUBLIC HEALTH

The HWM FY 2009 budget proposal includes \$569.0 million for public health programming. This proposal represents a 2.6 percent increase over funding levels in the initial FY 2008 GAA, but an \$11.2 million reduction from the Governor's recommendation.

FY 2008 GAA	\$ 554,388,520
FY 2009 HWM	\$ 568,952,444
Increase (decrease)	\$ 14,563,924
Percentage change	2.6%

The HWM budget proposal includes \$405.2 million for non-hospital-based programming (compared to the Governor's recommendation of \$414.4 million), and \$163.8 million for hospital-based services (compared to \$165.7 million in the Governor's budget). Although this funding recommendation is an increase over FY 2008 GAA levels, it does not represent an increase over estimated FY 2009 maintenance funding. Furthermore, the HWM budget proposal is still 11.3 percent below public health funding in FY 2001, after adjusting for inflation. In other words, the cuts to public health in the beginning of this decade were so deep, annual increases in funding have not yet been sufficient to reach our previous public health funding levels.

The House Committee on Ways and Means does not follow the Governor's recommendations for certain program consolidations within public health. HWM does not consolidate funding for the state laboratory, nor does it consolidate public health administrative accounts.

HWM also does not follow the Governor's recommendation to coordinate youth violence prevention programming within the

Department of Public Health. As part of his public safety initiative, the Governor had recommended combining two separate youth grant programs into one initiative coordinated by the Department of Public Health, and funded at \$9.0 million. HWM does not consolidate the programs, and instead funds them separately for a total of \$4.0 million, slightly more than half of the total \$7.7 million in funding for youth violence prevention grants in the FY 2008 GAA.

In the HWM budget, only school health services receive funding at a level above what simply represents projected FY 2009 maintenance levels. The HWM budget proposal recommends \$17.2 million for school health services, funded at \$450,000 more than recommended by the Governor, and \$484,000 more than in the FY 2008 GAA. Within this funding, HWM recommends earmarking \$300,000 for mental health and substance abuse programming in the schools, and \$350,000 for the commission on gay and lesbian youth.

Although the funding levels for the following programs do not represent a significant increase over actual FY 2009 maintenance, other highlights in the HWM public health budget include:

- \$84.6 million for substance abuse services, funded at the same level as the Governor's budget proposal, and \$1.7 million more than in the FY 2008 GAA. Like the Governor, HWM includes \$5.0 million for a step-down recovery program;
- \$47.5 million for early intervention services, \$958,000 less than recommended by the Governor. This \$4.7 million increase over the FY 2008 GAA may not be sufficient to cover the costs associated with an anticipated growing caseload of children with more

complex needs, in particular children with diagnoses of autism spectrum disorders;

- \$51.6 million for the universal immunization program, just slightly under the funding level recommended by the Governor. This 5.8 percent increase over the FY 2008 GAA should simply cover the increased cost of purchasing vaccines;
- \$3.6 million for sexual assault services, the same amount recommended by the Governor. Although this is an amount equal to the FY 2008 GAA, like the Governor, HWM does not include \$204,000 added during FY 2008 by a supplemental budget; and,
- \$12.8 million for smoking prevention and treatment programs, essentially the amount recommended by the Governor. This is 80 percent less than funding in FY 2001 when adjusted for inflation – a time when Massachusetts was a national model for smoking prevention programming.
- \$6.0 million for Family Health Services which is \$1.4 million lower than current allocation for family planning services and \$1.3 million below the Governor’s recommendation.

The HWM budget proposal does not include an “Outside Section” that the Governor had proposed which, in the event of an emergency, would allow the Governor to transfer \$25 million from the Stabilization Fund into a special emergency account for immediate use. In the Governor’s budget proposal, among the examples of what would constitute an appropriate emergency use of such funds would have been a pandemic outbreak of contagious disease, such as influenza.

MENTAL HEALTH

The HWM FY 2009 budget proposal includes \$681.2 million for mental health programming. This proposal represents a 2.1 percent increase over funding levels in the initial FY 2008 GAA, and \$5.1 million less than proposed by the Governor.

FY 2008 GAA	\$ 667,406,853
FY 2009 House 2	\$ 681,206,827
Increase (decrease)	\$ 13,799,974
Percentage change	2.1%

The funding level for mental health is below projected FY 2009 maintenance levels, once accounting for the almost \$4 million transferred into mental health programs from the human service rate reserve.

One of the challenges for the mental health system has been that the intensive residential treatment programs have been having trouble retaining psychologists and other mental health clinicians due to the reimbursement rates paid by the state. HWM recommends \$178.8 million for the psychiatric hospitals and inpatient services, a 4.3 percent increase over the FY 2008 GAA. The Governor had recommended \$181.9 million, which would have allowed these facilities to keep up with increased costs. The HWM recommendation is likely to be insufficient for keeping up with the real costs of these services, and represents a slight cut from maintenance levels.

The HWM budget proposal also includes funding for other services that are all below FY 2009 maintenance levels:

- \$73.1 million for child and adolescent services, \$2.8 million less than the Governor’s recommendation;
- \$321.2 million for adult mental health and supportive services, \$1.3 million

less than the Governor’s recommendation;

- \$22.5 million for services for homeless persons, compared to \$22.6 recommended by the Governor; and,
- \$36.1 million for emergency services, compared to \$36.2 recommended by the Governor.

During FY 2008, the Commonwealth began implementing expanded mental health screening under the MassHealth program, associated with what is known as the “Rosie D.” settlement. This program will ultimately result in a significant expansion of mental health services for children, beginning with universal mental health screenings. Description of the funding for this program is included in the “Health Care Programs” section of this *Budget Monitor*.

MENTAL RETARDATION

Under the HWM proposal, funding for the Department of Mental Retardation (DMR) would increase \$41.1 million or 3.4 percent over the FY 2008 budget.

FY 2008 GAA	\$ 1,226,416,406
FY 2009 HWM	\$1,267,537,491
Increase (decrease)	\$ 41,121,085
Percentage change	3.4%

DMR programs provide services to developmentally disabled adults including community-based and state-operated residential facilities and day programs. The funding recommended for FY 2009 is likely less than the amount needed to continue providing current services.

The FY 2008 budget achieved temporary savings in the Turning 22 program by changing the process of enrolling individuals for services in a manner that

delayed when people would begin receiving services. As these people will now be eligible for a full year of services, total costs will rise. Because this strategy temporarily reduced costs in FY 2008, it makes the percentage increase this year at DMR appear larger than it would be if the state had paid the full year costs of Turning 22 services in FY 2008.

- Like the Governor’s budget, the HWM proposal reduces funding for the Turning 22 program from \$7.7 million to \$6.1 million, a reduction of \$1.6 million, or 20.8 percent from the FY 2008 funding level. This reduction appears to reflect both a continuation of the strategy of generating temporary savings by not providing a full year of services and assuming a reduction in the number of people receiving services.
- The budget for the Community Residential program is \$569.1 million. This is \$12.7 million or 2.3 percent more than actual spending in FY 2008, which includes an appropriation of \$547.8 million and an allocation from the Human Services Rate Reserve of \$8.6 million. The HWM proposal is \$173,000 higher than the Governor’s proposal.
- The budget for state facilities is \$187.2 million. This is \$100,000 less than actual spending in FY 2008, which includes an appropriation of \$182.8 million and two transfers, including \$2.7 million from collective bargaining and \$1.8 million from DMR’s administrative account, which received \$3 million in supplemental funds in FY 2008. Combining the FY 2008 GAA and these transfers, total spending in FY

2008 is projected to be \$187.3 million. The HWM proposal is \$972,000 below the Governor's proposal.

- The budget for work programs is \$128.9 million. This is \$4.4 million or 3.6 percent more than actual spending in FY 2008, which includes an appropriation of \$122.7 million and an allocation from the Human Services Rate Reserve of \$1.8 million. The HWM proposal is \$100,000 below the Governor's proposal.
- In FY 2009, DMR will also receive an allocation from the Human Services Rate Reserve to provide modest pay raises for low-wage workers.

SOCIAL SERVICES

The HWM budget for the Department of Social Services (DSS) totals \$834 million in FY 2009, a \$33.7 million or 4.2 percent increase over the FY 2008 budget.

FY 2008 GAA	\$ 800,095,093
FY 2009 HWM	\$ 833,758,840

Increase (decrease)	\$ 33,663,747
Percentage change	4.2%

Although the HWM budget for DSS includes a new line item that would provide \$5 million "for the improvement of service delivery in order to address concerns over child safety," it reduces funding in FY 2009 for other programs within DSS by \$2.7 million over the prior year. Specifically, the HWM budget allocates \$1.7 million less for DSS administration and \$1 million less for shelters and support services for people at risk of domestic violence. The HWM budget

for DSS is \$4.3 million below the Governor's proposal.

The HWM budget for DSS social workers is \$157.3 million. This is \$1.7 million more than actual spending in FY 2008, which includes an appropriation of \$147.3 million and an allocation from the Collective Bargaining Rate Reserve of \$8.3 million. The HWM proposal is \$3.8 million below the Governor's proposal.

The HWM budget for Group Care Services is \$229.6 million. This is \$64,000 less than actual spending in FY 2008, which includes an appropriation of \$228.2 million and an allocation from the Humans Services Reserve of \$1.4 million. The HWM proposal provides \$71,000 less than the Governor's proposal for this program, which provides community-based services to children who would otherwise be placed in residential settings.

OTHER HUMAN SERVICES

The HWM budget proposes spending \$622.3 million for all other human services programs, a \$19.7 or 3.3 percent increase over the FY 2008 budget.

FY 2008 GAA	\$ 602,668,347
FY 2009 HWM	\$ 622,347,121

Increase (decrease)	\$ 19,678,774
Percentage change	3.3%

The category in this *Budget Monitor* called "Other Human Services" includes numerous departments, including Veterans Affairs, the Soldiers' Homes, Mass. Commission for the Blind, Mass. Rehabilitation Commission, Mass. Commission for the Deaf and Hard of Hearing, the Dept. of Youth Services, administrative costs for the Department of Transitional Assistance, and certain

programs within the Executive Office of Health and Human Services.

The HWM proposal increases funding for veterans, which includes the Department of Veterans' Services, the state's soldiers' homes, and services for homeless veterans, by \$1.5 million. The HWM proposal is \$655,000 less than the Governor's proposed level of funding. The HWM proposal provides \$386,000 less than the Governor's proposal for the Soldiers' Home in Holyoke, \$200,000 less for Veterans' Homeless Shelters and \$61,000 less for the Department of Veterans' Services.

Funding for Vocational Rehabilitation for the Blind (VRB) and Community Services for the Blind (CSB) would increase \$42,000 and \$37,000 respectively in the HWM proposal. The HWM proposal provides \$72,000 more than the Governor's budget for VRB. However, the HWM proposal is \$79,000 less than the Governor's budget for CSB.

Funding for the Department of Youth Services (DYS) is \$163 million in both proposals. This is \$1.8 million more than actual spending in FY 2008, which includes \$849,000 from the Human Services Reserve, spread across three DYS programs. After taking these transfers into account, both proposals represent an \$1.8 million or 1 percent over spending in FY 2008.

Like the Governor's budget, the HWM budget provides \$25.6 million for residential services for the detained youth population, which is just 2.6 percent above FY 2008 funding. Residential and non-residential services for committed youth are level funded at \$105.5 million and \$22.8 million, respectively.

HWM proposes funding the Family Shelters account, which provides funding for non-

profit homeless shelters, at \$86.7 million, an increase of \$3.6 million over the FY 2008 GAA but a reduction of slightly more than \$200,000 over estimated maintenance funding needed to provide current level of services. The HWM proposal is \$402,619 more than the Governor's FY 2009 budget proposal of \$86.3 million. The HWM proposal also includes a requirement, included in prior years' budgets, that the legislature be notified 60 days before any reduction in benefits or eligibility because of an anticipated funding shortfall. During FY 2008, as part of an effort to reduce homelessness, the legislature added \$2.8 million to the family shelters account in a FY 2008 supplemental appropriations bill. This new funding provides "tool box" funds, such as first and last months' rent, to help families move out of shelters and into permanent housing. Both the Governor's FY 2009 budget and HWM proposals include this "tool box" funding, but they also reduces funding that is provided to shelters in the hopes that as more families move into permanent housing through the "tool box" program there will be less demand for family shelters. The HWM proposal for the Family Shelters account is likely larger than the Governor's in recognition that even though homeless families may be moved into permanent housing, there may be a greater need for family shelters given a recent weakening in the national economy. (For a discussion of the Governor's new initiative on homelessness, see the section on "Housing" in this *Budget Monitor*.)

The HWM budget also recommends \$600,000 for the Individual Development Account (IDA) program. The program was funded at the same level in FY 2008. The funds help low-income families to save for the purchase of an asset, such as a first home or small business, by matching their contributions to savings. The funds are also

used to pay for financial education workshops for these families.

While the Governor's budget would increase funding for the Citizenship for New Americans Program by \$750,000 or 150 percent, the HWM proposal would increase that funding by \$100,000, or 20 percent. This program assists legal permanent residents of Massachusetts to become citizens of the United States.

ENVIRONMENTAL AFFAIRS

The HWM budget proposes spending \$219.4 million for energy and environmental programs, an increase of \$2.6 million or 1.2 percent over the FY 2008 GAA.

FY 2008 GAA	\$ 216,723,269
FY 2009 HWM	\$ 219,358,902
Increase (decrease)	\$ 2,635,633
Percentage change	1.2%

The HWM budget for energy and the environment is almost \$5 million less than the Governor's proposal and is \$5.5 million less than the amount the state spent during FY 2008. Much of the reduction in spending in the HWM budget is due to reducing one-time earmarks and eliminating a \$3.6 million grant program for dairy farmers, funded in FY 2008, which was also not included in the Governor's budget.

The HWM recommendations for energy and environment include:

- funding the Executive Office of Environmental Affairs at almost \$7 million, the same level as recommended by the Governor;
- \$250,000 for a new grant program administered by the Department of Agriculture with the newly-created

life sciences center, to provide \$50,000 grants to test plant based pharmaceuticals; and,

- \$581,000 increase for the Department of Environmental Protection (DEP) to comply with the Regional Greenhouse Gas Initiative and the Mercury Management Act. The budget is \$137,000 lower than the Governor's proposal.

In its funding proposal for the Department of Conservation and Recreation (DCR) HWM does not include the Governor's recommendation to consolidate DCR programs (Please see our *Budget Monitor* on the Governor's FY 2009 proposal for a description of this consolidation:

<http://www.massbudget.org/FY09GovProposal.pdf>)

The budget recommends:

- \$444,000 in new funding for DCR to develop Resource Management Plans. The legislature has directed DCR to develop these plans in order to manage and maintain the state's parks;
- \$29.3 million for urban parks. The budget eliminates over \$2 million in one time earmarks for urban parks and then recommends an overall increase of \$1 million for the account. This budget is \$3 million less than the Governor's budget which recommended eliminating some earmarks and provided \$2 million in additional funds;
- \$24.4 million for state parks. The budget eliminates more than \$1 million in earmarks while increasing funding for the account by \$1 million. This is about \$1 million less than the Governor's budget which also recommended eliminating earmarks but also proposed increasing funding for state parks by \$2 million;

- \$500,000 in additional funding for parkways maintenance including street lighting and snow and ice removal. However, the budget recommends \$400,000 less than was spent on DCR parkways in FY 2008;
- level funding DCR pools at \$760,000;
- level funding DCR beaches at \$4 million after removing \$2.3 million in one-time earmarks; and,
- level funding the DCR retained revenue accounts at \$8.5 million. This is \$2 million less than the Governor's budget which recommended merging the separate retained revenue accounts into a single line-item and increasing the ceiling to \$10.8 million.

(For discussion of the Low Income Housing Energy Assistance Program, please see section on Housing.)

- \$4.0 million for the Small Business Equity Investment Fund;
- \$3.0 million for the Folkman Higher Education Grant Fund;
- \$2.1 million for the Regional Technology and Innovations Centers Capital Fund;
- \$2.0 million for the District Local Technical Assistance Fund;
- \$3.0 million for Intersection Biotech Workforce Grants; and,
- \$2.5 million for Life Sciences Biotech Workforce Grants

The HWM proposal would cut \$15.9 in earmarks in the Office of Travel and Tourism. Unlike the Governor, HWM does not create a local travel and tourism grant program to replace the earmarks. Also, the HWM proposal does not contain funding for either the MA Cultural Facilities Fund or the Commonwealth Covenant Fund, which were funded at \$5.0 million and \$3.8 million respectively for FY 2008 GAA.

ECONOMIC DEVELOPMENT

The HWM proposal provides \$185.34 million for Economic Development, a decrease of \$4.7 million from the FY 2008 GAA.

FY 2008 GAA	\$ 190,088,069
FY 2009 HWM	\$ \$ 186,138,998
Increase (decrease)	(\$ 3,949,071)
Percentage change	-2.1%

Despite the overall cut from FY 2008 levels of funding, the HWM does include several new grant programs. Included among these are:

- \$1.0 million for the Massachusetts-Israel Research and Business Exchange;
- \$2.5 million for Pediatric Stem Cell Research grants;

HOUSING

The HWM budget proposes spending \$142.4 million for the Department of Housing and Community Development (DHCD). This budget proposes a \$14.3 million or 11.2 percent increase over the FY 2008 GAA.

FY 2008 GAA	\$ 128,066,159
FY 2009 HWM	\$ 142,377,905
Increase (decrease)	\$ 14,311,746
Percentage change	11.2%

The HWM proposal is \$7.2 million lower than FY 2008 current spending. This is largely because the budget, which recommends funding increases in some programs outlined below, does not include current spending of \$15 million for the Low Income Housing Energy Assistance Program

(LIHEAP). LIHEAP, which provides fuel assistance to low-income individuals and families in Massachusetts, is generally funded in a supplemental appropriations bill each fall.

The proposed budget for housing is also \$7.4 million less than the budget proposed by the Governor. Mostly the HWM budget funds housing programs at the same level as the Governor. These include:

- \$10 million in new funding, recommended by the Interagency Council on Homelessness, to help provide permanent housing for homeless families and individuals. Of the \$10 million, \$8.75 is provided by the state and the balance by MassHousing;
- \$33 million for DHCD's Massachusetts Rental Voucher Program. While this is an increase of \$2 million over the FY 2008 GAA, DHCD expanded the voucher program mid-way through FY 2008. It is unlikely that the \$2 million increase in both the HWM and Governor's budget proposals will be adequate to fully-fund the expanded rental voucher program FY 2009; and,
- an additional \$500,000 for the rental voucher program serving disabled persons.

The HWM budget is lower than the Governor's recommendations in two housing programs. Both the Governor and the HWM budget reduced administrative funding for the DHCD from the \$10.3 million appropriated in the FY 2008 GAA. The Governor recommended a budget of \$8.4 million for the department, much of the reduction coming in eliminating earmarks. The HWM budget recommends an additional \$416,313 in cuts which include further cuts in earmarks as well as

reductions in administrative costs such as rent and other expenses.

The budget also recommends lower spending for subsidies to housing authorities than the Governor proposed. While the budget would increase funding for the housing authorities' by \$5.9 million to maintain current level of services, it does not include the Governor's \$7 million increase that housing authorities could use to address the maintenance backlog at many of its sites.

PUBLIC SAFETY & CORRECTIONS

Funding for public safety and corrections in the HWM budget totals \$1.568 billion, a \$104.9 million or 7.2% increase over the FY 2008 GAA.

FY 2008 GAA	\$ 1,463,358,402
FY 2009 HWM	\$ 1,568,304,532
Increase (decrease)	\$ 104,946,130
Percentage change	7.2%

The Governor's budget for public safety and corrections totaled \$1.701 billion, \$132.6 million more than the HWM budget. However, the Governor's figure includes \$90.5 million in funding for County Sheriffs that had not previously been counted as part of the state budget. This change is discussed in detail at the end of this section.

Therefore, the HWM budget and the Governor's budget only differ by approximately \$42 million. This difference is reflected in how the two budgets propose to fund state police officer overtime, the Department of Correction Facility Operations account and the following public safety and corrections areas.

The HWM budget proposes funding community policing grants at \$21.3 million,

the same amount appropriated in the FY 2008 GAA. These grants are distributed to cities and towns for community policing activities and programs. In contrast, the Governor's budget proposed a \$2.1 million reduction in funding by allocating only \$19.2 million for community policing grants.

However, the HWM significantly reduced funding for municipal police grants to \$2 million. The municipal police grant program, initiated by the Governor, distributes funds to municipalities with high crime rates for the hiring of additional police officers. Last year, a total of \$8 million was spent on these grants – \$4 million appropriated in the FY 2008 GAA and an additional \$4 million through a supplemental budget. This year, the Governor proposed a full \$8 million for municipal police grants to provide for the hiring of at least 100 new police officers. The HWM proposal of \$2 million is a 75 percent decrease from spending in FY 2008 and 75 percent less than the Governor's recommendation for FY 2009.

Another difference between the HWM budget and the Governor's budget is proposed funding for the Shannon Grant Program. Shannon Grants are distributed to communities to reduce gang and youth violence through prevention and intervention. Programs include job skills workshops, outreach to at-risk youth and prisoner reentry programs. Last year, the Shannon Grant Program was funded at \$11 million through a supplemental budget. FY 2009 is the first year that funding is appropriated through the regular budget process. Whereas the Governor proposed increasing funding to \$15 million, the HWM recommends maintaining funding at \$11 million.

The HWM budget proposes funding increases from the FY 2008 GAA for law enforcement programs as follows:

- \$1 million increase for the Office of the Chief Medical Examiner; the Governor's budget recommended a \$1.7 million increase;
- \$1.5 million increase for the State Police Crime Lab; the Governor proposed a \$2.3 million increase; and,
- \$300K increase for the Criminal History Systems Board; the Governor's budget proposed a \$1.1 million increase

The HWM budget proposes a reduction for one public safety department and a slight increase for another, limiting the feasibility of two of the Governor's major public safety initiatives. FY 2008 GAA funding for the Department of Fire Services totaled \$14.6 million. The Governor proposed an \$8.8 million funding increase, specifically recommending funding for the Student Awareness of Fire Education (SAFE) program, the Firefighter Equipment Grant and the Fire Safety Act. In contrast, the HWM budget reduced funding for the Department of Fire Services to \$13.4 million, a \$1.1 million or 7.7% decrease from FY 2008 funding.

FY 2008 GAA funding for the Department of Public Safety, which enforces safety regulations, totaled \$1.3 million. The HWM budget proposes a modest increase of \$80,000. In comparison, the Governor proposed an increase of \$1.4 million in funding to raise the number of inspectors and hearings officers, expecting that this will generate \$3.4 million in revenue from licensing fees and inspection violations.

As discussed above, the Governor's budget recommended transferring all County Sheriffs to the state accounting system to

promote consistency, transparency and efficiency in budgeting. The proposal would create new line items to fund the seven County Sheriffs. It would also bring \$90.5 million from the counties and other sources into the state budget to help fund the county corrections account. The HWM budget did not adopt this proposal.

TRANSPORTATION

The HWM proposed budget would increase funding for transportation by \$8.9 million over the FY 2008 GAA, from \$907.1 million to \$915.98 million. This total includes \$768.0 million in funding for the MBTA.

FY 2008 GAA	\$ 907,055,572
FY 2009 HWM	\$ 915,984,586
Increase (decrease)	\$ 8,929,014
Percentage change	0.98%

Funding for the MBTA is considered off-budget in that its revenue does not come from the General Fund. Rather, it has a dedicated revenue stream of 20 percent of sales tax revenue. This funding would increase by \$12.0 million, from \$756.0 million to \$768.0 million in FY 2009.

Funding for regional transit authorities is via the budget, and the HWM proposes an increase of \$4.4 million, from \$52.3 million to \$56.6 million, which reflects the amount necessary to maintain current services.

The HWM proposal also funds snow and ice removal at \$20.0 million, which is \$4.0 million less than the Governor's proposal and \$38.7 million less than current FY 2008 spending on this item.

JUDICIARY

The HWM budget provides \$816.8 million for the Judiciary, a \$46.6 million or 6 percent increase over FY 2008 GAA funding.

FY 2008 GAA	\$ 770,296,012
FY 2009 HWM	\$ 816,849,488
Increase (decrease)	\$ 46,553,476
Percentage change	6.0%

This budget proposes \$11 million for Massachusetts Legal Assistance, a \$1.3 million increase from the \$9.7 million appropriated in FY 2008. In contrast, the Governor's budget proposed a \$2.3 million increase, for a total appropriation of \$12 million.

The HWM also did not adopt the Governor's proposal to reform the judiciary funding system. The Governor recommended consolidating several line items and providing the Office of the Chief Justice for Administration and Management with the ability to distribute funds among the courts.

DISTRICT ATTORNEYS

Funding for District Attorneys in the HWM budget totals \$100.6 million, a \$4.4 million or 4.6 percent increase from the FY 2008 GAA.

FY 2008 GAA	\$ 96,146,577
FY 2009 HWM	\$ 100,550,492
Increase (decrease)	\$ 4,403,915
Percentage change	4.6%

ATTORNEY GENERAL

The HWM budget appropriated \$42.9 million to the Attorney General, a \$1.7 million or 4.1 percent increase over FY 2008 GAA funding.

FY 2008 GAA	\$ 41,228,214
FY 2009 HWM	\$ 42,934,738

Increase (decrease)	\$ 1,706,524
Percentage change	4.1%

GROUP INSURANCE

Funding for the Group Insurance Commission (GIC) in the HWM budget totals \$1.263 billion, an \$87.9 million or 7.5 percent increase over the FY 2008 GAA. For technical reasons (discussed below), this is an overstatement of the actual increase in spending.

FY 2008 GAA	\$ 1,174,689,284
FY 2009 HWM	\$ 1,262,618,440

Increase (decrease)	\$ 87,929,156
Percentage change	7.5%

The HWM budget also proposes approximately \$20 million more in funding for the GIC than the Governor's budget proposed last month. New information has been made available to the HWM since the release of the Governor's budget. The \$20 million increase can be attributed to two factors. First, there has been a 6.5% increase in employee insurance premiums from last year's rates, which is higher than the figure used in the Governor's budget. Second, perhaps due to the current economic downturn, state employees are now enrolling their dependents onto the GIC insurance plan.

The majority of GIC appropriations are spent on two accounts. The first covers the costs of providing benefits to current employees and some retirees. FY 2008 GAA funding for this account totaled \$736.9 million. The HWM budget appropriates \$782.0 million, which would appear to be a \$45.1 million or 6.1 percent increase in spending.

However, several municipalities and other public employers¹ have joined the GIC since last July, when legislation was enacted allowing them to join the state's health insurance plan. The GIC anticipates spending \$25.1 million in FY 2009 for additional health insurance premiums for the new participants. The state will then be reimbursed over the course of the year by these public employers. Therefore, to make a meaningful comparison to FY 2008 funding, we must subtract the \$25.1 million in reimbursements from the \$782.0 million appropriated, leaving \$756.9 million. The difference between FY 2008 spending of \$736.9 million and the adjusted FY 2009 figure of \$756.9 million is \$20 million, or a 2.7 percent increase in spending.

Healthcare costs, however, are rising at the much higher rate of 6.5 percent. In addition, more people are expected to be covered by the GIC, which will increase its overall costs. The HWM budget chose to handle this increase by shifting approximately \$57 million of state employees' health insurance costs onto state employees. The budget, like the Governor's budget, recommends establishing state employees' contributions to health insurance respective to their salary levels. Details of the proposal are presented in the chart below. This \$57 million in

¹ Eligible local governmental employers are cities, towns, districts, counties, regional councils of government (RCGs) and regional planning agencies (RPAs), educational collaboratives and charter schools.

employee contributions will help offset rising healthcare costs in FY 2009.

The second largest account within the GIC is for the State Retiree Trust Fund, which was created to set aside funds for retirees' future health care costs. Funding for this account in the HWM budget totals \$378.0 million, a \$34.8 million increase from the \$343.2 million funded in the FY 2008 GAA. The Governor's budget allocated \$382.9 million for this account.

2009 proposal assumes this higher level. In addition, this proposal represents decreases in both the Central Artery debt service and Grant Anticipation Notes compared to their levels in the FY 2008 GAA.

REVENUE

Revenue

On January 8, 2008, the Secretary of Administration and Finance and the Chairpersons of the House and Senate Ways and Means Committees announced the official tax revenue estimate for FY 2009. They project that tax revenue will total \$20.987 billion in FY 2009; this is an increase of \$762 million, or 3.8 percent, over the revised FY 2008 projection provided by the Secretary of Administration and Finance in October, 2007 (of \$20.225 billion).

Shifting Health Benefit Costs on to State Employees

Current Payment Schedule		HWM Committee Proposal	
Retirees		Retirees	
<u>Retirement date</u>		<u>Retirement date</u>	
Before July 1, 1994	10%	Before July 1, 1994	10%
On or after July 1, 1994	15%	On or after July 1, 1994	15%
Current State Employees		Current State Employees	
<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%

DEBT SERVICE

The HWM proposal reflects increased costs for debt service, which would grow from \$1.952 billion to \$2.002 billion.

FY 2008 GAA **\$ 1,952,103,701**
FY 2009 HWM **\$ 2,001,635,000**

Increase (decrease) **\$ 49,531,299**
Percentage change **2.5%**

The HWM proposed budget represents a normal increase in long term debt service costs. However, it also includes an increase in short term debt service costs. This increase is driven by the current year's increased use of short term debt instruments necessitated by cash flow issues. The FY

As the economy has been slowing, two taxes in particular are expected to show trends that will lead to weakened overall tax revenue growth. The corporate and business taxes are expected to decline by 3.2 percent in FY 2009 and capital gains taxes collections are expected to be flat.

The HWM budget proposal incorporates several tax policy changes that enhance tax collections. The budget also relies on recently-passed legislation to close corporate tax loopholes and to raise corporate taxes.

Enhanced Tax Collections

The HWM budget includes proposals to enhance tax collections originally made by the Governor. These changes are projected to increase revenue by \$166 million in FY

2009. Among these proposals are a continuation of funding for additional auditors at the Department of Revenue, tobacco tax reforms, wage enforcement efforts, increased lien filings, increased penalties for tax evasion, and a repeal of two specific tax exemptions.

Additional Tax Auditors Initiative

The FY 2008 budget included funding to hire 87 additional auditors at the Department of Revenue. Funding for these auditors would continue in FY 2009 and their efforts are projected to result in an estimated \$60 million in additional revenue.

Tobacco Tax Reforms

The HWM proposes using encrypted tax stamps to address the problem of counterfeiting. This new technology would allow the state to track packs of cigarettes throughout their distribution and sale in order to ensure proper tax collection. This change is projected to result in an additional \$12 million in FY 2009.

The HWM also proposes taxing cigars and smoking tobacco in the same fashion as cigarettes and smokeless tobacco, at the wholesale level. Currently, cigars and smoking tobacco are taxed at the retail level, where current law does not require licensing. By modifying the law to tax these products at the wholesale level it is projected to result in an additional \$11 million in FY 2009.

Finally, the HWM proposal includes a requirement that wholesalers charge and collect a prepaid sales tax from cigarette retailers. This change would address the problem of cigarette retailers not collecting the sales tax. This change is projected to result in an additional \$10 million in FY 2009.

Wage Enforcement Efforts

Misclassification of employees costs the Commonwealth millions of dollars in lost revenue each year. For example, when employees are improperly classified as independent contractors, their employers do not withhold taxes and sometimes those taxes are not paid. This initiative would bring together the Attorney General, Department of Industrial Accidents, and the Division of Unemployment Assistance in a statewide effort to address this problem. The visibility of the program is expected to increase voluntary compliance and is projected to result in an additional \$30 million in FY 2009.

Lien Filings

There are over 20,000 people with taxes due to the Commonwealth, for a total of over \$63 million. However, the filing of liens is a labor-intensive and costly process. The HWM proposes that the Department of Revenue reallocate its resources such that more liens will be recorded. This increased enforcement is projected to bring the Commonwealth an additional \$6 million in FY 2009.

Increased Penalties for Tax Evasion

The HWM proposes increasing two fees imposed by DOR on delinquent taxpayers. First, the Department would increase its late pay penalty (over 30 days) from 0.5% to 1.0%, which would bring the state an additional \$12 million in FY 2009. Second, the DOR would increase its one-time fee for late payments from \$5 to \$30, which is projected to result in an additional \$4 million in FY 2009.

The HWM also proposes allowing the Department of Revenue to collect an estimated payment of taxes incurred by out-of-state sellers of Massachusetts real estate. Out-of-state sellers are subject to capital gains taxes for real estate sold in

Massachusetts. Allowing the Department to collect an estimated payment of taxes promotes compliance by providing out-of-state sellers with incentives to file proper income tax returns in the state. This is projected to result in an additional \$2 million in FY 2009.

Finally, the HWM proposes revoking driver's licenses for nonpayment of taxes. The threat of revocation and the enforcement there from is projected to result in a \$7 million increase in revenue for FY 2009.

Reduction of Tax Exemptions

The HWM proposes repealing the sales tax exemption for aircraft and aircraft replacement parts enacted in 2001, which is projected to result in an additional \$8.8 million in FY 2009. The HWM also proposes eliminating the sales tax exemption for household insect sprays and lawn chemicals except when purchased by farmers and licensed applicators, which is projected to result in an additional \$3 million in FY 2009.

Stabilization Fund

The HWM proposal includes several actions relating to the Stabilization Fund, totaling approximately \$427.0 million. These changes include: the transfer of \$229.0 million from the Stabilization Fund to the General Fund; foregoing the statutory contribution to the Stabilization Fund (approximately \$107.0 million); and, transferring the interest earned on the Stabilization Fund in FY 2009, which is \$91.0 million.

Budget by Program Area

(in Millions of Dollars)

Program Area ¹	FY 2008		FY 2009		HW&M vs. H.2	
	GAA	Current	H.2 (Gov.)	HW&M		
Budgeted Appropriations	28,234.6	28,721.2	30,119.2	29,776.1	(343.1)	-1.1%
<i>Line-Item Appropriations</i>	25,873.1	26,329.7	27,229.7	27,051.4	(178.3)	-0.7%
<i>Outside Section Appropriations</i>	2,361.5	2,391.5	2,889.5	2,724.7	(164.8)	-5.7%
Local Aid - Lottery	935.0	935.0	935.0	935.0	0.0	0.0%
<i>Line-Item Appropriations</i>	0.0	0.0	0.0	0.0	0.0	
<i>Outside Section Appropriations</i>	935.0	935.0	935.0	935.0	0.0	
Local Aid - Additional Assistance & PILOT	410.3	410.3	411.7	410.3	(1.4)	-0.3%
K-12 Education (Chapter 70)	3,725.7	3,725.7	3,948.8	3,948.8	0.0	0.0%
K-12 Education (non-Chapter 70)	578.7	581.0	637.2	590.2	(46.9)	-7.4%
Higher Education	1,054.7	1,091.1	1,087.7	1,094.4	6.7	0.6%
Early Education and Care	536.5	537.3	584.0	581.1	(2.9)	-0.5%
Income Supports	598.9	603.7	624.2	641.8	17.6	2.8%
Health Care ²	9,371.4	9,431.3	10,282.0	10,267.3	(14.6)	-0.1%
<i>Line-Item Appropriations</i>	8,300.9	8,330.8	8,710.4	8,696.2	(14.2)	-0.2%
<i>Outside Section Appropriations</i>	1,070.4	1,100.4	1,571.6	1,396.6	(175.0)	-11.1%
Elder Affairs	232.3	235.5	236.0	235.8	(0.2)	-0.1%
Public Health	554.4	557.1	580.2	569.0	(11.2)	-1.9%
Mental Health	667.4	671.4	686.3	681.2	(5.1)	-0.7%
Mental Retardation	1,226.4	1,240.3	1,267.4	1,267.5	0.2	0.0%
Social Services	800.1	802.9	838.0	833.8	(4.2)	-0.5%
Other Human Services ³	602.7	589.7	624.7	622.3	(2.4)	-0.4%
Environmental Affairs	216.7	224.8	224.3	219.4	(5.0)	-2.2%
Economic Development	190.1	223.5	174.7	186.1	11.4	6.5%
<i>Line-Item Appropriations</i>	177.3	210.7	174.7	171.0	(3.7)	-2.1%
<i>Outside Section Appropriations</i>	12.8	12.8	0.0	15.1	15.1	
Housing	128.1	149.6	149.8	142.4	(7.4)	-5.0%
Transportation	151.1	233.9	153.2	148.0	(5.2)	-3.4%
Public Safety & Corrections ⁴	1,463.4	1,572.7	1,700.9	1,568.3	(132.6)	-7.8%
Judiciary	770.3	791.8	815.7	816.8	1.1	0.1%
District Attorneys	96.1	101.7	101.3	100.6	(0.7)	-0.7%
Attorney General	41.2	41.2	43.3	42.9	(0.3)	-0.7%
Libraries	32.5	32.9	33.4	33.3	(0.1)	-0.2%
Group Insurance	1,174.7	1,176.1	1,242.4	1,262.6	20.2	1.6%
<i>Line-Item Appropriations</i>	831.4	832.9	859.5	884.6	25.2	2.9%
<i>Outside Section Appropriations</i>	343.2	343.2	382.9	378.0	(4.9)	-1.3%
Other Administrative	724.0	808.8	753.9	750.0	(3.9)	-0.5%
Debt Service	1,952.1	1,952.1	1,983.2	2,001.6	18.4	0.9%
Pre-Budget Transfers from General Fund⁵	2,789.3	2,789.3	2,935.0	3,109.6	174.6	5.9%
School Building Assistance	634.7	634.7	702.0	702.0	0.0	0.0%
Pensions	1,398.6	1,398.6	1,465.0	1,465.0	0.0	0.0%
MBTA	756.0	756.0	768.0	768.0	0.0	0.0%
Commonwealth Care Trust Fund (health reform)			0.0	174.6	174.6	
Total Appropriations and Other Uses	31,023.9	31,510.5	33,054.2	32,885.7	(168.5)	-0.5%
Total adjusting for the Governor's proposed reorganization of the Sheriffs' offices			32,963.7	32,885.7	(78.0)	-0.2%

1. The comparisons account for changes associated with consolidations or moving programs from one department to another.

2. Health Care includes Medicaid/MassHealth, other state health programs, the elder pharmacy program, health care finance, the Health Safety Net and other costs associated with health reform. See also pre-budgeted transfer of tobacco tax dollars into Commonwealth Care Trust Fund.

3. Other Human Services includes numerous departments, including Veterans Affairs, Mass. Commission for the Blind, Mass. Rehabilitation Commission, Mass. Commission for the Deaf and Hard of Hearing, the Soldiers' Homes, the Dept. of Youth Services, administrative costs for the Department of Transitional Assistance, and certain programs directly within the Executive Office of Health and Human Services. The FY 2008 GAA includes the total for the human service rate reserve, but the FY

4. The Governor's FY 2009 budget proposal brought "on-budget" the costs of seven county sheriffs, so the H.2 total reflects this reorganization and includes approximately \$90.5 million for the costs of those sheriffs' offices. In prior years and in the HW&M budget these "off-budget" costs are not included in the totals in this chart.

5. By law, prior to the appropriations process, the state allocates certain shares of revenue to the state pension fund, the school building assistance fund, and the Massachusetts Bay Transit Authority. House Ways and Means also proposes that revenues raised from increases in the cigarette tax go directly to the Commonwealth