

House 1 Revised Executive Summary

Governor Patrick is re-filing his House 1 budget proposal for fiscal year 2010 following an unprecedented drop in tax revenues – including a \$1.5 billion decrease in the consensus tax revenue estimate – stemming from the worst economic downturn since the Great Depression. Massachusetts' unemployment rate is now 8 percent (about 90 percent of the overall U.S. unemployment rate), with over 90,000 jobs lost over the past six months.

The new House 1 is an austere budget, reflecting the severity of the fiscal and economic crisis facing the Commonwealth. Given the limited availability of resources, this proposal prioritizes core state functions as the Administration continues to pursue reforms that would strengthen our short- and long-term fiscal health and enhance public confidence in state government.

Starting more than a year ago, the Administration anticipated an economic downturn and resulting fiscal stresses on state government. It has consistently sought to get ahead of worsening fiscal news in an environment of unprecedented economic uncertainty – continually recalibrating its estimates of budget deficits and adjusting its package of solutions based on evolving economic and fiscal trends. Administration officials have regularly engaged with economists within and outside of government, and none predicted the revenue drop that we are experiencing.

Relying on a balanced package of spending cuts, targeted additional revenues and responsible one-time resources (federal stimulus aid and state Rainy Day funds), the Administration had through April proposed solutions to close a \$3.0 billion fiscal year 2009 budget gap and an anticipated \$3.5 billion fiscal year 2010 budget gap.

However, a historic \$1 billion drop in April tax revenues compared to last year's revenues – highlighted by a drastic decline in capital gains – indicated that the fiscal year 2009 and fiscal year 2010 budget gaps would be even larger than anyone anticipated. To address these growing gaps, the Administration filed legislation in May to close an estimated \$953 million additional shortfall for the remainder of fiscal year 2009, using a combination of federal stimulus aid, state Rainy Day funds and other solutions.

Furthermore, the Secretary of Administration and Finance and the Chairs of the Senate and House Ways and Means Committees together concluded that the original fiscal year 2010 consensus tax revenue estimate of \$19.53 billion was no longer realistic. On May 6, 2009, they agreed to revise this estimate downward to \$17.989 billion to better reflect the fiscal challenges likely to face state government in fiscal year 2010. By revising the fiscal year 2010 revenue estimate *in advance* of that fiscal year, the Administration and Legislature laid the groundwork for proactive budget planning for fiscal year 2010. Indeed, the Senate subsequently enacted its budget proposal based on the revised revenue estimate.

As required by statute, and in the spirit of sound financial planning for the coming fiscal year, the Administration is now re-filing House 1 based on the updated fiscal year 2010 consensus revenue estimate (which is \$1.5 billion less than the prior tax revenue

estimate). This blueprint reflects an updated view of fiscal year 2010 and potential solutions to widening deficits, to help guide key decisions about the fiscal year 2010 budget facing the House, Senate and Administration in the coming weeks.

The new House 1 is an austere budget, closing a new \$1.6 billion budget gap *over and above* the \$3.5 billion gap solved by our initial House 1 proposal, for a total budget gap of \$5.1 billion. The Administration has had to prioritize the core functions of government and make significant additional cuts in other areas. This blueprint includes \$794 million in additional net spending cuts and savings, *on top of* over \$1.6 billion included in the initial House 1. While we are confident that we will get through this fiscal crisis to better times, it is clear that addressing immediate challenges will entail painful impacts and shared sacrifice – even more so than envisioned just a few months ago.

To mitigate the need for even deeper cuts, the new House 1 makes careful use of one-time resources, including:

- \$225 million in state stabilization funds (\$263 million less than in the original House 1 proposal);
- about \$1.2 billion in enhanced federal Medicaid matching funds (FMAP) (compared to \$711 million estimated in the initial House 1);
- \$230 million in on-budget use of federal fiscal stabilization funds (plus \$328 million in previously announced funding outside the budget to help fund Chapter 70 and higher education); and
- \$28 million in federal Temporary Assistance to Needy Families (TANF) funds available through the federal recovery act.

This leaves a balance of \$573 million in our state stabilization fund that, along with additional FMAP funds available in fiscal year 2011, will help the Commonwealth cycle out of the economic downturn. Additionally, the Administration is re-filing its targeted tax revenue proposals from the initial House 1, which were estimated in January to raise \$299 million (now revised to \$237 million in light of a deteriorating economy).

The Administration continues to have serious concerns about imposing a higher sales tax on our citizens without having achieved meaningful reforms of our broken pension, ethics and transportation systems. Revenues are a means to an end – better government – and the people of Massachusetts deserve to know that their resources are paying for changes and not the status quo.

As there has not yet been final action on pension, ethics and transportation reforms to provide that assurance to taxpayers, the revised House 1 does not include an increase in the sales tax. It does include reforms to strengthen our short- and long-term finances, including proposals filed in the initial House 1 (e.g., capital gains holding fund to prevent excessive reliance on volatile capital gains revenues).

Outside of the revised House 1, the Administration will continue working for enactment of meaningful reforms to streamline and simplify our transportation system, curb loopholes and abuses in the current pension system for both current and future employees and tighten our ethics and lobbying laws.

Revised Fiscal Year 2010 Consensus Revenue Assumptions

Based on fiscal year 2009 revenue trends, revised economic forecasts and testimony taken at the revenue estimate hearing held on May 5, 2009, the fiscal year 2010 revenue estimate was revised downward on May 6th from \$19.530 billion to \$17.989 billion, compared to a revised fiscal year 2009 revenue estimate of \$18.436 billion.

The fiscal year 2009 and fiscal year 2010 tax revenue forecasts are based on the following economic assumptions, as presented at the May 5, 2009 revenue estimate hearing:

- As measured by real Gross Domestic Product (GDP), the national economy declined in the first three quarters of fiscal year 2009 and is projected to decline through at least the third quarter of calendar year 2009. GDP growth for the full fiscal year 2009 is projected to be between -1.8% and -1.4% compared to growth of 2.0% in FY07 and 2.4% in FY08. In fiscal year 2010, GDP growth is projected to range from -1.6% to -0.9%.
- Massachusetts employment is expected to decline by 3.7% to 3.8% over the final quarter of fiscal year 2009, and by 1.8% for fiscal year 2009 as a whole. For fiscal year 2010, Massachusetts employment is expected to decline by 2.9% to 3.3%. The unemployment rate is projected to average 6.7% to 6.9% in fiscal year 2009, 9.0% to 9.4% in fiscal year 2010, and peak at 9.3% to 9.6% in the fourth quarter of fiscal year 2010.
- Massachusetts personal income (excluding capital gains) is expected to decline by 0.2% to 0.7% over the final quarter of fiscal year 2009 and grow by 1.4% to 1.7% for fiscal year 2009 as a whole. For fiscal year 2010, Massachusetts personal income is projected to grow by -0.4% to 0.9%.
- Massachusetts wages and salaries are projected to decline by 1.5% to 2.0% for the final quarter of fiscal year 2009 and grow by 0.4% to 0.8% for the year as a whole. For fiscal year 2010, Massachusetts wages and salaries are projected to decline by 1.4% to 2.1%.
- Massachusetts retail sales are expected to decline by 8.5% to 11.2% over the final quarter of fiscal year 2009 and by 7.0% to 7.2% for the fiscal year as a whole. (A significant portion of the fiscal year 2009 retail sales decline is the result of falling fuel prices, which do not affect sales tax revenue.) For fiscal year 2010, Massachusetts retail sales are projected to decline by 1.0% to 2.5%.
- Corporate profits at the national level are expected to decline by 24.6% to 32.8% over the final quarter of fiscal year 2009, and by 24.4% to 27.9% for the fiscal year as whole (there are no forecasts for state corporate profits). For fiscal year 2010, growth in corporate profits is projected to range from -8.2% to +5.2%.
- The stock market, as measured by the average of the S&P 500 over the entire year, declined by 17.3% in calendar year 2008 (which largely determines fiscal year 2009 capital gains taxes), and is expected to decline by a further 23.0% to 35.1% in calendar year 2009 (which largely determines fiscal year 2010 capital

gains taxes). Based on April and May 2009 revenue collections, the Department of Revenue believes that tax year 2008 capital gains realizations (upon which fiscal year 2009 capital gains tax collections are based) may have fallen by 60% or more, and fiscal year 2009 capital gains taxes may have dropped by 75%, though it is possible that some of the fiscal year 2009 revenue decline may have been the result of a drop in interest and dividend income rather than capital gains. Until DOR receives tax year 2008 income tax returns filed on extension (which won't be until October 2009), the exact reasons for the revenue decline will not be known.

- The revised fiscal year 2010 estimate assumes that tax year 2009 capital gains realizations (upon which fiscal year 2010 capital gains tax collections will be based) will fall by an additional 33.2% from tax year 2008, but that fiscal year 2010 capital gains taxes will be only slightly lower than they will be in fiscal year 2009, due to timing issues that have affected fiscal year 2009 capital gains tax payments.

FY10 Consensus Tax Revenue Forecast (in \$ millions)

Tax Type	Actual Revenue Growth from FY09	Baseline Revenue Growth from FY09	FY10 Revenue Estimate	FY10 Growth from FY09
Total Income	-2.4%	-2.2%	10,372	-256
Withholding	-2.0%	-2.0%	8,741	-178
Sales	-0.7%	-1.2%	3,823	-28
Corporate/Business	-5.2%	-8.8%	2,140	-117
Other	-2.7%	-4.6%	1,654	-46
Total	-2.4%	-3.0%	17,989	-447
Memo: Capital Gains	-1.2%	-1.2%	521	-6

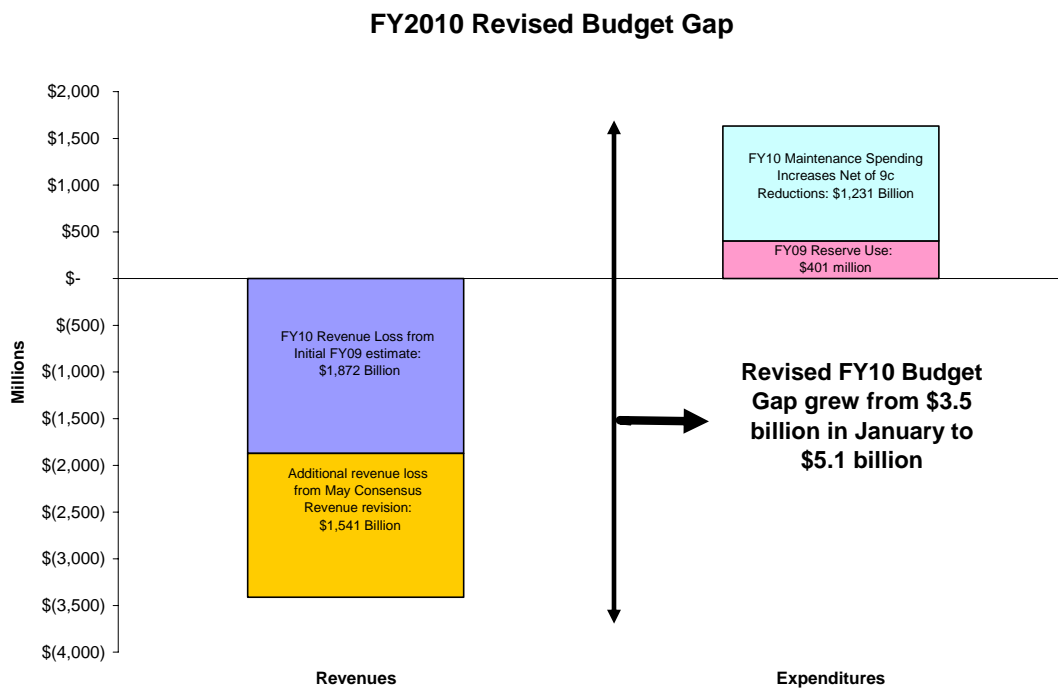
Revised Fiscal Year 2010 Budget Gap

On May 6, 2009, the Secretary of Administration and Finance along with Chairs of the Senate and House Ways and Means Committees announced the downward revision of the fiscal year 2010 consensus tax revenue estimate of \$19.53 billion to \$17.989 billion. This was the result of a historic \$1 billion drop in April tax revenues compared to last year's levels.

This created two challenges for fiscal year 2010. First, the downward revision of available tax revenues for fiscal year 2010 created a new \$1.5 billion gap to be solved for that fiscal year. Second, the April revenue drop created immediate pressures for further solutions to balance the fiscal year 2009 budget. At this late point in fiscal year 2009, solutions to the widening budget gap for that year required the use of additional federal stimulus funds and a further draw on the state's Rainy Day fund.

In turn, this required a reexamination of our proposed use of about \$500 million of Rainy Day funds in the original House 1 budget for fiscal year 2010. With *more* Rainy Day funds used in fiscal year 2009 than previously anticipated, it was determined that the revised House 1 budget for fiscal year 2010 would need to rely on far *less* Rainy Day funds – to help ensure that we have a responsible balance in the Rainy Day fund to help mitigate the impact of cuts in fiscal year 2011.

The combined impact of the loss of tax revenue and the need to reduce our use of Rainy Day fund use by a significant amount meant now having to close a budget gap of about \$1.6 billion in fiscal year 2010 *in addition to* the \$3.5 billion gap that had been already been solved in the Governor's original House 1 budget, for a total budget gap of \$5.1 billion.



**Projected Growth in FY10 Non-Tax Revenue remains mostly flat.*

Revised Fiscal Year 2010 Budget Solutions

The Governor's original House 1 budget filed in January proposed spending \$27.97 billion, a decrease of about 0.7% from fiscal year 2009 General Appropriations Act (GAA). The revised House 1 budget proposes spending \$26.90 billion, a reduction of over \$1 billion or -3.8% below the original House 1 budget. When comparing House 1 revised to the fiscal year 2009 GAA, the overall reduction, year-over-year, is -4.5%

The House 1 revised budget is an austere budget, closing a new \$1.6 billion budget gap *over and above* the \$3.5 billion gap solved by our initial House 1 proposal, for a total budget gap of \$5.1 billion. Once again, the revised recommendation relies on a balanced set of solutions to close the projected shortfall. The Administration has had to prioritize the core functions of government and make significant additional cuts in many areas. In addition to the reduction of 750 positions announced in May through a combination of eliminating planned vacancies and additional layoffs for fiscal year 2010, the spending reductions proposed in the revised House 1 budget will result in even more layoffs.

The table below outlines a set of solutions totaling \$5.1 billion when combining the original budget gap of \$3.5 billion with the new budget gap of \$1.6 billion. Nearly half of all the solutions for fiscal year 2010 come from spending cuts and savings totaling \$2.4 billion. The second largest portion comes from using federal stimulus funds (ARRA) , primarily enhanced Medicaid matching funds (FMAP) (about \$1.2 billion) and Fiscal Stabilization Funds (\$230 million on budget). The Governor's targeted tax revenue proposals (as filed in the initial version of House 1) total \$299 million and make up about 4% of the total solves.

Summary of Fiscal Year 2010 Solutions	FY10 Total Solutions	Percent of Solutions
Net Cuts, Spending Reductions & Savings	\$ 2,424	48%
Federal Recovery Aid (ARRA)	\$ 1,473	29%
Other Departmental Revenue Proposals	\$ 410	8%
Targeted Tax Revenue Proposals	\$ 237	5%
State "Rainy Day" Funds (1)	\$ 225	4%
Other Solves	\$ 214	4%
Total Solutions:	\$ 5,080	

(1) \$97 million from suspending the statutorily required deposit for fiscal year 2010 is reflected in the total solutions NOT in the Rainy Day Fund total

The next table provides a breakdown of all of the solutions proposed in the original House 1 budget filed in January totaling \$3.5 billion and the additional solutions that were added to them to close the additional budget gap of \$1.6 billion. In total, the Administration has proposed nearly \$5.1 billion in solutions for fiscal year 2010 alone.

Fiscal Year 2010 Solutions	January Original Filing	June Additional Solves	FY10 Total Solutions
A. Net Cuts, Spending Reductions & Savings from Maintenance	\$ 1,630	\$ 794	\$ 2,424
<i>State Employee Health Care Contributions</i>	\$ 60	\$ 26	\$ 86
<i>Medicaid Cost Controls and Savings - (net of FFP loss)</i>	\$ 179	\$ 81	\$ 260
<i>Local Aid Reductions</i>	\$ 220	\$ 80	\$ 300
<i>Maintain C.70 at Current Year Funding Levels</i>	\$ 300		\$ 300
<i>Executive Branch Cuts (net of revenue loss)</i>	\$ 674	\$ 409	\$ 1,083
<i>Non Executive Branch Cuts</i>	\$ 197	\$ 133	\$ 330
<i>Spending reductions and other workforce reduction plans</i>		\$ 65	\$ 65
B. Tax and Other Revenue Proposals (2)	\$ 526	\$ 122	\$ 648
<i>Meals and Hotel & Motel Tax Dedicated to Local Aid</i>	\$ 118		\$ 118
<i>Elimination of Sales Tax Exemptions - Dedicated to the Commonwealth Wellness Fund</i>	\$ 119		\$ 119
<i>Bottle Bill</i>	\$ 20		\$ 20
<i>RMV Revenue</i>	\$ 74		\$ 74
<i>Universal Immunization Assessment</i>		\$ 50	\$ 50
<i>Other Departmental Revenue Initiatives</i>	\$ 195	\$ 72	\$ 267
C. State "Rainy Day" Funds (1)	\$ 489	\$ (264)	\$ 225
D. Federal Recovery Aid (ARRA)	\$ 711	\$ 762	\$ 1,473
<i>FMAP</i>	\$ 711	\$ 504	\$ 1,215
<i>TANF</i>		\$ 28	\$ 28
<i>Fiscal Stabilization Funds</i>		\$ 230	\$ 230
E. Other Solves	\$ -	\$ 214	\$ 214
<i>School Building Authority</i>		\$ 150	\$ 150
<i>Change Carry Forward from 1/2% to 1/4% of tax revenue</i>		\$ 45	\$ 45
<i>Trust Fund Transfers</i>		\$ 19	\$ 19
Total Solutions:	\$ 3,453	\$ 1,628	\$ 5,081

(1) \$97 million from suspending the statutorily required deposit for fiscal year 2010 is reflected in the total solutions NOT in the Rainy Day Fund total

(2) Tax revenue estimates have been revised to reflect the revised revenue estimate

The revised House 1 budget continues to recommend many of the same proposals that were proposed in the original House 1 filing from January. However, in closing an additional budget gap of nearly \$1.6 billion, several changes were made that resulted in further reductions to spending beyond what was proposed in the original House 1 budget. The next section highlights some of the major changes proposed in House 1 revised.

Updates to Original House 1 Budget

State Employee Health Care Contributions (\$86 million)

The Administration continues to support a more rational system for employees to contribute to their health care costs based on salary levels and affordability rather than date of hire. This reform will improve both the fairness of the system and the Commonwealth's ability to continue to offer health benefits in the future. Reforming the system will generate more than \$86 million in savings (about \$26 million more than the original House 1). Under Governor Patrick's updated proposal for revising state employee health insurance contributions, the lowest-paid active state workers would pay 20% of their health insurance premiums; the highest-paid workers would pay 30% of their health premiums; and those with middle-range salaries would pay 25% of their health premiums.

Currently, the House-passed budget requires all current active state employees to pay 20% of their health premiums and new hires to pay 25% of their health premiums. The Senate-passed budget requires all active state employees to pay 25% of their health premiums.

Medicaid Cuts, Cost Controls and Savings (\$521 million gross/ \$260 million net)

The Administration's fiscal year 2010 budget includes \$8.806 billion for MassHealth. Excluding spending that was previously off-budget, MassHealth's fiscal year 2010 budget totals \$8.52 billion (1.2% percent over estimated fiscal year 2009 spending). Through eligibility expansions and enrollment of eligible individuals through the Virtual Gateway, a more streamlined member-tracking system, MassHealth has seen caseload increases in recent years. The fiscal year 2010 budget continues to fund projected enrollment growth in the MassHealth program. It also continues to fund the Essential Community Provider Trust Fund and invests in care management and coordinated primary care based on the "Medical Home" model.

FY09 GAA	FY09 Estimated Spending	FY10 Maintenance with Off-budget Consolidations	Total Off-Budget Spending	Total FY10 Maintenance Excluding Off-budget Consolidations	Percent Increase in Maintenance over FY09 Estimated Spending	Savings and Investments in FY10 Original	Additional Savings in H.1 Refile	Total Savings	New H.1 refile Amount	Percent Below H.1 Original
\$ 8,472	\$ 8,416	\$ 9,323	\$ (290)	\$ 9,033	7.3%	\$ (357)	\$ (165)	\$ (521)	\$ 8,806	-2%

* dollars in millions

Note: The FY10 total used to calculate this percentage excludes off-budget spending that H.1 proposes to moved on-budget in FY10.

The revised fiscal year 2010 MassHealth budget reflects a total of \$521 million in gross savings (\$260 million in net savings). This updated budget filing reflects additional cuts beyond the original House 1 filing of \$164 million, which are comprised mostly of a reduction to adult dental benefits. The budget also includes \$13 million in gross savings (\$7.5 million net) targeted investments needed to achieve many of these savings. When accounting for off-budget reductions, gross savings total \$538 million (\$269 million net). Categories of savings include limiting rate increases, expanding pay-for-performance, service program changes (providing coordinated care in appropriate settings), utilization management (e.g., expedited claims review), pharmacy savings, adult dental benefit reduction and other savings (e.g., elimination of Community First and certain grants and pilots).

In April of this year, the Administration filed an errata letter to the original House 1 budget detailing several proposals that were intended to support health care spending *beyond* the levels included in House 1 – paid for using additional enhanced Medicaid matching funds (FMAP) that had not been assumed in the original House 1 budget. However, since that time, tax revenues available for the fiscal year 2010 budget have decreased significantly. Thus, facing greater fiscal pressures, the revised House 1 budget uses FMAP funds largely to *maintain* House 1 MassHealth spending (with some additional cuts mentioned above) as opposed to augmenting that spending. This approach is broadly consistent with that of the Senate- and House-passed budgets.

Savings Initiative Title	Gross Amount		Gross Amount	Gross Variance
	FY10 Original (January)	Net Amount FY10 Original (January)	FY10 Refile (May)	between Original H.1 and H.1 refile
On-Budget Savings				
Rates	\$ (178)	\$ (89)	\$ (202)	\$ (24)
Pay-for-Performance (P4P)	\$ (62)	\$ (31)	\$ (62)	\$ -
Service Program changes	\$ (38)	\$ (19)	\$ (38)	\$ -
Payment and Pricing Strategies	\$ (43)	\$ (22)	\$ (43)	\$ -
Utilization Management	\$ (31)	\$ (16)	\$ (31)	\$ -
Pharmacy	\$ (20)	\$ (10)	\$ (20)	\$ -
Benefits			\$ (105)	\$ (105)
Other	\$ (10)	\$ (5)	\$ (33)	\$ (23)
Subtotal On-Budget Savings	\$ (382)	\$ (191)	\$ (534)	\$ (152)
On-Budget Investments			\$ -	\$ -
Specialty Hospital Rate Adjustment	\$ 12	\$ 6	\$ -	\$ (12)
Pay-for-Performance (P4P) Administration	\$ 3	\$ 2	\$ 3	\$ -
Primary Care/Medical Home/Chronic Care				
Model Rate Increase	\$ 10	\$ 5	\$ 10	\$ -
Subtotal On-Budget Investments	\$ 25	\$ 13	\$ 13	\$ (12)
Total Savings and Investments On-Budget	\$ (357)	\$ (178)	\$ (521)	\$ (164)
Off-Budget Savings			\$ -	\$ -
CCTF Savings	\$ (17)	\$ (9)	\$ (17)	\$ -
Subtotal Off-Budget Savings	\$ (17)	\$ (9)	\$ (17)	\$ -
Total Savings and Investments On- and Off-Budget	\$ (374)	\$ (187)	\$ (538)	\$ (164)
* dollars in millions				

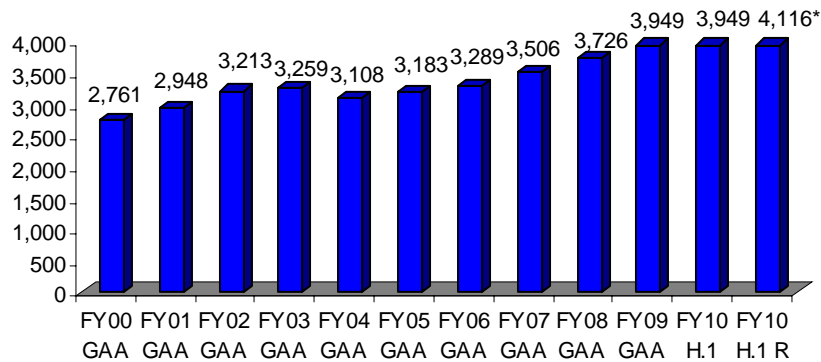
Local Aid (\$300 million)

The revised House 1 further reduces Unrestricted General Government Aid by \$79.9 million (in addition to \$220 million in Local Aid reductions in the original House 1), reflecting increased fiscal pressures due to declining state tax revenues. Our revised blueprint avoids even deeper cuts in Local Aid by continuing to propose a 1% increase to the existing statewide meals and hotel and motel room occupancy taxes, with the resulting \$150 million in revenues dedicated to Local Aid. The Administration also continues to support allowing cities and towns to establish a 1% local option meals tax and increase the existing local option hotel tax by 1%. This option gives municipalities greater tools and resources to cushion immediate Local Aid cuts that could not be avoided and to manage their finances moving forward.

Chapter 70 Education Funding

The Governor's House 1 revised recommendations continues to prioritize education. In a budget characterized by many deep cuts in important programs, this commitment to education is demonstrated by providing an estimated(*) total of \$4,116,770,988 for Chapter 70 aid for schools districts in the revised fiscal year 2010 budget recommendation. This total distribution continues to level-fund Chapter 70 aid and utilizes Federal ARRA funds to provide aid to fund foundation budget levels.

Chapter 70 State Aid (\$Billions)



Collective Bargaining Assumptions

As required by Chapter 150E of the General Laws, the revised House.1 budget includes recommendations to fund 56 collective bargaining contracts with unions across the state. The contracts are all for 4 years -- a 1-year extension at 0%, and a new 3-year contract that provides increases of 1%, 3% and 3%. For most units, the 0% is in FY2009, with the 1% increase coming in FY2010. We have reached agreements with most of our unions, as noted in the chart below.

Summary of Collective Bargaining Contract Status

	# of Groups	In H.1 Revised	No FY10 Funding	Outstanding Contracts
Gubernatorial Units	9	4	2	3
Oversight Units	47	37		10
UMass and Higher Ed	27	15		12
Total	83	56	2	25

Inclusion of the contract funding in the conference budget will enable the contracts to be implemented. In addition to the 56 specific contracts, a \$7.9 million reserve is included to cover the costs of the 25 contracts that are outstanding. We are in active negotiation with these units, and have set aside this funding to provide for those incremental costs.

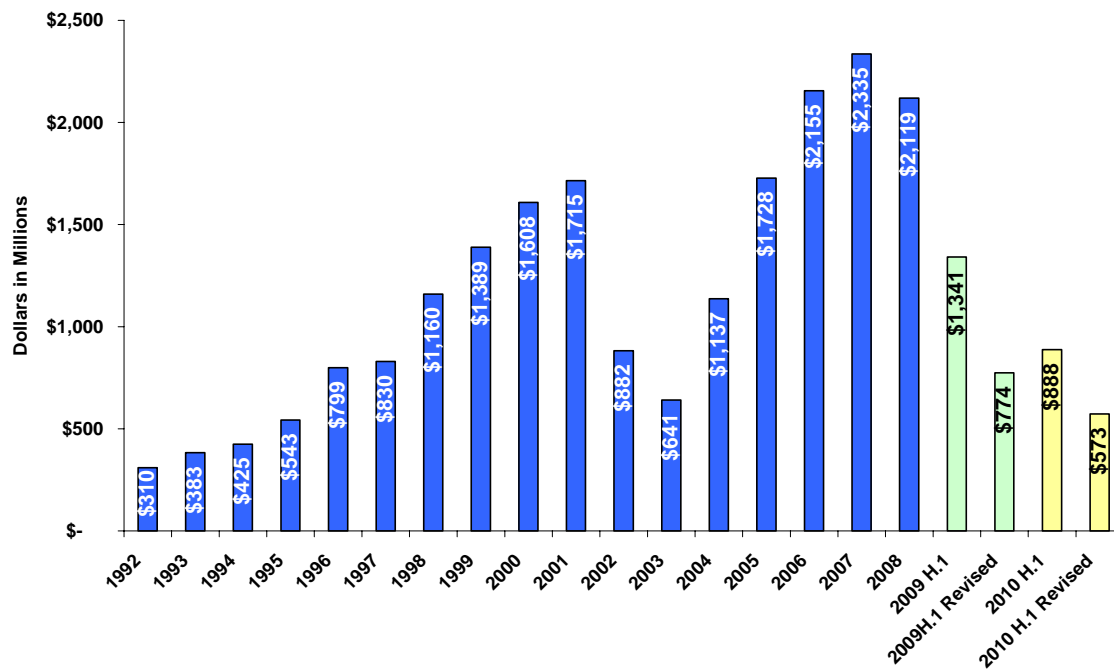
Other Highlights Include:

- Maintains eligibility for state health insurance programs, including preserving benefits for Aliens with Special Status (legal immigrants not eligible for federal reimbursement) in Commonwealth Care.
- Continues to fund the Essential Community Provider Trust Fund at \$35 million
- Maintains funding for METCO at the original House 1 levels of \$18.5 million
- Funds Shannon Grants at \$4.5 million
- Funds Summer Jobs at \$8 million, the Governor's original House 1 levels.
- Funds Violence Prevention Grants at \$2 million
- Funds Sewer Rate Relief at \$5 million

Stabilization Fund

The revised House 1 uses \$225 million in state stabilization funds to balance the budget. As previously indicated this is \$264 million less than included in the initial House 1 (\$489 million). This adjustment reflects the fact that more state stabilization funds will be used to balance the *fiscal year 2009* budget than previously anticipated, given the late-year drop in April tax revenues. With less overall Rainy Day funds than expected as we approach fiscal year 2010, the Administration is taking care to preserve a meaningful level of reserves for subsequent fiscal years (especially fiscal year 2011). Under its current budget framework, there would be a balance of \$573 million left in the Rainy Day Fund for fiscal year 2011 and beyond.

Massachusetts Stabilization Fund Through Time



Federal Recovery Assistance

The Administration's revised House 1 budget includes \$1.2 billion in enhanced Medicaid matching funds (FMAP). This is approximately \$500 million more FMAP relief than expected when the Administration filed its initial House 1 proposal – at which time the federal recovery act had not yet been finalized. Updated information about the federal bill and state unemployment levels suggest that we will receive \$806 million in enhanced FMAP funds in fiscal year 2009 and \$1.2 billion in fiscal year 2010. In light of declining state tax revenues since the filing of House 1, these funds are being used to largely support House 1 levels of health care spending. The budget also relies on a total of \$558 million of Fiscal Stabilization funds. \$230 million will be used to ensure that Chapter 70 remains funded at House 1 levels and \$167 million will be used off-budget to ensure that all communities reach Foundation levels of funding. Another \$161 million will be used to fund higher education at fiscal year 2009 levels.

Total Use of One-Timers

One-Time Resources	Beginning Balance	FY09	FY10	FY11
FMAP	2,600	(806)	(1,215)	579
Fiscal Stabilization - Education Funds (81.8%)	812	(322)	(490)	-
Fiscal Stabilization - General Government Services (18.2%)	182	(111)	(71)	-
State Rainy Day Funds	2,174	(1,390)	(225)	559
Total Use of One-timers	5,768	(2,629)	(2,001)	1,138

Management Tools

For fiscal year 2010, the Governor proposes to implement key management tools that will allow the state to better navigate its budgetary challenges, while providing greater efficiency to the fiscal practices and policies currently in place.

- **Shared Services** - This section authorizes each cabinet secretary to consolidate the performance of core administrative functions, such as finance, accounting, and human resources, within the secretariat and to charge the relevant agencies accordingly.
- **Emergency Spending Authority** - This tool would authorize the Governor to expend funds up to \$25 million, without further appropriation, in the event of a declared emergency.
- **Earmark Spending** – The Governor’s proposal would allow the Secretary of Administration and Finance (A&F) to assess whether the full funding provided for an earmark in the state budget would prevent an agency from completing the work outlined in its core mission. If this is determined to be the case, the Secretary could authorize the agency to forego spending on some or all of the earmarked amount.
- **Surplus Funding** – The Governor proposes to grant the Secretary of A&F the ability to reduce funding available to agencies over the course of the fiscal year in those cases where the Secretary has determined that an agency has a surplus. This tool will enhance the ability of the state to manage state expenditures more closely in tight fiscal conditions.
- **Temporary Cash Flow Loans** – This provision allows the state to borrow on a temporary basis from the Stabilization Fund for the purpose of increasing available cash and ensuring that the state can make expenditures on a regular and predictable basis. Conditions are provided that will ensure that the Stabilization Fund is repaid in full and credited for all investment earnings that would be achieved by the Fund over the course of the fiscal year.
- **Renegotiating Leases** – This tool authorizes the Division of Capital Asset Management and Maintenance to terminate a state lease for insufficient funds if an agency head determines that an appropriation cannot maintain the lease consistent with maintaining core governmental functions. This authorization was passed by the Legislature in a fiscal year 2009 supplemental budget

Transferability:

- **Line Item Transferability** – This tool allows the Secretary of A&F to transfer an amount of up to five percent of an appropriation to another appropriation within the same Secretariat in order to offset projected deficiencies over the course of the fiscal

year. This tool, originally authorized by the Legislature in the fall of 2008, assists the state in allocating surplus resources to those programs where unanticipated budget shortfalls may occur.

- **Trial Court Transferability** – The Governor's recommendation would allow the Chief Justice for Administration and Management (CJAM) to better manage the Trial Court's finances by granting the CJAM the ability to allocate surplus resources in one area of its budget to another in order to offset a deficiency.