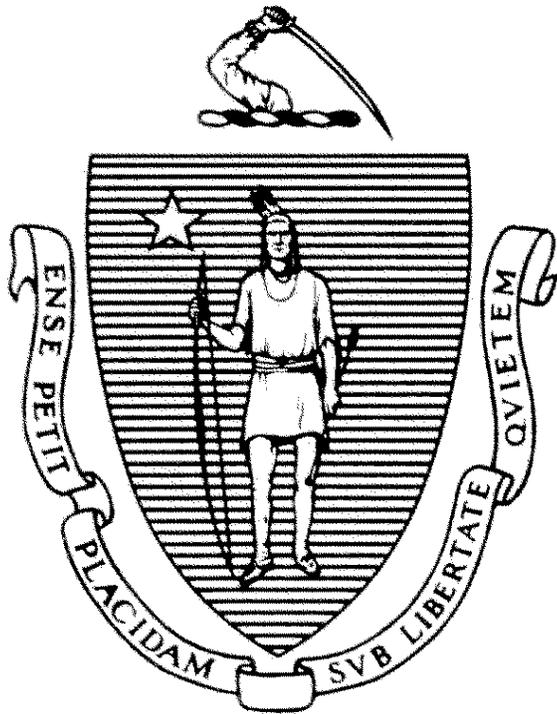


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Governor Patrick's Priorities





Closing the Achievement Gap

A well-educated citizenry is the key to Massachusetts' continued social, economic and civic growth and its prosperity. The Patrick-Murray Administration has consistently demonstrated its commitment to building a world-class public education system. Massachusetts is lauded as a national leader with regard to overall student achievement and the implementation of innovative education policies such as the groundbreaking legislation, *An Act Relative to the Achievement Gap*, which the Governor signed into law in January 2010.

Closing the persistent achievement gap is the central principle to all of the Commonwealth's education initiatives. In *Quality Counts 2012*, a comprehensive ranking of state education performance and policy by *Education Week*, Massachusetts ranked third overall and first in the K-12 Achievement and Chance for Success categories. While the Administration is proud of its accomplishments, doing well is simply not good enough. Government has an educational, economic, and moral obligation to ensure that all students, regardless of their background or zip code, have the opportunity to reach their potential and achieve academic, career and personal success.

The Achievement Gap Act, the Commonwealth's Race to the Top awards, and the Massachusetts Vision Project (among other education initiatives) all focus on increasing student performance and closing the achievement gap. The *Gateway Cities Education Agenda* and other proposals in the Governor's FY 2013 budget represent the next chapter in education improvement and reform in Massachusetts.

Closing the Achievement Gap

The Commonwealth cannot close the achievement gap without addressing the impact of poverty and other factors on student engagement, achievement and success. Investments in the Governor's FY 2013 budget proposal will target schools in the Gateway Cities, maintain or increase funding for schools in every community and support early education and higher education initiatives.

Gateway Cities Education Agenda

At the Education Summit on November 9, 2011, Governor Patrick described his vision for education in Massachusetts. The *Gateway Cities Education Agenda* is based on five core principles: 1) renewing our commitment to high standards and rigorous accountability; 2) providing comprehensive support so that all students come to school healthy and ready to learn; 3) offering differentiated services and support to all students; 4) promoting new expectations for college and career readiness; and 5) promoting innovative educational practices and building stronger partnerships across the state.

The Executive Office of Education will dedicate nearly \$10 M to support the implementation of important new initiatives in the Gateway Cities, including:

- Early Literacy and Kindergarten Readiness Programs – \$575 K
 - Funding will establish pilot programs for Kindergarten Literacy Readiness
- Establishment of Student Support Counselors and Student Support Councils – \$3.6 M
 - Funding will create Student Support Councils and deploy Student Support Counselors to predominantly low-income schools
- Operation of Enrichment & Acceleration Academies for English Language Learners – \$3.8 M
 - Funding will establish Summer English Learning Camps specifically designed to give English Language Learners more time, in an active, engaged “camp” atmosphere, to become fluent in English.
- Creation of Education & Industry Councils and Planning for High School Career Academies – \$1 M
 - Funding to establish pilot career academies to offer high school students the opportunity for early career exploration, more applied and experiential learning, and similar educational experiences that motivate students who do not see themselves as college bound.

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- Creation of a Statewide Innovation Fund – \$1 M
 - To support establishment of a fund that will combine annual appropriations from the Commonwealth and supplemental funds from businesses, nonprofits and philanthropists to expend monies on funding priorities to foster innovation in policy, practice, research, professional development and other capacity-building measures.

The *Gateway Cities Education Agenda* will build upon the positive social, cultural, economic and civic contributions of the 24 Gateway Cities, while providing targeted support to close the achievement gap. These investments will build upon the progress made in FY 2011 and FY 2012 to help close the achievement gap in addition to programs supported by federal grants awards such as the \$50 M Race to the Top Early Learning Challenge grant and the \$250 M K-12 Race to the Top grant.

Continued Commitment to Public Education

The Patrick-Murray Administration maintains its commitment to strong investment in public education. Highlights from the FY 2013 budget include:

- Funding Chapter 70 state education aid at \$4.136 B, the highest level of state funding in history to ensure that all districts are fully funded at foundation levels and that all districts will receive equal or greater funding than FY 2012;
- Funding of \$3.9 M to support STEM initiatives, including \$2.4 M to support AP Math and Science achievement;
- Increased funding of \$10 M to help community colleges better prepare students of all ages for the local job market by providing relevant, affordable educational and career-focused training programs;
- Funding the Special Education Circuit Breaker at \$213 M, maintaining the \$80 M increase from FY 2011 to FY 2012; and
- A \$12.3 M increase in funding for current programs focused on reducing the achievement gap, including Targeted Intervention in Underperforming Schools, After-School Programs, Kindergarten Expansion Grants, and Adult Basic Education.

The budget proposal also includes essential funding to support ongoing initiatives across early education, K-12 and higher education, including:

Department of Early Education and Care

- Preservation of funding for childcare services utilized by low-income families;
- Continued investment in the Universal Pre-Kindergarten and Head Start grant programs;
- Continued support to high-quality after-school and day care programs for children from eligible low-income families by the Department of Children and Families and the Department of Transitional Assistance,

Department of Elementary and Secondary Education

- Fund \$26 M for Kindergarten Expansion grants;
- Preserve funding of \$30 M for Adult Basic Education programs;
- Increase of \$2.5 M for Targeted Intervention in Underperforming Schools;
- Increase of \$700,000 for School to Career Connecting Activities;
- Fund \$15 M for Extended Learning Time Grants;
- Establishment of \$2.4 M for STEM focused AP programs; and,
- Increase of \$700,000 for Youth Build programs.

Department of Higher Education

- \$828 M for community colleges, state universities, and the University of Massachusetts;
- Maintain funding of \$87 M for college scholarships for Massachusetts residents;
- Increase of funding by \$1.06 M for waivers and financial aid for students originating in foster care;
- Maintain funding for the Performance Incentive Fund to provide grant funding through a competitive application process to encourage innovation and financial/operational efficiency at our public higher

education institutions. This fund will provide incentives to campuses to encourage these independent agencies to advance the Administration's policy values and to adopt fiscal improvement and accountability measures that will lower costs, encourage collaboration and increase efficiency; and

- This budget will provide an additional \$10 M for the Massachusetts community college system and seeks to address the challenges facing system while supporting them as they continue to fulfill their dual purpose of career readiness/workforce training as well as a pathway of instruction to a 4 year institution. Please refer to the brief titled "Investing in Community Colleges."

Governor Patrick's FY 2013 budget proposal will give the Commonwealth the resources to support ongoing, successful initiatives as well as implement new and exciting strategies to boost overall student achievement and close the achievement gap.





Investing in Job Creation

The FY 2013 budget continues to support the Patrick-Murray Administration's commitment to creating jobs and putting Massachusetts residents back to work. Using a blend of state capital investments, reorganizing economic development agencies and taking steps to improve the Commonwealth's business climate, Massachusetts saw significant job growth in 2011. This year, Massachusetts gained 51,600 jobs, which is by far the strongest job growth performance for the state since 2000 – sectors experiencing the highest growth have been those key areas of focus by the Patrick-Murray Administration.

State employment continues to improve, dropping to 1.7% below the national unemployment rate of 8.5% for December 2011. Massachusetts ranks third in economic performance since January 2011, and ranks second in economic performance since January 2007. The Commonwealth was declared one of CNBC's top five states for business in 2010, and was ranked sixth in 2011.

Patrick-Murray Job Creation Strategy

The Economic Development Planning Council, chaired by Secretary of Housing and Economic Development Greg Bialecki, has outlined five steps that build on the Patrick-Murray Administration's job creation and economic development strategy that has led Massachusetts out of the global economic recession faster than the rest of the nation. Five initiatives are outlined in the Council's report mandated by the Economic Development Act of 2010:

1. Advancing education and workforce development for middle-skill jobs through coordination of education
2. Economic development and workforce development programs
3. Supporting innovation and entrepreneurship
4. Supporting regional development through infrastructure investments and local empowerment
5. Increasing the ease of doing business and addressing the Commonwealth's cost competitiveness

The council consisted of 34 public and private sector representatives who have worked for eight months to develop the plan. The plan developed the Patrick-Murray Administration will help Massachusetts continue to compete in the global economy by making strategic investments in education, innovation and infrastructure.

The plan builds off the five broad categories that the council identified as most important to help retain or improve Massachusetts' competitive position the global economy. The steps the council points to in each category describe ways in which government, business and academia can work collaboratively to make Massachusetts more competitive and successful. The council's strategy and plan also supports effective economic development and job creation initiatives for Massachusetts that will continue to give first priority to helping our businesses and entrepreneurs continue to create and retain jobs here.

State Capital Investments

A large portion of the state's efforts to promote job creation and expand employment opportunities are funded through the capital budget, primarily from state bond issuance. The debt service on the bonds is funded in the operating budget, and the FY 2013 budget fully funds debt service obligations at a level sufficient to support the capital investment plan. The state's annual capital budget provides funding for substantial job-creating projects across the state, including construction in the life sciences industry, higher education and transportation.

The capital budget will invest more than \$3.4 B in capital investment projects, more than double the level of state capital investments when Governor Patrick took office five years ago. While many of these investments create construction jobs and otherwise support economic growth, \$120 M is specifically targeted to economic development programs, which will prioritize projects that invest in state infrastructure that supports private development and job growth.

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In addition, in the FY 2011 year end supplemental budget, the Infrastructure Development Fund was developed to create jobs and stimulate long-term economic development through public infrastructure-related investments made by the Executive Office of Housing and Economic Development (HED) in consultation with the Department of Transportation (DOT). Roughly 28 projects will be under contract in January 2012 and commence construction in the spring of 2012.

Governor Patrick continues to support the MassWorks Infrastructure Program, the one-stop shop for municipalities seeking public infrastructure funding that supports economic development and job creation. Local cities and towns will see up to \$94.1 M in infrastructure-related public construction activity during the 2013 construction season through the MassWorks Infrastructure Program and the new Infrastructure Development Fund combined. Projects recently completed through MassWorks grants include:

- \$922 K to Plympton for Sysco to relocate to a new and expanded facility. The Patrick-Murray Administration leveraged a \$100 M commitment in private funds from Sysco as a basis for funding road improvements, facilitating the company's relocation. The private-public partnership will create 75 new jobs and retain 852 existing jobs;
- \$3 M to Lexington for public infrastructure upgrades along the Route 2 exchange with a \$350 M commitment from Shire Human Genetic Therapies. This upgrade helped facilitate the relocation and expansion of Shire's administrative, research development and manufacturing operations to the Lexington Technology Park. Shire has committed to creating a total of 585 jobs. To date, 414 jobs have been created; and
- \$1.3 M to Natick to help fund the design of improvements needed to Route 9. The commitment of funds was critical to ensuring MathWorks' obligation of \$100 M to develop its Natick campus and create an expected 560 permanent jobs. Natick also assisted in the development with \$750 K in Tax Increment Financing. To date, 210 jobs have been created and a number of projects at the MathWorks campus have been completed or are underway.

Regulatory Review

In support of Massachusetts small businesses, the Administration is leading a comprehensive review of the Commonwealth's regulatory processes. State agencies are currently reviewing a representative sample of their regulations, specifically those over 12 years of age, to seek opportunities to streamline or rescind state regulations and reduce burdensome regulatory impacts on small businesses. Recommendations should be announced in early 2012.

Economic Development Re-Organization

The FY 2013 budget builds on achievements from the recently-created Mass Marketing Partnership established in the Economic Development Reorganization Bill. The long-term goal of the new agency is to execute a more consolidated and coordinated marketing effort within the Commonwealth for both attracting and retaining tourists and businesses to the state.

The re-organization legislation also created Massachusetts Growth Capital Corporation (MGCC). In its first year, MGCC has provided \$13.8 M in loans to 38 companies and two micro-lender intermediaries, leveraging over \$36 M in private financing. Its entire portfolio, which includes projects financed through the Economic Stabilization Trust and Community Development Finance Corporation, consists of more than \$25 M in loans, and has leveraged \$162.6 M in private financing. Recently, the federal government awarded Massachusetts \$22 M in State Small Business Credit Initiative funds to support state-level, small-business lending programs. MGCC and the Massachusetts Business Development Corporation (MBDC) will distribute that grant to recipients.

Lastly, the re-organization allowed for the merger of MassDevelopment Financing Agency (MDFA) and Health and Educational Facilities Authority (HEFA), two quasi-public agencies performing nearly-identical functions, eliminating duplicative functions in order to generate savings. MDFA reports that the merger has saved \$2.7 M or 77% of operating expenses in the first year. That savings will allow the MDFA to provide more low-cost loans to a larger number of smaller, community-based non-profits in need.

Life Sciences Initiative

The Governor's FY 2013 budget provides up to \$15 M in funding to the Massachusetts Life Sciences Center (MLSC) and assumes that \$25 M in tax incentives will be funded to companies expanding their life sciences activities and creating jobs within the Commonwealth. The FY 2013 budget continues to make essential investments targeted towards job growth, business expansion, and new revenues for the Commonwealth by making additional funding available to MLSC in FY 2013 to provide research grants and accelerator loans to researchers and early-stage companies, continuing efforts to promote Massachusetts as a global leader in all stages of business development in life sciences industries, from discovery to commercialization.

Similar to previous years, the first \$15 M of any FY 2012 surplus will be made available to the Massachusetts Life Sciences Investment Fund held by MLSC. This funding mechanism has provided continuing state support to the Center for grants and loans, as well as supporting the operations of the agency.

To date, MLSC has invested and committed a combined \$219 M across all programs throughout the Commonwealth, leveraged approximately \$754 M through matching investments and created 1,965 jobs to date with an additional 5,437 jobs projected through current investments and commitments. Across all programs, the Patrick-Murray Administration's investments through the Life Sciences Initiative will provide a total of 7,402 jobs created by the end of 2013.

Workforce Competiveness Fund

The FY 2013 budget provides up to \$10 M in FY 2012 surplus funds to recapitalize the Workforce Competitiveness Trust Fund (WCTF), which will help support both grants for innovative approaches for training and re-employing the unemployed and efforts to create regional "Centers of Excellence" at community colleges or vocational schools.

Tourism

Calendar Year 2010 saw a return to pre-recession levels of the economic impact of tourism in the Commonwealth:

- Increases in tourist expenditures: \$15.5 B, up 8.2% from Calendar Year 2009;
- Total state and local tax revenues: \$1.006 B, up 10% from Calendar Year 2009;
- Increases in domestic and international tourists;
- 17.2 M domestic visits, up 5% from Calendar Year 2009;
- 2 M international visits, up 3% from Calendar Year 2009; and
- A 6% increase of international travel to the United States through November 2011.

To build on that momentum, the Patrick-Murray Administration plans to focus on increasing our competitiveness in the international marketplace by increasing our investment to the Massachusetts Office of Travel and Tourism by \$5 M. By doing so, we will continue to build on our natural strengths and our location as a gateway to New England.

Corporate Rate Reduction

In July 2008, Governor Patrick signed into law corporate tax reform, which provided a reduction in the corporate tax rate over four calendar years. On January 1, 2012, the final phase of the reduction lowered the rate of 8.25% down to 8.0%, resulting in an additional benefit of \$15 M for businesses this year. This reduction reflects the continued efforts of the Patrick-Murray Administration to improve the business climate by making Massachusetts' tax structure more competitive with other states and create a benefit for every corporate entity in the state, in spite of unprecedented budget challenges over the past several years.

Small Business Health Care Cost Containment

Under Governor Patrick's leadership, the Massachusetts Health Connector Authority has proposed to expand eligibility for the Small Business Wellness Subsidy offered through the Health Connector's Business Express program in FY 2013. Business Express helps small businesses (50 employees or less) struggling to survive the economy by simplifying the shopping experience to find affordable ways to offer health insurance to their

employees. The law today allows small businesses that buy health insurance through Business Express to get a 15% tax credit rebate that reduces the company's share of its employee coverage cost of health insurance premiums for their employees. In order for a small business in Massachusetts to be eligible, it needs to meet the criteria identified in the National Health Reform legislation. The Governor's FY 2013 budget would allow these small businesses to expand their tax credit rebate to cover family members who are also employees.

Quasi-Public Agencies

In addition to the capital program, other non-operating budget funding for job creation comes from the state's quasi-public partners, such as the Life Sciences Center, the Massachusetts Port Authority, the Clean Energy Center, the Massachusetts Convention Center Authority, MassDevelopment and the Mass Tech Collaborative. These entities are continuing to advance the Patrick-Murray Administration's objectives to create high-technology jobs that will be needed in the future, particularly in the life sciences and clean energy sectors.

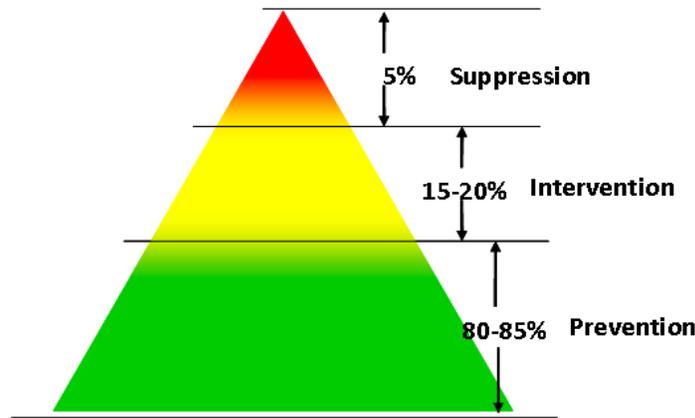


Positive Youth Development & Youth Violence Prevention

Under Governor Patrick’s leadership, the Patrick-Murray Administration is working to end youth violence and promote positive youth development by prioritizing funding for programs and initiatives. In addition to targeted law enforcement efforts, the Patrick-Murray Administration has taken a two-pronged approach to creating a culture of opportunity for our youth: preventing and addressing violence, and providing services that enable our youth to make positive choices and lead productive lives.

Positive youth development and youth violence prevention crosses many programs within state government and coordinating these programs and outcomes will continue to be a primary focus in the FY 2013 budget. The Youth Violence Prevention Working Group, composed of representatives of relevant state agencies and the Governor’s Office, have been meeting with municipal authorities, community based youth service providers, young people and youth advocacy groups over the past two years to invite their ideas and suggestions for best approaches and practices for promoting positive youth development and for preventing youth violence. Working with this community coalition, the Patrick-Murray Administration encourages a comprehensive public health approach to promoting positive youth development and preventing youth violence with a focus on a number of key programs in areas with the highest need.

Reducing youth violence in the Commonwealth requires three core strategies focusing on prevention, intervention and suppression. Prevention services are geared toward 80-85% of youth at risk for violence and include “alternative to violence” education programs to reduce the risk of youth becoming engaged in violence. Intervention services are focused on 15-20% of youth having a history of violent behavior and include protecting and supporting individuals impacted by violence and enabling positive change through skill building and development. Suppression focuses on 5% of youth engaging in violent behavior and includes arrest and detention.



Prioritizing Outcomes

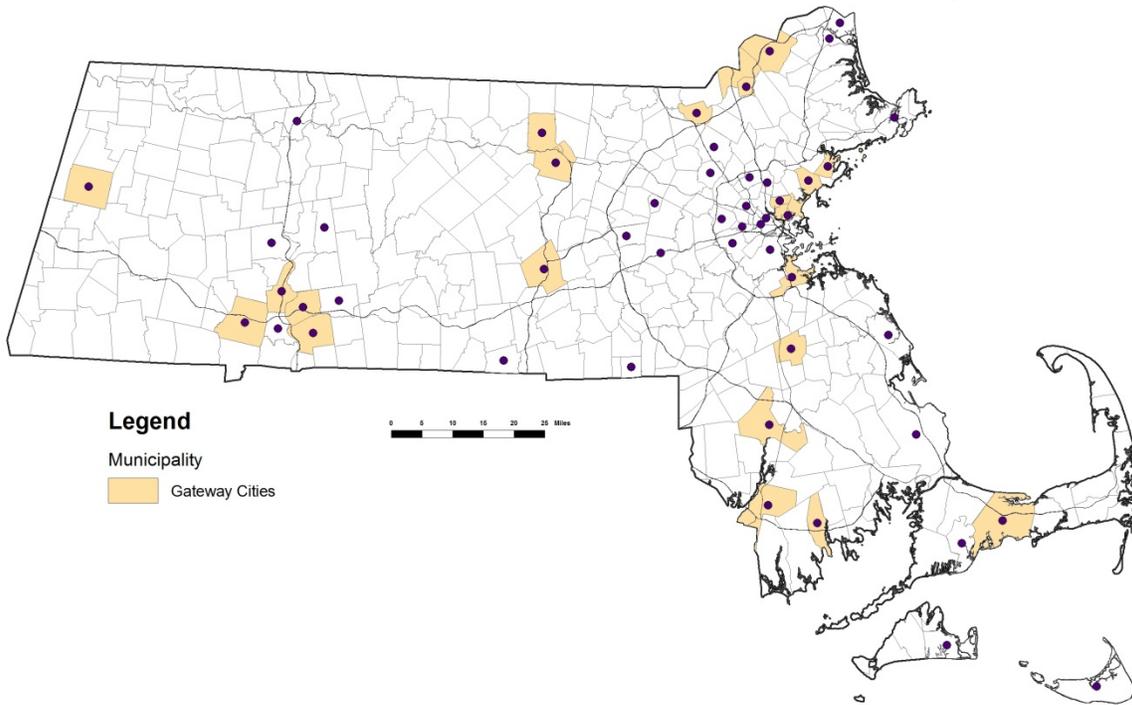
In FY 2013, Governor Patrick continues to prioritize funding for positive youth development and youth violence prevention programs for a total investment of \$35.5 M. Agencies awarding grants will work together and in partnership with communities to determine measures and outcomes for positive youth development. Ultimately, the reported data will be used to assess the success of our investments, ensure that funds are strategically aligned, and will allow us to target state resources to those grantees and programs that most clearly influence the lives of at-risk youth.

Deterring Youth Impacted by Violence

The state will continue to invest in the Safe and Successful Youth Initiative grant program to fill in gaps in services available for the highest risk populations. In FY 2012, grants were awarded to 11 cities for targeted intervention programs with high impact youth and their families. This grant program is a coordinated intervention strategy focused on young men (age 14-24) identified as a high risk for becoming perpetrators or victims of gun violence. Grants were allocated to Boston, Lynn, Lowell, Worcester, Springfield, Lawrence, Brockton, Chelsea, Fall River, New Bedford and Holyoke. The program focuses on communities with the highest number of youth homicides and serious assaults and allow for the flexibility necessary to meet different challenges in different communities. The goal is to ensure that a full continuum of services - trauma informed case management, intensive supervision, employment, education and health care - are available and coordinated in each city and are reaching the target population.

Additionally, the Governor will maintain funding for the youth violence prevention grants administered by the Department of Public Health. These grants target a wide range of at risk youth and seek innovative and constructive ways to address youth violence at the community and grassroots level.

Positive Youth Development and Youth Violence Prevention Grants by Location



Map includes grants awarded for Positive Youth Development and Youth Violence Prevention activities in the most recent grant cycle, but it does not include grants awarded by the Executive Office of Education which are disseminated statewide.

Creating More Peaceful Communities

While intervention activities will address violence in the short-term, long-term sustainability of a peaceful environment requires a community-wide embrace of prevention strategies known to restore peace. The Governor's strategy taps into methods demonstrated to be effective in promoting peaceful environments, including: building strong and engaged communities; providing structured positive out-of-school time activities for younger siblings and children of highest risk youth; acknowledging and addressing the impact of trauma on a neighborhood or community; and providing opportunities for youth leadership development and opportunities to learn alternative conflict resolution. In addition to the work already taking place in communities, the state will use its public health and public safety resources to ensure a coordinated approach to reaching young people before they become involved in violence.

The Department of Public Health will level fund Youth-at-Risk matching grants including funding for the Massachusetts Coalition of Boys and Girls Clubs, YMCAs, YWCAs and other out of school time programs. The Executive Office of Education will level fund After School and Out of School Grants.

Creating Better Opportunities

Providing youth with more opportunities to learn and work helps create peaceful communities. Youth who are engaged in educational activities or leadership development programs will likely have increased opportunities to build a healthy future.

The Executive Office of Labor and Workforce Development will increase support for summer jobs for at-risk youth in local communities and businesses as a way to offer subsidized work for at-risk youths. Distribution of these grants is the responsibility of the Commonwealth's 16 regional Workforce Investment Boards (WIB). These jobs bring with them educational and skill-building opportunities with the expectation of reducing juvenile delinquency in high-risk areas of the Commonwealth. Most of this funding is used during the summer months when there is greater demand for youth employment.

The Executive Office of Education will increase funding to YouthBuild and maintain funding to School to Career Connecting Activities. YouthBuild specifically targets low-income students (over 90% of YouthBuild participants are high school dropouts ages 16-24) to improve education, job training, leadership development and community services, while also building affordable housing for low-income residents. School-to-career connecting activities are designed to drive and sustain the statewide school-to-career system by establishing public-private partnerships through the 16 local WIBs to connect schools and businesses to provide structured work-based learning experiences for students that support both academic and employment skills attainment.

Getting Guns Off the Street

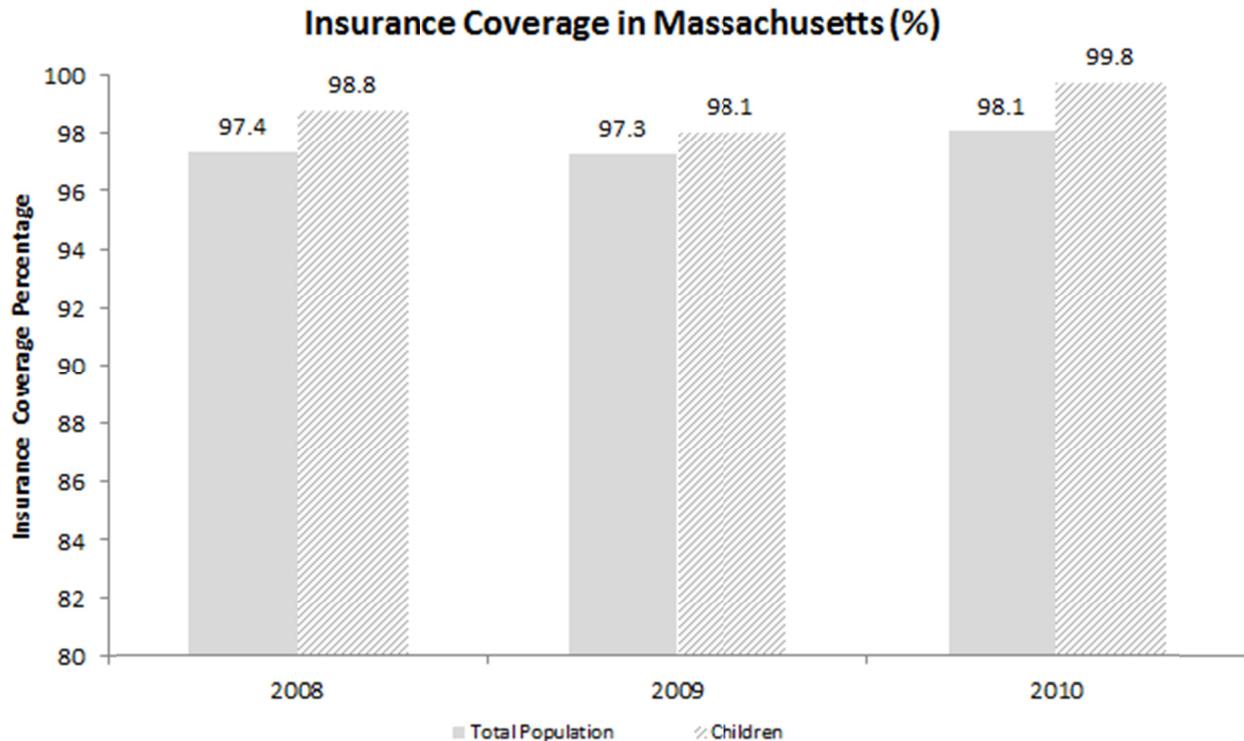
A comprehensive youth violence prevention strategy must include effective law enforcement intervention to protect the community from the most violent offenders, particularly those who use guns in gang-related violence and drug distribution. The Charles E. Shannon Jr. Community Safety Initiative Grants work to prevent gang violence and are targeted at communities with higher crime rates and at youth demographics considered more at-risk for crime. The Governor will again invest \$8 M in these grants, which may be utilized by local police departments to bolster their ability to respond to youth crime as well as local community groups that provided supportive services for at-risk youth.





Addressing Health Care Costs

The Commonwealth is a national leader in ensuring access to health insurance. More than 98% of residents have coverage, the highest rate in the nation with nearly all children (99.8%) and seniors (99.6%) insured. This state has been a model for the nation in expanding access to health care services, and now it is taking the lead in controlling costs and improving quality through payment and delivery system reform initiatives.

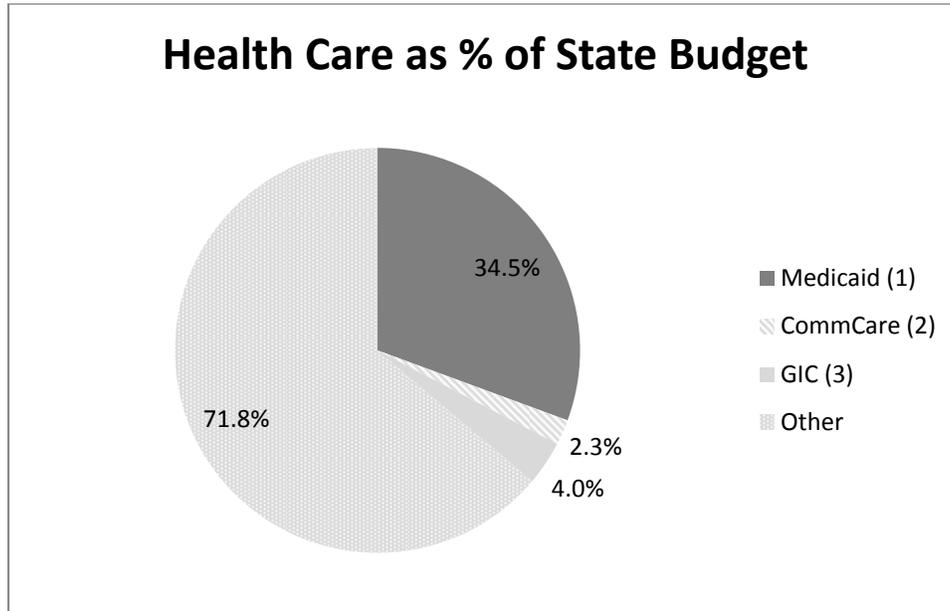


Source: Division of Health Care Finance and Policy

The Patrick-Murray Administration has carefully managed the financing of health care reform. Independent, non-partisan analysis underscores that the incremental state costs of health care reform have been moderate and in line with original expectations. Despite this achievement, the total costs of state-subsidized and employee coverage create a difficult challenge for the Commonwealth. These costs are occupying an ever-increasing share of the state budget as state revenues have declined and the recession has increased demand for subsidized insurance.

From FY 2011 to FY 2012 average enrollment growth in state subsidized health care programs is estimated to increase over 4%, most notably due to the planned integration of the Aliens With Special Status (AWSS) population into the Commonwealth Care program (see section on Commonwealth Care). Health spending growth for the same period is estimated to be approximately 3.5%. Holding the average annual growth in state subsidized health care costs to 3.5% is a significant achievement. The historic rate of growth in state subsidized health care costs from FY 2008 to FY 2011 grew over 8%. As a result of this growth and declining state revenue, health care spending for subsidized and employee coverage programs now account for close to 41% of the state budget. Based on long term forecasts conducted by the Executive Office for Administration and Finance, were health care costs to continue to grow at these historic rates, they would consume approximately 50% of state spending by 2020. Health care spending has crowded out key public investments that, among other things, likewise significantly impact the health and welfare of the people in the Commonwealth. The historic trends are also

unsustainable for local governments, businesses and families, forcing all of these groups to make difficult choices between paying for health care and other areas of potential investment.



Notes:

- (1) Spending for Medicaid and Commonwealth Care is not offset by Federal Matching Funds. In addition, Medicaid spending includes payments to Delivery System Transformation Initiative Payments to safety net hospitals.
- (2) Commonwealth Care spending includes the reintegration of the Aliens with Special Status into the Commonwealth Care program
- (3) GIC excludes municipalities which are included in the state's appropriation but are reimbursed by cities and towns for their costs

Health Care Cost Containment Efforts and Progress to Date

The Patrick-Murray Administration has taken a number of steps to successfully control health care costs to date and it is working. The Administration is moving aggressively to reform the entire health care payment and delivery system to ensure that health care costs are sustainable for government, businesses and families over time. The successful cost containment initiatives implemented to date and planned for FY 2013 with respect to the Commonwealth's subsidized and employee health insurance programs are described below.

In FY 2012, the Administration mitigated dramatic increases in health care costs, but also launched major reform initiatives. Government health care programs faced unprecedented challenges brought on by the impact from the economic recession that drove caseload to historic peaks and increases in health care program costs. Despite these cost pressures, Massachusetts achieved ground-breaking progress in health care cost containment. For many of the state's health care programs – Massachusetts Medicaid program (MassHealth), Commonwealth Care, the Group Insurance Commission (GIC), Municipal Health, and the Medical Security Program (MSP) – the current FY 2012 budget reflects bold changes to achieve significant cost savings while providing continued access to coverage and high-quality care. These programs are on track to reach nearly over \$900 M in savings in FY2012 and going forward. Below are just a few examples of our major achievements in FY 2012:

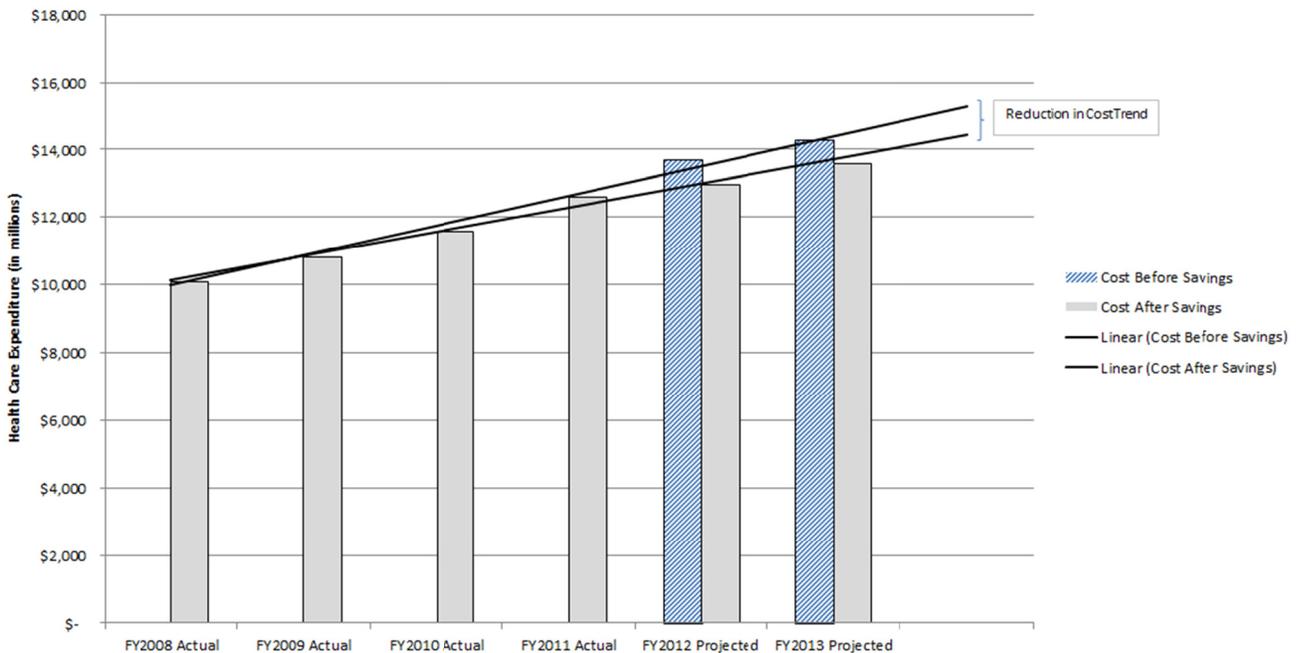
- *MassHealth* – MassHealth is on track to achieve almost \$588 M in savings through a variety of initiatives, including but not limited to rate restructuring, program integrity efforts, capitation cost control and payment strategies;
- *Municipal Health* – Municipal health care reform, signed into law by Governor Patrick in July 2011, is already helping municipalities achieve significant savings. The nine communities that have completed the new reform process as of January 15, 2012, have collectively saved more than \$30 M – putting this reform on track to far exceed the initial estimate of \$100 M for FY 2012 and going forward in savings for local governments statewide;

- *Medical Security Plan* – The competitive procurement for a new managed care insurance plan for unemployed individuals resulted in a 30% reduction in costs leading to a savings of \$16 M in FY 2012 and an annual savings of \$32 M;
- *Commonwealth Care* – A competitive procurement that provided incentives for *all* MCOs to improve their cost structures by rewarding aggressive, lower bids with membership allowed the Connector to accommodate projected enrollment increase with a flat budget (saving the program from growing by \$80-\$100 M); and
- *Group Insurance Commission (GIC)* – A new policy requiring employees to actively re-enroll in health insurance and incenting employees to switch to more cost effective limited network plans with three months premium holidays, led to \$20-30 M in savings. In addition, GIC has seen utilization decline and has realized some savings related to that phenomenon in FY 2012.

Bending the Health Care Cost Curve

The Commonwealth will continue to face health care cost pressures in FY 2013. In the FY 2013 budget the Patrick-Murray Administration proposes a range of reforms that continue to reduce costs but maintain coverage and access to quality health care. From FY 2012 to FY 2013, the administration is limiting increases in health care spending growth for MassHealth, Commonwealth Care and GIC to an aggregate of 5.1%, even after taking into account significant enrollment growth. The budget summaries for major government health care entities are described below.

Bending the Health Care Cost Curve¹



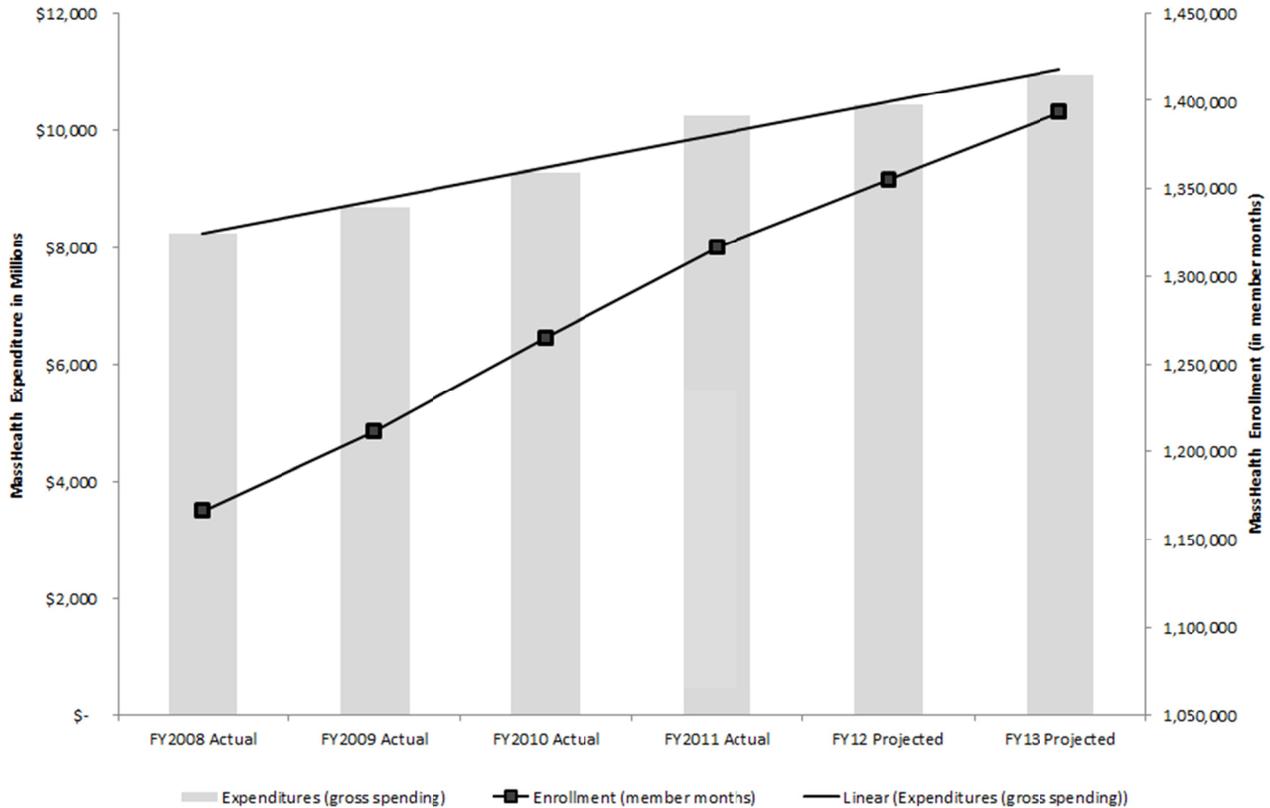
1) Costs and savings pertain to MassHealth, Commonwealth Care and Bridge, and the Group Insurance Commission

MassHealth

MassHealth provides comprehensive health insurance to approximately 1.3 million low-income Massachusetts children, adults, seniors and people with disabilities. The Administration’s FY 2013 budget includes \$10.951 B for MassHealth, allowing for approximately 5% spending growth from FY 2012 estimated spending to FY 2013. The Administration also plans to fund \$186 M in incentive payments to hospitals under the Delivery System Transformation Initiative, with the federal government providing half of the revenue to support the initiative. (See section on “Build the Foundation for Payment and Delivery System Reform” for more information.)

Enrollment and utilization account for most of the projected spending in MassHealth and are sensitive to changes in the economic climate. The FY 2013 budget is primarily driven by program wide projected enrollment increase of 2.8% or 38,000 member months.

MassHealth Expenditure and Enrollment Growth FY 2008 - FY 2013



In FY 2013, MassHealth plans to once again contain the growth in costs by using a variety of reforms and innovative management and contracting strategies and will also move aggressively on several initiatives aimed at transforming the delivery system and payment methods. MassHealth is also implementing a number of organizational and policy changes required for timely and effective implementation of the federal Affordable Care Act and to implement the delivery and payment system changes in the 1115 Medicaid Waiver.

Commonwealth Care

The Commonwealth Health Insurance Connector Authority (Health Connector) administers the Commonwealth Care program. In addition, for FY 2012 the Health Connector, along with the Executive Office of Administration and Finance and the Executive Office of Health and Human Services, oversees the Commonwealth Care Bridge program. Commonwealth Care provides subsidized health insurance coverage for nearly 160,000 adults under 300% FPL that are not eligible for MassHealth and do not have access to adequately subsidized employer sponsored insurance. The Commonwealth Care Bridge program, which will end in FY 2012, covers approximately 13,400 legal immigrants that have not met their five year immigration status. Funding for these programs is made available through the Commonwealth Care Trust Fund (CCTF), which is supported by the general fund and other dedicated revenue sources such as the cigarette tax and fair share and individual mandate penalties.

On January 5, 2012, the Supreme Judicial Court held that the Massachusetts statute limiting the eligibility of many legal immigrants for Commonwealth Care violates the equal protection provisions of the Massachusetts Constitution. The Health Connector is now faced with the challenge of re-integrating the Aliens With Special Status (AWSS) population into the Commonwealth Care program. The Health Connector estimates that over 24,000 new members, in addition to the 13,400 currently enrolled in Commonwealth Care Bridge, will become eligible for the Commonwealth Care program as a result. This may add as much as an additional \$150 M to the

annual cost of covering the AWSS population above the current spending on Bridge. Cost increase will likely begin to take effect in FY 2012 as AWSS members are reintegrated into the program.

Despite the cost pressure, the Patrick-Murray Administration is committed to fully funding the re-integration of AWSS. In an effort to close the budget gap for both FY 2012 and FY 2013, the Health Connector is developing an aggressive cost containment plan for Commonwealth Care focused on procurement savings and other reforms. The Health Connector's goal is to achieve this once again without relying on benefit cuts, member co-pay increases, or any other strategies that would severely damage the value of Commonwealth Care.

Group Insurance Commission (GIC)

The Group Insurance Commission (GIC) provides high value health insurance and other benefits to employees, retirees, and their survivors/ dependents of the Commonwealth and of certain of its public authorities. The GIC also provides health-only benefits to participating municipalities' employees, retirees, and their survivors/ dependents.

Looking ahead, the GIC will continue its focus on providing high quality health insurance coverage to its members while containing costs for the Commonwealth. Next year the GIC will embark on a major procurement of its health plans. It will solicit innovative strategies through this procurement to maintain coverage and quality of care while containing costs. This includes implementing the principles of payment reform and incorporating any changes required by national health care reform.

Total GIC spending in FY 2013 is \$1.665 B, inclusive of the \$435 M transfer from the State Retiree Benefit Trust Fund (SRBTF) which covers the cost of retiree health insurance. Spending specific to health insurance premiums and plan costs for active state employees, retirees, and employees of participating municipalities and authorities is \$1.582 B, a decrease of .3% from FY 2012 estimated spending. This includes an anticipated rate increase, and the addition of approximately 7,700 enrollees via municipal health reform. GIC has reduced spending for state only active employees premiums by 9% or \$66 M from FY 2012. The GIC was able to successfully reduce spending in FY 2013 compared to its original projection using several strategies, including leveraging the use of federal Early Retiree Reinsurance Program (ERRP) funds, and working closely with its health plans to negotiate a lower premium increase.

Department of Corrections Health Care (DOC)

The Department of Correction provides medical and mental health care to inmates and civil commitment populations in its care and custody. The Commonwealth has successfully contained the growth in inmate health care costs since FY 2008. Without cost containment measures, the cost of inmate healthcare would have increased by 31% since FY 2008, but DOC held that growth to 1% total over those six years. In FY 2013, inmate healthcare is proposed at \$98 M, essentially level funded from FY 2012 estimated spending, despite a projected growth of \$7.6 M over FY 2012. DOC plans to achieve savings through re-negotiation efforts with the inmate health care contractors and maximizing federal reimbursement opportunities for allowable costs.

FY 2013 Health Care Policy Initiatives

In FY 2013, Massachusetts is poised to once again provide a model for the nation by leveraging opportunities to control health care costs that: 1) promote care delivery in lower-cost, high-quality settings; 2) improve the coordination and management of care; 3) expand support for primary care; 4) place a greater emphasis on prevention and 5) promote innovative payment models that reward high-value care instead of high-volume care. With the scale of the health insurance coverage it purchases, the state is well-positioned to capitalize on this opportunity to foster innovation in the health care insurance and delivery systems and contain costs while maintaining coverage and improving quality of care. The state also has opportunities to achieve greater efficiencies and continuity of coverage within state-subsidized programs by aligning coverage standards and coordinating procurements. The Administration's major FY 2013 policy initiatives are described below.

Leverage Purchasing Power and Maximize Competition In State Health Care Contracts

- *Fully implement an integrated care model for both medical and behavioral health services for MassHealth members:* The FY 2012 behavioral health procurement was a competitive process that challenged bidders to manage costs but also provide innovative care management programs for MassHealth primary

care clinician (PCC) members. The procurement provided a framework for medical and behavioral health integration and a targeted care management program for patients with highly complex medical and/or behavioral health conditions. It utilizes core performance management principles to create balanced incentives for the vendor based on improved health outcome for MassHealth members. In FY 2013 MassHealth will oversee the ongoing implementation to assure that the vendor demonstrates not only improved member outcomes, but also greater compliance with evidence-based guidelines for a number of chronic conditions.

- *Promote market competition among Commonwealth Care Managed Care Organizations:* The Health Connector is preparing to launch another aggressive procurement for FY 2013 that builds upon the successes achieved in FY 2012. By harnessing the power of competition, its procurement strategy will again provide strong incentives for health plans to develop innovative coverage models that hold down costs while maintaining comprehensive, affordable benefits for Commonwealth Care members.
- *Re-negotiating State Office of Pharmacy Services Service Contract:* The State Office for Pharmacy Services (SOPS) provides comprehensive pharmacy services to public sector healthcare organizations in a cost-effective, clinically responsible manner. SOPS currently provides clinical and pharmacy services to the following agencies: Department of Public Health, Department of Mental Health, Department of Developmental Services, Department of Correction, Department of Youth Services, the sheriff's departments of Bristol, Essex, Franklin, Hampden, Hampshire, Norfolk, Barnstable, Dukes, Middlesex, Berkshire and Plymouth, and the Soldiers Homes in Holyoke and Chelsea. This encompasses 24,000 patients at 46 sites. The Administration plans to re-align the cost structure and service level of the current pharmacy services contract to achieve the goals of cost savings, maintenance of current clinical initiatives and retaining revenue streams through realigning the cost structure and service level. The current vendor has developed a savings estimate achieved through internal changes at the vendor and increased standardization and reduced service levels for each participating agency.
- *Re-negotiate current medical and behavioral health contracts under the Department of Corrections:* After commissioning a study that analyzed the current delivery of Department of Correction (DOC) inmate healthcare services and cost contributors to identify options for cost containment in FY 2012, DOC will use recommendations from the study to cut costs for inmate healthcare in FY 2013. The Administration proposes to renegotiate current contracts and seek greater transparency in the pricing and cost of inmate health care services and staffing.

Build the Foundation for Payment and Delivery System Reform

The Patrick-Murray Administration made significant strides in FY 2012 that strengthen the foundation for payment delivery system reform for the next fiscal year. On February 11, 2011 Governor Patrick filed "An Act Improving the Quality of Health Care and Controlling Costs by Reforming Health Systems and Payments". This bold, comprehensive payment and delivery system reform legislation will promote the transformation of the Massachusetts delivery system into an innovative care delivery and health care financing model. In December 2011, the Commonwealth successfully renewed the 1115 Medicaid waiver. Over three years, the waiver authorizes more than \$26.7 B in federally supported expenditures, allowing the Commonwealth to fully fund its landmark health care reform law and to implement integrated delivery system and payment reform initiatives.

In FY 2013, to fully support the goals of payment reform and to promote the transition to integrated care systems, the Administration proposes a number of reform initiatives that support a transition towards value based purchasing, including global capitation and bundled payments, and that promote evidence-based, high quality medical and support services. These initiatives are significant steps forward that replace traditional fee for service arrangements and build the foundation for the next stage of payment and delivery system reform.

- *Supporting Integrated Systems of Care for Hospitals:* The Delivery System Transformation Initiative (DSTI) will offer incentive payments to Medicaid safety net hospitals throughout the Commonwealth to fundamentally change the delivery of care to Medicaid members. Payments will be tied to measurable outcomes of transformation and quality. The ultimate goal is to develop alternatives to fee-for-service payment arrangements to reward care that is delivered in integrated systems of care unique to safety net populations and that achieve high quality care for these populations. Hospitals will be required to promote patient-centered medical homes among their affiliated primary care practices. The Administration plans to fund \$186 M in incentive payments to hospitals, with the federal government providing half of the revenue to support the initiative. Additionally, the Administration proposes \$20 M in Infrastructure Capacity Building grants to support delivery system transformation for non-safety net hospitals.

- *Invest in the infrastructure to transition government health care programs to alternative payment methods:* The Administration proposes to invest \$2 M in the MassHealth infrastructure to support implementation of payments to Accountable Care Organizations that demonstrate increased care coordination and integration across care settings and to support the development of innovative payment strategies that reward providers for high value, patient-centered care.
- *Integrate care and long term care and support services for dual eligible MassHealth members:* In 2012 the Administration will submit an innovative proposal to the federal government to provide integrated, coordinated medical care and to expand independent living and long-term services and supports for Medicaid members ages 21-64 that are also eligible for Medicare. The Duals Demonstration will provide a strong foundation for payment and delivery system reform in the Commonwealth by providing dually eligible MassHealth members with access to an integrated, accountable model of care and support services financed jointly with Medicare through global payments.
- *Launch a payment reform pilot program for managed care organizations (MCO):* A key initiative that MassHealth and the Health Connector are working together to explore for FY 2013 is the opportunity for a payment reform pilot. Specifically, the focus of MassHealth and the Health Connector's planning is on a "shared savings" model that will provide incentives for MCOs and providers to migrate towards alternative payment models that encourage better care coordination and accountability.
- *Build on the Success of the Primary Care Medical Homes Initiative (PCMHI):* Launched in FY 2010, the Administration has committed to assist 46 primary care practices, including community health centers, hospital-affiliated primary care offices, and group and solo practices, to transition into certified medical homes focused on integrated and patient-centered care. The Administration proposes to fully fund the initiative at \$10 M. There will also be \$3 M dollars in additional funding made available from the 1115 Medicaid waiver Infrastructure and Capacity Building funds to support the establishment of new Patient-Centered Medical Homes at community health centers. \$9 M will also be invested in higher rates for primary care providers and \$4 M will be invested in higher rates for outpatient behavioral health providers, recognizing the critical role of these providers as the foundation of a transformed delivery system. Finally, qualified "Health Home" expenditures are allowed under the Affordable Care Act for a 90% federal matching rate. Health Homes are designed to be person-centered systems of care that promote access and coordination of health services, behavioral health services, and long-term community services and supports. The Health Home model will expand on MassHealth's patient-centered medical home model by building additional linkages and enhancing coordination and integration of medical and behavioral health care. This initiative will generate \$10 M in new revenue for MassHealth due to the enhanced matching rate.
- *All Payers Claims Database:* Since 2010, the Division of Health Care Finance and Policy has been undertaking the development of an All-Payer Claims Database (APCD) to facilitate cost containment and quality improvements in the Massachusetts health care system. The Division anticipates significant use of the APCD in FY 2013 to achieve administrative simplification at other state agencies, as well as to help inform policy development and implementation for both public and private health care payers and providers. Over the long term, such policies are anticipated to reduce costs while improving quality. In addition to the health system benefits of the APCD, the Division anticipates additional FY 2013 revenue from APCD activities. This revenue will come from two sources: fees for sharing APCD data for public purposes, and federal financial participation (FFP) for APCD activities that directly benefit the Medicaid program. With respect to FFP, the Division anticipates seeking an agreement (Advance Planning Document or APD) with the federal Centers for Medicare & Medicaid Services to receive up to 90% match for specific eligible activities.

Leverage National Health Care Reform

The Patrick-Murray Administration is moving aggressively to prepare the Commonwealth to take full advantage of the federal health reform legislation, the Patient Protection and Affordable Care Act (ACA), and the major components of ACA as of January 1, 2014. To date, Massachusetts has received over \$186 M in funding as a result of the Affordable Care Act including \$36 M for an "Early Innovators" grant to develop the health information technology necessary to develop a real time, integrated eligibility system, and enhance existing Massachusetts systems in order to meet federal guidelines for an ACA-compliant Exchange. Massachusetts hopes to develop reusable technology components that may subsequently be leveraged by one or more of the six New England states participating in this collaboration. Some of the major national health care initiatives underway include:

- Developing strategies to leverage federal support to maintain expanded health care coverage and further decrease the rate of uninsurance through subsidized health insurance;

- Establishment grant applications to support the transition of the Health Connector to an ACA-compliant health benefits Exchange;
- Early Innovators work to develop technological solutions supporting real-time eligibility and determinations for Exchange and Medicaid expansion populations;
- In depth analytical work assessing opportunities for Massachusetts to leverage optional programs under the ACA to provide subsidized health insurance to residents;
- Investigating the implications of reinsurance, risk adjustment and risk corridors programs to the Massachusetts small and non-group insurance markets;
- Building a common eligibility system for Medicaid and other federal entitlement programs to simplify and streamline the Medicaid and all government subsidized health care program eligibility and enrollment; and
- Analyzing the impact of federal reform policies on the Massachusetts reform policies related to the individual mandate, the employer fair share contribution and other state policies.

Strengthen Community Long Term Care Services for Elders and Disabled

Long term care is the fastest growing spending category in Medicaid and provides critical services for elderly and disabled populations. Building on its commitment to the principles of Community First, the Patrick-Murray Administration is transforming the long term care services and supports (LTSS) system through the following core initiatives:

- *Duals Initiative*: The Duals Demonstration described above will enhance members' access to community providers of independent living and long term supports and services and provide a seamless, person-centered care experience that reflects the members' goals and supports independent living.
- *Money Follows the Person*: This \$110 M demonstration grant, made possible by the Affordable Care Act, will support Massachusetts's efforts to transition over 2,000 individuals from long-term care facilities to community settings by 2016 through the provision of resources for home and community based services, housing supports, and infrastructure development.
- Additionally, MassHealth will implement internal policies to ensure that members are being served in cost-efficient community settings that promote independence, consistent with the administration's commitment to Community First, and to increase utilization management and auditing activities in fee for service long term care programs. Innovative, performance-based payment methodologies will also be implemented in some community based long-term care programs.

Continue Program Integrity Efforts and Expand Audit Activities To Tackle Fraud, Waste And Abuse

MassHealth is undertaking a number of initiatives focused on ensuring that only eligible members receive services and that providers are only paid for appropriate services provided to eligible members. These efforts leverage enhanced data and field-based audit activities with a focus on program areas that have experienced rapid growth.

Reduce the Health Care Cost Burden for Small Businesses

- *Expand eligibility for the Small Business Wellness Subsidy offered through the Health Connector's Business Express program*: Currently, certain small businesses that purchase health insurance through Business Express and enroll their employees in a wellness program created by the Health Connector may be able to obtain a 15% rebate for the cost of their share of health insurance premiums for their employees. Eligibility for the wellness rebate is tied to eligibility for federal tax credits offered to small businesses under national health care reform. The Administration is proposing to maintain the rebate at 15% (a temporary increase in FY 2012 over the originally authorized level of 5%) and expand eligibility for the wellness rebate to include sole proprietors and small business employees that are family members of the business owners, so that more small businesses are able to take advantage of the wellness program while saving money on their health insurance.
- *Control health insurance costs through Division of Insurance's rate review process*: The Division of Insurance (DOI) will continue its efforts to examine the underlying factors driving health care costs when examining small group rate filings. To date, DOI has actively set appropriate limits to premium rate increases and prevented rates from increasing at an unaffordable pace for small group insurance purchasers. In the rate filing for the 2nd quarter of 2010, carriers filed for average weighted rate

increases of 16.3%, but DOI disapproved the rates as unreasonable, settled with carriers for much lower rates and saved small group purchasers approximately \$106 M in insurance premium costs. In DOI's second year of rate review, the average weighted rate increases fell to 9%. DOI has also taken steps over the past year to foster the development of more affordable health insurance products that will be more widely available in FY 2013. The majority of small group carriers will be required to offer select or tiered provider network products that have rates at least 12% less than the carriers' full network products. Certain carriers will also be offering health insurance through certified group purchasing cooperatives, which will offer wellness programs and negotiated small group rates that previously have not been available to small employers.

- *Medical Security Plan Procurement*: The success of the competitive medical security plan procurement completed in FY 2012, will annualize into FY 2013 at \$32 M in savings for the Medical Security Trust Fund (MSTF), and in turn, savings for small business employer who are the main contributors to the trust fund and program.

Improve the Health Technology Infrastructure

The Executive Office of Health and Human Services (EOHHS), Information Technology Division (ITD), the Health Connector and the Massachusetts e-Health Institute are developing a strategic implementation plan to align IT resources for national health care reform readiness and transition to payment reform. IT systems are evolving from segmented to integrated based payment methodologies. The Administration proposes three major components in the health care IT strategic plan:

- *Coordinate and facilitate the dissemination of Electronic Health Record (EHR) systems throughout the Commonwealth*: The Administration plans to continue the distribution of provider incentive payments through the Health Information Technology Trust Fund, which is funded at 100% federal reimbursement to encourage Medicaid health care providers to adopt, implement, upgrade or meaningfully use certified EHR technology. EOHHS plans to distribute \$125 M in funding in FY 2013;
- *Develop a secure and interoperable health information infrastructure that will allow providers, consumers and others involved in supporting health and healthcare to share clinical information securely and reliably (network of networks approach)*: Leveraging both state and federal funds the Administration is building technology infrastructure and services with the active participation of a multi-stakeholder Advisory Committee to enable secure end-to-end transmission of clinical and public health data. The goal is to better support patient care coordination as well as public health and quality reporting in order to improve outcomes and contain costs; and
- *Develop a Health Insurance Exchange (HIX) and Integrated Common Eligibility System (IES)*: The creation of an integrated Health Insurance Exchange is a major undertaking in the Administration's national health care reform efforts. The Health Insurance Exchange will help individuals and small businesses identify and purchase affordable coverage and provide the IT infrastructure to insure individuals with means based needs by providing Medicaid coverage or tax credits. The Exchange will also integrate eligibility and enrollment with Medicaid and other state health subsidy programs.

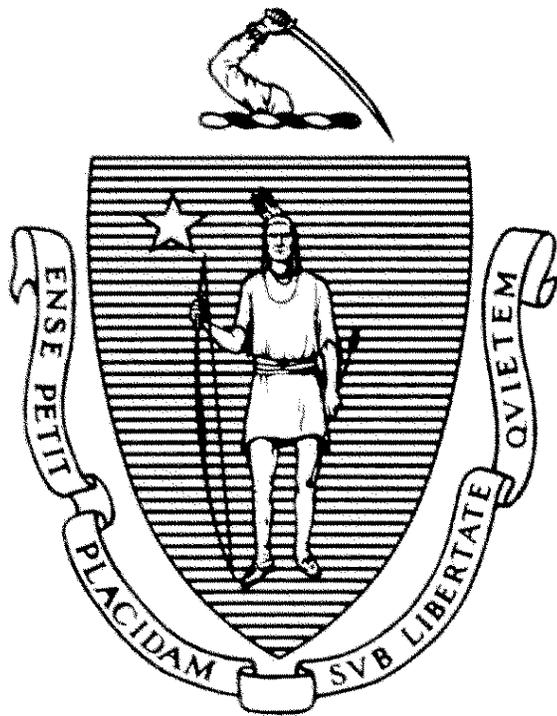
Promote Wellness

- *Investment in wellness programs for Commonwealth employees*: Promoting wellness is a further opportunity for the Commonwealth to manage health care spending by encouraging healthy choices among its employees and retirees. In the FY 2012 budget, the Group Insurance Commission (GIC) was tasked with developing a wellness program for its members. After a competitive procurement, the GIC has selected a wellness vendor and has developed a plan to implement this initiative in FY 2012 and FY 2013. The GIC will leverage federal Early Retirement Reinsurance Program (ERRP) funds to expand the reach of this initiative beyond the initial FY2012 investment.
- *Expand Smoking Cessation programs*: The Administration proposes to invest a total of \$5 M toward smoking cessation programs in government health care programs. The GIC plans to invest \$2 M of its federal Early Retiree Reinsurance Program (ERRP) funds toward smoking cessation programs. Commonwealth Care will receive an additional \$2 M and the Department of Public Health will receive \$1 M. A recent study published by the George Washington University School of Public Health shows that for every \$1 invested in the Massachusetts Medicaid (MassHealth) smoking cessation benefit led to an average savings of \$3.12 in cardiovascular-related hospitalization expenditures, so there was a net return of \$2.12 for every dollar invested.

- 1 The Governor's FY 2013 budget also proposes to increase the cigarette tax by 50 cents and to tax other tobacco products at the same rate as cigarettes.
- *Commonwealth Health and Prevention Fund*: The Governor's FY 2013 budget proposes eliminating the sales tax exemption for soda and candy. In addition to generating \$51.25 M for public health programs, the repeal of the sales tax exemption is an important step in discouraging overconsumption of these unhealthy products. The revenue will be directed to the new Commonwealth Health and Prevention Fund. Please see the Issue in Brief, "Health Promotion and Wellness Investments" for further information on the details on this proposal.

¹ Richard P, West K, Ku L (2012) The Return on Investment of a Medicaid Tobacco Cessation Program in Massachusetts. PLoS ONE 7(1): e29665. doi:10.1371/journal.pone.002966

Fiscal Year 2013 Issues in Brief



Changing the Way Government Does Business





Reforms to Local Housing Authorities

In the FY 2013 budget, the Patrick-Murray Administration proposes a series of reforms to address the governance structure, financial transparency and management of the state's public housing portfolio.

There are roughly 80,000 public housing units in Massachusetts, of which 50,000 are state funded. This public housing is the largest source of affordable housing for extremely low-income residents across the state. Many of the units are more than 60 years old. The combination of age and a lack of investment by prior Administrations has left much of the portfolio at risk of being uninhabitable.

Since 2007, the Patrick-Murray Administration has invested nearly \$400 M in capital improvements to the public housing portfolio in an effort to preserve public housing for those who need it most. The Administration has also increased operating subsidies to help maintain housing and will propose another modest increase in this budget.

As the Administration increases funding for public housing, it is also proposing a number of reforms to improve the management and increase efficiency and transparency of local housing authorities to ensure that we are meeting the goal of housing for low-income families.

Financial and Reporting Reforms

There are 242 Local Housing Authorities (LHAs) in Massachusetts. Each LHA is an independent authority, overseen by a Board of Directors. The Board is responsible for oversight of the finances and operations of the LHA. Most LHAs are funded by a combination of state, federal and local funding.

The proposed reforms recognize that while the state provides funding to LHAs, it does not directly manage or oversee the authorities' finances. These reforms focus on increasing transparency, setting standards in line with those of other independent authorities and reviewing the rules and penalties for non-compliance.

Enhanced Reporting and Financial Reforms

Governor Patrick will file legislation to eliminate compensation, where it exists, for LHA board members. Effective immediately via administrative action, the Department of Housing and Community Development (DHCD) will:

- Require LHAs with state public housing to provide DHCD with the top five salaries of the highest-paid management staff;
- Set a maximum salary for LHA Executive Directors;
- Require LHA board members to certify Executive Director salaries and detailed benefits every year when budgets are submitted. Boards also would be required to match payroll documents to actual expenditures;
- Cap annual salary increases at a level consistent with comparable municipal employees.
- Prohibit state subsidies from being utilized for Executive Directors' buyouts that are above and beyond what a state employee would be eligible for;
- Require reports to confirm monthly meetings occur and to confirm the attendance of board members;
- Make ethics and other training in best practices from the National Association of Housing and Redevelopment Officials (NAHRO), in collaboration with DHCD, mandatory for public housing employees and board members and required to receive state funding;
- Require more detailed auditing procedures including verifying director compensation and salary schedule, and work with the State Auditor to review and potentially revise their auditing process;
- Require year-end Financial Certification that would require Executive Directors to present year-end financials to their respective Boards. Boards and Executive Directors would then jointly certify and submit

statements to DHCD. Currently LHA Executive Directors and Fee Accountants complete and submit a form to DHCD certifying year-end financials;

- Re-examine delegated Authority for Procurement to allow authority for purchases, where they already exist, to continue to be delegated from the Board to the Executive Director, but that purchases above certain thresholds be required to be approved by the Board; and
- Deem any LHA which does not comply with all of DHCD's existing and enhanced reporting requirements a LHA "Not in Good Standing" with the Department. Make any LHA "Not in Good Standing" ineligible to receive state funding until current on all reporting.

Review the Rules

A comprehensive review of existing regulations, contracts and agreements that help DHCD manage the LHAs should be the final phase and should reflect all decisions and changes made regarding the actions presented above.

Changes in Governance and Management

Governor Patrick recognizes the importance of public housing in Massachusetts and has increased funding for public housing throughout his term. However, in light of recent events, he believes that reforms should be considered that will improve the accountability of housing authorities to the local, state and federal funders as well as to the residents, including whether to regionalize or otherwise consolidate oversight into fewer separate authorities. To this end, Governor Patrick will sign an Executive Order establishing a Commission on Housing Authority Governance Reform. The Commission will confer with public housing stakeholders in Massachusetts and in other states, and develop, within 60 days, recommendations to the Governor for ways to strengthen housing authority oversight.



Initiatives to End Homelessness

The Patrick-Murray Administration is committed to reforming the ways in which the state responds to homelessness and housing scarcity in Massachusetts. Facing an unprecedented level of demand for shelter and other emergency housing services, the Patrick-Murray Administration has sought to reform the state's housing and homeless programs to best target limited resources to families and individuals in the most appropriate, cost-efficient and effective fashion. The Governor's budget recommendation for FY 2013 proposes further changes to these programs and services while making critical investments in state affordable housing programs.

FY 2013 Budget Recommendations

The Governor's FY 2013 budget recommendation builds upon past successes and starts the next chapter of reform to the Commonwealth's response to family homelessness and housing instability. These efforts will help reduce the reliance on the shelter system as the primary response to housing instability and focus on reallocating resources to a housing support system that offers the types of assistance that families have demonstrated they need.

By targeting Emergency Assistance (EA) Shelter and HomeBASE to those who are truly in emergency situations and reinvesting in community based homelessness prevention and extremely low income housing programs, including Residential Assistance for Families in Transition (RAFT), Massachusetts Rental Voucher Program (MRVP) and Public Housing, the Administration continues to advance its *Housing First* approach to serve extremely low income families.

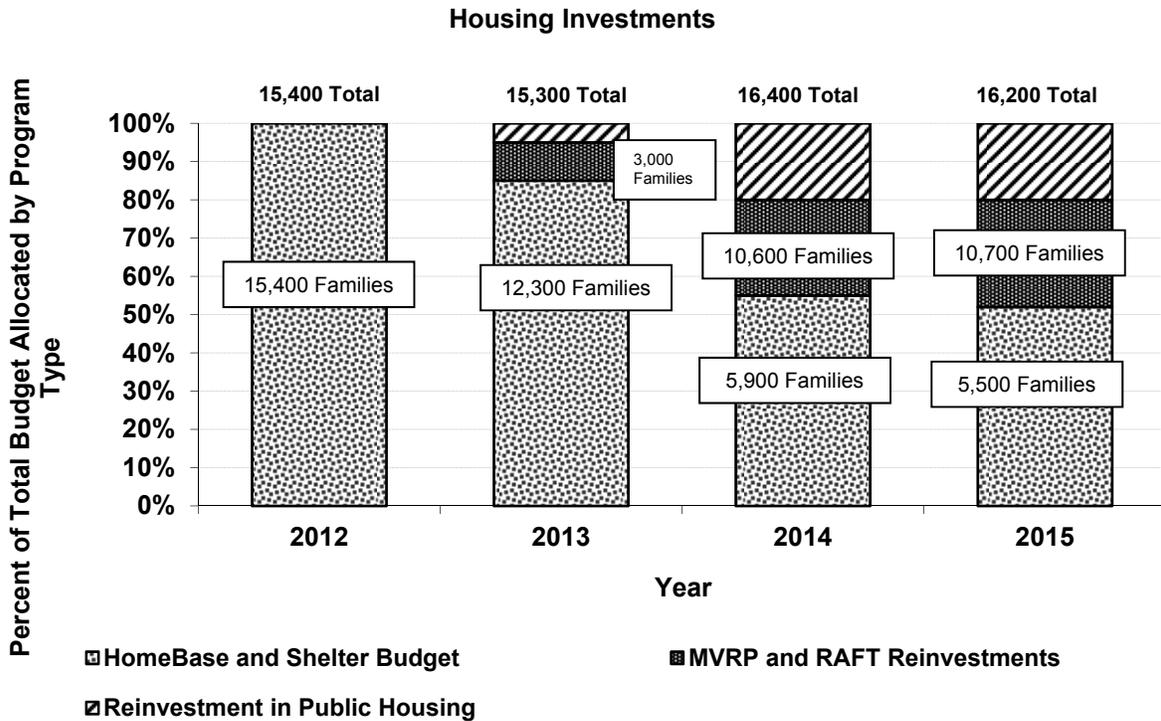
The Patrick-Murray Administration has demonstrated an unwavering commitment to combatting homelessness through ongoing reform initiatives and maintaining focus in the face of a historic structural gap between the income of extremely low income families and housing costs exacerbated by the global recession.

Lessons learned from the Interagency Council on Housing and Homelessness (ICHH), Regional Networks to End Homelessness and reforms to date, include the transfer of funding for homelessness services and shelter from the Department of Transitional Assistance (DTA) to the Department of Housing and Community Development (DHCD) in 2010, have provided critical data to help improve the Massachusetts Short Term Housing Transition Program (HomeBASE), which was launched in FY 2012.

The underlying design of the reform is based on the following principles:

- Continue to pursue the Administration's goals to advance *Housing First*;
- Provide cost predictability and cost containment;
- Provide a responsible emergency shelter safety net;
- Expand prevention programs and extremely low income housing resources across DHCD by building out its existing infrastructure;
- Align with new federal housing strategies that focus on rapid rehousing and prevention to be implemented through the HEARTH Act;
- Eliminate use of motels;
- Coordinate resources across DHCD Divisions; and,
- Strengthen ICHH Regional Networks.

The Governor's FY 2013 budget proposes an even more targeted emergency shelter system and cost efficient investments in community based prevention and housing programs. These programs will be available to extremely low income families experiencing housing instability which will include income-eligible families who do not qualify for Emergency Shelter. These resources will support prevention and rapid rehousing efforts to provide a more appropriate and cost effective housing response.



Reforms to Housing and Homelessness Programs

The Governor's FY 2013 budget recommendation proposes the following changes to housing and homelessness programs and reinvestments in community based prevention and extremely low income housing programs.

- *EA Eligibility:* Maintain a responsible safety net by targeting the EA Shelter system to families who are truly in emergency situations (lack of housing due to fire, natural disaster, fleeing domestic violence or evicted through no fault of their own).
- *HomeBASE:* Continue to utilize the household assistance benefit of up to \$4,000 to rapidly rehouse and stabilize EA eligible families and to serve families that exited shelter prior to FY 2013 that are receiving HomeBASE rental assistance and stabilization services.
- *RAFT:* Redesign this prevention and diversion program, which is capped and waitlisted, to target financial assistance to extremely low income families who are at risk of becoming homeless and help them remain housed. This would include families previously EA eligible that need assistance due to being asked to leave by a host family, overcrowded and evicted for cause. Administered through the existing infrastructure at the Housing Consumer Education Centers operated by the Regional Housing Nonprofits, RAFT will use triage and assessment methods to target families most at risk. The Governor proposes increasing funding for RAFT by \$8.5 M, for a total funding level of \$8.76 M in order to serve an additional 2,000 families.
- *MRVP:* Increase funding for MRVP, a capped and waitlisted program, which provides rental vouchers for extremely low income families, by \$10 M to support an additional 800 vouchers. \$1.6 M is dedicated to launch a supportive housing pipeline for families that need additional case management to ensure housing stability.
- *Public Housing:* Increase funding by \$4 M to support operating expenses of local housing authorities, ensuring units are kept online and stabilizing 48,000 households that currently live in state aided public housing.
- *Home and Healthy for Good:* Increase funding by \$1 M to support the continued success of providing permanent supportive housing for chronically homeless individuals.
- *Individuals Homeless Assistance:* Increase funding by \$939,000 to support shelters in the conversion to housing first and rapid rehousing models.



Investing in Community Colleges

The 15 community colleges that make up the Massachusetts community college system are essential contributors to the workforce development and the economic prosperity of Massachusetts. The community colleges provide relevant, affordable educational and career-focused training programs to prepare students of all ages for both the local job market and further academic study.

The community colleges currently serve as the linchpin of three central goals of the Patrick-Murray Administration:

1. Creating a 21st century workforce that will respond to local and statewide economic needs;
2. Reducing unemployment across the state; and
3. Closing the achievement gap.

Strengthening Massachusetts Community Colleges

Going forward, the mission of the Massachusetts community colleges will be to prepare students of all ages for the local job market by providing relevant, affordable education and training. The primary goal of the community college system will be to offer courses that are better aligned with employer needs and are also more standardized and transferable, across campuses. These courses combined with locally developed, industry-specific curricula will provide students with the education and skills they need to excel in their professional and academic careers.

The Governor's FY 2013 budget includes a \$10 M increase in total funding for community colleges. This additional funding aims to support local campuses in achieving these goals, conditioned on passage of reforms.

Reforms Proposed in the FY 2013 Budget

The Patrick-Murray Administration is proposing two strategies to build a more unified and coherent community college system:

1. Strategic Budgeting – The Board of Higher Education (BHE) will have the authority to allocate all state funding to the community colleges in alignment with systemic priorities.
2. Strong Leadership – The BHE will have the authority to appoint community college presidents and review their performance in accordance with systemic goals.

By implementing these strategies and also continuing the important work that we have already begun, our community colleges will be better positioned to achieve their primary mission – create jobs by offering high-quality training and certification programs so that students can immediately enter the workforce – as well as create robust pathways to additional educational opportunities.





Criminal Justice Reforms

Comprehensive Criminal Justice Reform

In the FY 2013 budget, the Governor proposes a comprehensive package of reforms that will dramatically improve the Commonwealth's criminal justice continuum: from sentencing to incarceration to re-entry. This multifaceted approach will protect the public from violent offenders and advance positive outcomes for individuals who have re-entered society from incarceration.

In addition to the public safety benefits, there are financial benefits for these reforms for state government and its taxpayers. The Commonwealth cannot afford the status quo of mandating lengthy incarcerations for individuals charged with minor drug offenses or duplicative post-incarceration supervision. The status quo will force the Commonwealth to build 10,000 new prison bed-spaces by 2020 which would cost between \$1.3 B and \$2.3 B to build and an additional \$120 M a year to operate. These reforms will reduce the costs of the criminal justice system and reduce crime at the same time.

The comprehensive package includes:

- *Sentencing Reform* which will improve public safety by reducing mandatory minimum sentences for non-violent drug crimes, imposing stricter penalties on violent and habitual offenders and increasing opportunities for parole and community supervision for appropriate offenders;
- *Corrections Master Plan* which establishes a cost-effective, strategic approach to investing in the correctional system over the next ten years by addressing the needs of special incarcerated populations and developing beds in less costly, lower security settings that can provide better venues for re-entry;
- *Re-entry and Community Supervision Consolidation* which provides more efficient and effective transition to the community for appropriate offenders with strong monitoring, accountability and support; and
- *Medium Security Prison Closure* which allows the Commonwealth to capture the operating cost benefits of sentencing reform by closing a facility and stepping down appropriate offenders into less secure facilities.

These reforms will improve public safety, reduce existing costs and avoid anticipated expenses associated with the growing prison population.

Without sentencing reform, the Commonwealth is limited in its ability to prepare inmates for re-entry into the community and to transition appropriate inmates to supervision, which is proven to provide better outcomes and reduce recidivism. Without the Re-entry and Community Supervision consolidation, the Commonwealth will not have a seamless continuum of services that will decrease criminal activity and victimization and reverse the extraordinary escalation of costs associated with duplication and inefficient administration of existing services. Without a plan for preparing inmates for re-entry, enhancing the use of post-release supervision and reducing our incarceration rate, the Commonwealth will have to abandon the targeted investment approach proposed by the Corrections Master Plan and begin to set aside \$1.3 B to \$2.3 B to build 10,000 new beds.

The Cost of Incarceration

Incarceration-related costs are placing strain on state budgets across the country. Massachusetts is no exception. The Commonwealth spends approximately \$47,000 per offender each year at the Department of Correction (DOC) and \$38,000 per offender at county jails and houses of correction. State funding for DOC expenditures has increased by \$125 M in the past decade, from \$431 M in FY 2003 to \$556 M in FY 2013 – a 29% increase.

Across the country, states are taking steps similar to those that Governor Patrick is proposing to improve outcomes for incarcerated offenders and lower corrections budgets. For example, to save an estimated \$46 M by 2014, Governor John Kasich (R-Ohio) signed legislation last year to give more discretion to judges in minor felony

cases and allow inmates to more quickly decrease the length of their sentence through earned credit programming.²

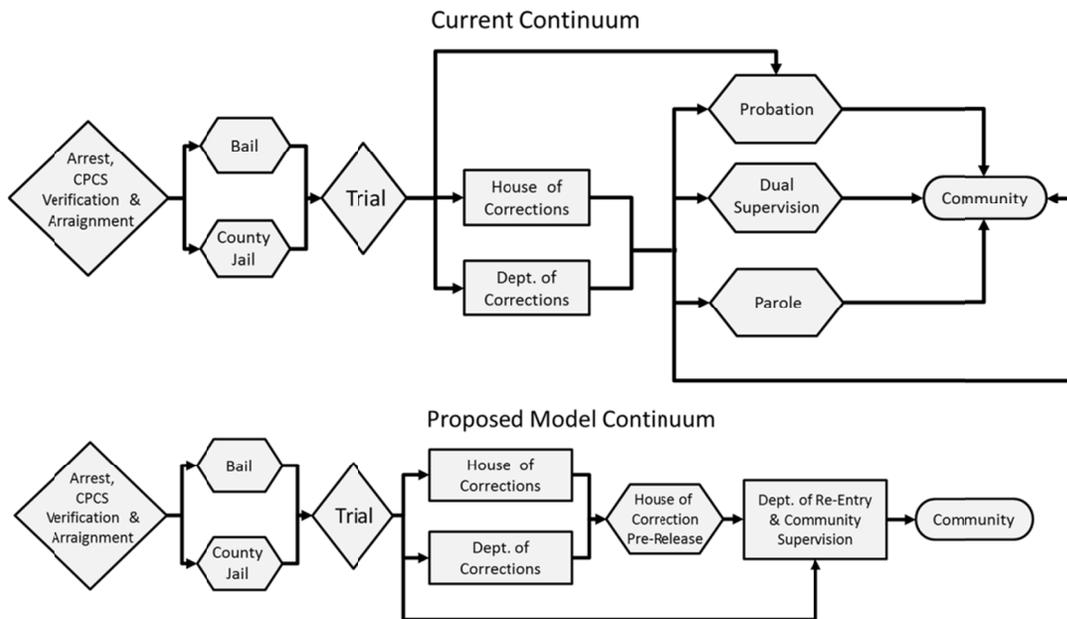
The Criminal Justice Continuum

The Patrick-Murray Administration proposes to make targeted operating and capital budget investments to improve re-entry and reduce recidivism by stepping incarcerated individuals back into society. In the current continuum, inmates on mandatory minimum sentences are often released from medium security DOC facilities into society without supervision or re-entry services, increasing the risk that they will commit new crimes. Other individuals are released under dual supervision of parole and probation, a duplicative, inefficient and ineffective approach to supervising offenders.

Between the Corrections Master Plan and the FY 2013 budget, the Governor proposes investing in re-entry:

- Planning the construction of 600 pre-release beds where individuals nearing the end of their sentence will have access to re-entry programming as well as jobs, housing and public transportation after incarceration;
- Investing an additional \$1.9 M in re-entry and implementing stronger collaboration between DOC and houses of corrections to transition inmates back into communities upon release; and
- Post-release supervision for all incarcerated individuals provided by the new Department of Re-entry and Community Supervision. First-time and low-risk offenders will 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 county or state correctional facilities and released via discretionary parole or receive mandatory supervision at the end of their sentence under the auspices of one oversight administration.

The diagram below shows the current path that individuals may take through the criminal justice system. The Governor’s FY 2013 investments move the Commonwealth toward the proposed model continuum where inmates successfully participating in re-entry programs are transitioned through security levels to county pre-release settings and then into the Department of Re-entry and Community Supervision to best prepare them for re-entry and reduce rates of recidivism.



² Fields, Reginald. "Ohio Gov. John Kasich signs sentencing reform bill that favors rehab over prison for non-violent felons." *Cleveland Plain Dealer* 29 June 2011: Web.

Sentencing Reform

In 2011, Governor Patrick proposed legislation to toughen criminal sentences for repeat violent offenders while repealing mandatory minimum sentences for non-violent drug crimes. Mandatory minimum sentences deprive judges of the ability to determine the appropriate sentence based on the facts of the case and the offender's criminal history. These policies often result in harsher and lengthier sentences, contribute to skyrocketing incarceration costs and contribute to racial disparities in the criminal justice system.

The House and Senate have both passed versions of habitual offender reform, and the Senate legislation includes mandatory minimum reform. The Patrick-Murray Administration continues to advocate for a balanced and comprehensive sentencing reform that:

- Reduces mandatory minimum sentences for non-violent drug offenders;
- Allows parole eligibility for already incarcerated non-violent drug offenders;
- Reduces school zones from 1,000 to 100 feet; and
- Provides work release eligibility for those sentenced under mandatory minimums.

Medium Security Prison Closure

Sentencing reform allows appropriate inmates to be stepped down into lower levels of security and community supervision. In FY 2013, the reform would allow an estimated 340 non-violent offenders under mandatory minimum sentences to be paroled and placed under community supervision.

The Commonwealth must close a prison to achieve savings associated with this reduction of incarcerated inmates. Without a prison closure, the Commonwealth will only save on items such as food or inmate health care, but it would still need to retain the same staffing levels for prison operation.

DOC will maintain its minimum security capacity to help transition and prepare the non-violent drug offenders who may receive parole supervision under sentencing reform for re-entry into the community.

Corrections Master Plan

The Corrections Master Plan is a blue print for the Patrick-Murray Administration's strategy to address prison overcrowding and escalating costs to house and care for inmates, while building on the Governor's comprehensive sentencing and supervision reform proposals. The plan includes recommendations for investing up to \$550 M to upgrade existing facilities and add new beds over ten years, a portion of which is currently included in the Five-Year Capital Plan.

Rather than building new facilities to accommodate the 10,000 new beds that would be needed without sentencing reform, the Master Plan calls for capacity improvements in existing facilities to gain as many as 4,200 beds. To minimize the construction of new beds over the next ten years the Master Plan proposes the following strategic investments:

- Regional women's centers and specialized regional sub-acute care facilities, which will eliminate redundancies in multiple existing facilities struggling to meet the specialized needs of small groupings of inmates;
- Community-based pre-release facilities to better prepare inmates for re-entry into their communities, providing a better chance for individual success and a lower rate of recidivism; and
- New general custody beds in regional and/or multi-jurisdictional facilities to provide more flexibility and enable the construction of fewer buildings to address the needs of multiple jurisdictions more cost-effectively.

Re-entry and Community Supervision Consolidation

The Patrick-Murray Administration's proposal to unify Probation and Parole under the Executive Branch in a new Department of Re-entry and Community Supervision (DRCS) 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.

By combining supervision of offenders in the community into one coherent organization, services and information sharing will be more efficient, accountable, effective and less expensive to administer. Furthermore, having all correctional 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 public safety system.

In July 2011, the Legislature passed legislation to standardize hiring rules for Probation Department officers and court officers to include testing, background checks, behavioral screening and proof that candidates have the minimum professional skills for the position. This legislation did not go far enough to address the waste and duplication currently at Probation. In contrast, Governor Patrick's proposed legislation, "An Act Reforming Re-entry and Community Supervision of Criminal Defendants and Offenders to Strengthen Public Safety," currently pending in the legislature, will unify Parole and Probation into one coherent organization, establish a clear offender accountability mechanism and reduce rates of recidivism, thereby saving millions of dollars in incarceration costs.

Indigent Defense Reform

The Governor's budget proposes to build on FY 2012 reforms to reduce the cost of indigent defense by \$19.6 M from FY 2012 projected spending in the Commonwealth's Committee for Public Counsel Services (CPCS), a judicial branch agency in the Commonwealth that is responsible for providing indigent defense. To more efficiently fund indigent defense, the Commonwealth reduced its high reliance on private bar advocates in favor of more cost-effective public defenders in FY 2012. This budget proposes to continue the promise of these reforms by again increasing public defender's caseloads so that 50% of cases are performed by public defenders and 50% are performed by private bar advocates. These reforms, along with earlier efforts, will have achieved over \$36.5 M in savings from FY 2011 spending.

The Governor's FY 2013 budget also directs the new Department of Re-Entry and Community Supervision to enhance efforts to verify indigency of clients to prevent fraud in the system. As highlighted by the recent Auditor's report on the Probation Department's current indigency verification process, the Probation Department has performed verification at a rate of "near total non-compliance." In a review of 119 cases, only 1.7% contained adequate documentation that court officials performed a required 60-day reassessment, and less than 1% had any evidence that a required six-month reassessment had been conducted. Furthermore, the report found they did not utilize the data and technologies the FY 2012 reform has afforded them to ensure indigency was being properly verified.

Given the Probation Department's low compliance rate and the lack of written standards for verification, it is imperative to implement changes to the system to protect both the integrity of the indigent defense system and the spending of taxpayer dollars.

Criminal Justice Commission Continuation

Established in the FY 2012 budget, the Criminal Justice Commission brings expertise from every stage of the criminal justice continuum to study a broad array of issues, including, but not limited to, parole and probation reform, sentencing guidelines, recidivism rates, prisoner classification systems and cost-effective corrections healthcare. While the Commission has made progress, the FY 2013 budget proposes to extend the life of the Commission so that it may effectively complete a report on legislative recommendations.

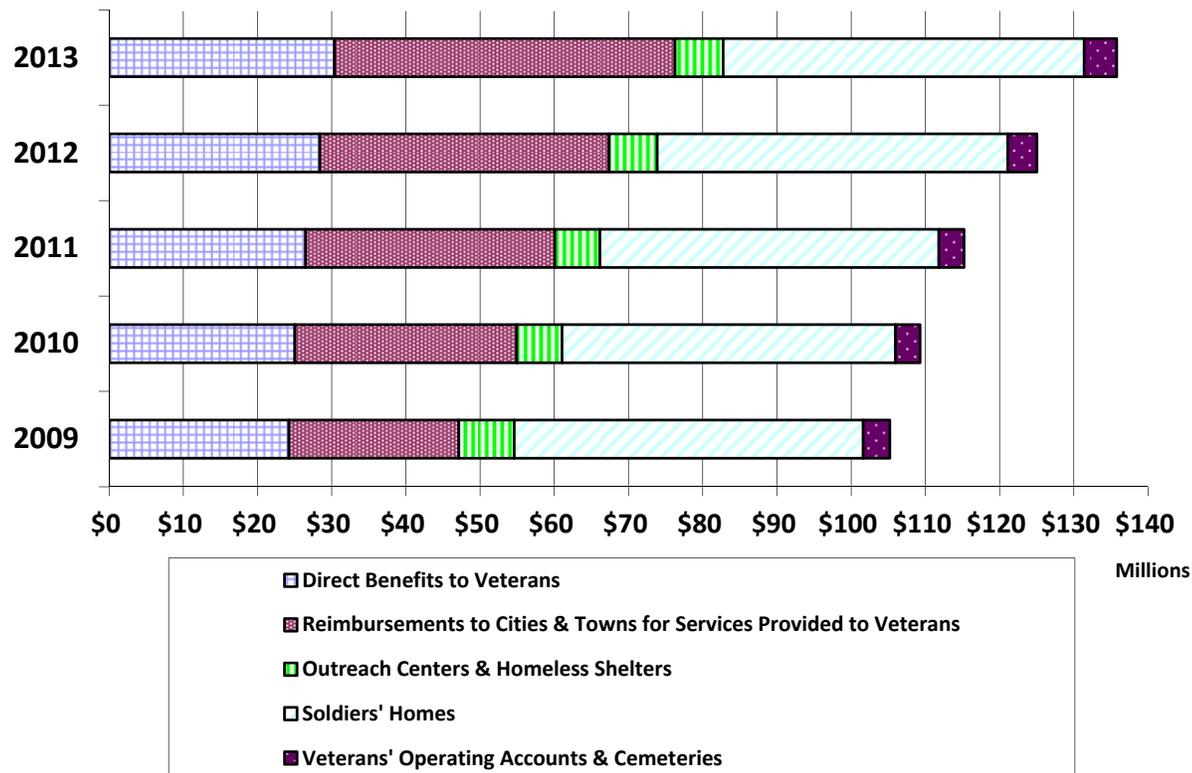


Support for Our Veterans

Massachusetts is proud to support its veterans, and the Patrick-Murray Administration has worked to protect funding for veteran services and benefits during difficult budget times. The Administration values veterans from all eras and has made supporting veterans a top priority. Because of the level of benefits the Commonwealth provides (such as tuition waivers at state colleges and universities, support for indigent veterans and expansion of the state's women veterans' network), Massachusetts is first in the nation in veterans' services. These services reflect the respect the Patrick-Murray Administration has for all that veterans and their families have done for our country.

The economic downturn has hit veterans hard. In 2010 the nationwide unemployment rate was 11.5% for post 9/11 veterans, with the rate as high as 26.9% for those between the ages of 18-24. These numbers reflect the harsh reality that veterans face here in Massachusetts. This is tragic, not only because of the special contributions of servicemen and women in the military, but also because of the special opportunity presented by the training, discipline and skill sets veterans have to be unique and productive contributors to our workforce.

Under Governor Patrick's leadership, the Administration launched an aggressive veterans' employment initiative in November 2011, which is reflected in the FY 2013 budget proposal. Services provided through the Department of Veterans' Services (DVS) and the Soldiers' Homes in Chelsea and Holyoke have been largely preserved, and in many cases, such as veterans' annuities and benefits, the FY 2013 budget helps state government meet the growing caseload demands.



Investments to Support Veterans

The Patrick-Murray Administration will continue to invest in programs that serve veterans and military family members in the FY 2013 budget. These programs will seek to employ veterans, improve the health of veterans and ensure veterans receive the benefits they deserve. Some of these initiatives include:

- Reimbursing cities and towns for 100% of homeless veterans' costs. DVS will now reimburse cities and towns with homeless shelters 100% for the services provided to veterans rather than the 75% previously reimbursed to cities and towns.
- Funding 100% of the benefit costs for newly qualified disabled veterans, Gold Star Parents and spouses. Starting in FY 2013, DVS will no longer pro-rate the first payment made to annuitants. Every veteran or family member will receive a \$1 K benefit when they first qualify for the annuities program. The Commonwealth will serve a projected 11,054 veterans in FY 2013 through the annuity program.
- Initiating an innovative partnership for veteran's jobs training with the Massachusetts Manufacturing Extension Partnership (MassMEP). The FY 2013 budget will include \$500 K to train and employ veterans in manufacturing who qualify for Chapter 115, a state statute that provides benefits for veterans.
- Formalizing the Veterans Quit Smoking Patch Giveaway initiative at the Department of Public Health (DPH). The FY 2013 budget will include \$700 K for the Veterans Quit Smoking Patch Giveaway initiative. This funding will make permanent the past successful pilot programs to offer free patches to veterans and military family members to help them quit smoking. This includes counseling through the quit-line and nicotine patches as well as an informational and promotional campaign. DPH anticipates serving 5,000 people through this initiative.
- Permanently exempting Gold Star spouses from property taxes. Spouses of those who have died in active duty will receive an extension to the property tax abatement. Currently, Gold Star Spouses are tax exempt for five years with a cap of \$2,500 per year in years six and on. This proposal will make the tax exemption permanent until the Gold Star Spouse dies or remarries.
- Increasing efficiency and delivering better services to veterans by combining three homeless shelter and outreach center appropriations, which cover over 30 outreach centers and homeless shelters, to achieve efficiencies. DVS will implement population-based, regionalized homelessness services. Outreach centers provide services to approximately 2,000 vets each year, while homeless shelters serve 2,936 homeless veterans.
- Preserving unique services offered by the Commonwealth's two Soldiers' Homes. The Soldiers' Homes in Chelsea and Holyoke will receive funding increases over FY 2012 to ensure continued levels of care. Overall, the Soldiers' Home of Massachusetts receives a 4% increase over FY 2012, and the Soldiers' Home in Holyoke receives a 1% increase over FY 2012. The administrative accounts at Chelsea and Holyoke will increase to support staffing and maintenance needs. The Soldiers' Homes will continue to serve approximately 430 veterans in long-term care and 330 veterans in dormitories, who require housing and medical assistance.



Improving Children, Youth & Families Services

Massachusetts serves thousands of children and their families every year through Children, Youth and Family (CYF) Services. These services focus on some of the most vulnerable populations in the state – those who come to state agencies in need of support and services as a result of abandonment, child abuse or neglect, delinquency, mental illness, poverty, substance abuse, disability and other special needs.

The Commonwealth’s current approach to serving children and youth reflects individual agency missions to optimize services, programs and funding streams. This has created silos that make it difficult to comprehensively address children’s needs because services are tied to specific eligibility criteria for a particular program or entitlement. Silos create gaps in services – agencies are compelled to fit a child to a program rather than create a plan that focuses on the whole child and family and their needs. Families have trouble identifying these programs and understanding how to enter them when they can’t “diagnose” their children’s problems and identify specific needs.

The Commonwealth needs to improve families’ access to services, their overall experience and how agencies work together to understand and address each family’s needs in a holistic fashion. Today, a child or family served by two or more agencies has multiple service plans that may be duplicative or even conflict, making it difficult for families to navigate the system.

To achieve better access to the services that children need, to better serve families and to improve outcomes for children and families, a system of care must be developed that is comprehensive, better integrated and coordinated across government and with programs delivered in communities.



Key Opportunities for Improving for CYF Services

Over the last year, the Patrick-Murray Administration invited feedback and participation from a wide range of interested stakeholders including parents, youth, legislators, providers, advocates, union representatives and others. The Executive Office of Health and Human Services (EOHHS) convened a CYF Advisory Committee, composed of a diverse group of stakeholders, to develop and prioritize recommendations on how to improve services and service delivery for children and their families. The recommendations include:

- Develop system-wide vision, language, planning, processes and governance;
- Improve access to information and resources and simplify families' interactions with the system;
- Enhance the eligibility process;
- Coordinate services and plans across CYF programs;
- Strengthen coordination across the education system and CYF services;
- Optimize joint local, state and federal funding;
- Ensure workforce competency; and
- Define CYF performance outcomes and reporting.

The Advisory Committee will remain active in developing a detailed, multi-year roadmap to improve the CYF service system. The Advisory Committee, representing a diverse body of stakeholders, will play a major role in finalizing implementation strategies and monitoring implementation.

Immediate Action Steps for Moving Forward

These reforms will require years of continued effort, investment and commitment across state government and among stakeholders. To ensure successful implementation of the recommendations, the FY 2013 budget invests \$2.9 M in new funding and leverages \$4.5 M in existing funds to begin implementation of the CYF Advisory Committee recommendations. This will strengthen interagency coordination and collaboration within EOHHS and between EOHHS and the Executive Office of Education (EOE). Immediate efforts include:

- Enhancing Information and Resource (I&R) telephone and web based systems for families accessing support or services offered by the Commonwealth to create one phone number and web address for families seeking services;
- Enhancing existing resource centers and developing Family Access Centers to ensure families have one front door to state services;
- Implementing interagency data-sharing procedures;
- Coordinating services among CYF-serving agencies within EOHHS; and
- Establishing regulations to expand coordination and communication between EOHHS and EOE, including information-sharing procedures.

The FY 2013 budget highlights the Patrick-Murray Administration's commitment to implementing the CYF Advisory Committee recommendations and strengthening interagency coordination and collaboration. The FY 2013 budget requires EOHHS to review existing authority and to develop systems to share data among its agencies to the extent permissible under federal law, and mandates that within 90 days of passage of the budget EOHHS and EOE convene an advisory council to develop recommendations for regulations to allow appropriate data sharing between state and local education authorities about students served by EOHHS agencies.



Investing in Our Communities

The FY 2013 budget continues the Patrick-Murray Administration's unprecedented support for cities and towns. Major reforms achieved in FY 2012, particularly municipal health reform, will continue to advance and have even greater impact for municipalities in FY 2013. **The Administration's approach to FY 2013** also includes additional tools to support municipalities in managing through this fiscal crisis and beyond.

Municipal Health Care Reform

Municipal health care reform, signed into law by Governor Patrick in July 2011, is already helping municipalities achieve significant savings. More than 50 communities have taken steps to address their health care costs in one of several ways: reaching agreement through traditional bargaining, using the new reform's decision-making process to make changes, adopting the new local option reform or scheduling local votes for the coming months.

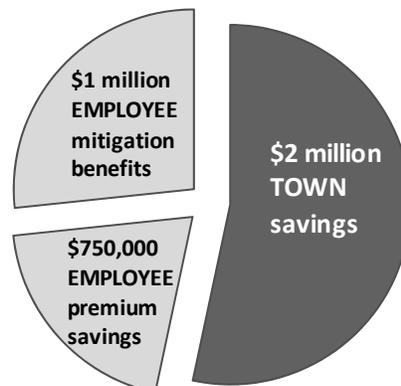
The nine communities that have completed the new reform process as of January 15, 2012, have collectively saved more than \$30 M – putting this reform on track to far exceed the initial estimate of \$100 M in savings for local governments statewide. In the first year, more than \$16 M of these savings are being realized by local governments, and more than \$13 M by local employees through premium reductions and mitigation benefits.

A dozen other communities have come to agreement through traditional bargaining since Governor Patrick changed the municipal healthcare conversation by proposing the new reform in January 2011, collectively saving another \$30 M in the first year of those agreements based on current information.

Success story: Town of Arlington

In August 2011, just weeks after the Governor signed municipal health reform into law, the Town of Arlington and its Public Employee Committee used the new state negotiation process to agree to join the Group Insurance Commission (GIC). Both the Town and its employees will see significant savings in 2012.

Arlington: \$3.75M Savings for Town and Employees



Local Aid

Aid to cities and towns, or local aid, represents approximately 16% of the Commonwealth's annual budget. In FY 2013, local aid programs account for \$5.2 B, which reflects the Patrick-Murray Administration's unprecedented commitment to a strong partnership between the state and its cities and towns:

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- The FY 2013 K-12 Chapter 70 funding is \$4.136 B, the highest level of state K-12 education funding in history and a \$145 M increase over FY 2012 to ensure that all districts are fully funded at foundation levels and that all districts will receive equal or greater funding than FY 2012;
- The Chapter 90 Local Road Program will be funded at \$200 M for the second year in a row, \$45 M more than FY 2011 and \$80 M more than the last year of the prior administration;
- Unrestricted General Government Aid (UGGA) will be level-funded at \$833.9 M. For the second year in a row, an additional payment of \$65 M will be made should sufficient surplus funds be available from FY 2012;
- **The budget invests \$7 M** for a second round of the Community Innovation Challenge Grant Program to provide financial support for one-time or transition costs related to innovative regionalization and other efficiency initiatives in local governments;
- **The budget invests \$200,000** for the development of a program to enhance performance management, accountability and transparency for local governments. This initiative will be overseen by municipal officials and administration officials with the support of the Collins Center for Public Management at UMass Boston;
- Funding for the special education circuit breaker, which goes directly to municipalities, is maintained at \$213 M, which was increased last year by \$80 M;
- Level funding of State Owned Land (PILOT), Regional School Transportation, Charter School Reimbursements and Library Aid;
- Caseload-driven increases to Veterans' Benefits and Tax Reimbursements to Veterans, the Blind and Widows; and
- Veterans' homeless shelter reimbursement increase of \$872,000 over FY 2012 spending, as the Department of Veteran Service's will now reimburse cities and towns for 100% of the costs they incur for the homeless shelter benefits they provide to veterans, instead of only reimbursing 75% of such costs.

Additional Initiatives for Fiscal Year 2013

- The GIC will offer two entry opportunities for municipalities to enter into the state health care system, making it easier for some municipalities to achieve health insurance savings sooner than they otherwise would.
- The Administration will continue to support initiatives to enhance sharing and flow of business information between state government and municipalities, identify opportunities for state government to provide IT services directly to local government (such as providing services at the new Springfield Data Center), and create optimized procurement for IT contracts that best serve municipalities.
- The new Municipal Procurement Program within the state Operational Services Division (OSD) will help municipalities save money by purchasing items through statewide contracts that leverage purchasing power and save money. OSD is now working with local government stakeholders to develop procurement opportunities for school buses and heavy equipment vehicles.

Expanded Gaming Law Benefits for Local Governments

The new expanded gaming law includes benefits for local governments. All tax revenue received from licensing fees for slots will be dedicated to local aid. As soon as a casino is operational, 25% of its total tax revenue will go directly to local aid. Successful applicants for a gaming license must demonstrate how they will protect the lottery from any adverse impacts. The law also creates a Community Mitigation Fund to help cities and towns impacted by a new gaming development, an Education Fund to help pay for K-12 and higher education programs, and a Local Capital Projects Fund. We cannot count on any revenue in FY 2013. While possible licensing fee for slots would be received in FY 2013, the first \$20 M of any licensing fee revenue received must be used to reimburse the state for start-up costs incurred to implement the gaming legislation.



Government Accountability & Transparency

During the past five years, the Patrick-Murray Administration has made the difficult choices needed to maintain the state's financial health and ability to invest in its future. As part of this effort, the Administration has looked closely at what it was doing and how it was doing it – and pursued reforms to improve the way it operates and delivers services.

Improving performance, however, is not just a response to ongoing fiscal challenges. It is about much more than simply dollars and cents. Trust in government has declined. Too many people feel that our democratic institutions are not working. For that reason, the reforms and investments being made in improving state government are therefore aimed not only at enabling resources to be used more wisely and efficiently, but also to help rebuild trust in government by making it more accountable and transparent to the people it serves. This Administration considers it a core responsibility to leave a more effective and open state government to future generations. This commitment is a fundamental element of the social compact between one generation and the next.

Initial Efforts to Improve Performance, Accountability and Transparency

The Patrick-Murray Administration initiated a statewide performance management program to implement its agenda. The MassGOALS (Massachusetts Government Outcomes to Achieve Long-Term Success) initiative proved an important tool in allowing Governor Patrick to align operations and resources around key priorities and to track the progress of executive departments in achieving these outcomes. As part of this effort and to comply with legislative mandates, Secretariats, such as the Executive Office of Health and Human Services (EOHHS) and Massachusetts Department of Transportation, also developed their own strategic plans and performance management frameworks.

Improved performance and coordination of state government activities has also been facilitated by the Administration's effective management of the funds of the American Reinvestment and Recovery Act (ARRA). The Act provided over \$7 B in grant funding to state agencies. Effective management of all Massachusetts ARRA funds required the Executive Office of Administration and Finance (ANF) to mobilize and coordinate responsibilities across government through a dedicated program management office.

Building on these successes, Governor Patrick proposed and the legislature supported the establishment of the Office of Commonwealth, Performance, Accountability and Transparency (CPAT) in the Executive Office of Administration and Finance in the FY 2012 budget.

The Office of Commonwealth Performance, Accountability and Transparency

CPAT was formed to execute nation-leading strategies for improving performance and transparency, maximizing federal grants, reducing fraud, waste and abuse and informing financial planning by using the latest economic and caseload forecasting tools. Beyond the progress being made to use performance management noted below, CPAT has had some notable successes during the first six months of the fiscal year. These include:

- Enhanced coordination of federal grants – leveraging experience in coordinating ARRA funds to secure and maximize federal dollars and ensure compliance with federal requirements;
- Public engagement and transparency enhancements – launching the State's Open Checkbook website in December 2011, which details spending information, including payrolls and pensions;
- Program Integrity – making permanent the Lt. Governor's Task Force on fraud, waste and abuse; creating a new unit within CPAT to support the Task Force and coordinate efforts throughout government, including with other offices such as the Auditor and Attorney General; and

- Caseload and Economic Forecasting – establishing the legislatively-required Advisory Board; developing a standard process and reporting templates for the caseload forecast updates mandated by legislation; beginning to work with high impact service areas, such as MassHealth, to review and develop caseload forecasting methodology; implementing formal tax revenue forecasts; and applying results into a five-year financial planning model.

The Governor's Priorities – using performance management to drive success

Alongside proposing the creation of CPAT in his FY 2012 budget recommendation, Governor Patrick set out four priorities for his Administration:

- Job creation;
- Closing the educational achievement gap in schools;
- Containing health care costs; and
- Reducing youth and urban violence.

During the past sixth months, CPAT has established a collaborative relationship with the Collins Center at UMASS Boston and worked closely with executive departments to develop strategies to achieve these priorities. CPAT and Secretariats have taken a cross-agency collaborative approach to developing strategic plans – bringing together stakeholders across state government to develop focused and integrated strategies to address these pressing challenges.

For example, to support job creation, a comprehensive strategy was developed working across state agencies and with external stakeholders, such as the Economic Development Planning Council, to develop a job creation framework. The strategy calls for a range of actions including:

- Improving workforce skills;
- Aiding innovative sectors of the economy;
- Nurturing a better business climate by reducing unnecessary regulation; and
- Building supportive infrastructure to spur regional economic development.

To support this strategy, targeted investments were identified that could make a difference. To support job-creating infrastructure, the state's FY 2013 capital budget will invest more than \$3.4 B in capital projects and \$94.1 M will be invested in local infrastructure via the MassWorks Infrastructure Program. The FY 2013 budget will also support skills and innovation, including:

- \$15 M in funding for the Massachusetts Life Sciences Center; and
- \$10 M in funding to recapitalize the Workforce Competitiveness Trust Fund (WCTF) to support grants for innovation in training and re-employment programs.

Our new strategies to close the educational achievement gap across the public education system from birth through higher education will build on the progress made by the Administration in implementing the landmark *Act Relative to the Achievement Gap* legislation (signed by Governor Patrick in January 2010). In addition, these strategies will complement ongoing initiatives such as the implementation of our Quality Rating and Improvement System in early education, our K-12 Race to the Top plan, and our higher education Vision Project.

Several FY 2013 education proposals are based on one important premise: the Commonwealth cannot close the persistent achievement gap without addressing the impact of poverty and other factors on student engagement, achievement, and success. The FY 2013 Budget recommendation dedicates an additional \$9.9 M of funding for achievement gap priorities in the Commonwealth's 24 Gateway Cities. In addition, the Administration will continue to maintain high levels of funding for early education, Chapter 70 aid to our communities and our public institutions of higher education.

Reducing the cost of health care and health care spending requires a similarly strategic approach so that access is maintained and quality is improved, while we reduce costs. The Administration's strategy calls for greater integration and patient-centered care, reform of payment methods to reward outcomes and enhancing consumer engagement. Highlights of the Administration's actions to implement this strategy include:

- Building the foundation for a new payment and delivery system through, for example, payment reform demonstrations with providers like the state's safety net hospitals and managed care organizations in the MassHealth and Connector Authority's Commonwealth Care program;
- Leveraging the state's purchasing power and maximizing competition in state health care contracts;
- Strengthening community based long-term care services for the elderly and disabled persons; and
- Expanding efforts to address fraud, waste and abuse in state health care programs.

To reduce youth violence, the strategy brought together education, public safety, public health and municipal officials to develop a suite of interventions to prevent violence and to address its aftermath. The strategy calls for offering positive opportunities for youth development, reducing access to firearms for young people and supporting the victims of violence. The Administration also recognizes that investment is needed and for that reason, Governor Patrick prioritizes \$35.5 M in funding for youth development and youth violence prevention programs in his FY 2013 budget recommendation. This includes funding for the Safe and Successful Youth Initiative (SSY) grant program which supports coordinated intervention strategies for young men at risk of violence in 11 cities across the Commonwealth.

Going forward, Governor Patrick will track progress in achieving successful outcomes in each of these priorities. He is committed to measuring the progress toward achieving these goals and using performance management to inform further efforts.

The Next Phase of CPAT Reforms

The early activities of CPAT have put in place the foundation necessary for success in each area of its responsibility. The Administration proposes to invest \$500,000 in the FY 2013 budget to enable CPAT to continue to drive progress in these areas. Outcomes will include delivering greater efficiencies, enhancing public engagement, securing additional federal resources and using better evaluation of programs and spending to improve results for the people of the Commonwealth.

Performance Management

Reforming the way state government operates by instituting performance management requires a long-term approach and leadership across state government. Governor Patrick is therefore proposing in the FY 2013 budget recommendation the establishment of an office in each Secretariat dedicated to embedding the principles and practices of performance management. Within each Secretariat, these Offices of Performance Management will be required to produce strategic plans for their Secretariats, set goals and measure progress against those goals – working closely with CPAT to develop and execute these plans. Taken together, the strategic program goals identified by Secretariats will constitute the collective goals of the Administration.

A similar initiative has been proposed by Senate President Therese Murray in financial reform legislation she authored (S1900) and which the Senate passed last year. Additionally, two Secretariats, Housing and Economic Development and Transportation, have already been required to create such offices in recent legislation. The Administration supports these legislative initiatives and believes these innovations should be pursued in all areas of state government.

Under these plans, CPAT's performance management unit will have responsibility for the successful implementation of performance management initiatives throughout state government, ensuring that plans are:

- Aligned with the Governor's priorities;
- Focused on results and better outcomes;
- Based on evidence and regularly measured and evaluated;
- Linked to resource and budget recommendations; and
- Informed by engagement with the public.

CPAT will work with Secretariats to ensure that actions are being undertaken to develop and deliver each plan, reporting to the Secretary of Administration and Finance and the Governor.

Governor Patrick will sign an Executive Order further detailing the Administration's plans on performance management later this year.

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Federal Grants Management

In the next fiscal year, the Federal Grants Unit will:

- Formally engage Cabinet Secretaries to develop better cross-government coordination of grant applications and rewards;
- Utilize the outcome measurement regime required to comply with the Federal Financial Accountability and Transparency Act (FFATA) for all grants secured in state government; and
- Establish a unified grants management technology solution that will enable cross-government coordination of grants.

These efforts will help agencies better identify grant opportunities, ensure effective up front analysis by state agencies, enhance tracking and reporting of the outcomes achieved via grant funding and increase the integration of federal grant activities into the overall administration budget and policy effort.

Transparency

In the next fiscal year, the CPAT Office will:

- Continue to make enhancements to the state's Open Checkbook and expand the content included;
- Complete a comprehensive state-wide plan for the full implementation of the transparency legislation; and
- Develop plans to incorporate the work of the CPAT Office into a single web portal.

Forecasting and Analysis:

In the next fiscal year, the CPAT Office will:

- Enhance our analysis and understanding of caseloads in MassHealth and other demand-driven programs;
- Improve our ability to do policy related cost benefit analysis, allowing us to perform more in-depth policy impact analysis for initiatives in priority areas, such as health care and homelessness; and
- Respond to the legislature's demand for improved forecasting and impact analysis.

To support these initiatives, the FY 2013 Budget recommendation proposes a \$100,000 increase, from \$150,000 to \$250,000, for forecasting and analysis.



Social Innovation Financing

Social innovation financing is a creative idea based on a simple premise - have government pay for demonstrated success rather than the promise of success. This approach will result in new and better ways of providing critical state services, achieving better outcomes and stretching every taxpayer dollar as far as possible.

In keeping with the Patrick-Murray Administration's commitment to changing the way government does business, the pay-for-success contracts at the heart of these arrangements should act as a catalyst to accelerate system-wide performance management improvements. This approach will help us learn which programs work and which don't, and it will hasten the adoption of new, more effective solutions to improve the way we deliver core programs and services.

Performance-based investments will help encourage innovation and tackle challenging social issues. New and innovative programs have potential for success, but often have trouble securing government funding because it takes time for them to prove their effectiveness. With limited state resources, governments are hesitant to spend money on new programs that may not succeed. These challenges are particularly relevant for programs that require an up-front investment in prevention in order to improve outcomes and save money over time. Examples include preventative interventions to lower incarceration rates among at risk youth, to improve housing stability for the chronically homeless and to increase kindergarten readiness and literacy among low-income children. Social innovation financing allows the government to partner with innovative service providers to expand promising programs and pay only after we see demonstrated success.

The Patrick-Murray Administration plans to use social innovation financing to tackle two challenging problems:

- **Chronic Homelessness** – The administration will seek to partner with social entrepreneurs to provide stable housing for several hundred chronically homeless individuals. The goal of the initiative will be to improve the well-being of the individuals while simultaneously reducing housing and Medicaid costs.
- **Juvenile Justice** – The administration will seek to partner with social entrepreneurs to support youth aging out of the juvenile corrections and probation systems so as to assist them in making successful transitions to adulthood. The juvenile justice contract will be designed with the specific goal of reducing recidivism and improving education and employment outcomes over a 6-year period for a significant segment of the more than 750 youth who exit the juvenile corrections and probation systems annually.

The Administration plans to expand this initiative to additional policy domains in the future. The Administration will explore a number of options for social innovation financing to ensure the best use of taxpayer dollars, including:

- **Pay-for-success contracts** will allow the state to pay service providers after they have demonstrated success, rather than the current process of paying for the promise of success. These contracts will target innovative social service programs in domains where sophisticated, multi-year performance measurement is possible.
- **Pay-for-success contracts** may be supported through the use of **social impact bonds** – financing arrangements where third party investors give service providers, typically non-profits, upfront funding and other expertise to allow them to enter into pay-for-success contracts with the government. For example, the United Kingdom is piloting a social impact bond program to reduce criminal recidivism.

The Patrick-Murray Administration is filing legislation with the FY 2013 budget to establish funding for social innovation financing and a payment mechanism to support pay for success contracts. While several other states and cities are actively considering the pay-for-success model, Massachusetts is the first government entity in the United States to issue a competitive procurement to obtain services using this approach.





Innovation & Technology

Spurring Innovation with Technology

Technology presents new and exciting opportunities to drive innovative changes in government that could vastly improve services to residents and businesses and save taxpayers money. While the Commonwealth has already pursued a number of technology-enabled innovations, the Patrick-Murray Administration is relentlessly fixed on driving innovation in government and identifying new opportunities to change the way government does business. Toward this end, the Administration plans to formally seek more input from technology experts and entrepreneurs and to make targeted investments in technology to support innovation.

Focusing on technology will also help streamline the delivery of services through a single face of government and ultimately allow the state to interact with people online however they choose (i.e. Facebook, blogs, Twitter, etc.). Enhanced innovation will allow the Commonwealth to address common consumer inquiries and complaints, by adding more transactions online and allowing for better data sharing so that people don't have to contact multiple agencies to get an issue addressed.

Engaging with Experts

The Commonwealth will collaborate with innovation experts from the private sector and members of our vast higher education community in the following ways:

- **#MassInnovation** – Establish a statewide “State Government Innovation” competition to solicit proposals for using technology to support innovative ideas for state government to better serve its residents and save money. Entrepreneurial proposals for reshaping government would be solicited through various platforms, including social media (e.g., Twitter), with data made available online in the spirit of open source initiatives. Proposals would be evaluated for feasibility, cost savings and service improvement. The Administration would identify the three most promising ideas and challenge teams of students to redesign the most efficient and effective way of providing service to the Commonwealth. Finalists would be selected by a panel of private and public sector entrepreneurs and implemented across state government.
- **Government Innovation Officer (GIO)** – Appoint an innovation expert to advise the Governor on identifying, funding and managing execution of high impact business change projects. The GIO would be accountable for improving internal government efficiencies and for the improved experience of outside stakeholders and would work closely with the Commonwealth Chief Information Officer to project and monitor the cost and savings impacts of these change initiatives.
- **Governor’s Council for Innovation** – Establish a public council comprised of the Commonwealth’s top innovators to advise the Governor and GIO on the best opportunities for using technology to streamline delivery of state government services to people and businesses and to improve government efficiency.

Making Government Work Better

The majority of citizen complaints or inconveniences can be addressed, but will require investments in technology. The Administration continues to find ways to serve the public better and more efficiently. Some recent examples include:

- **Shorter Wait Times for Unemployment Benefits** – The Administration has implemented a new call system to reduce the time people are waiting on the phone to reach a live state employee. This new system (called Virtual Hold), launched in last month, allows callers to receive a call back when an agent is available as opposed to waiting on hold;

- *Online Licensing for Businesses and Professionals* – The Department of Public Safety is introducing eLicensing as a modern convenience for companies and individuals to apply and pay for their licensing and renewals on-line;
- *Improving Access for Taxpayer Assistance* – The Department of Revenue (DOR) will be expanding its phone service from 9 a.m. to 5 p.m. on all business days starting in January and through May 1st to better assist citizens through tax season;
- *Making Criminal Background Checks Faster and Easier for Employers* – The Department of Criminal Justice and Information Services will make information for criminal background checks faster and easier to obtain online;
- *Data Sharing to improve Indigency Verification* – The new Department of Re-Entry and Community Supervision will house an indigency verification unit that will utilize existing data from the Department of Transitional Assistance, Department of Unemployment Assistance, DOR and others to create a robust database for verifying eligibility for public counsel;
- *Advanced Analytic Modeling at DOR* – Using historical data, data mining and statistical probability modeling to gain insight into taxpayer behavior patterns, DOR will make business decisions based on observed results. This will allow DOR to make better decisions regarding how discretionary tax compliance management resources should be used to address gaps in taxpayer education, tax debt collection, discovery and fraud and how to improve audit selection to maximize returns;
- *Statewide Vitals System* – Creation of a common Vital and Screening Web Enabled System for use by all towns and cities for birth registration, certificate issuance, newborn hearing screening and birth defects recording via one online system. A single online system for tracking this information would reduce costs to local government and residents and allow better data mining and enhanced collaboration across cities and towns;
- *Collaboration with Municipalities* – There are many opportunities to innovate using technology to improve interaction between state and local governments. This could include improving flow of business data between state government and municipalities, identifying IT services the state could provide municipalities, providing enhanced procurement contracts (e.g. statewide aggregate purchasing) and providing better tools and forums for municipalities to collaborate with each other and with state government;
- *Improved User Accessibility* – The MBTA has made bus and subway data available to developers who have developed free Real Time apps for the MBTA. Riders can now locate their buses and subways in real time. The MBTA has also launched "Talk to The T" which allows customers to send a photo or comments directly to the MBTA Customer Support to get help, express concerns or compliment the MBTA;
- *MBTA-Google partnership* – The MBTA has partnered closely with Google to make MBTA real-time and schedule information on Google Maps. In 2011, the MBTA was one of 6 transit agencies worldwide to partner with Google in launching Google Maps Live Transit. Google Maps Live Transit makes MBTA real-time bus location and countdown information available through Google Maps; and
- *On-Line Services at the Registry* – The RMV has made its most common transactions accessible online. Now, most customers can do a license or registration renewal online, reducing wait times in branches and on the phone.

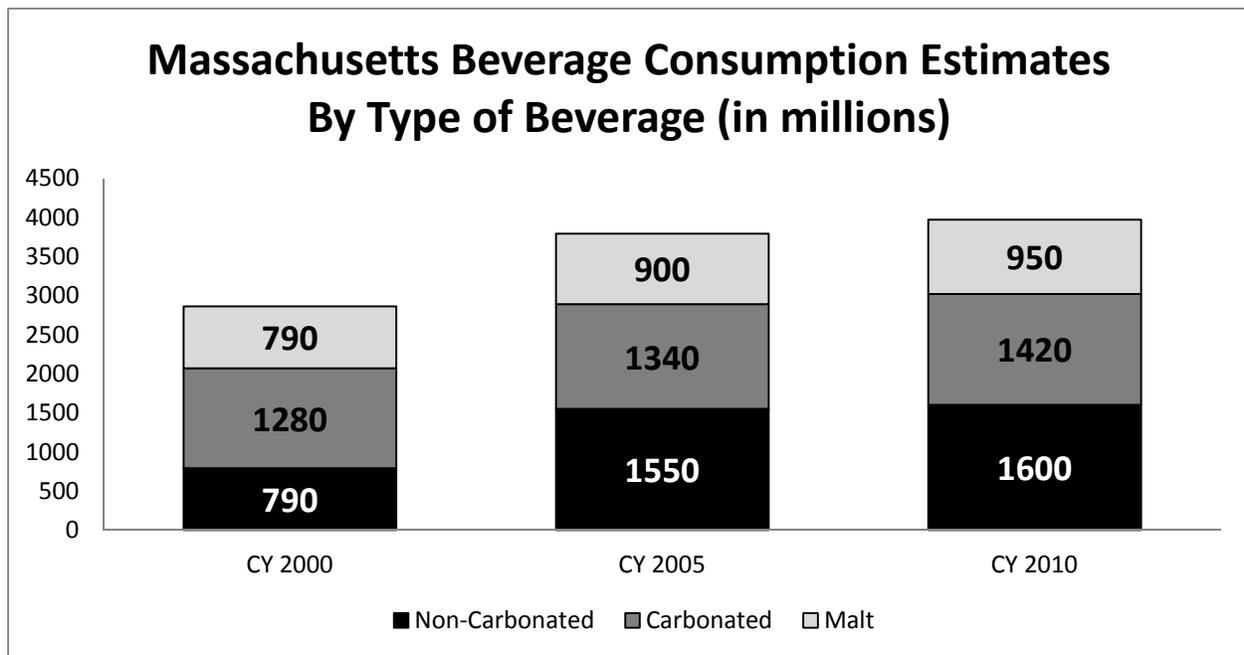


Modernizing the Bottle Bill

The Massachusetts Bottle Bill, enacted in 1982, encourages consumers to return their empty soda and beer containers through a redeemable 5-cent deposit. The law reduces litter and encourages recycling of aluminum cans, plastic and glass bottles. Governor Patrick's FY 2013 budget proposes to expand the types of containers subject to the 5-cent deposit to include those containing water, flavored waters, coffee based drinks, juices and sports drinks less than one gallon in size. This initiative will help remove empty beverage containers from parks, streets and waterways; generate additional plastic for the recycling market; support small recycling businesses in the Commonwealth; reduce municipal collection costs; and provide additional revenues for recycling programs.

Why Modernize the Bottle Bill?

Discarded bottles and cans that are not currently covered by the Bottle Bill are a major source of litter for communities. The beverages covered by the original 1982 Bottle Bill included carbonated soft drinks, mineral water, beer and other malt beverages. Since that time, the beverage market has changed significantly. Bottled water, juices, iced tea and sports drinks are consumed at levels comparable to soda. Since 2000, non-carbonated beverages have experienced triple-digit growth (see chart below). This trend is expected to continue. However, these non-carbonated beverages are not covered by the Bottle Bill, and often end up in landfills or in our public spaces. A study of the Department of Environmental Protection (DEP) showed that non-carbonated beverages are four times more likely than carbonated beverages to be discarded in our parks.



Source: MassDEP (data sources – Container Recycling Institute, Beverage Marketing Corp., Department of Revenue)

More than one billion non-carbonated beverage containers end up as litter, buried in landfills or burned in incinerators each year. Updating the Bottle Bill could prevent 750 million of those containers from entering the solid waste stream as a result of increasing incentives to recycle.

Revising the Bottle Bill will also help keep parks, beaches and highways clean. Litter collection studies have consistently shown that water and non-carbonated beverage containers are up to four times as likely to become litter as beverage containers currently covered by the Bottle Bill.

The Bottle Bill can be brought up to date through a simple revision of the definition of “beverages”. This revision will reduce confusion among consumers about which beverages are eligible for redemption. Consumers will be required to pay an additional 5-cents on water, flavored waters, iced teas, coffee based drinks, juices and sports drinks.

The expansion of the Bottle Bill will generate roughly \$22.5 M in new revenue, \$5.25 M of which will be dedicated to the recycling and solid waste management programs of the DEP. The Executive Office for Energy and Environmental Affairs and DEP will use this funding for the following efforts:

- Recycling and related purposes consistent with the recycling plan of the solid waste master plan (this includes the purchase of municipal recycling equipment, like curbside containers);
- A municipal recycling incentive program;
- Recycled product procurement;
- Guaranteed annual tonnage assistance;
- Recycling transfer stations;
- Source reduction;
- Technical assistance;
- Municipal household hazardous waste program;
- A recycling loan program;
- Research and development; and
- Recycling market and business development.



Health Promotion & Wellness Investments

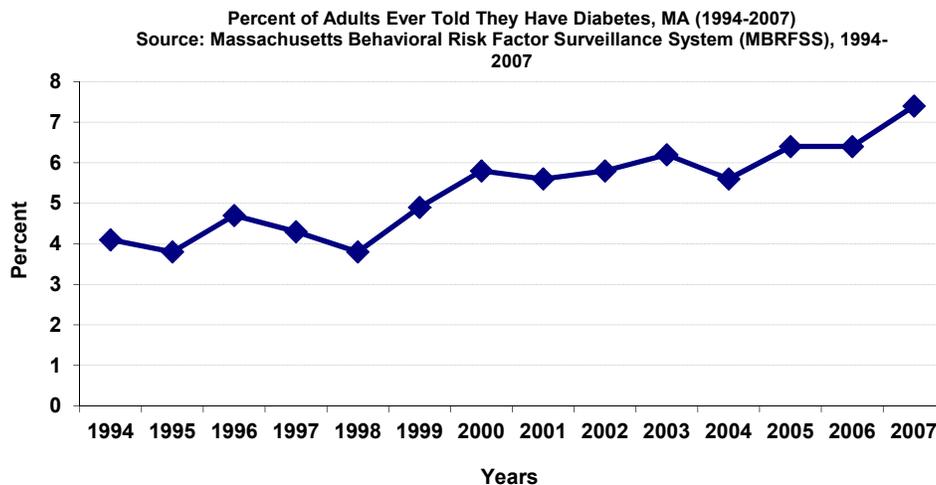
The Patrick-Murray Administration is committed to encourage health and wellness for all Massachusetts residents. In keeping with the Governor's commitment to control rising health care costs, the FY 2013 budget includes two revenue proposals to fund targeted investments in both public health preventative care services through the Commonwealth Health and Prevention Fund and subsidized health insurance coverage and smoking cessation programs through the Commonwealth Care Trust Fund. These investments will help save money in the statewide health system and help all residents attain healthier lifestyles.

Commonwealth Health and Prevention Fund

By eliminating the sales tax exemption for soda and candy, the Commonwealth preserves more than \$51 M in funding for public health programs while at the same time discouraging overconsumption of sugary foods and drinks.

More than half of Massachusetts adults and almost one third of high school and middle school students are overweight or obese. In the past 10 years, the percentage of Massachusetts adults with diabetes has almost doubled, and obesity will soon pass smoking as the leading cause of preventable death.

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.³ 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 five and nine; 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%.⁴



The \$51 M in new revenue will allow the state to make further progress in innovative wellness programs, and help avoid budget cuts to programs that support health and prevention activities, including health promotion and disease prevention, tobacco cessation, school health, family health and substance abuse services.

³ Associated Press. Scientists Target Soda as Main Cause of Obesity. 6 March 2006.

⁴ UCLA Center for Health Policy Research, <http://www.vcstar.com/news/2009/sep/17/ucla-study-directly-links-soda-with-obesity/>

Health and Prevention Fund: Fiscal Year 2013			
\$51.25 M			
Account Description	Acct #	% Funded from Health and Prevention Fund	Total Health and Prevention Fund Spending
Health Promotion and Disease Prevention	4513-1111	100%	\$3,413,076
Tobacco Cessation	4590-0300	100%	\$5,850,703
School Health	4590-0250	100%	\$11,132,301
Family Health	4513-1000	100%	\$4,465,275
Substance Abuse Services	4512-0200	34%	\$26,388,645
Total Spending – Health and Prevention Fund			\$51,250,000

In addition to implementing school nutrition regulations and providing parents with the Body Mass Index number of their children, Massachusetts will support various other nutrition and wellness programs such as expanding the successful, evidence-based Mass in Motion municipal health initiative to more communities in the Commonwealth. This additional revenue will also allow for the expansion of the Working on Wellness Program, which engages public and private employers to support wellness programs that will improve the overall health and productivity of employees.

Massachusetts joins 33 other states, including Connecticut, New Jersey, Maine, New York, and Rhode Island that apply sales taxes to soda. An additional 17 states apply sales tax to candy, including Connecticut, New Jersey, Maine, New York and Rhode Island. This sales tax will raise revenue, promote healthier lifestyles and mitigate the escalating costs associated with obesity.

The Governor's FY 2013 budget proposal maintains funding to help serve 15,000 women and 1,500 men through the Department of Public Health's Care Coordination Program, which screens for breast, cervical and colorectal cancers. An estimated 1,500 men of color receive outreach to increase screenings for chronic diseases as part of the effort to reduce health disparities. The budget also supports the Mass in Motion initiative, through which the Commonwealth is able to reach the approximately one million of residents with health and wellness information and resources in 14 municipalities. Launched in 2009, the Mass in Motion Initiative promotes wellness through obesity prevention. By stressing the importance of creating conditions that encourage, nurture and promote wellness.

The Governor's FY 2013 budget preserves funding to the MassHealth Wellness Program. This program encourages MassHealth members to take actions to prevent disease and illness in their lives.

Commonwealth Care Trust Fund

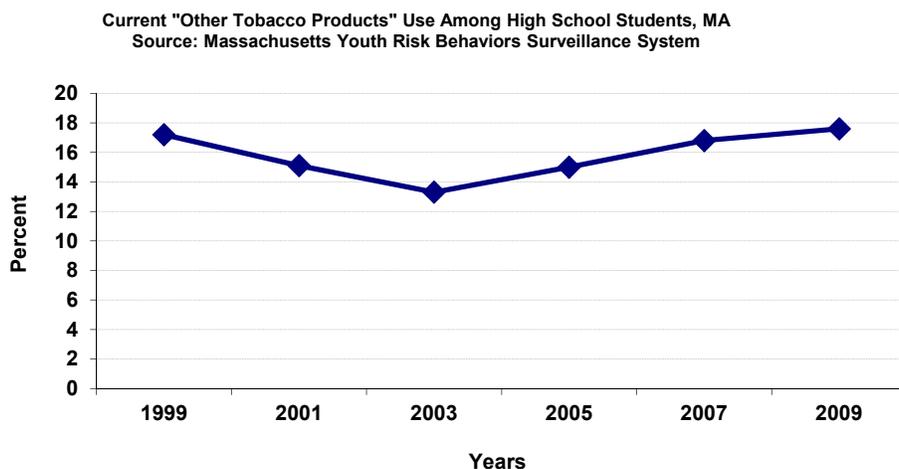
Tobacco use is the number one cause of preventable death and disability in the Commonwealth. More than 9,000 Massachusetts residents die every year from the effects of tobacco – one person every hour of every day. Thousands more are disabled by tobacco use, suffering with chronic illness and pain. Health care expenses caused by smoking costs Massachusetts residents \$3.9 B each year. The Massachusetts economy loses another \$1.5 B in lost productivity. Under the leadership of Governor Patrick, investments in smoking cessation programs have lowered the Massachusetts smoking rate in 2010 to 15%, one of the lowest smoking rates in the country.⁵ As state taxes have pushed the price of cigarettes up, the youth cigarette smoking rate in Massachusetts has decreased. But even as the youth cigarette smoking rate has declined, young people's use of other tobacco products has increased. In 2009, for the first time, high school students used tobacco products other than cigarettes at a higher rate than cigarettes (17.6% as opposed to 16%).⁶

The Governor's FY 2013 budget proposes to increase the cigarette tax by 50 cents and to tax other tobacco products at the same rate as cigarettes. Both efforts combined would generate roughly \$72.9 M, while also lowering the use of these products among youth and adults. Like current cigarette tax revenue, this money will be deposited into Commonwealth Care Trust Fund to support health care coverage and expand MassHealth's successful smoking cessation program to Commonwealth Care members.

⁵ Massachusetts Tobacco Control Program, <http://www.mass.gov/eohhs/docs/dph/tobacco-control/program-overview.pdf>

⁶ Trends in Youth Tobacco Use in Massachusetts, 1993-2009, <http://www.mass.gov/eohhs/docs/dph/tobacco-control/adolescent-tobacco-use-youth-trends-1993-2009.pdf>

The tobacco industry is selling products in colorful and fun packaging that attracts young people, pricing these products cheaply to encourage impulse buys. Unlike cigarettes, these other tobacco products are priced within reach of adolescents. Increasing tobacco taxes is one of the strongest strategies to prevent youth smoking according to “Ending the Tobacco Problem: A Blueprint for the Nation” by the Institute of Medicine. Massachusetts’ current tax contains a loophole so that tobacco products other than cigarettes, such as cigarillos and cigars, are taxed at lower rates than cigarettes. Closing this loophole will mean that all tobacco products will be taxed at an equivalent rate and eliminate these cheap alternatives that appeal to children and youth.



Because their brains are still developing, adolescents are especially harmed by tobacco. The nicotine in tobacco products can produce structural and chemical changes in the developing brain that make young people vulnerable to future alcohol and other drug addiction and mental illness. Because of the way nicotine changes the adolescent brain, people who start smoking as adolescents smoke more and have a harder time quitting than people who start as adults.⁷

For every dollar Massachusetts spends on tobacco cessation programs for low income residents, it saves \$3 in medical costs, largely from avoided heart attacks and other cardiac-related hospitalizations, which translates into \$14.7 M in savings every year for MassHealth, according to the research by George Washington University.⁸

Given the strong success of the program, the Governor’s FY 2013 budget preserves funding for MassHealth tobacco cessation services. This program, started in 2006, allows Medicaid patients to receive nicotine patches, gum, lozenges or medications for co-payments ranging from \$1 to \$3, and also offers free telephone counseling. Almost 38,000 people a year participated. The anti-smoking initiative managed to reach about 40% of the smokers in the Medicaid program, and was successful in driving down the numbers from about 38% to 28%. This program will be replicated in Commonwealth Care with an investment of \$2 M to the Massachusetts Health Connector Authority.

The budget proposes to invest an additional \$1.7 M in the Department of Public Health’s tobacco cessation and prevention program. Approximately \$700 K of this investment will support the Commonwealth’s successful Veterans Quit Smoking Patch Giveaway to provide free nicotine patches to veterans and their families.

Additionally, the Group Insurance Commission (GIC) will leverage federal Early Retiree Reinsurance Program (ERRP) funds to invest \$2 M in a wellness initiative for its members (retirees and active employees) and \$2 M to develop and implement a smoking cessation educational campaign to replicate the success of the MassHealth program.

⁷ Many published studies have shown this, including: Abreu-villaca, Y. et al (2003). Short-term adolescent nicotine exposure has immediate and persistent effects on cholinergic systems: Critical periods, patterns of exposure, dose thresholds. *Neuropsychopharmacology*, 28, pp. 1935-1949.

⁸ Richard P, West K, Ku L (2012) The Return on Investment of a Medicaid Tobacco Cessation Program in Massachusetts. *PLoS ONE* 7(1): e29665. doi:10.1371/journal.pone.0029665





Quasi-Public Entity Reforms

Under Governor Patrick's leadership, the oversight authority of the Finance Advisory Board has expanded since 2007, and it is now charged to "promote transparency, public accountability and adherence to best practices by all state entities with respect to investments, borrowing or other financial transactions made or entered into by state entities and involving public funds."

Last year, following the release of the Report of the Quasi-Public Authority Compensation Review Commission (also known as the Crosby Report), the Legislature adopted several recommendations to promote transparency and best practices at quasi-public authorities.

In accordance with its mission, the Finance Advisory Board's activities have included gathering information about the existing debt management practices of the Commonwealth and state entities, acquiring general market and state entity-specific information, establishing emergency regulations to ensure there were no unintentional delays to certain pending transactions, and drafting and adopting comprehensive permanent regulations.

The Governor's FY 2013 budget proposal would further expand the Finance Advisory Board's authority to include governance oversight and the ability to coordinate the implementation of best practices by all quasi-public authorities and their boards. The Board would be renamed as the State Finance and Governance Oversight Board to reflect these changes. The budget would allow the Secretary of Administration and Finance to hire a limited, dedicated staff to serve the Board, funded by an assessment on all state authorities that manage public funds.

Crosby Report Results

The Crosby Report made a number of recommendations on compensation terms and conditions, and best practices for setting executive compensation, board training, transparency and oversight at quasi-public authorities. The Administration has worked with the quasi-public authorities to implement these recommendations. In addition, eight of the top 10 executive compensation packages have been substantially reduced through renegotiation or personnel changes.

Statutory Reform

The FY 2012 budget included reforms (listed below) for quasi-public authorities to increase accountability and transparency related to the management of public funds. In addition, the Executive Office for Administration and Finance has promulgated regulations and additional guidance for implementation. These new requirements include:

- Annual audit by an independent auditor, reporting to an audit committee of its governing board and filing the audit with the State Auditor;
- A separate audit on state funds if received over \$500 K, providing transparency of taxpayer support for authorities;
- Set compensation for management by compensation committee of its board, based on comparable compensation for similar officers in state government as well as the private sector;
- Prohibit executive pay-outs for sick, vacation and other leave greater than would be allowed for state employees;
- Prohibit severance pay for executives removed for cause and limiting severance pay to not more than three months salary for early termination without cause; and
- Prohibit the Commonwealth from subsidizing the pensions and health insurance of state authorities' retirees, requiring authorities to fund their liabilities.

Proposed Reforms

The Governor's FY 2013 budget proposal would further expand the Finance Advisory Board's authority to continue the reform agenda by adding governance in addition to the oversight of financial affairs. The Board would be renamed as the State Finance and Governance Oversight Board to reflect these changes. The budget proposal includes the following recommendations:

- Amendment to various parts of MGL c.6, s.98 to include "governance" as part of the scope of oversight by the Board;
- Amendment to MGL c.6, s.98 (c) to add to the Board's activities a convening, training, and dissemination of best practices function, including conducting meetings, conferences, or training sessions, maintaining a website, publishing materials, or any other activities deemed by the board to be necessary to disseminate best practices to state officials, board members and managers of state entities, and the public;
- Authority to charge an assessment to the Commonwealth and state entities overseen by the Board. Rates would be set annually by the Secretary, would be held in trust and would be assessed based on debt issued and assets under management; and
- Authority to hire an Executive Director and limited dedicated staff.



FY 2013 Budget Recommendation

Issues in Brief

Deval L. Patrick, Governor

Timothy P. Murray, Lt. Governor

Improved Facilities Management

Building on the Patrick-Murray Administration's commitment to change the way government does business, agencies across the Commonwealth have taken steps to improve the management of state-owned facilities. The Division of Capital Asset Management and Maintenance (DCAM) is leading this effort as the state agency responsible for public-building design, construction, maintenance and real estate. DCAM continues to transform its role to better serve the facilities, employees and citizens of the Commonwealth.

Facilities Management Consolidation

Currently, each individual state agency is responsible for maintenance and upkeep for much of the Commonwealth's roughly 5,000 active buildings. Through the Governor's FY 2013 budget proposal, DCAM will begin consolidating the management of state buildings under the Office of Facilities Management (OFM) to create a central source of facilities management expertise. These changes will strengthen DCAM's ability to preserve existing assets and serve as a pilot program for their expanding role. OFM will target facilities that have consistently faced funding gaps, facilities that do not have professional maintenance staff and new state-of-the-art facilities as they come online. Gradually, OFM will take on the responsibility of managing and maintaining additional state-owned property.

Shifting facilities management under DCAM will help save money and improve property maintenance services. This shared services approach will result in a number of benefits to Commonwealth employees and the public, including:

- Implementation of modern maintenance standards and practices;
- Improved reliability at specialized facilities such as hospitals and data centers;
- Cost savings through leveraged procurement of goods and services (i.e. bulk purchasing);
- Greater intra-agency coordination with shared equipment resources, optimal facility utilization, property surplus and leasing functions;
- Increased responsiveness through use of in-house maintenance personnel across agencies; and
- Strategic use of technology and data to prioritize facility maintenance needs and to better target limited resources to curb the growth of deferred maintenance costs through auditing and universal use of the Commonwealth's Capital Asset Management Information System (CAMIS).

Bureau of the State House

Since 1798, the Massachusetts State House has been the seat of the Commonwealth's government. Recognizing the unique role the State House plays as both the host of many public events and as traditional office space, a new agency entitled the Bureau of the State House will be created in the FY 2013 budget. Emerging from the former Bureau of State Office Buildings (BSB), the Bureau of the State House will be dedicated to the occupants and visitors of the Massachusetts State House. With this renewed attention, the State House will be in a position to have a committed workforce with a strong focus on the distinct needs of this historic building.

Commonwealth Facilities Advisory Council

The Commonwealth Facilities Advisory Council (CFAC) is a team of experts on facility management issues charged with guiding DCAM through its ongoing restructuring. Made up of approximately 50 individuals from the private and public sectors, CFAC convenes monthly to discuss and plan for the major issues of facilities management reform. The Office of Employee Relations, public and private higher education, labor unions and private business all have representation on CFAC. The members of CFAC have been instrumental in identifying current inefficiencies and defining client needs. Moving forward, sub-committees will be organized to further enhance member focus on targeted subjects.

Energy Investments

Signed by Governor Patrick in 2007, Executive Order 484 *Leading by Example – Clean Energy and Efficient Buildings* sets a target across state-owned buildings for clean energy practices that reduce environmental impacts and create cost savings. This Executive Order requires state facilities to reduce their overall energy usage by 20% by 2012 and by 35% by 2020, as well as to accomplish major reductions in greenhouse gas emissions and potable water usage.

Since 2007, DCAM has invested in energy improvement projects at nearly 30% of all Commonwealth facilities and has completed energy and water projects for over 21 million square feet of space. These efforts have not gone unnoticed, as the American Council for an Energy Efficient Economy ranked Massachusetts first in the nation for energy efficiency in 2011. Additional energy projects are underway at approximately 19 million square feet of space, while plans for an additional 35 million square feet of space remain under development.

Going forward, the Administration has developed a plan for implementing the Commonwealth Accelerated Energy Program. DCAM will implement quick fix energy conservation measures and ensure that larger, more complex projects are completed within three years. This plan includes initiatives that will focus on the people involved with the program, the process to implement the projects and the development of a robust and transparent tracking and reporting system.

Elements of the Commonwealth Accelerated Energy Program include:

- Establishing management committees to develop and promote a clear vision for this important initiative as well as to generate communication plans for outreach, training and employee motivation;
- Working with internal and external partners, DCAM is establishing a centralized location for all data collection, installing additional meters at all locations, streamlining the procurement process, maximizing available external funding opportunities and creating jobs; and
- Utilizing funds from the Clean Energy Investment Program (CEIP) to expand energy efficiency and renewable energy projects at dozens of state buildings, saving the Commonwealth millions of dollars in energy costs annually while creating jobs and supporting the Patrick-Murray Administration's clean energy goals. These investments pay for themselves as they cut energy waste, reduce operating costs, cut greenhouse gas emissions and strengthen Massachusetts' economy.



Fiscal & Management Reforms

Improving Fiscal Management and Transparency

The FY 2013 budget includes many reforms that improve how the Commonwealth manages its bottom line by squeezing out savings wherever possible, implementing fiscal reforms and making state spending more transparent to the public.

Savings and Efficiencies

Similar to FY 2012, the Executive Office for Administration and Finance this year led an Inter-Secretariat Budget Team to find areas throughout state government where we could save money or change old ways of doing business for the better. This process has strengthened communication among state agencies and focused the FY 2013 budget to better serve the citizens of the Commonwealth. Some of these reforms include:

- *Virtual hold and call-backs for calling centers:* To address long wait times to register for unemployment benefits, Executive Office of Labor and Workforce Development has implemented a new call system to reduce the time people are waiting on the phone to reach a live state employee to talk to. This new system (called Virtual Hold), launched in the last month, allows callers to receive a call back when an agent is available as opposed to waiting on hold.
- *Facilities management reform:* Building on the efforts launched in FY 2012, the Division of Capital Asset Management (DCAM) is leading an effort to improve the delivery of facility management services throughout the Commonwealth. DCAM will serve the Commonwealth as its principal source of facility management expertise, strengthening the Commonwealth's ability to effectively manage and maintain state facilities. At the same time, a new Bureau of the State House (BSH) will possess all the resources needed to care intensively for the State House, a major historic, architectural and governmental asset of the Commonwealth.
- *Energy purchasing re-procurement and fuel savings:* Efforts to re-procure the Commonwealth's statewide energy commodity contracts are underway with the goal of saving money, increasing contract participation from agencies and other entities and streamlining services wherever possible. The State Police will start investing in more fuel efficient vehicles through the capital plan and reduce their gasoline consumption by \$1,000 a year per new vehicle.
- *Consolidate drug testing:* To improve efficiency and meet testing demand, Executive Office of Health and Human Services (EOHHS) and Executive Office of Public Safety and Security (EOPSS) are developing a long-term comprehensive plan to transition all drug testing currently funded and performed by the Department of Public Health (DPH) to the State Police Crime Laboratory. DPH operates two facilities that test quantities of drugs confiscated as part of criminal cases: one lab located in Amherst and one lab in Jamaica Plain. Recent cuts to the Department of Public Health (DPH) nearly led to the closing of the facility in Amherst. EOHHS and EOPSS will transfer both the Amherst and Jamaica Plain caseloads to the State Police Crime Lab.
- *Enhance fraud, waste and abuse prevention efforts in the Commonwealth:* This proposal seeks to focus and combine the efforts of the Commonwealth's varied agencies that target fraud, waste and abuse of public dollars and develop a coordinated plan to share resources and recoup public dollars. It helps to further strengthen collaboration among members of the Fraud, Waste and Abuse Task Force and explores areas where state agencies can improve identification and enforcement of fraudulent activity. Finally, the initiative continues support for the Commonwealth Performance, Accountability and Transparency Office. The FY 2013 budget will make it easier for state agencies to share information electronically and utilize the IT investments we have made in stopping fraud before it starts. In addition the Governor proposes modest increases in the Attorney General's office and for the State Auditor for expanded efforts to detect and pursue false claims or

fraudulent activity by entities receiving state funds while enhancing state efforts to recover any misused funding or assigned penalties.

- *Explore advertisements on state vehicles and other property:* To help generate new revenue, we will explore options for advertising on state property, such as vehicles, certain buildings and web space on www.mass.gov.
- *Re-negotiating State Office of Pharmacy Services Service Contract:* This effort will re-align the cost structure and service level of the state's current pharmacy services contract for various state agencies to achieve the goals of cost savings and maintenance of current clinical initiatives. The current vendor has developed a savings estimate achieved through increased standardization and reduced service levels for each participating agency.
- *Department of Corrections (DOC) food services re-procurement:* This initiative will start under DOC to streamline its re-procurement of food services and save money, following its successful study and implementation of health care service cost reductions. To improve nutrition and support local agriculture, in their re-procurement DOC will preference vendors who provide farm to table food services.
- *The Alcoholic Beverages Control Commission (ABCC) online integration with the Division of Professional Licensure (DPL):* ABCC does not have online capability for registrations, renewals and other services for its customers. DPL is currently developing a Request for Response for a comprehensive online licensing program that is consistent with the needs of the ABCC. Instead of creating a separate Information Technology Division capital project, the ABCC is collaborating with the Division of Professional Licensure to develop online services.

Fiscal Reforms

Over the past several years, the Commonwealth has been recognized by national rating agencies and other organizations for its responsible, balanced fiscal management and budgeting. Much of this is due to reforms adopted in the past two fiscal years to help put the state on stronger fiscal footing and allow Massachusetts to be well-prepared for the next economic downturn.

Like most states over the past several years, the Commonwealth relied on one-time or short-term budget solutions as well federal stimulus assistance that expired in FY 2011. Prior to the recession starting in 2008, the state's rainy day reserves, formally known as the Stabilization Fund, had a total balance of \$2.3 B. Through FY 2010, the balance was reduced to as low as \$664 M as state government had to rely on these resources to help offset substantial drops in annual tax collections. Last year, the Commonwealth was able to make a large deposit in to the fund (\$712 M), more than doubling the year-end balance, and making Massachusetts one of only four states in the country with reserves in excess of \$1 B.

In recognizing the need to continue replenishing these reserves, the following measures have been adopted:

- *One-Time Settlements* – Beginning in FY 2012, all one-time tax or other settlements, which are typically unreliable, in excess of \$10 M are deposited directly into the state's rainy day fund and not made available for general budgeting purposes. Under this reform, \$163 M in one-time settlement revenue has already been deposited into the Commonwealth's reserve fund in FY 2012.
- *Capital Gains Receipts* – In recognizing the volatile nature of capital gains and its coinciding tax revenue, Governor Patrick proposed a new policy to reduce the state's reliance on this revenue to a level that is sustainable and predictable from one fiscal year to the next. Specifically, any capital gains receipts in excess of \$1 B are not available for annual budgeting purposes, but instead must be used to help replenish state reserves. As a result of this policy, the Administration's FY 2013 budget proposal assumes that the \$100 M of capital gains tax revenue expected to be received in excess of \$1 B will be deposited into the rainy day fund.

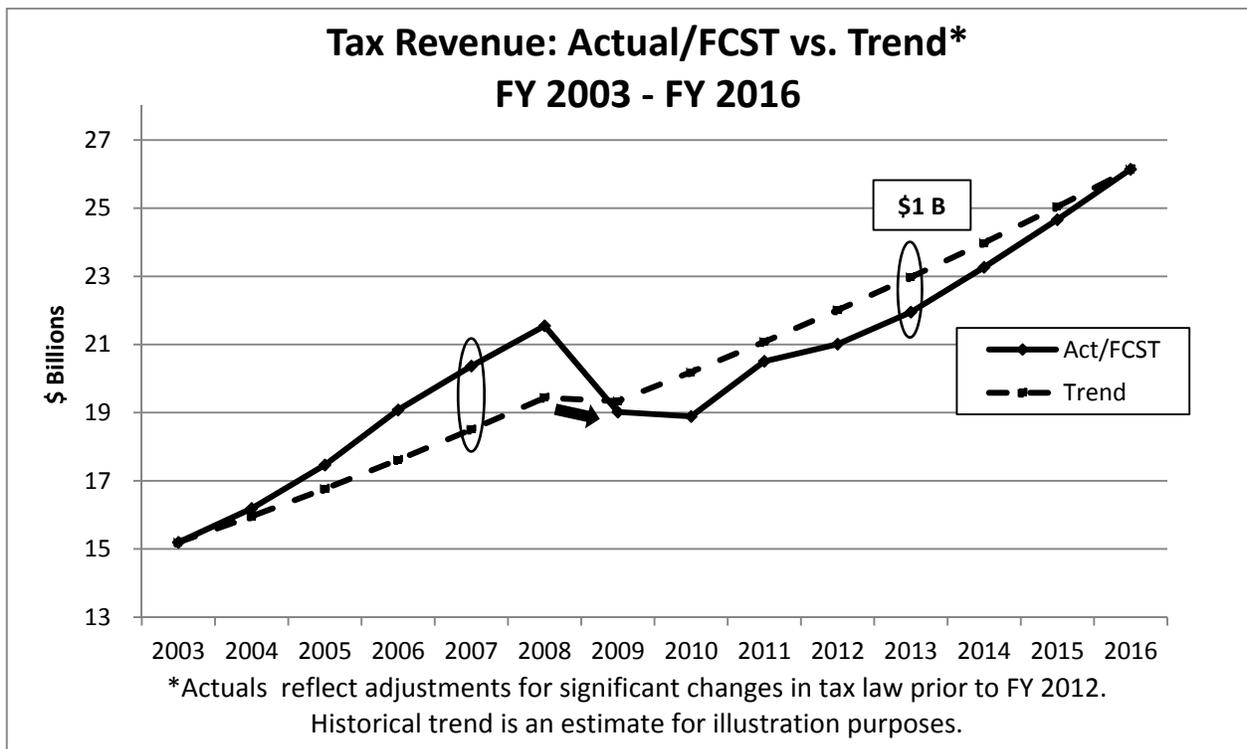
Building on Governor Patrick's track record of reform and responsible budgeting, the FY 2013 budget makes a down payment toward the state's unfunded retiree health care obligations. This unfunded liability, commonly known as Other Post-Employment Benefits (OPEB) is estimated to be \$16.6 B for the Commonwealth, and over \$40 B including cities and towns. In FY 2013, 10% of the state's annual tobacco settlement receipts, or \$27 M, will be set aside to help prepare for this liability. This percentage will grow each year by 10 percentage points

(e.g., in FY 2014, 20% of tobacco settlement costs), until 100%, or an estimated \$276 M, is dedicated annually to help offset these costs. In addition, 5% of the excess capital gains tax revenues to be deposited in the rainy day fund described above will be transferred to the state's retiree health liability trust fund.

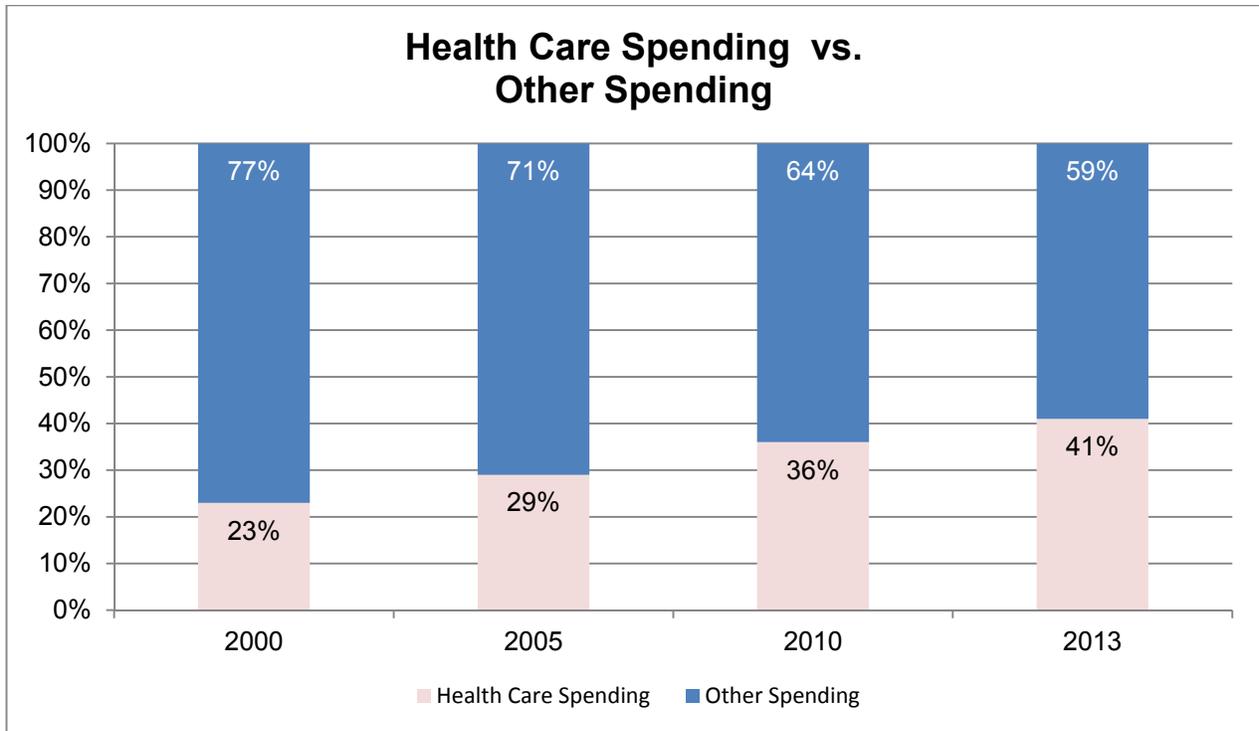
Long-Term Financial Forecasting

The Patrick-Murray Administration is the first administration in Massachusetts to establish a Long-Term Planning Policy to ensure that the state budget is consistent with the principle of fiscal sustainability. This policy was developed based on best practices recommended by the Government Finance Officers Association (GFOA) and accounting standards being proposed by the Governmental Accounting Standards Board (GASB). This policy includes benchmarks to prevent structural deficits, an estimate for the sustainable rate of growth in health care spending, and identifies the need to address long-term liabilities for pensions and retiree health care.

The Administration's policy to prevent structural deficits relies on a long-term tax revenue forecast based on the outlook for the Commonwealth's economy. The FY 2013 budget achieves structural balance by limiting the use of one time resources to \$541 M which is well below the estimated \$1.025 B cyclical shortfall in tax revenue (see Figure 1) which reflects the fact that the state economy is still recovering from the recession and is below its fully capacity.



Targeting the sustainable rate of growth in health care spending is essential to ensure that state government can continue to fund other policy priorities for the citizens of the Commonwealth. Spending related to health care - which includes MassHealth, Commonwealth Care, and the Group Insurance Commission (including retirees) - has increased from 23% of spending in FY 2000 to projected 41% in FY 2013.



The Long-Term Planning Policy identifies a sustainable rate of growth in health care spending at a level that is approximately equal to the projected long-term rate of economic growth for the Commonwealth. This rate of growth would allow the Commonwealth to maintain programs and services in other areas, but does not allow for meaningful investments in priorities such as education, job creation and preventing youth violence. Health care costs would need to be contained to even lower growth rates in order to redirect future budgetary resources towards restoring cuts to other areas of government.

The Governor’s recommendations to address health care costs in FY 2012 will allow the Commonwealth to stay below 5% growth – achieving more than \$800 M in savings. These reforms and cost-savings initiatives put the Commonwealth on track to reduce statewide expenditures on health care substantially over time. These efforts will continue in FY 2013 to again limit cost growth to less than 6%.

The Long-Term Planning Policy also identifies the need for solutions to address the unfunded liabilities associated with OPEB. The statewide OPEB liability exceeds \$40 B and represents an estimated \$100 B in future payments that have not been funded. The Administration has taken a number of steps to address this challenge including: increasing the share of health insurance cost paid by employees and retirees; re-constituting the board to oversee investment funds designated to offset the liability; the commitment beginning in FY 2013 to phase-in proceeds from tobacco settlements to provide resources for the investment fund; allocating 5% of capital gains revenue over \$1B to the fund; and recent pension reform legislation which will raise retirement ages and is expected to lower retiree health care costs over time.

Additional solutions, however, are still needed to address this threat to the state’s fiscal sustainability. Adequately funding current liabilities would require property tax increases to be over 20% on average at the local level, and budget reductions for state government approximately equal to the total amount of local aid in the FY13 budget. These solutions will be reviewed as part of an OPEB Commission that was mandated as part of the pension reforms signed into law by Governor Patrick in November 2011. More details on the Long-Term Planning Policy can be found at: www.mass.gov/anf.

Improving Transparency

As part of the state’s FY 2011 Budget, the legislature passed and the governor signed into law new transparency guidelines, which include the development of an online searchable database for state spending. The Open Checkbook is based on the approach and technology piloted in the Massachusetts Recovery and Reinvestment Office website.

The Open Checkbook provides payment details for over 50,800 vendors – identifying who was paid, how much was paid, which state entity made the payment and the purpose of the payment. In addition to showcasing a breakdown of state vendor payments (which can be searched by vendor name, department, or spending category), the website also provides state government payroll and pension information. While the vendor details are updated every night, the payroll and pension figures are updated every two weeks and every month, respectively. The most frequent areas for searches on Open Checkbook are depicted in the figure below.

