State and Local Finances

Presentation by
Michael J. Widmer
March 9, 2010
State Finances
Dramatic Decline in State Tax Revenues

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Actual</th>
<th>Forecast 2009</th>
<th>Forecast Jan. 2010</th>
<th>Consensus Forecast 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2008</td>
<td>20,888</td>
<td>18,259</td>
<td>18,460</td>
<td>19,050</td>
</tr>
<tr>
<td>FY 2009</td>
<td></td>
<td>21,402</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sales Tax Increase:
- 2008: $21,402
- 2009: $18,259
- 2010: $18,460
- 2010: $17,570
- 2011: $18,000
Volatility of Capital Gains Taxes

* Administration and Finance Estimates
<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>Original</th>
<th>Actual</th>
<th>Original</th>
<th>Estimate</th>
<th>Governor</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 08</td>
<td>$30,608</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY 09</td>
<td>$31,745</td>
<td></td>
<td>$31,247</td>
<td></td>
<td>$30,846</td>
<td>$31,713</td>
</tr>
<tr>
<td>FY 10</td>
<td>$30,447</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>
FY11 Budget – $1.25 Billion More than FY 10; Medicaid and the GIC Add $1.15 Billion
# Spending Supported by One-Time Funds

($ Millions)

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010*</th>
<th>2011**</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Stimulus</td>
<td>1,322</td>
<td>1,977</td>
<td>1,446</td>
<td>0</td>
</tr>
<tr>
<td>State Stabilization</td>
<td>1,390</td>
<td>169</td>
<td>146</td>
<td>0</td>
</tr>
<tr>
<td>Other</td>
<td>420</td>
<td>364</td>
<td>542</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,132</td>
<td>2,510</td>
<td>2,134</td>
<td>0</td>
</tr>
</tbody>
</table>

* Current Estimate

** Governor’s Budget
# One-Time Funds in Governor’s 2011 Budget

($ Millions)

### Federal Stimulus Aid (ARRA)
- State Fiscal Stabilization Funds: 96
- FMAP: 719
- FMAP II (Not Yet Appropriated): 608
- Transitional Assistance for Needy Families: 23

**Subtotal** 1,446

### Other One-Time Funds
- Medicare Reimbursement: 160
- Debt Restructuring: 300
- State Stabilization Fund: 146
- State Land/Trust Funds: 54
- Transfers from Quasi-Public Agencies: 29

**Subtotal** 689

**Total** 2,135
# Stabilization Fund Balance

($ millions)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Balance</td>
<td>607</td>
</tr>
<tr>
<td>Additional Federal Funds FY 10</td>
<td>80</td>
</tr>
<tr>
<td>FY 11 Budget</td>
<td>-175</td>
</tr>
<tr>
<td>Additional Federal Funds FY 11</td>
<td>29</td>
</tr>
<tr>
<td>Interest</td>
<td>4</td>
</tr>
<tr>
<td><strong>Projected Balance</strong></td>
<td><strong>545</strong></td>
</tr>
</tbody>
</table>
# Fiscal 2012 Structural Deficit

($ Millions)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>One-Time Funds in 2011 Budget</td>
<td>-2,100</td>
</tr>
<tr>
<td>Maintenance Budget</td>
<td>-1,400</td>
</tr>
<tr>
<td>5% Revenue Growth</td>
<td>1,000</td>
</tr>
<tr>
<td>Stabilization Fund</td>
<td>0</td>
</tr>
<tr>
<td>Federal Stimulus</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>-2,500</strong></td>
</tr>
</tbody>
</table>
November Ballot Questions

- Reduce sales tax from 6.25 to 3 percent
  - Annual loss of $2.4 billion in revenues
- Repeal the sales tax on alcoholic beverages approved by the Legislature in 2009
  - Annual loss of $100 million in revenues
- Both would take effect January 1, 2011
Revenue Loss From Two Ballot Questions

($ Millions)

Fiscal 2011 (Feb. - June 2011) 1,000
Fiscal 2012 2,500

– Doubling the fiscal 2012 shortfall from $2.5 to $5 billion
Accomplishments

• Administration and Legislature worked together to address unprecedented $3.3 billion drop in tax revenues – fiscal 2010 budget passed on time to Governor

• Three rating agencies have affirmed state’s AA bond rating with a ‘stable’ outlook (March 2010)
  – AA: Very strong capacity to meet debts (S&P)

• California, Michigan and Illinois ratings recently downgraded

• New Jersey, Minnesota, Connecticut and four other states’ outlooks lowered from ‘stable’ to ‘negative’

• 15 states in all have ‘negative’ outlook (Moody’s, February 2010)
Reforms

- Civilian flaggers, part of Transportation Bond Bill, passed in 2008 – implemented by Administration
- Pension Reform passed in 2009 – altered some abuses but will yield only tiny savings
- Transportation Reform passed in 2009 – consolidates agencies, cuts MBTA health care costs
- Comprehensive Education Reform passed in 2010
- Governor filed comprehensive Pension Reform Bill in 2010
- Capital gains proposal included in 2011 budget
Local 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

• Controlling growth of health care and pension costs is the most important step municipalities can take to address this problem
Health Care – The Problem

- Municipal health care costs rose five times faster than inflation from 2000 to 2008; the cost of insuring municipal employees and retirees jumped from 8% of municipal budgets in 1999 to 14% in 2009 (The Boston Globe)

- Municipal employees and retirees enjoy substantially richer benefits than state and federal public plans – the last bastion of the $5 co-pay

- Unlike the state, municipalities do not have control of health plan design outside of collective bargaining – GIC raised co-pays and deductibles in fiscal 2010 to close a budget shortfall

- As many as 175 communities do not currently require retirees to enroll in Medicare as their primary insurer

- Municipalities could save hundreds of millions of dollars annually – “the biggest thing the state can do to help municipalities deal with their enormous fiscal problems”
Health Care Reports

• Mass Taxpayers Foundation

• The Boston Foundation
  – “Leveling the Playing Field: Giving Municipal Officials the Tools to Moderate Health Insurance Costs,” March 2010

• The Boston Globe Special Report
  – Runaway health costs are rocking municipal budgets, February 28 & March 1, 2010, Sean Murphy
## Immediate and Large Savings*

Based on a Comparison of Municipal and GIC Rates of Growth

($ millions)

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

* Municipal Health Reform: Seizing the Moment, August 2007
Health Care - Recommendations

• Give local officials the same authority as the state to control health plan design outside of collective bargaining

• Require that all local retirees enroll in Medicare as their primary health insurance as soon as they are eligible

• Tier health care benefits for municipal retirees to years of service rather than receiving full benefits after only 10 years
Pensions - State

• The US Government Accountability Office (GAO) considers pensions funded at 80% an acceptable level.

• The Pew Center on the States reports that 29 of the 50 state pension plans were funded at 80% or higher.

• According to the Pew Report, Massachusetts is one of 19 states with ‘cause for serious concern’ – the lowest category, and one of only eight states with more than one-third of its total liability unfunded.

• The state’s unfunded pension liability jumped from $12 billion to $22 billion in the recent stock market collapse.

• Even if the state’s pension payment schedule were extended 10 years from 2025 to 2035, the annual obligation would still increase by several hundred millions dollars beginning in fiscal 2012.
Pensions - Municipalities

• According to PERAC (1/1/10), 88 pension plans are funded below 80% of total liabilities; 10 communities are funded below 50%

• Roughly 45 municipal plans will see increased payments in fiscal 2011 because of the market collapse; the remaining plans will be affected in fiscal 2012

• The Governor filed legislation to extend the pension payment schedule for municipal plans from 2030 to 2040; bill includes a caveat that annual payments cannot decline from current obligations

• Extension of payment schedule without reforms is not responsible and would likely lead to action by the rating agencies
Governor Patrick's Pension Reform Bill

- Raises the minimum retirement age from 55 to 60; maximum benefit age raised from 65 to 67 for most employees
- Extends pension payment calculation from ‘high 3’ to ‘high 5’ years
- Pro-rates benefits to time spent in group classification
- Limits the increase in pensionable earnings in any year to no more than 7 percent plus inflation
- Eliminates Section 10 early retirement benefits