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## *A Message from the Governor*

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To the People of Massachusetts:

Lieutenant Governor Murray and I are proud to file our budget recommendations for fiscal year 2012. This budget reflects our collective values and makes investments in critical areas that will help us strengthen our economy in the near-term, position us for a strong recovery in the long-term and help us continue to change the way government does business.

Four years ago, we began working together for an economy based on innovation and opportunity, for better schools and universal health care, and for better politics. In spite of some set backs caused by the recession, we have moved forward on many of our goals. We have positioned Massachusetts to recover stronger and faster than many other states.

Still, people are struggling. As we continue to dig out of the economic storm, just like families across the Commonwealth, we have re-worked our budget by taking a fresh look at our plans, stiffening our resolve, and making tough choices. Our fiscal position is strong when compared to other states, but like every other state in the Nation, we are faced with unprecedented challenges in FY 2012.

As with each budget we have submitted – and those we have revised amid unprecedented global economic challenges – our fiscal year 2012 budget is guided by an important set of principles. We need to be smarter about the way we fund, or don't fund, government programs. We will use this budget as a vehicle to implement stronger reforms to state government.

We chose to invest in education, in health care, and in job creation, because we all know that educating our kids, being able to count on quality, accessible health care, and having a job is the path to a better future. We have invested in new ideas to work to get health care costs under control, to grow jobs, to continue to close the achievement gap in our schools and to help end urban violence. By making these choices based on our guiding principles, we are building a better future for all of us.

We will also continue to improve the way our government serves people. We are filing legislation with the budget to further reform our pension system, to give cities and towns more tools to cut their costs, and to reshape both our criminal justice system that needs to regain the public's confidence and sentencing laws that need coherence.

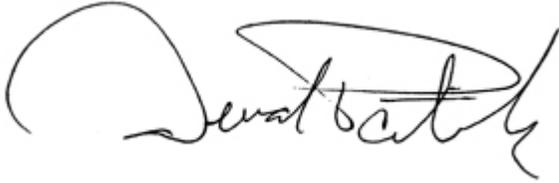
There are many difficult choices we were forced to make to balance this budget. But in the long run, these choices allow us to be responsible to future generations.

**FY2012 Governor's Budget Recommendation**

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More jobs. Stronger schools for all our children. Affordable and accessible health care. Safer neighborhoods. That's the work of our second term, and it starts with filing this budget. Through optimism and effort, I am confident that our best days lie ahead.

Sincerely,

A handwritten signature in black ink, appearing to read "Deval Patrick". The signature is fluid and cursive, with a large initial "D" and a stylized "P".

Deval L. Patrick  
Governor

## ***A Message from the Secretary of Administration and Finance***

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States across the country have been facing unprecedented fiscal challenges since the global economic recession began in 2008. Tax revenues fell sharply and demand on state safety net programs increased to historic levels. This created huge budget gaps for state governments that have been closed with drastic cuts in services, new revenues, federal stimulus funds and other one-time resources.

Massachusetts has weathered this fiscal storm better than most other states. We have maintained our strong bond rating, with the rating agencies repeatedly noting our strong fiscal management. The Governor and the Legislature worked collaboratively and responsibly over the last few years to enact budgets that were on time and balanced and to make adjustments to budgets as necessary to ensure we live within our means. Tough but necessary decisions were made, thousands of state positions were eliminated, and state government – like families and businesses across the Commonwealth – found ways to do more with less.

Now, the Massachusetts economy is recovering faster and stronger than the rest of the nation, and tax revenues are steadily growing. This is good news.

We have a long way to go, however, to climb our way back to where we were before the recession. The tax revenue estimate for fiscal year 2012 is still about \$900 million less than the tax revenue estimate supporting our original fiscal year 2009 budget – and fiscal year 2012 includes about \$1 billion in new tax revenues from the 2009 sales tax increase. We also continue to face increased demand on our safety net programs as many citizens continue to need help. The most significant challenge we faced in developing this budget proposal, however, is the loss of about \$1.5 billion in federal stimulus funds. For these reasons, fiscal year 2012 is a more challenging budget year than any other.

Early in the course of this recession, many in government said that the fiscal crisis presented an opportunity for change. We are now well beyond that – our fiscal challenges are now at the point where they *demand* change.

We must build on the reforms and efficiencies we implemented in Governor Patrick's first term to change the way government does business and delivers services. We must stretch every taxpayer dollar as far as possible to preserve critical services that the people of Massachusetts expect, need and deserve.

This budget proposal reflects an ambitious reform agenda. We are reforming the way we purchase and pay for health care, implementing innovative and aggressive strategies to address what has historically been our most significant budget challenge. We are reforming our criminal justice system to reduce recidivism and costs in our corrections system, replace probation and parole with a consolidated department of re-entry and community supervision, and change the way we provide public counsel services to indigent defendants to save tens of millions of dollars. We are reforming our approach to addressing homelessness in a way that

will stabilize more families in need with permanent housing at lower cost than shelters. We are reforming our pension system to make it sustainable and to preserve fair and reasonable benefits for state employees.

We are also reforming the way state government does business across the board – reforming back office functions to share services; reforming how we buy goods and services to maximize our purchasing power; reforming how we manage, maintain and dispose of state assets; and reforming how we not only deliver information technology services, but also how we use information technology to improve government services at lower cost, including through privatization. We are also taking aggressive steps to make government more accountable and transparent; to eliminate fraud, waste and abuse; and to fundamentally change the way government manages and budgets to improve outcomes and performance.

All of these reforms – and the many others proposed as part of this budget – will save taxpayers money in fiscal year 2012 and position state government to be more effective and efficient over the long term.

In addition to these reforms, there is much in this budget to be proud of in the context of the fiscal challenges we face. State funding for Chapter 70 education aid for K-12 schools is at the highest level ever. We have increased funding for programs that address the achievement gap, our most pressing challenge in education. We have preserved funding for programs that address youth violence and support youth-at-risk. We continue to invest in job creation, including supporting our ambitious capital investment program and maintaining our commitment to reduce the corporate tax rate to save businesses close to \$200 million to invest in their own growth and create jobs. We continue to fund health care reform and to maintain eligibility and coverage for the low-income families, elderly and disabled residents who depend on state support for their health and well-being. We continue to maintain many programs and services throughout state government, and we are doing so without relying on new taxes or fee increases.

The news, however, is not all good. There is no way to avoid significant cuts to programs and services. We need to spend less next year than we are spending this year, and we simply do not have the resources to support the same level of services. This means cuts to local aid, higher education, the courts, and virtually every agency throughout state government. It means reductions in benefits to many of our most vulnerable populations. It means more parks will not be staffed and maintained; the condition of our roads will not be as good; and lines and waits for state services will be longer. It means hundreds of additional state positions will be eliminated. It means state government will be closing facilities and no longer providing certain services at all. All of this will have real impacts on people. While we have done everything possible to mitigate these impacts, they are simply unavoidable.

Although necessarily austere, this budget proposal is honest, transparent and fiscally responsible. There are no gimmicks or tricks. We are living within our means, and we are staying true to our generational responsibility by improving the state's fiscal position for the long-term. This budget eliminates the structural deficit Governor Patrick inherited that was prolonged by the recession. It reduces our reliance on one-time resources from about \$1.9 billion this fiscal year to just \$385 million, only a little over 1% of the total budget and an amount that is sustainable and justified based on tax-revenue trends. We have proposed comprehensive pension reforms that will reduce pension costs for public employees by more

than \$5 billion over the next 30 years and will reduce retiree health benefit costs by more than \$2 billion over the next 30 years. We are proposing to require that all one-time revenues from tax and litigation settlements exceeding \$10 million be deposited in the state's rainy day fund. And, at the end of fiscal year 2012, our most challenging budget year following three years of unprecedented fiscal challenges faced by the state, we will still have a healthy balance of \$570 million in our rainy day fund. Our fiscal future will not be without challenges, but we will be better positioned for fiscal stability over time as a result of this budget proposal.

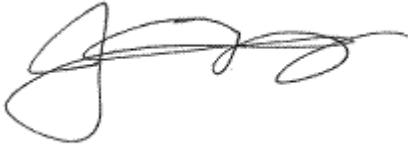
I want to thank Governor Patrick for his fiscal leadership. Governor Patrick approaches the budget process with a keen understanding of not only his fiscal responsibility, but also with an understanding that the budget is a statement of our values. The Governor understands that the budget is not a compilation of numbers on a page – he knows that there are people behind those numbers, people who depend on the budget for their health and well-being and for a brighter future. As a result, the Governor takes the budget process seriously; he invests a great deal of personal time, energy and emotion into the process; and he demands the best of all of us to develop a budget that is not only responsibly balanced, but that serves the best interests of the people of the Commonwealth.

I also want to thank Lieutenant Governor Murray and my colleagues on the Cabinet for their leadership and collaboration. They have all been personally engaged in the budget development process and have been critical contributors to ensuring we have a thoughtful and responsible budget proposal.

The Patrick-Murray Administration is fortunate to have strong fiscal partners in the legislature. Unlike many other states, the Administration and the legislature have worked collaboratively and responsibly to pass budgets that are balanced, on-time and fiscally responsible in the face of extraordinary fiscal challenges. I thank my colleagues, Chairman Steven Panagiotakos and Chairman Charles Murphy, as well as their staffs, for their partnership in managing the Commonwealth's budget through these difficult times. I wish Chairman Panagiotakos a special thanks for his many years of valuable service to the Commonwealth and for his thoughtful, collaborative and good-natured approach – it was a pleasure working with him.

I also want to thank the Inter-Secretariat Budget Team that we established this year to assist A&F in developing creative budget solutions and reform initiatives. This Team was comprised of a representative from each secretariat who met at A&F three days a week for the last couple of months identifying and developing many innovative proposals, some of which are reflected in our budget proposal. Their energy, enthusiasm and dedication yielded not only positive results, but also a positive new dynamic to the budget development process. Tim Sullivan took a leave of absence from MassHousing to help lead the Team's efforts, and the other members of the Team were Nick Martinelli, Jamey Tesler, Andrea Patstone, Jack Flynn, Bryan Jamele, Alethea Pieters, Stan McGee, Steven Clarke, Phil Griffiths and Joe Landolfi. Many thanks to all of them for their valuable contributions.

Lastly, I want to express deep appreciation, thanks and gratitude to my incredible team in the Executive Office of Administration and Finance for their work on this budget recommendation. I continue to be amazed by the enthusiasm, energy, creativity, diligence and dedication that they bring to their jobs each and every day. I am proud to be associated with all of them. Special thanks go to Undersecretary Matt Gorzkowicz and Budget Director Michael Esmond for their leadership.

A handwritten signature in black ink, appearing to read 'Jay Gonzalez', with a large, stylized initial 'J'.

Jay Gonzalez  
Secretary of Administration and Finance

# ***Budget Narrative***

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## **Choices for a Better Tomorrow**

Governor Patrick's and Lieutenant Governor Murray's fiscal year 2012 budget proposal keeps Massachusetts moving toward a strong economic recovery and a better tomorrow. It reflects their core belief that, facing unprecedented fiscal challenges in fiscal year 2012, we need to be smarter about the way state government does business and delivers services. The Patrick-Murray Administration will use this budget to move forward on key priorities including: closing the achievement gap in our schools, controlling health care costs, growing jobs throughout the Commonwealth and addressing youth and urban violence.

This budget is also a vehicle to implement an aggressive reform agenda to continue to improve the way state government serves the residents of Massachusetts. The Administration will be filing legislation with the budget to further reform our pension system, to give cities and towns more tools to cut their health care costs, to shift our homeless shelter system into a housing-first system, and to reshape our criminal justice system to regain the public's confidence. The fiscal year 2012 budget also includes many difficult cuts and tough choices. But in the long run, these choices will help us be responsible to future generations.

***Closing the Achievement Gap:*** The fiscal year 2012 budget proposal supports Governor Patrick's commitment to close the achievement gap in schools by maintaining funding for Chapter 70's foundation budget, increasing funding for targeted state investments that address the achievement gap, and effectively managing new federal funds awarded to Massachusetts for this purpose, such as Race to the Top monies.

Maintaining a strong investment in education is a crucial component to guaranteeing that the Commonwealth's students continue to be national and global leaders in educational achievement. The Patrick-Murray Administration will continue to implement its aggressive agenda for education, even in spite of a struggling global economy and limited resources. It is essential to maintain this commitment to our children's education. Some highlights include:

- Funding Chapter 70 state education aid at \$3.9 billion, the highest level of state-supported funding. This amount ensures that all districts are fully funded at foundation.
- Funding for the Special Education Circuit Breaker is \$213 million, an increase of \$80 million over fiscal year 2011.
- Funding of \$500,000 for STEM (science, technology, engineering and mathematics) education.
- \$4.8 million increase in funding for programs focused on reducing the achievement gap, including Targeted Intervention in Underperforming Schools, MCAS Low Score Support, and School Breakfast Programs.

The fiscal year 2012 budget invests more than \$817 million in our public colleges and universities, providing campuses the same level of state supported, non-federal funding as in fiscal year 2011. This funding level reflects the \$20 million out-of-state tuition that will now be retained at campuses. The House 1 budget maintains funding for scholarships provided through the Office of Student Financial Assistance at the Department of Higher Education at \$88.3 million to support needs-based financial assistance for our in-state students. In fiscal year 2012 the Massachusetts Educational Financing Authority (MEFA) will also contribute \$1 million to support scholarships in partnership with the Department of Higher Education.

The Department of Higher Education has proposed establishing a \$7.5 million incentive fund to encourage financial and operational efficiency at University of Massachusetts, the state universities, and the community colleges. This fund will provide incentives to campuses to encourage these independent agencies to advance the Administration's policy objectives and adopt fiscal improvement and accountability measures that will lower costs and increase efficiency. These incentives will help encourage campuses to adopt better practices that are aligned with the Administration's goals and priorities.

The Administration is committed to providing access to high-quality early education and child care to its residents. The fiscal year 2012 budget provides the tools for the Department of Early Education and Care (EEC) to improve child care quality along with increasing access and affordability. This budget reflects our commitment to early

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education and care by continuing to invest in the Universal Pre-Kindergarten (UPK) and Head Start grant programs. It continues to support child care access to quality after school and day care programs for children within the Department of Children and Families, the Department of Transitional Assistance, and qualified low income eligible families. Funding from EEC will help support child care services for over 55,000 children.

**Controlling Health Care Costs:** Building on our tremendous success in implementing health care reform – with more than 98 percent of our residents now getting health insurance, the highest level in the Nation – we must now work to get health care costs under control so that health coverage is as affordable as it is accessible.

We are proposing an aggressive cost containment strategy to help manage costs in all state and health care programs (Massachusetts Connector Authority, MassHealth, Group Insurance Commission and the Medical Security Program). The Administration's goal is to leverage the state's immense purchasing power to be a force for rewarding models that provide cost-effective, high-quality coverage and care to those who rely on state health insurance and better coordinate government's health care purchasing decisions. It would maintain eligibility for all state-subsidized health insurance programs – under the most generous eligibility standards in the nation (see below) – without capping enrollment.

In legislation filed with this budget, we are proposing new tools for cities and towns to help manage health care costs, which is the most significant budget buster for municipalities. We are proposing a new local health insurance plan design process that will achieve material savings for cities and towns. This could save municipalities more than \$94 million in year one. We are also proposing to require that all municipalities enroll their eligible retirees in Medicare, as this federal program covers a substantial portion of that population's health care costs.

Small businesses will also benefit from updates launched by the Connector Authority to its Commonwealth Choice program, which creates a streamlined, simplified process for small businesses and individuals to shop for unsubsidized, name-brand health insurance, saving them money by making it easier for them to understand their options and choose better-priced health plans. The Connector will also be eliminating a fee it currently charges small businesses to shop through Commonwealth Choice, and \$10 million is proposed to offer premium discounts for certain small businesses which purchase coverage through Commonwealth Choice and set up wellness programs for their employees. This will reduce premiums for qualifying small businesses by up to 5%.

**Job Creation:** The fiscal year 2012 budget supports Governor Patrick's commitment to help every resident in Massachusetts seeking work to find it. We are investing in education, in the innovation industries that are expanding opportunity around the Commonwealth, in the small businesses that are the backbone of our economy, and in the public infrastructure that supports it all. Initiatives in this budget will also help reduce the costs of doing business here by addressing escalating health insurance premiums and improving access to capital for small businesses.

The budget will reform the funding structure for the Workforce Training Fund (WTF) by funding grants to private employers (typically at \$21 million a year) through a dedicated trust fund. This change responds to private employers' concerns that annual WTF contributions have been diverted in the past from job training initiatives for use in the General Fund. The WTF will provide funding to a broader range of employers in size, business and location. We will also increase participation of small businesses by allowing them to partner with community colleges, vocational education schools and community-based organizations to apply for grants. The Commonwealth Corporation will administer these grants moving forward to help meet these goals and improve transparency.

The fiscal year 2012 capital projects budget will invest more than \$3.6 billion in capital investment projects, more than double the amount of state capital investments when Governor Patrick took office four years ago. While many of these planned investments create construction jobs and otherwise support economic growth, \$194 million of planned investments are specifically targeted to economic development programs, which prioritize projects that invest in state infrastructure that leverages private development and supports job growth. More than \$50 million will be invested in the MassWorks Infrastructure Program – the newly created one-stop shop for municipalities seeking public infrastructure funding that supports economic development and job creation.

The budget reflects the first full year of operation for the newly-created Mass Marketing Partnership, established in the Economic Development Reorganization Bill adopted in 2010. The long-term goal of the new agency is to execute a more consolidated and coordinated marketing effort within the Commonwealth for both attracting and

retaining tourists and businesses to the state. The new Growth Capital Corporation, resulting from a merger of the Economic Stabilization Trust and the Community Development Finance Corporation, will also have funding to make loans to small businesses.

In addition to the capital program, some of our quasi-public agency partners help support job creation, such as the Life Sciences Center, the Clean Energy Center, MassDevelopment, and Mass Tech Collaborative. These entities are continuing to advance the Patrick-Murray Administration objectives to create high-technology jobs that will be needed in the future, particularly in the life sciences and clean energy sectors.

The fiscal year 2012 budget maintains our commitment to phase down the corporate tax rate, from 8.75 percent in tax year 2010 to 8.25 percent in 2011. The Department of Revenue estimates this will save 35,000 businesses statewide roughly \$185.1 million. Even in the midst of unprecedented fiscal challenges, we are following through with corporate tax reform and reducing costs for businesses so that they can invest more in themselves and create new jobs for Massachusetts residents who need them.

**Addressing Youth and Urban Violence:** The fiscal year 2012 budget supports Governor Patrick's commitment to put an end to youth and urban violence. The Patrick-Murray Administration is working to finalize a comprehensive approach to help achieve this goal by partnering with communities throughout the Commonwealth. Many choices in this budget will preserve and in some cases increase the myriad of programs across many state agencies that contribute to meeting the needs of youth-at-risk populations and youth and urban violence prevention initiatives.

Between this budget and the fiscal year 2011 supplemental budget we are filing at the same time, we are increasing funding for Shannon Grants by \$3.5 million. These anti-gang violence grants are distributed to communities based on a formula that takes into consideration crime rates and youth demographics. The fiscal year 2011 funding will be made available for 18 months to allow the Shannon Grant program to be funded at \$8 million for fiscal year 2012.

Between this budget and the fiscal year 2011 supplemental budget, we are increasing funding by \$4.3 million for the Commonwealth's summer jobs program, which helps communities place at-risk youth into educational and skills-building opportunities through grants. This will bring total funding for the summer of 2011 to \$8 million.

## **Reforms for Future Generations**

Governor Patrick and Lieutenant Governor Murray are proposing fiscal year 2012 investments to help close the achievement gap, control health care costs, grow jobs, address youth and urban violence and other key areas as part of a *balanced* and *fiscally responsible* budget. We have eliminated the structural deficit we inherited and that the recession prolonged. We have made tough decisions to file a balanced budget, including difficult cuts and an aggressive reform agenda.

Through this budget, we are changing the way government does business to reduce costs, improve performance and make government more accountable. It is no longer enough to say that the fiscal crisis presents an opportunity for change – we are now at the point where it *demand*s change. Many of the reform proposals are necessary to achieve savings required to live within reduced budgets, while other proposals are necessary to preserve critical programs and services; to preserve employee benefits by making them sustainable; to make government more efficient and effective; and to make government more transparent and accountable.

## **Fiscal Responsibility and Reforms**

### **The Record**

State governments across the country are experiencing a fiscal crisis. The depth of the global recession and the resulting impact on state tax revenues, the loss of federal stimulus funds and the continued demand on safety net programs, particularly Medicaid programs, have left states facing unprecedented fiscal challenges for fiscal year 2012. Even with the economy recovering and state tax revenues growing, the budget gaps are larger than ever and are demanding that many states take drastic steps to balance their budgets.

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The Commonwealth's fiscal position is strong when compared to other states, but it is also faced with unprecedented fiscal challenges in fiscal year 2012 and we must continue to make tough choices regarding the budget.

This year, we have eliminated the structural deficit we inherited and that the recession prolonged. At the depth of the recession in fiscal year 2009, the state budget was supported by \$3.2 billion in one-time revenues. Our fiscal year 2012 budget proposal relies on only \$385 million in non-recurring revenue sources – both a \$1.47 billion decrease from fiscal year 2011 and an amount that is justified and sustainable based on cyclical tax revenue trends. We have ensured \$570 million will remain in the state's stabilization fund which, at the end of fiscal year 2012, is a relatively healthy balance compared to other states. Further, we have also continued to reduce full-time employee positions, having eliminated roughly 5,800 positions since October 2008. An additional 900 positions will likely need to be eliminated further in fiscal year 2012.

The Patrick-Murray Administration has a proven track record of fiscal responsibility. In November 2010, each rating agency affirmed the Commonwealth's strong and stable bond ratings while expressly recognizing the Administration's prudent, effective and conservative financial management.

- In affirming the Commonwealth's AA+ rating (stable outlook), the key rating driver cited by Fitch was "...continued timely action as needed to ensure budget balance and maintenance of an adequate budgeted reserve position."
- Among the credit strengths noted by Moody's, which rates the Commonwealth Aa1 (stable outlook), is "...effective financial management during economic downturns, particularly a willingness to promptly identify and close budget gaps through both new revenues and expenditure reductions."
- Standard & Poor's rates the Commonwealth AA (stable outlook) reflecting their view of the Commonwealth's "...strong and conservative budget management practices, with swift action to restore balance after identifying revenue shortfalls throughout the recession."

In December 2010, the Commonwealth sold the inaugural bond issues to partially fund the Accelerated Bridge Program. The \$575 million in bonds secured by the new Commonwealth Transportation Fund were awarded the highest possible credit ratings - Aaa/AAA - by Moody's and Standard & Poors, which cited several of the Governor's transportation reform efforts as leading credit strengths. These triple-A ratings, the first ever awarded to the Commonwealth, are expected to save the Commonwealth an estimated \$60 million over the life of the Accelerated Bridge Program, or \$37 million on a present value basis.

These strong endorsements of our state's finances from bond rating agencies speak to Governor Patrick's record of pursuing a *balanced* approach to budgeting and spending restraint. The Governor has not hesitated to make difficult cuts, while preserving critical state programs and services. Emphasizing the importance of shared sacrifice during extraordinarily challenging times, he has secured unprecedented contract revisions from our state employee unions, reduced the size of the state workforce and asked state employees to contribute more to their health insurance.

The Massachusetts economy has shown strong signs of recovery since one year ago (January 2010). In November 2010, the state's unemployment rate rose slightly to 8.2 percent from 8.1 percent in October. November's steady unemployment rate followed two months with sharply declining unemployment in Massachusetts. The unemployment rate in Massachusetts is currently 1.2 percent below the national unemployment rate of 9.4 percent. In Massachusetts, the labor force grew in November, with the number of employed persons growing faster than the number of unemployed. However, 285,600 people remain unemployed, and one of the Governor's top priorities in his second term is job creation.

Over the year, Massachusetts gained 38,300 jobs, which roughly equals the strongest job growth performance for the state since 2000. This year, the Commonwealth has seen strong performance in manufacturing, education, professional, scientific and business services, financial services and trade, transportation and utilities. Massachusetts has increased overall employment since December 2006 in the sectors of healthcare and education and professional, scientific and technical services – sectors that have been key areas of focus by the Patrick-Murray Administration.

Massachusetts is recovering stronger and faster than the national average. The University of Massachusetts/Federal Reserve Bank of Boston economic forecast prepared by noted economist Alan Clayton-Matthews states: "Massachusetts real gross domestic product is estimated to have grown at annual rates of 6.1 percent in the first quarter of 2010, 3.4 percent in the second quarter, and 3.9 percent in the third quarter. The corresponding growth rates for U.S. real GDP were 3.7 percent, 1.7 percent, and 2.5 percent respectively."

National rankings and comparisons underscore the current competitiveness of the Massachusetts economy and of the Commonwealth as a place to do business. Massachusetts ranks second in economic performance since January 2010 and ranks fifth in economic performance since January 2007, according to an economic index published by the Federal Reserve Bank of Philadelphia. Massachusetts was declared one of CNBC's top five states for business in 2010, joining Texas, Virginia, Colorado and North Carolina on the list.

## Fiscal Year 2012

For fiscal year 2012, Governor Patrick continues to take the same balanced, fiscally responsible approach to meeting the demands of state government in an economically challenging time. Fiscal year 2012 budget solutions include *spending discipline, reforms*, and a modest use of *one-time resources*.

**Spending Discipline:** The fiscal year 2012 budget includes many difficult cuts and tough choices, some of which will result in the elimination of state programs. However, we have managed to preserve critical state programs and services. In the long run, these choices will help us be responsible to future generations.

**Reforms:** The Patrick-Murray Administration will use the fiscal year 2012 budget as a vehicle to move forward an aggressive reform agenda.

- **Pension Reform** – Additional pension reforms are essential to ensure the fiscal stability of the Commonwealth and the sustainability of our retirement benefit system. The state currently has \$35 billion in unfunded liabilities for pension and retiree health care benefits.

This reform proposal will help fix the pension system in order to save it, and to create a fairer system for all. The proposal will create a modernized benefit structure, which will only affect new employees, and will continue the work done to date to promote fairness and eliminate abuses in the system. The modernization proposals are centered on aligning our pension benefits formula to the age and early retirement assumptions that are used for Social Security. Pension reform initiatives include eliminating the double dipping loophole for elected officials and preventing early access to pension benefits (Section 10 termination benefits).

This proposal addresses the needs and concerns of fiscal watchdogs, Commonwealth taxpayers, and public employees. It will ensure system sustainability by saving more than \$5 billion over 30 years – \$3.5 billion for state government and \$1.5 billion for municipal governments. The resulting structure will continue to provide employees with income in retirement with the certainty that a defined benefit plan provides.

- **Criminal Justice Reform** – Criminal Justice reform is essential to the Commonwealth's sound fiscal management as the system's costs are straining budgets across the country. On an annual basis, the Commonwealth spends approximately \$47,000 per offender. The Patrick-Murray Administration's proposal will continue strong public safety while reigning in criminal justice costs.

The Governor seeks to restore confidence in both the Department of Probation and the Parole Board by consolidating both departments under a new executive branch agency, the Department of Re-entry and Community Supervision. This new agency will supervise all forms of community supervision from defendants in early pretrial stages of the criminal process to inmates released after incarceration.

This reform plan will also toughen criminal sentences for repeat violent offenders, while repealing mandatory minimum sentences for non-violent drug crimes. The proposal, when public safety permits, favors community supervision of criminal defendants and offenders, saving the Commonwealth tens of millions of dollars over the next ten years. This approach reduces recidivism, incarceration rates and sky-rocketing costs, while effectively transitioning inmates back to society.

This budget also includes an overhaul of the Commonwealth's system for providing criminal defense for indigent persons. This recommendation discontinues the use of privately contracted attorneys in favor of salaried public employees, saving more than \$45 million. The proposal transfers indigent defense from the

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judiciary to an independent agency in the executive branch, consistent with a majority of states across the country.

- *Controlling Health Care Costs* – The Patrick-Murray Administration is proposing an aggressive procurement reform strategy to help manage costs in all state health care programs, which will drive members and state employees to lower-cost settings and help better coordinate and streamline our purchasing of health care plans and services throughout state and local government.

In legislation filed with this budget, we are proposing new tools for cities and towns to help manage health care costs – the most significant budget buster for municipalities – with a new local health insurance plan design process that will achieve material savings for cities and towns. This could save municipalities more than \$94 million in year one alone. We are also proposing to require that all municipalities enroll their eligible retirees in Medicare, as this federal program covers a substantial portion of that population's health care costs.

Small businesses will also benefit from updates launched by the Connector Authority to its Commonwealth Choice program, which creates a streamlined, simplified process for small businesses and individuals to shop for unsubsidized, name-brand health insurance, saving them money by making it easier for them to understand their options and choose better-priced health plans. The Connector will also be eliminating a fee it currently charges small businesses to shop through Commonwealth Choice, and \$7.5 million is proposed to offer premium discounts for certain small businesses which purchase coverage through Commonwealth Choice and set up wellness programs for their employees. This will reduce premiums for qualifying small businesses by up to 5%.

- *Homeless Shelter Reform* – The Patrick-Murray Administration will continue to build off of the fiscal year 2010 reorganization of homeless services by moving forward with its comprehensive strategy to reform emergency shelter and housing delivery systems for families. These changes will help advance our goal of ending homelessness in our Commonwealth by continuing to focus on moving families to housing-first, while providing critical safety net services to stabilize families for long-term success. This proposal will also help address on-going budget challenges caused by dramatic caseload growth in recent years. In this next phase of reform proposals, we will implement measures that are effective and cost efficient, and will ensure a more streamlined and compassionate response for families facing homelessness.

The Interagency Council on Housing and Homelessness, the Department of Housing and Community Development, and the Executive Office of Health and Human Services will begin to implement a public process to promulgate regulations that more concretely outline how shelters will operate under the new system.

- *Municipal Relief* – The fiscal year 2012 budget continues the Patrick-Murray Administration's unprecedented support for cities and towns. We have provided many tools to municipalities that are needed to mitigate reductions, generate savings and create efficiencies at the local level. Our approach includes a number of measures worth over \$160 million that will provide cities and towns with relief, reform and expanded opportunities to offset the fiscal constraints municipalities are facing.

In addition to increased funding for Chapter 70 school aid, the special education circuit breaker and Chapter 90 for local roadways, we are proposing to give municipalities more tools to better manage their bottom lines.

This budget proposes new tools for cities and towns to help manage health care costs with a new local health insurance plan design process that will achieve material savings for cities and towns. We are also proposing to require all municipalities enroll their eligible retirees in Medicare, as this federal program covers a substantial portion of that population's health care costs.

We are also establishing a Municipal Procurement Bureau within the state Operational Services Division to create statewide contracts specifically needed by cities and towns, and we are closing the telecommunications property tax loophole on equipment to save an estimated \$26 million.

This budget establishes a \$9.7 million Municipal Regionalization and Efficiency Incentive Grant Program to provide financial support for one-time or transition costs related to regionalization and other efficiency

initiatives, with allowable applicants to include municipalities or Regional Planning Agencies and/or Councils of Governments serving as the administrative or fiscal agent on behalf of municipalities.

- The fiscal year 2012 budget also includes a \$300,000 for the development of a program to enhance performance management, accountability, and transparency for local governments. This incentive will be overseen by municipal officials and administration officials with the support of the Collins Center for Public Management at the University of Massachusetts Boston. The goal is to develop a set of common accountability and performance measures that can be adopted by all municipalities and to determine how to provide the necessary support and tools to municipalities, support including education, training, standardized software and reporting, and technical assistance to municipalities to participate in the program.

**Budget Reforms:** The Commonwealth has received a Government Finance Officers' Association Distinguished Budget Presentation Award for the past three fiscal years for making state policy decisions transparent and accessible to the public through its budget materials. The Governor's fiscal year 2012 budget contains additional budget reforms to promote sound fiscal management and transparency.

- *Re-building the Rainy Day Fund* – The budget proposes to deposit one-time tax litigation settlements payments and reserves directly into state's Stabilization Fund to help replenish the balance. This will ensure the state does not rely on fluctuating revenues to support ongoing expenses, and allow the investments we are making today to be sustained in future economic downturns.
- *Commonwealth Performance, Accountability and Transparency (CPAT)* – This budget establishes a new office of Commonwealth Performance, Accountability and Transparency to promote greater accountability through performance management, enhanced transparency, and promoting greater program integrity. CPAT will implement the Commonwealth's performance management program (MassGOALS) and work with other state agencies and quasi-public agencies to advance ambitious performance management statewide. The office will coordinate federal grants and ensure compliance with new reporting requirements under the Federal Financial Accountability and Transparency Act, enhance budget forecasting and fully develop the Commonwealth's transparency website.

This past year, the Lieutenant Governor chaired a Fraud, Waste and Abuse taskforce. One of its many recommendations is to ensure that the Commonwealth develops stronger connections between the various oversight agencies like the State Auditor, the Attorney General, and the Inspector General with the various program integrity units that exist in the Executive Branch. CPAT will help coordinate these various activities and do everything it can to ensure program integrity throughout the Commonwealth.

- *Inter-Secretariat Budget Team (ISBT)* – Facing unprecedented budget challenges for fiscal year 2012, Governor Patrick directed the Executive Office for Administration and Finance to convene and manage an Inter-Secretariat Budget Team (ISBT) to identify and develop possible budget efficiencies, reforms and savings initiatives across state government. ISBT has recommended four proposals for this budget that will generate approximately \$50 million in savings including: shared services to eliminate inefficient and duplicative back-office functions; procurement process reform to ensure that every agency is getting the best deal for the Commonwealth; better managing of 7state real estate assets; and improving coordination of transportation services between the Executive Office of Health and Human Services and MassDOT. The team will continue to pursue other long-term reforms.

## Fiscal Year 2012 Program and Policy Highlights

### Education

- Funds Chapter 70 state education aid at \$3.9 billion, the highest level of state supported funding. This amount ensures that all districts are fully funded at foundation.
- Funding for the Special Education Circuit Breaker is \$213 million, an increase of \$80 million over fiscal year 2011.
- Funding of \$500,000 for science, technology, engineering and mathematics (STEM) education initiatives.

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- \$4.8M increase in funding for programs focused on reducing the Achievement Gap, including Targeted Intervention in Underperforming Schools, MCAS Low Score Support, and School Breakfast Programs.
- Invests \$818 million in our public colleges and universities to provide these campuses the same level of state supported, non federal funding as in fiscal year 2011. This funding level also accounts for out of state tuition that will now be retained at the campus level.
- Establishes a \$7.5 million incentive fund to encourage financial and operational efficiency at University of Massachusetts, the state universities, and the community colleges.
- Fully maintains current funding for scholarships provided through the Office of Student Financial Assistance at the Department of Higher Education (\$88.3 million) to support needs-based financial assistance for its in-state students.
- Early education and care was level funded.

### **Local Aid**

- Municipal health insurance reforms that will save municipalities more in total than the amount of the reduction in local aid.
- Financial support for cost-saving and efficiency initiatives, including regionalization and performance management.
- Capital spending for municipalities projected to be \$11.5 billion in the second term.
- Expansion of the local property tax base by closing the loophole on telecommunications equipment exemption.
- Chapter 90 Local Road Program, funded through the capital budget, will be increased to \$200 million, \$45 million more than fiscal year 2011 and \$80 million more than the last year of the prior Administration.
- Funds Chapter 70 state education aid at \$3.9 billion, the highest level of state supported funding. This amount ensures that all districts are fully funded at foundation.
- Increasing state funding for the Special Education Circuit Breaker reimbursements by \$80 million.
- Level funding of State Owned Land (PILOT), Regional School Transportation, Charter School Reimbursements, Library Aid, Veterans' Benefits and Tax Reimbursements to Veterans, the Blind and Widows, and Municipal Police Career Incentive Grants (Quinn Bill funding).

### **Public Safety and Security**

- Unifies parole and probation under the Executive Branch to create a seamless community supervision system that will decrease crime, significantly decrease costs caused by duplication of services and create transparency to help restore the public trust.
- Targets prison overcrowding and skyrocketing corrections-related costs with sentencing reform to eliminate mandatory minimum sentences for all drug crimes except where the offender uses or visibly possesses a handgun during the commission of a drug crime.
- Plans for a new state police class (150 troopers) to revitalize our State Police force, avoiding layoffs.
- Establishes a new funding mechanism for police training programs: an automobile insurance surcharge will provide \$4 million for the Municipal Police Training Committee and \$4 million to establish an annual state police class.
- Many public safety agencies are level-funded from fiscal year 2011 estimated spending or experienced modest increases.
- Unavoidable spending cuts within the Department of Correction will result in the closure of two prisons. Prison closures do not result in any inmate releases. Inmates will be relocated to other prisons within the Department of Correction. The Governor's sentencing reform legislation will help alleviate additional overcrowding that would otherwise result from prison facility closures.

### **Economic Development and Housing**

- Reflects the first full year of operation for the newly-created Mass Marketing Partnership, established in the Economic Development Reorganization Bill, which will help execute a more consolidated and coordinated marketing effort within the Commonwealth for both attracting and retaining tourists and businesses to the state. The new Growth Capital Corporation will also have funding to make loans to small businesses.
- Reforms to reduce the state's reliance on emergency shelters and continue to move the system toward a housing-first approach, which will provide greater opportunity for self sufficiency and use resources more efficiently.

### **Health and Human Services**

- Despite the loss of more than \$1.2 billion in enhanced federal revenue for Medicaid, growing enrollment, and other budget pressures in fiscal year 2012, the Administration maintained core eligibility and services for more than 1.28 million Medicaid enrollees.
- The Executive Office for Health and Human Services (EOHHS) is coordinating an administration-wide effort to implement the federal health reform law and to actively pursue federal health reform grants and demonstration project opportunities to transform how health care is delivered, to expand access to health care, and to support healthcare workforce training. To date, the Commonwealth has been awarded more than \$13 million in federal grant funds under the Affordable Care Act. Projects are already underway for fiscal year 2012, and EOHHS continues to pursue additional funding opportunities.
- The implementation of Chapter 288, “An Act to Promote Cost Containment, Transparency, and Efficiency in the Provision of Quality Health Insurance for Individuals and Small Businesses,” began in fiscal year 2011, and major initiatives on wellness and insurance reform will continue into fiscal year 2012.
- The Commonwealth Care Bridge program will be level funded at \$50 million, providing coverage for legal immigrants with special status throughout fiscal year 2012.
- The Division of Unemployment Assistance and the Health Connector will collaborate on a new and competitive procurement to restructure the Medical Security direct coverage program to more closely match Commonwealth Care coverage.
- This budget proposes \$10 million for the Health Connector to implement a provision of Chapter 288 which offers premium discounts for certain small businesses that purchase coverage through Commonwealth Choice and set up wellness programs for their employees, potentially reducing premium burdens on small business by up to 5%.
- Executive Office of Human Services (EOHHS) plans to launch several innovative projects focused on integration of care and improving the delivery of care in the Commonwealth:
  - Patient-Centered Medical Home Initiative (PCMHI) – The Administration has committed \$10 million to assist 46 Medicaid primary care practices throughout the Commonwealth to transition into certified medical homes focused on integrated and patient-centered care. Over the course of three years, selected sites will receive training support, technical assistance, and funding from the state;
  - Duals Project – MassHealth is pursuing the concept of integrated financing and care management for dually eligible individuals (members eligible for Medicaid and Medicare between 21-64) with the federal government;
  - Money Follows the Person – In January 2011, Massachusetts applied to join Washington D.C. and the 29 other states already participating in “Money Follows the Person Rebalancing Demonstration” (MFP). The approval of the demonstration will strengthen the Administration’s Community First initiative and provide the programmatic and financial tools to help MassHealth members transition from institutional settings to community supports; and
  - Health Insurance Technology – The Administration is committing \$500,000 to operate the MassHealth Electronic Health Record (HER) initiative. MasHealth will offer up to \$50 million in provider incentive payments with 100% federal participation funding to encourage Medicaid health care providers to adopt, implement, upgrade, or meaningfully use certified EHR technology.
- This budget proposes funding levels that will protect vulnerable populations by preserving critical state programs and services, including:

Department of Public Health

- SANE (sexual assault nurse examiners), \$3.16 million;
- Substance abuse treatment and prevention programs, \$82.9 million;

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- Gamblers treatment (the only service in the Commonwealth for individuals suffering from gambling addiction) at \$1 million;
- Suicide prevention and treatment, \$3.23 million; and
- Domestic Violence prevention and treatment, \$4.9 million.

### Department of Mental Health

- Statewide Homelessness Support Services at the Department of Mental Health level funded at \$20.1 million;
- Emergency Services and Mental Health Care level funded at \$43.1 million; and
- Forensic Services for the Mentally Ill level funded at \$8 million.

### Department of Children's and Families (DPH)

- Domestic violence residential, shelter, and community based services provided through the department will be maintained at \$20.1 million.
- Increase of \$3.7 million for social worker spending.

### Department of Transitional Assistance (DTA)

- Teen living program that provides shelter and services to young mothers will be maintained at \$6.5 million.
- The fiscal year 2012 budget avoids broad-based reductions in monthly cash assistance payments to low-income families and disabled persons.

### Department of Youth and Families (DYS)

- Non-Residential Services for kids committed to the Department of Youth Services will be maintained at \$21.6 million.

### Department of Veterans Services (DVS)

- Overall funding for DVS experienced a 5% increase over fiscal year 2011, allowing the agency to meet projected increases in caseloads for veterans' annuities and veterans' benefits, expected to increase by 6% and 16% respectively in fiscal year 2012; and
- Outreach centers, homeless shelters, and cemeteries will receive level funding in fiscal year 2012. Outreach centers provide services to approximately 2,000 veterans each year, while homeless shelters serve 2,936 homeless veterans annually.

### Soldiers' Homes

- Soldiers' Homes in Chelsea and Holyoke both receive slight increases over fiscal year 2011; and
- Chelsea will continue to serve approximately 174 veterans in long-term care and 305 veterans in its dormitory; Holyoke will continue to serve approximately 254 veterans in long-term care and 30 veterans in its dormitory.

### Department of Development and Disabilities (DDS)

- DDS receives a 4% increase over fiscal year 2011;
- Community day and work programs, transportation services to and from day and work services, and Turning 22 services are level-funded; and
- Community and state-operated residential homes, autism services, and administration and service coordination receive increased funding.

### Massachusetts Rehabilitation Commission (MRC)

- Independent Living clients will be given the support services to transition into independent living environments;

- Turning 22 programs are level funded, thereby reducing the exposure of having 10 clients turned away from the program. Turning 22 clients are clients without an “agency-of-tie;”
- Head Injury Treatment Services are level funded;
- 8-12 TBI clients will remain eligible for annual services ranging from community services to residential services; and
- Homecare Services for the Multi-Disabled is level funded.

### **Energy and Environment**

- Reorganizes the DCR parks structure, so that there is one Parks system and not a separate Urban Parks Division and State Parks Division.
- DCR will be able to utilize a trust in order to keep deepwater pools open this summer.
- Filing the bottle bill to encourage consumers to return more of their empty containers, such as containing water, flavored waters, coffee based drinks, juices and sports drinks containers, by means of a redeemable \$0.05 deposit. Its principal objective is to reduce litter and encourage recycling of aluminum cans and plastic and glass bottles. This initiative will expand the market for recyclables, keep our cities and towns clean and provide additional revenues for recycling programs.
- Building on the Governor's 2007 'Leading by Example' executive order, the budget proposes a Clean Energy Investment Program to create a permanent, low-cost funding program for financing sustainable energy efficiency projects. This fund will allow the Administration to invest in more energy efficiency capital projects than in the last 25 years.
- Reductions in funding were mitigated at DCR to keep pools open for the summer months and to keep a portion of the parks system open and staffed year round.
- Other cuts were mitigated at DEP to avoid reductions in federal funding and preserve the department's ability to respond to environmental emergencies.

### **Labor and Workforce Development**

- Increases funding for summer jobs for at-risk youth. Coupled with fiscal year 2011 supplemental funding the Governor's proposal will ensure that \$8 million will be invested in the YouthWorks program for the summer of 2011.
- Transfers the Workforce Training Fund appropriation to a Trust Fund.
- Funds the Department of Industrial Accidents at \$19 million and proposes to give the Governor flexibility in the number of the administrative judges he appoints to the Department based on actual workload demand. This will streamline regulatory and procedural costs that are funded by the private sector to support the administration of the state's workers' compensation laws.
- Proposes an Article 87 reorganization and eliminates the Department of Workforce Development and the Department of Labor in order to reduce duplication and streamline services.

### **Administration and Finance**

- Establishes a new office of Commonwealth Performance, Accountability and Transparency to promote greater accountability through performance management, enhanced transparency, and promoting greater program integrity.
- A&F will continue to pursue best management practices by consolidating the print shop services of various agencies across state government.
- The Bureau of State Office Building (BSB) will be transferred to the Office of Facility Management under the Division of Capital Asset Management (DCAM). The consolidation of the two agencies will address the oversight and efficiency challenges posed by the current decentralized approach the Commonwealth takes in managing and maintaining state-owned facilities.
- In keeping with the HR Modernization Strategic Plan that was launched during fiscal year 2011, the Human Resources Division (HRD) will leverage new technology in the recently upgraded human resources compensation management system (HR/CMS) to begin automated time and attendance which will decrease the amount of time that HR managers currently spend entering employee time and attendance data. HRD will also begin working on the consolidation of core HR functions throughout the Commonwealth, such as payroll, workforce planning, and hiring.

### **Other**

#### **Judiciary**

The Committee for Public Counsel Services:

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- The Committee will be transferred from the Judiciary to the Executive Branch under a new Department of Public Counsel Services. Many states have indigent defense in the executive branch and this restructuring will increase accountability over the operations of the agency.
- The use of private bar advocates, who bill by the hour, will be eliminated and instead of using contractors who bill by the hour the Department will bring on full time staff, saving \$45 million.
- The Department will be responsible for indigency verification to enhance controls and ensure we are representing only those individuals who are entitled to publicly-funded defense counsel.

### ***Probation***

- Adult Probation will be transferred to the new Department of Re-entry and Community Supervision under the Executive Office of Public Safety and Security.
- The probation functions and associated funding of the Juvenile Court as well as the Probate and Family Court will remain within the Judiciary.

### ***Employees***

- A fiscal year 2011 supplemental budget to be filed at the same time as the budget will include funding for the OPEIU local 6 collective bargaining unit, which has a ruling in their favor.

### ***Constitutional Officers***

- With a limited number of exceptions funding for Constitutional Officers (Attorney General, State Auditor, State Treasurer, Secretary of the Commonwealth) as reduced by 2% from fiscal year 2011 spending levels. Similarly, funding for the Governor's office has also been reduced by 2%.

### ***Independent Agencies***

- We have proposed a 5% increase for the offices of the Commonwealth's elected District Attorneys from fiscal year 2011 levels, in recognition of their ongoing needs to prosecute criminal cases.
- Other independent agencies including the State Ethics Commission, Office of Campaign and Political Finance, Inspector General, and Massachusetts Commission Against Discrimination were reduced by 2% below fiscal year 2011 levels.