

# BUDGET MONITOR

## Governor Romney’s FY 2007 Budget

### OVERVIEW

The budget proposal filed by the Governor last week increases funding for local aid, education, and higher education – yet it leaves total funding in those areas, after adjusting for inflation, hundreds of millions of dollars below what it was before the fiscal crisis.

Other areas of government, particularly safety net programs designed to protect low-income people, fare even worse, with new cuts to affordable housing, income supports, and programs designed to foster healthy child development.

While local communities are still suffering from the effects of state tax and budget cuts, this budget proposes that the state use current strong revenue growth, not primarily to help local communities, but rather to pay for a new state tax cut. As a result, communities will likely be unable to restore funding for quality schools, public safety, and other basic services. Using revenue growth to pay for a state tax cut rather than to restore funding for basic services will likely mean that local property taxes will be forced to continue to cover the costs of the local aid cuts that the state has yet to reverse. Finally, a new round of tax cuts would make it very difficult to reverse the cuts of over 20 percent that have been

imposed on other basic public services, like higher education and public health.

Indeed, over the long run, the largest new cost proposed in the Governor’s budget is a cut in the personal income tax rate from its present level of 5.3 percent to 5.0 percent, a change that would ultimately reduce tax revenue by \$610 million per year. The Governor’s budget

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proposal phases the tax cut in over two calendar years, which includes parts of three fiscal years. In FY 2007, the proposed tax cut would reduce revenue by \$132 million, but the effect would climb to \$488 million in FY 2008. Paying for that cost in the FY 2008 budget would likely mean that progress in restoring funding for education, local aid, and other essential services would come to an abrupt halt. It could also lead to new and painful budget cuts.

While much has been made of the Governor “setting aside” \$200 million for health care reform, a close reading of his budget recommendations suggests that the overall increase in appropriations for health care in this budget – including this \$200 million – is less than the amount needed to cover expected cost growth in Medicaid expenses as projected by the federal government.

This *Budget Monitor* describes these issues in more detail and reviews the Governor’s spending proposals on a category by category basis, providing funding levels and comparing those levels both to FY 2006 levels and, often, to the funding levels before the cuts of recent years.

## LOCAL AID

The Governor’s budget would provide \$1.358 billion for unrestricted local aid in FY 2007.

|                            |                        |
|----------------------------|------------------------|
| <b>FY 2006</b>             | <b>\$1,159,746,098</b> |
| <b>FY 2007 Gov.</b>        | <b>\$1,327,596,219</b> |
| <b>Increase (decrease)</b> | <b>\$ 167,850,121</b>  |
| <b>Percentage Change</b>   | <b>14.5%</b>           |

By removing the cap on lottery revenues, the Governor would boost funding for lottery distributions to cities and towns by \$158.7

million. The Governor also proposes to increase funding for the Payment in Lieu of Taxes (PILOT) program by \$9.2 million. Funding for additional assistance would remain level at \$379.8 million. Despite the overall increase in funding for local aid, the total amount is still well below the FY 2001 level, after adjusting for inflation. In real terms, the appropriation for this purpose is \$152.9 million or 10 percent lower than in FY 2001.

## K-12 EDUCATION

The Governor proposes to appropriate \$4.047 billion for K-12 education, a \$271.7 million increase over the current level of funding.

### Total K-12 Education

|                            |                        |
|----------------------------|------------------------|
| <b>FY 2006</b>             | <b>\$3,775,789,300</b> |
| <b>FY 2007 Gov.</b>        | <b>\$4,047,463,620</b> |
| <b>Increase (decrease)</b> | <b>\$ 271,674,320</b>  |
| <b>Percentage Change</b>   | <b>7.2%</b>            |

*Note: The numbers in this section do not include appropriations or debt service for the School Building Assistance program. Figures for grants and reimbursements include support for the Office of Educational Quality.*

### Chapter 70 Aid

|                            |                        |
|----------------------------|------------------------|
| <b>FY 2006</b>             | <b>\$3,288,931,062</b> |
| <b>FY 2007 Gov.</b>        | <b>\$3,452,591,608</b> |
| <b>Increase (decrease)</b> | <b>\$ 163,660,546</b>  |
| <b>Percentage Change</b>   | <b>5.0%</b>            |

Chapter 70 aid is provided to cities and towns for public education. This budget would provide \$3.453 billion for this purpose, a \$163.7 million or five percent increase over FY 2006. After adjusting for inflation, the Governor’s proposal is \$81.4

million or two percent more than current appropriations. The FY 2007 budget recommendation is still \$206.7 million or six percent below where it was in FY 2002, after adjusting for inflation as measured by the consumer price index. Measuring changes in education costs by simply applying the Consumer Price Index, however, can understate the actual effects of rising costs.

To reflect more accurately the changing costs schools face, the Education Reform Act identified a particular measure of inflation, which the Governor's new proposal maintains. If this measure of inflation is used to account for increasing costs instead of the Consumer Price Index, the funding proposed in the Governor's FY 2007 budget would be approximately \$400 million less than the Chapter 70 funding provided in FY 2002. In fact, current law seeks to require that Chapter 70 aid increase each year to reflect real rising costs. For technical reasons it does not quite require that spending keep pace with its measure of inflation, but, had the law been followed in the years since FY 2002, Chapter 70 aid today would be significantly more than \$200 million above the level recommended by the Governor in his budget proposal.

A forthcoming MBPC publication will explain the Chapter 70 inflation adjustments in more detail, will examine the education funding changes proposed by the Governor, and will discuss the implications of those changes.

### ***Grants and Reimbursements***

|                            |                       |
|----------------------------|-----------------------|
| <b>FY 2006</b>             | <b>\$ 486,858,238</b> |
| <b>FY 2007 Gov.</b>        | <b>\$ 594,872,012</b> |
| <b>Increase (decrease)</b> | <b>\$ 108,013,774</b> |
| <b>Percentage Change</b>   | <b>22.2%</b>          |

The Governor also proposes to increase funding for the Department of Education's grants and reimbursement programs from \$486.9 million to \$589.2 million, a 22 percent increase over current appropriations. Among this increase is support for new programs, including a \$25.0 million appropriation to support performance pay for teachers, \$18.0 million to provide sixth and seventh grade students with laptop computers, and \$3.0 million to support a teacher mentoring program.

Despite the overall increase in funding for the grants and reimbursement programs, there are several areas where funding has not been restored. For example, this budget would essentially level fund early literacy programs at \$3.8 million, down considerably from \$20.1 million in FY 2001. The Governor also fails to restore funding for class size reduction grants. Funding for this purpose last totaled \$18.0 million in FY 2001; this budget does not include an appropriation for these grants.

### **HIGHER EDUCATION**

This budget includes \$995.2 million for public higher education.<sup>1</sup> This amount is \$44.0 million or five percent more than the budget approved in July of 2005. However, \$14.1 million in supplemental funding has been appropriated since then. Hence, after accounting for this additional funding for FY 2006, the Governor's budget proposal would increase funding for higher education by \$29.9 million or three percent.

<sup>1</sup> Totals for higher education include tuition revenue retained by certain campuses for out-of-state students. In previous year, these amounts had been appropriated through the budget.

|                            |                       |
|----------------------------|-----------------------|
| <b>FY 2006</b>             | <b>\$ 965,287,493</b> |
| <b>FY 2007 Gov.</b>        | <b>\$ 995,200,749</b> |
| <b>Increase (decrease)</b> | <b>\$ 29,913,256</b>  |
| <b>Percentage Change</b>   | <b>3.1%</b>           |

The Governor’s proposed increase for higher education includes funding for a few new initiatives. The budget would provide \$2.0 million for nursing and allied health programs; \$2.0 million to support dual enrollment programs, which would allow high school students to earn college credit for math and science courses; and \$500,000 for a Graduation Task Force.

The Governor’s proposal would also increase the nominal allocation to the higher education campuses, but after adjusting for inflation the amounts going to state and community colleges would decline slightly (see Figure 1 below). Moreover, the total amount proposed is lower than the \$1.051 billion recommendation by the Board of Higher Education (BHE).

**Figure 1.**

| <b>Higher Education Funding*</b> |                       |              |                       |                           |
|----------------------------------|-----------------------|--------------|-----------------------|---------------------------|
| <i>In Millions of FY 2007 \$</i> |                       |              |                       |                           |
| <b>Fiscal Year</b>               | <b>Central Admin.</b> | <b>UMass</b> | <b>State Colleges</b> | <b>Community Colleges</b> |
| 2001                             | 185.0                 | 571.2        | 227.1                 | 274.9                     |
| 2006                             | 105.7                 | 456.5        | 202.9                 | 222.8                     |
| 2007 - H. 2                      | 108.2                 | 465.9        | 201.9                 | 219.2                     |
| 2007 - BHE                       | 143.9                 | 472.4        | 206.1                 | 228.6                     |

\* Totals include tuition revenue retained for out-of-state students at UMass Amherst, the Massachusetts College of Art, and the Massachusetts Maritime Academy.

This budget would level fund the main budget account for financial aid. The proposal to fund such assistance at \$84.7 million is \$20.0 lower than the Board of Higher Education’s request of \$104.7 million, and more than \$30.0 million less than the amount appropriated in FY 2001, after adjusting for inflation. In fact, although the overall budget for higher

education is slightly higher than the current level of funding, this proposal is still \$263.1 million or 21 percent lower than where it was in FY 2001.

## **EARLY EDUCATION AND CARE**

Funding for early education and care is relatively level in the Governor’s budget. The total amount appropriated for these programs is \$483.3 million. The proposed amount of funding does not keep pace with inflation.

|                            |                       |
|----------------------------|-----------------------|
| <b>FY 2006*</b>            | <b>\$ 481,309,479</b> |
| <b>FY 2007 Gov.</b>        | <b>\$ 483,273,457</b> |
| <b>Increase (decrease)</b> | <b>\$ 1,963,978</b>   |
| <b>Percentage Change</b>   | <b>0.4%</b>           |

\*Includes allocations from the POS reserve.

The Governor proposes \$3.0 million to support a new initiative which would require all parents receiving subsidized care to complete parental preparation programs designed to “provide information and training for parents to assist them in nurturing their children’s development and education and to strengthen parents’ involvement in their children’s schooling.” The Governor offered a similar proposal in his budget proposal for FY 2006, which was ultimately rejected by the Legislature.

The Governor also proposes to increase funding for subsidized care. After adjusting for the proposal in this budget to consolidate existing budget accounts into one main account, the amount proposed would raise funding for subsidized care by \$2.2 million. With more than 14,000 children on the wait list for care, this increase would not support the high demand for assistance among low-income families.

Although several other areas would receive modest increases in funding in FY 2007, this budget would level-fund Community Partnerships for Children, the Massachusetts Family Network, and the Parent-Child Home program.

The Healthy Families program, a home visiting program for teen mothers and their children, would experience a cut of nearly 50 percent under the Governor’s budget recommendation. The current appropriation for this program would fall from \$12.2 million to \$6.3 million. The proposed level of funding for Healthy Families is 75 percent lower than its FY 2002 appropriation, after adjusting for inflation. Cuts to Healthy Families jeopardize a program which research has shown improves the lives of young mothers and their children.

## INCOME SUPPORT PROGRAMS

In his budget for FY 2007, the Governor proposes to decrease funding for income support programs by \$25.9 million. This

### A Brief Explanation of the POS Reserve

The FY 2006 budget includes a \$20.0 million reserve to fund salary increases to low-wage providers that deliver human and social services under contracts with departments within the Executive Office of Health and Human Services and the Executive Office of Elder Affairs. The Governor’s budget for FY 2007 distributes the amounts for these salary increases to their respective budget accounts. In order to provide an apples-to-apples comparison, these amounts are incorporated in the FY 2006 totals for the affected agency budgets.

decline in funding is mostly due to the Governor’s proposal to restrict eligibility and benefits and impose new work requirements for two programs that help low income families and individuals – Transitional Aid to Families with Dependent Children (TAFDC) and Emergency Aid to the Elderly, Disabled, and Children (EAEDC).

|                            |                        |
|----------------------------|------------------------|
| <b>FY 2006*</b>            | <b>\$ 627,228,034</b>  |
| <b>FY 2007 Gov.</b>        | <b>\$ 601,353,407</b>  |
| <b>Increase (decrease)</b> | <b>(\$ 25,874,627)</b> |
| <b>Percentage Change</b>   | <b>-4.1%</b>           |

\*Includes allocations from the POS reserve discussed on p. 5.

Like last year’s budget proposal by the Governor, this budget offers similar proposals to reform the TAFDC program. For example, the Governor proposes to impose work requirements and time limits by removing exemptions for parents caring for a child between one and two years of age, mothers in their last trimester of pregnancy, teen parents who are attending school, individuals caring for a disabled family member, and many disabled parents. His proposal would also remove working parents’ guarantee to child care, which, under current law, is available up to one year after benefits end.

The Governor also proposes to restrict benefits for another program which provides support to low-income individuals. The Emergency Aid to the Elderly, Disabled, and Children program provides cash assistance to low-income elderly and disabled individuals or those who are caring for disabled family members. The Governor proposes to impose new work requirements that would affect the majority of the adult caseload.

Funding for the Employment Services Program, which is available to individuals receiving cash assistance, would rise by \$10.0 million. This additional funding is likely to fall short of the amount needed to provide adequate supports to individuals facing new or increased work requirements, particularly since many are disabled or face additional challenges to securing stable employment.

### MEDICAID/MASSHEALTH AND OTHER HEALTH CARE PROGRAMS

The Governor’s budget recommendations for Medicaid/MassHealth and Other Health Programs reflect the Governor’s expectation that there will be significant health care reform by FY 2007. The Governor recommends \$7.489 billion to cover existing health care programs as well as health care reform, a 2.2 percent increase from FY 2006.

Included in the totals for these health care programs are funding for Medicaid/MassHealth, funding for the senior pharmacy program, funding for other health care programs for persons ineligible for Medicaid, and funding for uncompensated care. In FY 2007, there is also a special reserve for anticipated health care reform (see discussion below).

|                            |                         |
|----------------------------|-------------------------|
| <b>FY 2006</b>             | <b>\$ 7,330,286,420</b> |
| <b>FY 2007 Gov.</b>        | <b>\$ 7,489,070,194</b> |
| <b>Increase (decrease)</b> | <b>\$ 158,783,774</b>   |
| <b>Percentage Change</b>   | <b>2.2%</b>             |

It is important to note, however, that these totals are somewhat misleading. First of all, FY 2006 Medicaid/MassHealth costs are likely to be substantially less than budgeted. To understand the true increase in health

care costs between FY 2006 and FY 2007, we must adjust the totals for FY 2006 to better reflect estimated actual spending and account for the Governor’s explicit funding cut freezing nursing home reimbursement rates (see below).

**Figure 2.**

| <b>Medicaid/MassHealth and Other Health Care Programs</b> |                            |                         |
|---|----------------------------|-------------------------|
| <i>In Millions of \$</i>                                  |                            |                         |
|   | <b>FY 2006<br/>Current</b> | <b>FY 2007<br/>Gov.</b> |
| Medicaid/MassHealth                                       | 6,995.0                    | 7,195.3                 |
| Pharmacy Programs   | 92.2                       | 59.6                    |
| Other Health Care Programs                                | 37.1                       | 34.2                    |
| Uncompensated Care Pool                                   | 206.0                      | 0.0                     |
| Health Care Reform  |                            | 200.0                   |
| <b>Total</b>  | <b>7,330.3</b>             | <b>7,489.1</b>          |

"Medicaid/MassHealth" includes the Medicare "Clawback" but does not include the \$288.5 million Health Care Quality Improvement Trust. "Other Health Care Programs" includes the Healthy Start and Children's Medical Security Plan programs.

If we reduce the FY 2006 total by \$200 million to better reflect anticipated actual spending (\$7.130 billion), and increase the FY 2007 total by the \$102 million estimated value of the nursing home rate freeze (\$7.591 billion), the true increase between FY 2006 and FY 2007 is \$460.8 million, or 6.5 percent.

This 6.5 percent increase – which includes the funding “set aside” for comprehensive health care reform – is still less than the seven percent annual increase in Medicaid cost growth used as an estimate by the federal government. That the total increase in health care appropriations in the Governor’s health care budget is this small raises a concern that his budget recommendation may not actually be able to accommodate the costs of existing programs as well as \$200 million of new spending to finance health care reform efforts.

## **Medicaid/MassHealth**

The Governor's budget recommendation shows a three percent increase in Medicaid costs, from \$6.995 billion in FY 2006 to \$7.125 billion in FY 2007. But because FY 2006 spending is likely to be \$200 million less than budgeted, this FY 2007 recommendation could end up being closer to six percent above actual FY 2006 Medicaid spending.

In FY 2006, a portion of the funding for the MassHealth Essential program had been funded for part of the year out of "off-budget" funds. We include those dollars in our FY 2006 Medicaid totals for year-to-year comparison purposes. There is also \$288.5 million funded off-budget for enhanced nursing home rates through the Health Care Quality Improvement Trust, but because this transaction does not include the expenditure of state funds, we do not include those dollars in our totals.

There are several notable items within the Governor's Medicaid budget recommendations:

- The Governor's budget recommends \$77.7 million for the MassHealth Family Assistance Plan, more than double the budgeted amount in FY 2007. This program provides assistance for low-income families who wish to purchase private health insurance, and fits with the Governor's health reform initiative, which encourages individuals to purchase health insurance in the private insurance market. The Governor's health reform proposal assumes that increased participation in programs like the Family Assistance Plan will decrease the costs of the Uncompensated Care Pool (see discussion below).

- The Governor recommends \$1.681 billion for the MassHealth Senior Care Plans. This is a \$210 million reduction, \$102 million of which is anticipated savings associated with a change in the methodology for establishing nursing home reimbursement rates.
- The Governor recommends \$224.5 million for the MassHealth Essential program. This program provides health insurance for approximately 43,000 low-income long-term unemployed individuals, as well as health insurance for an additional 3,000 elderly and disabled legal immigrants. The costs of this program have been substantially higher than budgeted, and the Legislature anticipates that \$25 million more may be necessary to fund program costs in FY 2006. Nevertheless, there is a 44,000 member cap on program enrollment, and there are more than 11,000 persons on a waitlist. The Governor's recommended funding for this program will not expand the program to clear the waitlist, and also may not be sufficient to fund full program costs for the 3,000 elderly and disabled legal immigrants. Although not explicit in the Governor's budget language, the Governor's recommendations assume that the Office of Medicaid will be able to "deem" the income of immigration sponsors as a way of limiting eligibility for the program.

## **Pharmacy Programs**

On January 1, 2006, the federal Medicare Prescription Drug Improvement and Modernization Act (Medicare Part D) went into effect. Medicare Part D is intended to provide prescription drug coverage for persons on Medicare, and accordingly the

Governor's budget recommendations assume that the Prescription Advantage program will no longer be necessary as a primary provider of health insurance coverage for medications for elders.

Because of presumed savings to state Medicaid programs associated with this new federal program, the Commonwealth must pay a "Clawback" to the federal government to offset a portion of these savings associated with persons who are dually-eligible for Medicare and Medicaid. The "Clawback" amount in the Governor's budget proposal is \$250 million, \$130 million more than in FY 2006.

In FY 2007, the Prescription Advantage program would cover Medicare Part D co-payments, premiums and other out-of-pocket costs for eligible enrollees, and would continue to provide primary prescription coverage for eligible persons not eligible for Medicare.

The Governor recommends \$59.6 million for the Prescription Advantage program, a \$32.7 million reduction from FY 2006. An outside section of the Governor's budget recommendations would authorize the Department of Elder Affairs to establish levels at which the Prescription Advantage program would provide supplemental assistance as a secondary payer for Medicare Part D or other prescription plans.

Because of significant problems associated with the startup of the Medicare Part D benefit, the Prescription Advantage program has been functioning as the primary payer for the many enrollees who have been having problems with the transition to Medicare prescription coverage. There are estimates that this additional cost to the state will be \$1 million in FY 2006, although the federal government may provide

reimbursement for this. Because it is unclear how long it will take for the problems with the transition to Medicare Part D to be smoothed out, the assumption that Prescription Advantage will mostly function as a secondary payer for medications may not be realistic.

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

The Governor recommends \$16.0 million, essentially level funding, for the Healthy Start program. The Governor recommends \$18.2 million for the Children's Medical Security Plan. These two health care programs are an essential part of the Commonwealth's health care safety net, providing health insurance to children and certain families who would otherwise be uninsured. Because FY 2006 spending has been less than budgeted, these funding levels may be sufficient to cover the costs of the programs in FY 2007. It is important to note that the Governor's recommended budget language for the Children's Medical Security Plan includes specifics about restructuring premiums that would make this program more affordable for low- and moderate-income families.

### ***Uncompensated Care and Health Reform***

A major factor reflected in the Governor's health care budget is the anticipated impact of comprehensive health reform, currently under debate in the Legislature. The Governor's budget includes a \$200 million reserve set-aside to support anticipated costs of the implementation of comprehensive health care reform.

This reserve is clearly marked for costs associated with new reform initiatives, and is not intended to supplant other health care funding. The Governor recommends

defraying potential one-time costs of these reforms with a transfer of \$50 million dollars from the Commonwealth's Health Care Security Trust fund to the General Fund.

Because the Governor's budget assumes that the Legislature will have passed comprehensive health care reform, and because the Governor assumes that comprehensive health care reform will reduce the need for an Uncompensated Care Pool as currently configured, the Governor's budget recommendation does not appropriate state dollars for uncompensated care. In FY 2006, \$206 million had been appropriated to cover a portion of the costs of uncompensated care.

Without specific language in the budget dictating funding levels for the Uncompensated Care Pool, and assuming that there are no changes made in the process of comprehensive health care reform, funding reverts to levels that are indicated in statute, which include \$100 million from surcharges on insurance and \$215 million assessed to hospitals.

As explained above, the Governor's budget assumes that the implementation of health care reform will increase costs in certain Medicaid/MassHealth programs (such as the MassHealth Family Assistance Plan), and will decrease demand for other health care programs (such as the Uncompensated Care Pool). The Governor also assumes there will be \$200 million in costs associated with implementing new health care reforms. The Governor's total health care budget, however, appears unlikely to be large enough to accommodate existing program growth as well as \$200 million in new costs.

## PUBLIC HEALTH

The Governor's public health budget recommends an increase of \$24.3 million over FY 2006. The Governor recommends \$140.6 for hospital-based public health, and \$315.0 million for the non-hospital based services. Total public health funding would be 5.6 percent more in nominal dollars under the Governor's budget, but only 3.1 percent more when adjusted for inflation.

|                            |           |                    |
|----------------------------|-----------|--------------------|
| <b>FY 2006*</b>            | <b>\$</b> | <b>431,313,980</b> |
| <b>FY 2007 Gov.</b>        | <b>\$</b> | <b>455,674,693</b> |
| <b>Increase (decrease)</b> | <b>\$</b> | <b>24,360,713</b>  |
| <b>Percentage Change</b>   |           | <b>5.6%</b>        |

\*Includes allocations from the POS reserve discussed on p. 5.

Even though the Governor's budget restores some funding to public health, when adjusted for inflation, funding is still 24 percent less than in FY 2001. During the state's fiscal crisis, public health services had been particularly hard hit by annual budget cuts and mid-year funding reductions.

There are a few public health programs in the Governor's recommended budget that would receive an increase in FY 2007. Areas with increases include:

- \$3.6 million for a sexual assault nurse examiner program. This would incorporate a special pediatric sexual assault nurse examiner program newly created in FY 2006, and represents an \$800,000 increase over FY 2006 funding levels.
- \$34.9 million for universal immunizations. This is a \$5.8 million increase over FY 2006, but this amount may not be sufficient to fully support the increased costs of the program.

- \$11.4 million for the state laboratory. This recommended funding level would be \$1.1 million more than in FY 2006.
- \$59.2 million for substance abuse services, at least \$4.0 million of which would be dedicated to providing treatment for persons civilly committed for substance abuse. This \$11.6 million increase will, according to the Governor, allow for the expansion of residential and treatment capacity for substance abusers.

Of particular interest in the Governor's budget is a new line item for a "comprehensive prevention curriculum." The Governor recommends \$4.0 million for this new line item, partially funded with the elimination of the "teen pregnancy prevention" line item (funded at \$2.0 million in FY 2006). The Governor's budget recommendation specifies that this new curriculum would include prevention and services related to teen pregnancy, substance abuse and violence. Language in the Governor's proposed budget commends the use of two particular programs that focus on substance abuse prevention.

The Governor's budget includes recommendations for reduced funding for certain services:

- \$3.3 million for environmental health programs. This is a six percent real reduction in funding since last year, and a 30 percent reduction in real terms since FY 2001.
- \$4.3 million for smoking prevention and cessation programs. The FY 2007 funding level is almost identical to funding in FY 2006, and does not cover increased costs due to inflation. Compared to FY 2001, in real terms

funding for smoking prevention programs has been cut by \$54.0 million, or close to 93 percent.

- \$3.3 million for early breast cancer detection services, \$107,500 less than in FY 2006. The Governor states that this is just a reduction of one-time costs from FY 2006. This is a real reduction of \$8.2 million since FY 2001, or 71 percent. The Governor recommends level funding for prostate cancer screening (\$1.3 million) and for colorectal cancer screening (\$185,000). Since FY 2001, prostate cancer screening has been cut by 65 percent, and colorectal cancer screening has been cut by 35 percent.
- \$35.7 million for AIDS prevention and treatment, along with \$1.9 million available from AIDS drug rebates. This amount would level fund these programs, and would be insufficient to keep up with inflation. Since FY 2001, in real terms, services for people with HIV/AIDS have been cut by \$23.1 million or 38 percent.
- \$14.0 million for school health services. The Governor's budget would continue a trend of reduced funding for school-based public health programming. Adjusted for inflation, the Governor's recommendation is seven percent below FY 2006 funding. When compared to funding in FY 2001, however, the reduction is quite dramatic. School health services had been funded partially within the Department of Public Health, and partially within the Department of Education. Since FY 2001, when adjusted for inflation, school health services have been cut 73 percent.

## MENTAL HEALTH

Funding for mental health services would increase by \$11.2 million or close to two percent, which is not likely to cover the increasing costs due to inflation.

|                     |                       |
|---------------------|-----------------------|
| <b>FY 2006*</b>     | <b>\$ 630,859,723</b> |
| <b>FY 2007 Gov.</b> | <b>\$ 642,056,020</b> |

|                            |                      |
|----------------------------|----------------------|
| <b>Increase (decrease)</b> | <b>\$ 11,196,297</b> |
| <b>Percentage Change</b>   | <b>1.8%</b>          |

\*Includes allocations from the POS reserve discussed on p. 5.

The Governor proposes to increase the budget account which funds adult mental health and support services to \$301.7 million, a \$5.7 million increase. The budget additionally proposes modest increases for other mental health services: funding for forensic services would rise by approximately \$52,000, support for child and adolescent mental health services would increase by roughly \$518,000, and the appropriation for emergency services and inpatient acute care would grow by about \$15,000.

## MENTAL RETARDATION

Under the Governor's proposal, funding for the Department of Mental Retardation would increase by \$30.6 million or roughly three percent, about the rate of inflation.

|                     |                        |
|---------------------|------------------------|
| <b>FY 2006*</b>     | <b>\$1,133,316,966</b> |
| <b>FY 2007 Gov.</b> | <b>\$1,163,918,537</b> |

|                            |                      |
|----------------------------|----------------------|
| <b>Increase (decrease)</b> | <b>\$ 30,601,571</b> |
| <b>Percentage Change</b>   | <b>2.7%</b>          |

\*Includes allocations from the POS reserve discussed on p. 5.

The Governor proposes to increase funding in several areas within the Department of

Mental Retardation. For example, funding for community residential supports would rise by \$17.6 million or 3.5 percent. Other areas which would experience increases in funding include: community-based day and work programs, respite family supports, and state facilities for individuals who are mentally retarded.

The Governor offers \$2.0 million for a new initiative to address rate disparities in residential contracts. The Governor also recommends level funding (\$1.2 million) for the Division of Autism, which was established in the FY 2006 budget, and meets the legal requirement for the Boulet settlement (which mandates the state provide interim services for individuals on the wait list for residential placements) by appropriating \$86.4 million for this purpose.

## SOCIAL SERVICES

The Governor's budget for the Department of Social Services totals \$762.4 million in FY 2007. This proposal reflects a \$16.6 million or two percent increase over FY 2006, which does not keep pace with inflation.

|                     |                       |
|---------------------|-----------------------|
| <b>FY 2006*</b>     | <b>\$ 745,876,925</b> |
| <b>FY 2007 Gov.</b> | <b>\$ 762,439,450</b> |

|                            |                      |
|----------------------------|----------------------|
| <b>Increase (decrease)</b> | <b>\$ 16,562,525</b> |
| <b>Percentage Change</b>   | <b>2.2%</b>          |

\*Includes allocations from the POS reserve discussed on p. 5.

In this budget, the Governor recommends consolidating budget accounts for group care services and services for children and families. This proposal would net a \$5.6 million increase over FY 2006.

The Governor also proposes to increase support for the Department of Social

Services administrative costs by \$5.0 million (seven percent), and would additionally boost funding for social workers by \$6.8 million (five percent). Funding for the Department's personnel was significantly cut during the fiscal crisis, and the budget account for social workers has been persistently under-funded.

## ELDER AFFAIRS

The Governor's budget recommendation would increase funding for the Department of Elder Affairs by \$1.9 million over FY 2006 levels. Adjusting for inflation, this represents a decrease of two percent over FY 2006. (These numbers do not include the funding for the Prescription Advantage pharmacy program, discussed in the "MassHealth/Medicaid and Other Health Programs" section of this *Budget Monitor*.)

|                            |                       |
|----------------------------|-----------------------|
| <b>FY 2006*</b>            | <b>\$ 216,955,945</b> |
| <b>FY 2007 Gov.</b>        | <b>\$ 218,879,471</b> |
| <b>Increase (decrease)</b> | <b>\$ 1,923,526</b>   |
| <b>Percentage Change</b>   | <b>0.9%</b>           |

\* Includes allocations from the POS reserve discussed on p. 5.

The Governor recommends \$3.1 more for elder home care purchased services, for a total of \$103.1 million, and level funding of \$39.3 million for home care administration and casemanagement. Elder protective services would receive level funding of \$13.8 million under the Governor's recommendation.

One area that would receive an increase in funding under the Governor's recommendations is the supportive senior housing program. The Governor recommends \$3.7 million for this program, a \$1.8 million increase over FY 2006 funding.

## OTHER HUMAN SERVICES

The Governor's budget proposes a total of \$568.3 million for other human services programs, an \$8.6 million or 2 percent increase over current appropriations in this area. While this proposed amount is higher than FY 2006, it does not keep pace with inflation.

|                            |                       |
|----------------------------|-----------------------|
| <b>FY 2006*</b>            | <b>\$ 559,687,801</b> |
| <b>FY 2007 Gov.</b>        | <b>\$ 568,314,635</b> |
| <b>Increase (decrease)</b> | <b>\$ 8,626,834</b>   |
| <b>Percentage Change</b>   | <b>1.5%</b>           |

\*Includes allocations from the POS reserve discussed on p. 5.

The Governor proposes to increase funding in several areas to support other human services. The Department of Youth Services would experience a \$7.7 million or five percent increase. Funding for disabilities agencies would also increase modestly in this budget. For example, the budget for the Massachusetts Commission for the Blind would grow from \$18.8 million to \$19.5 million under the Governor's recommendation.

Despite the overall proposed increase in funding for FY 2007, this budget would reduce funding in certain areas. For instance, funding for grants to youth development organizations would fall from \$3.6 million to \$2.0 million, a 45 percent decline.

Although funding for Emergency Assistance for homeless families is level in the Governor's budget, the proposed changes to the eligibility criteria would restrict access to services. The Governor also proposes to essentially level fund Emergency Assistance for homeless families at \$73.5 million, but would lower the income eligibility from 130 percent of the Federal Poverty Level to 100

percent. The Governor's budget also removes provisions which allowed families whose income exceed the eligibility limit to remain in the shelter up to six months and use the excess income to move into permanent housing.

## ENVIRONMENTAL AFFAIRS

The budget for environmental affairs would increase by \$4.6 million or two percent under the Governor's proposal. While the proposed amount is higher than FY 2006 appropriations, the increase is lower than the rate of inflation.

|                     |           |                    |
|---------------------|-----------|--------------------|
| <b>FY 2006</b>      | <b>\$</b> | <b>203,273,100</b> |
| <b>FY 2007 Gov.</b> | <b>\$</b> | <b>207,829,094</b> |

|                            |           |                  |
|----------------------------|-----------|------------------|
| <b>Increase (decrease)</b> | <b>\$</b> | <b>4,555,994</b> |
| <b>Percentage Change</b>   |           | <b>2.2%</b>      |

This budget would generally increase funding for all departments within the Executive Office of Environmental Affairs. The Department of Environmental Protection (DEP) would receive the largest boost in funding. The budget for DEP would grow by \$2.6 million or five percent under the Governor's recommendation. The Department of Fish and Game, however, would experience a slight reduction in funding; its budget would fall by roughly \$285,000 or nearly two percent

The Governor proposes funding to support a new Office of Dam Management. The recommendation also proposes to privatize the skating rinks which are currently under the purview of the Department of Conservation and Recreation.

While this proposed budget would increase funding for environmental affairs in FY 2007, its total amount is considerably below the total before the fiscal crisis began. After

adjusting for inflation, the Governor's budget recommendation for environmental affairs is \$69.9 million or 25 percent below its level in FY 2001, after adjusting for inflation.

## HOUSING

The Governor proposes to fund the Department of Housing and Community Development at \$97.2 million in FY 2007, a \$14.7 million reduction compared to current appropriations. The proposed amount shows a decline when compared to current appropriations because \$20.0 million in funding for energy assistance for low-income families, which was included in a recent supplemental budget for FY 2006, is not included in the Governor's proposal.

|                     |           |                    |
|---------------------|-----------|--------------------|
| <b>FY 2006</b>      | <b>\$</b> | <b>111,872,001</b> |
| <b>FY 2007 Gov.</b> | <b>\$</b> | <b>97,195,492</b>  |

|                            |            |                    |
|----------------------------|------------|--------------------|
| <b>Increase (decrease)</b> | <b>(\$</b> | <b>14,676,509)</b> |
| <b>Percentage Change</b>   |            | <b>-13.1%</b>      |

In his FY 2007 budget recommendation, the Governor proposes to increase funding for Public Housing Authorities. The \$34.9 million currently appropriated for this purpose would rise to \$43.1 million in FY 2007, an \$8.2 million or 24 percent increase over FY 2006.

The Governor proposes to reduce funding for the Massachusetts Rental Voucher Program by \$2.0 million, and proposes new work requirements that are comparable with those proposed changes to Transitional Aid to Families with Dependent Children. The Governor also recommends placing a time limit on the receipt of assistance through MRVP. The proposal would introduce a 36 month consecutive time limit and 60 month lifetime limit on MRVP. Funding for this

program has fallen substantially over the past few years. In real terms, the Governor's proposal is \$16.6 million or 41 percent lower than its FY 2001 appropriation.

This budget would also lower the amount appropriated to Rental Assistance for Families in Transition (RAFT). Funding for this program, which provides assistance to families at risk of homelessness, would fall from \$5.0 million to \$3.0 million. The Governor indicates that \$2.0 million that had been used for RAFT would be transferred to other budget accounts, including \$1.0 million to support the Tenancy Preservation Program.

## PUBLIC SAFETY

Funding for public safety totals \$1.348 billion in the Governor's budget proposal, a \$19.6 million or 1.5 percent increase over FY 2006.

|                            |                         |
|----------------------------|-------------------------|
| <b>FY 2006</b>             | <b>\$ 1,328,321,625</b> |
| <b>FY 2007 Gov.</b>        | <b>\$ 1,347,910,393</b> |
| <b>Increase (decrease)</b> | <b>\$ 19,588,768</b>    |
| <b>Percentage Change</b>   | <b>1.5%</b>             |

The Governor's budget would increase funding in a number of areas, including \$7.2 million more to support state police operations. The Governor also proposes new funding for different initiatives. For example, this budget would appropriate \$750,000 for a witness protection program.

While this budget would increase overall funding for public safety, the additional amount is not enough to keep pace with inflation.

## JUDICIARY

The Governor's budget provides \$692.1 million for the Judiciary in FY 2007. This amount is \$47.0 million or seven percent higher than current appropriations.

|                            |                       |
|----------------------------|-----------------------|
| <b>FY 2006</b>             | <b>\$ 645,143,755</b> |
| <b>FY 2007 Gov.</b>        | <b>\$ 692,124,532</b> |
| <b>Increase (decrease)</b> | <b>\$ 46,980,777</b>  |
| <b>Percentage Change</b>   | <b>7.3%</b>           |

Much of the increase in funding for the Judiciary is due to the proposed increase in the budget account which pays attorneys assigned to criminal and civil cases. The current appropriation would rise from \$95.1 million to \$117.4 million, a \$22.4 million difference.

In addition to increasing funding in other areas of the Judiciary, the Governor proposes to consolidate functions by merging operations for the Superior, District, Family, Probate and Juvenile Courts.

## GROUP INSURANCE

The Governor's budget recommends funding for the Group Insurance Commission at just above the FY 2006 funding level.

|                            |                         |
|----------------------------|-------------------------|
| <b>FY 2006</b>             | <b>\$ 1,023,190,489</b> |
| <b>FY 2007 Gov.</b>        | <b>\$ 1,038,652,306</b> |
| <b>Increase (decrease)</b> | <b>\$ 15,461,817</b>    |
| <b>Percentage Change</b>   | <b>1.5%</b>             |

The Governor's recommended budget shifts a portion of the costs of employee health insurance onto employees, thereby restricting Group Insurance Commission

cost growth to 1.5 percent. Under the Governor's budget proposal, state workers would be required to pay 25 percent of the costs of their health insurance premiums, instead of the current rates of either 15 or 20 percent (based on date of hire). The Governor estimates that Group Insurance Commission costs would increase by \$100.5 million (9.8 percent), but his recommendation is to shift \$85 million of these health care costs from the Commonwealth to state workers.

## REVENUE

With regard to revenue, Governor Romney's final budget proposal is notable in two respects: first, in its continued call for a reduction in the personal income tax rate and, second, in its continued reliance on sources of revenue that are either impermanent in nature or diverted from other purposes.

As he did in his FY 2006 budget proposal, Governor Romney once again recommends reducing the personal income tax rate from its present level of 5.3 percent to 5.0 percent. However, where once the Governor argued for immediate implementation of this change, he now favors a gradual approach, as his FY 2007 budget proposal would lower the personal income tax rate in two stages: to 5.15 percent in 2007 and to 5.0 percent in 2008.

Documents accompanying the Governor's budget project that this change would reduce tax revenue by \$132 million in FY 2007. Importantly, though, this amount is only a fraction of the total revenue loss that such a change would ultimately entail. Officials from the Department of Revenue indicated last month that, if this rate reduction were

completely implemented in FY 2007, it would reduce tax revenue by \$610 million.

As the MBPC observed in its recent *Facts at a Glance: Impact of Reducing the Personal Income Tax*, the annual revenue loss associated with a personal income tax rate of 5.0 percent is well in excess of any budget surplus the Commonwealth is likely to experience in the coming fiscal year. In other words, a reduction in the personal income tax rate, once fully implemented, could lead to the return of budget deficits. Moreover, a reduction in the personal income tax rate would prevent the Commonwealth from addressing important public priorities such as undoing the hundreds of millions of dollars in spending cuts adopted during the fiscal crisis that are still in place today. For instance, as noted earlier in this *Budget Monitor*, funding for higher education, public health, and environmental affairs, even after taking the Governor's latest recommendations into account, is still more than 20 percent below its FY 2001 levels in real terms. (For more on the impact of a reduction in the personal income tax rate on the budget, individual taxpayers, and the Commonwealth's economy, refer to the MBPC's [\*Facts at a Glance: Impact of Reducing the Personal Income Tax\*](#).)

The Governor maintains that his proposal to reduce the personal income tax rate is now tenable because of sustained tax revenue growth. As he states in the letter he submitted to the House of Representatives and the Senate in conjunction with his FY 2007 budget proposal, "With tax revenues strong ... it is time to recognize the will of the Massachusetts' voters and move to reduce the personal income tax rate to 5.0% over the next two years." While tax revenue is expected to rise substantially in FY 2007, capital gains taxes – generally regarded as a

somewhat volatile source of revenue – may comprise a larger share of tax revenue than at any time in recent past – including the peak of the 1990s economic boom.

On January 13, 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 2007. They project that tax revenue will total \$18.158 billion in FY 2006 and then grow 4.5 percent to reach \$18.975 billion in FY 2007. If these projections are realized, FY 2007 will mark the fourth consecutive year of sustained revenue growth, as tax collections will have grown by about 6.3 percent to 7.1 percent per year in each of the three preceding fiscal years. However, data presented by the Department of Revenue during the December 2005 Consensus Revenue Hearing suggest these projections may be subject to some risk, as the Commonwealth's reliance on capital gains taxes is rising once again. For instance, in tax year 2000, capital gains taxes amounted to \$1.16 billion or 7.2 percent of the \$16.2 billion the Commonwealth collected that year, the largest share of total tax revenue since 1986. In comparison, the data presented by the Department of Revenue in December suggest that capital gains taxes could constitute as much as 9 percent of total tax collections in FY 2007.

Despite this continued growth in tax revenue, the Governor's budget proposal relies on \$395 million in revenue from sources that are either impermanent or are intended to be devoted to other purposes. While the degree to which the Governor's proposal depends on such sources is considerably less than in the past several budgets, the use of such funds nevertheless calls into question whether the budget is

completely balanced. In particular, the Governor's budget proposal would:

- Continue the practice of recent years of using all of the annual tobacco settlement funds received by the Commonwealth to support current expenditures, rather than setting aside a portion for future costs. Under current law, only 30 percent of the settlement payment – as well as 30 percent of the investment earnings of the Health Care Security Trust – is intended to be used for current expenditures. The remainder is set aside to fund health related services and programs in the years ahead. The Governor's budget would devote 100 percent of the settlement payment and 50 percent of the Trust's investment earnings to finance health care appropriations in FY 2007. Massachusetts is expected to receive a settlement payment of roughly \$260 million in FY 2007, while interest earnings are anticipated to be \$43 million. Consequently, this change would mean that about \$191 million that would otherwise be saved would be used for current purposes.

Of note, the version of the health care reform bill adopted by the House of Representatives last year would use the full amount of the annual settlement payment to help finance efforts to expand access to the uninsured.

- Suspend the requirement that exists under law that 0.5 percent of current year tax revenue be transferred to the Stabilization Fund. As noted earlier, FY 2007 tax revenue is projected to reach \$18.975 billion – 0.5 percent of that sum is approximately \$94 million. In other words, like the use of the entire tobacco settlement payment, the Governor's

budget would use \$94 million that current law dictates should be saved, in the Stabilization Fund, in order to bring the FY 2007 budget into balance.

- Transfer \$50 million from the Health Care Security Trust Fund to the General Fund. Governor Romney, in his press release accompanying the budget, asserts that these funds are “to defray potential one-time costs associated with [health care] reforms.”
- Transfer \$60.5 million from the Stabilization Fund to the General Fund. The Governor’s budget suggests that these funds would be used to pay for the \$60.5 million worth of capital gains tax rebates the Commonwealth is expected to owe in FY 2007.

## BALANCE

Figure 3, based on the projected financial statements submitted in conjunction with the Governor’s budget recommendation, summarizes the FY 2007 fiscal impact of the Governor’s proposed budget. It shows that, after accounting for off-budget expenditures, such as dedicated pension funding and transfers for school building debt assistance, FY 2007 expenditures, under the provisions of the Governor’s proposal, would total \$27.126 billion. At the same time, after adjusting for the initial impact of the Governor’s proposed tax cut and the mandatory transfer of sales tax revenue to the MBTA, FY 2007 revenue would amount to \$27.109 billion. Thus, FY 2007 expenditures would modestly exceed anticipated FY 2007 revenue under the Governor’s proposed budget. However, as discussed above and as shown in Figure 3, the Governor’s budget counts on a variety of temporary or diverted funding sources. Tax revenue growth over and above that now

anticipated could replace these funds before the fiscal year is over, but their use in this proposal serves to highlight one of the major choices the Governor makes in his budget. Rather than dedicating the revenue produced by the Commonwealth’s ongoing economic recovery to undoing more of the harm done during the most recent fiscal crisis and to saving in preparation for future fiscal difficulties, his budget draws upon current savings and proposes a tax cut that would ultimately cost close to \$500 million more than is paid for.

**Figure 3.**

| HOUSE 2 - FY 2007 FISCAL IMPACT                          |                     |
|--|---------------------|
|  | <u>AMOUNT (\$M)</u> |
| <b>TOTAL EXPENDITURES</b>                                | <b>27,125.9</b>     |
| Direct Appropriations & Retained Revenue                 | 25,186.7            |
| "Off-Budget" Expenditures                                | 1,939.2             |
| Pension Funding  | 1,335.2             |
| School Building Debt Assistance                          | 572.5               |
| Other  | 31.5                |
| <b>TOTAL REVENUE</b>                                     | <b>27,109.3</b>     |
| Tax Revenue  | 18,109.0            |
| Consensus Revenue Estimate                               | 18,975.0            |
| Proposed Tax Cut   | (132.0)             |
| Transfer to MBTA   | (734.0)             |
| Federal Reimbursements                                   | 5,263.5             |
| Departmental Revenue and Consolidated Transfers (adj.)   | 3,736.8             |
| <b>SURPLUS (DEFICIT)</b>                                 | <b>(16.6)</b>       |
| <b>TEMPORARY OR DIVERTED SOURCES OF REVENUE</b>          | <b>395.7</b>        |
| Stabilization Fund transfer to General Fund              | 60.5                |
| Health Care Security Trust Fund transfer to General Fund | 50.0                |
| Diverted tobacco settlement funds                        | 191.0               |
| Foregone Stabilization Fund transfer                     | 94.2                |

## Spending by Program Area

(in Millions of \$)

| Program  | FY06*           | Gov.            | Gov. vs. FY06  |           |              |           |
|--|-----------------|-----------------|----------------|-----------|--------------|-----------|
|  |                 |                 | Nominal        |           | Real         |           |
| Local Aid - Lottery                                  | 761.4           | 920.0           | 158.7          | 21%       | 139.6        | 18%       |
| Local Aid - Additional Assistance and PILOT          | 398.4           | 407.6           | 9.2            | 2%        | (0.8)        | 0%        |
| Local Education Aid (Ch. 70)                         | 3,288.9         | 3,452.6         | 163.7          | 5%        | 81.4         | 2%        |
| K-12 Education (non Ch. 70)                          | 486.9           | 594.9           | 108.0          | 22%       | 95.8         | 19%       |
| School Building Debt Assistance <sup>1</sup>         | 488.7           | 572.5           | 83.8           | 17%       | 71.6         | 14%       |
| Higher Education <sup>2</sup>                        | 965.3           | 995.2           | 29.9           | 3%        | 5.8          | 1%        |
| Early Education and Care <sup>3</sup>                | 481.3           | 483.3           | 2.0            | 0%        | (10.1)       | -2%       |
| Income Support Programs                              | 627.2           | 601.4           | (25.9)         | -4%       | (41.6)       | -6%       |
| Medicaid and Other Health Care Programs <sup>4</sup> | 7,330.3         | 7,489.1         | 158.8          | 2%        | (24.5)       | 0%        |
| Public Health  | 431.3           | 455.7           | 24.4           | 6%        | 13.6         | 3%        |
| Mental Health  | 630.9           | 642.1           | 11.2           | 2%        | (4.6)        | -1%       |
| Mental Retardation                                   | 1,133.3         | 1,163.9         | 30.6           | 3%        | 2.3          | 0%        |
| Social Services                                      | 745.9           | 762.4           | 16.6           | 2%        | (2.1)        | 0%        |
| Elder Affairs  | 217.0           | 218.9           | 1.9            | 1%        | (3.5)        | -2%       |
| Other Health & Human Services                        | 537.4           | 568.3           | 31.0           | 6%        | 17.5         | 3%        |
| Environmental Affairs                                | 203.3           | 207.8           | 4.6            | 2%        | (0.5)        | 0%        |
| Transportation                                       | 150.2           | 156.0           | 5.8            | 4%        | 2.1          | 1%        |
| Housing & Community Development                      | 111.9           | 97.2            | (14.7)         | -13%      | (17.5)       | -15%      |
| Economic Development                                 | 144.5           | 134.8           | (9.8)          | -7%       | (13.4)       | -9%       |
| Public Safety  | 1,342.6         | 1,366.4         | 23.7           | 2%        | (9.8)        | -1%       |
| Judiciary  | 645.1           | 692.1           | 47.0           | 7%        | 30.9         | 5%        |
| District Attorneys                                   | 84.9            | 87.7            | 2.8            | 3%        | 0.7          | 1%        |
| Attorney General                                     | 37.5            | 37.6            | 0.1            | 0%        | (0.8)        | -2%       |
| Libraries  | 29.6            | 30.0            | 0.5            | 2%        | (0.3)        | -1%       |
| Debt Service   | 1,793.2         | 1,924.6         | 131.4          | 7%        | 86.6         | 5%        |
| Pensions <sup>5</sup>                                | 1,275.2         | 1,335.7         | 60.5           | 5%        | 28.6         | 2%        |
| Group Insurance                                      | 1,023.2         | 1,038.7         | 15.5           | 2%        | (10.1)       | -1%       |
| Other Administrative                                 | 717.2           | 687.1           | (30.1)         | -4%       | (48.0)       | -7%       |
| <b>Total</b>   | <b>26,082.3</b> | <b>27,123.4</b> | <b>1,041.1</b> | <b>4%</b> | <b>389.0</b> | <b>1%</b> |

### Notes:

- (1) The FY 2006 budget reduces available revenue by \$488.7 million to cover the costs of School Building Assistance. In FY 2007, revenue would be reduced by \$572.5 million. The table includes these amounts as appropriations.
- (2) The higher education totals include \$31.5 million in tuition revenue retained by the campuses.
- (3) The FY 2006 budget for Early Education and Care includes \$6.0 million from a reserve account created to comply with changes to federal welfare regulations. That amount is included in the total for that year.
- (4) Totals include "on-budget" and "off-budget" Medicaid, senior pharmacy, other state health care programs, off-budget state payments into the Uncompensated Care Pool, and a proposed FY 2007 reserve for health care reform. Totals do not include \$288.5 million off-budget funding for the Health Care Quality Improvement Trust.
- (5) Off-budget pension funding in FY 2006 totals \$1.273 billion; the FY 2007 budget includes \$1.335 billion for this purpose. These amounts are treated as appropriations for these years.

\*The totals for FY 2006 reflect total amounts appropriated to date, including supplemental funding and prior appropriations that are continued for this year. The totals also incorporate off-budget spending for certain areas as noted above.