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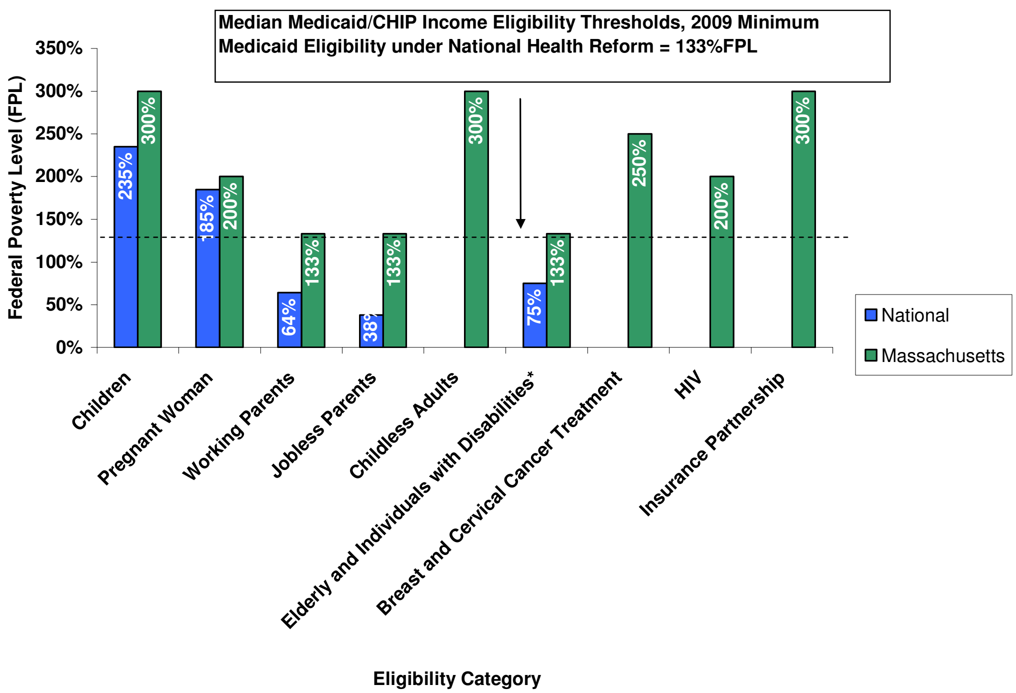
Health Care Cost Containment

Introduction

Governor Patrick's and Lieutenant Governor Murray's fiscal year 2012 budget seizes the moment to achieve ground-breaking progress in health care cost containment – with a vision for maintaining the Commonwealth's historic coverage gains and high-quality care while making health care spending more affordable for the state and taxpayers. For each of the state's health care programs - MassHealth, Commonwealth Care, the Group Insurance Commission and the Medical Security Program – the budget proposes bold changes emphasizing the power of competition and innovative contracting to promote continued access to coverage and high-quality care while achieving significant cost savings. 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).

National Median Medicaid/CHIP Income Eligibility Thresholds, 2009



Note: Medicaid income eligibility for most elderly and individuals with disabilities is based on the income threshold of Supplemental Security Income (SSI).SOURCE: Based on a national survey conducted by the Center on Budget and Policy Priorities for Kaiser Commission on Medicaid and the Uninsured, 2009.
* Senior and disabled individuals can be up to any income if they meet a certain buy-in criteria.

Separately, the Administration is planning on filing comprehensive payment reform legislation in the coming weeks that will, across the health care delivery system, promote movement away from "fee-for-service" payments to providers towards "global payments" and other models that better reward evidence-driven, coordinated, preventive care. In combination with the Administration's budget initiatives, this legislation will place Massachusetts squarely in the forefront of national efforts to contain health care costs while ensuring high-quality coverage and care.

MassHealth

The Massachusetts Medicaid program (MassHealth) provides comprehensive health insurance to approximately 1.29 million low-income Massachusetts children, adults, seniors and people with disabilities. The Administration's fiscal year 2012 budget includes $10.34 billion for MassHealth, essentially level funding from the fiscal year 2011 estimated spending level of $10.24 billion. Due to tremendous fiscal pressures in fiscal year 2012 stemming principally from the loss of more than $1.5 billion in federal stimulus funds, the Administration established aggressive spending targets for all state programs, in many cases reducing funding below fiscal year 2011 levels.

Massachusetts is not the only state with a Medicaid budget that has experienced exceptional growth. Medicaid budgets across the nation have experienced unprecedented spending increases. Enrollment in Medicaid historically mirrors trends in the economy, with more individuals turning to public assistance during tougher times. Total national Medicaid spending growth averaged 8.8% across all states in fiscal year 2010, and spending is expected to increase by 7.4% in fiscal year 2011. Enrollment growth averaged 8.5% nationally and is expected to decrease to 6.1% in fiscal year 2011.[1]

Enrollment and utilization are the greatest cost drivers in MassHealth and are sensitive to changes in the economic climate. From fiscal year 2008 to fiscal year 2010, long-term unemployed adults (unemployed for 12 months or more) represented the fastest growing population in Medicaid, increasing by an average of 16.6% each year. Non-disabled adults represent the next highest category of growth, increasing by an average of 4.44%. Overall, from fiscal year 2008 through fiscal year 2011, MassHealth enrollment grew by approximately 146,000 people.

MassHealth Average Enrollment (by member months)

	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 20010	Projected Fiscal Year 2011	Projected Fiscal Year 2012
Non Disabled Children	459,712	469,618	486,806	501,815	519,700
Non Disabled Adults	263,247	273,315	283,176	297,685	314,181
Disabled Children	26,501	26,510	27,371	29,273	30,424
Disabled Adults	207,559	210,506	213,952	223,585	232,326
Long Term Unemployed Ac	66,921	79,642	96,221	110,782	124,235
Seniors	125,483	125,874	128,380	132,194	134,658
Total	1,149,423	1,185,465	1,235,907	1,295,335	1,355,523
% growth from prior year		3.1%	4.3%	4.8%	4.6%

Without smart cost-saving changes to MassHealth, the Commonwealth could face an $800 million shortfall in fiscal year 2012 and the prospect of across-the-board cuts to services. Even beyond the need to achieve savings to address immediate, economy-driven fiscal challenges facing MassHealth, containing MassHealth costs is critical to the long-term sustainability of health care reform and the long-term ability of the state budget to invest in the *full range* of public needs. Success on this front would not only maintain our health care safety net for all who need it as well as facilitate other key public investments, but also – given the scale of MassHealth – drive positive innovation in the delivery of care throughout our health care system.

Given these short- and long-term challenges and opportunities, MassHealth will be pursuing aggressive strategies to manage its fiscal year 2012 budget. Unlike other state programs, MassHealth costs are difficult to constrain, since expenditures are driven by caseload and eligibility is primarily controlled by eligibility standards fixed by the federal government. Despite these challenges, MassHealth has developed proposals to improve payment efficiency while preserving services for MassHealth enrollees.

Starting immediately, MassHealth plans to conduct a competitive procurement that will focus on reducing costs while providing quality care to over 800,000 members. The procurement will include both the managed care and the Primary Care Clinician plan but will not include seniors or dual eligible members. The goals of the procurement are to ensure access and quality care for members at the lowest cost. Managed care organizations (MCO) and providers who demonstrate the ability to provide this care will have the opportunity to expand membership. The procurement process will promote innovative approaches to care management and delivery as well as payments for services for this population. In addition, MassHealth will begin to lay the foundation for a comprehensive plan to promote the efficient delivery of care for MassHealth members under age 65 with a focus on care integration and care management for the highest-risk populations.

This procurement strategy will only mitigate a certain amount of growth in MassHealth costs that would otherwise occur. MassHealth plans to undertake several other steps such as constraining provider and capitation rates, limiting payments

[1] Kaiser Commission on Medicaid and Uninsured, "Hoping for Economic Recovery, Preparing for Health Reform: A Look at Medicaid Spending, Coverage and Policy Trends" September, 2010.

for preventable admissions, implementing small co-pays for some services, adopting additional program integrity measures, and limiting coverage for certain optional benefits.

Beginning in fiscal year 2011 and continuing in fiscal year 2012 and beyond, MassHealth will be launching a project to manage the dual population that is eligible for Medicare and Medicaid.
MassHealth is engaged in discussions with consumer advisory groups to ensure that this new integrated care model meets the needs of the younger dual eligible population and is attractive to members so that they will want to enroll. The new model's care entities will be accountable for the delivery, coordination, and management of health and community support services that promote improved outcomes and living with dignity and independence in the community. MassHealth envisions that the Medicare and Medicaid benefits would be administered jointly through an integrated financing mechanism at the state level such that dual eligible individuals would experience their coverage as a single, integrated care program. The Commonwealth is continuing to pursue this concept with the federal government.

Commonwealth Care

The Commonwealth Care program was created with the enactment of health care reform and is administered by the Health Connector. The program provides health insurance coverage for individuals under 300% of the federal poverty level (FPL) that do not have access to employer-sponsored insurance. Commonwealth Care fully subsidizes individuals under 100% of the federal poverty level and institutes a sliding scale of member premiums for those above that income threshold. It provides health care services through a fully capitated insurance model. As of January of 2011, there are 160,824 members enrolled in Commonwealth Care, excluding the Aliens with Special Status population (*see next section on Commonwealth Care Bridge*).

The budget provides $822 million for Commonwealth Care in fiscal year 2012, equivalent to currently projected fiscal year 2011 spending. These funds are designed to maintain eligibility for the program and pay for moderate additional enrollment (including coverage for individuals that transition from the Medical Security Plan to Commonwealth Care after their unemployment benefits expire).

The Administration envisions that the Health Connector will conduct a procurement process for the Commonwealth Care program, which will incent aggressive bidding and achieve savings by rewarding innovative, lower-priced health plans with increased membership. This competitive procurement strategy would aim to leverage premium savings that enable the Health Connector to maintain eligibility for comprehensive coverage, pay for growing enrollment, and minimize increases in cost-sharing within a level-funded budget.

Commonwealth Care Bridge

Aliens with Special Status (*legal* immigrants who have resided in the U.S. for less than five years) lost eligibility for Commonwealth Care in fiscal year 2010, due to the extreme fiscal challenges created by a national economic downturn and the fact that the federal government does not reimburse states for health insurance coverage for this population. Instead, a separate investment of $40 million was appropriated to provide health insurance for this population. This coverage is now available through the newly created Commonwealth Care Bridge program. The Commonwealth Care Bridge program was maintained in fiscal year 2011 at a projected cost of $50 million. The Administration's fiscal year 2012 budget includes level funding of $50 million for the Commonwealth Care Bridge program, and aims to maintain coverage for current enrollees through fiscal year 2012.

Commonwealth Care Bridge currently provides coverage to 20,389 Aliens with Special Status, who were enrolled over a three-month period from October to December of 2009. Enrollees have been eligible to receive comprehensive coverage through a network of providers that fully meets the Connector's Commonwealth Care network adequacy standards. While cost-sharing is in some instances higher than that for Commonwealth Care and some benefits are excluded, steps have been taken to reduce any hardships for members.

Medical Security Program

The Medical Security Program (MSP) provides health insurance assistance for Massachusetts residents with family income less than 400% FPL while they are receiving unemployment benefits. To pursue savings and improve alignment of state-subsidized health insurance programs, the Administration is requesting that the Health Connector work with the Division of Unemployment Assistance (DUA) to conduct a new, competitive procurement for MSP Direct Coverage and restructure the program to maintain eligibility for adults and children up to 400% FPL while more closely matching Commonwealth Care coverage.

The alignment between Commonwealth Care and MSP Direct Coverage will preserve the long term sustainability of the medical security program, which is funded by an employer assessment through the medical trust fund. The reform plan is estimated to save up to $10 million in the program, and as a result, will reduce the impact of rising program costs to employers.

Group Insurance Commission

The Group Insurance Commission (GIC) will contain costs for employees' health care by negotiating lower rates and providing an incentive for employees to join limited network plans. The GIC will have a full open re-enrollment that will incent employees to move to a limited network, which costs less than broad network plans. The employees that move to the lower cost plan in FY 2012 will save on average an estimated $800 for an individual and $1700 for a family plan which they will see reflected in their paychecks.

Health Safety Net

Overseen by the Division of Health Care Finance and Policy, the Health Safety Net (HSN) reimburses hospitals and community health centers for health care services provided to low-income uninsured or underinsured residents. Prior to landmark health care reform legislation in 2007, this financing mechanism was known as the Uncompensated Care Pool.

Although success in expanding enrollment in health insurance through health care reform has resulted in decreased Health Safety Net utilization and payments, the counter cyclical pressures from the recession have resulted in increased HSN utilization over the past three years. An unstable economy naturally lends itself to individuals 'cycling' in and out of short-term employment and underinsurance; the trends in the HSN from fiscal year 2010 through fiscal year 2011 reflect these natural increases in burden on safety net care.

Health Safety Net Trust Fund- Sources (in millions)			
	FY10	**FY11**	**FY12**
Assessments	$ 320.0	$ 320.0	$ 320.0
Offset	$ 70.0	$ 70.0	$ 70.0
Commonwealth Contribution	$ 30.0	$ 30.0	$ 30.0
Total Sources	**$ 420.00**	**$ 420.00**	**$ 420.00**

Health Safety Net Trust Fund- Uses (in millions)			
	FY10	**FY11**	**FY12**
Hospital Costs	$ 372.0	$449-$474	$449-$499
CHCs	$ 42.0	$ 64.7	$ 65.0
Demos (Admin)	$ 6	$ 6.0	$ 6.0
Total Uses	**$ 420**	**$520-$545**	**$520-$570**

Despite the unprecedented fiscal challenges in fiscal year 2012, the Administration is maintaining a $30 million General Fund contribution the Health Safety Net in its fiscal year 2012 budget proposal. We will continue to closely monitor the Health Safety Net and refine projections for fiscal year 2011 and 2012 demand based upon updated information.

Municipal Health Care

The Administration proposes a new health insurance plan required for cities and towns that can save up to $95 million for cities and towns across the Commonwealth. The Administration is also committed to filing legislation that mandates the enrollment of eligible retired local employees into Medicare as their primary source of health insurance coverage; municipalities will save between $15 million to $30 million a year as a result.

Small Business Health Care Cost Containment

The Health Connector will be launching updates in July 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 Health Connector will be enhancing the Commonwealth Choice shopping experience by enabling small businesses and individuals to search whether a desired hospital or doctor is covered through the health plans they are considering.
The Health Connector will eliminate a fee it currently charges small businesses to shop through Commonwealth Choice. This fee was already significantly lower than those charged when small businesses shopped through other intermediaries, and now it will be eliminated starting in July.

The Administration's fiscal year 2012 budget includes $10 million (including $2.5 million contribution from the Health Connector) to enable the Health Connector to implement a provision of Chapter 288 calling on it 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%.

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). With federal support, states will have additional programmatic and financial tools to rebalance their long-term care systems. The approval of the project will strengthen the Administration's Community First initiative to transition long term care residents to the community from facility settings and improve MassHealth's quality infrastructure, data resources and reporting capabilities. MassHealth also plans to create two new Home and Community-Based Waivers for MFP Demonstration participants who will need more intensive supports on an ongoing basis once they transition from facilities.

Patient-Centered Medical Home Initiative (PCMHI)

The Administration has committed to assist 46 primary care practices, including community health centers, hospital-affiliated primary care offices, and group and solo practices, to transition into certified medical homes focused on integrated and patient-centered care. Selected primary care practices will work toward mastering core competencies in patient-centered care over the course of three years and will receive training support, technical assistance and funding from the state. To help practices achieve core competencies and transform their operations, each participating practice will receive on-site, individualized coaching from a medical home facilitator and membership in a learning collaborative that includes in-person conferences, online trainings and evidence-based performance evaluation.

Electronic Health Record (EHR) Initiative

The Administration is committing $500,000 as the state share to operate the implementation of the MassHealth Electronic Health Record (EHR) initiative, which will offer provider incentive payments with 100% federal participation funding to encourage Medicaid health care providers to adopt, implement, upgrade or meaningfully use certified EHR technology. MassHealth plans to distribute up to $50 million to approved health care entities to support transitions to electronic health record systems in fiscal year 2012.

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Eliminating the Achievement Gap

Legislation

On January 18, 2010 Governor Patrick signed historic education reform legislation to close achievement gaps, increase access to innovation, provide options for intervention and expand successful charter schools. Filed by the Governor in July 2010 and passed by the Legislature in January 2010, an ***Act Relative to the Achievement Gap represents the state's first major action on education policy since*** the landmark Education Reform Act of 1993 that included high standards, rigorous assessment and increased accountability that led to the Commonwealth's reputation as an education leader. The Governor commented that:

"…the Commonwealth of Massachusetts stepped up, in a big way, to the unfinished business of education reform: closing achievement gaps. This historic reform bill passed by the Legislature represents a major step forward for the future of the Commonwealth's nearly one million public school students. This legislation brings us substantially closer to realizing the education vision that I first presented with the Readiness Project – a vision for a transformed education system that meets the needs of every student, helps them reach high standards and fully prepares them for a successful future."

The passage of this legislation will enhance the Commonwealth's ability to improve our education system in many ways, including:

- Creating meaningful intervention tools to address persistent under-performance in schools;
- Promoting locally-inspired and approved innovation; and
- Allowing a highly-targeted increase in the charter school cap, focusing on providers with records of success serving the most challenged students in the most challenged school districts.

Fiscal Year 2012

The fiscal year 2012 budget recommendation supports Governor Patrick's commitment to close the achievement gap through maintaining the commitment to funding Chapter 70's foundation budget, maintaining funding for programs targeted at addressing the achievement gap, and effectively managing new federal funds such as $250 million of the Race to the Top award to support these initiatives. The House 1 recommendation also provides new investment of $3 million to target areas that address the achievement gap.

Maintaining a strong investment in education is a crucial component to guaranteeing that Massachusetts students continue to be national and global leaders in educational achievement. The Patrick-Murray Administration will continue to implement its aggressive agenda for education, with the struggling global economy highlighting the essential need to maintain this commitment to education. Some highlights for the fiscal year 2012 budget recommendation include:

- Funding Chapter 70 state education aid at $3.9 billion, the highest level of state funding in history, ensuring 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.
- Early Education and Care program funding was maintained at fiscal year 2011 levels.

<u>Early Education and Care</u>

Early Education and Care (EEC) is a vital component of addressing the achievement gap, and is level funded from fiscal year 2011 to fiscal year 2012. This budget reflects the commitment to early 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 other qualified low income eligible families.

Department of Elementary and Secondary Education

Recognizing that the work of the Department of Elementary and Secondary Education (ESE) is crucial to closing the achievement gap, this budget provides a $4.8 million increase in funding from fiscal year 2011 to fiscal year 2012, with the below programs receiving additional funding. Included in this $4.8 million is $3 million in funding to the Executive Office of Education (EOE) to support all achievement gap programs. This funding at the EOE level will allow flexibility to support interagency efforts coordinated by the Secretary of Education, including, but not limited to:

- Early literacy initiatives jointly administered by the ESE and EEC;
- Initiatives to improve instructional quality for student sub-groups at most risk of low achievement, especially English Language Learners;
- Dropout prevention and alternative education programs;
- Mentoring assistance;
- The quality rating and improvement system initiative administered by EEC; and
- Support for school turnaround efforts.

Program	FY11 GAA	FY12 H.1
Institutional Schools	7,475,804	7,507,038
School Breakfast Program	4,121,215	4,411,611
MCAS Low-Scoring Student Support	9,094,804	9,655,545
Intervention in Underperforming Schools	6,740,746	7,692,193
EOE Achievement Gap Support	0	3,000,000
Total	**27,432,569**	**32,266,387**

In addition to the increased funding for the above programs, all achievement gap focused programs administered through the Department of Elementary and Secondary Education received level funding from fiscal year 2011 to fiscal year 2012. In addition to state funded initiatives, in fiscal year 2011, the Department of Elementary and Secondary Education was awarded three significant grants from the United States Department of Education that will allow Massachusetts to work to further narrow the achievement gap. These include Race to the Top ($250 million over 4 years), High School Graduation Initiative grant ($15 million over 5 years), and the Longitudinal Data Systems grant ($12 million). These initiatives are in progress and will be supported by current programs within the state's schools and education departments.

Higher Education

The fiscal year 2012 budget invests more than $815 million in the public colleges and universities, providing campuses the same level of state supported, non-federal funding as in fiscal year 2011. This funding level accounts for out-of-state tuition that will be retained at campuses. This budget also fully maintains current funding for scholarships, with $88 million provided through the Office of Student Financial Assistance at the Department of Higher Education.

The Governor's H.1 budget recommendation also establishes a $7.5 million incentive fund at the DHE to encourage financial and operational efficiency at UMass, the state universities and colleges, and the community colleges. This fund will provide incentives to campuses to encourage these independent agencies to advance the Administration's policy values and to adopt fiscal improvement and accountability measures that will lower costs, encourage collaboration, and increase efficiency.

Urban and Youth Violence Prevention

Young people in Massachusetts and nationally are dying as a result of gun related and other violence at an alarming rate. Consequently, our urban neighborhoods are not as safe as they should be and too often urban youth despair their realities and fear for the future.
This fiscal year 2012 budget commits funding to programs that are proven to work in the communities that they serve, programs that are proven to change the lives of our youth for the better and reduce urban violence.

Connecting the Commonwealth to Protect Our Youth

Our Communities
Health and Human Services
Violence Prevention Grants
Teen Structured Settings

Our Schools
Education
After School/Out of School Grants
Youth Build
Alternative Education Grants
Mentoring Grants

Our Workplaces
Labor and Workforce Development
Summer Jobs Programs

Our Streets
Public Safety
Shannon Grants

As promised, the Patrick Administration is engaging the full spectrum of people who work with young people –law enforcement, street workers, clergy, human services providers, business leaders, victim advocates, and survivors -- to create a wide-ranging and deep-reaching movement to end violence in every community in Massachusetts. The cycle of violence and poverty in any community is a threat to every community. It threatens our fundamental belief in opportunity for all and it must stop.
The Administration is taking a two pronged approach to creating a culture of opportunity for our youth: preventing and addressing violence and providing services that enable our young to make positive choices and lead productive lives.

Programs that are proven successful and are dedicated to ending youth violence in our communities are funded from various line items that were all prioritized to receive the same amount of funding as in fiscal year 2011, despite the myriad difficulties in balancing the fiscal year 2012 budget. Though these line items represent different state agencies, they all share the common, streamlined mission of the entire Commonwealth: to end youth violence and positively empower our valuable young people with job opportunities and productive life style choices. Among these critical programs are those that serve:

Our Communities

To support a joint effort between the Department of Public Safety and the Executive Office of Labor and Workforce Development, the Department of Public Health administers a competitive grant process for innovative and constructive ways to address youth violence in at-risk communities. These grants are level funded at $1.5 million for fiscal year 2012 and serve at-risk communities in all regions throughout the state. These grants are neighborhood-specific to culturally and linguistically target the prevention and intervention activities to each particular youth population. The provision of place-based “safe havens” for our at-risk youth provides areas in which these vulnerable populations can be secure and productive.

Our Workplaces

Combining work and learning is a powerful and effective drop-out strategy; the deeper the connection that a young person feels while working in the community dramatically reduces the propensity to commit violent acts within it. The school-to-career program administered within the Department of Labor and Workforce Development engages the private sector to commit to paying salaries, providing mentoring and instruction on the job and working closely with their interns’ teachers to connect schools and businesses. This comprehensive model, level funded at $2 million in fiscal year 2012, engages at-risk young people and provides opportunities for long-term professional and academic success for those that the program reaches. In addition to this investment, the Governor proposes to provide $8 million in funding to support job opportunities for thousands of students in the summer of 2011. This investment will ensure that low-income young adults can find work and income during the summer months.

Our Schools

The highest rate of youth crime and violence occurs in the hours immediately following school dismissal. Unsupervised, unstructured time in the afternoon and evening often results in gang-related activities and youth-on-youth aggression. Programs aimed at keeping students engaged and productive longer, such as After School Programs and Extended School Day Programs- both receiving level funding in fiscal year 2012 for a combined $15.4 million, dramatically reduce this period of heightened violence. The Governor also proposes to increase funding for School to Career Connecting Activities by $1.5 million, proposal a total of $3.5 million.

Our Streets

The Shannon Grants to prevent gang violence are targeted at communities with higher crime rates and youth demographics considered more at-risk for crime. The Administration is committing $8 million for this critical program in fiscal year 2012. The fiscal year 2012 budget includes $5.5 million to support these grants, $1 million higher than fiscal year 2011 levels. In addition, the fiscal year 2011 supplemental budget that the Governor will file in January 2011 includes $2.5 million in additional funding for these critical grants that will be available in fiscal year 2012.

In addition to violence prevention programs for our youth, this fiscal year 2012 budget continues to support strategic initiatives designed to better serve our youth at risk to drop out of school or engage in dangerous behavior. The safety and well-being of our Commonwealth’s children is dependent upon our safety net of supports for those most vulnerable. Programs that sustain these critical services will receive the same level of funding from fiscal year 2011 to fiscal year 2012. Preserving these supplementary programs for at-risk youth programs will enable a more cohesive, pragmatic and targeted approach to addressing youth violence.

Job Creation - Broad Strategies

Governor's Investment Proposal

The fiscal year 2012 budget continues to support the Patrick-Murray Administration's commitment to creating jobs and putting Massachusetts residents back to work.

State Capital Investments

A large portion of the state's efforts to promote job creation and expand employment is funded through the capital budget. The state's annual capital budget provides funding for substantial job-creating projects located across the state, including construction projects in the life sciences industry, higher education and transportation.

The fiscal year 2012 capital budget will invest more than $3.6 billion in capital investment projects; more than double the level of state capital investments since the beginning of the Patrick-Murray Administration. While many of these planned investments create construction jobs and otherwise support economic growth, $194 million of planned fiscal year 2012 capital investments are specifically targeted to economic development programs, which will prioritize projects that invest in state infrastructure that supports private development and job growth.

$51 million is planned for the MassWorks Infrastructure Program, which is the newly created one-stop shop for municipalities seeking public infrastructure to support economic development and job creation in their communities. The Program represents an administrative consolidation of six grant programs:

- Public Works Economic Development (PWED) Grant
- Community Development Action Grant (CDAG)
- Growth District Initiative (GDI) Grants
- Massachusetts Opportunity Relocation and Expansion Program (MORE)
- Small Town Rural Assistance Program (STRAP)
- Transit Oriented Development (TOD) Program

Quasi-Public Agencies

In addition to the capital program, funding for job creation comes from the state's quasi-public partners, 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 state's quasi-public agencies are also helping to continue to support a number of state-operated economic development and job promoting activities. These include:

- International trade and investment activities;
- Tourism-promoting activities such as ad buys and international and domestic marketing;
- Grants to technical assistance providers throughout the state to offer guidance to small businesses planning to expand in Massachusetts; and,
- Providing direct assistance to proponents of development projects with respect to state and local permitting, licensing and regulatory matters, and working with state regulatory agencies on efforts to streamline state permitting processes.

Economic Development Re-Organization

The fiscal year 2012 budget proposal reflects the first full year of operation for the newly-created Mass Marketing Partnership, established in the Economic Development Reorganization Bill signed in August 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 the recent merger of the Economic Stabilization Trust and Community Development Finance Corporation, will also support funding to make loans to small businesses.

Increasing Access and Opportunity for the Business Community

The mission of the Operational Services Division (OSD) is to "administer the procurement process by establishing Statewide Contracts for goods and services that ensure best value". Executive branch agencies and eligible public entities in the Commonwealth are able to purchase goods and services from vendors on approved statewide contracts through the Commonwealth Procurement and Solicitation (Comm-PASS) Quick Quote on-line system. Comm-PASS promotes transparent and competitive public procurements. Vendors pay an annual $275 subscription fee to access Smart Bid functionality, which allows them to bid on solicitation for a statewide contract. In fiscal year 2012, Governor Patrick's House 1 proposal requests that OSD eliminate all vendor subscription fees to Comm-PASS. This re-enforces the administrations commitment to promoting business and job creation by eliminating potential barriers and creating accesses to opportunities that will help businesses succeed.

Workforce Training Fund Initiative

The H.1 budget recommendation will reform the funding structure for the Workforce Training Fund (WTF) by placing the full $21 million appropriation in an "off-budget" trust fund. This change will be responsive to private employers concerns that annual WTF contributions have been diverted in the past from job training initiatives and used for other purposes.

The Executive Office of Labor and Workforce Development (ELWD) will also reform the way in which the WTF is administered so that it will provide funding to a broader range of employers, in terms of size, business and location. Furthermore, ELWD is seeking to increase participation of small businesses by allowing them to partner with community colleges, vocational education schools and community based organizations to apply for grants. Future grants will be administered by the Commonwealth Corporation to help insure that these goals are met and that we can better monitor the grant implementation.

Corporate Rate Reduction

The fiscal year 2012 budget assumes that there will be no changes to the phase down of the corporate tax rate, from 8.75 percent in tax year 2010 to 8.25 percent in 2011. In fiscal year 2012, the Department of Revenue estimates this will save approximately $185.1 million for 35,000 businesses statewide from this change. Even in the midst of unprecedented fiscal challenges, the Patrick-Murray Administration is following through with corporate tax reform and reducing costs for businesses.

Job Creation - Life Sciences Strategies

The fiscal year 2012 recommendation provides $10 million in funding to the Massachusetts Life Sciences Center (MLSC) and assumes that $20 million in tax incentives, previously awarded, will be taken by companies. Building on the Administration and Legislature's initiative (Chapter 130 of the Acts of 2008) to promote and advance the life sciences sectors in Massachusetts, the fiscal year 2012 recommendation continues to make essential investments targeted towards job growth, business expansion and new revenues for the Commonwealth.

The Governor's budget proposal makes additional funding available to the MLSC in fiscal year 2012 to provide research grants and accelerator loans to researchers and early-state companies. This will continue the state's efforts to promote Massachusetts as a global leader in all stages of business development in life sciences industries, from discovery to commercialization. Finally, this funding will allow the Center to continue its efforts to expand education and workforce opportunities to Massachusetts residents, providing experience within this growing sector that offers higher-than-average salaries at all levels of employment.

Outside Section 39 allocates the first $10 million of any fiscal year 2011 consolidated net surplus to be made available to the Massachusetts Life Sciences Investment Fund held by MLSC. Consistent with the previous three fiscal years, this funding mechanism has provided continuing state support to the Center for matching grants and loans, as well as supporting the operations of the agency. While the $10 million reflects an important and necessary investment in these high-growth sectors, it does reflect a lower annual appropriation than the $25 million that was originally contemplated in the life sciences initiative announced by the Governor in 2007 and passed by the Legislature in 2008. The reduced amount again reflects that all segments of the state budget, including key priorities of the Administration and the Legislature, have been reduced in the spirit of shared sacrifice in this fiscal downturn.

Governor Deval Patrick and Dr. Susan Windham-Bannister, President and CEO of the Massachusetts Life Sciences Center, attend the opening of Organogenesis' new facility in Canton

Life Sciences in Massachusetts

Massachusetts is a global leader in the life sciences, including biotechnology, pharmaceuticals, medical devices, diagnostics and bioinformatics. There are roughly 80,000 Massachusetts residents employed in these sectors, and hundreds of companies classified as life sciences-related are located in the state, generating billions in annual business activity. Medical devices are presently our state's leading export. Massachusetts receives more per-capita in NIH research grants than any other state by far, and local companies received more per-capita than any other state from this past year's Federal Therapeutic Tax Credit program for early-stage companies. The Life Sciences Center, the quasi-public agency charged with implementing the state's ten-year, $1 billion Life Sciences Initiative, is making investments to accelerate growth in these sectors, with the dual objectives of creating jobs and advancing scientific discovery that hold promise for improved health outcomes. These targeted investments already are creating thousands of real jobs for real people in the Commonwealth.

Success To Date

The Center continues to highly leverage the public dollars that have been entrusted to it. To date, the Center has committed $215 million in state funding and leveraged more than $700 million in outside investment, helping to create a projected 7,500 jobs across the Commonwealth. This means that for every $1 of taxpayer money that the Center has invested, we have attracted more than $3 in additional outside investment – creating a public-private investment fund of more than $900 million for the state's life sciences Supercluster in just two years.

The Center's statewide investments over the past year have included two new large-scale job-creating capital projects, authorization for three loans to provide working capital to early-stage companies through the Center's Accelerator Program, three grants to support the commercialization of technologies through a new Small Business Matching Grant Program, a second round of Research Matching Grants to promising new investigators, and the second year of tax incentive awards to encourage job growth at 30 life sciences companies. The Center also funded a second year of the Life Sciences Internship Challenge, a program that is developing the next generation of the Commonwealth's talented life sciences workforce. These new investments join the more than 40 grants, loans and projects that the Center is administering through commitments made in prior fiscal years.

The Center's Board of Directors approved two new capital projects in fiscal year 2010 totaling $96.6 million in authorizations, while maintaining the financial commitments made to previously approved projects from the prior fiscal year. To date, the Center has committed $129 million to five capital projects, which are expected to create more than 4,000 jobs in the building trades and more than 1,000 permanent jobs in the life sciences. Through all programs combined the Center's investments have contributed to the creation of more than one million square feet of new life sciences research and manufacturing space.

The Center's 2010 Internship Challenge received an overwhelming response, with nearly 900 applicants seeking internships this past summer. Through the Challenge, 170 interns were matched with 93 life sciences companies, an increase of over 60% from the 104 interns hired in 2009. Selected interns came from 46 different academic institutions and 32% were from public colleges or universities. Of the selected interns, 13 were from community colleges, up from two the prior year. This increase reflected the Center's commitment to set aside 10% of program resources for community college students, and extensive outreach to community colleges to encourage their participation. Interns came from communities across the state; from Swampscott to Pittsfield, and Amesbury to New Bedford. Thirty-seven of the interns were offered full or part-time positions with their host companies at the conclusion of their internships.

Governor Deval Patrick and Dr. Susan Windham-Bannister participate in a ceremony marking the expansion of Cubist Pharmaceuticals in Lexington

The Center has awarded a total of $5.375 million in loans to nine active early-stage life sciences companies in Massachusetts through the Center's Accelerator Program. The Accelerator Program, the Center's flagship investment program, supports and "de-risks" early-stage companies by providing loans that will match outside sources of capital. The loans are designed to address the need for capital investment associated with the long life sciences R&D cycle and the high cost of translating research into a commercially viable product and, ultimately, in the hands of patients. In September of 2010, Good Start Genetics became the first of these companies to pay back their loan, with interest, after securing $18 million in Series A financing. In October of 2010, Invivo Therapeutics paid back their loan, with interest, after raising $13 million in private financing.

In December 2010, the Center announced their second round of tax incentives for life sciences-related companies proposing to expand business operations and employment within Massachusetts over the next five years. In total, $23.9 million in tax incentives were authorized for 30 companies that committed to expanding their total workforce by 999 jobs. Each company has similarly agreed to meet and maintain all projected job targets for no fewer than five years. It is anticipated that the indirect economic benefit from these jobs, commonly known as the multiplier effect, will result in substantial secondary job creation. Finally, based on the state revenue projections from the expanded income tax collections resulting from these new positions, the state will collect additional revenues equal to the amount of the tax incentives awarded within 5 to 6 years.

Fiscal year 2011 has also been a strong year for company recruitment. The Center recently welcomed UK-based Sagentia and French biotech company Integragen to Massachusetts. Major local company expansions were recently announced by global leaders sanofi-aventis and Novartis.

Our state faces stiff competition for life sciences jobs and investment dollars, both domestically from states like North Carolina and California, and internationally from countries like China and India. We cannot and must not take Massachusetts' global leadership in the life sciences for granted. Through continued investment, including full implementation of the Life Sciences Initiative, we can ensure that our life sciences sectors continue to thrive throughout the Commonwealth.

Lt. Governor Timothy Murray and Dr. Susan Windham-Bannister cut a ribbon at the opening of NeoStem in Cambridge.

Fiscal Year 2012 Issues in Brief

More Efficient Government

ENSE PETIT PLACIDAM SVB LIBERTATE QVIETEM

Performance, Accountability, Transparency

Governor's Proposed Reforms

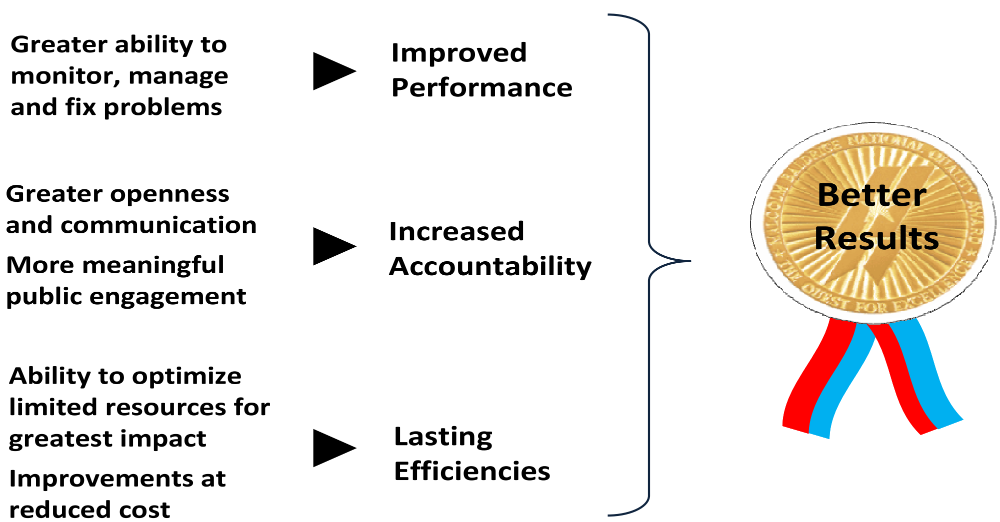
Massachusetts government can no longer function as it has in the past, new fiscal constraints caused by the global recession require greater efficiency and more effective management to ensure we stretch every taxpayer dollar as far as possible. We need more informed and evidence-based decision making; real time awareness, greater ability to monitor, manage, and fix problems; more meaningful public engagement; and increased clarity about performance tradeoffs and resource allocations. In addition, the public is demanding and the federal government is mandating more transparency and accountability. We also need to make sure that all of our Executive Branch agencies are strategically aligned in support of the Governor and Lieutenant Governor's priorities for the next term. To this end, the Patrick-Murray Administration is proposing changes to the Executive Office for Administration and Finance (A&F) that will expand their authority and role in monitoring government performance, accountability and transparency. Specifically, the Patrick-Murray Administration proposes to establish a new Office of Commonwealth Performance, Accountability and Transparency (CPAT) within A&F (M.G.L. Chapter 7). The office will be charged with overseeing and implementing the following responsibilities.

Performance Management

Performance management is an ongoing, systematic approach to improving results through the use of evidence-based decision making and management, continuous organizational learning, and a focus on accountability for performance accomplished by:

- Establishing goals
- Measuring outcome based results against goals
- Cascading goals and measures throughout the organization
- Linking goals and measures to key processes like budget and HR
- Collecting, analyzing, and reporting performance results to management and the public
- Using that information to take actions and drive strategies to continuously improve the efficiency and effectiveness of government services

When fully implemented, performance management will result in improved decision making, enhanced transparency and will facilitate thoughtful public engagement.



Building on lessons learned from previous efforts to implement performance management through the MassGOALS program, the new office will have the responsibility of expanding performance management strategies to all Commonwealth Secretariats and Agencies and to position Massachusetts as a national leader in results-driven performance management, government transparency, and performance-based program budgeting. The new office will work with state agencies, local governments and quasi-public agencies to advance performance management throughout the Commonwealth.

Enhanced Coordination of Federal Grants

In this economic environment, the Patrick-Murray Administration realizes the importance of securing and properly utilizing all the federal dollars that the state is eligible to receive. The CPAT will help meet this goal by eliminating inefficiencies and duplication of effort among state agencies in the management and coordination of federal grants. Currently, each sate agency applies for and administers federal grants without the benefit of any statewide coordination. In any given fiscal year the state spends over $2 billion in federal grants. Furthermore, the state receives billions in additional federal revenues to support the state budget, mainly through services offered by the MassHealth program. In order to better identify, track, monitor and spend federal funding, the office will work collaboratively with other Executive Branch agencies to ensure proper use of and compliance with federal funding. This will be accomplished in two ways:

Single Point of Contact

Federal Executive Order 12372 “Intergovernmental Review of Federal Programs” encourages states to utilize a single point of contact for federal funding oversight. The increased flow of funds from the federal government to the state government since the passage of the American Recovery and Reinvestment Act (ARRA) in February 2009 underscores the importance of such oversight. In addition, the creation of this unit will be an important element in ensuring that federal assistance is properly managed after the phase- out of the Massachusetts Recovery and Reinvestment Office, which was created specifically to manage federal ARRA funds. The state needs to ensure that proper mechanisms are in place to maximize federal resources, increase coordination among agencies, and provide enhanced transparency for federal grant spending

Federal Financial Accountability and Transparency

Building on the lessons learned and the work done by the Executive Office for Administration and Finance and the Recovery & Reinvestment Office (MA RRO), the new office will have the responsibility for overseeing the Commonwealth’s compliance with the Federal Financial Accountability and Transparency Act (FFATA) that went into effect this past October. The intent is to empower every American with the ability to hold the government accountable for spending decisions by giving them access to information about the use of federal funds. The FFATA legislation requires information on all federal awards be made available to the public via a single, searchable website. Starting on October 1, 2010 all new Federal grants awarded to any state agencies are subject to certain reporting requirements issued by OMB under FFATA. The information will then be made available to the public on a Federal website at www.usaspending.gov.

Massachusetts Transparency Website

The Patrick-Murray Administration has set a goal to be a national leader in results-driven performance management and government transparency. To help further this effort, legislation was passed giving responsibility for developing and maintaining a transparency website to A&F. The legislation establishes transparency requirements for the state. On January 1st, the Commonwealth launched “Massachusetts Transparency”, the first phase of the new transparency website. Despite our progress in launching the new site, much work lies ahead. Over the next year, the Patrick-Murray Administration will work collaboratively with Treasurer Grossman and his team to fulfill our collective goal to make more spending and revenue information available to the public and to bring the “open checkbook” concept to Massachusetts. For more information on what we have done to improve transparency, review the “Budget Transparency” Issue Brief.

Program Integrity

This past year, the Lieutenant Governor chaired a Fraud, Waste and Abuse taskforce. One of the many recommendations that have come out of that effort is to ensure 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. One of the responsibilities of this new office will be to help coordinate these various activities and do everything we can to enhance program integrity throughout the Commonwealth and ensure that taxpayer dollars are not being wasted and are being used for their intended purpose.

Economic Forecasting and Analysis Unit.

The purpose of the economic forecasting unit is to provide state government with accurate, unbiased, transparent, and widely understood caseload and revenue forecasts, to analyze key forecast drivers, and to identify the potential risks to forecasts. A primary benefit of establishing the unit is that it will allow state government to apply the resources necessary to perform complex forecasting analysis. The unit will be charged with assisting agencies in developing their forecasts and providing scenario and risk analysis that will better prepare agencies to respond and adapt to changes in the economy and in the demand for different programs and services. Finally, the unit will develop standard guidelines and methodologies for how agencies should approach spending and revenue forecasting and will require periodic reviews of agency revenue and spending forecasts.

House 1 Recommendation:

Outside section 9 in the Governor's House 1 recommendation for fiscal year 2012 provides for legislative changes to ensure that these proposals are implemented and sustained for the long-term. Additionally, House 1 makes investments of $650K in line item 1100-1201 for the purposes of implementing and maintaining the new CPAT office. Another $200K investment has been provided in line item 1100-1205 to fund enhanced oversight of the Commonwealth's ability to forecast caseload driven programs and services. All together, these investments will ensure that the benefits that come with greater performance, accountability and transparency are realized.

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Human Resources Modernization

Governor's Investment Proposal

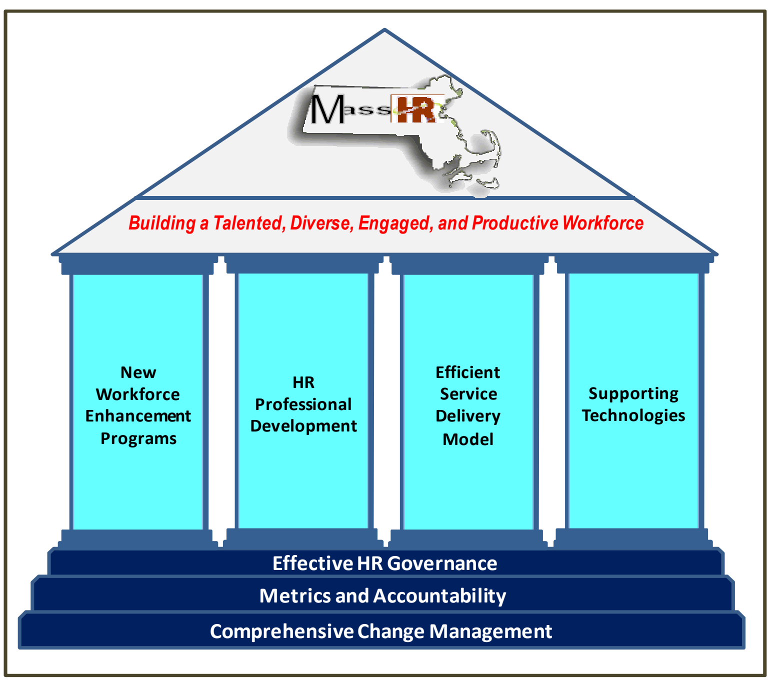
The economic downturn and its effect on the Commonwealth's budget continues to challenge departments and secretariats to invest resources in a way that achieves the best results for the clients and customers who receive services and for all of the residents of Massachusetts.

In January 2010, Governor Patrick issued *Executive Order 517: Enhancing the Efficiency and Effectiveness of the Executive Departments – Human Resources Modernization Project (E.O. 517).* This order directs the Chief Human Resources Officer and the Executive Branch Human Resources (HR) Community to improve administrative efficiency and effectiveness by modernizing and standardizing HR business processes and by leveraging technology to reduce costs. The initiative, MassHR, has taken great strides already, and as implementation continues, the Commonwealth's workforce and HR community will continue to focus on long-term goals of improving the efficiency of HR transactions, providing professional development opportunities for all employees, and making Massachusetts the best public sector employer in the country.

HR Strategic Plan

Transformation became reality during fiscal year 2011, with the Governor's Executive Order and the delivery of the Commonwealth's first-ever HR Strategic Plan, which established a mission statement for the Commonwealth's HR community that reads as follows:

> *"MassHR delivers strategic human resources programs, services, and technologies to build a talented, diverse, engaged and productive workforce in support of the businesses of the Executive Branch of the Commonwealth". – MassHR Mission Statement*



To achieve MassHR's vision for the future, the strategic plan identifies four key initiatives:

- Implement new strategic workforce enhancement programs
- Provide professional development for the HR community
- Implement a more efficient service delivery model using shared services
- Implement supporting technologies

As with any major system transformation, MassHR's four key initiatives will be supported by three "foundational" activities that will help engage stakeholders throughout the process, establish a comprehensive governance structure and foster a culture of accountability.

Progress to Date

One of the critical components to achieving long-term success in MassHR is to achieve early successes that make a meaningful difference in the HR Community. After finalizing the MassHR strategic plan, the initiative achieved several early milestones, including:

Professional Development

- Launched the Commonwealth Management Certificate Program and the Supervisor Certificate Program.
- Project Management Office established and operational.

Efficiency Service Delivery Model

- Launched e-Learning for Mandatory Courses.
- Launched a process to standardize HR Functional titles.

Established a Governance Structure for MassHR

- Expanded the MassHR Governance model beyond the HR Community within the Executive Branch
- HR/CMS Steering Committee includes representatives from the Courts, Treasurer’s Office, State and Community Colleges, Group Insurance, Department of Transportation, Executive office of Administration and finance. The Steering Committee is lead by the MassHR Executive Committee (HRD, ITD, and CTR); the chairperson is the Commonwealth’s Personnel Administrator.

Leveraging Technology

- Completed an upgrade of the Human Resources Compensation Management System (HR/CMS), the payroll and time/attendance application for the Commonwealth.
- Implemented a pilot for Self-Service Time and Attendance (SSTA) for Managers and Employees in both 9 – 5 and 24/7 agencies. These pilots will provide valuable insight for full-implementation of SSTA, which will generate up to $8 million in efficiency savings once fully implemented.

Next Phases

MassHR will build upon early successes and continue to implement key modules of the strategic plan. The next phase of implementation will include:

- Expansion of SSTA to all agencies.
- Expansion of courses to improve leadership skills and enhance professional development of staff provided by the Shared Services Training Center.
- Establishment of additional Shared Services Centers for strategic planning, talent management and core HR functions.
- Continuing to leverage technology to allow for a redeploy of HR employees from transactional roles to areas of direct service to internal and external customers. This will lead to cost savings and increased systems efficiency.

Shared Services Reforms

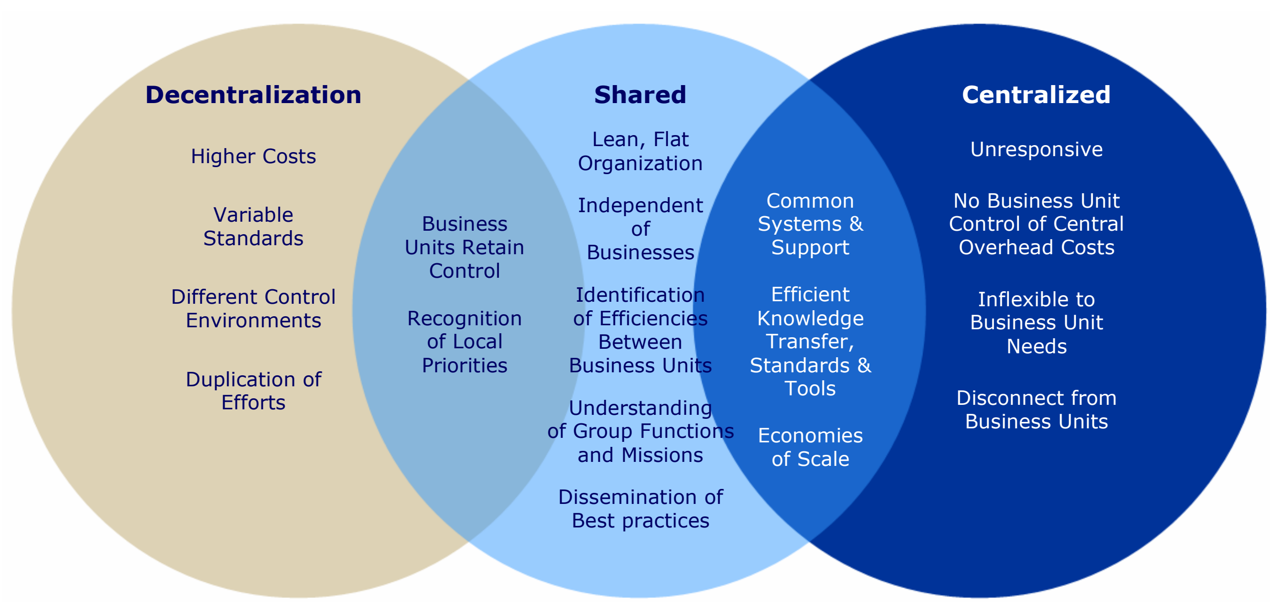
The delivery of core public services is the primary mission of our government. To meet the consumer demand for their respective programs and services, agencies are constantly searching for ways to streamline administrative and operational functions. Entering a fourth straight fiscal year of challenging budget climates, the quest for greater efficiencies is more critical than ever.

In House 1, Governor Patrick continues to advance "s*hared services*" as a model to further generate administrative savings. Shared Services reflect the consolidation of administrative functions that are common across departments. In this year's budget Governor Patrick will require that each Secretariat implement certain "***Administrative Innovation Programs" (AIPs)***. Secretariats will be directed to employ one of several structured models designed to consolidate administrative tasks, capture associated savings and, reallocate those savings to activities to avoid reductions to programs or services. *AIPs* are designed to yield both immediate and long term savings and will assist agencies to manage administrative accounts with reduced funding.

Many agencies have individually begun to adopt shared services models to maximize associated efficiencies. The intent of the *Administrative Innovation Program* is to formalize these gains and to create uniform opportunities elsewhere in state government. Specific support areas in which AIPs may be readily implemented are:

- Information Technology *[Continue with existing program under E.O. 510]*
- Human Resource Management *[Continue with existing program under E.O. 517]*
- Procurement
- Accounting
- Legal Services
- Facilities Management
- Leased Space Procurement and Management

Shared Service Benefits



The *Administrative Innovation Program* has the following objectives:

- Reduce administrative costs and use the savings to improve or preserve current service delivery levels.
- Enable Secretariats to tailor their strategies to reflect the attributes of their organizations
- Develop incentives that will reward aggressive implementation of *Administrative Innovation Programs*.

The *AIP* framework will be introduced by way of Executive Order. The E.O. will direct Secretariats to reorganize their administrative business practices in a manner that will promote the *AIP* objectives. In those instances where legislation is needed, language will be drafted authorizing Secretariats to achieve the stated ends.

Service models will provide Secretariats the tools necessary to reassign and / or consolidate support personnel and to standardize administrative functions and transactions. Each secretariat will be directed to specify which "tools" – or model – they intend to implement and to file an implementation plan with the Executive Office for Administration and Finance (ANF) by March 2011.

Examples of the types of arrangements that are envisioned under the *Administrative Innovation Program* include:

- Reassignment of all accounting personnel (e.g. accounts payable, encumbrance management, etc) to a consolidated entity with responsibility for conducting all accounting transactions on behalf of multiple departments within a Secretariat.
- Implementation of a "charge back model" for human resource personnel, in which basic human resource transactions are managed centrally using the newly modernized HR/CMS information system.
- Development of centrally-managed regionally based teams of facilities maintenance personnel charged with regional responsibility, rather than facility-specific responsibility, for basic repair and maintenance.
- Designation of a "Chief Procurement Officer" within each Secretariat who is charged with responsibility for meeting savings targets by consolidating commodities purchasing across departments and negotiating more aggressive pricing and contract terms.
- Reorganization of departmental personnel responsible for developing procurements for leased space and supporting leased space operations.

The Executive Order will also specify the composition and role of an Administrative Innovation Governance Council. Comprised of the Comptroller, State Purchasing Agent, Commissioner of DCAM, Undersecretary of ANF, and representatives from each secretariat, the Council will:

- Oversee the implementation of Administrative Innovation Programs across all Secretariats
- Support the exchange of information, inter-Secretariat collaboration, and dissemination of information regarding best practices.
- Identify and assist in removing elements of practice, policy, regulation, or statute that stand as barriers to Administrative Innovation.

FY12 Initiatives

- In an effort to achieve greater efficiencies and savings, Governor Patrick will issue an executive order directing all Executive Branch Departments to develop a more cost-effective methodology for printing services by consolidating, coordinating and centrally managing the Executive Department's large scale print, copy and mail operations.

Licensing Shared Services

The Governor's fiscal year 2012 budget proposes legislation that will allow state agencies to contract with one another for the provision of licensing services. This will not only create administrative efficiencies but also better customer-service outcomes for the residents of the Commonwealth. The Commonwealth has more than 30 departments, boards and agencies issuing more than 400 different types of licenses, registrations or permits. Generally, these licenses fall into the following categories:

- Professional Licensing
- Environmental
- Public Safety
- Transportation
- Public Health
- Recreational
- Financial

For a relatively small number of agencies, like MassDOT's Registry Division, providing licenses and registrations is a key component of what they do. For a number of other agencies, it is not. The administration of about 200 licenses is already consolidated into the Department of Professional Licensure. While consolidation of all licensing functions into one mega-licensing agency might provide the greatest administrative efficiencies for these activities, it may also jeopardize the relevant public safety or public health expertise associated with, for example, firearms or health care facility licensure. Instead, House 1 proposes to allow agencies to contract with one another to create efficiencies through shared service licensing administration consolidation, while retaining the professional expertise and judgment of the responsible agency. The contracting agency would remain responsible for the substantive decision-making associated with the licensing or registration programs, but could engage a counterpart agency to utilize their staff and systems to process the applications and associated fees more effectively and efficiently. State agencies have also independently developed systems and software separately to perform licensing functions, leading to very different outcomes about the availability and efficiency of on-line transactions.

One immediate example of the benefits of licensing shared services is between MassDOT's Registry Division and the Executive Office for Environmental Affairs (EEA) licensing of boats. By taking advantage of expanded ability to contract licensing services, EEA can contract the boat licensing function with the Registry. Currently consumers need to go to separate locations to register their boats and their boat trailers. This consolidated licensing approach will not create efficiencies by having the Registry administer licensing functions for boats, but will create one-stop service delivery for consumers. The Executive Office for Administration and Finance will perform a licensing inventory and make recommendations for additional licensing shared service opportunities.

ENSE PETIT PLACIDAM SVB LIBERTATE QVIETEM

Office of Access and Opportunity

The Patrick-Murray Administration has been and remains committed to a broad interpretation and implementation of the principles of equal opportunity and non-discrimination in all facets of Executive Branch operations. In January 2007, the Governor issued Executive Order 478, which spells out this commitment in clear terms. In order to ensure that there is a single point of accountability within the Administration, the Governor launched the Access and Opportunity effort, headed by an Assistant Secretary. To further clarify the Administration's commitment to and expectations of state agencies to achieve nondiscrimination and equal opportunity in all facets of executive branch operations, the Governor issued Executive Order 519, which formally established the Office of Access and Opportunity ("Office"), and which spells out the responsibilities and authorities of the Office.

The Mission of the Office of Access and Opportunity is to be a catalyst for and coordinator of activities that facilitate the executive branch's efforts to achieve, maintain and enhance an environment that fosters nondiscrimination and equal opportunity in state services, programs and activities. Specific activities related to the mission involve supporting the efforts of women, minorities, persons with a disability, and others to gain employment and business opportunities with the Executive Branch; partnering with internal and external stakeholders to advance social and economic equity; and developing policies, programs and other mechanisms to most effectively advance the objectives of nondiscrimination and equal opportunity.

To advance this mission, the Office of Access and Opportunity has developed four enduring strategic goals:

STRATEGIC GOAL 1

Ensure nondiscrimination and equity of opportunity in Executive Branch personnel activities.

STRATEGIC GOAL 2

Ensure nondiscrimination and equity of opportunity in state procurement activities.

STRATEGIC GOAL 3

Ensure nondiscrimination and equity of opportunity in executive branch programs, services, activities, regulations and policies.

STRATEGIC GOAL 4

Bring forward a legislative and policy agenda that (a) fulfills the preceding goals and/or that (b) enhances the social and economic outcomes of low-income residents.

Governor's House 1 Proposal

To further embed the work of the Office of Access and Opportunity in the everyday fabric of state government operations, the Governor's fiscal year 2012 budget proposes to codify the Office in the General Laws. Further information related to the Office of Access and Opportunity can be found online at www.mass.gov/anf/oao.

ENSE PETIT PLACIDAM SVB LIBERTATE QVIETEM

Information Technology Consolidation

In fiscal year 2010, Information Technology (IT) leaders across the Commonwealth enacted the provisions of Executive Order (E.O.) 510: *Enhancing the Efficiency and Effectiveness of the Executive Department's Information Technology Systems.* The initiative entails consolidation of the IT infrastructure and services at the Commonwealth and secretariat levels, as well as consolidation of IT spending, operations, and administrative functions.

Over 400 employees have been working for over two years on the implementation of this important initiative, and the Commonwealth has already benefited from early successes. The consolidation's commitment to improving effectiveness by creating a transparent, customer-driven model was recognized by the service management association (itSMF) when the Commonwealth's IT Service Catalog project was awarded public sector *Project of the Year 2010*.

EO 510 outlined a unique model and approach for Massachusetts' consolidation initiative. The model hinges upon gaining economies of scale in IT spending and dedication of resources while meeting the business needs of each agency. A three-phase approach was developed to marshal the Commonwealth from high-level planning to detailed planning, and on through implementation.

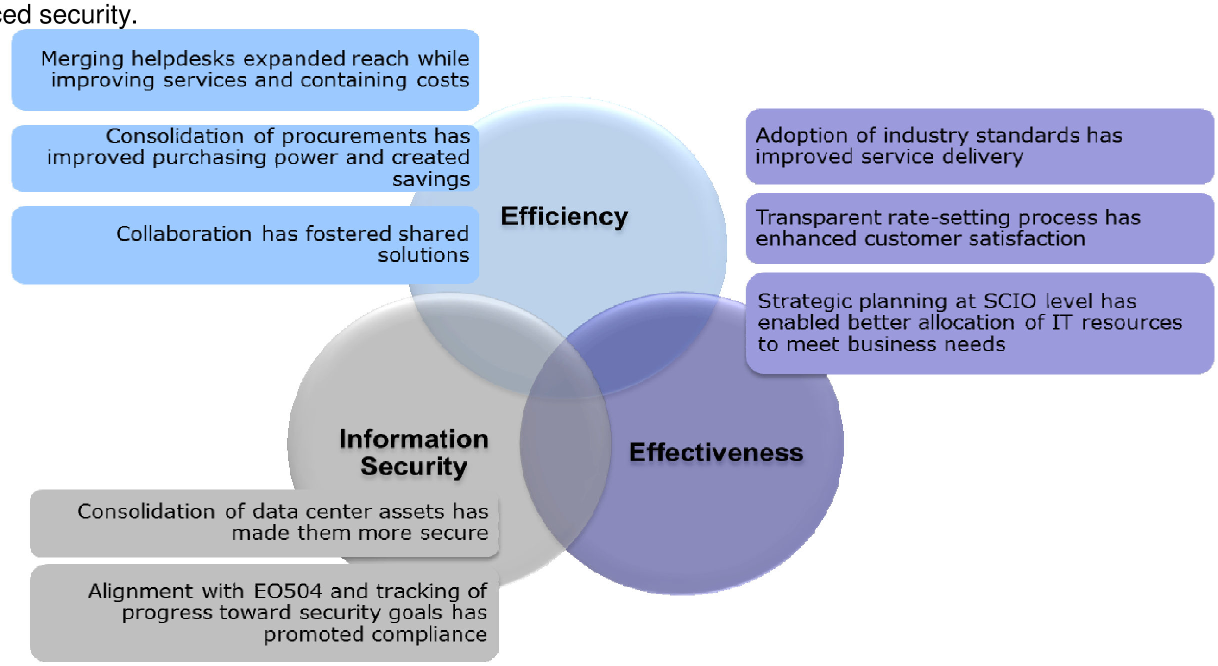
Current Phase of Consolidation

The Commonwealth is currently in the implementation phase of consolidation, with a focus on five key areas:

- Update Information Technology Division (ITD) infrastructure
- Consolidate infrastructure services in waves at ITD
- Implement secretariat consolidation plans led by secretariat chief information officers (SCIOs)
- Focus on improved service delivery
- Measure IT consolidation benefits

Realizing Benefits

We are already realizing benefits as a result of consolidation in the form of smarter investments, improved services, and enhanced security.



Efficiency

- The Executive Office for Administration and Finance and the Executive Office of Labor and Workforce Development have each consolidated helpdesks within their respective secretariats, enabling them to expand services while reducing costs by up to 15%

- A group of four government entities will save up to $50 million over five years through negotiation of a single software licensing agreement with Oracle.

- The Executive Office of Health and Human Services consolidated maintenance contracts, reducing costs by 35% and saving almost a quarter of a million dollars in one year.

- The Executive Office of Education consolidated maintenance contracts, saving $250,000 in costs this year, with an additional expected savings of half of a million dollars over the next three years.

Effectiveness

- Over 1,000 staff have received IT Infrastructure Library (ITIL) awareness training, enabling delivery of IT services across the Commonwealth to consistent standards.

- Development of ITD's annual chargeback rates through an open and inclusive process fostered a deeper understanding between customers and the service provider regarding expectations and costs, resulting in improved customer satisfaction.

Information Security

- Consolidation of widely dispersed data center assets into the Massachusetts Information Technology Center (MITC) has resulted in a much greater level of security for the migrated systems, including enhanced building security, redundant power, redundant cooling, and 24x7 on-site network and systems infrastructure monitoring.

Key Metrics

Consolidation across the Executive Departments is being tracked and reported on a quarterly basis. Current key metrics can be found in Figure 2 below.

Goals	Target	Results to Date
Reduce # of helpdesks	9	↓ 56% from 43 to 19
Reduce # of data centers	2	↓ 8% from 60 to 55; Includes 25% of EOHHS systems
Increase # of MassMail users	100%	↑ 2% from 68% to 70%; Enhancing infrastructure to accommodate migrating users
Increase # of agency websites on Mass.Gov	100%	↑ 8% from 77% to 84%
Reduce # of non-project contractors	5%	↓ 38% from 16% to 10% of workforce

By continuing to think strategically, work smarter, and collaborate effectively, the Commonwealth is on track to deliver a progressively more efficient, effective, and secure IT environment across the Executive Departments.

Fiscal Year 2012 Initiatives:

- Amend E.O. 510 to reform the current IT Organization Governance Structure, which will Increase the authority of the Commonwealth Chief Information Officer (CCIO) and Secretariat Chief Information Officers (SCIOs) over strategic IT decisions and budgeting by having the CCIO appointed by the Governor and having the SCIOs report directly to their Cabinet Secretaries and the CCIO.

- Restructure the provision of selected IT Services to gain efficiencies by privatization of select IT services; in-sourcing networking services, and allowing municipalities to benefit from efficiencies gained by amending ITD's enabling legislation which will allow them to offer IT services to entities outside of the executive branch agencies including, municipalities or constitutional offices.

For more information on IT Consolidation, including links to the *IT Consolidation: Success Stories* video, quarterly newsletters, and email blasts, see the IT Consolidation Communications Hub on the wiki.

ENSE PETIT PLACIDAM SVB LIBERTATE QVIETEM

State Facilities Management

Governor's Proposal

The Commonwealth's Executive Branch owns over 35 million gross square feet of space throughout the Commonwealth, making it one of the largest property owners in the state. State-owned facilities have many important and unique uses, from providing a residential setting for individuals with disabilities or chronic illness to serving as office space for nearly 80,000 state employees.

Many of the facilities in the Commonwealth's portfolio have a historical significance, such as the Massachusetts State House in Boston, Massachusetts. The State House has significant meaning to the residents of the Commonwealth as our state's capital, and hosts many public events and meetings. However, the building is also used as traditional office space, and so requires a maintenance and management strategy that reflects this dual purpose.

Adequately managing and maintaining state-owned facilities is critical to ensuring a long useful life of the asset. Recognizing this, the Office of Facility Maintenance and Management (OFM) within the Division of Capital Asset Management (DCAM) was created to ensure that state buildings last longer, run better, and cost less to operate. OFM provides guidance and support to state agencies and has developed a network of facility managers across Massachusetts who share best practices. Although OFM serves in an advisory capacity, it does not have authority or accountability over facility maintenance because it does not employ the Commonwealth's facility management and maintenance staff.

Decentralized Approach to Facility Management and Maintenance

The Commonwealth currently employs 1,800 full-time employees (FTEs) across the Executive Branch to provide facility management and maintenance. All of these employees are committed to providing the best maintenance and care in the facilities to which they are assigned; however, they do not operate as a formal, consolidated community of facility management staff with central oversight. This decentralized approach to facilities management and maintenance has several challenges, including:

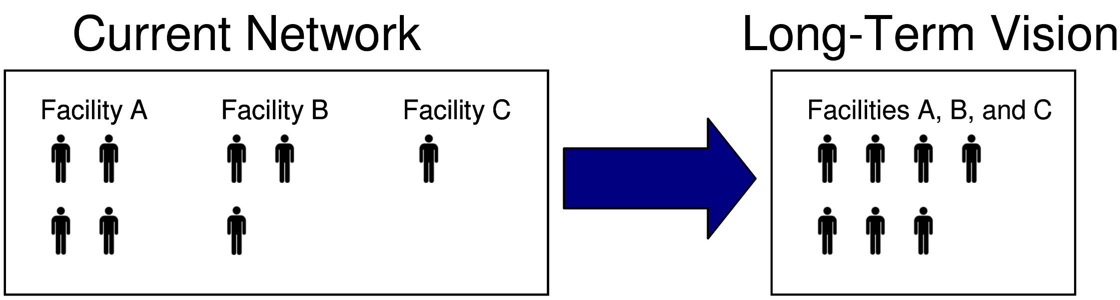
- There are very few incentives to share resources, best practices, combine needs to make discounted bulk purchases, and work collaboratively to ensure proper long-term sustainability.
- There are few incentives to "lend" resources to agencies on neighboring campuses who do not have full-time trades people on staff, and who have short-term maintenance emergencies.
- In difficult fiscal times, facility management and maintenance budgets are often trimmed to cover critical program expenses. These short-term decisions, while understandable, have long-term, costly implications.

Long Term Strategy for Consolidated Facility Management and Maintenance

The long-term strategy to improve the efficiency and effectiveness of the Commonwealth's approach to facility management and maintenance is to fully consolidate management and maintenance functions for as many state facilities as appropriate under a single entity. This long-term vision includes a shared staffing model that leverages volume and expertise, and relies upon service level agreements between the central agency and recipient agencies to ensure that the needs of facility-based programs are being met. This vision also includes:

- ✓ Strategic workforce enhancement programs for increased career opportunities
- ✓ Formal, mandatory standards for facility maintenance
- ✓ Portfolio-wide operating budgets, with benchmarking to ensure a suitable investment is made into maintaining the Commonwealth's assets
- ✓ Centralized platforms for asset management, including expected maintenance schedules

In many cases, facilities will continue to have on-site, full-time maintenance staff. However, to the extent that resources are unevenly allocated, this initiative will allow facilities with inadequate resources to have access to a larger network of maintenance professionals.



This long-term vision will allow the Commonwealth to maximize the value of dollars spent on facility maintenance, while improving service for all recipient agencies.

Fiscal Year 2012 House 1 Proposal

The fiscal year 2012 budget proposal includes the first phase toward centralization. This phase would combine the existing infrastructure of the OFM with the expertise that the Bureau of State Office Buildings (BSB) has gained by providing facility management and maintenance for buildings in the government center area. Most of BSB's responsibilities, and the staff and funding resources to fulfill these responsibilities, will be shifted to OFM within DCAM.

Recognizing the unique and important role of the State House as the centerpiece of state government, the House 1 proposal creates the Office of the Superintendent of the State House. This office will focus solely on the maintenance and management needs of the State House, similar to approaches taken by other states to ensure the continued maintenance of their capitol buildings. Residents will continue to visit a well-managed capitol building, while Legislators and other occupants of the State House will be supported by a responsive, experienced staff.

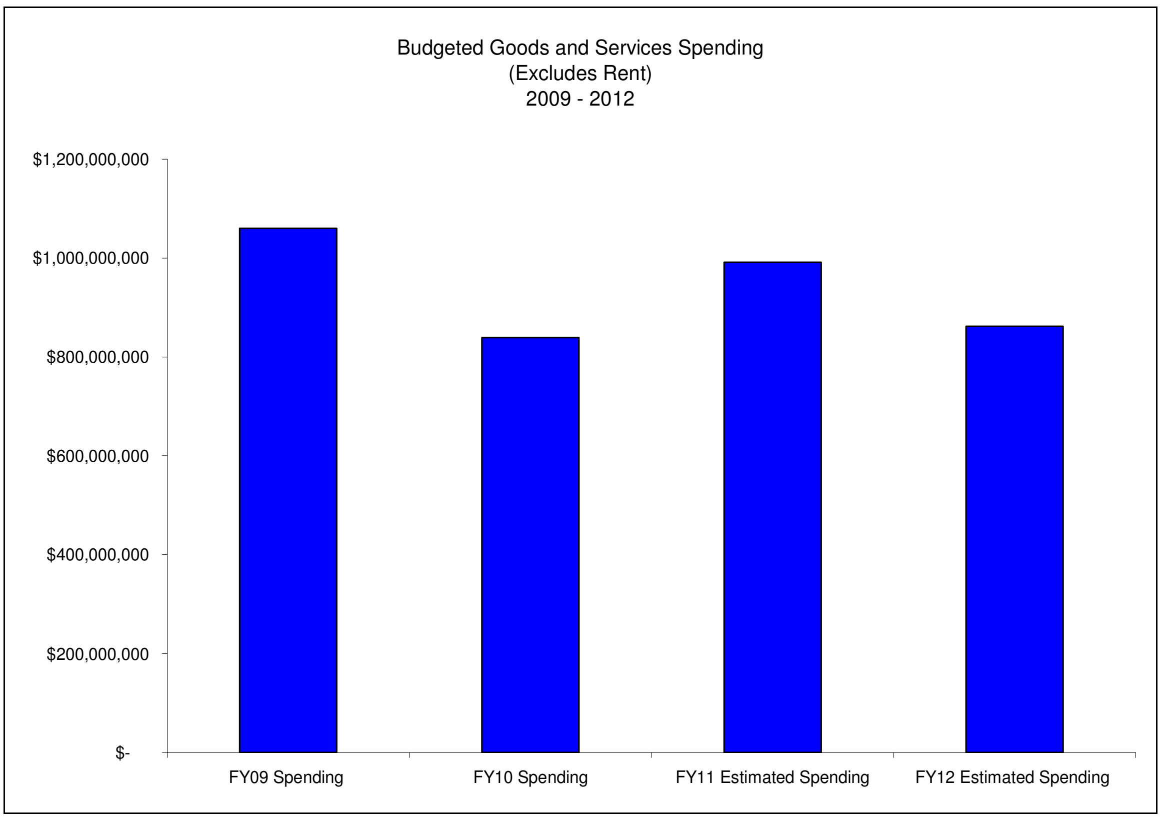
Current FY11 Line-item Structure			New FY12 H.1 Proposed Line-items		
Account	Dept	Description	Account	Dept	Description
1102-3306	BSB	State House Operations	1102-3309	BSB	Bureau of the State House
1102-3307	BSB	State House Accessibility			
1102-3301	BSB	Bureau of State Office Buildings	1102-3199	DCAM	Office Of Facilities Management
1102-3302	BSB	Utility Costs for State Managed Buildings			
1102-3333	BSB	Chargeback for State Buildings Operation and Maintenance	1102-3226	DCAM	State Buildings Operation & Maintenance Chargeback
1102-3336	BSB	Chargeback for Hurley State Office Building			

Procurement Reforms

The Governor's fiscal year 2012 budget proposes a series of procurement reforms that are estimated to generate approximately $30 million in operating budget savings. This proposal builds off of recent successes and substantial savings, most notably evidenced by a cooperative effort between MassDOT and the Operational Services Division (OSD), and is also supported by a recent report from the Pew Center on the States which concluded that "conservative estimates suggest that reform of government procurement practices could save 5 to 10 percent of that total spending." While this level of savings would be ambitious for FY12, there are opportunities to produce immediate savings through better procurement practices.

Procurement Reform Initiative

The average budgeted spending for non-construction goods and services, exclusive of rent, energy and space costs, is almost $1 billion annually. The Governor's budget proposes savings of approximately 3% on such purchases for FY12.



While the Commonwealth's purchasing activity and procurement of "statewide contracts" is overseen by the Operational Services Division (OSD), goods and service purchases are often uncoordinated, and thereby not aggregated, among the various state agencies. Moreover, the state's current process imposes terms and conditions that, while highly favorable to the Commonwealth, may scare off potential bidders because they are complicated, increase risk or cost to bidders and thereby make individual purchases more expensive for the Commonwealth. The recently consolidated MassDOT has made procurement savings an area of emphasis for its shared services administrative model, with impressive results. Working with OSD to improve bidder interest through terms and conditions amendments and to utilize "reverse auction" technology to drive down the price, MassDOT will save approximately $9 million on the purchase of road salt in FY11. The FY12 budget seeks savings from a comprehensive set of reforms to the state's procurement management approach, including:

- **Procurement Cabinet**: Through increased authority to share services between departments, the budget proposes the creation of a Chief Procurement Officer (CPO) for each Secretariat. The CPOs, working with OSD, will create a Procurement Cabinet that develops forward-looking plans for purchase of goods and services and improves communication between state agencies, Secretariats and OSD in order to develop better aggregation opportunities and thereby save taxpayer money. In addition, OSD will provide additional procurement tools to help state agencies reduce prices, including Quick Quote and reverse auction bidding technologies and negotiation skills training for all procurement staff.

- **Process Improvement**: Today, OSD utilizes a standard Request for Response (RFR) template when issuing solicitations for statewide contracts. Based on the success of this template and the standardization of terms that it provides for bidders, OSD will be directed to create a standard RFR template for state agency contracts as well, which will help to streamline the procurement process and standardize the terms for agencies and potential bidders. Finally, a task force will be assembled in order to examine the state's standard terms and conditions and other procurement terms and bid requirements in an effort to increase bidder interest, simplify the procurement process and reduce costs.

Quasi-Public Reforms

Since 2007, Governor Patrick has made unprecedented progress in creating an accountable and transparent state government for taxpayers. Together with the Legislature and other constitutional officers, we have:

- Adopted the state's strongest-ever ethics, lobbying and campaign finance reforms;
- Strengthened the Open Meeting Law;
- Reformed the state's transportation agencies, eliminating the Turnpike Authority and making the MBTA accountable to the Secretary of Transportation;
- Reorganized the state's economic development authorities, making them accountable to the Secretary of Housing and Economic Development;
- Created the www.mass.gov/transparency website, making state government finance information available to all;
- Made the state budget process more transparent, on-line at www.mass.gov/budget, and winning the Distinguished Budget Presentation Award by the Government Finance Officers Association; and,
- Commissioned the Quasi-Public Authority Compensation Review Commission, chaired by Stephen Crosby, Dean of the McCormack School at University of Massachusetts ("the Crosby Study") to provide transparency to executive pay at state authorities.

Building on these efforts, and consistent with the recommendations of the Crosby Study, in this budget we seek to bring additional accountability and transparency to state authorities, those state agencies controlled by independent boards rather than the Governor and Legislature. Section 20 of the budget will require state authorities to:

- Be audited annually by an independent auditor, reporting to an audit committee of its governing board, and filing the audit with the State Auditor;
- Be audited separately on state funds over $500,000, providing transparency of taxpayer support for authorities;
- Set compensation for management by compensation committee of its board, based on comparable compensation for similar officers in state government, as well as the private-sector;
- Prohibit executive pay-outs for sick, vacation, and other leave greater than would be allowed for state employees;
- Prohibit severance pay for executives removed for cause, and limiting severance pay to not more than three months salary for early termination without cause; and,
- Prohibit the commonwealth from subsidizing the pensions and health insurance of state authorities' retirees, requiring authorities to fund their liabilities.

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Budget Transparency

The Patrick-Murray Administration continues its commitment to transparency in its fiscal year 2012 budget recommendation. In recognition of this commitment, for the *third* year in a row the Commonwealth of Massachusetts has received the Distinguished Budget Presentation Award from the Government Finance Officers Association. This national recognition reflects that the Commonwealth has produced a budget document that serves as a policy document, operations guide, financial plan and communications device to promote our best practices to the public.

This year, the Administration is continuing its commitment to transparency and to engage residents in a meaningful conversation regarding the state's budget by launching several websites aimed at giving residents an unprecedented view of state spending.

The Massachusetts Recovery and Reinvestment Office (MA RRO) has provided $6.6 billion of federal stimulus funds to Massachusetts individuals and businesses, helping the Commonwealth to be among the leaders in the nation in recovery from the economic downturn. Recognizing that residents want to follow the progress of recovery, and often "follow the dollars" to their hometown or a specific vendor, the MA RRO has launched its recovery website, www.mass.gov/recovery that provides detailed information on federal stimulus spending throughout the state, including the amount awarded and spent. Residents can search for spending information by municipality, and funding category. The site also highlights the number of jobs attributed to stimulus funds, and can read about projects and programs that stimulus funds are supporting.

On January 1, 2011, the Executive Office for Administration and Finance, working in collaboration with Treasurer Grossman, launched the first phase of a statewide transparency website, www.mass.gov/transparency. Residents are able to view state spending and revenue information, including trends over the past several years, and breakdowns of major categories. The site also provides access to information on state laws and regulations, and can review the Commonwealth's annual financial reports. The site lists all state payments to cities and towns, and gives residents information on how to connect with their local and state legislators. This first-phase launch is intended to provide information in one place so that residents can understand more about how state government works. Future phases will include:

- Spending information by vendor
- Information on the recipients of tax expenditure benefits
- Descriptions of state contracts
- Additional functionality, including the ability to search and download information

In addition to increasing transparency through web technology, the fiscal year 2012 budget document includes all of the same components that increase residents' understanding of the Commonwealth's annual budget, including:

Outside Section Descriptions

Each year, the House 1 recommendation includes sections that propose new laws or make amendments to existing statute. Because they often contain technical legal language, these "outside sections" can be difficult for residents to interpret; therefore, in the 2011 House 1 recommendation, the Patrick-Murray Administration continues to include reader-friendly descriptions of each section.

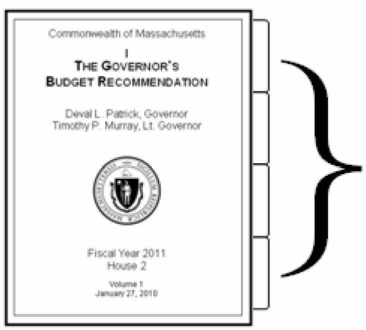
Effective Date

SECTION 42. Except as otherwise specified, this act shall take effect on July 1, 2011.

Summary:
This section makes this bill effective on July 1, 2011, unless another specific effective date is provided.

User Guide

Once again the Patrick-Murray Administration has included a User's Guide in its budget recommendation that helps readers navigate the sections of the document. The Guide outlines the information contained within the budget, explains how a reader can locate a particular budget item, and describes how to interpret the information they find.



Section Tabs:

1. Introduction
2. Budget Development (Budget Narratives)
3. Financial Statements (Bill Sec. 1, 1A, 1B & 1C)
4. Appropriation Recommendations (Bill Sec. 2, 2B & 2D)
5. Operating Transfers (Bill Sec. 2E)
6. Local Aid (Bill Sec. 3)
7. Outside Sections (Bill Sec. 4 onward)
8. Tax Expenditures
9. Capital Budget
10. Federal Stimulus
11. Resources

Strategic Asset Management

As the Commonwealth continues to recover from the recession, it is imperative that our state agencies take a more proactive and strategic approach to how we manage our inventory of state-owned real property and leased facilities. As a concept, strategic asset management provides a foundation from which to monitor the Commonwealth's real property holdings and lease agreements in order to optimize return on investment, maximize value, and create economies of scale and other efficiencies that benefit the Commonwealth and its residents. Strategic asset management will lead to better and cheaper space utilization while fostering opportunities for economic development.

In practice, decisions on what to surplus and how to dispose of property as well as where to lease should be made based on objective facts and information and the overall inventory needs of all agencies (rather than just one or two) and should be applied in a systematic manner across agencies. Ultimately, the Commonwealth should be able to allocate its leased and real property locations based on a strategic approach that takes opportunities for regionalization and co-location into consideration. The Patrick-Murray Administration's Fiscal Year 2012 H1 recommendations reflect a commitment to developing and implementing a smart strategic asset management plan that will realize savings and promote economic development opportunities for the Commonwealth.

General Overview of State Assets and Leased Facilities

The Commonwealth owns more than 650,000 acres of land, or one-eighth of the total land area of Massachusetts. It also owns more than 6,000 structures totaling approximately 80 million gross square feet with an assessed value of more than $8 billion. The Commonwealth leases approximately 6.8 million usable square feet at a budget cost of approximately $140 million.

Enhanced Surplus and Disposition Polices and Implementation of a Strategic Master Space Utilization Plan

As part of any Commonwealth-wide strategic asset management initiative, the Commonwealth will examine and enhance its surplus and disposition policies through increased coordination across agencies and with an eye towards economic development and value maximization and implement a Strategic Master Space Utilization Plan through annual space utilization studies with the goal of establishing standards for use of space by state agencies.

<u>Real Property Holdings</u>

As a matter of policy, the Commonwealth will take a more proactive approach within DCAM to (1) identify State-owned real property that could be declared surplus and sold off immediately or (2) identify alternative uses for those properties that realize an economic or other benefit to the Commonwealth. Further, the Commonwealth should have a unified, systematic and collaborative approach regarding the disposition of surplus land, transferring of land and management of resources on land. All policies should have a focus on identifying opportunities for economic development, value maximization, strategic reuse and revitalization or immediate revenue in the form of land and / or building sales.

<u>Leased Facilities</u>

As a practical matter, the Commonwealth's policy should be to encourage the regionalization, co-location and consolidation of state services into a single facility or adjacent facilities, whenever appropriate or applicable, to improve public service delivery, minimize duplication of facilities, increase efficiency of operations, and promote smart growth and strategic asset / economic development planning principles. The Division of Capital Asset Management will meet the above-mentioned policy recommendations through the implementation of a Strategic Master Space Utilization Plan.

FY 2012 Projected Savings

Real Property Holdings

By identifying under-utilized assets and piloting a new economic development / value maximization effort with MassDevelopment, substantial income can be generated in FY 2012

Towards this end, after a thorough review of state-owned real property holdings, the Inter-Secretariat Budget Team ("ISBT") identified and examined several land holding which could be considered surplus and disposed of during FY 2012. Specifically, ISBT identified more than 180 acres and approximately 8 structures as surplus. Combined with existing surplus property sale opportunities, the Fiscal Year 2012 budget reflects $15 million in such asset sales.

Leased Facilities

ISBT also conducted a formal review of lease agreement expiration dates. The formal review identified 70 lease expirations that have already occurred in 2010, 185 lease expirations occurring over the next 18 months, or by June 30, 2012, 10 lease expirations occurring after June 30, 2012 but before January 1, 2013 and 173 lease expirations occurring between January 1, 2013 and July 31, 2032.

The total annualized cost for the 185 leases that will expire over the next 18 months is over $35 million. Assuming that agencies could negotiate a 5 -15% reduction through lease concessions or active re-negotiation, the Commonwealth could realize between $1.75 - $5.25 million in savings during Fiscal Year 2012. The Governor will file legislation in a Fiscal Year 2011 supplemental budget bill containing language that would support this component of an overall strategic asset management approach. This savings estimate reflects expiring leases only and does not reflect additional savings on account of renegotiation of longer-term leases.

Fiscal Year 2012 Issues in Brief

Program Reforms and Initiatives

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Higher Education

The Commonwealth's higher education system serves approximately 260,000 students, and is comprised of 29 campuses divided into three segments: fifteen community colleges, nine state colleges/ universities, and five University of Massachusetts campuses. The public higher education system is governed by the Department of Higher Education and its Board, and is committed to ensuring that all residents have the opportunity to benefit from a post-secondary education that enriches their lives and advances their contributions to civic life, economic development and social progress in the Commonwealth.

Budget Preservation

The Governor's H.1 budget recommendation preserves state support for the Massachusetts public higher education system at levels equal to fiscal year 2011 support. In fiscal year 2010 and fiscal year 2011, Massachusetts public colleges and universities received funds through the American Recovery and Reinvestment Act's (ARRA), State Fiscal Stabilization Fund (SFSF) to preserve budgets at the campuses. This federal legislation allowed states to use their allocations from this fund to help restore reductions to state support for campuses, for fiscal years 2009, 2010, and 2011 but are no longer available for fiscal year 2012.

In addition, the commitment of the Patrick-Murray administration to keeping the costs of higher education affordable is demonstrated through $88 million in funding for scholarships for Massachusetts residents. The House 1 budget recommendation also proposes $750,000 in funding for the dual enrollment program, which allows qualified high school students to take college courses.

Performance Incentive Fund

In addition to level funding each campus to fiscal year 2011 state funded appropriations, an incentive fund titled the Performance Management Set Aside is established. In fiscal year 2012, this fund will allocate $7.5 million to the campuses. All campuses will be eligible to compete for these funds through a competitive grant process based on priorities determined by the board of higher education in pursuit of operational efficiency and goals articulated in the commonwealth's Vision Project. The Department of Higher Education has established the Vision Project with the goal of attaining national leadership in five key areas of achievement in public higher education, including college-going rates of high school graduates, college graduation and student success rates, ability to meet workforce needs, assessments of student learning and progress in closing achievement gaps among certain minority and socio-economic groups.

Historically, each campus maintains full operational independence, including procurement, curriculum development, and implementation. This fund will provide incentives to campuses to encourage these independent agencies to advance the Administration's policy objectives while also providing incentives for adopting fiscal improvement and accountability measures that will lower costs and increase efficiency.

Out of State Tuition Retention

All public colleges and universities will begin to retain out-of-state tuition effective July 1, 2011, as the adoption of Chapter 131 of the Acts of 2010 allows for campuses to retain all revenue paid in tuition and fees from out- of-state students. Prior to this legislation, campuses remitted all out-of-state tuition to the general fund (approximately $20 million in 2010) and retained all fees at the campus level. This transition will require a slight reduction in appropriation, but the retention of out-of-state tuition at the campus level will have a neutral effect on total state funding to the campus, and will provide the campuses added flexibility to manage their resources.

Support for Science, Technology, Engineering and Mathematics (STEM) Education

The STEM Pipeline Fund was established in 2003 through Economic Stimulus Trust Fund legislation and is administered through the Department of Higher Education. The goal of the STEM pipeline fund is to increase the number of Massachusetts students who participate in programs that support careers in fields related to science, technology, engineering and mathematics (STEM), increase the number of qualified STEM teachers, and improve the STEM educational offerings available in public and private schools. In September 2010, Lieutenant Governor Tim Murray released the state's first-ever long-term STEM plan titled, "A Foundation for the Future: Massachusetts' Plan for Excellence in STEM Education–Science, Technology, Engineering, and Mathematics."

The Department of Higher Education has supported Regional PreK-16 Networks since the inception of the STEM Pipeline Fund. These Networks bring together key stakeholders—K-12, higher education, businesses and community organizations—to collaboratively address regional education and workforce needs. In fiscal year 2012, the Administration has shown additional support for these initiatives by proposing new funding of $500,000 to support STEM education and the STEM pipeline fund.

Local Aid and Municipal Partnership

Governor's Investment Proposal

The fiscal year 2012 budget continues the Patrick-Murray Administration's unprecedented support for cities and towns. The Administration's approach to fiscal year 2012 continues to give cities and towns tools they need to manage costs, with the overarching goal of preserving local services for residents and taxpayers.

Municipal Health Insurance Proposal

The Governor will file legislation to provide cities and towns across the Commonwealth the tools they need to reign in municipal health insurance costs. This legislation will help municipalities achieve real healthcare cost savings and preserve local services in fiscal year 2012. This could save more than $94 million in year one for those cities and towns that have not joined the state health insurance system.

The proposal is premised on two simple principles: municipalities must be able to achieve material savings in health insurance costs and preserve local services in fiscal year 2012, and labor must have a meaningful role in the process. The proposal will allow municipalities to require expedited collective bargaining to negotiate a new health insurance benefit plan that is equivalent in cost to the state's health insurance benefits offered through the GIC. If the municipalities and unions don't reach agreement within a limited period of time, the municipality will be required to go into the GIC or otherwise have health insurance coverage equivalent in cost to the GIC. This legislation is intentionally crafted to delegate many of the details of the process to regulation to facilitate legislative enactment and ensure savings in fiscal year 2012.

The Governor's proposal also requires that all municipalities have eligible retired local employees enrolled in Medicare as their primary source of health insurance coverage, as this federal program covers a substantial portion of their health costs. (Estimated savings: $15 to $30 million remaining to be saved from requiring municipalities who have not already done so to move eligible retirees to Medicare.)

Local Aid

Aid to cities and towns, or local aid, represents approximately 16% of the Commonwealth's annual budget. In fiscal year 2012, local aid programs account for $5.05 billion. The recommendation for local aid reflects the Patrick-Murray Administration's unprecedented commitment to a strong partnership between the state and its cities and towns, even in a very challenging fiscal year.

- The fiscal year 2012 Chapter 70 funding is $3.99 billion, a $140 million increase of state funding to cities and towns over fiscal year 2011.
- Funding for the special education circuit breaker, which goes directly to municipalities, increases by $80 million from fiscal year 2011 to fiscal year 2012.
- Increasing Chapter 90 Local Road Program funding for fiscal year 2012 to $200 million, $45 million more than fiscal year 2011 and $80 million more than the last year of the prior administration.
- Level funding of State Owned Land (PILOT), Regional School Transportation, Charter School Reimburse-ments, Library Aid, Veterans' Benefits and Tax Reimbursements to Veterans, the Blind and Widows.
- Unrestricted General Government Aid (UGGA) will be funded at $833.9 million in fiscal year 2012. While this is a $65 million reduction (7.2%) from fiscal year 2011, $10 million from this reduction will be used to support a competitive grant program to drive regionalization and other efficiency initiatives as well as a performance management, accountability and transparency program for local government.
- A task force will be established to develop a rationale for the distribution of additional dollars that may be appropriated in the future based on elements of the work of the Hamill-Higgins 2006 Municipal Finance Task Force (Partnership Aid proposal) and the work of the Federal Reserve which take into account a municipality's economic and financial capacity. This task force will be charged with developing a new formula that also incentivizes performance results and best practices.

Additional Initiatives for Fiscal Year 2012

The Administration's approach to fiscal year 2012 includes additional tools to support municipalities in managing through this fiscal crisis and beyond, including:

- Expansion of the local property tax base by closing the loophole on telecommunications equipment exemption. (Estimated revenue: $26 million.)
- Establishing a $9.7 million 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, councils of governments or counties serving as the administrative or fiscal agent on behalf of municipalities. The new fiscal reality demands that we invest in and incentivize innovation among local governments to find new and more efficient ways to delivery local services.
- $300,000 for the development of a program to enhance performance management, accountability, and transparency for local governments. This initiative 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, including education, training, standardized software and reporting, and technical assistance to municipalities to participate in the program.
- Establishing a Municipal Procurement Program within the state Operational Services Division to create state-wide contracts specifically needed by cities and towns that will leverage purchasing power and save money.
- Filed a new pension reform initiative providing for a comprehensive overhaul of the pension system that would ensure the long-term sustainability and credibility of the system and save communities an estimated $2 billion over 30 years in pension costs and an estimated $1 billion in reduced retiree health benefit costs for new employees over the next 30 years.

FY2008 versus FY2012: Local Aid and Opportunities for Cost Savings and Revenues (in millions)

UNRESTRICTED GENERAL GOVERNMENT AID (UGGA) REDUCTION FY08 - FY12:	**($480.8)**
ENACTED OPPORTUNITIES FOR COST SAVINGS AND REVENUES	**$397.2**
Local pension funding relief	*$200.0*
*Join GIC (first year savings reported)**	*$44.0*
Local option meals tax	*$97.3*
Increased Ch.90 Local Road Program Funding by $5M in FY11	*$5.0*
Eliminated exemption on telecommunications poles and wires	*$26.0*
Local option room occupancy tax	*$24.9*
PROPOSED OPPORTUNITIES FOR COST SAVINGS AND REVENUES	**$187.8**
*New municipal health plan design proposal (first year savings)***	*$94.0*
Increase Ch.90 Local Road Program Funding for FY12	*$45.0*
Eliminate exemption on telecommunications machinery	*$26.0*
*Transfer retirees into Medicare****	*$22.5*
Electronic posting of procurement notices	*$0.3*
TOTAL OF ENACTED AND PROPOSED SOLUTIONS:	**$585.0**
Value of opportunities for cities and towns even after accounting for local aid reduction:	***$104.1***

** Based on savings reported by municipalities who have joined GIC.*

*** ANF adjustment of MTF estimate for municipalities who have not joined GIC.*

****Estimated savings range $15M - $30M for municipalities not currently in Medicare.*

ADDITIONAL REVENUE AND COST SAVINGS INTIATIVES FOR MUNICIPALITIES	
Chapter 70: Increased state funding over FY08	*$265.8*
Filed new pension reform ($2B) and OPEB ($1B) initiatives:	*$3B over 30 years*

Proprietary Schools

Background

There are over 200 proprietary schools in Massachusetts; for-profit institutions of higher education that provide education towards careers licensed by the Commonwealth. Historically, these schools have been overseen by the Department of Elementary and Secondary Education (ESE). In fiscal years 2010 and 2011, the Administration, ESE, and Division of Professional Licensure (DPL) have examined the oversight needed for these schools, and determined that DPL, under the Office of Consumer Affairs and Business Regulation, is more qualified to handle these oversight responsibilities.

Transfer of Oversight

In the fiscal year 2012 budget, Governor Patrick proposes to transfer the oversight of proprietary schools from ESE to DPL. This transfer will allow for an increased enforcement of current Massachusetts regulations, including:

1. Massachusetts General Law Chapter 25 Section 13K "Personal service contracts between certain schools and students; termination notice provisions required; applicability; violations; penalties."
2. Massachusetts 940 CMR 3.10, "Private Home Study, Business, Technological Social Skills and Career Schools Correspondence and Other."

The transfer will expand the oversight authority of the commonwealth, and DPL will have the ability to impose more significant penalties, suspend licenses and do the investigations necessary to properly oversee these entities. The ability to increase enforcement of current state laws and regulations will improve consumer protection and the ability of current and future proprietary students to make informed decisions on the career, educational, and financial aspects of attending a for-profit proprietary school.

The transfer will also increase oversight of curriculum provided by proprietary schools focused on academic programs related to career fields currently requiring licensure in the commonwealth of Massachusetts.

This initiative will increase staff at DPL devoted to oversight of proprietary schools in Massachusetts. A new retained revenue account, effective July 1, 2011, will collect fees assessed on proprietary schools and use the funds exclusively for this office and its increased oversight initiatives. The operations of the oversight and the enhanced licensing operation at DPL will be supported by revenues generated from the fees and penalties that these schools pay to the Commonwealth.

What We Heard: How Public Input Impacted the Recommendations

The Patrick-Murray Administration heard from the public though many venues, including direct communication from constituents, advocates and free legal clinics sharing stories of client experiences. This communication was consistent with the current national research that highlights that while proprietary schools provide a valuable education to some constituents, the current environment requires significant reforms in the areas of:

1. Consumer marketing practices, including acceptance procedures, financial aid counseling, and career placement statistics
2. Oversight of individual school financial stability
3. Oversight of curriculum and academic programs provided relative to the skills needed for the careers that are advertised.

This communication from the Massachusetts current and former proprietary school students is consistent with the conversation and examination currently occurring nationally, both at the federal level and in other states. In 2010 and 2011, Michigan, North Carolina, California, New York, and Ohio all proposed legislation to increase oversight of the proprietary school industry at the state level.


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Homelessness Reforms

The Governor's fiscal year 2012 budget recommendation reforms the Commonwealth's emergency shelter program for families. The reform will reduce the state's reliance on shelter and move towards a system with a housing first approach that will provide greater opportunity for self sufficiency while using resources more efficiently.

Background

In *State of Homelessness*, a report released January 11, 2011, the National Alliance to End Homelessness found that homelessness increased by 3% nationally between 2008 and 2009, and attributes that increase in large part to economic indicators associated with the global recession. They also found that among subpopulations, homeless families had the largest increase (4%). This trend holds true in Massachusetts, with the report citing a 14.18% increase in family homelessness during that same time period. This historic increase in the number of families in need has stretched resources across the Commonwealth.

The Commonwealth has been on a path to reform for several years and the fiscal situation has intensified the need for improvements. This reform opportunity is in line with nationally recognized best practices that allow families to receive help without having to first wait in shelter. Currently, the primary response for homeless families across the Commonwealth is Emergency Assistance. In 2008 the Legislative Homeless Commission released their report detailing how to prevent and end homelessness in Massachusetts by 2013. At that time the Commission charged the Interagency Council on Housing and Homelessness (ICHH) with implementing a system that would take Massachusetts to a housing-focused approach. The fiscal year 2010 budget transferred funding that supports homeless services and shelter costs for individuals and families from the Department of Transitional Assistance (DTA) to the Department of Housing and Community Development (DHCD) to combine emergency shelter programs with the State's housing delivery system. Under the consolidation plan, DTA's emergency shelter programs were transferred to DHCD to help carry out "Housing First", which focuses on helping individuals and families quickly access and sustain housing. The shelter-based system offered a shelter bed while a family waited for a housing subsidy to be allocated, often a very long wait. Housing First adds capacity to prevent eviction by the mediation of landlord disputes or payments against arrearages; avoids shelter through the early identification of housing where possible; and coordinates community services to stabilize housed families to preserve their tenancies. An important aspect of this reform is leveraging existing service programs in the community rather than intensive service delivery within the shelter.

Since 2008, the ICHH and DHCD have launched several pilot initiatives that tested innovative approaches to preventing and ending homelessness for families through greater resource flexibility and coordination. The Patrick-Murray Administration is now continuing its comprehensive initiative to reform our emergency shelter and housing delivery systems so families can enter into more stable situations for themselves and their children.

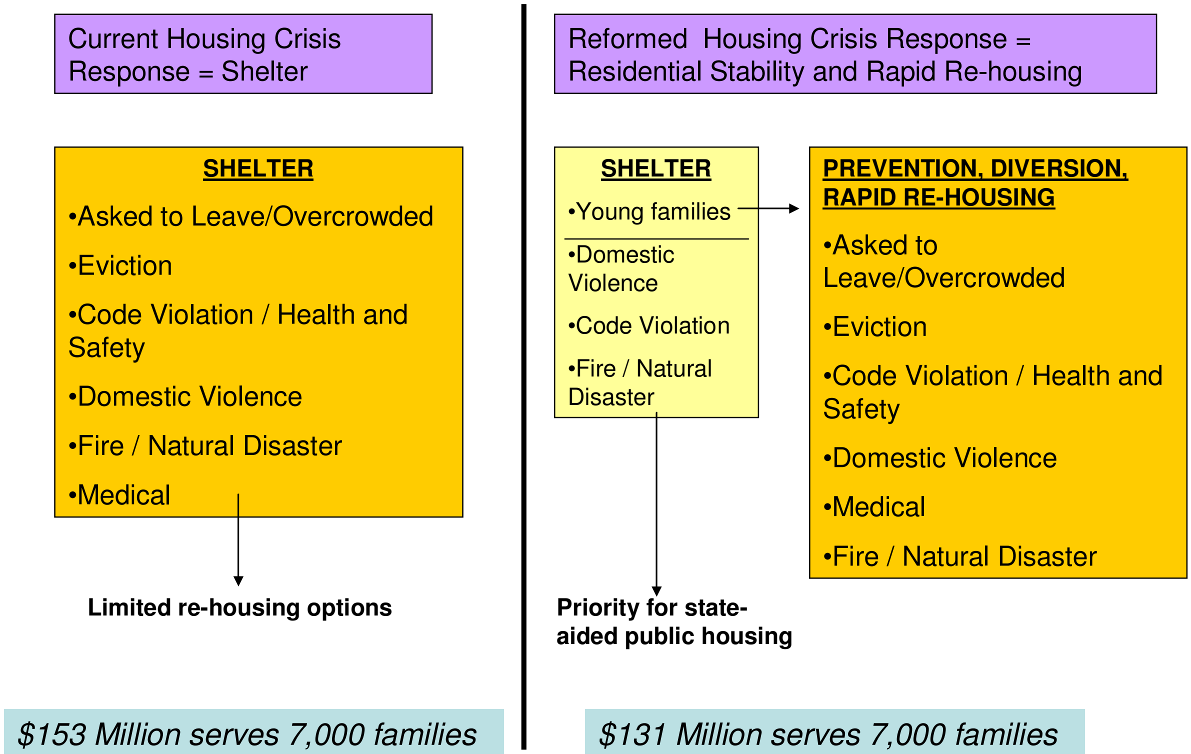
Fiscal Year 2012 Budget Proposal

The fundamental design of the reform is based on the principle of getting the right resource to the right person at the right time. Rather than offering emergency shelter as the primary response, three key benefits are defined which offer a more effective and efficient response to different family needs:

- Target young (21 and younger heads of household) families, whose vulnerability is rooted in extreme poverty, for a dedicated transitional congregate shelter program to better prepare them for more permanent housing and independent living.
- Prioritize families for shelter who cannot be immediately diverted and need an emergency response. This includes families who are at risk of domestic abuse in their current housing situation and families that, through no fault of their own, are homeless due to fire or natural disaster.
- The balance of the caseload is targeted for immediate diversion and prevention services and rental assistance and rehousing through a new program call the Massachusetts Short Term Housing Transition Program. The Short Term Housing and Transition Program is funded through an allocation of a portion of existing EA resources. Term Housing and Transition Program -funded diversion and rehousing efforts will serve families who

are about to become homeless more cost effectively and flexibly than shelter. These activities have proven effective over the past year's collaboration with ICHH Regional Networks.

Homeless System Conversion



Criminal Justice Reform

Criminal justice reform is essential to both enhancing public safety and to the Commonwealth's sound fiscal management. States across the country are re-examining sentencing and corrections policy to manage under constrained operating budgets, and Massachusetts cannot afford to be an exception.

Current policy and practice has led to overcrowded prisons, has done nothing to reduce recidivism, and will ultimately jeopardize public safety. The Corrections Master Plan commissioned by the Patrick-Murray Administration projects an inmate bed shortage of 8,000 by 2020. Each cell costs $100,000 to build and each offender costs $47,000 per year to hold in custody. Thus, without any policy and legislative changes to reverse current trends, capital costs to build facilities to meet this demand skyrocket towards $800,000,000 and corrections operating budgets increase by $376,000,000. If the Commonwealth committed those kinds of resources to this problem, its ability to meet other critical missions and services would be severely compromised.

The Governor proposes extensive reforms throughout the entire system that incorporate best practices and well-documented research in the field of criminal justice. The Governor's initiatives will:

- make our communities safer;
- ensure that all released offenders are supervised;
- reduce recidivism (repeat criminal activity) by improving the re-entry of offenders into society; and
- reduce escalating corrections costs

Sentencing Reform

Sentencing reform is a sound first step toward reforming the criminal justice system. The Governor proposes to toughen criminal sentences for repeat violent offenders while repealing mandatory minimum sentences for non-violent drug crimes. This smarter approach improves public safety, prioritizing limited public dollars and prison cells for habitual violent offenders.

Over the last 30 years, many states, including Massachusetts, enacted mandatory minimum sentencing policies, laws that require automatic prison terms, particularly as a tactic in the so-called "War on Drugs," which has proven to be an unsuccessful policy. Mandatory minimum sentences deprive judges of the ability to determine the appropriate sentence based on the facts of the case and the offender's criminal history. These policies often result in harsher and lengthier sentences, contribute to skyrocketing incarceration costs, and contribute to racial disparities in the criminal justice system.

The Governor proposes an overhaul of the Commonwealth's sentencing laws. Major components of this year's sentencing reform bills propose to:

- Require courts to impose a specific minimum sentence for those sentenced to life. Under current law, anyone sentenced to life becomes eligible for parole after serving 15 years. The Governor does not propose to change the law for individuals convicted of first degree murder who are never eligible for parole.
- Stiffen penalties for habitual violent offenders. If an individual has two prior violent felony convictions and is convicted of a third felony, he or she would receive the maximum sentence for the third felony. The current law permits habitual offenders to be eligible for parole after serving one-half of the maximum sentence. The Governor seeks to deny parole eligibility for habitual offenders until two-thirds of the maximum sentence has been served.
- Eliminate mandatory minimum sentences for all drug crimes (Chapter 94C of the General Laws), except where the offender uses, carries or visibly possesses a handgun during the commission of drug crime or when the crime involves children. For state inmates currently serving mandatory minimum sentences for drug crimes, the Administration proposes parole eligibility after they serve 1/2 of their maximum sentence, which is consistent with current state law for county inmates.

The sentencing reform legislation is a vital tool to manage prison overcrowding rates. It will permit the movement of inmates, as appropriate, to lower levels of security and community supervision, thereby relieving additional overcrowding pressure that would otherwise result from prison closures and increasing recidivism. Decades of research, as summarized in the Massachusetts Bar Association's recent report, "The Failure of the War on Drugs: Charting a New Course for the Commonwealth," shows that, on the whole, corrections dollars are most effectively spent on supervised release rather than incarceration, and that low-level, non-violent offenders benefit far more, and re-offend less, from treatment and programs as opposed to time spent in prison. Sentencing reform legislation will not only improve public safety, but also result in substantial future year savings of millions of dollars by shortening sentences and permitting the use of electronic monitoring and other less costly and more effective forms of supervision.

Mandating Post-Supervision Release for All Inmates

Approximately 95 percent of prisoners nationwide are eventually released back into society. Therefore, to promote public safety, the Governor proposes mandatory post-release supervision of all inmates released from the Commonwealth's state prisons.

Offender supervision can range from daily meetings with a parole or probation officer to electronic bracelet monitoring to 24-hour GPS monitoring. Offender supervision includes a comprehensive case plan that:

- Fosters stability in the community;
- Ensures monitoring by a case officer and tools such as electronic bracelets or GPS;
- Increases accountability through sanctions, including re-incarceration for the most serious violations of release conditions; and,
- Offers re-entry services, such as job training, substance abuse treatment and education that can turn ex-offenders into working and productive members of society.

A wide variety of research confirms the public safety benefits of this approach. For example, a Parole Board study of inmates released in 2006 concluded that individuals who were returned to the community after being released from state and county correctional institutions without parole supervision were twice as likely to be re-incarcerated[i] after 18 months than those who had completed their term of parole supervision that same year.

Through the mandatory supervision of all inmates, whether inmates complete sentences or are granted discretionary parole, the Commonwealth will:

- Improve public safety by reducing the rate of new crimes committed by released offenders;
- Increase opportunities for offenders to more effectively transition to the community with strong monitoring, accountability, and support, in appropriate situations;
- Mitigate prison overcrowding and reduce the need for the Commonwealth to build new facilities, at a cost of $60-$80 million each; and,
- Reduce the threat of federal lawsuits as experienced in other states, such as California, resulting in costly settlement agreements and sanctions including federally imposed early release of inmates.

Establishing the New Department of Re-entry and Community Supervision

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 unified approach will improve public safety by reducing rates of recidivism, establishing a clear offender accountability mechanism, and save millions of dollars in incarceration costs. The consolidation of community supervision into one coherent organization, with shared services and information, will be more efficient, dependable, and less costly to administer. Furthermore, having all correctional, supervision and re-entry responsibilities fall under the Executive Office of Public Safety and Security in the executive branch (as it is in the majority of states) creates a seamless system of public safety. First-time and low-risk offenders would continue to be supervised, as they are now, in the community as an alternative to incarceration (traditional probation). Others will be sentenced to serve terms in the county or state correctional facilities and released through discretionary parole or receive mandatory supervision at the end of their sentence to serve terms of supervision in the community post-prison under the auspices of one oversight administration. This model also creates increased transparency and accountability to the public and Legislature.

The fragmented structure of the existing criminal justice system in Massachusetts has been highlighted as a central factor in the denial of several federal grants, including past applications for the Second Chance Act Prison Re-entry Initiative and the Transition from Prison to Community. This has resulted in the potential loss of millions of federal grant dollars and technical assistance.

Cost savings will be realized in several areas, including merging and consolidating the 21 community correction centers and 8 parole regional re-entry centers that duplicate services. To realize savings while improving services, the Commonwealth can:

- Cancel and merge leases, reducing infrastructure costs;
- Consolidate and reduce underutilized (Community Correction Center) services;
- Eliminate the instances of dual supervision by two different agencies;
- Streamline the multiple drug testing contracts utilized by different agencies; and,
- Better utilize the Community Service program, a program that puts indigent ex offenders to work.

The Governor's H.1 budget proposes to fund the new Department of Re-entry and Community Supervision at $114.7 million. The adult probation and parole functions and associated funding will be transferred to the new department. The probation functions and associated funding of the Juvenile Court as well as the Probate and Family Court will remain within the Judiciary. The Governor's H.1 proposal assumes savings due to recent reports of overstaffing and mismanagement of the Department of Probation.

These reforms are long overdue. As far back as 2002, MassInc noted in its report From Cell to Street that Massachusetts had a bifurcated system that was inefficient and redundant, and concluded that a single agency should have both the authority and responsibility to supervise released inmates. The report recommends that agency should be under the Executive Branch, as it is in most states. [ii]

Indigent Defense Reform

The Governor will generate $45M in savings by overhauling the Commonwealth's system for providing criminal defense for indigent persons. The Governor's recommendation discontinues the use of privately contracted attorneys in favor of salaried public employees. See Issues in Brief, titled *Indigent Defense Reform.*

Conclusion

Meaningful criminal justice reform has been slow in coming to Massachusetts. Last year, the Legislature took important first steps by enacting CORI reform, permitting the sheriffs to use electronic monitoring for pre-trial detention, and providing for parole eligibility for mandatory minimum sentences to the houses of correction for drug crimes. The current fiscal crisis makes it all the more important to continue to enact sentencing reform, both to improve public safety and to prevent unsustainable and ineffective corrections costs.

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Police Training Initiatives

The Governor's fiscal year 2012 budget includes an initiative to fund police training through an automobile insurance surcharge. This surcharge will fund two programs: the Municipal Police Training Committee (MPTC) and an annual state police class. The surcharge will provide $4 million at the MPTC for municipal police and college police training and $4 million for the training of a new class of Massachusetts State Police officers. The Department of Fire Services currently uses a similar mechanism to fund training for firefighters though an insurance assessment on homeowner policies. This mechanism has been extremely successful in providing a consistent funding stream for the training program.

The surcharge will apply to private auto insurance policies at a rate of $2.50-$2.75 per policy per year or 21-23 cents per month. Currently, Massachusetts has approximately 3.1 million private auto insurance policies. This surcharge will generate enough revenue to fund both programs.

Municipal Police Training

The MPTC is statutorily mandated to provide municipal police training to the approximately 16,000 municipal police officers in the Commonwealth. Each year, 650 new municipal officers are hired and these officers are required to complete a 21-week, 800-hour recruit academy.

MPTC provides vital support for hundreds of cities and towns across the Commonwealth, many of which are too small to operate their own police training academies. In fiscal year 2011, MPTC is funded at $2.5 million, and MPTC is unable to offer comprehensive programming at this funding level. As a result, training programs have not been updated and there are not enough training instructors. Once the surcharge is fully implemented, it is projected that MPTC will have the available funds to streamline programming and expand the curriculum to improve the ongoing training of municipal police officers.

The MPTC has 5 regional municipal police academies located in Randolph (headquarters), Boylston, Plymouth, Reading and New Bedford. With the additional funding, the MPTC will conduct evaluations of instructors and their material to ensure uniformity. Specialized police training, such as drug raid planning and investigation, arson investigations and K-9 training will have their curricula updated.

Annual State Police Class

Currently, there is no dedicated funding for annual state police classes, which are essential to maintaining a fully-staffed and diverse state police force. In the past, state police classes were typically funded through a line item in the budget or through a supplemental budget; however, both the amount and availability of funding have been inconsistent from year to year. In the past 10 years, there has only been a police class included twice in the operating budget and once in a supplemental budget. This initiative will revise the current curriculum, ensure state police officers are receiving quality in-service trainings, and annually fund training for a state police recruit class.

Historically, the State Police Department holds a training class when the number of troopers reaches a critically low level. The current staffing is at an all time low. This has an adverse impact on overtime costs and deployment flexibility. With the $4 million from the automobile insurance surcharge, the State Police will immediately conduct a class for 150 new troopers. This will bring consistency to state police levels, contain overtime costs and provide deployment efficiencies. In addition, a large number of troopers, approximately 500, are eligible for retirement. An annual state police class will help to address the backfill of troopers in a timely manner so as to not jeopardize public safety.

Conclusion

The surcharge on auto insurance for private policies will provide a needed and dedicated revenue stream to support police training. Given the nexus between the auto insurance industry and policing, the insurance surcharge is an appropriate mechanism to fund police training. The industry not only utilizes data from police citations in conducting risk assessments of current and potential policy holders, but also benefits from specialized areas of police work, including but not limited to, accident reconstruction, insurance fraud investigation, auto theft investigation, and OUI enforcement.

A comprehensive training program for municipal police officers and consistent state police classes will improve community and officer safety.

Indigent Defense Reforms

The Committee for Public Counsel Services (CPCS) is a judicial branch agency in the Commonwealth that is responsible for providing criminal defense, as well as certain civil defense matters pertaining to Children and Family Law, for indigent persons. Individuals who are charged with committing a crime and who are determined to not have resources available to obtain legal representation may be deemed indigent and appointed an attorney by a judge. These cases are assigned to CPCS and most cases are handled and represented by contracted attorneys called Private Bar Advocates (PBA). There are over 3,000 contracted private bar advocates who defend 90% of the Committee's annual case load and bill the Commonwealth at an hourly rate for this service. This heavy reliance on contracted employees to handle the majority of cases assigned to the Committee continues to place significant budgetary pressures on the Commonwealth.

The constitutional right to an attorney was codified into law in 1963 by United States Supreme Court ruling in *Gideon V. Wainwright,* requiring state courts, under the Sixth Amendment of the Constitution, to provide counsel in criminal cases for defendants who are unable to afford their own attorneys. States provide this service in a variety of ways, and while Massachusetts provides quality service to indigent persons, the system is very costly. Only 6 other states in the nation have a similar government structure, by providing this service within the judicial branch. 28 other states have executive agencies that manage the delivery of public defense services; allowing transparency and accountability to the officials who manage the indigent defense services.

Legal defense expenses for criminal and certain civil cases for indigent persons have been increasing in recent years. The fiscal year 2011 total cost is projected to be over $207 million which is a $21 million increase since fiscal year 2007 and over $100 million increase since 2003. This increase over 2007 is mainly due to the increases in the hourly billing that is done by the private bar advocates who represent 90% of the annual indigent case load. This significant increase since 2003 is also in part a result of the Lavallee ruling that determined the compensation to private advocates and public defenders was inadequate, resulting in hourly billing rate increases across the system. The cost of the current CPCS system continues to rise even while the private bar advocate's cases load declined 6.5% from fiscal year 2008 to fiscal year 2010 and the public division caseload declined slightly from fiscal year 2009-2010 by 1.7%. In addition, the disparity between the amounts of funds spent on the actual state agency versus the private bar advocates is expanding. In fiscal year 2011 the agency will spend $32 million and there is a need of over $162 million for the private bar advocates' cost. The chart below displays the total expenditures by the Committee from fiscal year 2005 to projected fiscal year 2011:

CPCS ANNUAL FISCAL YEAR FUNDING						
2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
$118,227,570	$121,271,899	$186,367,363	$204,625,023	$193,104,103	$199,590,001	$207,975,173

The Governor's H.1 budget recommendation includes a reform proposal that will change the current CPCS system. This proposal reflects the legal defense structure comparable to that of the majority of states in the nation.

Governance Structure:

CPCS is currently governed by a 15 member board, who are all appointed by the Supreme Judicial Court. All Committee board members are lawyers and are exempted from restrictions that prevent them from billing their own agency as private bar advocates; in fact four sitting board members billed nearly $250,000 in aggregate in fiscal year 2011. Also, in fiscal year 2010 more than half of the private bar advocates billed the Committee more than the average salary of a CPCS staff attorney. This current CPCS governance structure lacks incentives to reform the system, and has not moved aggressively to adopt cost-savings reforms that proposed shifting funding from private bar advocates to the public division staff attorneys.

The Governor's H.1 budget proposal includes language that would abolish this board, and create a new independent executive branch agency called the Department of Public Counsel Services. In addition, the director of this new agency will be appointed by the Governor.

Other states have more accountability for their public defender departments by either publicly electing their Chief Public Defender (similarly to District Attorneys) or having this position appointed by the Governor. This reform increases transparency and accountability within the department by having the manager of this department who, through an appointment, must respond to the Governor. It reflects a structure that is comparable to the majority of states that deliver indigent legal defense, either as an executive agency or by having executive influence in the appointment of the Chief Counsels or Executive Directors.

Government Structure	*#*	*States*
States with Judicial Branch Agencies	6	CO; CT; ID; MA; NC; OR
States with Executive Branch Agencies	17	AK; DE; HI; IW; KS; KY; MO; MT; NJ; NM; NV; NH; OK; RI; VT; WV; WI; WY
States with Executive Oversight	11	AR; CA; GA; IN; MD; ME; MN; ND; OH; SC; TX; VA; WA
States with Local/County Control	13	AL; AZ ; FL; IL; LA; MI; MS; NE; NY; PA; SD; TN; UT

Staffing Structure:

Due to the large size of the CPCS private division, oversight of billing accuracy and case management becomes increasingly challenging due to available staffing and resources. The Governor's H.1 proposal recommends that the Commonwealth move away from a system that relies on contract private advocates and the hourly billing model to a system that is served by 100% salaried public defenders. This will require the Commonwealth to hire hundreds of salaried public defenders which will create tens of millions of dollars in savings in the system, by moving away from hourly billing costs, to known and predictable costs. However, the savings are clear and this will allow for stable budgets and eliminate the need for enhanced internal controls over a billing system that currently handles over 3,000 individuals submitting bills for thousands of different legal cases.

By using national case load standards it was determined that current CPCS staff attorneys continue, on average, to have comparatively reduced caseloads. By conservatively applying the *National Legal Aid Defender Association's* maximum case load standards it was determined that by eliminating all private bar advocates approximately 1,000 additional staff attorneys would be required to handle the current case load. The savings estimate also factors in other costs including state benefits, retirement, over head, such as additional management, support staff, and other costs associated with operating the agency.

Indigency Verification:

The determination of eligibility is currently being performed by the Probation department, which the Governor is proposing to transfer to a new Executive Branch agency. This process will now be managed by the new Department of Public Counsel Services which will enhance and tighten the eligibility determination process. Only those that are eligible should be receiving services from the state, and there are significant concerns about the rigor of the current eligibility determination process. By increasing the controls of the eligibility determination and re-determination process, it is expected that the department's case load will decrease and the fee collections from people deemed "able to contribute" to the assignment of their counsel will increase.

Conclusion:

The H.1 recommendation will generate savings by moving to a CPCS structure that hires state staff public defenders to represent 100% of the indigent caseload and discontinuing, except in conflict cases, the practice of contracting with private bar advocates. In addition, this proposal will also eliminate the CPCS board and make CPCS an independent executive branch agency and will enhance the indigency eligibility determination process that is currently inadequate.

Commonwealth Energy and Investment Program

Governor's Investment Proposal

In April, 2007, Governor Patrick signed Executive Order 484 Leading by Example – Clean Energy and Efficient Buildings which set specific targets for energy consumption and costs of state facilities. This initiative was an expansion of a number of the Division of Capital Asset Management's (DCAM's) initiatives. In order to facilitate achievement of these goals, the fiscal year 2012 House 1 budget includes the creation of a permanent, low-cost funding program for financing sustainable energy efficiency projects.

Over the last 25 years, DCAM has completed or initiated 56 energy efficiency projects with a total project investment amount of $213.5 million and estimated annual savings of $26.8 million. To date, over $138 million in savings has been realized. These projects have been financed with Tax Exempt Lease Program (TELP) and through private energy performance contracts. The current economic climate has made private financing for these programs difficult and expensive. This restriction in available financing has created a 3-year pipeline of $237 million of projects at DCAM with no available funding source.

To address this issue, this Administration has created an energy efficiency bond financing program, outside of the "bond cap", for those projects that save enough to pay the debt service on the related bonds. The Executive Office for Administration and Finance (ANF) analyzes each project to ensure savings are sufficient to cover debt service from reduced energy costs and have them applied to pay debt service. This mechanism will ensure that the bonds will be self-supporting and therefore eligible to be outside bond cap (and ANF's Debt Affordability Policy).

The resulting financing package will have the characteristics of a lease between the host agency and DCAM, requiring savings to repay capital costs and an independent verification of savings at the agency level. At the same time, to bond investors, it will be a Commonwealth general obligation credit. This feature should generally result in low cost of financing. There will be a new budgetary appropriation, totaling $6.2 M in fiscal year 2012, within the office of the Treasurer and Receiver-General to collect a portion of the funds that are saved by agencies as a result of the projects, and the bonds will be paid from this source of funds.

Financing DCAM's pipeline of projects through the clean energy investment program will provide from 2,000 to 2,500 jobs, including both on-site construction jobs and support positions such as project administrators, analysts and engineers. In addition, as a result of the execution of DCAM's pipeline of year 1 and year 2 energy efficiency and renewable energy projects, an estimated 75% of the energy use reduction and greenhouse gas reduction projected for state facilities for 2012 will be met.

The following describes the program in general terms:

Eligible Participants	Any state agency that incurs energy costs in its normal operation.
Eligible Projects	Wide variety of state-owned projects, including light, heat, ventilation, air conditioning, equipment controls, cogeneration and power generation. Projects must be contribute to achieving goals of Executive Order 484 and must generate verifiable energy savings sufficient to pay for themselves.
Term	As determined by ANF, the financing term for each project will be less than or equal to useful life of equipment or installations, but in no event greater than 30 years.
Savings	Projected annual savings must be equal to or greater than 1.1 times annual debt service as determined by ANF. Actual savings will be independently verified annually; to the extent actual savings are insufficient, the bonds that financed the project and associated debt service, will be added to bond cap for debt affordability purposes.

The following is a description of the groups that will interact in order to achieve the goal of this program:

DCAM Department of Energy Resources	(i) Identify, qualify and provide oversight on projects; (ii) provide or secure Measuring and Verification services to independently verify annual savings
Host Agency	Commit to annually appropriate funds sufficient to cover debt service by 1.1 times (such obligations to be on parity with other debt-like obligations, such as TELP or CREBS) plus predetermined maintenance and cost to M&V savings
A&F	(i) Determine annual debt service obligations of host agency – level annual payable semiannually in arrears based on the Commonwealth's cost of funds at the time of ESA; (ii) Reserve right to find alternate budgetary mechanism to ensure host agency compliance and credit-worthiness of bonds; (iii) In event of insufficiency of host agency payments, adjust bond cap accordingly to be consistent with debt affordability objectives

Enhanced Recycling

The Massachusetts Bottle Bill, enacted in 1982, is designed to encourage consumers to return their empty soda and beer 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. In the fiscal year 2012 budget, Governor Patrick proposes to expand the types of containers subject to the $0.05 deposit to include those containing water, flavored waters, coffee based drinks, juices and sports drinks of less than one gallon in size. This initiative will expand the market for recyclables, keep our cities and towns clean and provide additional revenues for recycling programs.

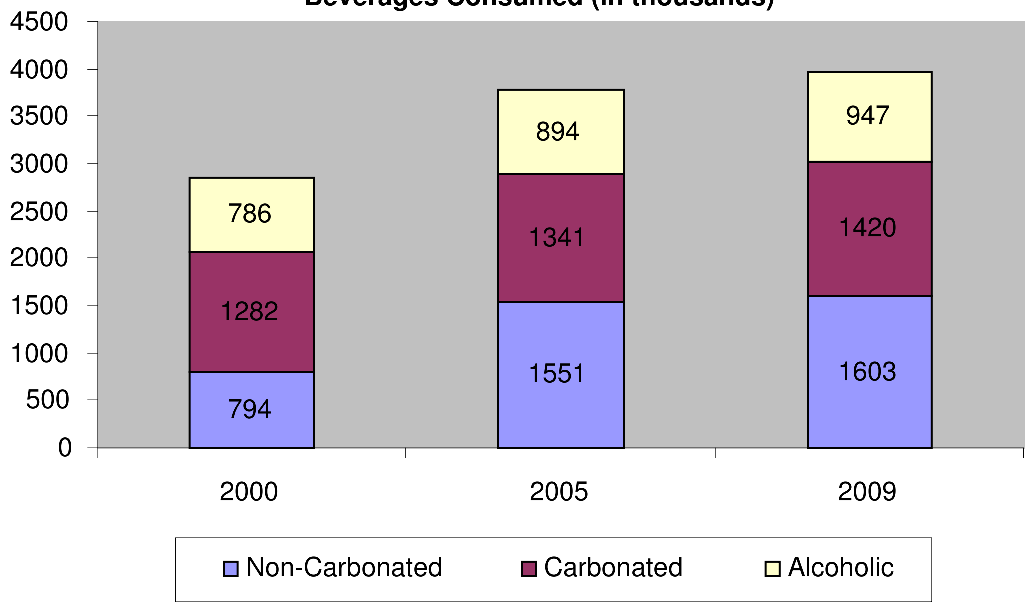
What is the Bottle Bill?

The Massachusetts bottle bill places a $0.05 refundable deposit on all carbonated sodas, beer and malt beverages. Under 1989 reforms, bottlers/distributors must maintain a Deposit Transaction Fund for unclaimed deposits. These funds are transferred to the Department of Revenue each month and support government programs.

Why Expand the Bottle Bill?

Discarded cans and bottles are a major source of trash in our communities and waste precious natural resources and energy. When the Bottle Bill was enacted in 1982, the beverages covered by the law were limited to carbonated soft drinks, mineral water, beer and other malt beverages. Since that time, the beverage market has changed dramatically with bottled water, fruit drinks, iced tea and sports drinks now being some of the most popular choices available. Since 2000, non-carbonated beverages have experienced near double-digit growth 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.

Massachusetts Beverage Consumption Estimates, By Type of Beverage
Beverages Consumed (in thousands)



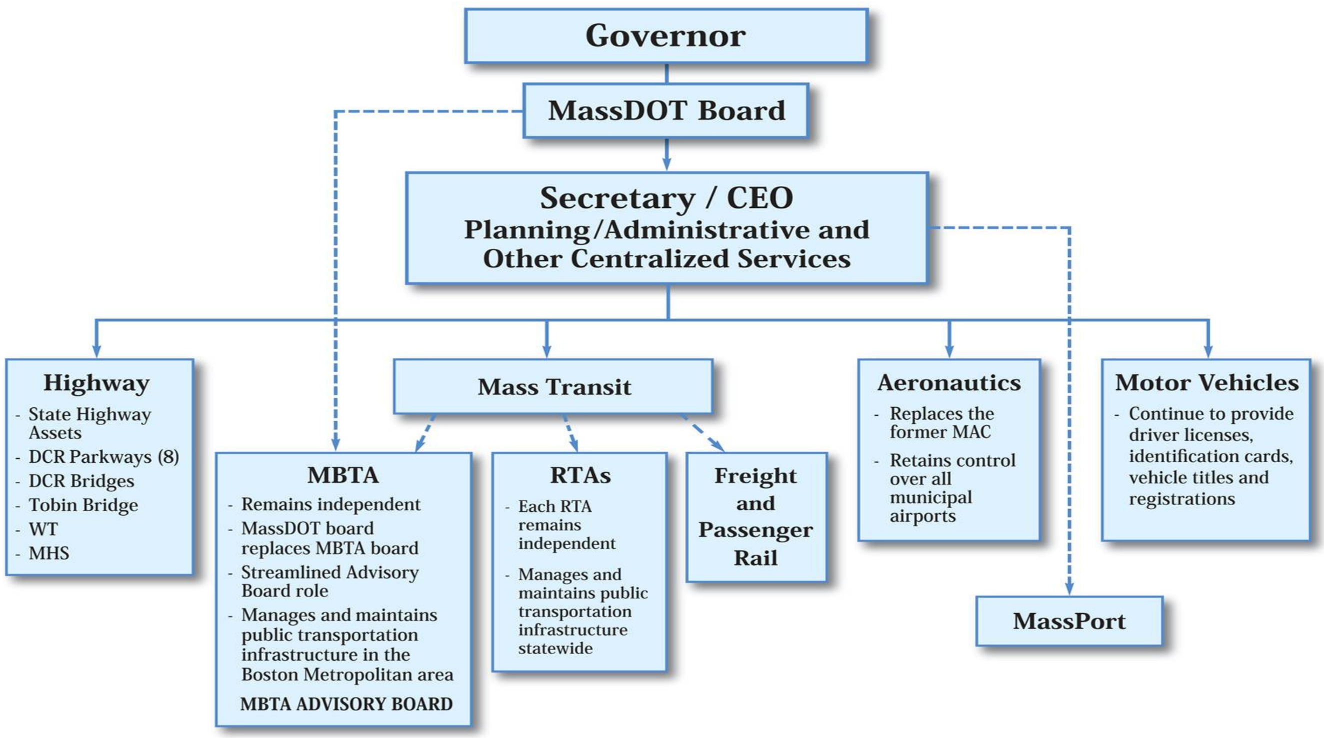
By revising the definition of "beverages" in Outside Section 25 of the Governor's budget, the Bottle Bill can be brought up to date. This will reduce confusion among consumers about which beverages are eligible for redemption. Consumers will be required to pay an additional $0.05 on water, flavored waters, iced teas, coffee based drinks and sports drinks.

The expansion of the Bottle Bill will generate an estimated $20 million in new revenue, $6.5 million of which will be dedicated to the Department of Environmental Protection (DEP) recycling and solid waste management programs. EEA will utilize this funding for the following efforts:

- Recycling and related purposes consistent with the recycling plan of the solid waste master plan which includes municipal equipment
- A municipal recycling incentive program
- Recycled product procurement
- Guaranteed annual tonnage assistance
- Recycling transfer stations
- Source reduction
- Technical assistance
- Consumer education and participation campaign
- Municipal household hazardous waste program
- A recycling loan program
- Research and development
- Recycling market and business development

Transportation Reform

Since the enactment of transportation reform legislation one year ago that creates a single, unified Transportation Department (MassDOT), MassDOT established the following four new divisions: Highway, Rail and Transit, Aeronautics and the Registry of Motor Vehicles (RMV). In addition an Office of Planning and Programming provides shared services in the areas of finance, human resources, finance, legal, procurement, real estate management, information technology and planning. Under the reform act, the MBTA remains a separate legal entity, but is subject to greater levels of oversight by and coordination with MassDOT.



Transportation Reform Year One Successes

Over the past year employees from former state transportation agencies, quasi-independent authorities and other state agencies continue to implement the activities necessary to effect this historic reform act. The Commonwealth has already realized the following savings, efficiencies and established programs dedicated to improving the system:

- The creation of the first-ever strategic plan for the entire Massachusetts transportation system. Each division and department of MassDOT has developed an operating plan that aligns to the strategic plan with specific objectives and measures that will achieve the goals of the plan.
- The transfer of employees to the Group Insurance Commission, the health insurance purchasing group utilized by all other state employees. This shift will save MassDOT and the MBTA an estimated $30 - $40 million annually. The first transfer of employees occurred on February 1, 2010 and will continue over the course of the next year as collective bargaining agreements expire and pending litigation is resolved.
- The savings of $261 million in cost avoidance associated with termination payments of interest rate swap agreements for the former Massachusetts Turnpike Association (MTA) because transportation reform allowed for an upgrade of the former MTA's bond rating. $38 million in further savings were generated with MassDOT's refinancing of existing debt at lower rates. These additional savings will be reinvested in capital projects on the Western Turnpike and Metropolitan Highway System.
- The commencement of the Transportation Round Table, a monthly open forum dedicated to addressing issues in the work environment and to changing the culture of transportation in all MassDOT divisions. The Round Table includes

employees from the Highway, Rail and Transit (MBTA), RMV and Aeronautics divisions to promote a diverse, engaged and inclusive workforce.

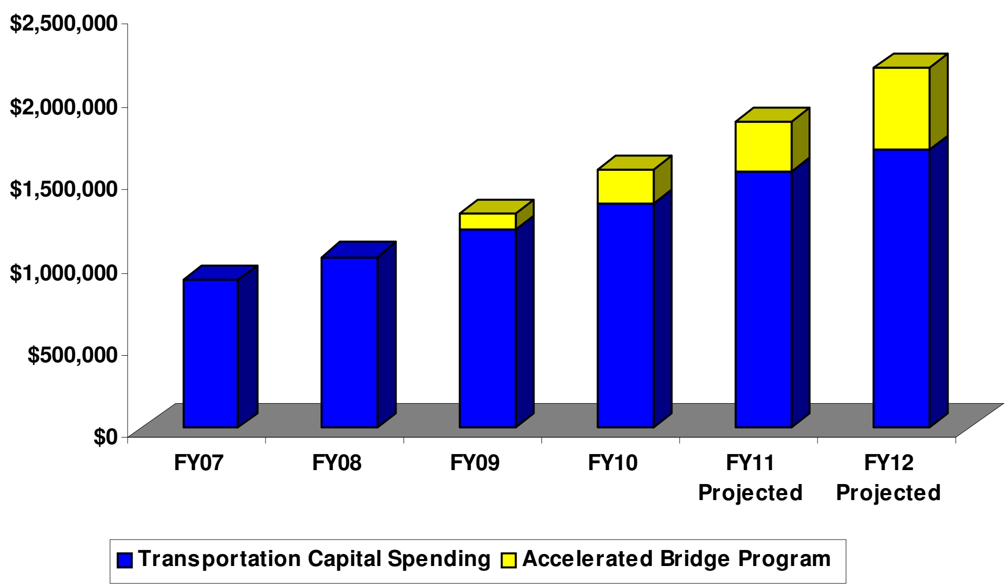
- The completion or in process of completion of twenty of the twenty-two recommendations (90%) of the 2007 Transportation Finance Commission (TFC).
- The launch of GreenDOT Policy, a mandate for embedding environmental sustainability into all departmental initiatives and projects.
- The launch of the MBTA “T Parking Made Simple” program. This user-friendly, new customer service program for payments at parking lot allows commuters to easily utilize their mobile phones and an online account to pay for parking at MBTA lots.
- The realization of $49 million dollars in operating efficiencies. Reports and details on these savings can be found at http://www.massdot.state.ma.us/main.

Capital Investments in our Transportation Infrastructure

The Patrick-Murray Administration significantly increased investments to improve our roads, bridges, transit and other transportation system assets by allocating a larger portion of the capital budget to transportation investments, initiating the Accelerated Bridge Program, and securing additional revenue dedicated to transportation. Capital Infrastructure spending on transportation projects, including federal reimbursements for the statewide road and bridge program, and the “Chapter 90” aid for municipally owned roads and bridges will show an 89% increase in fiscal year 2012 when compared to fiscal year 2007.

The following chart shows capital infrastructure spending through the Massachusetts Department of Transportation between fiscal year 2007 and projected levels for fiscal year 2012

Projected Capital Infrastructure Spending for Transporation
(Fiscal Years 2007-2012)
($ in thousands)



Transportation Reform – Year 2

In fiscal year 2012, MassDOT will continue to focus on delivering excellent customer service and becoming the nation’s safest and most reliable transportation system.

- MassDOT will continue to show statewide leadership in developing “Shared Services”. Shared Services allows divisions to make policy and funding decisions while implementation of those decisions is managed by secretariat

staff. This creates additional freedom and resources for line level and division managers to focus on core mission activities.
- At the direction of Governor Patrick, MassDOT, MBTA and the Executive Office of Health and Human Services will establish a special commission on paratransit services to explore options to control costs and maximize efficiencies while still providing consistent, exceptional service to all residents of the Commonwealth.
- Finally, MassDOT will focus on engaging with our employees and stakeholders to solicit ideas and further the conversation on how it can work with other agencies to meet the goal of becoming the nationally recognized as the best department of transportation.

The MassDOT website, www.mass.gov/massdot, is routinely updated with progress reports demonstrating the department's commitment to safety, becoming the national leader in transportation and regaining the public's trust.

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Fiscal Year 2012 Issues in Brief

Financial Stability Initiatives

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Pension and Other Post-Employment Benefits

Creating a Sustainable Retirement Benefit System

The Patrick-Murray administration is continuing to take a comprehensive approach to addressing the fiscal challenges associated with the Commonwealth's pension and Other Post-Employment Benefits (or "OPEB") liabilities. The state currently has an unfunded pension liability of $20 billion and an unfunded OPEB liability of $15 billion. Municipal governments are also faced with significant unfunded pension and OPEB liabilities. The Governor's recent proposal to modernize and further reform the state's pension systems would result in significant pension cost savings to state and local pension systems and help to ensure the long-term sustainability of these pension systems. This proposal would also reduce future costs associated with OPEB - as a result of an expected increase in retirement ages – and build on the administration's ongoing efforts to address unfunded OPEB liabilities. The Governor is also proposing additional measures to increase retirement liability funding and oversight of OPEB.

Pension Reform to Ensure a Sustainable System

The Governor filed legislation on January 18, 2010 for additional pension reform and benefits modernization that builds on previous pension reform legislation enacted by the Governor and the Legislature. The benefits modernization proposals that would impact prospective employees include: raising retirement ages, eliminating early retirement subsidies and increasing the period for average earnings used to calculate the pension benefit from three years to five years. The legislation also includes reforms to prevent abusive practices that enhance benefits at the end of an employee's career - including excessive salary increases or changing jobs to a group with higher benefits – and a proposal to prevent "double dipping" for certain elected officials, who could otherwise receive both a salary and a government pension.

The benefits modernization proposals described above would generate pension cost saving for the Commonwealth in excess of $5 billion over 30 years, including an estimated $2 billion for cities and towns. These savings would allow the Commonwealth to reduce its pension funding schedule by an estimated three to five years and provide similar relief to cities and towns. The expected increase in retirement ages would also result in additional savings for future retiree OPEB costs of approximately $1 billion for the state and $1 billion for cities and towns over 30 years. This impact would build on previous measures to address OPEB liabilities, including the increase to the share of health care costs for new retirees from 15% to 20%, and the commitment to deposit 5% of excess capital gains revenue into the State Retiree Benefits Trust Fund.

Long-Term Liability Task Force Recommendations

The Governor appointed a task force on long-term liabilities in connection with the budget process last year. The task force was lead by A&F and solicited input from other government stakeholders, including the Public Employee Retiree Administration Commission (PERAC) and the State Comptroller, as well as outside experts. This effort informed the Governor's recommendations for pension reform as well as the additional proposals and recommendations listed below.

- **Pension Funding**: – The state's updated pension funding schedule includes a necessary extension to the full funding date, an increase in funding for fiscal year 2012, and measures to ensure that appropriations continue to increase in the future. The Commonwealth recently extended its pension funding schedule from 2025 to 2040 to mitigate an $800-$900 million increase in the appropriation that would have been required under the previous schedule. The extension is the result of fully recognizing investment losses that occurred during the recession, and the 30-year time horizon for full funding is similar to the length now used by most states. The new schedule does, however, demonstrate the Administration's commitment to fully funding pension obligations by committing $1.478 billion to the pension fund for fiscal year 2012, an increase of $36 million over fiscal year 2011.

  The new schedule also includes 5-6% increases in pension funding during fiscal years 2013 to fiscal year 2017 and would prohibit any reduction in appropriations during this time frame that would otherwise be allowed as a result of actuarial gains. Instead, any gains could only be used to shorten the schedule and as a further measure of discipline, increased appropriations would still be required to meet the 2040 fully funding date if necessitated by actuarial losses. This format will ensure ongoing increases in pension appropriations and mitigate the cyclical problem inherent in funding schedules where appropriations are often lowered when available resources are at their greatest.

- **Dedicated OPEB Funding** – The Administration recommends that the Commonwealth dedicate funds received from the Tobacco Master Settlement Agreement (MSA) to the State Retiree Benefit Trust Fund (SRBTF), to be phased in over a ten year period. The state receives nearly $300 million annually from the agreement. This proposal would require that 10% of this amount be allocated to the SRBTF in fiscal year 2013 and that the amount be increased by 10% of the total funds received annually, such that 100% of the MSA funds would be dedicated to OPEB by 2022. This proposal is based on a recommendation of the 2008 Special Commission that studied OPEB but employs a longer phase-in period in recognition that the state economy is expected to be several years from full recovery. This proposal to dedicate MSA funds to the SRBTF has the added benefit of reducing the state's dependency on a less predictable revenue stream, and allows these funds to accumulate investment earnings that will further mitigate the state's OPEB liability over time.

- **Increased Oversight of OPEB** – The Administration recommends that the role of PERAC be expanded, subject to necessary funding, to include approval and review of the OPEB valuations that are required for cities and towns. This process will ensure that these valuations are being performed in a reasonably consistent manner and that policymakers have comparable date to make informed recommendations to address the OPEB challenge. The Administration is also recommending additional measures to ensure that municipalities have access to the state's investment vehicle for retiree health care that is overseen by the Health Care Security Trust.

Responsible Budgeting

Governor's Investment Proposal

The fiscal year 2012 budget must reflect the loss of nearly $1.9 billion in one-time resources, primarily from federal stimulus aid, which will only be partially offset by growth in the state's tax collections from fiscal year 2011 levels. The federal stimulus aid has allowed Massachusetts and most other states to better manage a dramatic decline in state tax revenues. The dependency on this aid, however, highlights the need for the state to limit its reliance on non-recurring resources to support ongoing expenses. The Governor's House 1 proposal dramatically reduces the amount of one-time resources relied upon in fiscal year 2012 and includes further measures to replenish its reserves and limit its reliance on volatile tax revenues.

Long-Term Financial Planning

The Patrick administration has been working to enhance its long-term financial planning based on best practices prescribed by the Government Finance Officers Association (GFOA). Best practices include the use of a sound conceptual approach, ensuring that near-term decisions measure long-term impacts, and developing a solution framework that is aligned with policy goals. The Executive Office for Administration and Finance (ANF) implemented a conceptual approach of "structural balance" that is designed to delineate among different causes of fiscal imbalance. The application of this approach identified three critical challenges facing the Commonwealth: a remaining structural deficit due to the significant reduction in tax revenue since the recession, cost inflation on safety net and health care programs, and the need to improve policy measures to address economic volatility.

The goal of structural balance is to base spending on policy priorities and a predictable level of sustainable revenue. Our supporting analysis includes a five-year forecast for revenue and spending based on historical trends as well as the outlook for the state economy. The forecast includes a projection of tax revenue, based on input from local economists, which also provides the basis to develop an estimated long-term trend-line for tax revenue. The forecast indicates that the state economy will be below trend during a four year recovery period beginning in fiscal year 2012 before reaching a "steady-state" level of long-term tax revenue growth of approximately 5% in 2016. The analysis also indicates that the forecast for tax revenue in FY12 is approximately $500 million below the estimated long-term trend-line for tax revenue.

Application of Long-Term Planning to Inform Near-Term Decisions

The revenue forecast and trend-line allows us to employ the $500 million "cyclical shortfall" as a guideline for the maximum use of one time resources that are sustainable over time. Any spending in excess of this amount would continue to sustain a structural deficit or require budgetary spending that is not sustainable. This is based in part on the assumption that the state would also restrain spending during a strong economy when tax revenue is above the then current trend-line. The fiscal year 2012 budget incorporates this guideline by limiting the use of one time resources to an amount below the $500 million threshold.

Use of One-Time Resources, FY2009 - FY2012 ($s in millions)			
FY 2009	**FY 2010**	**FY 2011**	**FY 2012**
3112	2,479	1,857	385

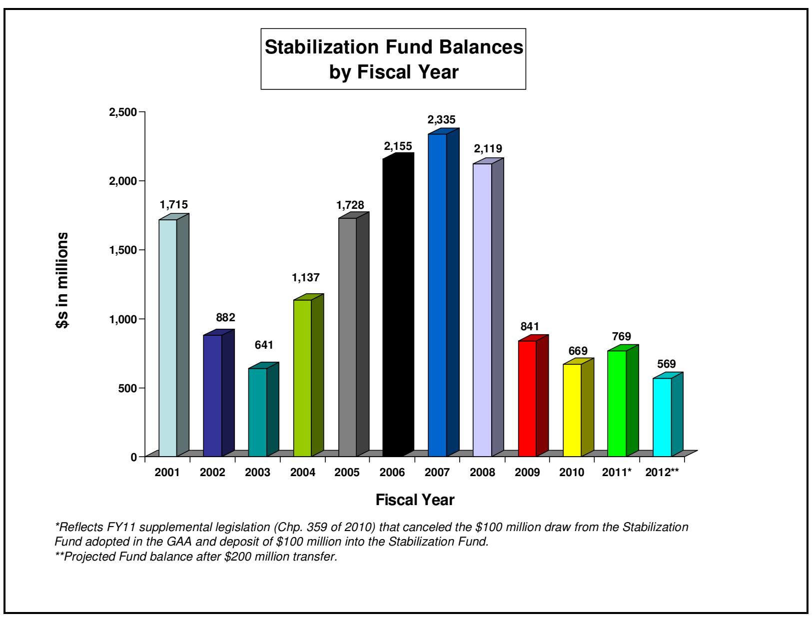
Relying on Less One Timers

In fiscal year 2012 the state budget will rely on $385 million in one-time resources outlined in the table below. This corresponds to a roughly 80 percent reduction in the state's annual reliance on one-time or short-term measures in order to balance its budget. This limited use of one-time resources in fiscal year 2012 positions the state to eliminate the long-standing structural imbalance between sustainable revenue and recurring spending. Further efforts will be required to control costs and limit spending growth, but the fiscal year 2012 budget responsibly puts the state on a path to meet this challenge.

Fiscal Year 2012 One-Time Resources ($s in millions)	
OneTime Sources:	**385**
Stabilization Fund Reserves	*200*
Delay FAS 109 Reporting	*46*
Quasi-Public Contributions	*25*
Abandoned Property Proceeds	*99*
Sale of Assets	*15*

Replenishing State Reserves

The House 1 budget proposes to use $200 million in reserves from the Stabilization Fund to support fiscal year 2012 spending. After accounting for a projected $100 million deposit at the close of fiscal year 2011, the end of year balance at the close of fiscal year 2012 will be $569 million (see chart below). The use of Stabilization Fund reserves was a vital tool used to mitigate the need for further cuts to core programs and services and additional layoffs during the recession. In recognizing the need to rebuild the state reserves, the House 1 proposal calls for a new statutory requirement that any tax collections generated from a tax settlement that exceeds an amount of $10 million will be segregated and deposited directly into the Stabilization Fund. This reform builds on another effort, adopted in fiscal year 2011, to responsibly manage the state's most volatile source of revenue, taxes on capital gains, by setting aside depositing any collections from this source above $1 billion into the Stabilization Fund. In combination, these changes will reduce the state's reliance on the tax sources that fluctuate the most from year-to-year, while building back essential reserves for future years.



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[i] Massachusetts Parole Board (2009*). Research Brief- A Comparison of Recidivism Rates For Offenders Discharging from an Institution versus Parole Supervision in 2006.*

[ii] Piehl, Anne (2002). From Cell to Street: A Plan to Supervise Inmates After Release. Boston: MassInc. (The Massachusetts Institute for a New Commonwealth).