

Mass Home Care Budget Request FY 2011 ***“End The Home Care Waiting List”***



Home care for the elderly is being run like a delicatessen: take a number and wait. Funding cutbacks have created the longest waiting lists in the 36 year history of the home care program.

Mass Home Care represents every Aging Services Access Point (ASAP) and Area Agency on Aging in the Commonwealth. Our budget push for FY 2011 is to shut down the home care delicatessen---and end the waiting lists.

On January 27, 2010, the Governor released his FY 2011 budget. Here is a comparison of the Governor’s budget for the critical line items that are our priorities for FY 2011, the FY 2009 and FY 2010 budgets, and Mass Home Care’s request for these line items:

FY 2010 Request (in Millions)	Budget	FY 2009	FY 2009 after cuts 9c	FY 2010	FY 2011 Gov House 2	FY 2011 Mass Home Care
9110-1500 ECOP		\$ 48.199	\$ 48.199	\$45.789	\$45.789	\$ 54.7
9110-1630 purchased services		\$106.716	\$102.747	\$100.3	\$100.3	\$114.058
9110-1633 ASAP caremanagement		\$ 40.368	\$ 37.568	\$36.068	\$36.068	\$ 48.15
9110-1636 protective services		\$ 16.246	\$ 16.246	\$15.252	\$15.249	\$ 17.19



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Our request in total is \$36.78 million higher than House 2. This is because we seek to END WAITING LISTS in FY 2011. The \$36.78 million investment in the front end is a smart use of funds in community care, which will save the Commonwealth more on the back end in institutional care avoided. The 389 people on the ECOP waiting list in January, if we keep them out of nursing homes for a year, saves the Commonwealth \$46,546 per year. Keeping 389 ECOP clients out of nursing homes saves the state \$18.1 million in just that one program. For more information on the “home care dividend” see part II of this budget presentation.

Here are the line items that need to be addressed in 2011:

I. Basic Home Care Purchased Services

Background: 9110-1630

(millions)

FY 2009	FY 2009 9c cut	FY 2010	Change from 09
\$106.716	\$102.717	\$100.3	-6%

In November of 2009, five months into FY 2010, the home care program began placing disabled senior citizens on a waiting list for home care and enhanced home care services. These reductions were caused by a drop in home care funding from FY 2009 levels, and from ‘9c’ cuts made by the Governor. The home care account appropriation in FY 2009 was \$106.7 million, but in October of 2008, the line item was cut by \$3.969 million. In FY 10, it was cut by another \$2.447 million, reducing appropriation to \$100.3 million, which means this account is now 6% below its original FY 2009 appropriation. Based on the \$100.3 million appropriation for FY 2010, \$98.746 million was available for home care purchased services contracts. These cuts have resulted in statewide waiting lists for home care.

As of January 12, 2010, halfway into FY 2010, there were 2,423 elders waiting to get into the basic home care program, plus another 389 seniors waiting to get into the Enhanced Community Options Program (ECOP see below). A total of 2,812 individuals were waiting to get care at home to remain living independently in the community. If all these elders were declared a ‘town,’ the size of this waiting list would be bigger than 72 towns in the Commonwealth. This is the largest waiting list in home care history since the program was created in 1974.

Home care is one of the basic preventive programs that helps consumers avoid premature institutionalization. Since 2000, the number of patient days in nursing homes paid for by MassHealth has fallen a staggering 25%. The various home-based services are a significant factor in alternative placement for people who otherwise would be in a nursing home. Since 2006, the mission of the MassHealth long term care program has been to provide care for the disabled and elderly in the “least restrictive setting”



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appropriate to their needs. Yet the doors to nursing homes in 2010 are wide open, and the home care programs have a waiting list of 2,812 people---and may reach more than 4,400 by June.

The waiting lists for home care services in the first half of FY 2010 are as follows:

	July	August	September	October	November	December	January
Home Care	22	57	472	840	1593	1951	2,423
ECOP	112	186	265	295	409	399	389
TOTAL	134	243	737	1,135	2002	2350	2812

If the home care waiting list continues to rise based on the average increase in December and January over the previous months (+415) the home care wait list would reach roughly 4,500 people by the end of the fiscal year in June. Similarly, if the ECOP waiting list were to increase as the same rate as the average increase in December and January (-10), the ECOP waiting list would be around 339 people. A total of 4,839 people would be waiting by June.

In FY 2010, the actual caseload in the first half the year is as follows:

July	August	September	October	November	December	January
33,699	34,375	36,288	35,354	34,544	33,444	33,364

Request FY 2011

The Executive Office of Elder Affairs has set a projected target for the home care system of 29,244 cases by June of 2010. Assuming a waiting list of 4,500 people by June, to end the waiting lists beginning with the start of FY 2011, a caseload of 33,744 would be required. Unless some growth is factored into FY 2011 caseloads, waiting lists will begin to accumulate from July, 2010 forward. Beginning with a caseload of 33,744, and using a 1% per month growth rate, the total units for FY 2011 would appear as follows:

July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	Total
33,744	34,081	34,422	34,766	35,114	35,465	35,819	36,178	36,539	36,905	37,274	37,646	427,953

Using the same purchased services rate as in FY 2010, providing 427,953 units at \$266.52 = **\$114.058 million**. This level of support would allow an average net increase in enrollment of 353 elders per month in FY 2011, which, although it would not necessarily eliminate waiting lists in FY 2011, would prevent any major build up of waiting lists



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comparable to the experience in FY 2010. By comparison, the total home care purchase of service units in FY 2009 was 391,223. FY 2011 units would be 9% higher than the units provided two years ago, before the massive wait lists. Had there been no waiting lists in FY 2010, the unit count could easily have reached 490,000 in FY 2011.

II. Home Care/Care Management

Background 9110-1633

(millions)

FY 2009	FY 2009 9c cut	FY 2010	FY 2010 9c cut	Change from 09
\$40.368	\$37.568	\$37.568	\$36.068	-10.65%

This account is the companion account to 9110-1630. This line item pays for the care managers who coordinate the services provided to clients in the home care purchased services program. This account also covers the program operations costs for the care managers at the 27 Aging Services Access Points (ASAPs). It is important that these accounts stay in balance in relationship to each other. But this care management account has fallen by -10.65% since its FY 2009 appropriation level of \$40.368 million, due to 9c cuts in FY 2009, and again in FY 2010. If the care management account is not sufficiently funded, the care management caseloads per worker affect the quality of care the clients in 9110-1630 account receive. The care manager is the staff person who interviews the consumer, helps determine what services they need and are eligible for, then purchases that care for the consumer, and monitors its effectiveness.

Up until the mid 1990s, the home care program was one unified account, including purchased services and care management. Over the past 12 years, the care management account has grown at one-third the rate of the purchased services account: (in millions)

	FY 1998	FY 2010	% Change since 1998
9110-1630 Services	\$78.124	\$100.3	+28.38%
9110-1633 Care management	\$32.978	\$36.068	+9.37%

The care management account today has only \$3.09 million more than it had a dozen years ago in FY 1998. In 1998, the care management account was 29.68% of the overall two home care line items. Today care management has fallen to 27.44% of the overall accounts. If the care management account were restored to the same percentage share of the program in 2010 that it had 12 years ago, the



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care management account would have stood at \$40.47 million, or \$4.4 million higher than its appropriation.

Mass Home Care requests a total of **\$48.15 million** in this account for FY 2011 to restore the % share of the home care program to the level it was at 12 years ago, to stop the decline in care management services, and to prevent further reductions in care management staff in FY 2011. Our purpose is to try to maintain a good balance between purchased services and care management support:

Account	FY 1998	% Share	FY 2011 Request
9110-1630	\$78.12 4	70.53%	\$114.058
9110-1633	\$32.97 8	29.68%	\$ 48.15

III. Enhanced Community Options Program (ECOP)

Background: 9110-1500

The ECOP program is targeted to seniors who are 1) not on MassHealth and 2) are eligible to be in a nursing home. This is a program that some basic home care program clients will transfer into as their functional capacity declines. As a result, this program is totally targeted as a nursing home alternative program, especially when compared to any managed care program that must accept a wide range of clients for their risk pool, including many elders who are not NF eligible. The ECOP program is 100% targeted to disabled seniors. The overall monthly capitation rate for this program, including services and care management, is \$866.20 per enrollee in FY 2010.

In FY 2010, EOEА began reducing the size of the ECOP caseload by moving cases back into the home care program whose services costs were low enough (<\$533 per month) to be considered more appropriate for the basic home care program. EOEА has projected in FY 2010 that it will cover a total of 53,641 units. In the first five months of FY 2010, a total of 26,894 (50%) of the units available were used. But as of December, the rate of billable units at 4,200 was 91.5% of the units targeted for that month, because monthly units have dropped by 15% since the start of FY 2010:

	July	August	September	October	November	December
ECOP	4,950	4,826	4,314	4,352	4,252	4,200



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At the same time, the waiting list for ECOP was 389 people by January:

	July	August	September	October	November	December	January
Wait List	112	185	265	295	409	399	389

The EOE target for the ECOP program by June of 2010 is 4,591 cases. Add to that the 389 waiting list cases, and the starting caseload for July of 2010 would be 4,980 cases. To prevent the accumulation of waiting lists in FY 2011, we assume a 1% caseload growth per month during FY 2011:

Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	TOTAL
4,980	5,029	5,080	5,130	5,182	5,234	5,286	5,339	5,392	5,446	5,500	5,555	63,153

Assuming the same per member/per month rate in FY 2011 as in FY 2010, the total appropriation for the Enhanced Community Options Program would be **\$54,703,128**, compared to the obligation of **\$45.789** in FY 2010.

IV. Protective Services

Background: 9110-1636

The FY 2008 Protective Services (PS) appropriation was \$15 million, a 7.5% increase over the fiscal year 2007 funding level of \$13.961 million. In FY 2009, protective services funding was increased to \$16.246 million, where it stayed for FY 2010, until \$1 million was cut in a 9c reduction:
(millions)

FY 2007	FY 2008	FY 2009	FY 2010	FY 2010 9c cut
\$13.961	\$15.009	\$16.246	\$16.246	\$15.246

This program investigates and resolves elder abuse and neglect, and deals with very complex and volatile family situations. This elder abuse law is ‘subject to appropriation,’ and every years, the protective services agencies, are forced to subsidize the program with funding from other sources.

Some of the major components of the PS program include:

Protective Services Caseload: The core function of this line item is to create the capacity across the state to receive reports of elder abuse, investigate those reports, and attempt through casework to mitigate and resolve the abuse. In recent years, the number of abuse reports has been increasing by more than 5% per year. The typical PS worker



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carries a caseload of 20 elders per worker. As of FY 2009, there were roughly 189 case workers---this was before the 9c reductions several months ago.

Guardianship: One of the main costs of the PS program is securing guardians for elders who need help with their resources due to self-neglect or abuse by others. Clients in need of conservator or guardianship services are the most impaired and vulnerable elders we serve. When a guardianship slot is not available for a PS client, it is extremely difficult to stabilize the case, thereby increasing the risk of continued abuse against the elder, and risk of institutionalization.

Legal Services: Legal expenses incurred during the conduct of protective services cases are not charged to the protective services program, but have to be taken from other accounts. None of the \$788,000 in legal costs in FY 2010 is charged to the protective services account, because there is no funding to pay for it. The protective agencies need to retain lawyers to represent their agencies every time they bring a case to the Probate Court.

The Elder Abuse Hotline: This hotline accepts reports of abuse on a 24/7 basis. In fiscal years 2007 and 2008 the number of abuse calls to the hotline were 14,500 calls in each of these years.

Money Management: The Money Management program was created by Mass Home Care, AARP and EOEI in 1991 to address the needs of consumers who were no longer able to manage their personal finances, and were facing a series of problems, ranging from eviction to credit card debt, because of their financial problems. The Money Management program provides a volunteer who helps the senior get his or her finances back on course, and prevent financial exploitation and scam artists from preying on these consumers. There is currently a waiting list of roughly 230 elders a month in this program.

Mass Home Care conducted a survey of protective services agencies to determine how much additional funding agencies were having to invest in program operations. Protective services agencies have to subsidize the operation of their protective services program, because their state appropriation is not sufficient to cover their expenses. PS agencies were surveyed in August of 2007, asking them how much they spent in each of the functional categories below in excess of their state appropriation. The numbers below are in millions:

State PS Appropriation*	Total PS Expenditures	Personnel Deficit	Legal Deficit	Support Deficit	Other Deficit	Total Deficit
10.875	13.8927	1.146	.5877	.428	.856	3.0177

* 20 out of 21 PS agencies reported for this survey.



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Survey Findings:

1. In Fiscal year 2007, the protective services program ran a deficit of roughly \$3.01 million.
2. The state PS appropriation covered roughly 78% of total expenditures. 22% were covered by other revenues (other state line item, corporate retained revenues, unrestricted corporate funds, etc.)
3. Of the 2.85 million subsidy to PS:
 - 38% was to hire additional personnel (\$1.146 M)
 - 19.4% was for legal expenses (\$587,700)
 - 14.2% was for support costs (\$428,000)
 - and 28.4% was for other PS related costs. (\$856,000)

TOTAL: \$3.01 Million in Protective Subsidy in FY 2007

A recent survey by EOEА indicates that some of this deficit funding has grown worse since FY 2007. For example, the unfunded legal services costs for protective services work in the Probate Courts has now risen to \$788,000 per year. This funding is not provided within this line item, but must be taken from other accounts.

In November of 2009, the Protective Services program was cut by \$1 million in a 9c reduction. Post 9c, here is how the Protective Services funding was allocated. These numbers are still being discussed with EOEА as of January, 2010:

Item	FY 2010 Pre 9c	FY 2010 Post 9c
ELD Admin	\$392,223	\$330,000
Contracts to PS agencies	\$13,169,779	\$12,380,400
Money Management	\$926,593	\$926,593
PS Hotline	\$440,906	\$375,000
Guardianship Slots	\$1,235,505	\$1,235,505
Training	\$ 25,000	\$ 5,000
TOTAL	\$16,190,006	\$15,252,499

The largest loss of funding, \$789,379, came from protective services contracts, which is the component that pays for direct care PS investigators/care workers, who are the heart of the PS program.

Mass Home Care is requesting for FY 2011 that the 9c cut to protective services be restored, and that total funding be increased to **\$17.19 million**. The additional funds would allow:

- PS contracts for protective workers to be increased to \$13.437 million, or 2% above the original FY 2010 contract level.



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- Money Management to be increased to \$1.019 million
- Legal services to be funded at \$788,000

RECAP: FUNDING REQUEST

(millions)

Account	FY 2010	FY 2011
Home Care Purchased Services	\$100.3	\$114.058
Care Management	\$ 36.068	\$ 48.15
Enhanced Community Options	\$ 45.789	\$ 54.7
Protective Services	\$ 15.25	\$ 17.19

PART II

Alternatives To Cutting Home Care **“Home Care Is a Smart Investment—** **Especially In A Recession”**

Prepared by Mass Home Care

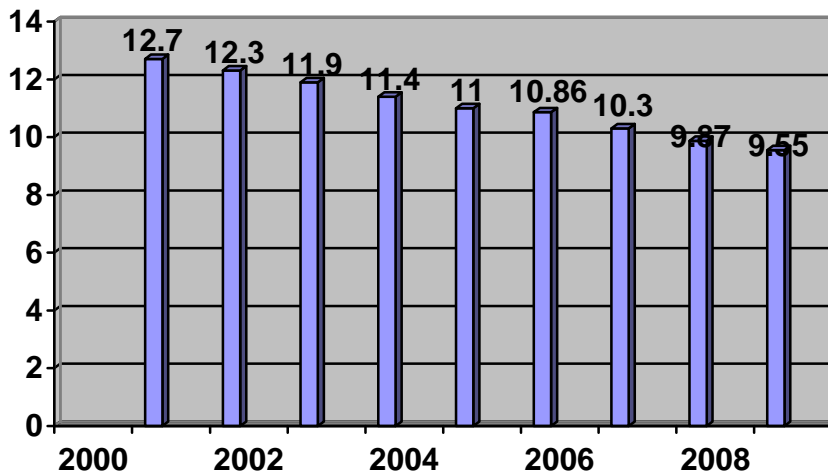


FY 2011 Budget Themes

- 1. Save money. Invest in home care**
- 2. Rebalance to spend more in the community**
- 3. Close Tax Loopholes instead of closing programs**

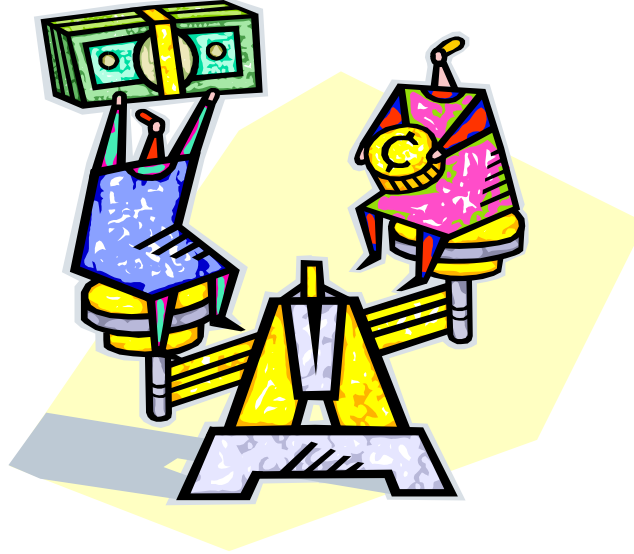
1. Save Money. Home Care Creates A “Dividend”

**Medicaid Nursing Home patient days
have fallen 25% since 2000 (days in millions)**



Investing in community care saves money. In FY 2007, nursing home patient days paid for by MassHealth were 2,780,000 days lower than in FY 2000. Based on \$158 per day for MassHealth nursing home services (FY 2008, not including other state plan services), the Commonwealth has avoided \$442 million through lowered institutional utilization. This is the “Community First Dividend” that could be invested in community-based care based on the saved patient days from people diverted from nursing homes. The FY 2008 annual cost per client in the Enhanced Community Options Program (ECOP) and the Choices program are far lower than the cost of a nursing home. Clients in ECOP and Choices are eligible to be in a nursing home. There were 4,750 Choices clients per month average in the first 4 months of FY 2009, which saved a total of \$230.86 million annually. There were 5,028 ECOP clients in the same FY 2009 period, saving \$211.6 million. These two programs alone save taxpayers \$442 million annually. The combined cost of the ECOP and Choices program in FY 2008 was \$107 million. The net savings to the state is therefore \$344 million. This is the “Community First Dividend” that should be reinvested in community-based programs.

2. Rebalance Our Long Term Care Spending



Community care placements save the state money. As a 2007 study at the University of Illinois concluded, “Home and Community-Based Services support may prevent or delay nursing home admission for those with limited family caregiving resources. Per capita HCBS expenditures and the proportion of HCBS spending in total LTC expenditures have been used by some states as indices of their progress toward rebalanced LTC systems...States should continue their efforts to invest in HCBS and additionally organize services to enhance access to and quality of LTC services.”

One way to measure how well a state has converted from an institutionally-dominated payment system to a “Community First” system is to measure the state’s percentage of Medicaid expenditures going to home and community care for elders and adults with disabilities. As of 2006, Massachusetts ranked 20th in the nation with a 22% share of Medicaid LTC expenditures.

The top ten “rebalancing” states in 2006 were as follows:

State	% of Medicaid LTC Expenditures for HCBS for elders & disabled	State’s Rank
Oregon	55%	1
New Mexico	54%	2
Washington	54%	3
Alaska	51%	4
California	47%	5
Texas	42%	6
Minnesota	40%	7
North Carolina	39%	8
Idaho	38%	9
Kansas	34%	10
Massachusetts	22%	20

According to 2009 study “The Massachusetts State Profile Tool: A Report on Long-Term Supports, Spending and Utilization Across Age, Disability and Service Setting,” MassHealth spending in the Commonwealth has been shifting gradually towards community based care. But as of 2008, the percentage share of MassHealth LTC spending in the community was 39.3%. Long Term Care spending by MassHealth for institutions, at 60.7%, is still the dominant form of spending. If the two sectors were rebalanced to have a 50/50 share of funding, community based care would see a gain of \$308.6 million. If the percentage share of LTC expenditures were rebalanced to give community care a 60.7% share of funding, community care would receive \$617.2 million in additional funds. If Massachusetts rebalanced its MassHealth spending to match Oregon’s 55% share for community care, the elderly and disabled spending in the community would rise by \$452.6 million in FY 2011.

Here is the current split in MassHealth LTC spending as reported in the 2009 State Profile Tool:

MassHealth Office of Long-term Care: Total Long-term Support Spending					
	Dollars			Percentage of MassHealth LTS Services Spending	
	Community	Institutional	Total	Community	Institutional
FY 05	\$672,209,346	\$1,748,185,952	\$2,420,395,298	27.77%	72.23%
FY 06	\$773,205,255	\$1,795,514,953	\$2,568,720,208	30.10%	69.90%
FY 07	\$946,816,510	\$1,758,712,649	\$2,705,529,160	35.00%	65.00%
FY 08	\$1,131,627,326	\$1,748,839,747	\$2,880,467,073	39.29%	60.71%

A rebalancing of LTC spending would also help the state meet the goals set for the Governor’s Olmstead Plan. The Massachusetts Olmstead Plan was formally presented to the Governor in September 2008. The Plan was the result of consumers and policymakers working together to create a tangible road map for achieving a long-term support service system which offers community-based services as the first option in a continuum of choices. According to the Olmstead Plan, “Over time the state will achieve the goal of shifting financing from institutions to community-based services.” The first two ways listed for accomplishing this shift are:

- Assist individuals to transition from institutional care
- Expand access to community long-term supports

3. Closing Tax Loopholes



In tough financial times, there are alternatives to cutting services for the neediest people in the Commonwealth. One of the areas of the budget less frequently considered for cuts is the tax expenditure budget.

Massachusetts spends a significant share of its economic development resources on economic development tax expenditures. These tax exemptions are employed by state governments in an effort to attract new businesses to the state and prevent those already in the state from leaving. Tax expenditures are provisions in the tax code, such as exclusions, deductions, credits, and deferrals, which are designed to encourage certain kinds of activities or to aid taxpayers in special circumstances. When such provisions are enacted into the tax code, they reduce the amount of tax revenues that may be collected. The fiscal effects of a tax expenditure are just like those of a direct government expenditure. Some tax expenditures involve a permanent loss of revenue, and thus are comparable to a payment by the government.

Each year, the Department of Revenue (DOR) publishes a Tax Expenditure Budget. The Tax Expenditure Budget includes brief descriptions of the state's tax expenditures along with estimates for the revenue loss associated with each of them. In total, the Tax Expenditure Budget catalogs more than \$20 billion in tax expenditures to the state's personal income, corporate income and sales taxes. The tax expenditures listed below for temporary suspension, represent roughly 4.6% of total tax expenditures in the state.

Tax expenditures are in many ways similar to direct appropriations. Both seek to achieve certain policy goals through the use of the state's economic resources, and both have an effect on the state's bottom line. A primary difference is that budget appropriations must be reauthorized by the Legislature each year, while tax expenditures remain in effect without the Legislature having to take action.

Massachusetts spends billions of dollars in tax expenditures each year, and those designated for economic development purposes constitute a large sum. The state's reliance on economic development tax expenditures has been increasing, compared to on-budget appropriations for similar purposes. Given this trend, the Commonwealth should take a closer look at whether or not these expenditures are meeting their intended goals. In a period of deep recession, it is reasonable to suspend access to these expenditures on the corporations which benefit from these tax breaks. Both direct appropriations and indirect appropriations through tax expenditures, should be trimmed back during tight financial times. As with direct line item appropriations, tax expenditures can be restored as the Commonwealth's revenue situation improves.

Here are some of the tax expenditures in the state budget that should be suspended for 2010 and 2011 until the revenue outlook is enhanced. These expenditures are the result of state action, and are independent of any IRS tax code requirements. If these tax expenditures were suspended for FY 2011, it would save the Commonwealth \$913.2 million. If revenues begin to climb back, these tax breaks could be reinstated.

3.419 Exemption for Fuel Used in Operating Aircraft and Railroads

Fuel used in operating aircraft and railroads is exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(j)

Estimate: \$31.8

3.306 Exemption for Materials, Tools, Fuels, and Machinery Used in Newspaper Printing

Materials, tools, fuels, and machinery, including spare parts, used in newspaper printing are exempt from sales tax if they become components of a product to be sold or are consumed or directly used in newspaper publishing.

Origin: M.G.L. c. 64H, § 6(r) and (s)

Estimate: \$48.1

3.304 Exemption for Materials, Tools, Fuels, and Machinery Used in Furnishing Power

Materials, tools, fuels, and machinery, including spare parts, used in furnishing gas, water, steam, or electricity to consumers through mains, lines or pipes are exempt from sales tax if they are consumed or directly used in furnishing the power.

Origin: M.G.L. c. 64H, § 6(r) and (s)

Estimate: \$118.8

Comment: Estimate excludes costs associated with the natural gas industry due to a lack of reliable data.

3.303 Exemption for Materials, Tools, Fuels and Machinery Used in Research and Development

Materials, tools, fuels and machinery, including spare parts, used in research and development by certified manufacturing or research and development corporations are exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(r) and (s)

Estimate: \$57.9

2.614 Film (or Motion Picture) Credit

Corporations engaged in the making of a motion picture are allowed two credits:

a) Payroll credit: This is a credit for the employment of persons within the Commonwealth in connection with the filming or production of 1 or more motion pictures in the Commonwealth within any consecutive 12 month period. The credit is equal to 25 per cent of the total aggregate payroll paid by a motion picture production company that constitutes Massachusetts source income, when total production costs incurred in the commonwealth equal or exceed \$50,000 during the taxable year. The term "total aggregate payroll" may not include the salary of any employee whose salary is equal to or greater than \$1,000,000.

b) Non-payroll production expense credit: Individual income tax filers are also allowed a credit equal to 25 per cent of all motion picture related Massachusetts production expenses, not including the payroll expenses used to claim the aforementioned payroll credit. To be eligible for this credit, either Massachusetts motion picture production expenses must exceed 50 per cent of the total production expenses for a motion picture or at least 50 per cent of the total principal photography days of the film take place in the Commonwealth.

These tax credits are refundable at 90% of the approved credit amounts, or the amount of the tax credit that exceeds the tax due for a taxable year may be carried forward by the taxpayer to any of the 5 subsequent taxable years. Additionally, all or any portion of tax credits issued may be transferred, sold or assigned to other taxpayers with tax liabilities under chapter 62 (the individual income tax) or chapter 63 (the corporate or other business excise taxes). For applications submitted prior to January 1, 2007, film tax credits were capped at \$7,000,000 for any one motion picture production has; for applications submitted on or after January 1, 2007, there is no cap. Also, the sunset date for the film incentives statute has been extended from January 1, 2013 to January 1, 2023. See TIR 07-15 for more information (See also item 1.611.)

The Department of Revenue estimates that in each of the fiscal years 2008 and 2009, \$12.6 million in film tax credits will be claimed by financial institutions and insurance companies, which are not covered in this tax expenditure budget. This is in addition to the \$24.2 million that will be claimed by corporations and is shown in this tax expenditure.

Origin: See "An Act Providing Incentives to the Motion Picture Industry", St. 2005, c. 158, signed into law on November 23, 2005 and "An Act Providing Incentives to the Motion Picture Industry", St. 2007, c. 63; M.G.L. c. 63

Estimate: \$24.2

2.605 Economic Opportunity Area Credit (EOAC)

Businesses investing in qualified property in an Economic Opportunity Area are entitled to a credit against tax of 5% of the cost of the property. To qualify for the 5% credit, the property must be used exclusively in a certified project in an Economic Opportunity Area. To be certified, the Economic Assistance Coordinating Council must approve a project.

This item includes the estimated amount of unused credits carried forward from prior years but actually used during the fiscal year for which the estimate is being made.

Origin: M.G.L. c. 63, § 38N

Estimate: \$24.4

2.604 Research Credit

Corporations are entitled to a credit against tax for research and development expenditures. The amount of the credit is equal to the sum of 10% of qualified research expenses each year in excess of a base amount, and 15% of basic research payments, in excess of a base amount. The credit is limited to the first \$25,000 of excise plus 75% of any excise in excess of \$25,000. Unused credits may be carried over to subsequent years. Effective January 1, 1995, qualified defense corporations may calculate this credit separately for defense related research expenditures and non-defense-related expenditures.

Origin: M.G.L. c. 63, § 38M

Estimate: \$105.1

2.502 Exemption for Property Subject to Local Taxation

In computing the state corporate excise on tangible property, property subject to tax at the local level is exempt. Generally, the state taxes only the machinery of manufacturing corporations and exempts business real estate and tangible personal property.

Comment: For purposes of estimating revenue loss from this tax expenditure, the state's rate on property, \$2.60 per \$1,000, has been applied.

Origin: M.G.L. c. 63, § 30(7)

Estimate: \$170.0

2.401 Unequal Weighting of Sales, Payroll, and Property in the Apportionment Formula

Corporations with a presence in Massachusetts and other states allocate income to the Commonwealth using a three-factor apportionment formula. A corporation's sales, payroll, and property in Massachusetts are compared to those outside Massachusetts.

Exporters benefit from an apportionment formula that weights sales more heavily than the other factors. Effective January 1, 1996, eligible defense corporations are allowed a formula that weights sales 100%. For other qualified manufacturers, a 100% sales weight was phased-in over five years, and was fully effective January 1, 2000. All corporations other than mutual fund corporations (see below) will continue to use a formula that weights sales 50%.

Effective January 1, 1997 mutual fund corporations are allowed to attribute mutual fund sales to Massachusetts based on the domicile of shareholders in the mutual funds. Effective July 1, 1997, mutual fund corporations are allowed to apportion their income to Massachusetts based solely on the percentage of sales to Massachusetts' residents.

Comment: In listing this item, it is assumed that a standard apportionment formula gives equal weight to sales, property and payroll. The estimate is of the impact of departing from this standard formula.

Origin: M.G.L. c. 63, § 38 (c)

Estimate: \$306.7

1.611 Film (or Motion Picture) Credit

Individual income tax filers engaged in the making of a motion picture are allowed two credits:

a) *Payroll credit*: This is a credit for the employment of persons within the Commonwealth in connection with the filming or production of 1 or more motion pictures in the Commonwealth within any consecutive 12 month period. The credit is equal to 25 per cent of the total aggregate payroll paid by a motion picture production company that constitutes Massachusetts source income, when total production costs incurred in the commonwealth equal or exceed \$50,000 during the taxable year. The term "total aggregate payroll" may not include the salary of any employee whose salary is equal to or greater than \$1,000,000.

b) *Non-payroll production expense credit*: Individual income tax filers are also allowed a credit equal to 25 per cent of all motion picture related Massachusetts production expenses, not including the payroll expenses used to claim the aforementioned payroll credit. To be eligible for this credit, either Massachusetts motion picture production expenses must exceed 50 per cent of the total production expenses for a motion picture or at least 50 per cent of the total principal photography days of the film take place in the Commonwealth.

These tax credits are refundable at 90% of the approved credit amounts, or the amount of the tax credit that exceeds the tax due for a taxable year may be carried forward by the taxpayer to any of the 5 subsequent taxable years. Additionally, all or any portion of tax credits issued may be transferred, sold or assigned to other taxpayers with tax liabilities under chapter 62 (the individual income tax) or chapter 63 (the corporate or other business excise taxes). For applications submitted prior to January 1, 2007, film tax credits were capped at \$7,000,000 for any one motion picture production has; for applications submitted on or after January 1, 2007, there is no cap. Also, the sunset date for the film incentives statute has been extended from January 1, 2013 to January 1, 2023. See TIR 07-15 for more information.

Origin: "An Act Providing Incentives to the Motion Picture Industry", St. 2005, c. 158, signed into law on November 23, 2005 and "An Act Providing Incentives to the Motion Picture Industry", St. 2007, c. 63; M.G.L. c. 63.

Estimate: \$26.2