

The Governor’s FY 2010 Budget Proposal

OVERVIEW

The Governor’s budget proposal, “House 1,” presents his plan to close a \$3.5 billion budget gap. This gap is the result of both the national recession and policy choices made over the past decade that have significantly reduced tax revenues in Massachusetts.¹ The Governor’s proposal would close almost half of the gap with spending cuts and reductions, and about a sixth of the gap with new revenues. The remaining \$1.3 billion gap would be filled with money from temporary sources (the state’s stabilization fund and the emergency fiscal relief from the federal government).

While the 9C cuts made earlier this year were concentrated in health care, human services, and higher education, this budget proposal also includes large cuts to education and other forms of local aid, which will particularly affect lower income communities which rely most on local aid. The proposal would reduce unrestricted local aid by 28.5 percent. The Governor, however, proposes increases in the meals and hotels taxes that could produce \$150 million in new revenue and reduce the local aid cuts to 16.7 percent.

The Governor’s budget documents describe the proposed Chapter 70 education funding level as a cut of \$300 million. One element of the Governor’s Chapter 70 education funding proposal raises significant legal as well as policy concerns.

¹ For more information in the causes of the state’s fiscal crisis, see *Substantial Surpluses to Dangerous Deficits: A Look at State Fiscal Policies from 1998 to 2008*, available online at:
http://www.massbudget.org/documentsearch/findDocument?doc_id=638

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Data on the website of the state Department of Elementary and Secondary Education indicates that the House 1 funding levels could leave funding in 153 districts a cumulative \$168 million below the “foundation budget” levels that the state has calculated as the minimum amount of funding that a district needs to provide an adequate education to its students.

At the core of the Education Reform Act of 1993 and Supreme Judicial Court decisions on education financing is the principle that the state has a constitutional obligation to provide enough funding for each district to provide an adequate education for its students. The Governor has indicated his hope that the emergency state aid coming from Washington will provide enough money to allow all districts to spend at the foundation budget level. He has also been a leader in the national efforts to encourage Congress to include such education aid in the stimulus package. If those efforts are not successful, however, there is a danger that the 569,000 students in these 153 districts will be denied what had been thought to be a constitutionally guaranteed right: the right to attend a school that receives at least the minimum amount of funding it needs to provide an adequate education to its students.

The budget also proposes deep cuts in human services, health care, environmental and other accounts across state government. In addition, the Governor proposes several revenue measures in addition to those tied to local aid. His budget would repeal the sales tax exemptions for candy, soda, and alcohol, expand the bottle bill, increase fees at the registry, and hire more auditors to reduce tax evasion.

This *Budget Monitor* examines the spending recommendations in each area of the budget and revenue proposals and compares proposed spending levels to historic levels. While there is very little good news in the budget, this reflects the reality of the situation we are in. The state has had

structural fiscal problems for a decade and we are now in the middle of the worst recession since the Great Depression.

WHAT IS A “MAINTENANCE” BUDGET?

Throughout this document, we refer to a FY 2010 maintenance budget, or we compare the budget proposal to maintenance funding levels. Sometimes a maintenance budget is also referred to as a “current services” budget or a “level services” budget.

A maintenance budget estimates the cost of continuing into the next year the current year’s level of service, while adjusting for inflation and caseload changes. A maintenance budget does not include any new programmatic expansions or contractions, and does not assume any policy changes affecting funding or service levels. Maintenance budget estimates depend, of course, on the assumptions made about the inflation rate, and about caseload shifts.

The Commonwealth currently does not make public a true “maintenance budget” with accurate estimates of the costs of maintaining current service levels into the next fiscal year. This document would be an invaluable tool for understanding the budgetary process, as it would allow the public an opportunity to understand the true extent of proposed programmatic cuts or expansions.

EDUCATION

FY09 GAA	\$6,951,626,766
Oct 9C cuts	\$101,499,032
Jan 9C cuts	\$16,437,356
FY09 Current, as of 1/28/09	\$6,842,702,738
FY10 House 1	\$6,655,085,083
Increase (decrease) from FY09 GAA	(\$296,541,683)
Percentage change from FY09 GAA	-4.3 %

The Governor's House 1 budget includes large cuts for higher education, reductions in funding for early education, and a restructuring of information technology for the Executive Office of Education. The Governor also keeps Chapter 70 education aid at the same level as FY 2009 for all school districts, which would mean that some districts might not meet foundation budget in FY 2010.

K-12 EDUCATION

The Governor's proposal to level fund all districts' Chapter 70 education aid at FY 2009 levels could put the state in violation of the Constitution if districts are unable to spend at their foundation budget levels. Since FY 2000 combined state and local education contributions have allowed every school district to reach its foundation budget (the amount the state defines as the minimum necessary to provide an adequate education). However, under the Governor's FY 2010 budget, increasing foundation budgets at the local level, combined with no increases in state aid, would mean that 153, or 47 percent, of the state's school districts will have spending requirements below their foundation budget.

The state's Department of Elementary and Secondary Education (ESE) estimates that the gap between required district spending and foundation budget is \$168 million statewide. This gap is based on a statutory inflation cap of 4.5 percent on costs; the gap would be larger if the 6.75 percent inflation rate calculated by ESE for FY 2010 were used.

Inflation has, however, declined since the period that state law and ESE look to in calculating the 6.75 percent inflation rate.²

While many school districts spend at a level above their foundation budget, a number of school districts, including Worcester, Lawrence, Chelsea and Winchendon, are in substantial danger of not spending at their foundation budget level in FY 2010. It is expected that federal education aid will be available in FY 2010. The administration has expressed hopes that such funds could be used to ensure that all districts meet their foundation budgets.

Other notable aspects of the House 1 budget in regard to K-12 include:

- \$10.1 million for MCAS remediation, a 25 percent cut from the FY 2009 GAA. MCAS remediation funds are used to provide tutoring and other services to students in danger of not meeting the state's MCAS graduation requirement;
- \$7.6 million in targeted intervention for struggling schools, a 17 percent cut from the FY 2009 GAA;
- \$215.9 million for the state's special education reimbursement system. This is a reduction of \$14 million from the FY09 GAA. The reduction was accomplished by eliminating earmarks and not funds used to directly reimburse districts for eligible costs;
- \$53.3 million for regional transportation, a 13 percent cut from the FY09 GAA. House 1 includes this funding in a new line item also intended to incentivize regionalism;
- House 1 proposes raising the cap on charter school enrollments to 12 percent for the

² Regarding the FY 2010 inflation index, ESE states: "All foundation budget factors have been increased by 4.5%. While the federal government's price deflator index for state and local government expenditures was 6.75%, Chapter 70 statutory language caps the amount at 4.5%." For more information see http://finance1.doe.mass.edu/chapter70/chapter_10.html

lowest-performing school districts in the state; and,

- House 1 proposes changing charter school reimbursements so that the state will directly reimburse charter schools for capital costs as well increases in charter school tuition from the 2007-2008 school year.

EARLY EDUCATION AND CARE

The Governor's House 1 budget recommendations include \$558.1 million for programs administered by the Department of Early Education and Care (EEC). This appropriation is \$32 million (5.7 percent) less than the \$590.1 million appropriation in the FY 2009 GAA.

The majority of the reduction in EEC spending is due to a \$22.6 million reduction in funding for child care access. These funds go to provide subsidized childcare for eligible families. Starting with the Governor's October 9C cuts, EEC has stopped extending these subsidies to eligible children on the waiting list when a slot opens up. Therefore, all children currently receiving subsidized child care will continue to do so as long as they remain eligible, but new funds are not expected to be made available for otherwise eligible children who are not receiving subsidies, aside from children in special need categories (such as children in referred to the Department of Children and Families). An additional \$5 million in supportive child care funding is included in the item to ensure that increased numbers of children in special needs categories can receive services.

In addition, the EEC is transitioning much of funding that had gone to Community Partnership Council (CPC) childcare programs to contracted subsidized child care slots. Due to line item consolidation, it is not possible to determine how much funding will continue to go to CPCs for subsidized childcare, but the state's Board of Early

Education and Care has decided to move CPC funding to new contracted child care slots.

House 1 funds the state's Universal Preschool program (UPK) at \$11.6 million, \$500,000 less than in the FY 2009 GAA. This funding level is expected to provide the same number of UPK grants as were provided in FY 2009. These quality grants are used to ensure that UPK classrooms meet school readiness and other standards developed by EEC.

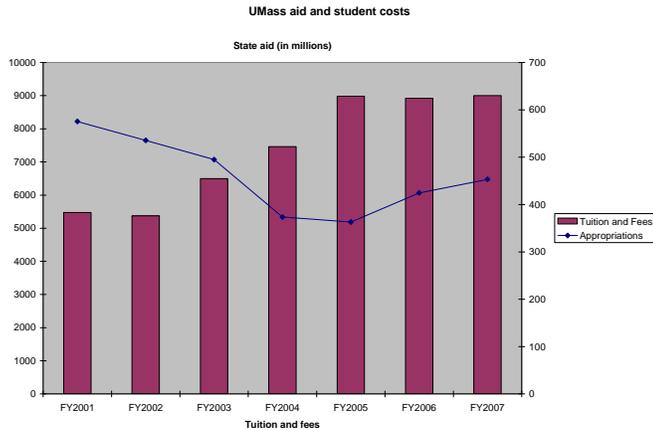
House 1 funds grants to Head Start programs at \$9 million, a \$1 million cut from the FY 2009 GAA. State Head Start grants were cut by \$1 million through the 9C process. House 1 would continue these cuts into FY 2010.

The Governor's budget funds family support and engagement services at \$8.5 million, a reduction of \$1.1 million from the FY 2009 appropriation. This reduction is consistent with the Governor's 9C cuts which eliminated \$1.1 million from FY 2009 spending by reducing the earmark for the Mass Family Networks.

HIGHER EDUCATION

During the 9C process, the Governor implemented cuts of 5.5 percent from the FY09 GAA amount. The House 1 budget includes across the board cuts of 16.5 percent to each of the state's 26 state and community colleges as well as the University of Massachusetts, from their FY 2009 GAA appropriation. In total, the state's higher education system is funded at \$806.2 million, compared to \$965.9 million in the FY 2009 GAA.

Such large funding reductions to state and community colleges, as well as the UMass system, will likely result in increased costs to students in the form of tuition and fees as well as reduced programmatic offerings. As the chart below indicates, historically cuts in aid to UMass have been associated with rising tuition and fees.



Aside from the cuts to campuses, the Governor’s budget consolidates the state’s higher education scholarship programs and funds them at \$100.4 million. This funding level is about \$1 million less than the FY 2009 GAA amount. By consolidating the items, the Governor asserts that scholarship funds that would otherwise go unclaimed could be transferred to other scholarships with higher demand.

In inflation adjusted dollars, the Governor’s Higher Education recommended spending falls \$440 million below the appropriation in FY 2001, a decrease of 32 percent.

The current federal recovery bill that includes education aid requires that state’s fund higher education, as well as K-12 education, at 2006 levels. The state would have to increase its higher education appropriation by approximately \$14 million to reach the FY 2006 level of support.

ENVIRONMENT & RECREATION

FY09 GAA	\$231,760,575
Oct 9C cuts	\$17,645,702
Jan 9C cuts	\$1,749,660
FY09 Current, as of 1/28/09	\$213,383,778
FY10 House 1	\$213,383,264
Increase (decrease) from FY09 GAA	(\$18,377,311)
Percentage change from FY09 GAA	-7.9%

The Governor recommends funding environment and recreation programs at \$213.4 million, which is \$18.4 million or 7.9 percent less than the FY 2009 GAA. This budget request is consistent with FY 2009 current spending after the Governor made \$19.4 million in 9C cuts and the Legislature appropriated \$1.0 million in supplemental funding for these programs.

While most environmental programs received cuts or were eliminated altogether, House 1 recommends increasing funding for the recycling program, which would be paid for with money raised by expanding the bottle bill. House 1 also proposes consolidating many accounts and creates a new Information Technology (IT) line-item within the Executive Office of Energy and Environmental Affairs (EOEEA). The \$9.8 million that House 1 appropriates to the new IT account is transferred from other accounts within EOEEA and its departments.

DEPARTMENT OF ENVIRONMENTAL PROTECTION

In his budget recommendations for the Department of Environmental Protection (DEP) the Governor recommends several cuts and one increase, including:

- Providing \$1.5 million to audit contaminated (brownfield) sites, a reduction of \$500,000 from the FY 2009 GAA;
- Providing DEP’s hazardous waste program with \$15.8 million. In his FY 2009 9C cuts, the Governor eliminated about \$100,000 from this account. House 1 proposes eliminating an additional \$600,000 for a total reduction of \$700,000 from the FY 2009 GAA; and,
- Combining the recycling coordination centers with the recycling and solid waste program and providing \$5 million in funding, a \$2.3 million increase over the FY 2009 GAA. In outside section 15, House 1 recommends expanding the bottle bill,

which the Governor anticipates will raise \$20 million. Of this new money, \$5 million would be used to fund the \$5 million budget of the recycling and solid waste program.

DEPARTMENT OF FISH AND GAME

The Governor recommends consolidating a number of Department of Fish and Game programs and reducing overall funding by \$2.6 million. \$2.1 million of these reductions were 9C cuts made during FY 2009 that the Governor did not restore in his FY 2010 budget.

DEPARTMENT OF AGRICULTURE

House 1 recommends \$2 million in cuts to the Department of Agriculture. In his budget the Governor:

- Proposes eliminating the Agricultural Innovation Center which was appropriated at \$1.5 million in the FY 2009 GAA and received over \$900,000 in 9C cuts; and,
- Recommends level-funding the state food assistance program at \$12 million of which \$55,000 is transferred to the new IT account.

DEPARTMENT OF CONSERVATION AND RECREATION

House 1 recommends transferring \$2.6 million in Department of Conservation and Recreation (DCR) funds to the new IT account. House 1 also recommends consolidating all of the DCR line-items into two accounts, one that funds DCR programs and the other that governs the department's retained revenue accounts.

The first consolidated account would fund DCR parks, beaches, pools, dams and parkways. House 1 recommends providing \$82.9 million for these programs, an \$8.4 million reduction from the FY 2009 GAA. The House 1 budget for DCR parks and recreation recommends:

- Reducing the state parks account by \$3.3 million which is an additional \$900,000 reduction on top of the Governor's 9C cuts;
- Cutting \$3.1 million from urban parks which is \$200,000 more than the 9C cuts made from this account;
- Eliminating \$1.6 million in funding from DCR's administrative line-item which reduces spending by an additional \$500,000 from the 9C cuts made in FY 2009;
- Level-funding the three accounts for seasonal hires and summer jobs programs at a total of \$10.8 million; and,
- Increasing parkway maintenance funds, including snow and ice removal and lighting, by almost \$2 million over the FY 2009 GAA. This funding level, however, is in line with the amount that DCR estimates it will spend on roadways maintenance in FY 2009.

The second consolidated account merges DCR's retained revenue line-items into a single account and provides the department with \$8.9 million in retained revenue, a reduction of \$573,000 from the FY 2009 GAA.

HEALTH CARE

FY09 GAA	\$12,997,543,817
Oct 9C cuts	\$350,246,009
Jan 9C cuts	\$13,185,443
FY09 Current, as of 1/28/09	\$12,681,961,487
FY10 House 1	\$13,020,899,948
Increase from FY09 GAA	\$23,356,131
Percentage change from FY09 GAA	0.2%

In this analysis, "health care" includes funding for MassHealth (Medicaid) and health reform, public health, mental health, and state employee health benefits. Because health care make up such a large share of the Commonwealth's budget, health care programs and health care spending are often a

target for budgetary cuts or for major cost saving initiatives.

The Governor's FY 2010 budget includes \$13.05 billion for total health care spending, or \$13.02 billion once adjusted for the consolidation of technology spending. This is just a 0.2 percent increase over funding in the FY 2009 GAA. The Governor's budget shows a Medicaid (MassHealth) and health reform increase of 0.1 percent, although this is largely a function of a dramatic decrease in the amount of funding transferred to certain off-budget trusts (see discussion below for explanation). Mental health has been cut by 5.6 percent and public health has been cut by 12.3 percent. State spending for state employee health care would increase by 1.3 percent in the governor's budget (while the GIC appropriation goes up by more than that, it does so because it would also be paying for local employees whose employers have joined the GIC and will be reimbursing the state for their costs).

The Governor's January 9C cuts reduced health care spending by \$13.2 million. This includes an \$8.0 million reduction in the MassHealth and health reform budget, a \$2.9 million reduction in the mental health budget, a \$2.3 million reduction in public health spending, and just a minimal cut in the costs of the state employee health insurance program.

It is important to remember, however, that health care spending was dramatically cut by the Governor in October. The October 9C cuts reduced health care spending by \$350.2 million. Over the course of FY 2009, there has been a total of \$47.8 million in supplemental funding for health care, and total cuts have amounted to \$363.4 million. All told, the FY 2009 health care budget has been reduced by 2.4 percent over the course of the fiscal year.

The Governor's FY 2010 budget also reflects significant efforts to cut the Commonwealth's

health care budget, although this is difficult to assess given the significant administrative reorganization and programmatic consolidation the Governor's budget proposes. For this analysis, in each sub-category of health care spending, we have made adjustments to the Governor's funding recommendations in order to better make comparisons between the two fiscal years.

MASSHEALTH (MEDICAID) AND HEALTH REFORM

The Governor proposes four fundamental organizational shifts in his budget: he removes the funding for technology costs from each of the line items and creates a consolidated health and human services technology account; he eliminates funding for individual MassHealth programs and instead recommends funding MassHealth in consolidated accounts organized by payment system; he incorporates into line item appropriations significant components of health care spending that had previously been funded by transfers into off-budget trusts; and he recommends folding the elder long-term care MassHealth accounts into other MassHealth budgetary line items.

The Governor's budget includes \$9.11 billion for the MassHealth component of this health care funding. This is 5.7 percent higher than funding in the FY 2009 GAA, or 5.4 percent higher when including funding previously allocated to the off-budget Essential Community Provider Trust. This total includes funding for the costs of the Executive Office, the Medicare Part D "Claw-back" as well as the MassHealth share of technology costs and funding for implementation of the Children's Behavioral Health Initiative (commonly referred to as the *Rosie D.* settlement), which in FY 2009 was funded through a special reserve account, but in FY 2010 has been incorporated into MassHealth line items.

In order to cut MassHealth costs, the Governor has taken a variety of steps, largely by cutting reimbursement rates to health care providers.

Total proposed savings add up to \$382 million. For example, the Governor proposes limiting provider rate increases to an approximately one percent increase. Since health care cost inflation is significantly greater than 1 percent, this increase represents a real cut in the program. The Governor anticipates \$178 million savings from provider rate cuts. The Governor also proposes the expansion of payment deferrals through what is referred to as “pay-for-performance” which would save \$62 million in FY 2010. Other savings include \$43 million in new payment and pricing strategies³, \$31 million based on tighter management of utilization, and \$30 million in other savings. It is important to remember, however, that reducing spending in MassHealth means that the Commonwealth will receive less in federal Medicaid reimbursement. Accounting for the reduced federal revenue, the net savings associated with the Governor’s MassHealth proposals total \$191 million. There will be some administrative cost to implementing these savings measures, so the net savings to the Commonwealth of the Governor’s proposed MassHealth reforms is \$187 million.

There is also language in an outside section of the budget that would increase the nursing home assessment by \$75 million, from \$145 million to \$220 million. Although this does not increase the amount of the supplemental nursing home rate appropriation (level funded at \$288.5 million and incorporated into the consolidated MassHealth fee-for-service payments line item), this change would generate increased revenue for the Commonwealth that would be directed towards a certain performance-based incentive payments for nursing homes.

The Governor’s budget does propose full funding for the Commonwealth Care program, and does

³ For example, an outside section of the budget would eliminate reimbursement for certain hospital-acquired infections, one of the payment strategies included in the Governor’s cost-containment initiatives.

not propose any changes in eligibility or benefits for the state’s publicly-subsidized insurance programs. Health reform is financed both through the MassHealth program and through certain trusts, particularly the Commonwealth Care Trust Fund. This trust holds the funding to pay for the Commonwealth Care insurance program, as well as the funding to finance the Health Safety Net (previously referred to as the Uncompensated Care Pool).

The Governor expects that \$880 million will be necessary to pay for Commonwealth Care. He proposes transferring \$697.3 million from the General Fund to the Commonwealth Care Trust Fund to help fund Commonwealth Care. In FY 2009, there was \$1.12 billion transferred to the trust, of which the administration projects \$820 million will be needed to pay for FY 2009 Commonwealth Care costs. The Governor also anticipates that \$145 million will be available to pay for Commonwealth Care in FY 2010 from the recent increase in the cigarette tax (compared to \$160 million in FY 2009), as well as an anticipated \$21.3 million from “fair share” assessments on employers who do not provide health insurance for their employees. Fair share assessments in FY 2009 were closer to \$5 million. The Governor also expects an additional \$16.9 million from other sources that will go into the Commonwealth Care Trust Fund in FY 2010.

The Governor’s budget does not include direct funding for the Health Safety Net in FY 2010, instead relying on an existing \$47 million surplus in the fund left over from FY 2009 and ongoing assessments on health care providers and insurers totaling \$390.0 million. In FY 2009, \$63.0 million was transferred into the Health Safety Net Trust from the Commonwealth Care Trust Fund. One of the assumptions built into the financing of the state’s health reform was that the costs of the Health Safety Net would go down as more people had health insurance. Although this assumption has held true so far, it is uncertain what the demand will be as unemployment grows and more

and more people lose employer-based health insurance. In FY 2008, payments from the Health Safety Net Trust totaled \$415.6 million, in FY 2009 they are projected to total \$406.0 million, and in FY 2010 costs are projected to total only \$381.0 million. If costs are significantly higher than expected, there may be need, once again, to transfer money from the General Fund into the Health Safety Net Trust.

Another significant difference between the FY 2009 health care budget and the FY 2010 budget as proposed by the Governor is that in FY 2009, the budget included the last of three years' worth of supplemental payments to health care providers (so-called Section 122 payments) as stipulated in the state's health reform law. Because these payments (approximately \$160 million in FY 2009) expired in FY 2009, they are not continued into FY 2010, and are therefore not included in the Governor's House 1 totals. These payments had previously been made out of the Commonwealth Care Trust Fund.

The Prescription Advantage pharmacy program, which receives \$45.0 million in House 1, started FY 2009 with \$57.5 million, but was cut by \$6.9 million in October and an additional \$303,000 in January. This program, which provides assistance with prescriptions for low-income elders on Medicare Part D and certain younger people with disabilities, has eliminated initial copayment assistance for some enrollees. Some members are likely to see significant increases in out-of-pocket costs, and will not receive assistance with co-payments until they have reached the \$2,700 Medicare Part D threshold.

MENTAL HEALTH

The Governor's House 1 budget proposal includes \$644.8 million for mental health services, once adjusted for the health and human services technology consolidation. This total is a \$40.6 million - 6 percent - reduction from funding in the FY 2009 GAA and represents a much more

MassHealth (Medicaid) and Health Reform				
<i>(in Millions of Dollars)</i>				
	FY 2009	FY 2009	FY 2010	FY 2010
Line Item Appropriations	GAA	Current	H.1	H.1 (adj.)
MassHealth (Medicaid)	8,617.8	8,425.5	9,161.6	9,109.8
Pharmacy Programs	57.5	50.3	45.0	45.0
Health Care Finance & Other Initiatives	26.2	21.4	19.8	19.8
Sub-Total Line Item Appropriations	8,701.6	8,497.2	9,226.3	9,174.5
Health Care Trusts				
Commonwealth Care Trust (outside section)	1,117.6	1,117.6	697.3	697.3
Commonwealth Care Trust (pre-budget)	174.6	174.6	145.0	145.0
e-Health Institute Trust	25.0	15.0	0.0	0.0
Essential Community Provider Trust	25.0	25.0	0.0	0.0
Medical Assistance Trust	346.0	346.0	379.0	379.0
Sub-Total Health Care Trusts	1,688.1	1,678.1	1,221.3	1,221.3
Total	10,389.7	10,175.3	10,447.7	10,395.9

*Medicaid/MassHealth" includes the funding for the Medicare "Clawback," administrative costs, and the FY 2009 reserve designated for funding costs associated with the Children's Behavioral Health Initiative (the *Rosie D.* settlement). "FY 2010 H.1 (adj.)" adjusts the Governor's budget proposal to account for his proposed consolidation of technology costs within the Executive Office of Health and Human Services.

dramatic reduction from what would be a true FY 2010 maintenance budget.

Mental health services were particularly hard-hit by the Governor's 9C cuts, especially the cuts made in October. In October, the Governor cut \$33.5 million (5 percent) million from the total budget, but asserted that \$24 million of that cut would be made up by funding from trusts. In the January 9C cuts, the Governor reduced mental health funding by an additional \$2.9 million, including \$1.8 million cut from adult mental health services. The 9C cuts to mental health have resulted in significant reductions in services for thousands of mental health clients, even with the one-time use of funding from trust funds.

Children's mental health services are cut 4 percent in the Governor's budget, from \$76.2 million to \$73.1 million. Adult mental health services are cut by six percent, from a total of \$389.0 million to \$364.3 million. The Governor's House 1 budget continues the reductions made by the 9C cuts in FY 2009, and the impact of the cuts will be felt more acutely in FY 2010, because there is no more one-time revenue from mental health trusts available to soften the impact of those cuts.

PUBLIC HEALTH

The Governor's FY 2010 budget proposal includes \$521.1 million, once adjusted for the Governor's proposed consolidation of technology costs. This is \$73.4 million less than budgeted in the FY 2009 GAA. This is a 12.3 percent reduction, without even adjusting for inflation, and represents real cuts beyond reductions already made in FY 2009.⁴ The Governor's budget proposes re-organizing public health services into approximately one dozen programmatic areas: addiction and tobacco control; infectious disease prevention and control; health promotion, violence prevention and workforce expansion; child's health and nutrition; health care safety and quality; critical operations and essential services; public health hospitals; and other administrative functions. This degree of consolidation could lead to better program coordination, but it could also lead to the elimination of certain targeted public health initiatives.

Compared to the FY 2009 GAA, community-based public health services have been cut by 13 percent, and hospital-based public health services have been cut by 3 percent. Among the public health services hard hit are:

- early intervention, cut by \$5.4 million (11 percent);
- family health services, cut by \$5.3 million (69 percent);
- school health services, cut by \$3.2 million (18 percent);
- smoking prevention, cut by \$5.0 million (39 percent);
- teen pregnancy prevention, cut by \$843,000 (21 percent); and,
- youth violence prevention, cut by \$2.8 million (30 percent).

⁴ Public health funding, over the years, has experienced significant reductions. In real terms, since Fiscal Year 2001, public health funding has been reduced by twenty percent.

If we look at the Governor's proposed consolidated public health structure, addiction and tobacco control programs are reduced by \$11.8 million, an 11 percent cut; infectious disease prevention programs are reduced by \$7.3 million, which is a 7 percent reduction from funding levels in the FY 2009 GAA, and assorted health promotion and wellness programs are cut by one-third, from \$79.8 million in the FY 2009 GAA to \$53.7 million in the Governor's House 1 budget proposal.

Public health services first felt some of this reduction during FY 2009: the October 9C cuts reduced the public health budget by \$31.2 million, and the January 9C cuts took an additional \$2.3 million. With the 9C cuts, the department of public health has already reduced immunizations for 100,000 elders, and will discontinue purchasing the rotavirus vaccine for infants this summer. There have been cuts to substance abuse, teenage pregnancy prevention, early intervention, and many other programs, putting some the Commonwealth's most vulnerable residents at risk.

In legislation accompanying the budget, the Governor proposes elimination of an exemption of the sales tax on alcohol and sweetened beverages and candy, and proposes the creation of a new Health and Wellness Fund in order to support certain consolidated public health initiatives. This new funding source would not, however, provide for expanded public health spending; it is simply a new revenue source would help pay for existing programs.

STATE EMPLOYEE HEALTH INSURANCE

The Group Insurance Commission (GIC) provides health care insurance to current and retired state employees. In July 2007, a new law was enacted that allows municipalities and other public

employers⁵ to join the state's health insurance plan. Some cities and towns are now purchasing health insurance for their employees through the GIC.

The majority of GIC appropriations are spent on one account, which covers the cost of providing benefits to current employees and some retirees. FY 2009 GAA funding for this account totaled \$830.9 million; the Governor recommends \$932.7 million. However, net state spending on this account in FY 2010 would actually decrease by \$12.4 million or 1.5 percent from FY 2009 under the Governor's proposal.

Fifteen municipalities are expected to join the GIC in FY 2010. The GIC anticipates spending \$110.4 million in FY 2010 for health insurance premiums for these new participants. The state, however, will be reimbursed for these premiums over the course of the year by the new participants' municipal employer. In addition, several municipalities and public employers joined the GIC in FY 2009. The cost of health insurance premiums for these employees is expected to rise by \$5 million in FY 2010. Together, reimbursements for the new participants and the increase in cost for the employees that joined last year will total \$115.4 million. In addition, as in other areas of the House 1, the Governor transfers funds from the GIC budget to a new technology line item. The House 1 appropriation for this account reflects the savings due to this transfer of \$1.3 million.

Adjusting the FY 2010 recommendation of \$932.7 million for these technical reasons brings the total for this account to \$818.5 million, a \$12.4 million or 1.5 percent decrease from the FY 2009 appropriation of \$830.9 million. The reason net state spending on the GIC decreases from FY 2009

is not because there has been decline in health care costs, but because of two policy choices.

First, due to a series of layoffs, the GIC is expected provide health insurance to fewer state employees in FY 2010. The Governor's House 1 proposal includes the savings of no longer providing health insurance for these employees, a value of \$3.2 million.

Second, House 1 includes a Governor's proposal that would shift approximately \$60.4 million in health care costs to state employees. The Governor recommended a similar proposal in his FY 2009 House 1 budget. Currently, state employees hired before June 30, 2003, contribute 15 percent of their health insurance premiums and employees hired after that date contribute 20 percent. Under the Governor's FY 2010 proposal, state employees earning less than \$35,000 would contribute 15 percent, those earning between \$35,000 and \$50,000 would contribute 20 percent, and those earning more than \$50,000 would contribute 25 percent. This proposal was not included in the FY 2009 House and Senate budgets. If enacted in the FY 2010 GAA, the value of changing the current contribution structure would be approximately \$60.4 million. These two policy choices, state employee layoffs and cost shifting, would reduce state costs by approximately \$63.6 million and account for the decrease in net state spending on the GIC.

The second-largest account within the GIC budget is for the State Retiree Trust Fund, an off-budget account. This account was created to set aside funds for retired employees' future health care costs, and will increase from \$372 million in FY 2009 to \$394.3 million in FY 2010.

⁵ Eligible local governmental employers are cities, towns, districts, counties, regional councils of government (RCGs) and regional planning agencies (RPAs), educational collaboratives and charter schools.

HUMAN SERVICES

FY09 GAA	\$3,613,210,612
Oct 9C cuts	\$ 46,367,050
Jan 9C cuts	\$ 12,382,788
FY09 Current, as of 1/28/09	\$3,556,160,774
FY10 House 1	\$3,543,096,565
Increase (decrease) from FY09 GAA	(\$70,114,047)
Percentage change from FY09 GAA	-1.9%

The Governor's House 1 budget recommendations include \$3.543 billion for human service programs. This appropriation is \$70.1 million, or 1.9 percent, lower than the \$3.613 billion appropriated in the FY 2009 GAA. To keep pace with inflation, funding should have increased in order to maintain the same services delivered in FY 2009. Therefore, the 1.9 percent reduction reported above actually understates the magnitude of the cuts to human services programs. In his 9C cuts, the Governor had reduced funding for human services programs by \$58.7 million.

The Governor did not allocate funding for the Human Service Reserve, which is used to fund salary increases for low-wage workers employed by human service providers under contract with the Commonwealth. The FY 2009 GAA included \$23 million for the reserve. The pay raises funded through the reserve in FY 2009 are being treated as one-time bonuses. Therefore, low-income human service providers will likely receive less compensation in FY 2010 than they did in FY 2009.

DEPARTMENT OF CHILDREN AND FAMILIES (FORMERLY DEPARTMENT OF SOCIAL SERVICES)

The Governor recommends consolidating four line items that serve children and families, including, family stabilization, group care, sexual abuse intervention and placement services for juvenile offenders. His proposal allocates \$519.9 million for these services, which is \$24.5 million, or 4.5 percent, below the FY 2009 level. The largest of

accounts in this list, family stabilization and group care, would be funded at the following levels:

- \$293.9 million for the family stabilization and reunification account, which is 6.3 percent below the appropriation in the FY 2009 GAA. This account helps to support families and reduce the need to place children in foster care.
- \$225.1 million for community-based group care, which is \$4.5 million, or 2.0 percent, below the FY 2009 GAA.

The Governor recommends consolidating five line items devoted to social worker services and operational support for them. He allocates \$253.2 million for these services, a reduction of \$10.4 million relative to the FY 2009 GAA. The Governor recommends level-funding shelters and support services for people at risk of domestic violence at \$23.5 million.

DEPARTMENT OF TRANSITIONAL ASSISTANCE

The Governor's House 1 budget recommendations include \$926.5 for programs administered by the Department of Transitional Assistance (DTA). This appropriation is \$25.4 million, or 2.8 percent, higher than the \$901.1 million appropriated in the FY 2009 GAA. The increase is needed to meet growing caseloads.

The Governor consolidates all the cash assistance accounts administered by the DTA, including the (TAFDC) program, the Emergency Aid for Elders, Disabled and Children (EAEDC) and the state supplement for elders and persons with disabilities receiving federal Supplemental Security Income (SSI) benefits. The largest of accounts in this list, TAFDC grants and Emergency Aid for Elders, Disabled and Children, would be funded at the following levels:

- \$312.4 million for Transitional Aid to Families with Dependent Children (TAFDC), which is \$15.4 million, or 5.2 percent, higher than the amount

appropriated in the FY 2009 GAA. The increase is needed to meet growing caseloads.

- \$86.6 million for EAEDC, which is \$14.1 million, or 19.5 percent, higher than the amount appropriated in the FY 2009 GAA. The increase is needed to meet growing caseloads.

The Governor allocated \$24.6 million for the Employment Services program (ESP), \$3.1 million, or 11.2 percent, below the FY 2009 GAA. The funding level continues a 9C cut made in October of the same amount. In addition, \$335,000 of ESP funding would be transferred to a new Health and Human Services Information Technology Costs line item.

The Governor transfers \$132.7 million from the Department of Transitional Assistance (DTA) to the Department of Housing and Community Development (DHCD). This *Budget Monitor* keeps the overall total for these programs within the Human Services category (and Department of Transitional Assistance subcategory) in order to allow the reader to compare the FY 2009 funding with the FY 2010 H1 recommendation. Please see the section titled “Infrastructure, Housing and Economic Development” for information about funding for these programs.

DEPARTMENT OF DISABILITY SERVICES (FORMERLY DEPARTMENT OF MENTAL RETARDATION)

The Governor’s House 1 budget recommendations include \$1.254 billion for programs administered by the Department of Disability Services (DDS). This appropriation is \$17.9 million, or 1.4 percent, below the \$1.272 billion appropriated in the FY 2009 GAA. This represents a much more dramatic reduction from what would be a true FY 2010 maintenance budget

The Governor recommends consolidating three line items within the Department of Disability Services

in to one account. These include respite services for family members, day/employment services and transportation services. The Governor allocates \$146.9 million for these programs, \$52.5 million below the FY 2009 appropriation.

The Governor recommends \$166.4 million for state facilities for people with development disabilities, a reduction of \$21.2 million, or 11.3 percent. Most of this cut reflects the plan to close Fernald Development Center in Waltham by the end of 2009, where about 160 people currently reside. However, it is important to note that some portion of the savings would likely be offset by caring for these people in community-based settings.

The Governor allocates \$72.6 million for the administrative line item for DDS, which is \$1.2 million, or 1.7 percent, below the FY 2009 GAA. In addition, \$4.4 million of DDS’s administrative costs would be transferred to an IT line item.

OTHER HUMAN SERVICES

The Governor’s House 1 budget recommendations include \$327.3 million for “Other Human Services.” This appropriation is \$37.8 million, or 10.4 percent, below the FY 2009 appropriation of \$365.1 million.

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

Most of the reduction in “Other Human Services” spending reflects the Governor’s decision to not allocate funds for the Human Service Reserve. The FY 2009 GAA included \$23 million for the reserve.

This reserve is used to fund salary increases for low-wage workers employed by human service providers under contract with the Commonwealth. The pay raises funded through the reserve in FY 2009 are being treated as one-time bonuses. Therefore, low-income human service providers will likely receive less compensation in FY 2010 than they did in FY 2009.

The Governor recommends consolidating four line items within the Massachusetts Commission for the Blind, including administration, community services for the blind, Turning 22 and vocational rehabilitation for the blind. He allocates \$18.6 million for these programs, \$846,000 below the FY 2009 GAA.

The Governor’s House 1 budget recommendations include \$104.6 million for “Veterans’ Services,” provided by the Department of Veterans’ Services and the Soldiers’ Homes in Chelsea and Holyoke. This appropriation is \$5.9 million, or 6.0 percent, above the FY 2009 appropriation of \$98.7 million. In addition, \$661,000 would be transferred to the IT line item.

ELDER SERVICES

(MassHealth programs for elders and the Prescription Advantage pharmacy program are included in the “Health Care” section of this *Budget Monitor*. The Governor’s budget proposes moving the oversight for elder long term care MassHealth funding from the Department of Elder Affairs to the Office of Medicaid.)

The Governor’s budget proposes \$234.0 million for elder services, a \$4.6 million reduction from FY 2009 GAA levels. The Governor cut \$1.4 million from the FY 2009 elder services budget in January, bringing total funding to \$228.6 million for FY 2009. (In October, elder services had been cut by \$8.6 million. These cuts resulted in close to 1,800 fewer elders per month receiving needed home care services.)

The elder home care services, including the home care case management, services and administration, as well as the enhanced home care program, mental health services and the elder nutrition program, combined receive \$199.2 million in the Governor’s House 1 budget proposal. This is two percent less than funding in the FY 2009 GAA.

The Governor funds consolidated elder housing programs at \$6.4 million, which is a fifteen percent reduction from FY 2009 GAA funding levels. One small program, the elder residential assistance program for homeless elders, was completely eliminated by 9C cuts during FY 2009.

Elder protective services are funded at \$16.3 million in the Governor’s budget, level funding compared to the FY 2009 GAA. However, maintenance funding for FY 2010 for protective services would likely be closer to \$17 million, so the proposed funding level would actually amount to a reduction in services.

INFRASTRUCTURE, HOUSING & ECONOMIC DEVELOPMENT

FY09 GAA	\$1,307,615,123
Oct 9C cuts	\$ 83,130,602
Jan 9C cuts	\$4,019,825
FY09 Current, as of 1/28/09	\$1,256,730,856
FY10 House 1	\$1,262,476,310
Increase (decrease) from FY09 GAA	(\$45,138,813)
Percentage change from FY09 GAA	-3.5 %

INFRASTRUCTURE

The Governor’s House 1 recommendations for infrastructure include substantial cuts for regional public transportation. The Governor also proposes reducing funding for the Registry of Motor Vehicles, although these cuts could be offset by increased efficiencies and revenues.

The Governor proposes providing regional transportation authorities (RTA) with \$48.8 million in financial assistance in FY 2010. This funding level would be a cut of \$8.7 million, or 15 percent, from the FY 09 GAA. The state's 15 RTA's provide public transportation services to 231 cities and towns in the state. The Commonwealth's assistance to RTA's has been as high as 71 percent of their net costs in recent years. A substantial reduction in state assistance could result in reduced services or higher user fees in many areas of the state with limited transportation options.

The House 1 budget recommendations include a number of provisions related to the Registry of Motor Vehicles (RMV). Among his proposals, the Governor:

- Reduces RMV funding to \$48.8 million, a \$6 million reduction from the FY 2009 GAA level;
- Allows the RMV to partner with private entities, such as AAA, to provide registration and other services;
- Allows the RMV to retain an additional \$3 million in revenue that can be used to transition the state to more secure drivers licenses; and,
- Increases fees for licensing, registration and titles to raise \$74.5 million in revenue.

For the MBTA, the consensus pre-budget transfer for FY 2010 is \$767.1 million, the same transfer as FY 2009. The MBTA pre-budget transfer is linked to statewide sales tax collections.

HOUSING

In his FY 2010 budget, the Governor recommends moving programs that provide assistance to homeless families and individuals from the Department of Transitional Assistance (DTA) to the Department of Housing and Community Development (DHCD). In this recommendation House 1 transfers \$132.7 million from DTA to DHCD. In the policy documents he submitted with

his FY 2010 proposal, the Governor states that by consolidating DTA's homeless programs with the affordable housing programs at DHCD, the state can improve efforts help homeless families and individuals find permanent housing. Under the plan the Governor recommends that the \$132.7 million be used to help homeless individuals and families find permanent housing by:

- Creating a new account, with \$6.1 million in funding transferred from DTA's administrative and caseworker accounts to DHCD to provide services to homeless families and individuals;
- Moving the Emergency Assistance Families Shelter and Services account from DTA to DHCD. House 1 recommends providing \$90.5 million to the Family Shelters account. This is an increase of \$3.3 million over the FY 2009 GAA's appropriation of \$87.2 million. Since passage of the FY 2009 GAA, family homelessness has increased significantly in Massachusetts. The House 1 appropriation is almost \$23 million lower than the \$113.4 million that the state projects it will spend in FY 2009 to provide increased services to these families. Homeless families who live at or below 130 percent of poverty are eligible for this program. Under current law, families whose earnings bring them above the 130 percent threshold are given six months to move out of a shelter. The Governor proposes reducing this grace period to three months; and,
- Merging the homeless individuals assistance account with the Home and Healthy for Good program which focuses on ending chronic homelessness. House 1 proposes moving these merged accounts to DHCD and providing it with level funding of \$37.5 million.

The Governor also recommends small increases in some housing programs that would support efforts to find permanent housing for homeless, including:

- Increasing subsidies to public housing to \$71.2 million, an increase of \$4.7 million over the FY 2009 GAA; and,
- Increasing funding for the Massachusetts Rental Voucher Program (MRVP) to \$35.8 million which is a \$2.8 million increase over the FY 2009 GAA.

The Governor recommends level-funding affordable housing assistance programs within DHCD including, such as \$40 million for the Alternative Housing Voucher Program.

A number of Housing programs received significant cuts or were eliminated altogether. House 1 recommends:

- Eliminating the program that provides interest subsidies for the private development of affordable housing. This program received \$4.5 million in the FY 2009 GAA but was eliminated when the Governor made his 9C cuts in October, 2008;
- Reducing funding for the Soft Second Loan program which helps first-time, low-income homebuyers, to \$2.5 million which is \$3.3 million cut over the FY 2009 GAA;
- Funding housing counseling to low-income homebuyers at \$1.6 million which is \$500,000 less than the FY 2009 GAA; and,
- Reducing the Individual Development Account program by more than half from \$700,000 in the FY 2009 GAA to \$339,800. This program helps low-income families to both learn financial management skills as well as to save for the purchase of an asset such as a first home or small business.

Finally, the Governor includes \$10 million in House 1 for the Low Income Housing Energy Assistance Program (LIHEAP). Generally the Legislature funds this program in a supplemental budget rather than in the GAA.

ECONOMIC DEVELOPMENT

The Governor's budget recommendations include steep cuts for travel and tourism spending, along with earmark spending for local workforce development grants. For other economic and workforce development programs, the Governor's budget proposes small cuts or level funding for other items. The Governor does consolidate many economic and workforce development line items making it difficult to determine how exactly funds would be spent.

Consistent with his 9C reductions in FY 2009, the Governor recommends substantial cuts for travel and tourism spending in the state. The FY 2010 House 1 recommendation for the state's Office of Travel and Tourism and financial assistance for local tourism councils is \$18.8 million, a reduction of \$28.3 million from the FY 2009 GAA level. A large part of this proposed cut is due to the elimination of local tourism earmarks. In the FY 2009 GAA, close to 200 individual earmarks were funded through the Office of Travel and Tourism line item.

Similarly, the Governor recommends eliminating much of the earmark funding for local workforce development grants. This item was funded at \$11 million in the FY09 GAA and included approximately 60 individual earmarks. The Governor cut \$8.2 million in earmarks through the 9C process. The House 1 recommendation is consistent with the FY 2009 cuts and consolidates the line item with other state workforce development programs.

The Governor's budget recommendations include a cut of 13 percent, from the FY 2009 GAA level, to state business development programs. These programs support small and developing businesses to succeed in the state. The Governor recommends maintaining the FY 2009 GAA level of funding for the state's one-stop career centers, as well as the state's summer jobs program for at-risk teens. It is

important to note, however, that due to line item consolidation it is unclear whether all of these funds will continue to be spent in the same way.

LAW AND PUBLIC SAFETY

FY09 GAA	\$2,488,131,330
Oct 9C cuts	(\$48,120,726)
Jan 9C cuts	(\$12,524,802)
FY09 Current, as of 1/28/09	\$2,427,485,802
FY10 House 1	\$2,448,278,890
FY10 House 1, Adjusted*	\$2,377,278,890
Increase (decrease) from FY09 GAA	(\$110,900,000)
Percentage change from FY09 GAA	-4.5%

The Governor's House 1 budget includes \$2.377 billion for Law & Public Safety, a \$110.9 million or 4.5 percent decrease from the FY 2009 GAA. We adjust the House 1 appropriation by approximately \$71 million because, as explained in the Prison, Probation & Parole subcategory, this is the amount of revenue expected to be brought on-budget due to the Governor's proposal to move the seven county sheriffs under the control of the state. In doing so, we can make an apples-to-apples comparison of Law & Public Safety funding from FY 2009 to FY 2010.

The \$110.9 million decrease is a result of reductions within several Law & Public Safety subcategories, including the elimination of law enforcement programs like the community policing grants and municipal police grants programs, reducing appropriations to the Office of the Attorney General, and decreasing funding for legal assistance programs. The Governor also proposes consolidating over 150 line items within the courts into less than 30 and combining several line items within the District Attorneys budget.

PROSECUTORS

The budget previously included two line items for each of the eleven District Attorneys offices – one for the operation of the office and another for the state police overtime costs associated with that office. The Governor proposes consolidating the two line items into one line item and reduces funding for each office. His budget also eliminates a \$500,000 line item that was added in FY 2009 to help retain assistant district attorneys with more than three years of experience by providing them with salary increases. In total, these cuts and consolidations reduce funding for the District Attorneys by \$9.1 million, from \$102.2 million in FY 2009 to \$93.1 million in FY 2010.

The Governor also recommends \$41.4 million for programs within Office of the Attorney General, \$2.4 million less than was appropriated in FY 2009.

LAW ENFORCEMENT

The Governor's Law Enforcement budget of \$378.3 million is \$38.6 million less than the FY 2009 appropriation of \$417 million. House 1 includes the Governor's proposal to fund the Municipal Police Training Committee (MPTC) and annual state trooper class through a surcharge on private and commercial auto insurance policies. Previously, the MPTC had its own line item in the state budget, which was funded through the General Fund. The state trooper class was funded through its own line item in the GAA or through supplemental budgets throughout the fiscal year. Charging \$1.60 to \$2.00 per policy on the approximately 3.1 million private auto insurance policies and nearly 500,000 commercial auto insurance policies is expected to generate \$3.1 million for a new MPTC line item and \$3.2 million for a new state police department line item. The Governor proposed a similar plan in his October 9C cuts legislation, but that proposal was not approved by the Legislature.

While the House 1 budget level-funds the Shannon Grant Program at \$13 million, both the community policing grants and municipal police grants programs are eliminated. The Shannon Grant Program distributes grants to communities to reduce gang and youth violence through prevention and intervention, providing programs such as job skills workshops, outreach to at-risk youth, and prisoner reentry programs. The community policing grants are distributed to cities and towns for community policing activities and programs; this program received \$21.3 million in FY 2009. The municipal police grant program, an FY 2009 Governor's initiative to provide funds to municipalities with high crime rates for the hiring of new police officers, was funded at \$4 million in FY 2009.

PRISONS, PROBATION & PAROLE

As in his FY 2009 House 1 proposal, the Governor again recommends moving the seven county sheriffs departments under the control of the state in an effort to provide consistency and efficiency within their budgets. Currently, the county sheriffs receive funding from six different sources, including the county deeds excise tax, reimbursements for housing federal inmates, and state's General Fund. Under the Governor's proposal, all revenues previously collected by each county would be deposited into the state's General Fund. This would bring approximately \$71 million on budget. There is an existing line item for "County Correctional Programs" within the state budget from which funds were previously distributed to the county sheriffs. Under the Governor's proposal, a portion of the funds from that line item will be distributed into seven separate line items for the operation of each county sheriffs department. All employees within these departments would become state employees and receive state employee health insurance coverage through the GIC, which will be funded by the remaining funds in the County Correctional Programs line item.

In addition, House 1 reduces the budgets for each of the seven state sheriffs departments by 8.5 percent, from a total of \$277.2 million in FY 2009 to \$252.7 million in FY 2010.

COURTS & LEGAL ASSISTANCE

In total, the Governor's budget reduces funding for Courts & Legal Assistance by \$54.8 million or 8.4 percent, from \$655.1 million to \$600.3 million. The Governor proposes several consolidations within the courts budget, including:

- Salaries for the justices in the seven trial court departments were previously paid from seven different line items. In FY 2009, these line items were appropriated a total of \$50.7 million. House 1 consolidates these into one line item, recommending \$49.8 million for FY 2010;
- Each superior court had its own line item in FY 2009; funding for those totaled \$24.3 million. These 17 line items are consolidated into one, which receives \$21.7 million in House 1;
- Sixty-three line items, which previously funded each district court in the state, are consolidated into one item. In FY 2009, these line items received \$40.7 million; in House 1, the consolidated line item receives \$39.1 million;
- The Juvenile Courts were previously funded through 12 line items, one for administration and one for each of the juvenile courts throughout the state. Funding for these line items totaled \$12.2 million in FY 2009. House 1 consolidates these into the administration line item, with an appropriation of \$15.2 million; and,
- The Office of the Chief Justice for Administration and Management line item now includes the Suffolk County Social Law Library, the Massachusetts Sentencing Commission, the Alternative Dispute Resolution program, the Trial Court Permanency Mediation program, the court

security expenses line item and a portion of the Trial Court Administration Allocation Reserve.

The Governor's budget also reduces funding for all legal services and assistance programs:

- Funding for the Committee for Public Counsel Services is cut from \$29.3 million to \$25.5 million, a \$3.8 million or 13 percent decrease;
- The Private Counsel Compensation budget is reduced by \$18.2 million or 13 percent, from \$140.3 million to \$122.1 million;
- The appropriation for the Massachusetts Legal Assistance Corporation is decreased by 6.3 percent or \$700,094, from \$11.1 million to \$10.4 million;
- Funding for Mental Health Legal Advisors is reduced by 8.3 percent or \$67,781, from \$746,016; and,
- The Correctional Legal Services budget is cut from \$985,824 to \$902,029, an \$83,795 or 8.5 percent reduction.

LOCAL AID

FY09 GAA	\$1,346,688,719
Oct 9C cuts	\$0
Jan 9C cuts	\$128,000,000
FY09 Current, as of 1/28/09	\$1,218,688,719
FY10 House 1	\$1,126,813,360
Increase (decrease) from FY09 GAA	(\$219,875,359)
Percentage change from FY09 GAA	-16.3 %

Direct local aid to cities and towns received a substantial cut of 27.4 percent in the Governor's House 1 budget. In addition to this cut for FY 2010, the Governor also reduces lottery and local aid for FY 2009 by \$128 million (9.74 percent) in his 9C cuts.

In FY 2010, the Governor's budget reduces each community's total lottery and additional assistance

amount by 28.5 percent from the FY 2009 GAA level, a total cut of \$369 million. The Governor also combines lottery aid and additional assistance into one new aid category called Unrestricted Government Aid.

While this cut is an equal proportion of each community's state aid, it is important to note that because state aid makes up different levels of each community's budget, the impact of these cuts varies drastically among cities and towns, with cities and poor towns that rely on state aid the most affected. For example, as the table below indicates, a 28.5 percent reduction in Weston's lottery and additional assistance represents only 0.2 percent of the town's tax revenue. Therefore, in order to offset the reduced local aid, Weston would need to increase its revenue by 0.2 percent. In North Adams, however, its cut to lottery and additional assistance represents more than 14 percent of their tax revenue.

	Reduction in %	Reduction in \$	Reduction as % of 2009 Property Tax Revenues
Minor Impact			
WESTON	28.5%	\$132,909	0.2%
CHATHAM	28.5%	\$53,473	0.2%
TISBURY	28.5%	\$34,841	0.2%
WELLFLEET	28.5%	\$20,768	0.2%
OAK BLUFFS	28.5%	\$25,841	0.1%
Major Impact			
LAWRENCE	28.5%	\$6,976,430	15.5%
NORTH ADAMS	28.5%	\$1,576,348	14.3%
FALL RIVER	28.5%	\$8,467,225	13.2%
LOWELL	28.5%	\$8,949,582	9.4%
SOMERVILLE	28.5%	\$8,494,326	9.2%

In companion legislation, the Governor proposes increasing the state meals and hotels tax by 1 percentage point (to 6 percent) and using the revenue to offset the 28.5 percent cut to local aid. By distributing \$144 million generated from such a tax, along with \$6 million from the General Fund, the Governor would limit the reduction in total

local aid (including Chapter 70 education aid) for any city or town to 10 percent of the FY 2009 level.

In the same legislation filed with the budget, the Governor also proposes revenue raising options for municipalities, including:

- 1 percent local option tax on meals;
- 1 percent local option tax on hotels; and,
- Eliminating the property tax exemption on telecommunication poles and wires.

Each of these items has been previously proposed by the Governor, but the Legislature has failed to adopt them. If fully taken advantage of, the Governor estimates these revenue options could raise approximately \$175 million for cities and towns in FY 2010.

The Governor level funds reimbursements to cities and towns for state owned land (PILOT) at its FY 2009 level of \$30.3 million.

OTHER

FY09 GAA	\$4,235,146,431
Oct 9C cuts	\$198,778,895
Jan 9C cuts	\$4,211,377
FY09 Current, as of 1/28/09	\$4,152,949,452
FY10 House 1	\$4,151,617,950
Increase (decrease) from FY09 GAA	(\$83,528,481)
Percentage change from FY09 GAA	-2.0 %

The Other category includes several new subcategories that were once separate categories in previous Budget Monitors. We highlight three of those new subcategories below.

DEBT SERVICE

FY09 GAA	\$2,075,388,026
Oct 9C cuts	(\$1,800,000)
Jan 9C cuts	\$0
FY09 Current, as of 1/28/09	\$2,073,588,026
FY10 House 1	\$2,157,517,529
Increase (decrease) from FY09 GAA	\$82,129,503
Percentage change from FY09 GAA	4.0 %

Funds appropriated for debt service are used to pay the interest and principal on Massachusetts' long-term and short-term debt. The state issues bonds to help finance long-term construction projects, such as building and repairing bridges, roads, and schools. It also engages in short-term borrowing when its current expenses are greater than its current income from taxes and fees.

The Governor's FY 2010 recommendation of \$2.1575 billion for debt service is a 4.0 percent increase from the FY 2009 GAA. This includes a \$12 million appropriation to a new line item that was created to pay the principal and interest on bonds issued to finance the Accelerated Bridge Program. The program was established in August 2008 to repair structurally deficient bridges and bridges expected to become structurally deficient within the next eight years. The \$12 million appropriation will be the first payment in a 30-year repayment period.

PENSIONS

FY09 GAA	\$1,465,000,000
Oct 9C cuts	\$152,000,000
Jan 9C cuts	\$0
FY09 Current, as of 1/28/09	\$1,313,000,000
FY10 House 1	\$1,376,600,000
Increase (decrease) from FY09 GAA	(\$88,400,000)
Percentage change from FY09 GAA	-6.0%

The Governor's House 1 proposal includes \$1.377 billion for state employee pensions. The proposed

funding level would be \$88.4 million below the FY 2009 GAA level. This reduction in funding is a result legislation passed in November of 2008 (Chapter 377 of the Acts of 2008), which extended the state’s pension funding schedule by two years, from 2023 to 2025.

LIBRARIES

FY09 GAA	\$34,086,834
Oct 9C cuts	\$388,131
Jan 9C cuts	\$39,256
FY09 Current, as of 1/28/09	\$33,659,447
FY10 House 1	\$29,157,018
Increase (decrease) from FY09 GAA	(\$4,929,816)
Percentage change from FY09 GAA	-14.5%

The Governor’s House 1 proposal includes \$29.2 million in funding in assistance to local libraries, as well as funding for interlibrary loan programs and talking book programs for the deaf and hard of hearing. The proposed funding level would be a \$4 million cut from the FY 2009 GAA level. State aid to local libraries receives the bulk of the cut, \$2.4 million, under the Governor’s proposal. In order to protect libraries from losing access to interlibrary loan programs, the Governor gives the state Board of Library Commissioners the authority to waive minimum spending requirements at the local level.

The Governor reduced library spending by more than \$420,000 through the 9C process.

REVENUE

The Governor’s House 1 budget includes a number of modest recommendations to raise revenue through increased taxes, fees, assessments and federal government grants. New proposals include:

- Increasing the state tax on meals by 1 percentage point, estimated to raise \$125 million;

- Increasing the state rooms tax by 1 percentage point, estimated to raise \$24 million;
- Increasing the state user fee on nursing homes, estimated to raise \$75 million;
- Eliminating the sales tax exemption on alcohol (\$80 million), soda (\$50 million) and candy (\$20 million);
- Raising RMV fees for license, registry and title, estimated to raise \$74.5 million;
- Making non-carbonated beverages subject to a bottle deposit (\$20 million); and,
- Enhancing the Department of Revenue’s auditing staff, estimated to raise \$26 million.

In addition, the Governor’s budget relies on some additional sources of federal revenues, such as:

- \$73 million in Temporary Assistance for Needy Families (TANF) contingency funds;
- \$711 million in temporary federal Medicaid support; and,
- The Governor also expects the state to receive temporary federal education aid, but does not include these estimates in his budget.

The Governor also proposes setting a consensus capital gains collections amount each year, agreed to by the Governor and the Legislature. Any collections in excess of that amount would be deposited in the state’s stabilization fund. This proposal is intended to help smooth state revenue collections over time. Capital gains taxes are the state’s most volatile source of tax revenue and can cause large swings in state revenues from year to year.

Budget by Program Area - Summary¹

(in Millions of Dollars)

	FY 2009				FY 2010 H.1 with adjustments	FY 2010 H.1 with adjustments vs. FY 2009 GAA	
	GAA	October cuts	January cuts	Current ²			
BUDGET SUMMARY							
Budgeted Appropriations	30,062.2	(693.8)	(192.5)	29,322.8	29,463.8	(598.4)	-2.0%
<i>Line-Item Appropriations</i>	27,231.7	(663.8)	(101.4)	26,611.4	27,973.1	741.5	2.7%
<i>Outside Section Appropriations</i>	2,830.5	(30.0)	(91.1)	2,711.4	1,490.7	(1,339.8)	-47.3%
Pre-Budget Transfers³	3,109.6	(152.0)	0.0	2,957.6	2,957.9	(151.7)	-4.9%
Total Appropriations and Transfers	33,171.7	(845.8)	(192.5)	32,280.3	32,421.7	(750.1)	-2.3%
Total with Accounting Adjustments⁴	33,171.7	(845.8)	(192.5)	32,280.3	32,235.3	(936.5)	-2.8%

1. The comparisons account for changes moving programs from one department to another, and adjust the H.1 numbers for the Governor's technology consolidations.

2. The FY 2009 Current total includes funding in the GAA plus any supplementals passed during the year, less October and January cuts.

3. By law, prior to the appropriations process, the state allocates certain shares of tax revenue to the School Modernization Trust and the MBTA State and Local Contribution Trust. The transfer to the Pension Reserves Investment Trust is set by statute. A portion of cigarette tax revenue is transferred directly to the Commonwealth Care Trust Fund.

4. In order to make an accurate comparison across fiscal years, this total adjusts for areas where the Governor brings on-budget items that had been funded off-budget in FY 2009.

Budget by Program Area - Detail¹

(in Millions of Dollars)

	FY 2009				FY 2010 H.1 with adjustments	FY 2010 H.1 with adjustments vs. FY 2009 GAA	
	GAA	October cuts	January cuts	Current ²			
Education	6,951.6	(101.5)	(16.4)	6,842.7	6,655.1	(296.5)	-4.3%
Chapter 70	3,948.8	0.0	0.0	3,948.8	3,948.8	0.0	0.0%
Early Education and Care	590.1	(17.1)	(3.5)	569.5	558.2	(32.0)	-5.4%
Elementary and Secondary Education	617.1	(30.2)	(7.3)	584.7	552.4	(64.8)	-10.5%
Higher Education	1,093.5	(54.2)	(5.6)	1,037.7	926.5	(167.0)	-15.3%
School Building (pre-budget transfer)	702.0	0.0	0.0	702.0	669.2	(32.8)	-4.7%
Environment and Recreation	231.8	(17.6)	(1.7)	213.4	213.4	(18.4)	-7.9%
Agriculture	19.3	(1.1)	(0.3)	17.9	17.3	(2.0)	-10.2%
Environmental Administration	24.6	(2.8)	(0.1)	21.7	24.5	(0.1)	-0.4%
Environmental Protection	64.8	(3.4)	(0.4)	61.6	61.2	(3.6)	-5.6%
Fish and Game	21.3	(2.0)	(0.1)	19.2	18.7	(2.6)	-12.2%
Parks and Recreation	101.8	(8.3)	(0.9)	93.0	91.6	(10.1)	-9.9%
Health Care	12,997.5	(350.2)	(13.2)	12,682.0	13,020.9		
Health Care*	12,997.5	(350.2)	(13.2)	12,682.0	12,905.5	(92.0)	-0.7%
MassHealth (Medicaid) and Health Reform ³	10,389.7	(253.8)	(8.0)	10,175.3	10,395.9	6.2	0.1%
Mental Health	685.4	(33.5)	(2.9)	649.0	644.8	(40.6)	-5.9%
Public Health	594.5	(31.2)	(2.3)	561.3	521.1	(73.4)	-12.3%
State Employee Health Insurance	1,327.9	(31.7)	(0.0)	1,296.3	1,459.0		
State Employee Health Insurance*	1,327.9	(31.7)	(0.0)	1,296.3	1,343.6	15.8	1.2%
Human Services	3,613.2	(46.4)	(12.4)	3,556.2	3,543.1	(70.1)	-1.9%
Children and Families	836.5	(15.2)	(4.9)	816.3	799.8	(36.7)	-4.4%
Developmental Services	1,271.9	(7.3)	(2.2)	1,262.3	1,254.0	(17.9)	-1.4%
Elder Services	238.6	(8.6)	(1.4)	228.6	234.0	(4.6)	-1.9%
Transitional Assistance	901.1	(10.1)	(1.9)	889.1	928.0	26.9	3.0%
Other Human Services ⁴	365.1	(5.0)	(1.9)	359.9	327.3	(37.8)	-10.4%
Infrastructure, Housing & Economic Development	1,307.6	(83.1)	(4.0)	1,256.7	1,262.5	(45.1)	-3.5%
Economic Development	89.4	(47.6)	(0.7)	45.8	76.1	(13.3)	-14.9%
Housing and Community Development	150.2	(11.5)	(1.2)	147.6	136.0	(14.2)	-9.4%
Registry of Motor Vehicles	0.0	0.0	0.0	0.0	0.0	0.0	#DIV/0!
Regulatory Entities	49.0	(1.2)	(0.4)	47.4	49.9	0.8	1.7%
Transportation	951.8	(3.8)	(1.2)	947.2	950.9	(0.8)	-0.1%
Workforce and Labor	67.2	(19.0)	(0.6)	68.7	49.6	(17.7)	-26.3%
Law and Public Safety	2,488.1	(48.1)	(12.5)	2,446.1	2,448.3		
Law and Public Safety*	2,488.1	(48.1)	(12.5)	2,446.1	2,377.3	(110.9)	-4.5%
Courts and Legal Assistance	655.1	(22.1)	0.0	646.3	600.3	(54.8)	-8.4%
Law Enforcement	417.0	(14.8)	(2.0)	404.1	378.3	(38.6)	-9.3%
Prisons, Probation and Parole	1,216.4	(2.3)	(10.3)	1,203.9	1,278.4	62.1	5.1%
Prisons, Probation and Parole*	1,216.4	(2.3)	(10.3)	1,203.9	1,208.4	(7.9)	-0.7%
Prosecutors	146.1	(3.5)	(0.0)	143.2	134.5	(11.5)	-7.9%
Other Law and Public Safety	53.6	(5.4)	(0.1)	48.6	56.7	3.1	5.7%
Local Aid	1,346.7	0.0	(128.0)	1,218.7	1,126.8	(219.9)	-16.3%
Additional Assistance	379.8	0.0	(36.9)	342.9	0.0	(379.8)	-100.0%
Lottery Aid	935.0	0.0	(91.1)	843.9	0.0	(935.0)	-100.0%
Other Local Aid	31.9	0.0	0.0	31.9	1,126.8	1,094.9	3433.2%
Other	4,235.1	(198.8)	(4.2)	4,064.6	4,151.6	(83.5)	-2.0%
Constitutional Officers	99.0	(3.8)	(0.1)	95.5	81.8	(17.2)	-17.3%
Debt Service	2,075.4	(1.8)	0.0	2,073.6	2,157.5	82.1	4.0%
Executive and Legislative	69.2	(10.3)	(0.3)	58.6	65.5	(3.7)	-5.3%
Libraries	34.1	(0.4)	(0.0)	33.7	29.2	(4.9)	-14.5%
Pensions (pre-budget transfer)	1,465.0	(152.0)	0.0	1,313.0	1,376.6	(88.4)	-6.0%
Other Administrative	492.5	(30.4)	(3.8)	490.3	441.0	(51.5)	-10.5%

*Adjusted due to funding brought on-budget in FY 2010.

1. The comparisons account for changes moving programs from one department to another, and adjust the H.1 numbers for the Governor's technology consolidations.

2. The FY 2009 Current total includes funding in the GAA plus any supplementals passed during the year, less October and January cuts.

3. Includes a variety of state health programs including the elder pharmacy program, costs associated with health care finance, the Health Safety Net, and other costs associated with health reform.

4. Includes Veterans Affairs, Mass. Commission for the Blind, Mass. Rehabilitation Commission, Mass. Commission for the Deaf and Hard of Hearing, the Soldiers' Homes, the Dept. of Youth Services, and certain programs within the office of the Executive Office of Health and Human Services.