Commonwealth of Massachusetts

THE GOVERNOR'S BUDGET RECOMMENDATION

Deval L. Patrick, Governor
Timothy P. Murray, Lt. Governor

Issues in Brief

Fiscal Year 2011
House 2

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FY11 House 2 Budget Recommendation
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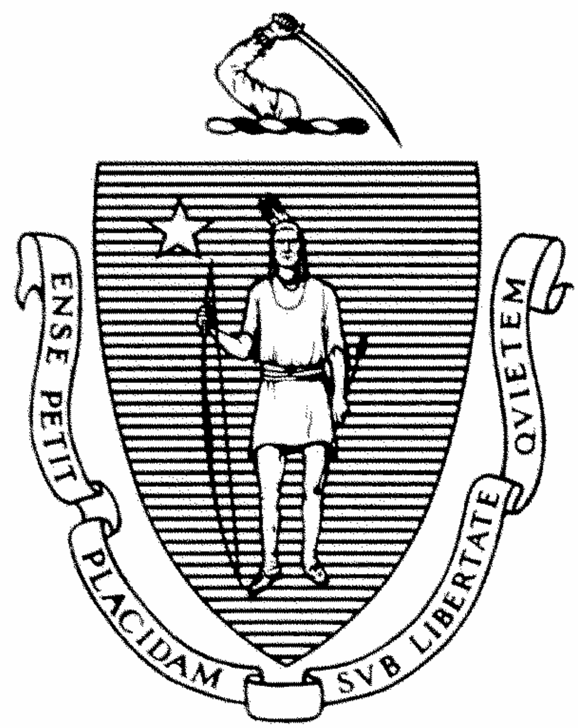

Introduction

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MassGoals

Performance Management Initiative

Now more than ever, state Agencies must ensure that they are spending their dollars in the most efficient manner. Since taking office, the Patrick-Murray Administration has demonstrated its commitment to ensuring that the Commonwealth functions as efficiently and effectively as possible, delivering the high-quality services that individuals and communities expect and deserve. The MassGOALS initiative – *Massachusetts Government Outcomes to Achieve Long-Term Success* – helped changed the way that we talk about the work our agencies do to focus on data trends and outcomes to evaluate the performance of our state funds. MassGOALS is centered around nine citizen focused result areas that are intended to encourage cross-Secretariat collaboration to achieve success including:

Policy Area	Goal
World Class Education	The Commonwealth's youth and adults have access to the education they need in order to be successful students, workers and members of society
Effective Government	Constituents trust that their leaders are working together and accountable for delivering high-quality, efficient government services that people want."
Quality, Affordable Health Care for All	Citizens enjoy greater wellness and improved health and have access to quality, affordable health care
Job Creation & Economic Growth	Massachusetts enjoys a robust business climate, with a workforce well-prepared to take advantage of employment opportunities throughout the Commonwealth
Safe Communities	People feel safe where they live, work, learn and play.
Clean Energy & Environment	The Commonwealth's environment is conserved in a robust and sustainable economy through natural resource management and the promotion of energy efficiency and clean energy."
Efficient Transportation & Mobility	"People and goods move reliably, conveniently, and safely throughout the Commonwealth."
Civic Engagement	Citizens are active participants in government and in their communities

Secretariats have been working on performance measurement efforts along with strategic plans that demonstrate their commitment to achieving a focus on performance. For example, the Executive Office of Health and Human Services (HHS) has worked hard over the last year to identify its highest level Secretariat strategic goals. Over the next year information will be shared on how these goals give structure to HHS focusing its efforts, identifying policy opportunities and improving *results.* The HHS goals were developed collaboratively through teams involving all 16 HHS agencies and dozens of our managers. The goals are not just words: These strategic goals are being put into action by establishing the framework to set priorities, inform policies, and align services for residents of Massachusetts. In addition, other Cabinet Secretaries have used the MassGOALS framework to implement programs to track performance and guide policy decisions in the programs they administer.

The issues in brief summarize policy initiatives are being advanced in the Governor's budget recommendation. Consistent with the MassGOALS program and the framework that it has created for agencies to manage and measure policy initiatives, the following briefs are organized by MassGOALS result area.

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Fiscal Year 2011 Issues in Brief

World Class Education

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Education Investment

The Administration has not lost sight of the promise made in 2007:

> *We will prepare all students to be lifelong learners and successful, contributing citizens in a world economy and global society by creating a 21st century education system that is fully integrated, coherent and seamless — serving children from birth through higher education and beyond.*

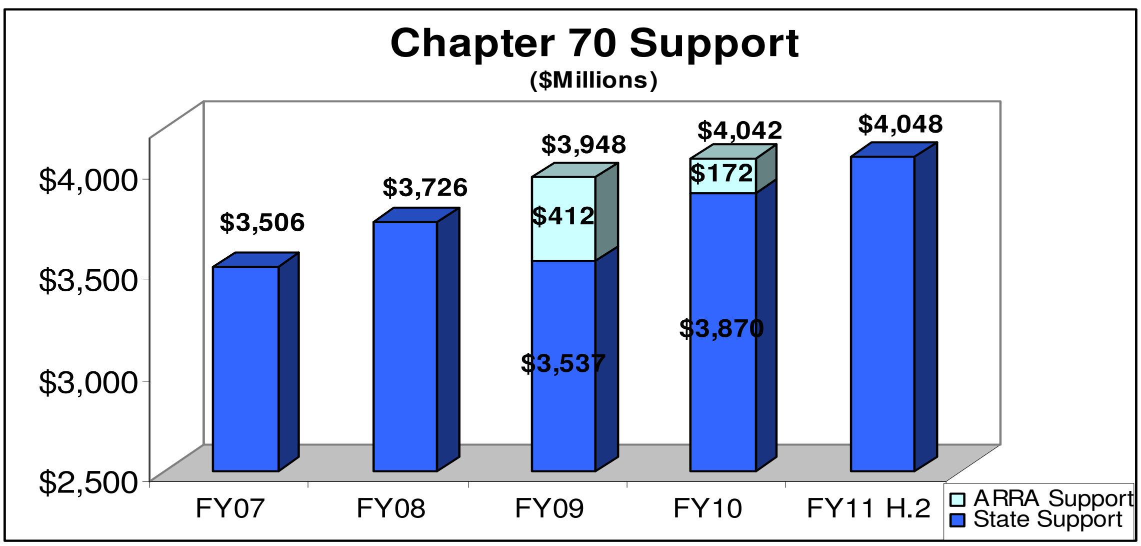
The fiscal year 2011 House 2 budget demonstrates the Administration's continuing commitment to keeping this promise by maintaining the investments made since 2007, maintaining the commitment to funding Chapter 70's foundation budget, and effectively managing the use and phase out of federal stimulus funds.

Maintaining a strong investment in education is a crucial component to guaranteeing that the Commonwealth's students continue to be national and global leaders in educational achievement. The Administration laid out an aggressive agenda for education, and it has not given up despite a struggling global economy and limited resources. It is essential to maintain this commitment to our children's education.

Maintaining Education Investment in Fiscal Year 2011

Chapter 70 K-12 Education Aid[1]

The fiscal year 2011 budget provides the highest level of funds for K-12 Chapter 70 aid in history, with $4.048 billion in General Fund dollars. This is a significant achievement because replacement of federal stimulus dollars with General fund dollars eliminates budget uncertainty for schools departments across the Commonwealth. In addition, this budget ensures that districts' foundation budgets are fully funded and that districts receive the same amount in fiscal year 2011 they received in fiscal year 2010. It should be noted that the Commonwealth already avoided deep cuts in fiscal year 2009 when the Administration used $412 million of ARRA funds to avoid devastating budget cuts to our K-12 public schools.



[1] Please refer to the Department of Elementary and Secondary Education's website for information on the Chapter 70 Funding Formula. http://finance1.doe.mass.edu/chapter70/

The fiscal year 2011 budget recommendation includes:

- **$6.6 million** more than fiscal year 2010 total distribution to fully fund districts that require more for Chapter 70 aid in fiscal year 2011.
- **$90 million** in districts that would have otherwise received less funds in fiscal year 2011, based on the formula, than in fiscal year 2010.
- **$172 million** in General Fund dollars to avoid the impact of the depletion of the State Fiscal Stabilization Fund Dollars through ARRA.

In addition, the Administration continues to make progress towards the equity goals established five years ago by providing 30% effort reduction to high contributing towns with aid making up the difference where needed. Lastly, the Governor 's budget also supports Chapter 70 study commission and adequacy commission to finally begin addressing long standing concerns about the formula.

Higher Education

The State is making a major investment in higher education during this challenging fiscal climate. Similar to the depletion of ARRA funds in the Chapter 70 program, there is also a potential for a $230 million budget gap within our higher education system due to the use of one-time federal assistance. To avoid a budget gap in fiscal year 2011, the Commonwealth is investing an additional $134 million of General Fund dollars, and $96 million in State Fiscal Stabilization Funds in Massachusetts colleges and universities to hold these campuses to the fiscal year 2009 appropriated amounts, which total $969 million. With the assistance of federal ARRA funds and the state commitment to Higher Education, the higher education budget is one of the few areas in the state budget that has been held harmless to severe budgetary reductions since fiscal year 2009. Please refer to the Higher Education budget brief for more detailed information on Massachusetts Higher Education.

Early Education and Care

The Administration is committed to providing access to high-quality child early education and care to its residents. Research shows that a great deal of brain development occurs in the early years of a child's life before formal schooling generally starts. Research has also shown that high-quality early education improves outcomes for children and provides them with the strong foundation for learning that will set them on a path for a successful education. The budget provides the tools for the Department of Early Education and Care (EEC) to improve child care quality along with increasing access and affordability.

- The recommended funding level is sufficient to support an additional 4,000 child care slots for low income families. Due to the recession, EEC has restricted financial assistance to operate within its appropriation. The economic recovery and other budget solutions that help mitigate cuts have allowed the administration to re-open child care access for low income families.
- This budget includes $1 million increase over fiscal year 2010 spending for Universal Pre-Kindergarten (UPK) and level funding for the Head Start Program. Research demonstrates that high-quality early education improves school readiness and increases academic achievement.
- The federal government is in the process of approving the Early Learning Challenge fund which will be a competitive grant to help states develop a high quality pre-school system. The investments made in UPK and Head Start will place the Commonwealth in a position to access these new federal funds.
- This budget includes $500,000 increase over fiscal year 2010 spending for programs that support kids aged zero to three and their parents.
- This budget includes $500,000 increase over fiscal year 2010 for early childhood mental health grants.

Education Legislation

In addition to the budgetary commitment the Commonwealth is making in education, on January 18, 2010 Governor Patrick signed historic education reform legislation to close achievement gaps, increase access to innovation, provide options for intervention and expand successful charter schools. Filed by the Governor in July and passed by the Legislature in January, an ***Act Relative to the Achievement Gap represents the state's first major action on education policy since the*** landmark Education Reform Act of 1993 that included high standards, rigorous assessment and increased accountability and led to the Commonwealth's reputation as an education leader. The Governor commented that:

> *"…the Commonwealth of Massachusetts stepped up, in a big way, to the unfinished business of education reform: closing achievement gaps. This historic reform bill passed by the Legislature represents a major step forward for the future of the Commonwealth's nearly one million public school students. This legislation brings us substantially closer to realizing the education vision that I first presented with the Readiness Project – a vision for a transformed education system that meets the needs of every student, helps them reach high standards and fully prepares them for a successful future."*

The passage of this legislation will enhance the Commonwealth's ability to improve our education system in many ways, including:

- Creating meaningful intervention tools to address persistent under-performance in some of our schools;
- Promoting locally-inspired and approved innovation; and
- Allowing a highly-targeted increase in the charter school cap, focusing on providers with records of success serving the most challenged students in the most challenged school districts.

Other States

Across the country, states have been forced to reduce their education spending due to the recession. In comparison, the Patrick-Murray Administration has been successful maintaining funding for education. The Center on Budget and Policy Priorities reports that at least 27 states and the District of Columbia are cutting aid to K-12 schools and various education programs. Moreover, some states, such as California, Michigan, and Mississippi have made significant cuts to school aid and Hawaii is furloughing teachers for 17 days this year.[2] Additionally, the New York Governor recently filed a fiscal year 2011 budget recommendation that proposed a year-to-year reduction in School Aid of $1.1 billion or five percent.

[2] http://www.cbpp.org/cms/index.cfm?fa=view&id=1214

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Higher Education

Massachusetts's public higher education system includes 56 campuses, satellites and other classroom locations across the state. The public higher education system is governed by the Department of Higher Education and its Board and is committed to ensuring that all residents have the opportunity to benefit from a post-secondary education that enriches their lives and advances their contributions to civic life, economic development and social progress in the Commonwealth. Budgeting for these institutions is a great challenge, and in previous years, the Department of Higher Education and its Board used two budget formulas – one for the state and community colleges and the other for the University – to determine total operating requirements at each individual campus and then allocated state support in a manner that is transparent, equitable, and is based on quantifiable data. The budget formulas are premised on both aspirational and policy targets, and used a wide variety of financial and institutional metrics to determine total annual operating requirements.

Budget Preservation

Massachusetts public colleges and universities are funded at levels equal to fiscal year 2009 appropriation levels in the Governor's fiscal year 2011 budget recommendation. This is possible due to state investment and the use of one-time federal stimulus funds. In fiscal year 2010 and fiscal year 2011, Massachusetts' colleges and universities will continue to receive funds through the American Recovery and Reinvestment Act (ARRA), State Fiscal Stabilization Fund (SFSF) to preserve budgets at the campuses. This federal legislation allows states to use their allocations from this fund to help restore, for fiscal years 2009, 2010, and 2011, support for public elementary, secondary, and postsecondary education to the greater of the fiscal year 2008 or fiscal year 2009 levels and the funds for higher education must go to directly to "Institutes of Higher Education." The funds from the SFSF have greatly benefited the higher education community by allowing the Commonwealth to maintain funding commitments to fiscal year 2009 appropriated levels with the use of both General Fund and federal stimulus dollars. Although, the state budget reflects lower appropriations for higher education campuses, federal stimulus funds will be used to ensure each campus remains at fiscal year 2009 levels. Over fiscal years 2009, 2010 and 2011, approximately $380 million in SFSF dollars are expected to be distributed to campuses from the SFSF:

State Funding for Massachusetts' Colleges and Univerisities

	FY2009 GAA	ARRA Support FY2009 & FY2010	FY2011 H.2	FY2011 ARRA	Total FY11 Funding
Campus Funding TOTAL	969,709,303	**284,030,121**	873,638,528	**96,070,779**	969,709,307
UMASS and Associated Programs	502,788,814	**150,650,190**	453,471,042	**49,317,776**	502,788,818
State Colleges	222,565,327	**63,569,922**	200,279,740	**22,285,587**	222,565,327
Community Colleges	244,355,162	**69,810,009**	219,887,747	**24,467,415**	244,355,162

SFSF dollars can be spent by campuses for: (1) education and general expenditures, and in such a way as to mitigate the need to raise tuition and fees for in-state students; or (2) the modernization, renovation, or repair of campus facilities that are primarily used for instruction, research, or student housing.

The use of these one-time federal resources while fiscally prudent, presents the potential for some risk and concern within our higher education system. To mitigate this risk and concern in fiscal year 2011, the Commonwealth is investing $134 million of General Fund dollars, and $96 million in State Fiscal Stabilization Funds in Massachusetts colleges and universities to hold these campuses to the fiscal year 2009 appropriated amounts, which total $969 million.

Massachusetts is faring better when compared to some other states in the nation. The Center on Budget and Policy Priorities reports that 36 states have cut assistance to public colleges and universities, resulting in reductions in faculty and staff in addition to tuition increases. The University of California is increasing tuition by

32 percent and tuition at all 11 public universities in Florida increased by 15 percent for the 2009-2010 school year. Students in Washington and other states face significant tuition increases as well, costing families hundreds of dollars per year and Michigan and New Mexico have made deep cuts to need-based financial aid programs.[3]

Campus Consolidations

The Governor's fiscal year 2011 budget recommendation includes a consolidated budget structure to fund the 15 community colleges and 9 state colleges. Over time individual line items have been created in an effort to highlight a specific program or service. This structure places limitations on an agency head's ability to direct resources where they may ultimately be needed. Although a consolidated approach is presented in the budget, the accounting of spending in the state's accounting system is still managed in a way that clearly delineates how dollars are spent. The consolidated approach provides maximum flexibility to the Education Secretariat and the Department of Higher Education to manage within limited resources. In these challenging economic times, more students are considering attending our state's colleges and universities, seeking an affordable, high-quality education. As more students look toward our public higher education system, the campuses are met with the challenge of expanding their delivery of a world-class education with diminishing resources. These real challenges and the recognition that each campus has unique programs and finances led to consolidating the disparate accounts into 2 separate line items.

State Colleges

7109-0100	Bridgewater State College
7110-0100	Fitchburg State College
7112-0100	Framingham State College
7113-0100	Massachusetts College of Liberal Arts
7114-0100	Salem State College
7115-0100	Westfield State College
7116-0100	Worcester State College
7117-0100	Massachusetts College of Art
7118-0100	Massachusetts Maritime Academy

→ 7100-3000 Massachusetts State Colleges

Community Colleges

7502-0100	Berkshire Community College
7503-0100	Bristol Community College
7504-0100	Cape Cod Community College
7505-0100	Greenfield Community College
7506-0100	Holyoke Community College
7507-0100	Massachusetts Bay Community College
7508-0100	Massasoit Community College
7509-0100	Mount Wachusett Community College
7510-0100	Northern Essex Community College
7511-0100	North Shore Community College
7512-0100	Quinsigamond Community College
7514-0100	Springfield Technical Community College
7515-0100	Roxbury Community College
7516-0100	Middlesex Community College
7518-0100	Bunker Hill Community College

→ 7100-4000 Massachusetts Community Colleges

The Commonwealth and the rest of the country continue to face real economic challenges. In this environment the public higher education institutions will need to deliberately and creatively manage their budgets. The individual institutions will be faced with unique challenges due to anticipated enrollment increases, various capacity capabilities of the campuses, and different levels of reserve funds. The new consolidated line item structure presents a significant shift in the approach to budgeting that will allow campuses to make unique proposals to the Department of Higher Education and the Executive Office of Education to request funds based on the factors that drive costs at each of the campuses. The consolidated structures will assist the institutions in continuing to provide high-quality education at a competitive level.

[3] http://www.cbpp.org/cms/index.cfm?fa=view&id=1214

Local Aid and Municipal Partnership

Governor Deval Patrick has made significant investments in Massachusetts' 351 cities and towns over the last three years. One of his first policy initiatives was the Municipal Partnership Act, comprehensive legislation that includes tools to strengthen communities. The Patrick-Murray Administration has maintained a strong commitment to education, funding Chapter 70 at record levels. He has protected local aid even in this challenging fiscal climate. And he has provided communities with the tools they need to help balance their own budgets – reducing the pressure on the property tax and protecting essential services like police and fire. The Patrick-Murray Administration continues this commitment in fiscal year 2011 by proposing over $5.2 billion in total local aid in fiscal year 2011.

Fiscal Year 2011 – Preservation of Local Aid

Local aid is a substantial component of the Commonwealth's annual budget and a top funding priority for the Patrick-Murray Administration. Despite fiscal challenges, the Governor's fiscal year 2011 budget recommendations preserve over $5.2 billion in direct local aid to cities and towns with General Fund dollars. In fiscal year 2010, the state's budget provided $5.2 billion dollars to support direct local aid; however, $172 million was supported through the American Recovery and Reinvestment Act's (ARRA) State Fiscal Stabilization Fund to help fund the Chapter 70 program. Cities and towns were concerned about the sustainability of relying on these one-time federal stimulus dollars and the budget uncertainty that results from relying on federal stimulus funds. The House 2 budget recommendations include solutions that allow the Administration to sustain the level of support provided to cities and towns in fiscal year 2010 using entirely General Fund dollars. The use of General Fund dollars eliminates the uncertainty of future budget reductions in the State's two largest sources of local aid that would result from the phase out of the federal stimulus funds. For fiscal year 2011, Section 3 Local Aid, is being held ***completely harmless*** to budgetary reductions. This is a major accomplishment that demonstrates the Administration's commitment to partnering with cities and towns.

Section 3

Section 3 of the Commonwealth's budget provides each of the 351 cities and towns with the amount of local aid they are expected to receive from state General Fund dollars and/or other dedicated revenues sources. For fiscal year 2011, there are two categories of aid specified in Section 3: Chapter 70 and Unrestricted General Government Aid. The following chart displays the funding levels for Section 3 for fiscal year 2010 and the Governor's recommendations for fiscal year 2011.

Section 3 Summary

Program	FY10 Estimated Spending	FY11 H.2
Chapter 70 Aid Total	$ 4,042,022,844	$ 4,048,324,258
General Fund Dollars	*$ 3,869,847,585*	*$ 4,048,324,258*
Federal Stimulus Funds	*$ 172,175,259*	*$ -*
Unrestricted General Government Aid	$ 936,437,803	$ 936,437,803
Total Section 3 Aid	**$ 4,978,460,647**	**$ 4,984,762,061**

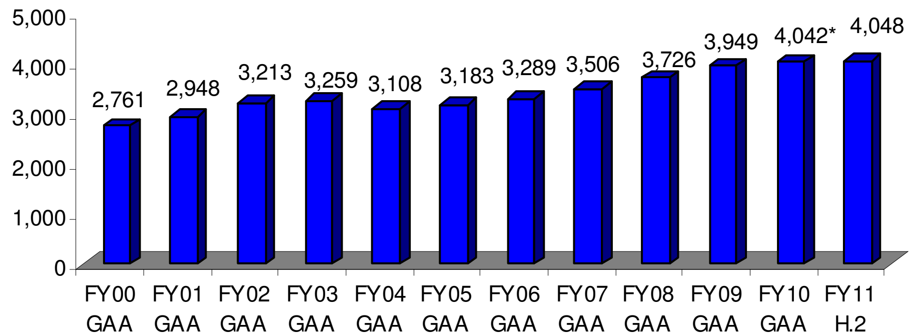
Unrestricted General Government Aid (UGGA)

This local aid account distributes flexible dollars that are used to fund non-school portions of municipal budgets. The UGGA account was created in fiscal year 2010, replacing a mechanism to direct local aid to municipalities through formulas that are outdated and rarely recalculated. In fiscal year 2010, this account was not reduced as part of the October 9C budgetary reductions, and in fiscal year 2011 the Patrick-Murray Administration is able to maintain its commitment to Unrestricted General Government Aid at the fiscal year 2010 level of $936 million. In addition to the funding commitment to this category of local aid, the Administration is also proposing the establishment of a local aid commission to evaluate local aid formulas.

Chapter 70

The Administration's commitment to education is clear from its decision to fund Chapter 70 education local aid at an all time high level of $4.048 billion. By running the Chapter 70 formula using the relevant and updated factors for fiscal year 2011, every district is fully funded at foundation and all districts are held harmless from reductions to fiscal year 2010 levels (at a cost of over $90 million). Additionally all ARRA funds used in fiscal year 2010 to support education are now funded with additional General Fund dollars (at a cost of $172 million). The Administration is thus mitigating any risks or concerns associated with the loss of one-time federal stimulus funds, continuing the Administration's strong commitment to education.

Chapter 70 State Aid **($Billions)**



*FY10 GAA includes $172M in federal stimulus ARRA funds.

Other Cherry Sheet Aid to Cities and Towns

Named for the cherry-colored paper on which it was originally printed, the Cherry Sheet is the official notification by the Commissioner of Revenue to municipalities and regional school districts of estimated state aid to be paid and charges to be assessed over the next fiscal year. The following chart displays all operating accounts, other than Section 3 aid, that appear on the cherry sheets to support vital local programs including libraries, Payment in Lieu of Taxes (PILOT) and Regional School Transportation, among others.

Program	FY2010 GAA	FY2010 9C Reductions	FY2010 Estimated Spending	FY2011 H.2
Tax Reimb Vet, Blind, Widows	25,301,475	-	25,301,475	25,301,475
State Owned Land	27,270,000	-	27,270,000	27,270,000
Veterans' Benefits*	27,864,000	-	27,864,000	56,960,648
Regional Library Local Aid	12,341,160	(514,000)	11,827,160	8,781,475
Municipal Libraries Local Aid	7,107,657	(284,000)	6,823,657	6,823,657
Local Share Racing Tax**	1,179,000	-	1,179,000	962,000
Regional School Transportation	40,521,840	-	40,521,840	40,521,840
School Food Services Program	5,426,986	-	5,426,986	5,426,986
Charter School Reimbursement***	79,751,579	(5,174,307)	74,577,272	74,577,272
Police Career Incentive Payment	10,000,000	-	10,000,000	5,000,000
TOTAL	**236,763,697**	**(5,972,307)**	**230,791,390**	**251,625,353**

*Benefits account grow by $7 million from FY10 to FY11 and the increase of $19.9M is the result of the consolidation of annuities account.
**Based on projections and not budgetary decisions.
***Based on revised spending estimates.

Payment in Lieu of Taxes on State Owned Land (PILOT): Many cities and towns are home to state-owned property, such as facilities or office buildings, do not benefit from the property tax revenue associated with these properties. To ease this burden, the PILOT program was established to partially reimburse cities and towns for this revenue loss. The Administration maintains the same amount of support for PILOT in fiscal year 2011 as in fiscal year 2010 affirming the Administration's commitment to reduce pressure on local property taxes.

Regional School Transportation: The Administration recently restored a fiscal year 2010 budgetary 9C reduction to this program due to revenue collections exceeding earlier estimates. This program is important for supporting regional schools and it is recommended that this account be level funded at $40.5 million to avoid any potential negative impacts on the students and teachers in regional schools districts.

Full Funding for Veterans' Benefits: The budget increases Veterans' benefits by $7 million to $37 million, reflecting anticipated caseload increases in this needs-based program for fiscal year 2011 and our obligations to cities and towns for veterans who are entitled to benefit payments. Total funding for Veterans' benefits, including annuities payments, equals $56.9 million in fiscal year 2011.

Library Funding Waivers: The Governor's budget again removes the cap on the number of waivers that the Board of Library Commissioners can grant in fiscal year 2011 to libraries not meeting certain funding requirements. This enables libraries to maintain certification and access popular regional library lending networks at a time when more local residents are turning towards libraries as a resource.

School Lunch Program: The budget maintains fiscal year 2010 funding of $5.4 million for the school lunch program, which plays a critical role in ensuring that all children are ready to learn by supporting nutritionally balanced, low-cost or free lunches to eligible children each school day. At $5.4 million, this account leverages over $157 million in federal funds in fiscal 2010 and will continue to leverage important federal dollars in fiscal year 2011.

Other Programs at Reduced Levels: In some cases, including local share racing tax and charter school reimbursements, these reductions reflect expected spending at the local level. In others (Police Career Incentive, regional libraries), cuts have been made to help achieve budgetary balance and savings. In connection with the proposed reduction to the Police Career Incentive Program, the Governor's budget recommendation includes a provision absolving municipalities form having to cover the portion of the costs for the program previously funded by the state.

Additional Tools for Municipalities

A Continued Commitment

Through its Fiscal Year 2011 budget and legislation filed and submitted to the Joint Committee on Municipalities and Regional Government last week, the Patrick-Murray Administration is proposing a number of new tools to support cities and towns, including:

- A local pension funding relief initiative to help local systems address unprecedented asset losses in a fiscally responsible way. Communities could save up to $200 million statewide in the first year of the proposed new schedule.
- An optional Early Retirement Incentive program for cities and towns.
- A rate freeze on special education private placements that could save $3.2M
- Relief from library "maintenance of effort" requirements and decertification rules
- Allowing regional school districts to share superintendents, providing savings and efficiencies
- Allowing regional school districts greater access to stabilization funds
- Allowing cities and towns to participate in consolidated state energy procurements that will leverage government purchasing and save energy costs.

The Governor also proposes a comprehensive evaluation of two key local aid accounts:

- A Chapter 70 study commission to finally begin addressing long standing concerns about the formula.
- A local aid study commission to evaluate local aid formulas

Commitment to the Environment
In July, 2008, Governor Patrick signed into law the Green Communities Act, establishing the Green Communities Program. Operated through the Department of Energy Resources, the program provides $7 million to communities to support energy efficiency, renewable energy and other innovative energy projects.

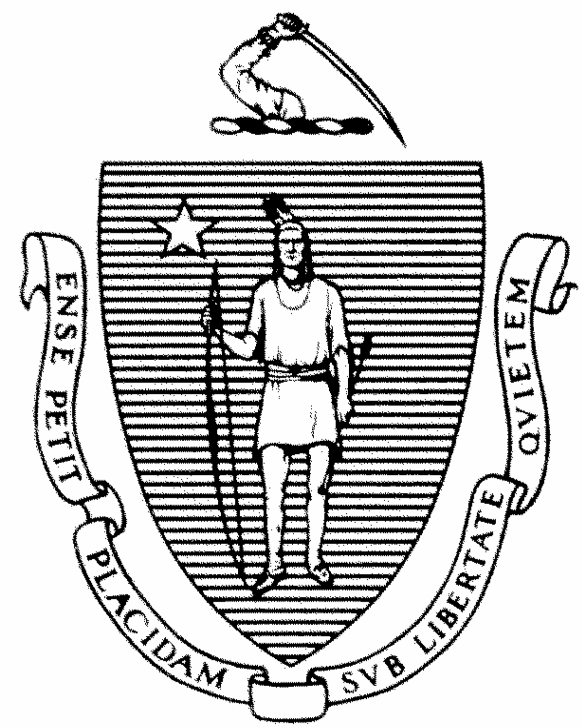
Commitment to Public Safety
The Administration recognizes that ensuring safe cities and towns is critical to the prosperity of the Commonwealth, and in fiscal year 2010 played an instrumental role in winning $71 million in federal recovery funding for local police and fire departments.

Commitment to Partnership
The Administration continues to pursue savings and other tools for municipalities to relieve pressure on the property tax, increase government efficiency, and preserve critical services at the municipal level.

- Healthcare savings: Signed into law opportunity for municipalities to join the Group Insurance Commission, the state health insurance program. Communities that have joined have saved millions of dollars.
- Pension savings: Signed into law provision merging underperforming local pension funds with state pension fund. Savings can be achieved by both underperforming and well-performing local funds.
- Regionalization: Proposed tools to encourage and facilitate regionalization of municipal services, which if enacted could save millions of dollars. Also created the Regionalization Advisory Commission, examining opportunities for communities to achieve cost savings, efficiencies and improve services.
- Closed telecom tax loophole: eliminated exemption for telephone poles and wires, generating $26 million for communities. Also proposed eliminating exemption for telecom machinery, which would generate an additional $26 million.
- Local Option Revenues**:** Signed into law local option meals and hotel taxes to give communities new tools to balance their budgets, generating up to $250 million annually for cities and towns.

- Partnership: Created the Municipal Affairs Coordinating Cabinet, which held over 20 listening sessions across the Commonwealth with municipal leaders. Also created the Edward J. Collins Center for Public Management, providing an array of services for local government.
- Procurement: Proposed tools for reforming municipal procurement and advertising requirements, providing savings and efficiencies.
- Local Authority: Proposed provisions allowing municipalities more legal flexibility in certain areas, which would dramatically reduce need for special legislative exemptions.
- Proposed tools allowing enhanced flexibility and improved processes in municipal finance.

Fiscal Year 2011 Issues in Brief



Effective Government

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Pension Reform

Pension Reform Phase 2: Comprehensive Pension Reform

Providing for a fair, fiscally sustainable and publicly credible pension system for public employees is in the best interests of the Commonwealth, taxpayers and public employees.

In June 2009, Governor Patrick and the Legislature worked together to enact landmark pension reform legislation that closed loopholes and eliminated abuses, helping to restore public confidence in government and reduce long-term costs to the state's retirement system.

The abuse and loophole reforms passed in June 2009 were a critical first step in reforming our pension system. Since then, work has continued, by the Pension Reform Commission and others, to evaluate and identify other changes needed to make the system viable for the long-term.

The Governor's Phase Two pension reform legislation proposes additional systemic reforms necessary to ensure the sustainability and credibility of our pension system, including provisions which:

- Update the system to reflect demographic changes, including the fact that people are living and working longer;
- Eliminate abuses, through anti-spiking measures, extending the number of years on which to calculate pension benefits, increasing scrutiny of legislation benefiting individual employees, and eliminating Section 10 termination benefits; and
- Address fairness issues, through updating purchase of creditable service and buyback provisions, requiring SJC judges to contribute to their pensions as other state employees do, limiting the annual pension payout the system and taxpayers support for retirees, and increasing scrutiny of special legislation that benefits individual employees.

Pension reform and initiatives to modernize the pension system will generate estimated savings of over $2 billion over 30 years.

Specific Reform Proposals:
Increase retirement age and eliminate subsidy for early retirement.
Group 1 (Officials and general employees): 60-67 (currently 55-65)
Group 2 (Employees with job titles presumably reflecting hazardous duties): 55-62 (currently 55-60)
Group 4 (Firefighters, police officers, and some correction officers): 50-57 (currently 45-55)

- Given continued increases in life spans, people are working longer and remaining healthier at later ages. Since 1950, overall life expectancy has increased 9.6. For Social Security benefits, the full retirement age (also called "normal retirement age") is now 67 for people born after 1959. Our current system does not reflect this reality in the retirement age eligibility provisions. The retirement age ranges for Groups 1 and 2 have not changed since 1957. Group 4 was added in 1967 and has not changed since then.

Lower system cost by reducing the age factors used in the calculation of a member's retirement allowance.

- The current factors provide a subsidy to those members retiring at younger ages.
- This proposal would reduce, but not eliminate entirely, the existing subsidy for early retirement.

These changes can only legally apply to new employees.

Reduce the contribution requirement for employees subject to adjusted retirement age factors.
Reduce the 9 percent contribution requirement currently required of certain employees to 8.5 percent of compensation.
- This reduction would ensure that as a result of the other changes to the system, employees subjected to the adjusted retirement age factors do not pay more into the pension system than they are likely to receive in benefits.

This change would apply to new employees subject to adjusted retirement age factors.

Expand the number of high years on which to calculate pensions.
Increase the period for averaging earnings for purposes of calculating a member's retirement allowance from 3 to 5 years.
- A slightly longer averaging period reduces the incentive to inflate late career earnings and makes it more difficult for employees to "game" the pension system.

This change can only legally apply to new employees.

Pro-rate benefits based on group history.
The retirement allowance for members who have served in more than one group shall be prorated by taking into account the number of years of service in each group.
- Pro-rating makes employees more willing to accept administrative positions towards the end of their careers, prevents windfalls for people who have only a short period of service in a high group and reduces the ongoing pressure to reclassify jobs.
- The retirement allowance is currently based on benefits of the group of which an employee is a member at retirement, even if most of the employee's career was in a group with lesser benefits.

This change would apply to existing employees.

Cap earnings for purposes of calculating benefits.
Cap regular compensation by limiting it to a percentage of the federal limit which would currently result in an annual pension benefit that can be no higher than $85,000.
- The State and its taxpayers should only support pensions up to a current value of $85,000 annually for retirees. Employees will only contribute to the pension system up to the new cap on regular compensation.
- The average annual state pension for retirees is approximately $26,000. The $85,000 cap is three times the median US income per person and more than three times the average annual state pension.

This change can only legally apply to new employees.

Limit annual increase on retirement earnings.
Introduce an anti-spiking rule, limiting the increase in pensionable earnings in any year to no more than 7 percent plus inflation of the average of pensionable earnings over the previous two years. This provision would not apply for bona fide promotions or job changes.
- A pension plan that bases benefits on only a few years of earnings generates a strong incentive for workers to raise earnings in those last years to earn a larger pension than intended by the system. To limit such gaming, many public plans have anti-spiking rules.

This change would apply to existing employees.

Eliminate Section 10 early retirement incentive.
Currently, employees with 20 years of service who are terminated at no fault of their own are entitled to a benefit equal to 1/3 of high three earning years plus an annuity from contributions. In most cases, that lifetime termination benefit is significantly larger than what the employee would have received if not terminated and declines with further increases in age and service.

This change can only legally apply to new employees.

Elected officials repay to rejoin system.
Members who are elected or appointed for a term of years should be required to repay any benefits they received with interest in order to rejoin the system and work five years in order for their benefit to be recalculated.

- This change would make consistent the treatment of elected or appointed officials with that of other members.

This change can only legally apply to new employees.

Purchase of creditable service
Under existing law, a member re-entering the system or those purchasing service based on activities before pension membership may purchase prior creditable service by paying an amount equal to the accumulated regular deductions withdrawn plus interest or an amount related to earlier employment. However, some members are not required to make such a purchase within a certain period after eligibility to purchase is established. As a result, these purchases often take place immediately prior to retirement. This pattern has the effect of understating the liability associated with the member's service as well as reducing the investable assets of the system.

- This change would require members re-entering the system or new members who are eligible to receive creditable service based on work elsewhere to purchase creditable service within one year or pay the full actuarial interest rate.

This change would apply to existing employees.

Require Supreme Court judges to contribute to their retirement.
The members of the Supreme Judicial Court do not currently contribute to their benefits. This exception is hard to justify in a contributory retirement system.

This change would apply to existing employees.

Collecting pension payouts from convicted retirees
Currently, retirement board practices and interpretations vary regarding their ability to recover pension benefits issued to retirees who are convicted after retirement of an offense related back to their employment.

- The applicable retirement board should be able to require repayment of benefits received since the date of the offense, not just since date of conviction.

Allow a retirement board to withhold the processing of a pension or other benefit because an individual has been charged with an offense related to his or her employment.

- This provision would assist retirement boards in preserving system assets. If a retirement board issues pension payments or a refund of retirement contributions to a member who has been charged with an offense subject to pension forfeiture, it can be placed in the position of having to pursue members to recover such benefits when the member is subsequently convicted of the offense.

This change would apply to existing employees.

Increase scrutiny of legislation benefiting individual employees.
Require the following to be filed with special legislation: an actuarial cost estimate, confirmation of the cost analysis from the public employee retirement commission, and a recommendation from the retirement board.

- Special exceptions or benefit enhancements should not be made to individuals beyond benefits provided by the system without thorough and transparent evaluation.

This change would apply to existing employees.

Study employee group classification system.

Establish a commission to review and make recommendations for reform regarding the Massachusetts public employees' group classification system, beginning with consideration of the work by the Blue Ribbon Panel on the Massachusetts Public Employees Pension Classification system.

- The current group classification includes a number of anomalies and inequities. Addressing the classification system is a key to making the pension system more transparent and fair.

Charge retiree health insurance to prior employers.

Contributions for retiree health insurance should be charged to employing jurisdictions based on the portion of the employee's service in each jurisdiction (similar to the provision for pensions), with earlier employers charged based on their own contribution rate or the contribution rate of the final employer, whichever is lower.

- Employees may have spent only a portion of their career in the jurisdiction from which they retire, yet the jurisdiction of final employment is responsible for the full contribution to retiree health insurance. Pro-rating contributions based on time spent in each jurisdiction would allocate the cost more equitably across all the employing entities.
- Recognizing that jurisdictions pay varying rates toward retiree health insurance, it is recommended that the lower contribution rate should apply for the purposes of the charge-back.

This change would apply to existing employees.

About applying pension law changes to current versus future employees:

State law provides that pension law forms a contract with employees at the time when they begin their public jobs. The courts have ruled that new laws cannot constitutionally apply to current employees if the new law makes substantial changes in employees' reasonable expectations about their pension rights -- but that new laws that correct abuses or close unintended loopholes can apply to current employees. We have proposed to apply as many of our reforms as possible to current public employees, in light of state pension law. Whether an employee has "vested" in the pension system makes no legal difference under state law.

About the State Retirement System:

The average annual state pension for retirees is approximately $26,000. Massachusetts' public employees are not covered by Social Security.

The State retirement system is a defined benefit plan, and the proposed reforms are designed to occur within the system we have. A defined benefit plan, with the adjustments made by the proposed reforms, continues to be the reasonable choice for the Commonwealth for the long-term.

- The defined benefit plan assures participants the most secure source of retirement income.
- State and local governments can adapt to risky outcomes over time, spreading risk more widely and thus making them less costly to bear.
- In addition, defined benefit plans, as opposed to defined contribution plans, put portfolio management into the hands of professionals, thereby avoiding the widespread tendency of individual investors to make basic errors in investment decisions.

The Commonwealth of Massachusetts' public employee retirement system provides retirement and disability benefit levels that are similar to those of other states with defined benefit plans and no Social Security coverage for public employees. Taxpayers are often unaware that more of their taxes are contributing to paying off the system's large unfunded liability than to paying for the state's contribution towards the benefits being earned by current workers. In fact, in fiscal year 2008, 77 percent of the State's $1.3 billion contribution to the State and Teachers' pensions went to cover the unfunded liability; only 23 percent went to pay the cost of benefits earned by current employees in that year.

In fact, the contributions of more recent hires classified as Group 1 employees (general employees and teachers) cover nearly all of the benefits those employees typically receive.

Debt Refinancing Strategy

The Governor's Debt Refinancing Proposal

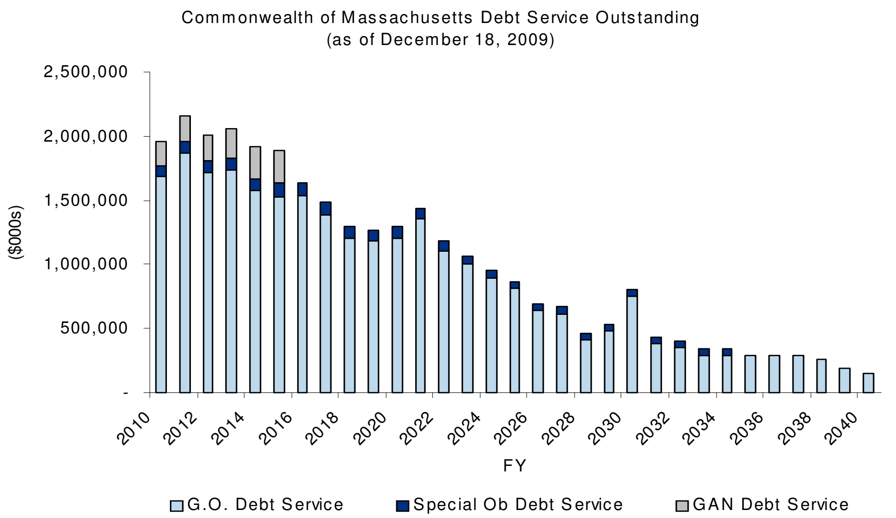
Debt service on outstanding long-term bonds continues to be a significant portion of the Commonwealth's operating budget. As part of the comprehensive plan to address fiscal year 2011 budgetary shortfalls, the Administration proposes refinancing $200 million of the $1.02 billion in principal due in fiscal year 2011 to smooth an unusual spike in debt service. Second, in the event that the fiscal situation does not improve, we would reserve the ability to refinance an additional $100 million of fiscal 2011 principal to achieve budgetary relief.

This refinancing is a reasonable strategy to assist the Commonwealth in meeting its fiscal challenges:

- *Refinancing is a small part of the overall solution*. We are addressing the financial challenge on all fronts through a balanced set of measures including spending restraint, one-time resources, and select revenues from closing exemptions.
- *The cost is low*. Based on our evaluation of options to achieve budgetary relief from existing liabilities such as debt service and pensions, we have determined that refinancing debt at historically low interest rate levels is by far the lowest-cost and most fiscally responsible solution.
- *There is an unusual spike in debt service payments in fiscal year 2011* that can be responsibly smoothed over the next several years.
- *The refinancing will be paid-off in the relative short-term*. We propose that the maximum term for the refinancing bonds be seven years.
- *Other bonds, such as the Plymouth County COPs, can be refinanced concurrently* for absolute savings greater than the cost of the proposed refinancing resulting in net present value debt service savings from the combined refinancing transactions.
- *The refinancings will be subject to the Debt Affordability Policy.* Future debt service will be increased somewhat as a result of these refinancings. The proposed refinancing can be accommodated within the constraints of the Debt Affordability policy. The Executive Office for Administration and Finance will continue to this refinancing take this into account as it sets future capital borrowing caps to ensure that total debt service remains within the parameters of the Debt Affordability Policy.

Background: The Commonwealth has $1.02 billion in principal maturing between July 2010 and June 2011 with coupons ranging from 2.00% to 6.00%. The current municipal market yield curve is steep with yields remaining below 2.00% through 2015 and below 3.00% through 2020. Current low interest rates and the structure of bonds due in fiscal year 2011 present an opportunity for the Commonwealth to refinance debt at low c

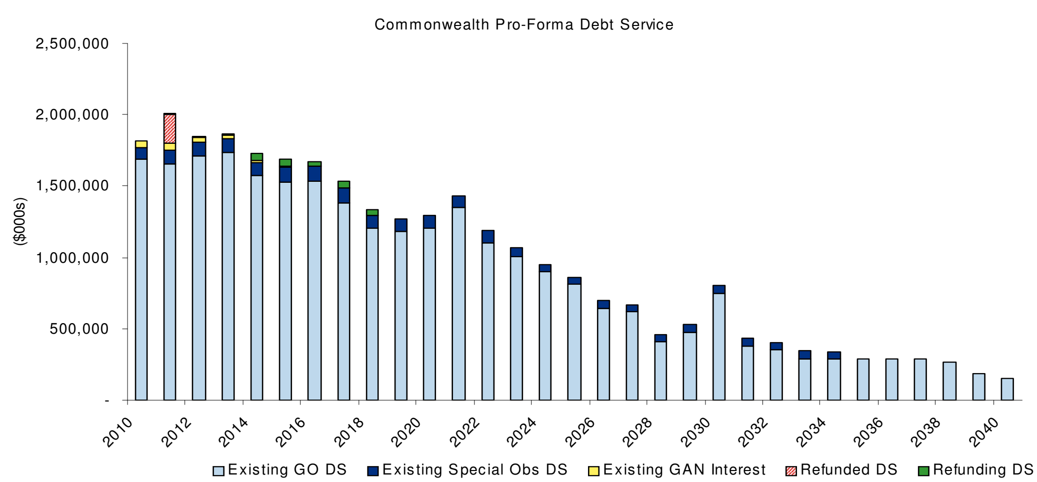
As shown in the chart below, the Commonwealth's outstanding debt service obligations (not including contract assistance obligations) through fiscal year 2040 are generally front-loaded and declining each year - but with an unusual spike in fiscal year 2011 (the second bar on the graph).



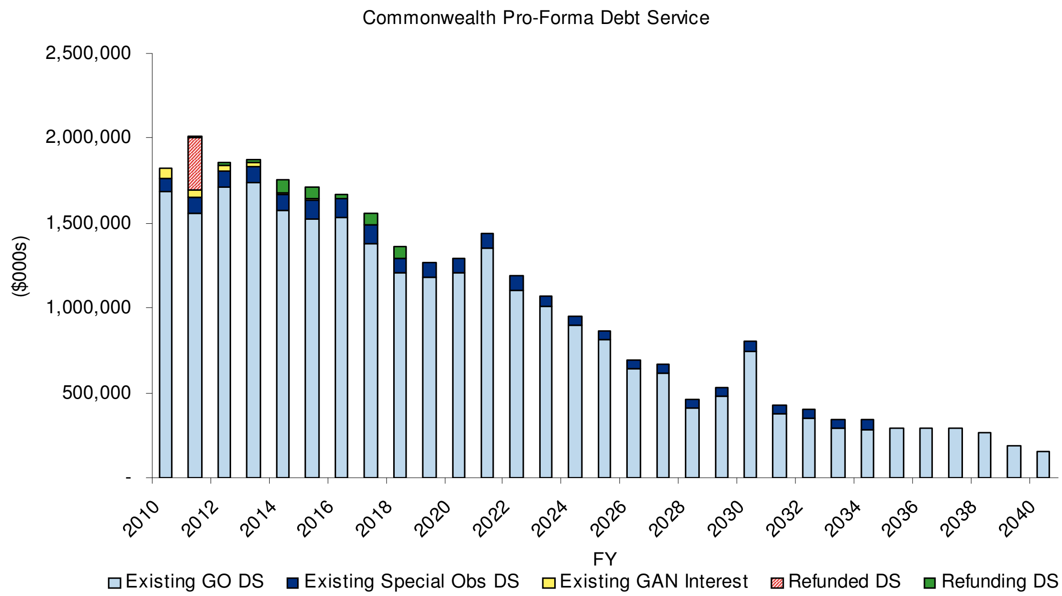
The table below shows that compared to fiscal year 2010, total Commonwealth debt service, including the cost of new issuance, would increase $201.7 million for fiscal year 2011. This results from the unusual spike in principal due in fiscal year 2011 shown in the chart above, as well as an unexpected increase in bank liquidity fees, included in the short-term debt service account and the new Accelerated Bridge Program.

Account	Account Name	FY2010 Projection	FY2011 Maintenance	Difference
0699-0015	Consolidated Long-Term Debt Service	1,804,013,573	1,929,810,808	125,797,235
0699-9100	Short-Term Debt Service	28,431,384	66,791,391	38,360,007
0699-0016	Accelerated Bridge Program	-	39,979,615	39,979,615
0699-2004	Central Artery/Tunnel Debt Service	91,719,000	90,085,000	(1,634,000)
0699-9101	Grant Anticipation Notes Debt Service	36,694,000	35,845,000	(849,000)
TOTAL		1,960,857,957	2,162,511,814	201,653,857

First transaction: Smoothing. We propose refinancing $200 million of $1.02 billion in fiscal year 2011 by amortizing principal for the purpose of smoothing the 2011 spike in total debt service. Repayment of this refinancing would occur over the next seven years. Following this transaction, the resulting fiscal year 2011 total debt service will be approximately equivalent to 2010 debt service. At a current interest rate of 2.1%, the estimated cost of this refinancing is $1.2 million, present value. The following chart illustrates the effect of this refinancing on currently outstanding debt service. Note the smoothing effect, as the peak (shown as a checked bar on the chart below) is redistributed to years in which the Commonwealth faces lower debt service.



Second transaction: Budget relief, if necessary. The debt refinancing strategy includes an option to refinance an additional $100 million of principal due in fiscal year 2011 if further budgetary relief is deemed necessary after the October revenue estimate review. At a current interest rate of 2.1%, we estimate the cost of both refinancings to be $2.5 million, present value. The following graph shows the total effect of both transactions on the Commonwealth's debt profile.

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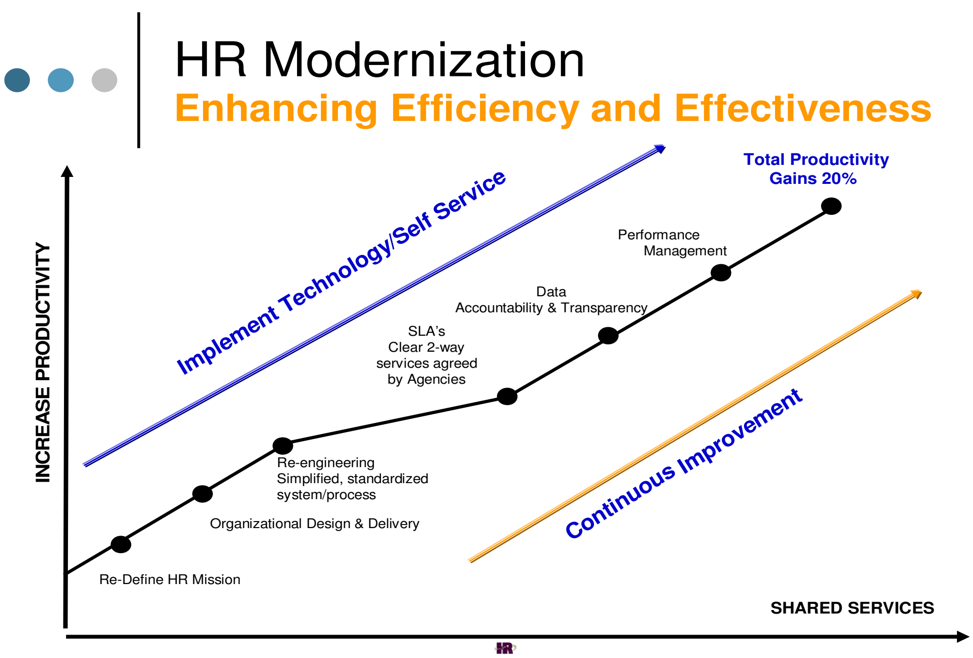
Human Resources Modernization Project

The economic downturn has challenged many states, including the Commonwealth, to maximize operational and service delivery in order to invest our resources in a way that achieves the best results for our residents. The Patrick-Murray Administration has demonstrated strong leadership in identifying and addressing areas within the Commonwealth, such as energy and information technology, that should be managed more efficiently in order to produce cost savings. In fiscal year 2011, Governor Patrick will turn his attention to the enterprise-wide human resources (HR) systems and will direct state agencies to modernize and standardize HR business processes and leverage available technology to reduce costs. To this end, the Governor will issue an Executive Order, ***Enhancing the Efficiency and Effectiveness of the Executive Departments – Human Resources Modernization Project,*** to improve administrative efficiency and preserve fiscal resources.

Human Resources Modernization Project

Benchmarking projects and various studies undertaken by the Patrick-Murray Administration have concluded that the Commonwealth's current Human Resources delivery systems are decentralized and inefficient in many ways. In response to this information and at the Governor's direction, the Chief Human Resources Officer, Cabinet Secretaries and HR officers across the Executive Department are collaborating in developing the HR Strategic Plan for the future which will be completed in fiscal year 2010.



In fiscal year 2011, with continued collaboration, the strategic plan will begin implementation, with a focus on fully accessing all the functionality provided by the system that currently serves as the personnel/payroll system. Enhancements such as time and attendance self-service, labor distribution, learning development, recruitment and talent management, and the ability to better track and manage HR data, will streamline our multi-layered and paper-intensive manual processes. HR transactions will be automated and our employees will be redirected from back room functions to providing direct service to internal and external customers. This shift will result in cost savings and increased systems efficiency with employees providing high-quality services to the residents of the Commonwealth.

The plan will identify shared services as one option that may be pursued in order to build the foundation for the Commonwealth's HR future. Additional goals of HR Modernization are to:

- Align Secretariat HR resources with their business strategies and priorities;
- Standardize HR resources and create efficiencies;
- Align Secretariat HR plans with the Executive Department's enterprise-wide HR Strategic Plan;
- Work with our employees to support and maintain our productive and diverse workforce; and
- Ensure that HR staff is increasingly focused on strategic mission enhancements, rather than transactional work.

Based on several studies that have been conducted, there is an established consensus that implementing shared service delivery models are best practices and can achieve efficient gains of between 15% and 20% a year. For the Commonwealth, the research indicates that such change in direction, when fully implemented will result in efficiency gains of $20 to $25 million per year.

In January, 2003, the Executive Office of Health and Human Services (EOHHS) implemented a shared service model and achieved immediate savings by creating a more efficient and coordinated administrative infrastructure to support EOHHS agencies. Some of the initial savings and other fiscal benefits include:

- $3.1 million in savings, while expanding services;
- The closing of over 20 local offices and consolidating to otherwise underutilized space, saving $3.1 million; and
- A 3% or $400,000 savings in Workers' Compensation costs from fiscal year 2004 and a 10% or $100,000 decrease in the HRD administrative cost chargeback, the first ever of such reduction.

The HR Modernization efforts will also yield cost savings and efficiencies for all secretariats. Additionally, for the first time, a cohesive workforce strategy with effective succession plans for critical positions will be in place. The Commonwealth will be able to integrate policies, systems, and practices reflecting leading capabilities in the marketplace. Finally, the Executive Department will truly be an "employer of choice" workplace, exemplifying innovative leadership, engaged employees, inclusive and diverse practices, pervasive customer-service and a high-performance mindset.

Massachusetts Geographic Information Systems

MassGIS

A Geographic Information System (GIS) is a computer system capable of assembling, storing, manipulating and displaying geographically referenced information (i.e. spatial data). This type of system is a critical component of the Commonwealth's infrastructure in the modern age. State agencies, municipalities, businesses, and residents all use GIS services and products to plan investments, establish policies and conduct a wide array of other activities. MassGIS is the Commonwealth's official agency for the collection, storage, and dissemination of geographic data, and is legislatively mandated to set standards for geographic data and to ensure data compatibility across the Commonwealth.

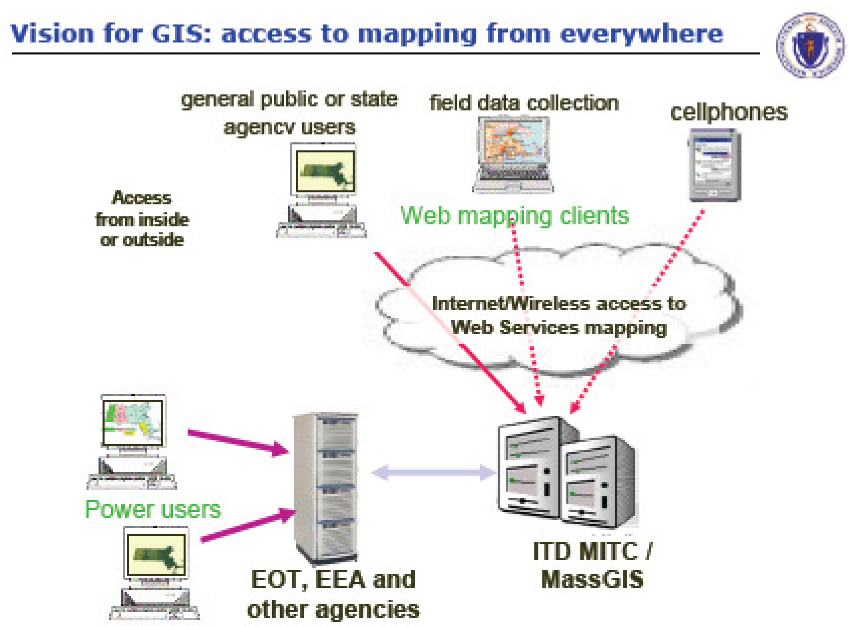
Governor's Proposal

The Governor's fiscal year 2011 budget proposes moving MassGIS from its current location within the Executive Office of Energy and Environmental Affairs (EEA) to the Information Technology Department (ITD) within Executive Office for Administration and Finance (A&F).

Currently at EEA, MassGIS provides vital services to agencies throughout the Commonwealth. Since a number of mission-critical initiatives depend on GIS services (such as E-911, Broadband, technical assistance to municipalities, the Massachusetts Department of Transportation's re-organization, energy facility siting and the Ocean Management Plan) it is crucial that MassGIS function efficiently and produce accurate and up-to-date products and services. However, the current service infrastructure is inadequate and data products are incomplete and out-of-date.

By bringing MassGIS closer to the center of state government, within ITD, a department focused primarily on information technology infrastructure, the Commonwealth can achieve several key outcomes:

- Achieve economies of scale, regionalization and enterprise licensing;
- Identify duplication and redundant state purchasing of related services;
- Gain efficiencies in streamlined and redesigned business processes; and
- Expand capabilities for state and local government to monitor geographic trends and inputs of programs and demographics.



The fiscal year 2011 budget proposes to fund MassGIS through two appropriations with funds transferred from EEA to ITD, a direct appropriation for $70,000 (1790-0150) and a retained revenue account for $55,000 (1790-0151). The retained revenue account will consist of revenue from providing copies of data and standard map products to other state agencies, federal agencies and other entities. Additional funding will be made available from the capital budget.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Federal Single Point of Contact

Single Point of Contact

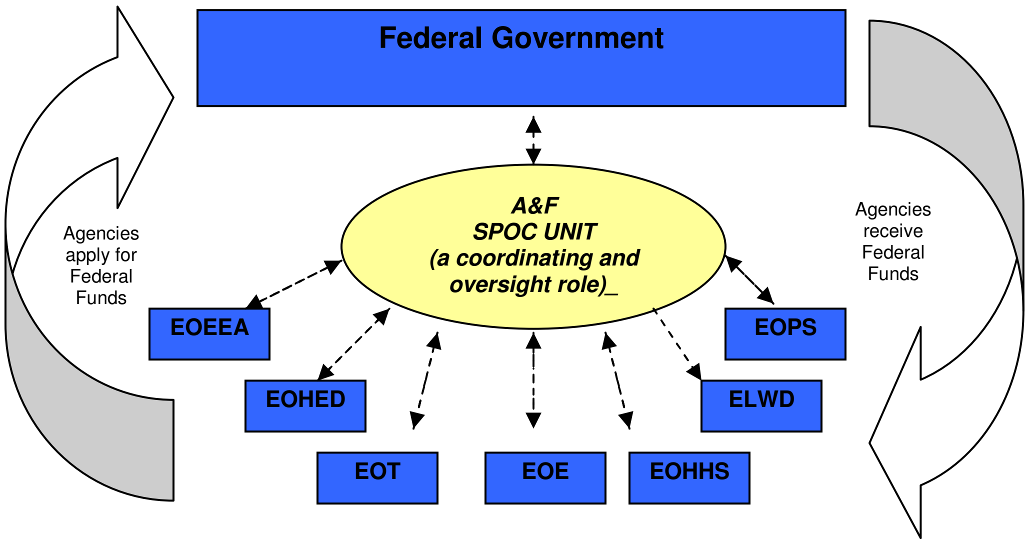
Federal Executive Order 12372 "Intergovernmental Review of Federal Programs" encourages states to utilize a Single Point of Contact (SPOC) for federal funding oversight. The increased flow of funds from the federal government to the state government since the passage of the American Recovery and Reinvestment Act (ARRA) in February 2009 underscores the importance of creating a Commonwealth Federal Single Point of Contact (SPOC) unit. In addition, the creation of this unit will be an important element in ensuring that federal assistance is properly managed after the phase- out of the Massachusetts Recovery and Reinvestment Office, which was created specifically to manage federal ARRA funds. The state needs to ensure that proper mechanisms are in place to maximize federal resources, increase coordination among agencies, and provide enhanced transparency for federal grant spending.

The Governor's fiscal year 2011 budget recommends the creation of a new administrative SPOC unit within the Executive Office for Administration and Finance (A&F) to monitor and track federal assistance to executive agencies. Some of the examples of federal assistance that will be examined include: grants, Federal Medical Assistance Percentages (FMAP) reimbursement, entitlement programs, economic recovery stimulus funds and other reimbursement.

In this time of economic downturn, the Commonwealth realizes the importance of securing and properly utilizing federal stimulus dollars, grants and all federal funding that the state is eligible to receive. The Commonwealth's SPOC unit will help to address inefficiencies and duplication of effort among state agencies. Currently, each sate agency applies for and administers federal grants without the benefit of any statewide coordination. The fiscal year 2010 General Appropriation Act (GAA) includes $2.1 billion in federal grants, and the fiscal year 2011 House 2 budget includes $2.6 billion in federal grants, approximately 9% of the total state budget. Furthermore, the state receives over $8 billion in federal revenues to support the state budget, mainly through services offered by the MassHealth program. In order to better track, monitor and spend federal funding, the SPOC unit will work collaboratively with grant staff already working in Executive agencies to ensure proper use of and compliance with federal funding.

Massachusetts Current Federal Grant Work

There are varying levels of need to support federal funding within specific departments; for example, the Department of Public Health (approximately $271.6 million in fiscal year 2011 federal grant funding) may need more support than the Department of Revenue (approximately $232,000 in federal grant funding). A&F Bulletin number 3 (Federal Grant Administration (ANF 3)) outlines the process for identifying federal grant funding. However, creating the SPOC unit will give A&F the resources to more thoroughly review, research and track federal funding streams. The proposed structure of this unit is as follows:



The SPOC will allow the Commonwealth to leverage federal funds by:

- **Maximizing Federal Revenue**

The Commonwealth strives to access all available federal funding for the programs and services that we provide. This includes monitoring available federal grants and working with agencies on effective application and implementation.

- **Ensuring Compliance**

As the Patrick-Murray Administration works through fiscal challenges, ensuring that grant obligations are understood and properly implemented is critical to avoid audit findings and loss of funding. This includes reviewing match requirements to ensure affordability and systems and controls for compliance with all federal requirements.

- **Anticipating Future State Matching Requirements and Sustainability**

Match requirements and the life of a federal grant must be carefully considered to ensure that a program, once developed and accessed by consumers, can be sustained. Funding from any source is accompanied with some uncertainty, but as the State and Federal government look for savings, these critical elements must be considered when accessing grants.

The SPOC unit will be funded through fringe benefit charges collected by the comptroller on federal grants and assigned to item 1599-5050. These charges will total $300,000 statewide in fiscal year 2011 and will be used to fund the unit.

- **Reporting**

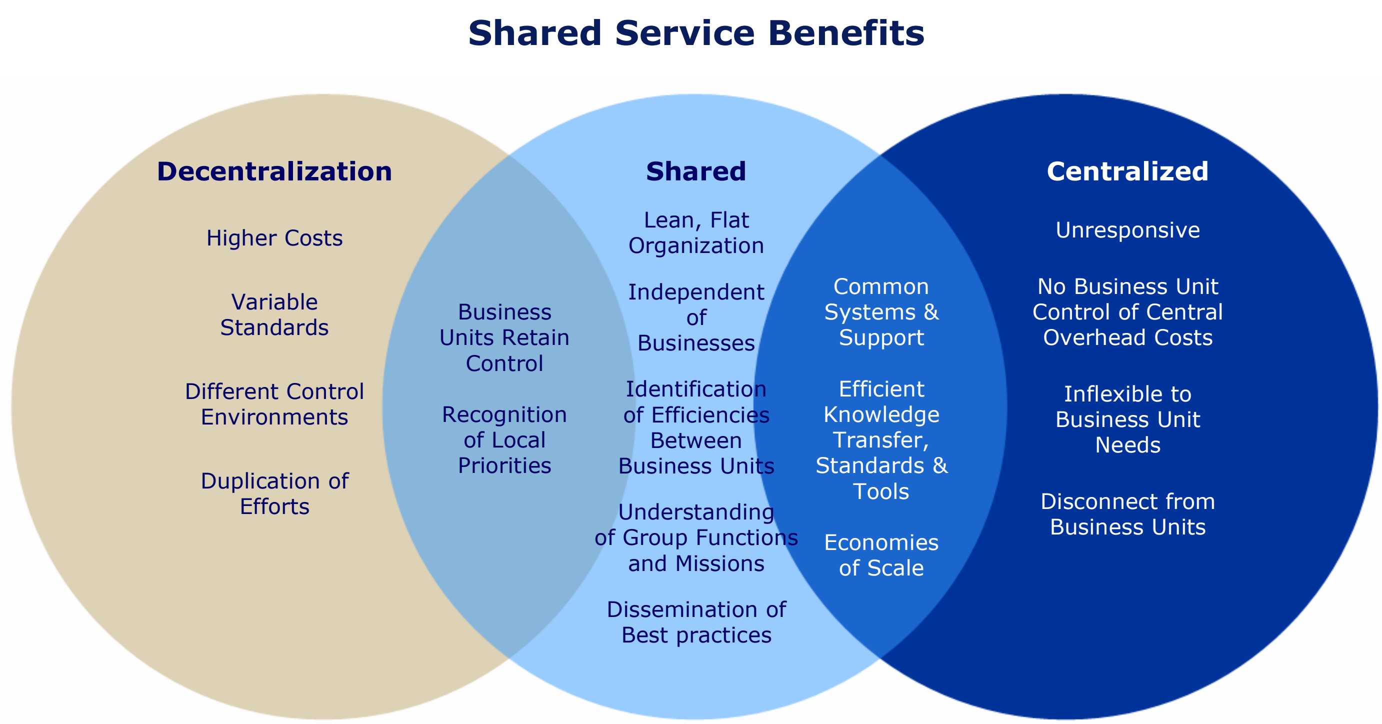
ARRA imposed new reporting and transparency requirements on the state with respect to the use of ARRA grant funds. The Massachusetts Recovery and Reinvestment Office has developed the systems to meet these requirements, and it has done so in a way that will allow us to expand the use of those systems for other federal grant programs. The SPOC unit will take advantage of the work of the Massachusetts Recovery and Reinvestment Office to enhance our reporting and transparency related to other federal grants

Shared Services Model

As the Commonwealth continues to face difficult economic times, it is imperative that our state agencies are given the tools and flexibility to operate within their budget constraints. Section 5 of the Governor's budget authorizes each Secretariat to consolidate their core administrative functions, achieving efficiencies and allowing more resources to be directed to programs. This proposal does not alter existing reporting lines or decision making, and it also does not shift funding among line items or agencies. It does provide to each Secretary the discretion to decide which back office functions can become shared, and where the administrative capacity to provide these functions will be housed.

The shared services model eliminates redundant processes and systems allowing Secretariats to integrate duplicative activities within agencies, including processing payroll, human resources, accounts payable and procurement. The shared services model allows agencies to focus resources on the direct services they provide to the public.

Centralization vs. Shared Services
Governor Patrick's proposal differs from typical centralization plans by focusing more on service delivery, rather than the control and structure of the staff providing services. The Governor's proposal allows Secretariats to develop shared services programs that best meet their needs. There are several areas in which efficiencies are anticipated: payroll and human resources; financial management, including bill payment, purchasing and contract administration; and lease and facility management. Traditionally, these functions have been managed by individual agencies at a district or regional office level.



Success to Date in Shared Services

There are several important areas in which a shared services model supports initiatives that gain efficiencies and savings.

- **Shared Services Support the Executive Office of Health and Human Services:** In January 2003, the Executive Office of Health and Human Services (HHS) began an unprecedented effort to improve services, coordinate policy development, and streamline administration of the agencies that make up the Secretariat. An important component of the reorganization was to consolidate administrative functions, including human resources, facilities/leasing management, financial management, transportation services, and information technology. With the support of the Administration and Legislature, HHS gained authority to provide shared services and has achieved significant savings by creating a more efficient and coordinated administrative infrastructure to support. Some of the initial savings and other fiscal benefits include:

  - A 25% reduction in human resources staffing and $3.1 million in savings, while expanding services;
  - Closing of over 20 local offices and consolidating to otherwise underutilized space, saving $3.1 million;
  - 3% or $400,000 savings in Workers' Compensation costs from fiscal year 2004, in addition to a $100,000 decrease (10%) in the HRD administrative cost chargeback, the first ever such reduction;
  - Conversion of six Secretariat Information Technology Operations Services Division consulting positions to full time equivalents (FTEs) yielding an annual savings of $300,000;
  - The negotiation by the IT group of a contract associated with a mainframe connectivity tool for all agencies that has reduced the cost of maintenance by 50% and
  - The development of a Revenue Management Team which has secured over $20 million in new revenues, while growing the overall revenue intake for EHS to over $8.8 billion annually.

- **Shared Services Support the Massachusetts Department of Transportation:** The newly formed Massachusetts Department of Transportation (DOT) is building upon fiscal, human resources and legal shared service programs implemented by the former Executive Office of Transportation and Public Works in 2004. Similar to HHS, the DOT model allows division heads authority over policy and funding decisions while implementation of those decisions is managed by secretariat staff. This creates additional opportunities and resources for line level and division managers to focus on core mission activities.

- **Shared Services Language Supports Consolidation of Information Technology Services:** In January, 2009, the Patrick-Murray Administration signed Executive Order 510, mandating that by December 30, 2010, Information Technology (IT) services be substantially consolidated within each Secretariat. This reform was supported by the Legislature in the fiscal year 2010 budget, as new line items were created that consolidated all agency IT spending at the Secretariat level. As described in the budget brief highlighting progress on the IT Consolidation, nearly 60 working groups and more than 400 people have come together to implement this reform. During its first year of implementation, many important steps were taken to establish a culture that encourages agencies to consult with Secretariat Chief Information Officers (SCIO) on all IT-related funding decisions. However, authority to provide shared services within *all* Secretariats – in addition to HHS and DOT – is necessary to shift from a culture that encourages agencies to include SCIOs to a culture that *mandates* coordination at the Secretariat-level, as required by the executive order.

Access and Opportunity

The Patrick-Murray Administration remains committed to a broad interpretation and implementation of the principles of equal opportunity and non-discrimination in all facets of Executive Branch operations. The Governor has issued Executive Order 478 codifying the Office of Access and Opportunity within the Executive Office for Administration and Finance.

Mission: Rooted in a social justice and economic justice civil rights mission, the Office of Access and Opportunity serves as a catalyst and advocate for non-discrimination and equal opportunity initiatives by providing executive branch-wide leadership; supporting the success of women, minorities and other underrepresented/underserved populations; partnering with internal and external stakeholders to advance social and economic equity within the Commonwealth; and developing organizational policies, programs and structures to most effectively advance the objectives of non-discrimination and equal opportunity.

Vision: The vision for the Office of Access and Opportunity is to be a catalyst and coordinator of activities that will assist the executive branch in maintaining and enhancing an environment that fosters non-discrimination and equal opportunity to and for all residents.

The Office is headed by an Assistant Secretary for Access and Opportunity, whose work is focused on personnel, procurement and policy. Some of the goals and objectives that the Office of Access and Opportunity will work toward include:

(1) Providing leadership in implementing the principles and tenets of Executive Order (E.O.) 390, E.O. 478, and other state laws and Executive Branch rules relative to equal opportunity and non-discrimination;
(2) Working on specific policies and programmatic activities that will serve and support the success of individuals from diverse underrepresented/underserved backgrounds;
(3) Creating opportunities for social and economic advancement; and
(4) Working to enhance the organizational effectiveness and Executive Branch infrastructure needed to meet the state's non-discrimination and equal opportunities goals and objectives.

Specific activities, as identified in the Office of Access and Opportunity Strategic Objectives 2010 (www.mass.gov/anf/oao), will be launched to ensure positive outcomes as measured against these goals and objectives.

In addition to the work already identified, the Governor's fiscal year 2011 budget proposal builds on these principles through specific language and funding to support access to trainings on the part of executive branch diversity directors, diversity officers, Americans with Disabilities Act (ADA) coordinators and an Article 87 Reorganization Plan to combine the State Office of Minority and Women Business Assistance (SOWMBA) and the Affirmative Market Program (AMP). The combined agency will represent a single door through which minority and women-owned firms can enter to seek certification as MBE and WBE firms as well as to receive technical assistance and capacity building services, allowing for a more efficient use of limited state resources.

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Line Item Consolidation

Throughout each budget cycle Governor Patrick has recommended significant line item consolidations in an effort to provide maximum flexibility for agency leaders to manage with limited resources. Over time, individual line items have been created in an effort to highlight a specific program or service. This structure places limitations on an agency head's ability to direct resources where they may ultimately be needed.

Traditional Structure has Built-in Delays

The fiscal year 2010 General Appropriation Act (GAA) funded 644 separate line items within 144 departments. A consolidated approach allows for agencies to correct for changes in projected spending by shifting savings from one program to another. Without this ability, this Administration must prepare supplemental budgetary legislation, which then requires the review and approval by the Legislature. Targeted line item consolidation offers a more efficient and effective approach to managing the Commonwealth's budget.

Account Summary

FY10 GAA	644 Line Items
FY11 House 2	542 Line Items
Result:	**102 Fewer Line Items**

It is simply impossible to accurately predict the exact needs of individual programs as economic conditions continue to evolve. The reductions to agency budgets included in the House 2 recommendations will continue to be evaluated over the coming months, and final plans will be developed for individual programs, services and employee levels. In developing their plans to live within these budget constraints, managers will be tasked with evaluating programs and services based on need and priority. The flexibility of a consolidated line-item structure to move funds from one program or service to another will be essential to this effort.

Example – Department of Public Health

The mission of the Massachusetts Department of Public Health encompasses critical services from substance abuse treatment to domestic violence prevention; from hospital care for inmates to inspections to ensure a clean, livable environment for residents in the Commonwealth's long-term care facilities. Over time, line items within the Department have become fragmented into over 50 budgetary line items. The Patrick-Murray Administration's effort to consolidate the DPH line items will allow for efficiencies in programs that reach similar populations, permit the Department to leverage resources, and allow the Department to respond to evolving public health needs.

The proposed Health Promotion, Violence Prevention and Workforce Expansion line item is comprised of 13 individual line items that represent services that impact the wellness of families and their individual members.

4510-0110	Community Health Center Services	**4510-2500 Health Promotion, Violence Prevention and Workforce Expansion**
4510-0715	Primary Care Center and Loan Forgiveness Program	
4510-0810	Sexual Assault Nurse Examiner and Pediatric SANE Programs	
4512-0500	Dental Health Services	
4513-1024	Shaken Baby Syndrome Prevention Program	
4513-1026	Suicide Prevention and Intervention Program	
4513-1111	Health Promotion and Disease Prevention (includes Hep C, BEHA, and BLC)	
4513-1130	Domestic Violence and Sexual Assault Prevention and Treatment	
4530-9000	Teenage Pregnancy Prevention Services	
4590-0250	School-Based Health Programs	
4590-1506	Violence Prevention Grants	
4513-1000	Family Health Services	
4000-0112	Youth-At-Risk Matching Grants	

ENSE PETIT PLACIDAM SVB LIBERTATE QVIETEM

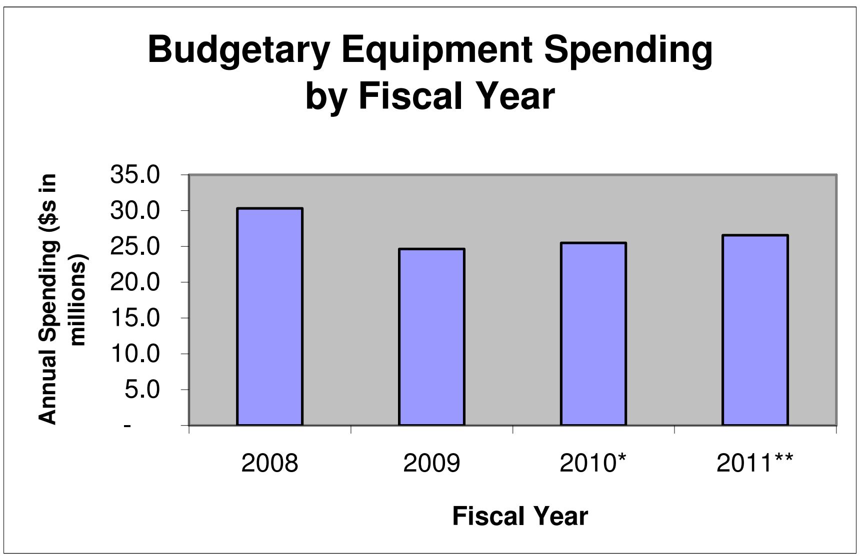
FY11 House 2 Budget Recommendation
Issues in Brief
Deval L. Patrick, Governor
Timothy P. Murray, Lt. Governor

Capital to Operating Transfer

For a number of years, personnel and other goods (paper, utilities, etc.) have been charged to capital accounts – resulting in millions of additional dollars in interest payments while reducing the amount of money available for statewide construction projects. The practice of shifting operating costs to the capital budget was born years ago during tough economic times like those we are currently experiencing. In 2008, the Legislature authorized the option to borrow $50 million per year to fund the acquisition of equipment on the capital budget instead of the operating budget. The borrowing was part of Governor Patrick's no-cost mechanism for shifting employees and other budgetary expenses off the capital budget with the goal of significantly scaling back the fiscally imprudent practice of funding these expenses with debt.

Each year, the operating budget includes purchases for the following types of equipment:

- Computers, computer cables and two-way radios;
- Cars, trucks and all terrain vehicles;
- Lawnmowers, snow blowers, power tools and other equipment; and,
- Construction supplies such as lumber and hardware.



*FY10 Estimated Spending
**FY11 Proposed Spending

Using the $50 million bond authorization, the Executive Office for Administration and Finance (A&F) will direct agencies to purchase durable goods with a life span of five years or more through the annual capital budget. The money budgeted for these durable goods in the annual operating budget will then be used to transfer existing employees paid from bond funds to the operating budget. If a line-item funded the acquisition of durable equipment, Outside Section 26 of the Governor's budget will allow A&F to transfer that amount to another line-item to fund the cost of personnel that would have otherwise been funded from the capital budget. With line item transferability, the Governor can ensure that the initiative is cost neutral to the operating budget while reducing the costly practice of funding employees through bond proceeds.

Outside Section 26 of the Governor's Fiscal Year 2011 budget completes the reforms started in 2008. The Administration is committed to monitoring transfers to ensure their appropriateness, while also looking for fiscally responsible ways to bring proper costs back onto the operating budget. The total amount of such transfers cannot exceed $50 million, and A&F will be required to give the Senate and House Committee on Ways and Means a schedule of all such transfers.

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Information Technology Consolidation

In fiscal year 2010, IT leaders across the Commonwealth enacted the provisions of Executive Order 510 *Enhancing the Efficiency and Effectiveness of the Executive Department's Information Technology Systems.* Their work includes consolidating IT spending, operations, administrative functions, and physical IT infrastructure at the Commonwealth and Secretariat levels. The Patrick-Murray Administration's fiscal year 2011 House 2 Budget reflects the progress and efforts made toward consolidation.

Why is IT Consolidation Important?

IT Consolidation will dramatically improve the Commonwealth's current IT environment which has been too complex, too difficult to maintain, and impossible to secure. In only 10 months, consolidation has begun to combat these challenges by aligning Secretariat IT resources with their business strategies and priorities; building a stronger and more agile IT workforce; and standardizing IT resources to make infrastructure more robust and services more reliable. The ultimate result will be government services that are more efficient, transparent and responsive to the public.

How is the Commonwealth implementing IT Consolidation?

E.O. 510 defines a unique model for IT consolidation that balances standardization and economies of scale, with responsiveness to Secretariat business needs. Per Governor Patrick's Executive Order, a strategic two-year work plan was developed by the Commonwealth Chief Information Officer, with three key phases of Secretariat and Infrastructure consolidation: high-level planning, detailed planning, and implementation.

High-level planning began in the fiscal year 2010 budget with the consolidation of IT spending and personnel into eight secretariat budgetary and eight intergovernmental service accounts. During the first phase, the Secretariat Chief Information Officers (SCIO) and other secretariat leaders, such as Human Resource and Finance staff, met regularly to discuss best practices, collaborate on spending and governance decisions and identify common technology solutions. One notable outcome of this collaboration is the negotiation of a Commonwealth-wide Oracle license that will save the Commonwealth an estimated $50 million over the next 5 years.

Detailed planning focused on developing inventories of IT assets and workforce and creating detailed plans to consolidate Secretariat Helpdesks, Desktop and LAN organizations and redundant applications.

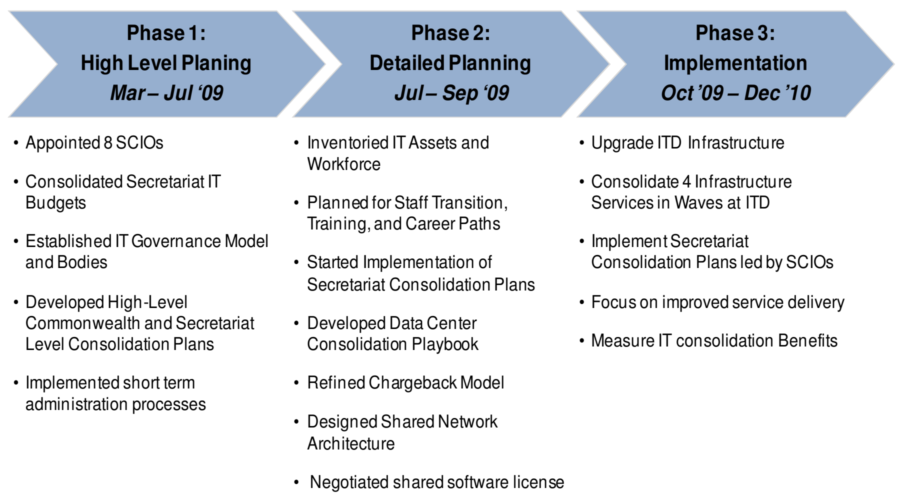


Figure 1. Phases of IT Consolidation

While currently in phase three, IT assets are being consolidated and streamlined. Data centers are being moved into one of two Commonwealth data centers. This will enhance security and reduce the risk that constituent information could be compromised. Hundreds of Commonwealth employees have been moved to the MassMail email system, and thousands more will transition over the course of 2010. The Commonwealth will communicate with a single tool for the first time. Consolidation of IT assets are being supported by training and redeployment activities underway for human resources. With these workforce development activities, the Commonwealth's IT staff will become stronger and more flexible, and we will reduce our dependence on expensive contractors. The consolidation of IT assets and human resources will be enabled by new operating models that streamline the administration of Secretariat IT services. These operating models require the authorizing language reflected in Outside Section 5 of House 2 that allow Secretariats to “share services” such as processing payroll for IT employees and bill-paying. As described in the issues brief outlining the benefits of a Shared Service Model, this language does not make changes to current decision-making authority, but does allow “back room” functions to be performed in an efficient manner. The language proposed will enable the successful completion of consolidation by the target date specified in E.O. 510.

IT Consolidation is supported by the work of nearly 60 working groups and more than 400 people. With continued support from the Patrick-Murray Administration and the Legislature, IT Consolidation will be substantially complete before 2011.

Benefits of a Successful Consolidation
IT Consolidation has developed a program to track, measure and report on the program benefits as required by E.O. 510. Consolidation will result in efficiency, effectiveness, and information security.

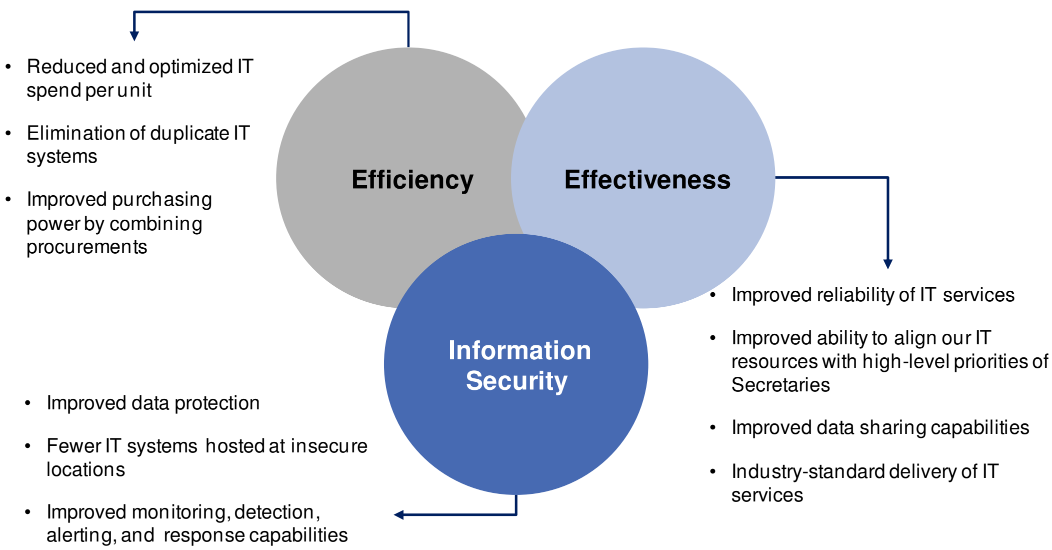


Figure 2. Benefits of IT Consolidation

Efficiency – The Commonwealth will spend and invest in IT more wisely.

Effectiveness – Our IT services will be delivered more reliably and with better alignment to business priorities.

Information Security – Information will be more secure and protected using industry leading practices.

Efficiencies from IT Consolidation will enable key reinvestments in creating a stronger IT workforce, and make infrastructure more robust and services more reliable.

For More Information:
The Commonwealth’s IT Consolidation program has been recognized as one of the most transparent of its kind in the country. Citizens, employees and leaders alike can find detailed program information on the IT Consolidation wiki page: https://wiki.state.ma.us/confluence/display/itconsolidation/Home.

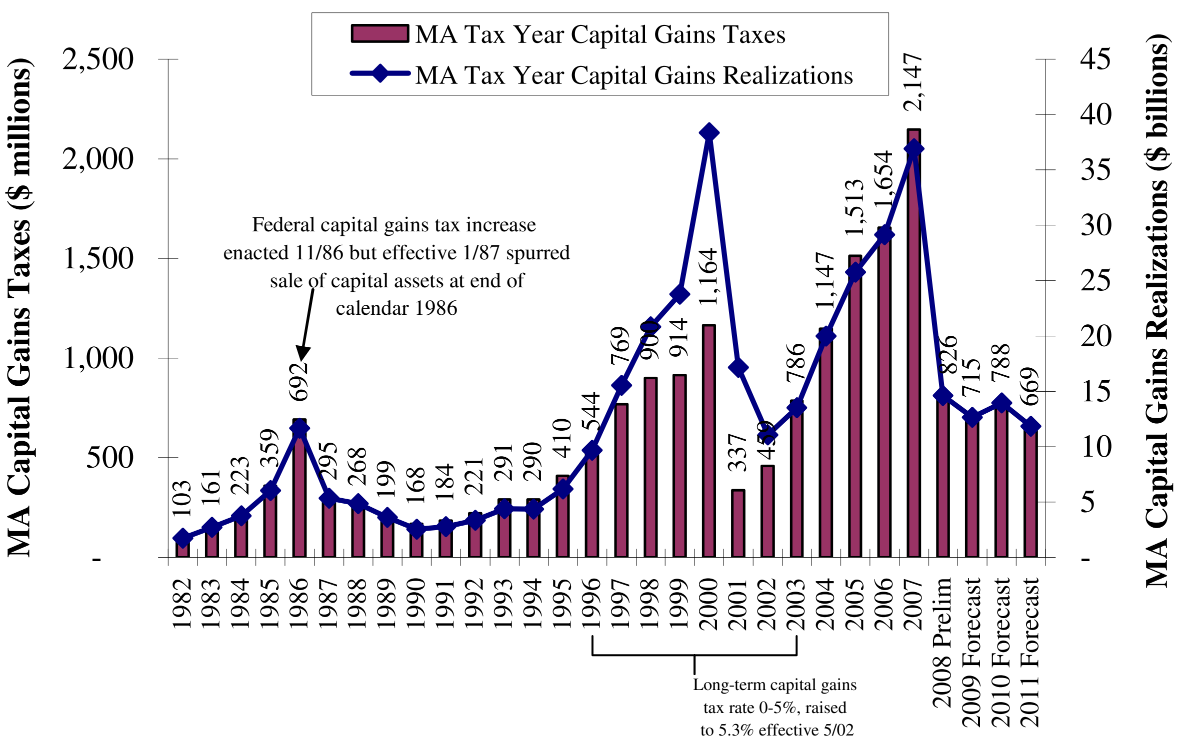
Capital Gains Revenue in the Budget

Commonwealth's Reliance on Capital Gains

By nature of their reliance on tax revenue, state budgets are subject to the ups and downs of the economic cycle. Massachusetts is no exception. The current economic crisis demonstrates that the volatility of the Commonwealth's budget is exacerbated by its reliance on capital gains tax revenue to support spending. To address this problem, House 2 includes a proposal to reform the way the state budgets for capital gains tax revenues to promote fiscally sound budgeting practices and curb the problem of recurring structural deficits.

Tax receipts from capital gain income are the state's most volatile source of revenue. These tax revenues nearly doubled from fiscal year ("FY") 2004 to 2008, from $869 million to $2.2 billion, but fell by over $1.6 billion to $554 million in fiscal year 2009. While some of the revenue during the 2004-2008 period was used to replenish the state's Stabilization Fund, there was no formal policy guiding the use of these revenues. Without such a policy, fluctuations in tax revenue can contribute to structural budget deficits when the state makes spending commitments during strong years that cannot be fully sustained when the economy declines.

Massachusetts Capital Gains Realizations and Taxes



Figures included in Chart are on a Tax Year Basis. Figures will differ slightly from Fiscal Year Amounts cited in this Policy Brief.

The Governor's Recommendation

To address this problem, Section 13 of House 2 establishes a new mechanism for budgeting for capital gains revenues. This proposal provides that any capital gains revenues that exceed $1 billion in the fiscal year will be transferred to the Commonwealth Stabilization Fund, sometimes called the "rainy day fund." But 5 percent of that excess will instead be transferred to the State Retiree Benefits Trust Fund, where it will be used to address the Commonwealth's liability for its retirees' health insurance and other non-pension retirement benefits.

How was the $1B threshold established?

Long-term historical averages are largely in the range of $0.9 - $1.2 billion, depending on the time period and inflation assumptions. The Administration proposes to use a conservative figure to ensure discipline and in light of the recent steep decline in the stock market. This decline has resulted in a significant amount of unrealized losses and capital loss carryovers that will likely dampen growth in revenue from capital gains income over the next several years.

Average Annual Revenue from Capital Gains
Normalized for Changes in Tax Law
Historical Adjusted by:

	Inflation (CPI)	GDP
1981-2010	0.9	1.1
2001-2010*	1.2	1.2

All figures in 2009 dollars
*Includes estimated for 2008 and projected for 2009-10

The deposit of excess capital gains tax revenues to the state's Stabilization Fund during periods of economic prosperity would serve as a "cushion" in years when markets decline and capital gains revenues fall. This will help ensure that the state does not build recurring spending on a foundation of unsustainable levels of revenue and help mitigate the fiscal impact of economic downturns.

Capital Gain Proposal Pro Forma Based On Historical Results

Fiscal Year	Forecast Cap Gains Rev	Actual Cap Gains Rev	Excess	Net Deposit into Stab**	100% Over $1 billion
2003*	856	725	-131	0	0
2004	419	869	450	496	0
2005	579	1,238	659	591	238
2006	1,011	1,592	581	426	592
2007	1,709	1,720	11	180	720
2008	1,509	2,173	664	0	1,173
2009	1,626	554	-1,072	0	0
Total Deposits				**1,694**	**2,724**

*Adjusted for change in capital gains tax rate effective May 1, 2002
**For Historical Results, this is based on Net deposits for years where this was positive

Will the threshold change?

The methodology above describes a rational basis that can be further developed as more information becomes available. Future developments might include adding an automatic inflation adjustment factor, developing an agreed upon methodology that is forward looking, adjusting the threshold, and/or broadening the approach to include other volatile sources of tax revenue.

This policy incorporates elements of earlier proposals made by both the legislature and the Governor. It includes a clearly identified threshold as suggested by the conference proposal in an amount that is informed, in part, by longer-term trends. The $1 billion threshold, moreover, is expected to retain spending flexibility during the current economic downturn, while establishing a plan to set aside rainy day funds when the economy recovers. In this manner, the policy takes and important step towards establishing a sustainable, structurally balanced budget.

Long-Term Retirement Liabilities

Creating a Sustainable Retirement Benefit System

The Patrick-Murray administration has taken a proactive and comprehensive approach to addressing the funding challenges associated with the Commonwealth's pension and Other Post-Employment Benefits (or "OPEB") liabilities. The Governor's proposals to modernize and end abuse of the state's pension system will ensure its sustainability in the wake of recent declines in pension assets. The Governor has also taken steps to fund and reduce the costs of retiree health benefits that compose the OPEB liability. Finally, the administration has directed the Secretary of Administration and Finance to establish an internal task force to further study the ongoing challenge of funding these liabilities with limited government resources.

Pension Reform to ensure a Sustainable System

The administration recently proposed legislation to ensure a fair, credible and fiscally sustainable pension system for public employees. Phase 1 pension reform addressed long-standing abuses and loopholes, including:

- Removing the "one day, one year" provision that allowed elected officials to claim a year of creditable service for working one day in the calendar year;
- Removing the "king for a day" practice of paying exaggerated future benefits on the basis of a short-term temporary assignment to a higher salaried supervisory position and;
- Removing a provision that allows elected officials to claim a "termination allowance" based on the failure to be nominated or re-elected.

The Administration's recent Phase 2 pension reform initiatives protect the long-term health of the system by capping benefits and modernizing the retirement ages for state employees. Proposed changes to the retirement ages, which have not been updated since the 1950's and 1960's, include raising the minimum retirement age and aligning the full retirement age for Group 1 employees with that used for Social Security. A separate budget brief describes these pension reform proposals in more detail. These initiatives will reduce the cost of the pension system by $2 billion over the next 30 years and ensure that the system can continue to provide fair and reasonable retirement benefits to the employees who work in the service of Commonwealth taxpayers.

Disciplined Pension Funding

The Commonwealth has maintained a disciplined approach to funding pension liabilities during challenging economic conditions. This is reflected in the administration's decision to maintain the existing funding schedule for the state's pension system in fiscal year 2011. There will, however, continue to be challenges to address the state's unfunded liability, which increased by 82% to $22B during 2008 as a result of investment losses in the pension fund. These issues prompted the formation of a Retirement Liability Funding task force as further described below.

Proactively Addressing OPEB

The challenge of funding the state's OPEB liability is being addressed through several initiatives which include steps to reduce the liability and to provide additional funding on top of the $397 million deposited into the State Retirees Benefits Trust Fund. The estimate of this liability as of January 1, 2009 was $15 billion, as calculated in compliance with the accounting standards promulgated in 2004 by the Governmental Accounting Standard Board (GASB). The Governor has taken steps to reduce this liability by seeking and obtaining legislation to reduce the state's share of the cost of health insurance benefits for employees and future retirees by increasing co-pays and deductibles paid by employees and retirees. In addition, in the Governor's proposal to limit the state's reliance on capital gains, he proposed depositing 5% of any capital gains tax revenue over $1 billion into the State Retirees Benefits Trust Fund to help fund the OPEB liability.

Maintaining Focus: the Retirement Liability Funding Task Force

The administration's ongoing commitment to addressing these liabilities is further demonstrated by the Governor's decision to form a Retirement Liability Funding Task Force. The task force will be lead by A&F and charged with recommending solutions to the ongoing challenge of funding the Commonwealth's unfunded retirement liabilities and the cyclical problem of funding schedules that require higher appropriations when resources are most constrained. This working group would be comprised of representatives from A&F, PERAC, the state Comptroller and outside experts, and will be charged with exploring thoughtful solutions to these long-term challenges. Concepts for consideration include the use of special actuarial techniques to accommodate extreme market volatility, funding schedules modified to address the economic cycle, and the use of more flexible schedules for poorly funded municipalities. The goal of the task force would be to make specific recommendations by the end of 2010 for consideration in the fiscal 2012 budget.

Limiting Certain Tax Expenditures

To carry out the Patrick-Murray Administration's policy of shared sacrifice during a fiscally challenging time, and based on an unprecedented thorough review of the state tax code's many preferences, we recommend limiting specific tax expenditures worth $151 million in fiscal year 2011.

What are tax expenditures?
Massachusetts law defines "tax expenditures" as "state tax revenue foregone as a direct result of [a] law which allows exemptions, exclusions, deductions from, or credits against, the taxes imposed on income, corporations, and sales."[4] Every year, as required by law,[5] the Department of Revenue prepares a "Tax Expenditure Budget" that shows how much the Commonwealth spends for each of these tax expenditures. The current Tax Expenditure Budget is published as part of the Governor's fiscal year 2011 budget proposal.

Our fiscal year 2011 review of tax expenditures
Unlike direct appropriations, tax expenditures are not usually re-examined every year, because they remain part of the Commonwealth's permanent law until the Legislature affirmatively repeals or amends them. As part of its efforts to craft this balanced budget for fiscal year 2011, the Patrick-Murray Administration conducted a thorough review of the Tax Expenditure Budget. This review involved senior staff of the Governor's office, the Executive Offices for Administration and Finance and of Housing and Economic Development, and the Department of Revenue. We recognized that many tax expenditures serve important purposes – including economic development and job creation – or simply reflect similar provisions in federal tax law. But we searched for tax expenditures that could not be justified, at least to their present extent, in the current fiscal crisis – and which could successfully be limited for fiscal year 2011.[6]

Our fiscal year 2011 budget recommendations to limit tax expenditures
Based on our review, the Governor's fiscal year 2011 budget recommends limiting certain tax expenditures, with resulting savings of $151 million.

Category	FY11 Savings
Temporarily limit film tax credits – House 2 limits total film credits to $50 million for each of fiscal years 2011 and 2012. The temporary nature of this cap should not interfere with long-term plans to build film studios and will ultimately keep Massachusetts among the most competitive states for this significant industry.[7]	$75 million
Temporarily limit life sciences tax credits – Although promoting the critical life sciences industry remains one of our top economic development priorities, we will administratively reduce fiscal year 2011 tax credit awards by $5 million. This will still result in $20 million of life sciences tax credits being paid out in fiscal year 2011, a significant investment for an important Massachusetts industry.	$5 million

[4] G.L. c. 29, sec. 1.
[5] G.L. c. 62C, sec. 82(b)(2).
[6] For example, the low-income housing and historic preservation tax credits are awarded so far in advance that limiting them would have no appreciable effect on fiscal year 2011 revenues. They also serve important public purposes.
[7] This initiative is proposed in the Governor's supplemental budget, also filed today, because prompt enactment by March 2010 is necessary to obtain the estimated fiscal year 2011 savings.

Prepared by David Sullivan, Executive Office for Administration and Finance
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Category	FY11 Savings
Repeal aircraft sales tax exemption – This exemption can no longer be justified, especially since cars and boats are not exempt, and other states are likely to apply use taxes to aircraft if we do not. We do not seek to repeal the exemption for aircraft parts, because of the benefit that serves for our small airports. Repealing the exemption generates $5 million, and $800,000 is used to support school building construction.	$4.2 million
Repeal sales tax exemption for candy and soda – Repealing this exemption serves important public health purposes and will support critical wellness and prevention programs, as described in a separate budget brief. Repealing the exemption generates $61.6 million, and nearly $10 million is used to support school building construction.	$51.7 million
Remove exemption of cigars and smoking and smokeless tobacco from 2008 tobacco excise rate – The new cigarette excise rate passed by the Legislature in 2008 did not apply to these other tobacco products. We cannot justify this distinction in view of the important health and revenue benefits. The Governor's budget directs these revenues to the Commonwealth Care Trust Fund to support the state's health reform initiatives.	$15 million

Tax credit transparency

Our fiscal year 2011 review of tax expenditures is the beginning of an ongoing process. To assist us in future efforts, and to provide the Legislature and the public with information that they also need, the Governor has again proposed a law promoting tax credit transparency. This proposal, originally made in the Governor's fiscal year 2010 budget, requires public disclosure and analysis of the results, including the number of jobs created, of a particular kind of tax expenditure, known as refundable or transferable tax credit programs. As enacted in the Legislature's fiscal year 2010 budget, however, this provision omitted important information -- especially the identity of the taxpayer -- necessary to analyze fully the effect of these tax credit programs.[8] While in general we support strict confidentiality of taxpayer information, these refundable or transferable tax credit programs are similar to other state grant programs, and should likewise include the same requirement that the recipient's identity be a public record.

[8] Therefore, the Governor returned for amendment the Legislature's version of this proposal. See FY10 veto attachment F, and H. 4143 (2009).

Fiscal Year 2011 Issues in Brief

Quality, Affordable Health Care for All

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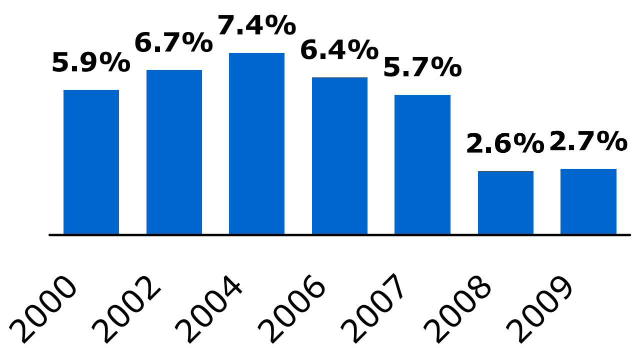
Health Care Reform

Governor Patrick and Lieutenant Governor Murray's fiscal year 2011 budget maintains our commitment to the Commonwealth's historic health care reform initiative. The Administration has implemented an innovative, thoughtful legislative vision which has transformed the way that the Commonwealth's residents access health care and has made Massachusetts a national model for how to expand coverage to virtually all of our residents. Since Governor Patrick took office in 2007, he has committed himself and his Administration to making health care reform a *success*.

Thanks to the Administration's efforts – and the continuing commitment of the Legislature and a diverse coalition of stakeholders – over 97 percent of our state's residents now have health insurance, the highest rates of insurance in the nation. Coverage levels have held steady even in the midst of a dramatic national economic downturn, a testament to the wisdom of the statutory framework for reform and the Administration's sure and steady approach to implementation.

Percentage of Massachusetts Residents Without Health Insurance



Source: Massachusetts Division of Health Care Finance and Policy. Key Indicators Report. November, 2009.

Health care reform has benefited our residents and our economy. Because of the steps we all have taken to make health insurance more affordable and accessible, there are countless people throughout the Commonwealth who have access to *their own* doctor – or life-changing medications or procedures – for the first time. Likewise, investing in health care strengthens our world-renowned medical sector – a source of daily medical miracles; an engine for job creation; and a magnet for research dollars and human talent.

The Administration has vigilantly managed the finances of health care reform, delivering expansions in coverage without breaking the back of the state budget (*see chart below*). Since its inception, the incremental net cost of health care reform to the state (net of federal reimbursement) is a little more than 1 percent of its entire annual budget. The model is working *as intended* – with the costs of expanding state coverage partly offset by lower expenses for uncompensated care; a continuing strong financial partnership with the federal government; and an enduring commitment by the vast majority of our employers to offer coverage to their employees instead of relying on the state to do so.

Health Care Reform Financing

	Pre-Health Care Reform	Health Care Reform				
	FY06 Actuals	FY07 Actuals	FY08 Actuals	FY09 Actuals	FY10 Estimated Spending	FY11 H.2
MassHealth Spending	$ -	$ 511	$ 642	$ 796	$ 712	$ 729
Commonwealth Care	$ -	$ 133	$ 628	$ 805	$ 723	$ 838
Aliens With Special Status	$ -	$ -	$ -	$ -	$ 40	$ 75
Uncompensated Care Pool/Health Safety Net Trust Fund	$ 656	$ 665	$ 416	$ 420	$ 420	$ 420
Total Spending	**$ 656**	**$ 1,309**	**$ 1,686**	**$ 2,020**	**$ 1,895**	**$ 2,062**
Health Safety Net Provider Assessment and Insurer Surcharg	$ 320	$ 320	$ 320	$ 320	$ 320	$ 320
Federal Financial Participation (FFP)	$ 303	$ 816	$ 888	$ 1,273	$ 1,260	$ 1,271
Total Revenue	**$ 623**	**$ 1,136**	**$ 1,208**	**$ 1,593**	**$ 1,580**	**$ 1,591**
Total State Share	**$ 33**	**$ 173**	**$ 478**	**$ 428**	**$ 315**	**$ 471**

Notes on MassHealth:
MassHealth spending includes eligibility and service changes, fee-for-service rate increases, MCO rates under Section 122, and Section 122 supplemental payments, on a date-of-service basis. No enrollment increases besides those that were directly attributable to eligibility changes have been included in this analysis. Does not include supplemental payments to managed care organizations, the non-federal share of which was funded through local revenues (versus state funds) and which accordingly did not result in state costs. Spending for fiscal year 2010 is projected.
Notes on Uncompensated Care Pool/Health Safety Net Trust Fund:
Spending includes offsets from the Medical Assistance Trust Fund. Uncompensated Care Pool/Health Safety Net spending based on UCP/HSN 10/1-9/30 fiscal year. Health Safety Net payments for fiscal year 2009 is based on latest projection. Health Safety Net payments for fiscal year 2010 and fiscal year 2011 are based on available sources.
Notes on Commonwealth Care:
Commonwealth Care spending is net of enrollee contributions.
Notes on Revenue:
FFP includes FMAP on listed spending and Designated State Health Programs (DSHP), and increased FMAP under the federal stimulus bill. The enhanced FMAP for fiscal year 2011 assumes an unemployment tier 3 for the first six months and tier 2 for the second six months. Does not include new revenues dedicated to health care reform (*e.g.*, Fair Share assessment, $1 per pack increase in cigarette taxes).

MassHealth

The Massachusetts Medicaid program provides comprehensive health insurance to approximately 1.2 million low-income Massachusetts children, adults, seniors and people with disabilities. Health care reform expanded MassHealth eligibility to children with incomes up to 300 percent of the federal poverty level and broadened eligibility for the Insurance Partnership Program to individuals up to 300 percent of the federal poverty level. It also restored certain benefits that had previously been eliminated.

The Administration's fiscal year 2011 budget includes $9.84 billion for the MassHealth program. This is 6.5 percent higher than fiscal year 2010 estimated spending of $9.237 billion. The fiscal year 2011 budget fully maintains eligibility for Massachusetts residents and funds projected enrollment growth of 3 percent.

MassHealth Average Enrollment

	FY07	FY08	FY09	FY10	FY11	Percent Increase
HMO	349,042	372,403	400,030	433,152.00	461,868	6.6%
PCC	293,645	302,819	313,047	357,943.00	362,218	1.2%
TPL	185,213	189,229	188,895	152,436.00	155,929	2.3%
Seniors	106,664	108,629	109,761	112,400.00	113,837	1.3%
FFS	161,091	166,204	166,188	164,212.00	162,896	-0.8%
Total	**1,095,655**	**1,139,284**	**1,177,921**	**1,220,143.00**	**1,256,747.29**	**3.0%**
% Change	**5.1%**	**4.0%**	**3.4%**	**3.6%**	**3.0%**	

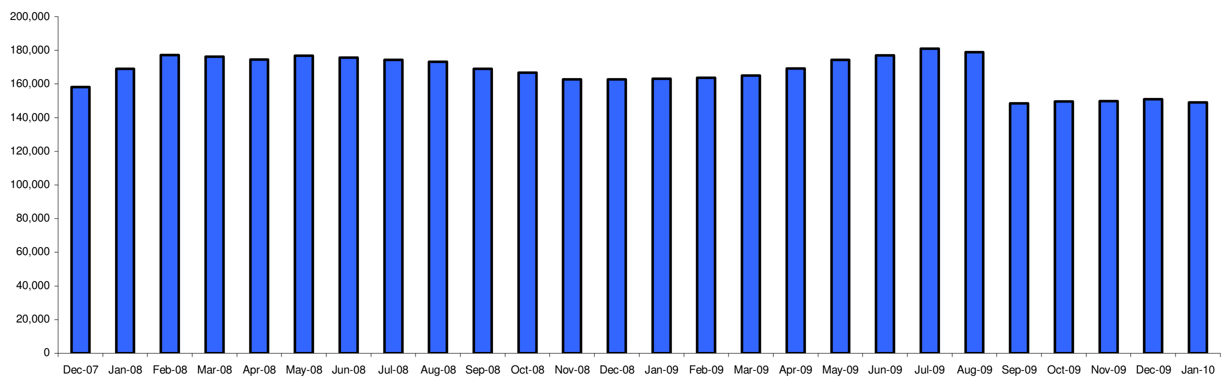
Programs with significant spending and utilization increases include the Children's Behavioral Health Initiative (CBHI), Adult Day Health, Personal Care Attendants, Day Habilitation and Home Health. The budget also keeps MassHealth affordable for its members. Due to smart fiscal management and leveraging the most value for our spending, the only additional cost-sharing for members is a $1 increase in co-payments for generic drugs, and this modest increase will not be applied to antihyperglycemics, antihypertensives and antihyperlipidemics (which are used to manage and treat long-term, chronic medical conditions).

The budget keeps MassHealth costs affordable for the state and members by maintaining appropriate discipline on rates, introducing new program integrity measures and restructuring adult dental services. The MassHealth adult dental benefit is restructured to cover preventative and emergency services only, excluding restorative dental services. This change will not impact children or intellectually disabled members with active cases through the Department of Developmental Services, and all other members impacted by this restructuring will have access to restorative dental services at Community Health Centers through the Health Safety Net. Revenue initiatives at MassHealth include restructuring payments for prescription drug coverage in managed care plans to achieve higher drug rebate revenues, and expanding the Health Safety Net payer surcharge to Managed Care Organizations serving MassHealth and Commonwealth Care members to provide additional funding for MassHealth and Commonwealth Care.

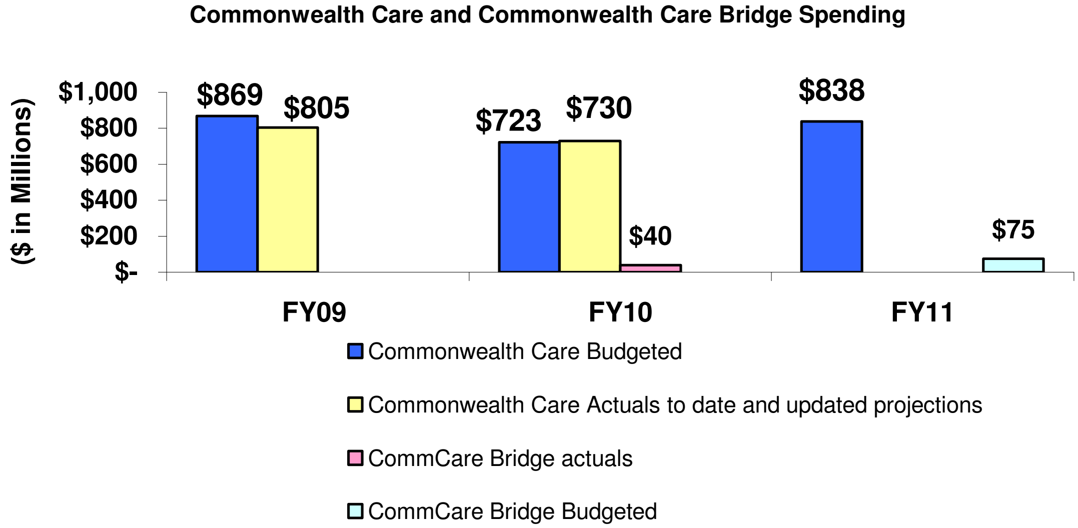
Commonwealth Care

The Commonwealth Care program was created with the enactment of health care reform. The program provides health insurance coverage for individuals under 300 percent of the federal poverty level that do not have access to employer-sponsored insurance. Commonwealth Care fully subsidizes individuals under 100 percent of federal poverty level and institutes a sliding scale of member premiums for those above that income threshold. It provides health care services through a fully capitated insurance model. As of January of 2010, there are approximately 150,110 members enrolled in Commonwealth Care, excluding the Aliens with Special Status Population (*see next section on Commonwealth Care Bridge*).

Commonwealth Care Enrollment



The budget fully preserves current eligibility for Commonwealth Care and invests \$838 million to fund additional enrollment in the program in fiscal year 2011 (to fund over 20,000 additional members in the program from current enrollment levels). The budget does not include any increases in Commonwealth Care enrollee premiums. Plan Type 1 co-payments would increase by only \$1 for generic drugs, consistent with MassHealth changes, with no co-payment increases for Plans Type 2 and 3. Existing dental coverage for Plan Type 1 members would be restructured in the same manner as MassHealth dental benefits.



Combined funding of $913 million for Commonwealth Care ($838 million) and the Commonwealth Care Bridge program for Aliens with Special Status ($75M) is 5 percent more than what was budgeted for Commonwealth Care in the General Appropriations Act for fiscal year 2009. Comparing fiscal year 2009 spending and the fiscal year 2011 budget proposal, Commonwealth Care spending (including coverage for Aliens with Special Status) has grown by 6.7 percent on average per year.

Commonwealth Care Bridge

Aliens with Special Status (*legal* immigrants who have resided in the U.S. for less than five years) lost eligibility for Commonwealth Care in fiscal year 2010, due to the extreme fiscal challenges accompanying the national economic downturn and the fact that the federal government does not reimburse states for health insurance coverage for this population. A separate investment of $40 million was appropriated to provide health insurance for this population. This coverage is now available through the newly created Commonwealth Care Bridge program.

Commonwealth Care Bridge currently provides coverage to approximately 26,000 Aliens with Special Status, who were enrolled over a three-month period from October to December of 2010. Enrollees have been eligible to receive care through a network of providers that fully meets the Connector's Commonwealth Care network adequacy standards. While cost-sharing is in some instances higher than that for Commonwealth Care and some benefits are excluded, steps have been taken to reduce any hardships for members.

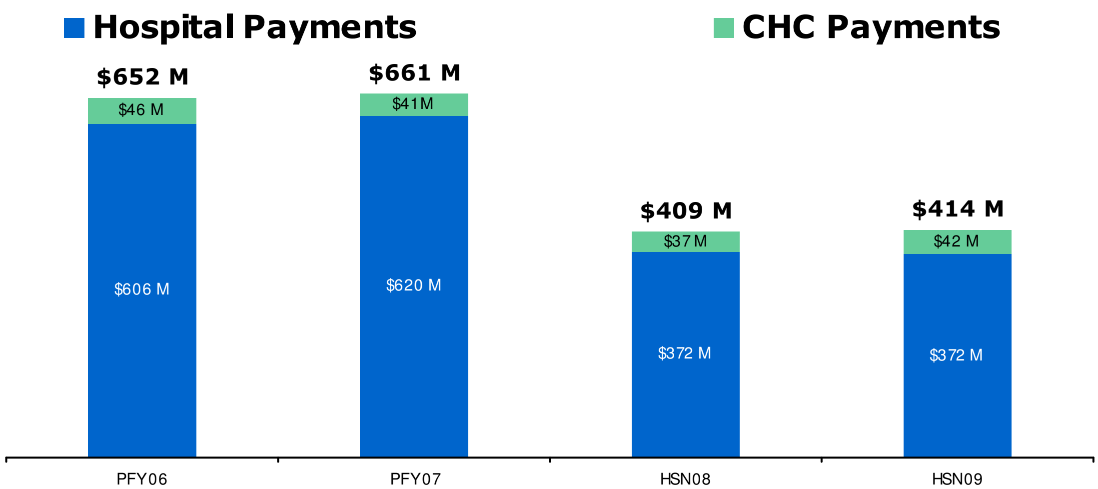
The Administration's fiscal year 2011 budget includes $75 million for the Commonwealth Care Bridge program. This program will continue to be run by the Secretary of Administration and Finance, the Secretary of Health and Human Services and the Executive Director of the Connector.

This is major growth in funding for coverage for Aliens with Special Status, particularly in a very challenging fiscal environment. This reflects the Administration's continuing, deep commitment to providing health insurance to these hardworking legal residents of the Commonwealth. The Administration's ultimate goal remains fully integrating Aliens with Special Status into Commonwealth Care. While that is not possible in the current fiscal environment (particularly given current federal reimbursement policy), our proposed approach for fiscal year 2011 builds on last year's accomplishments and thus makes progress towards fully reintegrating this population into Commonwealth Care. With that $75 million investment – and with our intention to be aggressive in maximizing its value – our vision and goal is to expand the capacity of Commonwealth Care Bridge.

Health Safety Net

Overseen by the state's Division of Health Care Finance and Policy, the Health Safety Net (HSN) reimburses hospitals and community health centers for health care services provided to low-income uninsured or underinsured residents. It was formerly known as the Uncompensated Care Pool. The Health Safety Net is financed by dedicated revenues from a hospital assessment ($160 million) and insurer surcharge ($160 million), other offsetting payments ($70 million) and any state contribution from the General Fund.

Success in expanding enrollment in health insurance through health care reform has resulted in decreased Health Safety Net utilization and payments. As compared to Uncompensated Care Pool fiscal year 2007, Health Safety Net payments sustained a record drop through Health Safety Net fiscal year 2009 (from $661 million to $414 million).



Source: Division of Health Care Finance and Policy, Health Safety Net 2009 Annual Report, December 2009

Health Safety Net Fiscal Year 2010

To help reduce the burden on hospitals in Health Safety Net fiscal year 2010 (Oct. 2009-Sept. 2010) for providing care to the uninsured and underinsured, the Administration intends to dedicate accumulated Health Safety Net fiscal year 2008 and 2009 surpluses (approximately $30 million) to offset 2010 costs.

Health Safety Net Fiscal Year 2011

Despite continued fiscal challenges, the Administration is making a $30 million General Fund contribution to the Health Safety Net in its fiscal year 2011 budget proposal – maintaining fiscal year 2010 revenues for the Health Safety Net. We will continue to closely monitor the Health Safety Net to refine projections for fiscal year 2010 and 2011 demand based on updated information.

Cost Containment for our Families and Businesses

The fiscal year 2011 budget is an important statement of the Administration's continuing commitment to health care reform. But the Administration's efforts to improve the quality and affordability of health care extend well beyond the state budget. The Administration inherited a longstanding, national and state problem of rapidly growing health care costs for families, businesses (particularly small businesses) and government – escalating at rates that outstrip their capacity to keep up. This problem was not created by health care reform, but it does threaten the long-term sustainability of reform and, more fundamentally, force harmful choices between paying for health care and meeting other family needs, creating jobs or investing in other important public priorities.

Governor Patrick has rolled up his sleeves and begun the hard work of health care cost containment. Key Administration cost containment initiatives include:

- *Payment Reform:* The Administration has broken new ground on payment reform, leading a State Special Commission on the Health Care Payment System to unanimously endorse a groundbreaking blueprint to reward *value* instead of *volume* when it comes to paying for health care.

- *All-Payer Claims Database:* The Administration's Division of Health Care Finance and Policy is moving forward on implementing an all-payer claims database to promote a broad array of cost containment and quality improvement initiatives involving providers, payers, employers and consumers.

- *Health Information Technology:* Led by the Administration, the Massachusetts Health Information Technology Council is actively coordinating federal recovery act (ARRA) and state funding to support the meaningful use of interoperable electronic health records and develop the capacity for widespread health information exchange. More widespread adoption and use of health information technology has the potential to improve quality of care and reduce costs.

- *Health Care Quality and Cost Council:* Under the leadership of the Administration, the Health Care Quality and Cost Council has launched a website (MyHealthCare Options) that provides consumers with cost and quality ratings for hospitals across the state, so they can make informed choices about their health care. The Council has also issued a comprehensive roadmap to cost containment that reinforces the drive towards payment reform and highlights additional, system-wide opportunities for improving quality and containing costs.

- *Determination of Need:* In 2008, the Public Health Council issued regulations that strengthened the Determination of Need Program by guaranteeing proper review of any proposed major outpatient capital project or costly equipment purchase – an effort to reduce health system costs by improving health system planning. It also required public reporting of medical mistakes and hospital infections and prohibited billing by any provider for care associated with a significant medical mistake.

- *Premium and Cost Hearings:* The Administration's Division of Insurance is currently conducting intensive public hearings on health insurance premium increases facing small businesses, focused specifically on work insurers are currently doing to reduce costs and future steps that may be necessary to eliminate the substantial increases impacting the small-group market. The Division of Health Care Finance and Policy will soon follow up with a series of reports and hearings that broadly examine health care provider and payer cost trends and recommend strategies to address cost drivers.

Just as has been the case with health care reform, the cost containment initiatives launched by Governor Patrick have Massachusetts once again leading the nation and charting the path to higher-quality, more affordable health care for all.

Commonwealth Health and Prevention Fund

The Administration is dedicated to ensuring the highest quality of health and wellness for each of the Commonwealth's residents. Individual wellness is determined partly by healthy lifestyles and healthy choices. The Commonwealth strives to provide information and support for each Massachusetts resident to make healthy choices for themselves.

Wellness in Fiscal Year 2010

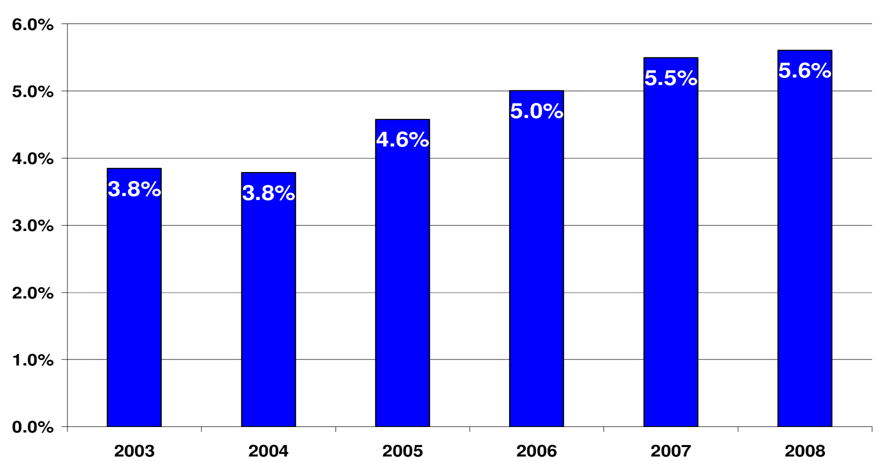
Last year, the Commonwealth took strides to encourage healthy choices and support prevention-focused programs that target the wellness of Massachusetts residents through the repeal of the sales tax exemption on alcohol. The $81 million in revenue collected from this initiative allowed the Commonwealth to continue to provide high levels of substance abuse prevention and intervention funding, despite the fiscal challenges threatening these critical programs.

Wellness in Fiscal Year 2011

The Governor's fiscal year 2011 budget proposes eliminating the exemption for soda and candy. In addition to generating over $50 million for public health programs, the repeal of the sales tax exemption is a critical first step to discouraging the consumption of these unhealthy items. Net proceeds generated from removing these exemptions, as well as the $100 million in sales tax revenues estimated to be collected in fiscal year 2011 from alcohol sold in package stores, will be deposited into the Commonwealth Health and Prevention Fund to support critical public health programs. All other food products that are currently exempt from the sales tax will remain exempt, in line with the exemption's original intent to ensure the affordability of necessary goods.

Childhood obesity is an epidemic in Massachusetts and the nation. Obesity in children has tripled since 1980. More than half of adults and nearly one in three high school and middle school students are overweight or obese. Consequently, the percentage of adults in Massachusetts with Type 2 diabetes has nearly doubled in the last decade. Diabetes not only causes serious illness and premature death, but also is costly.

Percentage of MA Adults with Type 2 Diabetes



Source: Behavioral Risk Factor Surveillance System 2000-2008.
Bureau of Health Information, Statistics, Research, and Evaluation. Massachusetts Department of Public Health. 2010.

Consumption of candy and soda is on the rise. Per capita candy consumption has increased steadily since the mid-1980s. Candy and soda add significant non-nutritional calories to the diets of Americans and are directly linked to obesity, especially among children[9]. One bottle of soda contains more than double the recommended daily sugar consumption and accelerates associated public health concerns and costs. The daily number of teaspoons of 'added sugar' recommended for a healthy diet and weight is between 5 and 9; a 20 ounce bottle of soda alone contains 17 teaspoons of added sugar. Such added sugar intake increases a child's propensity towards obesity by 60%.[10] Children and adults who consume calorie-laden 'junk' foods have less appetite for healthier foods at meal time, creating a vicious cycle of calorie intake and nutritional deficiencies.

In addition to posting calorie information on the menu boards of chain restaurants and providing parents with the Body Mass Index number of their children, Massachusetts will support various other nutrition and wellness programs via the revenue collected by repealing the sales tax exemption on candy and soda. The Working on Wellness Program, a project that engages public and private employers to establish internal infrastructures to support wellness programs that will improve the overall health and productivity of employees, has expanded to 23 employers reaching over 20,000 Massachusetts workers. These revenues are critical to make further progress in innovative wellness programs and mitigate deeper budgetary reductions in programs that support health and prevention activities.

Massachusetts joins 40 other states that apply sales taxes to soda and candy products in this effort to promote public health and minimize the escalating costs associated with obesity.

Regional States That Apply Sales Tax To Candy and Soda	
Connecticut	
Maine	
New Jersey	
New York	
Rhode Island	
Other States That Apply Sales Tax To Candy and Soda	
Alabama	Mississippi
Arkansas	North Carolina
California	North Dakota
District of Columbia	Nebraska
Florida	New Mexico
Georgia	Oklahoma
Hawaii	South Carolina
Idaho	South Dakota
Iowa	Tennessee
Illinois	Texas
Indiana	Utah
Kansas	Virginia
Kentucky	Washington
Maryland	Wisconsin
Minnesota	West Virginia
Missouri	Wyoming

Source: The MayaTech Corporation and the Institute for Health Research and Policy, University of Illinois.
State Snack and Soda Taxes from 2003-2007:
A Public Health Policy Approach to Discouraging Consumption of Snacks and Soda. 2007.

Massachusetts has long been an innovator in health care and public health. The public health programs that serve the people of the Commonwealth reflect the Administration's commitment to preventative care and wellness services. $151.7 million ($51.7 million of which is new revenue generated from eliminating exemptions on soda and candy, while $100 million is from last year's repeal of the sales tax exemption for

[9] Associated Press. Scientists Target Soda as Main Cause of Obesity. 6 March 2006.

[10] UCLA Center for Health Policy Research, http://www.vcstar.com/news/2009/sep/17/ucla-study-directly-links-soda-with-obesity/

alcohol), will be dedicated to the Commonwealth Health and Prevention Fund. The fund will be used to support critical programs within the Massachusetts Department of Public Health, including:

A) **Addiction Control Services**- Substance abuse programs work with communities and youth-at-risk for substance abuse to provide positive alternatives to drug use, critical treatment and step down services for abusers and guidance and support to families and children of substance abusers. Additionally, prevention and treatment services for compulsive gamblers, funded in this line item, will continue to assist individuals wrestling with the financial and economic consequences of gambling addiction.

B) **Smoking Prevention and Cessation Programs**- These programs have helped to produce a dramatic reduction in tobacco use, especially among youth, over the past decade. These programs will build on this success to reduce tobacco use and abuse in the Commonwealth.

C) **Health Promotion, Violence Prevention and Workforce Expansion** – The programs within this service category speak to the scope of the work that occurs at the Department of Public Health. Programs such as domestic violence prevention and treatment, suicide prevention, sexual assault nurse examiners (SANE), teenage pregnancy prevention, violence prevention grants and grants that support community centers for at-risk youth reduce violence and promote healthy alternatives to risky behaviors. In addition, these funds will support the ongoing effort to support and promote healthy lifestyles through family health programs, community health centers and disease prevention services.

D) **Children's Health and Nutrition**- The health and well-being of the Commonwealth's children are of paramount importance to the Patrick–Murray Administration. The programs supported by the Commonwealth Health and Prevention Fund for children's health and nutrition include early intervention services for developmentally delayed children, nutrition services for pregnant women and infant children, newborn hearing screening services and palliative care for pediatric patients.

Health and Prevention Fund: Fiscal Year 2011			
$151.7 Million			
Account Distribution	**Acct #**	**% Funded from Health and Prevention Fund**	**Total Health and Prevention Fund Spend**
Addiction Control Services	4510-0700	100%	**$ 81,184,876**
Smoking Prevention and Cessation Programs	4590-0300	90%	**$ 4,725,969**
Health Promotion, Violence Prevention and Workforce Expansion	4510-2500	83%	**$ 33,520,467**
Children's Health and Nutrition	4512-0120	83%	**$ 32,268,688**
		Total Wellness Fund Spending	**$ 151,700,000**

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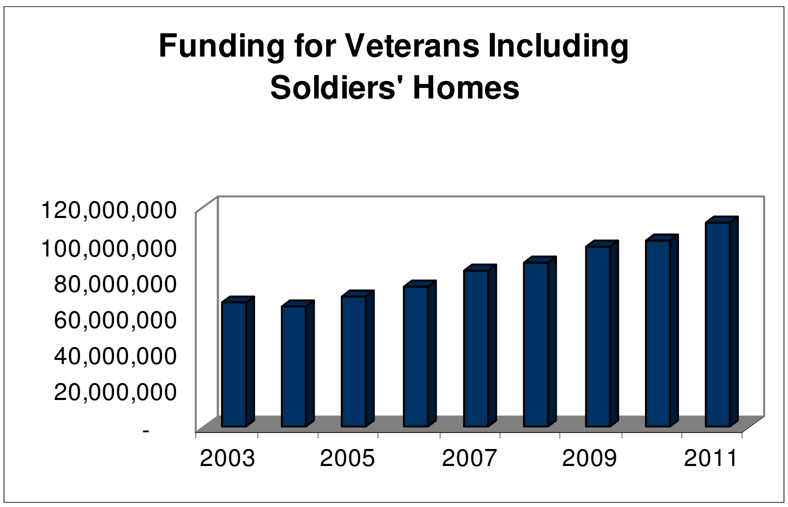
Veterans and Soldiers' Homes

Veterans living in the Commonwealth of Massachusetts are recognized for their significant contributions made to the United States in times of both peace and war. As such, Governor Patrick has made careful decisions that reinforce our appreciation of those selfless efforts. Even during times of economic uncertainty it should be remembered that Veterans of the Commonwealth have provided a service and justly deserve all of the best opportunities and benefits due to them.

In fiscal year 2011, funding for all Veterans' including the Department of Veterans' Services (DVS), the Soldiers' Home in Massachusetts- Chelsea, and the Soldiers' Home in Holyoke was maintained to ensure important services continue to be made available. Collective funding levels for these agencies increase approximately 14% over fiscal year 2010 estimated spending figures ($8 million). Comparatively, over the last 5 years these agencies have increased almost $27 million and continue to provide care and services for the rising number of Veterans' and benefits offered.



Benefits for veterans make up the largest portion of this funding increase. At DVS, funding for benefits increased approximately $7 million over fiscal year 2010 estimated spending figures. Providing benefits to veterans includes the necessary assistance with employment, food, medical treatment and concern, and housing services for over 7,500 honorably discharged Veterans. In fiscal year 2011, both consideration and funding were also provided for the 18 outreach and counseling centers and 15 homeless shelters across the Commonwealth. Almost $20 million in resources is also provided for annuity payment to over 100% disabled Veterans' and Gold Star parents and spouses which benefits over 10,000 persons.

The Soldiers' Homes in both Chelsea and Holyoke were level funded to fiscal year 2010 estimated spending figures to ensure quality and continuing care levels. Additionally, DVS and the Soldiers' Homes in both Chelsea and Holyoke were exempt from reductions that would diminish services or benefits to their consumers. Reductions made to Soldiers' Homes in fiscal year 2010 were recently overturned and outpatient services, which provide specialty on-site care to Veterans', will continue to operate with no out-of-pocket medical service costs to patients.

Governor Patrick continues to recognize the value of the remarkable efforts made by all service members by ensuring that the necessary resources are made available in fiscal year 2011 budget recommendations. To hear the Governor's message to Veterans please view the Governor's website www.mass.gov/gov.

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Fiscal Year 2011 Issues in Brief

Job Creation and Economic Growth


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Life Sciences Initiatives

The fiscal year 2011 recommendation provides up to $10 million in funding to the Massachusetts Life Sciences Center (MLSC) and assumes that $20 million in tax incentives, awarded in December, 2008, will be taken by companies. Building on the Administration and Legislature's initiative (Chapter 130 of the Acts of 2009) to promote and advance the life sciences sector in Massachusetts, the fiscal year 2011 recommendation continues to make essential investments targeted towards job growth, business expansion and new revenues for the Commonwealth.

The Governor's budget proposal makes additional funding available to the MLSC in fiscal year 2011 to provide research grants and accelerator loans to researchers and early-state companies. This will continue the state's efforts to promote Massachusetts as a global leader in all stages of business development in life sciences industries, from discovery to commercialization. Finally, this funding will allow the Center to continue its efforts to expand education and workforce opportunities to Massachusetts residents, providing experience within this high-paying and growing sector.

Outside Section 39 allocates the first $10 million of any fiscal year 2010 surplus to be made available to the Massachusetts Life Sciences Investment Fund held by MLSC. Consistent with the previous two fiscal years, this funding mechanism has provided continuing state support to the Center for grants and loans, as well as supporting the operations of the agency. While the $10 million reflects an important and necessary investment in this high-growth sector, it does reflect a lower annual appropriation than was originally called for in the 2007 life sciences initiative announced by the Governor and the Legislature. The reduced amount reflects that all segments of the state budget, including key priorities of the Administration and the Legislature, have been reduced in the spirit of shared sacrifice in this fiscal downturn.

Figure 2
Governor Deval Patrick and Dr. Susan Windham-Bannister, President and CEO of the Massachusetts Life Sciences Center, attend the opening of Biocell Center's North American Headquarters, October 22, 2009.

Success to Date

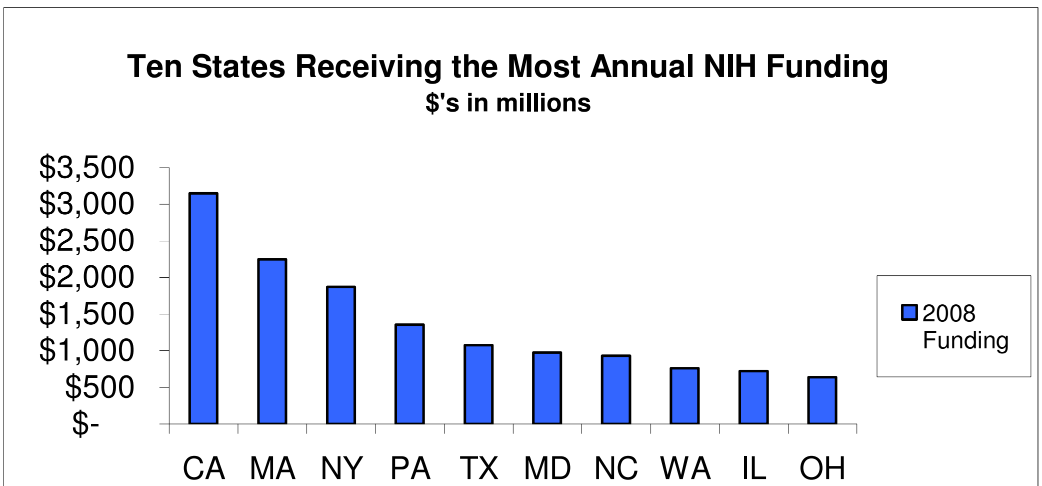
From June 2008 through November 2009, the Center has provided $155.5 million in state-funded investments for research and academic institutions, infrastructure improvements to support innovation and business expansion, internships with private life sciences employers, and matching loans to early stage companies aiming to accelerate their business expansion. These investments were matched by $679.1 million in non-state investments, leveraging funding provided by private-sector firms and the federal government under the National Institutes of Health (NIH). As a result of these initiatives, an estimated 5,371 jobs (both permanent and construction) have been created within the state, expanding a key Massachusetts industry in the face of the national and state economic downturn. In addition, these advances will have long-standing impacts on the competitiveness of the state among the world's leading centers for life sciences activity.

In December 2009, the Center announced for the first time the award of tax incentives to life sciences-related companies proposing to expand business operations and employment within Massachusetts over the next five years. In total, $25 million in tax incentives was granted to 28 companies which committed to expanding their total workforce by 918 jobs. Each company has similarly agreed to meet and maintain all projected job targets for no less than five years. It is anticipated that the indirect economic benefit from these jobs, commonly known as the multiplier effect, will result in substantial secondary job creation. Finally, based on the state revenue projections from the expanded income tax collections resulting from these new positions, the state will collect additional revenues equal to the amount of the tax incentives awarded within 5-to-6 years.

Life Sciences in the Commonwealth

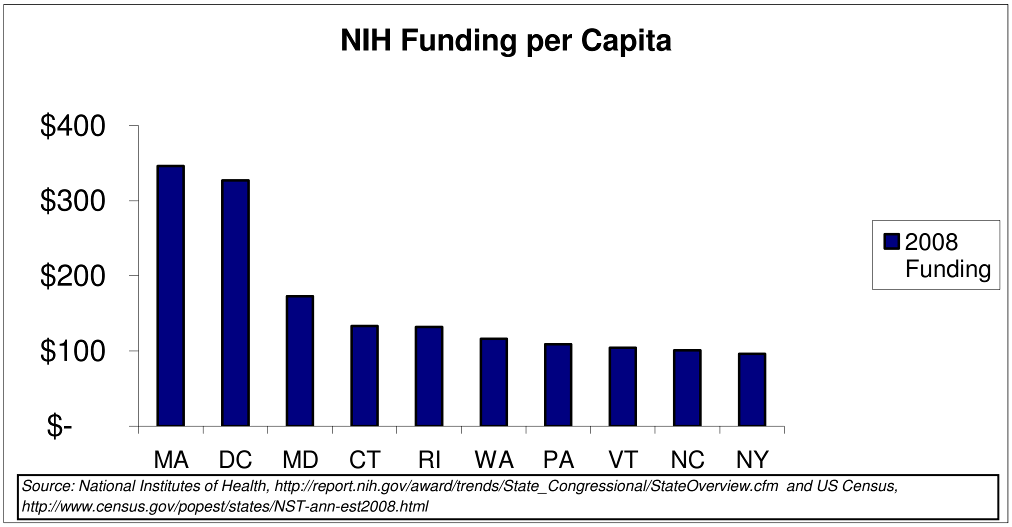
The Massachusetts life sciences sector has a wide-ranging spectrum of entities, including industry leaders in manufacturing, pharmaceutical and biotechnology research and development, as well as world-class academic and research institutions. There are roughly 80,000 Massachusetts residents employed in this sector, and hundreds of companies classified as life sciences-related are located in Massachusetts, generating billions in annual business activity.

Massachusetts' competitive position in life sciences is well-illustrated through the continued success the state has had in receiving key federal funding from NIH related to discovery and commercialization in the sector.

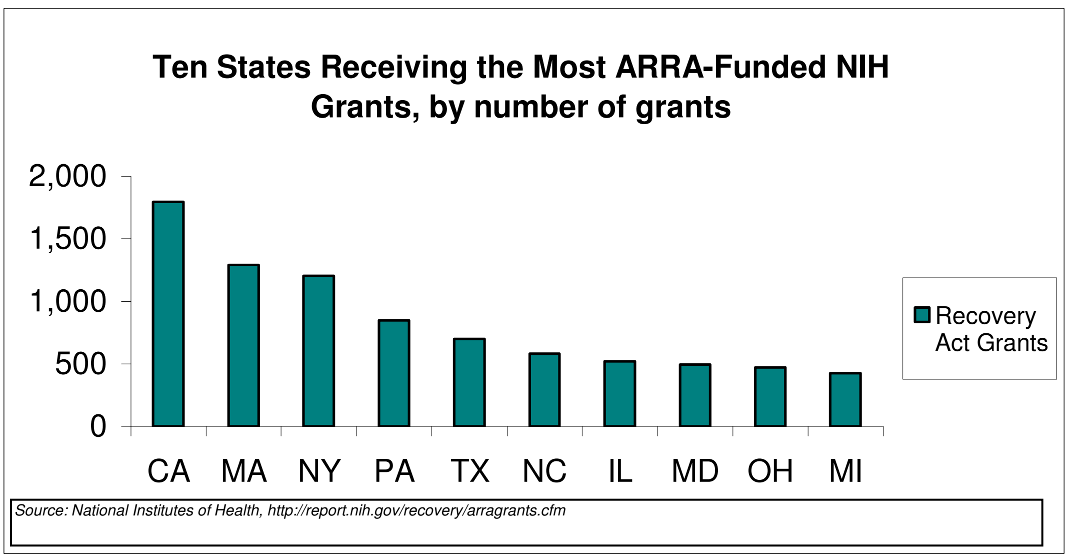


Source: National Institutes of Health, http://report.nih.gov/award/trends/State_Congressional/StateOverview.cfm

As the table above illustrates, Massachusetts continues to be a national leader in research and discovery in life sciences, securing the second largest funding amount in absolute dollars received in 2008 from NIH. Even more encouraging, however, is the fact that Massachusetts leads all states in annual NIH funding when adjusting for population.



Finally, some of the latest data demonstrates the state's continuing success. The table below outlines the competitive position Massachusetts is in with respect to NIH grants funded under the American Recovery and Reinvestment Act (ARRA), second only to California in number of awards received by researchers and institutions in the state.



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Fiscal Year 2011 Issues in Brief

Safe Communities

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Reforming Community Supervision

Incarceration-related costs are placing strain on state budgets across the country and Massachusetts is no exception. On an annual basis, the Commonwealth spends approximately $47,000 per offender compared to approximately $10,000 per K-12 student. State funding for the Department of Corrections (DOC) has increased by $175 million since 2002, from $343 million in fiscal year 2002 to $518 million in fiscal year 2009, a 51% increase. DOC currently houses over 11,300 inmates and is at 146% capacity, with projected increases in the population of 2.5% for the next 10 years.

Efforts to reduce recidivism (repeat criminal activity) and improve public safety have been the focus of the Administration's criminal justice strategy. The anti-crime package filed by the Governor and passed by the Senate includes Criminal Offender Record Information (CORI) reform, sentencing reform and tough new mandatory post-release supervision requirements. These initiatives will:

- make our communities safer;
- improve the re-entry of ex offenders into society;
- reduce escalating prison costs; and
- generate new revenue through expanded use of CORI.

The Governor proposes the additional following reforms in this budget:

- Unify offender supervision by consolidating the parole and probation systems under the Executive Branch. The Governor proposes to create the Department of Community Supervision to coordinate parole and probation services in the most comprehensive and cost-efficient manner
- Modify current laws to increase the use of electronic monitoring and home confinement, where appropriate, for those awaiting trial and not convicted of any crimes, to reduce the reliance on confinement in costly and overcrowded prisons (this proposal is already included in the package passed by the Senate); and,
- Increase the use of supervision as a re-entry tool for those nearing release from prison.

Approximately 95 percent of prisoners nationwide are eventually released back into society. This unified approach will improve public safety by reducing rates of recidivism and save millions of dollars in incarceration costs.

Benefits of Offender Supervision

Offender supervision can range from daily meetings with a parole or probation officer to electronic bracelet monitoring to 24-hour GPS monitoring. Offender supervision includes a comprehensive case plan that:

- Fosters stability in the community;
- Ensures monitoring via a case officer and tools such as electronic bracelets or GPS;
- Increases accountability through sanctions, including re-incarceration for the most serious violations of release conditions; and
- Offers re-entry services, such as job training, substance abuse treatment and education that can turn ex-offenders into working and productive members of society.

A wide variety of research confirms the public safety benefits of this approach. Most recently, the Parole Board conducted a study of inmates released in 2006 which tracked outcomes at 18 months and 36 months. It concluded that individuals who were returned to the community after being released from state and county correctional institutions without parole supervision were twice as likely to be re-incarcerated[11] after 18 months than those who had completed their term of parole supervision that same year.

Through the mandatory supervision of all inmates, whether inmates complete sentences or are granted discretionary parole, the Commonwealth will:

- Improve public safety by reducing the rate of new crimes committed by released offenders;
- Increase opportunities for offenders to more effectively transition to the community with strong monitoring, accountability, and support, in appropriate situations;
- Mitigate prison overcrowding and reduce the need for the Commonwealth to build new facilities, at a cost of $60-$80 million each; and
- Reduce the threat of a federal lawsuit as experienced in other states, such as California, resulting in millions of dollars in settlements and federally imposed sanctions (e.g. early release of inmates).

Increasing Use of Electronic Monitoring for Those Awaiting Trial

The Governor’s proposal to safely supervise individuals awaiting trial is an example of the cost benefits of community supervision. There are approximately 5,200 individuals incarcerated in state prisons and county jails awaiting trial. A majority of these individuals should stay in prison due to the nature of the charges and flight risk. However, approximately 40% of these detainees can be placed on a system of electronic monitoring and home confinement. This shift could save between $13 and $15 million across the Commonwealth, even after accounting for the cost of the system.

Benefits of Unification

Unification of probation and parole services under the Executive Branch and the consolidation of all supervision of offenders into the Department of Community Supervision under the Executive Branch will create a seamless continuum of services, decrease criminal activity and victimization, and reverse the extraordinary escalation of costs associated with duplication and inefficient administration of existing services within probation. This will improve public safety, reduce existing costs and avoid anticipated expenses associated with the growing prison population.

The consolidation of community supervision into one coherent organization, with shared services and information, will be more efficient, accountable and less costly to administer. Furthermore, having all correctional, supervision and re-entry responsibilities fall under the Executive Office of Public Safety and Security in the Executive branch (as it is in the vast majority of states) creates a seamless system of public safety. First-time and low-risk offenders would continue to be supervised, as they are now, in the community as an alternative to incarceration (traditional probation). Others will be sentenced to serve terms in the county or state correctional facilities and released through discretionary parole or receive mandatory supervision at the end of their sentence to serve terms of supervision in the community post-prison under the auspices of one oversight administration. This model also creates increased transparency and accountability to the public and Legislature.

The fragmented structure of the existing criminal justice system in Massachusetts has been highlighted as a central factor in the denial of several federal grants, including the Second Chance Act Prison Re-entry Initiative and the Transition from Prison to Community. This has resulted in the potential loss of millions of federal grant dollars and technical assistance.

Cost savings could be realized in several areas, including merging and consolidating the 21 community correction centers and 8 parole regional re-entry centers that duplicate services. To realize savings while improving services, the Commonwealth can:

[11] Massachusetts Parole Board (2009*). Research Brief- A Comparison of Recidivism Rates For Offenders Discharging from an Institution versus Parole Supervision in 2006.*

- Cancel and merge leases, reducing infrastructure costs;
- Consolidate and reduce underutilized (Community Correction Center) services;
- Eliminate the instances of dual supervision by two different agencies;
- Streamline the multiple drug testing contracts utilized by different agencies; and
- Better utilize the Community Service program, a program that puts indigent ex offenders to work.

These reforms are long overdue. As far back as 2002, MassInc noted in its report From Cell to Street that Massachusetts had a bifurcated system that was inefficient and redundant and concluded that a single agency should have both the authority and responsibility to supervise released inmates. The report recommends that agency should be under the Executive Branch, as it is in most states. [12]

Conclusion

These proposed reforms incorporate best practices and well-documented research in the field of criminal justice. Current practice is leading to unacceptable recidivism rates and overcrowded prisons. The Corrections Master Plan commissioned by the administration projects an inmate bed shortage of 8,000 by 2020. Each cell costs $100,000 to build. Thus, without any changes to reverse current trends, capital costs to build facilities to meet this demand will skyrocket towards $800,000,000. If the state commits those kinds of resources to this problem, its ability to meet other critical missions and services will be eliminated or severely compromised.

[12] Piehl, Anne (2002). From Cell to Street: A Plan to Supervise Inmates After Release. Boston: MassInc. (The Massachusetts Institute for a New Commonwealth).


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Police Training Initiative

The Governor's fiscal year 2011 budget includes an initiative to fund police training through an automobile insurance surcharge. This surcharge will fund two programs: the Municipal Police Training Committee (MPTC) and an annual state police class. The surcharge will provide $3.1 million at the MPTC for municipal police and college police training, and $3.2 million at the State Police Department for state police officer training.

MPTC provides vital support for hundreds of cities and towns across the Commonwealth, many of which are too small to operate their own police training academies. In fiscal year 2010, MPTC is funded at $2.9 million, and MPTC has struggled to offer comprehensive programming at this funding level. As a result, training programs have not been updated, and there are not enough training instructors. Once the surcharge is fully implemented, it is projected that MPTC will have the available funds to streamline programming and expand the curriculum to improve the training of municipal police officers.

Currently, there is no dedicated funding for annual state police classes, which are essential to maintaining a fully-staffed and diverse state police force. In the past, state police classes are typically funded through a line item in the budget or through a supplemental budget; however, both the amount and availability of funding have been inconsistent from year to year. Since fiscal year 2002, a new state police class has been included in an annual budget only twice and through a supplemental budget once. This initiative will revise the current curriculum, ensure state police officers are receiving quality in-service trainings, and annually fund training for a state police class of 80 recruits.

The surcharge will apply to private auto insurance policies at a rate of $1.60-$2.00 per policy per year. Currently, Massachusetts has approximately 3.1 million private auto insurance policies. This surcharge will generate enough revenue to fund both programs.

The Municipal Police Training Committee

The MPTC is statutorily mandated to provide municipal police training to the approximately 16,000 municipal police officers in the Commonwealth. Each year, 650 new municipal officers are hired and these officers are required to complete a 21-week, 800-hour recruit academy.

The MPTC has 5 regional municipal police academies located in Randolph (headquarters), Boylston, Plymouth, Reading and New Bedford. With the additional funding, the MPTC will conduct evaluations of instructors and their material to ensure uniformity. Specialized police training, such as drug raid planning and investigation, arson investigations and K-9 training will have their curricula updated.

An Annual State Police Class

Historically, the State Police Department holds a training class when only the number of troopers reaches a critically low level. This has an adverse impact on overtime costs and deployment flexibility. With the $3.2 million from the automobile insurance surcharge, the State Police will hold a yearly class for 80 new troopers. This will bring consistency to state police levels, contain overtime costs and provide deployment efficiencies. In addition, a large number of troopers, approximately 300, are eligible for retirement. An annual state police class will help to address the backfill of troopers in a timely manner so as to not jeopardize public safety.

The surcharge on auto insurance for private policies will provide a needed and dedicated revenue stream to support police training. A comprehensive training program for municipal police officers and consistent state police classes will improve community and officer safety.

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Update on County Sheriffs Transition

A year ago, Governor Patrick proposed the alignment of all 14 Massachusetts state and county sheriffs under the state budgeting and finance laws. At that time, Massachusetts had seven sheriffs operating as state agencies under the state accounting and budgeting system and seven sheriffs operating as county departments under their respective county accounting systems but with their operations predominantly funded by the Commonwealth. Governor Patrick proposed to reform this discrepancy and bring all the sheriffs onto the state's budgeting and accounting system to provide consistency, transparency and efficiency in budgeting and improve public safety.

The Legislature approved the Governor's proposal through enactment of the sheriff transfer legislation, chapter 61 of the Acts of 2009, which was approved by the Governor on August 6, 2009. This act transferred the seven county sheriff departments to the Commonwealth effective January 1, 2010.[13] Since then, sheriff departments have successfully transitioned onto the state budgeting and accounting system, and all sheriff employees have been placed on the state payroll. Appropriations have been established to support sheriff department operations for the balance of this fiscal year. Thus, all 14 sheriff departments are now functioning as independent state agencies within the Executive Branch of state government. Below is the 12 year timeline of the transition of each of the Sheriff Departments.

Transition Begins	→	→	→	→	→
July 1, 1997	**July 11, 1997**	**July 1, 1998**	**January 1, 1999**	**July 1, 1999**	**July 1, 2000**
Franklin Sheriff's Department	Middlesex Sheriff's Department	Worcester Sheriff's Department Hampden Sheriff's Department	Hampshire Sheriff's Department	Essex Sheriff's Department	Bekshire Sheriff's Department

Transition Complete

January 1, 2010			
Barnstable Sheriff's Department	Dukes Sheriff's Department	Norfolk Sheriff's Department	Suffolk Sheriff's Department
Bristol Sheriff's Department	Nantucket Sheriff's Department	Plymouth Sheriff's Department	

What Has Changed?

- All sheriff departments have separate line items for departmental operations, subject to legislative appropriation.
- All sheriff departments utilize the state accounting system (MMARS) and human resources and payroll systems (HR/CMS).
- All sheriff departments must comply with state finance rules and regulations.
- All sheriff department employees are state employees with state health insurance and pension benefits.
- Sheriff department assets, including buildings, vehicles, and land, have transferred to the Commonwealth.
- As state agencies, all sheriff departments are subject to annual review by the State Auditor.

[13] Chapter 61 of the Acts of 2009 was later amended by Chapter 102 of the Acts of 2009.

Impact on the Fiscal Year 2010 & Fiscal Year 2011 Budget

Revenue

- All revenues previously collected by the counties and dedicated to sheriff operations, including deeds excise revenue and federal inmate revenue, are now remitted to the Commonwealth. Deeds excise revenue, a significant funding source for all county sheriff departments prior to the transition, is now a general receipt of the Commonwealth and will cease to be a dedicated funding stream for sheriff departments.

Spending

- In fiscal year 2010, half-year appropriations are established in the state budget to support the Barnstable, Bristol, Dukes, Nantucket, Norfolk, Plymouth and Suffolk sheriff departments. The total fiscal year 2010 sheriff spending for these 7 sheriffs is $92 million for the period January through June 2010. This does not represent new state spending as the County Corrections Reserve line item (8910-0000) previously funded sheriff department operations.
- In fiscal year 2011, the total full-year funding for the Barnstable, Bristol, Dukes, Nantucket, Norfolk, Plymouth and Suffolk sheriff departments is $180 million, approximately double the half-year fiscal year 2010 total appropriation.
- In fiscal year 2011, funds from the County Corrections Reserve Account (8910-0000) will be transferred to the Group Insurance Commission to pay for costs associated with health and retiree benefits. As state agencies, health care and retirement costs will no longer be paid directly out of sheriff departmental budgets.

Advantages of Sheriff Transition

Greater Fiscal Stability **-** During the seven years (fiscal year 2003-fiscal year 2009) prior to the transition to the state, about 16% of funding for sheriffs relied on deeds excise revenue, a transfer tax assessed on the sales price of real estate. The volatility of the housing market has made the deeds excise revenues difficult to predict. Over the period fiscal years 2007-2009, deeds excise revenue has decreased by over 50%. This funding uncertainty inhibits the sheriffs' ability to budget properly and to execute their public safety missions. Transferring the county sheriffs to the state system will allow all sheriffs to know their annual appropriation for a given fiscal year and allow them to plan accordingly while taking advantage of the economies of scale that the state can offer.

One State Sheriff System **-** The county sheriffs are no longer under entirely different budget cycles and funding mechanisms. Having 14 state sheriffs opens the door to further coordination of policy goals for *all* sheriffs, such as increasing economies of scale as one group, unifying public safety approaches statewide, maximizing services for inmates statewide, standardizing all inmate data and having a more coherent funding approach.

Increased Oversight - Under a uniform system, the Executive Office for Administration and Finance (A&F) and the Legislature can track sheriff-related expenses, revenue and personnel with greater detail. All sheriffs now process their accounting through MMARS and place their employees in the state's payroll system (HR/CMS). These two steps provide a greater understanding of the sheriffs' fiscal picture and ensure more accountability to state finance rules and regulations.

Cost Savings - The cost of health benefits for county corrections active employees and retirees is reduced by a minimum of $6-8M in fiscal year 2011. This estimate is based on comparing fiscal year 2010 half-year actual sheriff health care costs and Group Insurance Commission fiscal year 2010 projections. Additionally, the Commonwealth is self-insured for buildings, automobiles, and professional liability. As such, these will no longer be expenses from the sheriff operational budgets, resulting in approximately $1 million in fiscal year 2011 savings.

Fiscal Year 2011 Issues in Brief

Clean Energy and Environment

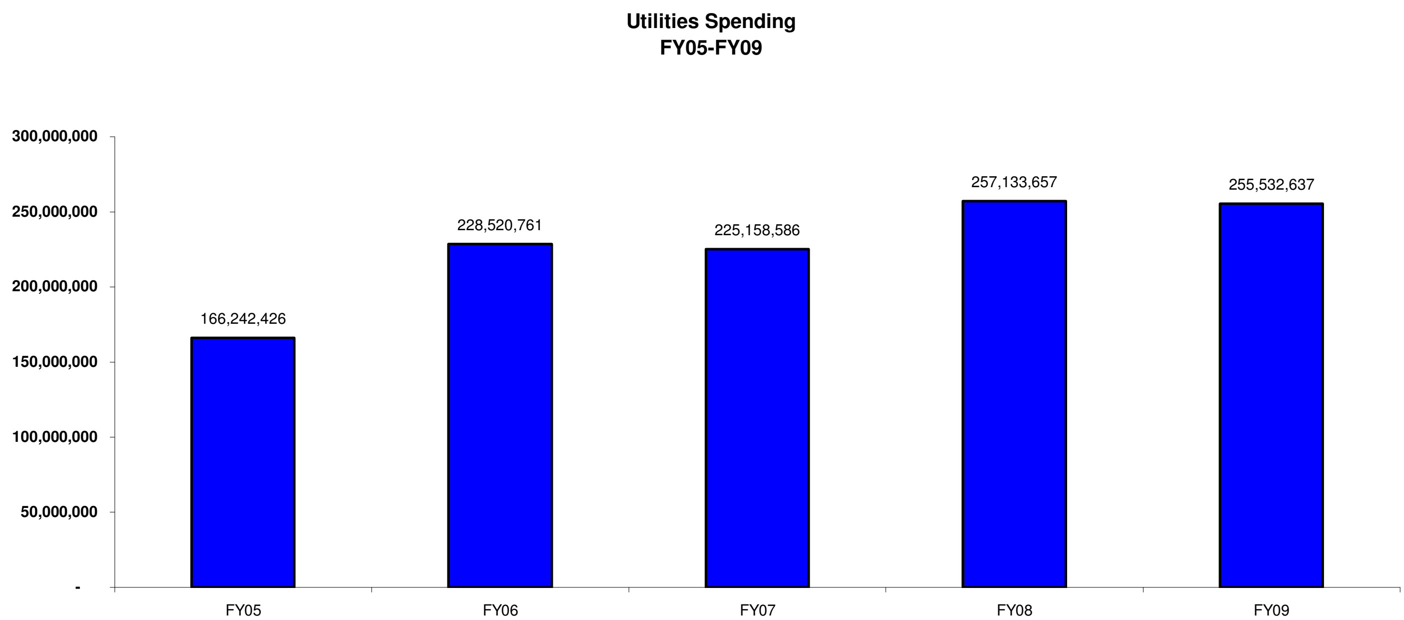

ENSE PETIT PLACIDAM SVB LIBERTATE QVIETEM

Energy Management

The Governor's fiscal year 2011 budget proposes the nation's first comprehensive energy procurement and management system open to all public entities. Commonwealth Energy Solutions will provide energy savings for state agencies, higher education campuses, quasi-public authorities, and others. Public entities, including municipalities, in the Commonwealth spend approximately $750 million annually on energy, with over $250 million of spending in fiscal year 2008 just at the state level across the Executive Branch, higher education campuses, quasi-public authorities, and others. As a result of the Commonwealth's high energy consumption, Governor Patrick directed Secretaries Gonzalez and Bowles to evaluate the potential to reduce energy expenditures through bulk purchasing and more active, centralized management of energy contracts.

Energy Management Initiative

Historically, estimated and actual utilities spending throughout the Commonwealth has varied due to the fact that off-budget spending in trust, capital, or federal accounts are not identified in initial projected agency spending plan submissions. Over the past three fiscal years (2007-2009), the average *actual* spending for both non-executive and executive branch agencies from all funding sources have totaled $246 million.



***Estimates include spending from all funding sources for both executive and non-executive branches on electricity, natural gas, heating, and fuel for buildings and vehicles.**

Today, there is no single entity with the mission of driving down energy spending for public entities. Energy procurement is undertaken separately by the Executive Branch, higher education campuses, quasi-public authorities, etc, with over 15,000 electrical, natural gas and heating oil accounts in the Executive Branch alone. Aggregate purchasing options have become available for some agencies in recent years through a statewide contract for electricity managed by the Operational Services Division and through Massachusetts Higher Education Financing Authority's (HEFA) PowerOptions program. However, substantial opportunities for savings from a comprehensive approach to energy management for all entities remains, including:

- **Bulk purchasing**: The Governor's H.2. Budget proposes the creation of a single entity – "Commonwealth Energy Solutions" (CES) at the Massachusetts Clean Energy Center – to perform energy-related duties for public entities similar to those provided by the Group Insurance Commission (GIC) or the Pension Reserve Investment Management Board (PRIM), namely expert management of specialized functions. As a first step, the Governor's budget includes a $255.5 million intra-governmental services account under the Division of Capital Asset Management (DCAM) to facilitate the management of energy-related spending within Executive Branch agencies. This account will allow the Executive Office for Administration and Finance (A&F) to consolidate fiscal management of energy costs while the CES takes charge of realizing energy cost savings across the Executive Branch.

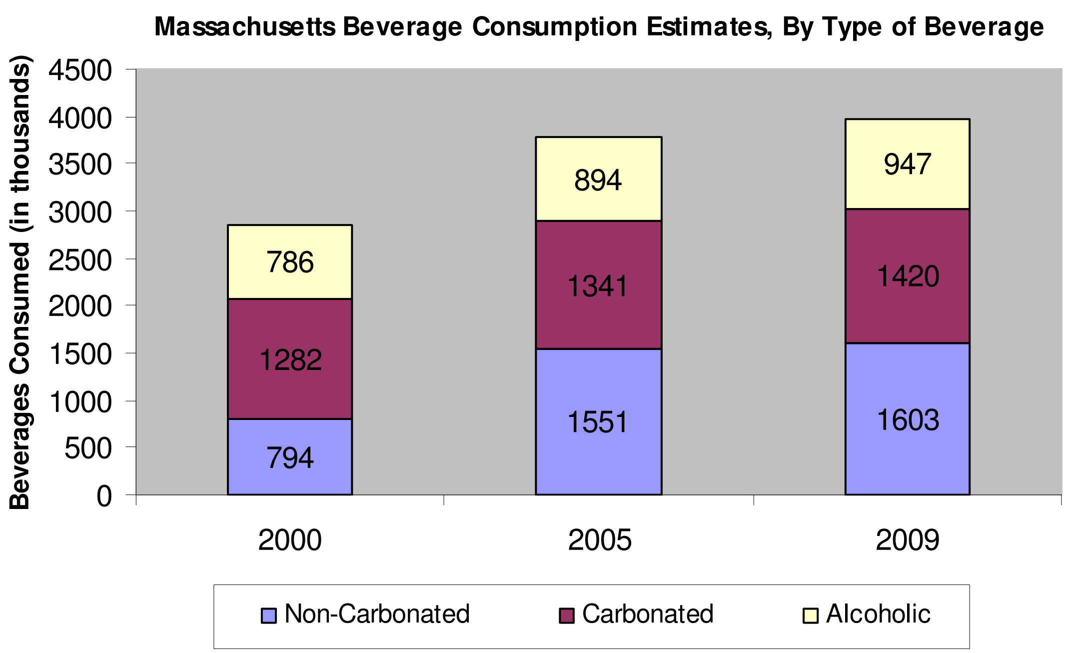
- **Advanced energy management**: With an investment of American Recovery and Reinvestment Act (ARRA) funds, the Commonwealth is deploying an advanced energy management system for state agencies. This system will allow real-time monitoring of energy use and trends to identify both operational malfunctions and long-term asset improvement opportunities. In addition to identifying discrepancies in utility, this information system will give Commonwealth Energy Solutions the detailed data needed to optimize purchasing strategies for participating public entities. Such systems have demonstrated savings of 10-20% in other state and local governments and in the private sector. As a result of this initiative, the Governor's H.2. budget assumes 5% savings or approximately $6 million on the state's total budgetary spending on energy costs in fiscal year 2011.

Expanded Bottle Bill

The Massachusetts Bottle Bill, enacted in 1982, is designed to encourage consumers to return their empty soda and beer containers by means of a redeemable $0.05 deposit. Its principal objective is to reduce litter and encourage recycling of aluminum cans and plastic and glass bottles. In the fiscal year 2011 budget, Governor Patrick proposes to expand the types of containers subject to the $0.05 deposit to include those containing water, flavored waters, coffee based drinks, juices and sports drinks of less than one gallon in size. This initiative will expand the market for recyclables, keep our cities and towns clean and provide additional revenues for recycling programs.

What is the Bottle Bill?
The Massachusetts bottle bill places a $0.05 refundable deposit on all carbonated sodas, beer and malt beverages. Under 1989 reforms, bottlers/distributors must maintain a Deposit Transaction Fund for unclaimed deposits. These funds are transferred to the Department of Revenue each month and support government programs.

Why Expand the Bottle Bill?
Discarded cans and bottles are a major source of trash in our communities and waste precious natural resources and energy. When the Bottle Bill was enacted in 1982, the beverages covered by the law were limited to carbonated soft drinks, mineral water, beer and other malt beverages. Since that time, the beverage market has changed with bottled water, fruit drinks, iced tea and sports drinks now being some of the most popular choices available. Since 2000, non-carbonated beverages have experienced near double-digit growth and industry experts expect this trend to continue. However, these non-carbonated beverages are not covered by the Bottle Bill, and often end up in landfills or along the side of the road.



By revising the definition of "beverages" in Outside Section 20 of the Governor's budget, the Bottle Bill can be brought up to date. This will reduce confusion among consumers about which beverages are eligible for redemption. Consumers will be required to pay an additional $0.05 on water, flavored waters, iced teas, coffee based drinks and sports drinks.

The expansion of the Bottle Bill will generate an estimated $20 million in new revenue, $5 million of which will be dedicated to the Executive Office of Energy and Environmental Affairs (EEA) recycling and solid waste management programs. EEA will utilize this funding for the following efforts:

- Recycling and related purposes consistent with the recycling plan of the solid waste master plan which includes municipal equipment
- A municipal recycling incentive program
- Recycled product procurement
- Guaranteed annual tonnage assistance
- Recycling transfer stations
- Source reduction
- Technical assistance
- Consumer education and participation campaign
- Municipal household hazardous waste program
- A recycling loan program
- Research and development
- Recycling market and business development
- The operation of the Springfield materials recycling facility

Fiscal Year 2011 Issues in Brief

Efficient Transportation and Mobility

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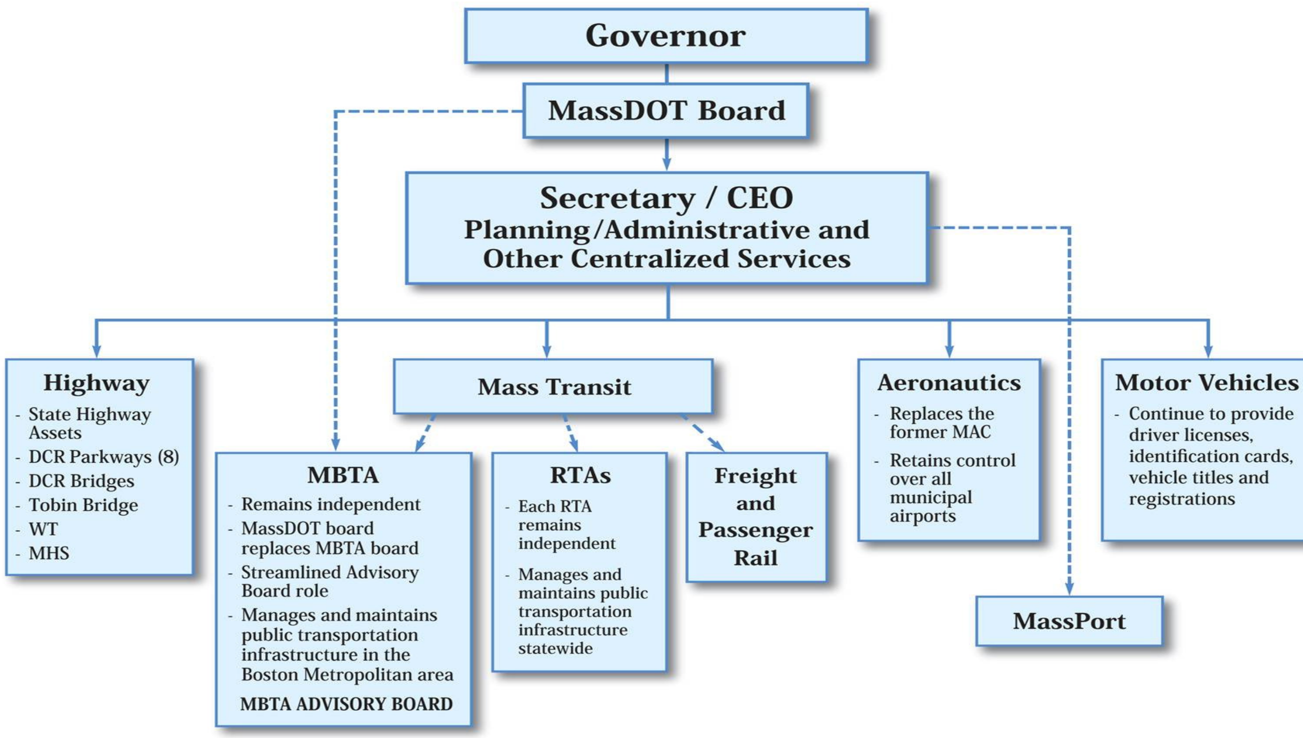
Update on Transportation Reform

The Patrick-Murray Administration is leading a radical change of the Commonwealth's transportation systems, which have suffered from decades of neglect and inaction. In June 2009, Governor Patrick signed Chapter 25 of the Acts of 2009, "An Act Modernizing the Transportation Systems of the Commonwealth of Massachusetts, (as amended by Chapter 26 of the Acts of 2009, collectively, the "Act") creating a streamlined Massachusetts Department of Transportation (MassDOT).

MassDOT represents a merger of the Executive Office of Transportation and Public Works (EOT) with the Massachusetts Turnpike Authority (MTA), the Massachusetts Highway Department (MHD), the Registry of Motor Vehicles (RMV), the Massachusetts Aeronautics Commission (MAC) and the Tobin Bridge. In addition, the Massachusetts Bay Transportation Authority (MBTA) and Regional Transit Authorities (RTA) are subject to oversight by the new organization. The new organization also assumed responsibility for many of the bridges and parkways formerly operated by the Department of Conservation and Recreation (DCR).



While it has an appointed board and is generally independent of the Commonwealth as a separate body politic, MassDOT continues to be governed by state laws, rules and policies, including the use of the Commonwealth's central accounting system (MMARS), payroll system and adherence to state fiscal laws. In addition to the operating divisions, MassDOT has a central office, referred to in the Act as the Office of Planning and Programming that will house the administrative functions (finance, human resources, procurement, legal services, and administration) of the organization, including a planning office to be known as the Office of Transportation Planning.

House 2 Recommendations for Transportation

In prior fiscal years, the annual budget included individual line items for transportation agencies and programs. The Act eliminated that structure. The fiscal year 2011 budget recommendations reflect changes brought about by the Act. MassDOT receives the amount appropriated from the Commonwealth Transportation Fund after obligations for debt service, contract assistance and other state transportation programs are funded. In addition, the transferred amount also includes the sales tax earmarked to the MBTA and RTAs by Chapter 35 of the Acts of 2009.

The new line item structure is consistent with the goals of reform and provides additional transparency and flexibility for the funding of MassDOT and its component divisions. Through the annual operating transfer, MassDOT will fund its operating divisions as well as targeted investments for the MBTA and RTAs. Based on available revenues and projected transportation debt service, the Governor's budget recommendation proposes to appropriate a transfer of $375.1 million (1595-6368) to the Massachusetts Transportation Trust Fund in fiscal year 2011 in a new section (2E), which details the state's operating transfers. This amount includes $160 million for the MBTA, $15 million for Regional Transit Authorities and $200 million for the operation of MassDOT. The amount of the transfer allocated to each MassDOT division and program will be reflected in a fiscal year 2011 budget to be released later in 2010 by MassDOT.

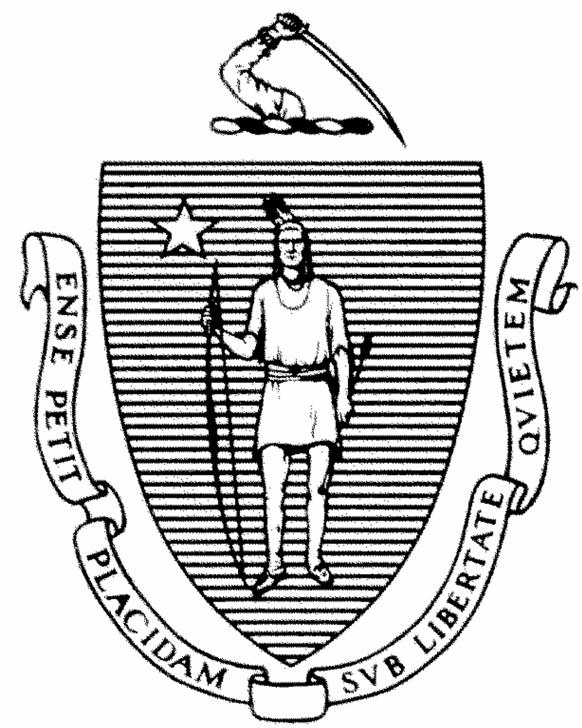
Reform Activities and Cost Savings

Over the past seven months employees from former state transportation agencies, quasi-independent authorities and other state agencies have been engaged in implementing the historic reform act. As a result of these activities, MassDOT is a functioning, independent department providing services to visitors and residents of the Commonwealth. As a result of transportation reform, the department has realized the following savings and efficiencies:

- **Reduced Employee Benefits Costs**: The transfer of employees to the Group Insurance Commission will save MassDOT and the MBTA an estimated $30 - $40 million annually. The first transfer of employees will occur on February 1, 2010.
- **Lower Borrowing Costs**: The Commonwealth avoided $261 million in termination payments associated with interest rate swap agreements as transportation reform legislation prompted an upgrade of the former MTA's bond rating. Additional savings will be generated as the higher rating provides access to lower cost funding sources, increased opportunity to re-finance existing debt at lower rates, and the capacity to raise additional funds for capital improvements.
- **Consolidation of Administrative Functions:** The savings impact of consolidation initiatives completed in the first 3 months is estimated to be $2 million annually. These initiatives include the integration of the former MTA's accounting system onto the Commonwealth's Massachusetts Management, Accounting, and Reporting system (MMARs) and the consolidation of worker's compensation administration with the state's existing worker's compensation department. Savings are also being realized as the former MTA benefits from the Commonwealth's tort reform legislation and insurance programs. Efforts to further consolidate MassDOT's finance, HR, and IT functions are also underway.
- **Operational Efficiencies:** Savings of over $5 million have been generated by replacing the existing 511 information news service, forming a partnership with municipalities and state agencies to use rent free locations for the Registry Division and the development of a public-private partnership at the Registry Division to reinstate electronic courtesy notes for driver's licenses and ID renewals at no cost to taxpayers. Areas targeted for additional savings include procurement and fleet.

The new MassDOT website, www.mass.gov/massdot, is routinely updated with progress reports demonstrating the department's commitment to safety, transparency and the goal of creating one transportation system for the Commonwealth.

Fiscal Year 2011 Issues in Brief



Civic Engagement


ENSE PETIT PLACIDAM SVB LIBERTATE QVIETEM

Civic Engagement

Commitment to Civic Engagement

During the late fall, the Patrick-Murray Administration enlisted his leadership team—cabinet secretaries and department heads—to meet with communities across the Commonwealth to discuss the difficult fiscal year ahead. The goal of the community forums was to solicit resident input in advance of the Governor delivering his budget recommendation. The Administration held 19 public meetings across the state, 8 budget hearings and 11 budget forums. An average of 50 people attended each event. The participation of the public included a diverse group, consisting of many individuals who were attending such a forum for the first time as well as experienced advocates and public officials.

What We Heard: How Public Input Impacted the House 2 Recommendations

The Patrick-Murray Administration heard from the public though many venues—the public forums, blog posts, Twitter and calls or emails to the Governor's Constituent Services office we heard from thousands of residents. Top items discussed included:

- **Child Care** – Over 1,000 constituents contacted us regarding their concerns about funding to the Department of Early Education and Care (EEC), particularly child care programs and vouchers. To address this concern, House 2 recommends level funding EEC at $520 million which will allow the department to fully fund child care for low income families involved with EEC. In addition, access to low income child care will be reinstated, proving an additional 4,000 kids with child care.

- **Veterans and Soldiers' Homes** – Veterans supporters have been vocal about cuts to outpatient services at the Soldiers' Homes in Chelsea and Holyoke through the 9C process. In response, Governor Patrick reversed the 9C reductions and continues to fund the services in his House 2 recommendations. In addition, the Governor level funds all accounts at the Department of Veteran's Affair and funds growth for annuity and benefits to accommodate projected caseload growth within an increasing benefits package.

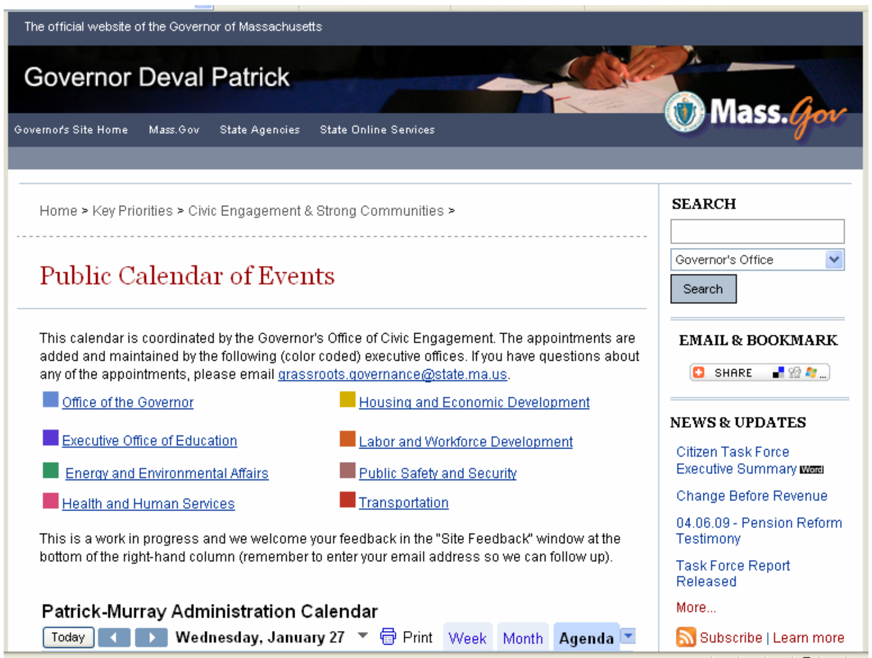
- **Services to MA Disabilities** Communities- Providers and families have attended meetings and contacted the office with concerns about cuts to disability services and many participated in a sit-in within the State House to be seen and heard as 9C recommendations were being developed. The Governor committed $1.3 billion to the Commonwealth's disability agencies--Department of Developmental Disabilities, Massachusetts Commission for the Blind, Massachusetts Commission for the Deaf and Hard of Hearing and the Massachusetts Rehabilitation Commission. The governor level-funded turning 22 services and the Autism Division. At MassHealth, funding for services by Personal Care Attendants, Day Habilitation and Adult Foster care were preserved and in fact grow based on utilization and inflationary increases. A change to dental coverage was included to achieve savings; however, it was structured to protect services to intellectually disabled members with active cases at the Department of Developmental Services.

- **State Library** - A petition was delivered to the Governor including 2,000 signatures concerned with budget cuts that would affect the George Fingold State Library. In response to the outpouring of support to preserve out Library the Governor committed additional dollars in the budget and is soliciting the support of others, including the University of Massachusetts Libraries, to keep the doors open for fiscal year 2011.

- **Reduce Costs of State Contracts** – A municipal budget officer who attended a community forum recommended asking state vendors to agree to a reduction in costs under state contracts. Just as state employees and those who rely on state programs and services have had to share in the sacrifice required to meet the state's fiscal challenges, state vendors should as well. As a result, Secretary Gonzalez has directed all state agencies to seek reductions in state contracts of at least 3%.

You Can Be Heard
Your participation has greatly influenced the budget process. There are many ways that your voice can continue to be heard.

- Attend public meetings; find details on our [public calendar of events]



- Add comments or suggest topics to the [Governor's Civic Engagement blog] and [Agency Blogs]
- Write, fax, or email the Governor's Office at:

Boston, MA
Massachusetts State House
Office of the Governor
Office of the Lt. Governor
Room 280
Boston, MA 02133
Phone: 617.725.4005
In State: 888.870.7770
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Springfield, MA
Western Massachusetts
Office of the Governor
State Office Building
436 Dwight Street, Suite 300
Springfield, MA 01103
Phone: 413.784.1200

Washington, DC
Office of the Governor
444 N. Capitol Street, Suite 208
Washington, D.C. 20001
Phone: 202.624.7713
Fax: 202.624.7714

Budget Transparency

The Patrick-Murray Administration continues to engage all stakeholders in the budgeting process, and to prioritize transparency in the budget development process. In recognition of this commitment, for the second year in a row the Commonwealth of Massachusetts has received the Distinguished Budget Presentation Award from the Government Finance Officers Association. This national recognition reflects that the Commonwealth has produced a budget document that serves as a policy document, operations guide, financial plan and communications device to promote our best practices to the public.

Community Forums

Building upon the success in 2008, the Administration continued to solicit public input on policy and budgeting decisions throughout 2009. Forums held in the fall were held to gain the public's input in advance of the Governor delivering his budget recommendation in January. The Administration held 19 public meetings across the state, 8 budget hearings and 11 budget forums. Feedback from residents related to a wide variety of programs – from child care programs to the funding for the state library – and this input was considered throughout the development process.

Outside Section Descriptions

Each year, the House 2 recommendation includes sections that propose new laws or make amendments to existing statute. Because they often contain technical legal language, these "outside sections" can be difficult for residents to interpret; therefore, in the 2010 House 1 recommendation, the Patrick-Murray Administration began including reader-friendly descriptions of each section. The Administration continues that in fiscal year 2011 House 2 for each of the 42 sections included in the budget recommendation.

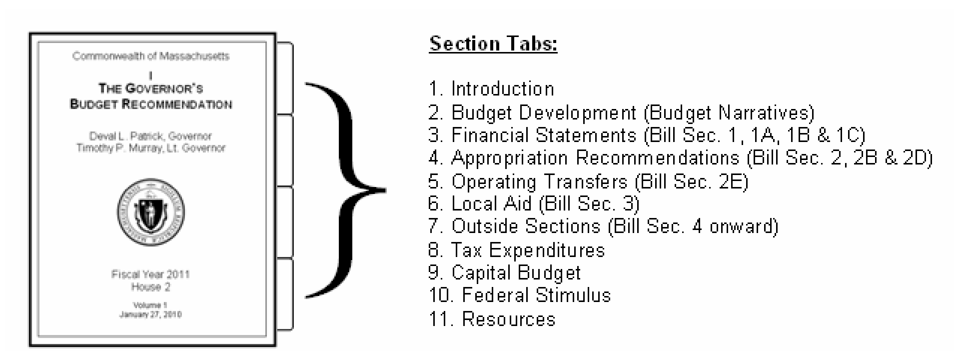
Effective Date

SECTION 42. Except as otherwise specified, this act shall take effect on July 1, 2010.

Summary:
This section makes this bill effective on July 1, 2010, unless another specific effective date is provided.

User Guide

One again the Patrick-Murray Administration has included a Users Guide in its budget recommendation that helps readers navigate the sections of the document. The Guide outlines the information contained within the budget, explains how a reader can locate a particular budget item, and describes how to interpret the information they find.



Section 2E

In The Patrick-Murray Administration is proposing to include a new section – Section 2E – in its fiscal year 2011 budget recommendation. This new section reflects spending that currently occurs in "off-budget" trust funds, but that is more appropriately reflected alongside all other state spending. Showing this spending in an appropriations section of the budget, rather than through an outside section, increases transparency on these sections by allowing the expenditures to be viewed alongside all other expenditures in the budget, while at the same time not changing the “bottom line” spending that to be included in the “bottom line” spending in the budget.

Massachusetts Recovery and Reinvestment Office (MassRRO)

It is estimated that Massachusetts will receive approximately $14 billion in funding through the American Recovery and Reinvestment Act (ARRA). This spending will occur outside of the main budget; however, the programs funded through ARRA often overlap with programs that are funded from the main operating budget. Therefore, House 2 includes a section that describes the efforts of the MassRRO to maximize the amount of funding Massachusetts receives from ARRA, as well as its process in selecting programs to receive the funding.

Tax Expenditures

While the tax expenditure budget is an important component of the overall state budget, it can be difficult to interpret this information. For this reason, and because in fiscal year 2011, the Patrick-Murray Administration propose several reforms to tax expenditures, House 2 provides a full definition of the expenditures, as well as the data that is used to develop the budget. Like the main document, House 2 includes a guide for reading the tax expenditure budget, as well as a full description of each of the expenditure categories.