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FY 2013 Budget Recommendation

Budget Message

Deval L. Patrick, Governor

Timothy P. Murray, Lt. Governor

A Message from the Governor

To the People of Massachusetts:

Lieutenant Governor Murray and I are pleased to file our budget recommendations for fiscal year 2013. We have proposed a balanced, responsible budget that makes investments in critical areas that will help us grow jobs and opportunity in the near-term, and strengthen our Commonwealth in the long-term. Massachusetts is recovering faster and stronger than most other states. We believe this budget will sustain and even accelerate our recovery.

While our fiscal position is strong when compared to other states and continues to improve, we again face serious challenges in the coming fiscal year. Because of the economic downturn, the demand for health care and safety net services continues to grow. Our tax revenues are improving but not enough to meet the increased demand. This means that across state government, we will again need to reduce spending. Once again, we must do more with less.

We will continue to invest in the strategies that create jobs, lower the cost of health care, bring us closer to eliminating the achievement gap and build safe and successful communities. We have worked together to support these strategies because we know they will build a stronger Commonwealth.

In fiscal year 2013, we will continue to use the budget as a vehicle to reform state government. Through the newly created Office of Commonwealth Performance, Accountability and Transparency (CPAT), we will launch an initiative on performance management to use objective metrics to help evaluate and manage programs and achieve better outcomes.

We will continue to execute an aggressive health care cost containment strategy to help manage costs throughout all state health care programs. We will leverage the Commonwealth's purchasing power to reward provider models that are the most cost-effective means of delivering high-quality coverage and care and better coordinate health care purchasing decisions.

We have taken bold steps to reform state government through better use of technology. To that end, we have consolidated IT functions, improved service delivery and improved data security, making our IT system more efficient, transparent and responsive to the public. This year will bring even more innovative solutions and efficiencies with the appointment of a new Chief Innovation Officer and the formation of a new Commission on Innovation.

While this budget will make use of a responsible and appropriate amount of one-time resources, we have also proposed limited and targeted revenue proposals consistent with a responsible, balanced solution to our budget challenges.

We made difficult choices to balance this budget. Some worthwhile programs will not be funded. Some have seen major reductions. But in the long run, these choices allow us to be responsible to the next generation.

We look forward to working with you.

Sincerely,

Deval L. Patrick
Governor





**FY 2013 Budget Recommendation
Budget Message**
Deval L. Patrick, Governor
Timothy P. Murray, Lt. Governor

A Message from the Secretary of Administration and Finance

One of my primary responsibilities as the Secretary of Administration and Finance is to assist Governor Patrick in developing his annual budget recommendation for the Legislature. It is a significant undertaking that involves months of hard work by hundreds of people across state government.

Although the unprecedented fiscal challenges facing the Commonwealth since the recession have made the budget development process particularly challenging over the last few years, I have always enjoyed the process. Each year presents an opportunity to develop new and creative ways to responsibly maintain critical investments and to change the way government does business.

The most gratifying part of the budget development process for me is the opportunity it provides to meet with a broad range of people about every aspect of state government that is funded by the budget. I meet with many state officials responsible for managing state programs and services, and I meet with many stakeholders who depend on the state budget or who are impacted by it. I learn about the successes of the programs in which they have an interest, and I learn about the challenges they face. I learn about how government is helping people, and I learn about how government could be doing better.

Through this process, I am always struck by the important role government plays in people's lives. I am struck by what government means to people – whether it's helping their kids get a good education, helping their family get affordable health insurance, helping someone out of work get trained for a new job, helping a child who has been abused find a safe home, helping a homeless family find a place to live, helping make our neighborhoods safer, helping to support our businesses to invest, grow and create jobs or helping in the many, many other ways government helps people.

This year, I heard a consistent theme from the many state officials and stakeholders with whom I met. The last few years of austere budgets have taken their toll. State managers have been pressed to do more with less, and the people who benefit from state programs and services have seen the levels of state service consistently reduced. Not only were people pleading for budget funding in FY 2013 sufficient to avoid putting any additional strain on their programs, in most cases they were asking for increased funding levels to be restored. They know that the economy is growing again and that tax revenues are expected to increase next year, and they want the funding for their programs and services to grow too.

Unfortunately, the commonly-held expectation that the FY 2013 budget will provide sufficient funding to reverse the cuts to programs and services over the last few years is inconsistent with our fiscal reality. While tax revenues are expected to grow next year, they are only growing modestly. At the same time, we project continued growth in demand in our health care and other safety net programs. While we are taking a number of steps to contain growth in costs in these programs, the additional amounts needed to fund growth in costs in these programs and in certain legally-obligated fixed costs will exceed the growth in budgetary resources available to support the FY 2013 budget. As a result, total spending across the rest of state government will actually decrease in FY 2013.

So, the FY 2013 budget recommendation we file today reflects the fact that we have yet another very challenging year ahead of us. The many people with whom I've met throughout the budget development process will likely see that their expectations were not met. They will, however, hopefully recognize the following about the Governor's budget recommendation.

First, they will see that the Governor has once again filed a fiscally responsible budget. The fiscal policies and practices we have put in place to manage through the state's unprecedented fiscal challenges have set us apart from many other states. We have been recognized by all three rating agencies for our fiscal management through this fiscal crisis. In September, Standard and Poor's upgraded the Commonwealth's credit rating to AA+, resulting in all three of the state's credit ratings being just one notch below the highest possible rating and giving the Commonwealth the highest credit ratings it has ever had. We have the third highest rainy day fund balance in the country, and we propose using only a modest and responsible level of rainy day fund resources in FY 2013. Once again, the Governor's FY 2013 budget proposal is structurally balanced and sustainable.

Second, the people across the Commonwealth who depend on state government will see that Governor Patrick has once again done everything possible to preserve funding for critical investments. Chapter 70 funding for K-12 education is once again at the highest level in state history, and the budget continues to provide funding for targeted programs to address the achievement gap. Funding for programs to prevent youth violence and to support youth-at-risk is preserved and in some cases increased. Historic levels of investment in infrastructure will support job creation today and lay the foundation for economic growth in the future, and the budget makes critical investments in workforce development to help those in need of jobs develop the skills that our businesses need. The Governor's FY 2013 budget proposal preserves affordable health care for all of those who need it by once again taking steps to contain growth in our health care costs.

People will also see that Governor Patrick's FY 2013 budget proposal continues to drive changes in the way government does business. Building on his record of reforms, this budget proposal includes reforms to our community college system to better focus and coordinate the system to give students the skills our businesses need; reforms to the governance and management of our public housing authorities to ensure scarce resources are invested efficiently and effectively; reforms to our corrections system to reduce recidivism and reduce costs; further reforms to our public defender system to reduce costs while continuing to provide effective counsel to indigent criminal defendants; and many other reforms to make government more efficient, such as the way in which we manage and maintain state facilities.

The Governor is also changing the way in which we manage and allocate resources in state government by focusing on measuring performance and outcomes to inform decision-making. He is also driving innovation in government through the FY 2013 budget with initiatives like social innovation financing, the appointment of a Government Innovation Officer and Innovation Advisory Council, and the many ways in which we are relying on technology investments to improve government services while saving taxpayers money. This relentless drive to change the way government does business and to stretch every taxpayer dollar as far as possible is helping to preserve many critical programs and services.

Governor Patrick approaches the budget process with a keen understanding of not only his fiscal responsibility, but also with an understanding that the budget is a statement of our values. The Governor understands that the budget is not a compilation of numbers on a page – he knows that there are people behind those numbers, people who depend on the budget for their health and well-being and for a brighter future. Although the Governor's FY 2013 budget proposal cannot meet everyone's hopes and expectations, it reflects the thoughtfulness, effort and values that he has brought to each of the budgets he has proposed during his tenure. I thank the Governor for his leadership and engagement in developing this budget proposal.

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

The Patrick-Murray Administration is fortunate to have strong fiscal partners in the Legislature. Unlike many other states, the Administration and the Legislature have worked collaboratively and responsibly to pass budgets that are balanced, on-time and fiscally responsible in the face of extraordinary fiscal challenges. I thank my colleagues, Chairman Stephen Brewer and Chairman Brian Dempsey, as well as their staffs, for their partnership in managing the Commonwealth's budget through these difficult times.

Lastly, I want to express deep appreciation, thanks and gratitude to my incredible team in the Executive Office for Administration and Finance for their work on this budget recommendation. They are the hardest working and the most diligent, dedicated, energetic, thoughtful and creative group of people I know. It is an absolute privilege and pleasure to work with them and to be associated with them.
Sincerely,

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

Jay Gonzalez
Secretary of Administration and Finance





Summary of Fiscal Year 2013 Budget

Changing the Way Government Does Business

Governor Patrick's FY 2013 budget proposes measured, strategic investments to keep Massachusetts moving toward a strong economic recovery and a better tomorrow, while making changes to the way state government does business in the face of unprecedented fiscal challenges. The Patrick-Murray Administration will use this budget to advance its top four priorities: closing the achievement gap in our schools, addressing health care costs, creating jobs and improving positive youth development and youth violence prevention.

Governor Patrick continues to take a balanced, fiscally responsible approach to meeting the demands of state government in an economically challenging time. The FY 2013 budget solutions include spending discipline, bold reforms and a modest use of one-time resources and new revenue. Like all other forty-nine states in the nation, Massachusetts continues to feel the impact of the deepest economic downturn since the Great Depression. The Governor's approach to filing a responsible, balanced budget for next year ensures that the state can continue to make critical investments in education, health care and economic growth, while preserving our safety net for the most vulnerable among us.

Supporting Shared Values

Closing the Achievement Gap – The FY 2013 budget supports many initiatives aimed at improving our schools, closing the achievement gap and preparing every student for success in a global 21st century economy. These investments include record-high state aid for K-12 education (Chapter 70) of \$4.136 B, \$10 M to promote efforts to reduce educational achievement gaps in the Commonwealth's Gateway Cities, and \$219 M to community colleges (an increase of \$10 M from last year) to support the Governor's vision for a unified system. This budget supports ongoing efforts by the Department of Higher Education to promote reforms and improved outcomes at state campuses through performance incentive funding, and maintains funding for our public campuses. Virtually all programs at the Department of Elementary and Secondary Education (DESE) and the Department of Early Education and Care (EEC) have been maintained at last year's spending levels or better.

Controlling Health Care Costs – Similar to last year, this budget maintains the Commonwealth's nation-leading universal health care coverage, while preserving benefits and eligibility. The Administration was extremely successful in containing growth in health care costs in FY 2012 achieving hundreds of millions in savings through MassHealth, Commonwealth Care, the Group Insurance Commission (GIC), the Department of Corrections (DOC) and municipal health care reform. Similar to FY 2012, proposals this year will harness savings through re-procurement or re-contracting and other program efficiency measures. The FY 2013 budget supports efforts in innovative procurement strategies, interagency alignment, achievements in healthcare reform and the implementation of payment and delivery system reform policies that will enable us to achieve state budgetary savings of roughly \$730 M.

Job Creation – This budget invests in the Commonwealth's economy by funding programs that help put people back to work through infrastructure building projects or assisting unemployed people with training to attain high-skilled jobs, supporting industries that help create jobs (such as life sciences and tourism) and improving the business climate in Massachusetts by easing burdensome regulations. Under the leadership of Governor Patrick, Massachusetts gained 51,600 jobs in 2011, which is by far the strongest job growth performance for the state since 2000.

Positive Youth Development and Youth Violence Prevention – The FY 2013 budget supports many initiatives to provide opportunities for positive youth development and youth violence prevention through summer job programs, youth violence prevention funding and targeted services in communities with the greatest demand for intervention. This budget invests \$35.5 M in programs related to these efforts, including an investment of at least \$8.6 M in summer jobs, \$8 M in Senator Charles E. Shannon, Jr. Community Safety Initiative grants and \$10 M for Safe and Successful Youth Initiative grants.

Spending Discipline

FY 2013 marks the fifth straight fiscal year (since FY 2009) state agencies must control costs and reduce expenses below levels projected to be necessary to maintain the levels of service provided in the current year. The Commonwealth's tax revenues are growing, but only modestly, after having experienced an historic drop in tax revenues during the recession. With many of our safety net and health care programs facing all-time highs in demand, the cost to continue our current level of services outpaces our budgetary resources. In addition, the state is legally required to increase funding annually in a limited number of places, such as pensions, collective bargaining, debt service and K-12 school aid to cities and towns. Consequently, we are unable to support all but a few modest investments and service restorations, and further cuts to many programs and services will be necessary in FY 2013.

FY 2012 vs FY 2013 Spending*			
(\$s in millions)			
FY 2012 Estimated Spending	FY 2013 Recommended Spending	Annual Change	% Change
31,374.5	32,310.5	935.9	2.98%
<i>*Exclusive of state pension transfer.</i>			

The Governor's FY 2013 budget recommendation proposes state spending of \$32.3 B, or a 2.98 percent increase from the current year estimated spending levels. This year-on-year spending growth of \$935.9 M is significantly less than it would have otherwise been without significant program reductions, position eliminations and reforms. A number of efforts are being made to control the largest cost drivers in the state budget, particularly health care costs. Even with these cost-saving measures, many areas of state government will see flat or reduced funding levels and, in the aggregate, total funding for state government outside of health care, safety net and certain legally-obligated fixed costs will be reduced from FY 2012 levels.

Projected Cost Growth in Selected Areas, FY's 2012 and 2013			
\$s in millions			
	FY 2012 Estimated Spending	FY2013 Recommended Budget	FY 2013 vs. FY 2012
Health Care:			
MassHealth (Medicaid)*	10,619.5	11,137.8	518.3
Commonwealth Care**	687.4	737.1	49.7
Employee / Retiree Health Care**	1,577.6	1,582.0	4.4
Safety Net (non Health Care)	3,895.6	3,984.3	88.7
Legal Obligations:			
Debt Service	2,257.0	2,435.5	178.5
Pensions	1,478.0	1,552.0	74.0
Collective Bargaining	-	174.6	174.6
Chapter 70	3,990.8	4,136.4	145.6
All Other State Spending	8,346.6	8,122.7	(223.8)
Total	32,852.5	33,862.5	1,009.9
Total Budgetary Changes (Exclusive of Off-Budget Pension Transfer):	31,374.5	32,310.5	935.9
<i>*Includes new investments for delivery systems reforms.</i>			
<i>**Solely reflects budgetary contribution.</i>			

State Workforce

Since October 2008, the state has eliminated close to 6,000 budgetary positions across all branches of state government. The Governor's budget recommendation assumes the elimination of an additional 297 positions from current-year budget levels. With these reductions, the total state budgetary workforce will have declined by over 9 percent over a four-year period, despite increased demand for state services across a number of state programs. State agencies will need to find more innovative and creative ways, including technology-driven solutions, to provide services to Massachusetts residents at permanently reduced staffing levels.

Government Reforms

In order to address a reduced workforce and the need to control costs, the Administration has explored options to help limit cuts to critical state services through reforms and other efficiencies. The Administration continues to demonstrate that the state is stretching each tax payer dollar further and is relentlessly pursuing all avenues for changes that efficiently improve performance. Governor Patrick has signed into law several bold reforms that change the way government does business, including pension reform, municipal health reform and changes to control health care costs resulting in over \$900 M in annual savings. The FY 2013 budget builds on these efforts and proposes many more reforms, including:

- Focusing the community college system to coordinate and more effectively drive the preparation of those needing jobs for the types of jobs that are available in the Massachusetts economy;
- Improving governance over local housing authorities to improve accountability and achieve efficiencies throughout the public housing system statewide;
- Reforms developed across state government by an inter-secretariat budget team to stretch taxpayer dollars further in FY 2013 and improve the way that government does business. Reform examples include virtual hold and call back centers for unemployment insurance; consolidating drug testing at the State Police Crime Lab to improve efficiency; and enhancing fraud, waste and abuse prevention;
- Requiring state agencies to manage and budget for better results by setting goals, evaluating what works and aligning resources to priorities, including additional investments in performance management; and

- Prioritizing innovation with the appointment of a Government Innovation Officer and a Council of Innovation Advisors to identify creative ways to use technology to better serve the public and to save taxpayers money.

Revenue Initiatives and Other Budget Solutions

Tax Receipts: As the state continues its economic recovery, tax collections are projected to grow by \$940 M from FY 2012. Of this amount, \$100 M will be deposited into the state reserves, corresponding to the amount of capital gains receipts in excess of \$1 B. Under a reform adopted in the FY 2011 budget, any collections above \$1 B from this volatile revenue source must be withheld from general budgeting purposes. Annual transfers of state tax receipts and other revenues (e.g., transfers to the School Building Authority and the Massachusetts Bay Transportation Authority) increase in FY 2013 by \$43.2 M.

Non-Tax Revenues: Annual non-tax revenue collections are expected to be \$196 M more in FY 2013 than the preceding year. Significant changes include increased federal revenues for state Medicaid and other spending of \$191 M and increased departmental revenues of \$57 M. These increases are offset in part by \$52 M of reduced revenue from non-budgeted sources including the state's unclaimed property receipts and fringe revenue collected from non-budgetary sources in FY 2013.

One-Time Resources: The FY 2013 budget relies on a responsible amount of one-time budget solutions, including: \$400 M in Stabilization Fund reserves, \$46 M from the delay of a tax deduction for a few large, out-of-state corporations, \$84 M in one-time health care resources and \$11 M in contributions from some quasi-public agencies. In total, these measures equal \$541 M, or \$79 M less than the one-time resources utilized in FY 2012. The total amount of one-time resources proposed for FY 2013 is well below the cyclical tax shortfall projected next year; therefore it is a sustainable level of one-time resources and the FY 2013 budget proposal is structurally balanced. The proposal will also leave a balance of over \$1 B in the Stabilization Fund at the end of FY 2013, providing resources for future years until we reach a full economic recovery and serving as a reserve for any unanticipated needs that cannot be otherwise addressed.

New Revenue: The budget also includes two new revenue proposals to fund targeted investments in both public health preventative care services through the Commonwealth Health and Prevention Fund and health insurance programs through the Commonwealth Care Trust Fund. One proposal would eliminate the sales tax exemption on candy and soda, while the other would increase the tax on cigarettes and other tobacco products. In addition, the Governor's budget proposes to modernize the current state bottle redemption practices by expanding the required 5-cent bottle deposit to bottled water, sports drinks and other non-carbonated beverages. These beverage types make up a larger portion of the bottled beverages sold in the Commonwealth every year. The Governor's budget includes certain other revenue proposals including modest and targeted fees increases, enhanced tax collection initiatives and certain other tax-fairness related proposals.

Annual Change in Budgetary Resources, FY 2012 vs. FY 2013 (\$s in millions)			
	FY 2012	FY 2013	Change
Projected Tax Collections (excluding one-time FAS 109 Delay):	20,964.0	21,950.0	986.0
Required Transfers to/from Reserves*:	(268.1)	(238.0)	30.1
Prior Year Funds Used to Support Current Year Non-Recurring Budgetary Spending:	173.9	-	(173.9)
Transfer for Annual Pension Contribution:	(1,478.0)	(1,552.0)	(74.0)
Transfers of Tax Revenue to MBTA, SBA and Workforce Training Fund:	(1,463.0)	(1,506.2)	(43.2)
Federal Reimbursements:	7,823.6	8,014.7	191.1
Departmental Revenues:	3,108.3	3,165.2	56.8
Transfers from Non-Budgeted Sources:	1,833.4	1,781.8	(51.6)
One-Time Sources for Recurring Budgetary Costs (including certain Prior Year Funds and FAS 109 Delay):	573.0	446.0	(127.0)
Proposed New Budgetary Revenues:			
Modernize Bottle Redemption:	-	22.3	22.3
Agency Revenue Initiatives:	-	10.8	10.8
Enhanced Tax Enforcement:	-	22.3	22.3
New Tax Initiatives (not-including one-timers):	-	86.2	86.2
CHANGE IN BUDGETARY RESOURCES (INCLUSIVE OF PENSION CHANGE):			935.9
Additional Off-Budget Revenues Dedicated to Health Care Through the Commonwealth Care Trust Fund:	-	72.9	72.9
Additional Off-Budget One-Time Resources:	47.0	95.0	48.0
TOTAL CHANGE, FY 2012 vs FY2013			1,056.8
*Includes one-time tax settlements transferred in FY2012 to Rainy Day Fund, transfer to General Fund of Rainy Day funds for Gaming Oversight Costs, annual Statutory Carry Forward, Capital Gains receipts above \$1 B transferred to Rainy Day Fund and FY2013 transfer of 10% of Master Tobacco Revenue for retiree health care contribution.			

Transparency

As part of the FY 2011 budget, the Legislature passed and the governor signed into law new transparency requirements, which include the development of an online searchable database for state spending. The Open Checkbook is based on the approach and technology piloted in the Massachusetts Recovery and Reinvestment Office website.

The Open Checkbook website provides payment details for over 50,800 vendors – identifying who was paid, how much was paid, which state entity made the payment and the purpose of the payment. In addition to showcasing a breakdown of state vendor payments (which can be searched by vendor name, department or spending category), the website also provides state government payroll and pension information. While the vendor details are updated every night, the payroll and pension figures are updated every two weeks and every month, respectively.

As part of the Patrick-Murray Administration's ongoing efforts to make government accessible to all, the Executive Office for Administration and Finance has made changes to the budget document, so that it is more dynamic and user-friendly. The FY 2013 budget will be divided into two volumes. Volume 1 will give readers insight into how the Commonwealth's budget is developed and highlight the Administration's priorities and reform agenda. Consistent with prior years, a limited number of copies of Volume 1 will be printed. Volume 2 will be entirely online for the public to search, and it will be easy to download and print. Volume 2 will contain lengthier narratives and financial reports. Putting parts of the budget online will improve accessibility and transparency, and will allow for more regular updates to the budget recommendations and other important information for our residents to access and research. We are happy to note that by printing less than in previous years, we will save the Commonwealth more than \$6,500 in printing costs.

