ENSE PETIT PLACIDAM SVB LIBERTATE QVIETEM

Fiscal Year 2014 Issues in Brief

Governor Patrick's Priorities

ENSE PETIT PLACIDAM SVB LIBERTATE QVIETEM

Investing in Education to Close the Achievement Gap

Since taking office in 2007, the Patrick-Murray Administration has worked with the legislature, educators, students, families, and community partners to build a 21st century public education system in the Commonwealth and provide the targeted support that each student needs to be truly successful.

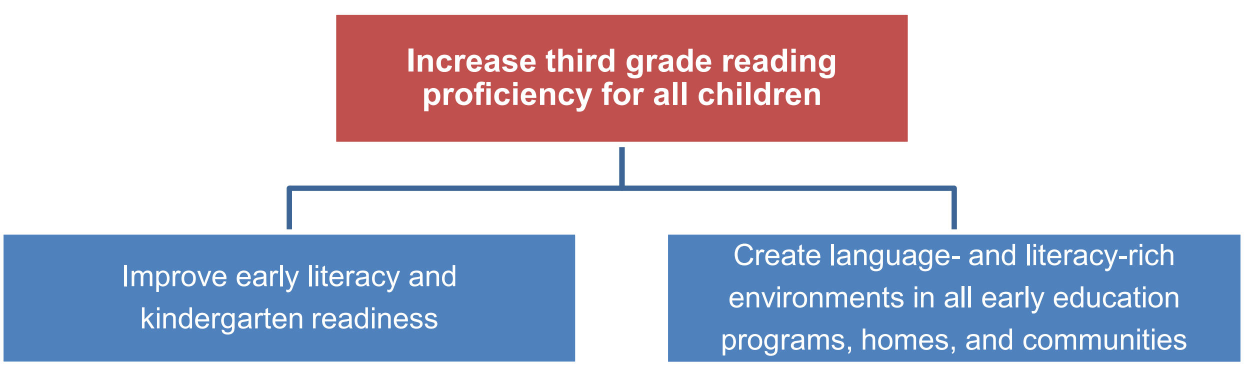
Massachusetts students continue to lead their peers on national and international measures of student achievement. In *Quality Counts 2013,* a comprehensive ranking of state education performance and policy by *Education Week*, Massachusetts ranked second in the nation (an improvement from third overall in 2012) and maintained its first place ranking in categories related to K-12 student achievement and access to high-quality educational opportunities. However, the Administration recognizes that there are still persistent achievement gaps that disproportionally affect students in lower-income communities, English language learners, students with disabilities and students of color. Massachusetts has an educational, economic, and moral obligation to ensure that all students, regardless of their zip code, have the opportunity to reach their potential and achieve academic, career and lifelong success. Closing the achievement gap is one of the central pillars of the Patrick-Murray Administration's strategy to educate all students and create a top-tier, competitive workforce.

To continue to meet this goal, the Administration will invest $6.79 B in education in FY 2014, a $550 M increase over FY 2013. This investment includes increased funding in achievement gap-related programs to fund the implementation of strategies in FY 2014 to:

- Provide the knowledge, skills, and support our students need to meet our high expectations;
- Ensure that every student in the state is taught by educators who continually receive the tools and professional support that they need;
- Prepare every student for postsecondary educational and career opportunities and lifelong success; and
- Foster innovation and change throughout the public education system.

Commitment to Third Grade Literacy for All Students

Third grade literacy is widely regarded as one of the most significant milestones in a child's academic career, and it is an important predictor of future academic success. The FY 2014 budget targets increased funding to both early childhood education and programs for English language learners in order to work towards the Administration's goal of universal third grade student proficiency in reading.



Expansion of Early Education
Providing access to high-quality early education programs is a vital component of addressing the achievement gap. This budget reflects a commitment to early education and care by making significant investments in access to and quality of child care programs for children served by the Department of Children and Families (DCF), the Department of Transitional Assistance (DTA), and for other qualified low income families. The significant new investments will provide:

- $56.75 M to significantly increase access to high-quality early education programs and provide universal access by eliminating the wait list for qualified children from birth to age five by FY 2017;
- $60.5 M to enhance the quality of early education programs and the effectiveness of the early educator workforce, including higher education grants for providers of children's programs;
- $6.2 M to strengthen parent, family, and community engagement programs;
- $5 M to expand comprehensive social and health services; and
- $2.5 M to increase EEC capacity and develop partnerships to effectively implement initiatives and sustain them over time.

Expansion of English Language Learning Programs
Recognizing that English language learners face increased challenges in attaining full literacy by third grade, the Administration has committed to investing in programs to provide additional support for these students. The FY 2014 budget doubles the available funding for English language learning and related programming, including new investments of $1.95 M for statewide programs for English Language learners, and $2 M dedicated to programming for English language learners in Gateway Cities.

Investments in Gateway Cities

Most students who disproportionately face an achievement gap reside in the Commonwealth's 24 Gateway Cities. In FY 2014, the Administration will therefore continue to expand funding to implement new strategies that will support our neediest students and their families. The *Gateway Cities Education Agenda,* which the Patrick-Murray Administration launched in November 2011, is based on five core principles:

1. Renewing our commitment to high standards and rigorous accountability;
2. Providing comprehensive support so that all students come to school healthy and ready to learn;
3. Offering differentiated services and support to all students;
4. Promoting new expectations for college and career readiness; and
5. Promoting innovative educational practices and building stronger partnerships across the state.

The Patrick-Murray Administration will dedicate $11 M to support the expansion of locally-designed and implemented initiatives in the Gateway Cities, including:

- $575 K for Early Literacy and Kindergarten Readiness Programs to establish pilot programs for Kindergarten Literacy Readiness;
- $3.6 to create Student Support Councils and deploy Student Support Counselors to predominantly low-income schools;
- $5 M for Enrichment and Acceleration Academies for English Language Learners to operate Summer English Learning Camps;
- $1 M to create the Education and Industry Councils and Planning for High School Career Academies, to offer high school students, especially those most in need of academic and career support, the opportunity for early career exploration and experiential, job-embedded learning opportunities;

- $1 M to create a Statewide Education Innovation Fund that will combine annual appropriations from the Commonwealth and supplemental funds from business, nonprofits, and philanthropists to promote innovation in policy, practice, research, professional development, and capacity-building efforts.

The *Gateway Cities Education Agenda* will build upon the positive social, cultural, economic, and civic contributions of the 24 Gateway Cities, expand upon current initiatives, and provide targeted support while also complementing statewide initiatives to increase student achievement. Additionally, the Commonwealth will leverage federal grant awards such as the $50 M *Race to the Top* Early Learning Challenge grant and the $250 M K-12 *Race to the Top* grant to implement a wide array of strategies in the Gateway Cities.

K-12 Investments

Chapter 70 funding is the primary method by which the state finances local K-12 public education. An increase of $226 M in Chapter 70 funding will bring this vital support for communities to an unprecedented $4.39 B. This represents a $677 M (18 percent) increase in Chapter 70 funding from pre-recession levels.

This investment will finalize the 2007 Chapter 70 reforms while ensuring that all school districts receive increased funding of at least $25 per pupil. The FY 2014 budget will fully fund all schools at foundation levels, and also begin to factor increased special education and pre-kindergarten costs into the calculation of the foundation budget. This allocation of funds to Chapter 70 will increase equity and access among all school districts and is intended to allow local educational authorities the flexibility to fund initiatives most needed in their communities. By providing flexibility at the local level, the FY 2014 budget allows schools to prioritize funding where it is needed most, whether in special education, MCAS support, literacy programming, or other programs.

Expanding Learning Time for High-Need Populations

One effective strategy for closing the achievement gap is to provide students in lower-income communities with access to additional enrichment opportunities offered beyond the traditional school day. To meet this need, the Administration has prioritized a $5 M investment in grants for middle schools in high-need, low-income school districts to expand the school day. This will jumpstart the Patrick-Murray Administration’s goal of providing additional educational enrichment to enhance students’ ability to succeed both in and out of the classroom.

Closing the Achievement Gap at the College Level

The FY 2014 achievement gap initiatives will also expand opportunities for affordable higher education for Massachusetts residents. An additional $57 M will be directed to the University of Massachusetts, the State Universities, and Community Colleges to enable the campuses to deliver high-quality educational and extracurricular opportunities to students and avoid increases in tuition and fees. In addition, a new $116 M investment in the MASSGrant scholarship program, providing targeted scholarships in high-demand programs of study, and other types of financial aid, will ensure that more students in Massachusetts have the opportunity to enroll and succeed in college. For more information about closing the achievement gap at the college level, see the Issue in Brief on “Higher Education Affordability.”

Governor’s Priorities in the Program Budget

For more information on the Governor’s priority of Closing the Achievement Gap in program format, please visit **www.mass.gov/budget/governor**, the online version of the FY 2014 Governor’s Budget.

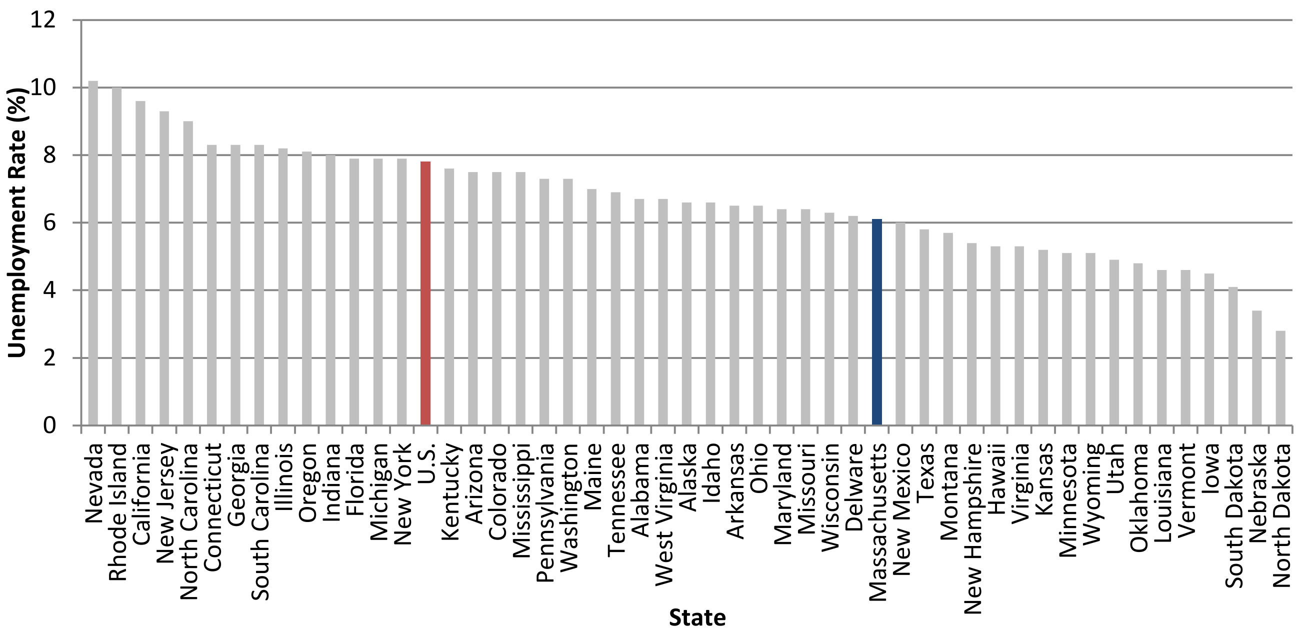
Click on the Administration Priorities tab in the FY 2014 Program Budget Recommendations Quick Link. The tab will open to show a list of the four Governor's priorities and the core set of programs that are critical in supporting the goals of each priority.

Additional investments included in this memo can be viewed by visiting the website and selecting the Education program.

Investing in Innovations & Infrastructure to Create Jobs, Expand Opportunity

In the wake of the global economic recession, the nation experienced a dramatic increase in unemployment. However, the Patrick-Murray Administration's commitment to job creation resulted in the adding of 93,600 jobs since August 2009, keeping the Massachusetts unemployment rate below the national rate. In November 2012, the state unemployment rate dropped to 6.6 percent, 1.2 percent below the national rate of 7.8 percent. While the unemployment rate has improved since the recession, the Administration continues a concerted effort in the FY 2014 budget to get Massachusetts residents back to work.

Massachusetts Unemployment Rate Compared to the Nation
(November 2012)



The Governor's FY 2014 budget includes significant new investments in education and transportation, highlighted in other Issues in Briefs in this section. In total, the operating budget includes a $147 M increase in programs that support job creation (as mapped by the program budget), including increases in life sciences, manufacturing industry development, and higher education scholarships. These investments will increase employment opportunities, link job seekers with expanding industries, and continue our record of success in leveraging education, innovation, and infrastructure to grow jobs.

In addition, the Governor is proposing targeted investments to improve the Commonwealth's competitive business climate, especially in innovative fields, including: completing the "Last Mile" of the MassBroadband 123 project to extend affordable broadband access in western and north central Massachusetts; advancing innovation economies such as the life sciences and advanced manufacturing through research grants and accelerator loans; and funding an infusion of new MassWorks local infrastructure grants.

Patrick-Murray Job Creation Strategy

The Patrick-Murray Administration continues to advance its three-pronged strategy for economic growth, centering on education, innovation, and infrastructure. The Economic Development Planning Council, in their report mandated by the Economic Development Act of 2010, defined five sub-strategies that have led Massachusetts out of the global economic recession faster than the rest of the nation. The sub strategies are:

1. Advancing education and workforce development for middle-skill jobs through coordination of education;
2. Investing in economic development and workforce development programs;
3. Supporting innovation and entrepreneurship;
4. Promoting regional development through infrastructure investments and local empowerment; and
5. Increasing the ease of doing business and addressing the Commonwealth’s cost competiveness.

These sub-strategies describe ways in which government, business, and academia can work collaboratively to make Massachusetts more competitive and successful. The Administration embraces effective economic development and job creation initiatives for Massachusetts that will continue to give first priority to helping our businesses and entrepreneurs continue to create and retain jobs. The budget will include the following targeted investments and resources in FY 2014 to put Massachusetts residents to work in critical competitive sectors.

MassBroadband

Our 21st Century economy hinges on access to critical technological infrastructure. Therefore, the Governor is announcing a new commitment to bring Massachusetts’ broadband network infrastructure to the “Last Mile.” The Last Mile represents the completion of broadband infrastructure expansion closest to the end-users: the residents, businesses, and community facilities that rely on this technology to continue to grow our economy. This investment will complete the Massachusetts Broadband Institute’s (MBI) MassBroadband 123 project, a 1,100 mile fiber-optic network that will expand broadband access in more than 120 communities in western and north-central Massachusetts and provide direct connections to more than 1,300 schools, hospitals, libraries, and public safety facilities that currently lack reliable, affordable internet service. The Patrick-Murray Administration has already leveraged over $40 M in state funds to receive over $83 M in additional federal funds for broadband expansion throughout the state.

Life Sciences Initiative

The Patrick-Murray Administration created the Massachusetts Life Sciences Center (MLSC) in recognition of the state’s leading position in the biotechnology industry. This budget invests $25 M in the MLSC, an increase of $10 M above FY 2013, and further assumes that $25 M in tax incentives will be distributed to companies expanding their life sciences activities and creating jobs within the Commonwealth. This funding will enable MLSC to provide research grants and accelerator loans to researchers and early-state companies, a direct investment in business expansion and job growth in this critical sector.

To date, MLSC has invested and committed a combined $312 M across all programs throughout the Commonwealth, leveraged approximately $1 B through matching private sector investments, and created 4,136 jobs to date with an additional 4,618 jobs projected through current investments and commitments. Across all programs, the Patrick-Murray Administration’s investments through the Life Sciences Initiative will provide a total of 8,754 jobs created by the end of 2014.

Manufacturing

MassDevelopment's Advanced Manufacturing Futures Program was created in the 2012 Jobs Bill to engage in small-to-medium-enterprise lending, drive workforce development, and provide competitive grants and contracts to facilitate growth and competitiveness in the field of manufacturing. The FY 2014 budget will invest $18.75 M from gaming license revenue in this new program to begin this crucial work. The Administration estimates that a total of 1,856 jobs will be created or retained through this investment over the next five years.

In addition, the Administration will invest in the following programs to grow our manufacturing industry:

- $2 M in Workforce Development Grants to help job seekers gain the skills needed for today's manufacturing jobs, a $1.25 M increase over FY 2013;
- $1.575 M in the Mass Manufacturing Extension Partnership, which promotes manufacturing as an integral part of the economy of the Commonwealth and for programs designed to assist small- and mid-sized manufacturing companies, a $350 K increase over FY 2013; and
- $850 K in the Regional Economic Development Councils, which provide a consistent and efficient response to businesses seeking assistance from the Commonwealth.

MassWorks

The MassWorks Infrastructure Program is a one-stop shop for municipalities seeking public infrastructure funding that supports economic development and job creation. This budget will expand the program and allow for new competitive projects over a minimum of two years with an investment of $19.25 M from gaming license revenue. With this expansion, local cities and towns will see up to $88.1 M in infrastructure-related public construction activity during the 2013 construction season through the MassWorks Infrastructure Program. The Administration estimates this program would create or retain an estimated 2,927 jobs over the next two years.

The City of Winthrop was awarded $500,000 under the MassWorks Infrastructure Program in the fall of 2011.

State Capital Investments

A large portion of the state's efforts to promote job creation and expand employment opportunities are funded through capital projects, paid for by state bond issuance. The state's annual capital budget provides funding for substantial job-creating projects across the state, including construction in the life sciences industry, higher education, and transportation. The capital budget will invest more than $3.4 B in public infrastructure in FY 2014, more than double the level of state capital investments when Governor Patrick took office six years ago. While many of these investments create construction jobs and otherwise support economic growth, $188 M is specifically targeted to economic development programs, which will prioritize projects that invest in state infrastructure that supports private development and job growth.

In 2011, the Infrastructure Development Fund (IDF) was established to create jobs and stimulate long-term economic development through infrastructure-related investments made by the Executive Office for Housing and Economic Development (EOHED) in consultation with the Department of Transportation (DOT). There are currently 26 IDF projects ongoing with $14.8 M remaining to be spent in FY 2013 construction season.

Improve Online Resources for Job Seekers

JobQuest, the state online job placement portal, is being modernized to fit the needs of the 21st century workforce. Enhancements include expanded resources for job seekers through an increased number of job postings; skills matching in the job search function to not only match job seekers to positions by title, but also by their previous experience and skill sets; an enhanced search engine; an improved career planning tool integrated into the job search function; smartphone capability; industry-specific

Micro-Sites for Green Jobs, Veteran's Jobs, and others; and the ability to receive notifications of job openings through your choice of SMS messaging or email.

Health Care Workforce Transformation Trust Fund
The Health Care Workforce Transformation Fund was first capitalized with $20 M in FY 2013. It is administered by the Secretary of the Executive Office of Labor and Workforce Development (EOLWD) in consultation with a board comprised of key stakeholders, including health care providers, health care payers, labor organizations, consumer representatives, and educational institutions. EOLWD is working with stakeholders to develop an effective strategy for the implementation of this vital resource.

Tourism
Last year, the Administration increased investment in the tourism and marketing industries to capitalize on Massachusetts's historic culture and diverse population. Visitors to Massachusetts spend nearly $17 B annually, generating $1.1 B in state and local taxes, while Massachusetts' tourism sector employs 124,700 people. The $5 M increase in FY 2013 is the basis for successful marketing campaigns promoting Massachusetts to individuals worldwide.

To build on that momentum, the Patrick-Murray Administration will increase by $2.5 M funding for the Massachusetts Office of Travel and Tourism (MOTT) to expand their domestic and international marketing campaigns to $7.5 M total. This investment will provide for marketing campaigns in neighboring states and emerging markets, including China, India and Brazil, that have shown an increase in the number of visitors to Massachusetts over the last few years.

Governor's Priorities in the Program Budget

For more information on the Governor's job creation priority in program format, please visit **www.mass.gov/budget/governor**, the online version of the FY 2014 Governor's Budget. Click on the Administration Priorities tab in the FY 2014 Program Budget Recommendations Quick Link. The tab will open to show a list of the four Governor's priorities and the core set of programs that are critical in supporting the goals of each priority.

Expanding Access to Affordable, Quality Health Care

The Commonwealth of Massachusetts is a national leader in ensuring access to affordable, high quality health care. With the enactment of comprehensive health care reform legislation in 2006 and the Patrick-Murray Administration's continued implementation, Massachusetts has achieved the highest rates of insurance coverage in the country. Due to this leadership, Massachusetts served as a model for the 2010 federal Affordable Care Act (ACA). Today, the Commonwealth is well-poised to benefit from funding opportunities through the ACA for Medicaid expansion as well as other federal subsidies for insurance coverage through the Commonwealth Health Insurance Connector Authority (Health Connector).

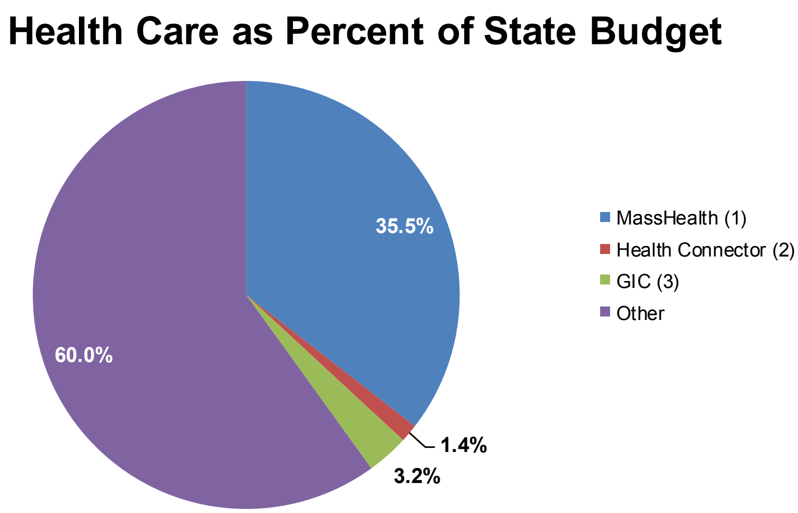
At the same time, increasing health care costs have been an underlying challenge for government, employers, and individuals. Independent estimates suggest that health care reform only added approximately 1.4 percent in state spending to the budget. However, health care spending has increased from 20 percent of the budget in FY 2000 to 39 percent of the budget in FY 2013. This increase is due in part to having to restrain spending in other areas of state government when demand for government health programs increased during the recession. Therefore, health care spending increases have been driven largely by enrollment growth.

Based on long-term forecasts conducted by the Executive Office for Administration and Finance (A&F), should health care costs to continue to grow at these historic rates, they would consume approximately 50 percent of state spending by 2020. In addition to being unsustainable for governments, businesses, and families, health care spending has crowded out key public investments, which, among other consequences, can impact the health and welfare of the people in the Commonwealth. Containing the growth of health care costs has been a key priority of the Patrick-Murray Administration. Thanks to a variety of innovative cost containment initiatives, the state has saved over $1.6 B in health care costs over the last two years.

For example:

- The Group Insurance Commission (GIC), through an active re-enrollment and targeted incentives to employees, enrolled 30 percent of state employees in limited network plans, saving the state over $20 M and saving each of the employees who selected a limited network plan hundreds of dollars.
- The Health Connector used innovative, competitive procurements to incentivize plans to improve cost structures and reduce per member premiums by 12 percent over the last two years, saving $267 M.
- MassHealth leveraged innovative contracting strategies to achieve efficiencies in its managed care program, which resulted in $350 M in savings.
- With support from many in the business community, landmark legislation in 2012 established a new, expedited process for municipalities to work with their employee unions to modernize benefit plan designs to achieve savings. The reform has been successful, with more than 200 cities, towns, and regional school districts leveraging the law to achieve over $175 M in premium savings.
- Through the Division of Insurance's (DOI) regulatory authority, average annual premium base rate increases have been reduced from over 16 percent to just over 2 percent, saving small businesses and families over $600 M.

In FY 2014, subsidized and employee health coverage programs account for 40 percent of the budget. The Commonwealth continues to implement extensive payment and delivery system reform initiatives that aim to control health care costs, support integrated systems of care and improve quality, putting Massachusetts again at the forefront of national health care reform.



Notes:
(1) Federal Matching Funds for spending at MassHealth and the Health Connector are not displayed. In addition, MassHealth spending includes Delivery System Transformation Initiative payments to safety net hospitals
(2) Health Connector spending includes the Commonwealth Care program from July-December and State Wrap Qualified Health Plans from January-June.
(3) GIC excludes municipalities which are included in the state's appropriation but are reimbursed by cities and towns for their costs.

Health Care Cost Containment Legislation

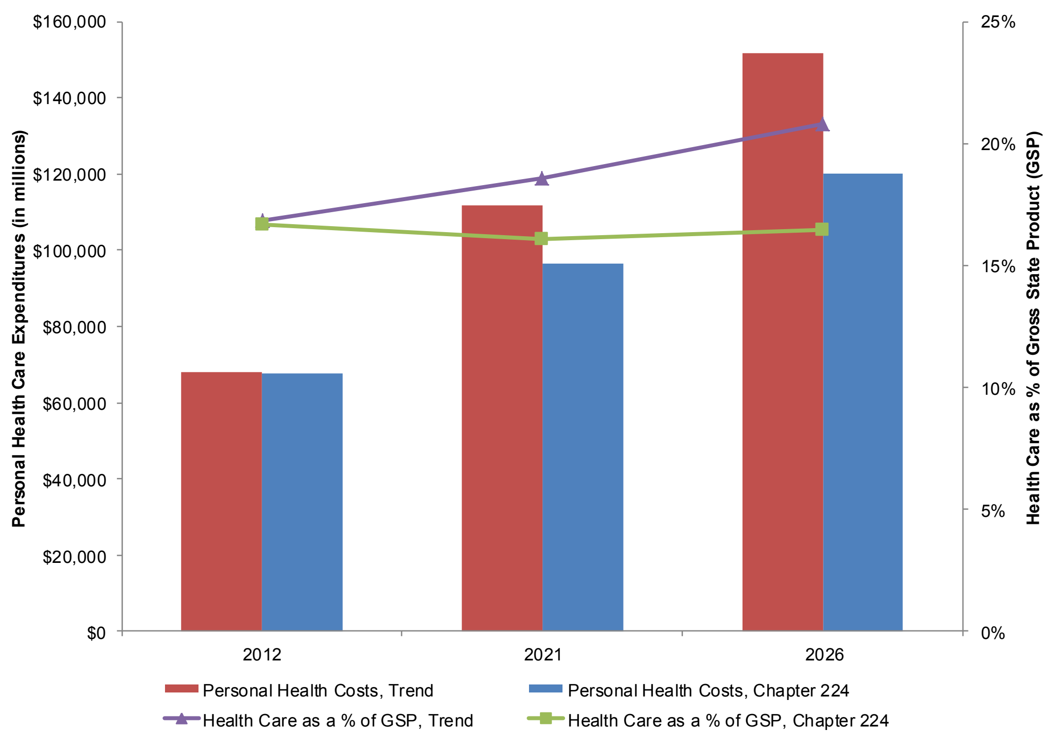
In August 2012, Governor Patrick signed *Chapter 224: An Act Improving the Quality of Health Care and Reducing Costs through Increased Transparency, Efficiency and Innovation*. Chapter 224 includes a variety of tools to help further contain and reduce costs while maintaining high quality, best-in-class care. Highlights include:

- Establishing a statewide health care cost growth goal for the health care industry pegged at a rate no greater than the growth of the state's overall economy, resulting in estimated savings of $200 B in the entire health care sector over 15 years.
- Requiring state programs to lead by example in moving toward alternative payment methodologies (APMs) that promote the delivery of high-quality and coordinated health care.
- Establishing a certification process for accountable care organizations (ACOs) and patient-centered medical homes (PCMHs). ACOs are health care provider systems focused on reducing costs by promoting integrated, efficient, and high quality care. PCMHs focus on providing patients with a single point of coordination for all of their health care in a primary care setting.
- Committing $57 M over four years through a competitive grant process to invest in community-based prevention, public health, and wellness efforts to reduce the rates of costly preventable chronic diseases, such as obesity, diabetes and asthma.
- Increasing transparency and protections for consumers regarding costs and health care quality through the establishment of a new health information website with price and quality data; the requirement that insurance carriers disclose in real-time the charges and out-of-pocket costs for proposed health care services; and the requirement that providers disclose charges for proposed services.

- Charging the Attorney General with monitoring trends in the health care market, such as consolidation in the provider market, in order to protect health care access and address market power.
- Establishing a commission to determine and quantify acceptable and unacceptable factors for provider price variation.
- Reforming the medical malpractice system by requiring a "cooling-off" period before a party may initiate a suit, while protecting patients' right to sue and making providers' apologies inadmissible as evidence in litigation.
- Committing $28.5 M to accelerate the ongoing statewide adoption of interoperable electronic health records (EHRs) and the creation and sustainability of a health information exchange that will facilitate the transfer of EHRs across the Commonwealth.
- Committing $128 M to a Distressed Hospital Trust Fund to improve service delivery and health information technology at community hospitals. These improvements will facilitate the transition to APM and the adoption of EHR technology for community providers.
- Establishing the Health Care Workforce Transformation Fund, administered by the Executive Office of Labor and Workforce Development, to support initiatives such as health information technology curriculum and workforce development, the health care workforce loan repayment program, and the primary care residency grant program.

The upfront investment that these initiatives require is modest compared to the long-term savings that will result. By 2026, the percentage of gross state product (GSP) is projected to decrease from 21 percent to 17 percent. Cumulatively over the next 15 years, Chapter 224 has the potential to result in an estimated $200 B in savings across all sectors of the state economy.

Personal Health Care Cost Growth:
Trend vs. Chapter 224

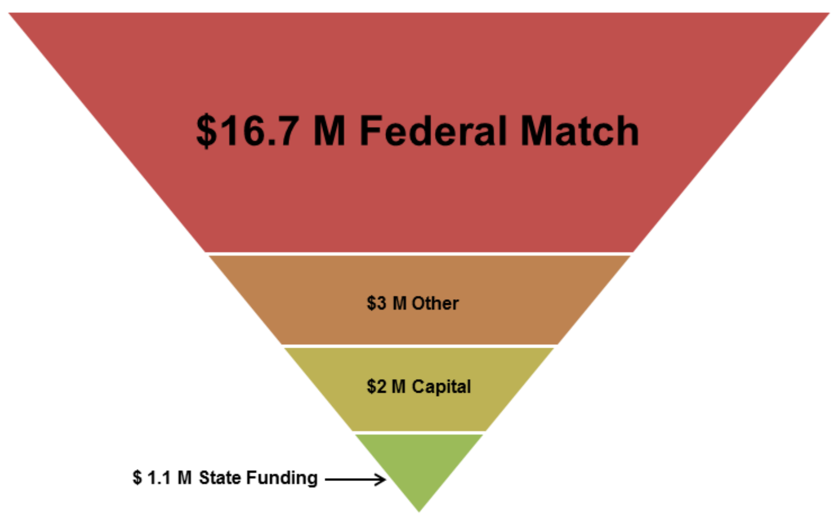


Executive Office of Health and Human Services and Department of Public Health
The Executive Office of Health and Human Services (EOHHS) and the Department of Public Health (DPH) will receive $950 K in FY 2013 and $2.23 M in FY 2014 to implement three key initiatives associated with Chapter 224:

- Health Resource Planning: EOHHS will chair and convene a health planning council that is required to develop a state health resource plan. The state health plan will identify the Commonwealth's needs in terms of health care services, providers, programs, and facilities, as well as compile an inventory of available resources to meet those needs. The plan will also identify priorities and make recommendations for addressing those needs ($503 K in FY 2013; $1.61 M in FY 2014).
- Determination of Need (DoN): Health care facilities planning substantial capital expenditures or change in services must submit proposals to the DoN program, which then reviews them and makes recommendations to the Public Health Council. DPH will modify 20 the Determination of Need statute to maintain consistency with the state health plan, as well as update definitions and fee structures. The program is also being mandated to reduce its mean application review time from the current 5.8 months to 4 months. ($251 K in FY 2013; $502 K in FY 2014)
- Prevention and Wellness: DPH will administer the Prevention and Wellness Trust, funded through industry assessments in 2014. The Trust will invest $57 M over 4 years in evidence-based community prevention activities. Funding will be administered through competitive grants to municipalities, community organizations, regional planning agencies and health care plans and providers. Additionally, DPH will develop a model wellness guide and implement a wellness tax credit program for small businesses. ($196 K in FY 2013 for administrative costs; $116 K in FY 2014 for workplace wellness activities not funded through the Trust)

Health Information Exchange

A health information exchange (HIE) enables the sharing of health care information across organizations. The HIE allows for secure electronic information to be transmitted between health care providers and organizations to better coordinate care, increase patient safety and lower health care costs.



Health Information Exchange 2014 Funding

The completion and operation of the Massachusetts Health Information Exchange is integral to the success and sustainability of health care cost containment. Grounded in its unique investment model characterized by high (75-90 percent) federal financial participation (FFP), the Commonwealth's HIE stands out among all other electronic health record tools in the nation.

In FY 2013, phase 1 of HIE brought functionality that allows two health care entities to send and receive health care transactions. Phase 2, in FY 2014, will allow for query and search functionality for patient records to exist across Massachusetts. This will further expand the benefits of the HIE for achieving better coordinated, safer, and more efficient care.

In FY 2013, the Commonwealth invested $2 M in budgetary resources for HIE development. In the FY 2014 budget, HIE support and operation will require $1.1 M in budgetary resources. This funding, along with capital resources and contributions from private and other health care trust funds, will be directed to a Health Information Exchange Fund managed by EOHHS, which will allow for the reinvestment of FFP to support the HIE. The innovative use of FFP to support HIE allows the

Commonwealth to bring the benefits of a $40 M HIE project to its residents, providers and payers in a comparatively affordable way.

MassHealth
In support of the goals and mandates in Chapter 224, the Commonwealth is investing significant resources in MassHealth. Hospital rates are increasing by 5 percent to help address costs associated with the transition to alternative payment methodologies and models of care which will produce sustainable savings in the health care system. Please refer to the MassHealth Investment section for more information.

State Auditor's Office
The State Auditor's Office is receiving an additional $863 K to fund a new line-item dedicated toward evaluating the impact of Chapter 224, its implementation and its impacts on controlling health care costs. Of the total, $708 K will support additional staffing and consultants to advise the Auditor's office and $155 K will be devoted towards implementing IT build-out to support this initiative.

Division of Insurance
The Division of Insurance (DOI) is level-funded in FY 2014 although it will continue to prioritize its cost-cutting insurance carrier rate review process. Chapter 224 requires DOI to promulgate regulations and establish an application and renewal process for certifying Risk-Bearing Provider Organizations. Chapter 224 also requires DOI to strengthen the reporting and implementation requirements for health plans with regard to compliance with state and federal mental health parity laws.

Health Policy Commission
The independent Health Policy Commission (HPC) is an integral component of Chapter 224 implementation. The HPC will set health care cost growth goals, enhance provider transparency, monitor the health care marketplace and assess patient access, among other responsibilities. It is governed by an 11-person board, as appointed by the Governor, the Attorney General, and the State Auditor.

Center for Health Information and Analysis
Chapter 224 abolished the Division of Health Care Finance and Policy and transferred the Division's responsibilities to MassHealth, the Connector, and the newly-created Center for Health Information and Analysis (CHIA). CHIA was created as an independent state agency to monitor the Massachusetts health care system through data collection and research and to release reliable information and meaningful analysis to a wide variety of audiences. CHIA's analytics will be a critical resource for the HPC to fulfill its obligations with respect to measuring cost growth and identifying opportunities for improvement in the health care system. The comparison of CHIA's analysis of statewide health care cost trends to the benchmark growth rate set by the HPC is one of the key triggering mechanisms of Chapter 224.

Chapter 224 assigns three broad categories of new obligations to CHIA. First, the law greatly expands existing monitoring and analytics, including calculation of statewide health care spending. Second, CHIA's role in developing and coordinating a statewide quality strategy – including a reinvestment in the Betsy Lehman Center for Patient Safety and Medical Error Reduction – will expand significantly. Finally, the law requires CHIA to increase investment in the All-Payer Claims Database to further enhance the ability of providers, payers and purchasers to improve the health care system.

Much of the former DHCFP's analytic resources (including staff) remain with CHIA, but the new obligations require additional investments. In November 2012, the operation of the Health Safety Net and the development and promulgation of health care pricing regulations were transferred to MassHealth. The movement of these responsibilities during FY 2013 allows CHIA to pursue its new responsibilities, largely within its existing $22 M appropriation level. In FY 2014, CHIA will receive an investment of $2.8 M, for a total funding level of $24.8 M.

Implementation of the Federal Affordable Care Act

Beginning January 1, 2014, the federal Affordable Care Act (ACA) will affect all state health care programs and cause significant shifts in funding. Massachusetts will benefit from being a state that expanded health care access prior to the ACA, enabling the Commonwealth to utilize existing infrastructure to reduce costs and increase federal support. There are several major program changes related to the ACA that will have a significant impact on the Commonwealth's budget, resulting in increased revenue and decreased cost totaling $205.7 M in the second half of FY 2014.

Expansion of MassHealth-Eligible Population
Prior to the ACA, eligibility for MassHealth was limited to certain categories of individuals such as pregnant women, children under 19 and their parents, the disabled and the elderly, provided their income met certain requirements. Under the ACA, all Massachusetts residents under 133 percent of the federal poverty level (FPL) are eligible for MassHealth if they are citizens or qualified aliens. The expansion, referred to as MassHealth Expansion populations, will be supported by enhanced federal matching funds. Federal financial participation (FFP) will increase from 50 percent to 75 percent for this population, ramping up to 90 percent in 2020; FFP is also anticipated to increase to 100 percent for some new enrollees in 2014, gradually falling to 90 percent in 2020.

Net State Impact of the Affordable Care Act (millions)	
ACA Expansion at MassHealth **0-133% FPL (excluding Aliens With Special Status AWSS)**	
New cost for new enrollees (eligible but not enrolled and newly eligible)	-$25.8
Enhanced revenue for existing enrollees	$175.5
Other savings	$6.0
Sub Total	**$155.7**
Qualified Health Plans at the Health Connector **133-300% FPL (0-300% FPL AWSS)**	
Reduced net state spending (after State Wrap)	$50.0
Sub Total	**$50.0**
Grand Total	**$205.7**

Current estimates suggest that 325,000 members will enroll in MassHealth, including members currently enrolled in the Commonwealth Care program, the Medical Security Program (MSP), the Health Safety Net (HSN), MassHealth's Essential and Basic programs and new enrollees. The cost of the ACA expansion population in the second half of FY 2014 is estimated to be $437 M, with projected revenues of $461 M. Much of this cost represents a shift in spending from other programs and the consolidation under MassHealth will lead to savings of $155.7 M.

MassHealth will continue to cover certain groups above 133 percent FPL, including children up to 300 percent FPL, individuals with breast and cervical cancer up to 250 percent FPL, individuals with HIV and pregnant women up to 200 percent FPL, and disabled people with higher incomes.

State Wrap Premium Assistance at the Health Connector
Under the ACA, the Health Connector will administer the Commonwealth's health insurance Exchange. The Exchange will allow individuals and businesses to shop for health insurance coverage. The State Wrap will supplement federal subsidies available in the Exchange by providing premium assistance to individuals with incomes 133 percent to 300 percent FPL, as well as certain Aliens with Special Status (AWSS) with incomes 0 percent to 300 percent FPL who are ineligible for MassHealth. These combined federal and state subsidies are intended to make subsidized coverage for this population as affordable for them as it is today under Commonwealth Care. An estimated 150,031 members are expected to enroll from Commonwealth Care, MassHealth, MSP, and HSN. The FY 2014 cost of the State Wrap is estimated at $118.5 M

The Centers for Medicare and Medicaid Services (CMS) has indicated that a 50 percent federal match will be available in FY 2014 for premium assistance payments for State Wrap members, with the exclusion of AWSS, making available an additional $21 M in available revenue. This revenue, combined with the enhanced FFP available through the ACA, will enable the restoration of full adult dental coverage for MassHealth members and for individuals with incomes below 133 percent FPL who are enrolled in the Health Connector with the State Wrap.

Subsidized Coverage for Small Business Employees
MassHealth currently has an Insurance Partnership program that encourages small employers to offer health insurance by providing assistance with premiums for small businesses and their low income employees. Under the ACA, MassHealth plans to discontinue the employer-side subsidy, in light of the proposed changes to the Commonwealth’s employer responsibility provisions and the availability of federal tax credits and state wellness rebates to certain small businesses that purchase coverage through the Exchange.

However, MassHealth will continue to support employees of small businesses through a pilot program offering premium assistance for adults 133-300 percent FPL who work for small employers, are ineligible for other subsidized programs through MassHealth or the Health Connector and would otherwise be uninsured. The member’s required premium contribution will align with the state’s affordability schedule. There will be a transition period of one year to ensure that employers are ultimately shopping through the Exchange in order for their employees to be eligible for the premium assistance. This will allow eligible employers to have access to federal tax credits and the Health Connector’s wellness rebates. Enrollment in the pilot program will be capped if necessary to ensure that expenditures do not exceed the amount of funding available. Total FY 2014 funding for subsidized coverage for small business employees, through both the Insurance Partnership in the first half of the year and the pilot program in the second half of the year, is $33 M total with a $16.5 M federal match.

Health Safety Net
The Health Safety Net (HSN) makes payments to hospitals and community health centers for providing certain health care services to their low-income patients who are not eligible for health insurance or cannot afford it. The HSN is funded primarily through assessments on hospitals and health insurance providers. FY 2014 funding also will include a $30 M contribution from the General Fund.

Due to expanded options for affordable health coverage through MassHealth and the Health Connector, HSN demand is expected to decline by $36 M (assuming 8 percent growth rates) to $58 M (assuming 4 percent growth rates). The reduction in the shortfall from $143 M in FY 2013 to at least $107 M represents a 25 percent decline, with the possibility of a 41 percent decline to $85 M. This constitutes a major step towards improving the fiscal outlook for Massachusetts hospitals.

Medical Security Program
The Massachusetts Department of Unemployment Assistance provides health insurance assistance through the Medical Security Program (MSP) for low income residents of the Commonwealth who are receiving unemployment insurance benefits. The MSP has projected spending of $43 M for the first half of FY 2014. Beginning January 1, 2014, MSP members will become eligible for other health insurance programs such as those offered by MassHealth and the Health Connector.

In addition, the funding that supported the MSP, known as the Unemployment Health Insurance (UHI) assessment will be reduced and repurposed to support subsidized coverage in MassHealth and the Connector. For more information, see the “Lowering Health Care Costs for Businesses” Issue in Brief.

MassHealth Policy Initiatives
The Administration proposes policies that aim to maintain coverage for current populations who otherwise could be adversely affected by ACA implementation, and that support streamlining current programs to promote alignment, access and administrative simplification in a post-ACA coverage environment at minimal cost to the Commonwealth. These proposals include:

- Considering the use of Modified Adjusted Gross Income (MAGI) instead of gross income to determine eligibility for adults with disabilities, consistent with the methodology used for non-

disabled adults. This may protect individuals with disabilities from having more stringent MassHealth income eligibility standards than non-disabled individuals. ($5.9 M cost; $3 M revenue);
- Continuing to provide health insurance coverage at full state cost to Aliens with Special Status (AWSS) who are ineligible for participation in the state Exchange; this is a small number individuals, as most AWSS are newly eligible for federal assistance through the Exchange ($5.9 M cost; $0 revenue);
- Extending MassHealth coverage to the end of the month for members transitioning to Health Connector coverage, which begins on the first of the month, in order to prevent gaps in coverage ($7 M cost; $3.9 M revenue);
- Maintaining current waiver programs to cover individuals with breast or cervical cancer up to 250 percent FPL and individuals with HIV up to 200 percent FPL (no budget impact in FY 2014); and
- Providing a MassHealth Standard level of benefits for all pregnant women up to 200 percent FPL ($5.2 M cost; $4.5 M revenue).

Health Insurance Exchange/Integrated Eligibility System (HIX-IES)
The Health Connector has received a $45 M Early Innovator Exchange Grant in conjunction with EOHHS and the University of Massachusetts Medical School to help support the inter-agency Health Insurance Exchange/Integrated Eligibility System (HIX/IES) project.

HIX/IES will build be an integrated, real-time eligibility determination system for the Health Connector and MassHealth health insurance programs to ensure that people can readily find their way to the coverage options for which they qualify. Existing state eligibility systems will be significantly enhanced – and linked up with federal databases – to ensure a quick and seamless path to coverage. These improvements will ultimately be extended to determine eligibility for certain other state human services programs.

The project will also enable the Health Connector to enhance its already leading-edge shopping website to incorporate new decision support tools, improved functionality for brokers and other new features for the benefit of consumers. The objective is a best-in-class Health Connector shopping experience that sets a new standard for consumer ease of use and satisfaction. HIX/IES is also tied to a collaborative where participating New England states can share lessons learned from developing the information technology backbone for their respective Exchanges, as well as participate in the development of cost-effective and reusable technology components.

MassHealth Program Investments and Savings Initiatives

The MassHealth program currently provides health insurance for approximately 1.38 million members that qualify for the program based on income or categorical eligibility (i.e., long-term unemployment, seniors, children, pregnant, and disabled adults). This figure does not include the new MassHealth Expansion populations; with the Expansion population and projected growth in the base population, total MassHealth enrollment will be approximately 1.6 million. Many of these new MassHealth enrollees are not new to subsidized coverage but are currently enrolled in Commonwealth Care or MSP.

Overall, MassHealth's FY 2014 funding level of $12.3 B (excluding DSTI) represents a 13.1 percent increase over FY 2013. Most of this increase, however, is driven by the ACA Expansion populations and coverage preservation under ACA (4.2 percent of increase), operational and hospital investments and dental benefit restoration (0.8 percent of increase), enrollment increases for current eligible members of 40,000 member months (2.6 percent of increase) and FY 2013 cash management strategies (2.9 percent of increase). When the annual growth rate is adjusted for these unavoidable costs, the resulting growth rate is 2.5 percent, which is lower than the state's health care cost growth benchmark. In addition, there will be 105,000 members leaving the Health Connector and moving into

MassHealth which will result in decreased spending at the Health Connector of $257 M gross/$128.5 M net over the 6-month period in FY 2014.

The Commonwealth has made significant investments in MassHealth in recent years and will continue to do so in FY 2014 in order to promote program innovation and lay the ground work for larger savings.

Increases

Program Integrity: $1.5 M cost; $750 K revenue
MassHealth received $1 M in FY 2013 to enhance its auditing and program integrity capabilities through several initiatives, including enhanced asset verification and the implementation of a predictive modeling application. For FY 2014, MassHealth will receive an additional $1.5 M to staff the Predictive Modeling unit and to run the application. MassHealth is on track to become one of the first Medicaid programs in the country to leverage predictive modeling to help avoid provider fraud and abuse.

Operations Investments: $2 M cost; $1 M revenue
MassHealth Operations will require additional Benefit Eligibility and Review Social Workers (BERS) to manage the increased enrollment as a result of the ACA in January 2014 and to build upon the improvements in customer service and document processing times achieved thus far in FY 2013. MassHealth received $1 M in FY 2013 and will receive an additional $2 M in FY 2014. In addition to enrolling new members, the additional staff will be essential to improve the customer service experience for all members and enhance program integrity efforts.

Hospital Rate Adjustments: $81.4 M costs; $40.7 M revenue
Hospitals continue to be integral partners in reforming the health care system, and that role will only be enhanced as ACA implementation continues. Accordingly, the Commonwealth is making significant investments in hospital rates generally, as well as investments in specific pediatric and chronic disease hospitals. These investments will enable hospitals to move toward providing a higher quality of care through more significant use of alternative payment methodologies (APMs).

These investments are offset by 50 percent FFP. Combined with the reduction in the HSN shortfall, new Commonwealth investments in hospitals will total at least $117 M in FY 2014. A portion of the investment will be supported through a $20 M ($10 M net) transfer from the HPC's Healthcare Payment Reform Trust Fund, the purpose of which is to foster innovation in health care payment and service delivery.

Hospital Investments and program savings in FY 2014 versus FY 2013

	FY 2013	FY 2014	Δ
Base Hospital Rates & APM Participation	$0	$51.4 M	$51.4 M
Children's Hospital	$1.2 M	$11.8 M	$10.6 M
Tufts Medical Center	$800 K	$3 M	$2.2 M
Franciscan Hospital for Children	$0	$3.3 M	$3.3 M
Infrastructure Capacity Building grants	$14.5 M	$26 M	$11.5 M
Critical Access Hospitals	$1.9 M	$4.3 M	$2.4 M
Health Safety Net Surcharge Reduction	$0	$36 - $58 M	$36 - $58 M
Total	**$18.4 M**	**$136 - $158 M**	**$117 - $139 M**

- Base Hospital Rates: Through a combination of base rate increases and increases tied to participation in alternative payment methodologies (APMs), MassHealth hospital payments will grow by as much as 5 percent. Chapter 224 authorizes MassHealth to implement rate increases to hospitals that demonstrate significant transition to the use of APMs. MassHealth has the authority to determine what constitutes significant use of APMs.

- Pediatric Rehabilitation Hospital Rates (Franciscan Hospital for Children): Chapter 224 requires MassHealth to set rate increases for pediatric chronic disease rehabilitation hospitals at 1.5 percent of the FY 2012 rate.
- Children's Hospital and Tufts Medical Center: MassHealth will refine its approach to reimbursing freestanding pediatric acute hospitals and pediatric specialty units for services to complex patients.
- Infrastructure Capacity Building: Grants provided for investments in hospitals and community health centers.
- Critical Access Hospitals: Chapter 224 requires MassHealth to pay critical access hospitals 101 percent of Medicare costs for both inpatient and outpatient services.
- Health Safety Net: The reduction in the HSN shortfall constitutes a major step towards improving the fiscal outlook for Massachusetts hospitals.

Adult Dental Coverage
Restoring full adult coverage in MassHealth and providing comparable dental coverage for adults with incomes up to 133 percent FPL who are enrolled in the Health Connector with the State Wrap. The total cost for 6 months is $72 M and the revenue to support the costs is collected from federal support from premium costs for State Wrap and other resources such as enhanced FFP from the ACA.

Primary Care Payment Reform
In accordance with Chapter 224, the Commonwealth will make a $10 M investment in enhanced care coordination for Primary Care Payment Reform (PCPR), MassHealth's innovative accountable care model. The goal of PCPR is to promote delivery system transformation by improving accountability for health care quality, cost, and access, and providing incentives for enhanced care coordination and behavioral health integration through patient-centered medical homes.

MassHealth will implement an innovative payment system that combines a Comprehensive Primary Care Payment (CPCP) with a shared savings/risk arrangement and quality incentives. The CPCP is a per-member-per-month risk-adjusted payment for a defined set of primary care services and medical home activities, with the potential to include certain outpatient behavioral health services. This system will improve care for individuals by encouraging primary care providers to deliver effective care, independent of the rigid structure that fee-for-service billing requires. Innovations in primary care delivery include improving access through phone and email services, expanding the care team to include community health workers and using group or family visits or other delivery mechanisms.

Shared savings is an incentive structure in which providers share in savings if MassHealth's actual costs fall below the expected costs over a specified time period. MassHealth anticipates supporting participants through timely data and technical assistance to foster care coordination and cost management. The quality incentive payment is an annual performance incentive payment for improving primary care service delivery.

PCPR will span across the Primary Care Clinician (PCC) Plan and Managed Care Organizations (MCOs). MassHealth plans to launch a procurement for PCCs to participate in the program, and MCOs will participate in a similar payment structure with PCCs who are in their provider networks. MassHealth expects to have 25 percent of PCC Plan members and MCOs participating by July 2013, with participation rates increasing to 50 percent by July 2014 and 80 percent by July 2015.

<u>Savings</u>

Managed Care Organization Rate Efficiencies: $79 M gross savings; $39.5 M revenue offset
MassHealth intends to implement rate adjustments for Managed Care Organization (MCOs) for FY 2014. These include level funding capitation rates to the Massachusetts Behavioral Health Partnership (MBHP) and reducing rate growth assumptions in the MCO program to 1.5 percent over FY 2013.

Nursing Home Rate Efficiencies: $5 M gross savings; $2.5M revenue offset
MassHealth intends to reduce nursing home rates by .03 percent below FY 2013 estimated spending levels. This is consistent with policies to shift members out of nursing homes and into the community.

Program Integrity and Predictive Modeling: $41 M gross savings; $21 M revenue offset
To support high quality service delivery, operational efficiencies and process improvements, MassHealth will be able to achieve additional efficiencies in FY 2014 by leveraging the investments in program integrity described above. The new Integrated Eligibility System and a range of innovative business process improvements will strengthen MassHealth’s approach to member program integrity. Using a predictive modeling application, MassHealth will utilize advanced software to analyze claims and identify potential cases of fraud, waste and abuse before claim payments are made to providers, establishing the Commonwealth as a trailblazer in the use of this new technology.

Cash Management: $316 M savings
Every year, MassHealth implements a variety of cash management strategies, including adjustments to the timing of payments, and will continue to do so in FY 2014.

<u>Additional Program Initiatives</u>

Duals
With a proposed start date of July 1, 2013, the state Duals Demonstration to integrate Medicare and Medicaid for dual eligible individuals is designed to provide seamless person-centered care. It will improve quality and health outcomes for 111,000 individuals aged 21-64 years with full MassHealth and Medicare benefits. This delivery model will hold Integrated Care Organizations (ICOs) accountable for a member’s total care, eliminating conflicts and competing incentives between Medicare and Medicaid and reducing administrative overlap to create efficiencies for members, providers, contractors, Medicare and Medicaid. ICOs will also be required to use alternative payment methodologies to drive greater focus on cost, quality and access.

Dual eligible individuals under age 65 have among the most complex care needs of any MassHealth or Medicare members, yet the current delivery system for this population strains, unevenly and inefficiently, to meet those needs. The Demonstration will provide comprehensive services that address enrollees’ full range of needs, beyond currently covered standard Medicare and Medicaid benefits. It will ensure that the services are effective by delivering them in a setting of integrated care management and coordination based on a patient-centered medical home (PCMH) model. The Demonstration will employ a payment structure that realigns the conflicting incentives between Medicare and Medicaid.

In August 2012, Centers for Medicare & Medicaid Services (CMS) gave MassHealth the approval to implement the Demonstration through December 2016. Six regional health plans have been identified to begin a review phase that precedes contracting with CMS and EOHHS. MassHealth projects cost savings of 1 percent during the first year of implementation, with savings percentages rising incrementally to 4 percent by 2016.

Patient-Centered Medical Homes
The Patient-Centered Medical Home (PCMH) model supports fundamental changes in primary care service delivery and payment reforms. The PCMH Initiative is intended to address a series of challenges to health care delivery, including fragmented care, increases in health care costs due to

prevalence of chronic disease and a growing shortage of primary care providers. The PCMH model is designed to promote coordinated, patient-centered care delivered by teams of primary care providers, including physicians. EOHHS has set an ambitious goal for all primary care practices in Massachusetts to become PCMHs by the year 2015. Providers that currently participate in the PCMH model will be encouraged to transition to the more comprehensive PCPR Initiative described above.

Money Follows the Person
Money Follows the Person (MFP) is a federal demonstration initiative that will support the transition of individuals from long term care facilities to the community. Massachusetts was awarded a federal MFP grant in 2011 at a 5-year funding level of $110 M. Through the use of lower-cost home and community-based services, individuals who are currently in high-cost facilities will be able to move to the community and achieve a level of independence. The shift to lower-cost services will also provide savings to the Commonwealth through reductions in the use of institutional care. MassHealth is partnering closely with the Department of Developmental Services, Elder Affairs and the Massachusetts Rehabilitation Commission in the design and implementation of this important initiative.

Delivery System Transformation Initiatives program: $94 M cost; $47 M revenue
The Delivery System Transformation Initiatives (DSTI) program offers incentive payments to safety net hospitals throughout the Commonwealth in order to fundamentally change the delivery of care. The ultimate goal is transitioning away from fee-for-service payments toward alternative payment methodologies that reward high-quality, efficient and integrated care systems.

The DSTI program traditionally provides two payments per fiscal year to hospitals, but due to the timing of program requirements, only half of the FY 2014 obligation will be paid in this fiscal year. The first FY 2014 payment totals $105 M, funded with $94 M from the General Fund and $11 M through an Inter-Governmental Transfer (IGT) by Cambridge Health Alliance. The federal match for this payment is $52 M. The second DSTI payment will also total $105 M, with a $52 M federal match, and will be moved from FY 2014 to FY 2015. This change does not alter the timing of the payment, only the fiscal year in which it occurs.

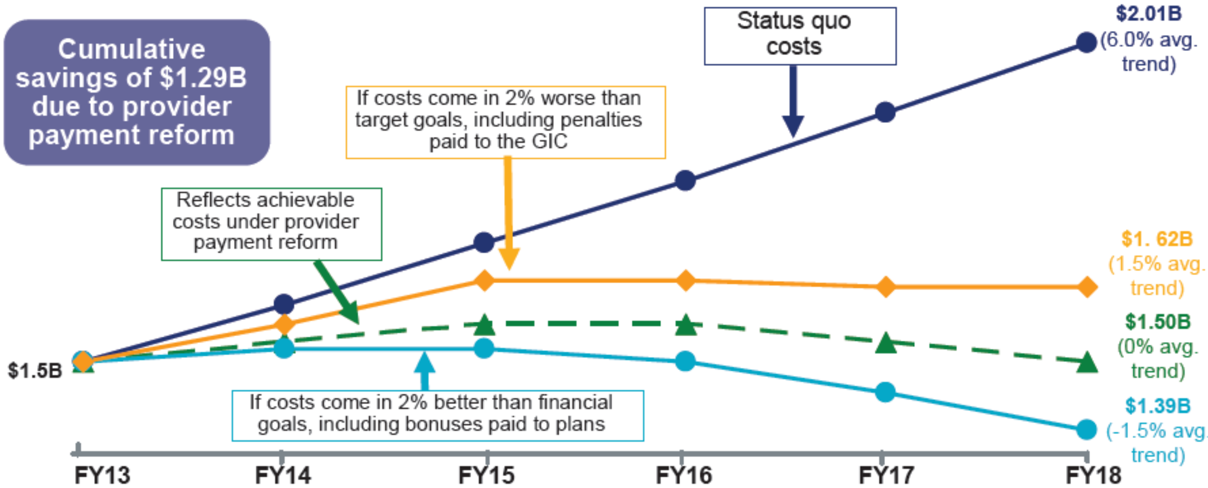
Group Insurance Commission Program Initiatives

The Group Insurance Commission (GIC) provides high value health insurance and other benefits to Commonwealth and certain public authorities' employees and retirees as well as their survivors and dependents. The GIC also provides health-only benefits to participating municipalities' employees and retirees and their survivors and dependents.

In FY 2013, the Group Insurance Commission (GIC) is focused on providing high quality health insurance coverage to its members while containing costs for the Commonwealth. The GIC embarked on a major procurement of its health plans, utilizing innovative strategies to maintain coverage and quality of care while containing costs. To pursue this in a creative and thoughtful manner, the GIC devotes significant internal resources to successfully incentivize health plans to reduce costs over the long term. This includes implementing the principles of payment reform and incorporating changes resulting from national health care reform.

Holding the Line on Premium Increases

The GIC continues to work closely with its health plans to minimize rate increases. The Commission held rate increases in FY 2013 to 1.4 percent and initiated a procurement that is estimated to save the Commonwealth $1.29 B through FY 2018. The GIC will accomplish this by reducing the average annual growth in spending from 6 percent to 2 percent in FY 2014, saving over $65 M and holding growth at or below 2 percent thereafter.



Municipal Health Care

Through Municipal Health Care reform the GIC has opened its doors to the cities and towns of the Commonwealth to participate in the Commission's health insurance program. Member communities have been provided a stable and predictable cost through payments to the GIC and have benefited from the GIC's large size and formidable negotiating power.

Since the Administration proposed municipal health reform in January 2011, more than 200 municipalities and regional school districts came to agreements with employees, achieving premium savings totaling more than $175 M. Sixteen cities, towns, and school districts joined the 27 cities, towns, and school districts already in GIC; seven used the new reform's expedited decision-making process and 9 joined as a result of negotiations inspired by the reform process). The GIC now has more than 45,000 municipal subscribers, triggering the addition of a second municipal representative and an additional labor representative to the Commission.

Wellness

Promoting wellness is a further opportunity for the Commonwealth to manage health care spending by encouraging healthy choices among its employees and retirees. In the FY 2012 budget, the GIC was tasked with developing a wellness program for its members. The GIC proposed to fund its Wellness Initiative from its operating budget in FY 2014 and A&F supported this proposal by creating a new GIC line item funded at $1.5 M.

Commonwealth Health Insurance Connector Authority Program Initiatives

The Health Connector was recently one of the first six state exchange programs in the nation to be certified conditionally as a state-based health insurance exchange on the path to operating in compliance with the Affordable Care Act. The Health Connector will kick off its annual Seal of Approval process in early 2013 for coverage that will be available to individuals and small businesses starting January 1, 2014. This year's Seal of Approval is a major milestone for the Health Connector, as it will enhance its products and services to comply with the ACA and better serve small employers and individuals. Enhancements to the Health Connector shopping experience will include:

- Real-time, integrated eligibility determinations that will dramatically improve the processing time for applications seeking subsidized health insurance coverage through MassHealth or the Health Connector;
- An updated health insurance product portfolio, including newly offering dental products alongside market-leading health insurance coverage options and a new option for employers to allow their individual employees to choose their own health insurer or a specific plan that they feel is right for them;
- An improved website with updated decision-support tools to educate and assist individuals, small businesses and brokers in choosing the best health insurance option for themselves, their employees or their clients;
- New health insurance carriers to choose from, including insurance cooperatives and national plans established under the ACA;
- Enhanced call center and on-line customer assistance tools like web chat, email messaging centers and both in-person and live chat to assist individuals, businesses, brokers and navigators throughout the eligibility determination process, shopping, paying bills, managing accounts, or just seeking general information about health care reform;
- New subsidies to help those between 300 percent and 400 percent FPL purchase health insurance along with newly available state and federal subsidies to help those below 300 percent FPL purchase commercial coverage through the Health Connector; and
- An expanded wellness rebate program offering small employers with 25 or fewer employees the opportunity to earn a 15 percent rebate on the employer's contribution to their employees' health insurance coverage for successfully participating in the Health Connector's Wellness track program (enrollment begins February 2013).

Governor's Priorities in the Program Budget

For more information on the Governor's priority of accessible, affordable health care in program format, please visit www.mass.gov/budget/governor, the online version of the FY 2014 Governor's Budget. Click on the Administration Priorities tab in the FY 2014 Program Budget Recommendations Quick Link. The tab will open to show a list of the four Governor's priorities and the core set of programs that are critical in supporting the goals of each priority.

Additional investments included in this memo can be viewed by visiting the website and selecting the Health Coverage Related Services program.

Building Stronger, Safer Communities through Positive Youth Development & Youth Violence Protection

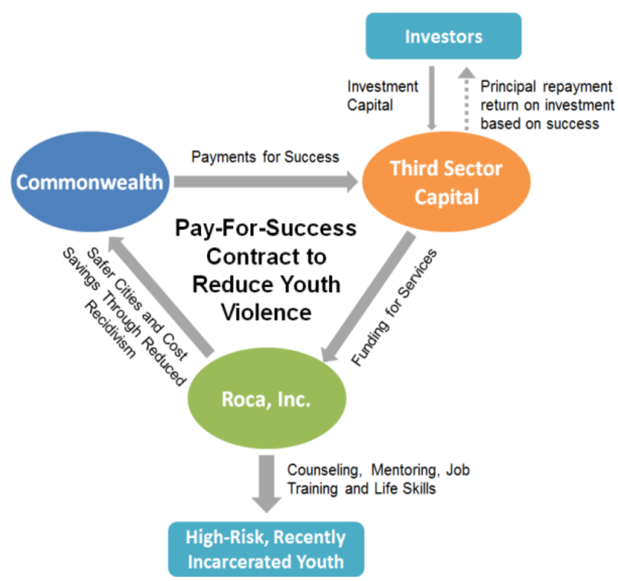
Under Governor Patrick's leadership, the Patrick-Murray Administration continues to work to end youth violence and promote positive youth development by prioritizing funding for key programs and initiatives. On top of targeted law enforcement efforts, the Patrick-Murray Administration will maintain its two-pronged approach to create a culture of opportunity for our youth by addressing violence's root causes, and providing services enabling youth to make positive choices that lead to productive lives. As positive youth development and youth violence prevention crosses many programs within state government, prioritizing agency collaboration, evaluating service outcomes, and identifying best practices will be a primary focus of the FY 2014 budget.

In the FY 2014 budget, Governor Patrick will continue to prioritize funding for positive youth development and youth violence prevention operating budget programs for a total investment of $125.2 M, an increase of $23 M over FY 2013 (as mapped by the program budget). Two innovative, data-driven strategies that incorporate strong performance management practices, informed measurement and collaborative design are central to this effort.

Paying for Outcomes with Social Innovation Financing

Unique to the Administration's approach is the Youth Recidivism Project, using our first in the nation "pay-for-success" contract in Social Innovation Financing (SIF) to reduce youth recidivism. SIF is an innovative model which allows the state to leverage private investment to implement preventative solutions to chronic problems, only using taxpayer dollars once success has already been achieved.

The Youth Recidivism Project is motivated by the reality that within five years of release from the juvenile justice system, over 65 percent of high-risk males return to prison. This outcome is undesirable from a safety, security, and youth development perspective, and is extremely expensive for the Commonwealth. The goals of this project are to identify the highest-risk individuals exiting juvenile incarceration and probation and to intervene to ensure they go on to lead healthy and productive lives. Using the SIF model, the Commonwealth will ensure demonstrated positive outcomes and measurable state savings by shifting risk and the responsibility for performance to private investors and philanthropies.



In 2012, the Patrick-Murray Administration announced two partners for the SIF Youth Recidivism Project: Roca, Inc., a service provider in Chelsea, and Third Sector Capital Partners, a fundraising intermediary organization. Third Sector Capital has obtained $12 M in commitments from investors, pending due diligence, to capitalize a seven-year contract with Roca, who will service 900 to 1,200 high-risk youth in the Greater Springfield and Chelsea areas. These funds will be repaid in full by the Commonwealth only if Roca succeeds in meeting performance targets and generates savings in the criminal justice system. In this budget, $7.5

M will be put into the Social Innovation Fund to pay back investors in future years if targeted savings are achieved through prevention.

Safe and Successful Youth Initiative

The second cornerstone of the Administration's FY 2014 positive youth development programming is the Safe and Successful Youth Initiative (SSYI). Initiated in FY 2012, SSYI is a multi-layered and proven strategy for reducing youth violence in the Commonwealth. Working with coalitions in targeted communities, SSYI combines public health and public safety approaches to eliminate community violence and put youth on a pathway to success. The total program investment for FY 2014 is $10 M, a $6 M increase over FY 2013 spending levels.

SSYI similarly targets "proven risk youth," young men (ages 14 to 24) identified by individual communities as high-risk individuals due to their criminal record, having been victim of shooting or stabbing violence, or being a family member of someone who has. The Patrick-Murray Administration has committed to further investment in the SSYI program to fill gaps in services for these high-risk populations. In 2013, grants have been awarded to 11 cities (including Boston, Brockton, Chelsea, Fall River, Holyoke, Lawrence, Lowell, Lynn, New Bedford, Springfield, and Worcester) for targeted intervention programs for high-risk youth and their families. 1,338 young people have been initially identified for participation. By preserving these efforts in the FY 2014 budget, we will ensure the continuity of our successes.

The Administration continues to collaborate with local representatives including mayors, district attorneys, police, school officials and citizens from cities that experience persistently high rates of violent crime. Together, we are increasing coordination and collaboration between human services, education, and public safety agencies to build a sustainable and proactive solution to this systemic issue while saving taxpayer dollars. Moreover, SSYI acknowledges that "hurt people, hurt people," and has accordingly made behavioral health services a critical element of its program model. SSYI grantees are required to complete a behavioral health assessment for all youth in their programs and implement structured behavioral health services tailored to the needs of young people.

The full and successful implementation of the SSYI model requires the following:

The SSYI team also measures its recent successes through the Youth Violence Prevention Dashboard. Created in 2012, the dashboard monitors and communicates summarized state-level data relating to young victims and perpetrators of homicide and serious violence. As of December 2012, the dashboard has recorded 33 homicide victims ages 14-24, statewide. This compares to 83 14-24 year-old homicide victims statewide in 2010, and 82 in 2011. While any loss of life in this age group is tragic – and the Administration considers it always preventable – given what we understand about the prevalence of violence amongst this population, these statistics suggest that SSYI and other targeted efforts of positive youth development services and programs in the Commonwealth are working.

Maintaining a Comprehensive Approach

The Patrick-Murray Administration understands that the issue of positive youth development and youth violence prevention is a complex problem necessitating a multifaceted solution. Beyond the Youth Recidivism Project and SSYI, the FY 2014 budget will continue to address this priority in three key areas:

1. *Preventing and Reacting to Community Violence* – A comprehensive youth violence prevention strategy must include effective law enforcement to protect the community from the most violent offenders, particularly those who use guns in gang-related violence and drug distribution. The Charles E. Shannon, Jr. Community Safety Initiative Grants prevent gang violence and are targeted at high-risk youth in communities with high crime rates. The Governor will level-fund these grants to FY 2013 at $6.25 M, which may be utilized by local police departments to bolster their ability to respond to youth crime as well as local community groups that provide supportive services for at-risk youth.

2. *Building a More Peaceful Community* – The long-term sustainability of a healthy and peaceful community requires a community-wide embrace of youth violence prevention strategies which are proven to restore peace. The Governor's strategy taps into demonstrably effective methods of promoting peaceful environments, including building strong and engaged communities; providing structured, positive out-of-school time activities; and opportunities for youth leadership development. The Commonwealth will use its public health and education resources to ensure a coordinated approach to reach young people before they turn to violence or other destructive activities by continuing to invest in key areas. To this end, the Department of Public Health's (DPH) Youth-at-Risk matching grants and the Executive Office of Education's (EOE) After School and Out of School Grants will be level-funded at $2.7 M and $1.4 M, respectively.

3. *Encouraging Engaged Youth* – Providing youth with increased opportunities to learn and grow will also build better communities. Youth who are engaged in educational activities or leadership development programs will likely have increased opportunities to build a healthy and safe future. Therefore, the Executive Office of Labor and Workforce Development (LWD) will increase its support to $10 M for summer jobs for at-risk youth in local communities and businesses as a way to offer subsidized work for at-risk youths. Further, the Executive Office of Education (EOE) will level-fund YouthBuild at $2 M and maintain its support for School to Career Connecting Activities by level-funding these programs to $2.9 M. YouthBuild specifically targets low-income students to improve education, job training, leadership development, and community services. School to Career Connecting Activities establishes public-private partnerships to connect schools and businesses and provide structured work-based learning experiences for students.

Governor's Priorities in the Program Budget

For more information on the Governor's positive youth development priority in program format, please visit **www.mass.gov/budget/governor**, the online version of the FY 2014 Governor's Budget. Click on the Administration Priorities tab in the FY 2014 Program Budget Recommendations Quick Link. The tab will open to show a list of the four Governor's priorities and the core set of programs that are critical in supporting the goals of each priority.

ENSE PETIT PLACIDAM SVB LIBERTATE QVIETEM

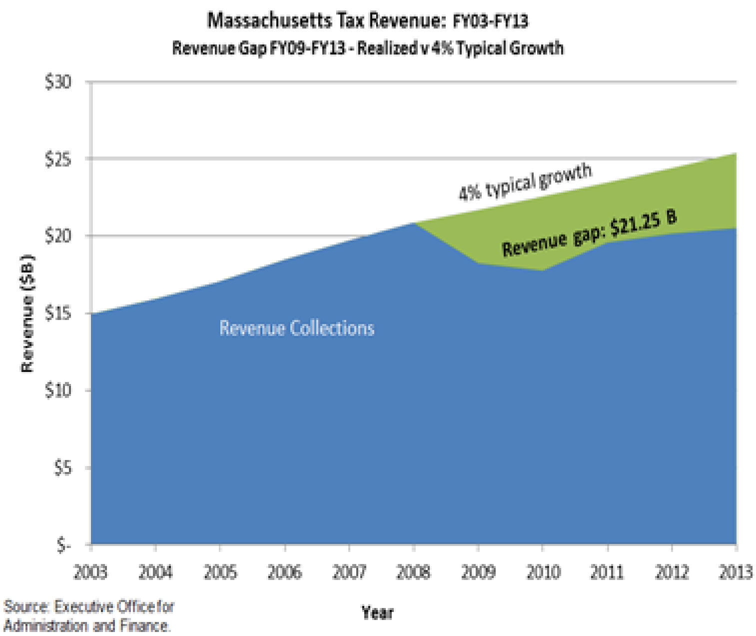
Fiscal Year 2014 Issues in Brief

Changing the Way Government Does Business

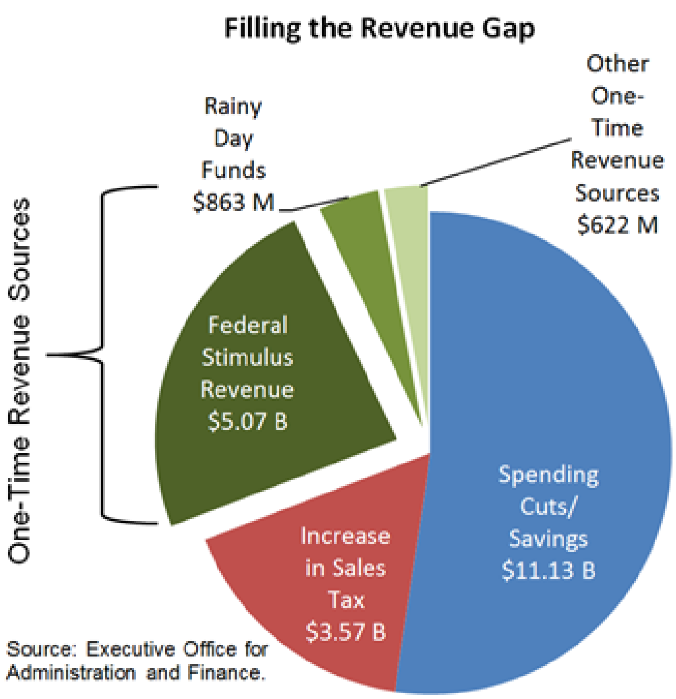
ENSE PETIT PLACIDAM SVB LIBERTATE QVIETEM

Raising Revenue for Critical Investments

The Patrick-Murray Administration inherited a structurally imbalanced budget, the highest per capita debt in the country, a lack of transparency around state budgeting, and the absence of sound fiscal policies and a long-term framework for spending and borrowing. Additionally, when Governor Patrick took office, the state faced large unfunded liabilities for the pension system and retiree health insurance benefits. Moreover, chronic under-investment in our transportation infrastructure left our roads, bridges, and railways crumbling and portions of the state severely underserved.



Source: Executive Office for Administration and Finance.



Source: Executive Office for Administration and Finance.

These problems were compounded when Massachusetts – like virtually every other state in the nation – experienced an unprecedented fiscal collapse during the 2008-09 global economic downturn. This culminated in a one-year drop in tax revenues of over $3 B and an estimated cumulative loss in revenue of $21.25 B between FY 2009 and FY 2013 (compared to typical revenue growth patterns and the typical minimum level of growth required to maintain government services).

The Patrick-Murray Administration and the Legislature took a number of steps to address these fiscal challenges. Governor Patrick has maintained balanced budgets throughout difficult fiscal times, relying principally on spending cuts and savings from reforms and efficiencies. He instituted – and has adhered to – sound fiscal policies to ensure the state budget is structurally balanced. The Governor also tackled long-term fiscal liabilities, achieving pension reforms and proposing additional changes to retiree health care benefits, which in combination would save the state and municipalities $25 B over the next 30 years. As a first step towards a better transportation system, Governor Patrick increased transportation investments by billions of dollars and secured over $500 M in savings to date through a series of reforms, including consolidating the state's transportation organizations in order to operate the state's highway, bridge, and transit systems more effectively and efficiently.

On account of these actions, Massachusetts has achieved the highest credit ratings in its history under this Administration – AA+ from all three rating agencies – saving taxpayers $100 M in interest costs over the next 30 years. The state also now has among the highest rainy day fund balances in the country.

This strong track record of fiscal reform and savings initiatives has enabled the Patrick-Murray Administration to continue to make some key investments in education, infrastructure and innovation, but it has not had the resources to make the level of investments in these areas required to support long-term growth and opportunity across the Commonwealth. Indeed, in many areas the level of state services and investment has been scaled back significantly in order to live within even more constrained resources. Aid to cities and towns has been reduced, impacting local services such as police, fire, and public libraries. Valuable state investments in state parks, economic development, affordable housing, and college affordability have all been curtailed.

We cannot meet the Commonwealth's needs by cutting deeper or depleting the Rainy Day Fund. Sustainably financing critical services and investments that are essential to long-term prosperity requires new revenue. We have a generational responsibility to ensure a sustainably financed Commonwealth for our future prosperity.

Our Goals

In order to invest in education, innovation, and infrastructure, the Patrick-Murray Administration proposes to generate new revenue in accordance with these principles:

1. Any proposal to generate new revenue must be comprehensive, allowing us to pay our bills, maintain what we have, and invest in new development to foster economic growth.
2. Any proposal to generate new revenue for transportation must be dedicated for that purpose.
3. Any proposal to generate new revenue must be competitive and fair, both allowing Massachusetts to compete with our neighbors and protecting the most economically vulnerable among us.

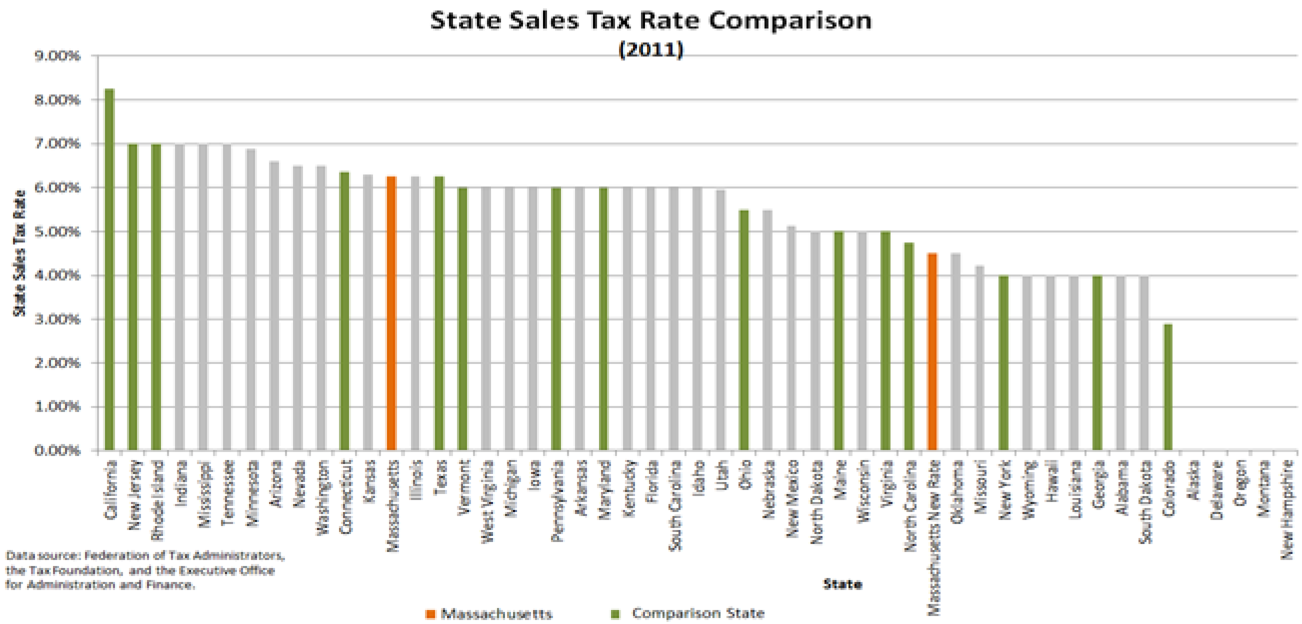
Revenue Proposal

To achieve these goals, the Patrick-Murray Administration proposes the following reforms to our tax system to raise $1.9 B on an annual basis:

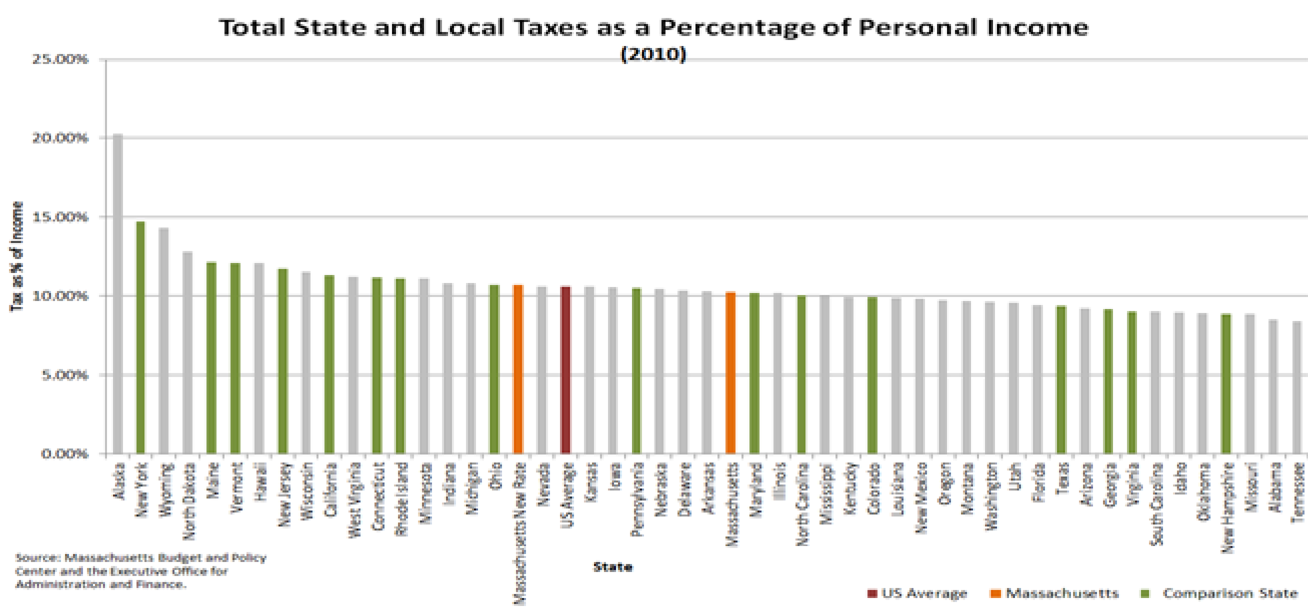
1. Cutting the sales tax from 6.25 percent to 4.5 percent and dedicating all proceeds to a fund for public works to support transportation, the school building fund, and other infrastructure.
2. Increasing the income tax rate by 1 percentage point to 6.25 percent to raise sufficient revenue to support education initiatives. Doubling the personal exemptions so that the increase is fair to all taxpayers, according to their ability to pay.
3. Eliminating outdated and overly complicated special favors in the tax code.

Economic Competitiveness

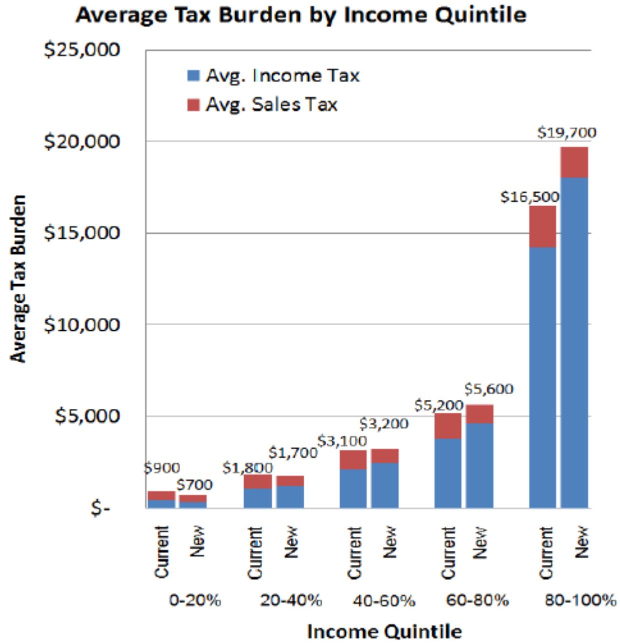
The chart below compares the Massachusetts sales tax rate, current and proposed, to that of other states. Our proposed rate reduction would bring Massachusetts from nearly the top to close to the bottom of state sales tax rates, a tax that is widely regarded to be the most regressive tax that states impose. In Massachusetts, there are no such locally-imposed sales taxes.



This proposal keeps Massachusetts competitive by ensuring that our total state and local effective tax rate as a percentage of personal income remains in the middle of the pack relative to our neighbor and competitor states, as shown below.



Tax Fairness



In addition, the Patrick-Murray Administration's proposed tax reforms result in a fairer tax system. Currently, the lowest-income taxpayers pay the highest percentage of their income in state income and sales taxes, and the highest-income taxpayers pay the lowest percentage of their income in state taxes, as seen in the chart to the right.

The Governor's tax reform proposal flips that equation and ensures that all pay their fair share to support government services and investments we need to support growth and opportunity that benefits everyone.

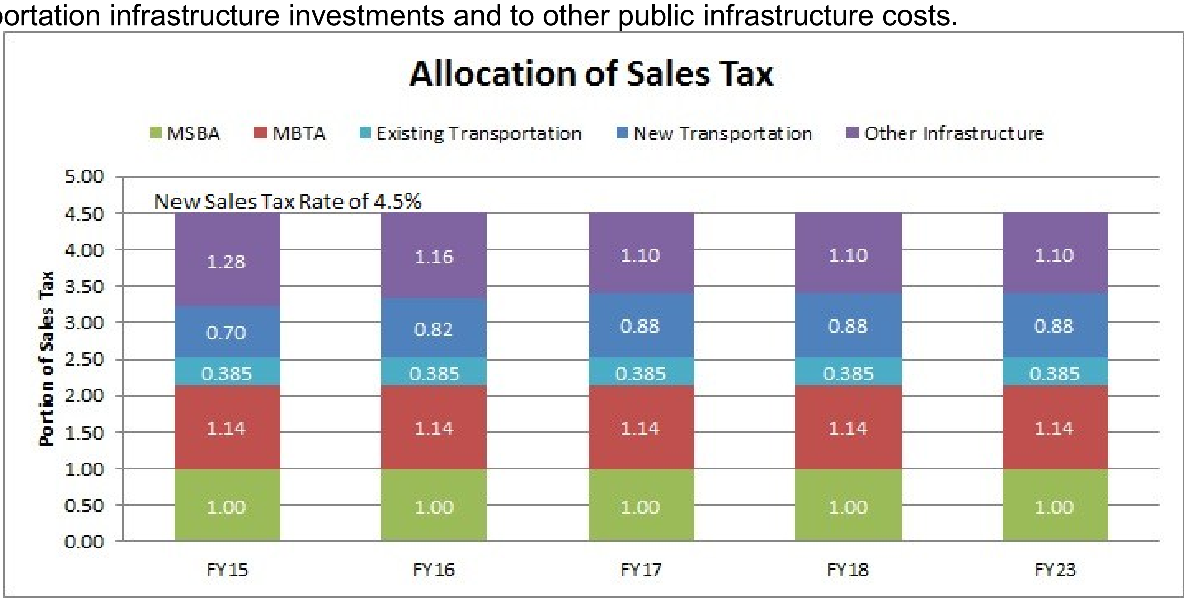
Effective Tax Rates by Income Group Current and Proposed

Income Quintile	Adjusted Gross Income	Effective tax rates (sales and personal income)	
		Status Quo	New Policy
0-20%	<$21,570	6.56%	5.10%
20-40%	$21,570 to $37,523	5.43%	5.14%
40-60%	$37,523 to $60,414	5.63%	5.80%
60-80%	$60,414 to $102,886	5.56%	6.05%
80-100%	>$102,886	5.48%	6.49%
Total		5.63%	6.27%

Note: This analysis does not include ~270,000 households that do not file income taxes. Excludes capital gains.

Ensuring Sustainably Financed Public Infrastructure for the Next Generation

The Patrick-Murray Administration understands the challenges associated with sustainably financing investments in our public infrastructure. Therefore, the Administration proposes to dedicate all sales tax proceeds to infrastructure by depositing them in a dedicated Public Infrastructure Fund. Sales tax dollars already dedicated to the Massachusetts School Building Authority (MSBA) and the Massachusetts Bay Transportation Authority (MBTA) will be untouched and augmented by additional sales tax dollars dedicated to the Massachusetts Department of Transportation (MassDOT) to support transportation infrastructure investments and to other public infrastructure costs.



Allocation of New Tax Revenue

The Patrick-Murray Administration's tax reform proposal will raise $1.9 B on an annual basis. In FY 2014, it is expected to raise $779 M as a result of the fact that the tax law changes would take effect in the middle of the fiscal year. In order to meet our existing and new investments needs in transportation, education, and innovation that ramp up over time, the Governor is proposing to allocate the new tax revenues among those purposes in the manner shown below. This funding plan assumes that $400 M of the anticipated new tax revenue in FY 2015 and FY 2016 is borrowed to support investments in FY 2014 when the full-year revenue impact of the tax law changes will not be realized.

Uses of New Tax Revenue by Fiscal Year ($Ms- Before Inflation)

	FY14	FY15	FY16	FY17	FY18	FY23
New Revenue	779	1,900	1,900	1,900	1,900	1,900
Investments						
Transportation	231	600	700	755	755	755
Education	912	975	975	1,020	1,020	1,020
Innovation*	36	50	100	125	125	125
Total New Spending	1,179	1,625	1,775	1,900	1,900	1,900
*Includes $25M for life sciences						
(Issue)/Repay Revenue Note	400	(275)	(125)			
Note: Transportation need before other solutions	650	746	909	856	1,021	1,291

Source: Executive Office for Administration and Finance.

Additional Transportation Revenue

As noted in the report "*The Way Forward*," MassDOT understands that sustainably financing transportation infrastructure will also require some transportation-specific revenue sources. Other resources to finance the transportation investment needs will include:

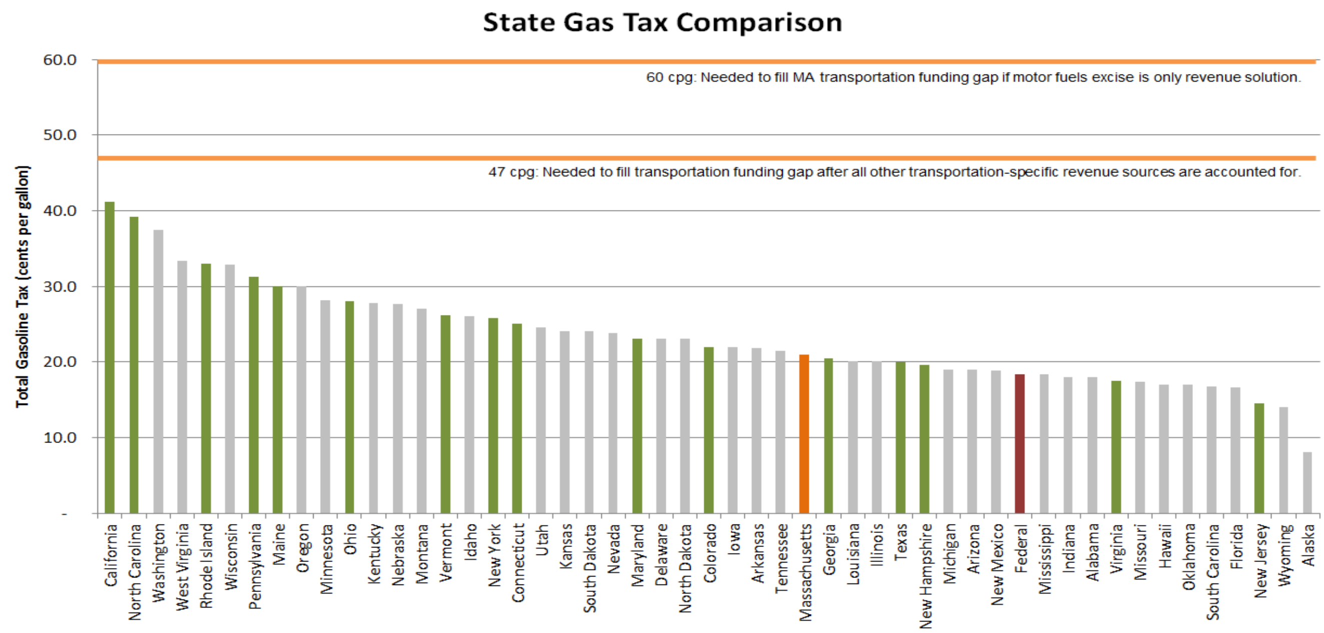
- Indexing the gas tax to inflation;
- Creating a sustainable schedule for MBTA fare increases, Registry of Motor Vehicles (RMV) fee increases, and toll increases;
- Savings achieved through All-Electronic Tolling on the Turnpike (outlined in "Transportation Reform"); and
- Dedicating a portion of Gaming Commission and Convention Center Authority revenues to transportation needs.

Revenue from Transportation-Specific Sources

Solutions ($Ms)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
MBTA Fares	-	27	27	57	57	89	90	124	125	162
RMV Fees	-	-	55	56	57	58	60	128	131	134
Tolls	-	17	17	35	36	55	56	77	78	101
Western Turnpike AET Savings	-	-	50	51	53	54	55	57	58	59
MassPort Other Contributions	-	10	10	11	11	11	11	12	12	12
Gaming	25	12	-	50	51	53	54	55	57	58
Convention Center	-	-	-	10	10	11	11	11	11	12
Total	25	66	159	270	275	330	336	463	472	538

Notes	
MBTA Fares	5% biennial fare increase beginning in FY15. Increases fare revenue 27% over baseline by FY23.
RMV Fees	10% fee increase every five years beginning in FY16. Increases fee revenue 20% over baseline by FY23.
Tolls	5% biennial fare increase beginning in FY15. Increases fare revenue 27% over baseline by FY23.
Western Turnpike AET Savings	Preliminary estimate.
MassPort Other Contributions	Preliminary estimate.
Gaming	One-time available in FY14 (2/3rds). Recurring amount available in FY17.
Convention Center	Preliminary estimate.

Source: Executive Office for Administration and Finance.



Source: Federation of Tax Administrators and the Executive Office for Administration and Finance.

It is important to note that revenue sources specific to transportation cannot responsibly be considered the sole means of covering all currently unfunded transportation costs that the state must address. For example, fully funding the transportation needs from the motor fuels excise (the "gas tax") alone would require increasing the gas tax from 21 cents per gallon to 60 cents per gallon. As shown in the above chart, an increase of this magnitude would place Massachusetts at the highest gas tax level in the nation by almost 50 percent. After accounting for all other transportation-specific revenue sources outlined in the chart on the preceding page, the gas tax would need to increase to 47 cents per gallon to adequately finance this critical investment.

The table at right details the projected increase in the gas tax rate and the additional state revenue projections from indexing to inflation.

Revenue from the Motor Fuels Excise: Current and Indexed for Inflation

	Current Policy		New Policy (Index to Inflation)		
Fiscal Year	Motor Fuels Tax	Motor Fuels Tax Collections ($Ms)	Motor Fuels Tax	Motor Fuels Tax Collections ($Ms)	New Revenue ($Ms)
FY14	$ 0.2100	$ 664	$ 0.2142	$ 677	$ 13
FY15	$ 0.2100	$ 660	$ 0.2185	$ 686	$ 27
FY16	$ 0.2100	$ 661	$ 0.2229	$ 702	$ 40
FY17	$ 0.2100	$ 669	$ 0.2273	$ 724	$ 55
FY18	$ 0.2100	$ 674	$ 0.2319	$ 744	$ 70
FY19	$ 0.2100	$ 677	$ 0.2365	$ 763	$ 85
FY20	$ 0.2100	$ 681	$ 0.2412	$ 782	$ 101
FY21	$ 0.2100	$ 685	$ 0.2460	$ 802	$ 118

Source: Executive Office for Administration and Finance.

Investments

The new revenue outlined above will allow the Commonwealth to sustainably and responsibly fund critical education, infrastructure and innovation investments necessary to support growth and opportunity for years to come. For a description of the proposed investments see the following Issues in Brief: "Investing in Education to Close the Achievement Gap," "Investing in Innovation & Infrastructure to Create Jobs, Expand Opportunity," and "Transportation Reform."

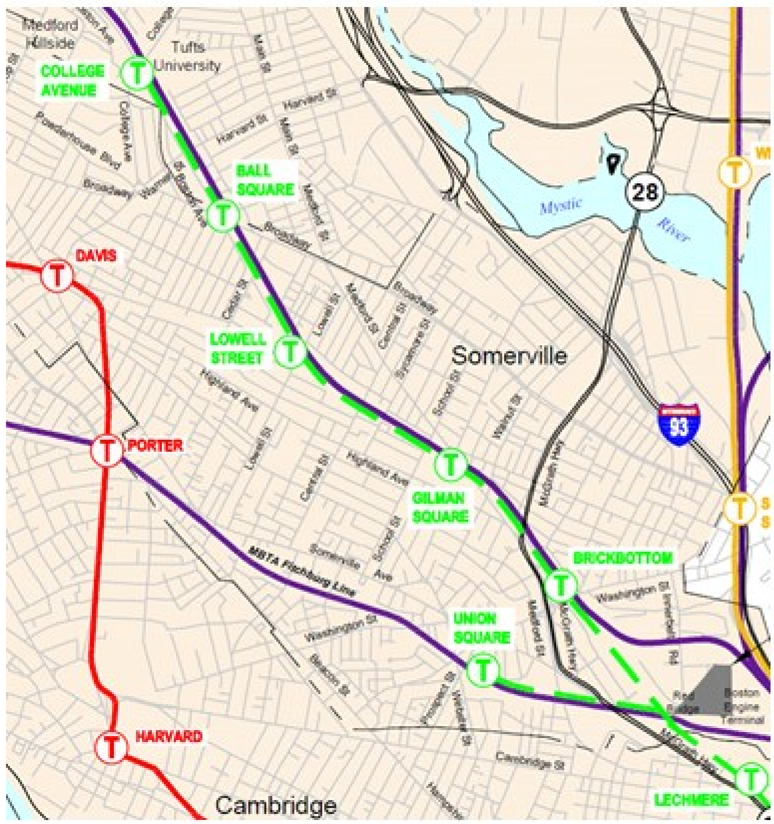
Transportation Reform

Transportation infrastructure is vital to creating sustainable economic growth, supporting job creation, and reducing the environmental and social impacts of congestion. Through reforms that enhance efficiency of existing resources, the Massachusetts Department of Transportation (MassDOT) continues to do more with less. However, the Commonwealth's transportation network has been underfunded by previous administrations for decades, creating a backlog of upgrades to transportation assets that have not been properly maintained.

Through a transformative initiative of reforms and new investments, the Patrick-Murray Administration will improve the Commonwealth's transportation network and expand access to transportation infrastructure for all residents and businesses of the Commonwealth.

Transportation Revitalization

MBTA Green Line Expansion Project



In 2007, the Patrick-Murray Administration made immediate investments in the system to begin to reverse decades of neglect. The Administration passed several transportation bond bills, including an Immediate Needs bond bill. And, the Administration launched a $3 B Accelerated Bridge program and significantly increased transportation investment in its capital plan. Despite those efforts, and three years of continuous transportation reform beginning with the 2009 Transportation Reform Bill, our transportation system cannot continue to provide adequate service to meet our needs under current funding levels. The Governor's FY 2014 budget begins to reverse years of neglect by providing a major investment in the Commonwealth's transportation assets to modernize and ensure the continued maintenance of this critical economic driver. The Governor's FY 2014 budget will fund a statewide series of targeted capital investments, provide significant debt relief for the independent Massachusetts Bay Transportation Authority (MBTA), forward-fund and enhance services at the 15 Regional Transit Authorities (RTAs), and stop the decades-old practice of using borrowed funds to pay for personnel and operations at MassDOT.

This investment is based on MassDOT's report, titled "*The Way Forward*: *A 21-st Century Transportation Plan.*" The plan provides a detailed analysis of the infrastructure needs of the Commonwealth's transportation system, including a ten year long-term financial plan outlining investments necessary to improve economic development and quality of life across the state. This plan

explains how MassDOT will meet public demands for more and better transportation and do so in a way that is fiscally responsible now and for the future.
The plan recommends increasing the level of transportation capital investment by $13 B over the next ten years to create a state-of-the-art transportation network that is able to provide fast and reliable service while attracting and supporting sustainable economic growth in the future. With this investment, the Patrick-Murray Administration will:

- Complete the Green Line Extension, South Coast Rail project and expansion of South Station;
- Establish rail service from Boston to Springfield, Pittsfield to New York and summer service to Cape Cod;
- Replace MBTA Red, Orange and Green Line cars, reducing travel-times and improving the functionality of two of the MBTA's highest-volume lines;
- Replace MBTA and RTA buses to improve quality and accessibility;
- Invest in local, regional, and Department of Conservation and Recreation (DCR) owned bridges, resurfacing, signal improvements, and other necessary projects to improve our roadways;
- Complete the I-91 Viaduct in Springfield and the Interstate 93 and 95 interchanges in Woburn and Canton;
- Improve safety at intersections identified on the Commonwealth's list of 'high-crash locations;'
- Increase funding to municipalities for local road improvements with additional funding for Chapter 90; and
- Invest in airport infrastructure throughout the Commonwealth.

In addition to the Patrick-Murray Administration's increased capital investment, $269 M is included in the Governor's FY 2014 operating budget recommendations, which represents a phased in approach to funding the $650 M need highlighted in the "*The Way Forward*: *A 21-st Century Transportation Plan.*", and that will:

- Eliminate the MBTA's structural operating deficit, which has been solved in recent years through the use of one-time, unsustainable funding sources;
- Provide modest MBTA service enhancements such as possibly expanding evening hours, restoring weekend service in areas that have been cut and improved customer service;
- Take a significant step forward in discontinuing the decades-old practice of using borrowed funds (bonds) to pay for personnel and other operating costs; and
- Sustainably fund RTAs by ending the practice of funding the RTA operating budgets in arrears, thereby eliminating the need for the RTAs to take on short-term debt in order to fund annual operating costs which, in turn, increases costs to the taxpayers and customers.

Continued Reform

In addition to this critical investment, MassDOT will continue to improve its business practices to save taxpayers money. Following the passage of the 2009 transportation modernization law, MassDOT has made significant reforms to reduce personnel costs, avoid payments associated with high risk financial deals entered into by previous Administrations, and other steps to be cost effective in day-to-day decisions. The Commonwealth has saved over $500 M to date through transportation reforms.

Through a year-long, exhaustive public meeting process and stakeholder conversations, MassDOT has identified a number of additional reforms that could be implemented to meet those goals.

Performance Management
To improve efficiency, and consistent with the Commonwealth Performance, Accountability, and Transparency (CPAT) program undertaken by the Administration, MassDOT has begun a rigorous program of performance management. The agency has identified areas of improvement and is evaluating progress at achieving efficiency goals. Monthly accountability meetings that focus on the

department's performance are chaired by the Secretary of Transportation, and these meetings are open to the public on a quarterly basis.

Enhancing the Chapter 90 Program
MassDOT is supporting municipalities in their efforts to care for their transportation facilities by developing a statewide asset management program for local roads, bridges and facilities.

All Electronic Tolling
Working with labor, MassDOT has begun work to implement statewide All-Electronic Tolling (AET), which will replace toll collectors on roads and bridges with gantries along the highways, allowing all traffic to travel at normal highway speed through the tolling areas. Cash will be eliminated from the system entirely, as all transactions will be conducted using either the current E-Z Pass system or through video tolling (in which invoices are sent to customers whose license plates are recorded by the AET camera system). This concept will lessen congestion, improve air quality, and reduce operating costs by an estimated $50 M annually.

Registry of Motor Vehicles (RMV) Modernization
The Patrick-Murray Administration recognizes that individuals increasingly prefer to perform every-day transactions either online or through self-service. In order to provide the citizens of the Commonwealth with the ability to carry out motor vehicle transactions online rather than branches, an investment will be made in the RMV to offer customers greater convenience and time-saving opportunities. In addition to greater online transaction availability, modernization will enable consolidation of current branch offices and replace them with a network of regional and commercial centers authorized to provide services such as insurance agencies, AAA branches and even retail stores or banks.

Reform the Metropolitan Planning Organizations (MPOs)
Federally-designated partners in the transportation planning process, MPOs help their member communities identify and prioritize transportation needs for project funding and study. MassDOT is reviewing the MPO structure in terms of size, number, performance, and project selection criteria in order to identify reforms that will improve effectiveness, equity and transparency. MassDOT will engage in efforts to increase public awareness of and involvement in the annual MPO process of programming federal transportation funds for expenditure.

State Infrastructure Bank (SIB)
A State Infrastructure Bank (SIB) could provide public funds to match private capital for the purpose of making loans to support the construction of infrastructure with a public purpose. Projects supported by SIB funds would be required to have an economic benefit to the Commonwealth and to generate revenue so that interest paid to the SIB could then be invested in other beneficial projects.

MBTA Retirement Policies
Continuous review of retirement eligibility and reform in order to remain consistent with state policies and practices is important for equity and long term savings. MassDOT and the MBTA will also review the recommendations of the Other Post-Employment Benefits (OPEB) Commission (outlined in the Issue in Brief "Retiree Health Reform") for realigning benefit costs while both protecting public employees and avoiding budget cuts in other areas as health care costs continue to escalate.

Utility Reimbursements
The need to relocate utilities is one of the top reasons for infrastructure project delay. Federally-aided construction programs provide MassDOT with the ability to reimburse utilities for the relocation of conduits, poles, lines and associated equipment, reducing necessary construction times. In 2009, only 33 percent of the projects that were completed that year did so on-time and within the original contract schedule. Since then, with the implementation of utility reimbursements in the Accelerated Bridge and Federal Aid programs, on-time performance has improved significantly – up to 72 percent in 2011. In

an effort to increase project turnaround and efficiency, MassDOT intends to extend utility relocation reimbursements to projects funded by the state as well.

Real Estate Disposition
MassDOT is one of the largest owners of real estate in the Commonwealth. With the completion of a statewide inventory of all parcels and other owned assets, MassDOT is identifying parcels that are eligible for transfer to municipalities, sale to third parties, or those that could be used in public-private partnerships to enhance economic competitiveness.

Regional Transit Authorities (RTAs)
In 2010, MassDOT and the RTAs established the Beyond Boston planning effort to improve and enhance services and coordination between the 15 RTAs, MassDOT and the MBTA. This year, a RTA Council has been established to advance further reforms related to statewide transit and paratransit service, including scheduling and enhancing services on nights and weekends.

Partnerships with Massport
The 2009 Transportation Reform Bill directed MassDOT to take over the Tobin Bridge from the Massachusetts Port Authority (Massport), and gave management responsibility to Massport for Worcester Regional Airport and Hanscom Field. Since then, Massport, MassDOT and the MBTA have partnered to reduce costs and improve customer service. In 2012, the MBTA and Massport launched a pilot program offering free MBTA Silver Line service between Logan Airport and South Station in order to reduce the number of private vehicles at Logan. MassDOT and Massport are working to make the service permanent and to identify other areas of collaboration.

With these reforms in place, the Patrick-Murray Administration is taking a significant step in providing the Commonwealth with the transportation resources it deserves.

Workforce Development and Community Colleges Reform

The public higher education system in Massachusetts is a critical asset and contributor to the Commonwealth's Innovation Economy, and the 15 community colleges are an essential component of a vibrant postsecondary educational and workforce development system. Therefore, the Patrick-Murray Administration is maintaining its strong commitment to these campuses, by providing significant new investments in community colleges in the FY 2014 budget. The Commonwealth's 15 community colleges provide a wide variety of affordable and highly effective educational and career programs to prepare students of all ages for both the job market and future academic study.

Our community colleges currently serve as the linchpin of three central goals of the Patrick-Murray Administration:

1. Creating a 21st century workforce that is responsive to local and statewide economic needs;
2. Reducing unemployment across the state; and
3. Closing the achievement gap.

Workforce Development

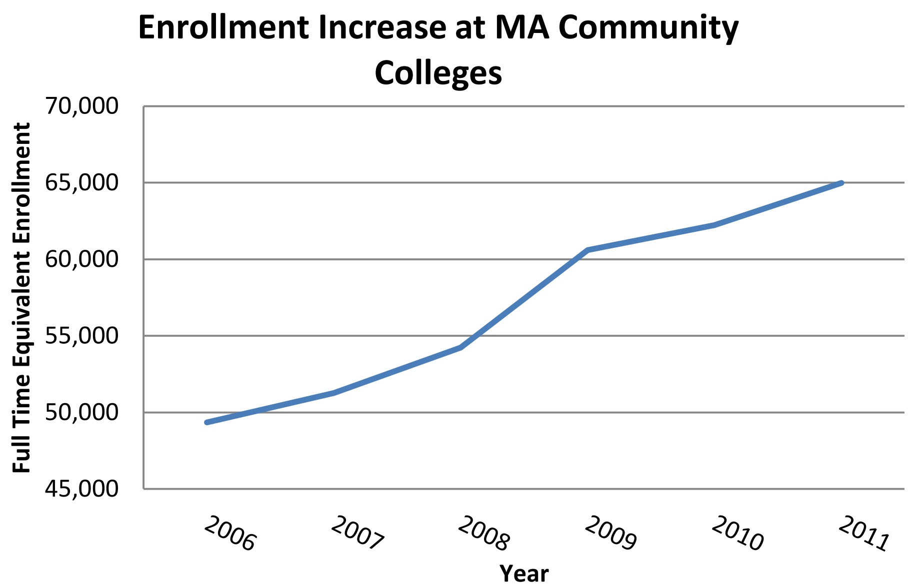
The Patrick-Murray Administration will continue its efforts to reform the community college system by increasing accountability and strengthening collaboration to improve both academic and workforce training outcomes. The Department of Higher Education (DHE) and the community colleges have worked to collaborate both internally with the Executive Office of Labor and Workforce Development (EOLWD) and the Executive Office of Housing and Economic Development (EOHED), as well as externally with local employers, to ensure that workforce initiatives at the campuses meet the needs the students and the local economy. The FY 2014 budget includes new investments of $2.3 M that will build on the following elements of the FY 2013 budget, including:

- New scholarship funding for in-demand careers;
- Rapid Response Grants which give our community colleges and potential employers the opportunity to develop career-specific curricula based on the needs of these employers; and
- The Community College Workforce Grant Advisory Committee to promote the development of workforce training programs and partnerships with Commonwealth businesses and industry, other educational and training institutions, labor organizations, and other organizations supporting workforce development.

The FY 2014 budget will continue to advance these efforts through an investment of $6.1 M, including $2.3 M in new funding at DHE that consolidates the FY 2013 initiatives of in-demand scholarships, Rapid Response Grants and the Community College Workforce Grant Advisory committee. This consolidation of funding will allow DHE greater flexibility in meeting the workforce development needs of the community colleges, and the students and employers served by the community colleges.

Investing in Community Colleges

The opportunity, value, and life advancement offered by the community colleges has been recognized by the residents of Massachusetts, as full-time equivalent enrollment increased 32 percent from 2006 to 2011. The Administration will invest an additional $20 M in new funding for Community Colleges, or 9 percent more than FY 2013 funding levels. This new investment will be allocated to the campuses through a new formula that serves to accomplish the goals established by the Administration and ensure that all campuses will receive at least the same levels of funding as in FY 2013.



The Commissioner of Higher Education was charged with recommending a new formula for allocating state-appropriated dollars to the community colleges that would successfully address the following factors:

- Large inequities in per-student funding that have arisen as the result of substantial increases in enrollment and changing student populations;
- The importance of linking state appropriations to institutional performance with respect to statewide goals and priorities identified in the Vision Project that was approved by the Board of Higher Education, including increasing graduation and success rates, closing achievement and attainment gaps, and advancing the Commonwealth's workforce development goals; and
- The need to strengthen the role of the community colleges in preparing students for jobs in the state's rapidly evolving innovation economy.

The new formula was developed in consultation with the presidents of the community colleges, the leadership of the Massachusetts Community College Council, Massachusetts Teachers Association, and the Secretaries of the Executive Office of Education (EOE), EOLWD, and EOHED. The new formula includes the following elements:

- Components that better reflect the enrollment of each college and credits completed to address inequity while protecting small institutions;
- Components that reward institutional performance with respect to critical statewide goals, especially degree and certificate completion;
- Components linking funding levels to performance in the area of workforce development, including producing students with degrees or certificates in fields of high employer need and providing non-credit training opportunities that serve the needs of both workers and employers;
- Components linking funding levels to successful efforts to close achievement gaps associated with lower-income students and students of color; and
- An implementation plan that avoids significant reductions in the budget of any individual community college in the first year and protects colleges from excessive budget reductions as the formula takes effect.

Higher Education Affordability

The Patrick-Murray Administration understands that for the Commonwealth to compete effectively for jobs, investment, and talent, as well as sustain our rich intellectual and civic life and cultural landscape, Massachusetts needs to not only maintain a well-educated workforce but also continue to develop an effective educational pipeline for all students. This fall, the Administration issued the first annual report of the Vision Project, a strategic plan to move our state's public higher education system to a position of national leadership. In order to achieve this goal, our community colleges, state universities, and University of Massachusetts campuses must continue to enhance the quality of the academic, extracurricular, and career-focused opportunities that they provide to an increasing number of students. The Vision Project is based on seven key outcomes, two of which – college participation and degree completion – are directly correlated with a student's ability to afford higher education.

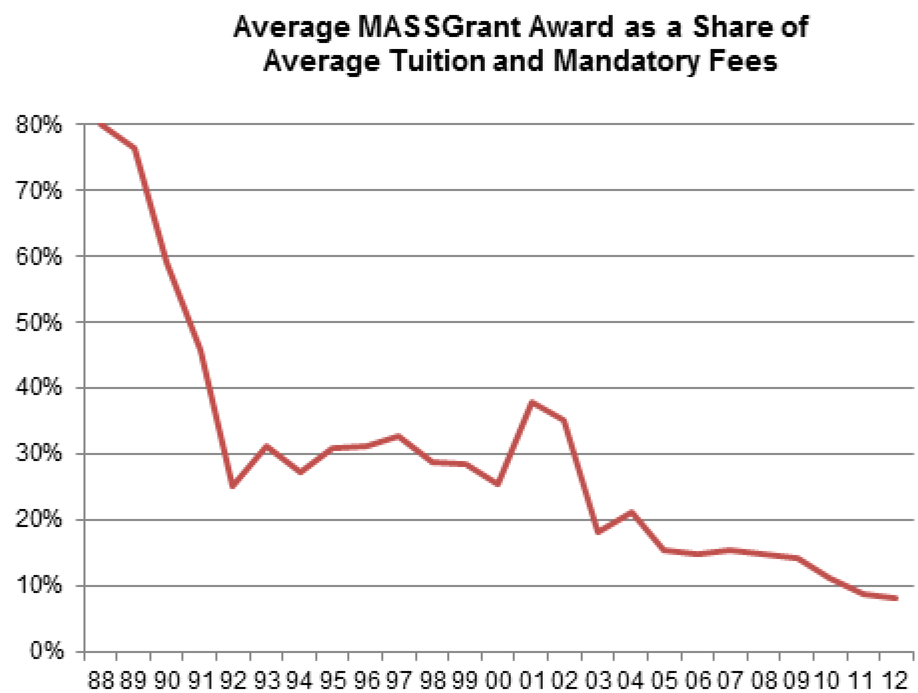
Since taking office, the Administration has been committed to creating a world-class public higher education system while keeping college education affordable for Massachusetts residents. The impact of recent fiscal limitations, along with the continuously rising cost of higher education, has severely impacted the ability of Massachusetts families to pay for college. The FY 2014 budget provides $175 M in new funding to increase affordable access to our public institutions of higher education for students and families across the Commonwealth.

Investment in our Campuses

The FY 2014 budget increases state support to the University of Massachusetts, the state universities, and community colleges. This collaboration between the Administration and the campuses creates a shared sense of responsibility to provide high quality services to all students while maintaining affordability. This increased funding, a total of $57.5 M in FY 2014 and reaching $240 M by FY 2017, will allow the campuses to maintain their delivery of educational and other services without requiring unaffordable increases to tuition and student fees.

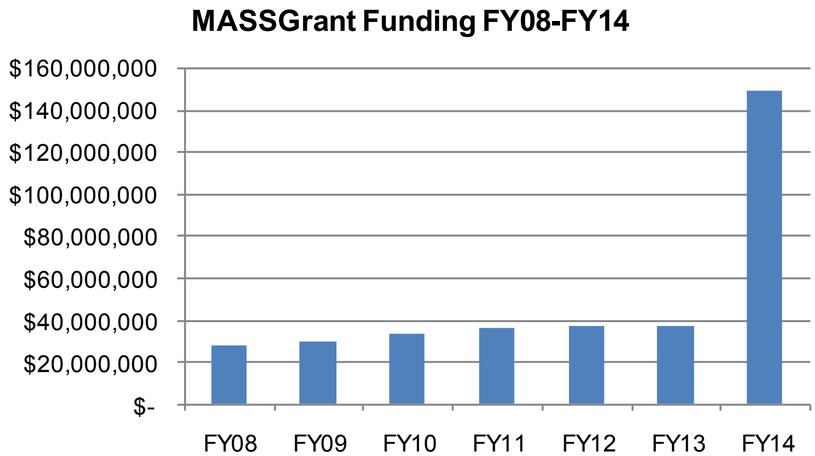
Restoring MASSGrant

MASSGrant, the largest financial aid program in the state's public higher education system, provides assistance to students demonstrating the greatest levels of financial need. In recent years, the MASSGrant program has seen applications for these students double from 30,141 in FY 2009 to 63,137 in FY 2012. Despite this surge in demand, funding for MASSGrant declined from FY 2009 to FY 2013. This



decline in funding in recent years has meant that the MASSGrant award in FY 2012 had declined in value to eight percent of a student's tuition and fees from 80 percent in 1988.

The FY 2014 budget invests $112 M in additional funding to restore MASSGrant to an equal level of purchasing power that it provided in 1988. This significant increase will quadruple the available funding for this program, and directly support the students most affected by lack of college access due to affordability constraints.



Investment in College Completion

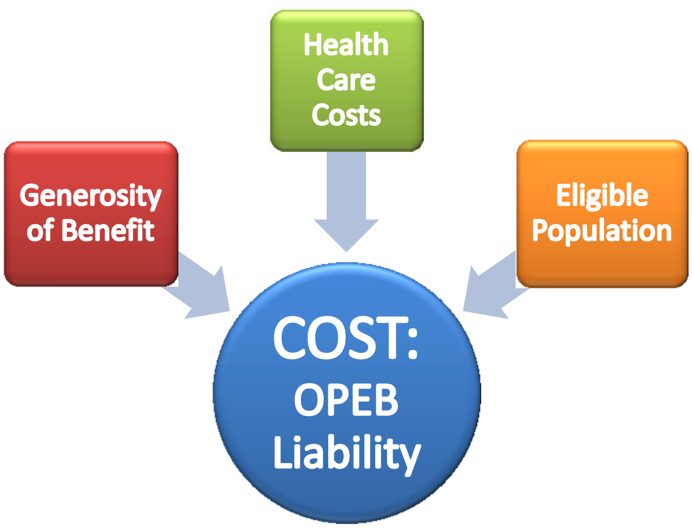
College completion increases an individual's employment prospects and is the strongest indicator of future civic participation. Massachusetts lags behind other states with regard to college completion, and has significant college completion achievement gaps by income, race, and gender. The FY 2014 budget invests $3 M in additional funding for financial aid to lower-income students – those most in need of additional support – to incent and reward the timely and successful completion of degree and certificate programs at our community colleges, state universities, and University of Massachusetts campuses.

Retiree Health Reform

The Patrick-Murray Administration is committed to building on past success in reducing the Commonwealth's long-term pension costs. The Administration has worked with stakeholders to develop a retiree health benefits reform proposal to save the Commonwealth and municipalities $20 B over 30 years.

The Problem

Currently, the estimated unfunded liability for retiree health benefits in Massachusetts is estimated to exceed a combined $40 B for both the Commonwealth and municipalities. Our cost of retiree health is among the highest in the nation when compared to other states, and public employee benefits are more generous than what is provided by over 90 percent of private employers in the Commonwealth. Massachusetts, similar to most states, has not set aside significant amount of resources to fund retiree health care. This contrasts with pension funding, in which the Commonwealth and most other states set aside significant funds to provide sustainability. In Fiscal Year 2013 (FY13), Massachusetts budgeted $415 M for retiree health care. Funding the Commonwealth's Annual Required Contribution which represents both the value of benefits earned during the year and an amortization of the Unfunded Actuarial Accrued Liability over a 30-year period, would require $1.3 B annually. Additionally, the cost of the benefit is increasing due to the cost drivers shown below.



Modifications to the current system are essential to keep it sustainable for future state and municipal employees. This is vital to the Commonwealth's effort to attract and retain quality employees. In 2012, the Other Post-Employment Benefits (OPEB) Commission diligently researched and considered these issues and recommended changes by an 11-1 vote, including support from the executive branch members, legislators from both parties, the Treasurer, labors unions, and a retiree association.

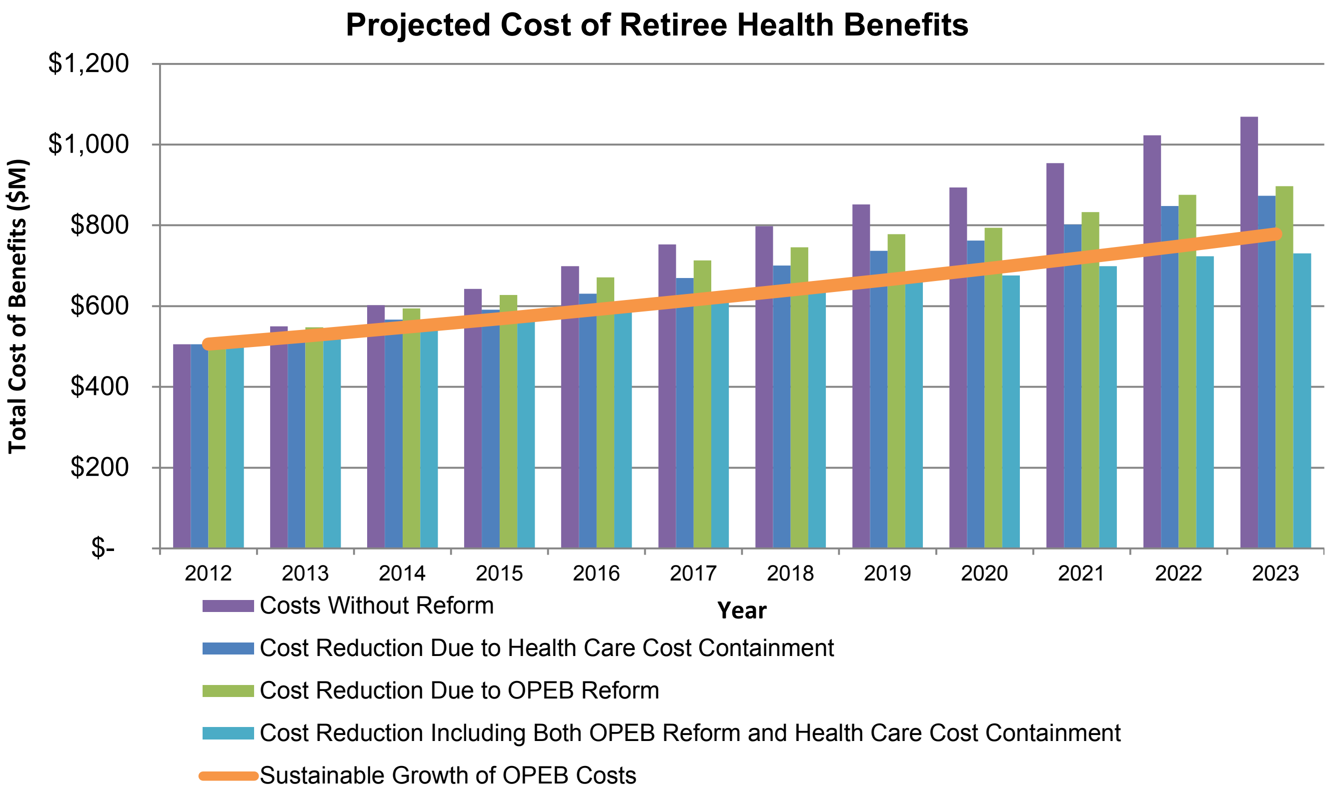
Retiree Health Reform

The Patrick-Murray Administration is filing legislation informed by the recommendations of the OPEB Commission to save the Commonwealth and municipalities up to $20 B over 30 years. Future retiree health care benefits provided by both the Commonwealth and municipalities will be amended by:

- Increasing the minimum years of service requirement from 10 to 20 years;
- Increasing the minimum eligibility age by five years for each Group to 60 (for most employees and elected officials), 55 (for specified hazardous duty employees) and 50 (for public safety employees); and

- Prorating benefits on a scale from 50 percent premium contribution after 20 years of service to the maximum available retiree benefit (e.g. 80 percent of premium for State retirees) at 30 years of service.

The Legislation will also direct the Group Insurance Commission (GIC) to investigate the adoption of an employee group waiver program for prescription drugs which would result in increased Federal subsidies and resulting savings to the Commonwealth. The expected savings total $20 M for the Commonwealth in the first year of implementation.



The Commission recommended preserving the existing system for current retirees and workers close to retirement, in order to avoid unfairly changing benefits for workers who have very limited flexibility in retirement planning. Current workers would be exempted from the above changes if they are:

- Within five years of retirement age for their Group and have completed 20 years of service as of the effective date of the legislation;
- Within five years of Medicare eligibility (currently 65 for most people) and within 12 months of vesting as of the effective date of the legislation;
- Current teachers participating in Retirement Plus upon reaching at least 57 years old and the maximum retirement benefit of 80 percent; or
- Receiving an accidental disability retirement.

For current employees, the Commission recommended phasing-in reforms to allow time to adjust to the new benefit structure as follows:

- Any current employee who, at the time of the legislation, is at least age 50 and has completed 15 years of service would be eligible to receive a 50 percent premium contribution upon retirement;

- Any current employee who, at the time of the legislation, is at least age 55 and has completed 10 years of service would be eligible to receive a 50 percent premium contribution upon retirement; and
- Ordinary disability retirements would be exempt from the reform until the 2014 Affordable Care Act (ACA) Exchange is available, at which time ordinary disability retirees would receive a 50 percent premium contribution for 10 to 20 years of service; beyond 20 years, prorating would apply.

The Commission further recommended freezing municipal retiree contributions for three years from the effective date of any OPEB reform. Following this period, municipalities could exercise the right to reduce employer premium contributions, provided that any changes not affect existing retirees.

The Commission also recommended that future retirees be provided with information about the availability of coverage under the 2014 ACA Exchange and with the information necessary to determine whether coverage under the ACA exchange may be of comparable quality at a lower price. The Administration supports these recommendations and will continue to work with municipalities to achieve savings.

Background on the OPEB Commission

The OPEB Commission was established in the 2011 pension reform bill. The Commission's charge was to: (i) consider the range of benefits that are or should be provided, as well as the current and future cost of providing them, (ii) consider how to best divide costs between the Commonwealth and employees and (iii) study the operation and structure of the Group Insurance Commission or any other aspect of employee healthcare. The Commission sought to find savings while protecting current retirees and employees who are close to retirement age and maintaining a quality benefit for employees who spend their careers in public service. Additionally, the Commission aimed to avoid deferring costs to future generations.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Investing in our Communities

The FY 2014 budget continues the Patrick-Murray Administration's unprecedented commitment to building strong partnerships with cities and towns and supporting their efforts to operate more effectively and efficiently. The Governor's FY 2014 budget increases local aid funding for all communities, provides much-needed local aid reform, and will announce programs that enhance cooperation with municipalities and achieve key Administration priorities.

Local Aid and Local Aid Formula Reform

Aid to cities and towns, or local aid, represents approximately 14.6 percent of the Commonwealth's annual budget. In FY 2014, local aid programs account for $5.57 B, which reflects the Patrick-Murray Administration's unprecedented commitment to a strong partnership between the state and its cities and towns.

Unrestricted General Government Aid (UGGA) will be funded at $899 M, the same amount and same distribution provided for in the FY 2013 GAA.

An additional $31 M in local aid will be distributed to all municipalities through the new "Annual Formula Local Aid" program. The existing allocation of local aid among the Commonwealth's cities and towns (UGGA) is meant to maintain year-to-year consistency regardless of changes in a municipality's circumstances and is no longer based on a rational funding formula. Annual Formula Local Aid addresses these critical aspects of a rational local aid program:

- Provides a simple and transparent formula using a combined measure of property values and income to calculate each municipality's relative ability to provide essential local services; and
- Will consistently provide equitable distributions into the future, as each year the formula components will be updated and the total distribution of aid will be calculated using the updated components.

Education Reform

In FY 2014, K-12 Chapter 70 funding is allocated at $4.39 B, the highest level of state K-12 education funding in history and a $226 M increase over FY 2013; this investment will ensure that the reforms initiated in the 2007 Reforms to Chapter 70 are fully implemented and funded. This increased funding will also account for the following factors in the Chapter 70 funding allocation to local educational authorities:

- All districts are fully funded at foundation levels;
- All districts will receive at least an increase of $25 per pupil;
- Districts will calculate Out of District Special Education at $35,000 per year, an increase of $25,000 per year in prior years to appropriately compensate districts for the costs of providing special education; and
- Elimination of the cap of pre-kindergarteners included in enrollment for Chapter 70.

Additional investments in cities and towns include:

- The special education circuit breaker will allocate $230 M directly to municipalities;
- State Owned Land (PILOT) is level funded;

- Library Aid is level is funded at the FY 2013 estimated spending level of $16 M;
- Regional School Transportation is funded at the FY 2013 estimated spending level of $44.5 M;
- Charter School Reimbursement is increased by $9.8 M to $80 M, from the FY 2013 estimated spending level of $70.5 M;
- The program for Tax Reimbursements to Veterans, the Blind and Widows is funded at $25 M;
- Caseload-driven increases to Veterans' Benefits bring the account to $48.1 M for FY 2014;
- The Department of Veterans' Services (DVS) will maintain its FY 2013 policy of 100 percent reimbursement to cities and town for the costs they incur providing homeless shelter benefits to veterans – in FY 2013, the total reimbursements to cities and towns exceeded $888,000; and
- The Administration's 21st Century Transportation plan includes an additional $100 M per year for local roads and bridges (bringing the Chapter 90 program to $300 M annually) and an additional $40 M per year in capital funds for the Regional Transit Authorities.

Incentive Aid for Local Government Performance

Starting in FY 2015, in addition to the funding level provided for Annual Formula Local Aid, an amount equal to twenty-five percent of the Annual Formula Local Aid account will be used to fund a new program of incentive aid for municipalities. The incentive aid program will reward municipalities for meeting incentives focused on strong fiscal management, municipal health care cost management, and local government performance management, in line with initiatives of the Patrick-Murray Administration to change the way government does business. Incentives announced early in FY 2014 will focus on strong fiscal management, municipal health care cost reform and local government performance management. Municipalities will then have the full year of FY 2014 in which to meet the incentives before incentive aid is provided for in the FY 2015 budget and distributed early in FY 2015.

Community Innovation Challenge Grant Program

The Community Innovation Challenge Grant (CIC) program is just one of the many ways in which the Administration is working with cities and towns to drive innovation and change at the local level. The budget invests $7 M for a third round of the Community Innovation Challenge Grant Program to provide financial support for one-time or transition costs related to innovative regionalization and other efficiency initiatives in local governments.

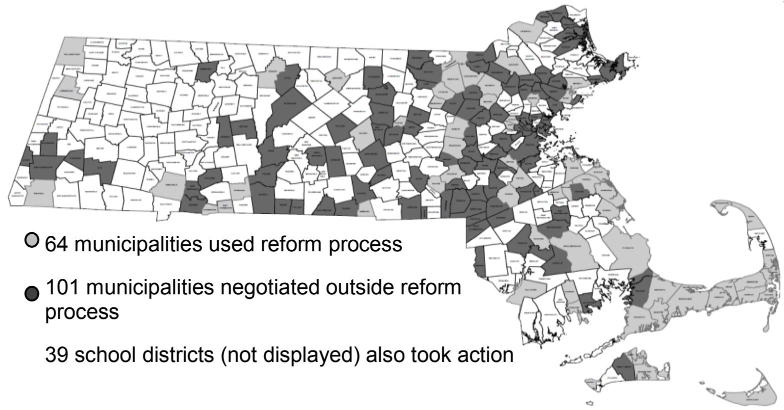
Expansion of Municipal Revenue Sources

This budget expands the Hotel and Motel Room Occupancy Excise to provide new local revenues and to bring equity to this tax base. Currently, properties such as rental vacation homes, corporate executive temporary apartments, time shares, and rented vacation condominiums are not subject to the state or local hotel/motel room occupancy excise. Our proposal would expand the state and local option tax base to include these so-called transient accommodations and eliminate the existing statutory exemption for small bed and breakfast establishments with three bedrooms or less. This expansion of the existing room occupancy excise base could generate more than $3.8 M annually for the 176 municipalities (50 percent) that have opted to enact the local option room occupancy excise to date, and will benefit municipalities that choose to adopt the local option room occupancy excise in the future.

Municipal Health Care Cost-Containment

Since Governor Patrick proposed municipal health reform in January 2011, 204 municipalities and regional school districts came to agreements with employees, either by using the new reform process or negotiating outside of the reform, achieving more than $175 M in premium savings. The Administration continues to provide technical assistance to additional local governments interested in using the reform process to manage health care costs for current employees.

The Administration similarly is working to help municipalities control the cost of retiree health benefits by filing legislation to reform health insurance benefits for retirees, based on just released recommendations of the Commission to Study Retiree Healthcare and Other Non-Pension Benefits (OPEB). This proposal will make retiree health benefits for career public employees more sustainable, saving local governments as much as $12 B over 30 years (combined state and local governments will save up to $20 B), which will help to support the continued delivery of critical local services and maintain quality healthcare benefits for our future retirees.



Municipal Unemployment Insurance Reform

The Municipal Unemployment Insurance Task Force, created in 2012, issued recommendations and related legislation to implement these recommendations, to close loopholes in Municipal Unemployment Insurance (UI) and create a fair and collaborative system that provides economic relief to cities and towns. The Governor has filed legislation following the Task Force's recommendations to:

- Create a 65 percent Unemployment Insurance offset to retirees collecting a defined benefit pension, limiting a returning employee's access to unemployment when laid off and collecting a pension;
- Eliminate the disparity between those employed directly by a school department and those providing services to the school but paid by a municipality;
- Prevent municipalities from being charged wages earned by election workers; and
- Allow the Department of Unemployment Assistance (DUA) to participate in a Federal program allowing the interception of Federal tax returns of persons owing DUA a reimbursement as the result of overpayment of benefits.

These changes will allow the state to better collaborate with municipalities on issues of Unemployment Insurance.

Innovations for Municipalities

Throughout government, Governor Patrick is driving innovation to improve customer service and efficiency. Consistent with that focus, the administration has developed the following tools to assist communities:

One-Stop Grant Index for Municipalities
The Administration is developing a new one-stop listing of state grant programs for cities and towns. Municipal officials seeking opportunities for state resources to support local initiatives will be able to find these resources without needing to search state agency by state agency.

Citizens Connect Smartphone Application
Citizens Connect is the City of Boston's award-winning effort to empower residents to be the City's "eyes and ears." Residents can alert the City of Boston to neighborhood issues such as potholes, damaged signs, and graffiti using a smart phone app that identifies the location of the issue and alerts the City of the complaint. Funded through the CIC Grant Program and led by the City of Boston, this project adapts the Citizens Connect Smart App used by Boston into a tool for municipalities of any size

and will implement this tool in more than 30 municipalities of all sizes across the state at no initial cost as part of a pilot program. Additional municipalities will be able to purchase the Citizens Connect Smart App at a much-reduced price.

State Support for Municipal IT Challenges
The Administration will partner with local governments in addressing various local government information technology (IT) challenges, by leveraging existing state resources needed by communities, as well as sharing expertise. Activities include:

- Developing a series of IT models for the benefit of local governments, based upon successful IT-focused CIC Grant projects;
- Promoting the Springfield Data Center (SDC) to municipalities;
- Establishing a State-Local IT Committee to develop working relationships and identify new opportunities; and
- Developing and marketing an IT “toolkit” of services that the state can provide to municipalities.

Geographic Information System (GIS) Services
New MassGIS municipal planning and mapping services and online tools for municipalities will give cities and towns increased functionality and eliminate the burden on them to purchase and manage their own GIS systems.

Municipal Purchasing Assistance
The Operational Services Division (OSD) is developing statewide contracts which specifically assist municipalities by achieving aggregated savings on large procurements, eliminating the need for individual bidding processes, and providing long-term, competitive contracts never before managed on a statewide level. Identifying common needs and aggregating purchasing power at a statewide level is becoming increasingly attractive to our cities and towns based on the need to save taxpayer dollars while obtaining the best goods and services possible.

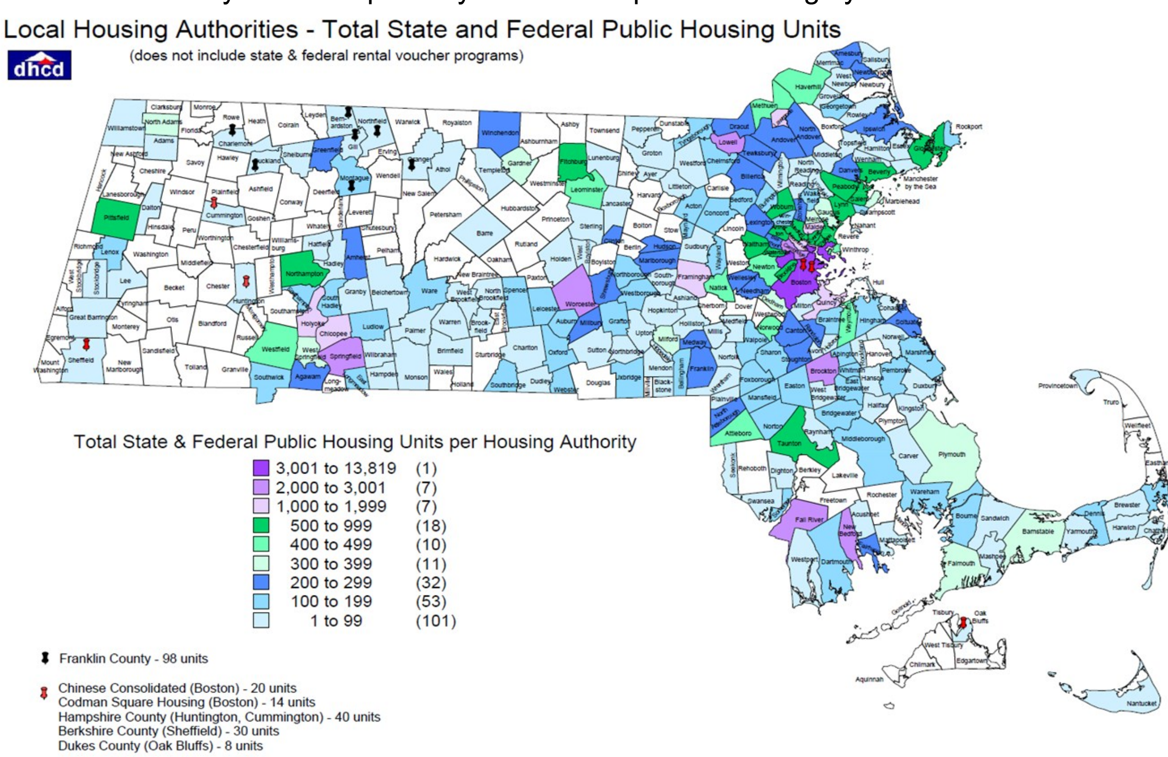
Public Housing Reform

The Patrick-Murray Administration FY 2014 budget reforms the state's public housing system in order to strengthen oversight, streamline operations, and leverage innovation and best practice. Governor Patrick has filed legislation that will professionalize the operations and financial management of the Commonwealth's Local Housing Authorities (LHAs) by consolidating the 240 LHAs into 6 Regional Housing Authorities (RHAs). Through these reforms, the Administration estimates it could save over $10 M a year in administrative costs that could be redirected back into the housing.

Current State of Public Housing

There are 240 local housing authorities in Massachusetts that own and manage roughly 80,000 public housing units, of which 45,600 are state-funded. This public housing is the largest source of affordable housing for extremely low-income residents across the state. Many of the units are more than 60 years old, and the majority of housing authorities operate at a very small scale with fewer than 250 units. The combination of age and a lack of investment by prior Administrations, coupled with an inefficient and antiquated delivery system that dates back to the 1940's, has left much of the portfolio distressed and vulnerable.

While significant gains have been made to improve and preserve state-aided public housing under the leadership of the Patrick-Murray Administration, the fiscal and operational viability of the housing and the integrity of the public housing system still face significant difficulties. Most recently, the Administration has taken swift and aggressive action by implementing administrative reforms and launching the Commission for Public Housing Sustainability and Reform to recommend strategies to bring stronger governance, more effective operations, greater efficiencies in public expenditures and increased accountability and transparency to the state public housing system.



However, further action is needed to increase transparency, accountability, performance, efficiency, innovation, and cost savings in the state's public housing system.

Regionalization of Public Housing Management

Under the legislation to consolidate 240 LHAs into 6 RHAs, the RHAs will take over ownership of all public housing assets (land, buildings, equipment) and assume responsibility for fiscal and operational management of all state and federal public housing in the particular region. The six RHAs will each consist of one Executive Director, a Governing Board appointed by the Governor, regional management staff, and local site managers. Daily operations affecting tenants will continue to be addressed by local staff, while more complex property management responsibilities will benefit from centralized expertise and experienced oversight. Local site staff will be among the most important in the system and provide the important "local touch" that is essential to successful property management.

The legislation allows communities to retain control over land use and significant redevelopment decisions including change of use, ownership, or the financing structure of an existing building or vacant land. RHAs will also seek local input into an annual plan that outlines projected capital and operating expenditures and tenant participation activities.

This consolidated system will produce efficiency and save the state millions of dollars by regionalizing key operational functions of public housing authorities, including:

- Consolidating general administration functions including accounts payable, procurement, and human resource management;
- Regionalizing capital project management practices, including regional collaborations to purchase expertise, materials, equipment, and services to maintain units;
- Achieve utility savings through combined rate negotiation, bulk purchasing, and improved energy conservation through central expertise and best practice; and
- Enhancing technical assistance to maintenance staff to increase the quality and efficiency of their work.

As the Administration continues to invest in public housing, it is imperative that the delivery system be modernized in order to increase the efficiency and transparency of LHAs and to ensure that we are meeting the goal of high-quality housing for low-income households.

Pharmacy Reform

The Patrick-Murray Administration is committed to ensuring the integrity of the Commonwealth's public health infrastructure and the ways in which the state responds to public health needs in Massachusetts. The Governor's legislation, *An Act Relative To Pharmacy Practice In The Commonwealth* (H.D. 84), will strengthen oversight of compounding pharmacies while his budget for FY 2014 makes critical investments in state public health programs and services.

Under Governor Patrick's leadership, the Administration has launched an aggressive series of policy and operational initiatives to ensure that the significant harms resulting from substandard sterile compounding are never allowed to happen again. The Governor's FY 20 14 budget builds on recommendations made by the Commission on Pharmacy Compounding, which was appointed by the Governor to provide DPH and the Board of Pharmacy with the right tools to regulate this vital industry.

Improving Pharmacy Accountability

The Governor's FY 2014 budget recommendations continue recent reforms to the Commonwealth's oversight of the pharmacy industry. These efforts will ensure that patients and families receive safe and effective medications. For the last two months, DPH has conducted unannounced inspections of all sterile compounding pharmacies in the Commonwealth. At Governor Patrick's direction, the Board of Pharmacy issued new regulations that require sterile compounding pharmacies in Massachusetts to report volume and distribution to the state for the first time. The new regulations also require all licensed pharmacies and pharmacists to report to the Board when they are the subject of a disciplinary action by any state or federal agency.

Investments in the Governor's FY 2014 budget will enable the Board to increase inspections of all sterile compounding pharmacies in the Commonwealth to support the enhanced monitoring requirements and improve accountability. New staff resources will also allow the Board to continue its unannounced pharmacy inspection schedules. The Governor is also directing DPH to strengthen inspector training requirements. The new requirements will ensure that all inspectors are pharmacists with at least five years of clinical experience, with additional training requirements and specific expertise in sterile compounding for inspectors working in that area.

An Act Relative To Pharmacy Practice In The Commonwealth (H.D. 84)

Key legislative proposals in *An Act Relative To Pharmacy Practice In The Commonwealth* (H.D. 84) make patient safety paramount and will help fill the regulatory gaps in compounding pharmacy monitoring. The Governor's legislation includes a series of innovative strategies to further protect the public:

- *Tiered Pharmacy Licensure* – The Board of Pharmacy will require a special license for sterile compounding that will help regulators to hold pharmacies accountable for their practices. The Board will continue its enhanced, aggressive pharmacy inspection schedules for compounding pharmacies.
- *Fines for Violations and Whistleblower Protections* – The Board and DPH will have the authority to invoke monetary penalties for Massachusetts-licensed pharmacies that violate Board policies, regulations, or statutes. Whistleblower protections and rewards for pharmacists and pharmacy staff are established.

- *Regulating Out-Of-State Pharmacies* – The Board will have the authority to regulate out-of-state compounding pharmacies by requiring licensure for out-of-state pharmacies that deliver and dispense medications in the Commonwealth.
- *Enhanced Board Transparency and Composition* – The Board will be reorganized to include more members who are not practicing in the industry they are responsible for regulating. The 11-member Board will be comprised of four pharmacists, one nurse, one physician, one pharmacy technician, one quality improvement expert, and three public members. Additionally, Board members will be subject to term limits, ensuring the continuous presence of new representation. The Board will update its website to ensure transparency and enable health care consumers and providers to have access to accurate, comprehensive information about Board actions.

By implementing these strategies and also continuing the important work that we have already begun, DPH and the Board of Pharmacy will be better positioned to achieve their primary missions – to prevent illness and injury and assure access to high-quality public health and health care services, and to promote wellness and health equity for all people in the Commonwealth.

Innovations to Improve Operations

The Patrick-Murray Administration is tirelessly pursuing innovation in state government to improve service delivery to residents and to save taxpayers' money. Significant strides were made in 2012 to this end, and the Governor's budget recommendation continues to find innovative management and service delivery models.

The Governor's Council for Innovation was established in 2012, composed of venture capitalists, founders of successful start-ups, technology specialists, innovation experts and leading academics from Harvard, MIT and the University of Massachusetts, to advise the Governor on the best opportunities for streamlining the delivery of government services to people and businesses and to improve government efficiency.

The Government Innovation Officer (GIO), an innovation expert with extensive private sector experience, took office in July 2012 to advise the Governor on identifying, funding and managing execution of high-impact innovation projects to streamline the delivery of government services to people, businesses and local government in order to improve government efficiency. To change the way government does business, the GIO has created a strategic framework (the GIO's "10 A's") to guide effective government provision of services and has identified several key initiatives outlined below that demonstrate progress in accordance with this framework.

GIO's "10 A's"

1. Any time
2. Any where
3. Any device
4. Audience specific (…and FAST!)
5. Audience engaged
6. All with "one voice"
7. Apparent
8. Agile
9. Alerts
10. Accessible and Open

Changing the Way Government Does Business

With the careful advice of the GIO and the Governor's Council for Innovation, the Patrick-Murray Administration has identified several key strategies for improving government services while saving taxpayer money. The following initiatives will bring the Commonwealth closer to operating as a "10 A" organization:

One-Stop Portal for Small Businesses
Small businesses interact with the Commonwealth on a variety of matters, including accessing resources and understanding obligations and regulations. Many small businesses are uncertain about what support exists and where to start to find the services they need. A best in class, one-stop web portal for small businesses will facilitate interactions by providing one place to find current and clear information regarding how they can get their needs efficiently met. Content is presented in a clear, easy to use manner, and a variety of tools and interactive systems will make obligations and resources easier to access and more transparent for small business owners. This improvement to the Commonwealth's online services will save small businesses and state agencies time in addressing individual inquiries about licensing, grant opportunities and others.

One-Stop Grant Index for Municipalities
Similar to small businesses, the Commonwealth's local governments need a streamlined, easy-to-use interface with state government. Therefore, the Administration is developing a new one-stop listing of all state grant programs for cities and towns. Municipal officials seeking opportunities for state

resources to support local initiatives will be able to find them without needing to understand the state government taxonomy.

Electronic Traffic Citations
Paper traffic citations are inefficient and represent one of the many areas in which government lags behind the private sector. The Executive Office of Public Safety and Security will be equipping state and municipal police vehicles with mobile data terminals used to issue electronic traffic citations. This will reduce the period of individual traffic stops and improve officer safety, savings lives and reducing injuries on Massachusetts roadways. Further, this will create efficiencies, eliminating the labor intensive practice of processing paper citations and manually maintaining driving records. Monetary savings achieved through this system will repay the investment in the mobile data terminals and will be reinvested in municipal police training.

Modernization Through Security of Health Records
The Administration has implemented a new secure electronic mail system for the Group Insurance Commission (GIC), an entity which provides health insurance and other benefits to state employees, retirees, and their survivors and dependents. The GIC interacts with its 400,000 enrollees but was formerly restricted to the use of telephone or the United State Postal System to respond to requests for information on a variety of matters, including claims history, status, and coverage problems due to data security considerations. The new system protects secure patient data better and is compliant with the Health Insurance Portability and Accountability Act of 1996 (HIPAA) while improving the GIC's ability to communicate in a timely and cost-effective manner.

State Government on Your Mobile Device
The Administration has undertaken a project to update all mass.gov web pages to automatically optimize to smartphone and tablet viewing, to accommodate the fast growth of the mobile device.

mass.gov/innovation
Innovation requires constant communication with the general public in a dynamic, two-party conversation. To this end, the new face of innovation in state government has been launched on the state's website with a corresponding blog (at www.mass.gov/innovation). Massachusetts residents are now able to obtain weekly information about our most current innovation projects, can comment on innovation strategies, and can further dialogue with government innovation leaders. Together, we will change the way government does business.

Reduce Unemployment Using a Modern State Job Board
JobQuest, the state online job placement portal, is being modernized to fit the needs of the 21st century workforce. Enhancements include expanded resources for job seekers through an increased number of job postings; skills matching in the job search function to not only match job seekers to positions by title, but also by their previous experience and skill sets; an enhanced search engine; an improved career planning tool integrated into the job search function; smartphone capability; industry-specific Micro-Sites for Green Jobs, Veteran's Jobs, and others; and the ability to receive notifications of job openings through your choice of SMS messaging or email.

Sparking Creativity Among Public Employees
Part of the GIO's work is to facilitate an all-encompassing "culture of innovation," from front-line service providers to government leaders. An Innovation Crowdsourcing and Knowledge Management Tool will be a technological solution to sharing, filtering, and prioritizing innovation suggestions from throughout all levels of state government. This tool will allow for the posting and sharing of ideas, knowledge management and curation (so ideas can be filtered, shaped, and expanded).

All With One Voice
A multiplicity of telephone call centers exists across many Commonwealth agencies with limited connectivity. Therefore, the Administration will study the impact of centralizing call centers and

employing a single Customer Relationship Management (CRM) System to streamline telephone communication with government. A centralized system would prevent callers from receiving conflicting messages from multiple agencies and inform phone operators of a customer's history of interactions to better assist callers.

Leveraging Technology to Maximize Revenue for Health and Human Services
An investment in the Health and Human Services (HHS) data warehouse reporting capabilities will enable the state to receive \$6.5 M to \$7.5 M per year in additional Federal Financial Participation (FFP) from the Center for Medicare and Medicaid Services (CMS). This work is more fully described in "Expanding Access to Affordable Quality Health Care."

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FY 2014 Budget Recommendation
Issues in Brief
Deval L. Patrick, Governor
Timothy P. Murray, Lt. Governor

Access for Children, Youth, and Families

The Commonwealth serves thousands of children and their families every year through Children, Youth and Family (CYF) Services. These services focus on some of the most vulnerable populations in the state – those who come to state agencies in need of support as a result of abandonment, child abuse or neglect, delinquency, mental illness, poverty, substance abuse, disability and other special needs. The Patrick-Murray Administration is committed to improving services for this vulnerable population while achieving efficiencies and savings.

In FY 2014, the Patrick-Murray Administration will expand the network of Family Access Centers (FACs), a one-stop center that provide services targeted to the needs of families in their host community. In doing so, this budget reflects the Patrick-Murray Administration's commitment to providing integrated CYF services to improve family access to critical services. To better serve families and to improve outcomes for children and families, the administration is developing a system of care that is comprehensive, better integrated and coordinated across government and linked with community-based resources. Further efforts in CYF reforms position the Administration to implement the Children In Need of Services (CHINS) legislation signed by the Governor in August of 2012.

Key Opportunities for Improving Access to CYF Services

Currently, fragmented services at the community level have required individuals and families to navigate multiple agencies in order to identify and obtain services. The ability to access the right services at the right time is critical to supporting families in need. The Executive Office of Health and Human Services (EOHHS), with its partners, seeks to transform Massachusetts' fragmented CYF system into a strengths-based, family-centric model by better integrating services within communities so that families can identify access points when seeking information, support services, or other resources.

To enhance the "front door" to state services and thus improve families' access to information and services available to them through the state and within their community, EOHHS and its partners will:

- Transform existing agency centers into Family Access Centers (FACs), one-stop centers targeted at the needs of the host communities that provide access to many EOHHS services; and
- Develop integrated web-based and telephone systems that will provide families 24/7 access to information and referral to community and state-based services.

Community residents open the Brockton Family Access Center in 2011.

Family Access Centers

The Administration is investing $1.28 M annually to expand the network of FACs statewide, improving family access and ensuring that there is no wrong door for any family in need. Long-term savings may be achieved through shared services, reducing duplication, and evaluating possible co-location for existing service centers. Each FAC operates programs reflecting the culture and needs of its community, but all have a core set of services, including connection to community and state services, educational programs, and peer support. Depending on the needs of the community, one state agency may have a greater presence (physically and virtually) at a given FAC than another.

FACs will serve as one door to services, facilitate the deferral of children and families from the court system, and improve service coordination between human services and schools. Where services are not available onsite, FACs provide managed referrals to appropriate service providers in the community. At FACs, families can apply for publicly funded services like Transitional Aid for Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP), Women, Infants, and Children's Program (WIC), Fuel Assistance, and MassHealth; receive education and peer support; and be guided to other resources in the community that might be more appropriate to their particular circumstances. Additionally, FACs will be an interim hub for families to apply and update eligibility in their community while EOHHS develops internet application systems under the federal Affordable Care Act.

Strategically expanding FACs to communities across the state, beginning with Gateway cities, will ensure that all families have access to the services and supports available in their community. Initial priority FACs have been identified for enhancement or expansion:

- Expanding six FACs in Springfield, Worcester, Brockton, Fall River, and two in Boston to include a school liaison to make the vital connection between schools and community;
- Building a FAC in Holyoke; and,
- Expanding the FAC in Lawrence by developing a center in the school system.

These FACs will improve family access to information and resources, simplify families' interactions with the system, and strengthen coordination across the education system and CYF services.

Integrated Web-based and Telephone Information System

Client communication by phone with EOHHS is also currently fragmented. Currently, clients must reach out to agencies one by one, each with its own contact numbers and referral lines. Therefore, integrated telephone access is a vital component of the Administration's "No Wrong Door" policy and crucial to effectively serving a diverse population. The Patrick-Murray Administration has included a $250,000 investment in its FY 2014 budget to accommodate this web-telephony integration. This initial investment in a centralized information and referral line will establish the foundation for integrating phone lines, call centers and Interactive Voice Response solutions that exist within each agency.

The needs of families are diverse – A family's ability to access the right services at the right time is critical to supporting families in need

Integrating the customer service telephone network build upon existing progress to date and will help to provide better customer service. Additionally, an integrated phone system will provide EOHHS with data on the types of services that families need, the location of the need, and the availability of the services, providing EOHHS with a mechanism to more effectively coordinate services across programs.

Lowering Health Care Costs to Businesses

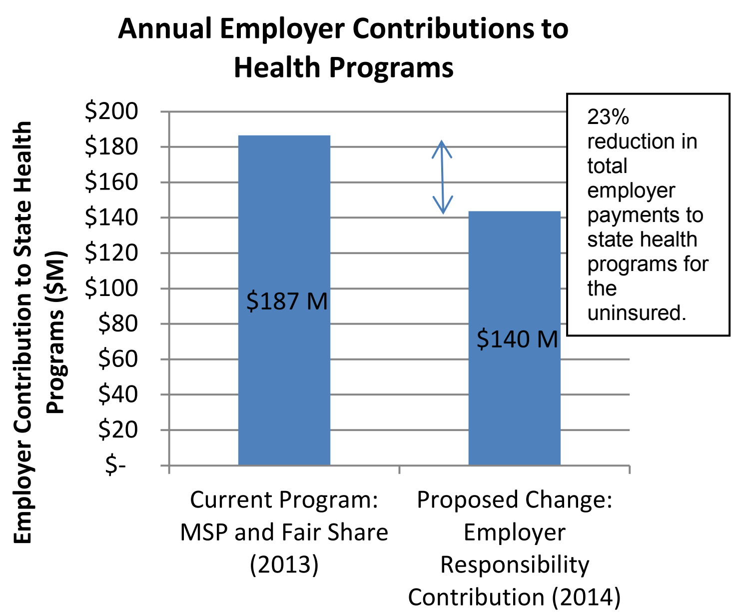
Consistent with the Governor's priority to lower business costs and encourage job growth, Governor Patrick has filed legislation to freeze Unemployment Insurance (UI) rates for employers and reduce or eliminate the contributions they make to fund health care programs for low-income residents. This legislation will help align state health programs with the federal health care reform law, also known as the Affordable Care Act (ACA), while at the same time maintaining quality, affordable care and reducing the cost of this care for the Commonwealth's businesses. By freezing the UI contribution rates, eliminating the Fair Share Contribution Program and Medical Security Program (MSP), and implementing an efficient and transparent employer responsibility program, in calendar year 2014 these proposals will save Massachusetts businesses $561 M.

Freeze the UI Contribution Rate

Understanding the need for businesses to have the resources necessary to invest in new jobs and innovation, the Governor has proposed freezing the employer UI contribution rate. Freezing the UI contribution for 2013 at "E" will save employers an estimated $500 M. This marks the fourth consecutive year that Governor Patrick has advocated for freezing the UI rate in order to provide economic relief to employers. If this year's freeze is passed, the Patrick-Murray Administration and the Legislature will have saved employers approximately $1.7 B over the last four years alone. Even with the freeze, the Unemployment Insurance Trust Fund balance is projected to end calendar year 2013 with approximately $600 M.

Eliminate the Fair Share Contribution Program and Medical Security Program

The transition of the Massachusetts health care system under ACA provided the Governor with the opportunity to reduce costs for businesses through the elimination of both the Fair Share Contribution and the Medical Security Program. The Fair Share Contribution was established under the Commonwealth's 2006 health care reform law and mandates that employers with 11 or more full-time equivalent employees (FTEs) make a "fair and reasonable" contribution toward the health care costs of their full-time workers, or pay a $295 per FTE assessment. The ACA includes a similar policy for employers with over 50 employees, effective in 2014, that could result in double-penalties if the two policies were to coexist.



By eliminating the Fair Share Contribution, the Administration will support Massachusetts employers by:

1. Saving them significant administrative costs associated with state compliance;
2. Allowing them time to prepare for the implementation of the ACA employer provisions noted above; and

3. Ensuring them streamlined government, one that guards against possibly duplicative programs and assessments.

Massachusetts employers have a long history of offering generous health insurance coverage, both for economic competitiveness reasons and civic-mindedness, which is not expected to change with the elimination of Fair Share. Massachusetts employers have continued to offer coverage at very high levels, even in the face of the national economic downturn, and employer-sponsored coverage continues to exceed that in other states, with 77 percent employer-sponsored coverage in Massachusetts comparing to a 69 percent U.S. average.

This plan will also eliminate the Medical Security Program (MSP) by the end of this calendar year. MSP provides qualifying individuals receiving UI benefits with health care coverage. Through the ACA, individuals currently enrolled under MSP will be able to access subsidized health coverage through the new eligibility criteria at MassHealth, or through the state's health insurance exchange at the Health Connector, depending on income level.

Continue to Maintain Quality Health Care, Employer Contribution

The Commonwealth will discontinue the Fair Share Contribution policy, but employers continue to share in the responsibility for health reform in Massachusetts. In order to ensure employers are contributing their share to maintain quality, affordable health care for all residents, the legislation creates an "employer responsibility contribution" for employers which will, starting in 2014, help finance the cost of subsidized care for low-income residents. The funding will be directed to the MassHealth and the subsidized plans offered under the Health Connector. Unlike the Fair Share Contribution, the employer responsibility contribution will be streamlined, efficient, and less burdensome for both small and large businesses. This contribution will be also lower than the current MSP employer assessment. By retooling this contribution, the Commonwealth maintains an original tenet of the 2006 health care reform law - that everyone has a stake in its success - and continues the Commonwealth's commitment to quality, affordable care for all residents.

Other Initiatives to Reduce Health Care Costs on Business

Health Care Cost Containment for Businesses
Through Governor Patrick's implementation of Chapter 224, the Commonwealth's cost containment legislation that was signed in August 2012, health care costs for the Commonwealth's health care programs will be reduced and cost growth in the health care system will be reined in. A decrease the cost of health care will reduce the amount health insurance plans need to pay for services and these savings will be passed on to businesses through reduced insurance premiums. Chapter 224 also includes investments in employee wellness programs. A healthy workforce is more efficient and has lower health care premiums, creating direct savings for businesses.

Health Care Workforce Transformation Fund
In August, through the collaborative efforts of the Massachusetts Legislature and the Patrick-Murray Administration, Massachusetts became the first state in the country to enact health care cost containment legislation. The Health Care Workforce Transformation Fund was established as part of that law for the purpose of funding a wide spectrum of employee training and other programs within the health care industry. The Fund is to be administered by the Secretary of the Executive Office of Labor and Workforce Development (EOLWD) for the ultimate purpose of ensuring that Massachusetts has the skilled healthcare workforce we need to provide quality, cost effective healthcare while minimizing the economic impact on current and future healthcare workers.

Wellness Initiatives
The Department of Public Health (DPH) is in the process of implementing several wellness initiatives related to Chapter 224. One of these initiatives is a wellness tax credit program, in which small

businesses can receive a wellness tax credit for a portion of the incurred costs of implementing an employee wellness program certified by DPH.

The Health Connector is also enhancing its small business wellness incentive program, Wellness Track, to encourage worksite wellness for small businesses by offering eligible employers up to a 15 percent rebate on their contribution to their employees' health insurance for adopting wellness activities in the workplace.

Slowing the Rising Cost of Premiums
Through the Division of Insurance's consistent and through oversight of health insurance rates, the Administration has slowed the average annual increase in premiums from over 16 percent to just over 2 percent. Small businesses and families have saved over $600 M in premium savings since 2010.

Improving the Way Small Businesses Obtain Health Insurance for Employees
Through the Health Connector, small businesses (or brokers who assist them) have a unique opportunity to compare health insurance coverage options side-by-side, to help them find the health insurance that is right for their employees. In FY 2014, the Health Connector will be expanding the options for small businesses, by not only offering them health insurance options that allow for apples-to-apples comparison shopping, but by also offering them the option to let their employees choose from among Massachusetts' most popular health insurance carriers. The Health Connector will also be the place for eligible Massachusetts small businesses to access federal tax credits of up to 50 percent of their contribution to health insurance. In addition to offering ways to assist small businesses with paying for health insurance, the Health Connector is also working to improve the shopping experience for both small businesses and the brokers who serve them by enhancing its website and making available new tools to make purchasing health insurance easier and more understandable than ever before.

ENSE PETIT PLACIDAM SVB LIBERTATE QVIETEM

Sheriff Funding Review

In recognition of the integral part that the Sheriffs play in the criminal justice system and especially in inmates' re-entry into the community, Governor Patrick has charged his new Secretaries, Andrea Cabral of the Executive Office of Public Safety and Security (EOPSS) and Glen Shor of the Executive Office for Administration and Finance (EOAF) in working with Sheriffs to improve Sheriffs' outdated funding structure, identify savings from sentencing reform, determine ways to best use existing capacity to prevent overbuilding, and measure and improve reentry outcomes for inmates. Secretary Cabral's experience as the Suffolk County Sheriff for over ten years will be valuable to pursue this endeavor. The Secretaries will provide recommendations in July of 2013.

Sheriffs' Funding

Sheriffs oversee the Jails which hold pre-trial detainees and Houses of Correction (HOCs) which hold inmates serving sentences of two and a half years or less. In 2009, the final seven Sheriffs' offices transitioned from their county budgets to the state system and began receiving annual budgetary appropriations in separate line items. Funding for the Sheriffs has not been consistent, and since the transition in 2009, the Sheriffs have required supplemental funding on a yearly basis to support their ongoing budget operations. The Sheriffs cannot continue running their offices and providing the Commonwealth with appropriate public safety if they cannot rely on an adequate annual budget appropriation determined at the beginning of each year.

Since the transition, several Sheriffs' budgets have relied heavily on revenue from the federal government for housing federal inmates. Like revenue from the deeds excise tax, which seven Sheriffs' Offices relied prior to transition, this funding source is not stable. Sheriffs who fail to secure the full budgeted amount of revenue are unable to meet all their budget obligations at the fiscal year's end. In addition to the budget consequences, there are significant impacts to the correction system's capacity with federal detainees occupying bed space at the Houses of Correction that could be used by Department of Correction (DOC) state inmates or other county inmates to help relieve overcrowding.

To fully understand the Sheriff's budget and cost drivers, the Massachusetts Sheriff Association (MSA) has filed an annual cost per inmate report. This analysis has been a collaborative effort between the Sheriffs, the MSA, and EOAF. This report has shown that the major cost drivers for Sheriffs facilities are staffing, transportation, and health care cost. In addition, less populated counties tended to have higher per inmate costs because they are unable to scale their operational costs in an efficient manner.

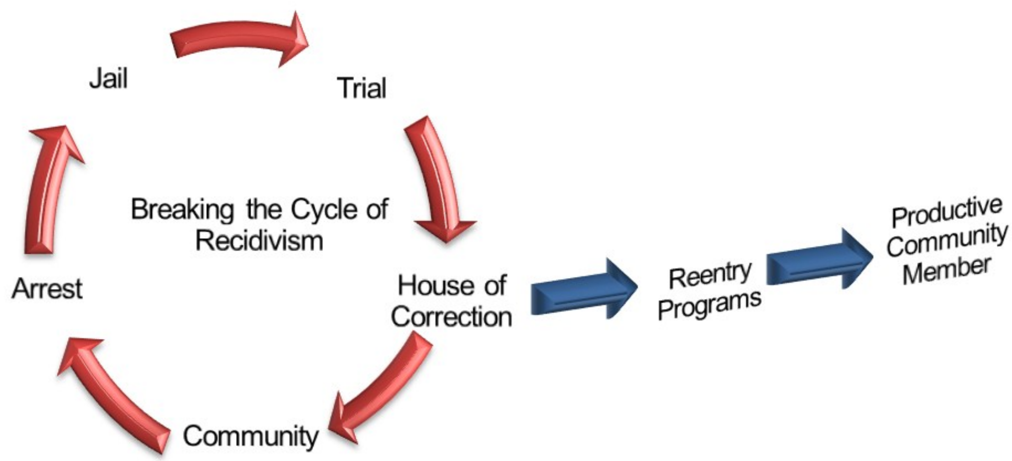
This report also identifies public safety services that Sheriffs provide to their local cities and town. The types of services provided varies between Sheriffs and include regional lock up units, 911 call centers, day camps, K-9 units, investigative units, and others. Sheriffs are well positioned to provide regionalized services to their local communities and can help reduce cost and maximize efficiencies. However, this analysis showed that funding for these services was inconsistent. While some charged their local communities a fee to perform these services, others used state funding to support these efforts.

Issues of Capacity and Sentencing Reform

Across our corrections system, capacity remains a significant concern. Many facilities are over capacity while others have available space, largely due to security classifications which drive decisions about where and with whom inmates and pre-trial detainees can be housed. In 2011, the Corrections

Master Plan identified that the Commonwealth would need to invest $1.3 B to $2.3 B to address corrections capacity needs, unless the General Court passed sentencing reform legislation. In 2012, Governor Patrick signed sentencing reform legislation that reduces mandatory minimum sentences for non-violent crimes and provides increased opportunities for earned “good time,” ultimately decreasing the bed need. Through these measures, the Commonwealth will alleviate overcrowding and save billions of dollars by reducing the need for future construction projects.

To utilize existing facilities efficiently, the Commonwealth must create a fluid housing and funding system where dollars can follow inmates, and facilities are funded at the appropriate and adequate levels. Currently, when an inmate is transferred from DOC to a Sheriff facility or vice versa, the additional cost is not accounted for. In FY 2012 and FY 2013, the Administration launched a pilot program with the Hampden County Sheriff to transition DOC inmates back into the community at the end of their sentences by stepping them down into HOCs, where they are mandated to participate in re-entry programs designed to build life skills and secure post-release employment and housing. Based on the success of the Hampden County pilot, the Administration plans to expand this practice and work with the Sheriffs to develop this program.



Re-entry and Recidivism

Investing in inmate programming like GED classes, vocational training, and job skills training helps ex-offenders re-enter society in a productive way. If successful, programing can provide savings for the Commonwealth by reducing recidivism. Many Sheriffs have effective re-entry programs and have measured their outcomes internally, but there is currently no coordination in funding levels, types of programming, or outcome measures. The Administration is currently working with national organizations to improve the way we assess the impact of these services through recidivism data or program evaluation and determine best practices. Several Sheriffs have been recognized nationally for their reentry initiatives and we will also rely on their expertise as the EOPSS develops a Strategic Statewide Plan on Re-entry.

Court Re-Alignment

Following targeted capital investments in the court system, the Patrick-Murray Administration, working with the Trial Court and Supreme Judicial Court, recommend the creation of a Courts Re-Alignment Commission to identify achieve efficiencies in the court system.

Continued Investments in Court Buildings

The Judiciary operates out of 100 active court facilities, with over 5.5 million square feet of space in 60 communities across the state. Since 2007, the Administration has invested over $500 M to complete and open five multi-disciplinary court facilities with 64 new courtrooms. In addition, the Administration is continuing work on new court complexes in Greenfield and Lowell. These multi-departmental justice centers provide one-stop service for the public and the legal community and offer opportunities for improved efficiencies and coordinated operations for the Trial Court. In order to achieve intended operational efficiencies from these multi-jurisdictional court facilities, the courts need the flexibility to close smaller inefficient facilities.

The new J. Michael Ruane Judicial Center combines four state courts, with 11 court rooms, in one building for the first time in Salem.

Court Re-Alignment

The Judicial Branch, like the rest of state government, has weathered significant budgetary and personnel challenges during the recession. The Judiciary has been reduced by hundreds of employees from pre-recession levels and is struggling to manage these reductions, primarily through attrition and reduced hours in clerk’s offices and courtrooms throughout the Commonwealth. In an effort to help restore fiscal balance to the Judicial Branch, the FY 2014 budget offers the Judiciary reforms to improve flexibility to fully maximize court utilization.

In its FY 2014 budget, the Patrick-Murray Administration creates a Courts Re-Alignment Commission, similar in scope to the Federal Base Re-Alignment and Closure Commission. The main task of this Commission is to produce an independent, non-partisan assessment on the closure or re-alignment of courts to better match them up with the needs of the judiciary and the public and to better utilize budgetary resources. The Commission will present its findings to the Administrator of the Trial Court, who will then act on the Commission’s findings.

The efforts of the Court Re-Alignment Commission will coincide with the Patrick-Murray Administration’s larger goal of maximizing efficiency with court investments through better-aligned court facilities.

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Accelerated Energy Program

ACCELERATED ENERGY PROGRAM
COMMONWEALTH COMMITMENT TO A CLEAN ENERGY FUTURE

Building on the Patrick-Murray Administration's nation-leading clean energy accomplishments, the Administration announced the Accelerated Energy Program (AEP) in January 2013, which aims to reduce energy consumption by 20 to 25 percent at 700 state sites, creating about 4,000 clean energy jobs and saving the Commonwealth an estimated $43 M annually.

Reducing State Energy and Water Use

State government is the largest energy user in the Commonwealth, consuming over 1 billion kWh of electricity and emitting over 1 million metric tons of greenhouse gases per year. Annually, agencies and campuses spend over $250 M per year on energy.

AEP will significantly reduce the current annual consumption of more than 800 million kilowatt hours of electricity, 12 million gallons of heating oil, 55 million therms of natural gas, and emissions of more than 800,000 tons of greenhouse gases, which represent more than 4,000 buildings and 58 million square feet. The program will save an estimated 135,000 metric tons of greenhouse gases annually, the equivalent of removing 26,000 vehicles from the road per year.

Over the three year life of the Accelerated Energy Program, projects will range from small lighting and fixture upgrades to major equipment retrofits. Projects will also span a diverse set of sites, ranging from hospitals and colleges to prisons, ice rinks, and more.

The AEP program will be funded through the state's Clean Energy Investment Program (CEIP), general obligation bonds, and Mass Save®. CEIP uses utilities savings from energy and water projects to repay the bonds used to finance the projects. For a project to be eligible for CEIP funding, it must result in annual savings greater than or equal to 110 percent of the project's debt services cost.

Leading by Example

When Governor Patrick signed Executive Order 484 *Leading by Example – Clean Energy and Efficient Buildings* in 2007, the Patrick-Murray Administration launched a dedicated effort to reduce greenhouse gas emissions, potable water usage, and overall energy consumption. The Executive Order established several aggressive and clear goals for the Commonwealth's facilities portfolio:

- Reduce greenhouse gas emissions 25 percent by 2012 and 40 percent by 2020;
- Reduce energy consumption 20 percent by 2012 and 35 percent by 2020; and
- Obtain 15 percent of total electricity from renewable sources by 2012 and 30 percent by 2020.

Since 2007, the Division of Capital Asset Management and Maintenance (DCAMM) has completed projects at nearly 30 percent of all Commonwealth facilities. These projects have been a contributing factor in elevating Massachusetts to the top of the American Council for an Energy-Efficient Economy's national rankings for state energy-efficiency policies in both 2011 and 2012. This distinction recognizes many initiatives in Massachusetts, including the investment and savings in energy efficiency for residential, low-income, commercial, and industrial electric and natural gas customers, delivered through the Mass Save® program.

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Improving Government Performance

The Patrick-Murray Administration will continue to maximize the use of every taxpayer dollar and reduce red tape for Massachusetts businesses in FY 2014 through a variety of initiatives that change the way government does business. Through innovative technological solutions and enhanced business models, each of the following initiatives strives to create the efficiencies and savings necessary to run a modern, customer-focused state government.

Regulatory Review

In support of Massachusetts' small businesses, the Administration is leading a comprehensive review of the Commonwealth's regulatory processes to find duplicative or overly burdensome regulations that can be eliminated in order to make it easier for businesses to thrive. In March 2012, Governor Patrick announced the beginning of a thorough review process for rules and regulations, focusing on finding regulations that are duplicative, out-of-date or in need of update and creating the changes necessary to improve or eliminate those regulations. In 2012, 446 sets of regulations had been reviewed, leading to 286 opportunities for reform – which accounts for 64 percent of regulations reviewed and approximately 14 percent of total state regulations. Agencies are now in the third round of review.

In January, the Patrick-Murray Administration filed a set of licensing reforms to reduce burdens on the business community and increase efficiencies of our Division of Professional Licensure (DPL). These recommendations include eliminating certain boards that are no longer necessary like the Radio and Television Technician Board, consolidating boards that regulate similar activities like the consolidation of the Electrology and Barbers Board into the Cosmetology Board, and adopting a set of best practices to apply to all of the licensing boards, such as eliminating the distribution of hard copy rosters of licensed individuals in lieu of online information, and removing high reinstatement fees that pose a barrier to re-entry of qualified individuals into licensed professions.

Leveraging Information Technology to Improve Services at Lower Costs

Public Records Retention and Electronic Discovery
The Commonwealth is statutorily required to satisfy public records requests within 10 days. This presents a challenge as many public records – emails, word documents, and spreadsheets – are created and stored digitally without the production of paper copies. There exists no central approach to storing and searching these documents across the 36,000 state employees currently using the Commonwealth's MassMail email system.

Current System	New e-Discovery Solution
Digital records are stored in a collection of decentralized locations including thumb drives, .pst files, shared network drives, CD-ROMS, and PC hard drives.	ITD will implement a cloud-based e-Discovery tool to hold all state electronic files in a central, searchable location by July 2014.
The Commonwealth is unacceptably non-transparent in our attempts to respond to public records requests due to years of isolated electronic storage solutions.	This cloud-based system will allow for more transparent government ready for a 21st Century Commonwealth.
Manual search for public records requires expensive outside vendors and often forces the stateinto avoidable and costly legal settlements.	State cost savings will likely be larger than the cost of installing the new system.

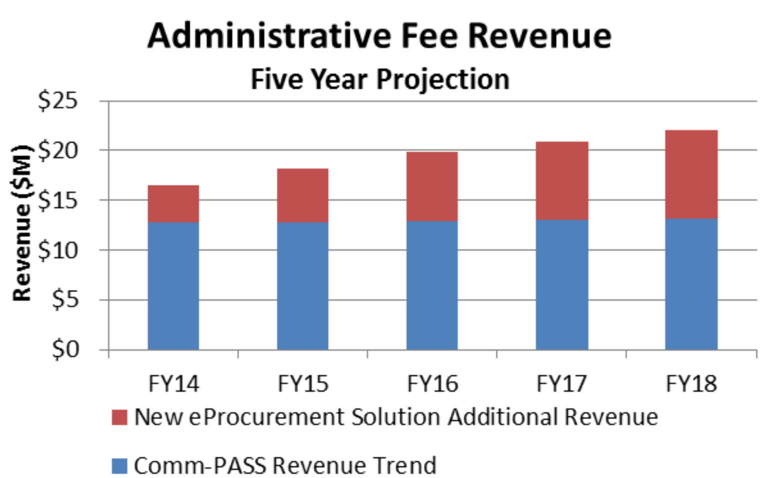
The Information Technology Division (ITD) is collaborating with a vendor to implement cloud-based archive and e-Discovery tools to remedy the current data climate. This system will:

- Eliminate the ad hoc procurement of individual e-discovery solutions by individual agencies for specific litigation purposes, likely saving more than the cost of operating the new tool;
- Allow for more transparent government through timely and complete access to public records;
- Allow agencies to meet their legal obligations by investigating apparent incidents of crime, fraud, workplace misconduct or discrimination;
- Streamline exploration techniques to eliminate manual searches, saving significant time;
- Eliminate the necessity of employees to periodically archive emails to clear inbox space; and
- Secure, organize and store records in a central repository, rather than through local email archives at each secretariat.

ITD will implement a full archiving, retention and e-discovery service for email and substantially complete data migration to these services by July 2014.

Electronic Procurement Solution

The contract for the Commonwealth's current web-based procurement application, Comm-PASS, is set to expire in December of 2013. As a primary point of contact between the state and the business community, ensuring that a well-designed replacement is secured is critical. The new e-Procurement solution is expected to have increased functionality: a seamless purchase-to-pay process with live integration to the state's accounting system; an electronic catalog of goods and services; reporting analytics that will examine what products are being purchased by state procurement officers and how often; and added opportunities for municipalities to utilize state contracts. These features will lead to an increase in revenue for the Commonwealth by elevating the use of statewide contracts and thus collecting additional dollars from the 1% administrative fee applied to all statewide contract purchases, which will cover the operating cost increases for the new system.

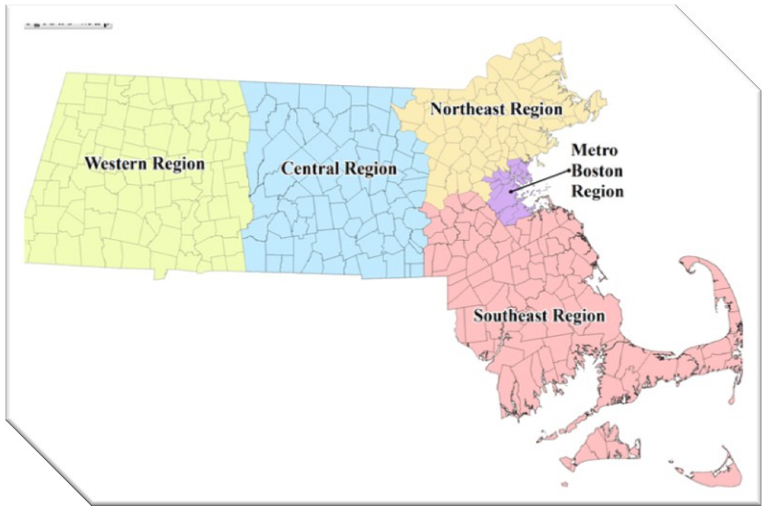


Return on Investment Initiative

Via a joint effort, the Executive Office for Administration and Finance (EOAF) and the Information Technology Division (ITD) are currently engaged in a process to work with third parties outside of state government on an approach to measure, monitor, and realize the return on investment across the Commonwealth's IT capital portfolio. A rigorous methodology will be developed throughout the spring of 2013, and mechanisms to capture savings, cost avoidances, and other efficiencies from self-financing projects will be implemented in FY 2014.

Integrated Facilities Management

IFM Regional Structure



As the largest property owner in New England, the Commonwealth owns over 80 million square feet of space and leases roughly 7 million square feet. Buildings and property have often been the responsibility of host agencies whose area of expertise is not facilities management. This isolated approach has led to inconsistencies in maintenance and investment of capital resources, ineffective space utilization, energy consumption and leasing practices, and the inability to gain cost and staffing efficiencies through a shared services model. Integrated Facilities Management (IFM) will continue to resolve these issues by consolidating oversight of state facilities into a regional framework under the charge of the Division of Capital Asset Management and Maintenance (DCAMM). An average annual savings target of 6-10% has been identified based on industry standards and previous facility integrations.

Major IFM milestones in FY 2014 will include the implementation of best practices and industry standards at the Taunton State Hospital and developing a right-sizing pilot program at the Charles F. Hurley Building in Boston in anticipation of wider implementation in FY 2015.

Gainsharing in Government

Gainsharing arrangements are common in the private sector but remain scarce in government. These arrangements are implemented by organizations to encourage innovation amongst its employees and subdivisions through an incentive of sharing and reinvesting the savings generated from successful reforms. Success stories from state and local governments around the country are becoming increasingly frequent and indicate that these reforms are capable of self-financing and result in swift success.

On behalf of the Commonwealth, the EOAF is developing a gainsharing program that will reinvest a portion of monetary savings generated through Secretariat and agency level reforms back into that agency. Authorizing legislation has been included in the Governor's FY 2014 budget recommendation. Interested agencies will be invited to present new current year budget savings proposals to their Secretariat CFO and to EOAF subsequent to Secretariat approval. Proposed savings cannot be achieved simply through the natural updating of caseload or spending needs. Over the course of the fiscal year, EOAF will continue to work closely with agencies to monitor the year-to-date savings of approved efforts and to update projections for total year-end savings.