

# BUDGET MONITOR

## The FY 2008 General Appropriations Act

### INTRODUCTION

While the Legislature has yet to consider veto overrides, the FY 2008 budget process is otherwise complete. This Budget Monitor describes spending levels and revenue choices included in the enacted and signed budget for this fiscal year. Highlights include \$220.2 million in new education aid to cities and towns; \$6.5 million more each for longer school days and full-day kindergarten; \$33.1 million in additional funding for public health initiatives including funding to prevent shaken baby syndrome, for youth violence prevention, and for two additional childhood vaccines (rotavirus and meningococcal vaccines); \$4 million for the hiring of new police officers; and, the creation of a new fund to provide student loan repayment assistance for graduates of the state’s public colleges and universities who pursue science, technology, engineering, or mathematics careers.

In a year that began with a substantial structural budget deficit and expectations of budget cuts or tax reforms, the final budget cut very little on the spending side and left open \$500 million worth of corporate tax loopholes that the Governor had proposed closing. This conclusion points to an obvious question: how was the expected structural budget gap closed? The answer is the FY 2008 budget does not close the gap. The FY 2008 budget proposes a strategy that amounts to deficit spending: it withdraws

\$470.5 million from reserve funds and suspends the annual deposit of nearly \$100 million into the Stabilization Fund. Using reserves that are set aside for a recession to pay for ongoing spending, when there is not a recession, could leave the Commonwealth unprepared when the next economic downturn does arrive.

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On the bright side, revenue growth in FY 2007 was stronger than had been expected. As a result, the state will exceed its revenue targets for FY 2008 if revenue growth in the coming year is 0.7 percent or greater. If revenue growth exceeds 2.9 percent then the budget could be balanced without making the proposed withdrawals from reserve funds. While three percent revenue growth would be modest by historic standards, it is important to remember that the high level of receipts in FY 2007 was due, in part, to a rapidly rising stock market. If the rate of growth in the stock market slows, capital gains tax receipts would likely decline. If the market actually declines, as it has so far in this young fiscal year, then capital gains taxes could drop precipitously.

## **ANALYSIS OF SPENDING BY PROGRAM AREA**

With the completion of the FY 2008 General Appropriations Act (though some Legislative overrides are still likely), this *Budget Monitor* is primarily focused on differences between FY 2007 and FY 2008. The General Appropriations Act (GAA) is the final budget passed by the Legislature and signed by the Governor. For more detailed analysis of the various budget proposals throughout the budget-writing process, earlier *Monitors* are available from our website: [www.massbudget.org](http://www.massbudget.org).

When we compare FY 2008 to FY 2007, we are comparing to total FY 2007 ongoing appropriations. Ongoing appropriations are the total amount budgeted, both in the original FY 2007 budget and in any supplemental budgets, reduced by one-time appropriations. For totals by program area, see the chart at the end of this *Budget Monitor*.

It is important to note that the costs of providing government services rise with inflation – and in some areas, like health care, faster than overall inflation. Therefore, appropriation increases of only one or two percent often result in actual cutbacks in services and do not represent real increases in resources.

While in prior versions of the *Monitor* the \$28 million of the FY 2007 human services rate reserve was allocated to the “other human services” category, the totals in this *Monitor* now allocate the reserve to the departments in which it was actually spent.

### ***The Bottom Line: Defining Total Appropriations***

The budget total in this *Budget Monitor* is different than what is often reported. This is because MBPC counts all appropriations in the total, whether by line-item or transfer. We use this method because line items are not the only form of appropriation. An appropriation is a law or portion of a law enacted by the state legislature that “sets apart a certain sum of public money for a particular purpose, so that an executive-branch officer may expend it without further legislative action.”<sup>1</sup> The state budget is a document that lists all appropriations for the year: “a budget ... shall contain a statement of all proposed expenditures of the commonwealth for the fiscal year, including those already authorized by law.”<sup>2</sup> Following enactment of the annual budget “supplemental budgets” can add additional appropriations.

<sup>1</sup> Massachusetts Senate Legislative Drafting and Legal Manual, Third Edition, 2003 (available at: <http://www.mass.gov/legis/drafting.htm>), citing *Slama v. Attorney General*, 384 Mass. 620, 625 (1981).

<sup>2</sup> Massachusetts Constitution, Article CVII.

Following these principles, this MBPC *Budget Monitor* presents an examination of all appropriations, including two types that are often not included in discussions of the state budget: transfers out of the General Fund authorized by general laws and transfers out of the General Fund authorized by outside sections in the budget law. In the FY 2008 budget, traditional line item appropriations total \$26.771 billion (which is the number often reported as total budgeted spending). In addition, there is \$2.789 billion appropriated by existing general laws and \$1.426 billion appropriated by outside sections of the budget.

The appropriations by general law include, for example, \$756.0 million for the MBTA, pursuant to M.G.L.c. 10 § 35T which directs the transfer of one-fifth of the Commonwealth's sales tax revenue to the MBTA; and, \$1,398.6 million for the state pension fund, pursuant to Chapter 32 §22C of the General Laws which contains a schedule of amounts to be transferred to the Pension Liability Fund each year.

Outside sections appropriating money included section 52 which transferred \$343.2 million from the General Fund to the State Retirees Benefit Trust (to fund health insurance costs for retired state employees that had been paid for with a line item appropriation in previous years) and section 55 which transferred \$789.7 million from the General Fund to the Commonwealth Care Trust Fund to pay for costs associated with the state's health reform law.

To allow comparisons with other descriptions of the state budget, this *Monitor* reports line item appropriations separately as well as providing combined totals. Ultimately, however, the budget should be understood as including all spending of state revenue whether through line item, general law, or outside section.

## LOCAL AID

The FY 2008 GAA provides \$1.345 billion in unrestricted local aid to the Commonwealth's cities and towns. This represents a \$17.7 million or 1.3 percent increase over FY 2007. Despite these increases, unrestricted local aid to cities and towns for FY 2008, after adjusting for inflation, remains \$178 million or 11.7 percent below the FY 2001 level.

<b>FY 2007 Ongoing</b>	<b>\$1,327,596,219</b>
<b>FY 2008 GAA</b>	<b>\$1,345,096,219</b>

<b>Increase (decrease)</b>	<b>\$17,700,000</b>
<b>Percent</b>	<b>1.3%</b>

The GAA provides lottery and additional assistance to cities and towns in the amount approved in a joint legislative resolution passed prior to the release of the House Ways and Means Committee budget proposal. In total, the state will provide \$935.0 million in lottery aid to cities and towns, an increase of \$15.0 million. Additional assistance is level-funded at \$379.8 million as it has been since FY 2004.

Funding for Payments in Lieu of Taxes increases by \$3 million, to \$28.3 million for FY 2008. Finally, funding for racing distribution payments to communities where racing takes place is reduced by \$300,000, to \$2.2 million.

## K-12 EDUCATION

For FY 2008, the GAA provides \$4.939 billion for K-12 education in the state. This is a 7.3 percent increase over the \$4.601 billion provided in ongoing FY 2007 appropriations. The FY 2008 appropriation includes \$3.726 billion in Chapter 70 aid to local school districts, \$578.5 million for the operations and grant-making of the

Department of Education, and \$634.7 million in funds for school building assistance.

The Governor's only veto of education funding was a \$100,000 reduction of the appropriation for the Franklin Institute of Boston.

<b>FY 2007 Ongoing</b>	<b>\$4,601,249,845</b>
<b>FY 2008 GAA</b>	<b>\$4,938,920,856</b>
<b>Increase (decrease)</b>	<b>\$337,671,011</b>
<b>Percent</b>	<b>7.3%</b>

### **Chapter 70 Aid**

As with unrestricted local aid, the GAA for FY 2008 provides an amount of Chapter 70 aid to local school districts that is equal to the amount provided in a joint legislative resolution adopted prior to the introduction of legislative budget proposals. For FY 2008, the state will provide \$3.726 billion in Chapter 70 aid to cities and towns for public education purposes. This represents an increase of \$220.2 million or 6.3 percent over the FY 2007 level of assistance.

In the 1993 Education Reform Act, a particular measure of inflation was identified as the appropriate measure of inflation for education costs and for Chapter 70 aid (M.G.L.c. 70, § 2). If this measure of inflation is used to account for the increasing costs of providing education, the funding for FY 2008 is about \$353.0 million or 8.6 percent below the FY 2002 level of funding.

<b>FY 2007 Ongoing</b>	<b>\$3,505,520,040</b>
<b>FY 2008 GAA</b>	<b>\$3,725,671,328</b>
<b>Increase (decrease)</b>	<b>\$220,151,288</b>
<b>Percent</b>	<b>6.3%</b>

In FY 2007, the Legislature first implemented a new formula for Chapter 70

designed primarily to provide additional aid to communities that were paying locally for a high percentage of their foundation budget and also to provide additional funding to high-growth communities. The GAA, following the joint legislative resolution, continues these reforms.

Our *Budget Monitor* on the FY 2008 House budget provides greater detail on the various revisions to the Chapter 70 formula and can be found at: <http://www.massbudget.org/article.php?id=589>.

### **Other K-12 Education Funding**

The FY 2008 GAA provides \$578.5 million for the operations, programming, grant-making of the state Department of Education, a \$39.8 million or 7.4 percent increase over FY 2007. Despite this increase, after adjusting for inflation, FY 2008 funding for the Department of Education remains \$16.9 million or 2.8 percent below the FY 2001 level of funding.

<b>FY 2007 Ongoing</b>	<b>\$538,729,805</b>
<b>FY 2008 GAA</b>	<b>\$578,549,528</b>
<b>Increase (decrease)</b>	<b>\$39,819,723</b>
<b>Percent</b>	<b>7.4%</b>

Historically, the state budget provides one dollar to the Franklin Institute of Boston, though the FY 2007 budget included \$300,001 for the Institute. The FY 2008 Conference Committee budget included \$100,001, but with the Governor's veto of \$100,000 from this line item, the GAA provides the customary one dollar.

The Governor's budget proposal included two key education increases, a doubling of funding for extended learning time grants (to lengthen the school day) and an increase in funding for kindergarten expansion grants (to convert half-day classrooms to full-day).

The FY 2008 budget follows the Governor’s proposal to double funding for extended learning time grants to \$13.0 million. Based on the Department of Education’s program guidelines, which provide \$1,300 per pupil in extended day classrooms, this funding will support a longer school day for as many as 10,000 students.

The GAA does not include the full \$39.5 million requested by the Governor for Kindergarten Expansion grants, but the FY 2008 budget does increase funding to \$33.8 million, a \$6.5 million or 23.9 percent increase over FY 2007 funding.

Other highlights of the FY 2008 budget for the Department of Education include the following.

- Funding for the Special Education Circuit Breaker, which provides funds to school districts with extraordinary special education costs, increases to \$220.0 million, a 5.9 percent increase over FY 2007.
- The METCO voluntary school desegregation program receives \$20.6 million, a \$1.0 million or 5.1 percent increase over FY 2007.
- Funding for regional school district transportation costs is increased to \$58.3 million from \$55.5 million in FY 2007.
- While funding for adult basic education is increased by 2.0 percent to \$30.1 million in FY 2008, this remains, after adjusting for inflation, \$5.9 million or 16.3 percent less than the FY 2001 level of funding.
- Targeted intervention funding, for schools at-risk of being identified as under-performing, is boosted by 82.8 percent from \$5.0 million in FY 2007 to \$9.1 million in FY 2008.

- The GAA provides \$13.2 million in funding for MCAS low-scoring student support in FY 2008, a \$2.8 million or 27.3 percent increase over FY 2007. However, this is, after adjusting for inflation, \$34.4 million or 72.2 percent less than was provided in FY 2001.

### **Foundation Reserve**

As in prior fiscal years, the GAA includes a reserve to fund shortfalls in Chapter 70 education aid to cities and towns (commonly called a “pothole” account). For FY 2008, the budget provides \$5.5 million for this account.

Communities can apply for funds from the foundation reserve if they meet particular criteria. These criteria were presented in detail in the FY 2008 Senate Ways and Means Committee *Budget Monitor*, which is available at: <http://www.massbudget.org/article.php?id=592>.

### **HIGHER EDUCATION**

The FY 2008 GAA provides \$1.054 billion for the state’s public higher education system, a \$22.9 million or 2.2 percent increase over FY 2007. The funding level for FY 2008, after adjusting for inflation, remains \$245.6 million or 18.9 percent below the FY 2001 level of funding.

The Governor vetoed \$325,000 in funding for the Veterinary Medicine program at Tufts University, reducing the FY 2008 appropriation to \$5.0 million, a 6.1 percent decrease from the FY 2007 funding level.

<b>FY 2007 Ongoing</b>	<b>\$1,031,541,911</b>
<b>FY 2008 GAA</b>	<b>\$1,054,412,621</b>
<b>Increase (decrease)</b>	<b>\$22,870,710</b>
<b>Percent</b>	<b>2.2%</b>





The FY 2008 GAA increases funding for all three levels of the state’s public higher education system. The budget appropriates \$474.7 million for the University of Massachusetts system, an \$18.9 million or 4.1 percent increase over FY 2007 ongoing appropriations. This remains, after adjusting for inflation, \$112.8 million or 19.2 percent below the FY 2001 level of funding provided to the system.

<b>Spending by Higher Education Institutional Level</b>			
	<b>FY07 Ongoing</b>	<b>FY08 GAA</b>	<b>Change</b>
University of Massachusetts	455.8	474.7	4.1%
State Colleges	210.5	215.8	2.5%
Community Colleges	232.8	240.7	3.4%
<b>Total</b>	<b>899.1</b>	<b>931.2</b>	<b>3.6%</b>

The state college system is funded at \$215.8 million for FY 2008, a \$5.3 million or 2.5 percent increase over FY 2007. Community colleges receive a 3.4 percent increase over FY 2007 to \$240.7 million for FY 2008. After adjusting for inflation, the FY 2008 appropriations for state colleges and community colleges remain 5.8 percent and 6.2 percent below FY 2001 levels respectively.

Among other notable changes in the FY 2008 GAA for higher education are the following.

- Funding for the Massachusetts state scholarship program is increased by \$4.0 million, or 4.5 percent, to \$93.9 million for FY 2008.
- An additional \$721,947 is provided to the state’s Board of Higher Education for FY 2008, bringing the Board’s appropriation to \$3.5 million. The increase is more than absorbed by \$1.4 million in earmarks, more than double

the \$500,000 in earmarks in the FY 2007 appropriation. In particular, the FY 2008 GAA doubles the earmark for the nursing and allied health workforce development initiative.

- Finally, the FY 2008 GAA eliminates funding for the higher education private fundraising initiative. The program had provided matching funds to state colleges and universities for private dollars raised and was funded at \$13.0 million in FY 2007.

## **EARLY EDUCATION AND CARE**

For FY 2008, the GAA provides \$536.5 million for the Department of Early Education and Care. This is a 5.1 percent increase over the \$510.7 million provided in ongoing FY 2007 appropriations.

<b>FY 2007 Ongoing</b>	<b>\$510,651,311</b>
<b>FY 2008 GAA</b>	<b>\$536,452,420</b>
<b>Increase (decrease)</b>	<b>\$25,801,109</b>
<b>Percent</b>	<b>5.1 %</b>

In order to compare funding over time for early education and care programs, we make adjustments to the FY 2007 funding levels so that they can be compared to the GAA for FY 2008. There are two line items, in particular, that require several adjustments each: the Child Care Rate Reserve (line item 1599-0042) and the Community Partnerships for Children program (line item 3000-4000). In addition, a one-time transfer of \$2.1 million was made from TANF Related Child Care to Supportive Child Care. These changes are described in more detail in the footnotes of the table below.

After making these adjustments, we can compare the GAA to the FY 2007 budget. The GAA increases funding for Supportive

**Funding for Direct Services in Early Education and Care (EEC)**

<b>Number</b>	<b>Direct Service Funding</b>	<b>FY 2007</b>	<b>FY 2007 in FY 2008 Structure</b>	<b>FY 2008</b>	<b>FY 2008 increase over FY 2007</b>
1599-0042	Child Care Staff Reserve*	12,500,000	0	7,000,000	7,000,000
3000-3050	Supportive Child Care**	54,673,130	58,506,330	67,298,130	8,791,800
3000-4000	Community Partnerships for Children***	47,641,095	0	0	0
3000-4050	TANF Related Child Care**	163,151,082	166,498,282	166,944,998	446,716
3000-4060	Low-Income Child Care***	150,714,917	203,675,612	209,825,847	6,150,235
3000-5000	Grants to Head Start Programs	8,500,000	8,500,000	9,000,000	500,000
3000-5075	Universal PreKindergarten Program	4,638,739	4,638,739	7,138,739	2,500,000
	<b>Total</b>	<b>441,818,963</b>	<b>441,818,963</b>	<b>467,207,714</b>	<b>25,388,751</b>

*\*Appropriations for the Child Care Rate Reserve fund increases for early education and care workers' salaries, benefits and professional development stipends. The Department of Early Education and Care determines how to allocate the Child Care Rate Reserve funds across the relevant program areas. They allocated the \$12.5 million that was appropriated for the Child Care Rate Reserve Fund in FY 2007 as follows: \$1.7 million for the Supportive Child Care program (line item number 3000-3050); \$120,000 for the Community Partnerships for Children program (line item number 3000-4000); \$5.4 million for child care vouchers (line item number 3000-4050); \$5.2 million for Income-Eligible Child Care (line item number 3000-4060). To allow accurate comparisons, the "FY 2007 in FY 2008 Structure" column of the chart includes these amounts in the line item where the money was actually spent in FY 2007.*

*\*\*The "FY 2007 in FY 2008 Structure" column of the chart reflects a transfer of \$2.1 million from TANF Related Child Care to Supportive Child Care. The Department of Early Education and Care transferred these funds in October 2006 in order to provide services to 1,074 children who were on the waiting list for Supportive Child Care.*

*\*\*\*The GAA eliminates line item 3000-4000, which had funded the Community Partnerships for Children (CPC) program. The funding for this program, however, is transferred to another program: Low-Income Child Care (line item number 3000-4060), with the requirement that the funds continue to be spent on the CPC program. The "FY 2007 in FY 2008 Structure" column reflects this adjustment.*

Child Care from \$58.5 million to \$67.3 million, an \$8.8 million increase. While there were wait lists in the past, this funding level should ensure that services are provided to all eligible children. Supportive Child Care funds early education and care for families referred by the Department of Social Services.

Funding for Community Partnerships for Children (CPC), earmarked within the line item for Low-Income Child Care (line item 3000-4060), is level-funded at \$47.761 million. This amount is the sum of the FY 2007 CPC appropriation (\$47.641 million) and the distribution to the CPC program from the Child Care Staff Reserve in FY

2007 (\$120,000). Through this program, community councils collaborate with local preschools to develop a system of care and education for 3- and 4-year olds. In addition, the program provides child care subsidies for children of working families earning under 100 percent of the state median income.

Funding for TANF Related Child Care increases slightly, from \$166.5 million to \$166.9 million. This program funds vouchers for enrollment in early education and care programs; the funds are available for families currently receiving or transitioning from Temporary Assistance to Needy Families (TANF).



The GAA increases funding for Low-Income Child Care from \$203.7 million to \$209.8 million, a \$6.2 million increase. This program provides financial assistance for income-eligible families to enroll in early education and care programs.

Funding for grants to Head Start programs increases by \$500,000, or 5.9 percent.

Funding for the Universal Pre-Kindergarten program increases by \$2.5 million, or 53.9 percent in FY 2008.

Funding for the Healthy Families Home Visiting Program, the Massachusetts Family Network and the Reach Out and Read Program, which is funded as an earmark within Massachusetts Family Network, is \$22.2 million in FY 2008, or 1.2 percent above the FY 2007 level of funding.

The budget consolidates the line items for the administration of the Child Care Resource and Referral agencies and the Community Partnerships for Children agencies. Combined, funding for the administration of these agencies is reduced by \$1.9 million, a 7 percent decrease from FY 2007.

Grants to early education and care providers for accreditation costs are level-funded at \$1.7 million in FY 2008. Funding for the professional development of early education and care providers is increased to \$3.1 million from \$1.5 million in FY 2007.

The GAA for FY 2008 includes \$7 million for the Child Care Rate Reserve, which funds increases for early education and care workers' salaries, benefits and professional development stipends. In FY 2007, \$12.5 million was appropriated to this reserve for compensation increases.

## INCOME SUPPORT PROGRAMS

The FY 2008 GAA provides \$598.9 million for the state's income support programs, a decrease of \$11.4 million or 1.9 percent from the FY 2007 funding level.

<b>FY 2007 Ongoing</b>	<b>\$610,335,428</b>
<b>FY 2008 GAA</b>	<b>\$598,932,022</b>

<b>Increase (decrease)</b>	<b>(\$11,403,406)</b>
<b>Percent</b>	<b>-1.9%</b>

The GAA provides \$274.5 million for grant payments under the Transitional Aid to Families with Dependent Children (TAFDC) program. This represents a reduction of \$15.1 million or 5.2 percent from FY 2007. The reduction from FY 2007 likely results from projections of lower caseloads for FY 2008.

The GAA provides \$69.9 million for Emergency Aid to the Elderly, Disabled, and Children. This program provides cash assistance to low-income elderly and disabled individuals and to those caring for disabled family members. This amount is slightly lower than the FY 2007 level of \$70.0 million.

The GAA includes a requirement that the Commissioner of the Department of Transitional Assistance notify the Legislature 60 days before implementing any eligibility or benefit changes. This notice requirement helps ensure that legislators consider alternatives to benefit cuts, should deficits emerge in a given year. This requirement was also included in the FY 2007 line item language for this program.



## **Job Training and Employment Services**

The Employment Services Program, which is available to individuals receiving cash assistance, is essentially level-funded at \$27.2 million for FY 2008.

The GAA increases the maximum amount of federal reimbursements for specific education and job training or readiness services that the Department of Transitional Assistance can retain from \$5 million to \$7 million. The GAA indicates that the extra \$2 million in FY 2008 relative to FY 2007 reflects potential federal reimbursements from trainings provided by non-state agencies, such as community colleges and private foundations.

## **HEALTH CARE**

Total health care funding in the FY 2008 GAA is \$9.353 billion, with \$8.282 billion in “on-budget” line item appropriations. Of this total, the budget appropriates \$8.204 billion for Medicaid/MassHealth within the line items. Total FY 2008 health care funding is 4.8 percent higher than FY 2007 ongoing funding. The Governor and Legislature assert that this funding is sufficient to fully fund the Commonwealth’s health insurance reform program.

The Governor vetoed \$3.5 million in Medicaid/MassHealth funding, and \$3.3 million in funding for pharmacy programs, and modified certain budgetary language (see below for details).

This *Budget Monitor* total includes funding for health care authorized by outside sections transferring money from the General Fund as well as on-budget appropriated line items supporting health care.

<b>FY 2007 Ongoing</b>	<b>\$ 8,925,165,675</b>
<b>FY 2008 GAA</b>	<b>\$ 9,352,877,322</b>

<b>Increase (decrease)</b>	<b>\$ 427,711,647</b>
<b>Percent</b>	<b>4.8%</b>

The analysis in this *Budget Monitor* divides health care funding totals into several sections (see detailed chart below) in order to break down the various components of the health care budget. We make various adjustments to the totals as listed in the budget, in order to make more accurate year-to-year comparisons.<sup>3</sup>

These categories, however, are highly interrelated. For example, Medicaid/MassHealth is funded by appropriations into line items as well as other funding from the non-budgeted special revenue funds. The Medicaid waiver includes funding appropriated into special trust funds, and these trusts are integral to

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<sup>3</sup> "Medicaid/MassHealth" includes the funding for the Medicare "Clawback," and now also the Healthy Start program. These "Medicaid/ MassHealth" totals also include the administrative costs associated with the Executive Office and the Office of Medicaid. The totals for "Other Health Care Programs" include the Children's Medical Security Plan program and certain health care grants. Although in previous years this total has also included the Betsy Lehman Center, the FY 2008 budget includes that funding within the Health Promotion and Disease Prevention services within the Department of Public Health, so we do the same, and adjust our health care totals for previous years accordingly. "Health Care Reform" does not include funding directed to the Division of Insurance in FY 2007, but does include other line item appropriated administrative costs associated with the implementation of health care reform. The FY 2008 budget funds some of health reform administration through a transfer from the off-budget Medical Security Trust Fund. This amount is included in our totals for health care transfer appropriations. Funding transferred into the Uncompensated/Health Safety Net Care Pool is included in the discussion of health care transfer appropriations.

the implementation of health reform. Other health programs cover persons or services not eligible for Medicaid, yet these are also integral to health reform. Participation in and funding for the senior pharmacy program has been affected by the implementation of federal Medicare Part D pharmacy coverage, which was designed to expand pharmaceutical coverage for persons eligible for Medicare and Medicaid and reduce Medicaid costs to the states.

### ***Medicaid/MassHealth***

The FY 2008 budget appropriates a total of \$8.204 billion for Medicaid/MassHealth programs within the line items. Not included in this total is approximately \$161 million for specific enhancements for rates paid to certain Medicaid/MassHealth providers, as legislated in the Commonwealth's health reform act. Approximately half of these dollars maintain rate enhancements added in FY 2007, and the other half increases rates for FY 2008. This additional Medicaid/MassHealth funding will be available for hospitals and physicians providing health care to Medicaid/MassHealth members, but this funding will come from a non-budgeted trust fund. There is also significant other spending associated with the Commonwealth's Medicaid waiver, but as this spending comes from transfer appropriations and is not typically included in Medicaid/MassHealth totals, we do not include that funding here. (See discussion of health care transfer appropriations below).

The FY 2008 budget increases the amounts earmarked for supplemental payments to specific safety net hospitals whose caseload includes a "disproportionate share" of low-income patients. The FY 2008 GAA includes \$25.9 million in such earmarks, \$200,000 more than in FY 2007.

Within the Senior Care plans, the FY 2008 budget consolidates the Senior Care Plans with the Senior Care Options program, and funds them at a total of \$2.052 billion. These programs provide coverage for institutional or certain types of community-based long term care for frail low-income elders. The GAA includes earmarks that specify \$5.0 million to increase the personal needs allowance for persons residing in long-term care facilities, \$270,000 for nursing home pre-admission counseling, and \$80.0 million in nursing home rate increases. The Governor vetoed \$2.0 million from this line item, eliminating an earmark targeted to increase adult day health rates.

The Governor also vetoed \$1.5 million within the Third Party Liability/Indemnity program line item, eliminating funding that would have increased the rates provided to a particular specialty hospital. Total funding for this line item in FY 2008 is \$1.682 billion, \$143.6 million more than in FY 2007. This line item also includes language specifying that the Office of Medicaid develop incentives in addition to premium or copayment reductions to encourage participants to meet wellness goals.

There are several provisions in the FY 2008 GAA aimed at improving access to health care for Medicaid/MassHealth members:

- \$3.5 million in funding for enrollment and outreach grants, level with FY 2007 funding. These mini-grants, made available to community-based organizations, have played an important role so far in helping enroll uninsured persons in the Commonwealth's various health insurance programs.
- \$200,000 earmarked within one of the Medicaid/MassHealth line items

## Health Care Programs

*(in Millions of Dollars)*

	FY 2007 Ongoing	FY 2008 Conf. Cmte.	FY 2008 GAA
Medicaid/MassHealth	7,834.1	8,207.9	8,204.4
Pharmacy Programs	63.6	63.8	60.5
Other Budgeted Health Care Programs	18.2	16.9	16.9
Health Care Reform*	13.0	0.6	0.6
<b>Sub-Total Health Care Line Item Appropriations</b>	<b>7,928.9</b>	<b>8,289.2</b>	<b>8,282.4</b>
Medical Assistance Trust**	236.0	251.0	251.0
Essential Community Provider Trust	38.0	28.0	28.0
Commonwealth Care Trust	722.1	789.7	789.7
Medical Security Trust for Fair Share Assessment	0.0	1.8	1.8
<b>Sub-Total Health Care Transfer Appropriations</b>	<b>996.1</b>	<b>1,070.4</b>	<b>1,070.4</b>
<b>Grand Total</b>	<b>8,925.0</b>	<b>9,359.7</b>	<b>9,352.9</b>

*\*In FY 2008, funding is shifted into a transfer from the Medical Security Trust.*

*\*\*Although language in Outside Sections of the FY 2008 budget specifies that this could be as high as \$346.0 million, there is also language stating that the total may only go above \$251.0 million if certain contingencies are met. For the purposes of our analysis, we include the more conservative total here.*

for a new Health Care Reform Outreach and Education Unit.

- Language requiring that the Executive Office of Health and Human Services assist persons born in Massachusetts with obtaining copies of their birth certificates for the purpose of establishing Medicaid eligibility at no cost, and also provide (as-yet unspecified) assistance for persons born outside of Massachusetts. The federal Deficit Reduction Act of 2005 requires the provision of a birth certificate as part of an application for Medicaid eligibility.
- Language allowing dentists participating in the Medicaid/MassHealth program to limit the number of Medicaid/MassHealth patients in their practice. This language is

intended to encourage more dentists to participate, thereby increasing access to dental care. This limitation was also included in the FY 2007 budget.

The FY 2008 GAA brings “on-budget” and into the line items a rate supplement for nursing home providers that had previously been funded through the non-budgeted Health Care Quality and Improvement Trust. The amount of this supplement remains at \$288.5 million, and is part of the Medicaid/MassHealth total.<sup>4</sup> This supplement is partially paid for by an assessment on long-term care facilities.

<sup>4</sup> In order to make accurate year-to-year comparisons, we add \$288.5 million to the FY 2007 Medicaid/MassHealth totals to include the nursing home rate supplement funded in that year out of an off-budget trust.

Although not included in these totals, the FY 2008 GAA provides \$805,000 for the Medicaid audit unit in the State Auditor's Office, and \$2.9 million for the Medicaid Fraud Control Unit in the State Auditor's office. In FY 2007, there was only \$450,000 in one-time funding for the Medicaid audit unit, and \$2.8 million for Medicaid Fraud Control.

### ***Pharmacy Programs***

The FY 2008 budget includes \$60.5 million for the Prescription Advantage program. The Governor vetoed \$3.3 million, stating that declining caseload and previous years' spending did not warrant the full amount recommended for the program. The budget states that eligible persons may enroll in the Prescription Advantage program at any time during the year (rather than only during specified enrollment periods.) As in FY 2007, the FY 2008 GAA includes an earmark designating \$600,000 for a pharmacy outreach program.

### ***Other Budgeted Health Care Programs***

The FY 2008 budget funds the Children's Medical Security Plan at \$15.2 million. Although this is less than funding in FY 2007, the amount is most likely sufficient to meet the needs of the program, given anticipated FY 2007 spending levels, and given expanded eligibility for children in Medicaid/MassHealth.

An outside section of the budget also amends the statute governing the program, exempting children under 200 percent of the federal poverty line from premiums.

The FY 2008 budget includes \$1.7 million in funding for primary care workforce development and loan forgiveness. The intent of this program is to expand the

availability of primary care providers, particularly in under-served parts of the Commonwealth.

In his veto message, the Governor returned for reconsideration an outside section of the budget that creates an electronic health records task force to link information among certain state offices that use health records. The Governor proposed modifying the language creating the task force, and clarified that the task force would be charged with making recommendations about electronically linking health information.

Not included in these totals (included in this *Budget Monitor* in the totals for "Other Human Services"), the Health Care Quality and Cost Council receives \$1.0 million in funding for FY 2008. The work of this council is seen as instrumental in developing mechanisms to control burgeoning health care costs across the Commonwealth, particularly in light of the Commonwealth's health reform initiatives (see below).

### ***Health Reform***

The FY 2008 GAA includes \$600,000 for a line item within the Division of Insurance designated for implementation of the "health care access bureau."

During the budget debate, the House had proposed allocating \$1.8 million to a new office within the Department of Workforce Development to fund the administration of the "fair share assessment" associated with health reform. Instead, the FY 2008 GAA specifies that that same amount of money (\$1.8 million) be transferred from the off-budget Medical Security Trust Fund into the Commonwealth Care Trust Fund (see below) to fund this.

## ***Health Care Transfer Appropriations***

In addition to the funding listed above, the FY 2008 GAA includes information about appropriations for health care funding associated with transfers from the General Fund into certain trust funds. These trusts receive funds transferred from the General Fund for specified purposes.

The FY 2008 GAA transfers “up to” \$346.0 million from the General Fund into the Medical Assistance Trust Fund, in order to pay for certain supplemental payments to MassHealth providers. The budget language states, however, that the transfer of any amount above \$251.0 million is contingent upon the Commonwealth receiving approval of this increased amount from the federal government. Because it is uncertain that the Commonwealth will be able to meet this contingency, we only include the more conservative amount of \$251.0 million in our total. In FY 2007, the Commonwealth transferred \$236.0 million into this fund rather than the total of \$346.0 million that had been specified in an outside section of the FY 2007 GAA, in part because the Commonwealth did not receive federal approval for the increased amount.

The FY 2008 budget transfers \$28.0 million to the Essential Community Provider Trust Fund, down from \$38.0 million in FY 2007. These funds are available in the form of grants to acute care hospitals and community health centers for care for needy populations.

The GAA transfers \$789.7 million into the Commonwealth Care Trust Fund to pay for, among other initiatives, the costs associated with subsidized health insurance premiums for the Commonwealth’s health reform programs.

This total includes \$161 million designated for rate supplements for hospitals and physicians participating in the Medicaid/MassHealth program (see discussion above). The budget proposal specifies that \$20.0 million of these rate increases to hospital providers would be available only after the providers meet specific “pay for performance” standards, and that these funds would come from this non-budgeted Commonwealth Care Trust Fund.

The state’s health reform law changes the Uncompensated Care Pool into the Health Safety Net Care Pool. This pool of money is available to hospitals and community health centers to reimburse them for a portion of their costs associated with uncompensated care for uninsured or underinsured persons.

The FY 2008 GAA moves the authority for administering these funds from the Office of Medicaid into a Health Safety Net Office within the Division of Health Care Finance and Policy. The budget also transfers \$33.9 million from the Commonwealth Care Trust Fund into this pool to support its operations.

In addition to the funds transferred from the General Fund into these separate trusts, the FY 2008 GAA transfers \$1.8 million of funds from the Medical Security Trust Fund (the unemployment health insurance fund) into the Commonwealth Care Trust Fund to pay for the administration of the “fair share assessment” levied on employers as part of health reform.

## **PUBLIC HEALTH**

The FY 2008 GAA includes \$548.7 million for public health programs. The Governor did not veto any public health funding. This total is 6.4 percent higher than ongoing FY 2007 funding (once the FY 2007 human



service purchase of service reserve has been added in). Nevertheless, even with the gradual restoration of funding to public health programs over the past several years, funding for public health programs is still more than 11 percent less than it was in FY 2001, when adjusted for inflation.

<b>FY 2007 Ongoing</b>	<b>\$ 515,628,627</b>
<b>FY 2008 GAA</b>	<b>\$ 548,683,520</b>
<b>Increase (decrease)</b>	<b>\$ 33,054,893</b>
<b>Percent</b>	<b>6.4%</b>

The GAA includes several new initiatives in public health that are notable. First of all, it consolidates a variety of public health screening and prevention programs (such as the programs for osteoporosis, prostate cancer, colorectal cancer, Hepatitis C, multiple sclerosis, renal disease, ovarian cancer and diabetes). The intention of the consolidation is to coordinate a comprehensive strategy for disease prevention. The GAA funds these programs at \$14.2 million, a five percent increase over the total for these programs in FY 2007.

There are two new public health items in the FY 2008 budget. The GAA includes \$350,000 for a new program to prevent shaken baby syndrome. The budget also includes \$2.0 million for a new youth violence prevention grant program focusing on communities at high risk for youth violence, and emphasizing programming in the afternoons and evenings.

The GAA also provides for increases in several other program areas, including:

- \$48.8 million for the universal immunization program. The GAA specifies that the Department of Public Health will now include the rotavirus and meningococcal conjugate vaccines along with the pneumococcal conjugate

vaccine. (These vaccines target a virus responsible for serious diarrhea in infants, meningitis, and pneumonia respectively.) Included in the budget is language recommending a study of the human papilloma vaccine (targeting a virus linked to cervical cancer), and research into generic alternatives. Funding in Fiscal Year 2007 was \$36.8 million for just the pneumococcal conjugate vaccine.

- \$12.8 million for smoking prevention and control programs. Although this is an increase over FY 2007 funding of \$8.3 million, when adjusted for inflation, funding for anti-smoking programs in FY 2001 was \$60.5 million.
- \$3.8 million for community suicide prevention programs, an amount that is three times the FY 2007 funding level.
- \$4.0 for teen pregnancy prevention programming, a 33 percent increase over FY 2007 funding of \$3.0 million. The FY 2008 GAA earmarks \$565,000 of this total for specific programs. The Governor vetoed the acceptance of \$712,000 in federal funding for an “abstinence-only” education program grant, because of restrictions in the grant language that would prevent its expenditure on comprehensive sexuality education.
- \$42.7 million for early intervention services, 10 percent more than FY 2007 funding of \$38.8 million. This increase is largely due to increased costs associated with the program, and the increasing complexity of the cases.

The FY 2008 public health budget is noteworthy for several other programs, even though they did not receive new funding for this coming fiscal year. Some of these include:

- Funding for substance abuse programs at \$82.8 million. This total includes \$5.0 million in a separate line item for a step-down recovery program. Of the total in the budget, \$16.6 million is earmarked for specific programs, including \$2.0 million for six regional recovery support centers, \$3.0 million for programming for men who have been civilly committed, and \$1.5 million for three sobriety high schools. At the beginning of Fiscal Year 2007, funding for substance abuse services was \$66.6 million. Over the course of the year, \$20.1 more was added to support these services. The GAA does not continue into FY 2008 the full amount of this funding, which could put in jeopardy several new programs for young adults and adolescents funded by the supplemental dollars from FY 2007.
- Community health center funding at \$7.3 million, compared to \$8.3 million in FY 2007. The FY 2008 GAA does not include separate funding for the community health center-based CenterCare managed care program (funded in FY 2007 at \$2.7 million), but instead combines this funding with other support for community health centers, and earmarks \$1.0 million for the CenterCare program.
- Funding for school health services at \$16.7 million, with \$15.0 million earmarked for school nurses and school-based health centers. The earmarks also include \$300,000 targeted to mental health and substance abuse programming in school-based health centers. It is important to remember, moreover, that funding for school health services in FY 2001, when adjusted for inflation, was significantly higher at \$54.0 million.

In addition to appropriated funding for public health, the FY 2008 GAA includes two outside sections relevant to public health programming. The budget includes language creating a Chronic Kidney Disease Task Force, to provide information to health professionals on the benefits of early screening for and diagnosis and treatment of chronic kidney disease. There is also language establishing a commission to study access to obstetric, gynecological and neurological care for women in western Massachusetts.

## MENTAL HEALTH

The FY 2008 GAA provides \$667.4 million for the state's Department of Mental Health. This is a \$16.2 million or 2.5 percent increase over FY 2007 funding. After adjusting for inflation, the Department's FY 2008 appropriation remains \$30.3 million or 4.3 percent below the FY 2001 level of funding.

<b>FY 2007 Ongoing</b>	<b>\$651,228,296</b>
<b>FY 2008 GAA</b>	<b>\$667,406,853</b>
<b>Increase (decrease)</b>	<b>\$16,178,557</b>
<b>Percent</b>	<b>2.5%</b>

For FY 2008, the administrative line item for the Department of Mental Health is funded at \$40.1 million, a \$1.1 million or 2.9 percent increase over FY 2007.

The budget consolidates the line item for continuing care retained revenue with funding for emergency services and acute inpatient mental health care. Combined, funding for acute care is reduced by nearly \$1 million to \$36.2 million for FY 2008.

While funding for adult mental health services is increased by 2.2 percent to \$315.6 million in FY 2008, total funding for

child mental health services is held nearly level at \$73.5 million. Absent caseload data on the numbers of adults and children expected to be served, it is unclear whether the funding level for FY 2008 is sufficient to provide the same level of services as in FY 2007.

Funding for state mental health hospitals is increased by 4.5 percent to \$171.5 million for FY 2008. While the Senate had proposed shifting the cost of prescription drugs for hospital patients to the Department of Public Health's State Office of Pharmacy Services, the GAA continues this practice of appropriating the money to the Department of Mental Health. An inter-agency agreement allows the Office of Pharmacy Services to purchase drugs for patients at state mental health hospitals.

State homelessness support services are essentially level-funded at \$22.4 million for FY 2008.

Finally, funding for the Department's forensic services is increased to \$8.0 million for FY 2008, a 21.3 percent increase over FY 2007.

## MENTAL RETARDATION

The FY 2008 budget provides \$1.226 billion for the Department of Mental Retardation, a \$36.1 million or 3.0 percent increase over FY 2007. Without information on the Department's projected caseload for FY 2008, it is difficult to know whether this increase is sufficient to provide the same level of services as in FY 2007.

<b>FY 2007 Ongoing</b>	<b>\$1,190,348,088</b>
<b>FY 2008 GAA</b>	<b>\$1,226,416,406</b>

<b>Increase (decrease)</b>	<b>\$36,068,318</b>
<b>Percent</b>	<b>3.0%</b>

The GAA consolidates previous line items for the Department's administration and for community support services into a single new administrative line item. This item is funded at \$72.1 million for FY 2008, a 0.2 percent increase over the ongoing level of funding for the two separate line items in FY 2007.

Funding to provide community transportation to individuals with developmental and intellectual disabilities is held roughly level at \$14.1 million for FY 2008. This is, however, \$15.7 million or 52.6 percent below the FY 2001 level, after adjusting for inflation.

The Turning 22 program, which provides services to individuals transitioning between the Department's childhood and adult systems, receives \$7.7 million for FY 2008, a 9.4 percent decrease from FY 2007. The Governor's budget proposal indicated that this reduction results from a delayed process for beginning Turning 22 services.

A number of the Department of Mental Retardation's core services line items receive funding increases in FY 2008, but without caseload information it is unclear whether the additional funding is sufficient to provide the same level of services as was provided in FY 2007. Programs receiving at least nominal funding increases include the following.

- The GAA provides \$547.8 million for community residential supports, a \$14.3 million or 2.7 percent increase over FY 2007.
- State-operated residential supports are funded at \$131.0 million for FY 2008, a 7.3 percent increase over FY 2007.
- Community-based day and work programs receive \$122.7 million in

funding, \$3.0 million more than in FY 2007.

- Funding of state facilities for those with intellectual and developmental disabilities is boosted by \$8.4 million, or 4.8 percent, to \$182.8 million for FY 2008. This includes funding for prescription drugs for those in state facilities that the Senate had proposed shifting to the Department of Public Health’s State Office of Pharmacy Services.

## SOCIAL SERVICES

The FY 2008 GAA provides \$800.1 million for the Department of Social Services, a \$13.0 million or 1.6 percent increase from the FY 2007 level of funding. It is unclear whether this amount of funding will be sufficient to provide the same level of services as was provided in FY 2007 because it is unclear how the Department’s caseload is expected to change.

A mid-May supplemental budget for FY 2007 added \$15.6 million for the Department of Social Services’ two core line items for services. This increase to FY 2007 appropriations significantly reduced what had previously appeared to be a better than 3 percent increase in funding between FY 2007 and FY 2008.

<b>FY 2007 Ongoing</b>	<b>\$787,122,263</b>
<b>FY 2008 GAA</b>	<b>\$800,095,093</b>
<b>Increase (decrease)</b>	<b>\$12,972,830</b>
<b>Percent</b>	<b>1.6%</b>

The Department of Social Services administrative line item receives \$78.0 million in the FY 2008 budget, a \$2.5 million increase over FY 2007. Within the line item’s language, the Department is

required to spend at least \$1 million for medical and psychiatric staff “to collaborate with the department’s social workers.” In addition the Department is required to employ one full-time physician on staff.

The Department is able to retain \$2 million in revenue for purposes of running a transitional employment program. The language stipulates that the Department can contract with Roca, Inc. to run the program that is intended for those youth aging out of the Department’s care or youth being paroled or released from various youth services. This is the same level of funding as was provided in FY 2007.

The Department’s two core services line items from FY 2007 are expanded into three with the inclusion of a Regional Administration line item in the FY 2008 budget. In total, the FY 2008 budget provides \$542.8 million in funding for the Department’s core services, an increase of \$8.0 million or 1.5 percent from FY 2007. Of this, \$20.9 million is funded through the new regional administration line item.

Funding of social workers for case management is increased by \$4.2 million, or 2.9 percent, to \$147.3 million for FY 2008. The line item language repeats the goal that the Department’s caseworker to case ratio be 18 to 1, but this is not mandated.

Finally, domestic violence services are funded at \$23.0 million for FY 2008, an increase of \$1.3 million or 5.8 percent over FY 2007.

## ELDER AFFAIRS

The FY 2008 budget includes \$232.3 million for programs for elders. This is a 2.5 percent increase over FY 2007 funding. The Governor did not veto any funding for

the programs within the Department of Elder Affairs. (For a discussion of the MassHealth senior care programs, nursing home rates, and the pharmacy programs, see the “Health Care” section of this *Budget Monitor*.)

<b>FY 2007 Ongoing</b>	<b>\$ 226,595,704</b>
<b>FY 2008 GAA</b>	<b>\$ 232,277,232</b>
<b>Increase (decrease)</b>	<b>\$ 5,681,528</b>
<b>Percent</b>	<b>2.5%</b>

The GAA includes a total of \$192.5 million for home care (including the Elder Enhanced Community Options program). Funding in FY 2007 for home care for elders was \$189.8 million.

Within the Elder Affairs budget, the two programs that receive the biggest increase over FY 2007 funding levels are a program for homeless elders (the homeless elders residential placement program) and congregate housing. The homelessness prevention program receives \$350,000, a \$100,000 increase over FY 2007 funding. The congregate housing program receives \$2.6 million in the FY 2008, a 31 percent increase over FY 2007 funding of \$2.0 million.

The FY 2008 GAA funds elder services programs (the senior lunch program) at \$6.3 million. Funding in FY 2007 was \$5.6 million. The FY 2008 budget also provides a slight increase to funding for local councils on aging – bringing funding to \$7.9 million in FY 2008 from the \$7.6 million FY 2007 level.

Other programs in the FY 2008 budget for elder affairs include:

- *Elder Protective Services Program.* FY 2008 funding is \$15.0 million, including the designation of \$800,000 of these dollars for a money management

program. Funding in FY 2007 for protective services was \$14.2 million.

- *Geriatric Mental Health.* The FY 2008 budget continues this program new last year with \$225,000, a drop from FY 2007 funding of \$350,000.
- *Family Caregivers Program.* The FY 2008 budget funds this program new last year at \$250,000. Funding in FY 2007 was \$500,000.

## OTHER HUMAN SERVICES

The FY 2008 GAA provides \$622.3 million for all other human services programs. While this is nominally \$38.1 million or 6.5 percent more than the FY 2007 appropriation level, \$23.0 million of the FY 2008 appropriation is for the human services rate reserve which will fund wage increases for low-wage human services workers across the state’s numerous human services departments.

Governor Patrick vetoed about \$1.0 million in other human services funding by eliminating \$717,000 in earmarks for the Department of Youth Services and \$300,000 in earmarks for emergency shelters for families.

Other human services is a category used by the MBPC for analysis, and includes the Department of Veterans’ Affairs, the Department of Youth Services, the Massachusetts Commission for the Blind, the Massachusetts Rehabilitation Commission, the Division of Health Care Finance and Policy, the state’s soldiers’ homes, health and shelter programs for the homeless, and the administrative accounts for the Department of Transitional Assistance.



<b>FY 2007 Ongoing</b>	<b>\$584,253,046</b>
<b>FY 2008 GAA</b>	<b>\$622,335,355</b>
<b>Increase (decrease)</b>	<b>\$38,082,309</b>
<b>Percent</b>	<b>6.5%</b>

Funding for veterans, including funding for the Office of Veterans' Affairs and the soldiers' homes in Chelsea and Holyoke, is increased by \$3.1 million to \$90.3 million in the FY 2008 budget. Most of this increase results from a \$2.8 million increase in funding for the soldiers' homes. Funding for the New England Shelter for Homeless Veterans is reduced by 28.5 percent to \$2.3 million for FY 2008.

An additional line item for FY 2008 provides \$1.5 million to fund capital projects for the YMCA in Boston and for the United Teen Equality Center in Lowell.

YMCA, YWCA, and Boys and Girls clubs throughout the state will receive \$5.7 million in matching grants under the FY 2008 budget, a 6.4 percent decrease from FY 2007.

The Massachusetts Commission for the Blind is funded at \$19.7 million for FY 2008, a 2.6 percent increase over FY 2007. Much of the increase results from additional funding for Turning 22 services and vocational rehabilitation services for the blind.

With increased funding for head injury treatment, independent living assistance, and vocational rehabilitation, the Massachusetts Rehabilitation Commission's FY 2008 budget of \$45.3 million is 4.6 percent higher than the FY 2007 ongoing appropriations.

The Department of Youth Services, under the FY 2008 GAA, will receive \$159.6 million, a 0.6 percent increase over FY 2007. Increased funding for residential

services for the detained population is offset by decreases in funding for residential and non-residential services for the committed population.

Administrative and programmatic funding for the Department of Transitional Assistance (other than cash assistance) increases by \$6.1 million, to \$254.9 million, for FY 2008. This increase is driven primarily by an additional \$1.7 million for the Department's administration and \$5.6 million more for emergency assistance and family homeless shelters.

Finally, the state's Division of Health Care Finance and Policy receives \$14.0 million in the FY 2008 budget, an 8.9 percent increase over FY 2007.

### ***Human Services Rate Reserve***

Part of total spending for other human services in the FY 2008 budget is the human services rate reserve account. The GAA appropriates \$23.0 million to this account that provides wage increases to the lowest wage human service workers.

Ultimately, the amount appropriated for the reserve account will be spent across all health and human services departments to fund salary increases. Because the budget proposal does not distribute the reserve among agencies, the reserve account funding is included in the other human services category for FY 2008.

It is important to understand that in the budget-writing process for FY 2008, the \$28 million rate reserve from FY 2007 is built into estimates of the amount of funding necessary in FY 2008 to provide the same level of services as in the prior year. Therefore, the FY 2008 funding for the rate reserve will provide for additional wage increases beyond those funded in FY 2007.

## ENVIRONMENTAL AFFAIRS

The FY 2008 budget provides \$214.8 million for environmental affairs, a \$6.1 million or 2.9 percent increase over FY 2007. Despite this increase, environmental affairs funding for FY 2008, after adjusting for inflation, remains \$74.1 million or 25.7 percent below the FY 2001 level.

The Governor vetoed \$2.4 million in environmental affairs funding, reducing funding for environmental law enforcement and eliminating earmarks in line items for dam safety and for particular state and urban parks.

<b>FY 2007 Ongoing</b>	<b>\$208,710,677</b>
<b>FY 2008 GAA</b>	<b>\$214,760,791</b>
<b>Increase (decrease)</b>	<b>\$6,050,114</b>
<b>Percent</b>	<b>2.9%</b>

Under the FY 2008 GAA, the administration and direct programs of the Executive Office of Environmental Affairs (EOEA) will receive 23.0 million, a \$1.0 million decrease from FY 2007. While the administrative line item for the office increases slightly, funding for recycling and redemption centers falls by \$1.0 million and funding of environmental law enforcement drops by about \$400,000.

In contrast, the Department of Environmental Protection (DEP) is budgeted to receive \$60.0 million in FY 2008, a \$1.2 million increase over FY 2007. About half of this increase goes to the Department's administrative line item and the other half to increase funding for hazardous waste clean-up. Because the DEP is an agency under EOEA, it is possible that the budget is shifting money from the EOEA to the DEP, given the decrease in the former and the increase in the latter.

The state's Department of Fisheries and Wildlife Administration will receive \$18.1 million in FY 2008, an increase of 1.7 percent.

Funding for the Department of Food and Agriculture drops by \$1.2 million, to \$17.6 million for FY 2008. While the Agricultural Innovation Center receives a \$1.5 million increase, the Department's administrative line item is reduced by \$1.7 million and the state's emergency food assistance program is reduced by \$1.0 million.

Funding for the Department of Conservation and Recreation increases by \$5.2 million, or 42.6 percent, to \$17.3 million for FY 2008. This increase results from additional funding for watershed management (\$1.5 million) and for the state's beaches (\$3.4 million).

Finally, state and urban parks receive slight funding increases for FY 2008. Funding for state parks is increased by about \$400,000 to \$34.8 million for FY 2008, while funding for urban parks grows to \$42.1 million, an increase of about \$500,000.

## ECONOMIC DEVELOPMENT

The FY 2008 GAA provides \$176.2 million for economic development activities. Of this total, \$12.75 million is through the transfer of resources from the General Fund to three other economic development trust funds. The FY 2008 economic development appropriation represents an increase of \$8.0 million or 4.8 percent over ongoing FY 2007 appropriations.

The Governor vetoed \$14.1 million in funding for economic development. While a portion of this was through the elimination of tourism earmarks, the majority of the veto (\$10.5 million) eliminates funding for workforce development grants that were

earmarked in the budget. Historically, the budget includes two line items for workforce training and both are to be funded from the state's Workforce Training Fund. However, the expected revenues for the Workforce Training Fund will be about \$21 million in FY 2008. Because the FY 2008 Conference Committee budget included two line items for workforce training totaling \$31.5 million in appropriations, the Governor vetoed the \$10.5 million line item because the funds flowing into the Workforce Training Fund would be insufficient to pay for both line items.

<b>FY 2007 Ongoing</b>	<b>\$168,190,968</b>
<b>FY 2008 GAA</b>	<b>\$176,214,289</b>
<b>Increase (decrease)</b>	<b>\$8,023,321</b>
<b>Percent</b>	<b>4.7%</b>

The FY 2008 GAA provides \$67.7 million for the administration and direct programs of the state's Executive Office of Labor and Workforce Development. This represents a \$4.0 million or 5.6 percent decrease from FY 2007. The decline results largely from the already discussed veto of some workforce training funding. Two other programs within the Executive Office of Labor and Workforce Development received significant funding increases. First, the summer jobs program for at-risk youth is funded at \$6.7 million for FY 2008, a 63.4 percent increase over FY 2007. Second, funding of one-stop career centers increases by \$1.5 million to \$5.5 million for FY 2008.

The Massachusetts Office of Business Development receives \$3.5 million in the FY 2008 budget, a 75.0 percent increase over FY 2007. The FY 2008 GAA also provides \$750,000 for the newly created Office of Small Business and Entrepreneurship.

The Massachusetts Office of Travel and Tourism, funded at \$29.3 million in FY 2007 ongoing funding, receives \$25.4 million in FY 2008, a reduction of 13.3 percent. Funding in this line item is largely earmarked to specific projects and the Governor's veto of \$2.9 million in earmarks reduced this from the \$28.2 million approved by the Conference Committee. The line item for local tourist councils increased by \$500,000, to \$8.5 million, for FY 2008. Finally, in the FY 2008 budget's outside sections are three transfers of funds for economic development purposes as follows.

- \$5.0 million is transferred to the Massachusetts Cultural Facilities Trust Fund.
- \$4.0 million is transferred to the Massachusetts STEM grant fund which provides support to regional collaborations working to boost the number of Massachusetts children and youth entering science, technology, engineering, and mathematics (STEM) fields.
- \$3.75 million is transferred to a newly created Commonwealth Covenant Trust Fund which will provide student loan repayment for those graduates of Massachusetts' public higher education institutions who reside in the state and work in a STEM field.

### ***Dedicating Surpluses to Economic Development***

The FY 2008 budget changes Massachusetts law to provide that some portion of end-of-year budget surpluses be transferred into the new Bay State Competitiveness Investment Fund. At the end of each fiscal year, if a surplus remains after the required deposit to the Stabilization Fund and the required

carry-forward of revenue into the new fiscal year (each one half of one percent of revenue or about \$100 million each), the first \$50 million of additional surplus would also be deposited into the Stabilization Fund, while any surplus beyond the initial \$50 million, up to \$100 million in total, would be deposited into the Bay State Competitiveness Investment Fund. Therefore, in any year with a budget surplus (after carry-forward and stabilization fund deposit) of \$150 million or more, \$100 million would be set aside in the Competitiveness Fund for economic development purposes; however, the budget does not specify how the money in this fund will be used.

## HOUSING

The FY 2008 GAA provides \$128.0 million for housing and community development activities, \$3.1 million or 2.5 percent more than was provided in FY 2007.

The Governor's lone veto in the area of housing and community development eliminated \$100,000 in earmarks from the administrative line item of the Department of Housing and Community Development.

<b>FY 2007 Ongoing</b>	<b>\$124,842,388</b>
<b>FY 2008 GAA</b>	<b>\$127,966,159</b>
<b>Increase (decrease)</b>	<b>\$3,123,771</b>
<b>Percent</b>	<b>2.5%</b>

The administrative line item for the Department of Housing and Community Development is funded at \$10.2 million for FY 2008, a \$1.3 million or 11.4 percent reduction from FY 2007. This reduction results largely from the elimination of some earmarks from the item.

Other notable appropriations for housing and community development within the FY 2008 GAA include the following.

- The Home Ownership Opportunity Affordable Housing Program is boosted by \$250,000 or 5.0 percent to \$5.3 million for FY 2008.
- Subsidies to the state's public housing authorities are increased to \$60.1 million for FY 2008, an increase of 7.6 percent over FY 2007. In FY 2008 these subsidies account for 47.0 percent of the state's total housing and community development budget.
- The Massachusetts Rental Voucher Program, helping low-income families pay their rent, is funded at \$30.0 million for FY 2008, an increase of 9.0 percent over FY 2007.
- Funding for interest subsidies to private developers of affordable housing is reduced to \$4.5 million for FY 2008, a reduction of 18.2 percent.
- The state budget for FY 2008 increases funding for the state's asset-building individual development account program by 20 percent, to \$600,000.

Finally, while the FY 2007 budget's outside sections transferred \$2.0 million to the state's affordable housing trust fund, the FY 2008 budget makes no such transfer.

## PUBLIC SAFETY & CORRECTIONS

The FY 2008 budget provides \$1.460 billion for the state's public safety and corrections needs, a \$2.3 million or 0.2 percent increase over FY 2007. Because information underlying the budget (such as projections of numbers incarcerated) is not publicly

available, it is unclear whether this relatively level amount of funding will be sufficient to provide the same level of services as was provided in FY 2007.

In May a supplemental budget was approved (Chapter 42 of 2007) that increased FY 2007 ongoing funding for public safety and corrections by \$23.7 million. Most of this, \$21.9 million, funds increased costs for corrections facility operations at the state and county levels.

The Governor vetoed about \$4.0 million in funding for public safety and corrections, eliminating funding for the SAFE fire prevention program, and eliminating earmarks in the State Police and Department of Fire Services budgets.

<b>FY 2007 Ongoing</b>	<b>\$1,457,240,561</b>
<b>FY 2008 GAA</b>	<b>\$1,459,551,736</b>
<b>Increase (decrease)</b>	<b>\$2,311,175</b>
<b>Percent</b>	<b>0.2%</b>

The FY 2008 budget provides \$947.9 million in funding for all of the state's correctional facilities and sheriff's departments. This is about \$13.2 million or 1.4 percent more than was provided in FY 2007. It is unclear whether this amount will be sufficient to provide the same level of services in FY 2008 as were provided in FY 2007.

During the budgeting process for FY 2008, there was significant debate about how to provide assistance to local law enforcement. The Governor proposed eliminating funding for community policing, instead providing funding for cities and towns to hire 250 new police officers. Ultimately, the FY 2008 budget provides \$4 million to hire 50 new police officers and \$21.4 million for community policing. This amounts to \$25.4 million in funding for local law enforcement

(beyond unrestricted local aid), an 18.7 percent increase over FY 2007. In addition, Chapter 42 of the Acts of 2007, a supplemental budget for FY 2007, appropriates \$15 million in FY 2007 funds to be spent in FY 2008 for hiring new police officers (another \$4 million) and for an gang violence prevention program (\$11 million). Therefore, total appropriations in support of local law enforcement for FY 2008 now equal \$40.4 million, nearly double what was spent in FY 2007.

Under the FY 2008 budget the Executive Office of Public Safety receives \$113.6 million, about \$3.7 million less than in FY 2007. While about \$700,000 more is provided to the Criminal History Systems Board, funding is eliminated for fire safety grants (\$2.5 million in FY 2007) and the SAFE fire prevention program (\$1.1 million in FY 2007). In addition, funding for the state's crime lab is reduced to \$15.2 million for FY 2008, a reduction of 6.2 percent.

The Massachusetts State Police receive \$281.4 million in the FY 2008 GAA, a reduction of \$9.0 million from an FY 2007 total which included nearly \$30 million in spending to fund a new collective bargaining agreement with state police troopers. Much of the decrease results from reductions in appropriated amounts for overtime and in private detail retained revenue.

## JUDICIARY

The FY 2008 GAA provides \$758.4 million for the state's judiciary, a decrease of \$12.1 million or 1.6 percent from the FY 2007 funding level.

The Governor vetoed \$11.9 million in funding for the judiciary by reducing appropriations for the appeals court (reduced by \$420,600) and trial courts (reduced by



\$11.5 million) to the amounts he had originally proposed.

<b>FY 2007 Ongoing</b>	<b>\$770,551,025</b>
<b>FY 2008 GAA</b>	<b>\$758,425,412</b>
<b>Increase (decrease)</b>	<b>(\$12,125,613)</b>
<b>Percent</b>	<b>-1.6%</b>

Funding for the Supreme Judicial Court is held almost level for FY 2008, increasing by only 1.3 percent to \$7.6 million. Similarly, funding for the state’s Appeals Court is also held level at \$10.6 million for FY 2008. The Conference Committee had proposed a 3.8 percent increase for the Appeals Court but this was vetoed by the Governor.

The FY 2008 budget provides \$166.8 million in various line items to provide legal counsel and pay court costs for those with court-appointed attorneys. This is a 4.1 percent reduction from the FY 2007 level of funding. In particular, the FY 2008 budget includes only \$8.5 million for indigent clients’ court costs, down 46.0 percent from FY 2007.

The state’s trial court system receives \$407.9 million in funding for FY 2008, down \$3.4 million or 0.8 percent from FY 2007. While the Legislature had approved an \$8.1 million, or 2.0 percent, increase for the trial court system, the Governor vetoed \$11.5 million in trial court funding.

Finally, the FY 2008 budget provides \$157.9 million for the state’s probation activities, an increase of \$6.8 million over FY 2007.

## **GROUP INSURANCE**

The budget for the Group Insurance Commission (GIC), which funds health benefits for state employees and retirees, appears to increase by \$118.1 million or 11.2 percent over FY 2007 under the GAA.

For technical reasons (discussed below) this is an overstatement of the actual increase in spending.

<b>FY 2007 Ongoing</b>	<b>\$1,056,581,827</b>
<b>FY 2008 GAA</b>	<b>\$1,174,689,284</b>
<b>Increase (decrease)</b>	<b>\$118,107,457</b>
<b>Percent</b>	<b>11.2%</b>

Making an apples-to-apples comparison of FY 2007 and FY 2008 spending is somewhat complicated because of four technical issues. The table on the following page summarizes these issues. Once we account for these four technical issues, the growth in GIC spending under the GAA is \$38 million or 3.5 percent.

- Accounting adjustment: The FY 2007 total includes approximately 11.5 months of spending, creating a one-time savings of about \$50 million. In order to make an apples-to-apples comparison, this amount should be added to the FY 2007 total. The reason that this amount is not included in the FY 2007 total is that the definition of the “payable period” was changed, creating a one year savings. Medical bills received by the GIC in FY 2008 for services provided in FY 2007 will be paid out of the FY 2008 budget, rather than the FY 2007 budget. Until FY 2007, the GIC would have had a window of two months (June 30 through August 31) to pay bills for prior year services with prior year appropriations. Therefore, bills received early in FY 2007 for FY 2006 costs were paid with FY 2006 appropriations, but the FY 2007 appropriations will not be used to pay similar bills in FY 2008. This created a one-time savings in FY 2007, artificially reducing the FY 2007 spending total.

- **Ch. 16 Cuts:** Because actual spending in FY 2007 will likely be lower than projected, Governor Patrick reduced GIC spending by \$10 million in Chapter 16 of the Acts of 2007 (Section 9).

<b>GIC Funding</b>			
<b>(Millions of Dollars)</b>			
	<b>FY 2007</b>	<b>FY 2008</b>	<b>Change</b>
	<b>Ongoing</b>	<b>GAA</b>	
Appropriated Amount	1,056	831	
Shift to State Retiree Benefits Trust Fund		343	
<i>Subtotal</i>	<i>1,056</i>	<i>1,174</i>	<i>118</i>
Adjusting for One-Time Saving Chapter 16 Cuts	50		
Expected Reversions	-10		
Adding Springfield		-50	
<b>Grand Total</b>	<b>1,086</b>	<b>1,124</b>	<b>38</b>

- **Expected Reversions:** In addition to the \$10 million reduction in Chapter 16, another \$10 million is expected to be unspent and to revert to the General Fund at the end of the year. Thus combining the Chapter 16 reduction with this expected reversion, FY 2007 spending is projected to be \$20 million below the original appropriation level. In implementing 9(c) cuts, Governor Romney reported that GIC spending in FY 2007 was expected to be \$30 million less than the amount appropriated. If Governor Romney's 9(c) reversion estimate proves accurate, FY 2007 spending would be an additional \$10 million below the budgeted number.
- **Adding Springfield:** In FY 2008, employees of Springfield will get their

health insurance through the GIC, which will be reimbursed by the city of Springfield. Bringing this spending into the GIC accounts for \$50 million of the new spending we see in the GIC line item. It will, however, be offset by new revenue and should not be considered a component of total growth in GIC spending.

### **State Retiree Benefit Trust**

In response to a change in accounting rules, the GAA establishes a new fund to begin to set aside money for retiree health care costs. In 2004, the Governmental Accounting Standards Board (GASB) issued Statement 45, which mandates that governments begin to measure their unfunded obligations for retiree health care benefits. While GASB 45 does not require contributions to a savings account, the disclosure requirement creates an incentive for governments to do so. A growing obligation in a government's balance sheet, with no plan to begin funding it, is damaging to its credit quality.

The GAA establishes the State Retiree Benefits Trust Fund to address the need to begin paying for retiree health care benefits. The GAA pays for the health care costs of currently-retired state employees by transferring \$343 million from the General Fund to the State Retiree Benefits Trust Fund. In addition, the GAA begins to fund the state's future liability for retiree benefits by transferring the balance of the Health Care Security Trust Fund, approximately \$421 million, to the State Retiree Benefits Trust Fund. The Governor and Senate would have also dedicated portions of future payments from tobacco settlement funds to the Retiree Benefits Trust in order to continue pre-funding future liabilities. The GAA does not establish a schedule of ongoing payments to fund the future liability, postponing these decisions until the

report of a commission formed to address these issues.

## REVENUE

On January 16, 2007, the Secretary of Administration and Finance and the Chairpersons of the House and Senate Ways and Means Committees announced the official tax revenue estimate for FY 2008. They projected that tax revenue would total \$19.300 billion in FY 2007 and, with 3.0 percent growth, would reach \$19.879 billion in FY 2008.

The Department of Revenue has since released preliminary estimates indicating that total FY 2007 tax revenues were \$19.736 billion, \$436 million higher than the \$19.300 billion estimate from January of 2007. Though the FY 2007 budget was in part balanced through the use of one-time revenues to pay for ongoing expenditures, the higher than expected revenue likely means the Commonwealth will end FY 2007 with a surplus. The size of this surplus, currently projected to be nominally about \$251 million, will depend on whether the total amount of the final FY 2007 supplemental budget is larger or smaller than the amount of unspent funds reverting to the General Fund.

This higher collections total in FY 2007 could also mean that tax revenues for FY 2008 will be higher than the level of the consensus revenue estimate. Tax revenues would only have to grow by 0.7 percent between FY 2007 and FY 2008 to reach the \$19.879 billion consensus revenue estimate for FY 2008. If FY 2008 tax revenues still grow at the 3.0 percent rate used in the consensus revenue estimate, tax revenues for FY 2008 will be \$449 million higher than the consensus estimate projected. This increase is not certain, however, as the

higher revenues in FY 2007 may be a result of increased capital gains tax collections. Higher capital gains tax revenue in one year does not always mean such tax revenue will be realized again in the next year.

There is reason to believe that capital gains tax revenues could decline during FY 2008. In FY 2007 (from June 30, 2006 to June 29, 2007) the S&P 500 rose by 18.4 percent. If the markets' growth rate declines in FY 2008, it is likely that the state's capital gains receipts will decline as well. Since the start of FY 2008, the S&P 500 is down 7.1 percent. According to the projections used in developing the state's consensus revenue estimate, "capital gains taxes would decline from a projected \$1.875 billion in FY07 to \$1.459 billion in FY08, a drop of \$416 million." While the FY 2007 capital gains tax revenues may have exceeded projections, that does not guarantee that the same will occur in FY 2008.

The FY 2008 budget relies on two strategies for increasing revenues: new debt issuance policies ("Bond-Ahead") and the use of one-time revenues.

### ***Enhanced Cash Management ("Bond-Ahead")***

The Senate and House both adopt the "bonding-ahead" idea proposed by the Treasurer and included in the proposal of the Governor. This concept is described in detail in our *Budget Monitor* on the FY 2008 House budget which can be found at: <http://www.massbudget.org/article.php?id=589>. The total savings and new revenue from this initiative is estimated to be approximately \$48 million.

## ***Use of One-Time Funds***

The FY 2008 GAA relies on \$571 million in one-time revenues to balance the budget. This is \$41.4 million less than the amount used in the final budget passed by the Legislature because the Governor's spending vetoes allowed him to reduce the transfer of funds from the Health Care Security Trust from \$150 million to \$111.5 million. This is still more than the \$247 million in one-time solutions in the Governor's budget proposal. One-time revenues used in balancing the FY 2008 GAA include the following.

- A transfer of \$75 million in interest earned on the Stabilization Fund;
- A transfer of \$44 million in interest earned on the Health Care Security Trust Fund;
- A transfer of \$240 million from the balance of the Stabilization Fund;
- A transfer of \$111.5 million from the balance of the Health Care Security Trust Fund; and,
- The suspension of the end-of-year deposit of one-half of one percent of revenue to the Stabilization Fund (about \$100 million).

This use of one-time revenues effectively creates a structural deficit that will have to be closed in the future with either new revenues or reduced spending. It is possible that higher than expected FY 2007 tax revenues will yield higher than expected FY 2008 revenues, closing some or all of this gap. For the FY 2008 budget to be structurally balanced, that is to be paying for all ongoing appropriations with ongoing revenues, the state would need about \$571 million more revenue than is currently projected to be available. By operating with structural deficits when the economy is not in a recession, a state risks eating away at reserves that will likely be urgently needed during the next recession.



## **BALANCE**

A balance sheet at the end of this report presents the degree of nominal and structural balance in the FY 2007 and 2008 budgets.

### ***FY 2007 Balance***

Because the final supplemental budget for FY 2007 has not been passed, and because an as yet unknown amount of unspent funds will revert to the General Fund, it is not possible to determine exactly the amount of any surplus or deficit for FY 2007.

Based on numbers currently available, with the higher than projected tax revenues, we are expect a surplus of about \$250 million for FY 2007. However, this surplus relies on the use of \$196 million in one-time revenues to pay for ongoing appropriations; therefore, the estimated structural surplus in the FY 2007 budget is more like \$50 million. If additional appropriations are greater than reversions to the General Fund this number will decline, and if additional appropriations are less than reversions the size of the structural surplus will increase.

It is worth noting that the Massachusetts General Laws anticipate that a surplus of one-half of one percent of revenues will remain at the end of each fiscal year for deposit into the Stabilization Fund. Therefore, during periods of economic growth, the budget should leave about \$100 million at the end of the year for this deposit. The actual FY 2007 budget surplus should be thought of as revenues remaining after this deposit has been made.

### ***FY 2008 Projected Balance***

While our balance sheet shows a deficit of 0.03 percent of revenues, it is reasonable to think that the FY 2008 budget is nominally balanced. The FY 2008 budget, however,

carries a substantial structural deficit of about \$430 million. This deficit results from the one-time use of reserve funds to achieve balance. This gap will need to be closed in the future.

### ***Understanding Balance***

The balance sheet at the end of this report seeks to identify, for FY 2007 and the FY 2008 GAA, all appropriations (whether by line-item or transfer) and all revenues. In addition, this balance sheet distinguishes between those revenues and appropriations that are one-time or ongoing.

The largest difference between this balance sheet and the spending and revenue numbers historically and presently found in the state's budget documents is the treatment of transfers. Transfers are legislatively-authorized shifts of money from one fund to another fund. When such a transfer is from the General Fund to another fund, it is a form of appropriation. Total appropriations in the state budget, however, are obscured in two ways by the handling of transfers. First, transfers do not appear as part of the bottom-line total for appropriations that is reported throughout the budget process. Second, individual transfers are not separately reported in the budget, but are aggregated into the revenue category called Consolidated Transfers. For example, in the FY 2008 GAA (Chapter 61 of 2007), the Consolidated Transfers line is reported as \$580.8 million in revenue. However, this number includes \$1,016 million in lottery revenues as well as other positive revenues. The lower number results from the subtraction of transfers out of the General Fund. In reality, transfers out of the General Fund are appropriations, but in the budget each year they are shown as negative revenues.

In this *Budget Monitor*, the MBPC treats all money received by the state as revenue. Likewise, all money budgeted to be spent from those revenues is treated as an appropriation. Therefore, the MBPC's total revenue and appropriation numbers are larger than those found in the state's published budget documents.

The major transfers into the General Fund are lottery and tobacco settlement proceeds. Other smaller transfers into the General Fund include payments for independent state authorities to cover the cost of their employees' fringe benefits that are funded through the Group Insurance Commission; revenues generated through the state's abandoned property initiative; and, the transfer of interest earned on the Health Care Security Trust Fund.

The GAA also provides for \$426.5 million in transfers from the state's Stabilization Fund and the Health Care Security Trust Fund. The Governor's budget included \$125 million in such transfers.

There are two kinds of transfers out of the General Fund that are forms of appropriation. First, there are legislatively-mandated transfers of fixed portions of revenue, prior to the budget process, for the state pension fund, the school building assistance fund, and the Massachusetts Bay Transit Authority. These are labeled "Pre-Budget Transfers" in our balance sheet.

Second, a number of transfers from the General Fund to other state funds are mandated in the outside sections that accompany each budget proposal. The majority of these transfers are related to health care provision or state retiree health benefits, but there are also fund transfers for various economic development purposes. In our balance sheet these transfers are included as a sub-heading under the



appropriate category and we sub-total these as “Outside Section Appropriations.”

One transfer out of the General Fund requiring additional explanation is a transfer to the newly created State Retiree Benefits Trust. Historically, funding to cover the health insurance costs of state retirees has been funded through a line-item in the budget along with funding for the costs of current employees. Beginning in FY 2008, Group Insurance costs for retirees will be funded through a transfer from the General Fund rather than through a line-item. Therefore, Group Insurance appropriations in FY 2008 include a line-item for current employees and a General Fund transfer for retirees.

The balance sheet at the end of this report was built using detailed revenue information provided by the Executive Office of Administration and Finance. This information was essential because the publicly released budget documents do not provide enough information to create such a balance sheet.

While the nominal balance of the budget can be examined in the total column of the balance sheet, the structural balance is the difference between ongoing revenues and ongoing appropriations. If ongoing appropriations exceed ongoing revenues, a structural deficit is created that will have to be closed in future years with new revenues or spending reductions. The structural balance of the FY 2007 or FY 2008 budgets can be seen in the “Balance” row of the “Ongoing” columns for each budget.

## Balancing the Budget

(in Millions of Dollars)

	FY 2007 Final			FY 2008 GAA		
	Ongoing	One-time	Total	Ongoing	One-time	Total
<i>Tax Revenues</i>						
Tax revenues	19,736.0		19,736.0	19,879.0		19,879.0
Tax law changes	0.0		0.0	0.0		0.0
<i>Departmental revenues</i>						
To General Fund	1,709.7		1,709.7	1,920.4		1,920.4
To Highway Fund	410.6		410.6	415.6		415.6
<i>Transfers into the General Fund</i>						
Tobacco settlement proceeds	247.3		247.3	244.0		244.0
Lottery proceeds	996.4		996.4	1,016.0		1,016.0
From the Stabilization Fund			0.0		315.0	315.0
From the Health Care Security Trust Fund			0.0		111.5	111.5
Other	697.2		697.2	743.8		743.8
<i>Federal grants and reimbursements</i>						
	6,146.6		6,146.6	6,332.8		6,332.8
<i>Prior Authorizations Continued</i>						
		935.0	935.0			
<b>Total Revenues</b>	<b>29,943.8</b>	<b>935.0</b>	<b>30,878.8</b>	<b>30,551.6</b>	<b>426.5</b>	<b>30,978.1</b>
<i>Budgeted Spending</i>						
	<b>27,262.7</b>	<b>739.0</b>	<b>28,001.7</b>	<b>28,197.7</b>		<b>28,197.7</b>
<i>Line-Item Appropriations</i>	26,266.6	610.0	26,876.6	26,771.3		26,771.3
<i>Outside Section Appropriations</i>	996.1	129.0	1,125.1	1,426.4		1,426.4
Local Aid - Lottery	920.0		920.0	935.0		935.0
Local Aid - Additional Assistance & PILOT	407.6		407.6	410.3		410.3
Local Education Aid (Chapter 70)	3,505.5		3,505.5	3,725.7		3,725.7
K-12 Education (non-Chapter 70)	538.7	9.2	547.9	578.5		578.5
Higher Education	1,031.5	159.8	1,191.3	1,054.4		1,054.4
Early Education and Care	510.7		510.7	536.5		536.5
Income Support Programs	610.3	17.0	627.3	598.9		598.9
Health Care Programs	8,925.2		8,925.2	9,352.9		9,352.9
<i>Line-Item Appropriations</i>	7,929.1	2.5	7,931.6	8,282.4		8,282.4
<i>Outside Section Appropriations</i>	996.1	25.0	1,021.1	1,070.4		1,070.4
Public Health	515.6	2.0	517.6	548.7		548.7
Mental Health	651.2		651.2	667.4		667.4
Mental Retardation	1,190.3		1,190.3	1,226.4		1,226.4
Social Services	787.1		787.1	800.1		800.1
Elder Affairs	226.6		226.6	232.3		232.3
Other Health & Human Services	584.3	0.5	584.8	622.3		622.3
Environmental Affairs	208.7	43.8	252.5	214.8		214.8
Housing & Community Development	124.8	61.6	186.4	128.0		128.0
Economic Development	168.2		168.2	176.2		176.2
<i>Line-Item Appropriations</i>	168.2	66.1	234.3	163.5		163.5
<i>Outside Section Appropriations</i>		104.0	104.0	12.8		12.8
Public Safety & Corrections	1,457.2	31.2	1,488.4	1,459.6		1,459.6
Judiciary	770.6	24.2	794.8	758.4		758.4
District Attorneys	92.2	0.2	92.4	96.1		96.1
Attorney General	38.8		38.8	41.2		41.2
Libraries	31.7		31.7	32.5		32.5
Transportation	167.1	175.0	342.1	151.1		151.1
Group Insurance	1,056.6		1,056.6	1,174.7		1,174.7
<i>Line-Item Appropriations</i>	1,056.6		1,056.6	831.4		831.4
<i>Outside Section Appropriations</i>			0.0	343.2		343.2
Other Administrative	789.8	16.9	806.7	723.7		723.7
Debt Service	1,952.4		1,952.4	1,952.1		1,952.1
<i>Pre-Budget Transfers from General Fund</i>						
	<b>2,626.2</b>	<b>0.0</b>	<b>2,626.2</b>	<b>2,789.3</b>		<b>2,789.3</b>
Pensions	1,335.2		1,335.2	1,398.6		1,398.6
School Building Assistance	557.0		557.0	634.7		634.7
MBTA	734.0		734.0	756.0		756.0
<b>Total Appropriations</b>	<b>29,888.9</b>	<b>739.0</b>	<b>30,627.9</b>	<b>30,987.0</b>	<b>0.0</b>	<b>30,987.0</b>
<b>Balance</b>	<b>54.9</b>	<b>196.0</b>	<b>250.9</b>	<b>(435.4)</b>	<b>426.5</b>	<b>(8.9)</b>

## Budget by Program Area

(in Millions of Dollars)

Program	FY2007	FY2008				General Appropriations Act		
	Ongoing <sup>2</sup>	Governor	Conf. Comm.	Vetoed	GAA	FY07	minus Gov.	Conf.
<b>Budgeted Appropriations</b>	<b>27,262.8</b>	<b>28,001.3</b>	<b>28,238.4</b>	<b>-40.7</b>	<b>28,197.7</b>	<b>935.0</b>	<b>196.4</b>	<b>(40.7)</b>
<i>Line-Item Appropriations</i>	26,266.7	26,713.0	26,812.0	-40.7	26,771.3	504.6	58.3	(40.7)
<i>Outside Section Appropriations</i>	996.1	1,288.3	1,426.4	0.0	1,426.4	430.3	138.1	0.0
Local Aid - Lottery	920.0	935.0	935.0	0.0	935.0	15.0	0.0	0.0
Local Aid - Additional Assistance & PILOT	407.6	410.1	410.3	0.0	410.3	2.7	0.2	0.0
Local Education Aid (Chapter 70)	3,505.5	3,705.5	3,725.7	0.0	3,725.7	220.2	20.2	0.0
K-12 Education (non-Chapter 70)	538.7	552.5	578.6	-0.1	578.5	39.8	26.1	(0.1)
Higher Education	1,031.5	1,038.0	1,054.7	-0.3	1,054.4	22.9	16.5	(0.3)
Early Education and Care	510.7	509.9	536.5	0.0	536.5	25.8	26.6	0.0
Income Support Programs	610.3	601.8	598.9	0.0	598.9	(11.4)	(2.9)	0.0
Health Care Programs	8,925.2	9,254.6	9,359.7	-6.8	9,352.9	427.7	98.3	(6.8)
<i>Line-item Appropriations</i>	7,929.1	8,346.8	8,289.2	-6.8	8,282.4			
<i>Outside Section Appropriations</i>	996.1	907.8	1,070.4	0.0	1,070.4			
Public Health	515.6	547.0	548.7	0.0	548.7	33.1	1.6	0.0
Mental Health	651.2	664.0	667.4	0.0	667.4	16.2	3.4	0.0
Mental Retardation	1,190.3	1,215.8	1,226.4	0.0	1,226.4	36.1	10.6	0.0
Social Services	787.1	790.3	800.1	0.0	800.1	13.0	9.8	0.0
Elder Affairs	226.6	227.0	232.3	0.0	232.3	5.7	5.3	0.0
Other Health & Human Services	584.3	599.4	623.4	-1.0	622.3	38.1	22.9	(1.0)
Environmental Affairs	208.7	211.7	217.1	-2.4	214.8	6.1	3.1	(2.4)
Housing & Community Development	124.8	124.9	128.1	-0.1	128.0	3.1	3.0	(0.1)
Economic Development	168.2	154.2	190.3	-14.1	176.2	8.0	22.0	(14.1)
<i>Line-item Appropriations</i>	168.2	154.2	177.6	-14.1	163.5			
<i>Outside Section Appropriations</i>	0.0	0.0	12.8	0.0	12.8			
Public Safety & Corrections	1,457.2	1,466.5	1,463.5	-4.0	1,459.6	2.3	(7.0)	(4.0)
Judiciary	770.6	745.0	770.3	-11.9	758.4	(12.1)	13.4	(11.9)
District Attorneys	92.2	93.5	96.1	0.0	96.1	3.9	2.6	0.0
Attorney General	38.8	40.4	41.2	0.0	41.2	2.5	0.8	0.0
Libraries	31.7	31.4	32.5	0.0	32.5	0.8	1.1	0.0
Transportation	167.1	165.5	151.1	0.0	151.1	(16.0)	(14.5)	0.0
Group Insurance	1,056.6	1,183.5	1,174.7	0.0	1,174.7	118.1	(8.8)	0.0
<i>Line-item Appropriations</i>	1,056.6	803.0	831.4	0.0	831.4			
<i>Outside Section Appropriations</i>	0.0	380.5	343.2	0.0	343.2			
Other Administrative	789.8	786.6	723.8	-0.1	723.7	(66.1)	(62.9)	(0.1)
Debt Service	1,952.4	1,947.2	1,952.1	0.0	1,952.1	(0.3)	4.9	0.0
<b>Pre-Budget Transfers from General Fund <sup>3</sup></b>	<b>2,626.2</b>	<b>2,789.3</b>	<b>2,789.3</b>	<b>0.0</b>	<b>2,789.3</b>	<b>163.1</b>	<b>0.0</b>	<b>0.0</b>
Pensions	1,335.2	1,398.6	1,398.6	0.0	1,398.6	63.4	0.0	0.0
School Building Assistance	557.0	634.7	634.7	0.0	634.7	77.7	0.0	0.0
MBTA	734.0	756.0	756.0	0.0	756.0	22.0	0.0	0.0
<b>Total Appropriations</b>	<b>29,889.0</b>	<b>30,790.6</b>	<b>31,027.7</b>	<b>-40.7</b>	<b>30,987.0</b>	<b>1,098.1</b>	<b>196.4</b>	<b>(40.7)</b>

1. In FY 2008, spending for nursing home rate adjustments that had been off-budget in prior fiscal years was brought on-budget as a line-item appropriation. In order to provide an accurate comparison between FY 2007 and FY 2008, the FY 2007 total for health care spending includes \$288.5 million for nursing home rate adjustments. In actuality, that \$288.5 million was not a line-item appropriated spending in FY 2007.

2. In prior editions of the *Budget Monitor*, total FY 2007 appropriations included \$28 million under Other Health and Human Services to fund wage increases for the state's lowest wage human services workers. This funding is ultimately distributed across the state's human services departments. This table distributes the FY 2007 human services rate reserve to the departments in which the funding is being spent. Therefore, FY 2007 appropriations for Other Health and Human Services are about \$23 million lower than they were in prior reports and FY 2007 appropriations in other departments are somewhat higher than in prior reports. This is important because the funding providing wage increases in one year becomes part of the total funding necessary in the next year to maintain services at prior year levels.

3. By law the state allocates certain shares of the state's revenues to the state pension fund, the school building assistance fund, and the Massachusetts Bay Transit Authority prior to the appropriations process. Therefore, while these transfers constitute spending, they are not part of the budget-writing process.