

# ***Budget Narrative***

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## **Summary**

Today, our nation faces the greatest economic downturn since the Great Depression, and Massachusetts is experiencing severe economic hardship as a result. Business and consumer confidence are falling, while unemployment and foreclosures are rising. Growing numbers of people are losing their jobs, their health insurance and their homes.

The economic downturn has left us with unprecedented fiscal challenges. On *two* separate occasions in fiscal year 2009, tax revenue estimates were revised downwards by close to \$1 billion. Fiscal year 2010 will inherit an inevitable structural deficit and nearly flat revenue growth from the previous year, compounded by natural spending pressures. Over the past five months, the Administration has had to close total budget gaps of approximately \$6 billion from fiscal year 2009 and fiscal year 2010.

This moment must be viewed in context. There is no doubt that Massachusetts will cycle out of this economic downturn and begin to expand opportunity again.

The Patrick-Murray Administration is building a bridge to that better economy – investing more than \$1 billion in capital projects over the next six months; encouraging businesses to invest in Massachusetts; and working hard to shape a federal stimulus package and prepare to get projects underway and put people to work.

At the same time, the Administration is managing the immediate impacts of an unprecedented fiscal crisis – implementing an Emergency Recovery Plan to meet its obligation to balance the budget while working to minimize harmful consequences for our citizens.

In addition to budget measures implemented to date, the Administration is taking further steps to ensure that the fiscal year 2009 budget is in balance; filing a balanced budget for fiscal year 2010; and proposing accompanying state and local government reforms.

We continue to pursue a responsible and balanced framework for guiding the Commonwealth through difficult fiscal times and laying the foundation for a better future. Our approach consists of spending cuts and savings, appropriate use of one-time resources and the dedicated use of new, recurring revenues.

State government must tighten its belt, as people throughout the Commonwealth are doing in their own lives. Nearly half of our solutions to the fiscal year 2009 and fiscal year 2010 budget gaps consist of spending cuts and savings. We are giving agencies unprecedented flexibility to allocate limited dollars in the most thoughtful, innovative and compassionate ways.

To protect key functions of government, we are using an appropriate amount of one-time resources in our budget blueprints, in the form of enhanced federal Medicaid matching funds and state Rainy Day funds. We do recognize the danger of over-reliance on one-time resources to balance the budget and are proposing budget reforms to curb recurring structural deficits.

These blueprints also dedicate new revenues from modestly increased statewide meals and hotel and motel room occupancy taxes to mitigate cuts in Local Aid; eliminate sales tax exemptions for sweetened beverages, candy and alcoholic beverages to protect our children and support public health programs; expand the Bottle Bill to promote and fund recycling programs and water and sewer rate relief; and update and consolidate motor vehicle registry fees to streamline service and strengthen our transportation system.

We have worked to protect core services and maintain our social safety net to the maximum extent possible. Even with these efforts, this budget reflects many difficult decisions. Given the magnitude of our fiscal challenges, shared pain and sacrifice are inevitable. Programs and projects that are important to individuals, families and businesses will be impacted. And priorities of the Administration will be scaled back.

While a fiscal crisis makes it difficult to invest in programs and services at levels that meet needs and expectations, it offers a unique opportunity to address longstanding challenges that have proved difficult to confront in ordinary times. We are seizing the opportunity for reform in connection with our budget blueprints – strengthening municipal finance, transforming the face of state government, containing health care costs and improving the budget process.

## **An Unprecedented Challenge**

Today, our nation is confronting the most severe economic downturn since the Great Depression – the length and depth of which is unknown. Massachusetts is experiencing severe economic hardship as a result. A problem that began in the housing markets has spread throughout our entire economy. A national recession has now come to the Commonwealth.

Payroll employment in Massachusetts declined by over 47,000 jobs during the last quarter of 2008. Our unemployment rate has risen by 2.6 percent from a year ago and is now approaching the national average. Consumer and business confidence have fallen to their lowest levels *ever measured* in key Massachusetts-based surveys. While home sales are ticking up, the housing market continues to struggle: foreclosures in the first nine months of 2008 were up 72 percent from the same period in the prior year. And there is substantial uncertainty about the timing of a recovery.

The economic downturn has left us with unprecedented fiscal challenges. Tax revenues are falling dramatically below original expectations. For the current fiscal year (fiscal year 2009), they are now projected to be about \$2 billion below the amounts on which the budget was built – and over \$1.4 billion below revenues from the previous fiscal year (fiscal year 2008).

Fiscal year 2010 will inherit a structural deficit from fiscal year 2009. Even before the fiscal crisis began, the fiscal year 2009 budget was built on \$401 million in Rainy Day Funds. With the fiscal crisis, the use of additional one-time resources to balance the fiscal year 2009 budget is unavoidable. Moreover, according to the latest consensus revenue estimate, virtually no revenue growth is anticipated from fiscal year 2009 to fiscal year 2010. Yet spending pressures remain, with substantial increases required to simply continue providing all existing services based on current program design. These factors together yielded a projected budget shortfall of \$3.5 billion for fiscal year 2010.

In combination, sharply declining tax revenues, structural budget deficits and natural spending pressures have required the Administration over the past five months to close total budget gaps of approximately \$6 billion for fiscal year 2009 and fiscal year 2010.

## **A Bridge to a Better Economy**

This moment must be viewed in context. The Administration has worked with the Legislature to lay a strong foundation for long-term economic growth. There is no doubt that we will cycle out of this economic downturn and proceed forward on the path to prosperity.

Over the past two years, the Administration and Legislature have partnered to increase funding for education, the cornerstone of opportunity and economic advancement, with unprecedented investments in early education, full-day kindergarten and extended learning time. Together, we enacted a Life Sciences Bill and Clean Energy package to grow jobs and shape a new economic and environmental future. Since the Administration took office, ten bond bills have authorized significant new investments in rebuilding our college campuses, expanding broadband access, improving public and affordable housing and restoring our roads, rails and bridges.

The signs of progress are evident. Our students have scored first in the nation on tests measuring academic achievement and rank near the top of the world in math and science. Nearly 98 percent of our citizens have health insurance – the highest proportion in the nation – due to successful implementation of our historic health care reform law.

The Administration is also working tirelessly to build a bridge to a better economy and fiscal environment. To help jump-start our economy and lay a stronger foundation for long-term economic growth, we have significantly increased our capital investments, including initiating the accelerated bridge program when we saw the first signs

of the economic downturn last year. We are investing more than \$1 billion in capital projects over the next six months. We continue to encourage businesses here and elsewhere to invest in Massachusetts.

We have also worked to shape a pending federal stimulus package, in partnership with the new Obama Administration and our congressional delegation. While it will not be enough to avoid all of our hard choices, it stands to boost our economy, create jobs and help states and families weather increasing strains on their budgets. This package is still pending, but its broad outlines are increasingly clear:

- The package will include hundreds of millions of dollars for infrastructure investments in Massachusetts, over and above amounts already allocated in the state's capital plan. The Administration has not only advocated for this funding but also created ten high-level, Project Delivery Mobilization Task Forces to ensure that we are prepared to get projects under way and put people to work once the funds are provided.
- It will shore up the social safety net by extending eligibility for unemployment insurance benefits, establishing new subsidies to make COBRA health insurance coverage more affordable for individuals who have lost their jobs and providing funding for a temporary increase in Food Stamps.
- The package will include hundreds of millions of dollars in education funding, distributed through local school districts and state education agencies. In anticipation of receiving federal education aid, Governor Patrick will engage stakeholders in developing a spending plan for these funds on an expedited basis with an emphasis on accountability and sustainability. Among other things, these funds would likely help all school districts reach foundation spending levels in fiscal year 2010.
- As urged by the Administration and other states, it will include enhanced federal matching funds for the Commonwealth's Medicaid spending, so we can maintain our generous eligibility policies for state-subsidized health care despite enormous fiscal pressures.

## **Emergency Recovery Plan**

The state budget lies at the heart of our efforts to manage the impact of a worldwide, downward economic spiral. Individuals, businesses and communities rely on state government for critical services and functions – from helping to finance the education of their children to ensuring that all citizens have access to high-quality, affordable health care to protecting our environment and public safety to building and maintaining safe and accessible roads, bridges and public transportation. These needs only grow during an economic downturn, as the state is called on to meet its moral and economic obligations to assist citizens who have lost their jobs, health insurance or homes.

As economic indicators and state tax revenues have plummeted, the Administration has wrestled with the immense challenge of addressing increasing needs with rapidly dwindling resources. We have pursued a comprehensive Emergency Recovery Plan to meet this challenge – fulfilling our obligation to maintain balanced budgets while striving to protect the most important functions of government and minimize harmful impacts on our citizens.

There is no “one size fits all” solution to this challenge. Rather, our Emergency Recovery Plan relies on a balanced approach, using a number of different tools to prioritize and preserve key functions of government: spending restraint emphasizing reforms and more efficient government; appropriate use of state reserves and other one-time resources; and responsible approaches to identifying additional recurring revenues.

This balanced framework has enabled us to protect important services and minimize harmful cuts. However, as we have repeatedly acknowledged, the magnitude of our current fiscal challenges makes tough choices and painful impacts unavoidable. We have worked to be fair and responsible in assigning the inevitable burden of shared sacrifice, with an eye towards preserving what is needed most from government at a time of vast economic upheaval and uncertainty.

## **Actions to Date**

Throughout the year, the Administration has taken proactive steps to prepare for and mitigate the fiscal impacts of an economic downturn.

In January of 2008, Governor Patrick established a Council of Economic Advisors to advise him on economic development issues and emerging economic challenges. As early as April of 2008, the Administration commenced planning for emergency spending cuts and imposed spending and hiring controls on state agencies. In signing the fiscal year 2009 budget into law, we requested expanded budget-cutting authority to allow us to make needed emergency spending cuts fairly and equitably and vetoed \$122.5 million in excess spending. The budget itself contained over \$200 million in gross savings in our state's Medicaid program (MassHealth) from rate reforms designed to reward the right care in the right setting, more efficient use of prescription medications and the expansion of "pay-for-performance" accountability measures. It also included new revenues from closing loopholes in the corporate tax code, a legislative proposal to increase cigarette taxes and provisions asking health care stakeholders to "share responsibility" for sustaining health care reform – revenues that are helping to cushion the impact of an immense economic and revenue downturn and preserve access to health insurance.

As the stock market began to collapse and the scope of our economic challenges became more apparent, the Administration took further action. In October of 2008, we implemented a fiscal action plan to close what was then projected to be an overall \$1.4 billion budget deficit for fiscal year 2009, the centerpiece of which was \$1.053 billion in carefully calibrated spending reductions (including Executive Branch spending reductions and voluntary contributions from other agencies). The Administration has also launched wide-ranging efforts designed to improve the state's long-term fiscal health – including initiatives aimed at consolidating our fragmented system of transportation oversight and finance and accelerating efforts to contain health care costs.

However, we are in an environment of vast economic uncertainty, with economists and other experts finding it difficult to predict economic trends and fiscal impacts. States like Massachusetts have had to continually refine their approaches to balancing their budgets as our economic situation has evolved. Thus, in January of 2009, the Administration revised its fiscal year 2009 revenue estimates downward by \$850 million (including one-time settlements) based on updated economic information and fiscal analysis – requiring us to take further action to balance the fiscal year 2009 budget and making the fiscal year 2010 picture even more challenging.

#### **Additional Steps for Fiscal Year 2009 & Fiscal Year 2010 Budget Proposal**

Today, the Administration takes the next steps forward in implementing its Economy Recovery Plan. It is filing emergency legislation and making additional spending reductions to ensure that the fiscal year 2009 budget is in balance; filing a balanced budget for fiscal year 2010; and proposing accompanying state and local government reforms.

#### ***Spending Restraint***

To fulfill our responsibility to balance the budget in these challenging times, state government must tighten its belt and do what people throughout the Commonwealth are doing in their own lives: trimming down wherever we can to get through to a better time, and making do with less. Given the magnitude of our budget pressures, spending cuts and savings must be our principal solution to closing the total budget gaps of approximately \$6 billion for fiscal year 2009 and fiscal year 2010. Nearly half of our solutions to these gaps – approximately \$2.9 billion – constitute spending cuts and savings.

Our Emergency Recovery Plan includes savings from reforms in state government and budgeting. The Administration continues to propose changing active state employee health insurance contributions from a system based on date of hire to a more rational system based on salary levels and affordability. In aggregate, these reforms would reduce system costs by \$28.5 million in fiscal year 2009 and over \$60 million in fiscal year 2010, better positioning the Commonwealth over time to continue to provide comprehensive state health insurance to state workers. The MassHealth program will stop paying for hospital-acquired infections and serious reportable events in fiscal year 2010 – saving money and providing incentives for better care.

The Administration has also proposed consolidating 849 budget line-items into 480 line-items. This better positions state agencies to live within reduced budgets, giving them greater flexibility to allocate limited dollars and management resources in the most thoughtful and innovative ways. This approach builds on existing authority that the Legislature has given the Administration to transfer limited amounts of funding between line-items to prioritize pressing needs. We are using that existing authority carefully throughout fiscal year 2009 to manage spending deficiencies without filing multiple supplemental appropriations bills, which would be cumbersome for both the Administration and the Legislature.

The Administration will also rely on its MassGOALS initiative – Massachusetts Government Outcomes to Achieve Long-Term Success – to ensure that state investments achieve desired and needed results.

The purpose of MassGOALS is to articulate areas of policy focus for the Executive Branch, regularly compile data to measure performance and progress in these areas and hold Administration officials accountable for results. MassGOALS tracks ten-to-twenty different performance measures in each of nine different policy areas, to help the Administration understand where its strategies are working well and where to focus attention on improvement. Through MassGOALS, Governor Patrick receives regular, data-based reports about the performance of Executive Departments and chairs quarterly working sessions with members of his Cabinet to identify priorities for improved performance.

### ***One-Time Revenues: Federal Aid and Rainy Day Funds***

The Administration is trying to strike a careful balance in using one-time revenues in our fiscal year 2009 and fiscal year 2010 budget blueprints.

We are proposing to use over \$2.6 billion in one-time revenues in the fiscal year 2009 and fiscal year 2010 budgets: \$1.2 billion in federal aid through temporarily enhanced federal matching funds for Medicaid spending, and \$1.4 billion in state Rainy Day funds. This use of one-time resources is necessary to protect key priorities and avoid the need for even deeper spending cuts. Plugging holes in our tax base caused by temporary declines in state tax revenues is the basic purpose of maintaining our state Rainy Day Fund and federal efforts to provide fiscal relief for states during economic downturns. Levels of federal aid included in our fiscal year 2009 and 2010 budget blueprints are based on current projections of enhanced federal Medicaid matching funds that will be available to Massachusetts in those years.

This approach to using one-time resources to balance the fiscal year 2009 and fiscal year 2010 budgets leaves approximately \$850 million in our state's Rainy Day Fund for subsequent fiscal years. Given the magnitude of our economic downturn and considerable uncertainty about the timing and pace of any recovery, it is critical to maintain a sizeable balance in our Rainy Day Fund for fiscal year 2011 and beyond. We also recognize the danger of over-reliance on one-time resources to balance the budget. Use of one-time revenues should be a short-term bridge to better times, not the seeds of sustained structural deficits when the economy improves. To help avoid structural deficits, we are proposing additional budget reforms to curb the practice of making long-term spending commitments based on unstable capital gains tax revenues (*see below*).

### ***Dedicated New Tax and Departmental Revenues***

Our Emergency Recovery Plan also includes new tax and departmental revenues dedicated to specific, high-priority programs. Identifying responsible new revenue sources is part of a balanced approach to managing through a fiscal crisis, used by states across the nation that are wrestling with the current crisis and by the Commonwealth during previous economic downturns. The revenue measures proposed by the Administration not only help protect key priorities in the short-term but also provide them with a more stable and sustainable funding base moving forward. Apart from raising needed revenues, they also promote important public policy objectives.

- *Local Aid:* Strengthening the relationship between state and local government has been a top priority for the Administration. To help achieve that goal, we have consistently advocated for greater flexibility for cities and towns to identify additional revenue sources to fund essential services such as education and public safety and relieve pressure on property taxes. Upon taking office, Governor Patrick filed the Municipal Partnership Act allowing municipalities to establish a two percent local option meals tax and increase the existing local option hotel and motel room occupancy tax by one percent. The Act also proposed eliminating outdated property tax exemptions for telecommunications companies that increase pressure on residential property taxpayers and lack any meaningful policy justification.

While overall cuts in aid to our cities and towns are unavoidable given the magnitude of our fiscal challenges, the Administration has worked to limit the size of these cuts and the impacts on core municipal services. First, we maintained Chapter 70 education funding at its current, all-time high level of \$3.948 billion in both fiscal year 2009 and fiscal year 2010, reflecting the importance of education to the Commonwealth's long-term economic prosperity.

Second, the Administration has limited the amount of cuts to *unrestricted* aid to cities and towns. For fiscal year 2009, though it was necessary to reduce funding for Lottery and Additional Assistance through

emergency spending controls, these funding reductions were limited to \$128 million. This constitutes a 2.3 percent cut in overall Local Aid from originally budgeted amounts in fiscal year 2009. For fiscal year 2010, we have limited cuts to unrestricted municipal aid by dedicating revenues from a one percent increase in existing statewide meals and hotel and motel room occupancy taxes (\$149 million in fiscal year 2010) to help fund this aid. These revenues will also be a recurring source of funds to help provide predictable and adequate Local Aid in the future. In sum, the protection of Chapter 70 aid at an all-time high level, and the inclusion of new sustainable revenues, ensures that no city or town receives more than a 10 percent reduction for the combined sum of education and unrestricted aid in fiscal year 2010.

To give municipalities even greater tools to cushion remaining Local Aid cuts that could not be avoided and manage their finances moving forward, we are also proposing to allow cities and towns to establish a one percent local option meals tax and increase the existing local option hotel and motel rooms occupancy tax by one percent. We are likewise continuing to press to close property tax loopholes benefiting telecommunications companies.

In combination with municipal cost-savings opportunities through regionalization and participation in the state's low-cost health insurance program (*see below*), these measures will help cities and towns manage through difficult times and put their finances on a more sustainable path for the future.

- **The Commonwealth Wellness Fund:** The Administration is proposing to eliminate existing sales tax exemptions for alcoholic beverages (for off-site consumption), sweetened beverages and candy. These changes raise a net \$121.5 million in fiscal year 2010 that would be dedicated to a new Commonwealth Wellness Fund. The Fund will protect investments in key public health programs such as alcohol and tobacco addiction services, school health and nutrition services and violence prevention.

Eliminating these sales tax exemptions not only helps to preserve most public health programs but also directly protects children and others from harmful alcohol use and obesity. While we have made significant progress in curbing alcohol abuse, Massachusetts still ranks in the top ten percent of states with the highest rates of both underage drinking and adult binge drinking. Research has shown that ending sales tax exemptions for off-site consumption of alcohol will decrease underage consumption and frequency of use – and may also delay the first use of alcohol for some teenagers. Seventeen other states similarly tax foods of low nutritional value.

Moreover, more than a third of middle- and high-school students and half of the adult population in Massachusetts are overweight, causing dramatic, costly increases in chronic diseases like diabetes. This emerging public health crisis has been fueled by skyrocketing soda consumption (doubling between 1970 and 1999) and steady increases in candy consumption. Eliminating sales tax exemptions for these products would encourage consumption of healthier alternatives, particularly among young people whom research has shown are price-sensitive.

- **Bottle Bill:** The Massachusetts Bottle Bill is designed to encourage recycling of empty soda and beer containers and reduce litter by requiring a five cents deposit on these products, which is refunded when consumers return them for recycling at designated redemption sites. In the fiscal year 2010 budget, the Administration is proposing to expand the five cents deposit requirement to include water, flavored waters, coffee-based drinks, juices and sports drinks.

Since 2000, there has been double-digit growth in consumption of non-carbonated beverages, and industry experts expect this trend to continue. However, these non-carbonated beverages are not covered by the Bottle Bill and often end up in landfills or along the side of the road. The Administration's proposal updates the Bottle Bill to provide incentives for people to recycle containers for these non-carbonated beverages. It will also generate \$20 million in additional revenues in fiscal year 2010 from unclaimed deposits – \$5 million of which will be dedicated to recycling and solid waste management programs at the Department of Environmental Protection (a 46 percent increase in funding for these programs); \$10 million of which will be dedicated to water and sewer rate relief for Massachusetts Water Resources Authority (MWRA) communities; and \$5 million of which will help fund other priority state programs.

- **Registry Fees:** The Administration is proposing a number of steps to update and consolidate Registry of Motor Vehicle (RMV) fees, to generate additional dedicated revenues for the Commonwealth's transportation

program, simplify and streamline fees for consumers and encourage lower-cost on line transactions. The Registry currently collects 201 types of fees and charges at least 17 different fixed prices, in addition to 35 fees that are variably priced.

To improve the Registry experience for consumers, our proposal consolidates the number of RMV fees from 201 to 40. Certain fees will decrease, including registration fees for buses and ambulances, providing savings for municipalities. Others – including some that have not been updated for nearly a decade or more – will increase modestly to generate an additional \$74.5 million for the state Highway Fund in fiscal year 2010 to address important transportation needs. Many drivers will pay no more than \$6.50 in additional fees per year: an additional \$2 per year for Class D drivers' licenses and \$4.50 per year for vehicle registration. In October, the Registry will also reinstate fee discounts for on line transactions, to encourage lower-cost and more convenient transactions for consumers.

- *Other Departmental Revenues:* Our fiscal year 2010 budget proposal includes a \$75 million increase in nursing home user fees to fund a small rate increase and performance-based incentive payments. It also includes \$73 million in special federal funding provided by the Temporary Assistance for Needy Families (TANF) Contingency Fund. These resources were made available for states to draw down based on extraordinary growth in their unemployment rate or their Food Stamp caseloads.

### **Budget Impacts**

Pursuing a balanced and careful approach to closing immense budget gaps for fiscal year 2009 and 2010 – exercising care and flexibility in making needed reductions in spending, making appropriate use of one-time resources in our budget blueprints, and dedicating new recurring revenues and fees to protecting essential programs – has helped us protect high-priority programs and limit impacts on many services upon which Massachusetts residents rely.

Notably, despite unprecedented fiscal pressures, we have protected existing, all-time high funding for Chapter 70 education aid, a program that was *cut* during the last fiscal crisis. We are maintaining current investments in extended learning time and college scholarships. These choices reflect the fundamental importance of education in ensuring the long-term success of our workforce and economy.

Recognizing the importance of our social safety net, particularly in difficult economic times, we have funded continued growth in state-subsidized health insurance through MassHealth and Commonwealth Care – maintaining our state's generous eligibility standards without imposing enrollment caps or benefit cuts. By contrast, during the last fiscal crisis, the state capped enrollment in the Children's Medical Security Plan and eliminated the MassHealth Basic program and adult dental and other optional benefits. We are also maintaining eligibility and benefits for cash assistance for low-income families and increasing spending in fiscal year 2010 to pay for increasing caseloads.

Housing assistance for the most vulnerable low-income families was maintained, with increases in funding for subsidies to local housing authorities and for the Massachusetts Rental Voucher Program in fiscal year 2010. Domestic violence and sexual assault examination services were likewise maintained, as was funding for summer jobs for youth. Veterans were held harmless from budget reductions, and Shannon Grants to combat gang violence are funded at their historic high level in fiscal year 2010.

Even so, balancing our budgets in fiscal year 2009 and 2010 required many difficult choices – and we recognize that they entail many difficult consequences. Programs and projects that are important to individuals, families and businesses will be impacted: Soft Second mortgage assistance, health care outreach and enrollment grants, the Purchase-of-Service salary reserve for human service workers, Lottery and Additional Assistance for cities and towns (though cuts are mitigated by new dedicated revenues), funding for the Judiciary, District Attorneys and Sheriffs, and many other programs face significant cuts.

Priorities of the Administration have been scaled back. Grants to hire additional police officers were eliminated. Fiscal year 2010 funding for the Commonwealth Corps is 33 percent below original fiscal year 2009 levels. Levels of investments in life sciences and education "Readiness" – two core components of the Administration's strategy for long-term economic growth in the Commonwealth – likewise reflect immediate fiscal strains. Investments in these efforts continue, but at a more measured pace than originally contemplated.

We will continue to work with the Legislature and those who are affected by these cuts, to identify opportunities to mitigate their impact and manage through these difficult times until our economic and revenue pictures improve.

### **Reforms**

As part of its Economic Recovery Plan, the Administration is seizing the opportunity for reform and change – to cushion some of the harmful impacts of today's economic and fiscal crisis and also address longstanding challenges that have proved difficult to confront in ordinary times.

Along with earlier Administration reforms to lower auto insurance rates, introduce civilian flaggers at construction sites and create an independent Office of the Child Advocate – and initiatives already under way to reform our transportation and criminal justice systems, state employee pensions and government ethics – the fiscal and government reforms connected with our budget blueprints constitute a far-reaching agenda for change and renewal for state government.

### ***Municipal Reforms***

As described above, in addition to filing state revenue proposals that enable us to limit fiscal year 2010 Local Aid cuts in the budget, we are once again proposing legislation asking for greater flexibility for cities and towns to raise *their own* revenues and for the elimination of property tax loopholes benefiting telecommunications companies. These provisions will help our cities and towns weather remaining Local Aid cuts and put their finances on a more sustainable path for the future.

Cost containment is likewise essential to relieving current and future pressure on municipal budgets and property taxpayers. Through the enactment of its original Municipal Partnership Act legislation, the Administration has empowered communities to reduce their health care costs – the greatest single source of pressure on municipal budgets – by allowing them to offer high-quality, lower-cost health insurance to municipal employees through the state's Group Insurance Commission (GIC). The Administration's fiscal year 2010 budget accounts for plans by fifteen additional municipalities to join the GIC, bringing the total number of local participants to 25. With these additions, over 45,000 people would be covered through the GIC's partnership with cities and towns.

Building on these cost containment successes, the Administration is filing a second comprehensive Municipal Partnership Act bill ("Municipal Partnership Act II") consisting of additional tools to help municipalities manage their bottom lines. These tools include provisions promoting more cost-efficient and effective service delivery through collaboration among communities. Likewise, the Readiness Finance Commission – charged by Governor Patrick with outlining a long-term vision for financing transformative improvements in our education system – highlighted regionalization and collaborative purchasing as among a number of opportunities for cities and towns to reduce their costs and maximize efficiencies in the area of education. Other provisions of our Municipal Partnership Act II legislation focus on modernizing outdated and overly restrictive regulations that unnecessarily add to the cost and administrative burden of doing business and improving the ability of our cities and towns to manage their human resources.

### ***Transforming State Government***

The Administration is pursuing wide-ranging reforms that will transform the face of state government, restructuring agencies and revamping services to make them more cost-effective and responsive to the needs of our citizens.

Key reforms include:

- ***Consolidating Homeless Services:*** The Administration is filing an Article 87 reorganization proposal to combine emergency shelter programs and related agency support costs run by the Department of Transitional Assistance (DTA) with housing programs run by the Department of Housing and Community Development (DHCD). This will help carry out a "Housing First" strategy aimed at quickly securing permanent housing for homeless individuals and families. The strategy gives people the anchor of a permanent home as they receive services to help them move out of poverty. The Administration's budget for fiscal year 2010 helps to implement this change, transferring homeless services funding from DTA to DHCD.
- ***Consolidating Information Technology Governance and Infrastructure:*** The Administration intends to streamline the Commonwealth's highly fragmented information technology (IT) operations to reduce costs, improve efficiency and better align IT with Secretariat objectives. Under this reform, eight Secretariat Chief

Information Officers will have authority over all IT spending within their Secretariats and will work with the Commonwealth CIO to develop a two-year plan to consolidate data and telecommunications networks, data center services, website portal and hosting services and shared enterprise services. The Administration's fiscal year 2010 budget moves forward on this reform by transferring IT-related funding that is currently spent in 183 budget accounts into eight direct appropriation line-items for each Secretariat, and 318 off-budget accounts into eight intergovernmental service funds.

- *Consolidating Energy Management:* The Administration's fiscal year 2010 budget creates a new budget line-item to lay the groundwork for a new, centralized energy management program for state government. A cross-departmental team from the Executive Office for Administration and Finance, Department of Energy Resources, Operational Services Division and Division of Capital Asset Management has been formed to identify and recommend organizational restructuring needed to centralize energy management within state government. Centralized energy management will improve budgeting, create savings and provide additional data to inform energy planning and decision-making.
- *Shared Services:* The Administration's fiscal year 2010 budget includes legislative language removing barriers to the establishment of "shared services" models within Secretariats. This will give Secretariats greater flexibility to examine ways of consolidating administrative functions such as finance, human resources, information technology and procurement to eliminate duplication, achieve savings, improve management and bolster transparency.
- *County Sheriff Reform:* The Administration is filing legislation to convert the seven existing county sheriffs into state sheriffs (the other seven sheriffs offices are already state agencies). While the seven state sheriffs are funded exclusively through state appropriations, the county sheriffs receive funding from seven different mechanisms – including highly unstable deeds excise taxes – and are subject to a more bureaucratic and fragmented funding process. Making them into state sheriffs would provide them with more stable and predictable budgeting and offer a clearer and more immediate picture of their fiscal needs. It would also achieve cost savings by allowing the Group Insurance Commission to provide their employees' health care. The structure of the fiscal year 2010 budget reflects this reorganization plan.
- *Surplus Land Reform:* The Administration is also filing legislation to establish a new, expedited process for disposing of surplus state land based on "smart growth" land use policies. This bill reflects a balanced approach to disposing of surplus state land that is fair to the communities in which the property is located while also allowing state government to generate needed revenues. Half of the proceeds from the sale of surplus state land would be dedicated to the Smart Growth Fund, with the remainder allocated to a Capital Projects Fund to meet the capital improvement needs of the Commonwealth and to municipalities.
- *Alignment and Accountability:* In addition to these efforts, the Administration will continue to pursue far-reaching reforms to our transportation system (MassTrans), criminal justice system (through CORI reform and a comprehensive anti-crime bill), state employee pensions and government ethics.

### **Health Care Cost Containment**

"Bending the trend" on health care costs is a top priority for the Administration. Cost containment is essential to achieving and sustaining near-universal health insurance coverage under health care reform and enabling government, businesses and families to afford high-quality health care and meet their *other* needs and priorities.

Our fiscal year 2009 and fiscal year 2010 budget blueprints include a wide range of cost containment initiatives that reduce state health care program costs while promoting high-quality care. Examples include the reforms to active state employee health insurance contributions discussed above; proposals to increase the portion of MassHealth payments for which providers must meet performance improvement benchmarks; and initiatives to move towards "medical home" models that offer MassHealth members continuous, uninterrupted care coordinated by primary care providers.

The Administration's cost containment efforts extend beyond seeking savings in state health care programs. They also include initiatives to provide relief for *all* families, businesses and levels of government struggling to keep pace with escalating health care costs.

Along these lines, the Administration's fiscal year 2010 budget maintains \$1.1 million in funding for the Health Care Quality and Cost Council. This funding will allow the Council to proceed in developing a "Roadmap to Cost Containment" to help identify high-impact approaches to health care cost containment and propose a strategy for their implementation. The Administration has also just launched a special commission on health care payment reform. Created by recently enacted cost containment legislation and supported by the fiscal year 2009 budget, this commission will propose alternatives to "fee for service" payments for health care, which can reward providers simply for the *volume* of care they supply instead of achieving high-quality, cost-effective *outcomes* for patients.

### **Budget Reforms**

The Administration is proposing a number of reforms that address structural budget challenges and put the Commonwealth on a more sustainable fiscal path moving forward.

The fiscal year 2010 budget includes a proposal to reform the way the state budgets for capital gains tax revenues, to promote fiscally sound budgeting practices and curb the problem of recurring structural deficits. Capital gains are the state's most volatile tax revenue source. Based on tax year 2000 rates, they would have declined \$829 million – or 71 percent – from 2000 to 2002. They are also expected to decline by about \$1.3 billion from fiscal year 2008 to fiscal year 2010. In between these fiscal crises, capital gains revenues grew substantially. Capital gains tax revenues increased by a little over \$1.4 billion between fiscal year 2003 and fiscal year 2008 and accounted for about 25 percent of tax revenue growth over that time. Unfortunately, during years of extremely strong growth in capital gains revenues, the state has made spending commitments at the same pace – yielding structural budget deficits when capital gains revenues moderate and requiring extreme cuts when they plummet.

To address this problem, the fiscal year 2010 budget establishes a new mechanism for budgeting for capital gains revenues. As one element of the yearly consensus revenue process, the Governor and Legislature would agree on a maximum amount of capital gains tax revenues that would be included in the overall consensus revenue estimate. This amount would be based not simply on short-term projections but also *longer-term* trends in capitals gains – and how best to account for them in yearly projections. Any amounts of actual yearly capital gains tax revenues that exceeded the agreed-on projections would be deposited in the state's Rainy Day Fund, serving as a "cushion" in years when capital gains revenues fell. This would help ensure that the state did not build recurring spending on a foundation of unsustainable revenues and help mitigate the fiscal impact of economic downturns.

Other budget reforms include:

- *Tax Credit Disclosure/Accountability Website:* The Administration's fiscal year 2010 budget also includes a proposal to disclose the names of those who receive funds through state grants in the form of refundable or transferable tax credits. Recipients of these funds and the state agencies that administer these programs would also be required to disclose the number of jobs created through these credits and other measures of "results." This would be among the information disclosed on a new "Accountability" website being developed by the Executive Office for Administration and Finance, to give the public more information about state fiscal choices and encourage informed dialogue and decision-making about the budget.
- *Capital-to-Operating Budget Swaps:* Our fiscal year 2010 budget also moves personnel costs currently paid in the capital budget to the operating budget and equipment costs currently paid in the operating budget to the capital budget – a no-cost realignment to reduce the fiscally imprudent practice of paying for operating costs through the capital budget.
- *OPEB:* Building on nation-leading reforms adopted as part of the fiscal year 2008 budget, our fiscal year 2010 budget makes further progress in addressing the immense challenge of financing currently unfunded state and local government liability for public employee retiree benefits beyond pensions (largely health care benefits) – commonly known as OPEB ("other post-employment benefits").

The budget requires adoption of a funding schedule for the Commonwealth's unfunded OPEB liability for state retiree health and other benefits and phases in the use of tobacco settlement proceeds and a portion of budget surpluses to pay for this funding (starting as early as fiscal year 2011). It also updates the membership of the Board that will manage the investment of these funds and allows municipalities, authorities

and certain other entities to join this program (depositing their own funds to meet their own liabilities). Finally, the legislation establishes a special commission to propose recommendations to ensure the sustainability of retiree health benefits, accounting for employee needs and fiscal impacts.

## **Fiscal Year 2010 Program and Policy Highlights**

### ***Education***

- Line-item consolidations:
  - Combines thirteen Department of Early Education and Care line-items into seven.
  - Combines 43 Department of Elementary and Secondary Education line-items into ten consolidated accounts and ten individual program line-items.
  - Combines seven Department of Higher Education accounts into two (three accounts into one for the Department of Higher Education administration and four accounts into one for scholarship and grants).
  - Combines 28 accounts covering the University of Massachusetts, state colleges and community colleges into three. The Department of Higher Education and its Board will have the flexibility to distribute funds to state and community colleges in the most appropriate manner.
- Universal pre-kindergarten receives \$11.6 million, providing the same number of classrooms with grants as in fiscal year 2009. Combined with Head Start, total funding is \$20.6 million.
- Chapter 70 education aid did not receive emergency spending cuts in fiscal year 2009. Fiscal year 2009 funding for Chapter 70 – \$3.948 billion, an all-time high that provided more aid to all 328 school districts and met foundation criteria – was maintained in fiscal year 2010.
- Extended learning time grants are funded at \$17.4 million, about equal to the amount funded in the original fiscal year 2009 budget.
- The Massachusetts State Scholarship Program is funded at \$96 million, maintaining the fiscal year 2009 investment. Combined with other state scholarships and grants in a new, consolidated account, total funding is \$100.4 million.

### ***Local Aid***

- Combines Lottery and Additional Assistance into an Unrestricted General Government Aid category in Section 3.
- Dedicates revenues from one percent increase in statewide meals and hotel and motel room occupancy taxes to limit cuts in Unrestricted General Government Aid for cities and towns.
- Accompanying legislation offers additional relief for municipalities, including options for one percent local meals tax and one percent increase in local hotel and motel room occupancy tax, additional property tax revenues from closing the telecommunications loophole and new cost-savings opportunities.
- Budget plans for fifteen additional communities to join the Group Insurance Commission in fiscal year 2010 and achieve savings by providing lower-cost, high-quality health insurance to their employees.
- Reimbursement to cities and towns in lieu of property taxes on state-owned land (PILOT) did not receive an emergency spending cut in fiscal year 2009, and funding was maintained at \$30.3 million for fiscal year 2010.
- Removes cap on number of waivers that Board of Library Commissioners can grant to libraries not meeting certain funding requirements, enabling libraries to maintain certification and access popular regional library lending networks.
- School lunch program did not receive an emergency spending cut in fiscal year 2009. Fiscal year 2009 funding of \$5.4 million was maintained in fiscal year 2010. Account will leverage over \$150 million in federal funds in fiscal year 2009.

### ***Public Safety***

- Combines four Executive Office of Public Safety accounts into two.
- Shannon Grants to combat gang violence are funded at \$13 million, matching originally appropriated amounts for fiscal year 2009.
- Summer jobs program for at-risk youth administered by the Executive Office of Labor and Workforce Development receives \$8 million, maintaining fiscal year 2009 spending.
- Department of Fire Services receives \$5.8 million increase over estimated fiscal year 2009 spending to help fund the Stow firefighter training facility, fire safety initiatives and grants to cities and towns for firefighting equipment.

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- Establishes a new funding mechanism for police training programs: an automobile insurance surcharge will provide \$3.1 million for the Municipal Police Training Committee and \$3.2 million to establish an annual state police class.

### ***Economic Development and Housing***

- Combines administrative and programming funding for the Department of Business Development from three accounts into one, allowing the Department to more flexibly allocate resources.
- Consolidates the activities of the Office of Travel and Tourism (MOTT) with grants to regional tourism-promoting organizations. This will better assist MOTT in coordinating its programs and activities with regional efforts to market Massachusetts as a tourism destination.
- To carry out a "Housing First" strategy aimed at quickly securing permanent housing for homeless individuals and families, Article 87 legislation combines emergency shelter programs and related agency support costs run by the Department of Transitional Assistance with housing programs run by the Department of Housing and Community Development.
- Eliminates State Racing Commission as an independent agency and establishes as a board within Division of Professional Licensure. Allows the State Racing Commission to achieve additional administrative efficiencies by eliminating duplicative operational activities.
- Massachusetts Rental Voucher Program (MRVP) is funded at \$35.8 million, a modest increase from the program's fiscal year 2009 estimated spending of \$35.2 million. In fiscal year 2009, \$5 million of MRVP funding was shifted on a one-time basis from DHCD to MassHousing.
- Subsidies for local housing authorities are funded at \$71.2 million, an increase of nearly \$25 million since fiscal year 2007 and of over \$4.5 million from fiscal year 2009.
- Reinitiates state operating budget funding for expedited permitting (\$2.4 million) and technical assistance grants (\$1 million) for small businesses after eliminated by fiscal year 2009 emergency spending cuts. Additional funding already provided by MassDevelopment will bolster investments.
- Includes \$20 million in funding for life sciences, providing a significant investment in long-term economic growth in the Commonwealth (though reduced from expected \$25 million).

### ***Health and Human Services***

- Combines 185 line-items in the Executive Office of Health and Human Services into 82.
- Three percent overall increase in MassHealth budget includes anticipated enrollment growth in the program, costs from new investments and initiatives and aggressive cost containment measures.
- Includes \$21 million for the "Community First" waiver policy initiative, phased in initially to provide people over 60 with disabilities access to home- and community-based services.
- MassHealth budget also funds anticipated expansion in Children's Behavioral Health Initiative.
- Commonwealth Care will receive \$880 million to provide coverage to approximately 180,000 adults, a \$60 million increase over estimated fiscal year 2009 spending.
- The Health Care Quality and Cost Council receives \$1.1 million, equal to estimated fiscal year 2009 spending. The Council will continue to be staffed by the Division of Health Care Finance and Policy (DHCFP) to achieve efficiencies and greater alignment with other cost containment initiatives undertaken by DHCFP (including statutorily required reports and hearings on health care cost drivers).
- Elimination of sales tax exemptions for sweetened beverages, candy and alcoholic beverages (for off-site consumption) encourages healthy habits and raises net \$121.5 million in fiscal year 2010 for Commonwealth Wellness Fund, to provide dedicated funding for alcohol and tobacco addiction services, childhood health and nutrition services and violence prevention. Helps state meet federal substance abuse maintenance-of-effort requirements.
- Funding for Domestic Violence Prevention and Sexual Assault Nurse Examiner (SANE) programs at Department of Public Health and Domestic Violence Services at Department of Children and Families maintained at original fiscal year 2009 levels.
- Grants for Local Councils on Aging receives \$8.6 million, restoring funding to amounts originally budgeted for fiscal year 2009.
- *Rolland* settlement and court monitor costs at the Department of Developmental Services (moved from MassHealth) are fully funded at \$27.7 million in fiscal year 2010.
- Based on settlement of the Hutchinson case, the Massachusetts Rehabilitation Commission (MRC) and MassHealth will expand important community alternatives for brain-injured adults and seniors.

- Veterans' services are held harmless from any reductions in fiscal year 2009 and fiscal year 2010. The Department of Veterans' Services receives a \$6 million increase in funding from fiscal year 2009 to fiscal year 2010.
- "Turning 22" services are fully funded in fiscal year 2010 (\$7.7 million at the Department of Development Services, over \$884,000 at the Massachusetts Rehabilitation Commission and \$11.4 million at the Massachusetts Commission for the Blind).
- Maintains eligibility and benefits for cash assistance for low-income families through Department of Transitional Assistance programs, increasing spending in fiscal year 2010 to pay for increasing caseloads.

### ***Energy and Environment***

- Combines all of the Department of Conservation and Recreation's line-items to enable the agency to focus on its core mission of protecting recreational assets and parks.
- Expands the Massachusetts Bottle Bill to include water, flavored water, coffee-based drinks and sports drinks. Proposal will provide incentives for recycling and generate almost \$20 million in additional revenues in fiscal year 2010 from unclaimed deposits – \$5 million of which will be dedicated to recycling and solid waste management programs at the Department of Environmental Protection (a 46 percent increase in funding for these programs); \$10 million of which will be dedicated to rate relief for Massachusetts Water Resources Authority (MWRA) communities; and \$5 million of which will help fund other priority state programs.
- Energy programs at the Department of Public Utilities and the Department of Energy Resources were not cut, as they are funded from off-budget sources or assessments.
- Includes a new appropriation to lay the groundwork for centralized management of energy-related spending within Executive Branch agencies. A cross-departmental team from the Executive Office for Administration and Finance, Department of Energy Resources, Operational Services Division and Division of Capital Asset Management has been formed to identify and recommend organizational restructuring needed to support the concept of centralized energy management to assist with energy budgeting and tracking. Will lead to additional efficiencies in energy purchasing, budgeting and compliance with Executive Order 484 ("Leading by Example").

### ***Transportation***

- Combines sixteen Executive Office of Transportation and Public Works line-items into eight.
- Simplifies and clarifies funding for transportation by directing all transportation-related revenues to the state Highway Fund, funding all transportation-related expenses (including debt service on bonds issued for transportation purposes) from this Fund.
- Consolidates and increases some Registry of Motor Vehicle license, registration and title fees to generate an additional \$74.5 million for the state Highway Fund in fiscal year 2010 – to help improve our transportation infrastructure, create jobs through ongoing and new construction projects and support regional transit services. In October, the Registry will also reinstate fee discounts for on line transactions, to encourage lower-cost and more convenient transactions for consumers.
- Allows Registry of Motor Vehicles to retain an additional \$3 million in revenues to manage the increasing costs of providing secure IDs and licenses.
- Authorizes the Registry of Motor Vehicles to enter into agreements with third parties such as the American Automobile Association (AAA) to provide license and registration renewals and other appropriate Registry services. This will expand opportunities for citizens to access Registry services.
- Provides \$36 million for snow and ice removal at the Massachusetts Highway Department (MHD), the highest amount appropriated in several years. Though this amount is below the five-year average, the budget includes reforms at the MHD allowing for the prompt payment of costs associated with snow and ice removal, ensuring timely removal of snow and ice from our roads and bridges.

### ***Labor and Workforce Development***

- Combines the summer jobs program for at-risk youth, One-Stop Career Centers and Massachusetts Service Alliance line-items into one, allowing the Executive Office of Labor and Workforce Development to allocate workforce training funds where they are needed most.
- Authorizes \$21 million in spending for matching grants from the Workforce Training Fund to train new and existing workers. Amount equals authorization from fiscal year 2009 budget.
- One-Stop Career Centers did not receive emergency spending cuts in fiscal year 2009, and funding was maintained at \$5.5 million in fiscal year 2010.

**Administration and Finance**

- Combines 31 line-items into thirteen.
- Includes proposal to allow the Operational Services Division (OSD) to add a one percent manager fee for statewide contracts. Will enable OSD to follow the lead of their counterparts in other states and become a self-funded "enterprise" agency within four-to-six years.
- Information Technology Division is leading the consolidation of Secretariat IT spending and development of a two-year IT infrastructure consolidation plan to more effectively manage and control state IT-related expenditures. Secretariat IT consolidation is reflected in the fiscal year 2010 budget.
- Water Pollution Abatement Trust Contract Assistance is funded at \$70 million, ensuring funding for municipal water and sewer infrastructure improvements.
- Joins other states in establishing a new "Single Point of Contact" unit (within the Executive Office for Administration and Finance) to better track and monitor federal grants and funding that the state is eligible to receive.

**Other**

- Judiciary
  - Combines Trial Court's line-items (in the structure recommended by 2003's Monan Report on Judiciary Reform) from 148 to thirteen.
  - Provides full fiscal transferability between Trial Court line-items, to allow for necessary budget and management flexibility.
  - Encourages collection of court fees and fines and probation fees by allowing the Trial Court to retain additional revenues from these fees.
- Constitutional Officers
  - 11 percent reduction for Governor's Office from original fiscal year 2009 budget appropriation.
  - Secretary of State's U.S. Census Data and Technical Assistance account receives a \$1.5 million increase in funding, to improve counting of the state population for the 2010 federal census. This effort aims to protect federal funding and the Commonwealth's representation in Congress.
  - \$2.06 billion for the Office of the Treasurer and Receiver-General to pay for outstanding debt of the Commonwealth and to pay for new debt issued to fund the Commonwealth's capital investment program (out of a total of \$2.17 billion in total Commonwealth debt service costs).
- Sheriffs
  - Proposes to make remaining seven county sheriffs into state sheriffs, to provide them with more stable and predictable budgeting and offer a clearer and more immediate picture of their fiscal needs.
- Independent Agencies
  - Funding for State Ethics Commission is maintained at fiscal year 2009 level (\$1.8 million), in line with the recommendations of the Governor's Task Force on Public Integrity.

