

# BUDGET MONITOR

## FY 2007 Senate Ways and Means Budget

### OVERVIEW

The Senate Ways and Means FY 2007 budget proposal targets education, local aid, and health care as priorities. Through the budget process, making progress in these areas has emerged as a shared goal of the Governor, the House, and the Senate.

In proposing reforms to the Chapter 70 education funding formula, the Senate Ways and Means budget incorporates ideas proposed by the Governor and the House and adds additional resources, particularly for those districts that receive relatively smaller amounts from the needs-based Chapter 70 formula.

To restore some of the funding for unrestricted local aid that was cut deeply during the fiscal crisis, the Senate Ways and Means Committee follows the Governor and the House in returning all lottery proceeds to local governments, rather than capping the amount distributed to cities and towns and diverting a portion to the state as had been done in prior years.

Because the Legislature has now enacted and the Governor has signed comprehensive healthcare reform legislation, the Senate Ways and Means budget pays for the FY 2007 costs associated with that law. The House had allocated this funding during

floor debate, as the legislation had not been enacted when the House Ways and Means Committee was constructing its recommendations. The Governor’s budget, released back in January, simply established a \$200 million reserve fund to set aside

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resources expected to be needed for healthcare reform.

Notwithstanding the progress through this year’s budget process, deep cuts still remain in many critical areas when the FY 2007 Senate Ways and Means proposals are compared to FY 2001 funding adjusted for inflation: unrestricted local aid would still be down 10 percent; public health funding would be down 24 percent; higher education would be down 17 percent; and similar reductions remain across state government.

Like the House proposal, but unlike the Governor’s, the Senate Ways and Means Committee does not propose enacting a new tax cut that would eventually cost over \$630 million and would therefore make it far more difficult for the state to continue its progress in restoring funding for education, local aid, and other critical priorities.

This *Budget Monitor* examines both the revenue and spending policies put forward by the Senate Committee on Ways and Means, comparing the recommendation to the proposals offered by the House and the Governor, to the FY 2006 budget, and to the period before the fiscal crisis.

**LOCAL AID**

The Senate Committee on Ways and Means recommends \$1.328 billion for unrestricted local aid, a \$167.9 million or 14.5 percent increase over the FY 2006 level.

<b>FY 2006</b>	<b>\$</b>	<b>1,159,746,098</b>
<b>FY 2007 SW&amp;M</b>	<b>\$</b>	<b>1,327,596,219</b>
<b>Increase (decrease)</b>	<b>\$</b>	<b>167,850,121</b>
<b>Percentage Change</b>		<b>14.5%</b>

The Senate Committee on Ways and Means follows the proposals by the House and the Governor to remove the cap on lottery revenues to increase distributions to cities and towns by \$158.7 million.

This budget would also increase funding for the Payments in Lieu of Taxes (PILOT) program from \$16.1 million to \$25.3 million, a \$9.2 million difference. This amount matches the proposal by the Governor. The House offered a smaller increase in funding for FY 2007 (\$5.9 million more).

The Senate Committee on Ways and Means follows the recommendations by the House and the Governor in providing level funding for Additional Assistance. Funding for this purpose would total \$379.8 million in FY 2007.

Although overall funding for unrestricted local aid would grow by \$167.9 million over FY 2006, the proposed amount is, in real terms, still \$152.9 million or ten percent below its level in FY 2001.

**K-12 EDUCATION**

The Senate Committee on Ways and Means recommends \$4.009 billion for K-12 education, \$232.8 million more than is currently appropriated.

**Total K-12 Education**

<b>FY 2006</b>	<b>\$</b>	<b>3,775,789,300</b>
<b>FY 2007 SW&amp;M</b>	<b>\$</b>	<b>4,008,592,438</b>
<b>Increase (decrease)</b>	<b>\$</b>	<b>232,803,138</b>
<b>Percentage Change</b>		<b>6.2%</b>

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



### **Chapter 70 Aid**

<b>FY 2006</b>	<b>\$ 3,288,931,062</b>
<b>FY 2007 SW&amp;M</b>	<b>\$ 3,499,325,960</b>
<b>Increase (decrease)</b>	<b>\$ 210,394,898</b>
<b>Percentage Change</b>	<b>6.4%</b>

Chapter 70 aid is distributed to cities and towns for public education. The Senate Ways and Means budget provides \$3.499 billion for Chapter 70 aid or \$210.4 million more than the current budget. The recommendation by the Senate Committee on Ways and Means is higher than the budgets proposed by the Governor and the House, which respectively offered \$3.453 billion and \$3.462 billion for Chapter 70 aid.

Compared to the current level of funding for Chapter 70 aid, this budget offers a considerable increase. However, the recommendation for FY 2007 is, in real terms, still below its level before the fiscal crisis began. Using the Consumer Price Index to adjust for inflation, the Senate Ways and Means budget for Chapter 70 aid is \$160.0 million or 4.4 percent below where it was in FY 2002.

The proposal adopts the approaches to calculating local contributions and foundation aid that were included in the Governor's and the House's budget proposals. Primarily to help growing communities it also includes "growth aid," as did the Governor's budget. To provide additional aid to communities that are spending more local resources than the new formula will require, it adopts the House proposal to provide these towns with "down payment aid." The proposal begins to phase in a requirement that the state pay at least twenty percent of the foundation budget costs of every district, regardless of need. In addition, the Senate Ways and Means

proposal makes some changes to increase the foundation budget amount, particularly in lower income districts. But the affects of these changes are limited because the proposal only partially adjusts an arbitrary cap that will prevent the foundation budget from keeping up with inflation related cost increases. Finally, like the House, the Senate Ways and Means proposal provides that every district will get at least \$50 per student more than last year.

### **Grants and Reimbursements**

<b>FY 2006</b>	<b>\$ 486,858,238</b>
<b>FY 2007 SW&amp;M</b>	<b>\$ 509,266,478</b>
<b>Increase (decrease)</b>	<b>\$ 22,408,240</b>
<b>Percentage Change</b>	<b>4.6%</b>

The Senate Ways and Means budget would boost funding for the Department of Education's grants and reimbursement programs from \$486.9 million in FY 2006 to \$509.3 million in FY 2007, a \$22.4 million or 4.6 percent increase. This proposed amount is lower than the \$594.9 million offered by the Governor and the \$526.2 million recommendation by the House.

The Senate Committee on Ways and Means proposes increases in a number of areas, including the following:

- Funding for reimbursements for regional school transportation would rise from \$45.0 million to \$50.0 million. The House budget provided \$55.0 million for these reimbursements.
- Under the Senate Committee on Ways and Means budget recommendation, the appropriation for the METCO program would increase by \$1.0 million. The

House budget includes a \$2.0 million increase.

- Support for the Special Education Circuit Breaker program, which helps school districts with extraordinary special education costs, would increase by \$6.6 million over FY 2006. The House offered a \$1.3 million increase.
- The Senate Committee on Ways and Means follows the House by including \$5.0 million for extending the school day; the Governor provided \$15.0 million. The House budget included an additional \$1.0 million for after school programs for districts where an extended school day is not necessary for the entire school, but where an extended school day would benefit a considerable portion of students. Funding for this line item was not included in the Senate Ways and Means budget. This budget account was last funded at \$11.7 million in FY 2001.

Although the Senate Committee on Ways and Means recommends increases for a number of grants and reimbursements, there are areas where funding would remain the same, decline, or not restore previous cuts:

- This budget fails to restore funding for grants to reduce class sizes in the earliest grades. Funding for this purpose last totaled \$18.0 million in FY 2003. The House also neglected to reinstate funding for smaller class sizes.
- Under this budget, funding for programs designed to help students pass the MCAS exam would drop slightly (a \$45,000 decline to \$10.3 million). The House also proposed to reduce funding by \$1.3 million. Each of the proposals for FY 2007 is well below the \$50.0 million appropriated in FY 2002.

- Like the House, the Senate Committee on Ways and Means offers level funding for Adult Basic Education programs. Over the past few years, funding has been relatively level, but after adjusting for inflation, the recommendation for Adult Basic Education in the Senate Ways and Means budget is \$5.6 million or 16 percent lower than its amount in FY 2001.

The Senate Committee on Ways and Means, like the House, rejected a number of new initiatives that were in the Governor’s FY 2007 proposal, including \$25.0 million to support performance pay for teachers, \$18.0 million to provide sixth and seventh grade students with laptop computers, and \$3.0 million to support a teacher mentoring program.

Overall, the recommendation for the Department of Education’s grants and reimbursement programs is higher than the current appropriation, but still below its level before the fiscal crisis began. After adjusting for inflation, the budget for grants and reimbursements is \$69.5 million or 12 percent below where it was in FY 2001.

## HIGHER EDUCATION

The Senate Committee on Ways and Means recommends a total of \$1.047 million for public higher education. This total amount includes the proposal to allow all campuses to retain tuition revenues. The Senate Ways and Means budget is \$71.6 million or seven percent higher than the current budget for higher education.

<b>FY 2006</b>	<b>\$</b>	<b>975,906,491</b>
<b>FY 2007 SW&amp;M</b>	<b>\$</b>	<b>1,047,499,405</b>
<b>Increase (decrease)</b>	<b>\$</b>	<b>71,592,914</b>
<b>Percentage Change</b>		<b>7.3%</b>

**Figure 1.**

<b>Comparing the FY07 SW&amp;M Budget for Higher Education with FY06</b>		
<i>All \$ Figures in Millions</i>		
<b>FY06 BUDGET</b>		
General Appropriations Act	951.2	
Supplemental Funding	24.7	
<b>CURRENT FY06 HIGHER EDUCATION BUDGET</b>	<b>975.9</b>	
<b>FY07 SW&amp;M BUDGET</b>		
Proposed Appropriations	969.2	
Proposed FY07 Tuition Retention	78.3	
<b>FY07 SW&amp;M HIGHER EDUCATION BUDGET</b>	<b>1,047.5</b>	
<b>FY07 SW&amp;M vs. FY06 GAA</b>	<b>96.3</b>	<b>10.1%</b>
<b>FY07 SW&amp;M vs. FY06 CURRENT</b>	<b>71.6</b>	<b>7.3%</b>
<p><i>Note: FY06 GAA and FY07 SW&amp;M Proposed appropriations include \$31.5 million in tuition revenue which is currently retained by the UMass Amherst, the Mass. College of Art, and the Mass. Maritime Academy.</i></p>		

Directly comparing the current budget for public higher education with the recommended appropriations in the Senate Ways and Means budget shows a decline because this proposal moves a certain portion of funding for FY 2007 off-budget. Under current law, most campuses return their revenue collected through tuition to the Commonwealth and that amount is

The Senate Ways and Means budget is \$96.3 million or ten percent more than the budget approved in July of 2005 (the General Appropriations act or GAA). However, \$24.7 million in supplemental funding has been appropriated since then. Hence, after accounting for this additional funding, the recommendation by the Senate Committee

on Ways and Means for higher education is \$71.6 million or seven percent higher than the current budget (see Figure 1).

After adjusting for tuition retention, the Senate Ways and Means budget would increase the allocations to the higher education campuses (see Figure 2):

- Funding for UMass campuses would grow by \$42.4 million or 9.5 percent, compared to the budget enacted last July. Compared to the current budget for UMass, the Senate Ways and Means recommendation is \$31.5 million or roughly seven percent higher.

- Appropriations to state colleges would increase by \$22.9 million or twelve percent when compared to the General Appropriations Act (GAA). Compared to the current budget, the Senate Ways and Means budget for state colleges is \$17.2 million or nearly nine percent higher.
- Support for community colleges would rise by \$24.2 million or eleven percent over the GAA. Compared to the current budget for FY 2006, the proposed level of funding is \$17.6 million or eight percent higher.

**Figure 2.**

Higher Education Funding In Millions of \$					
	Central Admin.	UMass	State Colleges	Comm. Colleges	Total
FY06 GAA	101.8	445.8	192.6	211.1	951.2
FY06 Current	103.3	456.7	198.2	217.7	975.9
FY07 SW&M	108.6	488.1	215.5	235.3	1,047.5
<b>SW&amp;M vs. GAA</b>	<b>6.8</b>	<b>42.4</b>	<b>22.9</b>	<b>24.2</b>	<b>96.3</b>
	<b>6.7%</b>	<b>9.5%</b>	<b>11.9%</b>	<b>11.4%</b>	<b>10.1%</b>
<b>SW&amp;M vs. Current</b>	<b>5.3</b>	<b>31.5</b>	<b>17.2</b>	<b>17.6</b>	<b>71.6</b>
	<b>5.1%</b>	<b>6.9%</b>	<b>8.7%</b>	<b>8.1%</b>	<b>7.3%</b>

In addition to increasing funding for each of the campuses, the Senate Committee on Ways and Means proposes to increase funding for financial aid. The main budget account for financial assistance would increase from \$84.7 million in FY 2006 to \$89.9 million in FY 2007, a \$5.2 million or six percent increase over the current amount. The House budget proposes the same amount.

While the overall budget would boost funding for higher education in FY 2007, the total amount proposed is lower than the \$1.051 billion recommendation by the Board of Higher Education (BHE). Moreover, the Senate Ways and Means budget for higher

education is still \$216.2 million or 17 percent below the FY 2001 level, after adjusting for inflation.

## EARLY EDUCATION AND CARE

The Senate Committee on Ways and Means recommends \$507.8 million for early education in FY 2007, a \$26.5 million or 5.5 percent increase over current appropriations.

<b>FY 2006*</b>	\$	<b>481,309,479</b>
<b>FY 2007 SW&amp;M</b>	\$	<b>507,835,195</b>
<b>Increase (decrease)</b>	\$	<b>26,525,716</b>
<b>Percentage Change</b>		<b>5.5%</b>

\* All FY 2006 numbers include allocations from the Purchase of Service reserve as discussed on p. 7.

The Senate Committee on Ways and Means, like the House, provides funding for new initiatives that are central to the Department's goal of improving quality and access. While both budgets provide \$1.4 million for a new initiative to provide early childhood mental health consultations, and \$3.0 million in new funding for professional development they differ in how these funds would be appropriated. The House provides separate line items for these initiatives. The Senate Committee on Ways and Means provides earmarks within the professional development line item, and differs in the House by using language that indicates that the mental health consultations would be a one year pilot.

Both the House and the Senate Committee on Ways and Means propose level funding for Community Partnerships for Children (CPC). The Senate Ways and Means budget provides \$68.7 million, while the House budget divides this amount among several different line items. One new budget account in the House budget, from which CPCs would receive a portion of their

funding, allocates \$5.0 million for Universal Pre-kindergarten. The Senate Committee on Ways and Means does not provide this separate line item.

In this budget, the main budget account for subsidized care is separated into two accounts. One line item would fund services for families who are receiving cash assistance through Transitional Aid to Families with Dependent Children (TAFDC), working TAFDC recipients up to one year after their benefits end, and teen parents. The other line item would fund services for all other low-income families. Adding these two accounts together and comparing them to the main line item for subsidized care in FY 2006 shows a \$12.4 million increase. The House kept funding for subsidized care in one budget account,

and the \$309.2 million recommendation is \$16.7 million higher than the current amount in the main line item. There is an additional \$6.0 million of a \$12.0 million reserve that may be available for FY 2006. If this amount is added to the current amount for subsidized care, the recommendations by the Senate Committee on Ways and Means and the House would provide slightly smaller increases over FY 2006.

The Senate Ways and Means budget includes \$12.5 million for a reserve account which would increase providers' reimbursement rates in FY 2007. Funding from this reserve would go toward increasing salaries, expanding benefits, and providing professional development to providers across the state. The House budget includes \$10.0 million for this purpose.

The Senate Committee on Ways and Means funds the Healthy Families program at \$12.6 million, a slight increase over the \$12.3 million that is currently appropriated – approximately \$322,000 more. The House proposed a smaller increase in its budget – an additional \$157,000 over FY 2006. While the Senate Ways and Means budget would not cut Healthy Families in FY 2007, the appropriation is considerably below the \$23.4 million appropriated in FY 2002.

### **A Brief Explanation of the POS Reserve**

The FY 2006 budget included a \$20.0 million reserve to fund salary increases to low-wage workers for providers that deliver human and social services under contracts with the Department of Early Education and Care, the Executive Office of Elder Affairs, and various departments within the Executive Office of Health and Human Services. The Governor's budget for FY 2007 distributes the amounts for these salary increases to their respective budget accounts, but does not provide new funding. The Senate Committee on Ways and Means and the House provide comparable funding in their budgets, and appropriate an additional \$28.0 million in new funding for FY 2007. In this *Budget Monitor*, we adjust the relevant FY 2006 numbers to reflect the allocation of the \$20.0 million reserve in that year. The additional \$28.0 million in FY 2007 would accordingly raise the bottom-line budgets for individual agencies, but it is not yet known how that funding would be allocated.

### **INCOME SUPPORT PROGRAMS**

The Senate Committee on Ways and Means recommends \$613.7 million for income support programs. These appropriations are lower than in FY 2006 primarily because, as the economy begins to improve, the caseloads for certain income support programs are declining.

<b>FY 2006*</b>	<b>\$</b>	<b>631,629,138</b>
<b>FY 2007 SW&amp;M</b>	<b>\$</b>	<b>613,706,301</b>
<b>Increase (decrease)</b>	<b>(\$</b>	<b>18,643,074)</b>
<b>Percentage Change</b>		<b>-3.0%</b>

All FY 2006 numbers include allocations from the Purchase of Service reserve as discussed on p. 7.

The Senate Committee on Ways and Means follows the House in leaving in place the current regulations for Transitional Aid to Families with Dependent Children (TAFDC), the state’s main income support program for low-income families. In the House 2 budget, the Governor proposed to implement new work requirements and time limits for individuals who are currently exempt from such regulations because they are disabled, are caring for a disabled family member, or have a child less than two years of age. That budget also reduced the appropriation for TAFDC from \$312.9 million to \$291.7 million, a \$21.1 million decline. The Senate Committee on Ways and Means and the House also lower the appropriation, but offer smaller reductions compared to FY 2006 – declines of \$16.6 million and \$16.0 million respectively. The smaller appropriations in the budget proposals for FY 2007 reflect a projected decline in the caseload; as the economy begins to improve more families are moving off of TAFDC and into the workforce. The much lower appropriation in the Governor’s budget is primarily due to the reforms outlined in the House 2 budget.

Although the House leaves in place the current structure of the TAFDC program, legislation that would restructure the TAFDC program to meet federal standards and safeguard vulnerable families is currently in conference.

Under the Senate Ways and Means budget, funding for main budget account which

funds the Employment Services Program would total \$27.1 million, and an additional \$5.0 million may be available in retained revenue for certain federal reimbursements. This would provide \$32.1 million for the Employment Services Program – the primary education, training, and job search program available to individuals receiving cash assistance. The total recommendation by the Senate Committee on Ways and Means is \$1.2 million more than is currently appropriated, after accounting for the \$6.0 million available in an FY 2006 reserve created to comply with changes to the federal TANF program. This proposal is \$3 million more than the House offered, but smaller than \$3.7 million increase offered in House 2, which introduced new work requirements for individuals with disabilities or other challenges to securing employment. The \$32.1 million available for the Employment Services Program, under the Senate Ways and Means budget, is \$9.0 million or more than 20 percent below its FY 2002 level, after adjusting for inflation.

## **MEDICAID/MASSHEALTH AND OTHER HEALTH PROGRAMS**

The total Senate Ways and Means budget recommendations for Medicaid/MassHealth and other Health Care Programs is not dramatically different from the budget as recommended by the House. Like the House, the Senate Ways and Means budget proposal takes the proposed \$200.0 million set aside as a reserve for the implementation of health care reform (Chapter 58 of the Acts of 2006), and allocates those dollars mostly throughout the Medicaid program.

The Senate Ways and Means proposed budget recommends \$7.570 billion to cover existing health care programs as well as health care reform (a 3.0 percent increase

over FY 2006). However, FY 2006 actual spending in the Medicaid/MassHealth program is likely to be \$195.6 million less than budgeted, spending in other health care programs is likely to be \$8.7 million less than budgeted, and spending in the pharmacy programs is likely to be \$3.8 million less than budgeted. Comparing the Senate Ways and Means FY 2007 proposed budget to anticipated FY 2006 spending in Medicaid/MassHealth and other health care programs indicates that the real increase between FY 2006 and FY 2007 would be closer to 6.2 percent.

<b>FY 2006</b>	<b>\$</b>	<b>7,349,068,387</b>
<b>FY 2007 SW&amp;M</b>	<b>\$</b>	<b>7,570,078,795</b>
<b>Increase (decrease)</b>	<b>\$</b>	<b>221,010,408</b>
<b>Percentage Change</b>		<b>3.0%</b>

Included in the totals for these health care programs are funding for Medicaid/MassHealth, funding for other health care programs for persons ineligible for Medicaid, and funding for uncompensated care. These totals also include the anticipated program costs specifically set aside to implement health care reform.

**Figure 3.**

<b>Medicaid/MassHealth and Other Health Care Programs</b>			
<i>In Millions of \$</i>			
	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2007</b>
	<b>Current</b>	<b>House</b>	<b>SW&amp;M</b>
Medicaid/MassHealth	6,999.5	7,418.1	7,472.3
Pharmacy Programs	96.0	62.7	63.6
Other Health Care Programs	37.6	34.2	34.2
Uncompensated Care Pool	206.0	0.0	0.0
Health Care Reform	10.0	0.0	0.0
<b>Total</b>	<b>7,349.1</b>	<b>7,515.0</b>	<b>7,570.1</b>

"Medicaid/MassHealth" includes the Medicare "Clawback" but does not include the \$288.5 million Health Care Quality Improvement Trust. "Other Health Care Programs" includes the Healthy Start and Children's Medical Security Plan programs, as well as funding for the Betsy Lehman Center. "Uncompensated Care Pool" only includes money budgeted from the General Fund, not other sources of funding. "Health Care Reform" does not include funding directed to the Division of Insurance.

### Medicaid/MassHealth

The Senate Ways and Means budget recommendation includes \$7.472 billion for the Medicaid/MassHealth programs. This \$54.2 million increase over the House budget recommendation includes estimated programmatic costs of Medicaid expansion associated with the implementation of health care reform. (In FY 2006, a portion of the funding for the MassHealth Essential program had been funded for part of the year out of "off-budget" funds. We include those dollars in our FY 2006 Medicaid totals for year-to-year comparison purposes. There is also \$288.5 million funded off-budget for enhanced nursing home rates through the Health Care Quality Improvement Trust, but because this transaction does not include the expenditure of state funds, we do not include those dollars in our totals.)

Highlights of the program expansions associated with health reform in the Senate Ways and Means Medicaid/MassHealth budget include:

- Implementation and funding for the expansion of benefits associated with health care reform, including the restoration of dental services, eyeglasses, chiropractics, and prosthetics for adults; and the expansion of eligibility for children up to 300 percent of the federal poverty level.
- Recommended funding of \$4.7 million more for the CommonHealth program (for a total of \$68.2 million) and \$900,000 more for the MassHealth HIV program (for a total of \$13.0 million) in order to expand program enrollment and eliminate waiting lists.
- Recommended funding of \$306.0 for the MassHealth Essential program, \$137.4

million more than it was funded in FY 2006. The Senate Committee on Ways and Means anticipates that their recommended funding level would be sufficient to fund close to 17,000 more members in the program, including elderly and disabled legal immigrants. The Senate Ways and Means budget includes funding sufficient to prohibit “sponsor deeming” for legal immigrants, assuming they override one of the Governor’s remaining vetoes in the health reform law. “Sponsor deeming” means that an immigration sponsor’s income may be “deemed” (or counted) when considering income eligibility for MassHealth Essential members.

- Adding \$1.5 million to funding for the MassHealth Family Assistance Program (for a total of \$100.1 million) in order to cover the costs associated with expanding MassHealth coverage for young adults aging out of custody of the Department of Social Services. The language in the Senate Ways and Means budget proposal, as in the House proposal, would continue coverage until the twentieth birthday.
- Elimination of the House recommendation to include \$19 million in the MassHealth Senior Care Plan allocated for rate adjustments for providers.
- Allocating \$87.0 million in the MassHealth Managed Care Plan to implement hospital payments for safety net hospitals as indicated. The Senate Ways and Means budget also earmarks \$14.7 million in rate adjustments for certain pediatric hospitals, an increase from \$12.0 million earmarked for these hospitals in FY 2006.

The recently-enacted federal Deficit Reduction Act requires that persons receiving Medicaid provide copies of birth certificates or other similar verification in order to be eligible for coverage. There is language in the Senate Ways and Means budget that would assist applicants for coverage in obtaining this documentation at no cost to the applicant.

There are also several recommendations in the Senate Ways and Means budget proposal that would have an effect on nursing home eligibility, and on persons with family members in nursing homes.

- Language recommends changing the Community Spouse Resource Allowance from the minimum allowable to the maximum allowable. This allowance is the amount of assets that a spouse of a person in a nursing home who is still living in the community is allowed to retain.
- The federal Deficit Reduction Act limits the amount of home equity a nursing home resident may retain (unless the resident’s spouse or dependent child is still living in the home) and still be financially eligible for publicly-funded long term care. The cap in the federal law is \$500,000, with the option that states may raise the level to \$750,000. Reflecting the high cost of housing in the Commonwealth, the Senate Ways and Means budget proposal exercises the option to increase the cap to \$750,000.
- Like in FY 2006, the Senate Ways and Means budget provides \$9.0 million through the off-budget nursing home assessment to fund the holding of nursing home beds for up to ten days for residents on leave of absence (either medical or non-medical).

## *Pharmacy Programs*

On January 1, 2006, the federal Medicare Prescription Drug Improvement and Modernization Act (Medicare Part D) went into effect. Medicare Part D is intended to provide prescription drug coverage for persons on Medicare, and accordingly the Senate Ways and Means budget recommendations assume that neither the Medicaid program nor the Prescription Advantage program will be necessary as a primary provider of health insurance coverage for medications for most elders.

Because of presumed savings to state Medicaid programs associated with this new federal program, the Commonwealth must pay a “Clawback” to the federal government to offset a portion of these savings associated with persons who are dually-eligible for Medicare and Medicaid. The “Clawback” amount in the Senate Ways and Means budget proposal is \$238.9 million, \$118.9 million more than in FY 2006 when this payment only covered half of the fiscal year.

In FY 2007, like the House, the Senate Ways and Means budget proposes that the Prescription Advantage program cover Medicare Part D co-payments, premiums and other out-of-pocket costs for eligible enrollees, and continue to provide primary prescription coverage for persons not eligible for Medicare.

The Senate Ways and Means budget proposal recommends \$63.8 million for the Prescription Advantage program, \$900,000 more than recommended by the House, and \$4.0 million more than recommended by Governor. Like the House, the Senate Committee on Ways and Means includes language recommending an open enrollment period for the program.

## *Other Health Care Programs*

The Senate Ways and Means budget proposal follows the recommendation of both the House and the Governor for the funding of other health care programs, including \$16.0 million for the Healthy Start program and \$18.2 million for the Children’s Medical Security Plan. Because FY 2006 spending has been less than budgeted, these proposed funding levels may be sufficient to cover the costs of the programs in FY 2007. The Senate Ways and Means proposal includes language that would codify a premium structure for the Children’s Medical Security Plan making the program more affordable for moderate-income families.

### *Uncompensated Care and Health Reform*

The Senate Ways and Means budget recommendation, like the House budget recommendation, assumes that comprehensive health care reform will reduce the need for an Uncompensated Care Pool as currently configured. The Senate Ways and Means budget proposal does not appropriate state dollars for uncompensated care. In FY 2006, \$206 million had been appropriated to cover a portion of the costs of uncompensated care. The recently-passed health reform legislation indicates that total assessments to cover the costs of uncompensated care remain at \$320 million as in FY 2006, rather than revert to the statutory level of \$315 million as proposed in the Governor’s budget recommendation.

Because the Legislature already enacted comprehensive health reform legislation, the Senate Ways and Means budget does not include a \$200 million reserve set-aside to support anticipated costs of the implementation of health care reform, but

instead recommends the allocation of that money across the Commonwealth's health care programs.

## PUBLIC HEALTH

The Senate Committee on Ways and Means proposes \$464.7 million for public health services, \$15.5 million (3.5 percent) more than current FY 2006 funding, and \$1.6 million less than the budget proposed by the House. The Senate Ways and Means proposal represents an increase barely over inflation; however, there would be additional dollars available for public health from the proposed \$28.0 million reserve to fund salary increases for low-wage human service workers. In FY 2006, when the salary reserve totaled \$20.0 million, there was \$555,000 added to the public health bottom line.

<b>FY 2006*</b>	<b>\$</b>	<b>449,186,238</b>
<b>FY 2007 SW&amp;M</b>	<b>\$</b>	<b>464,712,657</b>
<b>Increase (decrease)</b>	<b>\$</b>	<b>15,526,419</b>
<b>Percentage Change</b>		<b>3.5%</b>

\* All FY 2006 numbers include allocations from the Purchase of Service salary reserve as discussed on p. 7.

Even though the Senate Ways and Means budget continues to restore funding for the public health services that had been deeply cut during the state's fiscal crisis, this recommendation is still 23 percent below funding in FY 2001 when adjusted for inflation.

The Senate Ways and Means budget proposes increases over FY 2006 in several areas, including:

- \$13.3 million more for substance abuse services, for a total of \$60.9 million. This is \$3.3 million less than proposed

by the House. Language accompanying the budget, however, references the \$20.0 million pending in a proposed FY 2006 budget supplemental, so there might be significantly more funding ultimately available for spending in FY 2007. Line item language in the Senate Ways and Means budget also indicates that \$4.0 million of the FY 2007 appropriation would be available to support the creation of a program consisting of 60 beds for men who are civilly committed for substance abuse treatment. The Senate Ways and Means budget proposal does not include a \$5.0 million new line item created by the House for step-down recovery services.

- \$7.7 million more for universal immunizations, for a total of \$36.7 million. This is the same amount recommended by the House.
- \$608,000 more for early intervention services, for a total of \$31.5 million. Although this amount is \$1.5 million less than proposed by the House, the Senate Ways and Means budget includes a new line item of \$1.4 million that would fund salary increases for workers in early intervention programs.
- \$2.0 million more for school health services, for a total of \$16.7 million. The House had recommended \$16.1 million for school health services. The Senate Ways and Means budget specifies that \$15.0 million would be available for school nurses and school-based health centers, a \$3.0 million increase over FY 2006. The Senate Ways and Means budget recommendation does not include the House earmark of \$300,000 for mental health and substance abuse services in school-based health centers. Even with

this increase over FY 2006 funding levels, when compared to funding in FY 2001, however, there has been a dramatic reduction in funding for school health. School health services had been funded partially within the Department of Public Health and partially within the Department of Education. Since FY 2001, when adjusted for inflation, even with recommended increases, school health services have been cut 68 percent.

- \$5.6 million more for public health hospitals, for a total of \$129.0 million. The Senate Ways and Means budget adds \$2.8 million to the House recommendation targeted to establish a new rehabilitation unit at the Massachusetts Hospital School in Canton.

Other highlights of the Senate Ways and Means public health budget include:

- \$9.4 million for family health services and domestic violence. The House had recommended \$10.9 million (in two separate line items), and funding in FY 2006 had been \$9.3 million.
- \$37.5 million for HIV/AIDS prevention and treatment, the same amount as recommended by the Governor, but \$1.5 million less than recommended by the House. The total includes \$35.7 million for direct funding for services and \$1.9 million available from drug rebates. Funding in FY 2006 was \$38.5 million. The Senate Ways and Means proposed funding is 38 percent below FY 2001 funding when adjusted for inflation.
- \$4.3 million for smoking prevention programs. The recently-passed health reform legislation included \$4.0 million for smoking prevention and treatment

programs, to supplement the \$4.3 million previously appropriated in FY 2006. The health reform legislation specifies that the amounts included for public health programs may be spent in FY 2007, so the total amount of funding available for that year could be more than the \$4.3 million recommended by Senate Ways and Means. Nevertheless, funding for smoking prevention programs has been cut dramatically over the years – adjusted for inflation, funding in FY 2001 was \$58.4 million.

There is language in the funding for the Registry of Vital Records and Statistics that would exempt people seeking copies of birth certificates in order to determine Medicaid eligibility from fees (see section on “Medicaid/MassHealth and Other Health Care Programs”).

## MENTAL HEALTH

The Senate Ways and Means budget provides \$645.4 million for mental health services, a \$12.3 million or nearly two percent increase compared to FY 2006. While overall funding for the Department of Mental Health would increase, the proposed amount would not keep pace with the rate of inflation. It is important to note that the \$28.0 million reserve to fund salary increases to low-wage human service workers would provide additional funding to this department in FY 2007. The \$20.0 million reserve in FY 2006 added \$3.4 million to the Department of Mental Health’s bottom-line.

<b>FY 2006*</b>	<b>\$</b>	<b>633,029,664</b>
<b>FY 2007 SW&amp;M</b>	<b>\$</b>	<b>645,357,419</b>
<b>Increase (decrease)</b>	<b>\$</b>	<b>12,327,756</b>
<b>Percentage Change</b>		<b>1.9%</b>

\* All FY 2006 numbers include allocations from the Purchase of Service reserve as discussed on p. 7.

Under the recommendation by Senate Committee on Ways and Means, overall funding for the Department of Mental Health would increase, but not at the rate of inflation.

- The budget appropriation for adult mental health and support services would rise roughly \$8.0 million or 2.7 percent over FY 2006. The House proposed a \$6.8 million or 2.3 percent increase.
- The line item which funds state psychiatric hospitals and inpatient services would grow by \$2.0 million or 1.2 percent. The House proposed roughly the same increase.
- The budget account for children and adolescent mental health services would experience a \$518,000 boost over FY 2006. The House increased funding by \$636,000. Both the recommendations for FY 2007 are just under one percent.
- The administrative line item would grow from \$37.1 million in FY 2006 to \$39.0 million FY 2007, a \$1.9 million or five percent boost. The House proposed the same amount. The Department of Mental Health, like other areas of human services, experienced considerable reductions to its workforce due to budget cuts during the fiscal crisis. Since FY 2002, the entire operations staff has been reduced by 30 percent.<sup>1</sup>

<sup>1</sup> Based on statements by Elizabeth Childs, Commissioner of the Department of Mental Health, as reported in O'Sullivan, Jim. 2006. Mental health parity a law, but not a reality, witnesses say. *State House News Service*, April 3.

## MENTAL RETARDATION

The recommendation by the Senate Committee on Ways and Means would increase funding for the Department of Mental Retardation by \$35.2 million or three percent compared to FY 2006. Increases in this department primarily reflect the rise in the cost of providing services, not new expansions. It is worth noting, however, that the Department of Mental Retardation would receive a portion of the \$28.0 million reserve to fund salary increases to low-wage human service workers, which would boost funding in FY 2007. The \$20.0 million reserve in FY 2006 added \$9.2 million to the Department of Mental Retardation's bottom-line.

<b>FY 2006*</b>	<b>\$</b>	<b>1,137,059,567</b>
<b>FY 2007 SW&amp;M</b>	<b>\$</b>	<b>1,172,246,734</b>
<b>Increase (decrease)</b>	<b>\$</b>	<b>35,187,168</b>
<b>Percentage Change</b>		<b>3.1%</b>

\* All FY 2006 numbers include allocations from the Purchase of Service reserve as discussed on p. 7.

Like the Governor and the House, the Senate Committee on Ways and Means meets the legal requirement for the Boulet settlement (which mandates the state provide interim services for individuals on the wait list for residential placements). Under these proposals, the \$85.6 million for these services in FY 2006 would rise to \$86.4 million in FY 2007.

The Senate Committee on Ways and Means also matches the \$2.0 million appropriation in the proposals by the House and the Governor for a new line item designed to address rate disparities in residential contracts.

The Senate Committee on Ways and Means increases funding in areas which the

Governor provided level funding. The line item for the Division of Autism would grow from \$1.2 million in FY 2006 to \$2.2 million under the Senate Ways and Means budget. This budget would also increase the appropriation for Turning 22 Services, which provides supports to individuals with severe disabilities who require continued services after aging out of the public school system. Funding for these services would rise from \$6.5 million in FY 2006 to \$7.5 million in FY 2007.

Other areas which would experience increases under this budget include the following:

- The line item for the Division of Autism would grow from \$1.2 million in FY 2006 to \$3.0 million, but includes a \$2.2 million earmark which would reduce the amount available to the Division. The House budget provided \$2.2 million.
- Funding for community based residential supports would grow from \$506.9 million in FY 2006 to 524.2 million in FY 2007, a \$17.3 million or 3.4 percent increase. The amount in the House budget offered \$524.5 million, which would boost funding by \$17.6 million or 3.5 percent.
- The budget account for community based day and work programs would rise by \$2.7 million or 2.4 percent. The House proposed the same increase.
- The appropriation for respite family supports would increase by \$1.4 million or 2.6 percent. The same increase was included in the budgets offered by the House.
- This budget would also increase the appropriation for Turning 22 Services, which provides supports to individuals

with severe disabilities who require continued services after aging out of the public school system. Funding for these services would rise from \$6.5 million in FY 2006 to \$8.5 million in FY 2007. The House offered \$7.5 million.

## SOCIAL SERVICES

The Senate Committee on Ways and Means recommends \$768.6 million for the Department of Social Services, \$22.7 million or three percent more than FY 2006. However, the \$28.0 million salary reserve for low-wage workers would provide additional funding to the FY 2007 bottom-line for social services. The \$20.0 million reserve in FY 2006 added \$1.7 million to the Department of Social Service's bottom-line.

<b>FY 2006*</b>	<b>\$</b>	<b>745,876,925</b>
<b>FY 2007 SW&amp;M</b>	<b>\$</b>	<b>768,552,124</b>
<b>Increase (decrease)</b>	<b>\$</b>	<b>22,675,199</b>
<b>Percentage Change</b>		<b>3.0%</b>

\* All FY 2006 numbers include allocations from the Purchase of Service reserve as discussed on p. 7.

This budget includes \$6.0 million or 8.6 percent more for the Department's administrative costs. The House and the Governor also proposed increases of \$5.0 million and \$4.9 million respectively. The Senate Committee on Ways and Means also proposes to increase funding for social workers by \$10.9 million (eight percent), and includes legislative language that would reduce the targeted social worker caseload ratio to 17:1. The current target of 18:1, which is often exceeded due to growing demand for services, is higher than the 15:1 ratio recommended in 1993 by the Special Commission on Foster care and the ratio suggested by the Child Welfare League of America. The proposal by the House would boost funding for social workers by \$6.8

million, but does not include specific language around reducing social worker caseloads.

The Senate Ways and Means budget offers modest increases in a few other areas, including: services for children and families (\$6.1 million more), foster care review services (\$133,000 more) and domestic violence services (\$64,000 more).

## ELDER AFFAIRS

The Senate Ways and Means budget recommends \$221.2 million for elders, an increase of \$4.2 million (two percent) over FY 2006 funding, not even enough to keep pace with inflation. However, there would be additional dollars available for elder affairs from the proposed \$28.0 million reserve to fund salary increases for low-wage human service workers. In FY 2006, when the salary reserve totaled \$20.0 million, there was \$2.3 million added to the elder affairs bottom line. (These numbers do not include the funding for the Prescription Advantage pharmacy program, discussed in the “MassHealth/Medicaid and Other Health Programs” section of this *Budget Monitor*.)

<b>FY 2006*</b>	<b>\$</b>	<b>216,955,945</b>
<b>FY 2007 SW&amp;M</b>	<b>\$</b>	<b>221,200,920</b>
<b>Increase (decrease)</b>	<b>\$</b>	<b>4,244,975</b>
<b>Percentage Change</b>		<b>2.0%</b>

All FY 2006 numbers include allocations from the Purchase of Service salary reserve as discussed on p. 7.

The Senate Ways and Means budget recommendation includes an earmark for a home health pilot program, but increases the amount of the earmark to \$75,000, for a total of \$103.1 million for elder home care purchased services – the same as the Governor’s recommendation, and just above

the House recommendation. The Senate Ways and Means budget follows both the House and the Governor in recommending level funding of \$39.3 million for home care administration and casemanagement.

The Senate Ways and Means budget does not include two new line items proposed by the House budget for a new geriatric mental health services program and for a family caregivers program.

The Senate Committee on Ways and Means included an outside section of the budget re-constituting a Long Term Care Commission. This commission would identify ways in which the Commonwealth could save money on the costs of publicly-financed long term care, and make recommendations about the health care, housing, and pension needs of elders in the Commonwealth. The Commission would also make recommendations about meeting the needs of the workforce providing long term care for elders.

## OTHER HUMAN SERVICES

Most of the increase in the larger category of “other human services” is contained in the \$28.0 million reserve account that would fund salary increases for low-wage human service workers. Ultimately, this amount will be distributed to the individual budget accounts in various departments which contract with private providers. Once this amount is allocated to the respective agencies, the increase in funding compared to FY 2006 will mostly cover increasing costs due to inflation and caseload composition.

<b>FY 2006*</b>	<b>\$</b>	<b>541,514,952</b>
<b>FY 2007 SW&amp;M</b>	<b>\$</b>	<b>598,974,080</b>
<b>Increase (decrease)</b>	<b>\$</b>	<b>57,459,128</b>
<b>Percentage Change</b>		<b>10.6%</b>

\* All FY 2006 numbers include allocations from the Purchase of Service reserve as discussed on p. 7.

The Senate Ways and Means budget follows the House in providing a \$28.0 million reserve account which would fund salary increases for low-wage workers who are employed by providers that deliver services under contracts with the Department of Early Education and Care, departments within the Executive Office of Health and Human Services, and the Executive Office of Elder Affairs. The Governor did not include funding for this line item in his FY 2007 budget proposal.

The Senate Committee on Ways and Means, like, the House level funds Emergency Assistance for homeless families at \$73.6 million. The Committee rejects the Governor's proposal to lower the income eligibility from 130 percent of the Federal Poverty Level to 100 percent; that proposal also removed provisions which allow families whose income exceeds the eligibility limit to remain in the shelter up to six months and use the excess income to move into permanent housing. The Senate Committee on Ways and Means maintains the current income eligibility limit and keeps the six month grace period in place.

The recommendation by the Senate Committee on Ways and Means also includes \$3.5 million for a new line item in the Executive Office of Health and Human Services that would provide for the Executive Office to contract with Project Bread/The Walk for Hunger and other anti-hunger organizations. The House funded this budget account at \$1.5 million.

## ENVIRONMENTAL AFFAIRS

Under the Senate Ways and Means proposal, the budget for environmental affairs would increase by \$17.2 million or 8.5 percent.<sup>2</sup>

<b>FY 2006</b>	<b>\$</b>	<b>203,922,663</b>
<b>FY 2007 SW&amp;M</b>	<b>\$</b>	<b>221,159,871</b>
<b>Increase (decrease)</b>	<b>\$</b>	<b>17,237,208</b>
<b>Percentage Change</b>		<b>8.5%</b>

The Senate Ways and Means budget would increase funding for all of the departments within the Executive Office of Environmental Affairs.

- The budget for the Department of Environmental Protection would grow by \$3.4 million or 6.5 percent. The House offered an increase of \$3.8 million or seven percent.
- Funding for the Department of Agricultural Resources would rise by \$6.6 million or 62 percent. Much of this increase is due to the considerable boost in funding for emergency food assistance administered by this Department. The Senate Committee on Ways and Means proposes to increase funding from \$6.5 million in FY 2006 to \$12.5 million in FY 2007 to help accommodate the increased demand on regional food banks. The House budget provided level funding for this budget account. That budget, consequently, provides a much smaller increase for the Department of Agricultural Resources - \$375,000 more than FY 2006.

<sup>2</sup> This total includes funding for the Commonwealth Zoological Corporation, which the House funded through a line item in the Department of Business and Technology, but is currently funded in the Department of Conservation and Recreation.

- Support for the Department of Conservation and Recreation would grow by \$4.5 million or 5.4 percent. The House budget is \$8.2 million or 9.8 million more than FY 2006, though much of that additional funding is restricted by specific earmarks that may not support the core functions of the parks system.
- Support for the Department of Fish and Game increases by roughly \$1.0 million or six percent. The House offered a comparable increase.

The Senate Committee on Ways and Means follows the House and the Governor by including a new line item for an Office of Dam Safety, but offers a higher amount. The Senate Ways and Means budget provides \$1.0 million, while the House and the Governor both recommended \$512,476 for this new office.

While Senate Ways and Means budget would increase funding for environmental affairs in FY 2007, the amount is significantly below the total before the fiscal crisis began. After adjusting for inflation, the budget recommendation for environmental affairs is \$56.5 million or 20 percent below its level in FY 2001.

## HOUSING

The Senate Committee on Ways and Means recommends \$105.0 million for the Department of Housing and Community Development in FY 2007, a \$6.9 million reduction compared to current appropriations. The proposed amount shows a slight decline when compared to current appropriations because the current FY 2006 budget includes \$20.0 million in funding for energy assistance for low-income families.

Should the same amount of supplemental funding for energy assistance re-occur in FY 2007, the budget would stand higher than it does in FY 2006.

<b>FY 2006</b>	<b>\$</b>	<b>111,872,001</b>
<b>FY 2007 SW&amp;M</b>	<b>\$</b>	<b>104,970,370</b>
<b>Increase (decrease)</b>	<b>(\$</b>	<b>6,901,631)</b>
<b>Percentage Change</b>		<b>-6.2%</b>

Under the Senate Ways and Means budget, the line item which supports subsidies to Public Housing Authorities would increase from \$34.9 million to \$43.1 million, an \$8.2 million or 24 percent increase. This recommendation is lower than the \$45.1 million offered in the House budget.

The Massachusetts Rental Voucher Program (MRVP), a housing program which helps low-income families securing housing in the private rental market, would experience a \$1.0 million increase under this proposal. The House proposed to increase funding by \$1.2 million. The Governor recommended reducing funding by \$2.0 million and implementing new work requirements and time limits on the receipt of benefits though this program (a 36 month consecutive time limit and a 60 month lifetime limit). Both the House and the Senate Committee on Ways and Means reject this proposal.

The Senate Committee on Ways and Means follows the House in providing level funding for Rental Assistance for Families in Transition (RAFT). This program, which provides assistance to families at risk of homelessness, would receive \$5.0 million in FY 2007. The Governor's budget provided \$3.0 million for RAFT, but indicated that \$2.0 million that had been used for RAFT would be transferred to new initiatives, including \$1.0 million to support the Tenancy Preservation Program and

\$500,000 for Individual Development Accounts. The Senate Committee on Ways and Means and the House preserve funding in this one budget account for RAFT.

<b>FY 2006</b>	<b>\$</b>	<b>651,093,156</b>
<b>FY 2007 SW&amp;M</b>	<b>\$</b>	<b>727,661,966</b>
<b>Increase (decrease)</b>	<b>\$</b>	<b>76,568,810</b>
<b>Percentage Change</b>		<b>11.8%</b>

## **PUBLIC SAFETY**

Under the Senate Ways and Means proposal, funding for public safety totals \$1.395 billion in FY 2007.

<b>FY 2006</b>	<b>\$</b>	<b>1,380,553,044</b>
<b>FY 2007 SW&amp;M</b>	<b>\$</b>	<b>1,395,421,299</b>
<b>Increase (decrease)</b>	<b>\$</b>	<b>14,868,255</b>
<b>Percentage Change</b>		<b>1.1%</b>

The Senate Committee on Ways and Means recommends increasing funding in several areas, including the following:

- Funding for state police operations would rise from \$211.2 million to \$216.4 million, a \$5.2 million difference. The House budget would provide \$9.3 million more in FY 2007.
- The budget account for the state police crime lab would increase from \$14.0 million to \$16.2 million. The House budget includes the same amount.

Like the House budget, this proposal increases overall funding for public safety, but the additional amount is not enough to keep pace with inflation.

## **JUDICIARY**

The Senate Committee on Ways and Means budgets \$734.4 million for the Judiciary, \$76.6 million higher than the current level of funding.

This proposal, like the ones offered by the House and the Governor, provides a substantial increase in the line item which pays attorneys assigned to criminal and civil cases. Under the recommendation by the Senate Committee on Ways and Means, the current appropriation would rise from \$95.1 million to \$125.2 million, a \$30.0 million increase. The House budget included \$24.6 million more; the Governor provided an additional \$22.4 million.

Although both the Senate Committee on Ways and Means and the Governor propose to consolidate various administrative functions within the Judiciary, the Governor's proposal is more sweeping than that of the Ways and Means Committee. For example, the House 2 budget merged operations for the Superior, District, Family, Probate and Juvenile Courts into one budget account. The Senate Committee on Ways and Means proposes mergers within each of these courts, but would not consolidate all of them. The House kept the current structure in place in its FY 2007 budget proposal.

## **GROUP INSURANCE**

The Senate Committee on Ways and Means proposed \$1.067 billion for the Group Insurance Commission, a \$43.4 million or 4.2 percent increase over FY 2006 funding. This total is almost the same as in the House proposed budget.

<b>FY 2006</b>	<b>\$ 1,023,190,489</b>
<b>FY 2007 SW&amp;M</b>	<b>\$ 1,066,531,827</b>
<b>Increase (decrease)</b>	<b>\$ 43,341,338</b>
<b>Percentage Change</b>	<b>4.2%</b>

As did the House, the Senate Committee on Ways and Means proposed line item language that would restrict the Group Insurance Commission from paying FY 2007 bills with FY 2007 appropriations during the period referred to as the “accounts payable period.” Currently, the Group Insurance Commission has what in effect is a “grace period” for paying bills after the end of the fiscal year. This proposed change would require that bills paid in July 2007 for services rendered in June 2007 be funded out of the FY 2008 budget. The effect of this shift is to push the costs of several weeks’ worth of FY 2007 bills into the FY 2008 budget. The estimated impact of this cost shift is approximately \$43 million.

As in the final version of the budget proposed by the House, the Senate Ways and Means budget maintains the existing cost-sharing structure in which employees hired before July 1, 2003 pay 15 percent of their health insurance premiums, and employees hired after June 30, 2003 pay 20 percent. The Governor’s \$1.039 billion budget recommendation for the Group Insurance Commission, on the other hand, had been based on a proposal to increase the share of health care premiums paid by state workers.

## REVENUE

The budget proposed by Senate Ways and Means Committee assumes that baseline tax collections in FY 2007 will total \$18.975 billion – the amount originally projected

under the Commonwealth’s consensus revenue process – and that federal reimbursements and other sources of non-tax revenue will exceed \$8 billion. As these sources of revenue appear to insufficient to support the level of spending and the two comparatively small tax cuts recommended by the Committee, its budget proposal would both transfer \$350 million from the Commonwealth Stabilization Fund to the General Fund and continue the recent practice of dedicating the full amount of the Commonwealth’s annual tobacco settlement payment to current expenditures. Ultimately, though, the consensus tax revenue estimate of \$18.975 billion is likely to prove too conservative; for instance, if tax collections continue to grow robustly through the coming fiscal year, the Commonwealth could collect as much as \$375 million more than that amount. If this turns out to be the case, a transfer from the Stabilization Fund of the size envisioned by the Senate Ways and Means Committee may not be necessary in order to balance the budget.

### *Recommended Tax Policy Changes*

The budget proposed by the Senate Ways and Means Committee recommends two changes in tax policy. The first, which was also contained in the FY 07 budget approved by the House of Representatives in April, would provide a tax break for commuters, while the second would reduce the taxes paid by corporations who employ individuals participating in the Transitional Aid to Families with Dependent Children (TAFDC) program. Taken together, the impact of these two changes on tax collections would likely be fairly small. While the Senate Ways and Means budget assumes that baseline FY 2007 tax collections will total \$18.975 billion, it suggests that \$18.969 billion will be

available for expenditure and other uses, implying that these two changes would reduce tax revenue by approximately \$6 million in FY 2007.

The commuter tax break contained in the House's version of that budget, as well as that reported by the Senate Ways and Means Committee, would provide a tax deduction for commuters who use FastLane transponders or who purchase weekly or monthly MBTA passes. The deduction would permit taxpayers to subtract any commuting expenses in excess of \$150, up to a maximum of \$750, from their incomes in determining the taxes they owe. As a result, the maximum tax reduction anyone could receive in a given year would be \$39.75 (that is, the maximum deduction of \$750 multiplied by the personal income tax rate of 5.3 percent).

Commuting expenses would include all MBTA transit (bus, subway, and boat) and commuter rail passes as well as tolls paid for through a FastLane account. Thus, an individual who bought a monthly MBTA bus pass (which costs \$31 per month) for the entire year would receive a tax break of \$11.77; anyone who purchased a monthly MBTA subway pass (\$44 per month) for the entire year would receive a tax break of \$20.03; and anyone using a monthly MBTA commuter rail pass (all of which cost more than \$106 per month) would receive the maximum tax break of \$39.75. To receive the maximum tax break available through this deduction, an individual commuting to work by car on a daily basis and using a FastLane transponder would need to pay tolls in excess of \$1.80 per trip.

This proposal reprises an identical deduction that was enacted into law as part of a FY 2005 supplemental budget but that was available for 2004 only. According to the Department of Revenue, during 2004,

142,000 taxpayers claimed the commuter deduction, reducing tax revenue by a total of \$3.5 million. The revenue impact is expected to be the same on an annual basis if this amendment were to become law.

In addition, the budget proposed by the Senate Ways and Means Committee would create a "Work Opportunity Tax Credit" for corporations who employ individuals receiving assistance through the Transitional Aid to Families with Dependent Children (TAFDC) program. Corporations could claim the credit for up to five years for each such employee hired and retained. If such an employee worked 400 or more hours each year (i.e. ten weeks of full-time work), the corporation could claim a credit equal to 40 percent of the first \$6,000 in wages paid to the employee (i.e. a maximum credit of \$2,400); if the employee worked only 120 to 400 hours each year, the credit would be worth 25 percent of the first \$6,000 in wages (i.e. a maximum credit of \$1,500). Corporations that retained such employees for more than one year would be allowed to apply for an additional credit of \$500 per employee (for a maximum of four years).

Perhaps more notable than either of the recommended tax policy changes included in the Senate Ways and Means version of the budget is the tax policy change that that document excludes – namely, Governor Romney's plan to reduce the personal income tax rate to 5.0 percent by 2007. The Governor's plan would reduce tax revenue by roughly \$130 million in FY 2007, but would drain away more than \$630 million in tax revenue per year once fully implemented. In so doing, the Governor's plan would have made the fiscal constraints that the Commonwealth already faces still tighter in future years.

## *Budgetary Transfers*

The budget proposed by the Senate Ways and Means Committee would supplement baseline tax revenue, federal reimbursements, and departmental revenue with funds from two sources: the Commonwealth's annual tobacco settlement payment and the Stabilization Fund.

Like the budget adopted by the House of Representatives, the budget reported by the Senate Committee on Ways and Means would use all of the annual tobacco settlement funds received by the Commonwealth – as well as a larger portion of related interest earnings – to support current expenditures rather than setting them aside for future costs. This practice, which Governor Romney's House 2 budget proposal would follow as well, has been used repeatedly in recent years and would mean that about \$191 million that would otherwise be saved would be spent in FY 2007.

Under current law, only 30 percent of the settlement payment – as well as 30 percent of the investment earnings of the Health Care Security Trust – is intended to be used for current expenditures. The remainder is set aside to fund health related services and programs in the years ahead. The Senate Ways and Means budget would devote 100 percent of the settlement payment and 50 percent of the Trust's investment earnings to finance appropriations in FY 2007. Massachusetts is expected to receive a settlement payment of roughly \$260 million in FY 2007, while interest earnings are anticipated to be \$43 million. Consequently, this change would mean that about \$191 million that would otherwise be saved would be used for current purposes.

The Senate Ways and Means Committee also follows the House's lead in transferring monies from the Stabilization Fund to the General Fund to support current expenditures, but does so to a greater degree. That is, where the budget approved by the House of Representatives would withdraw \$275 million from the Stabilization Fund, the version of the FY 2007 budget reported by Senate Ways and Means would withdraw \$350 million.

This amount is, to be sure, considerably less than the \$600 million Stabilization Fund transfer mandated in the FY 2006 General Appropriations Act. However, if monies are transferred from the Stabilization Fund to the General Fund in the final version of the FY 2007 budget, it would mark the sixth consecutive year in which the Legislature depended upon this impermanent source of revenue to reach at least initial budgetary balance, a trend which could be interpreted as signaling ongoing fiscal strain.

Nevertheless, higher than anticipated tax collections may reduce – or even eliminate altogether – the need for a Stabilization Fund transfer in FY 2007. The consensus tax revenue estimate of \$18.975 billion for FY 2007 – on which the Senate Ways and Means budget is based – assumes that FY 2006 tax collections will total \$18.158 billion and then grow 4.5 percent. Yet, the Department of Revenue's May 1 tax collection totals suggest that year-to-date FY 2006 collections are now about 1.5 percent ahead of their projected levels; if this trend persists, FY 2006 tax collections could reach as high as \$18.432 billion. If this turns out to be the case and tax collections then grow at the expected 4.5 percent rate in FY 2007, then FY 2007 tax revenue will amount to \$19.261 billion – or nearly \$300 million more than the consensus tax revenue estimate. Alternatively, if FY 2006 tax

collections continue at their current pace and then grow 5 percent in FY 2007, then FY 2007 tax collections will exceed the consensus revenue estimate by roughly \$375 million. These higher than anticipated tax collections would then be available to replace some – if not all – of the funds withdrawn from the Stabilization Fund to achieve budgetary balance.

## Spending by Program Area

(in Millions of \$)

Program	FY06*	H.2	House	SWM	SWM vs. House	SWM vs. H.2	SWM vs. FY06			
							Nominal		Real	
Local Aid - Lottery	761.4	920.0	920.0	920.0	0.0	0.0	158.7	21%	139.6	18%
Local Aid - Additional Assistance and PILOT	398.4	407.6	404.3	407.6	3.3	0.0	9.2	2%	(0.8)	0%
Local Education Aid (Ch. 70)	3,288.9	3,452.6	3,461.7	3,499.3	37.6	46.7	210.4	6%	128.2	4%
K-12 Education (non Ch. 70)	486.9	594.9	526.2	509.3	(17.0)	(85.6)	22.4	5%	10.2	2%
School Building Debt Assistance <sup>1</sup>	488.7	572.5	572.5	572.5	0.0	0.0	83.8	17%	71.6	14%
Higher Education <sup>2</sup>	975.9	995.2	1,018.0	1,047.5	29.5	52.3	71.6	7%	47.2	5%
Early Education and Care <sup>3</sup>	475.3	483.3	495.7	507.8	12.1	24.6	32.5	7%	20.6	4%
Income Support Programs	637.6	601.4	613.7	613.0	(0.7)	11.6	(24.6)	-4%	(40.6)	-6%
Medicaid and Other Health Care Programs <sup>4</sup>	7,339.1	7,489.1	7,515.0	7,570.1	55.1	81.0	231.0	3%	47.5	1%
Public Health	449.2	455.7	466.4	464.7	(1.6)	9.0	15.5	3%	4.3	1%
Mental Health	633.0	642.1	643.0	645.4	2.3	3.3	12.3	2%	(3.5)	-1%
Mental Retardation	1,137.1	1,163.9	1,170.5	1,172.2	1.8	8.3	35.2	3%	6.8	1%
Social Services	745.9	762.4	767.8	768.6	0.7	6.1	22.7	3%	4.0	1%
Elder Affairs	217.0	218.9	220.8	221.2	0.4	2.3	4.2	2%	(1.2)	-1%
Other Health & Human Services <sup>5</sup>	541.5	568.3	590.8	599.0	8.2	30.7	57.5	11%	43.9	8%
Environmental Affairs <sup>6</sup>	203.9	207.8	218.4	221.2	2.7	13.3	17.2	8%	12.1	6%
Transportation	175.6	156.0	195.3	149.5	(45.8)	(6.5)	(26.1)	-15%	(30.5)	-17%
Housing & Community Development	111.9	97.2	110.9	105.0	(6.0)	7.8	(6.9)	-6%	(9.7)	-8%
Economic Development	146.0	134.8	147.6	145.6	(2.0)	10.8	(0.4)	0%	(4.1)	-3%
Public Safety	1,380.6	1,366.4	1,387.4	1,395.4	8.0	29.0	14.9	1%	(19.6)	-1%
Judiciary	651.1	692.1	739.6	727.7	(12.0)	35.5	76.6	12%	60.3	9%
District Attorneys	85.3	87.7	88.5	90.6	2.1	2.9	5.3	6%	3.2	4%
Attorney General	37.5	37.6	38.6	38.3	(0.3)	0.7	0.8	2%	(0.1)	0%
Libraries	29.6	30.0	30.5	31.7	1.2	1.7	2.2	7%	1.4	5%
Debt Service	1,793.2	1,924.6	1,955.5	1,952.4	(3.1)	27.8	159.2	9%	114.4	6%
Pensions <sup>7</sup>	1,275.2	1,335.7	1,335.7	1,335.7	0.0	0.0	60.5	5%	28.6	2%
Group Insurance	1,023.2	1,038.7	1,066.6	1,066.5	(0.1)	27.9	43.3	4%	17.8	2%
Other Administrative	751.4	687.1	697.3	686.0	(11.3)	(1.1)	(65.4)	-9%	(84.2)	-11%
<b>Total</b>	<b>26,240.1</b>	<b>27,123.4</b>	<b>27,398.6</b>	<b>27,463.7</b>	<b>65.1</b>	<b>275.2</b>	<b>1,223.6</b>	<b>5%</b>	<b>567.6</b>	<b>2%</b>

### Notes:

- (1) The FY 2006 budget reduces available revenue by \$488.7 million to cover the costs of School Building Assistance. In FY 2007, revenue would be reduced by \$572.5 million. The table includes these amounts as appropriations.
- (2) The Senate Ways and Means budget would allow all campuses to retain their revenue raised through tuition, and certain campus would keep their revenue raised from student fees. This proposal would result in a total of \$109.8 million in funding retained by the campuses, and is included in the figure above. All other figures for higher education include \$31.5 million in tuition revenue currently retained by UMass Amherst, Mass. College of Art, and Mass. Maritime Academy.
- (3) The FY 2006 budget for Early Education and Care includes \$6.0 million from a \$12.0 reserve account created to comply with changes to federal welfare regulations. That amount is included in the total for that year. The remaining \$6.0 is incorporated in the FY 2006 figure for Income Support Programs.
- (4) As explained in the text of this Budget Monitor, the percentage increase from FY 2006 to FY 2007 is higher than suggested by this table because actual FY 2006 spending is expected to be less than the amount appropriated. Totals include "on-budget" and "off-budget" Medicaid, senior pharmacy, other state health care programs, off-budget state payments into the Uncompensated Care Pool, and reserves for health care reform. Totals do not include \$288.5 million off-budget funding for the Health Care Quality Improvement Trust.
- (5) The FY 2006 budget includes a \$20.0 million reserve to fund salary increases to low-wage human services providers, which is distributed to the relevant program areas. The Senate Committee on Ways and Means and the House provide \$28.0 million in new funding for FY 2007, which is reflected in this category since it is not yet determined how this funding would be allocated to each agency.
- (6) The House creates a new line item for the Commonwealth Zoological Corporation in the Department of Business and Technology. Since this appropriation typically falls under the purview of the Department of Conservation and Recreation, the House figure includes this amount here rather than in the Economic Development category.
- (7) Off-budget pension funding in FY 2006 totals \$1.273 billion; the FY 2007 budget includes \$1.335 billion for this purpose. These amounts are treated as appropriations for these years.

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

