



*Massachusetts Taxpayers Foundation*

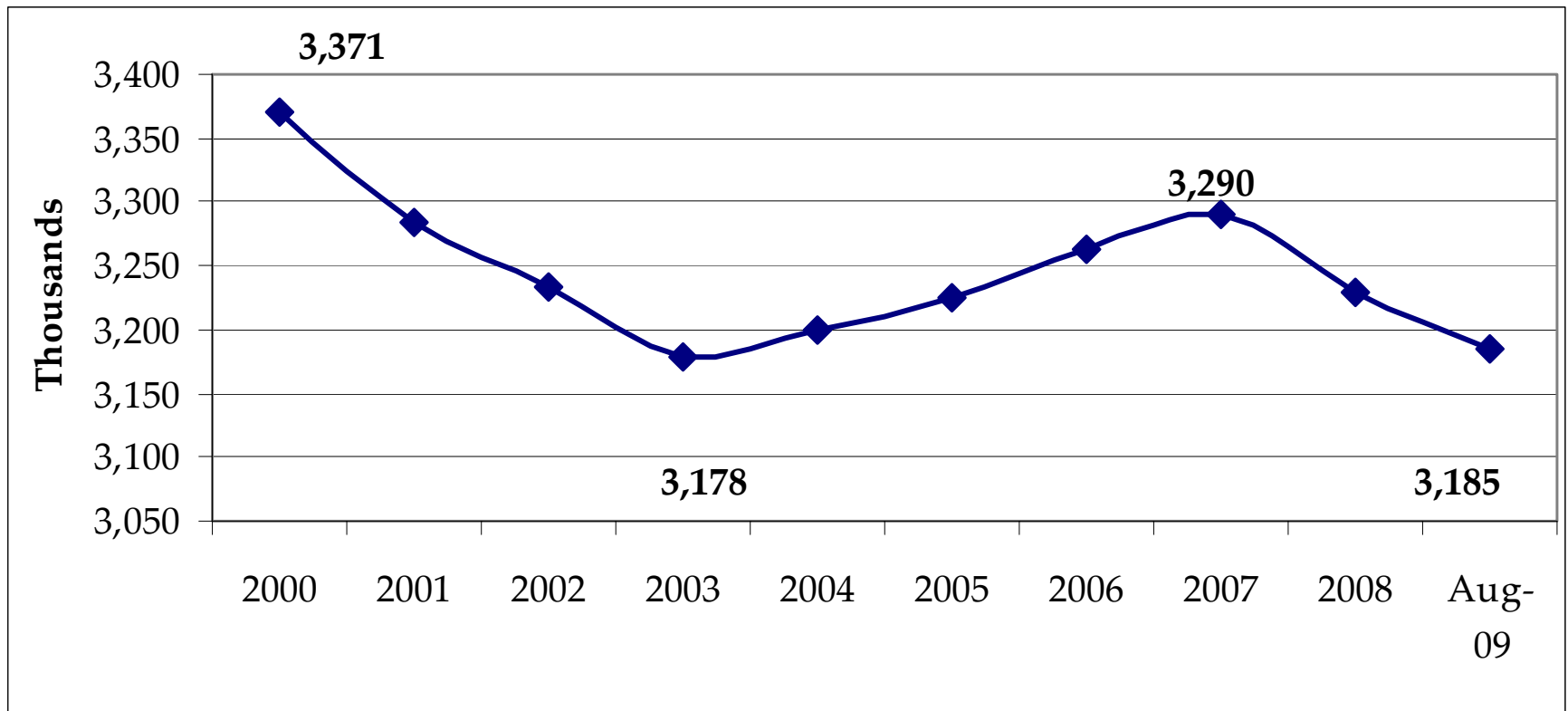
# State and Local Finances in Massachusetts

Boston Municipal Analyst Forum

October 6, 2009

# Massachusetts Economy

# Massachusetts Total Employment

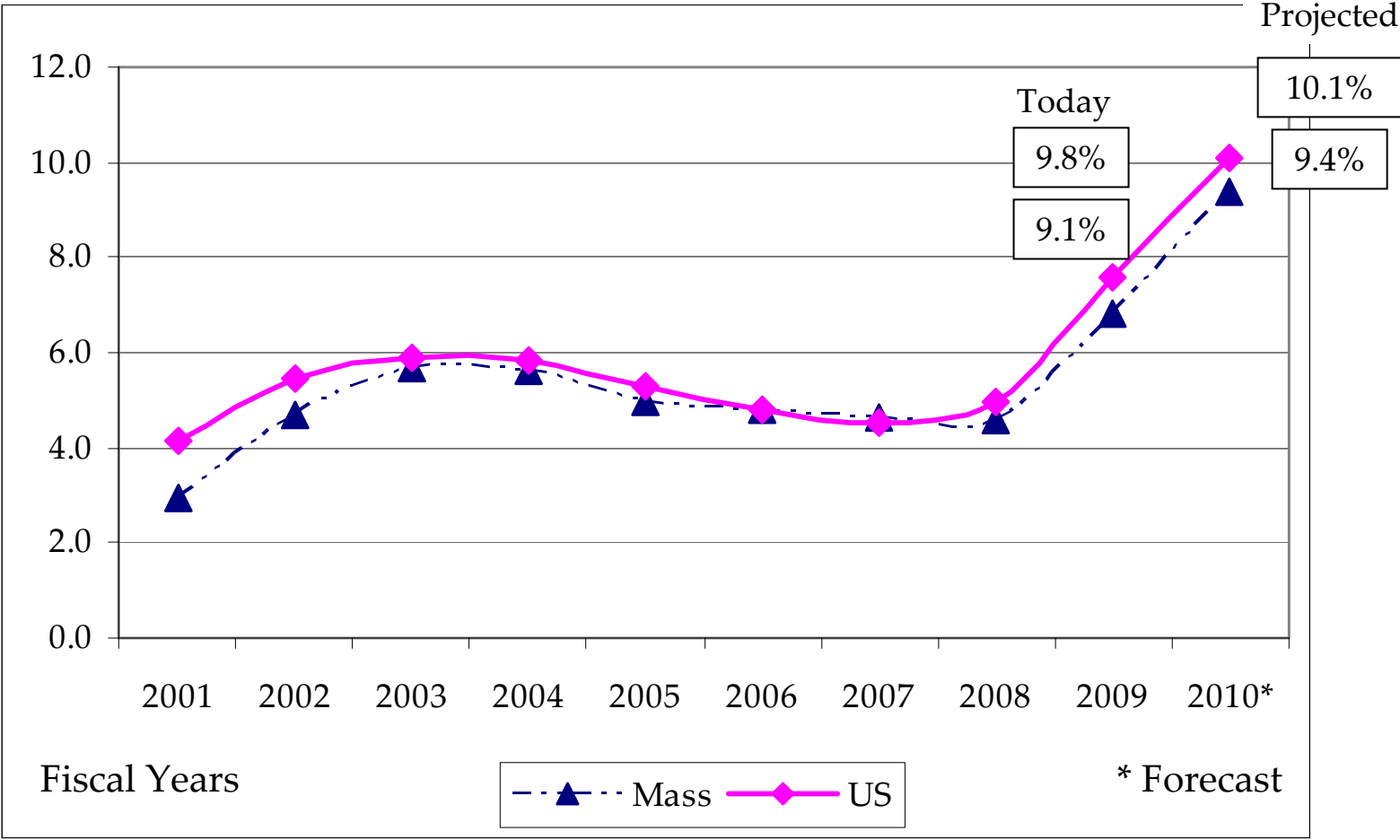


# MA Ranks Near the Bottom in Jobs Created (or Lost) This Decade

Change in Employment: 2000 – 2009

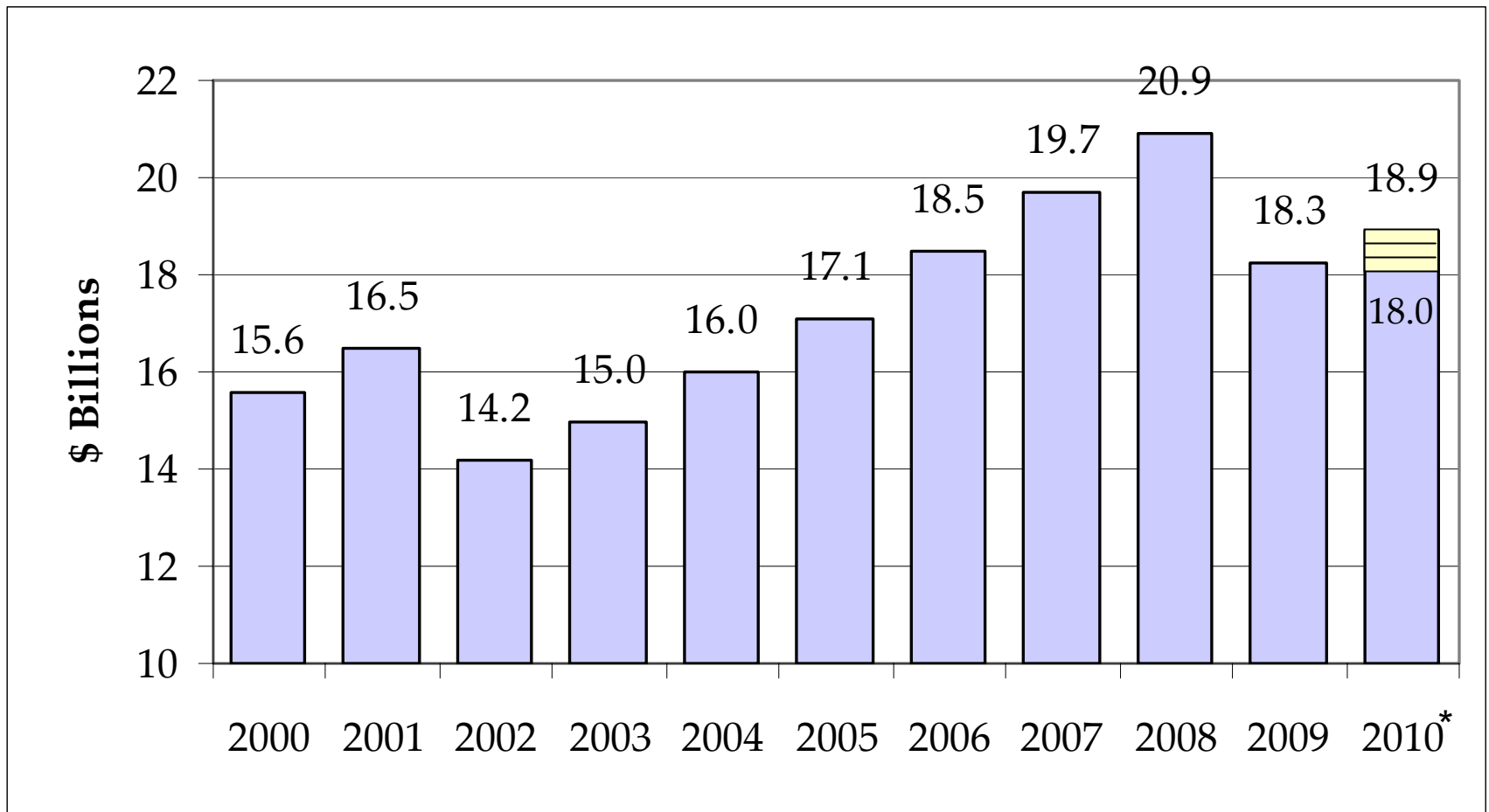
	<u>Dec-00</u>	<u>Jul-09</u>	<u>% Change</u>	<u>Total</u>					
Michigan	4,664.2	3,879.4	-16.83%	-784.8	Oregon	1,629.6	1,630.3	0.04%	0.7
Ohio	5,613.8	5,122.9	-8.74%	-490.9	New Hampshire	629.3	630.1	0.13%	0.8
Illinois	6,045.6	5,669.8	-6.22%	-375.8	Louisiana	1,921.9	1,924.5	0.14%	2.6
Indiana	2,973.7	2,805.9	-5.64%	-167.8	Iowa	1,475.3	1,478.0	0.18%	2.7
<b>Massachusetts</b>	<b>3,371.1</b>	<b>3,184.3</b>	<b>-5.54%</b>	<b>-186.8</b>	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

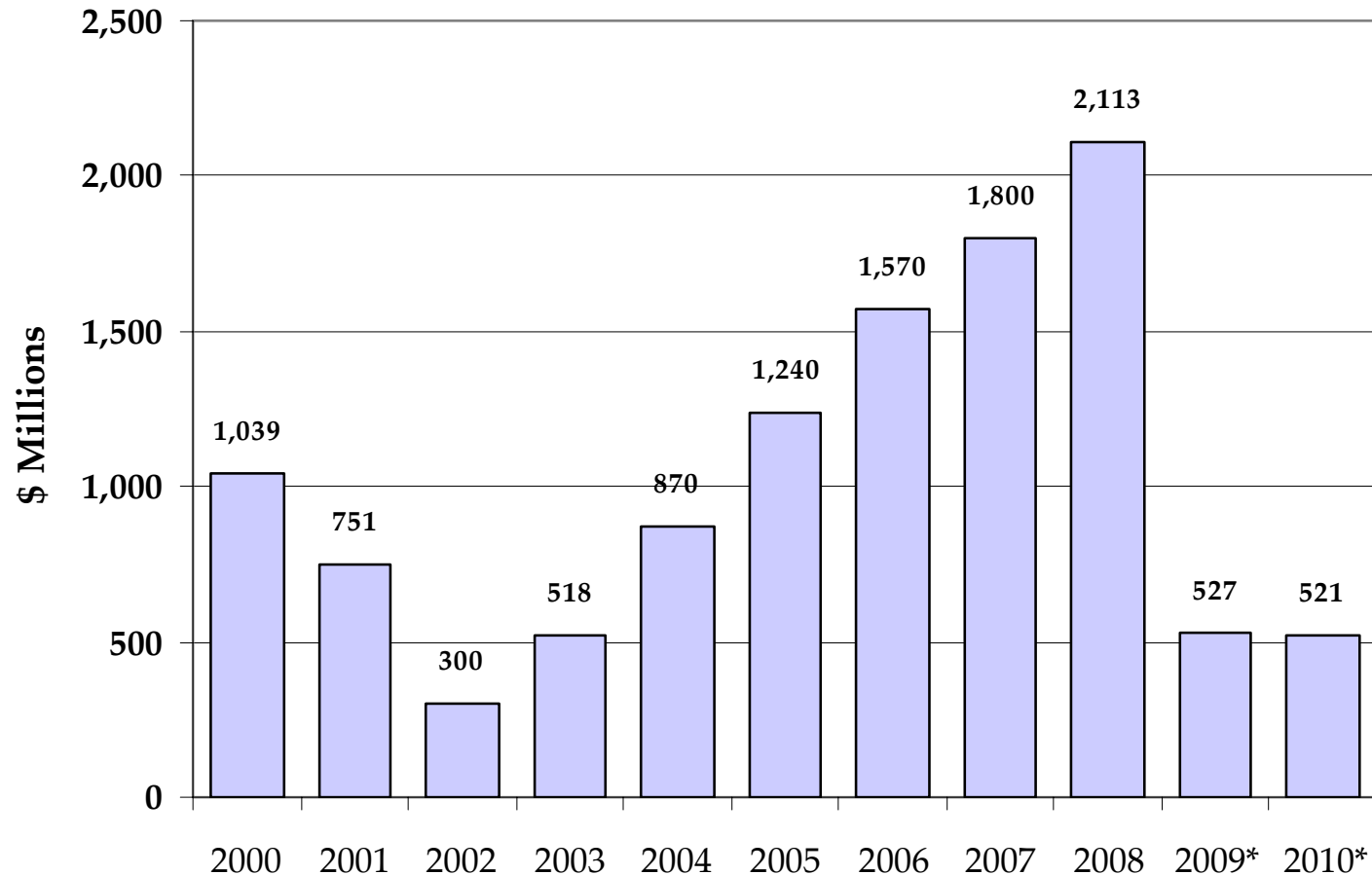
# Total Tax Revenues – 2000 - 2010



\* 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)

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

# Closing the Fiscal 2009 Budget Gap

(\$ millions)

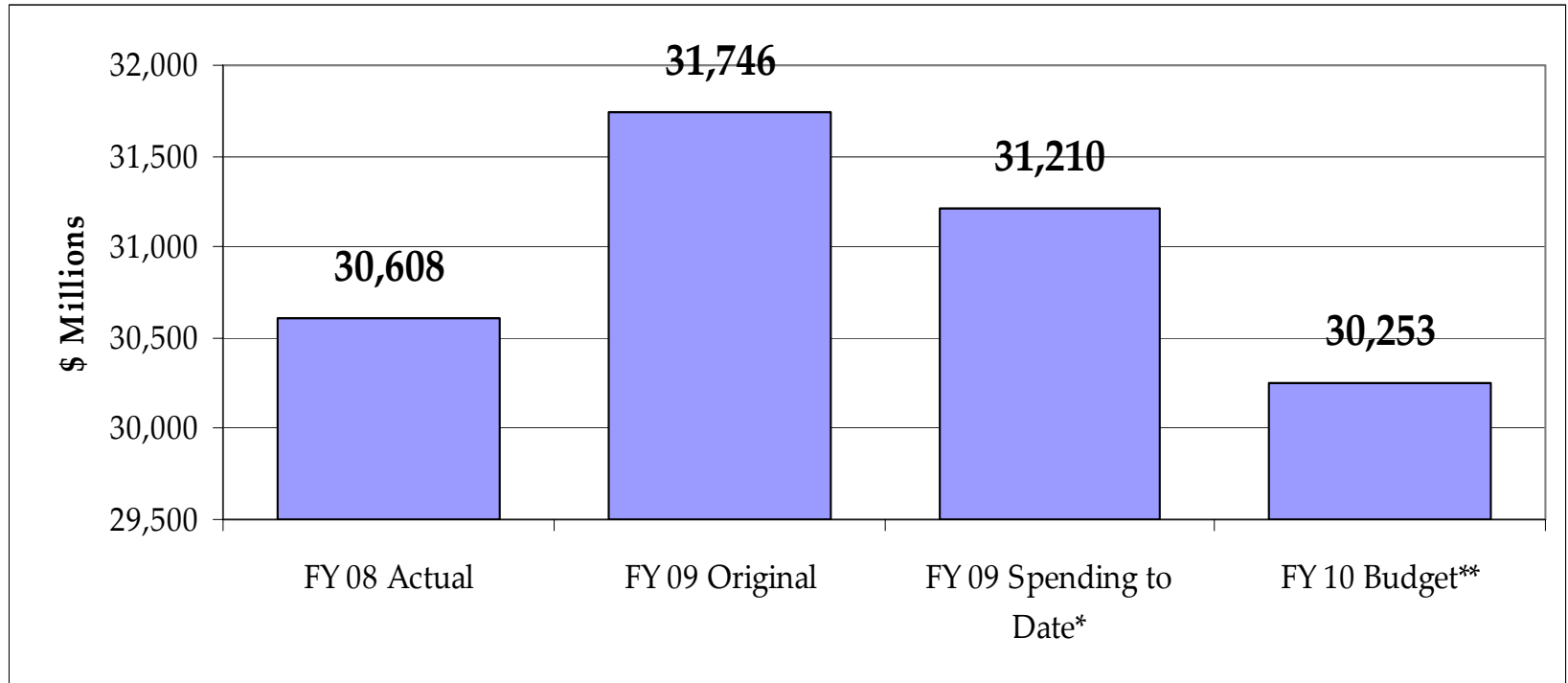
<b>One-Time Sources</b>		<b>3,245</b>
State Stabilization Fund	1,390	
Federal Stimulus	1,340	
FMAP	869	
State Fiscal Stabilization	433	
Federal Grants	38	
MA Convention Center	65	
DOR Corporate Tax Settlements	300	
One-Time Pension Savings	150	
<b>Additional Federal Reimbursements</b>		<b>65</b>
<b>Unspent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

# Stabilization Fund Balance

(\$ millions)

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

# 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
<b>Total</b>	<b>-4,765</b>

\*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)

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

\* 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
<b>Revenue Benchmark</b>	<b>18,879</b>



# Tax Increases

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

# Revenue Benchmark Several Hundred Million Dollars Too High

- Adjusting for FY 09 DOR corporate tax settlements, fiscal 2010 revenues are currently projected to be roughly the same as fiscal 2009
- Tax revenues are \$212 million (4.7%) below benchmark for the first quarter; down \$243 million in September
- 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 5-6 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)

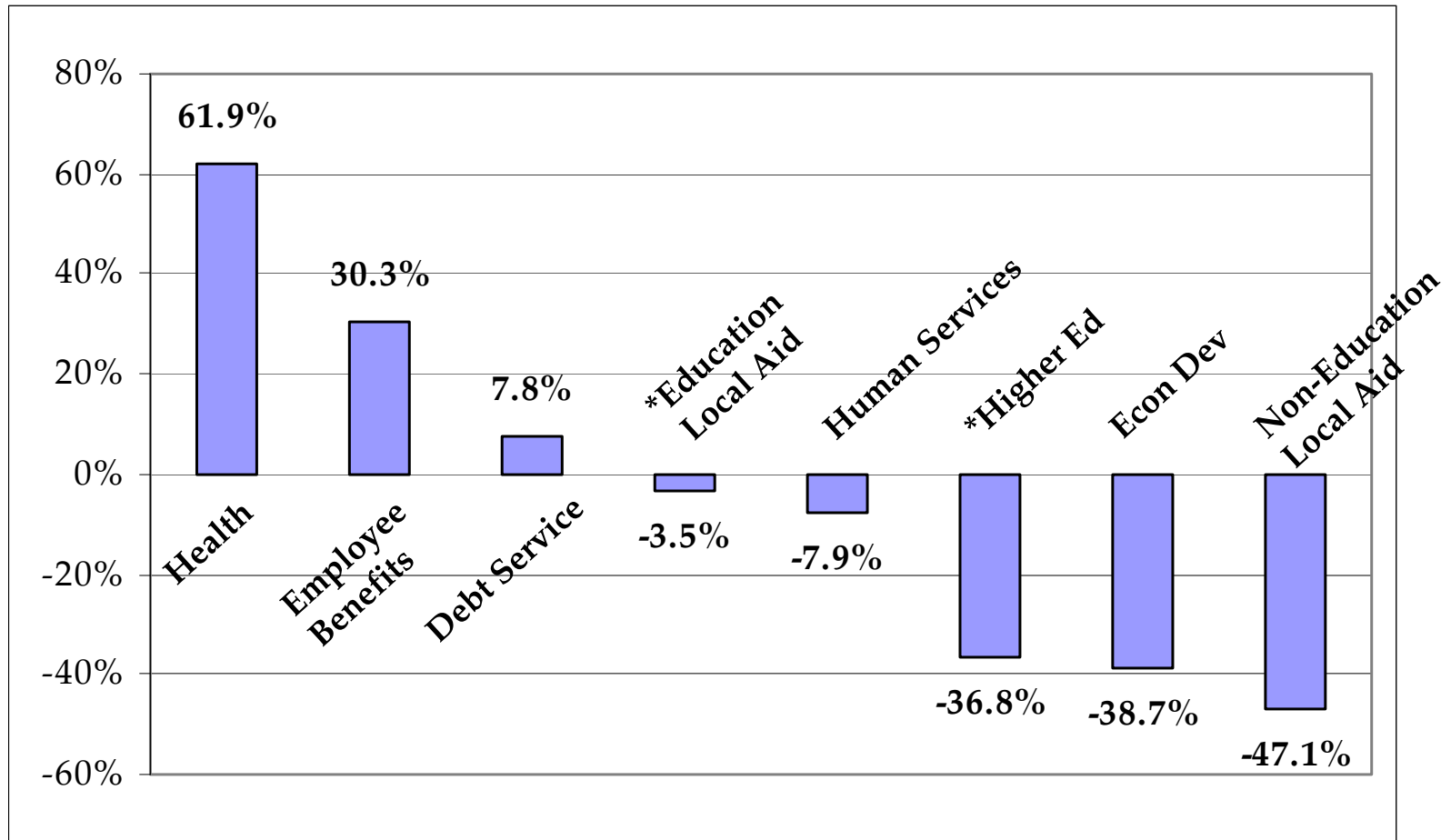
<b>Available in Fiscal 2010</b>	<b>755</b>
State Stabilization Fund	570
Federal Fiscal Stabilization	185
<b>Available in Fiscal 2011</b>	<b>537</b>
FMAP	537
<b>Total Remaining Reserves</b>	<b><u>1,292</u></b>

# 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
<b>Deficit</b>	<b>-2,775</b>
<b>Remaining State and Federal Reserves</b>	<b>1,292</b>

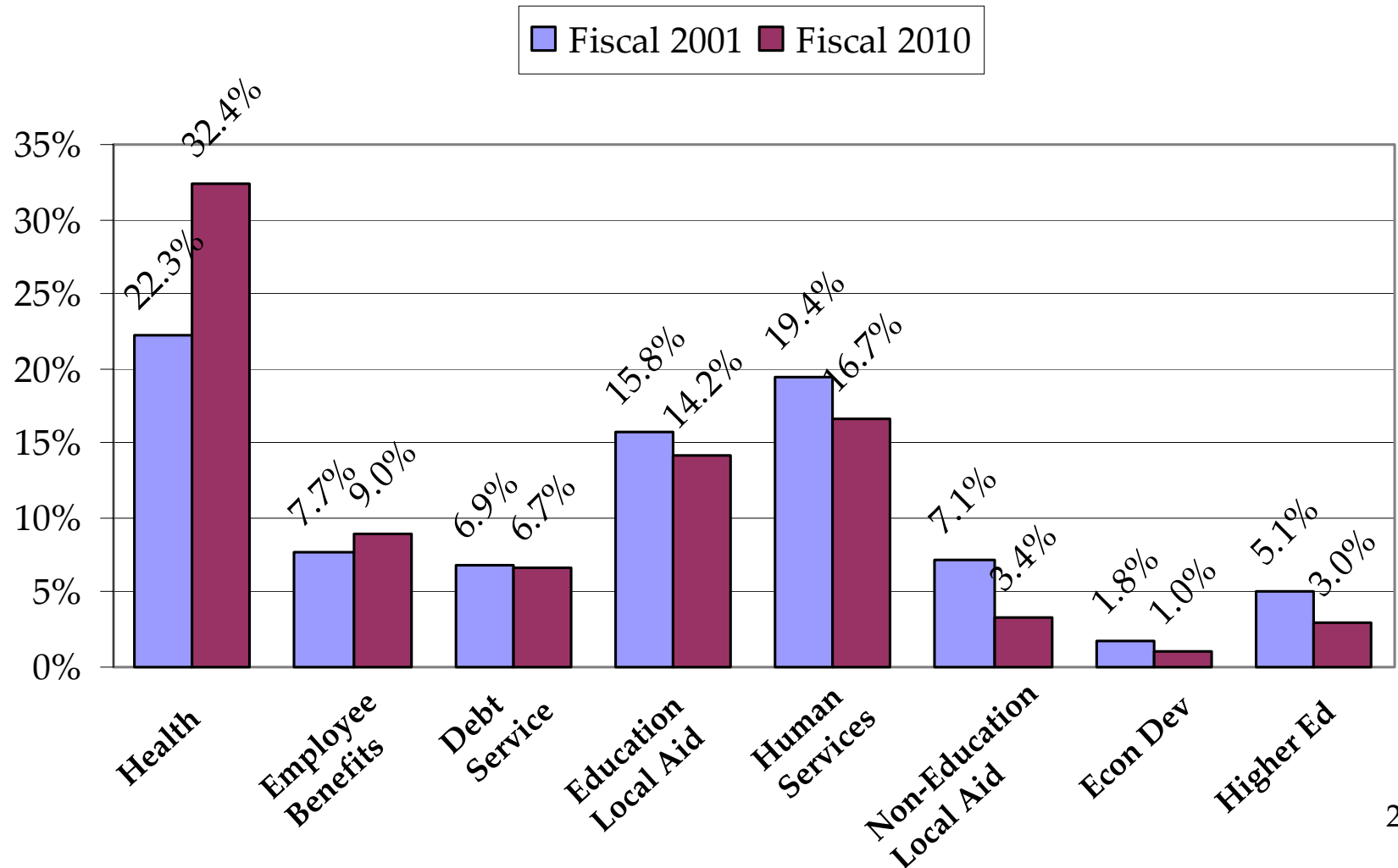
# Changes in State Spending – FY 01 vs. FY 10 Adjusted for Inflation



\* 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
<b>Total</b>	<b>1,041</b>	<b>1,309</b>	<b>1,686</b>	<b>1,858</b>	<b>1,748</b>	<b>707</b>
<b>State Share of FY06-FY10 Increase in Spending</b>						<b>353</b>

# Municipal Finances

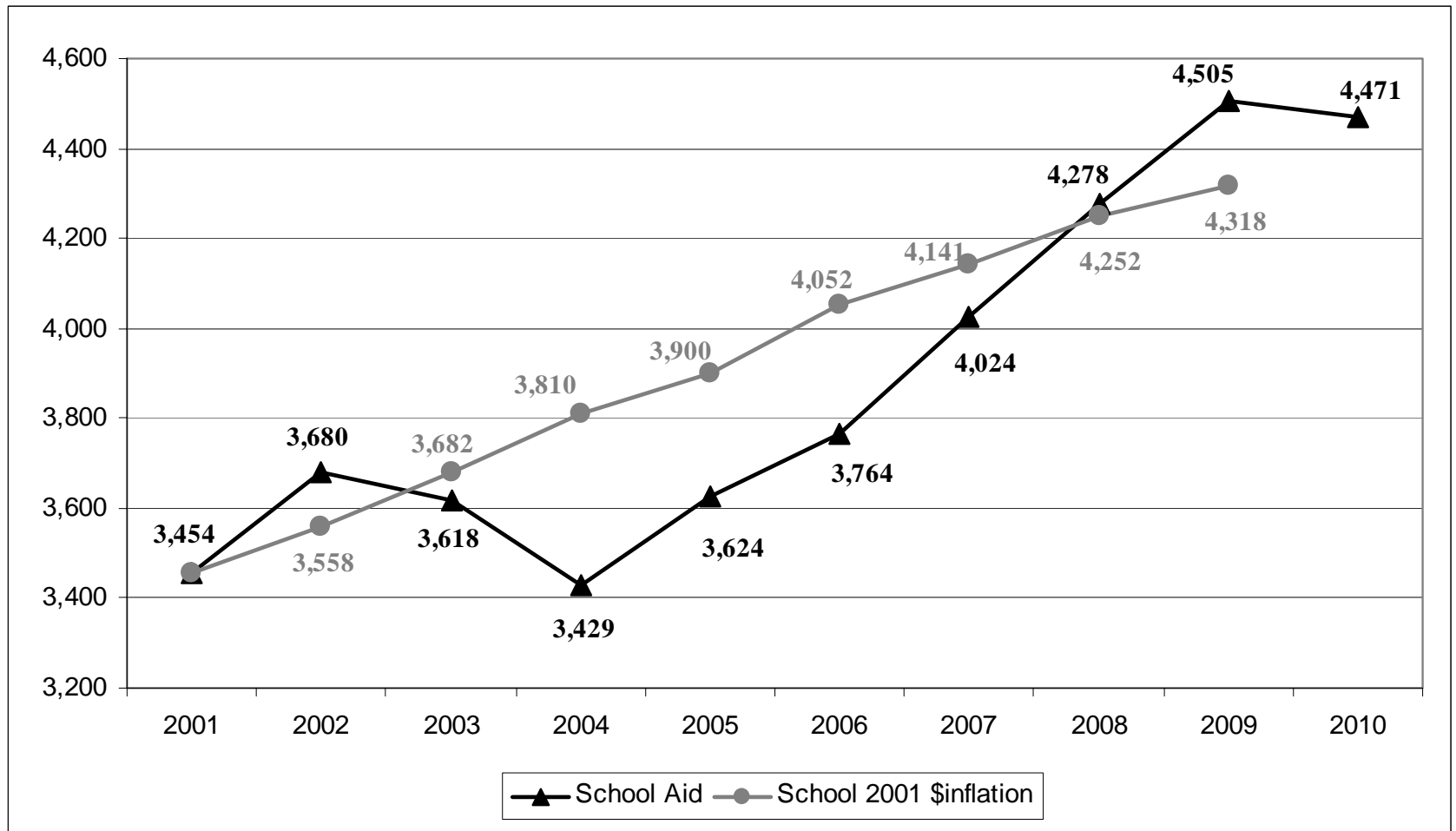


# Municipal Finances

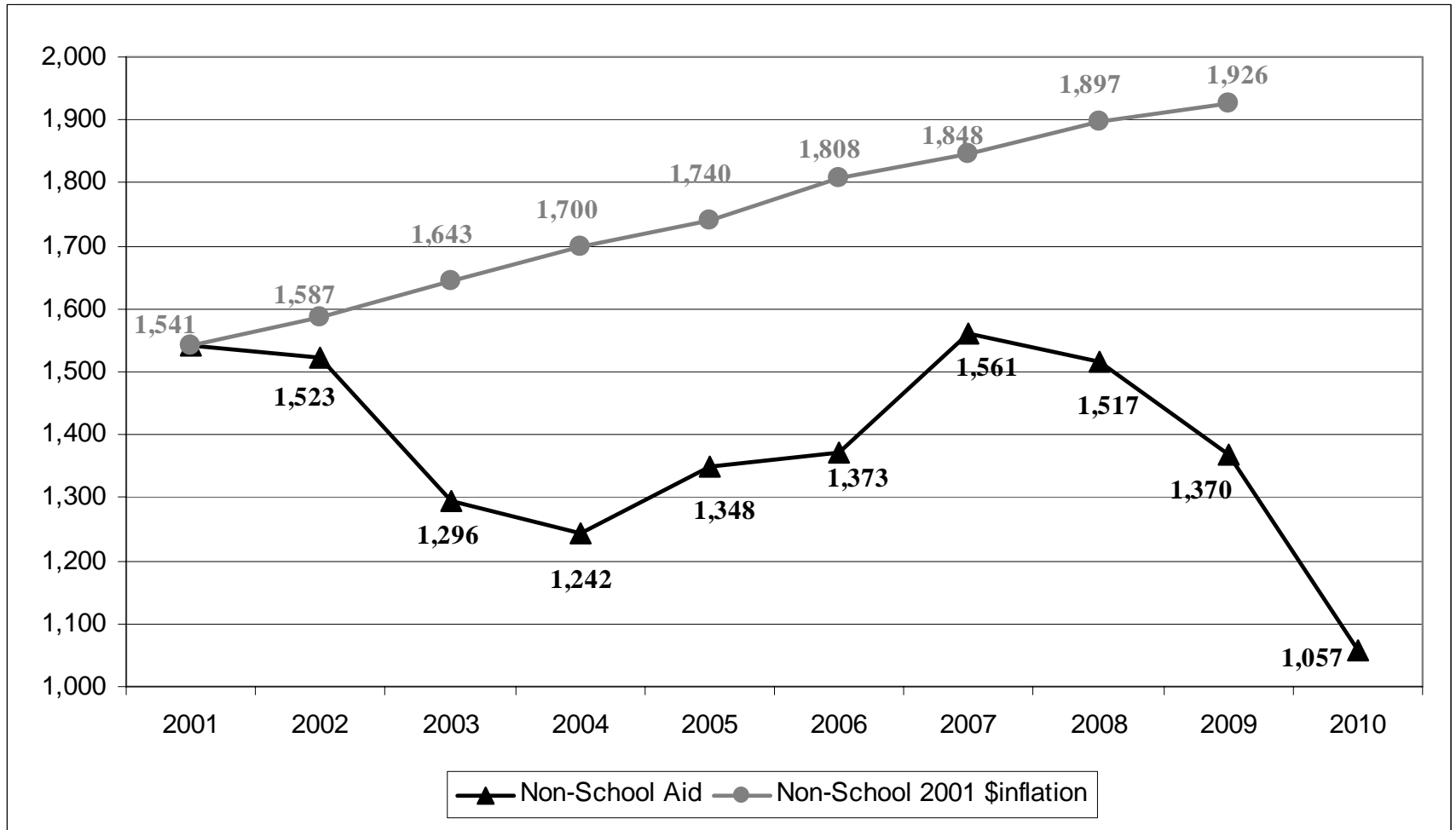
## Overall Problem:

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

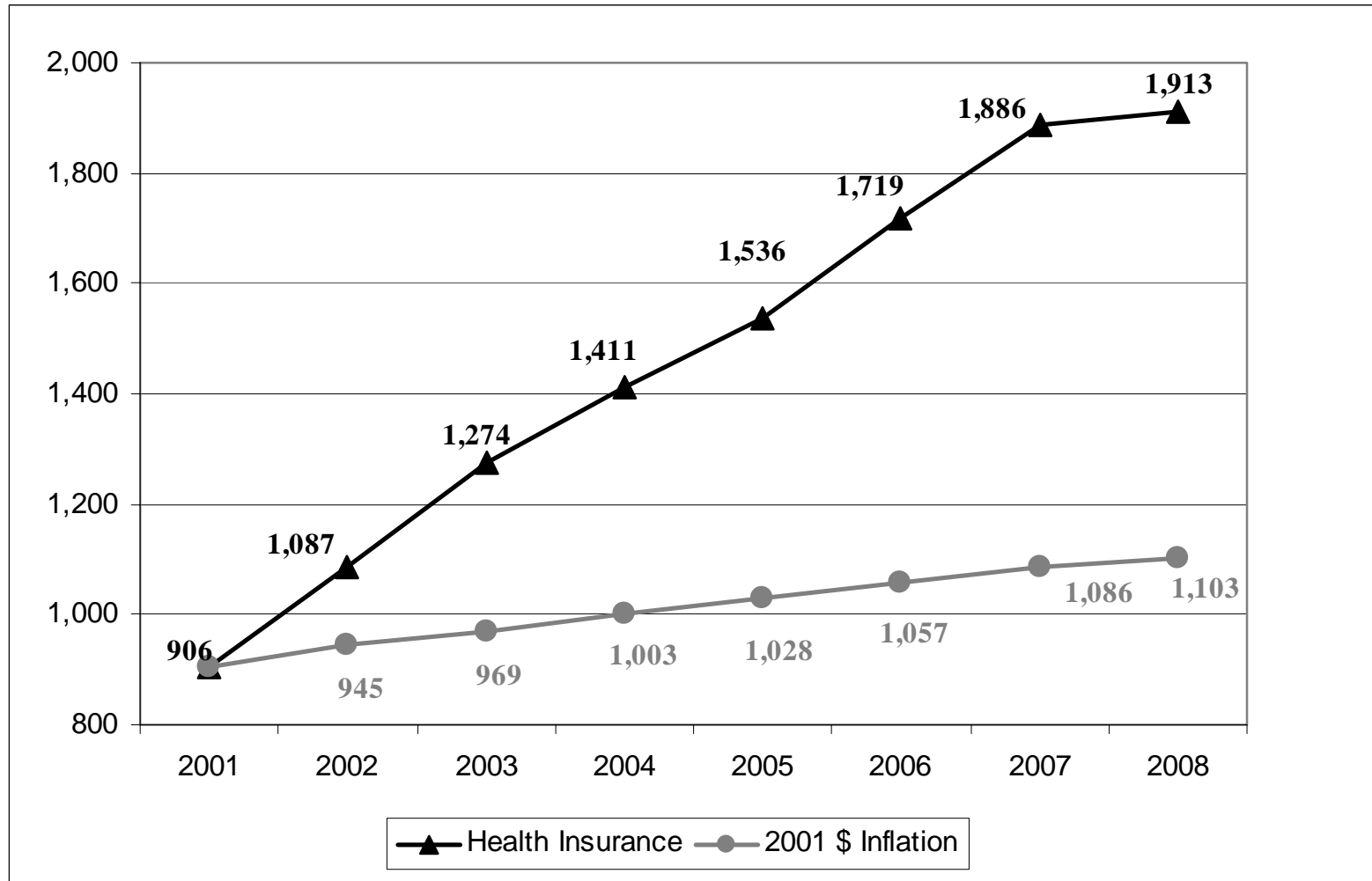
# State School Aid Actual & Inflation Adjusted FY 2001-2010 (\$ millions)



# 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