

## Preliminary Analysis: Senate FY 2010 Budget

During floor debate on the budget, the Senate voted to increase the sales tax from five percent to six and a quarter percent and to eliminate the sales tax exemption for alcohol. Combined, these changes are expected to generate approximately \$730 million in FY2010.

The Senate used this revenue to restore about \$550 million of the \$3 billion that the Ways and Means Committee had recommended in budget cuts and savings. In addition, the Senate allocated \$275 million to avert a toll increase on the Massachusetts Turnpike, to address the budget crisis at the MBTA and to support other transportation programs.<sup>1</sup>

While some funding was restored during floor debate, the final Senate budget calls for the elimination of health insurance for 28,000 legal immigrants, a 34 percent cut to local aid, and deep cuts to education, human services, and public safety funding.

This analysis is preliminary, as the final Senate budget was not immediately available. We will release a more complete Budget Monitor once the final Senate budget information can be more comprehensively examined and – possibly – with information on the expected revisions by the Governor to House 1. Those revisions are expected to identify changes he will propose in response to the \$1.5 billion reduction in the revenue estimate for FY 2010 that was announced just before the Senate budget debate.

### EDUCATION

The final Senate budget increases education spending by approximately \$65 million over the Senate Ways and Means Proposal. Even with this increase, the final Senate budget represents a cut to education spending of \$150 million from the FY 2009 GAA level. Like the Senate Ways and Means budget, the final Senate budget uses \$336 million in federal ARRA funds to meet the state obligation for Chapter 70 funding and to level fund higher education campuses at their FY 2009 levels. The final Senate budget makes no changes to the SWM proposal regarding subsidized child care, Chapter 70 funding and state aid to higher education campuses.

Notable changes from the Senate Ways and Means budget include:

- \$36 million in additional special education reimbursements, for a new funding level of \$141.1 million. The SWM budget proposal recommended cutting the state's Special Education reimbursement line item by \$125 million from its FY 2009 GAA level. The final Senate budget restores \$36 million of this reduction, but still falls

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<sup>1</sup> New spending in the Senate budget exceeds new state source revenue because more than \$200 million of the spending restored is in the state Medicaid program and the federal government reimburses the state for more than half of the costs of most Medicaid spending.

\$89 million below the FY 2009 GAA level. The recent federal stimulus does include substantial increases in federal special education grants, which could be used to offset a reduction in state reimbursements.

- \$4 million in additional Universal Pre-K (UPK) funding, for a new funding level of \$8 million. The SWM budget recommended \$4 million in state funding for the UPK program, a cut of \$8.1 million from the FY 2009 GAA level. By doubling the SWM recommendation, the final Senate budget still falls well below the FY 2009 GAA funding level, and is \$1.8 million below the level in the House budget.
- \$5 million in additional funding for higher education scholarships, for a new funding level of \$89 million. The final Senate budget retained the SWM proposed consolidation of two state scholarship line items, meaning that the Senate's \$89 million appropriation is a cut of \$9.2 million from the FY 2009 GAA level. The House funded the two state scholarship line items at \$94.1 million.
- \$4 million in funding for two early childhood line items that were not included in the SWM recommendations. The final Senate budget includes \$3 million in funding for parenting skills programs, previously the Mass Family Networks line item. This item, funded at \$9.6 million in the FY 2009 GAA, received \$7.5 million in the House budget. Unlike previous budgets, the Senate does not specify which programs, such as Reach Out and Read, will receive funding through this item. The Senate budget also includes \$1 million for early childhood mental health services, which were funded at \$2.9 million in the FY 2009 GAA. The House also provides \$1 million in funding for this item.
- \$3.5 million in funding for the foundation budget reserve. This item, which is traditionally added to both the House and Senate budgets through the amendment process, sets forth hardship criteria by which school districts can receive additional school funding. This item, which was funded at \$5.5 million in the FY 2009 GAA, receives \$6 million in the House budget.
- \$6.7 million in additional spending for other education programs included in the SWM proposal, including Head Start and Extended Learning Time grants. The Senate funds Head Start at \$6.5 million, compared to \$10 million in the FY 2009 GAA. The Senate funds Extended Learning Time grants at \$15.7 million, compared to \$17.5 million in the FY 2009 GAA.
- \$3.3 million in spending for other items not included in the SWM budget proposal, including dual enrollment grants and the WPI School of Excellence Program. The Senate funds dual enrollment grants at \$750,000, compared to \$1 million in the House. The Senate funds the WPI School of Excellence at \$1.3 million, compared to \$2.2 million in the FY 2009 GAA.
- Changes language regarding charter school funding. The SWM budget proposal included the Governor's recommendation for changing the system by which charter schools are funded, the final Senate budget returned to the previous system for charter school funding, which is also used in the House budget. The final Senate appropriation also appears to reduce funding for charter school reimbursements by \$150,000.
- Adds language to the Department of Elementary and Secondary Education (ESE) line item directing the ESE to ensure that an impartial Bureau of Special Education Appeals, which mediates and adjudicates disputes between parents and school districts, continues to be staffed by state employees.

## HEALTH CARE

The full Senate restored some of the cuts made to the state's health care programs, adding approximately \$316 million during floor debate. Even with this additional funding, the Senate FY 2010 budget funds health care at a level less than in the FY 2009 GAA. Given inflation and rising health care costs, the Senate health care budget reflects a cut to health care spending of more than half a billion dollars.

Senate amendments add approximately \$238 million for MassHealth and health reform programs, including:

- \$82.9 million more for managed care programs, bringing the total to \$3.471 billion, an estimated cut of close to \$200 million compared to FY 2009 GAA;
- \$49.3 million more for senior care programs, bringing the total to \$2.142 billion, an estimated cut of more than \$70 million compared to FY 2009 GAA;
- \$59.5 million more for indemnity programs, bringing the total to \$1.615 billion, an estimated cut of more than \$50 million compared to FY 2009 GAA;
- \$24.5 million more in funding for the Children's Behavioral Health Initiative (also known as funding for the *Rosie D.* settlement), bringing the total to \$68 million. These dollars support universal pediatric mental health screening, and services for children identified with severe emotional disturbance.
- \$10 million to the Prescription Advantage program, bringing funding to \$40 million. This is still \$17.5 million less than funding in the FY 2009 GAA.

Even though Senate amendments add \$10.5 million to funding for the Commonwealth Care health insurance program and correct some flawed language in the SWM budget proposal, the final Senate budget still removes 28,000 "aliens with special status" from the Commonwealth Care program. These legal immigrants include persons who have applied for permanent residency but have not yet lived here for five years, and persons living here under immigration protections as political refugees. An amendment added at the end of budget debate gives these people a 45 day notice prior to cutting their health insurance coverage. Without Commonwealth Care, these immigrants will be limited to health care from the health safety net (emergency rooms).

It is also notable that the final Senate budget removes language from the SWM budget proposal that would have eliminated non-emergency adult dental coverage from the MassHealth program, and that would have eliminated adult day habilitation services which provide support for people with developmental disabilities.

The full Senate budget restores \$8.5 million for mental health services, including \$2.5 million more for children's mental health and \$6 million more for adult mental health services. Even with these additions, mental health funding in the Senate budget is \$39.2 million less than funding in the FY 2009 GAA.

The Senate also uses funding from expanded revenues to restore some of the support for public health programs that had been cut in the SWM budget proposal. The Senate amendments add \$36.8 million to public health, bringing the total to \$512.9 million. This total is still 14 percent below funding in the FY 2009 GAA, and tens of millions of dollars below what would be needed to keep public health programming at its FY 2009 level. Senate public health amendments include:

- \$1 million for community health centers (which were not funded in the SWM budget), and which received \$7.5 million in the FY 2009 GAA.
- \$2.5 million more for early intervention programs for developmentally delayed infants and toddlers, bringing total funding to \$25.6 million. Even though the Senate proposes that health insurers will have to pay

for a larger share of early intervention costs, this funding level would still require a significant cut in program services, most likely restricting eligibility.

- \$1 million more for sexual assault prevention and treatment, bringing the total to \$5.1 million. Funding in the FY 2009 GAA for sexual assault prevention and treatment was \$6.4 million.
- \$23.8 million more for substance abuse services, including \$4.8 million for a substance abuse step-down program, \$6 million for a jail diversion secure treatment program for opiate and OxyContin addicts, and \$2 million for a new line item supporting young adult treatment and family intervention and case management for young adults with substance abuse issues. After amendments, total FY 2010 substance abuse funding in the Senate final budget is \$87.3 million, \$3.2 million less than funding in the FY 2009 GAA.
- \$3.5 million for youth violence prevention programs (which received no funding in the SWM budget proposal). (Not included in these public health totals is an additional \$6.5 million added by the Senate within the Executive Office of Public Safety for the “Shannon Grants” for youth violence prevention.)

During floor debate, the full Senate added \$33 million to funding for state employee health insurance within the Group Insurance Commission. In addition, the Senate budget proposal changes the cost-sharing structure for health insurance premiums from what had been proposed by SWM. Current language states that state employees hired before July 1, 2003 pay 15 percent of their health care premiums, and state employees hired since July 1, 2003 pay 20 percent of their premiums. The SWM budget proposed that all current employees pay 30 percent of their premiums. The Senate amended the budgetary language to state such that all current employees would pay 25 percent of their premiums. Even with this amendment, the final Senate budget shifts more than \$100 million in state employee health care costs onto state employees.

## HUMAN SERVICES

During floor debate, the Senate added \$93 million for Human Service programs, bringing total funding to nearly \$3.5 billion. However, this recommendation falls short of the House recommendation and the FY2009 GAA, by \$24 million and \$115 million respectively. Notable changes from the SWM budget proposal include:

- \$25 million for community-based day and work programs, administered by the Department of Developmental Services (formerly the Department of Mental Retardation), bringing the total to \$117 million. This appropriation is \$5.7 million below the House recommendation and more than \$13 million below the amount likely needed to maintain current services.
- \$19 million for respite services, administered by the Department of Developmental Services, for a total of \$42.5 million. This appropriation is \$13 million below both the House proposal and the FY 2009 GAA.
- \$9.0 million to the emergency assistance program for homeless families bringing the Senate final total to \$91.6 million. The Senate adopted an amendment stating that organizations providing assistance to homeless families will receive the same level of funding in FY 2010 that they received in the FY 2009 GAA. The funding level approved by the full Senate is \$2.3 million lower than the amount approved by the full House and is only slightly lower than the \$91.7 million that the Governor requested. While the Senate level is \$4.4 million above the amount appropriated in the FY 2009 GAA it is well below the \$113.4 million that the state expects to spend on helping homeless families during the current fiscal year. The SWM Committee lowered eligibility for this program to families living at 100 percent of poverty from 130 percent of poverty. The final Senate did not approve an amendment that would have restored eligibility for this program to families living at 130 percent of poverty.

- \$120,000 to the account that provides assistance to homeless individuals including \$1.2 million in funding for the Home and Healthy for Good program. The full Senate’s funding level for homelessness assistance and Home and Healthy for Good is in line with the funding approved by the House, requested by the Governor and included in the FY 2009 GAA.

- \$10 million for Emergency Aid for Elders, Disabled and Children (EAEDC), bringing the total to \$84.7 million, the same amount recommended by the House. This appropriation is still more than \$2 million below the amount likely needed to maintain current services.

- \$12 million more for elder services, bringing the home care purchased services total to \$189.7 million. This is \$12.6 million less than the home care total in the FY 2009 GAA, and reflects a cut of almost \$20 million from what would be needed to fund elder home care at the same level of service as in FY 2009.

- \$1.7 million is allocated for the account that supports families through stabilization, reunification, adoption, guardianship and foster care services, bringing the total for this line item to \$303.2 million, the same amount recommended by the House. This recommendation is \$10.6 million below the FY 2009 GAA. In addition, language was added that directs funding for “community-based support and education programs helping low-income, female-headed families break the cycle of poverty.”

- \$1.1 million for shelters and support services for people at risk of domestic violence, provided by the Department of Children and Families, bringing the total to \$21.9 million, the same amount recommended by the House. This appropriation is still \$1.5 million, or 6.6 percent, below the amount appropriated in the FY 2009 GAA.

## ENVIRONMENT & RECREATION

During its debate on the FY 2010 budget the full Senate added \$5 million in funding for energy and environment programs and approved total funding for these programs of \$201.5 million. The Senate’s funding for these programs is \$7.1 million below the final House budget and \$11.8 million below the amount requested by the Governor in his House 1 proposal. The final House budget is over \$30 million less than the environment and recreation funding approved in the FY 2009 GAA, though it is \$10.9 lower than the amount the state has spent on these programs after the Governor made 9C cuts earlier in FY 2009.

During its floor debate the Senate restored:

- \$3.6 million in funding for the state’s regional food banks bringing total funding to \$12 million. This is the same level approved by the House, requested by the Governor and funded in the FY 2009 GAA.

- \$1 million to the Hazardous Waste Site Clean up program bringing total funding for this account in the Senate proposal to \$15.4 million. This level is \$400,000 less than the amount approved by the House and \$1 million less than the funding requested by the Governor. The amount approved by the full Senate is \$1.3 million less than the FY 2009 GAA and \$1 million less than the state will spend in FY 2009.

- \$250,000 to the account that provides funding for park rangers hired by the Department of Conservation and Recreation bringing total Senate funding to \$1.5 million for this account. This funding level is \$200,000 less than the amount approved by the House and the Governor and \$300,000 less than the state expects to pay for park rangers in FY 2009.

- \$200,000 increase for redemption centers operated by the Department of Environmental Protection bringing total funding for this program to \$475,000. This level is \$75,000 below the \$550,000 approved by the House, requested by the Governor and appropriated in the FY 2009 GAA.

## INFRASTRUCTURE, HOUSING & ECONOMIC DEVELOPMENT

The final Senate budget increases spending on infrastructure, housing and economic development by approximately \$312 million over the Senate Ways and Means Proposal. Of this increase, \$275 million is devoted to a new Transportation Investment Trust. Aside from transportation, the final Senate budget represents a cut of \$139 million from the FY 2009 GAA to programs in housing, workforce and economic development.

Notable changes from the Senate Ways and Means budget include:

- \$3.3 million for subsidies to public housing authorities to increase the Senate total to \$65.3 million. This amount is \$6 million less than the amount appropriated by the House and \$1 million less than the amount the Governor requested in House 1. The Senate level is \$700,000 less than the total appropriated in the FY 2009 GAA.
- \$10 million for the Massachusetts Rental Voucher Program (MRVP), for a total of \$28 million. The Senate total is \$8 million less than the amount appropriated by the House and requested by the Governor and is \$5 million less than the \$33 million the state appropriated in the FY 2009 GAA. During his October 9C cuts the Governor reduced funding for MRVP by \$2.5 million but received a commitment that MassHousing would provide funding to match that cut so that the state could continue to pay for its vouchers through the end of the fiscal year.
- \$1 million for rental subsidies for clients of the Department of Mental Health. This brings the Senate in line with the \$4 million that the House recommended for this program as well as the amount requested by the Governor in House 1 and the funding level approved in the FY 2009 GAA.
- \$3 million for Rental Assistance for Families in Transition (RAFT), for a total of \$5 million. The Senate appropriation is \$500,000 less than the amount included in the final House budget, the Governor's request in House 1 and the \$5.5 million appropriated in the FY 2009 GAA.
- \$275 million in funding for the Transportation Investment Fund. This fund, which was also received \$275 million in the House budget, would provide funds to the state's ground transportation system. Unlike the House, the Senate language also includes stipulations as to how these funds can be spent:
  - Funds can go to any surface transportation related authority or any fund used for toll and fare mitigation;
  - Regional Transit Authorities must receive an amount equal to 20% of any funds that go to the MBTA;
  - Funds must provide the Turnpike Authority with at least the difference between the Turnpike's net estimated revenues and the amount necessary to make the minimum debt service payments;
  - No funds will go to the Turnpike in the year it passes a toll increase or the 2 years following.
- \$4 million in funding for the state's summer jobs for at-risk youth. This Summer Jobs program, funded at \$8.1 million in the FY 2009 GAA, was not included in the SWM budget recommendations. The final House budget includes \$8 million for the Summer Jobs program.

- \$5 million in increased funding for workforce training program, for a new funding level of \$10 million. The final Senate funding level represents a cut of \$11 million from both the FY 2009 GAA level and the final House budget. Workforce training grants help companies to train, retrain, and retain workers to remain competitive.
- \$6 million in funding for regional tourism councils. This item, not included in the SWM budget recommendations, provides assistance to regional tourism efforts throughout the state. The Senate appropriation matches that of the House, but falls short of the \$9 million the item received in the FY 2009 GAA.
- \$2.3 million in additional funding for the state's Office of Travel and Tourism, for a new funding level of \$8.7 million. This item, funded at \$37.1 million in the FY 2009 GAA, provides earmarked funding for various tourism projects throughout the state. The additional spending in the final Senate budget is due to an earmark for the Massachusetts Sports Entertainment Commission.
- \$800,000 in funding for regional economic development grants. This item, not included in the SWM budget recommendations, provides \$100,000 grants to the eight regional economic development councils in the state. The item, which is new in FY 2010, receives \$600,000 in the House budget.

## LAW & PUBLIC SAFETY

The final Senate budget increases spending on law and public safety by approximately \$45 million over the Senate Ways and Means Proposal. Even with the increase, the Senate spending on law and public safety falls \$106 million below the FY 2009 GAA amount, and \$81 million below the House budget appropriation.

Notable changes from the Senate Ways and Means budget include:

- \$10 million in funding for Quinn Bill Reimbursements. These reimbursements, not included in the SWM budget proposal, fund pay raises to police officers that have earned advanced degrees. Quinn Bill reimbursements were funded at \$42 million in the FY 2009 and at \$25 million in the House budget. Unlike the House budget, however, the Senate does not include language limiting access to the program in future years.
- \$6.5 million in funding for the Shannon Grants to combat gang violence. These grants, not included in the SWM budget proposal, provide gang prevention grants to municipalities. The \$6.5 million appropriation, which matches the House budget, is half of the \$13 million appropriation in the FY 2009 GAA.
- \$5 million in additional funding for the State Police, for a new funding level of \$231.1 million. This appropriation is \$25 million less than the FY 2009 GAA and \$16 million less than the House budget.
- \$2 million in additional funding for the Massachusetts Legal Assistance Corporation (MLAC), for a funding level of \$8 million. MLAC provides legal services for low-income residents in the court system. Even with this increase, the Senate appropriation falls \$3.1 million below the funding level in the FY 2009 GAA and the FY 2010 House budget.
- \$3.6 million in additional funding for indigent court costs and fees, for a total funding level of \$13.5 million. This funding level matches the amount appropriated by the House, and exceeds the FY 2009 GAA funding level by \$2.1 million.

## LOCAL AID

The final Senate budget includes a substantial municipal relief amendment which allows cities and towns to increase local taxes on meals and hotels, eliminates property tax exemptions for telecommunications companies and encourages municipalities to join the Group Insurance Commission (GIC).

Specifically, the Senate budget:

- Increases the local option excise tax on lodging from 4 to 6 percent (from 4.5 to 6.5 percent for Boston). If all cities and towns adopt this provision, it would generate an estimated \$40 million in revenue.
- Allows municipalities to levy a 2 percent sales tax on meals. All receipts from the tax would go to the city or town where they were collected. If all cities and towns adopt this provision, it would generate an estimated \$230 million in revenue.
- Eliminates the property tax exemption for telecommunications poles and wires, codifying a recent Appellate Tax Board Decision. It is estimated that eliminating this exemption could generate \$26 million.
- Increases unrestricted local aid funding by \$35 million, for a new funding level of \$864.9 million. The new funds restore 7 percent of the SWM proposed local aid cuts for each community. With the additional Senate appropriation, each city and town receives a 34 percent cut from their FY 2009 GAA discretionary local aid appropriation. The House final appropriation of \$864.9 represented a cut of \$450 million (16.8 percent) from the FY 2009 GAA level.
- Requires all municipalities to either join the state's Group Insurance Commission (GIC), or achieve GIC equivalent or better costs in another system. In order to change collectively-bargained health plans, municipalities and their local unions must be agree on changes. When a municipality and the unions representing its workers are unable to come to an agreement about cost sharing in the new health plan, then the Senate language requires binding arbitration to set terms by which the community will meet the cost savings objectives. The rulings of these arbitrators will be binding on the unions and, while municipalities can reject the rulings, if they do so they will lose an amount of state aid equal to the savings that would have been achieved by a new health plan.
- \$2 million for regionalization grants to encourage municipalities to utilize joint staff, operations and facilities when possible.
- \$500,000 in grants for municipalities that would not benefit from a local option meals tax.

## OTHER

The final Senate budget also adds spending to the SWM budget proposal in areas such as libraries, the decennial census, and the arts.

Notable changes from the Senate Ways and Means budget include:

- \$2.3 million in increased funding for grants to regional libraries, for a new funding level of \$14.6 million. The new funding level matches the appropriation in the House budget, but falls short of the \$17.2 million funding level in the FY 2009 GAA.
- \$500,000 in increased funding for the Massachusetts Commission against Discrimination, for a new funding level of \$2.3 million. The new funding level still is less than both the FY 2009 GAA appropriation of \$2.7 million and the FY 2010 House budget funding level of \$2.6 million.
- \$4.3 million in increased funding to cultural councils around the state, for a new funding level of \$9.7 million. The new funding level is still less than both the FY 2009 GAA appropriation of \$12.7 million and the FY 2010 House budget funding level of \$11.4 million.
- Adds language extending the state's pension funding schedule by two years, from 2028 to 2030. This extension is expected to result in cost savings to municipalities. Like the House proposal, the final Senate proposal includes \$1.377 billion for state employee pensions, \$88.4 million below the FY 2009 GAA.

## REVENUE

The Senate budget includes approximately \$730 million in increased state revenue, compared to the SWM proposal. The chief source of new revenue is a sales tax increase of 1.25 percentage points, to 6.25 percent, which is estimated to generate between \$630 and \$640 in additional revenue. This sales tax increase is similar to that contained in the House budget, but has a few notable differences:

- The Senate sales tax increase does not include meals, which would still have a statewide tax rate of 5 percent.
- The Senate makes alcohol sales subject to the sales tax, which will raise an estimated \$98 million. Currently, alcohol is subject to a separate alcohol tax, but not the state's sales tax. The Senate budget adds the sales tax to alcohol sales. The revenue from the alcohol sales tax is not included in the Senate's estimate of revenue generated by the general sales tax.
- Senate estimates for the revenue effect of the 1.25 percentage point sales tax increase are substantially lower than those of the House, which estimated \$900 million in new revenue. The difference is due to two primary factors:
  - The Senate plan does not levy the tax on meals, reducing the total revenue by approximately \$135 million;
  - The Senate plan accounts for the time it will take to implement such a tax increase, reducing the total revenue by approximately \$140 million;
- The Senate imposes a 5 percent excise tax on satellite broadcast services. The new excise tax is estimated to generate between \$20 and \$25 million in new revenue.

Aside from statewide revenue, the Senate also included provisions dealing with revenue for cities and towns, which can be found in the local aid section of this document.