

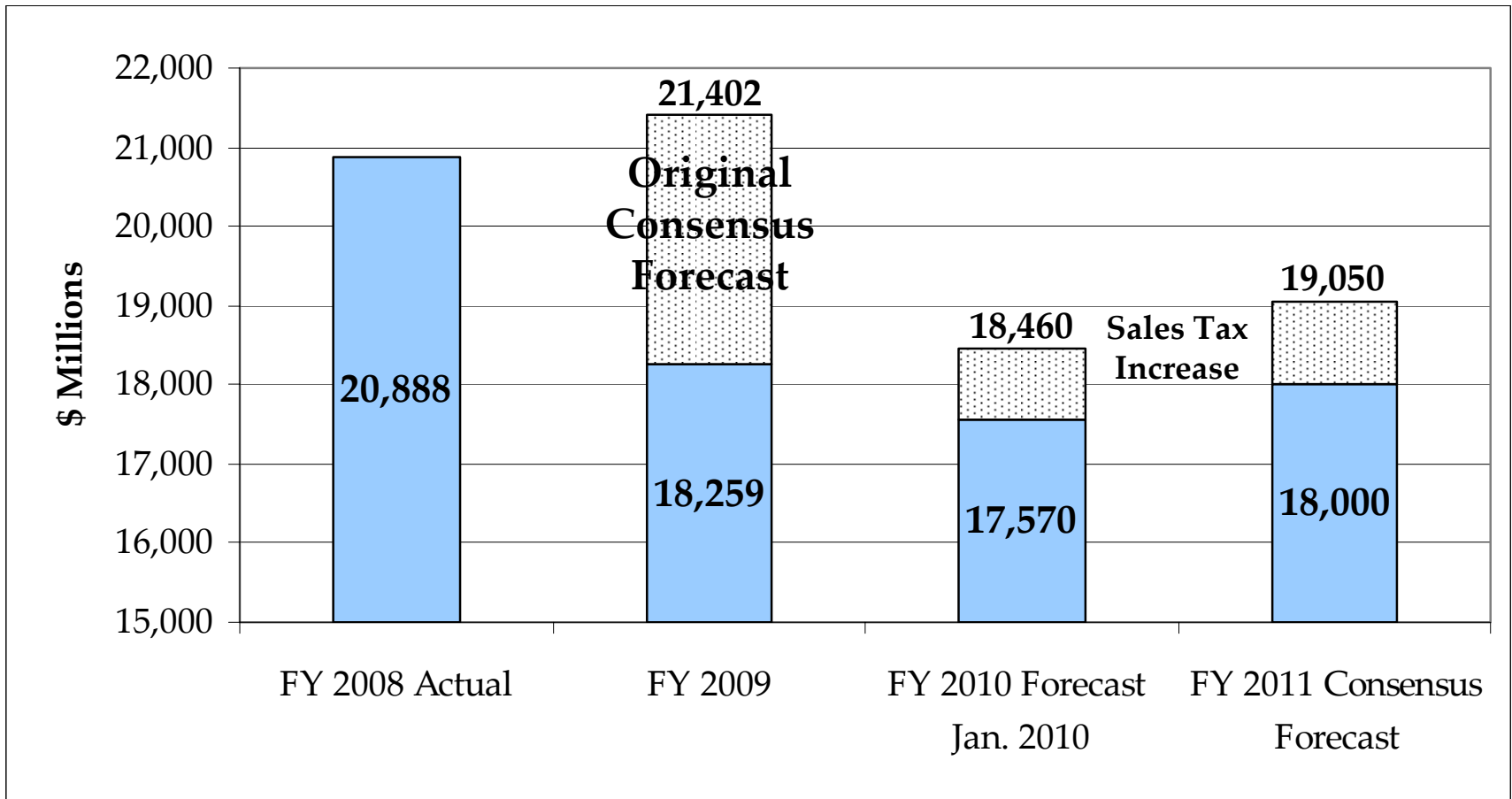


# State and Local Finances

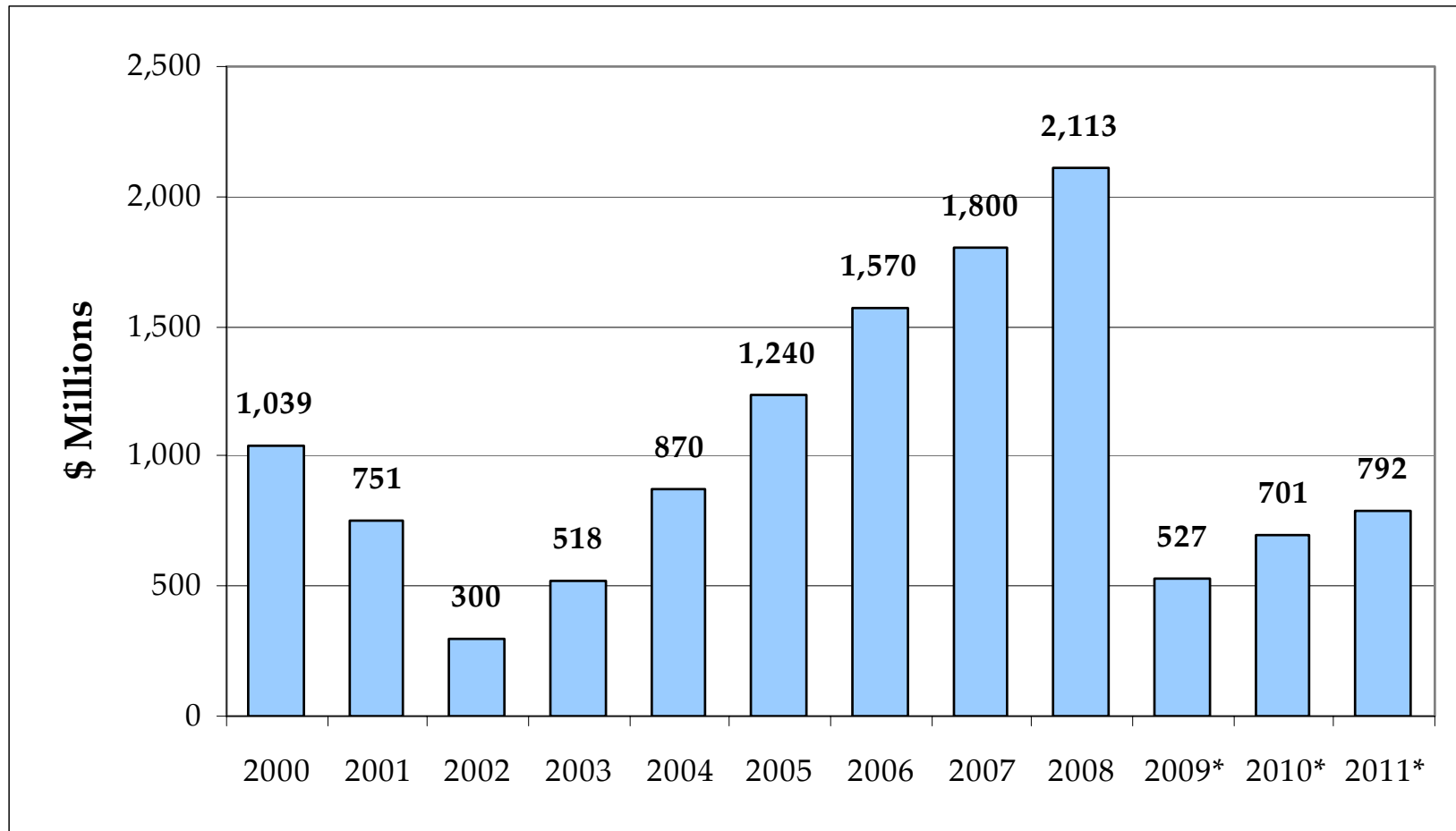
Presentation by  
Michael J. Widmer  
March 9, 2010

# State Finances

# Dramatic Decline in State Tax Revenues

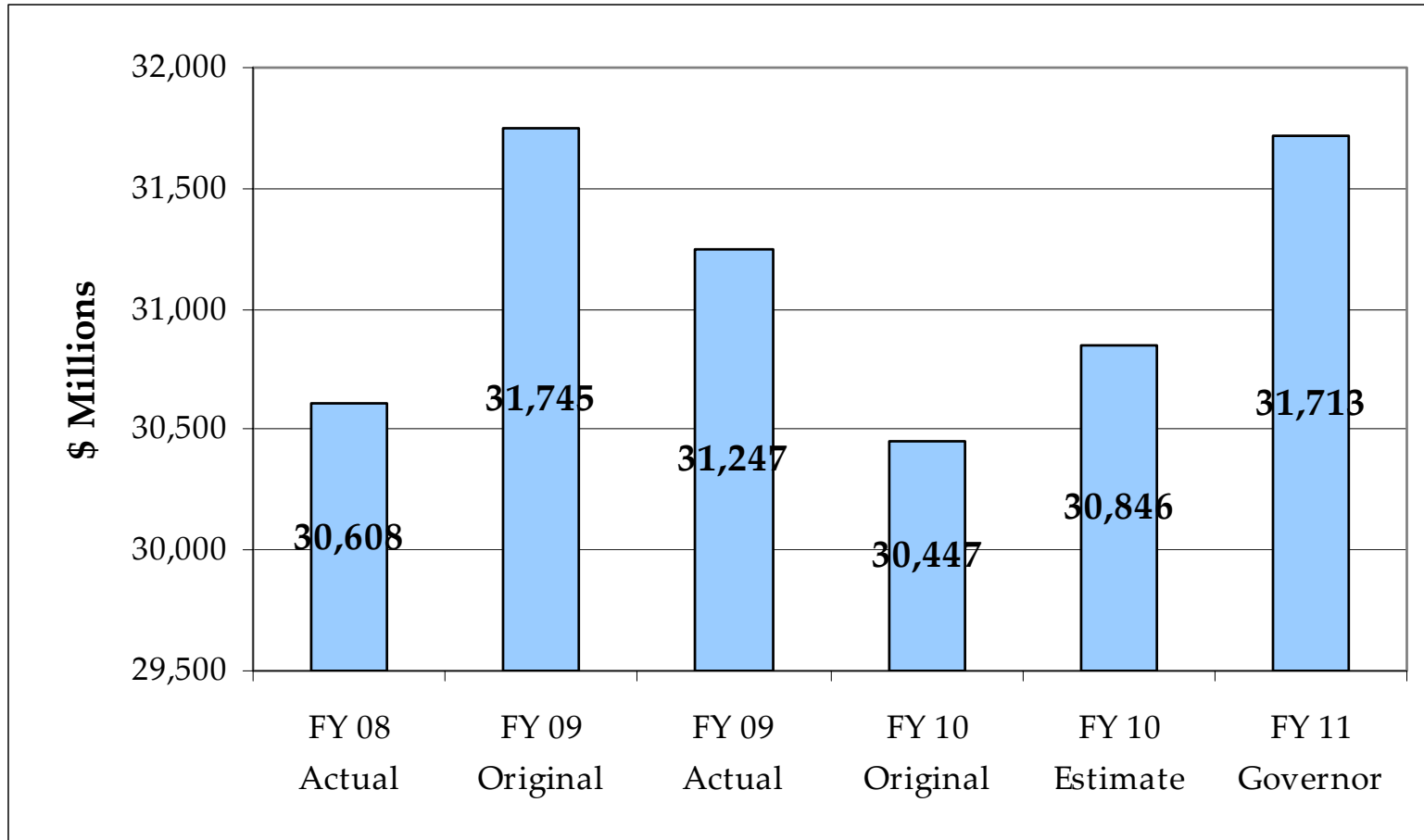


# Volatility of Capital Gains Taxes

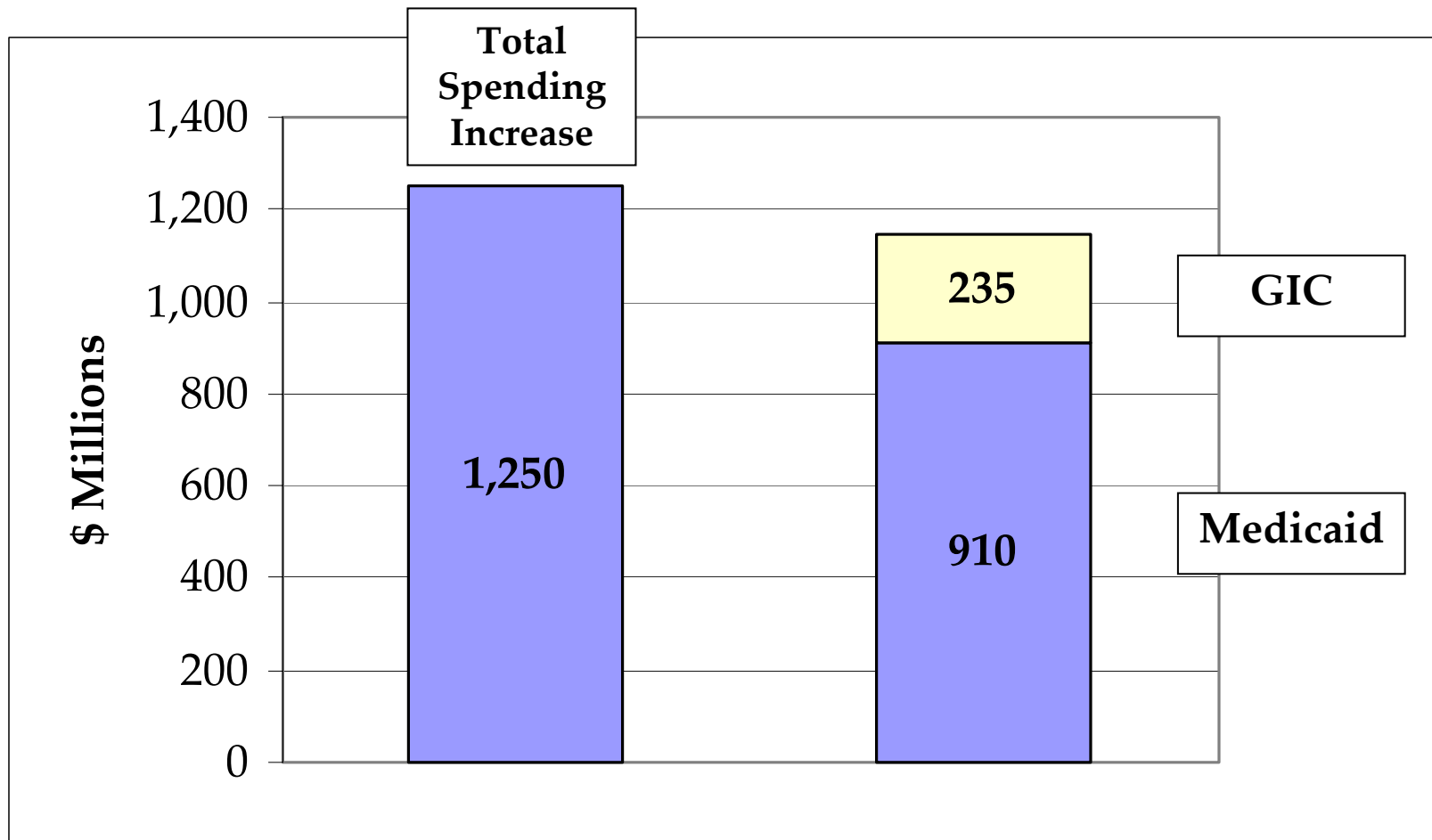


\* Administration and Finance Estimates

# State Spending



# FY11 Budget – \$1.25 Billion More than FY 10; Medicaid and the GIC Add \$1.15 Billion



# Spending Supported by One-Time Funds

(\$ Millions)

	2009	2010*	2011**	2012
Federal Stimulus	1,322	1,977	1,446	0
State Stabilization	1,390	169	146	0
Other	420	364	542	0
Total	3,132	2,510	2,134	0

\* 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
<b>Subtotal</b>	<b>1,446</b>
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
<b>Subtotal</b>	<b>689</b>
<b>Total</b>	<b>2,135</b>



# Stabilization Fund Balance

(\$ millions)

Current Balance	607
Additional Federal Funds FY 10	80
FY 11 Budget	-175
Additional Federal Funds FY 11	29
Interest	4
<b>Projected Balance</b>	<b><u>545</u></b>

# Fiscal 2012 Structural Deficit

(\$ Millions)

One-Time Funds in 2011 Budget	-2,100
Maintenance Budget	-1,400
5% Revenue Growth	1,000
Stabilization Fund	0
Federal Stimulus	0
<b>Total</b>	<hr/> <b>-2,500</b>

# 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
  - “A Mounting Crisis For Local Budgets: The Crippling Effects of Soaring Municipal Health Costs,” July 2005
  - “Municipal Health Reform: Seizing the Moment,” August 2007
- 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)

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%

\* **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