

BUDGET MONITOR

The FY 2008 House Ways and Means Budget

INTRODUCTION

Facing difficult fiscal challenges, the House Ways and Means Committee budget follows the Governor in implementing a series of spending reductions across state government and in making small targeted new investments. While the Governor proposed new initiatives in Public Health, the hiring of new police officers, and modest increases in education funding, the House Ways and Means Committee proposes larger increases in education and higher education funding and does not adopt the Governor’s proposals to increase tobacco control spending, to fund new vaccinations, or to hire additional police. The House Ways and Means budget would, however, fund the existing community policing program that House 1 would eliminate.

The largest difference between the Governor’s budget proposal and that of House Ways and Means is the manner in which they address the challenge of strengthening the long term fiscal stability of the state. Acknowledging the risks of drawing heavily from reserve funds during a period of economic expansion, the House 1 Budget came close to balancing the ongoing costs with ongoing revenue. This was achieved by a combination of spending reductions and reforms of the tax code. Following a determination by the state Department of Revenue that at least \$500 million a year is being lost because of tax

avoidance activities, the administration proposed a series of reforms to make it harder for multi-state companies to avoid paying their share of Massachusetts taxes. These reforms would protect \$300 million in state revenue in FY2008 and \$500 million in future years. These reforms, however, are not included in the House Ways and Means budget.

Inside:	
Analysis of spending by program area	2
Local Aid	2
K-12 Education	3
Higher Education	7
Early Education and Care	8
Income Support Programs	10
Health Care	11
Public Health	14
Mental Health	16
Mental Retardation	17
Social Services	18
Elder Affairs	18
Other Human Services	19
Environmental Affairs	20
Economic Development	21
Housing	22
Public Safety and Corrections	22
Judiciary	24
Public Transit	24
Group Insurance	25
Revenue	26
Balance	28

The House Ways and Means budget does not make up for this lost revenue with either spending cuts or alternative revenue sources, rather it uses reserve funds that had been set aside for other purposes. Specifically, this budget relies on \$225 million from the Stabilization Fund (the “Rainy Day” fund) and \$150 million from the Health Care Security Trust Fund. This is \$250 million more in reserves than the Governor proposed using. Also, the House did not fund a reserve account for the anticipated costs of new collective bargaining agreements for which the governor provided \$50 million in funding. As there is little doubt that new collective bargaining agreements costing at least this amount will be approved in FY 2008, this is a cost that will eventually have to be funded by supplemental budgets if there is not a reserve established.

Because of these differences in the use of reserves, the House Ways and Means Committee budget creates a structural gap \$300 million larger than that created by the Governor’s budget. Unless state revenue grows more quickly than anticipated, this gap will eventually have to be closed with additional spending cuts or new revenue. Otherwise it will force continued withdrawals from the “Rainy Day” fund that would deplete the reserves the state will need in the next recession.

ANALYSIS OF SPENDING BY PROGRAM AREA

In the descriptions of spending by program areas that follow, FY 2008 spending is compared to FY 2007 ongoing spending. FY 2007 ongoing spending is the total amount appropriated (in the original FY 2007 budget and supplemental budgets) reduced by any one-time spending that was paid for in FY 2007.

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

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

LOCAL AID

The House Ways and Means budget would provide \$1.345 billion for unrestricted local aid to cities and towns in FY 2008, a \$17.7 million increase over FY 2007. With the exception of a slight increasing in racing distribution payments, the House proposal for local aid matches that of the Governor. This total does not include aid designated for particular purposes, such as career incentive compensation for police officers. Despite these increases, unrestricted local aid to cities and towns under the House Ways and Means budget, after adjusting for inflation, remains \$178 million, or 11.7 percent, below FY 2001 levels.

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

<i>FY 2007 to FY 2008 HW&M</i>	
Increase (decrease)	\$17,700,000
Percentage change	1.3%

Lottery aid to cities and towns remains uncapped for FY 2008 and the House and Governor both propose increasing lottery distributions to cities and towns by \$15 million. This assumes that lottery revenues will increase by this amount over the next fiscal year.



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

Ways and Means also proposes to fund racing distribution payments at \$2.2 million, which is a slight decrease from the \$2.5 million in FY 2007 and a \$200,000 increase over the Governor's proposal.

K-12 EDUCATION

For FY 2008 the House Ways and Means Committee proposes appropriating \$4.282 billion for K-12 education operations, a \$238.1 million increase over the ongoing level of funding in FY 2007. In addition to appropriated funds, a portion of all sales tax revenue (\$634.7 million), will be used for the School Building Assistance Fund. This is a \$77.7 million, or 13.9 percent, increase over the FY 2007 level. Ways and Means proposes approximately \$24.3 million more for K-12 education funding than was proposed by the Governor.

FY 2007 Total	\$4,610,415,845
FY 2007 Ongoing	\$4,601,249,845
FY 2008 Governor	\$4,892,650,331
FY 2008 HW&M	\$4,917,007,419

<i>FY 2007 to FY 2008 HW&M</i>	
Increase (decrease)	\$315,757,574
Percentage change	6.9%

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

Chapter 70 Aid

Chapter 70 Aid is provided to cities and towns for public education purposes. Prior to the release of the Ways and Means

budget, the House and Senate completed a joint resolution on local aid to cities and towns. The House Ways and Means proposal follows that resolution in the calculation of Chapter 70 aid. Overall, the House Ways and Means budget would provide \$3.726 billion, a \$220 million, or 6.3 percent increase over FY 2007. This also reflects a \$20 million increase over the Governor's proposed Chapter 70 funding.

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 (G.L.c. 70, § 2). If this measure of inflation is used to account for increasing costs of providing education, the funding proposed in the House Ways and Means Committee's FY 2008 budget would be about \$353 million or 8.7 percent less than the amount of funding provided in FY 2002.

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

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

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

The new funding can be broken into several categories.

Baseline Foundation Aid

The state education funding law sets a minimum amount that each school district has to spend (of state and local resources combined) on a per pupil basis. The law also sets minimum required local contributions. To ensure that every district can spend the required amount per student, the state provides aid that covers the difference between required total spending and required local contribution. Each year the total budget for each district is adjusted to account for inflation and enrollment changes, while the required local contribution is increased by the rate of growth in local revenues.

The Ways and Means Committee made two slight changes to the calculation of foundation budgets for FY 2008. Foundation budgets were increased by \$50 for each limited English proficient pupil and by \$25 for each low-income pupil. These progressive changes boosted the foundation budget for those districts serving these types of students.

In FY 2007, when the legislature first proposed reforms to the calculation of Chapter 70 aid, there were 119 school districts with a current required local contribution that was below their new target local contribution. In total, these 119 districts were spending about \$321 million less than they would have spent had they been reaching their target local share. Despite the annual increase in the required local contribution, this number has now grown to a \$349 million gap from 133 districts.

In FY 2008 the Ways and Means Committee proposes accelerating the increase in these communities' required local contribution to begin closing this gap between required and target effort. Therefore, communities with a required local contribution 10 percent or

more below their target contribution had two percentage points added to the growth rate of their required local contribution.

Communities with a required contribution between 5 and 10 percent below their target had one percentage point added to their growth rate. This increase in local contribution from below target communities amounts to a statewide increase of \$19.7 million in required local contributions.

The additional aid needed in FY 2008 to make sure that each district can spend the foundation budget amount after accounting for inflation, enrollment, and local capacity changes is \$127 million. Because of the legislature's changes to the foundation budget and their additions to the local revenue growth factor for low-effort communities, new foundation aid accounts for \$123.8 million of the \$220 million increase in Chapter 70 aid.

Aid to Allow Local Spending Reductions

The funding formula adopted in FY 2007 set new targets for the amount that each municipality should spend of its own resources on education. These targets are based on local incomes and property values. The new formula provides additional foundation aid to allow districts that are spending more than their target amount to move down towards the target. In FY 2007 towns were allowed to move 20 percent of the way to the new target and received enough aid to keep them at foundation if the reduction in local contribution would have brought their total spending below the foundation level. When last year's budget was enacted there was an expectation that 20 percent of that original gap would be closed each year for five years. While there are changes over time that complicate the numbers, the gap this year should be roughly 80 percent of the initial gap. Therefore, to close the same share of the initial gap as was closed last year, the state should provide

enough aid to allow districts to reduce their local spending by 25 percent of the current gap (25% of 80% is 20% of the initial 100%).

The House Ways and Means budget provides aid that reduces 25 percent of the remaining gap for high effort communities. In FY 2007 there were 232 communities that were in total spending \$621 million more than would be required by their new target local share. After the 20 percent effort reduction funding in FY 2007, there are now 218 communities that are collectively \$494 million above their target local share. The 25 percent effort reduction proposed by the House Ways and Means Committee would reduce this gap by \$123 million, which is about 20 percent of the original \$621 million gap.

With respect to the \$220 million in new monies for Chapter 70, about \$26.2 million is a result of additional aid for high effort communities. This is slightly lower than the new effort reduction aid proposed in the Governor's budget because the Governor proposed to fund 30 percent of the remaining effort gap, higher than the House proposal of 25 percent.

Down Payment Aid

The FY 2007 reforms also created a category called down payment aid to help communities that would eventually benefit from effort reduction aid, but would not otherwise receive their additional aid until later years. This change and the others made last year are explained more completely in the MBPC publication available at this link:

www.massbudget.org/SchoolFunding.pdf.

The House Ways and Means proposal calculates the amount of down payment aid differently than the Governor's budget. House 1 calculated the amount of aid a community would receive when new targets

are fully phased-in and subtracted from their FY 2008 foundation aid. House 1 then provided communities with about 14 percent of this amount (technically House 1 provided a pro-rated 47 percent of 30 percent of the gap, but this amounts to 14.1 percent).

The House Ways and Means Committee, in contrast, calculated the gap for determination of down payment aid as the difference between the amount of aid a community would receive on full phase-in of new targets and their FY 2007 Chapter 70 aid. In the House Committee budget, communities receive down payment aid in an amount equal to 30 percent of the gap after subtracting out the already calculated increase in foundation aid. Therefore, communities are guaranteed to receive an increase in aid equal to 30 percent of the gap, but some portion of this increase may be received in the form of new foundation or effort reduction aid.

Component	Gov.	HW&M
Foundation aid	127.2	123.8
Effort reduction	33.3	26.2
Downpayment aid	14.7	32.1
Growth aid	7.4	37.0
Minimum per pupil	17.3	1.0
Total	199.8	220.2

Note: Calculating the amount of Chapter 70 aid attributable to each component of the formula is done by starting with baseline foundation aid and then adding, one at a time, each component of the formula in the same order in which the Department of Education makes their calculations.

Therefore, we attribute to each component of the formula the incremental increase in Chapter 70 aid that results when that component is added to the calculation. For example, base foundation aid in FY 2008, under the House proposal, without any additional formula components, would be \$124 million. Total aid increases to \$150 million when effort reduction is added; therefore, we consider effort reduction to increase total Chapter 70 aid by \$26 million.

These different methods yield different amounts of aid. The Ways and Means Committee budget would provide \$32.1 million in down payment aid, compared to \$14.7 million in the Governor’s proposal.

Growth Aid

The new funding formula also provides new funding for districts where the total foundation budget is increasing (primarily as a result of increasing enrollment). The formula provides more per pupil growth aid to districts with lower incomes and property values and less to communities with greater fiscal capacity. While the Governor’s proposal had provided a pro-rated 47 percent of what the growth aid formula dictated, the Ways and Means Committee would provide the full amount dictated by the formula. This amounts to about \$37.0 million in new Chapter 70 assistance.

The portion of new Chapter 70 aid attributable to growth aid is more than four times as much in the Ways and Means budget as in the Governor’s budget. Part of this difference is that Ways and Means did not pro-rate growth aid; however, a major factor is also the Ways and Means proposal to increase foundation budgets by \$50 for each limited English proficient pupil and \$25 for each low-income pupil. Because growth aid is calculated from the difference between a district’s foundation budget in FY 2007 versus FY 2008, an increase in the foundation formula for FY 2008 will increase the size of the difference between years and thereby increase the amount of growth aid available.

Minimum Aid

Finally, all communities receive enough aid to guarantee a \$50 per pupil increase in state aid. In the House Ways and Means budget, the cost of this minimum aid is \$1.0 million.

Other K-12 Education Funding

The House Ways and Means Committee proposes to fund K-12 education operations, programming, and grant-making at \$556.6 million for FY 2008, a 3.3 percent increase over the \$538.7 million in ongoing funding provided in FY 2007. The Ways and Means proposal also would provide about \$4.2 million more than was proposed by the Governor.

FY 2007 Total	\$547,895,805
FY 2007 Ongoing	\$538,729,805
FY 2008 Governor	\$552,463,641
FY 2008 HW&M	\$556,636,091

<i>FY 2007 to FY 2008 HW&M</i>	
Increase (decrease)	\$17,906,286
Percentage change	3.3%

While the Governor proposed relatively level funding for the state Department of Education, the Ways and Means Committee proposes a \$2.5 million or 22.9 percent increase in the Department’s administrative budget for FY 2008. One possible explanation for the size of this proposed increase is line item language stipulating that the Department prepare, by November of 2007, a strategic vision for the Department as well as a “detailed implementation plan” for realizing that vision.

The House Ways and Means Committee followed the Governor’s lead in expanding funding for extended learning time grants and kindergarten expansion, but in both cases provided smaller increases than those proposed in the Governor’s budget. Ways and Means would boost kindergarten expansion grants (that support conversion of half-day programs to full-day) by \$3.9 million, a 14.1 percent increase over FY 2007, but only a third of the \$12 million increase proposed by the Governor.



Extended time learning grants, which would allow a longer school day, would see a 46.1 percent or \$3 million increase under the House Ways and Means budget, about half of the \$6.5 million increase proposed in House 1.

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

- The Special Education circuit breaker program, which provides funds to school districts to help with cases of extraordinary special education costs, would increase by nearly \$11 million or 5.3 percent. This is more than \$8 million above the Governor’s request for the program.
- Funding for targeted intervention in districts or schools at-risk of receiving an under-performing determination is proposed to receive a \$4.1 million or 82.8 percent increase, whereas the Governor had proposed a much lower increase for this item.
- Ways and Means proposed an 8.6 percent increase in funding for MCAS remediation grants to school districts, boosting the funding level to \$11.3 million.
- The proposal includes a \$4.7 million increase for the state’s education technology program, though this is about \$500,000 less than the amount proposed by the Governor.

While many programs of the Department of Education receive modest increases under the Ways and Means budget, several programs face cuts. For example, the Department’s Adult Basic Education program is cut by \$1.6 million, or 5.5 percent, from the FY 2007 ongoing level of funding. This is different from the Governor’s proposal, which basically level-funded this program.

Also cutback in the Ways and Means budget is funding for content-area (math, science, etc.) training for teachers. The proposal cuts this program by \$1.1 million or 55.2 percent. With this program as well the Governor proposed level-funding.

HIGHER EDUCATION

The Ways and Means Committee proposes to spend \$1.054 billion on public higher education in FY 2008, a \$22.6 million, or 2.2 percent, increase over FY 2007 ongoing spending. This is significantly larger than the approximately \$6 million increase proposed in the Governor’s budget. If the Ways and Means Committee’s proposed funding level for FY 2008 were adopted, higher education funding, after adjusting for inflation, would remain \$246 million or 18.9 percent below FY 2001 levels.

FY 2007 Total	\$1,191,320,401
FY 2007 Ongoing	\$1,031,541,911
FY 2008 Governor	\$1,037,954,557
FY 2008 HW&M	\$1,054,153,195

<i>FY 2007 to FY 2008 HW&M</i>	
Increase (decrease)	\$22,611,284
Percentage change	2.2%

Under the Ways and Means proposal, funding for the University of Massachusetts system, the state college system, and the community college system is increased by \$18.1 million, \$5.3 million, and \$8.9 million, respectively. In each case these increases are larger than those proposed by the Governor, with Ways and Means proposing to increase funding for the entire system by \$32.2 million, compared to \$16.3 million in the Governor’s budget.

The Ways and Means Committee did not follow the Governor’s proposal of consolidating line items for state colleges

and community colleges, instead electing to separately appropriate money for each institution.

Spending by Higher Education Institutional Level			
	FY07	FY 08	FY 08
	Ongoing	Gov.	HW&M
University of Massachusetts	450.9	462.0	469.0
State Colleges	210.5	212.1	215.8
Community Colleges	231.3	235.0	240.2
Total	892.8	909.1	925.0

The other major increase proposed by the House Ways and Means Committee is a \$4.7 million, or 5.3 percent, increase in the Massachusetts state scholarship program. This is the primary line item in the state budget for financial aid and, after-adjusting for inflation, it has slowly eroded since FY 2001. The Governor proposed to level-fund this item.

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

The Ways and Means Committee also

eliminated line items for specific projects located at the various state colleges or community colleges. In some cases these projects reappear as earmarks within the line items for their home institution, while others do not. For example, a line item for Salem State's aquaculture program is eliminated, but an earmark is included under Salem State's line item. On the other hand, the line item for the Public Policy Institute at North Shore Community College is eliminated and no earmark under the College's line requires spending on the Institute.

EARLY EDUCATION AND CARE

While the Governor proposed essentially level funding for early education and care, the House Ways and Means Committee proposes an increase of \$21.5 million.

FY 2007 Total	\$510,296,241
FY 2007 Ongoing	\$510,296,241
FY 2008 Governor	\$509,854,321
FY 2008 HW&M	\$531,798,390

<i>FY 2007 to FY 2008 HW&M</i>	
Increase (decrease)	\$21,502,149
Percentage change	4.2%

In order to compare funding over time for Early Education and Care programs, we make adjustments to the FY 2007 funding

Funding for Direct Services in Early Education and Care (EEC)					
Number	Direct Service Funding	FY 2007 Budget	FY 2007 in FY 2008 HW&M Structure	FY 2008 HW&M	HW&M increase over FY 2007
		1599-0042	Child Care Staff Reserve	12,500,000	0
3000-3050	Supportive Child Care	54,673,130	58,506,330	67,194,996	8,688,666
3000-4000	Community Partnerships for Children	47,641,095	0	0	0
3000-4050	TANF Related Child Care	163,151,082	166,498,282	169,892,198	3,393,916
3000-4060	Low-Income Child Care	150,714,917	187,914,517	193,434,752	5,520,235
3000-5000	Grants to Head Start Programs	8,500,000	8,500,000	8,500,000	0
3000-5075	Universal PreKindergarten Program	4,638,739	20,399,834	20,399,834	0
	Total	441,818,963	441,818,963	463,421,780	21,602,817

levels so that they can be compared to the FY 2008 House Ways and Means budget proposal. There are two line items, in particular, that require several adjustments each: the Child Care Rate Reserve (line item 1599-0042) and the Community Partnerships for Children program (line item 3000-4000).

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

The House Ways and Means budget eliminated line item 3000-4000, which had funded the Community Partnerships for Children (CPC) program. The funding for this program, however, was transferred to two other programs in the House Ways and Means budget: \$15.7 million was transferred to the Universal Pre-Kindergarten Program (line item number 3000-5075) and the remainder, \$31.8 million, was transferred to the Low-Income Child Care Program (line item number 3000-4060). Our chart adjusts the FY 2007 numbers to conform to this structure.

In addition to these issues, the second column of the chart reflects a transfer of \$2.1 million from TANF Related Child Care to Supportive Child Care. The Department of Early Education and Care transferred these funds in October 2006 in order to provide services to 1,074 children who were on the waiting list for Supportive Child Care.

After making these adjustments, we can compare the House Ways and Means proposal to the FY 2007 budget. The House Ways and Means Committee would increase funding for Supportive Child Care from \$58.5 million to \$67.2 million, an \$8.7 million increase. Most of this new funding would be used to eliminate the wait list. The Governor proposed the same increase. Supportive Child Care funds early education and care for families referred by the Department of Social Services.

Funding for TANF Related Child Care increases from \$166.5 to \$169.9 in the House Ways and Means Committee proposal, a \$3.4 million increase. In contrast, the Governor's proposal (of \$164.4 million) would result in a reduction of \$2.1 million. This program funds vouchers for enrollment in early education and care programs; the funds are available for families currently receiving or transitioning from Temporary Assistance to Needy Families (TANF).

The House Ways and Means Committee increases funding for Low-Income Child Care from \$187.9 million to \$193.4 million, a \$5.5 million increase. The House Ways and Means proposal is \$8.9 million larger than the Governor's proposal. This program provides financial assistance for income-eligible families to enroll in early education and care programs.

The House Ways and Means Committee level funds the Healthy Families Home Visiting Program, the Massachusetts Family Network and the Reach Out and Read Program, which is funded as an earmark within Massachusetts Family Network. The House Ways and Means Committee reduces by \$2 million administrative funding in line item 3000-2000, which funds child care resource and referral agencies.

The House Ways and Means Committee increases by \$1 million various professional development and quality enhancement initiatives that are funded in items 3000-6000 and 3000-6050, while it shifts money between these items.

The House Ways and Means Committee includes a new \$4 million for the Child Care Rate Reserve in FY 2008; the Governor proposed no new funding.

INCOME SUPPORT PROGRAMS

Total funding for income support programs in the House Ways and Means budget is \$598.3 million. This is \$3.4 million less than recommended by the Governor and \$9.8 million, or 1.6 percent, less than in FY 2007.

FY 2007 Total	\$625,261,358
FY 2007 Ongoing	\$608,261,358
FY 2008 Governor	\$601,845,370
FY 2008 HW&M	\$598,363,948

FY 2007 to FY 2008 HW&M

Increase (decrease)	(\$9,897,410)
Percentage change	-1.6%

The House Ways and Means Committee proposal is \$3.2 million less than the Governor's proposal for TAFDC grant payments and \$15.6 million less than in FY

2007. These changes are likely due to lower expected caseloads.

Like the Governor, the House Ways and Means Committee proposes \$69.91 million for the Emergency Aid to the Elderly, Disabled and Children program. This program provides cash assistance to low-income elderly, disabled individuals and those caring for disabled family members. This funding level is slightly lower than the FY 2007 level of \$69.97 million.

Unlike the Governor, the House Ways and Means Committee includes a requirement that the Commissioner of the Department of Transitional Assistance notify the Legislature 60 days before implementing any eligibility or benefit changes. This notice requirement helps ensure that legislators consider alternatives to benefit cuts, should deficits emerge in a given year. This requirement was 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 \$27.16 million, exactly the amount proposed by the Governor. This is essentially the same level of funding provided in FY 2007.

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

HEALTH CARE

The House Ways and Means budget proposal includes a total of \$9.271 billion for Medicaid/MassHealth and other related health care programs. This is 3.8 percent more than the funding level in FY 2007, and just slightly more than the Governor's health care proposal. Like the Governor, the House Committee on Ways and Means states that their budget proposal fully funds the costs of implementing the Commonwealth's health reform legislation.

This *Budget Monitor* total includes funding for health care from non-budgeted special trusts as well as on-budget appropriated line items supporting health care. The non-budgeted special revenue funds are integral to the implementation of health reform, and the implementation of health reform is integral to the funding of on-budget health programs such as Medicaid/MassHealth.

FY 2007 Total	\$8,958,190,795
FY 2007 Ongoing	\$8,930,690,795
FY 2008 Governor	\$9,254,582,321
FY 2008 HW&M	\$9,271,160,994

<i>FY 2007 to FY 2008 HW&M</i>	
Increase (decrease)	\$340,470,199
Percentage change	3.8%

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 House Ways and Means health care budget. We make various adjustments to the totals as listed in the budget, in order to make more accurate year-to-year comparisons.¹

¹ "Medicaid/MassHealth" includes the funding for the Healthy Start Program and the Medicare "Clawback." These "Medicaid/ MassHealth" totals also include the administrative costs associated

Medicaid/MassHealth

Total appropriated Medicaid/MassHealth funding in the House Ways and Means budget recommendation is \$8.28 billion. Ongoing FY 2007 funding for Medicaid/MassHealth was \$7.83 billion, and the Governor's recommendation for appropriated funding for these programs was \$8.27 billion. Whereas the Governor's budget had recommended consolidating various Medicaid/MassHealth accounts, the House Ways and Means budget does not adopt the Governor's recommendation to consolidate these accounts.

The House Ways and Means budget projects that caseload will grow approximately three percent over last year's levels, and the House Ways and Means budget recommendation funds Medicaid/MassHealth at \$12.8 million more than the Governor's recommendation. The Governor had recommended a combination of savings initiatives and program expansions that would have resulted in \$179.2 million in savings. The House Ways and Means proposal does not include all of the Governor's expansions and savings initiatives, and includes two distinct program expansions of its own.

with the Executive Office and the Office of Medicaid. The totals for "Other Health Care Programs" include the Children's Medical Security Plan program, as well as the Betsy Lehman Center and certain health care grants. "Health Care Reform" does not include funding directed to the Division of Insurance in FY 2007, but does include other budgeted administrative costs associated with the implementation of health care reform. Funding transferred into the Uncompensated/Health Safety Net Care Pool is included in the discussion of non-budgeted health care funding.

Included in the House Ways and Means budget are:

- \$50,000 more for enrollment and outreach grants, compared to the Governor's recommendation, for a total of \$550,000. Funding for enrollment and outreach grants in FY 2007, however, was \$3.5 million. These grants have allowed community organizations to help uninsured individuals enroll in the Commonwealth's variety health insurance programs.
- The House Ways and Means budget includes \$10.0 million targeted to rate increases for community health centers. This same earmark was included in the FY 2007 General Appropriation Act, but the Governor's FY 2008 budget recommendation did not include the earmark.

Like the Governor, the House Ways and Means budget 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.

The single largest change affecting the Medicaid/MassHealth budget comes from an administrative change embedded into the Governor's budget proposal, which also appears to be included in the House Ways and Means proposal. MassHealth plans to tighten the schedule for eligibility re-determinations from 60 to 45 days. This change (by more quickly eliminating coverage for persons no longer eligible) would save \$70 million in spending, and cost \$35 million in foregone federal revenue. The net impact on the state budget of this administrative change would be \$35 million.

The House Ways and Means proposal does not include some of the expansion initiatives built into the Governor's budget proposal. For example, the House Ways and Means Medicaid/MassHealth proposal apparently does not include \$5.0 million for expansion of the Community First initiative. This initiative allows certain elders to direct their long term care supports in community- and home-based settings, rather than in nursing homes or other institutions. Moreover, it appears that the House Ways and Means proposal does not include \$4.5 million for expanded adult day health rates, or \$3.0 million for long-term care preadmission counseling.

The House Ways and Means proposal also apparently does not include some of the savings initiatives built into the Governor's budget proposal. For example, the House Ways and Means Medicaid/MassHealth proposal does not seem to include an initiative to implement nursing home discharge planning, an effort which the Governor projected would have saved \$18.7 million. The House Ways and Means budget appears not to include implementing neonatal intensive care unit case management, an initiative that House 1 projected could have saved \$550,000.

Pharmacy Programs

The House Ways and Means budget recommends \$63.8 million for the Prescription Advantage program. Funding in FY 2007 was \$63.6 million, and the Governor's budget recommended \$60.5 million.

In FY 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. Neither the Governor's budget nor the House Ways and Means budget included language to reinstate this level of protection.

Other Budgeted Health Care

The House Ways and Means budget recommends funding the Children's Medical Security Plan at \$15.2 million, the same as the Governor's recommendation. Although this is less than funding in FY 2007, the amount is most likely sufficient to meet the needs of the program, given anticipated FY 2007 spending levels. Included in the House Ways and Means recommendation is budgetary language that maintains the existing structure for premiums in the program, and exempts from premiums families with incomes at less than 200 percent of the federal poverty level. The Governor's budget had language that would have given the administration latitude to set premium levels via regulation.

Health Reform

In order to administer health reform, the House Ways and Means budget recommends – as did the Governor's budget – that there be a total of \$2.4 million within the Department of Workforce Development and within the Division of Insurance designated for implementation of the "fair share assessment" and a "health care access bureau."

Non-Budgeted Health Funding

In addition to the funding listed above, the House Ways and Means budget recommendation includes information about non-budgeted health care funding associated with certain trust funds. These trusts receive funds transferred from the General Fund for specified purposes, but their spending is not subject to legislative appropriation. The House Ways and Means proposal for the use of these funds is the same as the Governor's proposal:

- \$251.0 million for supplemental payments to certain hospitals transferred to the Medical Assistance Trust Fund, a six percent increase from the FY 2007 total.
- \$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.
- \$628.8 million allocated to 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.

In FY 2007, \$70.9 million in provider Medicaid/MassHealth rate enhancements came from the Commonwealth Care Trust Fund, but in FY 2008, amounts to cover these rate increases were incorporated into the Medicaid/MassHealth appropriation totals. The totals in this *Budget Monitor* subtract \$70.9 from the FY 2007 Commonwealth Care Trust Fund total in order to generate a more accurate comparison of Medicaid/MassHealth totals between the two years. Without this reduction, the FY 2007 total for the

Health Care Programs <i>(in Millions of Dollars)</i>				
	FY 2007	FY 2007	FY 2008	FY 2008
	Current	Ongoing	Gov.	HW&M
Medicaid/MassHealth*	7,906.2	7,905.2	8,268.7	8,281.5
Pharmacy Programs	63.6	63.6	60.5	63.8
Other Budgeted Health Care Programs	20.2	18.7	15.2	15.7
Health Care Reform	43.0	18.0	2.4	2.4
Sub-Total	8,033.0	8,005.5	8,346.8	8,363.4
Medical Assistance Trust	236.0	236.0	251.0	251.0
Essential Community Provider Trust	38.0	38.0	28.0	28.0
Commonwealth Care Trust*	651.2	651.2	628.8	628.8
Total other non-budgeted health care	925.2	925.2	907.8	907.8
Grand Total	8,958.2	8,930.7	9,254.6	9,271.2

**In FY 2007, the Medicaid/MassHealth total includes \$288.5 million from the Health Care Quality Improvement Trust associated with nursing home rate adjustments. These rate adjustments are incorporated into the FY 2008 Medicaid/MassHealth appropriated totals. In FY 2007, we took \$70.9 million from the Commonwealth Care Trust Fund and added it to the Medicaid/MassHealth total in order to mirror \$140.9 million brought on-budget from the Commonwealth Care Trust Fund in FY 2008.*

Commonwealth Care Trust Fund would have been \$722.1 million.

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.

Both the Governor’s budget and the House Ways and Means proposal 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 House Ways and Means’ and Governor’s budgets both recommend transferring \$33.9 million from the Commonwealth Care Trust Fund into this pool to support its operations.

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

PUBLIC HEALTH

Total public health funding in the House Ways and Means budget is \$515.5 million. This is \$3.0 million more than ongoing public health funding in FY 2007 (less than a 1.0 percent increase), but \$31.5 million (6 percent) less than recommended by the Governor. When adjusted for inflation, the total House Ways and Means public health funding recommendation is 17 percent below FY 2001 funding levels.

FY 2007 Total	\$514,463,185
FY 2007 Ongoing	\$512,495,185
FY 2008 Governor	\$547,036,991
FY 2008 HW&M	\$515,511,750

<i>FY 2007 Ongoing to FY 2008 HW&M</i>	
Increase (decrease)	\$3,016,565
Percentage change	0.6%

As part of a commitment to controlling health care costs in the future, the Governor recommended expanding public health programming in certain areas. The House Ways and Means budget does not reflect those proposed expansions. Public health hospital-based spending increases 7 percent compared to FY 2007, while non-hospital based funding decreases 2.0 percent.

The House Ways and Means budget recommendation for public health programs, as in other areas, does not follow the Governor’s proposal to consolidate funding for a variety of programs. For example, rather than consolidating several services under the category of “health promotion and disease prevention,” the House Committee on Ways and Means continues the previous years’ practice of funding the several line items separately.

Two major initiatives in the Governor’s public health budget are not included in the House Ways and Means budget proposal:

- **Immunizations.** The Governor had proposed an additional \$24.8 million for the universal immunization program in order to fund the addition of the rotavirus, meningococcal conjugate and human papilloma virus vaccines in the universal immunization program. The House Ways and Means budget funds immunizations at \$38.4 million, which would be \$1.6 million more than in FY 2007, sufficient to cover the costs of the current vaccine program. Included in

the budget language is a requirement that the Commonwealth conduct a study of the “efficacy” of these three additional vaccines.

- **Anti-Smoking Programs.** The Governor had proposed almost doubling funds for anti-smoking programs in the Department of Public Health. The House Ways and Means budget does not follow the Governor’s recommendation, and keeps funding for smoking prevention and control at the FY 2007 level of \$8.3 million. Even the Governor’s budget recommendation would not have brought funding for anti-smoking programs back to the level it had been. In the early part of the current decade, there were deep cuts in the public health budget. In inflation-adjusted dollars, funding for smoking prevention programs in FY 2001 was \$60.5 million.

Even so, the House Ways and Means budget recommendation includes increases over FY 2007 levels for several areas in public health, including:

- \$133.6 million in appropriated funds for public health hospitals. This is \$4.6 million more than in FY 2007, an 8 percent increase. The Governor had recommended \$136.9 million.
- \$41.7 million for early intervention services, including \$4.5 million in retained revenue. This is the same as recommended by the Governor, and is \$3.0 million more than ongoing funding in FY 2007. The Department of Public Health expects a 2.5 percent caseload increase, and this increased funding level should be sufficient to cover the costs of the expanded caseload.
- \$3.8 million for community suicide prevention services. This program receives the single largest proposed

increase in the House Ways and Means public health budget – a 200 percent increase. The Governor recommended level funding community suicide prevention programs at \$1.3 million.

- \$4.6 million for domestic violence and sexual assault and treatment programs. This amount includes last year's \$158,000 designated for intervention and services for intimate partner violence in the gay and lesbian community.

The House Ways and Means budget recommendation also includes several significant reductions in funding compared to ongoing funding levels in FY 2007:

- \$78.5 million for substance abuse services. Although this is the same amount as proposed by the Governor, it is an \$8.2 million decrease from funding in FY 2007. At the beginning of FY 2007, funding for substance abuse services was \$66.6 million. Over the course of the year, \$20.1 million more was added to support these services. As in the Governor's budget recommendation, the House Ways and Means budget would not continue into FY 2008 the full amount of this funding. This could put in jeopardy several new programs for young adults and adolescents funded by these supplemental dollars.
- \$1.9 million for dental health services, \$850,000, or 31 percent, less than in FY 2007. This is the same amount as proposed by the Governor.
- \$13.9 million for the state laboratory, \$828,000 less than in FY 2007, and \$1.2 less than proposed by the Governor. The state laboratory plays a critical function in the Commonwealth's planning for the possibility of pandemic influenza, and also supports municipalities in their efforts to control insect-borne illnesses

such as West Nile Virus and Eastern Equine Encephalitis (EEE).

- \$6.7 million for early breast cancer screening and treatment, which is almost \$675,000 less than the FY 2007 level.
- \$16.4 million for school health services, a \$290,000 decrease from FY 2007 funding. This is \$142,000 more than recommended by the Governor, but it still represents a significant decrease from funding in FY 2001, when school health services received \$54.0 million in inflation-adjusted dollars. Included in the House Ways and Means budget proposal for school health services is \$300,000 targeted for mental health and substance abuse programming in school-based health centers, \$150,000 for a pilot project to combat childhood obesity, and \$350,000 for the commission on gay and lesbian youth. These "earmarks" within the line item language were also part of the FY 2007 budget.

Most of the public health screening programs (for example, for osteoporosis, prostate cancer, colorectal cancer, Hepatitis C, multiple sclerosis, renal disease, ovarian cancer and diabetes) receive funding at the same level as in FY 2007 (with the exception of early breast cancer detection as described above.)

MENTAL HEALTH

Funding for mental health services would increase by \$18.6 million over FY 2007 ongoing levels in the House Ways and Means Committee budget, an increase of 2.9 percent. This is slightly more funding than the Governor's budget provided for mental health services.

FY 2007 Total	\$646,529,706
FY 2007 Ongoing	\$646,529,706
FY 2008 Governor	\$664,037,326
FY 2008 HW&M	\$665,148,921

<i>FY 2007 to FY 2008 HW&M</i>	
Increase (decrease)	\$18,619,215
Percentage change	2.9%

Overall, the increase in funding for the Department of Mental Health stems primarily from provisions in the state’s provider contracts that increase payments each year to maintain levels of service. In addition, the administration estimates that \$4 to \$5 million of the human services rate reserve for FY 2007 went to the Department of Mental Health. This funding, because it pays for higher wage rates among providers, then becomes a component of maintenance level spending in future years.

While the House Ways and Means Committee does not adopt the Governor’s proposal to consolidate emergency services and homelessness support services with overall adult mental health services, both budget proposals provide \$373 million for these three categories. This represents an increase of about \$15 million, or 4.2 percent, over FY 2007 funding levels for adult mental health services.

Also roughly matching the Governor’s proposal, Ways and Means proposes a \$7.5 million or 4.5 percent increase in funding for state psychiatric hospitals and inpatient services. Funding for child and adolescent mental health is increased by about \$1 million or 1.4 percent.

MENTAL RETARDATION

The House Ways and Means Committee would provide \$1.226 billion for the programs of the Department of Mental

Retardation, an increase of \$50.4 million or 4.3 percent over FY 2007 ongoing levels. This is also about \$10.5 million more than was proposed by the Governor.

FY 2007 Total	\$1,175,919,006
FY 2007 Ongoing	\$1,175,919,006
FY 2008 Governor	\$1,215,833,577
FY 2008 HW&M	\$1,226,349,128

<i>FY 2007 to FY 2008 HW&M</i>	
Increase (decrease)	\$50,430,122
Percentage change	4.3%

While the Ways and Means Committee does not adopt the Governor’s proposal of consolidating seven programmatic line items in the Department of Mental Retardation into two, both budget proposals consolidate two existing line items into one for the administration of the Department. Both the Ways and Means Committee and the Governor fund this new administrative line item at about \$73 million, a \$1.3 million increase over FY 2007 funding.

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

- Community support programs, which includes functions such as respite family support, transportation, and work programs for the intellectually impaired and disabled, are funded at \$190.8 million, a \$5.9 million increase over FY 2007 and about \$5 million more than was proposed by the Governor.
- Community residential programs, providing for non-institutional residential situations for the intellectually disabled, are funded at \$769.9 million, a \$35.1 million or 4.8 percent increase over FY 2007 levels.
- Finally, support for state institutional facilities is proposed at \$182.8 million,



about \$10 million more than FY 2007 and \$2 million more than the Governor's proposal.

While the Governor's budget proposal cut \$3 million from the Department's Turning 22 program, realized through changes in the program enrollment process, the Ways and Means budget makes this cut \$2 million.

SOCIAL SERVICES

The Ways and Means Committee's budget for the Department of Social Services is \$795.1 million for FY 2008. This is a \$25.2 million or 3.3 percent increase over the FY 2007 budget for the Department. The Committee's proposal is about \$4.8 million higher than the Governor's budget.

FY 2007 Total	\$769,900,112
FY 2007 Ongoing	\$769,900,112
FY 2008 Governor	\$790,253,582
FY 2008 HW&M	\$795,099,060

<i>FY 2007 to FY 2008 HW&M</i>	
Increase (decrease)	\$25,198,948
Percentage change	3.3%

The Ways and Means Committee's budget matches the Governor's proposal by increasing funding for the Department of Social Services' administration by \$3.4 million or 4.5 percent.

Much of the activity of the Department of Social Services is funded through two core services accounts. The Governor proposed to consolidate these into a single line item in order to give the Department maximum flexibility. Ways and Means maintains this distinction, but their budget increases funding for these core services accounts by \$21.0 million or 4.1 percent. This is about \$4.3 million more than the Governor proposed.

The Ways and Means Committee matches the Governor's proposal for funding social workers for case management at \$4.2 million more than FY 2007.

Finally, while the Governor's budget cut funding for the Department's transitional employment program by \$1 million or 50 percent, the House Ways and Means maintains funding for the program at the FY 2007 level.

ELDER AFFAIRS

The House Ways and Means budget recommendations include \$226.4 million in funding of programs for elders, just slightly less than the funding recommended by the Governor, and slightly more than total ongoing funding in FY 2007. (For a discussion of the MassHealth senior care programs, nursing home rates, and the pharmacy programs, see the "Health Care" section of this *Budget Monitor*.)

FY 2007 Total	\$223,061,057
FY 2007 Ongoing	\$223,061,057
FY 2008 Governor	\$227,024,995
FY 2008 HW&M	\$226,388,593

<i>FY 2007 Ongoing to FY 2008 HW&M</i>	
Increase (decrease)	\$3,327,536
Percentage change	1.5%

The House Ways and Means budget does not follow the Governor's recommendation to consolidate the funding for elder home care services or supportive housing. Instead, the budget proposal includes line-item appropriations for each program as in past years.

The House Ways and Means budget includes a total of \$188.3 million for home care, compared to \$189.1 million recommended by the Governor, and \$186.6

million in FY 2007. The House Ways and Means proposal breaks this into \$105.0 million for home care services, \$39.9 for home care case management and administration, and \$43.4 for the Elder Enhanced Community Options program.

The House Ways and Means budget recommends a 16 percent increase in programs for supported housing for elders, for a total of \$6.2 million. This is an increase over both the Governor's recommendation of \$5.3 million, and the FY 2007 funding of \$5.8 million. The House Ways and Means budget proposal separates this total into \$2.0 million for the congregate housing program, and \$4.2 million for supportive senior housing.

OTHER HUMAN SERVICES

The House Ways and Means Committee budget proposes a total of \$601 million for all other human services programs, a \$6.1 million or 1.0 percent decrease from FY 2007. However this is \$1.7 million more than was proposed in the Governor's budget.

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 Total	\$607,723,788
FY 2007 Ongoing	\$607,223,788
FY 2008 Governor	\$599,431,450
FY 2008 HW&M	\$601,153,959

<i>FY 2007 to FY 2008 HW&M</i>	
Increase (decrease)	(\$6,069,829)
Percentage change	-1.0%

Examining funding for services to veterans, including both the Veterans' Affairs office and the state's soldiers' homes, the House Ways and Means Committee proposes to increase funding by \$4.8 million. This represents a slight increase over the Governor's proposed level of funding, and does not include funding for homeless veterans (see sub-section below).

Funding for the Massachusetts Commission for the Blind and the Massachusetts Rehabilitation Commission is generally maintained at FY 2007 levels and there is little difference between the Governor's proposal and that of Ways and Means.

The Ways and Means Committee proposes to fund the state's Division of Health Care Finance and Policy at \$14.0 million, an increase of \$1.1 million over FY 2007 levels and the same increase as was proposed by the Governor.

Funding for the administrative and case management functions of the Department of Transitional Assistance is set by the House at \$124.6 million, an almost \$1 million increase over FY 2007. However, the Ways and Means proposal is \$2.1 million below the funding level requested by the Governor.

Finally, the proposal includes an increase of \$2.1 million or 1.3 percent in funding for the Department of Youth Services. A \$6.7 million combined increase in services for the detained and committed youth populations is offset by a \$1.2 million cut in non-

residential services for the committed population and the elimination of \$3.3 million in funding for Department education services.

Homelessness

The Governor’s budget proposal consolidated, into two items, a series of items from across state government that fund programs and services for the homeless or those at risk of becoming homeless. While the Ways and Means Committee does not adopt the Governor’s consolidation proposal, it is possible to analyze the proposed funding levels across these line items.

The Ways and Means budget includes \$161.2 million for services to the homeless, compared to \$153.6 million in FY 2007. This is an increase of \$7.5 million or 4.9 percent. The primary sources of the increase, over FY 2007, in the House Committee budget are a \$5.9 million increase in family shelters and services and a \$2.5 million increase in the Massachusetts Rental Voucher Program. The line items for Veterans’ homeless shelters and for the New England Shelter for Homeless Veterans are cut by \$250,000 and \$900,000 respectively. The Committee’s budget for homelessness is about \$1.2 million above that of the Governor.

Human Services Rate Reserve

Part of total spending for other human services in the House Ways and Means proposed FY 2008 budget is \$12 million for the human services rate reserve account. This is the same amount proposed for the reserve in the Governor’s budget. This amount represents a \$16 million decline from the FY 2007 level and a decline of \$8 million from the FY 2006 level.

Ultimately, the \$12 million proposed for the reserve account will be spent across all health and human services departments to fund salary increases for low-wage service providers. Because the budget proposal does not distribute the reserve among agencies, the reserve account funding is included in the other human services comparison between FY 2007 and FY 2008.

ENVIRONMENTAL AFFAIRS

The budget recommendations for environmental affairs would decrease funding from \$208 million in FY 2007 ongoing to \$205 million in FY 2008, a decline of 1.4 percent. This is markedly different from the Governor’s proposal which would have increased funding for environmental affairs by \$3.6 million or 1.7 percent. The environmental affairs programs of the Commonwealth were among the hardest hit by recent budget cutting. With the House Ways and Means Committee budget making further cuts, the FY 2008 budget is \$83.6 million, or 28.9 percent, below FY 2001 levels, after adjusting for inflation.

FY 2007 Total	\$251,892,733
FY 2007 Ongoing	\$208,129,677
FY 2008 Governor	\$211,654,688
FY 2008 HW&M	\$205,281,557

<i>FY 2007 to FY 2008 HW&M</i>	
Increase (decrease)	(2,848,120)
Percentage change	-1.4%

The House Ways and Means budget cuts funding for the Executive Office of Environmental Affairs and its affiliated programs by \$2.2 million or 9.2 percent. This is accomplished through a 9.3 percent cut to EOEA administration, a 13.4 percent cut to the Office of Geographic Environmental Information (funding GIS

services), a 13.4 percent cut to recycling coordination programs, and a 63.6 percent cut in funding for redemption centers.

The Department of Environmental Protection is essentially level-funded in the House proposal as was the case in the Governor's proposal.

While the Governor proposed increasing funding for the Department of Agriculture by \$1.5 million, the House Ways and Means Committee budget cuts the Department's funding by \$2.4 million or 12.8 percent.

Finally, the budget of the Department of Conservation and Recreation is proposed to increase by \$1.8 million or 2.1 percent, to \$89.4 million. Among other changes, the budget would cut funding to the Division of Urban Parks by 2.5 percent. The Ways and Means Committee budget also retains a distinct line item for operation and maintenance of the central artery parks and Spectacle Island which is increased by \$1.3 million or 92.2 percent over FY 2007 levels.

ECONOMIC DEVELOPMENT

Under the House Ways and Means Committee budget funding for economic development would be reduced by \$14 million or 8.2 percent from FY 2007 ongoing levels. Appropriations for economic development activities fall by \$24 million, but a \$10 million General Fund transfer to the Massachusetts Cultural Facilities Fund provides additional economic development funding. The Ways and Means budget, including the off-budget transfer, provides \$4.2 million, or 2.7 percent, more for economic development than the Governor's proposal.

FY 2007 Total	\$238,698,760
FY 2007 Ongoing	\$172,590,968
FY 2008 Governor	\$154,173,703
FY 2008 HW&M	\$158,357,686

FY 2007 to FY 2008 HW&M

Increase (decrease)	(\$14,233,282)
Percentage change	-8.2%

Note: The House Ways and Means Committee total for FY 2007 includes a \$10 million off-budget transfer to the Massachusetts Cultural Facilities Trust Fund. The Governor's proposal did not include this transfer.

The House Ways and Means Committee and the Governor propose large increases in funding for the Massachusetts Office of Business Development (MOBD). In both cases an increase of \$1.5 million, or 74.8 percent, is proposed. Under the line item the Ways and Means Committee requires that the MOBD maintain an office at the University of Massachusetts at Dartmouth for purposes of serving southeastern Massachusetts.

The proposals of both the House Ways and Means Committee and the Governor significantly reduce funding for the Massachusetts Office of Travel and Tourism. The House proposes to reduce funding by \$15.6 million or 53.2 percent. This reduction is about \$1.9 million larger than that proposed by the Governor. Much of this reduction results from the elimination of earmarks within the Office as the Ways and Means budget includes only one earmark under this line item.

Several other economic development programs are reduced in the Ways and Means Committee budget as follows.

- Funding for summer jobs for at-risk youth is reduced by \$2.8 million or 32.9 percent in the proposed budget. This reduction is \$1 million larger than that proposed by the Governor.

- The budget eliminates funding for the development of career ladders for long-term care occupations. This \$1.5 million appropriation in FY 2007 was level-funded in the Governor’s proposal, but the Ways and Means Committee does not include this line-item.
- Workforce development grant funding, which had been at \$9.6 million in ongoing funding in FY 2007 is reduced to \$2 million in the Ways and Means budget. While this is a 79.2 percent decrease from FY 2007, it represents an increase over the Governor’s budget which had eliminated this funding.

Funding for the Commonwealth’s workforce training program is maintained at \$21 million in both the Governor’s and Ways and Means Committee’s proposals, the same as the FY 2007 level of funding.

HOUSING

The House Ways and Means Committee proposes increasing funding for housing and community development activities by about \$400,000 or 0.3 percent. This increase is about \$300,000 more than was proposed by the Governor.

FY 2007 Total	\$186,478,835
FY 2007 Ongoing	\$124,842,388
FY 2008 Governor	\$124,920,361
FY 2008 HW&M	\$125,248,537

FY 2007 to FY 2008 HW&M

Increase (decrease)	\$406,149
Percentage change	0.3%

While both the House Ways and Means Committee and the Governor propose funding housing and community development activities at about the same level as FY 2007, there are differences in their approaches. In particular, the

Governor proposed consolidation of a number of line items related to homelessness, including some under the Department of Housing and Community Development, but Ways and Means Committee elects to keep these separate.

For example, the Massachusetts Rental Voucher Program was folded into one of the Governor’s line items for homelessness, but the Ways and Means Committee elects to keep it separate and increase funding by \$2.5 million or 9.0 percent.

Both the Governor and the Ways and Means Committee proposed increasing funding of subsidies for public housing authorities by \$4.1 million or 7.4 percent.

Funding for the administration of the Department of Housing and Community Development, matching the Governor’s proposal, is cut by 3.6 million or 30.9 percent. In the Governor’s proposal this reduction was a result of the elimination of earmarks and the line item language in the House proposal is also absent earmarks.

A number of housing programs, such as the home ownership opportunity affordable housing program, the alternative rental voucher program, and the individual development account program, are funded at the same level as FY 2007.

PUBLIC SAFETY & CORRECTIONS

Funding for public safety and corrections in the House Ways and Means proposal totals \$1.446 billion, a \$13.7 million or 1.0 percent increase over FY 2007 ongoing levels. This is \$20.2 million less funding than was proposed by the Governor.

FY 2007 Total	\$1,463,850,919
FY 2007 Ongoing	\$1,432,628,354
FY 2008 Governor	\$1,466,529,180
FY 2008 HW&M	\$1,446,377,044

FY 2007 to FY 2008 HW&M

Increase (decrease)	\$13,748,690
Percentage change	1.0%

The increase in public safety and corrections spending in the House Ways and Means Committee’s budget, relative to FY 2007 ongoing spending, reflects an increase of about \$29 million in spending on corrections and a decrease of about \$16 million in spending on activities of the Executive Office of Public Safety.

One of the most significant differences between the budget proposed by the House Ways and Means Committee and that proposed by the Governor is the provision of funding to support local law enforcement. House 1 included \$33.7 million for grants to cities and towns to higher additional police officers, but funding designated for community policing was eliminated. The Ways and Means Committee instead maintained community policing funding at the FY 2007 ongoing level and did not include funding for hiring additional officers. On balance, the Ways and Means Committee proposes \$21.4 million for local law enforcement programs compared with \$33.7 in House 1. It is important to remember that these funds represent local law enforcement programs, but much of communities’ unrestricted local aid also provides for law enforcement.

The House Ways and Means Committee proposes increasing funding for the Massachusetts State Police by \$20.5 million or 7.9 percent. This increase is \$4.9 million more than the \$15.6 million proposed increase in House 1. While the Governor eliminated state police overtime as a distinct

line item and boosted funding for state police operations, the Ways and Means Committee increases operations funding and maintains the state police overtime line item at \$7.9 million, down 39.2 percent from the FY 2007 level.

The budget of the House Ways and Means Committee includes several reductions in funding for law enforcement programs as follows.

- Funding for the administration of the Executive Office of Public Safety is proposed to be cut by nearly \$1 million, or 28.6 percent, matching the cut proposed by the Governor.
- As with the Governor’s budget, Ways and Means proposes the elimination of the fire safety grants program and the SAFE program that were funded at \$2.5 million and \$1.1 million respectively in FY 2007.
- Funding for the local law enforcement career incentive program (often called the Quinn Bill) is proposed to be cut by \$3.1 million or 5.9 percent.
- The budget of the state police crime lab is cut by nearly \$1 million or 6.0 percent over FY 2007 levels. House 1 had proposed a cut of 2.9 percent.

The House Ways and Means proposal budgets \$20.2 million or 4.5 percent more than FY 2007 for Department of Corrections’ facility operations; however, this is nearly \$15 million less than the increase proposed by the Governor. This difference results from House 1 including in their budget the expected growth of two particular costs. First, the Governor’s budget includes higher estimates for utility costs in FY 2008 because FY 2007 costs have been higher than anticipated. Second, the contract for provision of health care to inmates is out for bid this year and House 1 accounts for an expected \$20 million



increase in health care costs for inmates. The Ways and Means Committee appears to be accounting for some but not all of these anticipated costs.

The Ways and Means Committee and the Governor propose to increase funding for county correctional programs by about \$5 million. The House Ways and Means budget would also increase funding for sheriff's departments around the state by \$5.5 million or 2.2 percent. This increase is about \$2.2 million more than was proposed by the Governor.

JUDICIARY

The House Ways and Means Committee budget provides \$750.5 million for the Judiciary in FY 2008, an \$11.9 million or 1.6 percent decrease over FY 2007. The Ways and Means budget for the judiciary is about \$5.5 million higher than that proposed by the Governor.

FY 2007 Total	\$786,517,061
FY 2007 Ongoing	\$762,317,061
FY 2008 Governor	\$744,978,295
FY 2008 HW&M	\$750,453,271

<i>FY 2007 to FY 2008 HW&M</i>	
Increase (decrease)	(\$11,863,790)
Percentage change	-1.6%

The budget proposals of the Ways and Means Committee and the Governor hold spending for each tier of the state court system at FY 2007 levels. Unlike the Governor's proposal, the Ways and Means Committee retains line items for each court within the trial court system.

Unlike the Governor's budget proposal which reduced funding for the Committee for Public Counsel Services, the House Ways and Means Committee would increase

this funding by about \$1 million over FY 2007 levels. However, the House Committee budget follows the Governor's proposal in cutting funding for indigent court costs by \$3 million or 26.1 percent.

As with the Governor's proposal, spending on private counsel fees is reduced by \$617,000 or 0.5 percent. Because of increases in fees for private attorneys in FY 2006, paid for with FY 2007 monies, it is unclear whether either FY 2008 proposal provides enough funding to cover these higher fee rates in FY 2008.

PUBLIC TRANSIT

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

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

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

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

Regional transit authorities' funding is appropriated through the budget process and the Ways and Means Committee proposes to

increase RTA funding by about \$517,000 or 1.0 percent, considerably less than the increase provided to the MBTA. Since FY 2001, contract assistance to RTAs has increased by only 4.8 percent, or \$2.4 million after adjusting for inflation.

GROUP INSURANCE

The budget for the Group Insurance Commission (GIC) appears to increase by \$121.7 million or 11.5 percent under the House Ways and Means Committee budget. This increase is about \$5 million less than was proposed in House 1 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 Total	\$1,056,581,827
FY 2007 Ongoing	\$1,056,581,827
FY 2008 Governor	\$1,183,509,840
FY 2008 HW&M	\$1,178,260,698

FY 2007 to FY 2008 HW&M

Increase (decrease)	\$121,678,871
Percentage change	11.5%

NOTE: The FY 2008 total includes \$380 million that the Governor (and \$345 million that House Ways and Means) has proposed be 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. Both House 1 and the Ways and Means budget 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 add it amount back into the FY 2008 line-item to allow year to year comparisons. The difference between the amount transferred in the House Ways and Means Budget and in House 1 appears to be the result of Ways and Means 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.

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

technical issues. The following table summarizes these issues. Once we account for these three technical issues, the growth in GIC spending is \$32 million or 3.0 percent.

- **Accounting adjustment:** The FY 2007 total includes approximately 11.5 months of spending, creating a one-time saving 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. In just one year, FY 2007, this creates a savings: medical bills received by the GIC in FY 2008 for services provided in FY 2007 will be paid out of the 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.
- **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.

	GIC Funding		Change
	(Millions of Dollars)		
	FY 2007	FY 2008	
	Ongoing	HW&M	
Appropriated Amount	1,066	833	
Shift to State Retiree Benefits Trust Fund		345	
Subtotal	1,066	1,178	112
Adjusting for One-Time Saving	50		
Chapter 16 Cuts	-10		
Expected Reversions	-10		
Adding Springfield		-50	
Grand Total	1,096	1,128	32

State Retiree Benefit Trust

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

benefits and consider options for financing them. 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 establishes the State Retiree Benefits Trust Fund to address the need to begin paying for the cost of retiree health care benefits. The Ways and Means proposal would also establish this fund. Both budget proposals also begin to pay for the costs of healthcare for currently retired state employees by making off budget transfers to this fund (as explained in the NOTE under the spending totals at the beginning of this section). In addition, House 1 transferred approximately \$421 million from the Health Care Security Trust Fund to this fund to begin to pay down the unfunded liability for future costs of healthcare for retired employees. House Ways and Means does not provide such funding. House 1 also dedicated future payments of the tobacco settlement funds to this new fund. House Ways and Means postpones these decisions until the report of a commission, created to examine 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 project that tax revenue will total \$19.300 billion in FY 2007; this is 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 project that baseline

tax revenue will 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 is the administration's projection that capital gains taxes will decline from a projected \$1.875 billion in FY 2007 to \$1.459 billion in FY 2008, a drop of \$416 million. One of the major reasons for the budget gap projected in FY 2008 is that previous year's budgets have depended on rapidly rising capital gains tax receipts. Because the markets move in cycles, capital gains tax receipts are notoriously unstable: in good years they can increase rapidly, when the market falls they can decline.

The House Ways and Means Committee adopts two strategies to increase revenues for FY 2008: new debt issuance strategies ("Bond-Ahead") and the use of reserves. The Ways and Means Committee notably does not include reforms to the state's tax laws as a source of new revenue.

Enhanced Cash Management ("Bond-Ahead")

The House Ways and Means Committee adopts the "bonding-ahead" idea proposed by the Treasurer and included in House 1. Historically capital expenditures have been financed by first drawing the funds out of the General Fund and then reimbursing that fund with proceeds from subsequent bond issuance. The problem with this strategy is that by spending from the General Fund before issuing bonds, interest earnings on the balance of the General Fund are reduced and, if such spending creates a temporary deficit, the state has to borrow and pay interest costs. The advantage of the historical strategy, however, was that it avoided the problem of the state selling bonds before spending money and then

having to start paying interest on those bonds before the money was really needed. Right now, however, the short-term interest rates the state can receive on its bond proceeds are higher than the long-term rates that the state has to pay bond holders. In this situation "Bond-Ahead" can save the state money.

The federal government regulates how tax exempt bonds are issued and when the spending has to occur. But if certain conditions are met, states are able to issue bonds up to 18 months before expenditures. Because the state has built the capacity to track expenditures in the manner that the federal government requires, it should be able to utilize these "bond-ahead" strategies to achieve significant savings and also generate revenue by taking advantage of favorable short term interest rates. The total savings and new revenue from this initiative is estimated to be approximately \$48 million.

Use of Reserve Funds

The House Ways and Means Committee uses \$375 million in reserve funds to balance the budget. This includes transfers to the General Fund of \$150 million from the Health Care Security Trust Fund, of \$150 million from the Stabilization Fund, and of an estimated \$75 million in interest earned on the Stabilization Fund. During periods of economic expansion it is prudent for state governments to spend less than they take in and to deposit the resulting surpluses into reserves so that basic services can be maintained during future recessions. By operating with structural deficits when the economy is not in a recession, a state risks eating away at reserves that will likely be urgently needed during the next recession. This use of one-time transfers to balance the budget effectively creates a \$375 million structural gap in the budget by paying for

ongoing expenses with one-time resources. Unless revenue grows more rapidly than anticipated, the state will eventually need to identify new revenues or new spending cuts to close this gap.

One additional difference between the Ways and Means Committee proposal and that of the Governor is that the Ways and Means Committee does not propose the elimination of the Health Care Security Trust Fund and the transfer of its assets to the State Retiree Benefits Trust Fund, as described on page 26. The House Ways and Means Committee proposes to keep the fund, and their budget relies on \$22 million more in interest earnings from the fund than House 1.²

Reform of Tax Laws

The budget proposal of the House Ways and Means Committee does not include any tax law changes to reduce corporate tax avoidance. The changes proposed in House 1 would generate \$295 million in new revenue in FY 2008, with \$500 million per year in future years. House 1 also included a proposal to extend the property tax circuit breaker to non-seniors with low incomes and high property tax bills. This would have cost \$5 million in tax revenues in FY 2008; therefore, the Governor's tax proposals would yield a net increase of \$290 million in tax revenue.

² The budget proposals of the Governor and the House Ways and Means Committee both transfer interest earned on the Health Care Security Trust Fund to the General Fund. However, the Governor proposes to eliminate the Fund as of January 1, 2008 and only draws interest earned in the first six months of the fiscal year (\$22 million). Because the Ways and Means Committee does not propose to eliminate the Fund, its budget includes the expected interest earnings for the entire fiscal year (\$44 million).

The House Ways and Means Committee primarily relies on using \$250 million more in one-time revenues to cover the costs House 1 covered with new tax revenue. In addition, the Committee does not fund the \$50 million reserve, included in the Governor's proposal, for costs that will occur in FY 2008 due to collective bargaining.

BALANCE

In projecting whether there is a budget deficit or surplus for the coming year, the question public finance analysts are actually asking is: If there are no changes in tax or revenue policy, will there be enough money to provide the same level of services as the prior year and to meet any other legal obligations? We call the cost of providing these services the baseline cost and the revenue available, if there are no tax policy changes, we call baseline revenue.

If the state is not projected to have enough baseline revenue to pay baseline costs next year it faces a deficit. If there will be more baseline revenue than is needed for the existing level of services, that is a surplus.

The Budget Gap

We estimate that the baseline cost of the budget will grow by about \$1.22 billion for FY 2008. There is a slight variation between baseline costs for House 1 versus the House Ways and Means Committee budget. This results from differences in cost estimates for Group Insurance.

The baseline costs are composed of the following:

- A 9 percent increase in Medicaid costs which would result in about \$350 million in new state spending;

- An \$82 million increase in costs for health insurance for state employees and retirees;
- A \$127 million increase in local education aid (Chapter 70);
- An increase of \$63.4 million in spending for the state pension system;
- A \$77.7 million increase in funding for the School Building Assistance Fund;
- An expected overall inflation rate of about 3 percent for the rest of state government resulting in a spending increase of \$319 million; and,
- An additional \$201 million in spending on ongoing programs that were funded in FY 2007 with one-time revenues.

These items add up to \$1.2 billion in new baseline costs. Based on the consensus revenue estimate of the Governor and the legislature, we expect to have \$579 million in new tax revenue in FY 2008. However, budget documents suggest that Federal revenues will decline by about \$150 million in FY 2008; therefore, this increases the size of the gap by \$150 million, though this may be offset by increases in departmental revenues.

FY 2008 Budget Gap (millions of dollars)		
Baseline spending growth	Gov.	HW&M
MassHealth and related programs	348.4	348.4
Group Insurance	87.0	82.0
Chapter 70	127.0	127.0
Pensions	63.4	63.4
School Building Asst.	77.7	77.7
All else	319.4	319.4
FY 07 Structural Gap	201.1	201.1
Sub-total maintenance spending	1,224.0	1,219.0
Estimated new tax revenue	579.0	579.0
Estimated new federal revenue	(150.0)	(150.0)
Baseline budget gap	795.0	790.0
Estimated new spending	148.2	167.0
Budget gap before solutions	943.2	957.0

The House Ways and Means Committee also proposes about \$167 million in new spending beyond baseline costs in FY 2008. This is slightly higher than the \$148 million in new spending proposed by the Governor. The overall budget gap – accounting for baseline costs of \$1.219 billion, net new revenue of \$429 million, and new spending of \$167 million – is \$957 million. To achieve a balanced budget, this gap must be closed by means of new revenues or spending reductions.

Closing the Gap

The House Ways and Means Committee and the Governor adopt very different approaches to balancing the budget. House 1 relied on a combination of spending reductions, revenue enhancements, new revenues through tax law changes, and one-time revenues. The Ways and Means Committee relies primarily on spending reductions and the use of one-time transfers.

The House Ways and Means Committee makes reductions or spending cuts amounting to about \$464 million. Of these, \$166.2 million are reductions in Medicaid spending while the remainder are reductions across the rest of state government.

Ways and Means follows the House 1 proposal in improving revenue enforcement and adopting “bond-ahead,” which yield \$23 million and \$48 million respectively.

The House Ways and Means Committee also realizes reductions by not taking two steps proposed in House 1 to account for likely expenditures needed in FY 2008. First, the Committee does not set aside monies to cover increased costs from collective bargaining taking place with state employees during FY 2008. The Governor’s proposal had included \$50 million for this purpose. Second, the Ways

and Means Committee does not build into its budget all of the Department of Corrections' additional costs for health care and utilities that are anticipated for FY 2008. This saves \$14.6 million. These accounting changes collectively yield about \$65 million in additional savings.

Closing the FY 2008 Budget Gap (millions of dollars)		
Gap closing strategies	Gov.	HW&M
Spending reductions	281.0	297.8
Medicaid spending reductions	179.0	166.2
Tax reforms	290.0	0.0
Revenue enforcement	23.0	23.0
One-time transfers	125.0	397.0
Bond-ahead	48.0	48.0
Accounting changes	0.0	64.6
Total	946.0	996.6

Lastly, the House Ways and Means Committee proposes the use of \$397 million in one-time transfers from the Stabilization Fund and the Health Care Security Trust Fund. About \$22 million of this is additional interest earned on the Health Care Security Trust if the fund is not eliminated in January of 2008 as the Governor had proposed.

Balance

The balance sheet on the next page seeks to identify all revenues relied on and expenditures made in the Governor's and House Ways and Means Committee's FY 2008 budget proposals. The largest difference between this balance sheet and the spending and revenue numbers historically and presently found in the state budget is the treatment of transfers. The state budget obscures total spending and revenue because transfers into and out of the General Fund are added together into a net revenue number called Consolidated Transfers. For example, in House 1, the

Consolidated Transfers line is reported as \$702 million in revenue. However, this number includes \$935 million in lottery revenues as well as other positive revenues. The lower number results from the subtraction of transfers out of the General Fund. In effect these transfers out of the General Fund are spending, but in the budget each year they are shown as negative revenues.

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

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

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

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

an appropriation for employee benefits and once as a transfer for retiree benefits. The amounts funded on- and off-budget for Group Insurance vary between the Governor's and Ways and Means' proposals.

Our analysis of the House Ways and Means Committee budget suggests that total revenues will exceed total proposed spending by about \$76.4 million in FY 2008. This surplus represents only about two-tenths of one percent of the total budget.

While the Ways and Means Committee's budget appears to show a larger surplus than the Governor's proposal, this is misleading for two reasons. First, the Ways and Means Committee's budget projects higher totals for departmental revenues and federal grants and reimbursements than were used in House 1. In total, the Ways and Means Committee projects \$31.5 million more from these two categories of revenue than House 1.

Second, the Governor's budget sets aside money to pay for new collective bargaining agreements reached during FY 2008. Under line item 1599-2008, House 1 set aside \$50 million to partially fund cost increases across state government that will result from collective bargaining throughout FY 2008. The House Ways and Means Committee budget does not include reserve funding for collective bargaining.

Typically, when new collective bargaining agreements are reached, supplemental budgets are passed to fund the higher costs for the remainder of the fiscal year. Because many contracts are up for negotiation during FY 2008, these additional costs could significantly increase state expenditures over the course of the fiscal year. Language in the Governor's budget proposal would allow

the legislature to draw on the \$50 million reserve when passing supplemental budgets to fund new agreements. Therefore, while the Ways and Means Committee appears to show a larger surplus, the first dollar of new spending needed for collective bargaining agreements will add to state expenditures; where as, the first \$50 million of spending needed for collective bargaining is already set aside in the Governor's budget.

If we added the \$50 million reserved for collective bargaining to the House Ways and Means Committee budget and balanced the budget using the House 1 projections for departmental and Federal revenues, the Committee's budget would go from a \$76.4 million surplus to a \$5.1 million deficit.

Budget Balance

(in Millions of Dollars)

Category	FY07 Ongoing	FY08 Gov.	FY08 HW&M	FY08 HW&M minus FY07	FY08 HW&M minus Gov.
Tax Revenue Total	19,300.0	20,169.0	19,879.0	579.0	(290.0)
Tax revenue	19,300.0	19,879.0	19,879.0	579.0	0.0
Tax law changes ¹	0.0	290.0	0.0	0.0	(290.0)
Departmental Revenues Total	2,286.6	2,399.8	2,413.0	126.5	13.2
Departmental revenues ²	2,286.6	2,399.8	2,413.0	126.5	13.2
Transfers into the General Fund Total	1,850.0	1,889.0	1,911.0	61.0	22.0
Lottery revenues	996.0	1,011.0	1,011.0	15.0	0.0
Tobacco settlement revenues	219.0	219.0	219.0	0.0	0.0
Other transfers into the General Fund ³	635.0	659.0	681.0	46.0	22.0
Federal Grants & Reimbursements Total	6,190.1	6,245.2	6,263.5	73.4	18.3
Federal grants and reimbursements ²	6,190.1	6,245.2	6,263.5	73.4	18.3
One-time Revenues	0.0	125.0	375.0	375.0	250.0
Transfer from the Stabilization Fund	0.0	75.0	225.0	225.0	150.0
Transfer from the Health Care Security Trust	0.0	50.0	150.0	150.0	100.0
Ongoing Revenue Grand Total	29,626.6	30,828.0	30,841.5	1,214.9	13.5
<i>Appropriated spending</i>					
Local Aid - Lottery	920.0	935.0	935.0	15.0	0.0
Local Aid - Additional Assistance & PILOT	407.6	410.1	410.3	2.7	0.2
Local Education Aid (Chapter 70)	3,505.5	3,705.5	3,725.7	220.2	20.2
K-12 Education (non-Chapter 70)	538.7	552.5	556.6	17.9	4.2
Higher Education	1,031.5	1,038.0	1,054.2	22.6	16.2
Early Education and Care	510.3	509.9	531.8	21.5	21.9
Income Support Programs	608.3	601.8	598.4	(9.9)	(3.5)
Health Care Programs	8,005.5	8,346.8	8,363.4	357.9	16.6
Public Health	512.5	547.0	515.5	3.0	(31.5)
Mental Health	646.5	664.0	665.1	18.6	1.1
Mental Retardation	1,175.9	1,215.8	1,226.3	50.4	10.5
Social Services	769.9	790.3	795.1	25.2	4.8
Elder Affairs	223.1	227.0	226.4	3.3	(0.6)
Other Health & Human Services	607.2	599.4	601.2	(6.1)	1.7
Environmental Affairs	208.1	211.7	205.3	(2.8)	(6.4)
Housing & Community Development	124.8	124.9	125.2	0.4	0.3
Economic Development	172.6	154.2	148.4	(24.2)	(5.8)
Public Safety & Corrections	1,432.6	1,466.5	1,446.4	13.7	(20.2)
Judiciary	762.3	745.0	750.5	(11.9)	5.5
District Attorneys	92.2	93.5	94.5	2.3	1.0
Attorney General	38.6	40.4	38.8	0.2	(1.6)
Libraries	31.7	31.4	32.2	0.5	0.7
Transportation	159.1	165.5	154.3	(4.8)	(11.2)
Group Insurance	1,056.6	803.0	833.2	(223.4)	30.2
Other Administrative	784.9	786.6	732.2	(52.7)	(54.4)
Debt Service	1,952.4	1,947.2	1,947.2	(5.2)	0.0
<i>Other spending</i>					
Health Care Programs	925.2	907.8	907.8	(17.4)	0.0
Group Insurance	0.0	380.5	345.1	345.1	(35.5)
Mass. Cultural Facilities Fund	0.0	0.0	10.0	10.0	10.0
Pensions	1,335.2	1,398.6	1,398.6	63.4	0.0
School Building Assistance	557.0	634.7	634.7	77.7	0.0
MBTA	734.0	756.0	756.0	22.0	0.0
Ongoing Expenditures Total	29,829.9	30,790.6	30,765.1	935.3	(25.5)
Balance	(203.3)	37.4	76.4⁴	279.7	39.0

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 in the Governor's budget differ from those in the House Ways and Means Committee budget. In the case of Departmental revenues this likely reflects changed revenue projections between the development of the two proposals. The change in Federal revenue estimates likely results from similar estimate changes as well as different choices about Medicaid services and cuts within the budget proposals.

3. The House Ways and Means Committee budget includes an estimated \$22 million more in transfer revenue than was included in the Governor's budget. Both the Governor and the Ways and Means Committee propose to transfer into the General Fund the interest earned on the Health Care Security Trust Fund. However, the Governor's budget would dissolve this fund as of January 1, 2008 meaning the interest from only half the year would be transferred. Therefore, the Governor's budget includes an estimated \$22 million in revenue from the fund and the Ways and Means Committee includes \$44 million.

4. While the House Ways and Means Committee budget shows a \$76.4 million surplus, it does not include funding for two projected costs for FY 2008 that are included in House 1. First, House 1 includes \$50 million to cover the cost of collective bargaining agreements reached during FY 2008. Second, House 1 includes additional resources for facility operations at the Department of Corrections because of expected increases in the costs of utilities and health care for inmates. The Ways and Means budget may include some of the funding for the latter increases, but in total House 1 includes \$64.6 million in funding for these two items that are not included in the Ways and Means budget.

Budget by Program Area

(in Millions of Dollars)

Program	FY07 Total Ongoing	Gov. FY 08	H W&M FY 08	HW&M FY08 minus FY07 ongoing	HW&M FY08 minus Gov. FY08		
Local Aid - Lottery	920.0	935.0	935.0	15.0	1.6%	0.0	0.0%
Local Aid - Additional Assistance & PILOT	407.6	410.1	410.3	2.7	0.7%	0.2	0.0%
Local Education Aid (Chapter 70)	3,505.5	3,705.5	3,725.7	220.2	6.3%	20.2	0.5%
K-12 Education (non-Chapter 70)	538.7	552.5	556.6	17.9	3.3%	4.2	0.8%
Higher Education	1,031.5	1,038.0	1,054.2	22.6	2.2%	16.2	1.6%
Early Education and Care	510.3	509.9	531.8	21.5	4.2%	21.9	4.3%
Income Support Programs	608.3	601.8	598.4	(9.9)	-1.6%	(3.5)	-0.6%
Health Care Programs ¹	8,005.5	8,346.8	8,363.4	357.9	²	16.6	0.2%
Public Health	512.5	547.0	515.5	3.0	0.6%	(31.5)	-5.8%
Mental Health	646.5	664.0	665.1	18.6	2.9%	1.1	0.2%
Mental Retardation	1,175.9	1,215.8	1,226.3	50.4	4.3%	10.5	0.9%
Social Services	769.9	790.3	795.1	25.2	3.3%	4.8	0.6%
Elder Affairs	223.1	227.0	226.4	3.3	1.5%	(0.6)	-0.3%
Other Health & Human Services ³	607.2	599.4	601.2	(6.1)	-1.0%	1.7	0.3%
Environmental Affairs	208.1	211.7	205.3	(2.8)	-1.4%	(6.4)	-3.0%
Housing & Community Development	124.8	124.9	125.2	0.4	0.3%	0.3	0.3%
Economic Development	172.6	154.2	148.4	(24.2)	⁴	(5.8)	-3.8%
Public Safety & Corrections	1,432.6	1,466.5	1,446.4	13.7	1.0%	(20.2)	-1.4%
Judiciary	762.3	745.0	750.5	(11.9)	-1.6%	5.5	0.7%
District Attorneys	92.2	93.5	94.5	2.3	2.5%	1.0	1.1%
Attorney General	38.6	40.4	38.8	0.2	0.5%	(1.6)	-4.0%
Libraries	31.7	31.4	32.2	0.5	1.5%	0.7	2.4%
Transportation	159.1	165.5	154.3	(4.8)	-3.0%	(11.2)	-6.8%
Group Insurance	1,056.6	803.0	833.2	(223.4)	⁵	30.2	3.8%
Other Administrative	784.9	786.6	732.2	(52.7)	-6.7%	(54.4)	-6.9%
Debt Service	1,952.4	1,947.2	1,947.2	(5.2)	-0.3%	0.0	0.0%
<i>Sub-total appropriated spending</i>	26,278.5	26,713.0	26,713.0	434.5	1.7%	(0.0)	0.0%
Health Care Programs	925.2	907.8	907.8	(17.4)	²	0.0	0.0%
Group Insurance	0.0	380.5	345.1	345.1	⁵	(35.5)	-9.3%
Mass. Cultural Facilities Fund	0.0	0.0	10.0	10.0	⁴	10.0	
Pensions	1,335.2	1,398.6	1,398.6	63.4	4.8%	0.0	0.0%
School Building Assistance	557.0	634.7	634.7	77.7	13.9%	0.0	0.0%
MBTA	734.0	756.0	756.0	22.0	3.0%	0.0	0.0%
<i>Sub-total other spending ⁶</i>	3,551.4	4,077.6	4,052.2	500.8	14.1%	(25.5)	-0.6%
Total	29,829.9	30,790.6	30,765.1	935.3	3.1%	(25.5)	-0.1%

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

2. Total health care spending is a combination of appropriations in the budget and off-budget transfers into various health care trust funds. To accurately understand the overall change in health care spending from one year to the next, we combine appropriated and transfer spending in each year. In total, the House Ways and Means Committee would increase health care spending from \$8.93 billion in FY 2007 to \$9.27 billion in FY 2008, an increase of 3.8%.

3. Other health and human services spending includes \$28 million in FY 2007 and \$12 million in FY 2008 to fund wage increases for the state's lowest wage human services workers. Ultimately, these funds will be distributed across the state's human services agencies including the departments of Mental Health, Mental Retardation, Social Services, and Youth Services.

4. In the House Ways and Means Committee budget, total economic development spending is a combination of appropriations in the budget and an off-budget transfer from the General Fund to the Massachusetts Cultural Facilities Fund. To accurately understand the overall change in economic development spending from one year to the next, we combine appropriated and transfer spending in each year. In total, the House Ways and Means Committee would cut economic development spending by \$14.2 million or 8.2 percent.

5. Unlike prior years, insurance costs for retired employees will be funded through an off-budget transfer beginning in FY 2008. To accurately examine changes in Group Insurance spending from FY 2007 to FY 2008 it is necessary to combine appropriated and transfer Group Insurance spending in FY 2008. Once combined, spending on Group Insurance under the House Ways and Means Committee budget is \$1.174 billion, or an 11.1 percent increase over FY 2007. This increase is still not entirely accurate because of a variety of accounting changes taking place with Group Insurance. Please refer to the Group Insurance section of this report for more information.

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