

SWM Committee Budget Executive Summary

Fiscal year 2014 presents the Commonwealth with a number of new challenges. Like other recent budgets, we are again faced with the reality of closing a budget gap in excess of \$1 billion; however, unlike in recent years, we face that challenge with the understanding that it is time for us to reinvest in the essential elements of government that millions of citizens rely on every day. It is those areas of government, like transportation, education and housing that are the key to our continued prosperity. The Senate Ways and Means fiscal year 2014 budget prioritizes these and other core areas of government while addressing our ongoing fiscal challenges.

Those ongoing fiscal challenges were underlined when fiscal year 2013 tax revenues were downgraded in December of 2012. Since that time, revenues have rebounded strongly, but the painful familiarity of midyear budget cuts reminded us all that the economy around us has changed, and we cannot assume continued fiscal stability. As we developed our fiscal year 2014 budget, we remained acutely aware of the fact that restoring core government services must be balanced against our economic reality.

Fiscal Year 2014 – Spending and Revenue

The Senate Ways and Means fiscal year 2014 budget provides \$33.92 billion in spending, an increase of 4.2% over fiscal year 2013 spending. The primary drivers of this spending increase are non-discretionary obligations such as debt service and employee benefits, Affordable Care Act implementation and MassHealth, and the need to continue to meet our commitment to the foundation budget for Chapter 70. In addition to these traditional contributors to cost growth, our fiscal year 2014 budget also includes notable new investments in transportation, elder affairs, housing and local education aid.

In creating this budget, we confronted a \$1.2 billion budget gap. While this gap is the smallest we have faced since fiscal year 2008, the fact that we have exhausted cuts and innovative revenue sources in recent years made the task of closing this year's gap all the more difficult. Once again, we curbed non-essential spending to close a large part of this gap. The Senate Ways and Means budget level funds or reduces the spending level for more than 300 items in the fiscal year 2013 budget. In addition to maintaining controls on spending, we also rely on \$627 million in one-time resources to balance our budget. We understand that limiting our use of one-time revenues, like the Rainy Day fund, is essential to maintaining our fiscal health going forward. The one-time solutions in this budget help balance our budget, while leaving a strong Rainy Day fund balance of over \$1.25 billion to prepare for the future.

The Senate Ways and Means budget also includes approximately \$430 million in new, ongoing tax revenues that reduce our structural budget gap in fiscal year 2014 and in years to come. The revenue package included in this budget is the result of a close partnership with our colleagues in the House that prioritized generating sustainable new tax revenues while limiting the burden on the taxpayers of the Commonwealth.

We believe that the revenues generated through a 3 cent increase on the gas tax, the application of the sales tax to some forms of computer services and increased tobacco excise taxes help us to invest in transportation, reduce our structural deficit and spread the impact of tax increases so that it is not borne disproportionately by one group. There is no ideal tax package – the desire to support all worthy programs with the need to keep tax rates fair and reasonable can never be perfectly balanced – but the revenues included in this budget will allow us to support vital programs, while keeping Massachusetts’ tax rates competitive with other states in the nation.

Even more so than in recent years, the Senate Ways and Means budget employs a range of strategies to balance our budget. By combining reasonable tax increases with spending reductions, judicious use of one-time revenues with new reform initiatives, we have a budget that meets the needs of the upcoming year and improves our fiscal standing going forward.

Fiscal Year 2014– Restoring Core Services

In many ways, Massachusetts’ experience in recent years has been a model for other states. While other states saw their bond rating downgraded, we saw our bond rating improve. While other states saw their financial reserves depleted, we were able to rebuild our rainy day fund. Whether in rates of unemployment, health care coverage, or any number of other measures, Massachusetts has managed to outpace our peer states in the strength of our recovery; that fact, however, should not mask the damage that the recent recession has done to our state’s ability to help our citizens.

Between 2008 and 2013, our waiting lists for elder home care and subsidized childcare have skyrocketed. In the last five years, reimbursement rates for Special Education Circuit Breaker and regional school transportation have decreased while local costs have grown. Since the Great Recession, our transportation infrastructure has aged and become less reliable as more and more people needed to use it.

The Senate Ways and Means fiscal year 2014 budget prioritizes increasing resources to these vital programs that have declined in their ability to help people, families and communities in recent years.

Transportation

The Senate Ways and Means budget includes \$247.8 million in new funding for transportation. These new funds will not only address short-term budget problems at both the MBTA and MassDOT, but combined with new accountability measures, will provide long-term fiscal stability for our transportation system.

The new funds for transportation in this budget are an extension of the transportation finance legislation recently debated in the Senate. That legislation was developed with the knowledge that a strong transportation system is essential to Massachusetts’ economic prosperity and that without substantial new investments, we simply will not be able to remain economically competitive with other states and other countries. The transportation funding in this budget makes those investments across all elements of our transportation system.

- MBTA
 - The Senate Ways and Means budget provides an additional \$115.2 million to close the MBTA's fiscal year 2014 funding gap. In the short-term, these funds will ensure that riders will not be subjected to service reductions or fare hikes in the next year. After fiscal year 2014, the transportation finance legislation provides the MBTA with certainty in terms of state support. However, that state support is contingent upon the MBTA meeting reasonable targets for revenues and savings which will provide a tangible incentive for the MBTA to maximize ridership and efficiency.
- MassDOT
 - The Senate Ways and Means budget provides MassDOT with new funds to move employees off of its capital budget and begin important capital improvement projects. Over the last decade, stagnant support of our transportation infrastructure has led to short-term budget fixes, including the use of capital funds to pay operating costs. With hundreds of millions of dollars directed toward day-to-day operations, our transportation capital plan has fallen dangerously behind where it needs to be in terms of maintenance and improvements. The MassDOT funds in this budget are part of a three-year plan to end the practice of paying for operating costs on a credit card and freeing up more than \$400 million for our transportation capital budget.
- Regional Transit Authorities (RTAs)
 - The Senate Ways and Means budget also recognizes the role that RTAs play in our transportation system. RTAs provide 15 different regions of this state with public transportation options. In a number of those regions – especially to the west of Boston – RTAs are the only way those without access to a car can get to a job or a doctor's appointment. This budget includes \$80 million in new funding to forward fund the RTAs' fiscal year 2014 budget and provide an increased operating subsidy. Currently, RTAs are reimbursed by the state for costs already incurred. In addition to requiring the RTAs to borrow money to pay their bills, the uncertainty with state reimbursements in the current system inhibits RTAs' ability to adapt to their regions' changing transportation needs.

Local Education Aid

The Senate Ways and Means budget provides \$163.4 million in new funding for Chapter 70, Special Education Circuit Breaker, regional school transportation and charter school reimbursements for school districts. This amount includes close to \$130 million in new Chapter 70 aid and full funding of Special Education Circuit Breaker.

- ***Chapter 70***
 - The Senate Ways and Means budget includes \$29.5 million in new Chapter 70 aid that will move underfunded districts closer to their target aid level and ensure that all school districts receive an increase in aid over fiscal year 2013. Seven years ago, the Senate spearheaded an effort to make the Chapter 70 formula more equitable and

more understandable. The fiscal year 2007 Chapter 70 reforms were scheduled to be phased in over 5 years, but the reforms were suspended during the recession. Last year's budget included the first steps in 5 years to restart the process of implementing reforms. This budget continues that process by directing \$16.9 million to 104 school districts that receive less in Chapter 70 aid than they should under these reforms.

- ***Special Education Circuit Breaker***

- The Senate Ways and Means budget includes \$252.8 million for the Special Education (SPED) Circuit Breaker program. SPED Circuit Breaker is a prime example of a program that has not yet recovered from the effects of the last five years. In fiscal year 2008, the state fully met its obligations to SPED Circuit Breaker, providing a reimbursement rate of 75% of eligible costs. By fiscal year 2010, that reimbursement rate had fallen to 42.3%. Last year, the Senate budget included the funds to fully fund SPED Circuit Breaker, but through the 9C process, that reimbursement level was reduced to 70%. This year, assuming special education costs grow at normal rates, our funding level will fully fund the state's commitment to SPED Circuit Breaker.

- ***Regional School Transportation***

- The Senate Ways and Means budget provides \$49.5 million for regional school transportation reimbursements. This \$5 million increase in funding from the fiscal year 2013 spending level will mark the highest reimbursement rate for regional school transportation costs since fiscal year 2009. In that time, as fuel costs have increased, state reimbursements have decreased from \$58.3 million to \$40.5 million in FY 2011. We are still not at the reimbursement level we achieved five years ago, but we are committed to restoring this lifeline for our regional school districts.

- ***Charter School Reimbursements***

- The Senate Ways and Means budget provides \$76.4 million to reimburse public school districts for the cost of charter school tuition. This funding level is an increase of \$5.9 million over the fiscal year 2013 spending level and would represent the highest funding level for this item since fiscal year 2009. We recognize that even this 8% increase in funding will still fall short of the level necessary to meet the estimated cost of charter school reimbursements in fiscal year 2014, but we are committed to increasing our support for this item in recognition of the growing cost of charter school tuition at the district level.

Elder Services

The Senate Ways and Means budget includes \$11.1 million in new funding for Elder Affairs programs. These additional funds will eliminate existing waitlists for home care services and increase services at senior centers throughout the Commonwealth:

- ***Elder Home Care***

- The Senate Ways and Means budget proposes fully funding both the Home Care Program and the Enhanced Community Options Program. These two programs provide support services to senior citizens living independently. The services, which range from personal care, to skilled nursing care, to homemaking services, enable thousands of low-income seniors to stay safely in their homes and avoid nursing home care. Since fiscal year 2008, the elder home care waiting list has increased from fewer than 100 to more than 1,500 in fiscal year 2013. The short-term savings from not meeting the demand for home care services leads to substantial long-term costs for taxpayers and families in the form of increased nursing home placements. The \$6.3 million in new home care funding will eliminate the current waitlist. Given that nursing home placements are more than six times as expensive as home care services, we believe that this investment has the potential to save millions of dollars and keep more seniors living safely in their homes.
- ***Councils on Aging***
 - The Senate Ways and Means budget proposes increasing support for Councils on Aging to \$8 per elder. This increase from the current reimbursement rate of \$7.50 per elder will provide \$1.3 million more in funding for senior centers and other local services. This funding level would mark the highest ever level of state support for Councils on Aging.

Early Education

The Senate Ways and Means budget increases the funding for income-eligible childcare by \$20 million over estimated fiscal year 2013 spending. Providing low-income families with high quality childcare improves school readiness and also provides vital work or education support for parents and guardians. Over the past three years, the number of income-eligible families provided with childcare has declined by more than 5,000 while the number of families on the waiting list has skyrocketed. This budget will take more than 2,000 families off the waitlist and provide them with childcare.

Fiscal Year 2014 – New Investments in Essential Services

Restoring support for transportation, education aid, elder affairs and childcare is pivotal for continuing our recovery, but it is not enough. We must be proactive in making new investments to confront the most acute challenges facing our state. This budget identifies housing, mental health and veterans services as three areas of the social safety net that require additional resources to meet existing needs.

Housing

The Senate Ways and Means budget includes \$19.6 million in new funds for housing programs that will help thousands of families to secure and maintain sustainable housing. In the last few years, our state's family shelter system has required more than \$100 million in emergency funding to support

the demand for services. We know that the only way to take the strain off of our emergency assistance system is to provide more families with pathways to permanent housing. In order to increase the supply of housing, our budget proposes \$57.5 million in funding for the Massachusetts Rental Voucher Program (MRVP). This \$15.5 million increase over the fiscal year 2013 estimated spending level will provide more than 1,000 new families with the financial support they need for permanent housing. In addition to MRVP, our budget also provides \$4.1 million in new funding for Residential Assistance for Families in Transition, Housing Consumer Education Centers and the Tenancy Preservation program. These three programs each provide a unique service that helps needy families keep their homes and avoid homelessness. By increasing funding for these programs by more than a third, we will substantially increase the state's ability to help families before they require emergency services. As with home care, this funding will save money down the road and result in a better outcome for families.

Mental Health

The Senate Ways and Means budget increases funding for mental health services by \$30.6 million. This increase will maintain the current number of inpatient mental health beds, increase the number of community placements and expand emergency mental health services. In last year's budget, the Senate led the way in ensuring that the state retained 45 inpatient beds at Taunton State Hospital. Those beds ensured that Southeastern Massachusetts continued to have access to necessary mental health services. This year, the Senate Ways and Means budget maintains those beds at Taunton, but also ensures that other aspects of our mental health system are also able to maintain and improve services.

Nine out of ten clients served by the Department of Mental Health are served in a community setting. This budget reflects the fact that in most cases, outpatient mental health services are the most effective and appropriate setting for care by providing just under \$13 million in new funding for Emergency Mental Health and community based Adult Mental Health services. The Senate Ways and Means budget also includes \$600,000 in new resources for the Massachusetts Children Psychiatry Access Project (MCPAP). MCPAP provides pediatricians and primary care physicians with the resources they need – including telephone consultations with mental health professionals – to address the mental health needs of young patients. A 24% increase in state support of those services is a cost effective way to identify and address childhood mental health issues.

Veterans Services

The Senate Ways and Means budget provides \$6.9 million in new funding for veterans services. Veteran service programs in Massachusetts meet a variety of needs for the 400,000 veterans living in the Commonwealth. Those services reflect the fact that our veteran population is diverse and changing. In five years, the Veterans Administration projects that Gulf War era veterans will make up the largest portion of the nation's veteran population. These evolving population characteristics require dynamic state services. Three years ago, the Senate created a new line item for the Train Vets to Treat Vets program. This program provides for recently returned veterans to receive the

professional training they need to provide mental health and other counseling services to their fellow veterans. Our budget continues our support for this area of need. This budget also reflects the need to maintain support for the veterans outreach centers across our state. For the third consecutive year, this budget provides our veterans outreach centers and veterans homeless shelters with a 5% funding increase to meet demand for services. Finally, we recognize the importance of memorializing the service of the men and women who have fought for this country. Our budget includes a new \$160,000 line item that will provide grants to war memorials throughout the state that are in need of repair or improvements.

Continued Commitment to Improving Government

One of the consolations of the difficulties of recent years is that it has led us to redouble efforts to ensure that tax dollars are spent wisely and efficiently. In the past three years our state's performance management efforts have generated millions of dollars in savings in transportation and health care, and have helped us to make smarter funding decisions throughout government. This budget maintains our commitment to making government work better:

- ***Program evaluation***
 - The Senate Ways and Means budget includes funding to support increased program evaluation in English language acquisition and youth violence prevention programs. In both of these areas, research tells us effective programs have huge impacts in terms of individual outcomes and long-term savings. We also know, however, that not all programs are effective enough to warrant investment. By ensuring consistent, high quality evaluation of the Safe and Successful Youth Initiative and the Gateway City English Language Learner program, we can provide policymakers with information they need to make future funding decisions;
 - The Senate Way and Means budget funds a new \$500,000 grant program that will allow research organizations to evaluate existing public health programs. Oftentimes, support for public health programs is hurt by the fact that the benefits of those programs are experienced in other areas of government over a longer period of time. These research grants will help us to better quantify these benefits so that we can more clearly see how public health programs interact with other areas of government.
 - The Senate Ways and Means budget provides \$750,000 for performance management capacity in each of the seven secretariats. Over the last few years, the legislature and administration have worked together to develop new performance based metrics to assess our ability in meeting shared goals. Tracking this progress requires the consistent application of performance management standards in all areas of government. The performance management funding in this budget will provide each secretariat with the resources necessary to support this work.
- ***Program efficiency***

- The Senate Ways and Means budget also includes new funding to improve government efficiency. Our budget provides \$500,000 to support increased use of video conferencing in the court system. Each year, millions of dollars are spent transporting those incarcerated in the Houses of Correction to courthouses for appearances. The grant funding provided in this budget will cover implementation costs associated with expanding the use of video conferencing for some court appearances. Our grant program ensures that video conferencing is limited to appropriate court appearances, but we believe that even a limited expansion in the use of this technology will result in substantial savings to our criminal justice system.
- The Senate Ways and Means budget funds an external study of our childcare system to improve program efficiency. As mentioned earlier, we believe that our early childcare system needs to be expanded to open up access for more children and families. However, there are questions as to the efficiency of our current system, which has reverted more than \$25 million in funding since 2009 in spite of increasing waitlists. We believe an external study of the system can identify areas for improved efficiency and increase the impact of future funding increases.

Fiscal Year 2014 – Maintaining Fiscal Discipline

We are proud of the investments we propose in this budget, but the fiscal challenges we continue to face as a Commonwealth should not be understated. Our ability to increase funding levels for important programs in fiscal year 2014 is only possible because of the work we have all done, in the Senate, the House and the administration, to confront our fiscal challenges in a responsible and disciplined manner. In order to ensure that the increases we make this year are sustainable next year and beyond, we cannot change our fiscal approach.

Our budget is built on the commitment to end fiscal year 2014 with a Rainy Day fund balance in excess of \$1.25 billion. While we will continue to strive for larger reserves, we believe that this balance positions us to handle future adversity. Our budget is also built on a sustainable level of one-time resources. The \$627 million in one-time solutions this budget uses is less than half the amount we used during fiscal year 2011. In addition, the new sustainable revenues included in the recent transportation finance legislation will reduce our structural deficit beyond fiscal year 2014.

The Senate Ways and Means fiscal year 2014 budget continues the process of reinvesting in our communities, families and individual citizens. We believe that by expanding support for elder affairs, education aid, housing, mental health and number of other areas, the money we spend in the months ahead will more than pay for itself in terms of long-term savings and improved quality of life for our neediest residents. We view these investments as an extension of the fiscal approach we have used over the past five years that has set us apart from other states.