

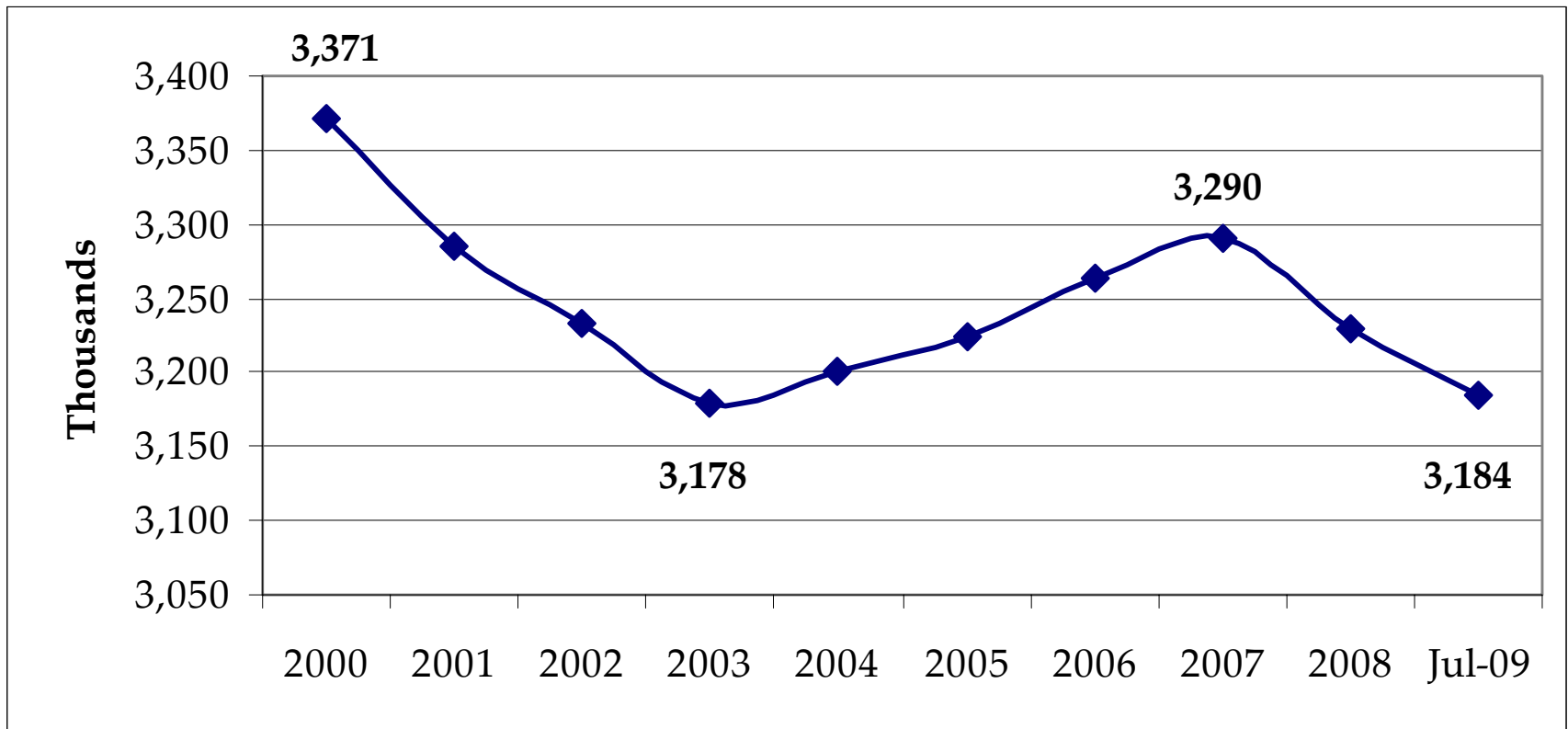


State and Local Finances

September 8, 2009

Massachusetts Economy

Massachusetts Total Employment

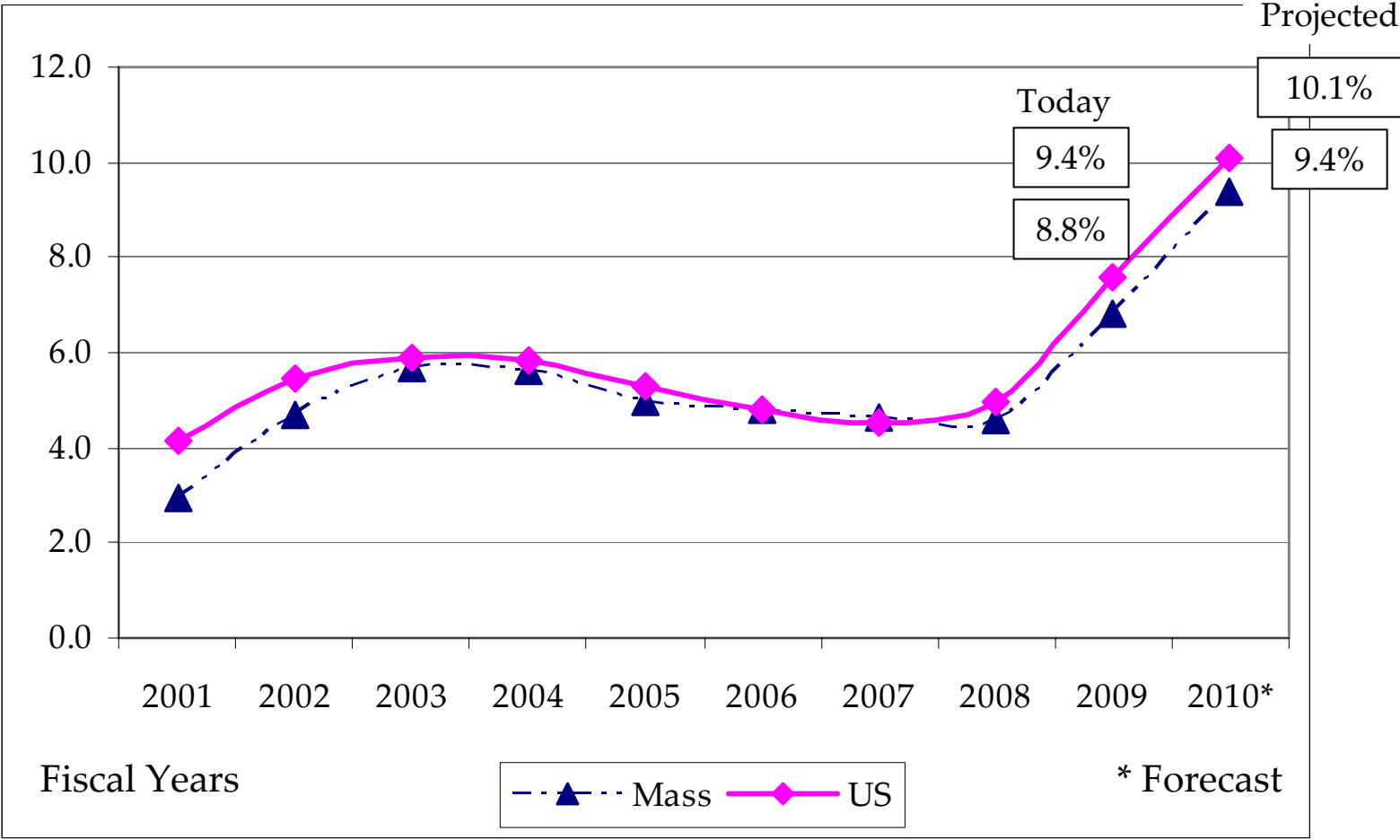


MA Ranks Near the Bottom in Jobs Created (or Lost) This Decade

Change in Employment: 2000 – 2009

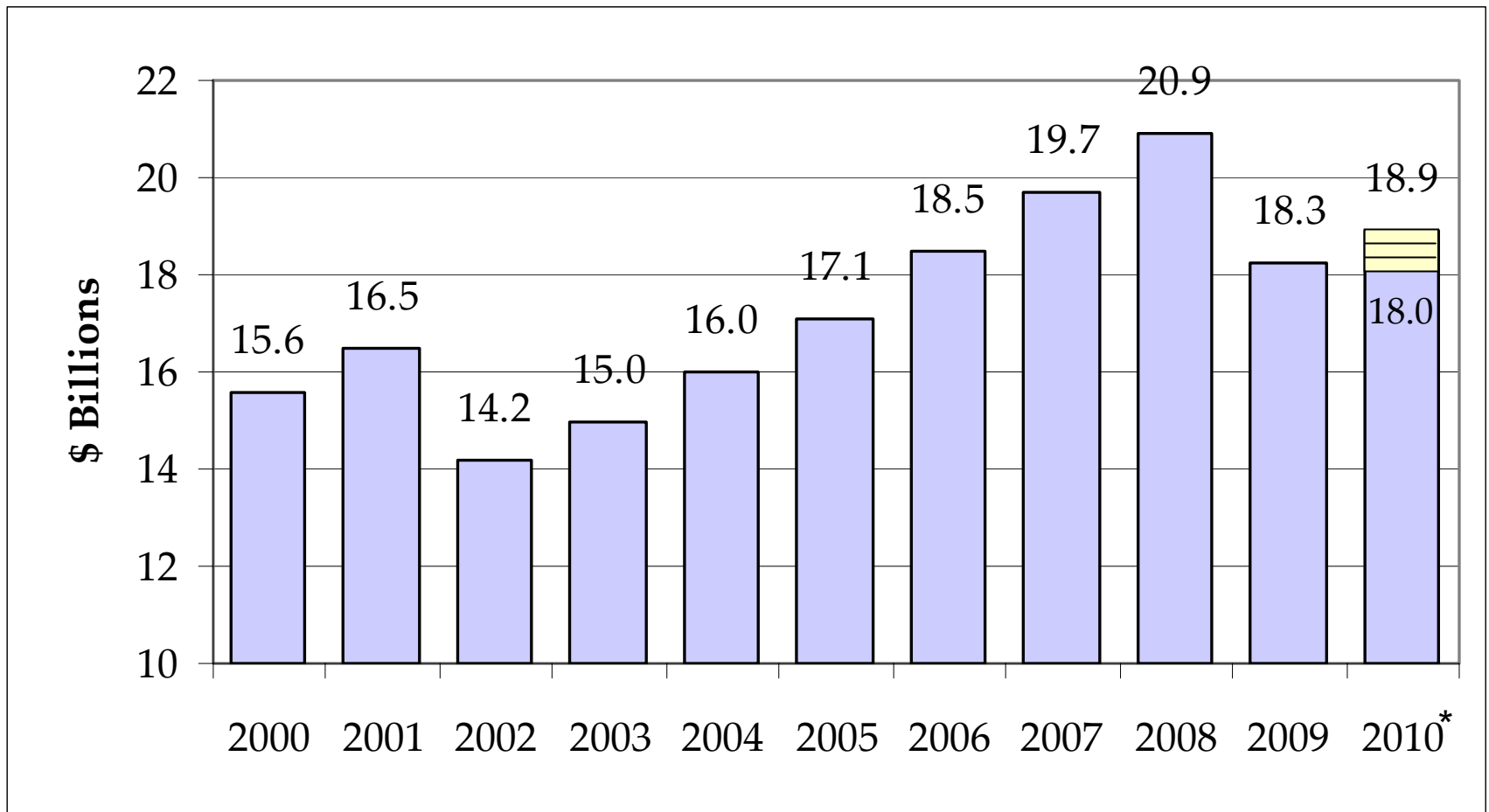
	Dec-00	Jul-09	% Change	Total					
Michigan	4,664.2	3,879.4	-16.83%	-784.8	Oregon	1,629.6	1,630.3	0.04%	0.7
Ohio	5,613.8	5,122.9	-8.74%	-490.9	New Hampshire	629.3	630.1	0.13%	0.8
Illinois	6,045.6	5,669.8	-6.22%	-375.8	Louisiana	1,921.9	1,924.5	0.14%	2.6
Indiana	2,973.7	2,805.9	-5.64%	-167.8	Iowa	1,475.3	1,478.0	0.18%	2.7
Massachusetts	3,371.1	3,184.3	-5.54%	-186.8	Colorado	2,249.4	2,254.5	0.23%	5.1
Connecticut	1,696.9	1,633.4	-3.74%	-63.5	Arkansas	1,156.1	1,178.2	1.91%	22.1
Rhode Island	480.9	463.9	-3.54%	-17.0	Florida	7,161.2	7,354.8	2.70%	193.6
California	14,701.0	14,249.6	-3.07%	-451.4	Maryland	2,482.9	2,551.7	2.77%	68.8
Kentucky	1,829.9	1,775.0	-3.00%	-54.9	Virginia	3,560.5	3,664.0	2.91%	103.5
Wisconsin	2,831.9	2,751.9	-2.82%	-80.0	Nebraska	915.0	949.8	3.80%	34.8
Vermont	302.7	294.5	-2.71%	-8.2	Oklahoma	1,506.6	1,564.2	3.82%	57.6
Mississippi	1,145.8	1,118.0	-2.43%	-27.8	Washington	2,731.2	2,859.4	4.69%	128.2
Delaware	421.0	411.1	-2.35%	-9.9	Arizona	2,273.0	2,431.4	6.97%	158.4
Tennessee	2,725.5	2,664.9	-2.22%	-60.6	South Dakota	377.4	405.9	7.55%	28.5
New Jersey	4,023.9	3,936.1	-2.18%	-87.8	Hawaii	557.7	600.7	7.71%	43.0
Maine	608.0	596.7	-1.86%	-11.3	New Mexico	753.9	817.6	8.45%	63.7
Georgia	3,970.8	3,901.8	-1.74%	-69.0	Idaho	565.9	617.4	9.10%	51.5
Minnesota	2,702.5	2,657.0	-1.68%	-45.5	Texas	9,537.5	10,416.8	9.22%	879.3
Pennsylvania	5,710.5	5,620.7	-1.57%	-89.8	Utah	1,086.7	1,201.6	10.57%	114.9
Alabama	1,928.5	1,907.6	-1.08%	-20.9	Montana	390.9	438.9	12.28%	48.0
Missouri	2,740.3	2,717.0	-0.85%	-23.3	Alaska	286.4	322.4	12.57%	36.0
Kansas	1,349.5	1,341.1	-0.62%	-8.4	North Dakota	327.6	371.5	13.40%	43.9
New York	8,696.3	8,644.6	-0.59%	-51.7	Nevada	1,045.3	1,187.3	13.58%	142.0
North Carolina	3,920.0	3,911.7	-0.21%	-8.3	Wyoming	241.6	289.0	19.62%	47.4
South Carolina	1,856.2	1,852.4	-0.20%	-3.8					
West Virginia	737.0	735.5	-0.20%	-1.5					

Unemployment Rate Not Yet Peaked



State Finances

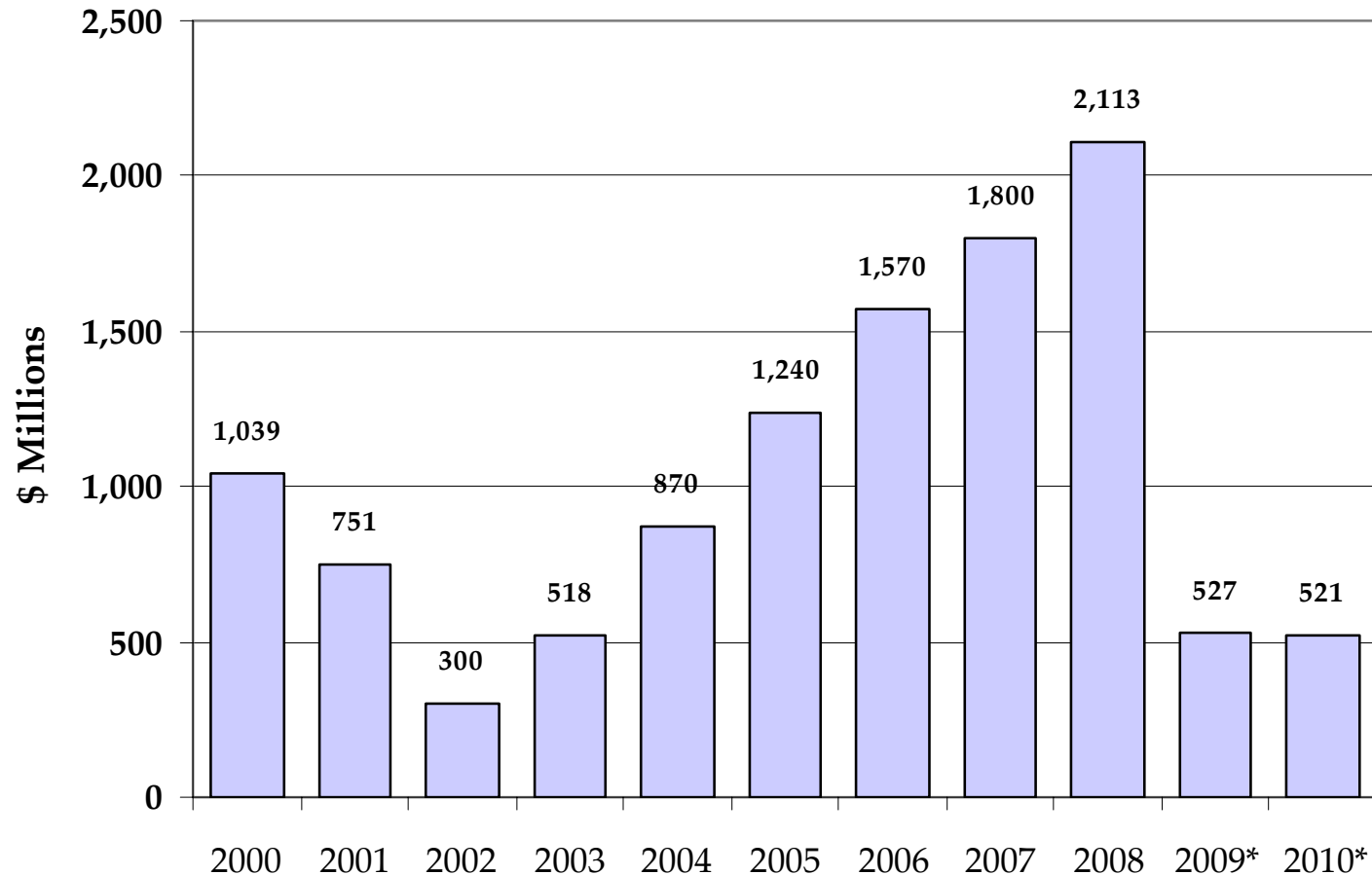
Total Tax Revenues – 2000 - 2010



* Consensus Forecast

 New Taxes

Capital Gains Taxes



*2009 and 2010 – Administration and Finance Estimates

Dramatic Decline in Tax Revenues

(\$ millions)

		Change from 2008
FY 2008 - Actual	20,879	
FY 2009 - Consensus	21,402	2.5%
10/15/08 Revision	20,302	-2.8%
01/15/09 Revision	19,450	-6.8%
05/05/09 Revision	18,436*	-11.7%
FY 2009 - Actual	18,259*	-12.5%

* Includes \$300 million of one-time corporate tax settlements

\$4 Billion Budget Gap in FY 2009

(\$ millions)

Decline in Tax Revenues		-3,143
Original 2009 Estimate	21,402	
2009 Revenues	18,259	
Shortfall in Departmental Revenues		-100
Deficiencies and Underfunding		-750
Total Budget Gap		-3,993

Closing the Fiscal 2009 Budget Gap

(\$ millions)

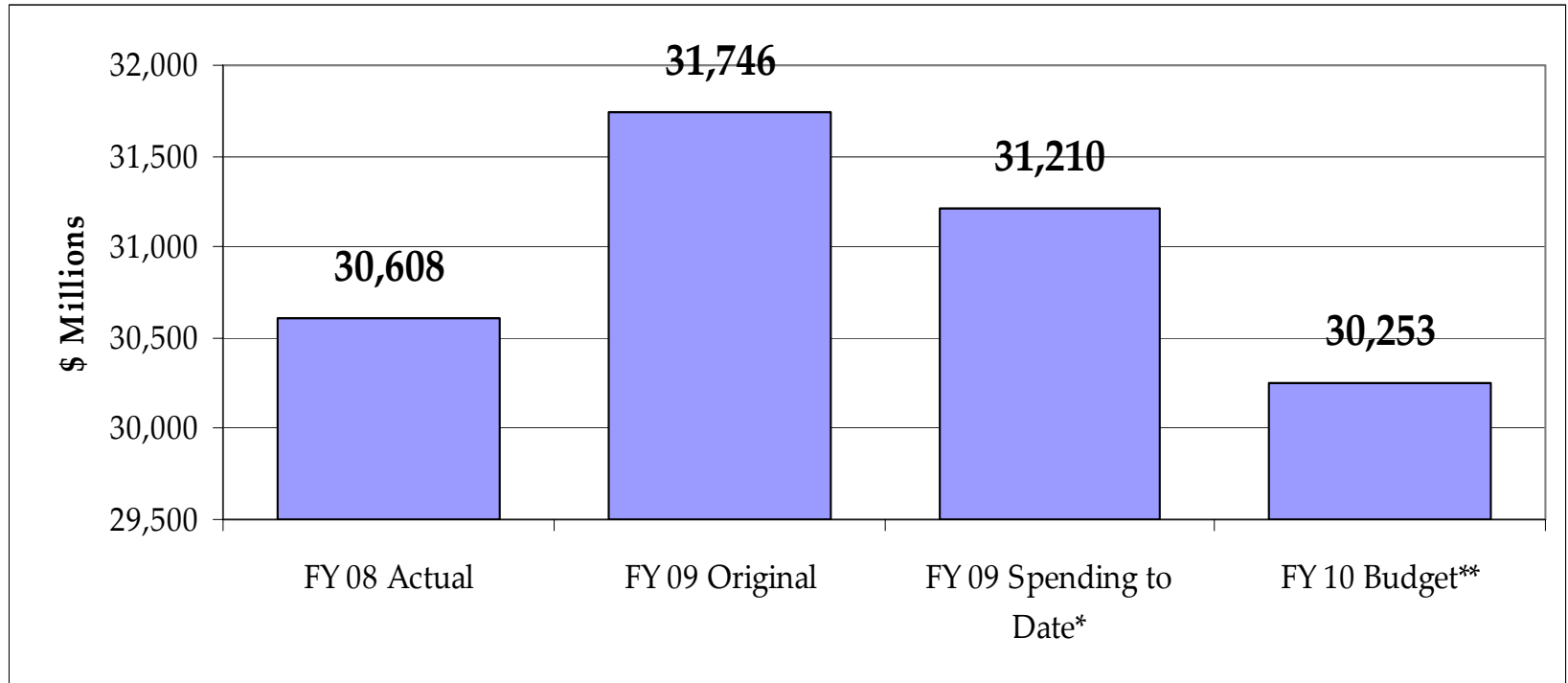
One-Time Sources		3,245
State Stabilization Fund	1,390	
Federal Stimulus	1,340	
FMAP	869	
State Fiscal Stabilization	433	
Federal Grants	38	
MA Convention Center	65	
DOR Corporate Tax Settlements	300	
One-Time Pension Savings	150	
Additional Federal Reimbursements		65
Unspent Funds Reverting to Treasury		100
Budget Cuts		647
Total		4,057

Stabilization Fund Balance

(\$ millions)

FY 08 Ending Balance	2,119
Interest	46
Subtotal	2,165
FY 09 Budget	-1,390
Projected FY 09 Ending Balance	775
Final Deficiency Budget	?

State Spending



* Does not include reversions or final deficiency

** After Governor's vetoes

FY 2010 Structural Deficit

(\$ millions)

One-Time Sources in FY 09	-3,245
Maintenance Budget*	-1,250
Revenue Decline**	-270
Total	-4,765

*Administration and Finance estimate

**Difference between FY 09 revenues of \$18.259 billion and FY 10 consensus forecast of \$17.989 billion

Closing the Fiscal 2010 Budget Gap

(\$ millions)

Spending Reductions	2,000
New Taxes and Fees*	780
One-Time Funds	2,004
State Stabilization Fund	214
Federal Stimulus	
FMAP	1,264
State Fiscal Stabilization Fund	376
School Building Authority	150
Total	<u>4,784</u>

* Excludes \$260 million from new sales tax revenues earmarked for the MBTA and the Turnpike and not available to close the budget deficit

FY 2010 Tax Revenues

(\$ millions)

Original Consensus Forecast (12/08)	19,530
Revised Consensus Forecast (5/09)	17,989
Tax Increases	890
Revenue Benchmark	18,879

Tax Increases

	FY 10	Full Year
New Statewide Tax Revenues	864	1,025
Sales tax increase from 5% to 6.25%	759	900
Removal of alcohol exemption	79	94
Satellite TV	26	31
Additional DOR Auditors	26	26
Total Tax Increases	890	1,051

Revenue Benchmark May Be Too High

- Adjusting for FY 09 DOR corporate tax settlements, fiscal 2010 revenues are currently projected to be roughly the same as fiscal 2009
- June and July revenues were below benchmark
- Withholding tax revenues will likely slump as the average unemployment rate jumps from 6.8% in fiscal 2009 to a projected 9.4% in fiscal 2010
- Sales tax revenues are expected to drop another 2-3 percent due to the bleak job market, tight credit, an anemic increase in personal income, and the large jump in personal savings

Remaining Reserves

(\$ millions)

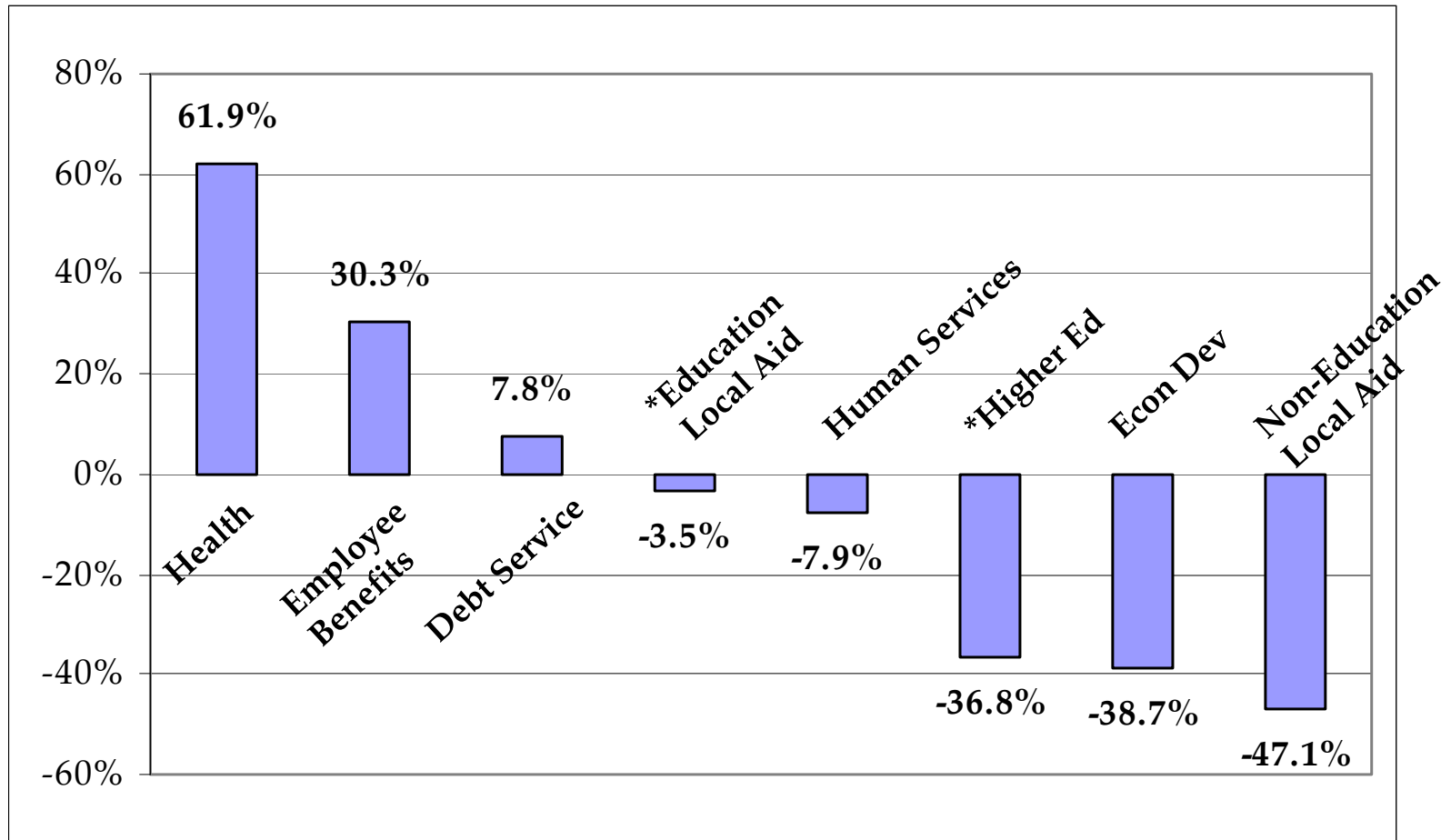
Available in Fiscal 2010	755
State Stabilization Fund	570
Federal Fiscal Stabilization	185
Available in Fiscal 2011	537
FMAP	537
Total Remaining Reserves	<u>1,292</u>

FY 2011 Structural Deficit

(\$ millions)

One-Time Revenues in FY 10	-2,000
Minimal Maintenance Budget (5%)	-1,500
Revenue Growth (3%)	570
Additional Sales Tax Revenues - Full Year	155
Deficit	-2,775
Remaining State and Federal Reserves	1,292

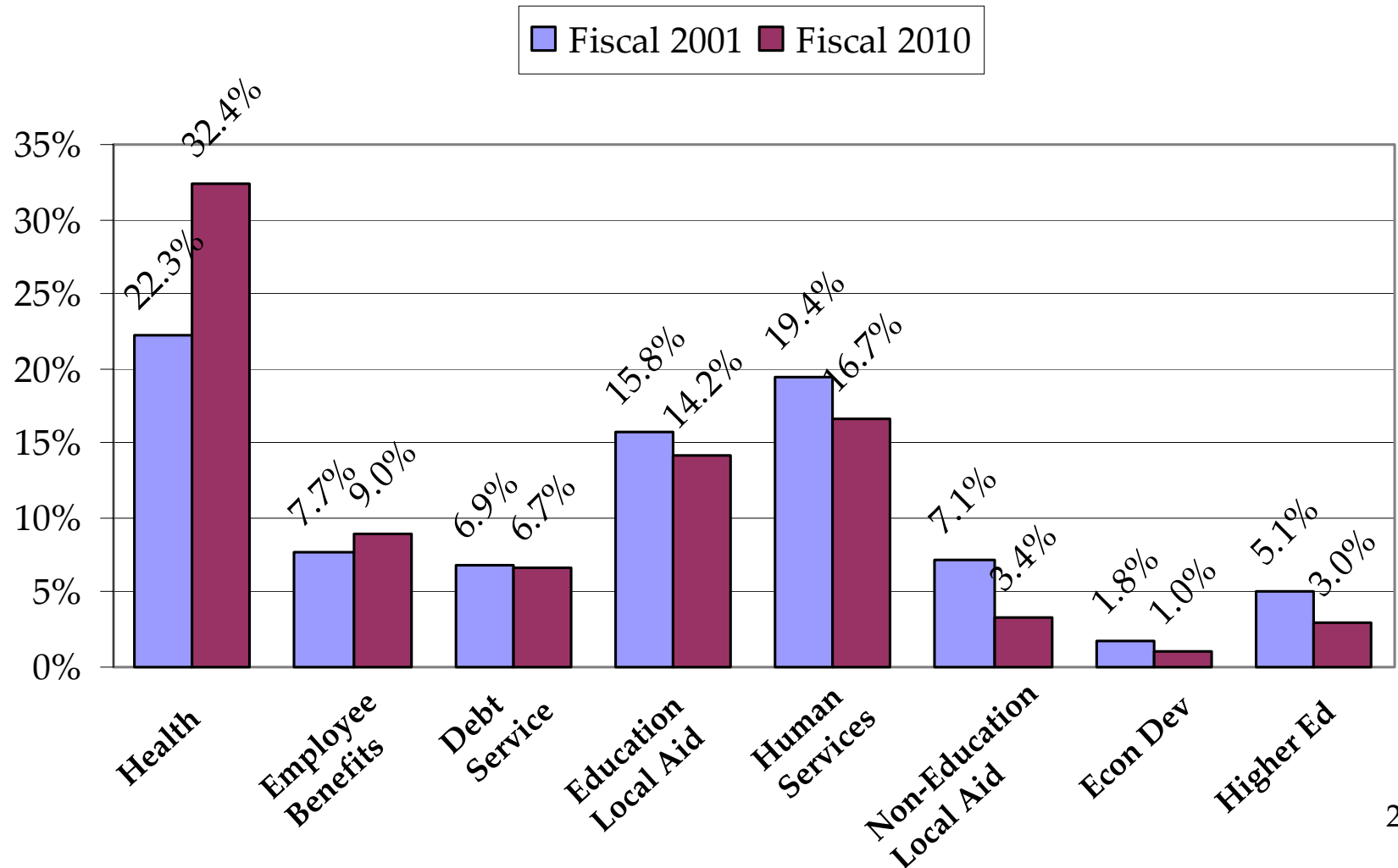
Changes in State Spending – FY 01 vs. FY 10 Adjusted for Inflation



* Does not include federal stimulus funds in 2010 budget

Growth in Medicaid is Crowding Out Other State Spending

Percent of Total Spending by Category, FY 2001 vs. FY 2010



Modest Increase in State Spending for Health Reform - \$88 million per year

(\$ millions, projections as of May 2009)

	FY06 Actuals	FY07 Actuals	FY08 Actuals	FY09 Estimated Spending	FY10 Projected	Change FY06-FY10
Commonwealth Care	0	133	628	800	880	880
MassHealth Coverage Expansions, Rate Increases and Benefit Restorations	0	224	355	452	487	487
Uncompensated Care Pool/Health Safety Net Trust Fund	656	665	416	406	381	-275
Supplemental Payments to Medicaid MCOs (federal share)	385	0	0	0	0	-385
Supplemental Payments to Safety Net Hospitals	0	287	287	200	0	0
Total	1,041	1,309	1,686	1,858	1,748	707
State Share of FY06-FY10 Increase in Spending						353

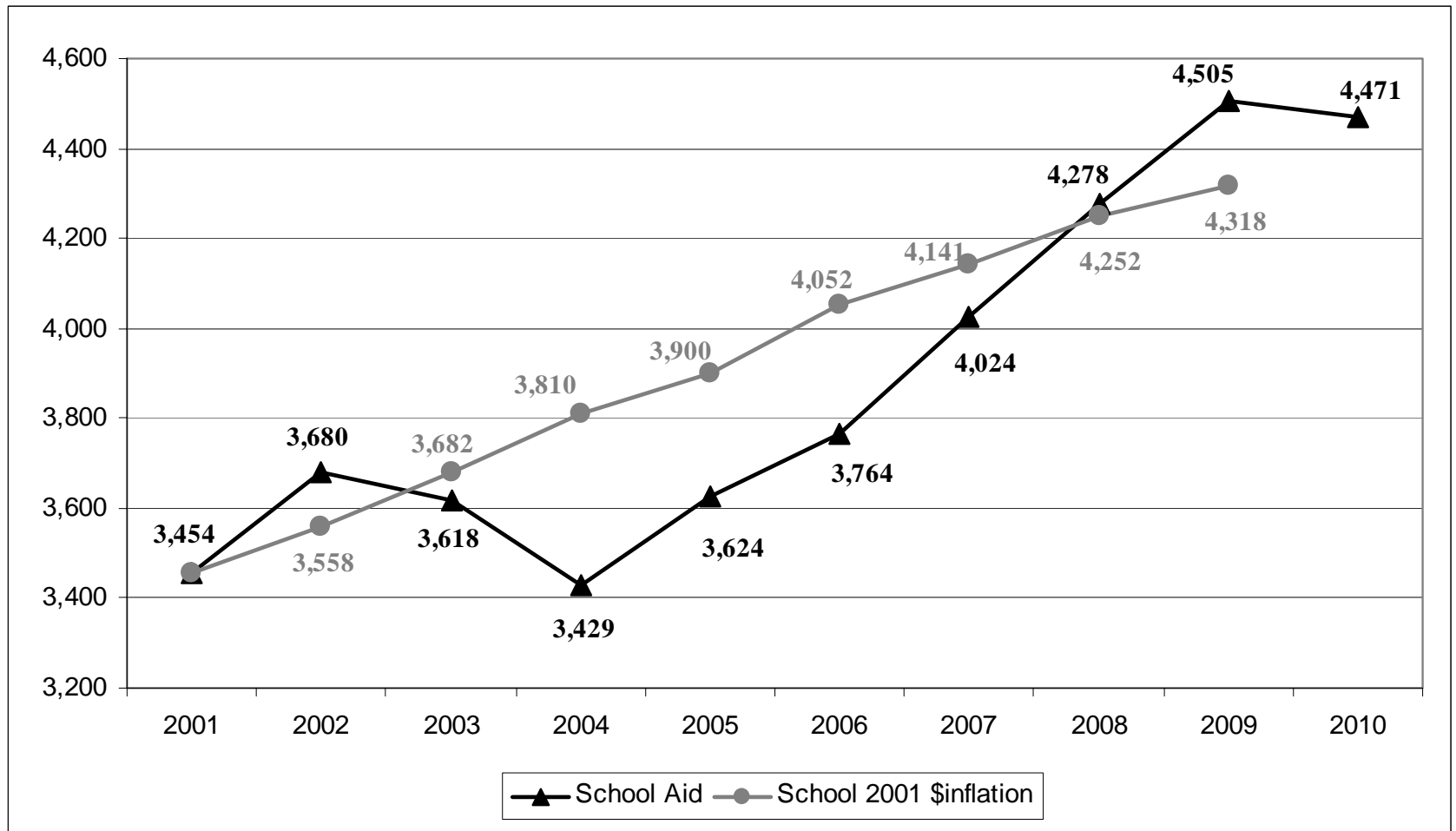
Municipal Finances

Municipal Finances

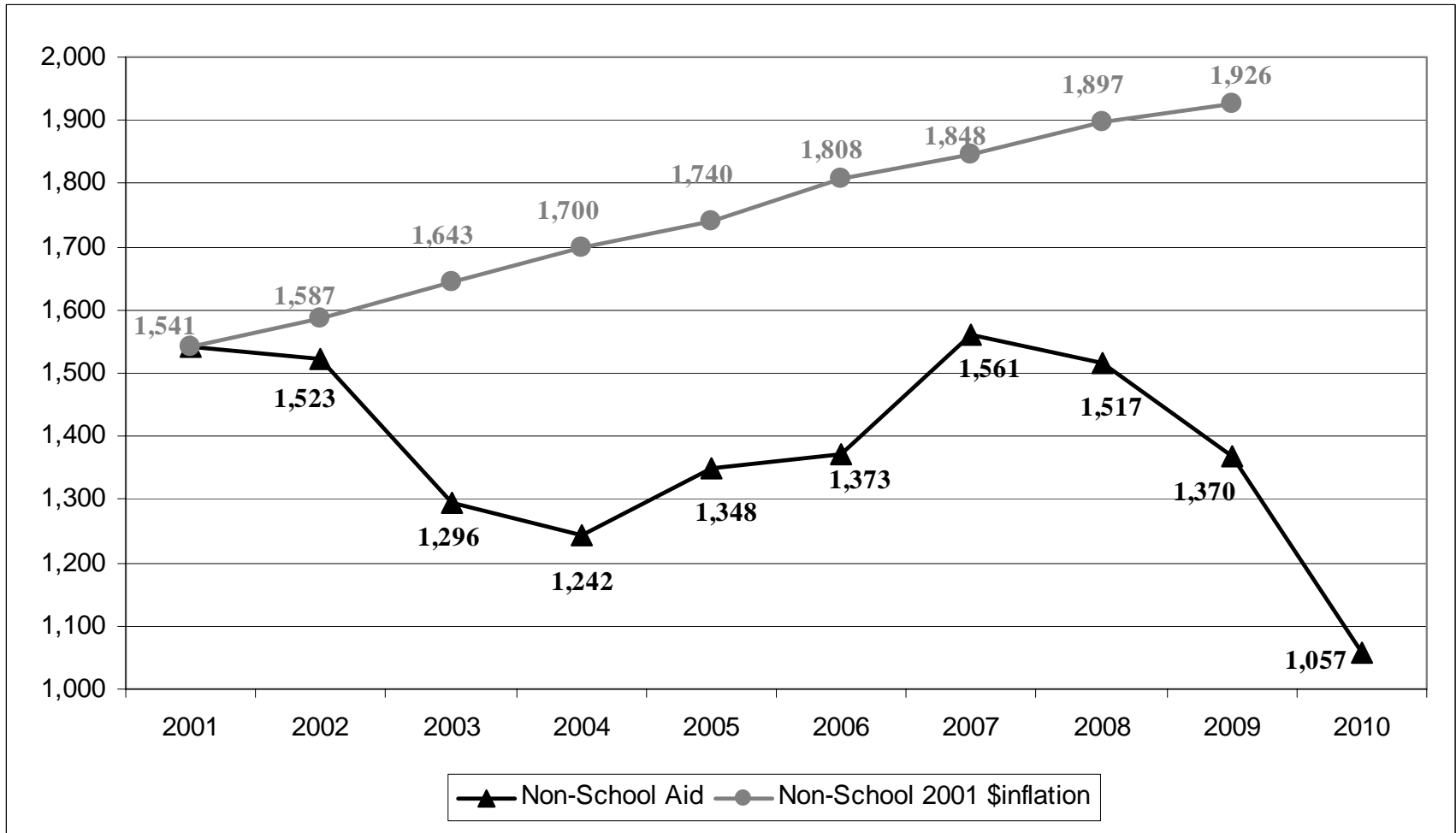
Overall Problem:

- Year after year costs of local government growing faster than revenues
- Problem compounded during state fiscal crises with cuts in local aid

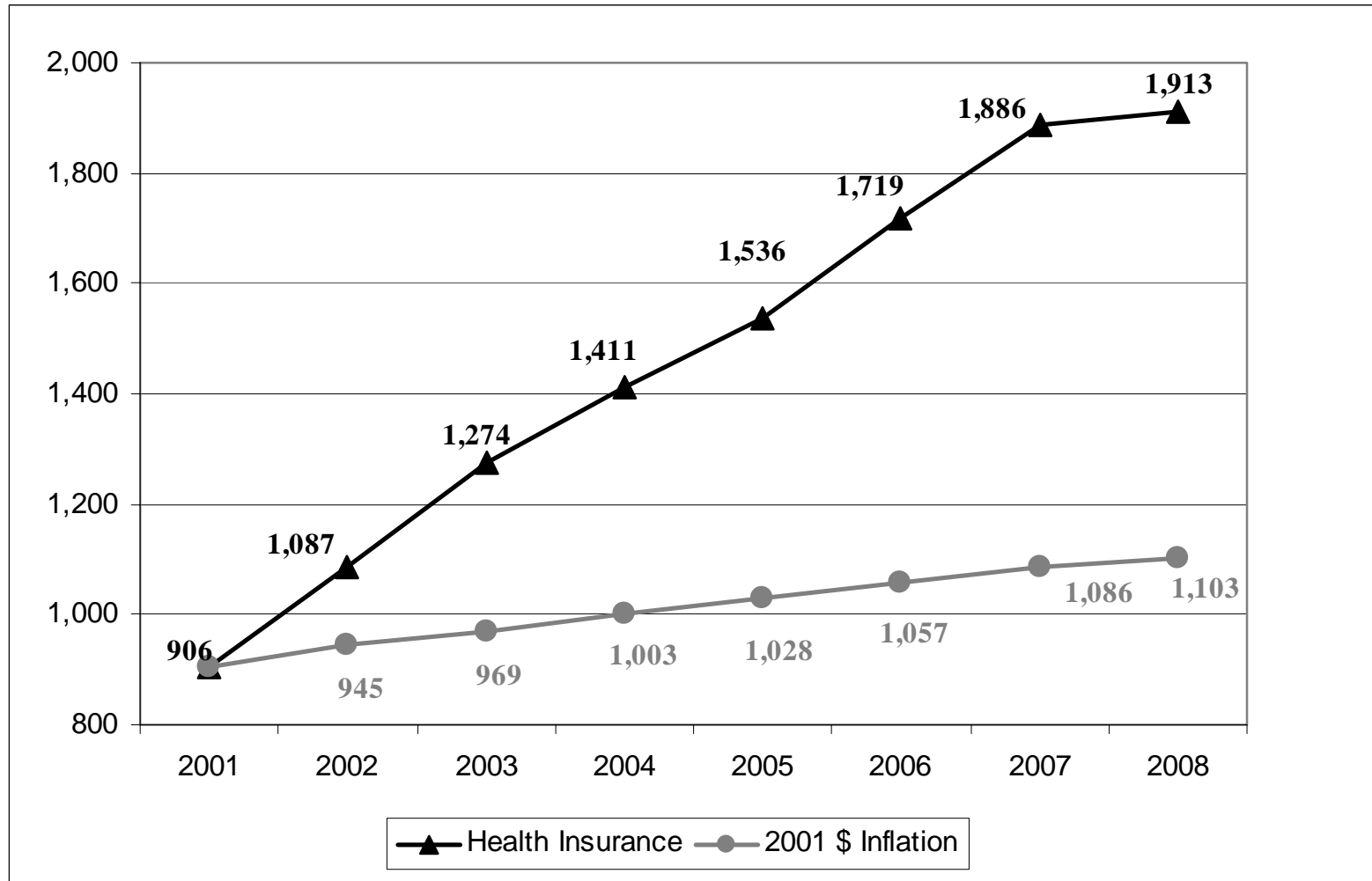
State School Aid Actual & Inflation Adjusted FY 2001-2010 (\$ millions)



Non-School Local Aid Actual & Inflation Adjusted FY 2001-2010 (\$ Millions)



Municipal Health Insurance Expenditures Actual & Inflation Adjusted FY 2001-2008 (\$ millions)



Addressing Health Care Costs is Critical

- Controlling growth of health care costs is single most important step municipalities can take to address their financial problems

Specific Proposal:

- Give municipal officials the same powers over health plan design – outside of collective bargaining – that the Group Insurance Commission has for state employees and retirees

Immediate and Large Savings

Based on a Comparison of Municipal and GIC Rates of Growth

(\$ millions)

Fiscal Year	Current Municipal Trends	GIC Trend	Annual Savings	Percentage Savings
2008	2,086.8	2,086.8	-	
2009	2,358.1	2,255.8	102.3	4.3%
2010	2,664.6	2,438.6	226.1	8.5%
2011	3,011.0	2,636.1	375.0	12.5%
2012	3,402.5	2,849.6	552.9	16.2%
2013	3,844.8	3,080.4	764.4	19.9%
2014	4,344.6	3,329.9	1,014.7	23.4%
2015	4,909.4	3,599.7	1,309.8	26.7%
2016	5,547.7	3,891.2	1,656.4	29.9%
2017	6,268.9	4,206.4	2,062.4	32.9%
2018	7,083.8	4,547.1	2,536.7	35.8%

Additional Pension Costs

- The recent large decline in pension assets will require an estimated 30 – 50 percent increase in annual pension appropriations for most cities and towns beginning in fiscal 2011 or 2012
- Long-term pension obligations are not sustainable