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Bulletin

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MTF

2004 Conference Challenge: Minimizing the Structural Gap, Adopting Important Reforms

As legislative conferees begin the arduous task of reconciling the House and Senate versions of the 2004 state budget, they confront two critical challenges: negotiating a compromise budget that minimizes the structural imbalance in next year's finances; and adopting the most significant reforms that have been advanced by each branch.

Although both the House and the Senate -- like the administration -- have made enormous strides in closing the expected $2.5 to $3 billion hole in the state's finances in 2004, none of the proposed budgets fully eliminates the gap between planned spending and ongoing revenues in the coming year. The operating shortfall in the House budget totals at least $300 million, about the same as in the Governor's plan, compared to a gap of almost $550 million in the Senate budget.

In spite of the more than $1 billion of spending cuts in specific programs in each of the legislative budgets -- which come on top of the roughly $2 billion of reductions in the last two years, state expenditures will increase in 2004, largely because of rapidly growing health care costs. Recommended spending in the House budget is almost $350 million or 1.5 percent up from 2003, compared to just over $500 million, or 2.4 percent, in the Senate (see Table 1).

Table 1
Total State Spending
($, Millions)

	2003	Fiscal 2004		
	Estimated	Governor	House	Senate
Line item total	$22,450	$22,859	$22,579	$22,523
"Off-budget" spending	519	412	612	865
Assumed reversions*	-120	--	--	--
Total	$22,849	$23,271	$23,191	$23,388
Change from 2003				
Amount	--	422	342	539
Percent	--	1.8	1.5	2.4

* Unspent agency appropriations at end of fiscal year.

Because both legislative budgets, like the Governor's, rely so heavily on one-time revenues, the final 2004 budget will almost certainly be structurally imbalanced, necessitating further spending cuts or additional revenues in 2005. And without an extraordinary effort by the conference committee to hold down 2004 appropriations in the final budgetary compromise -- ideally to the lower House total of $23.2 billion -- the structural gap could rise even higher, adding to the risk that the fiscal crisis will extend into 2006 and perhaps beyond.

The conference committee faces critical decisions as well in regard to the reform of state government operations. The two budgets agree on numerous proposed improvements, including eliminating the MDC as a stand-alone entity, clustering human service agencies into rational working groups, and shifting a greater portion of health premium costs onto state workers.

The Senate, in particular, deserves credit for advancing the reform agenda, in some areas improving on the Governor's proposals, and for establishing processes to carry forward the effort to streamline operations of state government. Both the House's proposals to loosen the "Pacheco" anti-privatization law and the Senate's reshaping of the Quinn bill -- the costly, abuse-ridden program of educational incentive pay for local police -- are long-overdue reforms that deserve the conference committee's support.

In order to achieve meaningful change, it will be important for the conferees to adopt the strongest of the reform proposals advanced by each branch. As the Foundation has repeatedly emphasized, however, the savings from reorganizations and reforms, while building over the longer term, will have only a modest impact on the immediate crisis.

In a budget season that has been largely dominated by cuts, last week's announcement that the state would receive an estimated $550 million of additional revenue from the federal government was welcome news indeed. The newly approved federal tax cut bill includes $20 billion of fiscal relief for the states, half in the form of one-time aid that will be paid in fiscal 2004. The balance of the additional monies will fund a temporary increase in the reimbursement rate for state Medicaid expenditures, largely paid in 2004 as well.

The leaders of both the House and Senate have indicated that they will defer discussions on how to use the one-time federal windfall until after the deliberations on the 2004 budget are concluded. Given the uncertainty about the actual amount and timing of the federal payments (the $550 million figure is based on estimates of how the specific aid formulas approved by Congress will affect Massachusetts), this decision is especially wise. Although it would be tempting to use the additional funds to restore some of the cuts in the legislative budgets, such a course would only increase the state's dependence on one-time revenues. And while substituting the new federal dollars for problematic one-time financing proposals may increase the predictability of the revenues supporting next year's budget, it will do nothing to attack the underlying structural problem.

It is almost certain that a portion of the new federal revenue will be used to continue the costly and open-ended senior pharmacy program, as proposed in different versions in the House and Senate budgets. The Governor has voiced his endorsement of such a move, after vowing earlier to suspend this up-to-now wholly state-funded program if federal matching dollars did not become available. It is highly likely as well that some of the new money will be needed for under-funded accounts. The Senate budget, for example, recommends an unrealistically low appropriation for snow and ice removal. Both legislative budgets -- the House in particular -- risk deficiencies in next year's Medicaid budget due to unrealistic cost-cutting proposals or new strictures on previously implemented savings measures.

Revenues

As with the House and Governor, the Senate is basing its 2004 budget recommendations on a consensus revenue forecast that projects a scant $30 million, or 0.2 percent, increase over the administration's revised estimate for 2003. The Senate is counting on additional collections of about $175 million from the "corporate loophole closing" and other tax initiatives enacted in March, a slightly higher amount than the other two budgets (see Table 2).

Table 2
Total Tax Revenues
($, Millions)

	2003	Fiscal 2004		
	Estimated	Governor	House	Senate
Consensus forecast	$14,648	$14,678	$14,678	$14,678
"Loophole closing"	100	166	156	174
MBTA sales tax	-684	-684	-684	-684
Move convention center taxes off-budget		-44	-44	-44
Total	14,064	14,116	$14,106	$14,124

While the news that May tax receipts exceeded projections by almost $170 million is positive, much of those gains appear to be related to processing factors and are likely to erode significantly in June. More relevant to the outlook for 2004, both income tax withholding and sales tax collections continue to fall short of forecast, confirming other economic data that show the recession in Massachusetts has not yet bottomed out. In view of this broader picture, the consensus forecast's assumption of 1.2 percent growth in 2004 baseline taxes (before tax law changes) remains appropriate.

Although both branches deserve credit for maintaining the state's three percent investment tax credit -- a key factor in the Commonwealth's economic competitiveness -- the House's proposal to extend the credit for five years deserves the conference committee's support since it would provide far greater stability in tax policy than the Senate's one-year extension. Under current law, the credit is scheduled to revert to one percent at the end of calendar 2003.

Unfortunately, the Senate budget also includes a rash proposal to require most corporations doing business in the state to publicly disclose extensive confidential tax information. Such a requirement can only have a chilling effect on the state's business climate, especially since no other state requires public disclosure of such proprietary information.

Regarding the use of workforce training funds, the Senate's proposal is far preferable to the House's approach. The Senate budget recommends spending $18 million on training grants in 2004, almost all of the $21 million that will be paid by employers through a special tax adopted in 1998 for just that purpose. The House proposes to use only $6.5 million of the 2004 receipts for training, diverting $8 million of previously unspent funds to the uncompensated care pool and using the remainder of the receipts to help balance the budget. By not applying the proceeds of the tax to its intended purpose -- to provide grants to companies to help pay for worker training -- the state also loses the benefit of the dollar-for-dollar match required of companies that receive such grants.

Health Care

Medicaid Despite significant spending cuts in the current fiscal year and roughly $500 million of savings initiatives proposed in the House and Senate budgets, the costs of Medicaid -- the state's program of medical assistance for the elderly, poor and disabled -- will in all likelihood grow at double-digit rates in 2004, only marginally less than the 15 percent or greater underlying pace of growth in health care costs. Based on the Foundation's analysis, Medicaid spending in 2004 is likely to exceed 2003 expenditures by at least $600 million, or 10 percent, in large part because a significant portion of the proposed savings will for a variety of reasons go unrealized in 2004. And if the Senate's plan to restore MassHealth Basic -- the program of medical benefits for long-term unemployed individuals that was eliminated in April -- is endorsed by the conference committee, the expected rate of spending growth in 2004 will rise to 13

Outside Sections:
An Increasingly Problematic Budget Practice

Perpetuating a decades-old procedure that has been frequently criticized in recent years, lawmakers have loaded up their 2004 spending plans with unrelated budgetary riders, so-called “outside sections,” more than 600 in the House budget, and even more in the Senate. Although many of these provisions effect reorganizations and other reforms, others make policy changes -- both major and minor -- without benefit of a public hearing or review by the relevant legislative committee. Among the many outside sections in the legislative budgets are provisions to:

- Repeal the voter-approved clean elections law;
- Ban smoking in the workplace statewide;
- Place a moratorium on new charter schools;
- Limit the kinds of foods that can be advertised on public school buses;
- Impose sweeping requirements for corporations to disclose confidential tax return information;
- Establish broad new procedures for setting state regulations;
- Allow school districts to grant high school diplomas to special education students who have failed MCAS but otherwise met the requirements for graduation;
- Prohibit displaying social security numbers on identification cards of students enrolled in state or community colleges;
- Alter the bilingual education law approved by voters last year;
- Proscribe the use of state funds for “light polluting” street and highway lighting fixtures;
- Authorize state agencies to give buying preference to Massachusetts-grown fruits, vegetables and dairy products;
- Increase the penalties for violations of environmental laws and regulations;
- Restrict the size of signs on the Turnpike; and
- Make false emergency calls a crime.

Although some of these proposals may have merit, it is hard to see how any of them belong in the state budget. Despite the long-time opposition of groups as diverse as Common Cause, the Taxpayers Foundation, and Citizens for Limited Taxation, as well as objections from thoughtful lawmakers, legislative abuse of outside sections not only persists but is actually growing.

The Foundation has proposed an amendment to the Massachusetts Constitution that would limit outside sections to matters that pertain directly to the budget. The proposal -- which must be approved for the ballot by constitutional conventions in two successive years and then ratified by the voters -- will be considered by the Legislature in the fall.

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percent. The federal government reimburses 50 percent of the state's Medicaid costs.

Both budgets count on the savings generated by Governor Romney's "9C" cuts in 2003 and embrace almost all of the administration's cost-cutting suggestions for 2004, including tightened financial eligibility standards.

The state's efforts to save Medicaid dollars are to a significant degree coming at the expense of health care providers who were not being fully reimbursed for their services before the fiscal crisis began. The combination of the "9C" reductions in 2003 and the savings initiatives that are implemented in 2004 will place a further burden on the state's already financially pressured providers. In addition, the sweeping amendment passed by the Senate to control prescription drug prices threatens to drive up costs in all sectors of the Commonwealth's fragile health care system.

Table 3
Proposed Health Care Spending
Medicaid, Senior Pharmacy and Uncompensated Care
($, Millions)

	2003 Estimated	Fiscal 2004 House	Fiscal 2004 Senate
Medicaid			
Line items	$5,722.7	$6,026.6	$6,097.6
"Off-budget" authorizations:			
Nursing home rates	261.1	288.5	288.5
Pharmacy dispensing costs	72.0	72.0	72.0
MassHealth Basic	--	--	180.0
Other	0.6	25.1	16.2
Subtotal	333.7	385.6	556.7
Total	6,056.1	6,412.2	6,654.3
Senior pharmacy program	99.0	59.0	96.4
Uncompensated care			
Payments to hospitals and community health centers*	427.0	345.0	408.0
Hospital rate adjustments**		118.0	--
Total	427.0	463.0	408.0
Grand total	$6,582.3	$6,934.2	$7,158.7

* Payments financed by assessments on hospitals and health insurers -- which comprise the bulk of the amounts shown here -- are not included in the budgetary spending totals shown elsewhere in this bulletin; amounts shown for 2003 Estimated and 2004 House are MTF estimates.

** The 2004 adjustments shown for the House, which are related to other House-proposed changes in the distribution of pool funds, would take the form of higher Medicaid rates paid to acute care hospitals.

Proposals in both budgets to continue the important but costly senior pharmacy program will only add to the Commonwealth's fiscal difficulties. And while restoring MassHealth Basic does not have the same potential for future cost escalation, lawmakers have not identified a viable mechanism to finance the program's $180 million annual cost over the longer term. With no end in sight to the enormous underlying pressures on the costs of the entire health system, Medicaid still faces annual increases of at least 12 to 15 percent for the foreseeable future, in spite of the collective efforts to contain costs.

At the same time, both branches rely too heavily on one-time resources -- and the additional federal reimbursements temporarily generated from the expenditure of those resources -- to fund continuing health care costs. The House budget draws on $118 million of balances in various funds to support health care costs, while the Senate uses $100 million of the tobacco settlement trust fund balance (in addition to both budgets' use of 100 percent of the annual tobacco payments) to help finance the restoration of MassHealth Basic. Medicaid spending in 2004 will almost certainly top the roughly $6.5 billion recommended in the House and Senate budgets by $200 million or more. While both budgets embrace almost all of the administration's proposed savings measures, the Governor's estimate of the 2004 value of those savings -- on which both the House and the Senate apparently count -- presumed passage of the enabling legislation for the savings in early spring, rather than July, when the budget is likely to be finally adopted.

Some of the savings that both budgets count on have already vanished. In recent days, the courts threw out the pharmacy tax imposed last year. The ruling means the state must return $18 million already collected, and forego the additional $18 million it would have brought in, for a total loss of $36 million. Almost simultaneously, the administration retreated from its psychotropic drug formulary plan after a reconsideration of its clinical merits, with the loss of an undetermined amount of savings. No doubt several other of the proposed savings measures will erode in a similar fashion in the months ahead.

Some savings estimates in the proposed budgets are simply overly aggressive. For example, the House anticipates paring $128 million in 2004 ($256 million when fully implemented in 2005) by moving all disabled recipients into a managed care plan. But meeting that target will require a difficult-to-achieve nine percent reduction in spending on a population that, by definition, has chronic, multiple health needs. In addition, the state agency responsible for administering Medicaid has expressed concerns that language in both budgets may limit the full realization of savings ascribed to the existing program of prior approval for high-cost prescription drugs.

Uncompensated Care Budget makers continue to struggle to bring financial stability to the state's mechanism for providing free care to the uninsured and underinsured. Despite major efforts in recent years to shore up its financing, there is broad agreement that the uncompensated care fund is broken, imposing an open-ended, rapidly growing obligation that strains the finances of the state's hospitals and is pushing some to the brink of insolvency.

On the positive side, both the House and Senate budgets make some headway in improving the management of this troubled system -- through provisions that tighten the eligibility for uncompensated care pool payments and better define the services funded -- and in injecting additional funds to reimburse hospitals whose costs of providing free care are not being covered.

Unfortunately, the extra funding for hospitals in 2004 relies on one-time revenues, and even with the additional money, the financial shortfall in the uncompensated care pool will remain unacceptably high. Not surprisingly, the longer-term structural problems in the pool are still far from resolved.

At the same time, proposals in both budgets to use the pool as a funding mechanism for other, non-pool health care expenditures will almost certainly make it more difficult to stabilize the pool's finances, further clouding and confusing an already complex funding and assessment scheme.

For example, the Senate's proposal to restore MassHealth Basic draws on pool revenues to support the full costs of a program that was previously funded with general revenues (in combination with federal matching funds). In this instance, there is at least some relationship between the program and the free care system: A portion of the individuals who have lost Medicaid eligibility due to the termination of MassHealth Basic will turn to free care to meet their health care needs. However, the House's plan to divert federal revenues -- generated from one-time hospital rate increases paid from the pool -- and use those reimbursements to fund the senior pharmacy program, strays far from the purposes of the free care system. Both these proposals could portend a disturbing drift toward using funds from a financially insolvent system as another off-budget source for state programs.

The different fund allocation formulas supported by the House and Senate highlight, as well, the inherent complexity of the uncompensated care pool and the difficulty of reaching agreement on what constitutes a fair and equitable way to use that mechanism for covering the costs of care for the uninsured.

In the end, despite creative efforts by both the House and the Senate, state leaders have not been able to develop a sustainable financial strategy to support the level of health care commitments in the state budget.

Employee Health Insurance

Although neither legislative budget goes as far as the Governor's in bringing the share of health premiums borne by state workers in line with the private sector, both the House and the Senate take significant steps to address this long-time priority of the Foundation. Under the House plan, the percent of premiums paid by current workers would increase from 15 percent to 20 percent and, for those hired after January 1, 2004, to 25 percent. The Senate is proposing to retain the existing 15 percent premium share for workers earning less than $50,000 and instituting a sliding scale for those earning more. Employees at the top of the proposed scale -- earning more than $100,000 a year -- would pay 25 percent.

Local Aid

Like the administration, the two legislative budgets recommend just under $5.1 billion of aid to cities and towns in 2004, with almost identical totals that are about $250 million below 2003 and roughly $550 million, or almost 10 percent, below the peak in 2002 (see Table 4).

Table 4
Local Aid
($, Millions)

	2002 Actual	2003 Estimated	Fiscal 2004		
			Governor	House	Senate
Chapter 70 school aid	$3,213	$3,259	$3,319	$3,118	$3,146
General revenue sharing	1,271	1,120	885	1,049	1,051
Other school aid	884	763	690	695	697
Other non-school aid	252	177	186	206	188
Total	$5,620	$5,320	$5,080	$5,069	$5,082

Note: Chapter 70 school aid includes so-called "pothole" emergency aid. For purposes of comparison, "general revenue sharing" includes lottery aid, additional assistance, payments in lieu of taxes and proposed mitigation aid.

Both the House and Senate are to be commended for attempting to preserve the major financial principle of the state's education reform law -- ensuring that poorer school districts have sufficient resources to maintain adequate levels of spending on their schools.

However, while each branch's allocation of school aid provides funding for the law's "foundation" spending standard, the cuts in school funding to better-off communities -- and the reductions in overall state aid to poorer cities -- will inevitably necessitate layoffs or service cuts in many communities that are almost certain to affect the schools.

Not surprisingly, addressing the fiscal crisis took precedence in the 2004 budget over proposed reforms to the existing formula for distributing school aid that have been advanced by the Foundation and others. However, the budget conferees should reject a provision in the House budget that mandates annual increases in education aid of at least one percent in each school district through 2007. The required increases would ignore changes in enrollment or local property wealth -- perpetuating a flaw in the current formula that contributes to significant inequities in the distribution of aid to wealthier communities -- and would impede future reform efforts.

While the House and Senate differences in the total amount of 2004 school aid funding -- only $28 million or less than one percent[1] -- should be relatively easy to reconcile in conference, other differences will be harder to bridge:

- The Senate has recommended $45 million -- $35 million more than the House -- for MCAS remediation grants which were funded at $50 million in 2003.
- The Senate also proposes to maintain class size reduction aid, an $18 million grant program primarily benefiting urban districts. The House, like the Governor, proposes no money for the program in 2004.
- The House budget, in turn, includes $49 million of charter school reimbursements that go unfunded in the Senate budget. Appropriations for the program -- which compensates school districts for Chapter 70 education aid lost as a result of students transferring to charter schools -- were reduced from $33 million in 2002 to zero in 2003 to help balance the state budget.
- The House budget also recommends $17 million of new emergency assistance to financially stressed communities not in the Senate budget. A $40 million emergency aid program recommended by the Senate Ways and Means Committee was deleted in the final Senate budget, primarily because of objections to its funding mechanism -- a new surcharge on homeowners' insurance.

Capital Finance

The conference committee will also need to resolve a number of differences between the House and Senate budgets regarding financing for capital projects. The House's plan to limit bond-funded capital spending to $800 million per year, a 33 percent reduction from current levels, has no counterpart in the Senate budget. The House cap would exacerbate the already long backlog of unfunded capital priorities -- ranging from roads and bridges to

[1] Including amounts recommended for the so-called education "pothole" aid account.

housing and higher education projects -- while doing little to reduce spending on debt service or the Commonwealth's high debt rankings.

Both the House and Senate repeal the Capital Needs Investment Trust Fund, a five-year plan included in the fiscal 2001 budget to spend $225 million on capital priorities including affordable housing and education technology. The Senate would finance the housing component of the plan with a $100 million bond issue, a worthy proposal that should be considered as a separate bond bill rather than an outside section in the budget.

Both chambers took similar approaches to addressing the rapidly growing costs of the school building assistance program. Each budget extends the current moratorium on new applications for assistance until July 1, 2007 and grandfathers projects approved by local governments by June 30, 2003 onto the long waiting list for state funding. Both budgets also extend from seven years to ten the maximum term for short-term financing issued by cities and towns to jump-start projects, buying projects on the waiting list more time while the Commonwealth ponders how to reform the $400 million program.

The Senate proposes two commissions to study the problem and potential solutions such as creating a state bond bank or low-interest loan program to finance school construction. Previous bond bank proposals have failed to demonstrate how they would generate any savings for most projects. If the state is to rein in its newest budget buster, it will have to tackle not the financing mechanism but the real cost drivers -- the enormous demand for new construction and the state's generous reimbursement rates, which average about 70 percent of total costs.

Pensions

In a highly responsible move, the House fully funds the pension account at $835 million in 2004, the level required under pension reforms adopted in 1987 to eliminate the state's huge unfunded pension liability over time. Unfortunately, the Senate has followed the Governor's lead by proposing to reduce the 2004 pension appropriation and to make up the difference through the one-time transfer of assets to the state's pension reserve fund. The Senate cuts the appropriation by $145 million, compared to the $180 million reduction proposed by the Governor, and transfers public assets of substantial and well-documented value -- the Hynes Convention Center and Boston Common Garage -- rather than undeveloped parcels and other surplus state land as the Governor recommended.

Even with the Senate's changes, this proposal remains a bad idea. It would aggravate the state's structural deficit, creating a larger problem to address in 2005. And it would cut annual pension appropriations at a time when the unfunded liability has skyrocketed, largely because of poor stock market performance.

Even worse, the Senate also proposes to eliminate a key safeguard in the original pension funding reforms, by striking the requirement for legislative approval of the schedule that determines the annual funding amount. Under current law, this schedule must be updated every three years to take into account changes in personnel levels, payment experience, and the value of the assets set aside to meet future retirement costs. Eliminating legislative involvement in this process would be a major step backward.

Budget Reform

Table 5 Authorized 2004 Spending Not Included in Budget Appropriation Totals ($, Millions)	House	Senate
Medicaid		
Nursing home rates	289	289
Pharmacy dispensing fees	72	72
MassHealth Basic	--	180
Other	26	17
Subtotal	387	557
Uncompensated care		
State contribution	30	70
Hospital rate relief	118	28
Subtotal	148	98
Retained college tuition	--	131
RMV fees dedicated to Central Artery	47	47
Revenue/debt contingency contracts	32	32
Total	612	865

While neither the House nor the Senate budget fully embraces the administration's proposals to consolidate line items and allow transferability of funds among accounts, both branches have made a serious effort to unify the state's finances by eliminating the so-called "minor funds" and merging their revenues and spending in the General Fund, as recommended by the Governor.

Originally set up on a small scale largely to protect certain self-financing programs, these funds have expanded over time to include more than 10 percent of state spending, with significant, growing deficits in the largest of the funds. Since the measure of a balanced budget established in state law excludes these funds, budgetary calculations of the bottom-line fiscal condition of the Commonwealth (other than those based on the comprehensive accounting of the state Comptroller) have for several years been incomplete, if not misleading.

The Foundation recommends that the conference committee adopt the more inclusive Senate version of this reform, which eliminates a number of smaller funds as well as the Children's and Seniors' fund. The House budget fails to do away with this fund, leaving more than $300 million of spending -- and several hundred millions of dollars of red ink -- unaccounted for in the official measure of balance.

Regrettably, the positive action on minor funds has been significantly undercut by a major increase in "off-budget" spending in both budgets. Despite the name, these spending authorizations are for the most part actually in the budget, but are included as outside sections rather than line items.

As shown in Table 5, off-budget authorizations total more than $600 million in the House budget and almost $900 million in the Senate budget, including $180 million for MassHealth Basic, which was funded through an on-budget line item appropriation in 2003. By comparison, such off-budget spending is expected to total about $500 million in 2003, and the Governor's 2004 budget incorporates about $400 million of such spending. Failure to count these expenditures -- and their supporting revenues -- significantly understates the size of the state budget.

Reforms in the Legislative Budgets

Health and Human Services Both the House and Senate budgets include reorganizations of the Executive Office of Health and Human Services along the lines proposed by the Governor. Each plan groups the 15 human services departments into four clusters to improve inter-agency coordination and allows for the consolidation of the departments' bewildering array of area and regional offices. However, there are a number of differences in approach that will need to be ironed out by the conference committee.

The consolidation of human services agencies would help streamline services, reduce administrative costs, and most importantly lay the groundwork for more fundamental reforms to the system for purchasing human services from private providers. Over the last decade, the purchasing system has become increasingly dysfunctional, with stagnant rates, unfunded mandates and inconsistent and inefficient procurement and monitoring procedures. These have led to unstable provider finances, difficulty attracting and retaining qualified workers, and a decline in the quality of services.

The Senate budget takes some additional steps to address these issues, requiring the administration to fund the costs of any new mandates that affect provider costs and to conduct a study recommending reforms to the purchase of services system. The Foundation, in collaboration with the Massachusetts Council of Human Service Providers, will soon issue a major study of the purchase of services system, including a package of reforms to restructure the business relationship between the state and providers in order to improve the quality of services, increase competition, reduce administrative costs and strengthen planning, budgeting and coordination of services.

Courts The Senate deserves praise for its reforms to the administration of the courts. Following the recommendations of the Monan Commission, the Senate creates a professional Chief Administrator and, as proposed by the Governor, consolidates line items for individual courts to allow administrators to reallocate funds based on workloads. The House budget redistributes workloads and establishes a more rational basis for allocating dollars, with limited transferability subject to the approval of the ways and means committees.

Economic Development The Senate budget includes a variation of the Governor's proposal to create a new Executive Office of Commonwealth Development with oversight over Transportation and Construction, Environmental Affairs and Housing and Community Development. Under the Senate proposal, a new Commonwealth Development Coordinating Council would oversee the state's economic development, state property management and regional planning agencies, as well as the three departments in the Governor's plan. While the new council would address a broader set of development issues than the proposed executive office, its authority to enforce policies across state agencies would be less clear-cut. The House budget offered no Commonwealth Development reorganization, instead setting aside a modest amount for the proposed new executive office pending approval of separate reorganization legislation.

The Governor also recommended reconstituting and expanding the Executive Office of Economic Affairs by combining the Departments of Economic Development, Consumer Affairs and Business Regulation, and Labor and Workforce Development. The Senate has taken a stronger approach to this proposal than the House by including all three departments in the new structure, but like the House illogically splits the related functions of unemployment insurance and job training -- which currently share administrative resources -- into separate divisions. The elevation of the three now independent departments into a unified cabinet-level agency should strengthen collaboration between economic programs and provide a focal point for economic development at the highest levels of state government.

Environmental Agencies The Foundation's long-time recommendation to restructure the state's environmental agencies was included in all three versions of the proposed 2004 budget. Building on the Governor's proposal, both the House and Senate propose to consolidate the Metropolitan District Commission and the Department of Environmental Management into a single statewide parks and recreation agency. Both chambers go a step beyond the Governor's proposal by combining the current five major divisions of Environmental Affairs into three rather than four, though the units are grouped differently in each plan. The reform proposals give the conference committee the opportunity to create a more rational alignment of responsibilities, better allocation of funds among facilities, and cost savings from consolidated administrative overhead.

Reforms in the Legislative Budgets

(Continued)

Transportation The Senate budget includes a proposal nearly identical to one adopted by the House to have the Turnpike Authority assume responsibility for the maintenance, operations and policing of several segments of interstate highway in central and western Massachusetts. The Authority would absorb the costs of I-395, I-84 and I-291 within its western Turnpike budget, while the Commonwealth would pay the Authority for taking over I-290, I-391 and I-91 south of the Turnpike. A careful comparison of the costs of the Authority and the Highway Department is needed to determine if the state would actually save any money on the second set of roads.

Both the House and Senate rejected the Governor's proposal to have the state assume responsibility for paying the Turnpike Authority's debt service and free up $191 million in Turnpike reserves to help balance the state budget. Instead, the Senate budget calls for the creation of a commission to examine the organization and responsibilities of the state's transportation agencies, a reasonable approach to a complicated set of issues.

Quinn Bill Both the House and Senate have proposed to set into statute guidelines recommended by the Board of Higher Education to tighten the standards for institutions awarding degrees under the Quinn Bill, the state's unique educational incentive pay program for local police who earn college degrees after hiring. The Governor did not address this issue in his proposed 2004 budget.

The Senate also proposes to cap the benefit to a fixed dollar amount that would vary with the level of degree earned in lieu of the current premiums ranging from 10 to 25 percent of the officer's base salary. While the Senate reform is an important step in the right direction, the benefit amounts -- $6,000 for an associates degree, $7,500 for a baccalaureate and $8,500 for a masters or law degree -- remain excessively generous and will not do enough to put the brakes on the program's huge costs, which have mushroomed from roughly $25 million a year in 1991 to more than $100 million now.

Pacheco Law The House and Senate are far apart in their proposals regarding the so-called Pacheco law, which sets up a series of procedural hurdles that make it nearly impossible to use competitive bidding to reduce the cost and increase the quality of government programs. Neither chamber embraced the Governor's proposal to repeal the law in its entirety. The House voted to lift the most onerous provision -- the requirement that the cost of competitive proposals be compared not to actual state costs but to the hypothetical costs of state employees working "in the most cost-efficient manner" -- and suspend the entire law for two small state agencies, the Division of Capital Asset Management and the Bureau of State Office Buildings, both for two years. The Senate opted only to moderately increase the dollar threshold for the application of the law, a move that will have little practical impact. At a minimum, the conference committee should adopt the modest steps proposed by the House to allow for a limited but fair evaluation of the potential for competitive contracting to deliver better value for the taxpayers' dollar.

Welfare Reform The House and Senate spending plans move in opposite directions on the issue of education and job training for welfare recipients. The Senate budget allows time spent in education and training programs to meet the work requirement, implementing the key recommendation of *Off Welfare . . . On to Independence*, a major study issued by MTF and the United Way in 2001. The Senate also rejected the Governor's proposal to extend the work requirement to mothers with children between the ages of 2 and 6. The House, on the other hand, adopted the Governor's proposal but specified that education and training could satisfy up to half of the new 20-hour-per-week requirement for this group. Other Senate provisions require the Department of Transitional Assistance to consider time needed to complete an education or training program when determining time-limit extensions and to work with state labor agencies to ensure that recipients receive substantive skills training.

While the Foundation would prefer that proposals to alter the welfare system be addressed more comprehensively through the full legislative process, the Senate provisions are an important step forward that support the recommendations embodied in the MTF/United Way report.