

BUDGET MONITOR

The FY 2008 Budget: Conference Committee Preview

INTRODUCTION

With budget debates completed in the House and Senate, and a Conference Committee now meeting, the structure of the FY 2008 budget is coming into focus – but important decisions remain. In several significant areas, the outcome appears clear as the House and Senate budgets are essentially in agreement: both provide an increase in Chapter 70 local aid for education of \$220.1 million dollars, 6.3 percent more than this year; both provide \$935 million in lottery aid to cities and towns, a \$15 million increase; and, both provide \$925.5 million for the state’s higher education institutions, though overall higher education funding remains \$245 million or 18 percent below the FY 2001 level. Both budgets essentially level-fund most human service accounts including the departments of Mental Health, Mental Retardation, and Social Services, providing nominal increases that may be less than the amount needed to keep pace with rising costs.

For comparison purposes we make reference to the Governor’s recommendations, but it is only the House and Senate proposals that are before the Conference Committee. While there are no very large differences in funding levels between the budgets of the House and Senate, there are numerous small differences across the budget. Among these differences are the following.

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- **Immunizations:** Which vaccines should be included? The Governor’s budget proposal had included funding to add three new ones – rotavirus, meningococcal conjugate and human papilloma virus (HPV) – for a total of \$61.6 million. The House provides only enough, \$38.4 million, to fund the increased cost of the current regimen of vaccines, but called for a study of the three new vaccines. The Senate funds

adding rotavirus and meningococcal conjugate (\$48.8 million), but called for a study of HPV and an inquiry into generic alternatives.

- Smoking prevention: Both the House and Senate propose a substantial increase to the \$8.3 million in smoking prevention funding provided in FY 2007. The House proposes \$13.3 million for smoking prevention and the Senate \$10.0 million.
- Human services rate reserve: The Senate provides \$23.0 million to increase the wages of the state's lowest paid human service workers, while the House provides \$20.0 million. The Governor had proposed \$12.0 million.
- Educational accountability: While the House provides \$3.0 million in funding for the Office of Educational Quality and Accountability, the Senate follows the Governor's recommendation in eliminating the office and providing \$300,000 to study the state's accountability system.
- Kindergarten expansion grants: The House provides \$31.1 million for kindergarten expansion grants compared to \$33.9 million in the Senate proposal. The Governor had proposed \$39.5 million. In FY 2007 this program was funded at \$27.3 million.
- Economic development funds: The House proposal transfers \$10.0 million from the General Fund to the Massachusetts Cultural Facilities Trust Fund and \$4.0 million to the Massachusetts STEM grant fund. The Senate does not include these transfers, but instead proposes transferring \$3.75 million from the General Fund to a new Commonwealth Covenant Trust Fund to

provide student loan repayment for graduates of Massachusetts' public colleges and universities who pursue science and technology careers in the state.

- Funding future liability for retiree benefits: The Senate transfers a portion of the Health Care Security Trust Fund (approximately \$421 million) to begin pre-funding the state's future liability for retiree benefits. It also dedicates portions of future payments from tobacco settlement funds to continue pre-funding this liability. The House budget does not take the step of pre-funding the future liability, preferring to wait for the results of a study on the issue.

One serious concern regarding both the House and Senate budgets is that they spend more than the amount of ongoing revenue the state is expected to receive. To achieve balance, both budgets rely on significant withdrawals from state reserve funds. A structural budget gap exists when such temporary revenues are used to fund the ongoing cost of state services. While the structural gap in the Senate budget is about \$200 million less than the nearly \$700 million gap in the House budget, both proposals would leave the state in a risky fiscal position going forward. When states draw down reserves during periods of economic expansion, they risk facing the next recession without adequate reserves, thereby requiring deep cuts to essential services or substantial increases in taxes. Though FY 2007 tax revenue is exceeding projections as of the end of May, if FY 2008 tax revenues exceed the consensus revenue estimate by a comparable amount this would not be enough to eliminate the structural gap in either the House or Senate proposals.

The Governor had proposed tax reforms that would reduce revenue losses due to tax avoidance, and create a more solid fiscal foundation for the state by increasing available revenue by \$300 million in FY 2008 and \$500 million in FY 2009. As a result, the Governor's budget proposal was significantly closer to being structurally balanced. The Governor's proposals to limit tax avoidance were not adopted during the budget debate, but are still under consideration by both the Legislature's revenue committee and a special commission jointly appointed by the Governor, the House, and the Senate.

This *Budget Monitor* focuses on the results of the Senate's floor debate and the differences between the House and Senate budget proposals that will be resolved by the Conference Committee. In addition, we provide a brief analysis of an FY 2007 supplemental budget passed in mid-May that boosts funding in a number of areas such as the Department of Social Services and public safety.

Chapter 42 of 2007

On May 16, 2007, the Governor signed a supplemental budget for FY 2007 that included about \$85.4 million in additional appropriations. Because the Senate Ways and Means Committee budget was released at about the same time, this *Budget Monitor* is the first to include FY 2007 appropriation totals including the additions from this supplemental, Chapter 42 of the Acts of 2007.

Of the \$85.4 million total, about \$24.3 million is appropriated and then continued into FY 2008. Therefore, the net increase in FY 2007 appropriations as a result of the supplemental is about \$61.2 million. Throughout this *Monitor* we have identified programs or line items for which the FY

2007 totals are changed as a result of Chapter 42. Additional appropriations made for FY 2007 in Chapter 42 include the following.

- \$8.2 million is appropriated for the judiciary with about half providing additional funding for the court costs of indigent clients and \$3.6 million paying for additional court security costs.
- \$1.8 million in additional funding for public health hospitals.
- \$21.9 million (nearly a third of the net increase under the supplemental) in additional funding for state and county corrections costs.
- \$15.6 million in additional funding for the two core services accounts at the Department of Social Services.

The supplemental also appropriates and then continues into FY 2008 funding for three new initiatives. First, \$3.6 million is appropriated for grants to the state's dairy farmers in hopes of stabilizing the struggling industry. Second, \$4 million will provide grants to municipalities around the state to hire 50 new police officers. Finally, the supplemental funds the Charles E. Shannon, Jr., Community Safety Initiative, to prevent gang violence, at \$11 million for FY 2008.

ANALYSIS OF SPENDING BY PROGRAM AREA

Our analysis in this *Budget Monitor* is primarily focused on differences between the budget proposals of the House and Senate as the Conference Committee begins to reconcile the two bills. For greater detail regarding differences between these proposals and either prior year spending or the Governor's recommendations, earlier *Monitors* from the FY 2008 process are available at the MBPC website: www.massbudget.org.

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

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

In addition, the FY 2007 budget included \$28 million for a human services rate reserve to increase the wages of the state’s lowest paid human service workers. This amount is ultimately distributed across those state departments providing various kinds of human services and becomes a component of maintenance level spending. Because we have not apportioned the FY 2007 reserve across departments, this *Monitor* likely overstates the size of increases in funding for human service agencies in FY 2008.

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

LOCAL AID

The Senate and House provide about the same amount of unrestricted local aid to cities and towns in FY 2008, \$1.345 billion. The proposed funding level in the Senate matches that of the Governor and is \$200,000 less than the House proposes. Despite these increases, unrestricted local aid to cities and towns under both legislative

proposals, after adjusting for inflation, remains \$178 million, or 11.7 percent, below FY 2001 levels.

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

<i>Difference between House and Senate</i>	
House less Senate	\$200,000

A joint legislative resolution adopted by the House and Senate prior to the release of the House Ways and Means Committee proposal set the levels of unrestricted local aid that would be provided through the lottery and additional assistance. Both the House and Senate adopt funding levels matching this resolution.

The only difference between the House and Senate is racing distribution payments made to communities where racing takes place. The House proposes \$2.2 million compared to the \$2 million under the Senate plan.

K-12 EDUCATION

For FY 2008 the Senate provides about \$900,000 less for K-12 education than the House. Both proposals provide more than \$40 million more for K-12 education than the Governor recommended and both would increase funding over FY 2007 ongoing levels by more than \$330 million. Funding for K-12 education includes a portion of all sales tax revenue (\$634.7 million), which is transferred to the School Building Assistance Fund. This transfer increases by \$77.7 million, or 13.9 percent, over the FY 2007 level. Another \$220 million of the increase in K-12 funding over FY 2007 results from increased Chapter 70 education aid to cities and towns. About \$35 million of the growth in K-12 education funding is

for operations and grant programs at the Department of Education.

FY 2007 Ongoing	\$4,601,249,845
FY 2008 Governor	\$4,892,650,331
FY 2008 House	\$4,934,480,394
FY 2008 Senate	\$4,933,567,141

<i>Difference between House and Senate</i>	
House less Senate	\$913,253

Chapter 70 Aid

Chapter 70 aid is provided to cities and towns for public education purposes. Prior to the release of all legislative budget proposals, the House and Senate completed a joint resolution on local aid to cities and towns. As a result, the House and Senate proposals provide the same amount of Chapter 70 education aid to cities and towns, \$3.726 billion. This is a \$220 million, or 6.3 percent, increase over FY 2007 and is \$20.2 million more than the Governor recommended.

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

FY 2007 Ongoing	\$3,505,520,040
FY 2008 Governor	\$3,705,486,690
FY 2008 House²	\$3,725,671,328
FY 2008 Senate¹	\$3,725,671,328

<i>Difference between House and Senate</i>	
House less Senate	\$0

¹ This total does not include a \$5.5 million foundation budget reserve included in the Senate and House budgets. See the "Other K-12 Education Funding" section of this report.



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

Our *Budget Monitor* on the FY 2008 House budget provides greater detail on the various revisions to the Chapter 70 formula and can be found at: <http://www.massbudget.org/article.php?id=589>.

Other K-12 Education Funding

While the Senate budget provides \$573.2 million for K-12 education operations, programming, and grants, the House recommends \$574.1 million. Both the House and Senate provide about \$20 million more than the Governor recommended and about \$34 million more than was provided in FY 2007.

FY 2007 Ongoing	\$538,729,805
FY 2008 Governor	\$552,463,641
FY 2008 House	\$574,109,066
FY 2008 Senate	\$573,195,813

<i>Difference between House and Senate</i>	
House less Senate	\$913,253

During floor debate, the Senate added about \$6.8 million for K-12 education programs and grants to the proposal of the Senate Ways and Means Committee. Amendments provided an additional \$2.2 million for adult basic education, \$2 million for the foundation budget reserve (or "pothole account"), \$1 million for regional school district transportation, \$1 million for the Boston-area METCO voluntary school desegregation program, and \$595,000 for

MCAS remediation grants to school districts. These amendments in total brought the Senate's overall level of funding closer to that of the House.

While the House and Senate proposals are only about \$900,000 apart in total funding for K-12 education programs and grants, there are many differences in funding levels for particular programs that will be negotiated by the Conference Committee. Following are some of the programs with significant differences between House and Senate proposals.

- Like the Governor, the Senate proposes to eliminate funding for the Office of Educational Quality and Accountability, instead providing \$300,000 to fund a study of the state's accountability systems. The House, instead, funds the Office at nearly \$3 million and does not provide funding for the accountability study.
- While the Governor requested \$39.5 million for kindergarten expansion grants to fund full-day kindergartens, the House proposes \$31.1 million in funding. The Senate proposes \$33.9 million in funding, more than the House but significantly less than the Governor requested. The House and Senate proposals respectively represent \$3.8 million and \$6.6 million increases over FY 2007.
- The House and Senate both provide nearly \$10 million more than the Governor recommended for the special education circuit breaker program, which provides funds to school districts with extraordinary special education costs. The Senate provides \$220 million compared to \$219 million in the House proposal.
- At \$58.3 million, the Senate provides \$1 million more for regional school district transportation costs than the House.
- With \$2.2 million added to the adult basic education program through a floor amendment in the Senate, the Senate provides \$30.3 million for this program, more than the \$28.9 million and \$29.6 million recommended by the House and Governor respectively. The Senate level is about \$800,000 more than the FY 2007 funding level.
- In several small grant programs the House budget includes more money than the Senate as follows:
 - The House provides \$2 million for after school grants compared to \$1 million in the Senate budget.
 - The House funds school breakfast programs at \$6.3 million, which is \$2 million more than the \$4.3 million the Senate provides.
 - The Senate proposes \$3 million for early literacy programs compared to \$3.5 million in the House budget.
 - The targeted tutorial literacy program is funded at \$3.4 million in the House budget, compared to \$2.9 million in the Senate.

Foundation Reserve

As in prior fiscal years, both the Senate and House include a reserve to fund shortfalls in Chapter 70 education aid to cities and towns (commonly called a "pothole" account). For FY 2008 both the Senate and House would provide \$5.5 million for this account. The Senate Ways and Means Committee only proposed \$3.5 million, but \$2 million was

added by amendment during the Senate floor debate.

Communities can apply for funds from the foundation reserve if they meet particular criteria. These criteria were presented in detail in the FY 2008 Senate Ways and Means Committee *Budget Monitor*, which is available at: <http://www.massbudget.org/article.php?id=592>.

HIGHER EDUCATION

While the Senate would provide \$1.051 billion for public higher education, the House budget includes \$1.055 billion. The Governor's proposed funding level, \$1.038 billion, was \$13.4 million and \$17.0 million less than the Senate and House proposals respectively. Both the Senate and House provide at least \$20 million more for higher education that was provided in FY 2007.

Regardless of which level of funding is adopted, after adjusting for inflation, funding for higher education in FY 2008 will be at least 18 percent and \$245 million below the FY 2001 level.

FY 2007 Ongoing	\$1,031,541,911
FY 2008 Governor	\$1,037,954,557
FY 2008 House	\$1,055,020,695
FY 2008 Senate	\$1,051,487,621

Difference between House and Senate
House less Senate **\$3,533,074**

During floor debate in the Senate, an amendment was passed adding \$600,000 to the Board of Higher Education's budget. This increase funds the doubling of an earmark for the Massachusetts Nursing and Allied Health Workforce Development Initiative (from \$500,000 to \$1 million) and the addition of a \$100,000 earmark to fund efforts to prevent campus violence.

The House and Senate budget proposals provide the same level of funding for each of the state's higher education institutions. Overall, the House and Senate increase funding for higher education institutions by \$32.8 million, compared to the \$16.4 million increase recommended by the Governor. Under the House and Senate proposals, FY 2008 funding for the University of Massachusetts would be \$101.4 million or 17.8 percent below the FY 2001 level, after adjusting for inflation.

	FY07 Ongoing	FY 08 Gov.	FY 08 House	FY08 Senate
University of Massachusetts	450.9	462.0	469.0	469.0
State Colleges	210.5	212.1	215.8	215.8
Community Colleges	231.3	235.0	240.7	240.7
Total	892.8	909.1	925.5	925.5

Beyond funding for the state's institutions of higher education, there are some differences between the House and Senate proposals as follows.

- The Senate provides an additional \$132,000 for the University of Massachusetts Dartmouth Manufacturing Center relative to the \$1.5 million in the House budget.
- The Senate provides \$3.5 million in funding for the state's Board of Higher Education, compared to \$3.2 million in the House proposal. Both figures are higher than the Governor's recommendation of \$2.4 million. The higher Senate funding includes a larger earmark for the Nursing and Allied Health Workforce Development Initiative than the House plan.
- The House proposes \$94.7 million to fund the Massachusetts State Scholarship Program, the state's primary line item for student financial aid. The

Senate budget includes \$92.0 million for this program. Both are again higher than the Governor's recommendation, which would level-fund the program at \$89.9 million.

- Both the Senate and Governor eliminate the Bay State Reading initiative from their budgets, but the House proposal includes \$1.5 million in funding.

Finally, the Senate provides \$200,000 more for the Commonwealth College Honors Program at the University of Massachusetts, proposing \$3.6 million in funding. The House and Governor propose \$3.4 million in funding.

EARLY EDUCATION AND CARE

The Senate proposes to spend \$534 million on early education and care in FY 2008, a \$23.7 million, or 4.6 percent, increase over FY 2007 ongoing spending. This is about \$4.1 million less than the House proposed and \$24.1 million more than the Governor proposed.

FY 2007 Ongoing	\$510,296,241
FY 2008 Governor	\$509,854,321
FY 2008 House	\$538,048,390
FY 2008 Senate	\$533,952,420

Difference between House and Senate
House less Senate **\$4,095,970**

In order to compare funding over time for early education and care programs, we make adjustments to the FY 2007 funding levels so that they can be compared to the FY 2008 Senate budget proposal. In particular, we make adjustments for the early education rate reserve and for a transfer between line items that occurred in FY 2007.² These

² In prior FY 2008 *Budget Monitors* we have also adjusted the distribution of FY 2007 funds across line items by allocating

adjustments are discussed in detail in our Senate Ways and Means Committee *Budget Monitor* which can be found at: <http://www.massbudget.org/article.php?id=592>.

After making these adjustments, we can compare the Senate's budget to the FY 2007 budget and those proposed earlier this year. The Senate's proposal increases funding for supportive child care, for families referred by the Department of Social Services, to \$67.3 million, an increase of \$100,000 over the Governor and House proposals. While there were wait lists in the past, this funding level should ensure that services are provided to all eligible children.

Both the House and Senate fund Community Partnerships at the FY 2007 level of \$47.8 million. While the House proposes eliminating this line item by consolidating it with two other items, earmark language in the House budget requires that the same amount be spent in FY 2008 as in FY 2007 on the services provided under the Community Partnerships program.

The Senate's proposal of \$164.4 million for TAFDC-Related Child Care is \$5.5 million less than the House proposal. This program funds vouchers for enrollment in early education and care programs; the funds are available for families currently receiving or leaving Transitional Aid to Families with Dependent Children (TAFDC). The reduction corresponds to a projection of lower TAFDC caseloads in FY 2008 (see the section of this *Budget Monitor* on income support programs).

portions of the Community Partnerships line item to the Universal Pre-kindergarten Program and the Low-Income Child Care Program because the FY 2008 proposals of the Governor and House eliminated the Community Partnerships item and apportioned the monies to these other items. Because Senate retains the Community Partnerships item, we do not apportion the FY 2007 Community Partnerships monies to other line items.

Funding for Early Education and Care (EEC)

Line Item	Budget FY2007	FY 2007 with Adjustments	Governor FY2008	House FY2008	Senate FY2008	Senate minus House
1599-0042 Child Care Staff Reserve	12,500,000	0	0	7,000,000	7,000,000	0
3000-3050 Supportive Child Care	54,673,130	58,506,330	67,194,996	67,194,996	67,298,130	103,134
3000-4000 Community Partnerships for Children	47,641,095	47,761,095	47,761,095	47,761,095	47,761,095	0
3000-4050 TAFDC-Related Child Care	163,151,082	166,498,282	164,444,998	169,892,198	164,444,998	-5,447,200
3000-4060 Low-Income Child Care	150,714,917	155,914,517	152,514,924	161,434,752	162,064,752	630,000
3000-5000 Grants to Head Start Programs	8,500,000	8,500,000	8,500,000	9,000,000	9,000,000	0
3000-5075 Universal PreKindergarten Program	4,638,739	4,638,739	4,638,739	7,138,739	7,138,739	0
Sub-total Direct Service Funding	441,818,963	441,818,963	445,054,752	469,421,780	464,707,714	-4,714,066
EEC Administration and Other Programs	68,477,278	68,477,278	64,799,569	68,626,610	69,244,706	618,096
Total EEC Funding	510,296,241	510,296,241	509,854,321	538,048,390	533,952,420	-4,095,970

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

The Senate’s proposal of \$162.1 million for Low-Income Child Care is \$630,000 more than the House proposal, after accounting for the \$32 million in the House budget that must be spent on the Community Partnerships program. This program provides financial assistance to income-eligible families.

The Senate recommends \$9 million for grants to Head Start programs and \$7.1 million for the Universal Pre-Kindergarten program. The House recommends these same amounts.

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

- Under the Senate plan, funding for the Healthy Families Home Visiting Program is \$12.8 million, \$200,000 more than the House provides.
- Like the House, the Senate funds the Massachusetts Family Network at \$8.4 million and the Reach Out and Read program at \$1 million. The House combines these two programs in to one line item and includes a \$1 million

earmark for the Reach Out and Read program.

- Under the Senate plan, funding for child care resource and referral agencies is about \$1 million more than the House provides.
- Finally, the Senate provides \$7 million for the child care staff reserve, the same amount provided by the House. This money will be distributed among programs and providers by the Department, funding salary increases and professional development for early education and care workers. This will provide salary increases and professional development in addition to that which was provided by the staff reserve in FY 2007. The \$7 million in new funding for these increases is \$5.5 million less than the \$12.5 million in new funding that was provided last year.

INCOME SUPPORT PROGRAMS

Total funding for income support programs in the Senate budget is \$598.8 million, a \$9.5 million decrease from FY 2007. This is



about the same level of funding as the House proposes and is \$3.1 million less than the Governor requested.

FY 2007 Ongoing	\$610,261,358
FY 2008 Governor	\$601,845,370
FY 2008 House	\$598,932,022
FY 2008 Senate	\$598,782,022

Difference between House and Senate
House less Senate **\$150,000**

The Senate proposes providing \$274.3 million for grant payments under the Transitional Aid to Families with Dependent Children (TAFDC) program. This represents a reduction of \$15.2 million or 5.3 percent from FY 2007. The Senate proposal is about the same as the House proposal, but is nearly \$3 million less than the Governor requested. The reduction from FY 2007 likely results from projections of lower caseloads for FY 2008.

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

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

Job Training and Employment Services

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

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

HEALTH CARE

The Senate budget proposal funds Medicaid/MassHealth and other health care programs at a total of \$9.306 billion, a 4.2 percent increase over ongoing funding in FY 2007. The total funding recommended by the Senate does not differ significantly from the funding proposed by the House, but there are some differences in the allocation of those dollars, and there are differences in budgetary language. The Senate – like both the Governor and the House – states that its budget proposal fully funds the costs of implementing the Commonwealth’s health reform legislation.

This *Budget Monitor* total includes funding for health care from non-appropriated special trusts as well as on-budget appropriated line items supporting health

care. The non-appropriated special revenue funds are integral to the implementation of health reform, and the implementation of health reform is integral to the funding of on-budget health programs such as Medicaid/MassHealth.

FY 2007 Ongoing	\$8,930,190,795
FY 2007 Governor	\$9,254,582,321
FY 2008 House	\$9,337,260,994
FY 2008 Senate	\$9,307,173,289

Difference between House and Senate
House less Senate **\$ 30,087,705**

The analysis in this *Budget Monitor* divides health care funding totals into several sections (see detailed chart below) in order to break down the various components of the health care budget. We make various adjustments to the totals as listed in the budget, in order to make more accurate year-to-year comparisons.³

Medicaid/MassHealth

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

³ "Medicaid/MassHealth" includes the funding for the Medicare "Clawback," and now also the Healthy Start program. These "Medicaid/ MassHealth" totals also include the administrative costs associated with the Executive Office and the Office of Medicaid. The totals for "Other Health Care Programs" include the Children's Medical Security Plan program and certain health care grants. Although in previous budget proposals this total has also included the Betsy Lehman Center, the Senate budget includes that funding within the Health Promotion and Disease Prevention services within the Department of Public Health, so we do the same, and adjust our health care totals for previous budget proposals accordingly. "Health Care Reform" does not include funding directed to the Division of Insurance in FY 2007, but does include other appropriated administrative costs associated with the implementation of health care reform. The Senate budget proposal also funds some of health reform administration through a transfer from the off-budget Medical Security Trust Fund. This amount has been added in here. Funding transferred into the Uncompensated/Health Safety Net Care Pool is included in the discussion of non-appropriated health care funding.

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

Like the Governor, the Senate recommends consolidating several Medicaid/MassHealth line items. The Senate budget includes language stating that MassHealth would cover persons aging out of foster care until age 21. Currently, the Commonwealth provides MassHealth coverage to persons aging out of foster care until age 20. The Senate also increases the amounts recommended by the House earmarked for supplemental payments to specific safety net hospitals whose caseload includes a "disproportionate share" of low-income patients. The Senate recommends \$25.9 million in earmarks, \$200,000 more than in FY 2007. The House recommends \$21.7 million.

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

Health Care Programs

(in Millions of Dollars)

	FY 2008 Gov.	FY 2008 House	FY 2008 Senate
Medicaid/MassHealth	8,268.7	8,348.1	8,174.5
Pharmacy Programs	60.5	63.8	63.8
Other Appropriated Health Care Programs	15.2	15.2	16.9
Health Care Reform*	2.4	2.4	2.4
Sub-Total Appropriated Health Care	8,346.8	8,429.5	8,257.6
Medical Assistance Trust**	251.0	251.0	251.0
Essential Community Provider Trust	28.0	28.0	28.0
Commonwealth Care Trust***	628.8	628.8	770.5
Sub-Total Non-Appropriated Health Care	907.8	907.8	1,049.5
Grand Total	9,254.6	9,337.3	9,307.2

**The Senate total includes a non-appropriated amount transferred from the Medical Security Trust.*

***Although Outside Section 24 of the House budget and Outside Section 65 of the Senate budget specify that this could be as high as \$346.0 million, there is language that states that the total may only go above \$251.0 million if certain contingencies are met. For the purposes of our analysis, we include the more conservative total here.*

****The Senate seems to include certain Medicaid/MassHealth rate enhancements in its total for the transfer to the Commonwealth Care Trust.*

Other differences between the Senate and House budget proposals include:

- The House proposes \$750,000, while the Senate recommends \$3.5 million for enrollment and outreach grants, level with FY 2007 funding. These mini-grants, made available to community-based organizations, have played an important role so far in helping enroll uninsured persons in the Commonwealth's various health insurance programs. The Senate budget proposal also includes an earmark of \$200,000 within one of the MassHealth line items for a new Health Care Reform Outreach and Education Unit.
- The Senate budget includes language recommending that MassHealth develop incentives in addition to premium or copayment reductions to encourage participants to meet wellness goals.
- The Senate budget includes language requiring that the Executive Office of Health and Human Services assist persons born in Massachusetts with obtaining copies of their birth certificates for the purpose of establishing Medicaid eligibility at no cost, and also provide (as-yet unspecified) assistance for persons born outside of Massachusetts. The federal Deficit Reduction Act of 2005 requires the provision of a birth certificate as part of an application for Medicaid eligibility.
- The Senate budget includes language allowing dentists participating in the MassHealth program to limit the number of MassHealth patients in their practice. This language is intended to encourage more dentists to participate in MassHealth, thereby increasing access to

dental care. This language was also included in the FY 2007 budget.

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

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

Like the Governor and the House, the Senate brings “on-budget” a rate supplement for nursing home providers that had previously been funded through the non-budgeted Health Care Quality and Improvement Trust. The amount of this supplement remains at \$288.5 million, and is part of the Medicaid/MassHealth total.⁴ This supplement is partially paid for by an assessment on long-term care facilities. Although not included in these totals, the Senate and House budgets both provide \$655,000 for the Medicaid audit unit in the State Auditor’s Office. The Senate proposes \$2.7 million to the Medicaid Fraud Control

Unit in the State Auditor’s office, while the House budget proposes \$3.0 million for that office.

Pharmacy Programs

The Senate budget proposal recommends \$63.8 million for the Prescription Advantage program, almost the same as the House recommendation. During floor debate, the Senate changed budgetary language originally proposed by the Senate Committee on Ways and Means, so that now both House and Senate versions of the budget state that eligible persons may enroll in the Prescription Advantage program at any time during the year (rather than only during specified enrollment periods.) As in the House budget, the Senate budget includes an earmark designating \$600,000 for a pharmacy outreach program. This earmark was also included in the FY 2007 budget.

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

Other Appropriated Health Care

The Senate budget proposal funds the Children’s Medical Security Plan at \$15.2 million, the same as recommended by both the House and the Governor. Although this

⁴ In order to make accurate year-to-year comparisons, we add \$288.5 million to the FY 2007 Medicaid/MassHealth totals to include the nursing home rate supplement funded in that year out of an off-budget trust.

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

The Senate budget proposal includes language in an outside section that would amend the statute governing the program in order to ensure that children under 200 percent of the federal poverty line be exempt from premiums. The House budget recommends this protection only for FY 2008.

Health Reform

Both the House and Senate budgets allocate the same amount of money for the administration of the Commonwealth's health reform legislation. Unlike the budgets proposed by the House and the Governor, the Senate budget does not directly appropriate \$1.8 million into the Department of Workforce Development to fund the administration of the "fair share assessment" associated with health reform. Instead, the Senate recommends that the same amount of money (\$1.8 million) be transferred from the off-budget Medical Security Trust Fund into the Commonwealth Care Trust Fund (see below) to fund this. Like the House and the Governor, however, the Senate budget includes \$600,000 for a line item within the Division of Insurance designated for implementation of the "health care access bureau."

Non-Appropriated Health Funding

In addition to the funding listed above, the Senate budget recommendation includes information about non-appropriated health care funding associated with certain trust funds. These trusts receive funds transferred from the General Fund for specified

purposes, but their spending is not subject to legislative appropriation.

Specifically:

- During floor debate, the Senate amended its proposal for the amount of money to be transferred into the Medical Assistance Trust Fund, in order to pay for certain supplemental payments to MassHealth providers. The Senate increased the amount from \$251.0 million as proposed by the Senate Committee on Ways and Means to \$346.0 million, and included the contingency that this increased amount could be transferred only if the Commonwealth received the relevant approvals from the federal government. The House budget also states that the transfer amount could go as high as \$346.0 million if the Commonwealth were to receive federal approval and if certain additional contingencies were met. Because it is uncertain that the Commonwealth will be able to meet any of these contingencies, we include only the more conservative amount of \$251.0 million in our totals for both the House and Senate budgets. In FY 2007, the Commonwealth transferred \$236.0 million into this fund rather than the total of \$346.0 million that had been budgeted, in part because the Commonwealth did not receive approval for the increased amount.
- The House and Senate both recommend \$28.0 million transferred to the Essential Community Provider Trust Fund, down from \$38.0 million in FY 2007. These funds would be available in the form of grants to acute care hospitals and community health centers for care for needy populations.

- The Senate recommends transferring \$770.5 million into the Commonwealth Care Trust Fund to pay for, among other initiatives, the costs associated with subsidized health insurance premiums for the Commonwealth's health reform programs. The House recommends \$628.8 million for this transfer. It is notable, however, that the House budget includes in the Medicaid/MassHealth appropriations certain provider rate enhancements previously paid out of the Commonwealth Care Trust Fund. The Senate budget does not appear to shift these rate enhancements "on-budget" into Medicaid/MassHealth from the Commonwealth Care Trust Fund, and instead appears to pay for these rate enhancements out of this off-budget trust. The Senate budget transfer into the Commonwealth Care Trust Fund is \$141.7 million more than the amount transferred by the budget from the House. This is approximately the anticipated amount of these provider rate enhancements.

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

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

PUBLIC HEALTH

The Senate budget proposal recommends \$535.3 million for public health programs, once adjusted to account for shifting programs (see discussion of pharmacy services below). During debate, the Senate added \$2.1 million to the public health budget recommended by the Senate Committee on Ways and Means, almost all of this money earmarked for specific programs. The Governor had recommended \$547.0 million for public health, and the House proposes \$526.1 million.

The actual budget proposed by the Senate for public health is \$571.4 million, but this increase in public health funding is largely due to the re-allocation of \$45.8 million in funding from other agencies into the Department of Public Health to create a new coordinated Office for State Pharmacy Services. In order to make accurate comparisons among the various budget proposals, we exclude \$36.1 million from the total for public health, which is the \$45.8 million in total for pharmacy services less \$9.7 million of this total that corresponds to pharmacy services within the public health hospitals. With this adjustment, the Senate public health budget recommendation of \$535.3 million is 4.0 percent above FY 2007 ongoing funding, but still 14 percent below FY 2001 funding levels when adjusted for inflation.

FY 2007 Ongoing	\$514,794,185
FY 2008 Governor	\$547,036,991
FY 2008 House	\$526,081,550
FY 2008 Senate⁵	\$571,449,985
FY 2008 Senate	\$535,347,666

Difference between House and Senate
Senate less House **\$9,266,116**

There are several areas of difference between the House and Senate budget proposals for public health programming. The Senate budget proposal for public health funding includes two new line items, neither of which is included in the House budget proposal.

The Senate budget includes a new State Office for Pharmacy Services, funded at \$45.8 million. This office would be responsible for drug purchasing for all of the health and human service agencies that have significant pharmaceutical purchases. The Departments of Public Health, Mental Health, Mental Retardation and Corrections currently benefit from joint drug purchasing, managed through inter-agency service agreements with the Department of Public Health. This new budget line item would consolidate the funding for this function across the agencies, and also incorporate drug purchasing for the Soldiers' Homes, the sheriffs' offices and the Department of Youth Services. The Senate expects that this coordination will result in increased savings for the Commonwealth. Although this is a new line item, funding for it comes from money that previously was included in

⁵ This total includes the full \$45,786,520 for state pharmacy purchasing, with the dollars coming from various line items in other agencies as proposed by the Senate. For the purposes of comparisons with previous budget proposals, and in our analysis within this *Budget Monitor*, we distribute the amounts associated with pharmacy purchases back into other agencies. Our FY 2008 Senate adjusted total includes only \$9,684,201 for pharmacy services within the public health total, as this is the amount associated with pharmacy purchases within the public health hospitals.

more than a dozen line items throughout the Executive Office of Health and Human Services. In this *Budget Monitor*, we re-allocate the funding placed in this new line item to the other health and human service agencies, in order to make more accurate comparisons with other budget proposals.

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

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

As in the Governor's budget, the Senate budget proposal recommends consolidating a large number of health promotion and disease prevention line items into one coordinated program; the House budget proposal continues past years' practice of funding each program separately. Included in the consolidation are osteoporosis, prostate cancer, colorectal cancer, Hepatitis C, multiple sclerosis, renal disease, ovarian cancer, stroke, breast cancer and diabetes prevention and screening programs. The Senate also includes the Betsy Lehman Center (formerly included in our analysis under "other appropriated health care"). Combined, the House proposes a total of \$12.8 million, and the Senate proposes \$14.2 million. In FY 2007, total funding for these programs combined was \$13.5 million.

The single item with the largest dollar amount difference between the Senate and House budget proposals is in the funding for immunizations. The House proposes \$38.4 million, with funding sufficient only to cover the costs of the current vaccine program. The House proposes language requiring that the Commonwealth study the “efficacy of the rotavirus, meningococcal conjugate, and human papilloma virus vaccines upon the groups recommended for vaccination.” The Senate proposes \$48.8 million for immunizations, also fully-funding the current program, and providing funding for the rotavirus and meningococcal conjugate vaccines. The Senate budget language recommends studying the human papilloma virus vaccine, and looking into generic alternatives for that vaccine. Funding for the immunization program in FY 2007 was \$36.8 million.

The House and Senate also differ in their recommendations for funding smoking prevention programs. The House proposes \$13.3 million, and the Senate proposes \$10.0 million. Both of these proposals represent significant increases over FY 2007 funding, which was \$8.3 million. It is important to keep in mind, however, that funding for smoking prevention programs in FY 2001, after adjustment for inflation, was \$60.5 million.

Another area where the House and Senate budget proposals differ is in the substance abuse line item. The House recommends \$80.5 million, and the Senate recommends \$77.8 million.

Of the total proposed, the House earmarks \$8.8 million for specific programs, and the Senate earmarks \$12.4 million of the total. During floor debate, the Senate added \$2.2 million in earmarks to the substance abuse total as proposed by the Senate Committee on Ways and Means, but did not increase the

total amount available. The Senate earmarks \$3.0 million for 60 beds for men civilly-committed for treatment and \$1.5 million for three sobriety high schools, and added during the floor debate an earmark of \$1.5 million for pilot programs for mental health and substance abuse treatment programs in conjunction with county houses of correction. The House, on the other hand, includes \$2.0 million designated for six regional recovery centers.

Both the House and Senate budget proposals for substance abuse do not reach the funding level available in FY 2007. At the beginning of FY 2007, funding for substance abuse services was \$66.6 million. Over the course of the year, the Legislature added \$20.1 more to support these services. Neither the House nor the Senate budget proposals would continue into FY 2008 the full amount of this funding. This could put in jeopardy several new programs for young adults and adolescents funded by these supplemental dollars.

In funding teen pregnancy prevention programs, the House proposes \$3.0 million, and the Senate proposes \$3.8 million. Funding in FY 2007 was \$3.0 million. The House and Senate budget proposals also differ in language about how to handle restrictions on federal funding for sexuality education. Because the federal government may be easing its restrictions on whether certain federal funds may only be used for “abstinence-only” education, and because the House and Senate budget proposals have different language referencing the use of these federal funds for education about reproductive health, the Conference Committee budget language will need to reconcile these differences.

The Senate budget proposal funds early intervention services at \$42.7 million, \$1.0 million more than the House budget

recommendation of \$41.7 million. In describing this increase, the Senate notes increased costs associated with the program, and the increasing complexity of the cases. Funding in FY 2007 was \$38.8 million.

Other areas where the House and Senate budget proposals differ include:

- *Community Health Centers.* The House proposes a total of \$6.4 million, and the Senate proposes \$6.2 million. The Senate also does not fund the CenterCare Managed Care program separately.
- *Environmental Health Services.* The House proposes \$4.2 million, and the Senate proposes \$3.6 million. Funding in FY 2007 was \$3.5 million.
- *AIDS Prevention, Treatment and Services.* The House proposes \$36.4 million, and the Senate proposes \$36.9 million. Funding in FY 2007 was \$36.7 million.
- *Dental Health Services.* The House proposes \$1.9 million for the oral health program, and the Senate added \$750,000 during floor debate earmarked for school-based oral health programs. The total Senate budget proposal is \$2.6 million. Both of these proposals, however, are less than total funding in FY 2007, which was \$2.7 million.
- *Family Health Services.* The House proposes \$6.4 million, and the Senate added \$810,000 during floor debate for a total of \$7.2 million. Funding in FY 2007 was \$5.4 million.
- *Shaken Baby Prevention Services.* Both the House and Senate fund a new line item for a program to fund Shaken Baby Syndrome prevention programming. The House proposes \$200,000, and the Senate proposes \$350,000.
- *Community-Based Suicide Prevention.* The House proposes \$3.8 million, and the Senate proposes \$1.3 million. Funding in FY 2007 was \$1.3 million.

- *Domestic Violence Prevention.* The House proposes \$4.6 million, and the Senate proposes \$3.9 million. Funding in FY 2007 was \$3.7 million.
- *State Laboratory.* The House proposes funding at \$14.0 million, and the Senate proposes \$15.1 million. Funding in FY 2007 was \$14.7 million (including \$1.8 million recently added by an end-of-the-year supplemental funding bill.)
- *School Health Services.* Although both the House and the Senate propose almost identical funding levels (\$16.7 million), because the exact totals are not the same and because the earmark language is different, the Conference Committee will still need to reconcile the budget for these services. It is important to remember, moreover, that funding for school health services in FY 2001, when adjusted for inflation, was significantly higher at \$54.0 million.

In addition to appropriated funding, the House and Senate budget proposals differ in the language they include in “outside sections” of their budget proposals. During budget debate, the Senate added language to include the creation of a Chronic Kidney Disease Task Force. The House also recommends the creation of such a task force to provide information to health professionals on the benefits of early screening for and diagnosis and treatment of chronic kidney disease.

The Senate budget also includes a recommendation for the establishment of a commission to study access to obstetric, gynecological and neurological care for women in western Massachusetts. The House budget does not include this language.

MENTAL HEALTH

Under its budget proposal, the Senate provides about \$2.3 million more in funding for the Department of Mental Health than the House. The House proposes \$665.1 million for the Department compared to \$667.4 million in the Senate proposal. Both legislative proposals are higher than the Governor's recommended \$664.0 million.

Relative to FY 2007, the Senate proposal would nominally increase funding by \$12.6 million or 1.9 percent. Because the FY 2007 total does not include the amount of the FY 2007 human services rate reserve that went to the Department of Mental Health, the actual growth in funding for the Department would be less than 1.9 percent and is probably not sufficient to keep pace with inflation.

FY 2007 Ongoing	\$646,529,706
FY 2008 Governor	\$664,037,326
FY 2008 House	\$665,148,921
FY 2008 Senate ⁶	\$667,407,065

Difference between House and Senate
Senate less House **\$2,258,144**

No floor amendments adopted during Senate debate affected funding for the Department of Mental Health, and the House and Senate provide the same level of funding for most line items in the Department's budget. In two cases there are apparent differences that simply reflect different decisions about how to fund particular line items.

⁶ The Senate total includes \$8,286,566 in funding for pharmacy services that is funded in the State Office for Pharmacy Services of the Department of Public Health. The Senate budget shifts the funding for pharmacy services for those in state psychiatric hospitals to the Department of Public Health, reducing line item 5095-0015 in the Department of Mental Health accordingly. In order to accurately compare the Senate proposal with others, we have added this funding back into the Department of Mental Health total.



First, the House consolidates a line item reflecting retained revenue for continuing care into the line item for emergency services and acute inpatient care, while the Senate retains the two separate items. The level of funding across the two items is the same in both budget proposals.

Second, the Senate proposal shifts costs for pharmacy services provided to those in the state's care (across many departments) to a new State Office for Pharmacy Services at the Department of Public Health. This reduces the amount of funding for state psychiatric hospitals in the Senate budget. However, if the Department of Mental Health funding shifted to the Department of Public Health for pharmacy services is included in the total, the House and Senate provide the same level of funding for state psychiatric hospitals, about \$171.5 million.

The Senate proposal includes about \$1.1 million more funding for adult mental health services than the House budget, though this is only a 0.3 percent difference.

While the House budget provides \$6.8 million for forensic services for the mentally ill, the Senate provides \$8.0 million. The Governor had recommended \$7.3 million.

MENTAL RETARDATION

For FY 2008, the Senate budget provides \$1.225 billion for the Department of Mental Retardation, compared to \$1.228 billion in the House budget. The Governor had proposed \$1.216 billion for the Department. The Department's funding would increase by between 4.0 and 4.3 percent depending on whether it is funded at the House or Senate level. However, the actual increase is smaller because some portion of the \$28 million FY 2007 human services rate reserve

would have added to the Department's total funding for the fiscal year.

Total ongoing appropriations for FY 2007 recently increased with an additional \$1.6 million appropriated for state facilities for the mentally retarded in a supplemental budget approved in mid-May (Chapter 42 of 2007).

FY 2007 Ongoing	\$1,177,512,531
FY 2008 Governor	\$1,215,833,577
FY 2008 House	\$1,228,179,128
FY 2008 Senate ⁷	\$1,224,861,406

Difference between House and Senate
House less Senate **\$3,317,722**

During floor debate in the Senate, an amendment was approved adding \$200,000 in funding for the Department's Autism Division.

While the Governor and House propose consolidating two line items into a single new item for Departmental administration, the Senate retains two distinct line items for administration and community support services. Combined, the Senate provides \$71.6 million for Departmental administration compared to \$73.3 million in the House proposal.

The House also provides more funding for community residential supports for the intellectually impaired and disabled, \$549.2 million compared to \$547.2 million in the Senate budget.

While funding for pharmacy services for those in state facilities is shifted to the

⁷ The Senate total includes \$6,361,394 in funding for pharmacy services that is funded in the State Office for Pharmacy Services of the Department of Public Health. The Senate budget shifts the funding for pharmacy services for those in state facilities to the Department of Public Health, reducing line item 5930-1000 in the Department of Mental Retardation accordingly. In order to accurately compare the Senate proposal with others, we have added this funding back into the Department of Mental Retardation total.



Department of Public Health in the Senate proposal, when taking this into account the House and Senate provide the same level of funding for state facilities for the mentally retarded.

The Senate provides about \$600,000 more funding for community-based day and work programs, at \$122.6 million compared to \$122.0 million in the House proposal.

The Senate also proposes more funding for the Department's Turning 22 program than the House. The Senate proposal offers \$7.7 million in funding compared to \$7.5 million in the House plan. The Turning 22 program provides services to individuals transitioning from services for children to those for adults.

SOCIAL SERVICES

In its FY 2008 budget proposal, the Senate provides \$2.9 million more for the Department of Social Services than the House. While the Governor requested \$790.3 million in funding, the House recommends \$795.3 million and the Senate recommends \$798.2 million. The Senate proposal increases funding by \$12.8 million or 1.6 percent over FY 2007 ongoing levels. Though most of the Department's costs are driven by caseload, this increase is not likely sufficient to maintain services at the same level as in FY 2007. Furthermore, because some portion of the FY 2007 human services rate reserve goes to the Department, actual FY 2007 spending will be higher than the total reflected here.

In mid-May a supplemental budget was passed and approved by the Governor that added \$15.6 million for the Department of Social Services' two core line items for

services. This increase to FY 2007 appropriations significantly reduced what had previously appeared to be a better than 3 percent increase in funding between FY 2007 and FY 2008.

FY 2007 Ongoing	\$785,454,777
FY 2008 Governor	\$790,253,582
FY 2008 House	\$795,299,060
FY 2008 Senate	\$798,243,093

<i>Difference between House and Senate</i>	
Senate less House	\$2,944,033

During Senate floor debate two amendments were adopted that changed funding levels for the Department of Social Services. One amendment adds new earmarks and increases other earmarks, thereby boosting funding for services to children and families by \$540,000. A second amendment was intended to increase funding for services to those facing domestic violence by \$537,000. A typographical error results in a much larger increase appearing in the final Senate budget document, but because this error is likely to be corrected during the Conference Committee, our analysis only includes the intended \$537,000 increase. This boosts an earmark for the YWCA battered women’s shelter in Springfield to \$1,037,000.

The Senate provides \$78.0 million for the Department’s administration, \$1 million less than is included in the proposals of the House and Governor. While the House budget includes language requiring the Department to provide medical and mental health evaluations for children in the Department’s care, the Senate budget earmarks \$1 million for the hiring of medical and psychiatric staff to work with case managers.

The Senate budget breaks the Department’s two core service accounts into five line items, while the House proposals retains the

two line item structure from the FY 2007 budget. Combining the Department’s core services accounts (services to children and families as well as group care services), the Senate provides \$541.4 million compared to \$538.9 million in the House proposal. Both proposals exceed the \$534.4 million requested by the Governor.

Finally, the Senate provides \$22.6 million in funding for services to those experiencing or at-risk of experiencing domestic violence. The House proposal includes \$21.3 million for this purpose.

ELDER AFFAIRS

The Senate budget proposal recommends \$230.5 million for elder services programs. During debate, the Senate only added \$360,000 million in funding for local elder services programs (the senior lunch program). The Governor had recommended \$227.0 million for elder services, and the House proposes \$230.0 million. (For a discussion of the MassHealth senior care programs, nursing home rates, and the pharmacy programs, see the “Health Care” section of this *Budget Monitor*.)

FY 2007 Ongoing	\$223,061,057
FY 2008 Governor	\$227,024,995
FY 2008 House	\$229,997,893
FY 2008 Senate	\$230,546,232

<i>Difference between House and Senate</i>	
Senate less House	\$548,339

Unlike the Governor, neither the House nor the Senate recommends consolidating accounts within the department of elder affairs. Areas where the two budget proposals differ include:

- *Elder Enhanced Community Options.* The House proposes \$44.9 million, and

the Senate proposes \$2.5 million more for a total of \$47.4 million. Funding in FY 2007 was \$43.3 million.

- *Elder Protective Services Program.* The House proposes \$14.5 million, and the Senate proposes \$15.0 million. Both the House and Senate recommend continuing the designation of \$800,000 of these dollars for a money management program. Funding in FY 2007 for protective services was \$14.0 million.
- *Geriatric Mental Health.* The House proposes continuing this program new last year with \$425,000. The Senate does not recommend separate funding for this program. Funding in FY 2007 was \$350,000.
- *Family Caregivers Program.* The House recommends level-funding this new program at \$500,000. The Senate does not recommend separate funding for this program.
- *Congregate Housing.* The House proposes \$2.9 million, and the Senate proposes \$2.0 million. Funding in FY 2007 was \$2.0 million.
- *Elder Homelessness.* The House recommends \$300,000 for the elder homelessness residential assistance program. The Senate recommends \$350,000. Funding in FY 2007 was \$250,000
- *Local Elder Services.* The House recommends \$5.9 million for the local elder lunch programs, and during floor debate the Senate added \$360,000 to their recommendation for a total of \$6.3 million. Funding in FY 2007 was \$5.6 million.

OTHER HUMAN SERVICES

The Senate proposes a total of \$619.7 million for all other human services programs, \$3.0 million more than the House approved. The Governor recommended \$599.4 million for other human services programs. Depending on which legislative proposal is adopted, funding for other human services will increase by between \$8.3 million and \$11.3 million over the FY 2007 level.

The FY 2007 ongoing appropriation total increased by about \$1.2 million with the passage of a supplemental budget in mid-May (Chapter 42 of 2007) that added \$1.1 million to pay for veteran’s benefits and \$100,000 in emergency funding for an emergency homeless shelter in the state.

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

FY 2007 Ongoing	\$608,377,788
FY 2008 Governor	\$599,431,450
FY 2008 House	\$616,681,259
FY 2008 Senate ⁸	\$619,723,121

Difference between House and Senate
Senate less House **\$3,041,862**

⁸ The Senate total includes \$1,599,944 in funding for pharmacy services that is funded in the State Office for Pharmacy Services of the Department of Public Health. In order to accurately compare the Senate proposal with others, we have added this funding back into the other human services total.

A number of amendments were adopted during the Senate's floor debate that boosted funding for programs under other human services. Most notably, the Senate boosted funding for the human services rate reserve by \$3 million, a 15 percent increase over the \$20 million proposed by the Senate Ways and Means Committee. The Senate also increased funding by \$15,000 for the administration of the Veterans' Affairs office; by \$785,000 for grants to agencies serving at-risk youth; by \$30,000 for vocational rehabilitation for the blind; and by \$209,800 for homelessness assistance to individuals. Most of these increases pay for additional or increased earmarks. For example, the \$15,000 increase for the Office of Veterans' Affairs increases funding for the state Vietnam veterans memorial from \$10,000 to \$25,000.

Overall the House provides \$89.9 million for services to veterans – including both the Veterans' Affairs office and the state's two soldiers' homes – and the Senate provides \$89.3 million. The difference results primarily from the House budget providing about \$800,000 more for the state's soldiers' homes than the Senate. Both proposals exceed the Governor's recommendation of \$84.3 million for veterans' services.

The Senate provides slightly more funding for the Department of Youth Services than the House at \$160.1 million compared to \$159.7 million. This is a result of the Senate providing about \$122,000 more for the Department's administration and about \$182,000 more for services to the non-residential committed population.

Similarly, the Senate (\$254.6 million) provides slightly more funding than the House (\$254.0 million) for the administration of the Department of Transitional Assistance. However, this is the net effect of the Senate providing more

in some areas and less in others. The Senate proposal includes \$412,000 more for assistance to homeless individuals, \$600,000 more for the Housing First initiative, and \$123,000 more for the Department's administration; while the House provides \$533,000 more for emergency shelter services for homeless families.

Funding levels for the Massachusetts Commission for the Blind and the Massachusetts Rehabilitation Commission are basically the same in the House and Senate budgets.

Grants provided to the state's YMCA's and Boys & Girls Clubs, to fund programs for at-risk youth, are funded at \$5.5 million in the Senate budget and \$5.1 million in the House plan.

Finally, the Senate proposes \$1 million in funding for the Health Care Quality and Cost Council, while the House proposes \$800,000. In addition, the Senate proposal places the funding under the Executive Office of Health and Human Services while the House funds the Council under the Division of Health Care Finance and Policy.

Human Services Rate Reserve

Part of total spending for other human services in the FY 2008 budget is the human services rate reserve account. The House proposes \$20 million in funding to provide wage increases to low-wage human service workers. While the Senate Ways and Means Committee also proposed \$20 million, an amendment adopted during the Senate floor debate boosted the proposal to \$23 million. The Governor proposed funding this reserve at \$12 million. Funding the reserve at \$23 million would be a \$5 million decline from the FY 2007 level.

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

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

ENVIRONMENTAL AFFAIRS

The Senate budget provides \$208.8 million for environmental affairs programs, compared to \$214.9 million in the House proposal. The Senate proposal is about \$100,000 more than was provided in FY 2007 ongoing funding. The Governor's budget proposal for environmental affairs was between these two at \$211.7 million. Regardless of whether the House or Senate amount is ultimately adopted, environmental affairs spending in FY 2008, after adjusting for inflation, will be more than 25 percent below the FY 2001 funding level.

A supplemental budget passed in May provided \$581,000 for parkways' street lighting, increasing FY 2007 total appropriations for environmental affairs by that amount.

FY 2007 Ongoing	\$208,710,677
FY 2008 Governor	\$211,654,688
FY 2008 House	\$214,890,557
FY 2008 Senate	\$208,828,361

<i>Difference between House and Senate</i>	
House less Senate	\$6,062,196

During floor debate in the Senate, a number of amendments were adopted that added funding to various environmental affairs line items, increasing total environmental affairs funding by \$3.1 million. Most of these additions were the result of earmarks added for particular projects. Among the amendments are earmarks adding \$1.1 million for beach preservation, \$553,000 for the administration of the Department of Conservation and Recreation, \$524,000 for the administration of the Executive Office of Environmental Affairs, \$325,000 for urban parks operations, and \$250,000 for the Department of Agricultural Resources.

Across much of the environmental affairs budget, the House and Senate proposals are in agreement. There are some differences, however, in both administration of environmental management programs and in parks and recreation programs.

Though the proposals of the Senate and House apportion the funding differently between the two line items, both budgets provide comparable funding for the administrative accounts of the Executive Office of Environmental Affairs and the Department of Environmental Protection. The Senate provides \$41.4 million compared to the House budget of \$41.3 million.

The Senate proposal matches the Governor in proposing \$5.0 million for the Division of Marine Fisheries, compared to \$4.1 million in the House plan.

While the House provides \$2.3 million for watershed management, nearly \$1 million more than the Governor proposed, the Senate proposes \$2.0 million.

In the area of parks and recreation, the House budget provides greater funding than the Senate for Department of Conservation and Recreation beaches, state parks, and urban parks. The House proposes \$5.2 million, \$23.3 million, and \$29.1 million respectively for these programs, compared to \$3.9 million, \$22.3 million, and \$26.8 million respectively in the Senate budget.

Finally, during FY 2007 funding for the Massachusetts Emergency Food Assistance Program (MEFAP), which provides funds for local food banks to purchase food, was boosted to \$12 million. The Governor proposed maintaining this level of funding in FY 2008; however, the House proposes \$10 million in funding and the Senate \$10.5 million.

ECONOMIC DEVELOPMENT

The Senate budget proposes \$168.8 million for economic development activities, compared to \$185.9 million in the House plan. The proposed line item appropriations for economic development are only different by about \$6 million, but both budgets make use of transfers of General Fund monies to other funds for economic development purposes and this accounts for about \$11 million of the difference between the House and Senate proposals. The Governor proposed \$154.2 million in funding for economic development. About \$168.2 million was provided in ongoing economic development funding in FY 2007.

Therefore, the House proposal represents an increase of about \$17.7 million and the Senate proposal is an increase of about \$600,000.

Of \$8.5 million appropriated in the FY 2007 budget to provide summer jobs for at-risk youth, a supplemental budget passed in mid-May continues \$4.4 million of the funding into FY 2008. This has the effect of reducing total FY 2007 appropriations for economic development by \$4.4 million (as the funds are now a part of FY 2008 appropriations).

FY 2007 Ongoing ⁹	\$168,190,968
FY 2008 Governor	\$154,173,703
FY 2008 House ¹⁰	\$185,931,748
FY 2008 Senate ¹¹	\$168,766,089

Difference between House and Senate
House less Senate **\$17,165,659**

Amendments adopted during the Senate's floor debate add about \$3.6 million to total appropriations for economic development. Of this total, funding for the Massachusetts Office of Travel and Tourism is increased by \$3.1 million as a result of earmarks. Funding for workforce development grants, again as a result of earmarks, increases by \$380,000.

While the House budget includes funding for a new Executive Office of Energy Affairs, consistent with a comprehensive energy plan currently being considered in committee, the Senate funds these functions through the line items reflecting the existing

⁹ The FY 2007 ongoing total was reduced by \$4.4 million in the Chapter 42 supplemental budget because \$4.4 million of a total of \$8.5 million appropriated to fund summer jobs for at-risk youth was continued to FY 2008.

¹⁰ The House total for FY 2008 includes \$14 million in off-budget transfers. First, \$10 million would be transferred from the General Fund to the Cultural Facilities Trust Fund. Second, \$4 million would be transferred to the Massachusetts STEM grant fund which provides grants to programs and projects intended to increase the number of Massachusetts students pursuing science, technology, engineering, or mathematics degrees and careers.

¹¹ The Senate total for FY 2008 includes a \$3.75 million off-budget transfer to the new Commonwealth Covenant Fund which provides loan repayment for graduates of Massachusetts public colleges and universities with degrees and careers in the sciences, technology, engineering, or mathematics (STEM).

structure. Similarly, the Governor and House fund a new Division of Labor Relations, while the Senate provides funding under the existing Labor Relations Commission structure. In both cases it is the structure of funding rather than the funding level that will need to be resolved in the Conference Committee.

The House and Senate provide for different off-budget transfer to fund other economic development activities. The House transfers \$10 million to the Massachusetts Cultural Facilities Fund and \$4 million to the Massachusetts STEM Grant Fund. The former provides grants to various cultural and tourist attractions around the state, while the latter provides grants to regional collaborations that are focusing on increasing the number of Massachusetts students pursuing higher degrees and careers in science, technology, engineering, and mathematics (STEM). The Senate does not include either of these transfers in its budget, but instead creates the Commonwealth Covenant Trust Fund and transfers \$3.75 million from the General Fund. The Covenant Trust Fund would provide student loan repayment for graduates of public higher education institutions in Massachusetts who pursue a career in a STEM field in Massachusetts.

In both budget proposals, the line item for the Massachusetts Office of Travel and Tourism contains numerous earmarks to fund particular programs and projects. The House budget includes \$24.6 million for the Office compared to \$20.4 million in the Senate proposal. In contrast, the Governor's proposal eliminated most earmarks and provided \$14.7 million in funding.

Other differences between the House and Senate proposals include the following.

- The House provides \$6.0 million for summer jobs for at-risk youth, compared to \$6.7 million in the Senate proposal. In addition, \$4.4 million in FY 2007 appropriations for this program are continued into FY 2008.
- The Senate and Governor propose level-funding for career ladders for long-term care occupations at \$1.5 million, while the House budget eliminates this program.
- One-stop career centers are funded at \$6 million in the House budget, compared to \$5.0 million in the Senate plan.
- While the House budget eliminates a line item for the Massachusetts Manufacturing Extension Partnership, the Senate provides \$1.0 million in funding.
- The House joins the Governor in funding an Office for Small Business and Entrepreneurship though providing less funding (\$1.5 million compared to \$2.3 million), but the Senate does not include funding for this Office.

Dedicating Surpluses to Economic Development

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

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

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

The House does not include this proposal in its budget.

HOUSING

The Senate and House propose nearly the same level of funding for housing and community development activities, with \$127.3 million in the House proposal and \$126.8 million in the Senate plan. Both proposals are higher than the Governor's recommendation of \$124.9 million. The House proposal is about \$2.5 million more than the level of funding provided in FY 2007, while the Senate provides about \$2.0 million more.

FY 2007 Ongoing	\$124,842,388
FY 2008 Governor	\$124,920,361
FY 2008 House	\$127,309,737
FY 2008 Senate	\$126,793,824

Difference between House and Senate
House less Senate **\$515,913**

Four amendments adopted during the Senate floor debate increase funding for housing and community development by about \$875,000. More than half of this increase results from an amendment adding earmarks and boosting funding for the administration of the Department of Housing and Community Development by \$500,000. An amendment adopted also increases funding for individual development accounts to \$600,000, matching the funding level in the House budget.

There are only three housing and community development line items where the House and Senate produced different funding levels as follows.

- The House provides \$9.9 million of the administration of the Department of Housing and Community Development compared to \$9.0 million in the Senate proposal and \$8.0 million recommended by the Governor. The difference with the Governor largely results from the inclusion of earmarks in the House and Senate plans.
- The budgets of the Governor and House provide \$5 million for the Home Ownership Affordable Housing Opportunity program, while the Senate boosts this to \$5.75 million.
- While the House and Governor provide \$60.0 million subsidies to public housing authorities, the Senate provides \$60.1 million.

PUBLIC SAFETY & CORRECTIONS

Under its budget proposal, the Senate provides about \$4.9 million less for public safety and corrections than the House. The House proposal, at \$1.467 billion, is about the same as the Governor recommended, while the Senate proposal is lower at \$1.462 billion.

In May a supplemental budget was approved (Chapter 42 of 2007) that increased FY 2007 ongoing funding for public safety and corrections by \$23.7 million. Most of this, \$21.9 million, funds increased costs for corrections facility operations at the state and county levels. Previously, the House and Senate budget recommendations appeared to increase funding by as much as \$34 million over FY 2007 levels. With the approval of the FY 2007 supplemental, the House and Senate proposals increase funding for public safety and corrections by \$10.7 million and \$5.7 million respectively.

FY 2007 Ongoing	\$1,456,328,546
FY 2008 Governor	\$1,466,529,180
FY 2008 House	\$1,466,953,444
FY 2008 Senate ¹²	\$1,462,018,572

Difference between House and Senate
House less Senate **\$4,934,872**

Amendments adopted during the Senate's floor debate increase funding for public safety and corrections by about \$10.0 million. These increases include an additional \$2.3 million for earmarks under the Department of Fire Services, \$2.1 million for the state's various sheriff's

¹² The Senate total includes \$19,854,415 in funding for pharmacy services that is funded in the State Office for Pharmacy Services of the Department of Public Health. The Senate budget shifts the funding for pharmacy services for the incarcerated to the Department of Public Health, reducing the various corrections line items accordingly. In order to accurately compare the Senate proposal with others, we have added this funding back into the Public Safety & Corrections total.

departments, and \$1.9 million for county correctional facility operations.

Amendments adopted also add two new line items. First, a line item is added for a Berkshire Juvenile Resource Center under the Berkshire Sheriff's Department that is funded at \$1.1 million. Second, a retained revenue item is established for the Hampshire Sheriff's Department to retain \$900,000 in revenue from running a regional lockup.

The Senate budget shifts \$19.9 million in costs for pharmacy services for those in state custody to the State Office for Pharmacy Services at the Department of Public Health. Adding these funds back into the corrections total, the Senate provides \$947.8 million for corrections services at the county and state level. The House provides \$942.7 million for corrections. Both legislative proposals are below the \$952.9 million recommended by the Governor. The Senate proposal represents a \$13.1 million or 1.4 percent increase over FY 2007 ongoing appropriations. Given expected increases in utility costs and costs for inmate health care, it is unclear whether proposed levels of funding for FY 2008 will be sufficient.

The most significant differences between the public safety budgets of the House and Senate are in funding for local law enforcement. The House provides \$21.4 million for community policing and \$13.5 million for the Charles E. Shannon initiative to prevent gang violence, \$34.9 million total. The Senate proposes the same \$21.4 million for community policing and \$4 million for grants to municipalities to hire new police officers.

While the Senate does not include the Shannon anti-gang initiative in its budget, Chapter 42 of 2007, the recent supplemental budget, allocates \$11 million for the

Shannon program and continues the authorization through FY 2008. Because this supplemental funds the Shannon program for FY 2008, the Senate excludes the program from its budget. The Governor, in signing the supplemental budget, has given his approval of the Shannon program.

The Governor's budget eliminated community policing funding and included funds for 250 new police officers. The \$4 million in the Senate proposal would fund 50 new officers. In addition, the May supplemental budget also includes \$4 million for hiring of new police officers. The Conference Committee will determine if the \$4 million in the supplemental replaces or augments the funding in the Senate proposal.

While the House provides \$2.5 million for fire safety grants and \$1.5 million for the SAFE fire prevention education program, the Senate does not fund fire safety grants and provides \$1.1 million for the SAFE program.

The Criminal History Systems Board, which the Governor has discussed reforming, is funded at \$6.4 million in the House budget and \$5.7 million in the Senate proposal.

The Massachusetts State Police are funded at \$281.4 million and \$281.5 million in the House and Senate proposals respectively. Both proposals are about \$5 million more than the \$276.5 million proposed by the Governor.

JUDICIARY

The Senate provides \$767.6 million for the judiciary, compared to \$764.9 million in the House budget and \$745.0 million recommended by the Governor. All three budget proposals reflect reductions in

funding compared to FY 2007 ongoing appropriations.

FY 2007 appropriations increased by about \$8.2 million with the passage of a supplemental budget in May (Chapter 42 of 2007). This supplemental increased, among other smaller items, appropriations for indigent clients' court costs by \$4.1 million and for court security costs by \$3.6 million. Before this supplemental budget was approved, the FY 2008 proposals of both the House and Senate would have been increases over FY 2007.

FY 2007 Ongoing	\$770,551,025
FY 2008 Governor	\$744,978,295
FY 2008 House	\$764,939,675
FY 2008 Senate	\$767,563,673

<i>Difference between House and Senate</i>	
Senate less House	\$2,623,998

Amendments adopted during the Senate's floor debate increased funding for the Massachusetts Legal Assistance Corporation by \$200,000 and boosted funding for additional expenses of the trial courts by \$1.5 million.

The Senate provides slightly more funding for the Supreme Judicial Court, \$50,000, and the Appeals Court, \$421,000 than the House. In the case of the trial court system, the Senate proposes \$577.2 million in funding compared to \$574.9 million in the House proposal. In addition, the Senate funds a single line item for each of the various types of trial court (superior, district, housing, etc.), while the House funds each court in the state with a separate line item.

The House budget includes \$169.0 million for the various programs providing legal services to indigent clients, slightly higher than the \$168.9 million in the Senate budget

and significantly higher than the Governor’s \$163.4 million recommendation.

Finally, the House provides \$157.4 million for probation related activities compared to \$155.4 million in the Senate plan.

GROUP INSURANCE

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

FY 2007 Ongoing	\$1,056,581,827
FY 2008 Governor	\$1,183,509,840
FY 2008 House	\$1,178,260,698
FY 2008 Senate ¹³	\$1,174,689,284

***Difference between House and Senate
House less Senate*** **\$3,571,414**

Making an apples-to-apples comparison of FY 2007 and FY 2008 spending is somewhat complicated because of four

¹³ The FY 2008 total includes funding shifted from the General Fund to an off-budget account, the State Retiree Benefits Trust Fund. As we explain under the heading “State Retiree Benefit Trust,” this fund is established to meet liabilities of the state retirement system for health care and other non-pension benefits for retired state employees. House 1, the House budget, and the Senate proposal make off-budget transfers to this fund to pay for health insurance for currently retired employees. Because this cost was previously paid from the GIC line items we include this off-budget funding in our totals to allow year-to-year comparisons. The difference between the amount transferred in the Senate budget and in House 1 appears to be the result of the Senate having access to more recent information regarding the share of GIC spending that is attributable to retired employees than was available at the time House 1 was prepared.

technical issues. The table on the following page summarizes these issues. Once we account for these four technical issues, the growth in GIC spending under the Senate proposal is \$38 million or 3.5 percent. The House proposed an increase of \$42 million or 3.7 percent.

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

this expected reversion, FY 2007 spending is projected to be \$20 million below the original appropriation level. In implementing 9(c) cuts, Governor Romney reported that GIC spending in FY 2007 was expected to be \$30 million less than the amount appropriated. If Governor Romney's 9(c) reversion estimate proves accurate, FY 2007 spending would be an additional \$10 million below the budgeted number.

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

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

State Retiree Benefit Trust

In response to a change in accounting rules, the budgets of the Governor, the House, and the Senate establish a new fund to begin to set aside money for future retiree health care costs. In 2004, the Governmental Accounting Standards Board (GASB) issued Statement 45, which mandates that governments begin to measure their unfunded obligations for retiree health care benefits. While GASB 45 does not require contributions to a savings account, the disclosure requirement creates an incentive for governments to do so. A growing obligation in a government's balance sheet, with no plan to begin funding it, is damaging to its credit quality.

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

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

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

REVENUE

On January 16, 2007, the Secretary of Administration and Finance and the Chairpersons of the House and Senate Ways and Means Committees announced the official tax revenue estimate for FY 2008. They projected that tax revenue would total \$19.300 billion in FY 2007; this was an increase of \$168 million over the projection provided by the Secretary of Administration and Finance on October 24, 2006 (of \$19.132 billion). They further projected that baseline tax revenue would grow by 3 percent to reach \$19.879 billion in FY 2008.

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

With the release of May tax revenue numbers, FY 2007 tax collections, through 11 months, are \$243 million above the benchmark based on the \$19.3 billion revenue estimate. This means, if June tax collections meet the benchmark for the month, final FY 2007 tax revenue will be \$19.543 billion (or \$243 million above the projection). While the FY 2007 budget currently uses one-time revenue to pay for ongoing expenses, if revenues continue to come in significantly above projections this structural gap could be reduced or eliminated.

A higher collections total in FY 2007 could also mean that tax revenues for FY 2008 will be higher than the level of the consensus revenue estimate. This is not certain, however, as the higher revenues in FY 2007 may be a result of increased capital

gains tax collections. Higher capital gains income in one year does not always mean such income will be realized again in the next year.

The Senate and House adopt two additional revenue strategies for FY 2008: new debt issuance policies ("Bond-Ahead") and the use of reserves.

Enhanced Cash Management ("Bond-Ahead")

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

Use of Reserve Funds

The Senate's budget proposal relies on the use of \$375 million in reserve funds to balance the budget, while the House proposal uses \$550 million in reserve funds. Both proposals draw \$150 million from the Health Care Security Trust Fund and \$75 million in interest earned on the state Stabilization Fund. In addition, the Senate transfers \$150 million more from the Stabilization Fund, while the House transfers \$325 million more from the Stabilization Fund. The Governor proposed a \$50 million transfer from the Health Care Security Trust Fund and the use of \$75 million in Stabilization Fund interest, resulting in the use of \$125 million in one-time reserves.

During periods of economic expansion it is prudent for state governments to spend less than they take in and to deposit the resulting

surpluses into reserves so that basic services can be maintained during future recessions. By operating with structural deficits when the economy is not in a recession, a state risks eating away at reserves that will likely be urgently needed during the next recession.

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

Finally, all three budget proposals transfer interest earned on the Health Care Security Trust Fund into the General Fund. The Senate transfers 50 percent of the interest earned throughout the year, about \$22 million. The House transfers 100 percent of the interest earned throughout the year, \$44 million.

Taken together, one-time fund transfers, suspension of the Stabilization Fund deposit of \$100 million, and the transfer of interest earned on the Health Care Security Trust Fund, the Senate and House budgets rely on about \$497 million and about \$694 million respectively in temporary solutions to balance the budget. This creates a structural gap of that amount that will need to be closed in future years through either new revenues or new spending cuts.

BALANCE

The balance sheet at the end of this report seeks to identify all revenues relied on and expenditures made in the budget proposals of the Governor, the House, and the Senate. The largest difference between this balance sheet and the spending and revenue numbers historically and presently found in the state

budget is the treatment of transfers. The state budget obscures total spending and revenue because transfers into and out of the General Fund are added together into a net revenue number called Consolidated Transfers. For example, in the Senate budget, the Consolidated Transfers line is reported as \$589.2 million in revenue. However, this number includes \$1,016 million in lottery revenues as well as other positive revenues. The lower number results from the subtraction of transfers out of the General Fund. In reality, transfers out of the General Fund are spending, but in the budget each year they are shown as negative revenues.

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

The major transfers into the General Fund are lottery and tobacco settlement proceeds. Other smaller transfers into the General Fund include payments for independent state authorities to cover the cost of their employees' fringe benefits that are funded through the Group Insurance Commission; revenues generated through the state's abandoned property initiative; and, the transfer of interest earned on the Health Care Security Trust Fund.

The Senate and House also provide respectively for \$375 million and \$550 million in transfers from the state Stabilization Fund and the Health Care Security Trust Fund. The Governor's budget included \$125 million in such transfers.

In addition, departmental revenues and Federal grant and reimbursement revenues

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

There are two kinds of transfers out of the General Fund that we treat as components of total spending. First, there are legislatively-mandated transfers of fixed portions of revenue, prior to the budget process, for the state pension fund, the school building assistance fund, and the Massachusetts Bay Transit Authority. These are labeled "Pre-Budget Transfers" in our balance sheet.

Second, a number of transfers from the General Fund to other state funds are mandated in the outside sections that accompany each budget proposal. The majority of these transfers are related to health care provision or state retiree health benefits, but there are also fund transfers in the House and Senate budgets for various economic development purposes. In our balance sheet these transfers are included in the total for their category (though the Budget by Program Area chart at the end of this report distinguishes between appropriations and transfers in each category).

One transfer out of the General Fund requiring additional explanation is a transfer to the newly created State Retiree Benefits Trust. Historically, funding to cover the health insurance costs of state retirees has been appropriated in the budget along with funding for the costs of current employees.

Beginning in FY 2008, Group Insurance costs for retirees will be funded through a transfer from the General Fund rather than through a line-item appropriation. Therefore, Group Insurance spending in FY 2008 includes an appropriated amount for current employees and a General Fund transfer for retirees.

Another issue related to the balance of each budget proposal is the inclusion, in the Governor's budget proposal, of a \$50 million line item setting aside funds to pay the costs of new collective bargaining agreements negotiated during FY 2008. The House and Senate do not set aside funding for this purpose. Because a number of collective bargaining agreements are up for negotiation in FY 2008, there will inevitably be cost increases related to these agreements during the fiscal year. Under the proposals of the House and Senate, the first dollar of new spending required under collective bargaining will necessitate a supplemental budget. The Governor's proposal, on the other hand, already sets aside funds for the first \$50 million of new costs. Because the House and Senate do not budget for these costs, their budgets are able to achieve balance with higher levels of spending across many other areas of the budget; however, as new collective bargaining agreements are negotiated in FY 2008 the additional costs could grow the size of the state's structural budget gap.

Finally, because FY 2007 tax revenues are, as of May, about \$243 million ahead of benchmarks, it is possible that there will be more tax revenue available in FY 2008 than the consensus revenue estimate projected. While it is uncertain whether higher revenues in FY 2007 will lead to higher revenues in the following year, if they do it would reduce the size of any structural gap in the FY 2008 budget.

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

Budget Balance (in Millions of Dollars)			
Category	Governor FY08	House FY08	Senate FY08
Tax Revenue Total	20,169.0	19,879.0	19,879.0
Tax revenue	19,879.0	19,879.0	19,879.0
Tax law changes ¹	290.0	0.0	0.0
Departmental Revenues Total	2,304.1	2,317.3	2,330.1
Departmental revenues ²	2,304.1	2,317.3	2,330.1
Transfers into the General Fund Total	1,944.7	1,927.7	1,905.7
Lottery revenues	1,016.0	1,016.0	1,016.0
Tobacco settlement revenues	219.0	219.0	219.0
Other transfers into the General Fund ³	709.7	692.7	670.7
Federal Grants & Reimbursements Total	6,240.3	6,258.6	6,426.6
Federal grants and reimbursements ²	6,240.3	6,258.6	6,426.6
One-time Revenues	125.0	550.0	375.0
Transfer from the Stabilization Fund	75.0	400.0	225.0
Transfer from the Health Care Security Trust	50.0	150.0	150.0
Total Revenue	30,783.1	30,932.6	30,916.4
Budgeted Spending			
Local Aid - Lottery	935.0	935.0	935.0
Local Aid - Additional Assistance & PILOT	410.1	410.3	410.1
Local Education Aid (Chapter 70)	3,705.5	3,725.7	3,725.7
K-12 Education (non-Chapter 70)	552.5	574.1	573.2
Higher Education	1,038.0	1,055.0	1,051.5
Early Education and Care	509.9	538.0	534.0
Income Support Programs	601.8	598.9	598.8
Health Care Programs	9,254.6	9,337.3	9,307.2
Public Health	547.0	526.1	535.3
Mental Health	664.0	665.1	667.4
Mental Retardation	1,215.8	1,228.2	1,224.9
Social Services	790.3	795.3	798.2
Elder Affairs	227.0	230.0	230.5
Other Health & Human Services	599.4	616.7	619.7
Environmental Affairs	211.7	214.9	208.8
Housing & Community Development	124.9	127.3	126.8
Economic Development	154.2	185.9	168.8
Public Safety & Corrections	1,466.5	1,467.0	1,462.0
Judiciary	745.0	764.9	767.6
District Attorneys	93.5	94.8	95.9
Attorney General	40.4	39.6	41.3
Libraries	31.4	33.3	31.9
Transportation	165.5	154.5	151.1
Group Insurance	1,183.5	1,178.3	1,174.7
Other Administrative	786.6	737.5	725.2
Debt Service	1,947.2	1,947.2	1,945.9
Pre-Budget Transfers from General Fund			
Pensions	1,398.6	1,398.6	1,398.6
School Building Assistance	634.7	634.7	634.7
MBTA	756.0	756.0	756.0
Total Spending	30,790.6	30,970.2	30,900.7
Balance ⁴	(7.5)	(37.6)	15.7

1. Tax law changes are estimated to net \$290 million in new revenue with \$295 million in revenue generated by loophole closings and \$5 million in revenue lost by extending the property tax circuit breaker to the non-elderly.

2. Departmental and Federal reimbursement revenue estimates are different in the budget proposals of the Governor, the House, and the Senate. In the case of Departmental revenues this likely reflects changed revenue projections between the development of the proposals. Differences in Federal reimbursement and grant revenues result from different decisions regarding Medicaid spending as well as changing estimates between the development of each budget proposal. Nevertheless, the MBPC has not been able to obtain sufficient information to fully explain different revenue estimates.

3. The Senate budget includes about \$22 million less in transfer revenue than was included in the House budget. Both the Senate and the House propose to transfer into the General Fund the interest earned on the Health Care Security Trust Fund. However, the Senate only transfers 50% of the interest earned, \$22 million, as opposed to the \$44 million transferred in the House proposal.

4. Though each budget shows a slight deficit, these deficits are relatively small compared to total spending. It is reasonable to think of each of these budget proposals as balanced.

Budget by Program Area

(in Millions of Dollars)

Program	Ongoing	Gov. FY08	House	Senate	Senate FY08 minus		
	FY07		FY08	FY08 ³	FY07	Gov.	House
Budgeted Spending	27,261.9	28,001.3	28,180.9	28,111.4	849.6	110.1	(69.5)
<i>Appropriations</i>	26,265.8	26,713.0	26,914.1	26,713.1	447.4	0.1	(200.9)
<i>Outside Sections</i>	996.1	1,288.3	1,266.9	1,398.3	402.2	110.0	131.5
Local Aid - Lottery	920.0	935.0	935.0	935.0	15.0	0.0	0.0
Local Aid - Additional Assistance & PILOT	407.6	410.1	410.3	410.1	2.5	0.0	(0.2)
Local Education Aid (Chapter 70)	3,505.5	3,705.5	3,725.7	3,725.7	220.2	20.2	0.0
K-12 Education (non-Chapter 70)	538.7	552.5	574.1	573.2	34.5	20.7	(0.9)
Higher Education	1,031.5	1,038.0	1,055.0	1,051.5	19.9	13.5	(3.5)
Early Education and Care	510.3	509.9	538.0	534.0	23.7	24.1	(4.1)
Income Support Programs	610.3	601.8	598.9	598.8	(11.5)	(3.1)	(0.1)
Health Care Programs	8,925.0	9,254.6	9,337.3	9,307.2	382.1	52.6	(30.1)
<i>Appropriations</i>	7,928.9	8,346.8	8,429.5	8,255.8			
<i>Transfers</i>	996.1	907.8	907.8	1,051.3			
Public Health	514.8	547.0	526.1	535.3	20.6	(11.7)	9.3
Mental Health	646.5	664.0	665.1	667.4	20.9	3.4	2.3
Mental Retardation	1,177.5	1,215.8	1,228.2	1,224.9	47.3	9.0	(3.3)
Social Services	785.5	790.3	795.3	798.2	12.8	8.0	2.9
Elder Affairs	223.1	227.0	230.0	230.5	7.5	3.5	0.5
Other Health & Human Services ²	608.4	599.4	616.7	619.7	11.3	20.3	3.0
Environmental Affairs	208.7	211.7	214.9	208.8	0.1	(2.8)	(6.1)
Housing & Community Development	124.8	124.9	127.3	126.8	2.0	1.9	(0.5)
Economic Development	168.2	154.2	185.9	168.8	0.6	14.6	(17.2)
<i>Appropriations</i>	168.2	154.2	171.9	165.0			
<i>Transfers</i>	0.0	0.0	14.0	3.8			
Public Safety & Corrections	1,456.3	1,466.5	1,467.0	1,462.0	5.7	(4.5)	(4.9)
Judiciary	770.6	745.0	764.9	767.6	(3.0)	22.6	2.6
District Attorneys	92.2	93.5	94.8	95.9	3.7	2.4	1.1
Attorney General	38.8	40.4	39.6	41.3	2.6	0.9	1.8
Libraries	31.7	31.4	33.3	31.9	0.2	0.5	(1.5)
Transportation	167.1	165.5	154.5	151.1	(16.0)	(14.5)	(3.4)
Group Insurance	1,056.6	1,183.5	1,178.3	1,174.7	118.1	(8.8)	(3.6)
<i>Appropriations</i>	1,056.6	803.0	833.2	831.4			
<i>Transfers</i>	0.0	380.5	345.1	343.2			
Other Administrative	789.8	786.6	737.5	725.2	(64.6)	(61.4)	(12.3)
Debt Service	1,952.4	1,947.2	1,947.2	1,945.9	(6.5)	(1.3)	(1.3)
Pre-Budget Transfers from General Fund⁴	2,626.2	2,789.3	2,789.3	2,789.3	163.1	0.0	0.0
Pensions	1,335.2	1,398.6	1,398.6	1,398.6	63.4	0.0	0.0
School Building Assistance	557.0	634.7	634.7	634.7	77.7	0.0	0.0
MBTA	734.0	756.0	756.0	756.0	22.0	0.0	0.0
Total Spending	29,888.0	30,790.6	30,970.2	30,900.7	1,012.7	110.1	(69.5)

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

2. Other health and human services spending includes \$28 million in FY 2007 and \$23 million in the Senate FY 2008 proposal to fund wage increases for the state's lowest wage human services workers. Ultimately, these funds will be distributed across the state's human services agencies including the departments of Mental Health, Mental Retardation, Social Services, and Youth Services.

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

4. By law the state allocates certain shares of the state's revenues to the state pension fund, the school building assistance fund, and the Massachusetts Bay Transit Authority prior to the appropriations process. Therefore, while these transfers constitute spending, they are not part of the budget-writing process.