

Message from the Governor

To the People of Massachusetts:

Lieutenant Governor Murray and I are proud to file our budget recommendations for fiscal year 2011. This budget reflects our collective values and makes investments in critical areas that will help us strengthen our economy in the near-term and position us for growth and prosperity over the long-term.

As with each budget we have submitted – and those we have revised amidst unprecedented global economic challenges – our fiscal year 2011 budget is guided by an important set of principles.

First, we are investing in our economy and our people: The economic downturn has undeniably strained the state budget, as it has likewise strained the finances of individuals, families and businesses across Massachusetts. But whatever the fiscal challenges we face today, we remain committed to investing in the Commonwealth's economy and our people.

Thus, we have consistently protected Chapter 70 education aid from budget cuts because I believe education is the single most important investment we can make in our future. Earlier this month, I signed into law a sweeping overhaul of our K-12 education system, aimed at turning around underperforming schools, closing the achievement gap and fostering innovation in education. This budget builds on our commitment to education. It funds Chapter 70 at more than \$4.04 billion – the highest levels in history, with all school districts funded at foundation levels and no operating districts experiencing a cut. Together, these steps will help our education system prepare our students for a successful future in a global economy.

On top of protecting Chapter 70 funding, we are preserving current funding for unrestricted general government aid for cities and towns – a major short- and long-term economic investment in its own right and a lever to help reduce pressure on property taxes. This funding is in addition to the numerous tools we have worked to give cities and towns to help balance their budgets and protect police, fire and other essential community services. We are also submitting, in conjunction with this budget, a new set of proposals that will further assist local government in meeting the needs of those it serves.

And we are maintaining our commitment to health care reform, an initiative that sets Massachusetts apart as a leader in health care with the highest levels of health insurance coverage in the nation. Today, thanks to continued investment in this groundbreaking program, more than 97 percent of our population has health insurance. Investments in health care strengthen our economy by improving the health and productivity of our workforce and bolstering our world-renowned medical sector.

These investments are part of our comprehensive strategy to create jobs, speed economic recovery and promote long-term prosperity for the Commonwealth – along with investments in infrastructure through our capital plan, our cutting-edge life sciences and clean energy initiatives and our other efforts to preserve a strong safety net for those in need. This strategy

is positioning Massachusetts to recover faster and stronger than the rest of the nation and achieve its full potential as a leader in the global economy.

Second, we are changing the culture on Beacon Hill: Delivering on changes that had been talked about for decades has been a cornerstone of our fiscal and larger policy agenda, reflecting our commitment to making state government more efficient and responsive to our residents and to restoring integrity to public service. Working with the Legislature, we implemented groundbreaking improvements to our transportation system and the first phase of pension reform, tightened ethics rules, introduced competition into the auto insurance market, increased use of civilian flaggers and implemented a host of structural reforms that are changing the face of state government for the better.

Our fiscal year 2011 budget and accompanying proposals build on this strong record of improvements, including the next phase of pension reform, a reorganization of our parole and probation departments to help make our communities safer, a more coordinated approach to purchasing energy for state government and additional budget reforms to promote sound fiscal practices and transparency.

Third, we are committed to fiscal responsibility: The investments that we have made in the people and in the future of the Commonwealth have been part of balanced, fiscally responsible budget blueprints. Bond rating agencies have praised our record of prudent fiscal management – including our prompt and thoughtful steps to close unforeseeable budget gaps driven by a deep and unprecedented global economic recession. That commitment to fiscal responsibility endures in our fiscal year 2011 budget. Total spending grows at a rate slower than expected growth in tax revenues, as we make major strides towards structural balance even in a still-difficult fiscal environment.

Yet fiscal responsibility is not simply about aggregate budget numbers but also the *values* embedded in our budgets. We have insisted that the sacrifice required by our current economic and fiscal climate be *shared*, to build confidence that our budgets are fair and avoid disproportionate harmful impacts. In this budget, we continue to deliver major support for the state budget from independent authorities – with a total of \$30 million in contributions helping to fund college scholarships, Soft Second mortgages, health care outreach and enrollment grants, assistance for small businesses and other important state initiatives.

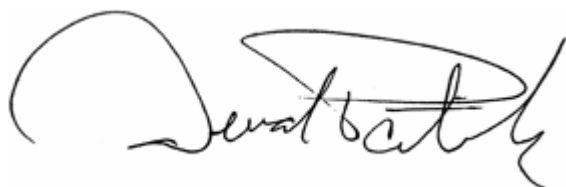
Fourth, we are working with our federal partners: We have worked closely with President Obama and our congressional delegation to support our economic agenda to create jobs, speed recovery, promote long-time prosperity and mitigate the immediate harmful impacts of the economic downturn. Thanks to that partnership, Massachusetts maintains a competitive advantage in securing the funding necessary to move forward on many important initiatives.

The Commonwealth is expected to receive approximately \$14 billion through the federal American Recovery and Reinvestment Act, including funding for education, life sciences, transportation, clean energy and health care that builds on our own initiatives and provides direct relief to our state's residents. Our fiscal year 2011 budget likewise benefits from "use or lose" federal funds that have already been secured through our efforts and anticipates further federal support in the coming fiscal year.

We are very proud of our record of accomplishment over the past three years, achieved in partnership with the people of Massachusetts and the Legislature. Our fiscal year 2011 budget blueprint reflects the simple notion that we must *continue moving forward*. No matter how challenging the economic climate, we cannot afford to retreat from the important progress we have made over the last several years.

With our investments in our speeding economic recovery and laying the foundations for long-term prosperity, and our enduring commitment to fiscal responsibility and reform, we *move forward* to a bright future for the Commonwealth and its residents.

Sincerely,

A handwritten signature in black ink, appearing to read "Deval Patrick", with a large, stylized initial "D" and a flourish at the end.

Deval L. Patrick
Governor



Message from the Secretary of Administration and Finance

As a result of the global economic downturn, the Patrick-Murray Administration has managed government during one of the worst fiscal crises Massachusetts has ever faced. Fiscal year 2011 will be the third straight fiscal year requiring billions of dollars of budget solutions. The “Great Recession” brought with it a steep decline in tax revenues and, while we expect to turn the corner and see growth in fiscal year 2011, tax revenues will remain at much lower levels than when Governor Patrick filed his first budget three years ago. Meanwhile, demand for state services has increased significantly as more residents have needed help.

Even in these incredibly difficult times, we have maintained fiscal stability and responsibly managed the state’s finances, thanks to the Governor’s leadership. While they have downgraded more than a dozen states during the recession, the credit rating agencies recently affirmed the Commonwealth’s strong AA bond rating, specifically highlighting the Governor’s strong fiscal management during the economic crisis:

- Moody’s Investor’s Service noted the Governor’s “effective management during the strained economic times” (November 3, 2009).
- Fitch Ratings stated its “expectation that the Commonwealth will continue to address economic and revenue weakening in a manner consistent with its demonstrated sound financial practices” (November 4, 2009).
- Standard and Poor’s pointed to the Governor’s “strong and conservative budget management practices, with swift action to restore balance after identifying revenue shortfalls in the past year” and concluded that the Commonwealth’s financial practices are “strong, well-embedded and likely sustainable” (November 4, 2009).

Cutting spending has been a necessary component of a balanced set of solutions to the state’s extraordinary fiscal challenges. The Patrick-Murray Administration has acted to reduce state spending across state government. Over 2,000 state jobs have been eliminated, and state employees who remain have been asked to do more while getting paid less. We have cut billions of dollars from programs and services in the fiscal year 2009-2011 budgets. This has resulted in real, and, in some cases, painful impacts on Massachusetts residents.

Budget cuts and sound fiscal management are necessary in these challenging times. But the people of the Commonwealth should expect even more from their leaders. They deserve not just sound fiscal management but also true fiscal leadership. True fiscal leadership is about more than just cutting spending in the midst of a fiscal crisis. True fiscal leadership requires not only an appreciation for the need to live within our means, but also an appreciation for the consequences of the actions required to achieve a balanced budget. It requires not only tough decisions, but also creative solutions. It requires not only telling people what we can no longer do, but also persuading people to share responsibility for helping find ways to preserve the many important things we are doing. It requires decision-making based on careful consideration of not just the impact on our fiscal health and stability, but also based on careful consideration of the impact on the residents who depend on state programs and services for their own health and stability.

True fiscal leadership in these difficult times requires finding ways to deliver a fiscally responsible budget that mitigates the impact on those most in need and that continues to invest in a brighter future for all residents. It requires creative solutions and tough decisions – not just to cut spending – but to reform and improve the way government delivers services.

Governor Patrick has demonstrated true fiscal leadership in the face of extraordinary fiscal challenges. He has had to make many difficult decisions that have required great sacrifice. Funding for state programs and services has been cut while demand for those programs and services has increased.

The Governor has worked tirelessly, however, to mitigate cuts required to preserve fiscal stability and to deliver and maintain responsibly balanced budgets. Thanks to the Governor's fiscal leadership, Beacon Hill is no longer just talking about reforming state government, it *is* reforming state government. Transportation reform, pension reform, ethics reform, education reform, consolidations of state agencies and functions, and many other government improvement efforts are resulting in a more efficient, effective and responsive state government. Thanks to the Governor's fiscal leadership, stakeholders are working together in a spirit of shared sacrifice to offer solutions. And thanks to his leadership, the federal government has provided significant support to states to preserve critical programs and services throughout the fiscal crisis, including funding for education.

Governor Patrick has also demonstrated true fiscal leadership by focusing not just on weathering the current fiscal storm, but also on the brighter future we must build for the Commonwealth. The Governor has worked hard to find ways to continue to invest in providing a world class education for our children, training our workforce for jobs of the 21st century, providing access to affordable health care for all residents, supporting the life sciences, clean energy and other job-creating industries of the future and fixing and improving infrastructure that supports economic development and the quality of life of all of our residents. Thanks to the Governor's continuous leadership in pursuing this long-term agenda, Massachusetts has weathered the fiscal storm better than most other states and is well-positioned for growth as we begin our economic recovery.

The Governor's budget recommendation for fiscal year 2011 is a product of the same fiscal leadership the Governor has exercised throughout his Administration. It is a responsible budget. While it contains cuts to programs and services, it is balanced and compassionate and minimizes those cuts to the greatest extent possible through government reforms and efficiencies, creative solutions and thoughtful decision-making. It is a budget that continues to invest in a brighter future, including the highest level of funding in history for education.

On a personal level, it has been a privilege to work with the Governor in the development of this budget recommendation. While I know many appreciate the Governor's fiscal leadership for all of the reasons above, few actually have the opportunity to observe the hard work that goes into exercising that leadership. The Governor pushes me and the rest of his cabinet to make sure we have considered all possible options to improve the way in which we deliver services and to mitigate the impacts on those who depend on state government. He pores through hundreds of pages of budget reports and recommendations, spends countless hours in meetings with staff and meets with many legislators, stakeholders and constituents to ensure he understands the options available to him and the consequences of the choices he makes.

The Governor approaches the budget process with a keen understanding of not only his fiscal responsibility, but also a keen understanding that the budget is a statement of our values. The Governor understands that the budget is not just a compilation of numbers on a page. He knows there are people behind those numbers, people who depend on the budget for their health and well-being and for a brighter future. The Governor takes the budget process seriously; he invests a great deal of personal time, energy and emotion into the process; and he demands the best of all of us to develop a budget that is not only responsibly balanced, but that serves the best interests of the people of the Commonwealth.

As his budget chief and as a citizen of the Commonwealth, I thank Governor Patrick for his true fiscal leadership. I also want to thank Lieutenant Governor Murray for his leadership. He is also personally engaged in the budget development process and is a valuable partner to the Governor in the decision-making process.

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

I also want to thank my colleagues on the Governor's cabinet for all of their hard work and creativity in developing budget recommendations for the Governor under very challenging circumstances; Liz Morningstar, Rebecca Deusser and the rest of the Governor's staff for their help and support; the members of the Governor's Council of Economic Advisors for their valuable advice and insight; Commissioner Bal and her team at the Department of Revenue for their work in monitoring state tax revenues and in developing and analyzing various budget proposals; and the many legislators, municipal officials, agency heads and stakeholders who took the time to write me or to meet with me or my staff to educate us and to inform our work on the budget.

Lastly, I want to express deep appreciation, thanks and gratitude to my incredible team in the Executive Office of Administration and Finance for their work on this budget recommendation. Although I have had the privilege of working with my colleagues at A&F for three years now, I continue to be amazed by the enthusiasm, energy, creativity, diligence and dedication that they bring to their jobs each and every day. I am proud to be associated with all of them. Special thanks go to Undersecretary Matt Gorzkowicz and Budget Director LeeAnn Pasquini for their leadership.



Jay Gonzalez
Secretary of Administration and Finance



Budget Narrative

Investing in Our Economy and Our Future

Governor Patrick's and Lieutenant Governor Murray's fiscal year 2011 budget proposal keeps Massachusetts moving forward towards a better economy and a brighter future. It reflects their core belief that, even in a global economic downturn, our values *demand* that we invest in the people and the needs of the Commonwealth. The Patrick-Murray Administration's budget maintains an unprecedented commitment to education, health care and cities and towns as cornerstones of economic prosperity for the Commonwealth.

Education: Governor Patrick has been the Commonwealth's "Education Governor." He has made record investments in education despite an unprecedented fiscal crisis. Even before the global recession, he created a Secretary of Education and reorganized state education agencies to promote a *coordinated* approach to lifelong learning. Moreover, he proposed and secured the enactment of groundbreaking education reform legislation to expand charter schools, turn around underperforming schools, close the achievement gap, foster innovation in education and strengthen the state's ability to access up to \$250 million in federal "Race to the Top" education funding.

The Patrick-Murray Administration's fiscal year 2011 budget builds on these historic achievements in education:

- It funds Chapter 70 education aid at the highest levels in history (\$4.048 billion). All school districts are fully funded at foundation levels, and no operating school district will experience a cut (even districts that would have seen a reduction from last year, because of the funding formula, will be level-funded). This commitment to K-12 education will keep teachers in the classroom and continue to make important educational programs available to all students.
- Chapter 70 education aid is funded completely with General Fund dollars in fiscal year 2011 (as opposed to partially relying on one-time federal stimulus aid), providing stability and predictability to school districts.
- The budget includes an outside section providing for a commission to study the state school aid formula under Chapter 70.
- The budget includes \$969.7 million for public college and university campuses, continuing to completely protect them from budget cuts since fiscal year 2009.
- Building on the Governor's leadership in expanding high-quality early education, the budget increases funding for universal pre-kindergarten by \$1 million.
- Nearly all line-items within education are at a minimum level funded from fiscal year 2010 to fiscal year 2011.

Health Care: Health care reform in Massachusetts has been a national model for expanding health coverage to virtually all of our residents. With a sure and steady hand, Governor Patrick has guided the implementation of health care reform with the continuing commitment of the Legislature and a diverse coalition of stakeholders. Over 97 percent of our residents now have health insurance, the highest rate of coverage of any state in the nation.

The Patrick-Murray Administration's fiscal year 2011 budget maintains this deep commitment to our historic health care reform initiative:

- The budget preserves eligibility for all state health insurance programs and devotes more resources for enrolling additional residents in these programs.
- The Administration is keeping state health insurance affordable for our residents, minimizing additional cost-sharing for members despite fiscal pressures facing the state.

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- Beyond the budget, Massachusetts is blazing the trail to more affordable, higher-quality care for our families and businesses. The Administration has secured unanimous approval of a nationally heralded blueprint for health care payment reform and has launched intensive hearings on health insurance premium increases facing small businesses.

Cities and Towns: Governor Patrick has worked tirelessly to strengthen the partnership between state and local government, reduce pressure on property taxes and protect police, fire and other services essential for strong communities. He has secured the enactment of laws giving cities and towns significant relief on health insurance costs for their employees and new revenue tools to relieve the burden on local property taxes. In the face of a dramatic fiscal downturn and underperformance of the Lottery, he has protected local aid to the maximum extent possible. Working with city officials and the former Control Board, the Governor has helped Springfield move from the brink of financial ruin to budget surpluses. Through the American Recovery and Reinvestment Act's (ARRA) State Fiscal Stabilization Fund, \$21 million has been provided to fire departments and \$3 million to police to retain staff.

On top of providing record funding for Chapter 70 education aid for cities and towns, the Patrick-Murray Administration's fiscal year 2011 budget makes a major commitment to other categories of local aid.

- Cities and towns will get the *same amount* of unrestricted general government aid as in fiscal year 2010 (\$936 million).
- The Governor is fully maintaining current funding for payment in lieu of taxes on state-owned land (PILOT) (\$27.27 million), regional school transportation (\$40.5 million) and school lunches (\$5.4 million) and increasing funding for veterans' benefits (to \$36 million).
- Governor Patrick has recently filed legislation to give cities and towns additional tools to help them manage municipal finances, including a local pension funding relief initiative, an early retirement incentive program and new cost-savings opportunities for regional school districts.
- The legislation also includes a study commission to evaluate local aid formulas, beginning with the work on "Partnership Aid" by the Hamill Commission's Municipal Finance Task Force.

In these highlighted areas and many other areas across the budget, Governor Patrick has preserved funding to bolster our economy, create opportunity and protect the health and well-being of our residents. These investments are part of his comprehensive economic strategy to speed our recovery and position us for long-term prosperity. Investments made through the Governor's comprehensive five-year capital plan are upgrading the Commonwealth's infrastructure – creating jobs and ensuring that we have the safe and accessible roads and transit, affordable housing and cutting-edge public college and university facilities needed to nurture long-term economic growth. The Governor also launched a groundbreaking life sciences initiative to position Massachusetts as a world-leader in the emerging biotechnology industry and pushed for comprehensive energy and biofuels bills allowing consumers and businesses to save money. His unprecedented investments in Chapter 70 education aid through the operating budget are empowering the Commonwealth's most precious economic asset: its people.

Moreover, Governor Patrick's successful advocacy in Washington has helped secure significant federal aid through the American Recovery and Reinvestment Act (ARRA) to sustain and expand on his comprehensive economic strategy. Thanks to these efforts, Massachusetts is estimated to receive approximately \$14 billion in total federal recovery act funding, coordinated through the Massachusetts Recovery and Reinvestment Office established by the Governor to ensure accountability and transparency. Massachusetts was well-positioned to capitalize on this federal aid given the Governor's proactive economic agenda – and indeed, federal dollars are now maximizing public investments in infrastructure, life sciences and clean energy to create and retain jobs. These federal dollars are also providing direct assistance to individuals who lost their jobs or health insurance due to the national economic downturn through extended unemployment benefits, a new federal subsidy that pays 65 percent of COBRA health insurance costs and additional federal matching funds that are helping Massachusetts maintain full eligibility for our Medicaid program.

The Administration's comprehensive strategy is helping to speed economic recovery and pave a path to a more prosperous future for Massachusetts. Notably, the budget projects \$771 million in tax revenue *growth* in fiscal year 2011 as part of the consensus revenue estimate, helping us make strategic public investments in a fiscally

responsible manner. While this estimate is appropriately conservative, it reflects a consensus view among the Department of Revenue, economists and budget watchdogs that our economy will *improve* in fiscal year 2011.

Fiscal Responsibility and Reform

Governor Patrick and Lieutenant Governor Murray are proposing fiscal year 2011 investments in education, health care, cities and towns and other key areas as part of a *balanced, fiscally responsible* budget.

The Record

The Patrick-Murray Administration has a strong record of fiscal responsibility. When – similar to the experience of other states – unforeseeable changes in our economy and tax revenues have suggested the need to modify our course, the Governor has promptly made the necessary decisions to get our budget back into balance. Indeed, his swift and decisive approach to closing budget gaps in fiscal year 2009 produced a *surplus* that allowed us to deposit \$65 million in the state's Stabilization Fund at the end of the year to help cushion a prolonged global economic downturn.

Despite the unprecedented \$4 billion drop in state tax revenues since fiscal year 2009, Massachusetts has maintained strong and stable bond ratings – with rating agencies expressly recognizing the Administration's prudent, effective and conservative financial management.

- *Fitch Ratings*, 11/4/09: "Massachusetts' 'AA' rating reflects considerable economic resources and a record of prudent financial management . . . The Rating Outlook is Stable based on the expectation that the Commonwealth will continue to address economic and revenue weakening in a manner consistent with its demonstrated sound financial practices."
- *Moody's*, 11/3/09: "Credit strengths: Effective management during strained economic times . . . The outlook for Massachusetts is stable, based on expectations that the commonwealth will continue to quickly react to close emerging budget gaps as a result of weak revenues."
- *Standard and Poor's*, 11/5/09: "The 'AA' rating on the commonwealth reflects our view of its: Strong and conservative budget management practices, with swift action to restore balance after identifying revenue shortfalls in the past year . . . The outlook reflects Standard and Poor's view of the commonwealth's proactive approach to managing budget volatility in the past year . . . Standard and Poor's maintains a 'strong' Financial (FMA) score for Massachusetts. An FMA strong indicates that practices are strong, well embedded, and likely sustainable."

These strong endorsements of our state's finances from bond rating agencies speak to Governor Patrick's record of pursuing a *balanced* approach to budgeting. This balanced approach has emphasized spending restraint. The Governor has not hesitated to make difficult cuts to state spending when needed. Emphasizing the importance of shared sacrifice during extraordinarily challenging times, he has secured unprecedented contract revisions from our state employee unions, reduced the size of the state workforce and asked state employees to contribute more to their health insurance.

The Governor has also delivered reforms to change the culture on Beacon Hill, generate immediate and long-term savings for the state and bring integrity back to state government. While prior Governors have talked about many of these changes, Governor Patrick, working with the Legislature, has *delivered*.

- *Transportation Reform*: Governor Patrick worked with the Legislature to find real savings by reforming our transportation bureaucracy and ending the "23 years and out" MBTA pension perk. Since November 1, the Governor's bill has already saved over \$268 million, with an additional \$30 million in annual savings to be realized by the end of the fiscal year as changes to health benefits for MBTA and former Turnpike employees and retirees are implemented.
- *Pension Reform Phase One*: Working with the Legislature, Governor Patrick helped to end decades-old abuses and gamesmanship of the state pension system that eroded the public's trust and threatened the system's sustainability. He succeeded in ensuring that these reforms cracking down on abuses applied to both current and future employees.

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- *Ethics Reform:* Governor Patrick took the lead in working with the Legislature to restore the public trust in government by increasing the penalties for ethics and lobbying violations and strengthening state enforcement authorities.
- *Civilian Flaggers:* Governor Patrick pushed for Massachusetts to join 49 other states in allowing civilian flaggers at state construction sites.
- *Changing the Face of State Government:* Governor Patrick has changed the face of state government to make it more effective, efficient and responsive to those it serves – consolidating state information technology functions to improve performance and security; combining homelessness services within the Department of Housing and Community Development to help carry out a “Housing First” strategy that will help more families out of temporary shelters and into permanent homes; and converting county sheriffs to state sheriffs to promote more predictable and transparent budgeting and improve public safety.

Fiscal Year 2011

For fiscal year 2011, Governor Patrick continues to take the same balanced, fiscally responsible approach to meeting the demands of state government in an economically challenging time. Fiscal year 2011 budget solutions include *spending discipline, reforms, one-time resources, revenues and prudent debt refinancing strategies.*

Spending Discipline: The Governor's fiscal year 2011 budget continues to maintain spending discipline. Under his fiscal blueprint, estimated fiscal year 2011 spending would grow by only 3 percent over estimated fiscal year 2010 spending, *less* than the projected 3.2 percent rate of growth in tax revenues. Besides “use or lose” federal recovery funds, budget savings and efficiencies are the largest category of solutions to closing an estimated \$2.75 billion budget gap in fiscal year 2011. State operating budget savings are in part facilitated by \$30 million in contributions from independent authorities to fund college scholarships, health care outreach and enrollment grants, Soft Second homebuyer mortgage relief, assistance to small businesses and other important state initiatives. Governor Patrick first asked the state's independent authorities to contribute to the state's budget needs in the spirit of shared sacrifice in fiscal year 2009. They contributed again in fiscal year 2010, and the Governor has secured additional assistance from them in this budget.

Reforms: Governor Patrick's far-reaching reform agenda continues with the filing of his fiscal year 2011 budget.

- *Pension Reform Phase 2:* The enactment of Governor Patrick's landmark pension reform legislation last year was a critical first step in reforming our pension system for state employees. Now, based on the work of the Pension Reform Commission, the Governor is filing new legislation proposing additional reforms to ensure the credibility and sustainability of our state pension system. The legislation eliminates abuses, improves fairness and updates the system to reflect changes in work patterns.
- *Public Safety Reform:* An anti-crime package filed by Governor Patrick and enacted by the Senate includes Criminal Offender Record Information (CORI) and sentencing reforms and tough new mandatory post-release supervision requirements to make our communities safer, improve re-entry of previous offenders into society and generate savings and revenues. In addition to these reforms, the Governor is proposing in his fiscal year 2011 budget to consolidate parole and probation services under the Executive Branch. This change will enhance public safety by replacing the current fragmented oversight structure with a more efficient and accountable system for supervising offenders. The Governor is also filing legislation to increase the use of electronic monitoring and home confinement for those awaiting trial as a cost-effective alternative to pre-trial incarceration where appropriate.
- *Changing the Face of State Government:* With the filing of his fiscal year 2011 budget, Governor Patrick is proposing a comprehensive set of additional agency consolidation initiatives to improve the efficiency of state government.
 - *Energy Management:* Governor Patrick pushed for comprehensive energy and biofuels bills allowing consumers to save money and reduce their reliance on fossil fuels. The budget builds on this record by changing the way state government itself purchases and manages energy – moving from separate decision-making by multiple agencies to centralized procurement by the Clean Energy Center. This will promote more coordinated procurement of energy and development of energy efficiency strategies. The

Governor's budget assumes 5 percent savings, or roughly \$6 million, on the state's total budgetary spending on energy costs in fiscal year 2011.

- *Access and Opportunity:* Governor Patrick created the Office of Access and Opportunity to lead and catalyze the Executive Branch's equal opportunity and non-discrimination initiatives and partner with stakeholders to advance social and economic equity within the Commonwealth. The Governor is now building on those efforts by proposing to combine the State Office of Minority and Women Business Assistance and the Affirmative Market Program within the Operational Services Division. The combined agency – to be called the “Supplier Diversity Office” – will be a single door through which minority and women-owned firms can seek certification, technical assistance and capacity-building services.

Budget Reforms: Governor Patrick secured line-item transferability language in prior budgets to give state agencies greater flexibility to better manage within constrained budgets by allocating funds where most needed. Moreover, in fiscal year 2009 and fiscal year 2010, the Commonwealth received a Government Finance Officers' Association Distinguished Budget Presentation Award for making state policy decisions transparent and accessible to the public through its budget materials. The Governor's fiscal year 2011 budget contains additional budget reforms to promote sound fiscal management and transparency.

- *Capital Gains Reform:* Governor Patrick is re-filing a proposal to reform the way the state budgets for capital gains tax revenues. Capital gains are the state's most volatile revenue source. During years of exceptionally strong capital growth, the state has made significant increases in spending commitments – yielding structural budget deficits when capital gains revenues moderate, and requiring extreme cuts when they plummet. The Governor's proposal promotes fiscal responsibility by ensuring that the state does not build recurring spending on a foundation of unsustainable capital gains revenues. Surplus capital gains revenues will be required to be deposited in the state's Stabilization Fund, with five percent of that surplus set aside for unfunded retiree health benefit liabilities.
- *Line-Item Consolidation:* Governor Patrick's fiscal year 2011 budget consolidates 642 budget line-items from fiscal year 2010 into 541 line-items. This gives state agencies greater flexibility to allocate limited dollars and management resources in the most thoughtful and innovative ways.
- *Budget Transfers:* Governor Patrick's fiscal year 2011 budget includes a new section that highlights spending which has historically occurred through “outside sections” (including major components of health care spending through the Commonwealth Care Trust Fund, Health Safety Net Trust Fund and Medical Assistance Trust Fund). This enhances the transparency of state spending which had previously been difficult to locate in budget documents.

One-Time Resources: As state tax revenues are expected to grow due to projected improvement in the economy – and Governor Patrick continues to exercise care and restraint in spending – we have been able to reduce the total amount of one-time resources used to balance the budget in fiscal year 2011 by 24 percent when compared to fiscal year 2010 and 38 percent compared to fiscal year 2009. Through fiscal discipline, we are able to minimize the use of the state's Stabilization Fund – its most flexible reserves. The budget proposes a modest \$175 million withdrawal from the state's Stabilization Fund, an 87 percent decrease from fiscal year 2009 and a 30 percent decrease from fiscal year 2010.

The budget includes a total of \$1.297 billion in enhanced federal Medicaid matching funds, generated throughout fiscal year 2011. These resources reflect Governor Patrick's success in securing increases in federal matching funds through December 31, 2010 in the federal recovery act last year – and the expected enactment of a six-month extension of this relief as part of pending federal legislation. This approach is consistent with our actions last year in filing our fiscal year 2010 budget proposal while the federal recovery act was pending. In the unlikely event that Congress ultimately decides not to extend enhanced Medicaid matching funds, the Administration would re-file House 2 based on revised federal revenue projections (just as we re-filed House 1 last year based on updated state tax revenue projections). The budget also includes \$96 million in remaining federal recovery act stabilization funds, which are used to fully protect higher education from budget cuts.

Revenues: The budget does not include any broad-based tax increases. Based on a thorough, multi-agency examination of state tax exemptions, it proposes limiting select exemptions to provide sufficient resources to meet public priorities. This includes retaining existing film and life sciences tax credits, but capping the financial benefit

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they provide at levels calibrated to ensure Massachusetts remains a leader in both fields. The budget also repeals sales tax exemptions for candy and soda and ends the exemption of cigars and smoking and smokeless tobacco from the cigarette excise tax rate enacted by the Legislature in 2008. These measures promote public health and generate revenues that are dedicated to health care and wellness programs through the Commonwealth Care Trust Fund and the Commonwealth Health and Prevention Fund. Furthermore, the budget expands the Massachusetts Bottle Bill to include recycling of water, flavored water, coffee-based drink and sports drink bottles, providing incentives and resources for recycling.

Debt Refinancing: Governor Patrick's fiscal year 2011 budget achieves significant savings from taking advantage of a strategic opportunity to refinance the Commonwealth's debt in a measured and prudent way. Our debt service costs have an abnormally high spike during fiscal year 2011. At the same time, costs for refinancing to "smooth" our debt service are low due to low rates and can be *fully offset* by refunding other high-interest bonds. This debt refinancing strategy complies with the Commonwealth's existing debt affordability policy and – as part of a comprehensive plan to address budget shortfalls – is designed to maintain our strong bond ratings.

Separately, despite fiscal pressures, the Governor's fiscal year 2011 budget maintains the current state employee pension funding schedule (while pursuing the previously mentioned additional reforms to the system). As the schedule anticipates, we will work collaboratively to develop a strategy to adjust the pension funding schedule starting in fiscal year 2012 to address recent investment losses.

Fiscal Year 2011 Program and Policy Highlights

Education

- Funds Chapter 70 state education aid at \$4.048 billion, a historic high. This amount ensures that all districts are fully funded at foundation levels and no operating districts experience a cut from fiscal year 2010 funding. Chapter 70 education aid is fully funded with General Fund dollars.
- Includes an outside section providing for a commission to study the state school aid formula under Chapter 70.
- Provides \$9 million for universal pre-kindergarten, a \$1 million increase over fiscal year 2010 funding.
- Expands access to child care for at least an additional 4,000 children.
- Invests \$969.7 million in our public colleges and universities to hold these campuses harmless from cuts below fiscal year 2009 levels (includes \$873 million in General Fund dollars and \$96 million in State Fiscal Stabilization Funds through the federal recovery act).
- Fully maintains current funding for scholarships provided through the Office of Student Financial Assistance at the Department of Higher Education (\$87.8 million), with the assistance of \$3.5 million from the University of Massachusetts to support needs-based financial assistance for its in-state students.
- Line-item consolidations:
 - Combines nine state college accounts in a one line-item and currently fifteen community college accounts into a separate single line-item. The Department of Higher Education and its Board will have the flexibility to distribute funds to state and community colleges in the most appropriate manner.
 - Combines twelve Department of Early Education and Care line-items into ten.

Local Aid

- Fully maintains existing funding for unrestricted general government aid for cities and towns (\$936 million).
- Reimbursement to cities and towns in lieu of property taxes on state-owned land (PILOT) did not receive an emergency spending cut in fiscal year 2009 or fiscal year 2010, and funding for fiscal year 2011 has been fully maintained at fiscal year 2010 levels (\$27.27 million).
- The Administration recently restored a fiscal year 2010 emergency spending cut to regional school transportation. For fiscal year 2011, funding has been fully maintained at (updated) fiscal year 2010 levels (\$40.5 million).
- Continues to remove cap on number of waivers that Board of Library Commissioners can grant to libraries not meeting certain funding requirements, enabling libraries to maintain certification and access popular regional library lending networks.
- School lunch program did not receive an emergency spending cut in fiscal year 2010. Fiscal year 2010 funding of \$5.4 million was maintained in fiscal year 2011.
- Governor Patrick is also filing legislation that will provide additional tools to support cities and towns in managing their finances, including local pension funding relief. The legislation also establishes a study

commission to evaluate local aid formulas, beginning with the work on “Partnership Aid” by the Hamill Commission’s Municipal Finance Task Force.

Public Safety and Security

- Unifies parole and probation under the Executive Branch to create a seamless continuum of community supervision, decrease criminal activity and victimization and reverse the extraordinary escalation of costs associated with duplication of services.
- Establishes a new funding mechanism for police training programs: an automobile insurance surcharge will provide \$3.1 million for the Municipal Police Training Committee and \$3.2 million to establish an annual state police class.
- State trooper layoffs were avoided, and the state police are funded at \$235 million (up one percent from fiscal year 2010).
- Massachusetts will not be forced to close prisons in fiscal year 2011 (as other states have recently had to do).
- Level-funds tuition and fee waivers and Welcome Home Bonuses for National Guard men and women at fiscal year 2010 estimated spending level of \$4.7 million.
- Most public safety agencies are level-funded from fiscal year 2010 estimated spending or experienced modest increases, including:
 - Sex Offender Registry Board (\$3.8 million)
 - National Guard (\$8.4 million)
 - Department of Fire Services (\$14.4 million)
 - Parole Board (\$18.6 million)
 - Merit Rating Board (\$7.6 million)

Economic Development and Housing

- Proposes \$10 million in additional funding for the Massachusetts Life Sciences Center which will be used to support the Center’s operations as well as to provide grants and loans to researchers, institutions and companies to commercialize discovery and expand job growth in this key sector. Furthermore, the Center will continue its efforts to link students to the jobs of tomorrow through educational programming and internship opportunities across the state. The \$10 million will be made available from year-end surplus funds from the fiscal year 2010 budget, which is consistent with the previous two fiscal years.
- Provides \$6.8 million for the Office of Travel and Tourism’s efforts to promote Massachusetts as a global destination for tourism and highlight the state’s historical and cultural attractions, \$5 million of which will be supported by contributions provided by the Massachusetts Convention Center Authority. Furthermore, the Governor’s fiscal year 2011 proposal makes \$2.25 million available for regional tourism promotion and branding activities by local tourism councils. While both amounts are lower than what has been made available in less challenging budget years, each demonstrates a commitment to invest in tourism and hospitality, a key sector in Massachusetts.
- Provides \$500,000 in fiscal year 2011 for STEM (Science, Technology, Engineering and Mathematics) grants, supported by a contribution from the Massachusetts Technology Collaborative.
- Provides \$9.4 million for the Massachusetts Cultural Council, including funds for grants related to the arts and the creative economy. \$3 million of this grant funding will be supported by a contribution from MassDevelopment.
- MassDevelopment continues contributions to the state to maintain operations of the Massachusetts Permitting and Regulatory Office (MPRO) and the Office for Small Business and Entrepreneurship (OSBE). This contribution, totaling roughly \$1 million, allows for the state to continue promoting business expansion across the Commonwealth while providing technical assistance for streamlined permitting to communities and business development services to small business.
- Maintains state funding for local housing agencies at \$62.5 million, the fiscal year 2010 estimated spending level, which will support 240+ local housing agencies in their efforts to provide housing to the lowest-income individuals, seniors, and families in the state, especially those most affected by the economic downturn.
- Maintains funding for the Massachusetts Rental Voucher Program (MRVP) at the fiscal year 2010 spending level of \$35.4 million, which is supported in fiscal year 2011 by an \$8 million contribution from the Massachusetts Housing Finance Agency.
- Level-funds state spending for emergency shelter for unaccompanied adults at \$37.3 million, while increasing funding from the fiscal year 2010 General Appropriations Act for emergency family shelters and related programs from \$91.6 million to \$113.5 million. The latter is due to a dramatic increase in the caseload of families accessing shelter through the Department of Housing and Community Development, while reflecting

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the agency's continued steps to reduce the state's reliance on emergency shelters as its primary response to homelessness.

- Level-funds the Alternative Housing Voucher Program at \$3.45 million and the Department of Mental Health (DMH) Rental Voucher program at \$4 million. Each program provides affordable housing subsidies to disabled populations that are at risk of homelessness.
- Provides \$1.2 million to the Home and Healthy for Good program, which is consistent with fiscal year 2010 General Appropriations Act funding, and builds on the efforts to identify more cost-effective treatments and approaches for homeless persons, especially those that have high-cost utilization of the state's health care programs.
- The MassHousing Partnership will continue to make \$2 million available in fiscal year 2011 to support the Soft Second loan program, which helps provide affordable and stable mortgages for first-time home buyers.

Health and Human Services

- 6.5 percent overall increase in the MassHealth budget (gross spending) helps maintain eligibility and fund anticipated enrollment growth in the program
 - Includes \$107 million for the Children's Behavioral Health Initiative, a 65 percent increase.
 - Fully maintains fiscal year 2010 funding for the Essential Community Provider Trust Fund (\$20 million).
 - Maintains or increases MassHealth spending for a variety of community-based programs including Personal Care Attendants, Adult Day Health, Day Habilitation, Home Health and Adult Foster Care.
- Commonwealth Care will receive \$838 million to provide coverage to over 170,000 adults. Additionally, the Governor's budget includes \$75 million for coverage for Aliens with Special Status through Commonwealth Care Bridge.
- Includes \$2.5 million for health care outreach and enrollment grants supported by the Commonwealth Health Connector.
- Provides \$736,990 for the Health Care Quality and Cost Council. The Council will continue to be staffed by the Division of Health Care Finance and Policy (DHCFF) to achieve efficiencies and greater alignment with other cost containment initiatives undertaken by DHCFF (including statutorily required reports and hearings on health care cost drivers).
- Eliminates sales tax exemptions for soda and candy to encourage healthy habits and raise a net \$51 million in fiscal year 2011. Revenue will be dedicated to the Commonwealth Health and Prevention Fund to provide dedicated funding for drug, alcohol and gambling addiction services, smoking prevention and cessation services, childhood health and nutrition services and violence prevention. Helps state meet federal substance abuse maintenance-of-effort requirements.
- Eliminates exemption of cigars and smoking and smokeless tobacco from the cigarette excise tax rate enacted by the Legislature in 2008, discouraging tobacco use and helping to generate \$15 million to fund health insurance through the Commonwealth Care Trust Fund.
- Funds Domestic Violence Services at the Department of Children and Families at \$20.6 million, approximately the same as fiscal year 2010 estimated spending.
- Fully maintains fiscal year 2010 funding for grants to local Councils on Aging.
- Holds veterans' services harmless from any reductions in fiscal year 2009, fiscal year 2010 and fiscal year 2011. The Department of Veterans' Services receives an \$8 million increase in funding from fiscal year 2010 to fiscal year 2011.
- Fully funds new "Turning 22" services (\$5 million at the Department of Development Services, \$801,000 at the Massachusetts Rehabilitation Commission and \$10.8 million at the Massachusetts Commission for the Blind).
- Maintains funding for Clubhouses within Adult Mental Health appropriations, continuing to serve the approximately 6,000 people who use these services.
- Consolidates 169 line-items across the Secretariat to 105 line-items, providing agency heads with the flexibility to respond to changes in caseload and client needs. This includes the consolidation of 52 line items within DPH into 16, which will allow the Department to respond to evolving public health needs.

Energy and Environment

- Realigns how state government itself purchases and manages energy – moving from separate decision-making by multiple agencies, which spend \$255.5 million on energy, to centralized procurement by the Clean Energy Center. Will lead to additional efficiencies in energy purchasing, budgeting and compliance with Executive Order 484 ("Leading by Example").

- As part of his Article 87 reorganization legislation, Governor Patrick is proposing to transfer the Office of Geographic and Environmental Information (MassGIS) from the Executive Office of Energy and Environmental Affairs (EEA), including \$70,000 in direct appropriations and \$55,000 in retained revenues, to the Information Technology Division (ITD) within the Executive Office for Administration and Finance. By moving MassGIS closer to the center of state government, within a department focused primarily on information technology infrastructure, the Commonwealth can achieve economies of scale and efficiencies by eliminating duplicative state purchasing of these services.
- Expands the Massachusetts Bottle Bill to include the recycling of water, flavored water, coffee-based drink and sports drink bottles. Proposal will provide incentives for recycling and generate almost \$20 million in additional revenues in fiscal year 2011 from unclaimed deposits – \$5 million of which will be dedicated to recycling coordination at EEA (over 10 times the funding for this program from its fiscal year 2010 General Appropriations Act level).
- Funding for state energy programs at the Department of Public Utilities and DOER were not reduced from fiscal year 2010 funding levels. They are funded from off-budget sources or assessments and provide key resources to oversee Massachusetts' energy providers, while promoting cleaner and more efficient use of various types of energy by state residents.
- Consolidates the Department of Conservation and Recreation's retained revenue line-items to enable the agency to more flexibly utilize available funding to support its core mission of protecting recreational assets and parks.

Transportation

- Budget reflects recent transportation reform by eliminating the traditional line-item structure found in previous budgets and replacing it with an operating transfer of \$375.1 million to the Massachusetts Transportation Trust Fund (the primary governmental fund for the Massachusetts Department of Transportation).
- Preserves \$160 million in fiscal year 2010 supplemental funding for the MBTA to support bus and rail transit programs in the metropolitan Boston area. Also preserves \$15 million in fiscal year 2010 supplemental funding for regional transit authorities to support bus service outside of the metropolitan Boston area.
- The Massachusetts Department of Transportation is partnering with the Executive Office of Health and Human Services on a "Healthy Transportation Compact" initiative to promote cleaner transportation alternatives and access to transportation.

Labor and Workforce Development

- Funds summer jobs for at-risk youth at \$3.7 million, providing the opportunity for over 2,000 young people to have summer jobs. The Department of Workforce Development will further build on this through the use of ARRA-funded summer job programs, providing an estimated 1,700 jobs.
- Funds volunteer services through Commonwealth Corps at \$750,000.
- Funds the Department of Industrial Accidents at \$20 million and proposes to give the Governor flexibility in the number of the administrative judges he appoints to the Department based on actual workload demand. This reflects the Administration's goals of streamlining regulatory and procedural costs that are funded by the private sector to support the administration of the state's workers' compensation laws.

Administration and Finance

- Combines the State Office of Minority and Women Business Assistance and the Affirmative Market Program within the Operational Services Division (OSD) to create a single door through which minority and women-owned firms can seek certification, technical assistance and capacity-building services. The newly created department within OSD will be named the "Supplier Diversity Office."
- The Governor is issuing an Executive Order to launch a comprehensive human resources modernization initiative. The initiative will direct state agencies to modernize and standardize human resources practices and leverage available technology to replace manual, paper-intensive payroll and attendance processes with automated, streamlined reforms.
- Funds Water Pollution Abatement Trust Contract Assistance at \$67.9 million, ensuring funding for municipal water and sewer infrastructure improvements.
- Joins other states in establishing a new "Single Point of Contact" unit (within the Executive Office for Administration and Finance) to better track and monitor federal grants and funding that the state is eligible to receive.
- Includes over \$1.54 billion for the Group Insurance Commission to cover approximately 375,000 state, municipal and authority employees and retirees.

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- Includes \$30.5 million in revenues from new administrative provisions to facilitate tax collections.
- Combines eleven line-items into five.

Other

- Judiciary
 - In fiscal year 2010, the budget combined the Trial Court's line-items (in the structure recommended by 2003's Monan Report on Judiciary Reform) from 148 to 13. In fiscal year 2011, the Governor's budget proposal further consolidates these 13 line-items into 3 and removes the retained revenue accounts.
 - Provides full fiscal transferability between Trial Court line-items, to allow for necessary budget and management flexibility.
 - Transfers \$35 million to Committee on Public Counsel Service (CPCS) from the account supporting hourly reimbursements to private counsel. This transfer will allow CPCS to hire more public staff attorneys, which can manage increasing caseload and create a more balanced and cost-effective approach toward public/private representation of indigent clients.
- Constitutional Officers
 - Includes a 7.5 percent reduction for the Governor's Office from the original fiscal year 2010 budget appropriation.
 - Includes a 106 percent increase in funding from the fiscal year 2010 General Appropriations Act for the Secretary of State's elections-related appropriations (from \$7.3 million to \$14.9 million). This will fund the increased costs related to the gubernatorial election year incurred by the state.
 - Includes \$1.86 billion for the Office of the Treasurer and Receiver-General to pay for outstanding debt of the Commonwealth and to pay for new debt issued to fund the Commonwealth's capital investment program (out of a total of \$2.07 billion in total Commonwealth debt service costs).
- Independent Agencies
 - Maintains funding for State Ethics Commission at the fiscal year 2010 level of \$1.7 million. The Governor's budget proposal also level-funds the Office of the Inspector General (\$2.3 million) and the Office of Campaign and Political Finance (\$1.2 million).
 - District Attorneys are level-funded at fiscal year 2010 estimated spending of \$92 million.