



FY10 House 1 Budget Recommendations:

Policy Brief

Deval L. Patrick, Governor

Timothy P. Murray, Lt. Governor

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MassGOALS

MassGOALS: Governor Patrick's Performance Management Initiative

In the challenging fiscal environment Massachusetts faces, the Patrick-Murray Administration continues to demonstrate its commitment to ensuring that the Commonwealth functions as efficiently and effectively as possible, delivering the high-quality services that individuals and communities expect and deserve. Soon after taking office in early 2007, Governor Patrick charged his team with developing and implementing a statewide performance management system to carry out his agenda. MassGOALS – *Massachusetts Government Outcomes to Achieve Long-Term Success* – was launched at a meeting of the Governor's Cabinet in December 2007.

MassGOALS is one of the key internal management tools that Governor Patrick uses to align operations and resources across state government to achieve better results for the people of the Commonwealth. Through the MassGOALS framework, the Governor receives quarterly data-based reports about the performance of his executive departments; he uses these performance reports as the basis for working sessions with members of his Cabinet and senior leadership team. These reports and working sessions help the Governor hold his Administration accountable for achieving key results, and allow them to identify areas where strategies and investments are working and where additional attention and resources are needed.

MassGOALS Result Areas

The first operational element of MassGOALS has been to define the results for which performance will be evaluated. MassGOALS is organized around nine citizen-focused result areas, each of which is influenced by the policies and activities of numerous state agencies. MassGOALS recognizes, and actively encourages, cross-agency collaboration to achieve these results. Each Cabinet-level Secretariat contributes to one or more of the nine result areas; the nine result areas are defined below, along with information about which executive departments are accountable for performance in each area.

Affordable Housing: "All residents have full and fair access to desirable, affordable housing near the places they work, shop, play, and come together as a community."

Executive Office of Housing and Economic Development (especially the Department of Housing and Community Development and the Office of Consumer Affairs and Business Regulation)

Civic Engagement: "Citizens are active participants in government and in their communities."

The Governor's Office and all of the Executive Offices

Clean Energy & Environment: "The Commonwealth's environment is conserved in a robust and sustainable economy through natural resource management and the promotion of energy efficiency and clean energy."

Executive Office for Energy and Environmental Affairs; Executive Office for Administration and Finance (especially the Division of Capital Asset Management)

Effective Government: “Constituents trust that their leaders are working together and accountable for delivering high-quality, efficient government services that people want.”

Executive Office for Administration and Finance and all of the Executive Offices

Efficient Transportation & Mobility: “People and goods move reliably, conveniently, and safely throughout the Commonwealth.”

Executive Office of Transportation and Public Works

Job Creation & Economic Growth: “Massachusetts enjoys a robust business climate, with a workforce well-prepared to take advantage of employment opportunities throughout the Commonwealth.”

Executive Office of Housing and Economic Development; Executive Office of Labor and Workforce Development; Executive Office of Health and Human Services; Executive Office of Education

Quality, Affordable Health Care for All: “Citizens enjoy greater wellness and improved health and have access to quality, affordable health care.”

Executive Office of Health and Human Services

Safe Communities: People feel safe where they live, work, learn and play.

Executive Office of Public Safety and Security; Executive Office of Transportation and Public Works; Executive Office of Labor and Workforce Development (especially the Division of Occupational Safety); Executive Office of Health and Human Services (especially the Department of Children and Families)

World-Class Education: “The Commonwealth’s youth and adults have access to the education they need in order to be successful students, workers and members of society.”

Executive Office of Education (including the Departments of Early Education and Care, Elementary and Secondary Education, and Higher Education)

MassGOALS Performance Measures and Reports

MassGOALS tracks roughly 10 to 20 different performance measures in each of the nine result areas, representing a range of factors that together contribute to the achievement of the overall result. No single performance measure is able to fully answer the key question, “How well is Massachusetts doing in achieving this key result,” and even a subset of 10 to 20 measures is unable to describe in full everything that state government is doing to improve performance in each area. Rather, the MassGOALS measures for each result are meant to provide the Governor and his leadership team with a high-level view of progress toward each result, touching on major policy initiatives and areas of interest to the general public. (Many Secretariats and agencies have implemented performance management systems for their own operations, which are able to track a wider range of activities and outcomes at a more granular level.) MassGOALS measures, therefore,

focus most often on outcomes – the end result experienced by individuals and communities – rather than inputs and outputs. For example, MassGOALS measures do not necessarily track how many clients participate in a counseling program or how many applications are received for an infrastructure grant, but rather focus on the degree of change or improvement a client experienced as a result of having been in the counseling program or on the improvement in community conditions that result from receiving the grant.

Examples of MassGOALS performance measures for each result area include:

Result	Selected Performance Measures
Affordable Housing	<ul style="list-style-type: none"> • Production and preservation of affordable units • Condition of state public housing stock • Outcomes of client participation in foreclosure counseling programs
Civic Engagement	<ul style="list-style-type: none"> • Participation in public meetings and hearings • Communities and individuals helped by Commonwealth Corps members • Citizen access to information, particularly online and in other forms of new media
Clean Energy & Environment	<ul style="list-style-type: none"> • Green building projects (new construction and renovation) at state facilities • Generation of renewable and alternative energy • Public satisfaction with state parks and recreational facilities • Acres and type of land protected • Attainment of air and water quality standards
Effective Government	<ul style="list-style-type: none"> • Customer service wait times • Application or payment processing speed • Diversity/representativeness of state workforce • Participation in municipal partnership programs
Efficient Transportation & Mobility	<ul style="list-style-type: none"> • Public transit ridership on MBTA and RTAs • Pavement and bridge conditions • On-time and on-budget project delivery
Job Creation & Economic Growth	<ul style="list-style-type: none"> • Employment levels and unemployment rates • Job creation and retention • Business zoning/permitting promptness • Job placement for human services clients
Quality, Affordable Health Care for All	<ul style="list-style-type: none"> • Insurance coverage rates • Health care quality (e.g., addressing preventable hospitalizations) • Wellness indicators (e.g., smoking and obesity rates)
Safe Communities	<ul style="list-style-type: none"> • Workplace safety • Recurrence rate of child abuse/neglect • Highway accident clearance • Forensic processing efficiency
World-Class Education	<ul style="list-style-type: none"> • Availability of licensed early education programs • Student proficiency and standardized test performance • Teachers with subject-matter qualifications • Public college and university enrollments and degree conferrals

Performance data for each MassGOALS measure are collected and analyzed quarterly, although for certain measures new data may only be available semi-annually or annually (e.g., high school graduation rates can not be measured quarterly). Relevant state agencies and Secretariats then submit their performance data for the preparation of a comprehensive performance report for the Governor on each result area. For each measure, the most recent performance data is compared to benchmarks and performance targets where appropriate and available, and each measure is also accompanied by a brief narrative analysis that helps explain the data presented. The reports also include for each measure a discussion of recent activities and their impacts on performance, an analysis of the major barriers to better performance and identification of opportunities for improvement, and suggested action items for the Governor and others to take to improve future performance. MassGOALS performance reports are prepared every quarter for each of the nine result areas and are read by the Governor, the Secretary of Administration and Finance, and the Cabinet Secretaries and agency heads connected to each result area.

MassGOALS Working Sessions & Follow-Up

Using the reports described above as the basis for discussion, the Governor chairs quarterly MassGOALS working sessions dedicated to each of the result areas. The Governor uses these regular internal reviews meetings to concentrate on a handful of the measures in the MassGOALS report and have in-depth discussion with members of his Cabinet about issues specific to improved performance. MassGOALS working sessions are not used as crisis-management meetings, “show and tell” presentations, or “gotcha” sessions. The MassGOALS working sessions are intended to foster a culture of learning and improvement, of informed decision-making, of cross-agency collaboration and of accountability for achieving results.

To reinforce the importance of improvement and accountability, an important feature of the MassGOALS system is the “task list.” The task list is a mechanism for keeping track of commitments and assignments that arise from the MassGOALS working sessions. When a working session participant suggests what actions or changes are required to improve performance, someone is immediately assigned to follow up on those suggestions and develop a recommendation. Everyone involved in the working sessions takes responsibility for executing the tasks assigned to them, including the Governor. Tasks can range from the large (drafting legislation or regulations) to the small (making a phone call or hosting a meeting). The task list is included in every MassGOALS report, with an update on the status of each item, and follow-up on tasks from previous meetings is the first item on every working session agenda. The task list is the key mechanism for ensuring that discussion leads to action, and that action leads to results.

MassGOALS Operations

The MassGOALS system is thoroughly supported at every level to ensure that it continues to function as a useful tool for actively managing the Administration’s performance.

The Governor is the primary leader and user of the MassGOALS system and is the key decision-maker for all major elements of the system’s design and operation. The MassGOALS result areas and measures reflect the Administration’s policy priorities, and the Governor uses the quarterly performance reports and working sessions to manage the departments that report to him and hold his senior officials accountable for the results their agencies deliver.

The Secretary of Administration and Finance is the executive sponsor of MassGOALS; the system is staffed and supported in the Executive Office for Administration and Finance. The Secretary, Undersecretary and Assistant Secretary for Budget review all MassGOALS reports and participate in all MassGOALS working sessions, as well as providing oversight for the operational elements of the system. A MassGOALS project manager oversees the day-to-day operation of the MassGOALS system, including the preparation of reports and working session materials, and the coordination of the task list of follow-up items.

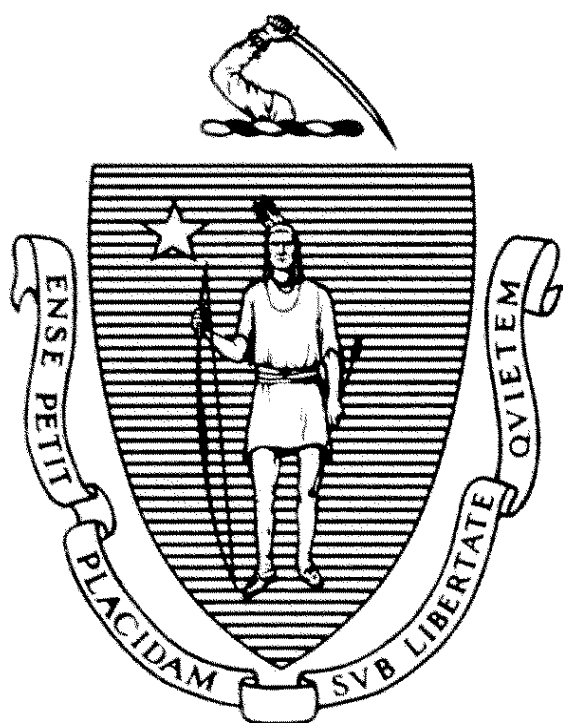
Each of the Cabinet-level Secretariats designates an existing staff member to serve as the MassGOALS liaison for their office, with responsibility for coordinating the collection and analysis of data and narrative performance information. These liaisons serve, along with representatives of the Governor's Office and staff from the Executive Office for Administration and Finance, on the MassGOALS steering committee, which meets periodically to advise the project manager on the direction and continued implementation of the MassGOALS system.

Governor's Budget Recommendations Policy Briefs

The policy briefs that follow each summarize a policy initiative being advanced in the Governor's budget recommendation. Consistent with the Governor's use of the MassGOALS system as a framework for managing and measuring policy, the approximately thirty policy briefs are organized by MassGOALS result area, beginning with World-Class Education.



Fiscal Year 2010 MassGOALS and Policy Briefs



World-Class Education





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Education Investments

Governor's Proposal

The recession has left us with unprecedented fiscal challenges. Within just five months, the Patrick-Murray Administration has had to wrestle with closing a \$6 billion budget deficit stretching over two fiscal years. In this economic downturn, the Administration is proud to be able to maintain the significant investments made in education in prior fiscal years. Although the state is not in a position to provide any major increases in education funding, the Administration's budget recommends protecting many of the investments that have contributed to the success of students in Massachusetts.

The Patrick Administration's Readiness Action Agenda released in June 2008 highlighted that although Massachusetts continues to outpace the other 49 states academically, our commonwealth still needs to keep moving forward – even during the current economic climate. The action agenda indicates that fifteen years after the passage of landmark education reform legislation, the Commonwealth is a national education leader and our standards-based reforms have yielded significant results.

Massachusetts students continue to achieve academically. In 2008, for the second year in a row, students in every grade tested made gains on the Mathematics Massachusetts Comprehensive Assessment System (MCAS) exams, resulting in the best math results in the history of the state's assessment program.

Also, on the 2007 National Assessment of Educational Progress (NAEP), the most recent year data is available for the "Nation's Report Card," Massachusetts 4th graders ranked first nationwide in both reading and math while the state's eighth graders ranked first in math and tied for first with three other states in reading.

On the 2007 Trends in International Mathematics and Science Study (TIMSS), administered to 425,000 students in 59 countries, and Massachusetts 4th graders ranked second worldwide in science achievement and tied for third in mathematics while the state's 8th graders tied for first in science and ranked sixth in mathematics.

Maintaining Education Investments in Fiscal Year 2010

Many of our students benefit from significant investments made in the FY 2009 General Appropriations Act (GAA). Although the state is not in a position to provide any major increases in education funding, the Administration's budget recommends protecting many of these prior year investments.

<u>Maintaining Investments in Public Education</u>				
	Summary			
	FY09 GAA Increased Investment		FY2009 GAA	FY10 H.1
Chapter 70	\$ 223,152,733	\$	3,948,824,061	\$ 3,948,824,061
Universal Pre-Kindergarten Grants*	\$ 5,276,798	\$	12,138,739	\$ 11,638,739
Extended Learning Time Grants	\$ 4,500,000	\$	17,500,000	\$ 17,413,750
Adult Basic Education**	\$ 1,075,000	\$	31,176,348	\$ 30,183,582
Massachusetts Scholarship Program***	\$ 3,001,167	\$	96,875,218	\$ 96,818,672
Dual Enrollment	\$ 2,000,000	\$	2,000,000	\$ 2,000,000
* Part of consolidated account that totals \$20.5M				
**\$960,387 of this amount transferred to consolidate IT Cost Account 7009-1700				
*** Part of consolidated account that totals \$100.4M				

Early Education and Care

- Universal Pre Kindergarten: Fiscal year 2010 H.1 recommendation maintains the number of classrooms currently receiving grants.
- 0-3 Programs: Fiscal year 2010 H.1 maintains funding at projected fiscal year 2009 spending levels for services to infants aged 0 to 3 and their parents including early literacy programs.

Elementary and Secondary Education

- Chapter 70: The fiscal year 2010 H.1 recommendations protect the unprecedented \$3.948B investment made in fiscal year 2009 to hold school districts harmless to economic and fiscal changes.
- Extended Learning Time: Fiscal year 2010 H.1 recommendations preserve the substantial investment made in assisting schools in extending its learning time.
- Adult Basic Education: Program funds are preserved at fiscal year 2009 spending levels.

Higher Education

- Scholarship Program: Fiscal year 2010 H.1 recommendations preserve the increase provided for the MassGrant program in fiscal year 2009. Fiscal year 2010 H.1 recommends consolidating this program with 3 other smaller scholarship/grant programs in a new line item.
- Dual Enrollment: Fiscal year 2010 preserves \$2M investment in this program that assists high school students in participating in higher education courses.

Account Consolidation

The Governor's H.1 recommendation consolidates many accounts within the Education Secretariat, offering flexibility to allocate limited dollars in the most thoughtful, innovative and responsive ways. The following chart displays the number of accounts that were consolidated at the 3 education agencies that are within the Education Secretariat:

FY2010 Account Consolidation Effort		
	FY 2009 GAA Accounts	FY 2010 H.1 Accounts
Early Education and Care	13	7
Elementary and Secondary Education	43	20
Department of Higher Education	37	7

These account consolidations target the main goals identified in the Governor's Readiness Action Agenda. By combining funds from Fiscal Year 2009 appropriations into this consolidated structure, the education departments are better equipped to direct funds toward the most effective programs that support and enhance student and teacher success. Some examples of consolidated accounts that target the goals identified in the Governor's Education Agenda are:

- Quality Program Supports – Goal 1: Students and Goal 2: Teachers and Education Leaders
- Universal Pre-School – Goal 1: Students
- Professional Development and Teacher Quality Support – Goal 2: Teachers and Education Leaders
- Student Assessment and Related Remediation – Goal 1: Students.
- Accountability and Assistance Program – Goal 4: Innovation and System Reform to Create a 21st Century Public Education System
- Literacy Programs – Goal 1: Students
- Dropout Prevention and Recovery – Goal 3: College, Career and Life Success
- Gifted and Talented Programs – Goal 1: Students and Goal 3: College, Career and Life Success
- Massachusetts State Scholarship and Grant Program – Goal 3: College, Career and Life Success

Readiness Finance Commission Recommendations

In June of 2008, Governor Patrick assembled the Readiness Finance Commission and charged it with presenting alternative means to achieve sustainable education funding for current needs and the ten-year Readiness Project implementation plan. The commission acknowledged that, because of the sudden and

dramatic downturn in the economy, in the short term Commonwealth's top priority will be preserving the existing level of quality in the state's public education system. Consequently, the Commission determined that the greatest near-term opportunity is to seize this moment to make significant changes in the structure, operating assumptions and delivery mechanisms in the current public education system.

The Readiness Finance Commission's report therefore focuses first on enabling cost savings and efficiencies, presenting strategies to address the following areas:

- reducing employee health insurance and retiree benefit costs;
- maximizing federal reimbursements to offset special education costs;
- promoting greater efficiency and teaching capacity through regionalization; and
- procurement reform and reducing energy costs.

The Governor's fiscal year 2010 budget and accompanying legislation continues to build on the existing measures to facilitate the implementation of the Commission's cost savings strategies by cities and towns. The Administration remains committed to providing cities and towns with the tools to achieve cost savings and increase the uptake of existing measures.





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Charter School Accounting Change

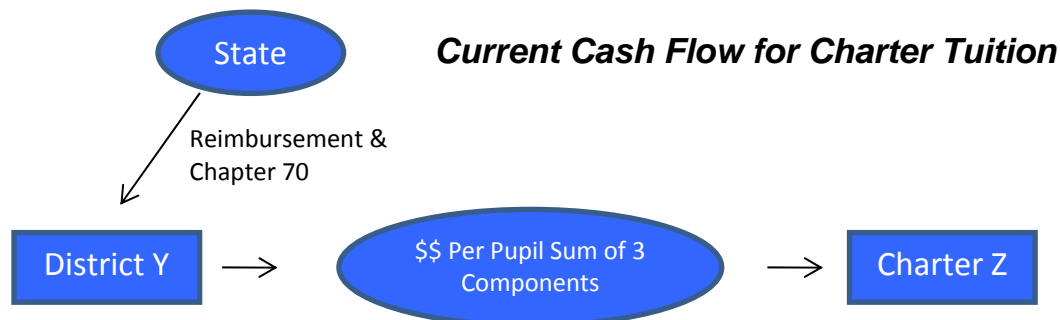
Governor's Proposal

Charter Schools are a successful innovation encouraged by the Education Reform Act of 1993. As we continue to learn more about the charter school model, our goal is to preserve the innovations and successes, of the experiment while recognizing that some districts struggle with the financing model that is currently in place to fund students who attend charter schools. The Governor's House 1 budget recommendation implements changes to the current funding structure to address these struggles.

Current Structure

Currently, tuition payments for charter schools are based on the fundamental principle that the student generates Chapter 70 aid for the sending district as part of the formula, therefore, that aid should follow the student to the Charter School. This means that if 20 students, otherwise the responsibility of a district public school, choose to attend a public charter school, the district is responsible for sending a per pupil tuition amount to that charter school, equivalent to what would be spent on that student in the district school system. That amount is based on the Chapter 70 foundation amount that those students would generate were they to stay in the sending district, adjusted by the percentage by which the district chooses to spend above foundation. The tuition amount per pupil in fiscal year 2009 is distributed based on three factors:

- Foundation Budget Base Rate for the Students Attending the Charter from the Sending District
- Above-Foundation Spending Rate (if Sending District spends more than foundation)
- Facilities Fee Tuition Rate (determined by line item language)



This model is consistent with the principle that the funds follow the pupil, but the Administration recognizes that it also can create budgetary challenges for school districts as they adjust to the lower funding level. The district school may not always be able to adjust its budget to adapt to that revenue loss in a swift fashion, especially when the number of students attending the charter school isn't always large enough to permit reductions in teaching staff and other services (e.g. even though 5 students moved to a Charter School, a classroom, teacher or overhead costs cannot be eliminated). To assist districts in that situation, the Commonwealth developed a reimbursement formula to help districts adjust to the reduced revenue stream over a three-year period by:

- fully reimbursing any enrollment or inflation driven tuition increases in the first year the district incurs them; and
- reducing that amount to 60% and 40% in the second and third year of the loss.

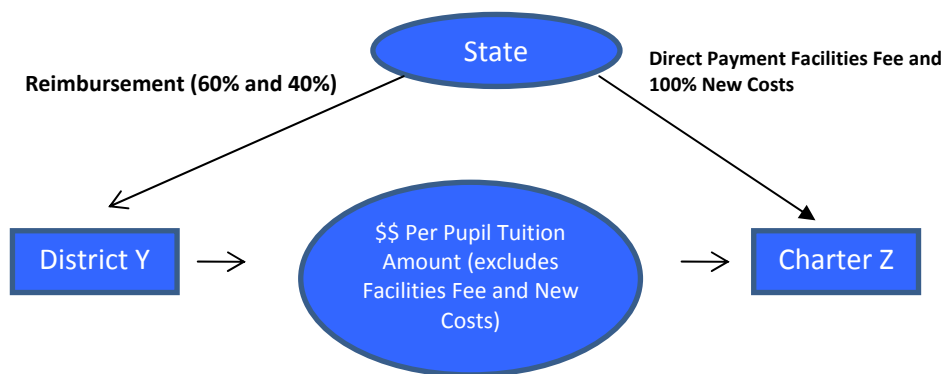
By the fourth year, districts are expected to have adjusted their budgets for the revenue loss, and state reimbursement ends. In addition to this reimbursement, the Commonwealth also fully reimburses the cost of facilities payments that districts send to charters.

While our Administration recognizes that the reimbursement formula is a work-in-progress, and that a more precise means of determining a district's marginal cost structure would make the reimbursement formula a more precise tool for helping districts meet the transitional challenges of a new charter school, our current fiscal climate does not allow for any new resources to solve local challenges over funding tuition payments to Charter Schools. However, Governor Patrick's fiscal year 2010 budget makes recommendations to adjust the current Charter School tuition payment structure to alleviate some of the funding challenges found in school districts. These changes will have no impact on Charter School students as the Charter Schools will receive the same level of funding. In addition, districts will still make tuition payments as they did before with two accounting adjustments. In addition, the Administration proposes special rules for approval of Charter School applications by the Board of Elementary and Secondary Education in fiscal year 2010, and establishes a reporting requirement for a Charter School's net asset balance at the end of the fiscal year.

Accounting Adjustment

The fiscal year 2010 budget includes one new line item appropriation in addition to the line item that previously reimbursed districts. In fiscal year 2009, charter school tuition payments and facilities fees that are paid by schools districts are reimbursed by the state under subsections (nn) and (oo) of section 89 of chapter 71 of the General Laws. Under this reimbursement method, districts are sending tuition and facilities fees directly to charters through a reduction of their Chapter 70 aid amounts. The state then reimburses the entire facilities fee (amount determined by line item language in fiscal year 2010), 100% of the new costs over the prior fiscal year, 60% of the costs from the new costs from 2 years ago and 40% of the new costs that occurred 3 years ago. The proposed model included in House 1 will send the facilities payments and 100% of the new costs of Charter School enrollment and inflation directly to the charters. Instead of reimbursing school districts after the payments have been made for the per pupil facilities fee and the 100% of new costs, the state will pay that upfront, which will alleviate some of the uncertainty around enrollment projections that districts face. The diagram below demonstrates the cash flow process included in House 1:

Proposed Cash Flow for Charter Tuition



The problem this is intended to correct is caused by charter school enrollment projections that often turn out to be higher than the actual enrollment. While the tuition formula described previously accurately calculates a base rate for tuition driven by the type of students attending the charter and their relative level of educational need, that rate is applied, at the beginning of the fiscal year, to those enrollment projections, and corrected over the course of the year for actual enrollment at the Charter. However, while those corrections ultimately mean that the sending district pays less in tuition than projected because the charter has fewer students, that correction comes at a time in the year when the district can no longer spend the "saved" money effectively. By providing that portion of the reimbursement directly to the charter, the state effectively assumes the risk of high enrollment projections and provides a more stable tuition and reimbursement amount to the district for its fiscal planning. In fiscal year 2010 the Commonwealth will have the responsibility to fund the facilities payments and new costs, which will allow districts to have a more solid base that is not as reliant on enrollment projection fluctuations. This will assist locals as they begin planning local fiscal year budgets.

Special Rules for Approval of New Charter Schools

The Administration is aware of the intense interest among many parents in taking advantage of the educational opportunities and alternative delivery system provided by charter schools, as evident in the waiting lists that exist for entry into so many of these schools. We are respectful of the passionate desire of parents to exercise control over their children's education and ensure the brightest future possible for the children who are not only their greatest pride, but, collectively, our greatest hope. However, we confront as well the legitimate concern that this model brings with it additional expense, and that expense is harder to justify when the existing delivery system is succeeding, or if the alternative system only serves the students who were already succeeding. In this budget, we accept the challenge of those advocates who ask us to provide more opportunity to those who need it most by increasing the net school spending cap from 9 to 12% in those districts with the lowest performance as measured by math and English MCAS results. However, we also issue our own challenge to those charters that will open as a result of this expanded fiscal flexibility, that they use their creativity and innovation to help us address the achievement gap that is our greatest educational challenge in the coming years. We can't afford to fund an entire system of new schools if those schools merely "skim" the best students from our existing system and leave district schools with the challenges of reducing the achievement gap.

Outside Section 44 recommends these changes and under this proposal, charter schools are not eligible to apply unless their student population will be comprised of at minimum 80% students who meet the following criteria: low-income, limited English proficient, special education and drop-outs or those determined to be at risk of dropping out. On top of this threshold, the charter school will not be eligible to apply for a charter unless its student enrollment will be comprised of at least 5% more special education or limited English proficient students than the sending district's special education or limited English proficient student enrollment. Finally, charter applicants under this proposal are required to have a demonstrated record of success serving these types of students. We insist that the new schools to be opened focus their efforts and innovation on the students who are most challenged by our standards based reform, and develop replicable models that show how we can get all our students to achieve at the world class standards that are necessary for them to survive in the world economy, and for us to rebuild our economy from its current challenges.

Financial Data Collection

The fiscal year 2010 budget recommendations also require that the Department of Elementary and Secondary Education adopt regulations creating a reporting requirement for a charter school's net asset balance at the end of the fiscal year. The report is to include information on the sources of funds, whether they are private or public, and the plans that are developed to use those funds. These reports will be used by the Department and the Executive Office of Education and the Administration to highlight the effective uses of funds at Charter schools, and also to learn more about the development of surpluses or deficiencies at Charter Schools. Charter Schools have experienced significant success in their efforts to raise private dollars to supplement public funding. They also frequently operate without the constricting and limiting contractual provisions that too frequently limit district school innovation. These unique characteristics allow Charter Schools to develop financial strategies that better serve the student population. If Charter Schools are doing something that is successful in terms of savings and efficiencies that creates a surplus, our Administration would like to further consider these strategies to see how districts may also be able to develop financial strategies that will provide a better environment for students.





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Campus Appropriations Consolidation

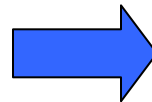
Governor's Proposal

The fiscal year 2010 House 1 recommendation includes a new consolidated budget structure to fund the 15 community colleges, 9 state colleges, the 5 university campuses and specific university programs. The consolidated approach provides maximum flexibility to leaders in the Education Secretariat and Department of Higher Education leaders to manage within limited resources. In these challenging economic times, more students are considering attending our state's strong public higher education system, seeking an affordable, high-quality education. As more students look toward our public higher education system, the campuses are met with the challenge of expanding their delivery of a world class education with diminishing resources. These real challenges and the recognition that each campus has unique programs and finances led to consolidating the disparate accounts into 3 separate line items.

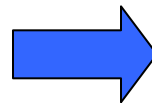
FY2009 GAA Structure

71000200	University of Massachusetts
71000300	Toxics Use Reduction Institute - University of Massachusetts Lowell
71000500	Commonwealth College Honors Program
71000700	Office of Dispute Resolution
71090100	Bridgewater State College
71100100	Fitchburg State College
71120100	Framingham State College
71130100	Massachusetts College of Liberal Arts
71140100	Salem State College
71150100	Westfield State College
71160100	Worcester State College
71170100	Massachusetts College of Art
71180100	Massachusetts Maritime Academy
75020100	Berkshire Community College
75030100	Bristol Community College
75040100	Cape Cod Community College
75050100	Greenfield Community College
75060100	Holyoke Community College
75070100	Massachusetts Bay Community College
75080100	Massasoit Community College
75090100	Mount Wachusett Community College
75100100	Northern Essex Community College
75110100	North Shore Community College
75120100	Quinsigamond Community College
75140100	Springfield Technical Community College
75150100	Roxbury Community College
75160100	Middlesex Community College
75180100	Bunker Hill Community College

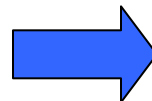
FY 2010 H.1 Proposed Structure



7100-0200 University of Massachusetts



7100-3000 Massachusetts State Colleges

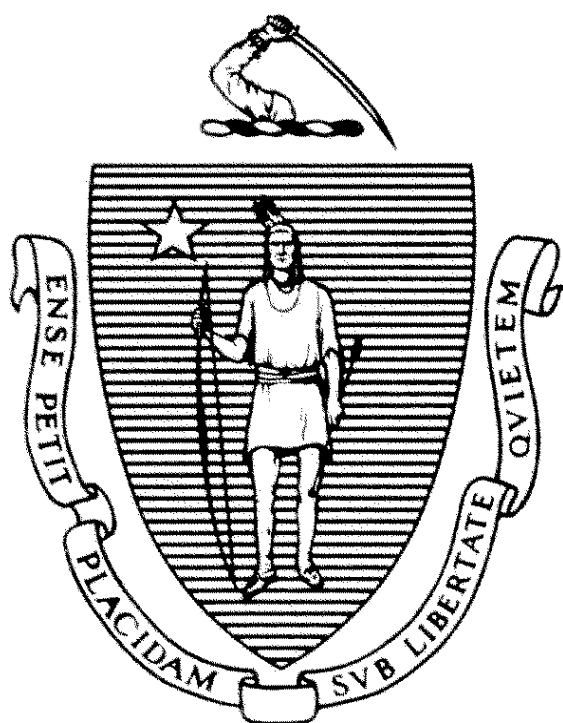


7100-4000 Massachusetts Community Colleges

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

The Commonwealth and the rest of the country are coping with a severe economic and fiscal decline that present new budgeting challenges not previously encountered. In this environment the public higher education institutions will need to deliberately and creatively manage their budgets. The individual institutions will be faced with unique challenges due to anticipated enrollment increases, various capacity capabilities of the campuses, and different levels of reserve funds. The new consolidated line item structure presents a significant shift in the approach to budgeting that will allow campuses to make unique proposals to the Department of Higher Education and the Executive Office of Education to request funds based on the factors that can assist the institutions in continuing to provide high-quality education at a competitive level while managing to continue operations during this recovery period.

Fiscal Year 2010 MassGOALS and Policy Briefs



Affordable Housing





FY10 House 1 Budget Recommendation:

Policy Brief

Deval L. Patrick, Governor

Timothy P. Murray, Lt. Governor

Homeless Services Consolidation

“Ending homelessness will not be easy and will require a dramatic transformation of the Commonwealth’s system for responding to homeless individuals and families. The Commission generated a broadly-accepted vision for a new system, where shelters are used only for emergency transitions and every family and individual has a permanent place to live. Today, the system starts with placement in shelter for those presenting as homeless; tomorrow, we envision a system that starts with stabilizing existing tenancies to prevent homelessness, re-housing people before they enter shelter, and linking people to the appropriate community supports to find and keep stable housing situations and improve their economic position.”

-Report of the Massachusetts Commission to End Homelessness
December 2007

Governor’s Proposal

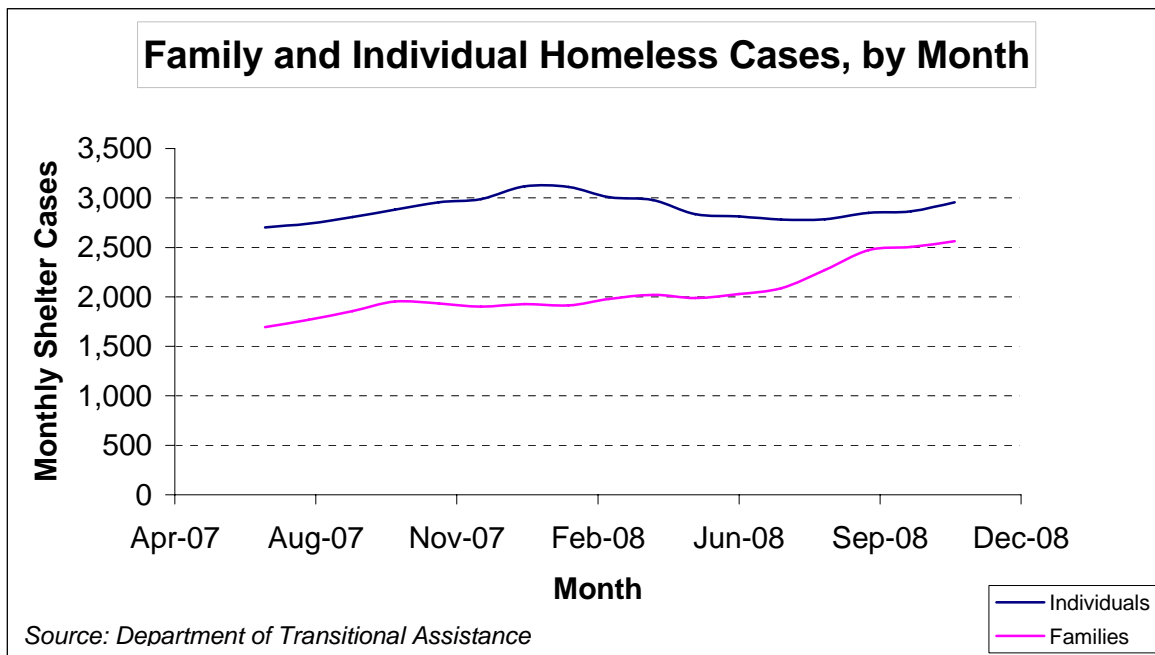
The fiscal year 2010 House 1 budget transfers \$133.7 million in spending from the Department of Transitional Assistance (DTA) to the Department of Housing and Community Development (DHCD). This proposal represents the next step in the implementation of the Administration’s efforts to improve the long-term outcomes for Massachusetts individuals and families that are homeless or at-risk of becoming homeless. The transfer reflects the Article 87 legislation filed by the Governor in January 2009.

Homelessness in Massachusetts

Safe and affordable places for individuals and families to live will always be an essential requirement to ensure residents can lead stable and productive lives in the Commonwealth. Housing that allows workers to live affordably near their place of work is vital for economic growth. Units that meet standards for safety, protection and maintenance are the underpinning for neighborhoods to keep their residents in secure and permanent housing within their communities. Historically, the Commonwealth has played a key role in advancing this objective, especially in the high-cost Northeast region, where housing and rental costs are expensive for residents. This objective has been reinvigorated by the Patrick-Murray Administration, which has made one of its key performance measures the goal that “all residents have full and fair access to desirable, affordable housing near the places they work, shop, play and come together as a community”.

A key indicator of the challenges for the Commonwealth and its communities to provide safe and affordable housing for its most vulnerable populations is the level of homeless or at-risk individuals and families. Many factors contribute to a person or his or her family becoming homeless, including loss of income, domestic violence, foreclosure, substance abuse or other illness, all of which can become magnified in the face of a lack of affordable housing within communities. Further, during periods of economic downturn such as the current one facing Massachusetts and the nation, the economic conditions for individuals and families most at risk of homelessness often worsen.

The table below demonstrates that the number of homeless persons in the Commonwealth has increased as the economy has experienced its recent downturn. While the number of individuals staying at shelters has remained mostly constant, and in some cases decreased, cases of family homelessness have grown substantially since the beginning of fiscal year 2008. Moreover, while the number of persons who are at-risk of homelessness is not fully known, it is commonly understood that these populations have similarly increased across the Commonwealth.



Massachusetts has consistently led in providing emergency housing and services to both individuals and families who are homeless or at-risk of becoming homeless. The Commonwealth has deployed an extensive emergency assistance program for families, which is administered by DTA. In addition, state funding has been provided for housing-related services to individuals and families. This approach has ensured the presence of a vital safety net to provide families and individuals with emergency housing. At the same time, the challenge has remained for the Commonwealth in how to leverage its existing housing resources and support services for lower-income populations to provide more stable and permanent housing options for the people who are served by its programs.

The Commission to End Homelessness

In the summer of 2007, the Governor and Legislature jointly convened the Commission to End Homelessness in the Commonwealth. The commission, which was co-chaired by Representative Byron Rushing and Tina Brooks, Undersecretary for Housing and Community Development, included members from within the state Administration, the Legislature, housing service providers, law enforcement and municipal government officials. The objectives of the commission were to develop a 5-year plan that could end homelessness in the Commonwealth by 2013.

A major component of this plan was to transform the state's existing system for responding to homeless individuals and families by transitioning from a system that emphasizes shelters as the first solution for persons presenting as homeless to one that deploys shelter as an emergency assistance tool, applying greater emphasis on prevention and permanent housing solutions. The commission contended that this would result in a reduction in need for emergency shelters.

Interagency Council on Housing and Homelessness and Regional Network Pilots

In the fiscal year 2009 House 2 Executive Budget, the Governor proposed \$8.25 million in spending over 18 months for a pilot program to fund regional innovations across the Commonwealth that implemented new approaches and strategies for homeless prevention and permanent housing programs. The funding was to be awarded by the Interagency Council on Housing and Homeless (ICHH), which was reconstituted by Executive Order #492 and is chaired by Lieutenant Governor Timothy Murray.

Under Lieutenant Governor Murray's leadership, the ICHH crafted a competitive award process for regions across Massachusetts to develop networks made up of municipal leaders, housing providers, state officials,

community leaders and others, to identify innovative new ways to address homelessness in their area. Networks were asked to provide information to the ICHH demonstrating their ability to adopt recommendations by the Commission to End Homelessness into their approaches. Eight grant awards were announced by the ICHH on December 16, 2008 in the amount of \$8 million. It is the goal of the ICHH to use the knowledge and experience gained through these regional networks to inform future changes to the shelter and housing systems. Key innovations that will be tested include comprehensive assessment, permanent supportive housing, flexible rental supports, Housing First models, coordinated case management and early warning prevention and diversion systems.

FY2010 House 1 Proposal to Transfer Homeless Spending from DTA to DHCD

The Governor's fiscal year 2010 House 1 recommendation proposes to transfer funding that currently supports homeless services and shelter costs for individuals and families at DTA to DHCD to combine emergency shelter programs with the State's housing delivery system. Under the consolidation plan, DTA's family and emergency shelter programs will be transferred to DHCD to help carry out a "Housing First" approach, as recommended by the homelessness commission, which focuses on helping individuals and families quickly access and sustain housing.

The Patrick-Murray Administration proposes organizational restructuring in order to create a seamless housing services system, and integrate the Commonwealth's emergency housing into its broader housing delivery system. The transition of the Commonwealth's shelter system to DHCD will help to make state services more efficient by shifting focus away from shelter use to a permanent housing strategy, with the goal to end homelessness in Massachusetts.

By consolidating all housing activities into DHCD, the Commonwealth can achieve several key outcomes:

- Provide a single local point of entry, assessment and access to housing solutions for individuals and families at risk of losing housing or already homeless
- Provide an expanded array of prevention and diversion resources
- Inform the housing production agenda by identifying specific housing supply needs
- Extend the reach of subsidized housing to extremely low-income households




Furthermore, the proposal recognizes that in order to achieve the Administration's goal of eliminating homelessness in the Commonwealth, dramatic changes in the way housing services are delivered must be contemplated. As a result of the proposed restructuring, residents of the Commonwealth, whether they are facing housing challenges or not, can expect:

- More seamless access to housing services
- More effective use of Commonwealth resources
- Better coordination and integration, and timely and appropriate service responses at the local level
- A supportive housing production agenda consistent with demonstrated need
- Accelerated housing placements with support services
- Reduced need for shelters and the elimination of motels used for emergency shelter

The restructuring of state homeless funding and activities is part of a comprehensive systems reform effort to carry out the recommendations of the Commission to End Homelessness. The Commission prioritized the implementation of a "Housing First" approach, which places an immediate and primary focus on helping individuals and families quickly access and sustain permanent housing. Housing, paired with appropriate supports, will reduce reliance on long-term shelter stays, even for those considered chronically homeless or for people with multiple needs. The reorganization of emergency services from DTA to DHCD is the first step in a comprehensive reengineering of the shelter and housing systems. By pairing shelter and housing services within a single department, it will be easier to identify and address critical gaps in services.

Transfer of Funding from DTA to DHCD

The following table identifies the funding that is currently provided at DTA that will be transferred to DHCD. Major programs or funding objectives are identified along with appropriation number and projected spending for both fiscal year 2009 and fiscal year 2010.

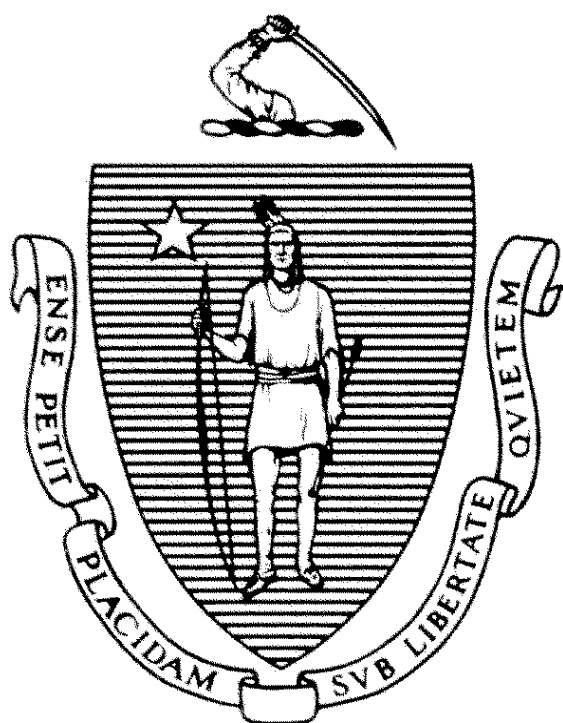
H.1 Transfer of DTA Homeless Spending to DHCD					
Objective	DTA Account	FY09 Spending		Objective	DHCD Account H.1 Spending*
Housing / Homeless Program Administration				Housing Programs	
DTA Operations	4400-1000	\$ 3,683,688		Homeless Services	7004-0100 \$ 5,699,351
Caseworkers Account	4400-1100	\$ 2,015,663			
Family Shelters and Services				Family Shelters and Services	
Emergency Asst. Program	4403-2120	\$113,439,508		Shelter and Services	7004-0101 \$ 90,519,742
Individual Homeless Assistance				Individual Homeless Assistance	
Assistance to Shelters	4406-3000	\$ 36,281,684		Shelter Programs and Services	7004-0102 \$ 37,481,684
Home/Healthy for Good	4406-3010	\$ 1,200,000			
*H.1 Spending amount is before transfer of funding to EOHED 7002-0017 CIO Account.					

Other Key Efforts Related to Housing and Homelessness

The Patrick-Murray Administration has made the protection and expansion of affordable housing for extremely low income (ELI) households a high priority. This approach has yielded significant results and key initiatives and programs continue to advance these objectives further. They include:

- **\$1.75 million for Moving to Economic Opportunity Pilot** - The Massachusetts Housing Finance Agency (MassHousing), will provide \$7 million over four years (\$1.75M per year) to support a collaborative housing venture between DTA and DHCD for rental support combined with employment assistance and an asset-building component. Up to 150 families can be placed in early 2009.
- **\$71.2 million for Operating Support to Local Housing Agencies** - Under the Governor's House 1 recommendation, subsidies to local housing authorities for the operation and maintenance of the state's 50,000 public housing units would increase by \$4.7 million from fiscal year 2009, or roughly 7 percent. The state's public housing infrastructure is the lowest cost and most effective tool in providing affordable housing to low and extremely-low income residents across Massachusetts.
- **\$35.8 million for Massachusetts Rental Voucher Program** - The House 1 recommendation provides a slight increase in the program from projected spending in fiscal year 2009. MRVP currently provides rental assistance to over 5,200 low-income households.
- **\$104 million for Repair and Restoration Projects at Local Housing Agencies** - The historic Housing Bond Bill, signed into law on May 29, 2008, authorized \$550 million for housing authorities over five years in order to repair and restore units, shore up the structural integrity of the buildings and systems, and improve the safety and living conditions for many public housing residents.

Fiscal Year 2010 MassGOALS and Policy Briefs



Effective Government





FY10 House 1 Budget Recommendation:

Policy Brief

Deval L. Patrick, Governor

Timothy P. Murray, Lt. Governor

Local Aid

Governor's Proposal

Local aid represents a substantial and important component of the Commonwealth's annual budget. Cities and towns play a fundamental role as partners to the state, providing essential services to citizens of our Commonwealth in times of fiscal health as well as fiscal stress. In the current recession, the Administration continues to prioritize supporting municipalities' ability to provide essential services by minimizing cuts to local aid and providing support for cost savings, efficiency measures and revenue diversity.

When revenues were revised sharply downward in October 2008, the Governor prioritized municipalities and property tax payers by sparing local aid completely from budgetary reductions. Only when a second significant revenue reduction was required in January 2009 did the Governor seek to share the cuts between state and local spending. Nonetheless, the Administration ensured the preservation of the \$3.948 billion of fiscal year 2009 Chapter 70 aid, thus protecting municipalities from the disruption of mid-year school aid cuts, and limited unrestricted local aid cuts to \$128 million, only 2.3% of fiscal year 2009 Section 3 local aid.

In formulating the fiscal year 2010 budget, minimizing cuts to local aid amid unprecedented fiscal challenges reaffirms the Administration's continued commitment to cities and towns. The following pages highlight the major components of Local Aid in the House 1 (H.1) recommendations including the structure of Section 3 of the budget which delineates the distribution of certain aid to cities and towns, Chapter 70, Unrestricted General Government Aid, Other Cherry Sheet funding.

Section 3

Section 3 of the Commonwealth's budget, provides each of the 351 cities and towns with the amount of local aid they are expected to receive from state General Fund dollars and/or other dedicated revenue sources. Fiscal Year 2010 Section 3 provides a different presentation than has been seen in past years and addresses some of the fiscal challenges that our Commonwealth's budget faces due to the recession.

Fiscal Year 2009 GAA Section 3 Distribution Categories

Municipality	Chapter 70 Aid	Additional Assistance	Lottery Aid Funded Through Lottery Revenues	General Fund Supplement to Hold Harmless Lottery Aid
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Fiscal Year 2010 H.1 Section 3

		NEW	NEW	NEW
Municipality	Chapter 70 Aid	Unrestricted General Government Aid	Revenues from Meals Tax Increase	Revenues from Rooms Tax Increase

Unrestricted General Government Aid is a new category this year, and will be a combination of what was previously known as Additional Assistance and Lottery Aid. These two sources of local aid are combined for a number of reasons, including:

- The original formula that Additional Assistance was based on has not been recalculated in many years.
- Only 159 out of 351 cities and towns received Additional Assistance since 1992.
- Additional Assistance appropriation has been level funded the past 6 fiscal years.

Policy Briefs

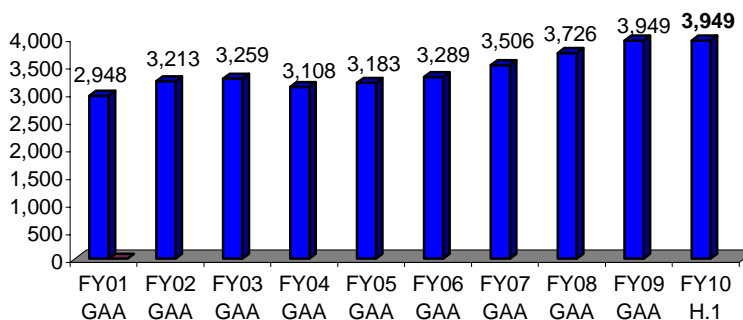
- Lottery Aid from the State Lottery Fund is a major source of revenue for all 351 cities and towns.
- Lottery revenues that support this aid distribution have not met revenue targets for the past 2 fiscal years and are expected to fall short again in fiscal year 2009.
- The combination of funds from the General Fund and Lottery revenues allows for the necessary reductions in unrestricted local aid to be done equally across all 351 cities and towns.
- Additional Assistance and Lottery are two major sources of unrestricted local aid, meaning that a municipality can spend these funds in whatever manner they are deemed necessary within the municipality's budget.

The local aid reductions and subsequent distribution, as a result of this combination of accounts, ensures an equal reduction methodology and also allows for administrative savings. In addition to the combination of these sources of funds in fiscal year 2010, the accounts are transferred to the Department of Revenue's (DOR) Division of Local Services which is the agency that administers all major local aid payments to municipalities. In fiscal year 2009, the Treasurer and Receiver-General and the Lottery Commission entered into Interagency Service Agreements (ISAs) with DOR to administer the payments. This process requires a substantial amount of paperwork and administration. In an effort to streamline these old practices, the transfer creates efficiencies.

Chapter 70

One of the Governor's most important priorities is investing in education. In a budget characterized by many deep cuts in important programs, this commitment to education is demonstrated by the decision to hold harmless Chapter 70 funding for school districts at the fiscal year 2009 General Appropriation Act level of \$3,948,824,061. The fiscal year 2009 level was an unprecedented high-water mark for Chapter 70, representing a 6% increase over the prior year and second only to the Medicaid program in both dollar and percentage growth in the entire state budget. That investment provided more aid to all 328 school districts and ensured that the growth in each district's foundation budget was supported by the state.

Chapter 70 State Aid (\$Billions)



Municipal Contribution for Education Budgets

Minimum contributions are determined in this budget in a manner to preserve the most successful elements of the traditional Chapter 70 methodology, provide some relief from the full contribution increases otherwise faced under the formula, while still moving towards greater equity in defining contributions. Ultimately, aid will be distributed in a manner consistent with the efforts of recent years. As in all previous years since 1993, the municipal contribution calculation will begin by increasing or decreasing prior year contribution by the municipal revenue growth factor. This action provides contribution relief where most needed, and recognizes the differential impact local aid cuts have on municipalities with high dependence on state aid than in those where state aid is a small part of their overall budget.

The Patrick-Murray Administration also attempts to continue the equity reform that began several years ago. Since this effort identified for us the municipalities most in need of contribution relief, we continue to place our primary focus on providing them that help. While we are not able to afford the full reductions originally

anticipated by the 5 year schedule for equity reform, we do not simply suspend the reform, but provide a 25% reduction of the required contribution towards their equity-based target. While this slows the schedule to full phase-in of the new, more equitable contributions, it does not stop it completely. The Administration remains committed to the equity goals established by recent budget action, and to the principle that municipalities of similar wealth and income should have comparable required contributions leading to equitable amounts of aid.

For those districts with required contributions under the equity-based targets, we propose a one year re-calibration that advances the movement toward equity while still providing flexibility for these municipalities to reduce their contributions in light of the larger fiscal challenges and fiscal year 2010 local aid reductions. The re-calibration will set their contributions at the lesser of their fiscal year 2010 targets, or 95% of their fiscal year 2008 actual contribution. This re-calibration will make contributions across the state significantly more equitable, while affording even these “under target contribution” communities the flexibility to reduce their actual contributions by at least 5% under their fiscal year 2008 spending level, and, in most cases, by a good deal more than that.

Unrestricted General Government Aid

It is a priority of the Patrick-Murray Administration to protect the level of funds dedicated to education during these times of economic uncertainty, especially to protect Chapter 70 aid for schools. In fiscal year 2009, Chapter 70 aid reached an all time high level of funding at \$3.948 billion, and despite the downturn of revenues for the Commonwealth, this Administration is not implementing any mid year emergency reduction and protects every dollar of that aid in fiscal year 2010. However, to achieve budgetary balance in fiscal year 2010, House 1 reduced \$375 million from unrestricted local aid, which is a 7.1% reduction to fiscal year 2009 total Section 3 aid. The analysis of the initial results of the reduction from municipal budgets, while maintaining the school aid for budgets, was unsettling, with some communities losing over 20% of their Section 3 aid. This loss would devastate communities that rely heavily on state aid. Therefore, our methodology is directed at mitigating the impact of the reduction to Section 3 education and unrestricted local aid to no greater than a 10% loss for any municipality.

Additional Revenue Sources for All Municipalities

The Governor’s House 1 budget also includes two enhanced revenue sources for municipalities that serve to mitigate the reductions that are necessary for fiscal year 2010 budget. These revenues will be generated from an increase of 1% on the statewide meals and hotel/motel room occupancy excises. In the event that these revenues do not materialize to the amounts listed in Section 3 of the budget, the General Fund will cover the amounts listed. Likewise, if revenues exceed these amounts, the Commonwealth can work to distribute funds on a fair and predictable basis to municipalities.

Policy Briefs

Fiscal Year 2010 Aid Distributions

The following is a summary of Section 3 totals as compared to fiscal year 2009 and a breakout of the methodology utilized to reduce the fiscal year 2010 budget:

	PROGRAM	FY09 GAA	FY2009 9C Reductions	FY2010 H.1	FY2010 H.1 - FY2009 GAA	% Change
Section 3	Chapter 70	\$ 3,948,824,061	\$ -	3,948,824,061	\$ -	0.00%
	Lottery*	\$ 935,028,283	\$ (91,114,887)	\$ 944,836,706	\$ (368,709,565)	-28.07%
	Additional Assistance*	\$ 379,767,936	\$ (36,885,113)			
	Meals Tax Revenues			\$ 125,000,000	\$ 125,000,000	100.00%
	Rooms Tax Revenues			\$ 24,247,706	\$ 24,247,706	100.00%
	TOTAL	\$ 5,263,620,280	\$ (128,000,000)	\$ 5,042,908,473	\$ (219,461,859)	-4.17%

* Consolidated into new account FY2010: Unrestricted General Government Local Aid

The Administration recognizes that cities and towns rely heavily on State Aid to support all areas of local Government from schools to critical public safety and other spending as well as to manage the local property tax burden. Reductions in local aid are unavoidable in the current economic climate, however, the Administration worked to mitigate these reductions (see above) and implemented them so that each community reduction is no more than a 10 percent loss in fiscal year 2010 total Section 3 local aid.

REDUCTION METHODOLOGY

FY09 GAA			FY10 - Without Local Aid Assistance	
Chapter 70	\$3,948,824,061	}	Chapter 70	\$3,948,824,061
Additional Assistance	\$378,517,988		Unrestricted General Government Aid	\$938,546,271
Lottery	\$810,875,000		Total Pre-Local Aid Assistance	\$4,887,370,332
General Fund Lottery Supplement	\$124,153,283			
TOTAL FY09 Section 3 Aid	\$5,262,370,332			

In FY10, the Additional Assistance and Lottery accounts are combined. Without Local Aid Assistance, the Local Aid budget is reduced by \$375 million or 7.1% below FY09.

FY10 - Without Local Aid Assistance	
Chapter 70	\$3,948,824,061
General Government	\$938,546,271
Total Pre-Local Aid Assistance	\$4,887,370,332
1% Meals Tax	\$125,000,000
1% Hotel/Motel Tax	\$24,247,706
Mitigation Aid for >10%	\$6,290,435
Total Local Aid Assistance	\$155,538,141
Total with Local Aid Assistance	\$5,042,908,473

With Local Aid Assistance, \$156 million is mitigated bringing the Local Aid Budget to 4.2% below FY09 ensuring that all Communities Local Aid budget are reduced by < 10%.

Other Cherry Sheet Aid to Cities and Towns

The following chart displays all operating accounts that appear on cherry sheets which serve as the official notification by the Commissioner of Revenue to municipalities and regional school districts of estimated state aid to be paid and charges to be assessed over the next fiscal year.

	PROGRAM	FY09 GAA	FY2009 9C Reductions	FY2010 H.1	FY2010 H.1 - FY2009 GAA	% Change
Section 3	Chapter 70	\$ 3,948,824,061	\$ -	3,948,824,061	\$ -	0.00%
	Lottery*	\$ 935,028,283	\$ (91,114,887)	\$ 944,836,706	\$ (368,709,565)	-28.07%
	Additional Assistance*	\$ 379,767,936	\$ (36,885,113)			
	Restaurant Excise			\$ 125,000,000	\$ 125,000,000	100.00%
	Room Occupancy (Hotel) Excise			\$ 24,247,706	\$ 24,247,706	100.00%
Operating Accounts	Veterans Benefits	\$ 20,904,223	\$ -	\$ 27,864,017	\$ 6,959,794	33.29%
	Vet, Surv, Blind Exempt**	\$ 17,241,130	\$ -	\$ 25,181,475	\$ (1,950,000)	-7.19%
	Elderly Exempt**	\$ 9,890,345	\$ -			
	State Owned Land	\$ 30,300,000	\$ -	\$ 30,300,000	\$ -	0.00%
	Charter School Reimbursements	\$ 79,751,579	\$ -	\$ 79,751,579	\$ -	0.00%
	School Lunch	\$ 5,426,986	\$ -	\$ 5,426,986	\$ -	0.00%
	Reg. School Transportation	\$ 61,300,000	\$ -	\$ 53,300,000	\$ (8,000,000)	-13.05%
	Reg. Public Library	\$ 17,166,071	\$ -	\$ 14,705,068	\$ (2,461,003)	-14.34%
	Public Libraries	\$ 9,989,844	\$ -	\$ 8,557,657	\$ (1,432,187)	-14.34%
	Police Career Incentive	\$ 50,202,122	\$ -	\$ 42,202,122	\$ (8,000,000)	-15.94%
	Local Share Racing Tax	\$ 1,592,000	\$ -	\$ 1,179,000	\$ (413,000)	-25.94%
	TOTAL	\$ 5,567,384,580	\$ (128,000,000)	\$ 5,331,376,377	\$ (234,758,255)	-4.22%

* Consolidated into new account FY2010: Unrestricted General Government Local Aid

**Consolidated into new account FY2010: Tax Abatements for Veterans, Widows, Blind Persons and the Elderly

Payment in Lieu of Taxes on State Owned Land (PILOT): Many cities and towns that house state property, such as facilities or office buildings, do not benefit from the property tax revenue associated with these properties. To ease this burden, the PILOT program was established to partially reimburse cities and towns for this revenue loss. Over the past two fiscal years, the Patrick-Murray Administration increased the PILOT program by \$5 million and maintains that increase confirming the Administration's commitment to ease the local property tax burden.

Full Funding for Veterans' Benefits: The budget increases Veterans' benefits by \$6.9 million to \$27.8 million, reflecting anticipated caseload increases in this needs-based program for fiscal year 2010 and our obligations to cities and towns for veterans who are entitled to benefit payments.

Library Funding Waivers: The Governor's budget removes the cap on the number of waivers that the Board of Library Commissioners can grant in fiscal year 2010 to libraries not meeting certain funding requirements, enabling libraries to maintain certification and access popular regional library lending networks at a time when more local residents are turning towards libraries as a resource.

School Lunch Program: The budget maintains fiscal year 2009 funding of \$5.4 million for the school lunch program, which plays a critical role in ensuring that all children are ready to learn by supporting nutritionally balanced, low-cost or free lunches to eligible children each school day. At \$5.4 million, this account leverages over \$150 million in federal funds in fiscal 2009 and will continue to leverage important federal dollars in fiscal year 2010.

Other Programs at Reduced Levels: In some cases, including property tax abatement accounts for qualifying residents, these reductions reflect expected spending at the local level. In others (Police Career Incentive, public libraries, regional school transportation), cuts have been made to help achieve budgetary balance.



**FY10 House 1 Budget Recommendation:****Policy Brief**

Deval L. Patrick, Governor

Timothy P. Murray, Lt. Governor

Information Technology Consolidation

Governor's Proposal

The economic recession has compelled states to maximize economies of scale and evaluate current management practices in order to adopt a more efficient way of doing business. Recognizing the trend toward Information Technology (IT) consolidation to reduce costs, enhance data-security and improve data-sharing, Governor Patrick will issue an Executive Order *"Regarding the Enhancement of the Efficiency and Effectiveness of the Information Technology used by the Executive Department,"* to consolidate IT spending at the Secretariat level, including networks, data centers and shared applications. The Governor's fiscal year 2010 H.1 Budget reflects the results of the consolidated budgets.

IT Consolidation

The Patrick-Murray Administration's transition team reported that the Commonwealth's current decentralized IT management and funding structure is inefficient in many ways. In response, IT leaders from across the Commonwealth collaborated in developing the *IT Strategy for the Commonwealth: 2009-2011*. The plan identified Secretariat consolidation as one of seven key initiatives that must be pursued to build the foundation for the Commonwealth's technology future. The goals of Secretariat consolidation are to: align Secretaries' IT resources with their business strategies and priorities; standardize IT resources and create efficiencies; and align Secretariat IT plans with the Commonwealth IT Strategic Plan.

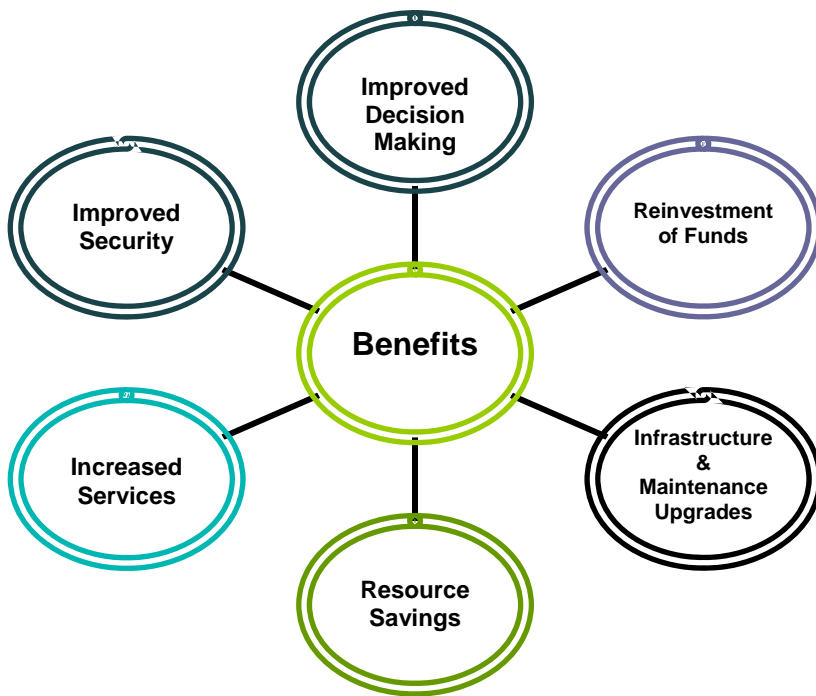
As a result of secretariat consolidation, eight Secretariat Chief Information Officers (SCIO) will be appointed with authority over all IT spending, including personnel. Additionally, an annual IT plan must be submitted to the Commonwealth's Chief Information Officer (CCIO) to ensure consistency with statewide IT goals and a focus on efficiency and cost savings. As part of the aggressive line-item consolidations proposed in H.1, this plan will transfer IT-related funding that is currently spent in **183** budgetary accounts into eight budgetary accounts and funding from **318** off-budget accounts, including retained revenue, trust, chargeback and federal accounts, will consolidate to eight Intragovernmental Service Fund (ISF) accounts for each secretariat.

Secretariat	IT Spending		FY10 Spending		New Secretariat Budgetary/ISF Accounts
	Budgetary	Off-Budget	Budgetary	Off-Budget	
Administration & Finance	20	27	\$ 32,689,322	\$ 20,771,507	1100-1700/1701
Energy & Environmental Affairs	32	74	\$ 9,822,648	\$ 4,841,523	2000-1700/1701
Housing & Economic Development	14	26	\$ 3,457,977	\$ 3,924,404	7002-0017/0018
Education	18	15	\$ 8,940,159	\$ 1,975,782	7009-1700/1701
Labor & Workforce Development	5	28	\$ 306,664	\$ 19,041,403	7002-0170/0171
Health & Human Services	70	110	\$ 94,393,156	\$ 32,704,589	4000-1700/1701
Public Safety	19	30	\$ 22,103,875	\$ 12,316,836	8000-1700/1701
Transportation & Public Works	5	8	\$ 6,738,987	\$ 10,362,132	6000-1700/1701
Total	183	318	\$ 178,452,788	\$ 105,938,176	

The Governor's plan also includes an infrastructure consolidation plan, which requires the CCIO to develop and implement a two-year plan to consolidate data/telecommunication networks, data center services, website hosting and portal services, and shared enterprise services.

Benefits of a Successful Consolidation

A successful consolidation will streamline IT operations to reduce costs, improve data-security and enable agencies to provide efficient and easily accessible services for all constituents. Additional benefits include:



Improved Service Delivery – Citizens increasingly expect a seamless experience when dealing with government. Secretariats will be able to more easily create a single point of entry for multiple services from multiple agencies.

Improved Decision-Making – Accurate and timely data on our IT systems will enable better decisions and strategies to manage the Commonwealth’s increasingly complex IT resources.

Reinvestment of Funds – Cost savings will enable Secretaries to reallocate resources to address immediate needs or create long-term benefits.

Infrastructure and Maintenance Upgrades – By simplifying our networks and standardizing our systems, the Commonwealth will be able to better monitor, maintain and upgrade major systems.



FY10 House 1 Budget Recommendation:

Policy Brief

Deval L. Patrick, Governor

Timothy P. Murray, Lt. Governor

Use of One-Time Resources

Governor's Proposal

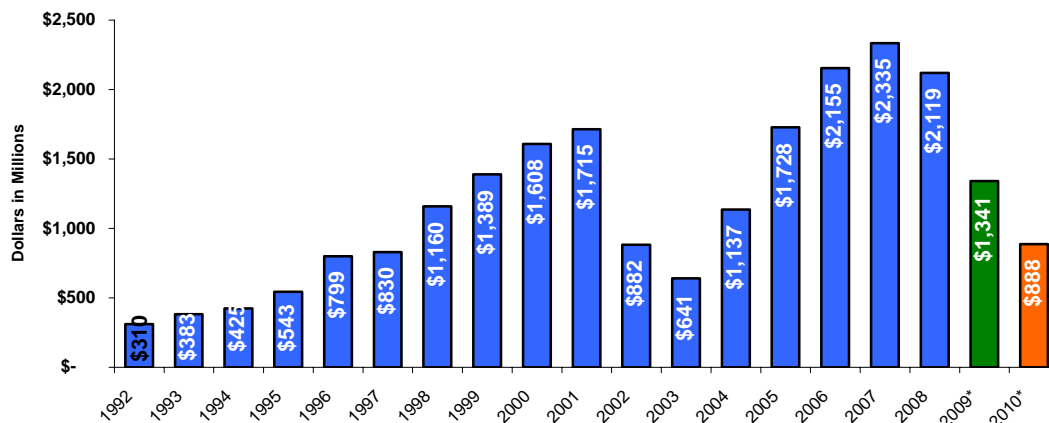
In balancing the most challenging budget in decades, the Administration is proposing to use one-time resources from the State's Stabilization Fund and from anticipated federal aid that the Governor and his Administration have been actively advocating for in Washington. The total amount of one-time revenue sources used to solve a combined fiscal year 2009 and 2010 budgetary shortfall of nearly \$6 billion is \$2.6 billion (\$1.4 billion in fiscal year 2009 and \$1.2 billion in fiscal year 2010). The Administration believes the level of one-time resources to support budgetary spending in the current fiscal context strikes the right balance between building a bridge to economic recovery and increased state tax revenue and exercising the restraint necessary to ensure that the Commonwealth's persistent structural budget deficit is not compounded by when we are in an environment of economic growth once again.

Stabilization Fund

For fiscal year 2010 the Governor's budget proposal includes a \$489 million transfer from the Stabilization Fund. It also includes suspending the annually required deposit into the Stabilization Fund, saving an additional \$97 million.

The following table shows the amount on deposit in the Stabilization Fund at the end of each of the last 16 fiscal years and the projected ending balances for fiscal years 2009 and 2010.

Massachusetts Stabilization Fund Ending Balances



* FY09 and FY10 Stabilization Fund totals are estimates based on current revenue projections and the Governor's budget proposal.

As illustrated, the Stabilization Fund provided critical support in maintaining state services the last time the Commonwealth experienced declining tax revenues in the face of an economic downturn.

Overall, the Administration plans to use \$1.4 billion in Stabilization Funds over fiscal years 2009 and 2010. For fiscal year 2009, \$601 million has already been authorized and an additional \$325 million is recommended to help close the remaining shortfall. The fiscal year 2010 budget will rely on an additional \$489 million, not including the suspension of the statutorily required deposit. At the end of fiscal year 2010, the balance of the Stabilization Fund will be approximately \$850 - \$888 million, depending on investment earnings.

Federal Recovery Assistance

The federal aid amounts included in the fiscal year 2009 and 2010 budget blueprints are based on current projections of temporarily enhanced federal Medicaid-matching FMAP (Federal Medical Assistance Percentage) funds that will be available to Massachusetts in those years. The estimates are conservative in that they do not assume any other federal aid that the Commonwealth is likely to receive under the federal economic recovery bills pending in Congress.

The Governor and his Administration have been active participants in the formulation of the federal recovery plan and Massachusetts is well-positioned to receive additional funding to support critical programs that help protect key functions of government and build a bridge to a better economy. Given the unprecedented nature and size of the projected budget deficit, the Governor has proposed to use some of this funding to help avoid deeper cuts in critical programs and services. Among several types of federal stimulus under consideration, the FMAP is the aid that is likely to be received earliest and with the most flexibility to address the immediate challenges faced in this budget.

The most recent version of the federal bill pending in the House provides approximately \$87 billion in FMAP funding. Based on our reading and understanding of the bill, Massachusetts could receive between \$1.5 and \$1.7 billion in additional FMAP over the 27-month period beginning in October 2008 and ending in January 2010. Thus, we expect 9 months of funding to be available during fiscal year 2009 and a full 12 months would be available during fiscal year 2010. Consistent with this expected cash flow, the Administration plans to use \$1.244 billion (of the projected \$1.6 billion) of FMAP funds over fiscal years 2009 and 2010. The fiscal year 2009 budget will rely on \$533 million and the fiscal year 2010 budget will use \$711 million. The balance of FMAP funds, approximately \$335 million, would be received during fiscal year 2011.

Relying on Federal Aid for Fiscal Years 2009 and 2010

The decision to rely on federal aid to help close the projected shortfalls in fiscal years 2009 and 2010 was carefully considered. In reviewing the proposed federal package, and knowing the types of aid had been given to states in prior economic downturns, it was decided that the FMAP portion of the federal aid would be the most prudent funding to rely on in developing our solutions to the in fiscal year 2009 and 2010 shortfalls. The Administration also recognizes the risk involved in relying on certain types of federal aid based on draft legislation that has not been signed into law. That is why the use of federal aid has been limited to only the FMAP portion - we do not rely on any of the other types of aid being considered. In the event the amount of federal aid received is less than what is assumed in the budget solutions, the remaining balance in the Stabilization Fund could be used.

Balances Remaining for Future Fiscal Years

The amount of federal aid and stabilization funds used in solving the fiscal year 2009 and 2010 shortfalls has been calibrated to ensure that the amounts used in 2010 are less than what is being used in fiscal year 2009. This places a greater emphasis on cuts, savings and revenues to balance the fiscal year 2010 budget – solutions that have longer term benefits.

It was also important to ensure that one-time resources available at the end of fiscal year 2010 would be equal to or greater than the amounts used in balancing the fiscal year 2010 budget. The FMAP balance of \$355 million, when combined with the projected \$850 million Stabilization Fund balance at the end of fiscal year 2010, will ensure that we have the equivalent levels of reserves in fiscal year 2011 that were used in 2010. This budgeting policy essentially sets a ceiling for what should be considered the maximum amount of one-time resources that could responsibly be used in fiscal year 2010.

Combined Use of Federal Aid and Stabilization Funds	Beginning Balance	FY2009 October	FY 2009 January	FY2010	Funds Remaining for FY2011
Federal stimulus funds (anticipated FMAP Funding)	\$ 1,600		\$ (533)	\$ (711)	\$ 356
Stabilization Funds*	\$ 2,262	\$ (601)	\$ (327)	\$ (489)	\$ 845
Total Use of One-time Resources:	\$ 3,862	\$ (601)	\$ (860)	\$ (1,200)	\$ 1,201

* included \$100 million deposit planned for fiscal year 2009

Cuts Avoided Through the Use of Additional Resources

Over-reliance on one-time revenues to balance the budget in the near-term can lead to further cuts down the road. It is therefore important to strike the right balance between cuts and the use of reserves. Judicious use of reserves avoids misguided cuts that would dismantle needed programs and services and helps bridge us to a better economy. The chart below shows the cuts avoided in fiscal year 2010 through our measured use of reserves: Stabilization Funds were used to avoid cuts across state government and FMAP funds were used to avoid cuts primarily to health care and human services related expenditures.

		Cuts Avoided in FY10 Through Use of Additional Resources	
Government Area Name	House 1	Federal Aid (FMAP)	Stabilization (Allocated in Proportion to Total Budget)
Judiciary	751,648,512		(34,283,776) -7.0%
District Attorneys	93,070,798		(4,245,094) -0.9%
Sheriffs	552,950,917		(25,220,891) -5.2%
Debt Service	2,172,114,214		
Lottery	96,664,701		(4,409,017) -0.9%
Other Constitutionals	177,413,648		(8,092,093) -1.7%
Legislature	59,659,898		(2,721,174) -0.6%
Total Non-Executive	3,903,522,688		
Administration and Finance	345,124,990		(15,741,650) -3.2%
Group Insurance	1,035,335,228	(45,354,787) -4.4%	
Energy & Environmental Affairs	223,752,800		(10,205,689) -2.1%
Health and Human Services*	4,778,183,925	(105,631,856) -2.2%	(217,939,879) -44.6%
Mass Health	8,970,235,518	(560,013,357) -6.2%	
Transportation	183,888,384		(8,387,415) -1.7%
Housing & Economic Development	351,286,119		(16,022,668) -3.3%
Labor & Workforce Development	65,076,364		(2,968,227) -0.6%
Education	2,028,664,672		(92,530,329) -18.9%
Public Safety	1,013,607,379		(46,232,098) -9.5%
Total Executive	18,995,155,379		
Chapter 70	3,948,824,061		
Local Aid*	1,125,634,360		
Total Local Aid	5,074,458,421		
Total H1 Spending:	27,973,136,488	(711,000,000)	(489,000,000)

*Additional revenues totaling approximately \$300M have been proposed to avoid further cuts in these departments.





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Federal Single Point of Contact

Governor's Proposal

In this time of economic downturn the Commonwealth realizes the importance of securing and properly utilizing federal stimulus, grants and all federal funding that the state is eligible to receive. Federal Executive Order 12372 "Intergovernmental Review of Federal Program" encourages states to utilize in a Single Point of Contact (SPOC) for federal funding oversight. In fiscal year 2010 the Commonwealth will join other states by establishing a Single Point of Contact (SPOC) unit. Governor Patrick's fiscal year 2010 budget establishes a new administrative SPOC unit within the Executive Office for Administration and Finance (ANF) to monitor and track federal assistance to executive agencies. Some of the examples of federal assistance that will be examined include: grants, Federal Medical Assistance Percentages (FMAP) reimbursement, entitlement programs, any economic recovery stimulus funds and other reimbursement. ANF will work with the Comptroller and the Treasurer and Receiver-General to draw down funds in accordance with the Cash Management Improvement Act, which requires that all draws of federal funds must be processed through the Commonwealth's automated central draw process.

The Commonwealth's SPOC unit will help to address inefficiencies and duplications of effort between state agencies. Currently, over 900 employees throughout the state apply for and administer federal grants. The fiscal year 2009 General Appropriation Act (GAA) included \$2.1 billion in federal grants and there is an expectation that grant funding will continue into fiscal year 2010. In the fiscal year 2010, House 1 (H.1) budget federal grants account for \$2.3 billion, approximately 7% of the total state budget. Furthermore, the state receives over \$7 billion in federal revenues to support the state budget. In addition, the funding coming through the anticipated federal stimulus package will need to be managed very carefully. In order to better track, monitor and spend federal funding, this unit will work collaboratively with grant staff already working in executive agencies to ensure proper use of and compliance with federal funding.

Massachusetts Current Federal Grant Work

There are varying levels of need to support federal funding within specific departments; for example, the Department of Public Health (approximately \$264.8 million in FY10 federal grant funding) may need more support than the Department of Revenue (approximately \$232,000 in federal grant funding). Currently, ANF issues an administrative bulletin that describes the process for grant approval. ANF Bulletin number 3 Federal Grant Administration (ANF 3) outlines the process for identifying federal grant funding. However, creating the SPOC unit will give us the resources to more thoroughly review, research and track federal funding streams.

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

- **Maximizing Federal Revenue**

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

- **Ensuring Compliance**

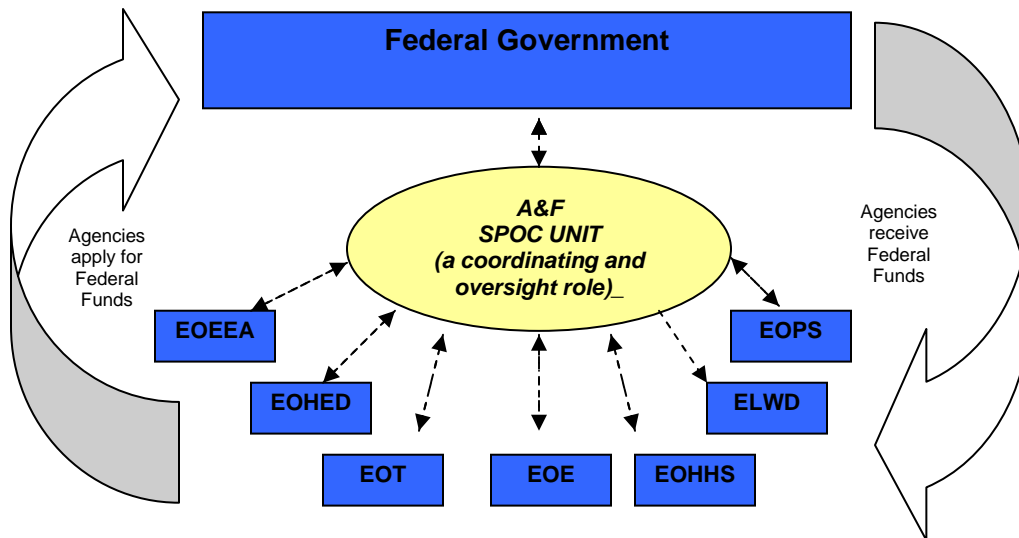
As the Administration works through fiscal challenges, ensuring that grant obligations are understood and properly implemented is critical to avoid audit findings and loss of funding. This includes reviewing match requirements to ensure affordability and compliance with all federal requirements.

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

Match requirements and the life of a federal grant must be carefully considered to ensure that a program, once developed and accessed by consumers, can be sustained. Funding from any source is accompanied

with some uncertainty but as the State and Federal government look for savings, these critical elements must be considered when accessing grants.

The SPOC unit will be funded through fringe benefit charges collected by the comptroller and assigned to reserve item 1599-5050.





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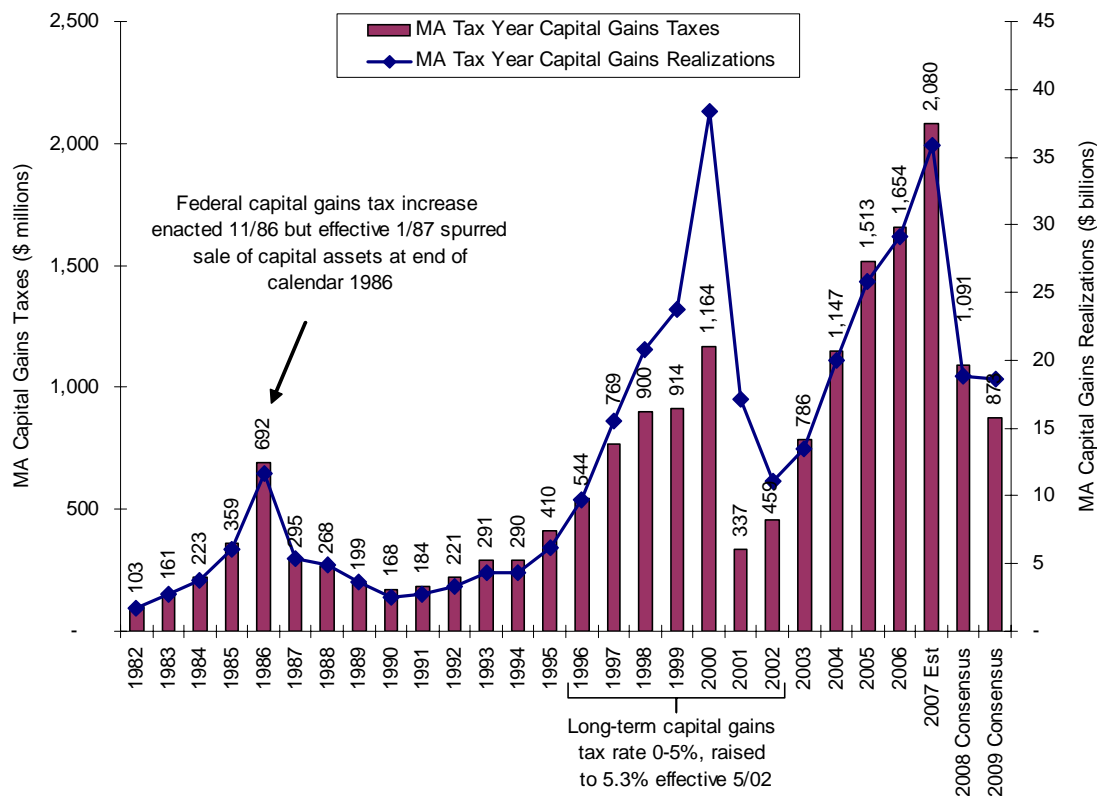
Budgetary Treatment of Capital Gains

Commonwealth's Reliance on Capital Gains

State governments and budgets are always subject to the ups and downs of the economic cycle. Massachusetts is no exception. The current economic crisis demonstrates that the volatility of the Commonwealth's budget is exacerbated by its over-reliance on capital gains tax revenues to support spending. The fiscal year 2010 budget includes a proposal to reform the way the Commonwealth budgets against capital gains tax revenues to promote fiscally sound budgeting practices and curb the problem of recurring structural deficits.

Capital gains are the state's most volatile tax revenue source. Based on tax year 2000 rates, these tax revenues declined \$829 million – or 71 percent – from 2000 to 2002. They are expected to decline by about \$1.3 billion from fiscal year 2008 to fiscal year 2010. In between these fiscal crises, capital gains revenues grew substantially. Capital gains tax revenues increased each year between fiscal year 2003 and 2008. After adjusting for changes in the capital gains tax rate, capital gains tax revenues in fiscal year 2008 were almost \$1.4 billion higher than in fiscal year 2003 and accounted for about 25 percent of tax revenue growth over that time. While some of these gains were used to replenish the balance in the state's Stabilization Fund, there was not a formal policy guiding the use of these additional revenues. In fact, during years of extremely strong growth in capital gains revenues, the state used most of those revenue to make spending commitments – resulting in structural budget deficits when capital gains revenues moderate and requiring extreme cuts when they plummet.

Capital Gains Taxes, Tax Years 1982 to 2009

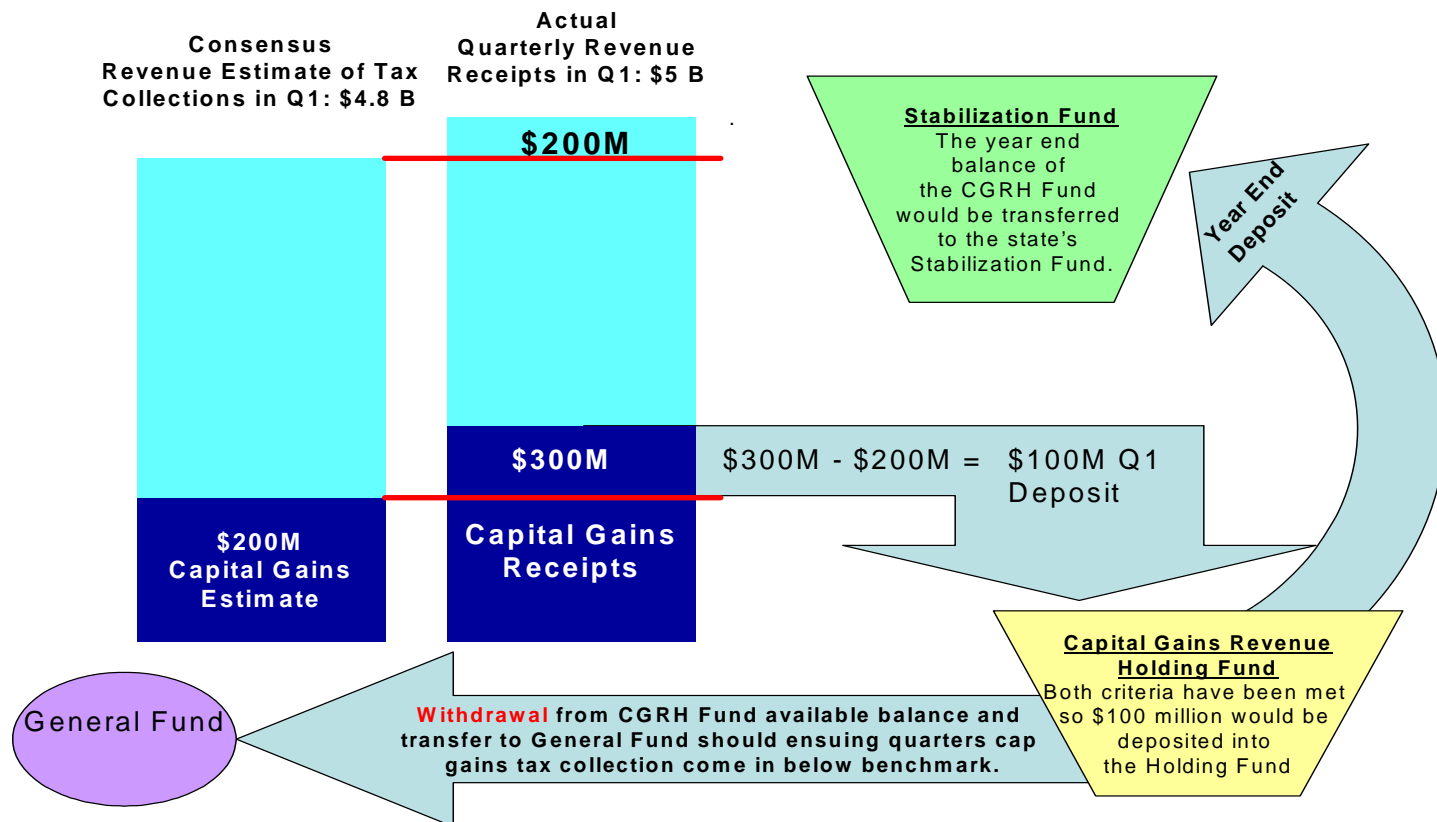


The Governor's H.1 Recommendation - Capital Gains Revenue Holding Fund

To address this problem, the fiscal year 2010 budget establishes a new mechanism for budgeting for capital gains revenues. As one element of the yearly consensus revenue process, the Governor and Legislature would agree on a maximum amount of capital gains tax revenues that would be included in the overall consensus revenue estimate. This amount would be based not simply on short-term projections but also *longer-term* trends in capital gains – and how best to account for them in yearly projections. On a quarterly basis, the Department of Revenue would estimate year-to-date capital gains tax revenues.

Capital Gains Revenue Holding Fund

(Estimates are for the purposes of illustration and are not official)



Criterion 1

Quarterly Department of Revenue estimate must show that tax revenues, in total, exceed the quarterly benchmark.

Criterion 2

Capital gains income tax revenue must exceed the agreed upon benchmark, according to quarterly estimates by the Department of Revenue.

If (i) these quarterly estimates exceed the related year-to-date maximum capital gains tax benchmark, as determined by the consensus tax revenue estimate benchmark, and (ii) total year-to-date tax revenues exceed the related consensus tax revenue estimate, the excess capital gains revenue will be transferred to the new Capital Gains Revenue Holding Fund. If any quarterly estimate of year-to-date capital gains revenue is less than the related year-to-date capital gains consensus estimate, the Comptroller is authorized to transfer any amounts on deposit in the CGRH Fund to the General Fund to cover the shortfall. Any amount on deposit in the CGRH Fund following the last certification of quarterly capital gains tax revenues for the related fiscal year by the Department of Revenue will be transferred to the Stabilization Fund. These deposits of excess capital

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





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Account Consolidations

Governor's Proposal

In light of the challenges faced by state agencies during these difficult economic times, Governor Patrick's House 1 (H.1) recommendation proposes significant line item consolidations that change the presentation of the budget. This structure is not meant to disguise the significant reductions in agency budgets, a reality we readily acknowledge. Rather, it is meant to provide maximum flexibility for Secretariat and Agency heads to manage within limited resources.

Traditional Structure has Built-in Delays

The fiscal year 2009 General Appropriation Act (GAA) funded 849 separate line items within 127 departments. This traditional structure restricts spending from an item to only those programs that are funded from it – funding cannot be shifted to other programs. If a program's needs are projected to exceed the funding available (called a "deficiency"), a supplemental budget request is filed by the Governor and approved by the Legislature. The deficiency request effectively transfers extra ("surplus") funding from other accounts to the deficient account. However, it takes time for the Governor to prepare a supplemental budget request and then for the Legislature to review and approve it. This makes it extremely difficult for department heads to know whether they should take action to reduce expenditures – through layoffs or reduced services – or whether the current level of service will be supported by a supplemental budget.

A Consolidated Line-Item Approach Helps during Financial Difficulty

In good times, deficient areas are limited in number, and surpluses may exist to address them. During challenging years like fiscal year 2010, there will likely be hundreds of deficiencies, requiring hard decisions by agency managers. Also, revenue is declining rather than increasing, so a supplemental budget may not be an appropriate remedy. Uncertainty compounds the problem: it is simply impossible to accurately predict the exact needs of individual programs as the economic condition continues to evolve. The reductions to agency budgets included in the H.1 recommendations will continue to be evaluated over the coming months and final plans will be developed for individual programs, services and employee levels. In developing their plans to live within these budget constraints, managers will be tasked with evaluating programs and services based on need and priority. The flexibility of a consolidated line-item structure to move funds from one program or service to another will be essential to this effort. Continued adherence to the traditional line-item structure restricts agencies' ability to respond to changing economic circumstances and risks creating an over-reaction due to the inevitable delay in reviewing supplemental budget requests.

Account Summary

FY09 GAA	849 Line Items
FY10 H.1	480 Line Items
Result:	369 Fewer Line Items

A Step Closer to a Larger Change in How the Commonwealth Develops a Budget

Over the past 2 years, Governor Patrick has worked with his Cabinet to explore opportunities for a more efficient way to develop the annual budget. Those discussions have focused on developing budgets based on programs rather than individual line items, which are inconsistent in that they fund partial or multiple programs. The line-item approach, although comfortable since it is familiar, does not allow for agencies to develop their budgets based on programs and priorities. These consolidations are a step in that direction.





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Administration and Finance Efficiencies

Governor's Proposal

The Executive Office for Administration and Finance (A&F) launched its second round of efficiencies meetings dedicated to defining new initiatives that will help state government become more stream-lined and effective. Thirteen agencies were asked to participate and submitted a combined total of fifty-five proposals that either identified cost-savings opportunities; applied best management practices; or positively impacted policy initiatives. The participating agencies were divided into two working groups that met on a monthly basis. All of the agencies offered thoughtful and purposeful solutions to improving common work-place practices. A few key initiatives captured the type of "game-changing" opportunities needed to successfully navigate through what has proven to be a very challenging fiscal environment.

Cost-Savings Initiatives

CD-ROM Recording System

The Civil Service Commission (CSC) invested in a new CD-ROM recording system as part of their efficiencies. Currently, all hearings are recorded on audio cassette tapes. When a party requests a copy of the tapes, the process of having someone retrieve and mail it is inefficient, costly and time-consuming. The new CD-ROM system has a higher recording capacity and all parties can receive a copy at the conclusion of the hearing, thus eliminating an unnecessary administrative process and increasing the department's productivity. IT bond funding will be used to purchase additional CD-ROMs for the Division of Administrative Law Appeals (DALA) and possibly the Appellate Tax Board (ATB).

Massachusetts Information Technology Center (MITC) Study

In fiscal year 2008, an independent contractor conducted an assessment of the MITC building and recommended ways to maximize the use of building space and implement cost savings. The November 2008 study identified key areas for improvements in security, data center capacity and overall management of building systems which support the facility. The results of the study will be used to make necessary improvements to the MITC data center as well as assist in the first stage of planning for a second, more energy-efficient data center.

Maximizing Prompt Pay Discounts

Beginning in fiscal year 2007, the Office of the Comptroller (OSC) launched a prompt pay discount program that built certain discounts into our vendor contracts to encourage agencies to process their bills quickly in order to take advantage of the discount terms offered. In fiscal year 2007, \$2.29 million worth of discounts were taken; \$3.37 million in fiscal year 2008; and already \$1.86 million in the first six months of fiscal year 2009. The Comptroller's office continues to work with agencies to identify areas where discounts are not being maximized, and offers management reports on a regular basis to highlight areas in which savings were taken and to identify new opportunities for savings.

Vendor Receivable Audit

A contingency-based contract agreement was signed in November 2008 to complete an audit of vendor receivables for credits owed to the Commonwealth. Accounts receivable audits examine vendor documentation to determine if credits are owed to the Commonwealth. Although this type of audit is conducted in the private sector, this is the first of its kind for government. It is expected that this service will allow the Commonwealth to recover over-billings, taxed purchases and other charges incorrectly imposed on state departments. This section will be filed in a technical bill along with the Governor's H.1 recommendations.

WebFile for Income Tax Filing Program

For the upcoming tax filing season, the Department of Revenue (DOR) created an online filing program which allows most taxpayers who file basic tax returns to file their income taxes conveniently, securely and at no cost using the Department's WebFile program. The goal of this initiative is to drive down the number of paper filings, thus decreasing the administrative cost associated with processing paper returns; to provide the Commonwealth's citizens with access to a system that saves them time and money; and to provide the Commonwealth with a more eco-friendly approach to doing business. For more information about WebFile, visit DOR's website at: www.mass.gov/dor.

Best-Management Practices

Implementation of Energy-Efficient Measures

In September 2008, the Bureau of State Office Buildings (BSB) was presented with the Commonwealth's Leading by Example Award for implementing energy-efficient management practices. Measures, such as lighting control systems and use of utility rebates, have met the tenets of Executive Order No. 484 and earned the Commonwealth approximately \$400,000 in savings.

Information Technology Consolidation

Along with H.1, Governor Patrick has signed an Executive Order that fully supports the Information Technology Division's (ITD) proposal to consolidate all Information Technology spending and infrastructure within the Executive Branch. Each Secretariat will have all IT-related funding consolidated in an account to be managed and allocated by the Secretariat Chief Information Officer. The goal is to coordinate and strategically plan for IT spending statewide by working at the Secretariat level and with the Commonwealth's Chief Information Officer. (See policy brief entitled Information Technology Consolidation)

Operation Services Management Fee

The Operations Services Division (OSD) will charge a 1% administrative transaction fee to all statewide contract vendors based upon their gross sales to Commonwealth agencies. The revenues generated will be deposited into an Operational Services Trust Fund and will be used over time to supplant OSD's General Fund appropriation received through the budget. (See policy brief entitled Statewide Contracts Administrative Fee)

Small Business Program

In fiscal year 2008, the Operational Services Division (OSD) solicited proposals from business consultants to establish a comprehensive small business purchasing program for the Commonwealth. The goal of the program is to serve the small business community in Massachusetts by providing opportunities to do business with state and local governments through purchasing and/or contracting of goods and services, and most importantly, to provide an economic boost to the Commonwealth by increasing the value and number of state contracts awarded to small businesses, including women and minority-owned businesses. To date, phase 1 of this project has been completed and recommendations on the proposed Small Business Purchasing Program were presented to A&F and the Governor's Office in October 2008. OSD hopes to use the revenues generated from its new 1% Administrative Fee to support programs under its purview, such as the Affirmative Market and Small Business Programs.

Policy Initiatives

Surplus Property Bill

In conjunction with the fiscal year 2010 H.1 recommendations, a companion bill has been filed related to the disposition of Surplus Property. The bill was proposed by an inter-agency working group, chaired by Lieutenant Governor Timothy Murray, and it establishes a new, expedited process for disposing of surplus state real property based on smart growth land use policies. It provides for state-owned properties which are no longer needed for state purposes to be used for municipal purposes or for economic development, affordable housing, and other uses. (See policy brief entitled Surplus Property Legislation)

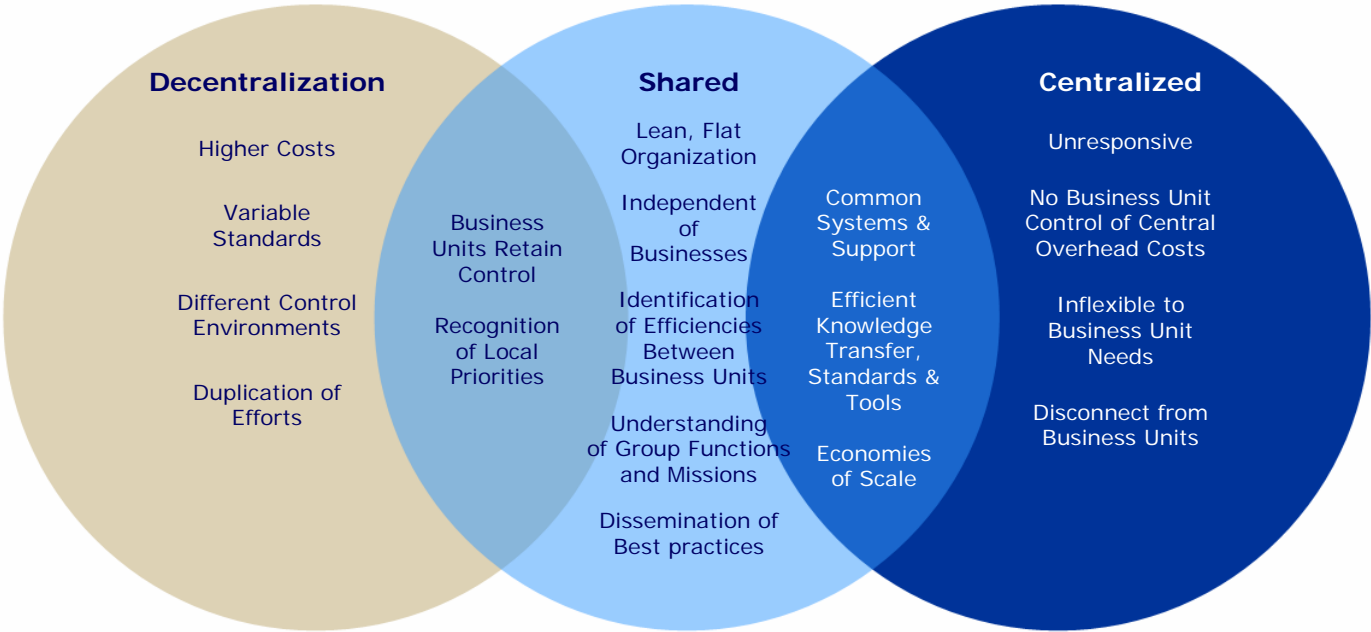


Governor’s Proposal

In difficult economic times it is imperative that our state agencies are provided with the tools and flexibility to operate within budget constraints. One tool that many Secretariats are beginning to employ is shared services or processing. Section 4 of the Governor’s budget authorizes each Secretariat to consolidate their core administrative functions. While this proposal does not alter existing reporting lines or decision making, it does allow each Secretary the discretion to decide which services can become shared, and where these services will be housed. The shared services model eliminates redundant processes and systems while allowing agencies to focus resources on the direct services they provide to the public and other stakeholders.

Governor Patrick’s proposal differs from typical centralization plans by focusing more on service delivery, rather than the control and structure of the staff providing services. A separate recommendation to consolidate the state’s information technology systems is also included in the Governor’s budget. The Governor’s proposal allows Secretariats to develop shared services programs that best meet their needs. There are several areas in which efficiencies are anticipated: payroll and human resources; financial management, including bill payment, purchasing and contract administration; and lease and facility management. Traditionally, these functions have been managed by individual agencies at several district or regional offices.

Shared Service Benefits



The shared services model achieves increased transparency, improved management and an enhanced focus on an agency’s core mission. The Office of the State Comptroller has facilitated the development of shared services by providing outreach and training at the annual Commonwealth Chief Financial Officers Conference. Governor Patrick’s proposal builds from shared services and processing programs already occurring within state agencies, including the Executive Office of Transportation and Public Works, Executive Office of Health and Human Services and Office of Consumer Affairs.





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Surplus Property Legislation

Governor's Proposal

As part of fiscal year 2010 House 1 recommendations, the Governor will re-file the Surplus Property Reform Bill originally submitted in fiscal year 2008. The bill establishes a new, expedited process for disposing of surplus state real property based on smart growth land use policies. It provides for state-owned properties, which are no longer needed for state purposes, to be used for municipal purposes or for economic development, affordable housing and other uses.

Lieutenant Governor Timothy Murray served as the chair of an inter-agency working group including the Executive Offices for Administration and Finance, of Environmental Affairs, and of Housing and Economic Development, and the Division of Capital Asset Management, which developed the Surplus Property Reform Bill. On March 19, 2008, in a session before the Joint Committee on Bonding, Capital Expenditures and State Assets, the Lieutenant Governor gave testimony on behalf of the Patrick-Murray Administration that demonstrated the Administration's belief that ***"this legislation strikes the right balance between the needs of our Commonwealth and of our cities and towns, and will quickly move unused state land into needed uses for economic development, housing, and open space"***.

Smart Growth

According to the Sustainable Communities Network, communities across the nation are re-evaluating their current development patterns and determining if specific investments are in the long-term interest of their cities and towns. A smart growth plan focuses on developing an area that maximizes the function of existing resources, while improving or maintaining the quality of life for the residence of the community. The Network concludes that "driving the smart growth movement are demographic shifts, environmental awareness, increased fiscal concerns, and more nuanced views of growth. The result is both a new demand and a new opportunity for smart growth"¹. The Commonwealth is leading the way in developing initiatives and exploring opportunities that are consistent with the smart growth principles. The Surplus Property Reform Bill is one such initiative.

The Surplus Property Legislation:

- Creates a Surplus Land Coordination Committee to provide recommendations to the Division of Capital Asset Management and Maintenance regarding the disposition of surplus state properties.
- Gives municipalities a right of first refusal to acquire surplus state properties for municipal use, and at a discounted price, early in the disposition process.
- Gives municipalities that do not exercise the right of first refusal the opportunity to provide input on potential reuses of the properties early in the disposition process, before any smart growth study is undertaken.
- Requires a smart growth study be prepared by the regional planning agency for any property more than 2 acres in size.
- Allocates 15% of the net cash proceeds from the disposition of surplus property to the municipality where the property is located, or 25% if the municipality has adopted for the property either an

¹ Sustainable Communities Network, *Smart Growth On-line, 1996-2009*, <http://www.smartgrowth.org/about/default.asp>

approved smart growth zoning district under chapter 40R or an approved priority development site under chapter 43D (unless the municipality acquired the property).

- Allocates 50% of the remaining net cash proceeds to the Smart Growth Fund.
- Allocates the balance to a new fund – the Capital Projects Fund, and provides that the Fund shall be expended, subject to appropriation, to meet the capital improvement needs of the Commonwealth.

HOUSING STARTS MADE POSSIBLE THROUGH THE SALE OF SURPLUS STATE-OWNED ASSETS

- **Housing built or projected in 18 diverse communities**
- **Almost 4,000 units built or projected**
- **Over 1,000 Affordable units built or projected**
- **Over 150 low-income units to be built to serve the very low-income**



- **Local job creation in the building trade and supply Industries**
- **Increase in the community tax base**
- **Millions in revenue to the Commonwealth**
- **Redevelopment of often unsightly property**

Source: The Division of Capital Asset Management

For more on the Commonwealth smart growth initiatives please visit: www.mass.gov/envir/smart or for a list of the communities with current or planned redevelopment projects, please visit: www.mass.gov/cam/dlforms/RE/Affordable_Housing.pdf.



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Reforming Building Maintenance

Governor's Proposal

Planning, management and funding for state facility maintenance has varied across agencies and has not adequately addressed facility maintenance needs. The Governor's budget establishes a new legislative commission to design a reformed maintenance model for state facilities.

Current System

The existing decentralized approach to facility management is inefficient. Within agencies, resources are siloed with limited opportunities to share across facility or regional boundaries. For example, the lack of coordination may lead to an electrician in one building being unable to work at a facility across the street. At the state wide level, the Department of Capital Asset Management (DCAM) has identified six different approaches used by agencies to maintain state buildings. Some agencies like the Department of Conservation and Recreation (DCR) employ on site maintenance staff for minor repairs and contract for specialty work. In contrast, the State Police have no maintenance staff for their barracks and rely on contractors as needed. The result of the disparate models is less efficiency, and inadequate maintenance of state facilities. This deferred maintenance in turn results in increased capital funding needed to make major repairs to facilities.

Solution

Centralization and standardization of the management and funding of facility maintenance will likely allow the state to better coordinate staff, share resources and take advantage of economies of scale. Developing the best approach to implementing such a reform will require thorough analysis and involvement by a variety of stakeholders. The solutions can vary, thus making it necessary to analyze and discuss the issue. The Governor's budget establishes a commission to study the issue and provide recommendations to improve the current maintenance model:

SECTION 45

- (a) *There shall be a special commission to investigate and study the maintenance of state facilities.*
- (b) *The commission shall consist of the secretary of administration and finance, or her designee, who shall chair the commission; the commissioner of capital asset management and maintenance, or his designee; the chairs of the house and senate committees on ways and means, or their designees; the house and senate chairs of the joint committee on bonding, capital expenditures and state assets, or their designees; the minority leaders of the senate and house of representatives, or their designees; a representative of the International Facility Management Association; and 3 other persons appointed by the governor. The division of capital asset management and maintenance shall provide staff assistance to the commission and shall conduct a facilities maintenance review to assist in the commission's study.*
- (c) *The commission shall study opportunities to improve maintenance of state facilities, including, but not limited to, more efficiently allocating resources and responsibility for facility maintenance, implementing best practices in assessing and addressing facility maintenance needs, and more effectively funding facility maintenance needs.*
- (d) *The commission shall report its findings and recommendations, including any proposed legislation, to the clerks of the senate and house of representatives on or before March 31, 2010.*

To aid the commission in its examination, the Governor has directed state agencies to provide the Commission with assistance to conduct the initial phase of the analysis. The report from the commission will lay the foundation of a unified, comprehensive program of facility maintenance.





FY10 House 1 Budget Recommendation:

Policy Brief

Deval L. Patrick, Governor

Timothy P. Murray, Lt. Governor

Energy Management

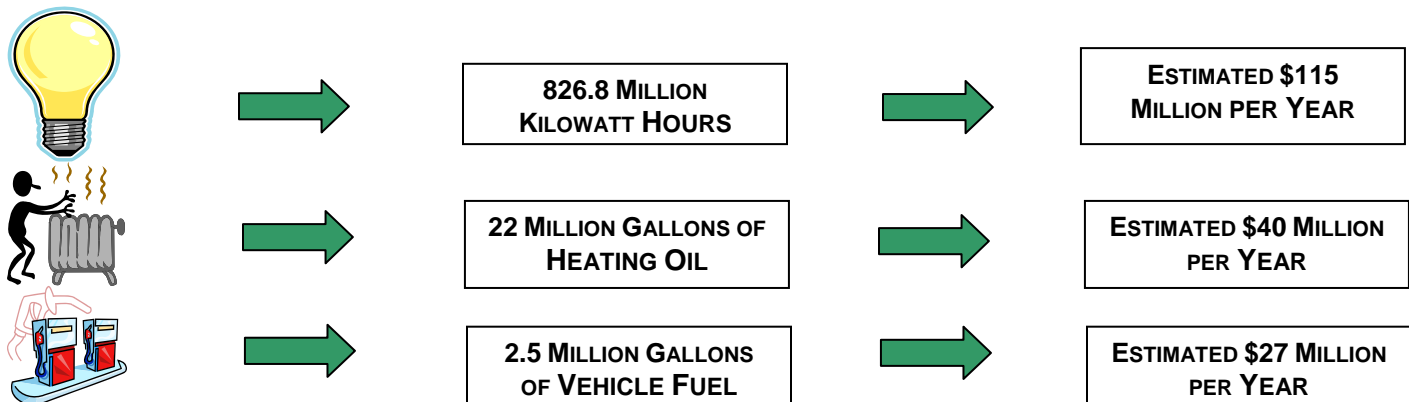
Governor's Proposal

The Governor's fiscal year 2010 budget proposes the realignment of Commonwealth energy spending and the creation of a centralized energy management program within the Division of Capital Asset Management. With the Patrick-Murray Administration's long term commitment to the environment, the framework established by the Green Communities Act and opportunities provided by federal stimulus programs, a dedicated energy management program is needed to focus solely on energy strategies for the Commonwealth's agencies and operations.

Opportunities exist for the state to save money through energy management services. Experience from other states indicates that the Commonwealth can achieve significant reductions in energy costs through improved information management, energy procurement and energy conservation projects.

No single department has sole responsibility for energy management across the Executive Branch. Generally, energy is managed at the departmental level with over 15,000 electrical, natural gas and heating oil accounts statewide. With few exceptions for leased space and multi-tenant state-run buildings, departments manage and pay their own utility bills. Across departments and funding sources, spending for natural gas, electricity and fuel oils is projected to range from \$200 million to \$231 million in fiscal year 2010. Given the decentralized management of energy spending and oversight, it is difficult to research, develop and implement comprehensive energy related programs and long-term strategies.

Estimated Energy Usage



The Division of Capital Asset Management and the Department of Energy Resources Leading by Example program have made significant strides in reducing consumption through energy efficiency projects and education programs to influence behavior. For example, in 2008 the Administration issued a new computer power management standard that will require all 50,000 state computers to power down when not in use and be shut off during non-work hours. Expected savings could total 12 million kWh, and as much as \$1 million.

In fiscal year 2010, Governor Patrick's budget includes a \$130 million intra-governmental services account to facilitate the management of energy related spending within Executive Branch agencies. In addition, a cross-departmental team from the Executive Office for Administration and Finance, Department of Energy Resources, Operational Services Division and Division of Capital Asset Management has been formed to identify and recommend organizational reforms needed to support the concept of centralized Energy Management. This may lead to changes in procurement, facility management, accounting and reporting of savings gained through energy efficiency projects. Building upon the work of the Leading by Example

program, a central repository of energy consumption and account information for all state agencies will be implemented to assist with energy budgeting and tracking.

Together, unprecedented support for renewable energy development made possible through the Green Communities Act and the current economic conditions have spurred the Commonwealth to evaluate its management structure and implement a strategic plan that will both regulate energy spending and ensure efficient management.



FY10 House 1 Budget Recommendation:

Policy Brief

Deval L. Patrick, Governor

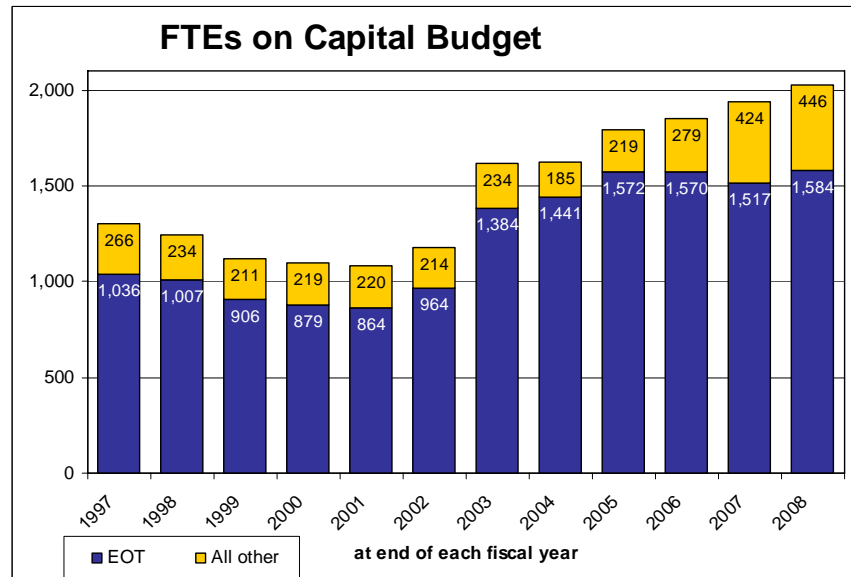
Timothy P. Murray, Lt. Governor

Capital to Operating Transfer

Governor's Proposal

Section 34 of the Governor's fiscal year 2010 budget authorizes a no-cost mechanism for removing hundreds of employees and other budgetary expenses from the capital budget with the goal of significantly scaling back the fiscally imprudent practice of funding these expenses with debt. For every dollar the state spends on the capital budget, an additional \$0.60 is added in interest costs.

For a number of years personnel and other goods (paper, utilities, etc.) have been charged to capital accounts – resulting in millions of additional dollars in interest payments while reducing the amount of money available for statewide construction projects. The practice of shifting operating costs to the capital budget was born years ago during tough economic times like those we are currently experiencing. Over the past two years, capital improvement initiatives for roads, higher education, public housing, parks and state facilities required additional staff on the capital budget to complete projects. However, the Administration is committed to monitoring expenditures and additional employees assigned the capital budget to ensure their appropriateness, while also seeking fiscally responsible ways to bring proper costs back onto the operating budget. This transition will also allow for a more transparent view of the employee levels in our agencies.



In 2008, the Legislature authorized the borrowing of \$50 million per year to fund the acquisition of equipment on the capital budget instead of the operating budget. This effort was the first component of Governor Patrick's no-cost mechanism for taking hundreds of employees and other budgetary expenses off the capital budget with the goal of significantly scaling back the fiscally imprudent practice of funding these expenses with debt. Types of eligible equipment include:

- Computers, computer cables and two-way radios;
- Cars, trucks and all terrain vehicles;
- Construction supplies such as lumber, hardware and power tools; and
- Office furnishings, including desks and furniture.

With this bond authorization, up to \$50 million in the operating budget will no longer be needed to fund these types of equipment purchases. Financial resources will be freed within the operating budget to fund up to \$50 million of personnel and operating-related expenses currently being paid for with borrowed funds on the capital budget.

However, to fully implement the Governor's proposal the Executive Office for Administration and Finance (A&F) must have the authority to transfer money between line items in the operating budget. If a line-item funded the acquisition of durable equipment, Outside Section 34 of the Governor's budget would allow A&F to transfer that amount to another line-item to fund the cost of personnel that would have otherwise been funded from the capital budget. With line item transferability, the Governor can ensure that the initiative is cost neutral.

The Administration is committed to monitoring transfers to ensure their appropriateness, while also looking for fiscally responsible ways to bring proper costs back onto the operating budget. The total amount of such transfers cannot exceed \$50 million, and A&F will give the Senate and House Committee on Ways and Means a schedule and opportunity to review all transfers. To implement the proposed transfer of personnel from the capital budget to the operating budget, Outside Section 34 of the Governor's budget is required.



FY10 House 1 Budget Recommendation:

Policy Brief

Deval L. Patrick, Governor

Timothy P. Murray, Lt. Governor

Statewide Contracts Administrative Fee

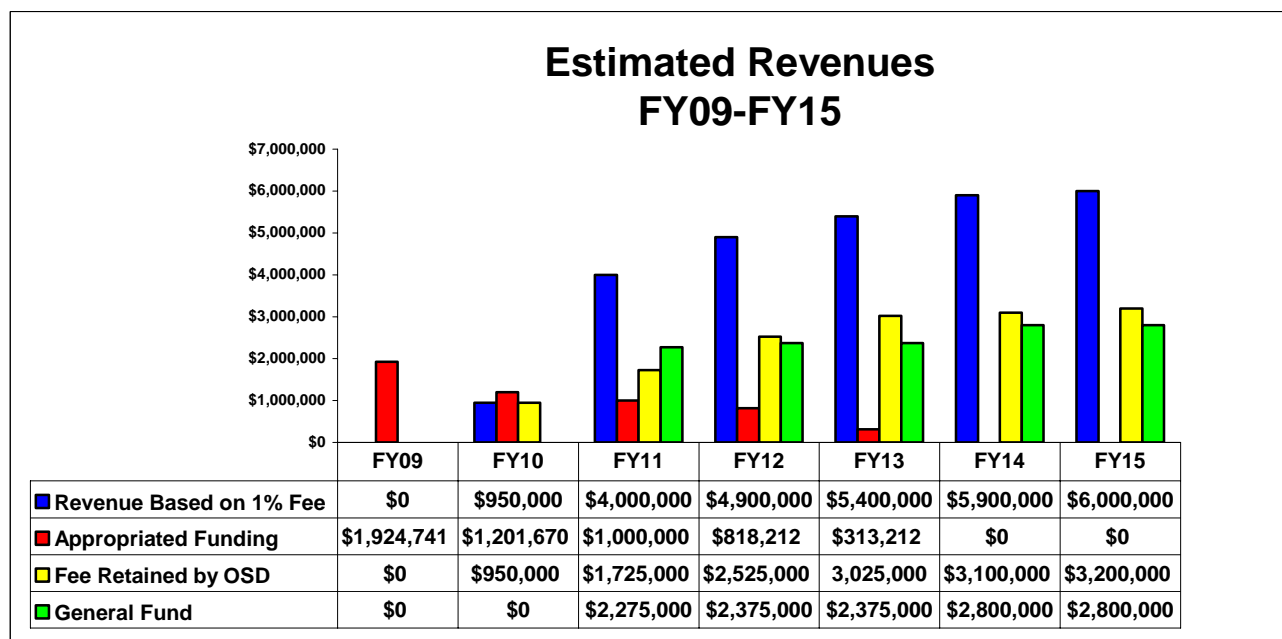
Governor's Proposal

In light of current fiscal challenges, the Operational Services Division (OSD) has proposed a creative and innovative way to mitigate economic uncertainty in order to provide and maintain their current level of procurement services. The division will charge a 1% administrative fee to all statewide contract vendors based upon their gross sales to Commonwealth public purchasers. The revenues generated will be deposited into the new "Statewide Contract Fund Trust" included in the fiscal year 2010 H.1 emergency bill and will be used, over time, to supplant OSD's General Fund appropriation received through the budget.

Operational Services Division

The Operational Services Division is responsible for establishing statewide contracts and overseeing the public procurement activities of Executive departments. In evaluating how other states' procurement departments are funded, OSD discovered that a similar administrative fee is used by other states and by the General Services Administration (GSA) of the Federal Government, in lieu of General Fund dollars. The goal of the fee and the establishment of the trust is to allow OSD to become a self-funded or "enterprise" agency rather than relying on funding from state appropriated line-items. The revenues will allow OSD to not only support its operating costs, but hopefully invest in initiatives, such as the Affirmative Market Program and Small Business Programs under its purview. The division will also be able to perform audit and oversight to ensure contract compliance and offer contracts that better serve municipalities.

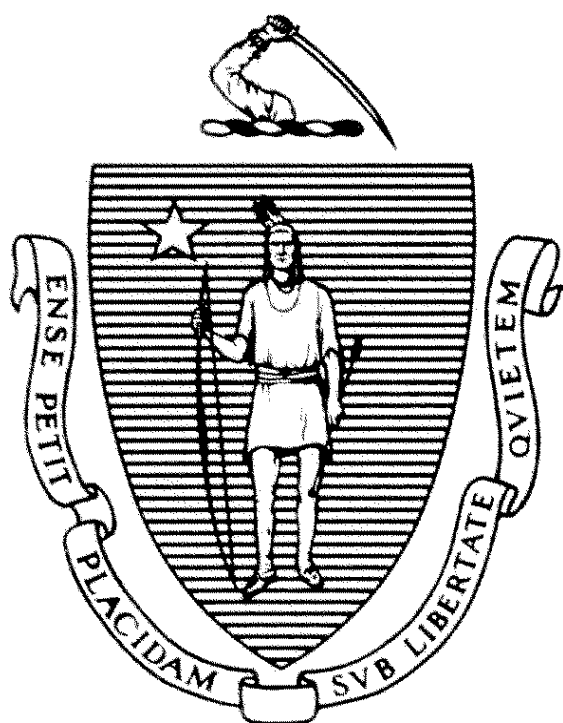
Currently, procurement offices in other states charge their contractors a fee ranging from .5% to 1% in order to cover a portion or all of their operating costs. OSD's proposal estimates that it will be able to gradually decrease the need for state appropriated funding through the statewide contract procurement and renewal process that could take up to six years to fully implement.



The OSD Statewide Contract Fund Trust will serve the purpose of collecting and implementing the statewide contract fee. In fiscal year 2010, OSD will use funds from the trust in order to hire staff to collect, manage and audit the transactions and to maintain existing procurement staff and services to cities and towns that might

otherwise be impacted by budget reductions to OSD's appropriation. In keeping with the Patrick-Murray Administration's commitment to diversity initiatives, OSD is working to ensure that such a fee will not adversely impact the Administration's efforts to recruit and employ diverse businesses onto our statewide contract.

Fiscal Year 2010 MassGOALS and Policy Briefs



Quality, Affordable Health Care for All





FY10 House 1 Budget Recommendation:

Policy Brief

Deval L. Patrick, Governor

Timothy P. Murray, Lt. Governor

The Commonwealth Wellness Fund

Governor's Proposal

The Administration is dedicated to ensuring the highest quality of health and wellness for each of the Commonwealth's residents. Individual wellness is determined partly by healthy lifestyles and healthy choices; the Commonwealth's Mass in Motion initiative is dedicated to providing information and support for each Massachusetts resident to make healthy choices for themselves. The Massachusetts Department of Public Health has partnered with all of the state's major health funding foundations to provide grants to cities and towns to make wellness a priority at the local level. Among other efforts of Mass in Motion, large state-operated facilities will be required to comply with nutritional guidelines in their menu offerings, employers will be offered assistance in establishing workplace wellness programs and calories will be posted on the menus of franchise restaurants.

In order to encourage healthy choices and support critical programs that target the wellness of each Massachusetts resident, the current 5% sales tax exemption on alcohol, sweetened beverages, including soda, juice, and sports drinks and candy will be removed. Evidence-supported data has shown that each of these products serve more as a detriment than a benefit on the health and wellbeing of an individual. Net proceeds from these removed exemptions will be directly deposited into the Commonwealth Wellness Fund, and will support critical public health programs such as alcohol and tobacco addiction services, childhood health and nutrition promotion, violence prevention and workforce wellness services. Essential food items will continue to qualify for the sales tax exemption.

Removing Tax Exemption for Alcohol

Removing the sales tax exemption on the purchase of alcohol for off-site consumption can have a profound effect in reducing harmful alcohol use and its consequences, particularly by underage drinkers¹. While we have made significant progress, Massachusetts still ranks in the top 10% of states with the highest rates of both underage drinking and adult binge drinking.

Historical evidence and research indicates that removing the tax exemption on alcohol has a direct public health impact². The relationship between age at first drink and the risk of developing alcohol related disorders during adulthood is greatest when the age of first drink occurs before the age of 15. Numerous studies show that youth are very sensitive to even small price increases. Ending the exemption will decrease underage consumption and frequency of use. It may also delay the first use of alcohol for some teenagers.

The benefits of removing the tax exemption on alcohol are not limited to young people. Studies have also shown that increasing the price of alcohol decreases drinking and driving among all age groups and reduces the rates of violence and traffic fatalities.

Removing Tax Exemption for Sweetened Beverages and Candy

Childhood obesity is a critical public health crisis that must be addressed through thoughtful public policy. More than half of adults and nearly one in three high school and middle school students are overweight or obese. Consequently, the percentage of adults in Massachusetts with Type 2 diabetes has nearly doubled in the last decade. Diabetes not only causes serious illness and premature death, it also is costly (requiring \$3.4 billion a year, 7% of our entire state health care costs).

Consumption of candy and soda is on the rise. Per capita candy consumption increased steadily since the mid-1980s. Candy, soft-drink and other sweetened beverages add significant non-nutritional calories to the

¹ Massachusetts Coalition for Addiction Services. [The problem of addiction in Massachusetts](#). December 2008.

² American Journal of Public Health. [Tax Increases Result in Lower Alcohol-related Mortality](#). 17 November 2008.

diets of Americans and are directly linked to obesity, especially among children³. Children and adults who consume such foods have less appetite for healthier foods at meal time, creating a vicious cycle of calorie intake and nutritional deficiencies. Removing the tax exemption for the purchase of sweetened soda and candy is a critical first step in discouraging the consumption of these empty calories. In ending this exemption, the Commonwealth will join seventeen other states that tax foods of low nutritional value.

It is a priority of this Administration to create and sustain intelligent policies that support healthy choices. The “Mass in Motion” initiative will assist residents and families through information provision regarding weight management and healthy lifestyle choices to encourage healthy decision making. These two efforts will work in concert to mitigate the devastating effects of childhood obesity on children and families.

In addition to posting calorie information on the menu boards of chain restaurants and providing parents with the Body Mass Index number of their children, Massachusetts will support various other nutrition and wellness programs via the revenue collected by lifting the sales tax exemption on sweetened beverages and soda. These revenues are critical to mitigate deeper budgetary reductions in Wellness accounts within the Department of Public Health.

Massachusetts joins 17 other states in this effort to promote public health and minimize the escalating costs associated with obesity.

Taxes on Non-Nutritional Foods		
Regional States		
Maine		5.5% sales tax on snack foods, soda, ice cream and toaster pastries
New Jersey		6% sales tax on candy and soda
New York		7.5% sales tax on candy and sweetened beverages with less than 70% natural fruit juices
Rhode Island		4 cent tax per case on soda, mineral water and beer
Other States		
Arkansas		21 cent tax per gallon of liquid soda and \$2 tax per gallon of soda syrup
California		7.25% sales tax on soda
District of Columbia		5.75% sales tax on snack foods and soda
Illinois		6.25% sales tax on soda
Indiana		5% sales tax on candy, gum, soda and bottled water
Kentucky		6% sales tax on candy, gum and soda
Minnesota		6.5% sales tax on candy, soda, fruit drinks without real fruit juice and gum
Missouri		.3 cent tax per gallon of soda
North Dakota		5% sales tax on candy, gum, sweetened beverages <70% fruit juice and powdered drink mixes
Tennessee		1.9% of gross receipts from soda and soda ingredients paid by manufacturers and bottlers
Texas		6.25% sales tax on soda, diluted juices and candy

Programs to be supported by the Wellness Fund

Massachusetts has long been a leader in innovation in health care and public health. The myriad public health programs that serve the people of the Commonwealth reflect the Administration’s commitment to preventative care and wellness services as a vital component of health care reform. \$121.5M of net revenue generated from eliminating exemptions on sweetened beverages, candy, and alcohol will be dedicated to a new Commonwealth Wellness Fund. Two accounts will be partially funded from the Wellness Fund, specifically:

- A.) Addiction and Tobacco Control Services (86% funded from Wellness Fund)
- B) Health Promotion, Violence Prevention and Workforce Expansion (87% funded from Wellness Fund).

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

Wellness Fund: FY10		
\$121.5 Million		
Account Distribution	% Wellness Fund	Total Wellness Fund Spend
Addiction and Tobacco Control Services	86%	\$ 78,000,000
Health Promotion, Violence Prevention and Workforce Expansion	87%	\$ 43,500,000
Total Wellness Fund Spending		\$ 121,500,000

Within these accounts, proceeds from the removal of the tax exemptions on alcohol, sweetened beverages and candy will be dedicated to critical substance abuse prevention and step down services within high-risk communities, child and adolescent health programs, teenage pregnancy prevention, domestic violence and sexual assault prevention and several other critical programs that support the wellness of Massachusetts residents.

Further Information about the Mass in Motion Initiative can be found on the website, <http://www.mass.gov/massinmotion/>.





FY10 House 1 Budget Recommendation:

Policy Brief

Deval L. Patrick, Governor

Timothy P. Murray, Lt. Governor

Health Care Reform

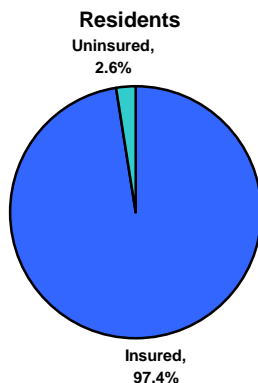
Governor's Proposal

With the enactment of Chapter 58 of the Acts of 2006, Massachusetts embarked on a historic, first-in-the-nation initiative to expand health insurance coverage to virtually all of its residents. Health care reform expands health insurance coverage by:

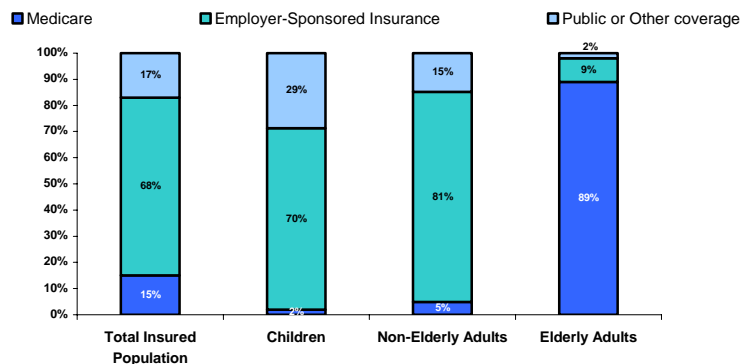
- requiring individuals who can afford health insurance to enroll in coverage;
- offering individuals a greater choice of affordable private health coverage plans through insurance reform and the creation of the Commonwealth Health Insurance Connector Authority;
- providing low-income individuals with new opportunities for affordable, government-subsidized coverage through Commonwealth Care and expanded Medicaid coverage; and
- obliging employers to do their "fair share" by offering health insurance to their employees or otherwise contributing to the cost of covering their employees through state health programs.

Health care reform has already been a dramatic success. The most recent state survey results indicate that over 97 percent of our state's residents were enrolled in health insurance in 2008.

Uninsurance Rate for all Massachusetts



Type of Health Insurance Coverage by Age Group



Source: Division of Health Care Finance and Policy, Health Insurance Coverage in Massachusetts: Estimates from the 2008 Massachusetts Health Insurance Survey, December 2008. Prepared by the Urban Institute.

The Administration's fiscal year 2010 budget continues to fully fund expansions in coverage through state health insurance programs for low- and moderate-income families. These investments reflect a continuing commitment to health care reform and the recognition that the MassHealth and Commonwealth Care programs are core components of the safety net for low-income residents of our state, including individuals who may have recently lost their jobs or private health insurance due to the economic downturn. Despite the significant fiscal pressures facing the Commonwealth, the budget does not cap enrollment or cut benefits for state health insurance programs, as has been done in prior fiscal crises.

Commonwealth Care

Commonwealth Care was created by the enactment of the health care reform. It offers subsidized health insurance to adults whose incomes are at or below 300 percent of the federal poverty level and who are not eligible for other government-subsidized or employer-sponsored coverage. As of January 1, 2009, there were over 163,000 adults enrolled in Commonwealth Care.

Prepared by the Executive Office for Administration and Finance • Rooms 373 & 272 • State House

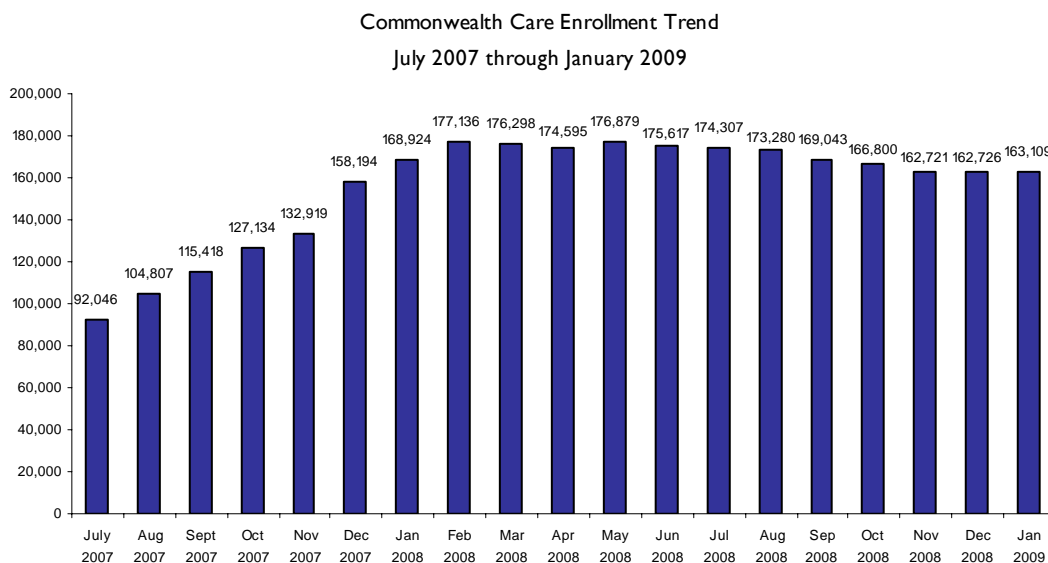
For more information contact:

Candace Reddy, Kelly Driscoll and Glen Shor

(candace.reddy@state.ma.us, kelly.driscoll@state.ma.us and glen.shor@state.ma.us)

www.mass.gov/budget/governor

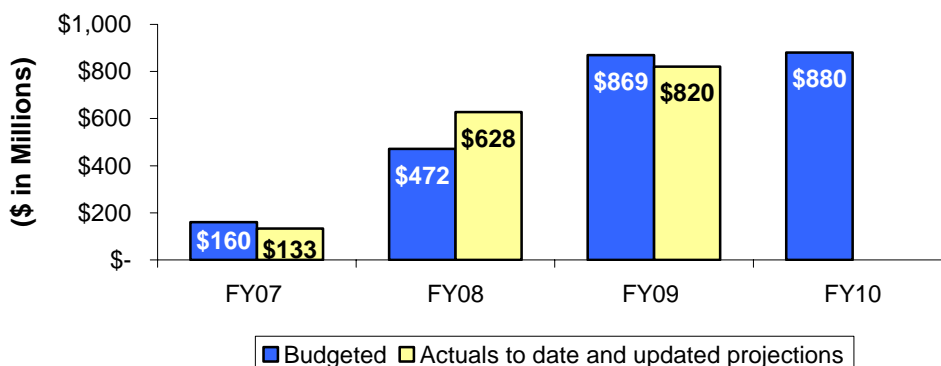
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Source: The Commonwealth Connector Authority, January 2008.

The Commonwealth had greater-than-expected success in enrolling individuals in Commonwealth Care during fiscal year 2007 and fiscal year 2008, which resulted in corresponding increases in spending. Cost trends have recently begun to moderate as enrollment and per-member price increases have leveled.

Commonwealth Care Spending



The Administration's fiscal year 2010 budget includes \$880 million for Commonwealth Care, a 7.3 percent increase over current fiscal year 2009 projections, to provide coverage to approximately 180,000 residents. Enrollment is expected to resume moderate growth in fiscal year 2010; a result of loss of employer-sponsored insurance that typically accompanies negative economic conditions, as well as, a slight decrease in people leaving the program. Under a new payment methodology, rate increases have been limited well below medical inflation.

MassHealth

The Massachusetts Medicaid (MassHealth) program provides health insurance to more than one million low- and moderate-income Massachusetts children, adults, seniors and people with disabilities. Health care reform expanded MassHealth eligibility coverage to children with incomes up to 300 percent of the federal poverty

level and broadened eligibility for the Insurance Partnership Program to individuals up to 300 percent of the federal poverty level. It also restored certain benefits that had previously been cut.

The Administration's fiscal year 2010 budget includes \$8.97 billion for MassHealth. Excluding spending that was previously off-budget; MassHealth's fiscal year 2010 budget totals \$8.68 billion (3.14 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.

MassHealth Average Enrollment					
	FY06	FY07	FY08	FY09	FY10
HMO	329,723	349,407	373,684	403,381	426,580
PCC	290,351	294,035	303,623	315,197	324,462
TPL	150,463	158,556	161,185	164,174	166,203
SENIORS	121,946	124,607	125,690	127,439	128,541
FFS	149,862	168,238	174,542	180,732	185,991
Total	1,042,345	1,094,844	1,138,725	1,190,923	1,231,777
% Change	5.5%	5.0%	4.0%	4.6%	3.4%

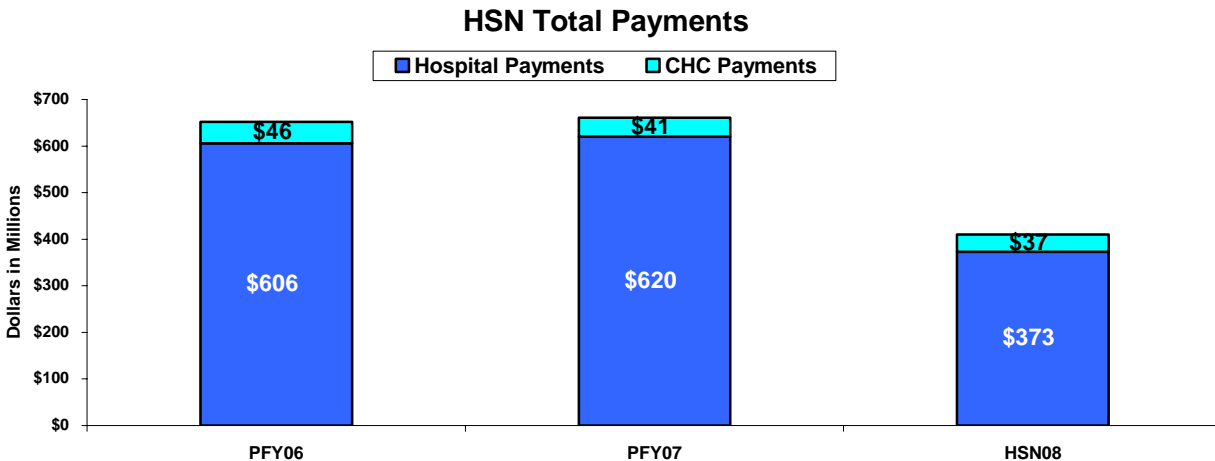
The fiscal year 2010 MassHealth budget also reflects a total of \$357 million in gross savings (\$178 million in net savings) which includes \$25 million in gross (\$12.5 million net) targeted investments needed to achieve many of these savings. When accounting for off-budget reductions, the savings total \$374 million in gross (\$187 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 and other savings (e.g., elimination of certain grants and pilots).

Savings Initiative Title	Gross Amount	
	FY10	Net Amount FY10
On-Budget Savings		
Rates	\$ (178)	\$ (89)
Pay-for-Performance (P4P)	\$ (62)	\$ (31)
Service Program changes	\$ (38)	\$ (19)
Payment and Pricing Strategies	\$ (43)	\$ (22)
Utilization Management	\$ (31)	\$ (16)
Pharmacy	\$ (20)	\$ (10)
Other	\$ (10)	\$ (5)
Subtotal On-Budget Savings	\$ (382)	\$ (191)
On-Budget Investments		
Specialty Hospital Rate Adjustment	\$ 12	\$ 6
Pay-for-Performance (P4P) Administration	\$ 3	\$ 2
Primary Care/Medical Home/Chronic Care Model Rate Inc	\$ 10	\$ 5
Subtotal On-Budget Investments	\$ 25	\$ 13
Total Savings and Investments On-Budget	\$ (357)	\$ (178)
Off-Budget Savings		
CCTF Savings	\$ (17)	\$ (9)
Subtotal Off-Budget Savings	\$ (17)	\$ (9)
Total Savings and Investments On- and Off-Budget	\$ (374)	\$ (187)
* dollars in millions		

Health Safety Net

Overseen by the state's Division of Health Care Finance and Policy, the Health Safety Net (HSN) ensures access to essential health care services for low- and moderate-income uninsured or underinsured residents, by making payments to hospitals and community health centers for allowable services provided to this population.

Our efforts to promote enrollment in health insurance coverage have resulted in decreased Health Safety Net utilization and payments. As compared to Uncompensated Care Pool fiscal year 2007, Health Safety Net payments decreased dramatically by 38 percent in Health Safety Net 2008 (from \$661 million to \$410 million).



Source: Division of Health Care Finance and Policy, Health Safety Net 2008 Annual Report, December 2008

For current budget planning, Health Safety Net spending assumptions for fiscal year 2009 and fiscal year 2010 are based on spending assumptions submitted in connection with the recent renewal of the Commonwealth's Medicaid waiver for fiscal years 2009-11. Based on these spending assumptions:

- The Health Safety Net would have a \$47 million surplus in fiscal year 2009; the previously appropriated general fund contribution of \$63 million is larger than needed to fund this spending.
- The fiscal year 2010 budget does not include a general fund contribution to the Health Safety Net, as assessments from insurers and providers and offset funding (totaling \$390 million) are sufficient to fund this spending.

Health Safety Net Trust Fund- Sources

	FY08	FY09	FY10
Assessments & Offsets	\$380,000,000	\$390,000,000	\$390,000,000
General Fund Contribution	\$ 49,600,000	\$ 62,996,382	\$ -
Previous Year Balance Transfer	\$ 24,000,000		
Total Sources	\$453,600,000	\$452,996,382	\$390,000,000

Health Safety Net Trust Fund- Uses*

	FY08	FY09	FY10
Hospital Payments	\$ 372,600,000	\$ 368,658,801	\$ 346,000,000
CHCs	\$ 37,000,000	\$ 31,341,199	\$ 29,000,000
Demos (Admin)	\$ 6,000,000	\$ 6,000,000	\$ 6,000,000
Total Uses	\$ 415,600,000	\$ 406,000,000	\$ 381,000,000
Sources less Uses	\$38,000,000**	\$ 46,996,382	\$ 9,000,000

* Health Safety Net payments for fiscal years 2009 and 2010 based on waiver spending projections.

** Carried as a reversion on state balance sheet for fiscal year 2009 to minimize need for further emergency spending cuts to other health care programs.

The Administration does acknowledge that there is uncertainty around Health Safety Net fiscal year 2009 and fiscal year 2010 program costs. Thus, the budget currently retains fiscal year 2009 funding in excess of waiver spending assumptions within the Health Safety Net Trust Fund as a "cushion" that can be applied to support actual spending needs. We will continue to closely monitor the Health Safety Net and, based on updated information, refine our projections of its fiscal year 2009 and 2010 needs.





FY10 House 1 Budget Recommendation:

Policy Brief

Deval L. Patrick, Governor

Timothy P. Murray, Lt. Governor

Health Benefit Contribution Reform

Governor's Proposal

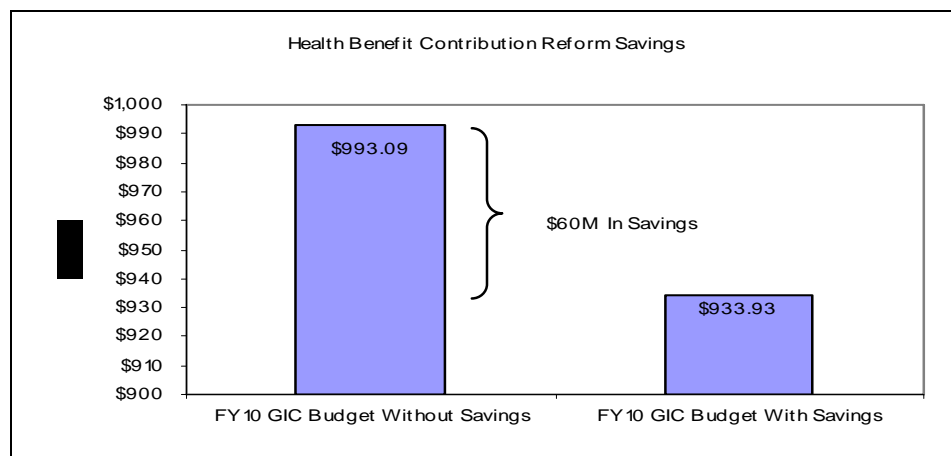
Health care related costs are the largest and fastest growing component of the state budget. Cost containment must be addressed as the Commonwealth seeks to invest not only in health care, but education, environment, and other important areas.

According to the [Kaiser Family Foundation and Health Research and Educational Trust 2008 Employer Health Benefits Survey](#), workers contribute on average 16% for individuals and 27% for families to their health coverage¹. In Massachusetts, state employees' contributions are tied to date of hire, with most employees hired before June 30, 2003 contributing 15% to their health coverage and employees hired after that date contributing 20%.

While the Patrick-Murray Administration recognizes the importance of acknowledging state employees' commitment to public service, this is a generous benefit that cannot be sustained. Therefore, the Administration continues to support a more rational system 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 \$60 million in savings. Under Governor Patrick's proposal, state employees' contributions will be based on annual salary such that:

Salary Level	Employee Contribution
less than \$35,000	15%
\$35,000 to \$50,000	20%
more than \$50,000	25%

Under the proposal, 6,400 employees earning less than \$35,000 will see their premium contributions *decrease*, and 15,200 employees will see no contribution change. Approximately 60,000 employees will experience an increase in contribution including \$25-\$50 per month for individual plans or \$60-\$120 a month for families².



¹ Kaiser Family Foundation and the Health Research and Educational Trust, 2008 *Employer Health Benefits Survey*

² Annual premium inflation that will occur regardless of changes to contribution ratios is not included in these estimates.

To achieve the same level of savings without reforming the system, the Group Insurance Commission would need to increase cost sharing requirements far in excess that might be proposed to address normally rising costs. For example, co-payments would need to double for most plans, increasing to \$30 or more for primary care office visits and \$600-\$1,000 for inpatient care. This level of out-of-pocket spending would make the Commonwealth an outlier among employers who offer insurance. In 2008, the average co-payment for primary care among insured workers was \$19 and, among individuals who pay a co-payment for inpatient care, the average co-payment was \$219³. The significant increases in patient cost sharing would impact the sickest enrollees who access care regularly.

Given the options for reducing employee health care costs, changing the employee contribution rates provides the most equitable proposal for reform. Tiering aligns the Commonwealth with levels of employer-sponsored health benefits in other sectors of our economy, and better positions the state to be able to continue to provide comprehensive health insurance to its workers.

³ Kaiser Family Foundation and the Health Research and Educational Trust, *2008 Employer Health Benefits Survey*



FY10 House 1 Budget Recommendation:

Policy Brief

Deval L. Patrick, Governor

Timothy P. Murray, Lt. Governor

OPEB Recommendations

Background on the Other Post-Employment Benefits (OPEB) Liability

Accounting standards promulgated in 2004 by the Governmental Accounting Standards Board (GASB) required the Commonwealth to begin disclosing its liability for other post-employment benefits (commonly referred to as “OPEB”) in its fiscal 2008 financial reports. OPEB costs are currently funded through annual appropriations within state and local government budgets, known as a pay-as-you-go basis. Yet due to rising life expectancies, increasing health care costs and the accompanying rising OPEB liabilities, the pay-as-you-go funding system is unsustainable. In fact, an initial valuation report by an independent actuarial firm of the Commonwealth’s liability for these health care and life insurance benefits found that, assuming no pre-funding, the actuarial accrued liability of the Commonwealth for OPEB obligations earned through January 1, 2006 was \$13.287 billion. If pre-funding was assumed, the actuarial accrued liability was reduced to \$7.562 billion.

The Special Commission to Investigate and Study the Commonwealth’s Liability for Paying Retiree Health Care and Other Non-Pension Benefits (OPEB) was established in the fiscal year 2008 GAA to consider the risks and potential solutions related to state retiree unfunded health care and other non-pension benefit liabilities. The Special Commission met during the latter half of 2007 and into early 2008.

Governor’s House 1 Recommendation

The Governor’s fiscal year 2010 budget recommendation acts upon many of the key findings of the special commission. The proposals that are included in the Governor’s budget reflect many of the commission’s recommendations and take proactive steps to address the immense challenge of financing currently unfunded state and local government liabilities for OPEB benefits.

Reporting the Liability

Though Generally Accepted Accounting Principles (GAAP) requires a biennial valuation of OPEB liabilities, the Special Commission recommended that annual actuarial valuations of the liability be carried out by the entity that would manage the funds for OPEB costs.

The commission recommended the establishment a triennial OPEB funding schedule that would be aligned with the Commonwealth’s triennial pension funding schedule. Comprehensive pension funding legislation was approved in January 1988 to require the Commonwealth to fund future pension liabilities currently and to amortize the Commonwealth’s accumulated unfunded liability. The unfunded liability is required to be amortized to zero by June 30, 2025. Under the current statute, the Secretary of Administration and Finance is required to file the funding schedule with the Legislature. The schedule determines the amount of the pension transfer that will be factored into the annual consensus revenue estimate.

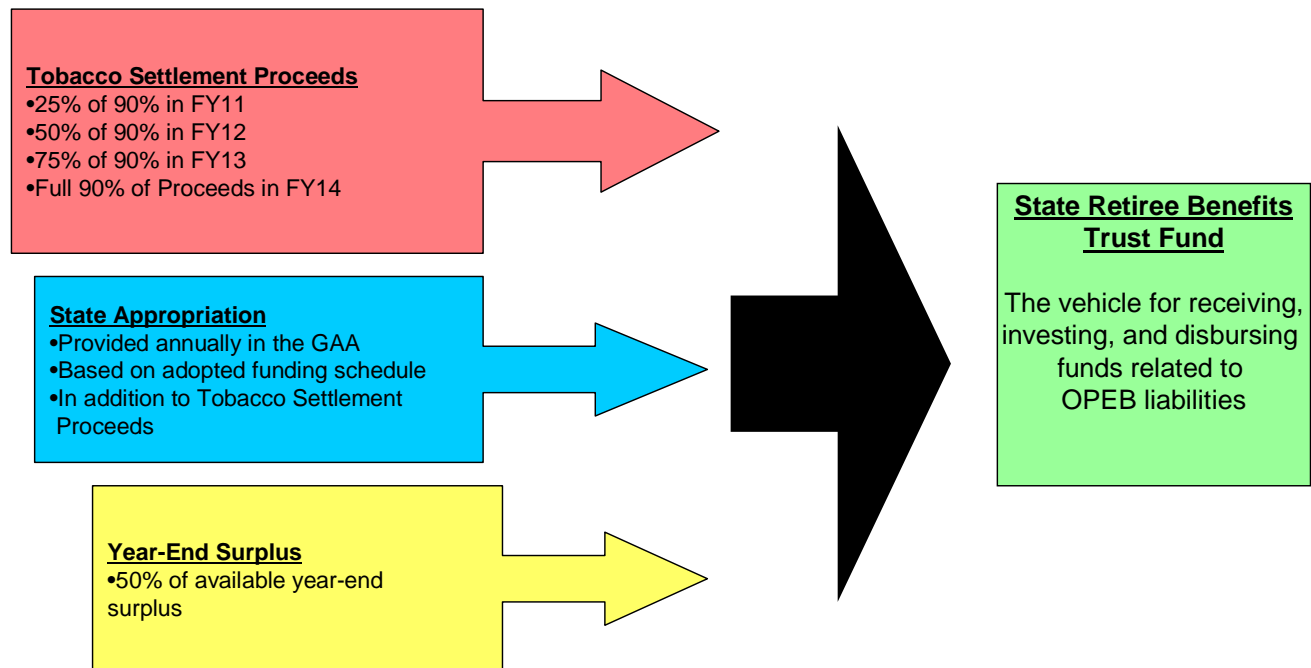
The Governor puts in place a process for adopting a funding schedule for the OPEB unfunded liability and established a deadline for full amortization of the liability by 2038.

Funding the Liability

The Governor, based upon the Commission’s finding, identifies and dedicates the proceeds of three funding sources, tobacco settlement funds, unanticipated budgetary surpluses and annual legislative appropriations to the Commonwealth’s unfunded OPEB liability.

Solving the Commonwealth's Unfunded Liability for Other Post-Employment Benefits (OPEB)

3 Long-Term Funding Solutions



Use of Tobacco Settlement Funds

The Commonwealth has been receiving tobacco settlement funds annually and distributing them almost entirely to the General Fund. In order to help address the OPEB liability the Governor's fiscal year 2010 budget recommendation phases in contributions of 90% tobacco settlement funds over four years, beginning in fiscal year 2011. For fiscal year 2010 all tobacco settlement proceeds will be deposited into the General Fund and be used for expenditure.

Establishing a Process for Funding the Annual Appropriation

While the fiscal year 2010 budget does not appropriate funds to pay down the unfunded liability (with the exception of year end surpluses discussed in the next section) it does amend Massachusetts General Law to establish a process to determine the amount of funds to be contributed on an annual basis to pre-fund the OPEB liability. The process recommended by the Governor mirrors what is currently used to determine the amount the state dedicates on annual basis to fund its pension liability (noted above). Currently, the only funding being transferred to the State Retiree Benefits Trust Fund are the costs related to funding the current retiree health costs estimated at \$394 million for fiscal year 2010.

Use of Year End Surpluses

Consistent with the Special Commission's recommendations, the Governor has proposed using year-end surpluses to help pay for the OPEB liability. The Governor's proposal would dedicate 50% of any surplus Stabilization Fund and 50% to help fund state's OPEB liability.

Local Funding Options and Management

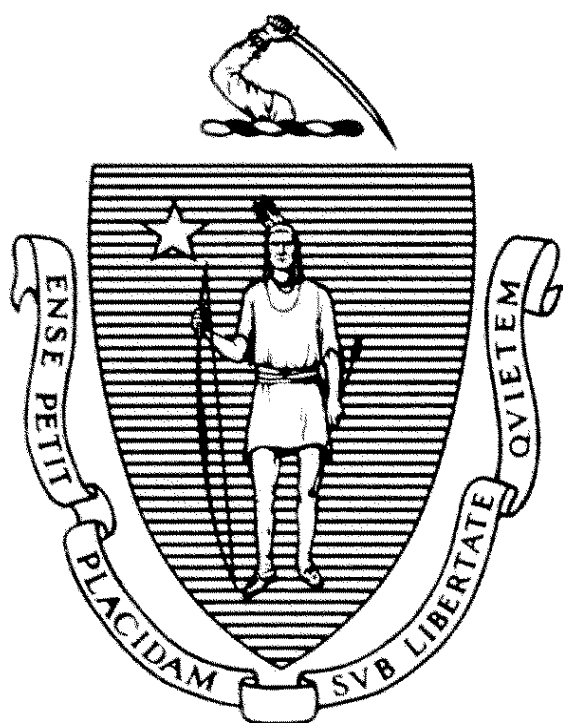
The Governor recognizes that the OPEB liability is not simply an issue at the state level but is also one that has a significant impact on all of the Commonwealth's cities and towns. The Governor's fiscal year 2010 budget recommendation includes language that would allow local communities an opportunity to invest their funds with the state's healthcare trust fund; thus providing local communities with access to top tier investment managers and a larger pool of assets.

Special Commission to Study State Employee Retiree Health Benefits

The Governor's fiscal year 2010 budget also establishes a special commission to propose recommendations to ensure the sustainability of retiree health benefits, accounting for employee needs and fiscal impacts.



Fiscal Year 2010 MassGOALS and Policy Briefs



Job Creation & Economic Growth





FY10 House 1 Budget Recommendation:

Policy Brief

Deval L. Patrick, Governor

Timothy P. Murray, Lt. Governor

Life Sciences Initiative

Governor's Proposal

On June 16, 2008 the Governor signed legislation establishing a 10-year, \$1 billion investment in Massachusetts life sciences (Chapter 130 of the Acts of 2008). This landmark signing event culminated a year's worth of efforts put forth by the Governor and the Legislature to draft an innovative new initiative to expand the life sciences activities in the Commonwealth. This includes a comprehensive plan to promote life sciences across all facets and stages of the sector, from as early as middle and high school classrooms, to workforce development, academic research and commercialization, to globally-competitive businesses that provide high-paying jobs for workers in the state. It has been just seven months since the signing of the Life Sciences Act, and the Commonwealth is already seeing a substantial return on this investment, both in jobs created and in support for live-saving scientific research.



Gov. Deval Patrick signed the \$1 billion life sciences bill on June 16, 2008 at the Joslin Diabetes Center.

The effort to expand the life sciences industry in Massachusetts will be undertaken by the Massachusetts Life Sciences Center (MLSC), as established in Chapter 23I of the General Laws. The authority and responsibility of the Center, which is governed by a 7-member board of State officials and leaders in academia and industry, were expanded to enable the quasi-public entity to implement comprehensive new programs and investments that will promote the state as the global leader in the industry.

The Life Sciences legislation provides \$1 billion over ten years, which will fund three major initiatives:

- \$250 million in funding for discretionary investments, including grants for Massachusetts-based researchers, workforce development initiatives, loans and other investments in Massachusetts-based life sciences companies and other programs to accelerate the transfer of cutting-edge technologies and ground-breaking therapies into economic growth and business activity across all of the state's regions.
- \$500 million in capital investments for life sciences infrastructure in Massachusetts including water/sewer systems necessary to support the particular usage needs of the industry and research and innovative facilities developing leading technologies.
- \$250 million in tax incentives provided to certified life sciences companies which shall be awarded based on strict criteria related to job growth and revenue for the state. The incentives include credits and other tax benefits to expand life sciences-related employment opportunities in Massachusetts, promote health-related innovations and stimulate life sciences research and development, manufacturing and commercialization in the Commonwealth.

In the fiscal year 2010 House 1 recommendation, the Governor provides \$20 million to MLSC to fund its activities and grant awards for the 12-month period beginning on July 1, 2009. A limited amount of this funding will be used by MLSC to support its administrative activities; the large majority of the funding will be used by the Center to:

- Stimulate Massachusetts' platform for life sciences research and development, encouraging companies to locate and grow here;
- Accelerate the commercialization of ground-breaking new therapies and technologies;
- Invite and match private investment to leverage public funds to best support economic development;
- Promote workforce programs that train or retrain Massachusetts workers to compete and succeed in this thriving sector; and,
- Encourage students to pursue careers in the life sciences.

In the current economic downturn, these investments are more essential than ever to help Massachusetts continue its transformation to a knowledge-based, technology-focused economy and remain a destination of choice for businesses at every stage of their development. Moreover, this funding will enhance the Commonwealth's efforts to spur economic growth across the state to all of its regions, ensuring a balanced approach to the State's economic development objectives.

The Governor's budget assumes that \$25 million in fiscal year 2010 for tax incentives will be awarded by MLSC to certified life sciences companies, in agreement with the annual ceiling provided by the life sciences legislation. The tax incentives offer MLSC and the state a vital economic tool to encourage economic growth and investments in one of the state's highest-paying sectors. All companies receiving benefits under this program will be required to demonstrate substantial economic benefits to the Commonwealth, through employment growth and expanded revenues to the state. The legislation provides significant "return on investment" protections to and the Center and the state, including "clawback" provisions that require regular scrutiny of companies' activities to ensure they are meeting their promises. When companies fail to meet their commitments, the legislation authorizes the Center to recover the benefits and award them instead to a company willing and able to live up to its end of the bargain.

Significant Return on Investment

The Life Sciences Center, led by Dr. Susan Windham-Bannister, is pursuing a strategy of using public investments to leverage private dollars, and that strategy is already generating results. To date, the Center has made nearly \$30 million in public investments in the life sciences sector, leveraging *more than twice that amount* in additional private investment, and creating hundreds of jobs across the Commonwealth at a critical time, all the while expanding scientific knowledge and discoveries.

Through an investment of \$10.6 million in scientific research grants, the Center was able to leverage \$10.6 million in matching funds from academia and industry to support crucial life sciences research projects and attract the best and brightest faculty across the state, while creating dozens of new jobs.

Likewise, through an investment of \$10 million in infrastructure improvements at the Marine Biological Laboratory in Woods Hole (home of Dr. Osamu Shimomura, 2008 recipient of the Nobel Prize for Chemistry), the Center was responsible for leveraging \$15 million in private investment from the Howard Hughes Medical Institute for that project, creating a projected 200 construction jobs and dozens of long-term research positions. Finally, through an investment of \$5 million in wastewater infrastructure in Framingham, the Center facilitated the construction of a new Genzyme facility that will create 300 new manufacturing jobs this year. This type of innovation is exactly what the Massachusetts economy needs to recover from this difficult economic downturn.

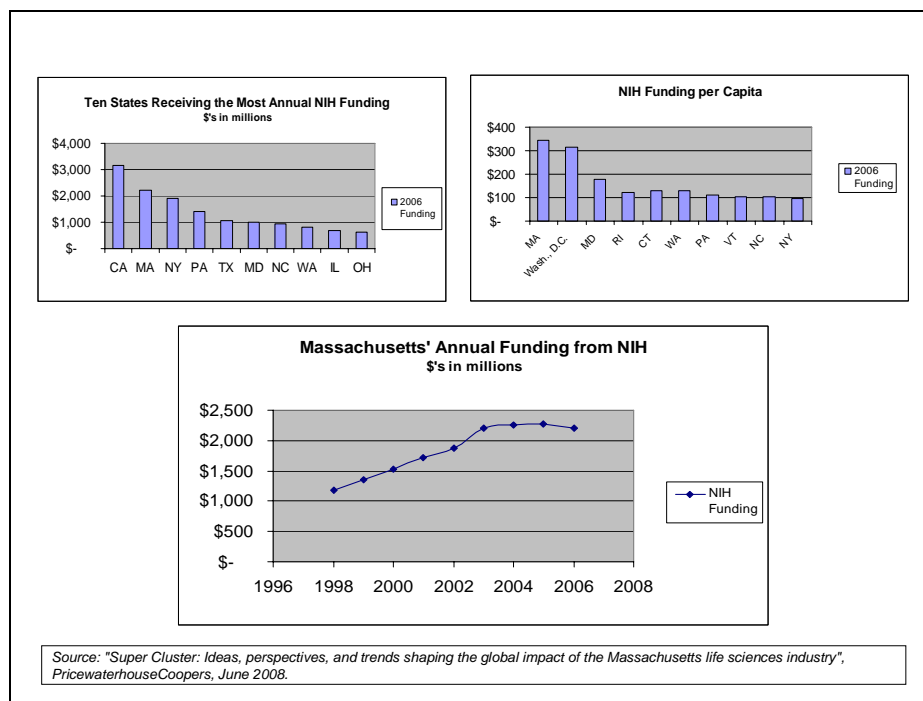
In this difficult economic climate, the Center and the state are committed to creative strategies that will help to enhance Massachusetts' position as a world leader in life sciences, while leveraging and capitalizing upon the

State's current strengths and assets in life sciences. A notable example of this is the innovative public/private program Massachusetts Life Sciences Center has forged. Known as the Corporate Consortium Program, this new initiative allows partner companies to co-invest with the Life Sciences Center, greatly leveraging the investment of the Center's public dollars. Johnson & Johnson, the charter member of this program, has contributed \$500,000 in matching funds, and more companies have already expressed great interest in following behind them. The Center continues to develop similar programs and partnerships to leverage private sector capital and expertise, thereby maximizing the value that taxpayers receive from their investments.

The Life Sciences Industry in Massachusetts

Massachusetts is a world leader in the life sciences industry, which includes research and university-based discovery, biotechnology and pharmaceuticals, medical device manufacturers, as well as a developing network for stem cell-based innovation. Massachusetts employs an estimated 100,000 life sciences workers, with more than 400,000 more in the health care industry. This represents just under 20% of the total state workforce. It is estimated that the life sciences industry generates over \$25 billion in revenues to the Massachusetts economy annually. Highly regarded studies, including those from the Milken Institute and the Center for Labor Market Studies at Northeastern University, estimate that between 3.6 – 5 jobs, result from the creation of every 1 direct life sciences job because “supplier industries” such as legal, financial and advertising are necessary to support life sciences workers. This is known as the “multiplier effect” and must be taken into consideration when analyzing the impact the life sciences industry has on the overall Massachusetts economy.

Massachusetts also leads the nation in per capita National Institutes of Health (NIH) funding. NIH funding is a key measure of a region's academic and industry success in life sciences as on average, each dollar of NIH funding generates more than twice as much in state economic output. Massachusetts currently receives the most funding annually per capita among all US states, and is second only to California in total volume in NIH funding.



As a world leader in the life sciences industry, Massachusetts is targeted by other states and countries seeking to develop or expand their life sciences-based economies. In fact, Massachusetts faces aggressive competition among states such as North Carolina, California, and Texas, as well as countries in Europe and Asia. These states and nations have all increased their efforts to recruit top researchers in the life sciences as well as attract businesses to expand or relocate to their areas. Massachusetts is often cited as the model for

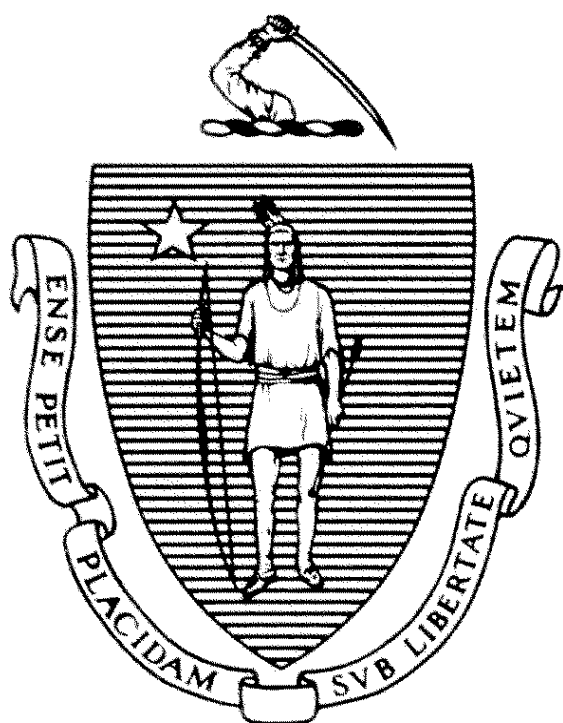
such plans to expand life sciences activities. The 10-year life sciences initiative will ensure that the state remains globally-competitive while expanding opportunities for all of its regions to attract businesses and advance medical breakthroughs that will improve the human condition.

Opportunities in the Life Sciences Industry

Demand for the products and services provided by life sciences companies and institutions will most certainly continue to grow in the short and long term future. As the U.S. and global populations age, life saving and illness-preventing technologies and procedures will be further needed and more countries will expend their resources to discover the most efficient and effective ways to keep their citizens healthy.

Many factors favor Massachusetts' prospects for continuing its leadership in the life sciences industry. For example, the state has a highly-trained and diverse workforce with skills that range from manufacturing to research. This skill-mix encourages businesses and institutions to locate a variety of their essential operations in the state and invest in their Massachusetts-based workforce. Massachusetts has a world class education system at all levels, which offers an unprecedented pipeline of future employees available to companies thinking of doing business in the Commonwealth. Furthermore, there are countless leading universities and research institutions committed to discovery and innovation in the life sciences fields, providing a limitless supply of opportunities for commercialization and technology transfer to the market place. Lastly, Massachusetts is a great place to live for companies' employees, offering a wealth of historical, cultural and natural attractions and excellent communities in which to settle down.

Fiscal Year 2010 MassGOALS and Policy Briefs



Safe Communities





FY10 House 1 Budget Recommendation:

Policy Brief

Deval L. Patrick, Governor

Timothy P. Murray, Lt. Governor

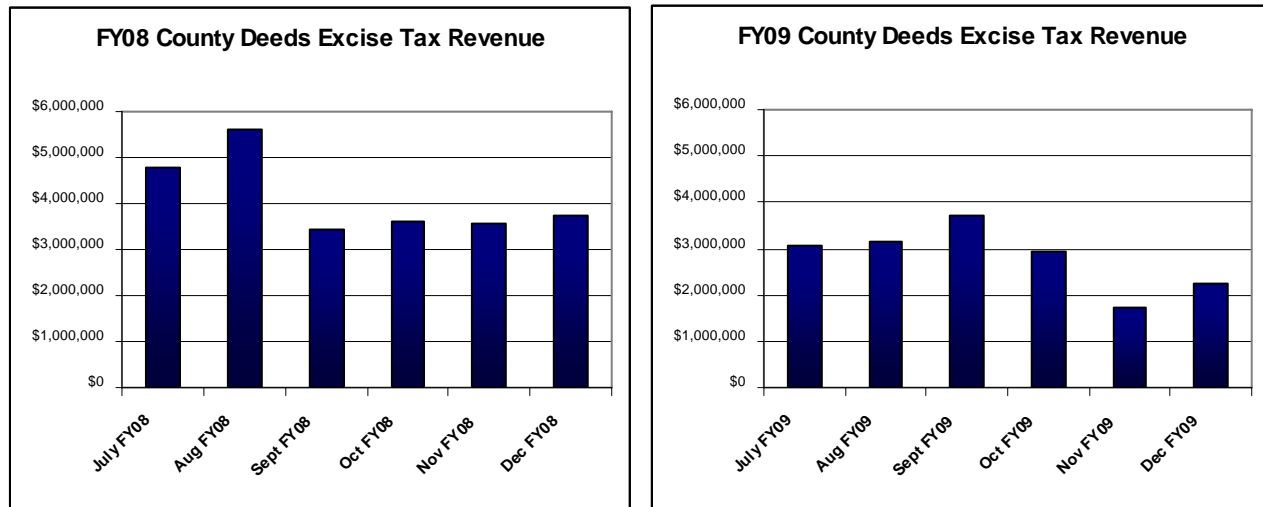
County Sheriffs Transition

Governor's Proposal

Governor Patrick proposes to align the Massachusetts State and County Sheriffs under the state budgeting and finance laws. Massachusetts currently has 14 State and County Sheriffs that perform the same function, but operate under two different accounting systems. The 7 State Sheriffs operate under the state accounting system, including payroll, health care and retirement, while the 7 County Sheriffs continue to operate within a hybrid system that includes county, state and federal funding while using the county accounting system. Despite operating under the county accounting system, County Sheriffs receive 83% of their funding for operations from the state and federal governments. In a companion bill to H.1, Governor Patrick proposes to reform the funding and accounting system for these 7 Sheriffs, which will provide consistency, transparency and efficiency in budgeting.

The volatility of the housing market has made the deeds excise revenues difficult to predict and to utilize as a stable funding source. Over the past year alone, deeds excise revenue has decreased by over 30%. The six month comparison charted below illustrates the volatility month to month for the first six months of fiscal year 2008 and fiscal year 2009. Given that county funding through deeds excise accounts for approximately 17% of the total County Sheriffs' funding, this unstable source of revenue has created year end deficiencies on an annual basis. This funding uncertainty prevents the Sheriffs from budgeting properly and prevents the state from gaining an accurate view of the fiscal situation of the Sheriffs and the Houses of Corrections. Transferring the County Sheriffs to the state system will allow *all* Sheriffs to know their annual appropriation for a given fiscal year and allow them to plan accordingly while taking advantage of the economies of scale that the state can offer.

Deeds Excise Tax Revenue Volatility – 2 Year Comparison



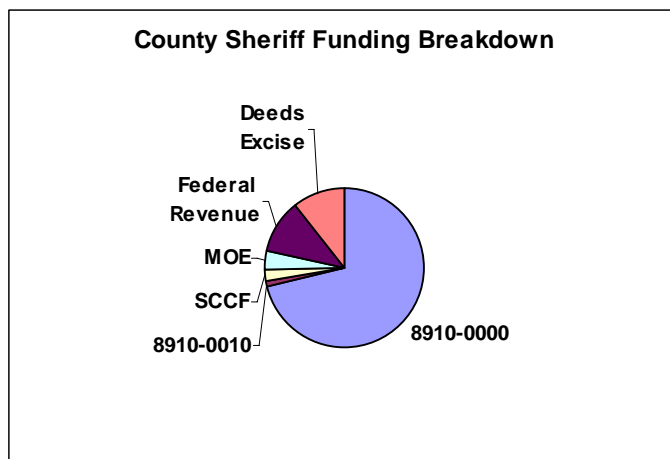
State Sheriffs

The seven State Sheriffs (Berkshire, Essex, Franklin, Hampden, Hampshire, Middlesex and Worcester) function under the constitutional arm of the government and receive a direct state appropriation in the budget. Their employees are state employees, receive state health and retirement benefits, and their operations utilize the state accounting, human resources, and payroll systems.

County Sheriffs

The seven County Sheriffs, (Barnstable, Bristol, Dukes, Nantucket, Norfolk, Plymouth, and Suffolk) are considered departments of the existing counties and receive their funding through 6 sources as allocated by the County Government Finance Review Board. The current funding sources include state General Fund appropriations for operations and Shattuck Hospital expenses; a percentage of the county deeds excise revenue and a County Maintenance of Effort (MOE) contribution; and federal revenue received for housing federal inmates.

County Sheriff Funding Sources	
Barnstable Bristol Dukes Nantucket Norfolk Plymouth Suffolk	State Funds
	8910-0000 - State budget appropriation
	8910-0010 - Shattuck Hospital Expense
	Federal Funds
	Revenue from Federal Inmates
	County Funds
	MOE
	SCCF
	County Deeds Excise Fund



Advantages of Reform

- **Potential Cost Savings-** Based on current estimates from Group Insurance Commission (GIC) and Public Employee Retirement Administration Commission (PERAC), the cost of providing these benefits will drop by \$8-11 million once the transition is complete and operational. GIC and PERAC projected the health care and retirement costs savings by comparing their estimated costs to the current county projections. This estimate is based on fiscal year 2010 projections from the counties, GIC and PERAC.
- **Greater Fiscal Stability for Current County Sheriffs-** Under the current system, the budget for the county sheriffs is volatile during each fiscal year. The County Sheriffs are more susceptible to not reaching their funding goals because they are also dependent on local deeds revenue and county finances, which are affected by the overall economy.
- **One State Sheriff System-** The County Sheriffs would no longer be under an entirely different budget cycle and funding mechanisms. Having 14 State Sheriffs opens the door to further policy goals for *all* sheriffs, such as increasing economies of scale as one group, unifying public safety approach statewide, maximizing services for inmates statewide, standardizing all inmate data, and having a more coherent funding approach.
- **Increased Oversight-** Under a uniform system, the Executive Office for Administration and Finance (A&F) and the Legislature could track the expenses, revenue and personnel with greater detail. Under this scenario, all sheriffs would process their accounting through MMARS and place their employees in the HR/CMS system. These two steps would provide a greater understanding of their fiscal picture, and more accountability to state finance rules and regulations.

Mechanics

Each Sheriff will have a separate line item for the operation of his or her department and all employees will become state employees with state health insurance and pension benefits. Additionally, the County Corrections account (8910-0000) will be used to allocate the costs associated with health and retiree benefits to GIC and PERAC. All revenues previously collected by the county to fund the Sheriffs will now be deposited into the General Fund.



FY10 House 1 Budget Recommendation:

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Deval L. Patrick, Governor

Timothy P. Murray, Lt. Governor

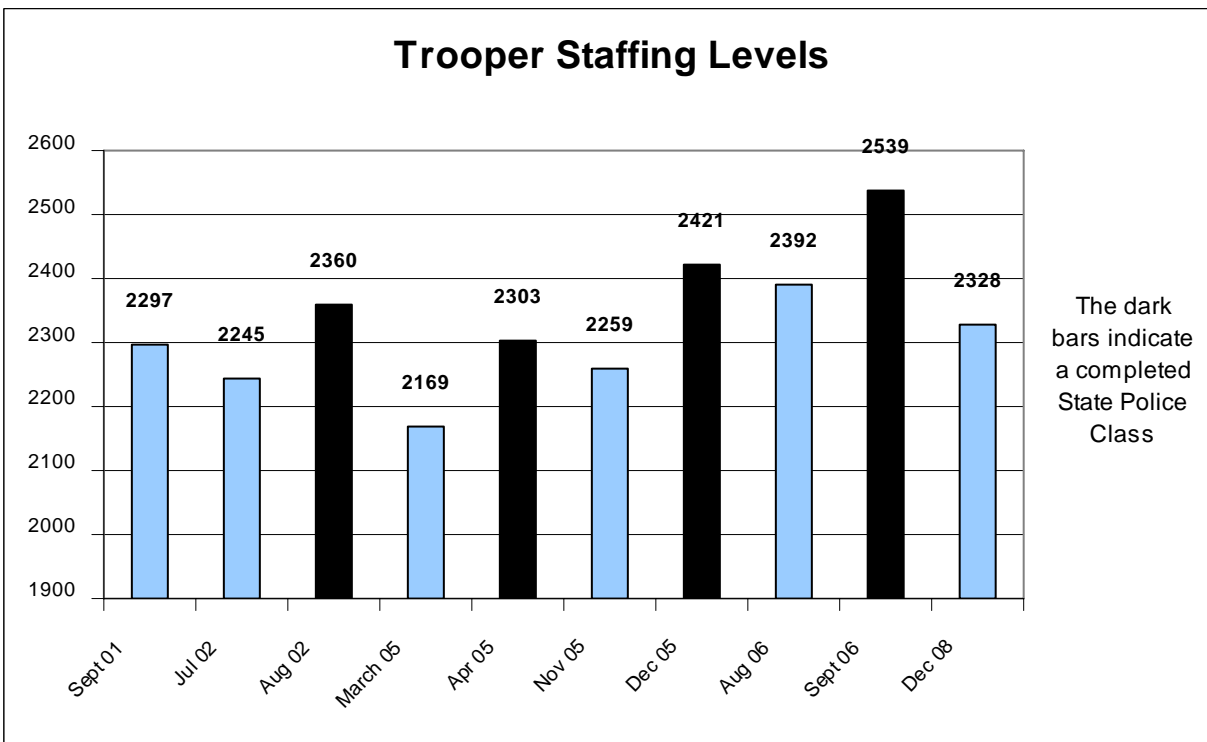
Police Training Initiative

Governor's Proposal

The Emergency Recovery Plan includes an initiative to fund police training through an automobile insurance surcharge and that funding structure is included in the House 1 (H.1) recommendations. This surcharge will fund two programs: the Municipal Police Training Committee (MPTC) and an annual state police class. The purpose of this initiative is to fully fund comprehensive police training, revise the current curriculum and ensure police officers are receiving quality in-service trainings. The surcharge will provide \$3.1 million at the MPTC for municipal police and college police training, and \$3.2 million at the State Police Department for state police officer training.

The surcharge will be included on private and commercial auto insurance policies. The amount will be \$1.60-\$2.00 per policy. Currently, Massachusetts has 3.1 million private auto insurance policies and 500,000 commercial auto insurance policies. This will generate enough revenue to fully fund both programs.

The MPTC is currently funded in a state budget appropriation at \$2.9 million, but this line item has been chronically under-funded. As a result, training programs have not been updated and there are not enough instructors. Once the surcharge is fully implemented, it is projected that MPTC will have the available funds to streamline programming and expand the curriculum to improve the training of municipal police officers. Additionally, State police classes are typically funded through a line item in the budget or through a supplemental budget; both amount and availability of funding, however, are inconsistent from year to year. Since fiscal year 2002, a new state police class has been included in an annual budget only twice and through a supplemental budget once. Without a dedicated funding stream or a regularly scheduled class, it is difficult to keep a fully staffed force.



The Municipal Police Training Committee

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

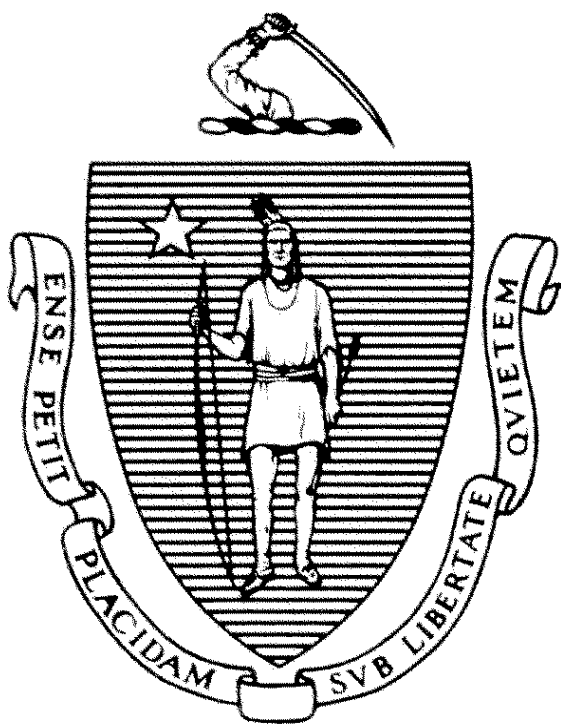
The MPTC has 5 regional municipal police academies located in Randolph (headquarters), Boylston, Plymouth, Reading and New Bedford. With the additional funding, the MPTC will conduct evaluations of instructors and their material to ensure uniformity. Specialized police training, such as drug raid planning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

An Annual State Police Class

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

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

Fiscal Year 2010 MassGOALS and Policy Briefs



Civic Engagement





FY10 House 1 Budget Recommendation:

Policy Brief

Deval L. Patrick, Governor

Timothy P. Murray, Lt. Governor

Civic Engagement Initiatives

Governor's Proposal

Civic Engagement initiatives in the fiscal year 2010 budget fall into three main categories:

Access and Opportunity

The Patrick-Murray Administration remains committed to the principles of equal opportunity and non-discrimination in all facets of Executive Branch operations. The Administration's Access and Opportunity effort, executed through the office of the new Administration and Finance Assistant Secretary for Access and Opportunity, is about people, procurement and policy, and embraces the challenge to achieve success in spite of fewer resources. One key example of this can be seen in the efforts to enhance the Commonwealth's relationship with women and minority-owned businesses.

Starting in the current fiscal year and accelerating pace in the next, the State Office of Minority and Women Business Assistance (SOMWBA) has reduced the time it takes for a business to become certified by over twenty-five percent. This improvement has been accomplished through the intelligent application of technology. In reducing certification time, SOMWBA has been able to enhance these businesses' access to government contracts, while at the same time redeploying the agency's human resources to more productive, client-focused activities. In the upcoming fiscal year, SOMWBA will expand the use of technology to better meet the needs of certified businesses while also creating pathways for success of such businesses in the private marketplace.

In fiscal year 2010, the Administration's Access and Opportunity efforts will reach across state government to improve how we make real the promise of equal opportunity and non-discrimination in all facets of our work. For more information, please visit the Access and Opportunity website at <http://www.mass.gov/A&F/oao>.

Public Service

The Commonwealth Corps is one of the signature Civic Engagement initiatives of the Patrick-Murray Administration; its purpose is to facilitate intensive, direct service to rebuild Massachusetts' communities and address their unmet needs. As of January 2009, over 250 Corps members are serving communities across Massachusetts, tutoring students, mentoring youth, helping patients and elders receive health information, improving community spaces, staffing crisis hotlines and providing many other valuable services.

While the Commonwealth Corps remains a top priority for the Governor, the Administration recognizes that many other valuable programs are being asked to tighten their belts and that there must be shared sacrifice. Accordingly, the Governor has removed \$1 million in Commonwealth Corps funding for fiscal year 2010 (a 33% reduction), following \$640,000 in fiscal year 2009 emergency budget reductions.

The program's line-item has also been moved from the Governor's Office to the Department of Workforce Development under the Executive Office of Labor and Workforce Development, so that it can be coordinated with similar programs, including the Summer Jobs Program for At-Risk Youth and an existing \$750,000 grant for the Massachusetts Service Alliance, which operates the Commonwealth Corps. This move will create management efficiencies and enhance our opportunities for applying for federal support.

Increasing Budget Transparency

Through the course of this Administration and included in the fiscal year 2010 budget recommendation, there have also been a number of efforts to increase the transparency of the Commonwealth's budget and the availability of other fiscal information.

- To promote civic engagement and public participation, Executive Branch departments were provided with new guidance for conducting budget development hearings in the fall of 2008. Each Cabinet Secretary was encouraged to hold at least two budget hearings; at least one of these was to be held outside of the metropolitan Boston area, and at least one was to be at a time of day convenient for the general public to attend (i.e., outside the traditional 9-to-5 business day). Over 500 people attended these hearings in August and September.
- For the first time, the Governor's budget website included information about mid-year reductions made through the Governor's statutory authority under M.G.L. Chapter 29 Section 9C in October; reductions can be easily viewed at the line-item level and compared to historical budgets and expenditures. For more information, see <http://www.mass.gov/bb/gaa/fy2009/>.
- The Commonwealth's capital budget was published online for the first time, in a searchable and accessible format matching that of the Commonwealth's operating budget. More information about the capital budget has been made available than ever before, and the capital budget can now be viewed by funding source, investment category, spending agency and beneficiary agency.

Governor Deval Patrick's Five Year Capital Investment Plan FY2009 - FY2013

Governor's Five Year Capital Investment Plan

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Investment Category Summary

► Budget Summary Long-Term Planning

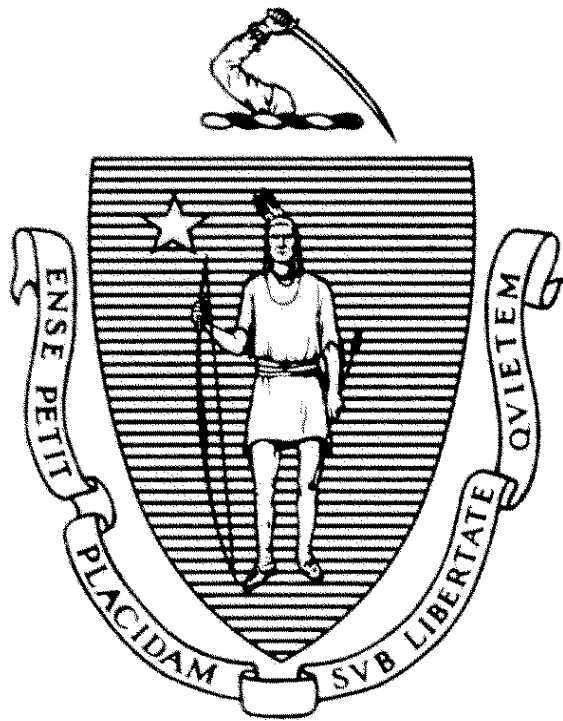
Fiscal Year 2009 Resource Summary (\$000)

INVESTMENT CATEGORY	FY2009 Bond Cap	FY2009 Federal	FY2009 Third Party	FY2009 Accelerated Bridge Program	FY2009 Project Bond Funded	FY2009 Total
Community Investment Program	253,971	0	0	0	0	253,971
Corrections	26,948	0	400	0	0	27,348
Courts	129,075	0	0	0	0	129,075
Energy and Environment	122,814	1,700	500	0	0	125,014
Economic Development	77,816	0	0	0	7,000	84,816
Health and Human Services	68,530	0	0	0	0	68,530
Higher Education	72,534	0	9,100	0	0	81,634
Information Technology	87,047	24,791	50	0	0	111,887
Public Safety	27,416	0	0	0	15,150	42,566
Housing	168,500	0	24,500	0	0	193,000
Transportation	608,508	399,674	86,000	164,900	0	1,259,082
State Office Buildings & Facilities	84,119	0	0	0	0	84,119
TOTAL	1,727,279	426,164	120,550	164,900	22,150	2,461,043

Finally, this budget includes two efforts to improve the transparency of the Commonwealth's tax expenditures:

- Outside Section 12 requires public disclosure of the results of refundable or transferable tax credit programs, including reporting of the number of jobs created, by taxpayers who receive the credits and by state agencies that administer the programs. Part (F)(4) of the outside section lists specific credits and the relevant information to be reported for each.
- The online presentation of the Commonwealth's tax expenditure budget has also been improved. New functionality for aggregating and disaggregating the various categories of tax expenditures makes it easier for readers to analyze and understand the information presented.

Fiscal Year 2010 MassGOALS and Policy Briefs



Clean Energy & Environment





FY10 House 1 Budget Recommendation:

Policy Brief

Deval L. Patrick, Governor

Timothy P. Murray, Lt. Governor

Expanded Bottle Bill

Governor's Proposal

The Massachusetts Bottle Bill, enacted in 1982, is designed to encourage consumers to return their empty soda and beer containers by means of a redeemable \$0.05 deposit. Its principal objective is to reduce litter and encourage recycling of aluminum cans and plastic and glass bottles. In the fiscal year 2010 budget, Governor Patrick proposes to expand the types of containers subject to the \$0.05 deposit to include those containing water, flavored waters, coffee based drinks, juices and sports drinks of less than 1 gallon in size. This initiative will expand the market for recyclables and keep our towns clean while providing additional revenues for recycling and clean water programs.

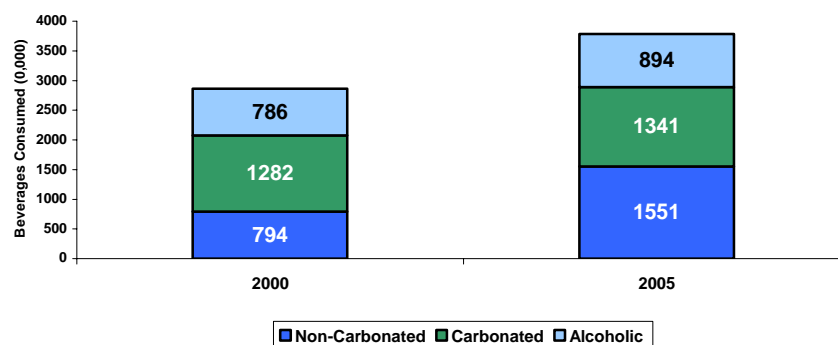
What is the Bottle Bill?

The Massachusetts bottle bill places a \$0.05 refundable deposit on all carbonated sodas, beer and malt beverages. Most bottle deposits are redeemed through two types of sites, redemption centers and large retail stores such as local grocery or package stores. Redemption centers are specialized small businesses that provide refunds for empty beverage containers before delivering them to bottlers/distributors. Large retailers often lease vending machines to manage redemptions by their customers. The leasing company delivers bottles to bottlers/distributors for payment, or may sell materials that are recyclable. Under 1989 reforms, bottlers/distributors must maintain a Deposit Transaction Fund for unclaimed deposits. These funds are transferred to the Department of Revenue each month and support government programs.

Why Expand the Bottle Bill?

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

DEP Beverage Consumption in Massachusetts Estimates, 2000 and 2005

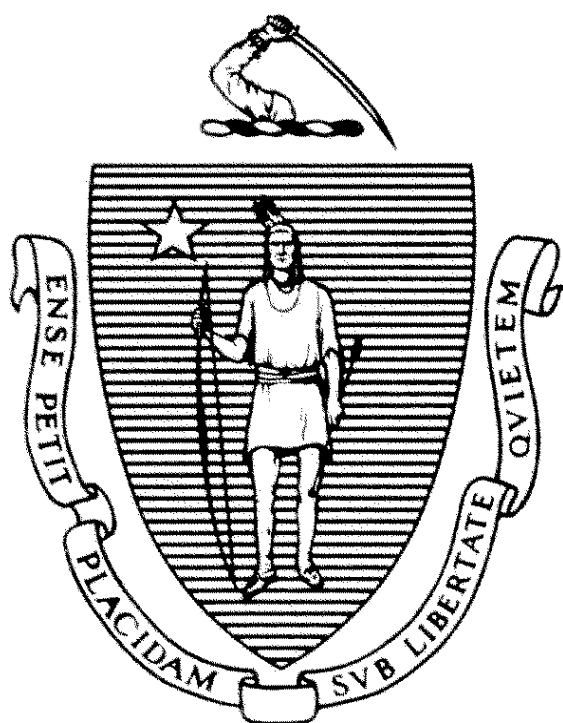


By revising the definition of “beverages” in Outside Section 15 of the Governor’s budget, the Bottle Bill can be brought up to date. This will reduce confusion among consumers about which beverages are eligible for redemption. Consumers will be required to pay an additional \$0.05 cents on water, flavored waters, iced teas, coffee based drinks and sports drinks. With the additional revenue generated through this change, funds will be dedicated to Department of Environmental Protection recycling and solid waste management programs at

Policy Brief

\$5 million, a 46% increase in funding from fiscal year 2009. Additionally, \$10 million is provided for the Massachusetts Water and Sewer Rate Relief Fund, which allocates rate reductions to communities and residents served by the Massachusetts Water Resources Authority (MWRA).

Fiscal Year 2010 MassGOALS and Policy Briefs



Efficient Transportation & Mobility





FY10 House 1 Budget Recommendation:

Policy Brief

Deval L. Patrick, Governor

Timothy P. Murray, Lt. Governor

Highway Fund

Governor's Proposal

Governor Patrick's fiscal year 2010 budget lays the foundation for broader reform proposals by improving transparency and accountability for transportation finance. In the recent State of the Commonwealth address, Governor Patrick noted that for far too long the state's transportation system - and the means by which we pay for it - has been "a cluster of tangled knots". Funding the Commonwealth's transportation infrastructure and programs by the Legislature and previous administrations has been through an antiquated system of confusing splits between different sources, making it difficult to identify transportation-related revenue and transportation-related expenses. For example, in the past, certain Registry of Motor Vehicle fees have flowed directly to the Highway Fund, while others have flowed directly to the General Fund. Similarly, certain transportation-related expenses have been paid from the Highway Fund, and others have been paid from the General Fund. Governor Patrick's FY10 budget changes the use of "fund splits" to more accurately reflect true revenues and spending for transportation programs.

The Governor's fiscal year 2010 budget simplifies and clarifies funding for transportation by directing all transportation-related revenues, expenditures and debt service on bonds issued for transportation purposes, to the Highway Fund. The Highway Fund accounts for highway user taxes, including the gas tax as mandated by the Accelerated Bridge Program legislation, and Registry of Motor Vehicle fees. The fund is used to finance highway maintenance, safety services and provides support for Regional Transit Authorities. The debt service paid from the fund supports road and bridge construction, providing mobility and economic opportunity for the citizens of the Commonwealth.

The fiscal year 2010 budget consolidates sixteen transportation agency line items to eight under the umbrella of Executive Office of Transportation and Public Works. The siloed nature of our funding works against the Administration's progress towards effectively managing statewide transportation systems and efficiently using our transportation related resources. It offers maximum flexibility to the Executive Office to manage with limited resources. The consolidated account is still managed in a manner that requires specificity around how the dollars are spent; funding for payroll is tracked separately than funding for contract assistance to Regional Transit Authorities.

The FY10 balance sheet for the Highway Fund depicts the extent to which transportation expenses need to be subsidized by non-transportation related General Fund receipts. Even with the proposed RMV fee increases, transportation expenses exceed transportation revenues, requiring additional support from General Fund.

FISCAL YEAR 2010 HIGHWAY FUND FINANCIAL STATEMENT	
Budgeted Funds (in millions)	
	HIGHWAY FUND
REVENUES AND OTHER SOURCES	
Gross Gas Tax Revenues	650.5
SubTotal: Net Tax Revenue Available for Budget	650.5
Federal Reimbursements	0.8
Departmental Revenue	431.3
Registry of Motor Vehicle Fee Increases	74.5
Consolidated Transfers	(74.8)
SUBTOTAL, FISCAL YEAR 2010 REVENUES	1,082.3
TOTAL, FISCAL YEAR 2010 AVAILABLE RESOURCES	1,082.3
EXPENDITURES AND USES	
Direct Appropriations, including debt service	1,182.3
Balances Forward for Continuing Appropriations	0.0
Authorized Spending from Retained Revenue	8.3
TOTAL, FISCAL YEAR 2010 EXPENDITURES	1,190.6
END OF FISCAL YEAR RESERVED BALANCES	
Designated for Continuing Appropriations	0.0
FISCAL YEAR 2010 UNDESIGNATED FUND BALANCE	(108.3)
For the purposes of a consolidated balanced budget, the projected deficiency in the Highway Fund is offset by a surplus in the General Fund.	

For citizens, Governor Patrick's proposal provides the public with a more transparent and accurate accounting of our transportation revenues, and expenses and the extent to which transportation expenses need to be subsidized by non-transportation-related General Fund receipts. It also ensures that our gas taxes, registry fees and other transportation-related revenues will be appropriately dedicated to the care and maintenance of

our highways, roads, bridges and other transportation infrastructure and to the services provided by the Commonwealth to users of our transportation systems.

The Governor and his Administration remain committed to sweeping and historic reforms to our transportation bureaucracy; reforms that will save taxpayers, toll payers, and fare payers tens of millions of dollars, while making our transportation system more efficient and more customer-friendly.

**FY10 House 1 Budget Recommendation:****Policy Brief**

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Registry of Motor Vehicle Fees

Governor's Proposal

Massachusetts first began issuing licenses and registration plates in June of 1903. Since then the mission of the Registry of Motor Vehicles (RMV) has expanded to include development and enforcement of vehicle and driver safety policies and programs, public outreach, education and partnerships with cities, towns and other agencies that use license suspension as a tool for enforcing important policies such as tax and fine collection, child support payment, sex offender registration and warrant execution.

Over the past two decades the number of registry fees has swelled to over 200, including 17 different fixed price fees and 35 fees that vary by vehicle weight. Liquor identification cards cost 66% more than Massachusetts IDs, even though the benefits and features of each are essentially the same. In fiscal year 2010, Governor Patrick will reform Registry of Motor Vehicle fees by consolidating the number of fees from 201 to 40. This will:

- Improve customer service at branches by offering online discounts and streamlining the current fee structure.
- Keep things simple: the updated fees are easy to understand.
- Bring the RMV into the 21st century by moving transactions online and automating functions.
- Decrease costs at the RMV by automating processes and data gathering.

How will you be affected by the RMV fee changes? (examples)				
	Fee Name	Current Fee	New Fee	Increase / Decrease
Vehicle Driver	Class D License	\$40	\$50	\$10 increase; paid every 5-years
Motorcycle Driver	Motorcycle License	\$40	\$50	\$10 increase; paid every 5-years
Vehicle Owner	Registration (renewal)	\$41	\$50	\$9 increase; paid every 2-years
Business	Taxi Registration (new)	\$90	\$50	\$40 decrease; One time cost
New Car Purchase	New Title	\$50	\$75	\$25 increase; One time cost

For some transactions, such as bus and ambulance registrations, the fees charged will decrease. Additionally, in October of 2009 the RMV will restore discounts for transactions that can be completed online at www.mass.gov/rmv. This discount extends savings back to the customer since the costs to complete services online are significantly lower for the Commonwealth.

New revenue generated, along with all other transportation revenue, will be dedicated to the Highway Fund in an effort to re-align both the spending and revenue for transportation programs. These funds are for the operation of transportation agencies (e.g. regional bus services, highway department) and to pay debt service for road and bridge construction. Fees will be changed through the State's regulation process and are subject to public input prior to implementation. All RMV fee proposals will be subject to the public hearing process scheduled for later this year.

Comparison to Surrounding States			
	Registration (Two year)	Licensing (Per year)	Title (One time)
MA (Existing / Proposed / Last Change)	\$41.00 / \$50.00 / 2002	\$8.00 / \$10.00 / 2002	\$50.00 / \$75.00 / 1989
ME	\$70.00	\$5.00	\$33.00
NH	\$43.00	\$10.00	\$25.00
CT	\$85.00	\$11.00	\$25.00
VT	\$120.00	\$10.00	\$28.00
NY	\$25.00	\$7.00	\$50.00
RI	\$60.00	\$6.00	\$27.00

Comparison data based on research by RMV/EOT. Information presented may not reflect recent changes made by other states.