



FY10 House 1 Budget Recommendation:

Issues in Brief

Deval L. Patrick, Governor

Timothy P. Murray, Lt. Governor

Budget Management Tools

Governor's Budget Proposal

Over the past 12 to 18 months the Commonwealth has witnessed a marked downturn in the national and state economic conditions that affect the state's fiscal and budgetary well-being. Consequently, ongoing challenges to the state's fiscal picture have increased while others have newly emerged. For example, the state has faced challenges with caseload growth in programs that provide services and benefits to vulnerable populations most likely to be affected by the economic recession. As spending in these programs has increased above the level appropriated in fiscal year 2009, the state has needed to find savings in other parts of the state budget to meet these increased obligations. Another example (in this case a more recent challenge) is the state's tightening cash position, which has worsened through declines in state tax revenues and a changing debt-market. This challenges the ability of the state to ensure expenditures can be made on a timely basis for all types of programs (whether for operating, capital or federal grant purposes).

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. In most instances these proposals require legislative changes or authorization for the state to proceed, and they are included in the House 1 (H.1) budget recommendation. Briefly outlined below, these management tools will help to limit the impact that adverse conditions presented by the economic downturn have on the state's finances and budget.

Management Tools

- **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.

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.
- **MassHealth Transferability** - In response to the challenge of managing state-subsidized health care expenditures in over a dozen different appropriations, the Governor proposes to give the Secretaries of A&F and the Executive Office of Health and Human Services flexibility to shift available funding between various MassHealth appropriations over the course of the fiscal year. As the composition of MassHealth caseload evolves during the year, this will allow MassHealth to offset budgetary deficiencies projected in one area of its budget with surpluses from another.
- **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.

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- **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.
- **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.
- **“Ceiling” Language for Transfers** – The Governor’s H.1 budget provides that state transfers shall be made in amounts “up to” the amount authorized in the budgetary language. While in many cases the state will still transfer the full amount provided for, this change will give it the flexibility to re-assess the budgetary need for transfers over the course of the fiscal year and reduce transfers if the original funding amount is determined to no longer be necessary.
- **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.