

Senate Committee on Ways and Means
FY10 Budget Recommendations
Advance Briefing for SWM Members
May 12, 2009

State of the MA Economy

- We are in the midst of the worst national economic downturn since the Great Depression
- 92,000 jobs lost in the last six months
- An unemployment rate of 7.8% in March.
- We are facing deteriorating revenue collections (16 percent from the original FY09 projection of \$21.4 B) highlighted by a drastic decline in capital gains
- Michael Widmer, president of the Massachusetts Taxpayers Foundation, recently called the situation “the worst fiscal crisis in the state’s history.”
- Economists warned that the financial crisis could last as long as four years, with state revenues not climbing back to 2008 levels until at least 2014.
- This is a threat to many of the programs and services provided in the commonwealth

Revenue

- In January, the Administration, the House and the Senate agreed upon a tax revenue estimate of \$19.53 billion for FY10.
- Since that time tax collections have continued to fall far short of necessary benchmarks. Given the deterioration of revenues in the current fiscal year, including a loss of \$456 M in April collections (35% less than April of 2008), the Committee has concluded that the original FY10 consensus estimate is no longer realistic.
- The tax revenue estimate for these budget recommendations is **\$17.989 billion**, \$1.54 billion less than the original FY10 estimate.
- Even with an original consensus revenue number of \$19.53 billion, we still faced a daunting \$3 billion maintenance gap for FY10. This number was calculated from FY09 post 9C (if we had run maintenance at pre-9C levels our gap would have been closer to \$4 billion).

- “Maintenance” is the process of developing a preliminary budget for the future fiscal year that provides funding sufficient to maintain existing services or programs while accounting for inflationary factors and legal obligations.
- Reducing our revenue figure to \$17.989 billion left us with a **total FY10 budget gap of \$4.5 billion** (post 9C).

Comparison of the FY10 Budgets to date:

Budget	Total Budget Appropriations	Tax Changes
House 1	\$27.97 B	Removal of Sales Tax exemptions on certain items: <ul style="list-style-type: none"> • Alcohol - \$80 M • Candy - \$20 M • Sweetened Beverages - \$50 M Statewide 1% Sales Tax Increases (With a local option for an additional 1% increase): <ul style="list-style-type: none"> • Room Occupancy - \$24 M • Meals - \$125 M
House Ways and Means	\$27.44 B	None
House Final	\$28.12 B	Sales Tax increase from 5% to 6.25 % - \$900 M
Senate Ways and Means	\$26.72 B	None

Spending

- The Committee's budget totals **\$26,214,350,218** in direct appropriations and **\$505,070,912** in retained revenue appropriations, for total on-budget spending of **\$26,719,421,130**.
- This represents a reduction in budgetary spending by \$1.4 billion from the original fiscal year 2009 budget.
- With a multi-billion dollar gap to fill, no area of state government is immune from significant reductions. The Committee focused on preserving the core functions of government, while mitigating damage to our safety net of services.

- We closed our \$4.5 billion maintenance gap by:

Fiscal Year 2010 Solutions		(millions)
A. Net Cuts, Spending Reductions & Savings from Maintenance		2,414
General Cuts		1,178
Local Aid Reductions		357
Chapter 70 Changes		328
Medicaid Cost Controls and Savings (net)		275
State Employee Health Care Contributions		148
Removal of Aliens with Special Status from Commonwealth Care		128
B. Net Revenue Initiatives		573
School Building Authority Transfer Cancellation		150
RMV Fee Increases		82
Nursing Home User Fee Increase		75
TANF Contingency Funds		73
Trust Fund Transfers		50
Universal Immunization Assessment		47
Change Carry Forward from 1/2% of tax revenue to 1/4 % of tax revenue		45
Additional DOR Auditors		26
Other Fee Increases		15
Authorities Picking up spending from 9C		10
C. Stabilization Fund Use*		404
D. Federal Recovery Aid (FMAP)		1,109
Total Solutions		4,500

* Includes \$90 M from suspending the statutorily required deposit for fiscal year 2010 and \$15 M in interest

- The \$50 M draw from the trust funds includes:
 - \$20 M from the MA Alternative and Clean Energy Investment Trust Fund
 - \$9 M from the Workforce Competitiveness Trust Fund
 - \$7 M from the Smart Growth Housing Trust Fund
 - \$5 M from the MA Life Sciences Investment Fund
 - \$3 M from the County Registers Technological Fund
 - \$3 M from the STEM Fund
 - \$3 M from the Commonwealth Covenant Fund

Borrowing

- The Stabilization Fund ended fiscal year 2008 with a balance of \$2.1 billion
- We have used \$928 M in FY09 to bridge the gap in the face of rapidly declining tax revenues, and the Governor just filed a supplemental budget that draws an additional \$460 M to close out the year.
- This means the fund will most likely begin FY10 with a balance of under \$800 M.
- Recognizing the importance of maintaining a balance in this fund for future needs, this budget recommends a transfer of only \$299 M.

American Recovery and Reinvestment Act of 2009

- The Committee's recommendations fully utilize federal funds that allow for continued support of important education and health care programs.
- The Committee's budget includes \$1.109 billion in funds generated by an enhanced federal match on Medicaid spending. This funding allows the Commonwealth to continue open enrollment in our MassHealth and Commonwealth Care programs.
- The Committee also makes use of \$366 million in federal stimulus funding to maintain support of K-12 education and higher education. Together with federal funding, this budget will fund chapter 70 at foundation level for all cities and town.
- Higher education spending will be maintained at fiscal year 2009 levels.
- In addition, we appropriate \$11.9 million in Child Care and Development Block Grant stimulus funds for quality improvements and access to early education, and \$5.6 million in Title IV E Foster Care and Adoption stimulus funds for the Department of Children and Families.

General Changes

- No earmarks of any kind
- Over \$550 million (gross) in MassHealth Savings
- GIC at a 70/30 contribution ratio

Chapter 70

The SWM Chapter 70 plan represents a sincere attempt to continue our commitment to education reform in the Commonwealth. While we were unable to fully implement year four of the five year plan for reform, we maintain our commitment to fund all districts at foundation. We appropriate \$3.869 billion dollars directly to cities and towns, and rely on \$180 M in State Fiscal Stabilization Funds to ensure all districts reach foundation.

- Details of the Plan:
 - In calculating FY10 Chapter 70 amounts, each district's FY09 Chapter 70 aid was first **reduced by 2%**. Under this scenario, 267 districts were still at or above foundation.
 - For the remaining 170 districts that were below foundation, we propose allocating \$180 M from the State Fiscal Stabilization Fund, part of the American Recovery and Reinvestment Act of 2008 in order for those districts to reach foundation.
 - The Senate used a 3.04% inflation rate compared to 4.5% used by both H1 and HWM. The actual fourth quarter of 2008 was 3.04%. In comparison, the inflation rate for the first quarter of 2009 is currently 0.76%.

Local Aid

- Additional Assistance and Lottery Aid are combined together into a new category called Unrestricted General Government Aid which is then reduced by 30% from the post-9C total of \$1.187 B to a new total of \$829 M.
- PILOT was reduced by 10% from \$30.3 M in FY09 to \$27.3 M in FY10.

Capital Gains Proposal

- Similar to the plan proposed by House 1, the SWM capital gains revenue proposal would require DOR to develop a detailed forecast for capital gains collections at the beginning of each budget year at Consensus Revenue.
- When capital gains revenues come in higher than projected, the excess would be transferred to a holding fund, when capital gains collections are lower, this holding fund could then be used to fill that gap.
- At the end of the year, any leftover money would be transferred to the rainy day fund, negating the need for the automatic statutory transfer.
- Before the end of year transfer to the rainy day fund, 1% of these excess revenues would be transferred to the State Retiree Benefits Trust Fund to help fund our Other Post Employment Benefits (OPEB) liability.
- In each succeeding year we would transfer an additional 1% up to 5% in year five for the OPEB liability.

Examples of Program Cuts (cuts are in reference to post 9C figures):

Office	FY09 GAA	Post 9C	SWM Recommendation
Governor	\$5,564,771	\$5,528,798	\$4,952,646
Attorney General	\$27,410,277	\$27,355,277	\$23,252,981
SEC. of State	\$7,328,088	\$7,328,088	\$6,355,331
Auditor	\$16,317,826	\$15,470,350	\$15,137,016
Inspector General	\$2,721,715	\$2,576,715	\$2,330,836
Treasurer	\$11,132,804	\$10,744,804	\$9,599,373
Senate	\$18,964,007	\$17,959,861	\$17,636,527
House of Representatives	\$33,658,753	\$31,924,319	\$31,302,640

Sheriffs

- The **state sheriffs** are cut by \$21 M.
- The **county sheriffs** received \$195 M in the county corrections line item in the FY09 GAA and were not cut in any of the 9C's. SWM recommends bringing all county sheriffs onto the state budget and giving each their own line item.
- Total funding for the former county sheriffs is \$255 M. \$71 M of the \$255 M is for a separate line item that includes funding for their pensions, benefits and debt service.
- In addition, the General Fund will receive \$37.5 M in deeds and excise tax revenue that used to be retained by the counties.

District Attorney's

- Cut by \$4.5 M.

Judiciary

- Commission on Judicial Conduct (0321-0001)
 - Cut by \$163K
- Committee for Public Counsel Services (CPCS) (0321-1500)
 - Cut by \$34.4M
- Mass. Legal Assistance Corp. (0321-1600)
 - Cut by \$5.1M
- Mental Health Legal Advisors (0321-2000)

- Cut by \$106K
- Correctional Legal Services (0321-2100)
 - Cut by \$109K
- Social Law Library (0321-2205)
 - Cut by \$1.3M
- Appeals Court (0322-0100)
 - Cut by \$602K
- Trial Court
 - Cut by \$17.7M

Labor & Workforce Development

- Apprenticeship Training (7002-0101)
 - Cut by \$200K
- Division of Labor Relations (7002-0900)
 - Cut by \$245K
- Workforce Training Initiative (7003-0701)
 - Cut by \$16M
- Career Centers (7003-0803)
 - Cut by \$1.25K

Executive Office Housing and Economic Development

- Mass. Office of Business Development (7007-0300)
 - Cut by \$1.2M
- Mass. Office of Travel and Tourism (MOTT)(7007-0900)
 - Cut by \$11M
- Emergency Assistance – Family Shelters & Services (7004-0101)
 - Cut by \$9M
 - Changed eligibility requirement of 130% above poverty line to 100% above the poverty line.
- Tenancy Preservation Program (7004-3045)
 - Cut by \$250K
- Service Coordinators Program (7004-4314)
 - Cut by \$100K
- Subsidies to Local Housing Authorities (7004-9005)
 - Cut by \$4.5M
- Massachusetts Rental Voucher Program (7004-9024)
 - Cut by \$17.8M
- Transitional Rental Assistance (Alternative Housing Voucher Program) (7004-9030)
 - Cut by \$550K

- DMH Rental Assistance (Chapter 707) (7004-9033)
 - Cut by \$1M
- Residential Assistance for Families in Transition (RAFT) (7004-9316)
 - Cut by \$3.5M
 - The total grant allowed is changed from \$3K to \$2K per family.

Executive Office of Administration and Finance

- Fingold Library (1120-4005)
 - Cut by \$683 K
 - We removed requirement from their language that they be open from 9am-5pm Monday through Friday.
- Underground Storage Tank Program (1232-0100)
 - The total of the combined programs was reduced by \$6.5 M
- City and Town Abatements (1233-2000)
 - The combined program was cut by \$3.29 M
- State Aid to Regional Libraries (7000-9401)
 - Cut by \$4.8 M
- State Aid to Public Libraries (7000-9501)
 - Cut by \$2.8 M
- Mass Cultural Council (0640-0300)
 - Cut by \$7.4 M

Education

- Income Eligible Childcare (3000-4060)
 - Cut by \$24.1 M
- Head Start Grants (3000-5000)
 - Cut by \$2.5 M
- Universal Pre-K (3000-5075)
 - Cut by \$6.9 M
- Healthy Families (3000-7000)
 - Cut by \$3.2 M
- Massachusetts State Scholarship and Grant Program (new line item) (7066-0025)
 - Cut by \$14 M
- METCO (7010-0002)
 - Cut by \$ 900 K
- Kindergarten Development Grants (7030-1002)
 - Cut by \$4 M

- Regional Transportation (7035-0006)
 - Cut by \$27 M
 - 43% projected reimbursement rate
- Non-Resident Vocational Transportation (7035-0007)
 - Cut by \$1.3 M
 - 23% projected reimbursement rate
- Special Education (7061-0012)
 - Cut by \$110 M
 - 30% projected reimbursement rate
- Expanded Learning Time (7061-9412)
 - Cut by \$3.9 M
 - This cut will result in either the elimination the ELT program from 2-3 of the current 26 schools, or the reduction of the reimbursement rate for ELT students from \$1300 per student to \$1170 per student.
- Concurrent Enrollment (7061-9600)
 - Cut by \$1 M

Transportation

- Regional Transit Authorities (6005-0015)
 - Cut by \$12.9 M
- RMV (8400-0001)
 - Cut by \$7.3 M

Energy and Environmental Affairs

- Recycling Coordination (2010-0100)
 - Cut by \$821 K
- Redemption Centers (2010-0200)
 - Cut by \$275 K
- Emergency Food Assistance Program (2511-2000)
 - Cut by \$3.5 M
- DCR Seasonals, Beaches and Pools (2800-0501)
 - Cut by \$1.99 M

Health Care and Human Services

- MRC Vocational Rehabilitation (4120-2000)
 - Cut by \$2.5 M.
- MRC Employment Services (4120-3000)
 - Cut by 4.3 M.

- DPH HIV/AIDS (4512-0103)
 - Cut by \$1.1 M.
- DPH Substance Abuse (4512-0200)
 - Cut by \$14 M.
- DPH Dental Health (4512-0500)
 - Cut by \$1 M.
- DPH Family Health (4513-1000)
 - Cut by \$912 K.
- DPH WIC (4513-1002)
 - Cut by \$1 M.
- DMH Child and Adolescent Services (5042-5000)
 - Cut by \$4.1 M.
- DMH Hospitals (5095-0015)
 - Cut by \$10.5 M.
- DMR Day and Work Programs (5920-2025)
 - Cut by \$37 M.
- DMR Respite Services (5920-3000)
 - Cut by \$31.9 M.
- DMR Facilities (5930-1000)
 - Cut by \$16.2 M.
 - Savings are a result of closing the Fernald facility during FY10.

Examples of Eliminated Programs (SWM eliminated a total of 77 line items):

Executive Office of Administration and Finance

- Development Coordinating Council (0411-1001)
- Commonwealth Corps (0411-1002)
- Governor's Washington D.C. office (0411-1003)
- Affirmative Market Program (1775-1101)
- Commonwealth Sewer Rate Relief Fund (1231-1000)
- Child Care Staff Reserve (1599-0042)
- Purchase of Service Salary Reserve (1599-6901)

Executive Office of Health and Human Services and the Office of Medicaid

- Youth-at-Risk Matching Grants – (4000-0112)
- Primary Care Workforce Grants – (4000-0265)
- Community First Initiative – (4000-0650)
- Essential Community Provider Trust Fund (off budget)
- MCB Medicaid Eligibility (4110-1020)
- MCB Ferguson Industries (4110-4000)
- MCDHH State House Accessibility (4125-0102)
- DPH End of Life Care Commission (4510-0106)
- DPH Community Health Centers (4510-0110)
- DPH Primary Care & Academic Detailing Programs (4510-0715, 4510-0716)
- DPH Certified Nurses' Aide Scholarships (4510-0720)
- DPH Step Down Recovery Services (4512-0201)
- DPH Secure Treatment Facilities for Opiate Addiction (4512-0202)
- DPH Violence Prevention Grants (4590-1506)
- DMR Residential Rate Initiative (5920-2006)
- DMR Turning 22 Services (5920-5000)

Education

- Childhood Mental Health Services (3000-6075)
- School-to-Work (7027-0016)
- Teacher Quality Investments (7010-0216)
- Internships and Connecting Activities (7027-0019)

- Principal and Superintendent Leadership Academies (7061-9411)
- Citizen Schools Matching Grants (7061-9610)
- WPI School of Excellence (7061-9612)
- Alternative Education (7061-9614)
- Gifted and Talented (7061-9621)
- Mentoring Matching Grants (7061-9634)
- McNair Program (7070-0031)

Public Safety

- Shannon Grants (8100-0111)
- Quinn Bill (8000-0040)
- Municipal Police Grants (8000-0054)
- Community Policing (8000-0010)
 - Communities will be receiving federal stimulus grants, through the Byrne Grant program, which will be distributed based on population and crime statistics and will provide some amount of funding to all of the affected cities and towns.

Others:

- Agricultural Innovation Center (2511-2000)
- Individual Development Account Program (7004-9317)
- Youth-at-Risk Summer Jobs (7002-0012)
- Training Initiative for Incumbent CNAs (7003-0604)
- Massachusetts Manufacturing Extension Partnership (MMEP) (7003-0605)
- Workforce Training Surplus Grants (7003-0702)
- Small Business Association Layoff Aversion (7003-1641)
- Mass Biotech Research Institute (7007-0500)
- Local Tourist Councils (7007-1000)
- Massachusetts Technology Collaborative (MTC) (7007-1200)