

BUDGET MONITOR

The FY 2008 Senate Ways and Means Budget

INTRODUCTION

Shortly after the House completed its debate on the FY 2008 budget, the state Department of Revenue published its report on tax receipts for April. That report showed receipts for the month had been \$115 million lower than the benchmark from the joint revenue estimate adopted in January 2008. While technical issues likely account for a portion of that decline and there are often wide fluctuations from month-to-month, nonetheless the state is clearly in a different fiscal environment than it was last year when collections were consistently exceeding projections.

It was in this context of slow and uncertain revenue growth that the Senate Ways and Means Committee produced its budget. The proposal spends significantly less than the final House budget, but an amount similar to the proposals put forward by the House Ways and Means Committee and the Governor.

Like the House, the Senate Ways and Means Committee would spend more on K-12 and higher education than the Governor proposed. This budget proposal also funds a portion, but not all, of the new initiatives proposed by the governor for additional police officers and to make new vaccines available for children. In addition, the Senate Ways and Means budget introduces an innovative plan to use future surpluses, if

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available, to invest in economic development initiatives.

Like the House budget, the Senate Ways and Means proposal is not structurally balanced. It uses \$375 million from reserve funds and suspends a required \$100 million end-of-year deposit to the Stabilization Fund. While the structural gap in this budget is

\$175 million less than the gap in the House proposal, a structural gap of nearly \$500 million during a period of economic recovery is troubling. If such structural gaps persist, the state will be ill-prepared to weather the next recession. The Governor had proposed closing this gap and building a more solid fiscal foundation for the state by reforming the state's tax laws to reduce tax avoidance. This option was not available to the Senate because the state constitution requires revenue measures to originate in the House and the House did not include these measures in its budget proposal.

This Budget Monitor compares the Senate Ways and Means Committee's FY 2008 budget proposal to FY 2007 ongoing spending as well as the budget proposals of the Governor and the House.

ANALYSIS OF SPENDING BY PROGRAM AREA

In the descriptions of spending by program areas that follow, we compare FY 2008 spending to FY 2007 ongoing spending. FY 2007 ongoing spending is the total amount appropriated (in the original FY 2007 budget and supplemental budgets) reduced by any one-time spending that was paid for in FY 2007. For totals by program area, see the chart at the end of this *Budget Monitor*.

It is important to note that the costs of providing government services rise with inflation – and in some areas, like health care, faster than overall inflation. Therefore, appropriation increases of only one or two percent are likely to result in actual cutbacks in services and do not represent real increases in resources.

Throughout this document House 1 refers to the Governor's budget proposal.

LOCAL AID

The Senate Ways and Means budget provides \$1.345 billion for unrestricted local aid to cities and towns in FY 2008, a \$17.5 million increase over FY 2007. The Senate Ways and Means proposal matches that of the Governor and is \$200,000 less than the House proposal as a result of slightly lower funding for racing distribution payments. This total does not include aid designated for particular purposes, such as career incentive compensation for police officers. Despite these increases, unrestricted local aid to cities and towns under the Senate Ways and Means budget, after adjusting for inflation, remains \$178 million, or 11.7 percent, below FY 2001 levels.

FY 2007 Ongoing	\$1,327,596,219
FY 2008 Governor	\$1,345,096,219
FY 2008 House	\$1,345,296,219
FY 2008 SW&M	\$1,345,096,219

<i>FY 2007 Ongoing to FY 2008 SW&M</i>	
Increase (decrease)	\$17,500,000
Percentage change	1.3%

For FY 2008, the Governor, House, and Senate Ways and Means Committee budgets increase lottery aid to cities and towns by \$15.0 million. Because lottery aid is the distribution of the state's lottery profits, this increase assumes that lottery revenues will grow by at least \$15.0 million over the next fiscal year.

The additional assistance category of aid is level-funded at \$379.8 million, unchanged since FY 2004. The Senate Ways and Means Committee proposes to increase funding for the Payment in Lieu of Taxes (PILOT) program, for communities with state-owned land, by \$3 million or 11.9 percent. Again, this matches the proposals of the Governor and the House.

Finally, the Senate Ways and Means Committee proposes to fund racing distribution payments, to communities where racing takes place, at \$2 million, a decrease from the \$2.5 million in FY 2007. The Governor also proposed funding racing distribution payments at \$2 million, while the House proposed \$2.2 million.

K-12 EDUCATION

For FY 2008, the Senate Ways and Means Committee proposes appropriating \$4.292 billion for K-12 education operations, a \$247.8 million or 6.1 percent increase over the ongoing level of funding in FY 2007. In addition to appropriated funds, a portion of all sales tax revenue (\$634.7 million), will be used for the School Building Assistance Fund. This is a \$77.7 million, or 13.9 percent, increase over the FY 2007 level.

The Senate Ways and Means Committee proposes about \$34 million more in K-12 education funding than the Governor proposed, but about \$8 million less than the House budgeted.

FY 2007 Ongoing	\$4,601,249,845
FY 2008 Governor	\$4,892,650,331
FY 2008 House	\$4,934,480,098
FY 2008 SW&M ¹	\$4,926,722,139

<i>FY 2007 Ongoing to FY 2008 SW&M</i>	
Increase (decrease)	\$325,472,294
Percentage change	7.1%

Chapter 70 Aid

Chapter 70 Aid is provided to cities and towns for public education purposes. Prior to the release of all legislative budget proposals, the House and Senate completed

¹ This chart includes School Building Assistance Fund spending, increased by \$77.7 million in FY 2008.

a joint resolution on local aid to cities and towns. The Senate Ways and Means budget follows that resolution in the calculation of Chapter 70 Aid. Overall, the joint legislative resolution provides \$3.726 billion, a \$220 million, or 6.3 percent increase over FY 2007. This also reflects a \$20.2 million increase over the Governor's proposed Chapter 70 funding.

FY 2007 Ongoing	\$3,505,520,040
FY 2008 Governor	\$3,705,486,690
FY 2008 House	\$3,725,671,328
FY 2008 SW&M ²	\$3,725,671,328

<i>FY 2007 Ongoing to FY 2008 SW&M</i>	
Increase (decrease)	\$220,151,288
Percentage change	6.3%

In the 1993 Education Reform Act, a particular measure of inflation was identified as the appropriate measure of inflation for education costs and for Chapter 70 Aid (M.G.L.c. 70, § 2). If this measure of inflation is used to account for increasing costs of providing education, the funding proposed in the Senate Ways and Means budget is about \$353 million or 8.7 percent less than the amount of funding provided in FY 2002.

In FY 2007, the Legislature first implemented a new formula for Chapter 70 designed primarily to provide additional aid to communities that were paying locally for a high percentage of their foundation budget and also to provide additional funding to high-growth communities. The Senate Ways and Means budget, following the joint legislative resolution, continues these reforms.

Our *Budget Monitor* on the FY 2008 House budget provides greater detail on the various

² This total does not include a \$3.5 million foundation budget reserve included in the Senate Ways and Means proposal. See the "Other K-12 Education Funding" section of this report.

revisions to the Chapter 70 formula and can be found at: <http://www.massbudget.org/article.php?id=589>.

Other K-12 Education Funding

The Senate Ways and Means Committee proposes to fund K-12 education operations, programming, and grants at \$566 million for FY 2008, a 5.1 percent increase over the \$539 million in ongoing funding provided in FY 2007. The Senate Ways and Means proposal is \$7.7 million less than the level of funding in the House proposal and \$13.9 million more than the Governor proposed.

FY 2007 Ongoing	\$538,729,805
FY 2008 Governor	\$552,463,641
FY 2008 House	\$574,109,066
FY 2008 SW&M	\$566,350,811

<i>FY 2007 Ongoing to FY 2008 SW&M</i>	
Increase (decrease)	\$27,621,006
Percentage change	5.1%

While the Senate Ways and Means budget appears to provide about \$2.6 million more in funding for the Department of Education’s administrative budget than the Governor’s plan, this reflects differences in accounting for particular costs rather than different funding levels. In particular, the Senate Ways and Means proposal, as did the House proposal, shifts funding for personnel managing several programs from the line item for the programs to the administrative line item. This effectively makes the Senate Ways and Means proposal and the House proposal appear to provide more funding for the Department’s administration and less for particular programs than the Governor’s budget; however, the budgets are actually funding administration and these grant programs at about the same level. Administration and these particular programs are also funded at about the same level as they were in FY 2007.

The administrative line item for the Department of Education includes a \$150,000 earmark to pay for a study of the foundation formula’s adequacy for calculating the required amount each school district should spend per year. This earmark was not included in the proposals of the House or Governor.

While the House proposed funding the Office of Educational Quality and Accountability at \$3 million, the Senate Ways and Means Committee and the Governor eliminate funding for this Office. As with the Governor’s proposal, the Senate Ways and Means Committee appropriates \$300,000 for a study of educational accountability systems.

The Senate Ways and Means budget for the Department’s administration also includes a \$150,000 earmark for programs promoting the safety and support of gay and lesbian students. This matches an earmark from the House proposal.

The Senate Ways and Means Committee, like the Governor and House, doubles funding for extended time learning grants to \$13 million for FY 2008.

While the Governor had proposed a \$12.2 million increase in funding for kindergarten expansion grants, the Senate Ways and Means Committee proposes to increase funding by \$6.6 million. This is \$2.8 million more than the House proposed for these grants.

The Senate Ways and Means Committee proposes to level-fund the METCO voluntary school desegregation program at \$19.6 million. This matches the Governor’s proposal, but is \$1 million less than the House provided.

Other programs proposed for a funding increase in the Senate Ways and Means budget include the following.

- The Special Education circuit breaker program, which provides funds to school districts with extraordinary special education costs, would increase by about \$12.3 million or 5.9 percent. This is about \$10 million more than the Governor's request and \$1 million more than the House budgeted. The Senate Ways and Means Committee includes an earmark, also found in the House budget, of \$300,000 to fund six collaborative networks providing transportation coordination functions for students with special needs.
- Funding for targeted intervention in districts or schools at-risk of receiving an under-performing determination is proposed to receive a \$4.1 million or 82.8 percent increase, whereas the Governor had proposed a much lower increase for this item.
- The Senate Ways and Means Committee proposes an 11.5 percent increase in funding for MCAS remediation grants to school districts, boosting the funding level to \$11.6 million. Despite this, after adjusting for inflation, funding for MCAS remediation grants remains \$36 million or 75.6 percent below the FY 2001 level of funding.
- The proposal includes a \$4.7 million increase for the state's education technology program, the same amount the House proposed and about \$500,000 less than the Governor requested.
- Funding for regional school district transportation costs is increased by \$1.8 million over FY 2007 levels, to \$57.3 million. This matches the House proposal.

While many programs of the Department of Education receive modest increases under

the Senate Ways and Means budget, several programs face cuts. For example, the Department's Adult Basic Education program is cut by \$1.4 million, or 4.7 percent, from the FY 2007 ongoing level of funding. This differs from the Governor's proposal, which basically level-funded the program. The House proposed cutting funding by about \$600,000.

Funding for professional development related to English language acquisition programs is cut by about \$129,000 or 25.8 percent under the Senate Ways and Means budget. The House proposed a \$250,000 increase for this program.

Foundation Reserve

As in prior fiscal years, the Senate Ways and Means budget includes a reserve to fund shortfalls in Chapter 70 education aid to cities and towns (commonly called a "pothole" account). For FY 2008 Senate Ways and Means includes \$3.5 million for this purpose, a \$1 million decrease from the amount included in the FY 2007 budget and \$2 million less than was included in the House budget.

Communities can apply for funds from the foundation reserve if they meet particular criteria. While some criteria for additional funding match those of prior years, others are new in FY 2008. Following are the circumstances under which a community can apply for additional aid from the Foundation Reserve under the Senate Ways and Means budget.

- A community has an extraordinarily large increase in their required local contribution from FY 2007 to FY 2008.
- A community has an increase of greater than 25 percent in their required contribution to a regional district.
- A regional school district is changing its method of assessing member towns.

- A community is affected by stresses in the agricultural, fishing, or lobster industries and has a local contribution that is 75 percent or more of its foundation budget.
- A community is affected by shortfalls in Federal impact aid for the education of children of families employed on military reservations within the community's borders.
- A regional school district is low-density, faces declining enrollment, and has a target aid percentage greater than 50 percent.
- A district that receives less Chapter 70 aid in the House budget than was received under the Governor's proposal and meets the following criteria: 1) an aid increase from FY 2007 to FY 2008 of less than 10 percent; 2) required net school spending at 100 percent of foundation budget; and, 3) a loss of foundation enrollment between FY 2007 and FY 2008.

HIGHER EDUCATION

The Senate Ways and Means Committee proposes to spend \$1.051 billion on public higher education in FY 2008, a \$19.3 million, or 1.9 percent, increase over FY 2007 ongoing spending. This is \$12.9 million more in funding than was proposed by the Governor and \$4.1 million less than the House proposed.

If Senate Ways and Means' proposal for FY 2008 were adopted, higher education funding, after adjusting for inflation, would remain \$249 million or 19.2 percent below FY 2001 levels.

FY 2007 Ongoing	\$1,031,541,911
FY 2008 Governor	\$1,037,954,557
FY 2008 House	\$1,055,020,695
FY 2008 SW&M	\$1,050,887,621

<i>FY 2007 Ongoing to FY 2008 SW&M</i>	
Increase (decrease)	\$19,345,710
Percentage change	1.9%

Under the Senate Ways and Means proposal, funding for the University of Massachusetts system, the state college system, and the community college system is increased by \$18.1 million, \$5.3 million, and \$9.4 million, respectively. These increases are identical to those proposed by the House. Overall, the House and Senate Ways and Means Committee propose increasing funding for public higher education institutions by \$32.8 million, while the Governor increased overall funding by \$16.4 million.

Spending by Higher Education Institutional Level				
	FY07 Ongoing	FY 08 Gov.	FY 08 House	FY08 SW&M
University of Massachusetts	450.9	462.0	469.0	469.0
State Colleges	210.5	212.1	215.8	215.8
Community Colleges	231.3	235.0	240.7	240.7
Total	892.8	909.1	925.5	925.5

The Senate Ways and Means Committee did not follow the Governor's proposal of consolidating line items for state colleges and community colleges, instead electing to separately appropriate money for each institution.

While the Governor proposed level-funding for the Massachusetts State Scholarship Program, the primary budget item for financial aid, the Senate Ways and Means Committee proposes increasing funding by \$2.1 million or 2.3 percent. This is \$2.7 million less than the House proposed. This line item, after adjusting for inflation, has slowly eroded since FY 2001.

Some proposed increases in the Senate Ways and Means budget are offset by cuts in other areas. For example, a fund established to give incentives to the state's higher education institutions to raise private philanthropic dollars receives zero funding, down from \$13 million in FY 2007. The Governor and House also provided no funding for this item.

EARLY EDUCATION AND CARE

The Senate Ways and Means Committee proposes to spend \$533.8 million on early education and care in FY 2008, a \$23.5 million, or 4.6 percent, increase over FY 2007 ongoing spending. This budget is about \$4.2 million less than the House proposed and \$23.9 million more than the Governor proposed.

FY 2007 Ongoing	\$510,296,241
FY 2008 Governor	\$509,854,321
FY 2008 House	\$538,048,390
FY 2008 SW&M	\$533,752,420

<i>FY 2007 Ongoing to FY 2008 SW&M</i>	
Increase (decrease)	\$23,456,179
Percentage change	4.6%

In order to compare funding over time for early education and care programs, we make adjustments to the FY 2007 funding levels so that they can be compared to the FY 2008 Senate Ways and Means budget proposal. In particular, we make adjustments for the child care staff reserve and for a transfer between line items that occurred in FY 2007.³

³ In prior FY 2008 *Budget Monitors* we have also adjusted the distribution of FY 2007 funds across line items by allocating portions of the Community Partnerships line item to the universal pre-kindergarten program and the low-income child care program because the FY 2008 proposals of the Governor and House eliminated the Community Partnerships item and apportioned the monies to these other items. Because Senate Ways and Means retains the Community Partnerships item, we

First, appropriations made for the child care rate reserve fund both salary increases and professional development for early education and care workers. The Department of Early Education and Care determines how to allocate the reserve funds across the relevant program areas. For FY 2007, the Department allocated the \$12.5 million that was appropriated as follows: \$1.7 million for the Supportive Child Care program (line item number 3000-3050); \$120,000 for the Community Partnerships for Children program (line item number 3000-4000); \$5.4 million for child care vouchers (line item number 3000-4050); and, \$5.2 million for Income-Eligible Child Care (line item number 3000-4060). To allow comparisons from the FY 2007 budget to the FY 2008 Senate Ways and Means budget, our chart includes these amounts in the line item where the money was actually spent in FY 2007.

Second, our analysis of FY 2007 funding accounts for a transfer of \$2.1 million from TAFDC-Related Child Care to Supportive Child Care. In October 2006, the Department of Early Education and Care transferred these funds in order to provide services to 1,074 children who were on the waiting list for Supportive Child Care.

After making these adjustments, we can compare the Senate Ways and Means proposal to the FY 2007 budget. Senate Ways and Mean's proposal increases funding for supportive child care, for families referred by the Department of Social Services, from \$58.5 million in FY 2007 to \$67.3 million, an increase of 15 percent. While there were wait lists in the past, this funding level should ensure that services are provided to all eligible children. The Governor and House proposed similar

do not apportion the FY 2007 Community Partnerships monies to other line items.

Funding for Early Education and Care (EEC)

Line Item	Budget FY 2007	FY 2007 with Adjustments	Governor FY 2008	House 2008	FY	SW&M FY 2008	SW&M minus FY 2007
1599-0042 Child Care Staff Reserve	12,500,000	0	0	7,000,000	7,000,000	7,000,000	7,000,000
3000-3050 Supportive Child Care	54,673,130	58,506,330	67,194,996	67,194,996	67,298,130	67,298,130	8,791,800
3000-4000 Community Partnerships for Children	47,641,095	47,761,095	47,761,095	47,761,095	47,761,095	47,761,095	0
3000-4050 TAFDC-Related Child Care	163,151,082	166,498,282	164,444,998	169,892,198	164,444,998	164,444,998	-2,053,284
3000-4060 Low-Income Child Care	150,714,917	155,914,517	152,514,924	161,434,752	162,064,752	162,064,752	6,150,235
3000-5000 Grants to Head Start Programs	8,500,000	8,500,000	8,500,000	9,000,000	9,000,000	9,000,000	500,000
3000-5075 Universal PreKindergarten Program	4,638,739	4,638,739	4,638,739	7,138,739	7,138,739	7,138,739	2,500,000
Sub-total Direct Service Funding	441,818,963	441,818,963	445,054,752	469,421,780	464,707,714	464,707,714	22,888,751
EEC Administration and Other Programs	68,477,278	68,477,278	64,799,569	68,626,610	69,044,706	69,044,706	567,428
Total EEC Funding	510,296,241	510,296,241	509,854,321	538,048,390	533,752,420	533,752,420	23,456,179

Note: Adjustments to FY 2007 totals include allocation of the child care staff reserve and a \$2.1 million transfer from TANF Related Child Care to Supportive Child Care that took place in October 2006. The FY 2008 proposals of the Governor and House are adjusted so that funding for Community Partnerships that was shifted to other line items and earmarked for Community Partnerships is included here under the Community Partnerships line item for comparison purposes.

increases, about \$100,000 less than the Senate Ways and Means proposal.

Funding for Community Partnerships is held constant at the FY 2007 level of \$47.8 million. While the Governor and House had proposed eliminating this line item by consolidating it with two other items, earmark language in the House budget required that the same amount be spent in FY 2008 as in FY 2007 on the services provided under the Community Partnerships program.

Funding for TAFDC-Related Child Care decreases from \$166.5 to \$164.4 in the Senate Ways and Means proposal. This \$2.1 million reduction in funding matches the Governor's budget proposal and is \$5.5 million less than the House approved. This program funds vouchers for enrollment in early education and care programs; the funds are available for families currently receiving or leaving Transitional Aid to Families with Dependent Children (TAFDC). The reduction may result from a projection of lower TAFDC caseloads in FY 2008 (see the section of this report on income support programs).

The Senate Ways and Means Committee increases funding for Low-Income Child Care, providing financial assistance to income-eligible families, from \$155.9 million to \$162.1 million, a \$6.2 million or 4.0 percent increase. The Senate Committee's proposal is \$700,000 higher than the budget approved by the House (after accounting for the \$32 million in the House budget that must be spent on the Community Partnerships program).

Funding of grants to Head Start programs increases by \$500,000, or 5.9 percent, under the Senate Ways and Means proposal. This matches the increase proposed by the House.

Funding for the Universal Pre-Kindergarten program, under the Senate Ways and Means proposal, would increase by \$2.5 million or 54.3 percent in FY 2008. This increase is the same as that proposed by the House and is \$2.5 million more than the level-funding proposed by the Governor.

Other programs or functions within early education and care are funded as follows.

- Administrative funding for the Department of Early Education and Care

is increased by about \$400,000 in the Senate Ways and Means proposal, matching the House budget plan.

- The Healthy Families Home Visiting Program is level-funded in the Senate Ways and Means proposal, as it was under the House budget.
- The Senate Ways and Means Committee funds the Massachusetts Family Network at the same level as FY 2007, \$8.4 million, but the Committee retains a separate \$1 million line item for the Reach Out and Read program which had been made an earmark of the Family Network line item under the House proposal.
- Funding for child care resource and referral agencies is reduced by about \$700,000 under the Senate Ways and Means plan, but this is about \$1 million more than the House provided.
- Finally, the Senate Ways and Means Committee provides \$7 million for the child care staff reserve. Funding salary increases and professional development for early education and care workers, this money will be distributed among programs and providers by the Department. While this will provide salary increases and professional development in addition to that which was provided by the staff reserve in FY 2007, the level of funding under the Senate Ways and Means proposal is \$5.5 million less than was provided in FY 2007. This is the same amount the House approved.

INCOME SUPPORT PROGRAMS

Total funding for income support programs in the Senate Ways and Means budget is

\$598.8 million, a \$9.5 million decrease from FY 2007. This is about the same level of funding as the House proposed and is \$3.1 million less than the Governor requested.

FY 2007 Ongoing	\$608,261,358
FY 2008 Governor	\$601,845,370
FY 2008 House	\$598,932,022
FY 2008 SW&M	\$598,782,022

<i>FY 2007 Ongoing to FY 2008 SW&M</i>	
Increase (decrease)	(\$9,479,336)
Percentage change	-1.6%

The Senate Ways and Means Committee proposes providing \$274.3 million for grant payments under the Transitional Aid to Families with Dependent Children (TAFDC) program. This represents a reduction of \$15.3 million or 5.3 percent from FY 2007. The Senate Ways and Means proposal is about the same as the House proposal, but is nearly \$3 million less than the Governor requested. The reduction from FY 2007 likely results from projections of lower caseloads for FY 2008.

Like both the Governor and the House, the Senate Ways and Means Committee proposes \$69.9 million for Emergency Aid to the Elderly, Disabled, and Children. This program provides cash assistance to low-income elderly and disabled individuals and to those caring for disabled family members. This amount is slightly lower than the FY 2007 level of \$70.0 million.

As with the House, the Senate Ways and Means Committee includes a requirement that the Commissioner of the Department of Transitional Assistance notify the Legislature 60 days before implementing any eligibility or benefit changes. This notice requirement helps ensure that legislators consider alternatives to benefit cuts, should deficits emerge in a given year. This requirement was also included in the FY 2007 line item language for this program.

Job Training and Employment Services

Funding for the Employment Services Program, which is available to individuals receiving cash assistance, would be funded at \$27.2 million, exactly the amount proposed by the Governor and the House. This is essentially the same level of funding provided in FY 2007.

As with the budgets of the Governor and House, the Senate Ways and Means Committee increases the maximum amount of federal reimbursements for specific education and job training or readiness services that the Department of Transitional Assistance can retain from \$5 million to \$7 million. The additional \$2 million in FY 2008 relative to FY 2007 reflects potential federal reimbursements from trainings provided by non-state agencies, such as community colleges and private foundations.

HEALTH CARE

The Senate Ways and Means budget proposal funds Medicaid/MassHealth and other health care programs at a total of \$9.305 billion, a 4.2 percent increase over ongoing funding in FY 2007. The total proposed funding amount does not differ significantly from the funding in the budgets proposed by the Governor or the House, but there are some differences in the allocation of those dollars. The Senate Committee on Ways and Means – like both the Governor and the House – states that its budget proposal fully funds the costs of implementing the Commonwealth’s health reform legislation.

This *Budget Monitor* total includes funding for health care from non-budgeted special trusts as well as on-budget appropriated line items supporting health care. The non-budgeted special revenue funds are integral

to the implementation of health reform, and the implementation of health reform is integral to the funding of on-budget health programs such as Medicaid/MassHealth.

FY 2007 Ongoing	\$8,930,190,795
FY 2007 Governor	\$9,254,582,321
FY 2008 House	\$9,337,260,994
FY 2008 SW&M	\$9,305,373,554

<i>FY 2007 Ongoing to FY 2008 SW&M</i>	
Increase (decrease)	\$375,182,759
Percentage change	4.2%

The analysis in this *Budget Monitor* divides health care funding totals into several sections (see detailed chart below) in order to break down the various components of the Senate Ways and Means health care budget. We make various adjustments to the totals as listed in the budget, in order to make more accurate year-to-year comparisons.⁴

Medicaid/MassHealth

The Senate Ways and Means budget proposes \$8.175 billion for total appropriated Medicaid/MassHealth funding. Although this is \$173.5 million less than proposed by the House and \$94.1 million less than proposed by the Governor, it appears that the primary difference is that

⁴ "Medicaid/MassHealth" includes the funding for the Healthy Start Program and the Medicare "Clawback." These "Medicaid/MassHealth" totals also include the administrative costs associated with the Executive Office and the Office of Medicaid. The totals for "Other Health Care Programs" include the Children's Medical Security Plan program and certain health care grants. Although in previous budget proposals this total has also included the Betsy Lehman Center, the Senate Ways and Means budget includes that funding within the Health Promotion and Disease Prevention services within the Department of Public Health, so we do the same, and adjust our health care totals for previous budget proposals accordingly. "Health Care Reform" does not include funding directed to the Division of Insurance in FY 2007, but does include other budgeted administrative costs associated with the implementation of health care reform. Funding transferred into the Uncompensated/Health Safety Net Care Pool is included in the discussion of non-budgeted health care funding.

Health Care Programs
(in Millions of Dollars)

	FY 2007 Ongoing	FY 2008 Gov.	FY 2008 House	FY 2008 SW&M
Medicaid/MassHealth*	7,834.3	8,268.7	8,348.1	8,174.5
Pharmacy Programs	63.6	60.5	63.8	63.8
Other Budgeted Health Care Programs	18.7	15.2	15.7	16.9
Health Care Reform	18.0	2.4	2.4	0.6
Sub-Total Appropriated Health Care	7,934.6	8,346.8	8,430.0	8,255.8
Medical Assistance Trust**	236.0	251.0	251.0	251.0
Essential Community Provider Trust	38.0	28.0	28.0	28.0
Commonwealth Care Trust*	722.1	628.8	628.8	770.5
Sub-Total Non-Budgeted Health Care	996.1	907.8	907.8	1,049.5
Grand Total	8,930.7	9,254.6	9,337.8	9,305.4

**In order to make accurate year-to-year comparisons, we add \$288.5 million to the FY 2007 Medicaid/MassHealth totals to include the nursing home rate supplement funded in that year out of an off-budget trust.*

***Although Outside Section 24 of the House budget specifies that this total could be as high as \$346.0 million, there is language that states that the total can only go above \$251.0 million if certain contingencies are met. For the purposes of our analysis, we include the more conservative total here.*

the Senate Ways and Means budget does not include approximately \$141 million in provider rate enhancements that the other budget proposals had incorporated into their appropriated Medicaid/MassHealth totals. The Senate Ways and Means budget appears to fund these provider rate enhancements through an off-budget trust fund, as in previous years (see discussion below).

Like the Governor, the Senate Committee on Ways and Means recommends consolidating several Medicaid/MassHealth line items. The Senate Ways and Means budget directs more funding into the Indemnity/Third Party Liability program, with a 15 percent increase to \$1.738 billion compared to the House, and less into Managed Care, with an 11 percent decrease compared to the House, for a total of \$2.953 billion.

The Senate increases the amounts recommended by the House earmarked for supplemental payments to specific safety net hospitals whose caseload includes a

“disproportionate share” of low-income patients. The Senate recommends \$25.7 million in earmarks, the same as in FY 2007. The House had recommended \$21.7 million.

Within the Senior Care plans, the Senate Ways and Means budget proposal consolidates Senior Care Plans with the Senior Care Options program, and funds them at a total of \$2.034 billion, almost the same as in the budgets proposed by the House and the Governor. The Senate Ways and Means budget includes earmarks that specify \$5.0 million to increase the personal needs allowance for persons residing in long-term care facilities, \$270,000 for nursing home pre-admission counseling, \$2.0 million to increase adult day health rates, and \$80.0 million in nursing home rate increases.

Other highlights of the Senate Ways and Means budget proposal include:



- \$3.5 million for enrollment and outreach grants, level with FY 2007 funding. The Governor had recommended only \$500,000, and the House recommended \$750,000. These mini-grants, made available to community-based organizations, have played an important role so far in helping enroll uninsured persons in the Commonwealth's various health insurance programs. There is also an earmark of \$200,000 within one of the MassHealth line items for a new Health Care Reform Outreach and Education Unit.
- Language recommending that MassHealth develop incentives in addition to premium or copayment reductions to encourage participants to meet wellness goals.
- Language requiring that the Executive Office of Health and Human Services assist persons born in Massachusetts with obtaining copies of their birth certificates for the purpose of establishing Medicaid eligibility at no cost, and also provide (as-yet unspecified) assistance for persons born outside of Massachusetts. The federal Deficit Reduction Act of 2005 requires the provision of a birth certificate as part of an application for Medicaid eligibility.
- Language assuring the implementation in FY 2008 of all Medicaid benefits restorations and program expansions as indicated in the state's health reform legislation, including the provision of smoking cessation and prevention services.
- Language allowing dentists participating in the MassHealth program to limit the number of MassHealth patients in their

practice. This limitation was also included in the FY 2007 budget.

- \$1.7 million for primary care workforce development and loan forgiveness. The House budget proposal had included this as an earmark within the administrative line item. The Senate Ways and Means budget funds this in a distinct line item.

The Senate Ways and Means budget proposal specifies that \$20.0 million of rate increases to hospital providers would be available only after the providers meet specific "pay for performance" standards, and would be subject to Medicaid/MassHealth appropriations. The House had specified that the Commonwealth use only certain existing performance standards for these funds. The Senate Ways and Means proposal does not include this restriction, and allows the creation of new standards. Like the House, Senate Ways and Means specifies that this \$20.0 million would come from the non-budgeted Commonwealth Care Trust Fund (see below), rather than from appropriated funds.

Like the Governor and the House, the Senate Committee on Ways and Means brings "on-budget" a rate supplement for nursing home providers that had previously been funded through the non-budgeted Health Care Quality and Improvement Trust. The amount of this supplement remains at \$288.5 million, and is part of the Medicaid/MassHealth total.⁵ This supplement is partially paid for by an assessment on long-term care facilities.

Although not included in these totals, the Senate Ways and Means budget provides

⁵ In order to make accurate year-to-year comparisons, we add \$288.5 million to the FY 2007 Medicaid/MassHealth totals to include the nursing home rate supplement funded in that year out of an off-budget trust.

\$655,000 for the Medicaid audit unit in the State Auditor's Office and \$2.7 million to the Medicaid Fraud Control Unit also in the State Auditor's office.

Pharmacy Programs

The Senate Ways and Means budget proposal recommends \$63.8 million for the Prescription Advantage program, almost the same as the House recommendation, and five percent more than the Governor's budget proposal. Although the House had added language providing that eligible persons may enroll at any time during the year (rather than only during specified enrollment periods), the Senate Ways and Means budget recommends a single specific enrollment period. Like the House, the Senate Ways and Means budget includes an earmark designating \$600,000 for a pharmacy outreach program. This earmark was also included in the FY 2007 budget.

In Fiscal Year 2007, there had been budgetary language ensuring that this prescription program would be available as an emergency "safety net" for MassHealth and Prescription Advantage members experiencing difficulties making the transition to prescription coverage under Part D of the federal Medicare program. The Prescription Advantage program could provide a one-time thirty day emergency supply of prescription medication during the transition from one program's coverage to another. This provision expired on December 31, 2006. None of the FY 2008 budget proposals includes language to reinstate this level of protection.

Other Budgeted Health Care

The Senate Ways and Means budget proposal funds the Children's Medical Security Plan at \$15.2 million, the same as recommended by both the House and the

Governor. Although this is less than funding in FY 2007, the amount is most likely sufficient to meet the needs of the program, given anticipated FY 2007 spending levels, and given expanded eligibility for children in Medicaid/MassHealth.

The budget proposal includes language in an outside section that would amend the statute governing the program, thereby ensuring that children under 200 percent of the federal poverty line be exempt from premiums. The House budget had recommended this protection only for FY 2008. The Governor's budget had language that would have given the administration latitude to set premium levels via regulation.

Health Reform

Unlike the budget proposals of the House and the Governor, the Senate Ways and Means budget does not directly appropriate funding into the Department of Workforce Development to fund the administration of the "fair share assessment" associated with health reform. Instead, the Senate Committee on Ways and Means recommends that the same amount of money (\$1.8 million) be transferred from the off-budget Medical Security Trust Fund into the Commonwealth Care Trust Fund (see below) to fund this. Like the House and the Governor, however, the Senate Ways and Means budget recommends \$600,000 within the Division of Insurance designated for implementation of the "health care access bureau."

Non-Budgeted Health Funding

In addition to the funding listed above, the Senate Committee on Ways and Means budget recommendation includes information about non-budgeted health care funding associated with certain trust funds.

These trusts receive funds transferred from the General Fund for specified purposes, but their spending is not subject to legislative appropriation.

The Senate Ways and Means budget recommends:

- \$251.0 million transferred into the Medical Assistance Trust fund, to pay for certain supplemental payments to MassHealth providers. The House budget stated that if certain contingencies were met, this amount could go as high as \$346.0 million, but the Governor's budget also limited the amount to \$251.0 million. In FY 2007, the Commonwealth transferred \$236.0 million into this fund.
- \$28.0 million transferred to the Essential Community Provider Trust Fund, down from \$38.0 million in FY 2007. These funds would be available in the form of grants to acute care hospitals and community health centers for care for needy populations. This is the same amount recommended by the House and the Governor.
- \$770.5 million transferred into the Commonwealth Care Trust Fund to pay for, among other initiatives, the costs associated with subsidized health insurance premiums for the Commonwealth's health reform programs. The House and the Governor had recommended \$628.8 million for this transfer. It is notable, however, that the budgets from the Governor and the House had included in their Medicaid/MassHealth appropriations certain provider rate enhancements previously paid out of the Commonwealth Care Trust Fund. The Senate Ways and Means budget does not appear to shift these rate enhancements "on-budget"

into Medicaid/MassHealth from the Commonwealth Care Trust Fund. The Senate Ways and Means budget proposed transfer into the Commonwealth Care Trust Fund is \$141.7 million more than the amount transferred by the budgets of the House and the Governor. This is about the expected amount of these provider rate enhancements.

One of the administrative changes made under the state's health reform law is to change the Uncompensated Care Pool into the Health Safety Net Care Pool. This pool of money is available to hospitals and community health centers to reimburse them for a portion of their costs associated with uncompensated care for uninsured or underinsured persons.

The Senate Ways and Means, House and Governor's budgets recommend that the authority for administering these funds move from the Office of Medicaid into a Health Safety Net Office within the Division of Health Care Finance and Policy. The Senate Ways and Means, House and Governor's budgets all recommend transferring \$33.9 million from the Commonwealth Care Trust Fund into this pool to support its operations.

Like the House, and in order to ensure sufficient funding for the Commonwealth's health care programs, the Senate Committee on Ways and Means recommends that funds be transferable between the Commonwealth Care Trust Fund and the Health Safety Net Trust Fund. The Governor's budget had also recommended that funds be easily transferred between these funds and the General Fund.

PUBLIC HEALTH

The Senate Ways and Means budget proposal recommends \$569.3 million for public health programs. Although this is \$43.7 million more than recommended by the House, and \$22.3 million more than recommended by the Governor, this increase is largely due to the re-allocation of \$45.8 million in funding from other agencies into the Department of Public Health to create a new coordinated Office for State Pharmacy Services (see discussion below.) In order to make accurate comparisons among the various budget proposals, we exclude \$36.1 million from the total for public health, which is the \$45.8 million in total for pharmacy services less \$9.7 million of this total that corresponds to pharmacy services within the public health hospitals. With this adjustment, the Senate Ways and Means public health budget recommendation is 3.9 percent above FY 2007 ongoing funding, but still 15 percent below FY 2001 funding levels when adjusted for inflation.

FY 2007 Ongoing	\$512,495,185
FY 2008 Governor	\$547,036,991
FY 2008 House	\$526,081,550
FY 2008 SW&M	\$533,225,666
FY 2008 SW&M⁶	\$569,327,985

<i>FY 2007 Ongoing to FY 2008 SW&M</i>	
Increase (decrease)	\$20,230,481
Percentage change	3.9%

The Senate Ways and Means budget proposal for public health funding includes two new line items. The first is a new State

Office for Pharmacy Services, funded at \$45.8 million. This office would be responsible for drug purchasing for all of the health and human service agencies that have significant pharmaceutical purchases. The Departments of Public Health, Mental Health, Mental Retardation and Corrections currently benefit from joint drug purchasing, managed through inter-agency service agreements with the Department of Public Health. This new budget line item would consolidate the funding for this function across the agencies, and also incorporate drug purchasing for the Soldiers' Homes, the sheriffs' offices and the Department of Youth Services. The Senate Committee on Ways and Means expects that this coordination will result in increased savings for the Commonwealth. Although this is a new line item, funding for it comes from money that previously was included in more than a dozen line items throughout the Executive Office of Health and Human Services and other Secretariats. In this *Budget Monitor*, we re-allocate the funding placed in this new line item to the other health and human service agencies, in order to make more accurate comparisons with other budget proposals.

State Office of Pharmacy Services Allocation of Appropriated Funds under SW&M	
Department of Corrections and Sheriffs	19,854,415
Department of Mental Health	8,286,566
Department of Mental Retardation	6,361,394
Department of Public Health	9,684,201
Department of Youth Services	3,570
Soldiers' Homes	1,596,374

Another new initiative included in the Senate Ways and Means budget is \$2.0 million for a new youth violence prevention grant program focusing on communities at high-risk for youth violence, and emphasizing programming in the afternoons and evenings.

⁶ This total includes the full \$45,786,520 for state pharmacy purchasing, with the dollars coming from various line items in other agencies as proposed by the Senate Committee on Ways and Means. For the purposes of comparisons with previous budget proposals, and in our analysis within this *Budget Monitor*, we distribute the amounts associated with pharmacy purchases back into other agencies. Our FY 2008 SW&M adjusted total includes only \$9,684,201 for pharmacy services within the public health total, as this is the amount associated with pharmacy purchases within the public health hospitals.

Other highlights of the Senate Ways and Means budget include:

- \$48.7 million for the universal immunization program. The Governor's budget had recommended \$61.6 million for immunizations, including recommendations that the Department of Public Health include rotavirus, meningococcal conjugate and human papilloma virus (HPV) in the vaccination regimen. The House budget recommended that the Department study the efficacy of these vaccines, but did not recommend funding the distribution of these new vaccines. The Senate Ways and Means budget proposal recommends funding for only the rotavirus and meningococcal conjugate vaccines, not the HPV. The Senate Committee on Ways and Means does, however, recommend studying the HPV vaccines that are available and looking into generic alternatives. Funding for immunizations in FY 2007 was \$36.8 million.
- \$10.0 million for smoking prevention and control programs. This is \$3.25 million less than recommended by the House, and \$6.3 million less than recommended by the Governor. The Governor had included a major expansion in smoking prevention programs as a centerpiece of his public health budget. Even the Governor's proposal, however, did not take funding back to where it was less than a decade ago. When adjusted for inflation, funding for anti-smoking programs in FY 2001 was \$60.5 million. Funding in FY 2007 was \$8.3 million.
- Funding for substance abuse programs at \$77.8 million, \$2.7 million less than recommended by the House, and just slightly less than recommended by the

Governor. This is \$8.9 less than FY 2007 levels. At the beginning of FY 2007, funding for substance abuse services was \$66.6 million. Over the course of the year, \$20.1 more was added to support these services. The Senate Ways and Means budget would not continue into FY 2008 the full amount of this funding. This could put in jeopardy several new programs for young adults and adolescents funded by these supplemental dollars. Included in the Senate Ways and Means proposal is language that earmarks \$10.3 million of this funding for specific programs. Notable among the earmarks is \$3.0 million for 60 beds for men civilly-committed for treatment. This is \$1.0 million less than the amount designated in FY 2007 for this treatment program. The Senate Ways and Means Committee also designates \$1.5 million for three sobriety high schools. In FY 2007, \$2.3 million was available for sobriety high schools. The Senate Ways and Means budget proposal does not include an earmark added by the House for six regional recovery centers.

- \$3.8 million for teen pregnancy prevention programs, an \$800,000 increase over the House and Governor's budget recommendations. This is a 27 percent increase over FY 2007 funding levels. There is also line item language within the public health administrative account that specifies that state or federal funding for school-based abstinence education may only be used in the context of comprehensive sexuality education.
- \$13.9 million for consolidated public health screening programs (for example, for osteoporosis, prostate cancer, colorectal cancer, Hepatitis C, multiple sclerosis, renal disease, ovarian cancer,

stroke, breast cancer and diabetes). This is a total of \$1.1 million more than recommended by the House, and \$1.8 million more than recommended by the Governor. The Senate Committee on Ways and Means states that by consolidating and coordinating these programs, the Commonwealth will be better able to implement a comprehensive strategy for disease prevention.

- \$42.7 million for early intervention services. This is \$1.0 million more than recommended by the House and the Governor. In describing this increase, the Senate Committee on Ways and Means notes increased costs associated with the program, and the increasing complexity of the cases.
- \$350,000 for the Shaken Baby prevention program. The Governor did not fund this program as a separate line item, and the House recommended \$200,000.
- \$16.5 million for school health services, \$190,000 less than the House, and \$250,000 more than the Governor. As in the House budget proposal, school health service dollars are largely earmarked, with \$15.0 million designated for school nurses and school-based health centers; \$300,000 for mental health and substance abuse programs in school-based health centers; \$150,000 for an obesity pilot project; and \$100,000 for the HELP program for African-American males. These earmarks were also part of the FY 2007 budget. This funding still represents a significant decrease from funding in FY 2001, when school health services received \$54.0 million in inflation-adjusted dollars.

In addition to appropriated funding, the Senate Committee on Ways and Means includes language in an “outside section” of the budget recommending the establishment of a commission to study access to obstetric, gynecological and neurological care in western Massachusetts. The House had included an outside section creating a Chronic Kidney Disease Task Force. The Senate Ways and Means proposal does not include this task force.

MENTAL HEALTH

Funding for mental health services increases by \$20.9 million over FY 2007 ongoing levels in the Senate Ways and Means budget, an increase of 3.2 percent. This is about \$3 million more than the Governor proposed and \$2 million more than the House approved. The total includes about \$8.2 million in funding for pharmacy services for those in state psychiatric hospitals, though the Senate Way and Means proposal shifts this funding to a State Office for Pharmacy Services at the Department of Public Health.

FY 2007 Ongoing	\$646,529,706
FY 2008 Governor	\$664,037,326
FY 2008 House	\$665,148,921
FY 2008 SW&M ⁷	\$667,407,065

<i>FY 2007 Ongoing to FY 2008 SW&M</i>	
Increase (decrease)	\$20,877,359
Percentage change	3.2%

⁷ The Senate Ways and Means Committee total includes \$8,286,566 in funding for pharmacy services that is funded in the State Office for Pharmacy Services of the Department of Public Health. The Senate Ways and Means Committee budget shifts the funding for pharmacy services for those in state psychiatric hospitals to the Department of Public Health, reducing line item 5095-0015 in the Department of Mental Health accordingly. In order to accurately compare the Senate Ways and Means proposal with others, we have added this funding back into the Department of Mental Health total.

The increase in funding for the Department of Mental Health results from increases necessary to maintain services at levels provided in FY 2007. In addition to increases in costs for providing services, the Executive Office of Administration and Finance estimates that \$4 to \$5 million of the human services rate reserve for FY 2007 went to the Department of Mental Health. This funding, because it pays for higher wage rates among providers, then becomes a component of maintenance-level spending in future years.

The Senate Ways and Means Committee does not consolidate line items as the Governor had proposed. Mental health services for adults are funded at about \$374.1 million in the Senate Ways and Means budget, this is about \$1 million more in funding than was provided by the Governor and the House.

Funding for the administration of the Department of Mental Health and for child and adolescent mental health services increase slightly, by 2.8 percent and 1.4 percent respectively, in the Senate Ways and Means budget. These modest increases, likely not sufficient to keep funding at pace with inflation, match those proposed by the House and are slightly more than the Governor proposed.

The Senate Ways and Means Committee matches the House in providing \$171.5 million for the state's psychiatric hospitals, an increase of 4.6 percent over FY 2007. In the case of the Senate Ways and Means proposal, about \$8.3 million in funding for pharmacy services for the state's psychiatric hospitals is moved to the State Office for Pharmacy Services at the Department of Public Health. For purposes of comparison to prior proposals and the FY 2007 budget, this amount is included in the Department of Mental Health total as it will continue to pay

for pharmacy services in the state's psychiatric hospitals.

MENTAL RETARDATION

The Senate Ways and Means Committee provides \$1.225 billion for the programs of the Department of Mental Retardation, an increase of \$48.7 million or 4.1 percent over FY 2007 ongoing levels. This is also about \$9 million more than the was proposed by the Governor and \$3 million less than the House appropriated. The Senate Ways and Means total reported here includes about \$6.4 million in funding for pharmacy services for those in state facilities, though the Committee moved this funding to the State Office for Pharmacy Services at the Department of Public Health.

FY 2007 Ongoing	\$1,175,919,006
FY 2008 Governor	\$1,215,833,577
FY 2008 House	\$1,228,179,128
FY 2008 SW&M⁸	\$1,224,661,406

<i>FY 2007 Ongoing to FY 2008 SW&M</i>	
Increase (decrease)	\$48,742,400
Percentage change	4.1%

The Senate Ways and Means Committee does not follow the Governor's proposal of consolidating seven programmatic line items in the Department of Mental Retardation into two. The Ways and Means Committee also retains two separate line items that the Governor and House had consolidated into a single new administrative line item for the Department. Combined these two

⁸ The Senate Ways and Means Committee total includes \$6,361,394 in funding for pharmacy services that is funded in the State Office for Pharmacy Services of the Department of Public Health. The Senate Ways and Means Committee budget shifts the funding for pharmacy services for those in state facilities to the Department of Public Health, reducing line item 5930-1000 in the Department of Mental Retardation accordingly. In order to accurately compare the Senate Ways and Means proposal with others, we have added this funding back into the Department of Mental Retardation total.

administrative line items are funded at \$71.6 million under the Senate Ways and Means plan. This is essentially unchanged from FY 2007 and is about \$2 million less than the Governor and House had proposed.

There are three major programmatic areas within the Department of Mental Retardation and they are funded by the House as follows.

- Community support programs, which includes functions such as respite family support, transportation, and work programs for the intellectually impaired and disabled, are funded at \$191.5 million, a \$6.6 million increase over FY 2007 and about \$5.8 million more than was proposed by the Governor. The funding level proposed is about the same as the House approved.
- Community residential programs, providing for non-institutional residential situations for the intellectually disabled, are funded at \$767.9 million, a \$33.1 million or 4.5 percent increase over FY 2007 levels. This is about \$500,000 more than the Governor proposed and \$2 million less than the House proposed.
- Finally, support for state institutional facilities is proposed at \$182.8 million, about \$10 million more than FY 2007 and \$2 million more than the Governor’s proposal. This total includes \$6.4 million for pharmacy services that is shifted, in the Senate Ways and Means proposal, to the Office for Pharmacy Services at the Department of Public Health.

While the Governor’s budget proposal cut \$3 million from the Department’s Turning 22 program, realized through changes in the program enrollment process, the Senate Ways and Means Committee would reduce funding by only \$1.2 million from FY 2007.

The Senate Ways and Means Committee also proposes a slight, \$52,000 or 1.7 percent, increase in funding for support services for families of autistic children. This is \$200,000 less than the House proposed.

SOCIAL SERVICES

The Senate Ways and Means budget for the Department of Social Services is \$797.2 million for FY 2008. This is a \$27.3 million or 3.5 percent increase over the FY 2007 budget for the Department. The Senate Ways and Means proposal is \$6.9 million more than the Governor proposed and \$1.9 million more than the House proposed.

FY 2007 Ongoing	\$769,900,112
FY 2008 Governor	\$790,253,582
FY 2008 House	\$795,299,060
FY 2008 SW&M	\$797,166,093

<i>FY 2007 Ongoing to FY 2008 SW&M</i>	
Increase (decrease)	\$27,265,981
Percentage change	3.5%

The Senate Ways and Means budget provides \$78.0 million for the administration of the Department of Social Services, a \$2.4 million increase over FY 2007, but about \$1 million less than proposed by the Governor and House. The language of the administrative line item dictates that \$1 million be spent to hire medical and psychiatric staff to work with the Department’s case workers. This is slightly different than the House budget which required that \$500,00 be spent on medical and mental health evaluations for children in the Department’s care.

Much of the activity of the Department of Social Services has been funded through two core services accounts. The Governor

proposed consolidating these into a single line item, while the House maintained the distinction. The Senate Ways and Means Committee proposes splitting the line item for services to children and families into four line items: regional administration, foster care services, adoption and guardianship services, and services to children and families. Total funding for the Department's core services is \$540.8 million under the Senate Ways and Means proposal. This is \$23.1 million or 4.5 percent more than was provided in FY 2007. The Senate Ways and Means budget for core services is also \$6.4 million and \$1.9 million more than the Governor and House proposed respectively.

The Governor, House, and Senate Ways and Means Committee each provide \$147.3 million for case workers, a \$4.2 million or 3.1 percent increase over FY 2007.

Finally, the Senate Ways and Means Committee proposes a \$400,000 or 1.8 percent increase in funding for domestic violence services and shelters. The Governor had level-funded this line item while the House reduced it by \$400,000.

ELDER AFFAIRS

The Senate Ways and Means budget proposal recommends \$230.2 million for elder service programs. This is slightly more than recommended by the House, \$3.2 million more than recommended by the Governor, and \$7.1 million more than ongoing elder service funding in FY 2007. (For a discussion of the MassHealth senior care programs, nursing home rates, and the pharmacy programs, see the "Health Care" section of this *Budget Monitor*.)

FY 2007 Ongoing	\$223,061,057
FY 2008 Governor	\$227,024,995
FY 2008 House	\$229,997,893
FY 2008 SW&M	\$230,186,232

<i>FY 2007 Ongoing to FY 2008 SW&M</i>	
Increase (decrease)	\$7,125,175
Percentage change	3.2%

Highlights of the Senate Ways and Means budget proposal for elder affairs include:

- \$2.5 million more than the House for the Elder Enhanced Community Options program, for a total of \$47.4 million. This is nine percent more than ongoing funding in FY 2007. The Senate Ways and Means budget recommends the same funding levels for the other elder home care programs as does the House (\$145.1 million combined).
- Funding for the elder lunch programs and the councils on aging at the same levels as in the House budget proposal (\$5.9 million and \$7.8 million respectively).
- \$15.0 million for the elder protective services program, a \$540,000 increase over the House recommendation, and level with the Governor's recommendation. This is \$1.0 million more than ongoing funding in FY 2007. Included in the Senate Ways and Means proposal is an \$800,000 earmark for a money management program.
- \$350,000 for an elder homelessness prevention program, compared to the House recommendation of \$300,000. The Governor's budget had included funding for the elder homelessness program in a consolidated homelessness prevention line item.

The Senate Ways and Means budget proposal does not include separate funding for the geriatric mental health services program or the family caregivers program. These two programs were created as separate line items in the FY 2007 budget, and had been funded at \$350,000 for the mental health program and \$500,000 for the family caregivers program. Both the House and the Governor had recommended funding for these programs at least at their FY 2007 levels.

OTHER HUMAN SERVICES

The Senate Ways and Means budget proposes a total of \$615.6 million for all other human services programs, an \$8.4 million or 1.4 percent increase over FY 2007. This is \$16.2 million more than was proposed by the Governor and \$500,000 less than the House approved. The total includes about \$1.6 million for pharmacy services at the state's soldiers' homes and at the Department of Youth Services though this funding, in the Senate Ways and Means proposal, is included in the Department of Public Health's budget under the State Office for Pharmacy Services.

Other human services is a category used by the MBPC for analysis, and includes the Department of Veterans' Affairs, the Department of Youth Services, the Massachusetts Commission for the Blind, the Massachusetts Rehabilitation Commission, the Division of Health Care Finance and Policy, the state's soldiers' homes, health and shelter programs for the homeless, and the administrative accounts for the Department of Transitional Assistance.

FY 2007 Ongoing	\$607,223,788
FY 2008 Governor	\$599,431,450
FY 2008 House	\$616,090,551
FY 2008 SW&M⁹	\$615,583,324

<i>FY 2007 Ongoing to FY 2008 SW&M</i>	
Increase (decrease)	\$8,359,533
Percentage change	1.4%

Examining funding for services to veterans – including both the Veterans' Affairs office and the state's soldiers' homes – the Senate Ways and Means Committee proposes to increase funding by \$4.1 million. This represents an increase of about \$1 million over the Governor's proposal and about \$700,000 less than the House proposal. This total does not include funding for homeless veterans (see sub-section below). This total does include \$1.6 million for pharmacy services at the state's soldiers' homes that is funded through the Department of Public Health's Office for Pharmacy Services in the Senate Ways and Means budget.

Funding for the Massachusetts Commission for the Blind is only about \$600,000 above the FY 2007 level in the Senate Ways and Means budget, matching the proposal of the House. The Massachusetts Rehabilitation Commission receives almost \$1 million more under the Senate Ways and Means proposal than under the Governor's budget, again the same level of funding as the House provided.

The Governor, House, and Senate Ways and Means Committee agree on providing about \$14 million in funding for the state's

⁹ The Senate Ways and Means Committee total includes \$1,599,944 in funding for pharmacy services that is funded in the State Office for Pharmacy Services of the Department of Public Health. The Senate Ways and Means Committee budget shifts the funding for pharmacy services for those in the state's soldiers' homes and Department of Youth Services facilities to the Department of Public Health, reducing line items 4180-0100, 4190-0100, and 4200-0300 accordingly. In order to accurately compare the Senate Ways and Means proposal with others, we have added this funding back into the other human services total.

Division of Health Care Finance and Policy. This is an increase of \$1.2 million or 9.4 percent over FY 2007.

Funding for the administrative and case management functions of the Department of Transitional Assistance is set by the Senate Ways and Means Committee at \$124.8 million, a \$1.8 million increase over FY 2007. This is \$300,000 more than the House provided, but is \$1.2 million less than the Governor requested.

The line item for matching grants to the state's boys and girls clubs and YMCA's for programs serving at-risk youth was zeroed out in the Governor's budget proposal, but the Senate Ways and Means Committee proposes \$4.7 million in funding. This is \$1.4 million less than the amount provided in FY 2007 and \$400,000 less than the House approved.

Finally, the proposal includes an increase of \$2.6 million or 1.7 percent in funding for the Department of Youth Services over the FY 2007 funding level. A \$4.8 million increase in services for the residential detained population is partly offset by a combined \$2.3 million decrease in funding for non-residential services to the committed population and residential services for the committed population.

Homelessness

The Governor's budget proposal consolidated, into two items, a series of items from across state government that fund programs and services for the homeless or those at-risk of becoming homeless. The House and Senate Ways and Means Committee do not adopt the Governor's consolidation proposal.

The Senate Ways and Means budget includes \$157.4 million overall for services

to the homeless, compared to \$147.9 million in FY 2007. This is an increase of \$9.5 million or 6.4 percent. Overall, the Senate Ways and Means budget provides about the same level of funding for homelessness as the House and about \$2.6 million less than the Governor proposed.

Human Services Rate Reserve

Part of total spending for other human services in the FY 2008 Senate Ways and Means budget is \$20 million for the human services rate reserve account, the same amount approved by the House. The Governor proposed funding this reserve at \$12 million. Funding the reserve at \$20 million represents an \$8 million decline from the FY 2007 level and flat-funding relative to FY 2006.

Ultimately, the \$20 million proposed for the reserve account will be spent across all health and human services departments to fund salary increases for low-wage service providers. Because the budget proposal does not distribute the reserve among agencies, the reserve account funding is included in the other human services comparison between FY 2007 and FY 2008.

However, it is important to understand that in the budget-writing process for FY 2008 the \$28 million rate reserve from FY 2007 is built into estimates of the amount of funding necessary in FY 2008 to provide the same level of services as in the prior year. Therefore, increases in funding between FY 2007 and FY 2008 may not be actual increases, but reflections of the allocation of the FY 2007 rate reserve to particular departments.

ENVIRONMENTAL AFFAIRS

The Senate Ways and Means budget for environmental affairs reduces funding for environmental affairs by about \$2.4 million from FY 2007 ongoing levels. This is 2.8 percent lower than the Governor's proposal and 4.3 percent lower than the House proposal. Under the Senate Ways and Means budget, after adjusting for inflation, funding for environmental affairs for FY 2008 would be \$83.2 million or 28.8 percent below the FY 2001 level of funding.

FY 2007 Ongoing	\$208,129,677
FY 2008 Governor	\$211,654,688
FY 2008 House	\$214,890,557
FY 2008 SW&M	\$205,696,842

<i>FY 2007 Ongoing to FY 2008 SW&M</i>	
Increase (decrease)	(\$2,432,835)
Percentage change	(1.2%)

Under the Senate Ways and Means proposal the administration of the Executive Office of Environmental Affairs (EOEA) would be funded at \$7.0 million, a reduction of \$200,000 or 2.8 percent from FY 2007 ongoing levels. This is \$400,000 less than the Governor proposed and \$200,000 more than the House appropriated. Within EOEA, funding for recycling and redemption centers would be reduced by \$1 million or 27 percent. This is larger than the \$200,000 cut proposed by the Governor, but smaller than the \$1.2 million reduction approved by the House.

Funding for environmental law enforcement, reduced by \$300,000 in the Governor's proposal, is only reduced by \$200,000 in the Senate Ways and Means budget, matching the House funding level.

Funding for the Department of Environmental Protection, essentially level-funded by the Governor, would increase by

\$1.1 million or 1.9 percent under the Senate Ways and Means proposal. This is about the same level of funding that the House provided.

The Senate Ways and Means Committee proposes a reduction of \$2.1 million or 11.2 percent to the state's Division of Food and Agriculture. While this is about the same level of funding as the House approved, it is \$3.6 million less than the Governor requested. In particular, the Senate Ways and Means Committee reduces funding for the Massachusetts Emergency Food Assistance Program by \$1.5 million or 12.5 percent. The Governor had proposed level-funding for this program that provides grants to the state's food banks with which they can purchase food.

Finally, the Senate Ways and Means Committee proposes to increase funding for the Department of Conservation and Recreation by about \$400,000 or 0.5 percent. This is \$1.5 million less than the Governor proposed and \$9.3 million less than the House approved. The House budget for the Department grew substantially during floor debate with the addition of earmarks for beach preservation and urban parks. Earmarks included in the beach preservation and urban parks line items of the House budget account for at least \$5 million of the difference between the House and Senate Ways and Means proposals.

ECONOMIC DEVELOPMENT

Under the Senate Ways and Means budget, funding for economic development decreases by about \$7.4 million, or 4.3 percent, over FY 2007 ongoing levels. This is \$11 million more than was proposed by the Governor and about \$21 million less than the House approved. Of this total,

\$3.75 million is an off-budget transfer rather than an appropriation. This transfer moves money from the General Fund to the newly formed Commonwealth Covenant Fund which provides student loan repayment for graduates of Massachusetts public higher education institutions with degrees in science, technology, engineering, or mathematics.

FY 2007 Ongoing	\$172,590,968
FY 2008 Governor	\$154,173,703
FY 2008 House	\$185,931,748
FY 2008 SW&M ¹⁰	\$165,202,019

<i>FY 2007 Ongoing to FY 2008 SW&M</i>	
Increase (decrease)	(\$7,388,949)
Percentage change	(4.3%)

As was the case with the budget's of the Governor and House, much of the reduction in economic development spending in the Senate Ways and Means proposal results from the elimination of earmarks within the line item for the Massachusetts Office of Travel and Tourism. The FY 2007 total for the Office was also particularly large as a result of supplemental budgets passed throughout the year. The Senate Ways and Means Committee proposes \$17.3 million in funding for the Office, a reduction of \$12 million or 41.0 percent. The Governor had proposed a reduction of \$14.6 million, while the House, with the introduction of many earmarks during floor debate, reduced the Office's funding by only \$4.7 million.

Funding for local tourist councils, sustained at the \$7.9 million FY 2007 level in the Governor's proposal, is increased to \$9 million in the Senate Ways and Means budget. This is about \$600,000 more than

¹⁰ The Senate Ways and Means total for FY 2008 includes a \$3.75 million off-budget transfer to the new Commonwealth Covenant Fund which provides loan repayment for graduates of Massachusetts public colleges and universities with degrees and careers in the sciences, technology, engineering, or mathematics (STEM).

the House appropriated for local tourist councils.

The Office of Small Business and Entrepreneurship, first proposed in the Governor's budget is not included in the Senate Ways and Means budget. The Governor had requested \$2.25 million in funding and the House appropriated \$1.5 million.

The House and the Governor both proposed a \$1.5 million or 75 percent increases in funding for the Massachusetts Office of Business Development (MOBD) and the Senate Ways and Means Committee matched that proposal. The Senate Ways and Means Committee also includes language from the House budget that requires the MOBD to maintain an office at the University of Massachusetts at Dartmouth for purposes of serving southeastern Massachusetts.

While \$8.5 million in funding for summer jobs for at-risk youth was provided in FY 2007, the Senate Ways and Means Committee proposes \$6.7 million for FY 2008. This matches the amount requested by the Governor, but is about \$700,000 more than the House approved.

Though the House budget eliminated funding for the development of long-term care career ladders, the Senate Ways and Means Committee includes \$1.5 million for this program, matching the Governor's request and the FY 2007 funding level.

Funding for workforce development grants, eliminated in the Governor's budget proposal, is provided at \$7.7 million, \$1.9 million less than in FY 2007. This level is also \$1 million below the House budget. The state's workforce training program is maintained in all three budget proposals.

Finally, though the Governor and House both proposed \$6 million in funding for one-stop career centers, the Senate Ways and Means Committee provides only \$5 million for these centers.

Dedicating Surpluses to Economic Development

Within its budget, the Senate Ways and Means Committee proposes a new economic development initiative to provide both for job and housing creation. Currently, at the end of each fiscal year, the Comptroller is required by law to deposit one-half of one percent of the year’s revenues in the Stabilization Fund and to carry forward one-half of one percent of the year’s revenues for the following year’s spending. Any remaining surplus after these uses is referred to as the consolidated net surplus.

The Senate Ways and Means proposal would alter the General Laws such that when the consolidated net surplus for the year is \$125 million or more, the Comptroller would deposit \$25 million into the life sciences investment fund, \$25 million into the emerging technology fund, \$12.5 million into the affordable housing trust fund, \$12.5 million into the smart growth housing trust fund, and the remainder into the Stabilization Fund. If the consolidated net surplus is between \$50 million and \$125 million then the first \$50 million is deposited into the Stabilization Fund and the remainder is apportioned among the four funds on a pro-rated basis.

This initiative, in years of budget surplus, would build the state’s reserves (in the Stabilization Fund) while setting aside monies for economic development and housing initiatives.

HOUSING

The Senate Ways and Means Committee proposes increasing funding for housing and community activities by \$1 million or 0.8 percent. This increase is about \$1 million more than was proposed by the Governor and \$1.4 million less than was proposed by the House.

FY 2007 Ongoing	\$124,842,388
FY 2008 Governor	\$124,920,361
FY 2008 House	\$127,309,737
FY 2008 SW&M	\$125,918,810

<i>FY 2007 Ongoing to FY 2008 SW&M</i>	
Increase (decrease)	\$1,076,422
Percentage change	0.8%

While the funding levels of the Senate Ways and Means Committee and the Governor are not dramatically different, there are differences in their approaches. In particular, the Governor proposed consolidation of a number of line items related to homelessness, including some under the Department of Housing and Community Development, but the Senate Ways and Means Committee, like the House, elects to keep these separate.

Both the Governor and the House propose increasing funding of subsidies for public housing authorities by \$4.1 million or 7.4 percent, while the Senate Ways and Means Committee increases this by \$4.3 million or 7.6 percent.

The Governor’s proposal cut \$3.6 million or 30.9 percent from the administrative line item for Department of Housing and Community Development through the elimination of earmarks. The House included some earmarks, cutting funding for the Department by \$1.6 million or 13.9 percent. The Senate Ways and Means Committee more closely aligns with the

Governor in cutting funding by \$3 million or 26 percent. The Senate Way and Means Committee included about \$550,000 in earmarks in this line item.

Under the Senate Ways and Means proposal, funding is increased for several affordable housing programs. While the Governor and House had level-funding the home ownership opportunity program at \$5 million, the Ways and Means Committee added \$250,000 for a 5 percent increase. The Senate Ways and Means Committee matched the House in boosting funding for the Massachusetts Rental Voucher Program by \$2.5 million or 9.1 percent.

The Senate Ways and Means Committee budget also includes a change to the General Laws that would, in years of surplus, deposit surplus monies in the Affordable Housing Trust Fund and the Smart Growth Housing Trust Fund. This change is discussed in greater detail in the economic development section of this report.

PUBLIC SAFETY & CORRECTIONS

Funding for public safety and corrections in the Senate Ways and Means Proposal totals \$1.452 billion, about \$20 million more than the level of funding provided in FY 2007. This amount appears to be about \$14 million less than was provided in the proposals of the Governor and House. This total includes nearly \$20 million in funding for pharmacy services for the incarcerated that the Senate Ways and Means proposal shifts to the Department of Public Health.

FY 2007 Ongoing	\$1,432,628,354
FY 2008 Governor	\$1,466,529,180
FY 2008 House	\$1,466,953,444
FY 2008 SW&M ¹¹	\$1,451,969,841

<i>FY 2007 Ongoing to FY 2008 SW&M</i>	
Increase (decrease)	\$19,341,487
Percentage change	1.4%

Relative to FY 2007 ongoing spending, the Senate Ways and Means Committee proposes to increase funding for the Department of Corrections by \$29.3 million or 3.2 percent and to decrease funding for activities of the Executive Office of Public Safety by \$10.2 million or 2.0 percent.

The \$940.8 million provided for corrections in the Senate Ways and Means budget is about \$2 million less than the House provided and \$10 million less than the Governor proposed. The Executive Office of Administration and Finance anticipates higher costs in FY 2008 for utilities at correctional facilities and for inmate health care. The higher level of funding in the Governor's proposal reflects these potential higher costs, while the Senate Ways and Means Committee does not account for all these anticipated new costs.

The Governor, House, and Senate and Ways and Means Committee each approached funding for local law enforcement differently. The Governor eliminated funding for community policing and replaced it with funding for 250 new police officers across the state. The House rejected this shift, level-funding community policing and providing \$13.5 million for the Shannon

¹¹ The Senate Ways and Means Committee total includes \$19,854,415 in funding for pharmacy services that is funded in the State Office for Pharmacy Services of the Department of Public Health. The Senate Ways and Means Committee budget shifts the funding for pharmacy services for the incarcerated to the Department of Public Health, reducing the various corrections line items accordingly. In order to accurately compare the Senate Ways and Means proposal with others, we have added this funding back into the Public Safety & Corrections total.

anti-gang program. The Senate Ways and Means Committee takes a middle road, also level-funding community policing at the FY 2007 level of \$21.4 million and including \$4 million to allow municipalities to hire 50 new police officers.

Funding for municipal police career incentives, commonly called the Quinn Bill, was reduced by \$2.1 million in the Governor's proposal, but the Senate Ways and Means Committee follows the House in reducing funding by \$3.1 million. It is important to remember that these programs represent funding dedicated to support of local law enforcement, while substantial portions of the unrestricted local aid provided to communities also pays for law enforcement.

Funding for the Massachusetts State Police, under the Senate Ways and Means Committee budget, would rise from \$260.9 million in FY 2007 to \$281.4 million in FY 2008. This is about the same level of funding as the House provided and \$5 million more than the Governor requested. While the Governor proposed eliminating the line item for State Police overtime, the Senate Ways and Means Committee retains the line item, but shifts some of the funding to State Police Operations.

The budget of the Senate Ways and Means Committee includes several reductions in funding for public safety programs as follows.

- Funding for the administration of the Executive Office of Public Safety is proposed to be cut by about \$800,000, or 25.7 percent, somewhat less than the cut proposed by the Governor.
- The budget of the state police crime lab is cut by nearly \$1 million or 6.0 percent over FY 2007 levels, matching the House proposal but going beyond the 2.9

percent cut recommended by the Governor.

- Funding for fire safety grants is zeroed out in the Senate Ways and Means Committee, as it was in the Governor's proposal, though the House proposed \$2.5 million in funding. Despite this, the Senate Ways and Means Committee does propose \$1.1 million in funding for the SAFE fire prevention program (\$400,000 less than the House proposed).
- While the Governor had proposed a \$500,000 increase for the Criminal History Systems Board, the Senate Ways and Means Committee proposes level-funding at \$5.7 million.

The Senate Ways and Means Committee matches the Governor and the House in providing \$2.3 million for the Massachusetts Emergency Management Agency, \$200,000 less than the FY 2007 level of funding.

JUDICIARY

The Senate Ways and Means budget provides \$765.9 million for the Judiciary in FY 2008, a \$3.5 million or 0.5 percent increase over FY 2007. The Senate Ways and Means proposal is about \$21 million higher than the Governor's budget and \$1 million higher than the House budget.

FY 2007 Ongoing	\$762,317,061
FY 2008 Governor	\$744,978,295
FY 2008 House	\$764,939,675
FY 2008 SW&M	\$765,858,219

<i>FY 2007 Ongoing to FY 2008 SW&M</i>	
Increase (decrease)	\$3,541,158
Percentage change	0.5%

The Senate Ways and Means Committee follows the lead of the Governor and House in level-funding the Supreme Judicial Court.

However, unlike the House and Governor, the Senate Ways and Means Committee increases funding for the state's appeals courts' by about \$400,000 or 4 percent.

While the Governor proposed consolidating funding for all trial courts into a single line item and the House retained individual line items for each courthouse, the Senate Ways and Means Committee split the difference, consolidating line items by the various types of trial courts. There are single line items for the district courts, housing courts, probate courts, and other categories of trial court. The Governor's proposal level-funded the trial court system and the House budget increased trial court funding by \$14.4 million. The Senate Ways and Means Committee proposes to increase trial court funding by \$15.1 million or 2.7 percent.

Funding for the various line items providing legal services and assistance to indigent clients is cut, under the Senate Ways and Means proposal, by \$3 million or 1.7 percent. The Governor had proposed an \$8.2 million cut and the House proposed a \$2.7 million cut. Most legal services line items are level-funded, but funding for the court costs of indigent clients is cut by \$3.1 million.

Along with the House, the Senate Ways and Means Committee increases the appropriation for the salaries of trial court judges by \$1.2 million or 2.5 percent.

The Senate Ways and Means proposal also agrees with the House budget by increasing funding for the Chief Justice of Administration of the trial courts by \$2.5 million and funding for court security by \$4 million.

Finally, the Senate Ways and Means Committee proposes increasing funding for probation and community corrections

services by \$4.3 million or 2.8 percent. This is \$2 million less than the House had proposed, but more than the level-funding contained in the Governor's budget.

PUBLIC TRANSIT

The Senate Ways and Means budget for public transit is identical to that of the Governor and House, providing \$52 million in contract assistance to the state's regional transit authorities (RTA), while the sales tax formula yields \$756 million in funding for the Massachusetts Bay Transit Authority (MBTA).

FY 2007 Ongoing	\$785,737,200
FY 2008 Governor	\$808,254,572
FY 2008 House	\$808,254,572
FY 2008 SW&M	\$808,254,572

<i>FY 2007 Ongoing to FY 2008 SW&M</i>	
Increase (decrease)	\$22,517,372
Percentage change	2.9%

Funding for the MBTA is considered off-budget because 20 percent of all sales tax revenue is allocated to the MBTA pre-budget. Because sales tax revenues are projected to grow by 3 percent between FY 2007 and FY 2008, state funding for the MBTA will grow by the same amount, or \$22 million.

Regional transit authorities' funding is appropriated through the budget process and the Senate Ways and Means Committee proposes to increase RTA funding by about \$517,000 or 1.0 percent, considerably less than the increase provided to the MBTA. Since FY 2001, contract assistance to RTAs has increased by only 4.8 percent, or \$2.4 million after adjusting for inflation.

GROUP INSURANCE

The budget for the Group Insurance Commission (GIC), which funds health benefits for state employees and retirees, appears to increase by \$118.1 million or 11.2 percent over FY 2007 under the Senate Ways and Means proposal. This increase is about \$8.8 million less than was proposed in House 1 and \$3.6 million less than proposed by the House as a result of different estimates of expected costs. For technical reasons (discussed below) this is an overstatement of the actual increase in spending.

FY 2007 Ongoing	\$1,056,581,827
FY 2008 Governor	\$1,183,509,840
FY 2008 House	\$1,178,260,698
FY 2008 SW&M ¹²	\$1,174,689,284

<i>FY 2007 Ongoing to FY 2008 SW&M</i>	
Increase (decrease)	\$118,107,457
Percentage change	11.2%

Making an apples-to-apples comparison of FY 2007 and FY 2008 spending is somewhat complicated because of four technical issues. The table on the following page summarizes these issues. Once we account for these four technical issues, the growth in GIC spending under the Senate Ways and Means proposal is \$38 million or 3.5 percent.

¹² The FY 2008 total includes funding shifted from the General Fund to an off-budget account, the State Retiree Benefits Trust Fund. As we explain under the heading “State Retiree Benefit Trust,” this fund is established to meet liabilities of the state retirement system for health care and other non-pension benefits for retired state employees. House 1, the House budget, and the Senate Ways and Means proposal make off-budget transfers to this fund to pay for health insurance for currently retired employees. Because this cost was previously paid from the GIC line items we include this off-budget funding in our totals to allow year-to-year comparisons. The difference between the amount transferred in the Senate Ways and Means budget and in House 1 appears to be the result of the Senate having access to more recent information regarding the share of GIC spending that is attributable to retired employees than was available at the time House 1 was prepared.

- Accounting adjustment: The FY 2007 total includes approximately 11.5 months of spending, creating a one-time savings of about \$50 million. In order to make an apples-to-apples comparison, this amount should be added to the FY 2007 total. The reason that this amount is not included in the FY 2007 total is that the definition of the “payable period” was changed creating a one year savings. Medical bills received by the GIC in FY 2008 for services provided in FY 2007 will be paid out of the FY 2008 budget, rather than the FY 2007 budget. Until FY 2007, the GIC would have had a window of two months (June 30 through August 31) to pay bills for prior year services with prior year appropriations. Therefore, bills received early in FY 2007 for FY 2006 costs were paid with FY 2006 appropriations, but the FY 2007 appropriations will not be used to pay similar bills in FY 2008. This created a one-time savings in FY 2007, artificially reducing the FY 2007 spending total.
- Ch. 16 Cuts: Because actual spending in FY 2007 will likely be lower than projected, Governor Patrick reduced GIC spending by \$10 million in Chapter 16 of the Acts of 2007 (Section 9).
- Expected Reversions: In addition to the \$10 million reduction in Chapter 16, another \$10 million is expected to be unspent and to revert to the General Fund at the end of the year. Thus combining the Chapter 16 reduction with this expected reversion, FY 2007 spending is projected to be \$20 million below the original appropriation level. In implementing 9(c) cuts, Governor Romney reported that GIC spending in FY 2007 was expected to be \$30 million less than the amount appropriated. If Governor Romney’s 9(c) reversion

estimate proves accurate, FY 2007 spending would be an additional \$10 million below the budgeted number.

- Adding Springfield: In FY 2008, employees of Springfield will get their health insurance through the GIC, which will be reimbursed by the city of Springfield. Bringing this spending into the GIC accounts for \$50 million of the new spending we see in the GIC line item. It will, however, be offset by new revenue and should not be considered a component of total growth in GIC spending.

GIC Funding			
(Millions of Dollars)			
	FY 2007	FY 2008	Change
	Ongoing	SW&M	
Appropriated Amount	1,056	831	
Shift to State Retiree Benefits Trust Fund		343	
<i>Subtotal</i>	<i>1,056</i>	<i>1,174</i>	<i>118</i>
Adjusting for One-Time Saving	50		
Chapter 16 Cuts	-10		
Expected Reversions	-10		
Adding Springfield		-50	
Grand Total	1,086	1,124	38

State Retiree Benefit Trust

In response to a change in accounting rules, House 1, the House budget, and the Senate Ways and Means proposal establish a new fund to begin to set aside money for future retiree health care costs. In 2004, the Governmental Accounting Standards Board (GASB) issued Statement 45, which mandates that governments begin to measure their unfunded obligations for retiree health care benefits. While GASB 45

does not require contributions to a savings account, the disclosure requirement creates an incentive for governments to do so. A growing obligation in a government's balance sheet, with no plan to begin funding it, is damaging to its credit quality.

In his budget proposal, the Governor established the State Retiree Benefits Trust Fund to address the need to begin paying for the cost of retiree health care benefits. The House and Senate Ways and Means proposals also establish this fund. All three budget proposals also begin to pay for the costs of health care for currently retired state employees by making off-budget transfers to this fund.

In addition, House 1 and the Senate Ways and Means Committee propose to eliminate the Health Care Security Trust Fund, transferring the remaining balance to the State Retiree Benefits Trust to begin pre-funding of the state's future liability for retiree benefits. This transfer is estimated to be approximately \$421 million. The Governor and Senate Ways and Means Committee would also dedicate portions of future payments from tobacco settlement funds to the Retiree Benefits Trust in order to continue pre-funding future liabilities.

The House budget does not pre-fund the future liability, postponing these decisions until the report of a commission formed to address these issues.

REVENUE

On January 16, 2007, 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 2008. They projected that tax revenue would total \$19.300 billion in FY 2007; this was an

increase of \$168 million over the projection provided by the Secretary of Administration and Finance on October 24, 2006 (of \$19.132 billion). They further projected that baseline tax revenue would grow by 3 percent to reach \$19.879 billion in FY 2008.

This is a lower rate of growth than the Commonwealth has experienced in recent years. A major reason for this low growth estimate was the administration's projection that capital gains taxes would decline from a projected \$1.875 billion in FY 2007 to \$1.459 billion in FY 2008, a drop of \$416 million.

The Senate Ways and Means Committee adopts two strategies to increase revenues for FY 2008: new debt issuance strategies ("Bond-Ahead") and the use of reserves. Because the state constitution requires that revenue measures begin in the House, the Senate Ways and Means Committee could not include changes to the state's tax laws in their proposal.

Enhanced Cash Management ("Bond-Ahead")

The Senate Ways and Means Committee adopts the "bonding-ahead" idea proposed by the Treasurer and included in the proposals of the Governor and the House. This concept is described in detail in our *Budget Monitor* on the FY 2008 House budget which can be found at: <http://www.massbudget.org/article.php?id=589>. The total savings and new revenue from this initiative is estimated to be approximately \$48 million.

Use of Reserve Funds

The Senate Ways and Means Committee uses \$375 million in reserve funds to balance the budget. This includes transfers

to the General Fund of \$150 million from the Health Care Security Trust Fund, \$150 million from the Stabilization Fund, and an estimated \$75 million in interest earned on the Stabilization Fund.

During periods of economic expansion it is prudent for state governments to spend less than they take in and to deposit the resulting surpluses into reserves so that basic services can be maintained during future recessions. By operating with structural deficits when the economy is not in a recession, a state risks eating away at reserves that will likely be urgently needed during the next recession.

In addition to \$375 million in one-time transfers, the Senate Ways and Means Committee, like the Governor and the House, would suspend the usual end-of-year deposit of one-half of one percent of total revenues into the Stabilization Fund. This amounts to about \$100 million in one-time savings for the FY 2008 budget.

Furthermore, all three budget proposals transfer a portion of the interest earned on the Health Care Security Trust Fund to the General Fund. In the Senate Ways and Means budget this is 50 percent of the interest earned over the entire year, or about \$22 million.

Taken together, one-time fund transfers of \$375 million, suspension of the Stabilization Fund deposit of \$100 million, and a \$22 million transfer of Health Care Security Trust interest results in the use of almost \$500 million in one time solutions to balance the Senate Ways and Means proposal. This \$500 million structural budget gap will need to be closed in future years through either new revenues or new spending cuts.

BALANCE

The balance sheet at the end of this report seeks to identify all revenues relied on and expenditures made in the budget proposals of the Governor, the House, and the Senate Ways and Means Committee. The largest difference between this balance sheet and the spending and revenue numbers historically and presently found in the state budget is the treatment of transfers. The state budget obscures total spending and revenue because transfers into and out of the General Fund are added together into a net revenue number called Consolidated Transfers. For example, in House 1, the Consolidated Transfers line is reported as \$702 million in revenue. However, this number includes \$935 million in lottery revenues as well as other positive revenues. The lower number results from the subtraction of transfers out of the General Fund. In effect these transfers out of the General Fund are spending, but in the budget each year they are shown as negative revenues.

In this *Budget Monitor* the MBPC treats all money received by the state as revenue. Likewise, all money paid out of those revenues is treated as spending. Therefore, the MBPC's total revenue and spending numbers are larger than those found in the budget documents.

The major transfers into the General Fund are lottery and tobacco settlement fund proceeds. The Senate Ways and Means Committee also provides for \$375 million in one-time transfers into the General Fund from the Stabilization Fund and the Health Care Security Trust. House 1 included \$125 million in such one-time transfers, while the House proposal included \$550 million in one-time transfers.

In addition, departmental revenues and Federal grant and reimbursement revenues are reported in Section 1A of each budget proposal. The amounts reported in each budget differ, in some cases significantly. The difference in Federal grant and reimbursement revenue between the proposals of the Governor and the House results from different decisions about Medicaid which result in different levels of Federal reimbursement. In the case of the Senate Ways and Means Committee's much higher estimate of Federal grant and reimbursement revenue, we have not received sufficient information to explain this difference.

Transfers out of the general fund, included in the chart under other spending, are primarily for various health care programs. The MBPC also includes in other spending revenues that are committed by law to the School Building Assistance Fund, the Massachusetts Bay Transit Authority, and the state pension system. While these items are not appropriated in line items, they are a component of total state spending.

The Senate Ways and Means budget also includes a \$3.75 million transfer to the newly created Commonwealth Covenant Trust Fund. This fund would assist graduates of Massachusetts higher education institutions in the repayment of their student loans if they remain in the state and acquire their degree in a science, technology, engineering, or mathematics field.

Spending for Group Insurance for state employees and retirees has historically been funded through appropriations. Beginning in FY 2008, Group Insurance costs for retirees will be funded through a transfer from the General Fund rather than through a line-item appropriation. Therefore, Group Insurance appears twice in the chart, once as an appropriation for employee benefits and

once as a transfer for retiree benefits. The amounts funded on- and off-budget for Group Insurance vary between the proposals of the Governor, House, and Senate Ways and Means Committee.

One final issue related to the balance of each budget proposal is the inclusion, in the Governor's budget proposal, of a \$50 million line item setting aside funds to pay the costs of new collective bargaining agreements negotiated during FY 2008. Neither the House, nor the Senate Ways and Means Committee set aside funding for this purpose. Because a number of collective bargaining agreements are up for negotiation in FY 2008, there will inevitably be cost increases related to these agreements during the fiscal year. Under the proposals of the House and Senate Ways and Means Committee, the first dollar of new spending required under collective bargaining will necessitate a supplemental budget. The Governor's proposal, on the other hand, already sets aside funds for the first \$50 million of new costs. Because the House and Senate Ways and Means Committee do not budget for these costs, their budgets are able to achieve balance with higher levels of spending across many other areas of the budget. Because the House and Senate Ways and Means Committee do not set aside funds for these costs, new collective bargaining agreements during FY 2008 could grow the size of the structural budget gap.

Because we have not been able to obtain complete information on the revenue estimates in each budget proposal, particularly departmental and Federal revenues, the bottom line for each budget proposal should be considered our best estimate based on available information. Going forward, the citizens of our state would greatly benefit if the release of each budget proposal was accompanied with the

release of a comprehensive balance sheet showing how total revenues match total spending.

Budget Balance - FY 2008			
(in Millions of Dollars)			
Category	Governor	House	SW&M
Tax Revenue Total	20,169.0	19,879.0	19,879.0
Tax revenue	19,879.0	19,879.0	19,879.0
Tax law changes ¹	290.0	0.0	0.0
Departmental Revenues Total	2,304.1	2,317.3	2,330.1
Departmental revenues ²	2,304.1	2,317.3	2,330.1
Transfers into the General Fund Total	1,939.7	1,927.8	1,905.7
Public Health	1,011.0	1,016.0	1,016.0
Tobacco settlement revenues	219.0	219.1	219.0
Other transfers into the General Fund ³	709.7	692.7	670.7
Federal Grants & Reimbursements Total	6,240.3	6,291.9	6,426.6
Federal grants and reimbursements ²	6,240.3	6,291.9	6,426.6
One-time Revenues	125.0	550.0	375.0
Transfer from the Stabilization Fund	75.0	400.0	225.0
Transfer from the Health Care Security Trust	50.0	150.0	150.0
Revenue Grand Total	30,778.1	30,966.0	30,916.4
Appropriated spending			
Local Aid - Lottery	935.0	935.0	935.0
Local Aid - Additional Assistance & PILOT	410.1	410.3	410.1
Local Education Aid (Chapter 70)	3,705.5	3,725.7	3,725.7
K-12 Education (non-Chapter 70)	552.5	574.1	566.4
Higher Education	1,038.0	1,055.0	1,050.9
Early Education and Care	509.9	538.0	533.8
Income Support Programs	601.8	598.9	598.8
Health Care Programs	8,346.8	8,429.5	8,258.8
Public Health	547.0	526.1	533.1
Mental Health	664.0	665.1	667.4
Mental Retardation	1,215.8	1,228.2	1,224.7
Social Services	790.3	795.3	797.2
Elder Affairs	227.0	230.0	230.2
Other Health & Human Services	599.4	616.7	615.6
Environmental Affairs	211.7	214.9	205.7
Housing & Community Development	124.9	127.3	125.9
Economic Development	154.2	171.9	161.5
Public Safety & Corrections	1,466.5	1,467.0	1,452.0
Judiciary	745.0	764.9	765.9
District Attorneys	93.5	94.8	95.4
Attorney General	40.4	39.6	41.2
Libraries	31.4	33.3	31.9
Transportation	165.5	154.5	151.1
Group Insurance	803.0	833.2	831.4
Other Administrative	786.6	737.5	724.7
Debt Service	1,947.2	1,947.2	1,945.9
Other spending			
Health Care Programs	907.8	907.8	1,049.5
Group Insurance	380.5	345.1	343.2
Economic Development Funds	0.0	14.0	3.8
Pensions	1,398.6	1,398.6	1,398.6
School Building Assistance	634.7	634.7	634.7
MBTA	756.0	756.0	756.0
Expenditures Total	30,790.6	30,970.2	30,862.8
Balance ⁴	(12.5)	(4.2)	53.6

1. Tax law changes are estimated to net \$290 million in new revenue with \$295 million in revenue generated by loophole closings and \$5 million in revenue lost by extending the property tax circuit breaker to the non-elderly.
2. Departmental and Federal reimbursement revenue estimates are different in the budget proposals of the Governor, the House, and the Senate Ways and Means Committee. In the case of Departmental revenues this likely reflects changed revenue projections between the development of the proposals. Differences in Federal reimbursement and grant revenues result from different decisions regarding Medicaid spending as well as changing estimates between the development of each budget proposal. Nevertheless, the MBPC has not been able to obtain sufficient information to fully explain different revenue estimates.
3. The Senate Ways and Means budget includes about \$22 million less in transfer revenue than was included in the House budget. Both the Senate Ways and Means Committee and the House propose to transfer into the General Fund the interest earned on the Health Care Security Trust Fund. However, the Senate Ways and Means Committee only transfers 50% of the interest earned, \$22 million, as opposed to the \$44 million transferred in the House proposal.
4. Because we were not able to obtain complete information on differences in revenue estimates, these balance figures should be understood as our best estimate based on the available information.



Budget by Program Area

(in Millions of Dollars)

Program	Ongoing	Gov. FY08	House	SW&M	SW&M FY08 minus		
	FY07		FY08	FY08 ⁷	FY07	Gov. FY08	House
Local Aid - Lottery	920.0	935.0	935.0	935.0	15.0	0.0	0.0
Local Aid - Additional Assistance & PILOT	407.6	410.1	410.3	410.1	2.5	0.0	(0.2)
Local Education Aid (Chapter 70)	3,505.5	3,705.5	3,725.7	3,725.7	220.2	20.2	0.0
K-12 Education (non-Chapter 70)	538.7	552.5	574.1	566.4	27.6	13.9	(7.8)
Higher Education	1,031.5	1,038.0	1,055.0	1,050.9	19.3	12.9	(4.1)
Early Education and Care	510.3	509.9	538.0	533.8	23.5	23.9	(4.3)
Income Support Programs	608.3	601.8	598.9	598.8	(9.5)	(3.1)	(0.1)
Health Care Programs ¹	8,005.0	8,346.8	8,429.5	8,255.8	²	(90.9)	(173.6)
Public Health	513.0	547.0	526.1	533.1	20.1	(13.9)	7.0
Mental Health	646.5	664.0	665.1	667.4	20.9	3.4	2.3
Mental Retardation	1,175.9	1,215.8	1,228.2	1,224.7	48.8	8.9	(3.5)
Social Services	769.9	790.3	795.3	797.2	27.3	6.9	1.9
Elder Affairs	223.1	227.0	230.0	230.2	7.1	3.2	0.2
Other Health & Human Services ³	607.2	599.4	616.7	615.6	8.4	16.2	(1.1)
Environmental Affairs	208.1	211.7	214.9	205.7	(2.4)	(6.0)	(9.2)
Housing & Community Development	124.8	124.9	127.3	125.9	1.1	1.0	(1.4)
Economic Development	172.6	154.2	171.9	161.5	⁴	7.3	(10.5)
Public Safety & Corrections	1,432.6	1,466.5	1,467.0	1,452.0	19.4	(14.5)	(14.9)
Judiciary	762.3	745.0	764.9	765.9	3.5	20.9	0.9
District Attorneys	92.2	93.5	94.8	95.4	3.1	1.9	0.5
Attorney General	38.6	40.4	39.6	41.2	2.5	0.7	1.6
Libraries	31.7	31.4	33.3	31.9	0.2	0.5	(1.5)
Transportation	159.1	165.5	154.5	151.1	(8.0)	(14.5)	(3.4)
Group Insurance	1,056.6	803.0	833.2	831.4	⁵	28.5	(1.8)
Other Administrative	784.9	786.6	737.5	724.7	(60.2)	(61.9)	(12.8)
Debt Service	1,952.4	1,947.2	1,947.2	1,945.9	(6.5)	(1.3)	(1.3)
<i>Sub-total appropriated spending</i>	26,278.5	26,713.0	26,914.1	26,677.0	398.5	(36.0)	(237.1)
Health Care Programs	925.2	907.8	907.8	1,049.5	²	141.7	141.7
Group Insurance	0.0	380.5	345.1	343.2	⁵	(37.3)	(1.8)
Economic Development Funds	0.0	0.0	14.0	3.8	⁴	3.8	(10.3)
Pensions	1,335.2	1,398.6	1,398.6	1,398.6	63.4	0.0	0.0
School Building Assistance	557.0	634.7	634.7	634.7	77.7	0.0	0.0
MBTA	734.0	756.0	756.0	756.0	22.0	0.0	0.0
<i>Sub-total other spending ⁶</i>	3,551.4	4,077.6	4,056.2	4,185.8	634.5	108.2	129.7
Total	29,829.9	30,790.6	30,970.2	30,862.8	1,033.0	72.2	(107.4)

1. In FY 2008, spending for nursing home rate adjustments that had been off-budget in prior fiscal years was brought on-budget as a line-item appropriation. In order to provide an accurate comparison between FY 2007 and FY 2008, the FY 2007 total for health care spending includes \$288.5 million for nursing home rate adjustments. In actuality, that \$288.5 million was not a line-item appropriated spending in FY 2007.

2. Total health care spending is a combination of appropriations in the budget and off-budget transfers into various health care trust funds. To accurately understand the overall change in health care spending from one year to the next, we combine appropriated and transfer spending in each year. In total, the Senate Ways and Means Committee would increase health care spending from \$8.93 billion in FY 2007 to \$9.31 billion in FY 2008, an increase of 4.2%.

3. Other health and human services spending includes \$28 million in FY 2007 and \$20 million in FY 2008 to fund wage increases for the state's lowest wage human services workers. Ultimately, these funds will be distributed across the state's human services agencies including the departments of Mental Health, Mental Retardation, Social Services, and Youth Services.

4. In the Senate Ways and Means budget, total economic development spending is a combination of appropriations in the budget and an off-budget transfer from the General Fund to the Massachusetts Commonwealth Covenant Trust Fund (see economic development section of this report). To accurately understand the overall change in economic development spending from one year to the next, we combine appropriated and transfer spending in each year. In total, the Senate Ways and Means Committee would reduce economic development spending by \$7.4 million or 4.3 percent.

5. Unlike prior years, insurance costs for retired employees will be funded through an off-budget transfer beginning in FY 2008. To accurately examine changes in Group Insurance spending from FY 2007 to FY 2008 it is necessary to combine appropriated and transfer Group Insurance spending in FY 2008. Once combined, spending on Group Insurance under the Senate Ways and Means budget is \$1.175 billion, or an 11.2 percent increase over FY 2007. This increase is still not entirely accurate because of a variety of accounting changes taking place with Group Insurance. Please refer to the Group Insurance section of this report for more information.

6. Some programs and activities of the Commonwealth are funded through transfers from the General Fund or legislatively-mandated allocations of revenue rather than as line-item appropriations. These are in fact spending and are treated as such in our spending totals.

7. The Senate Ways and Means Committee introduces a new line item for the State Office for Pharmacy Services in their FY 2008 budget. Funds used to pay for pharmacy services at various state agencies are shifted to this new line item. To provide accurate comparisons of funding levels between Senate Ways and Means and FY 2007, the Governor, and the House, these amounts have been allocated to their respective agencies in this chart. The \$45.8 million is distributed among the line items that it was taken from in the Senate Ways and Means budget as follows: Department of Public Health - \$9.7 million; Other Health and Human Services - \$1.6 million; Department of Mental Health - \$8.3 million; Department of Mental Retardation - \$6.4 million; and, Public Safety & Corrections - \$19.9 million.