Massachusetts Taxpayers Foundation

The State's Enormous Fiscal Challenges in a Turbulent Political Year

Boston Economic Club

Michael J. Widmer, President
Massachusetts Taxpayers Foundation
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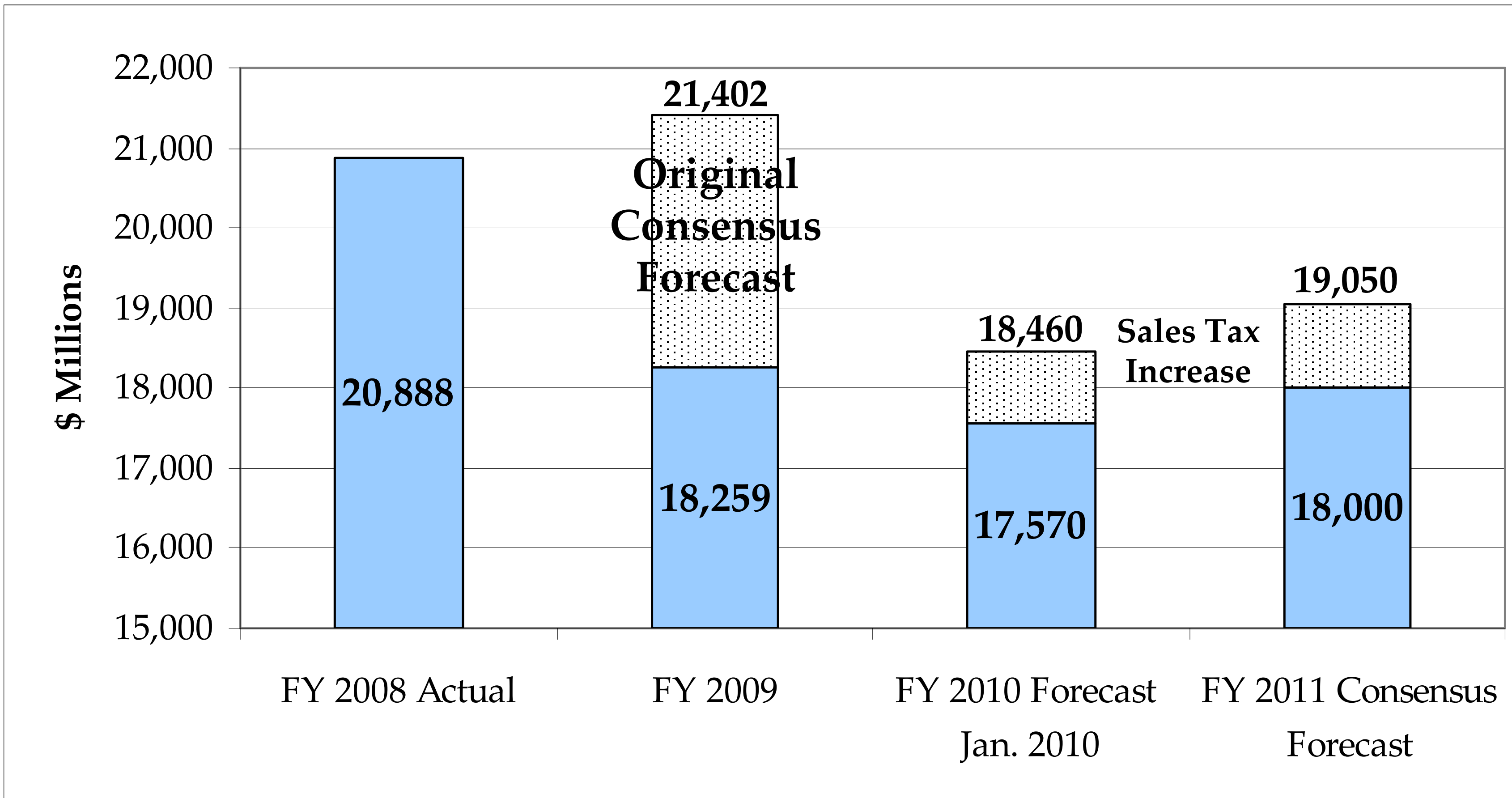
State Finances

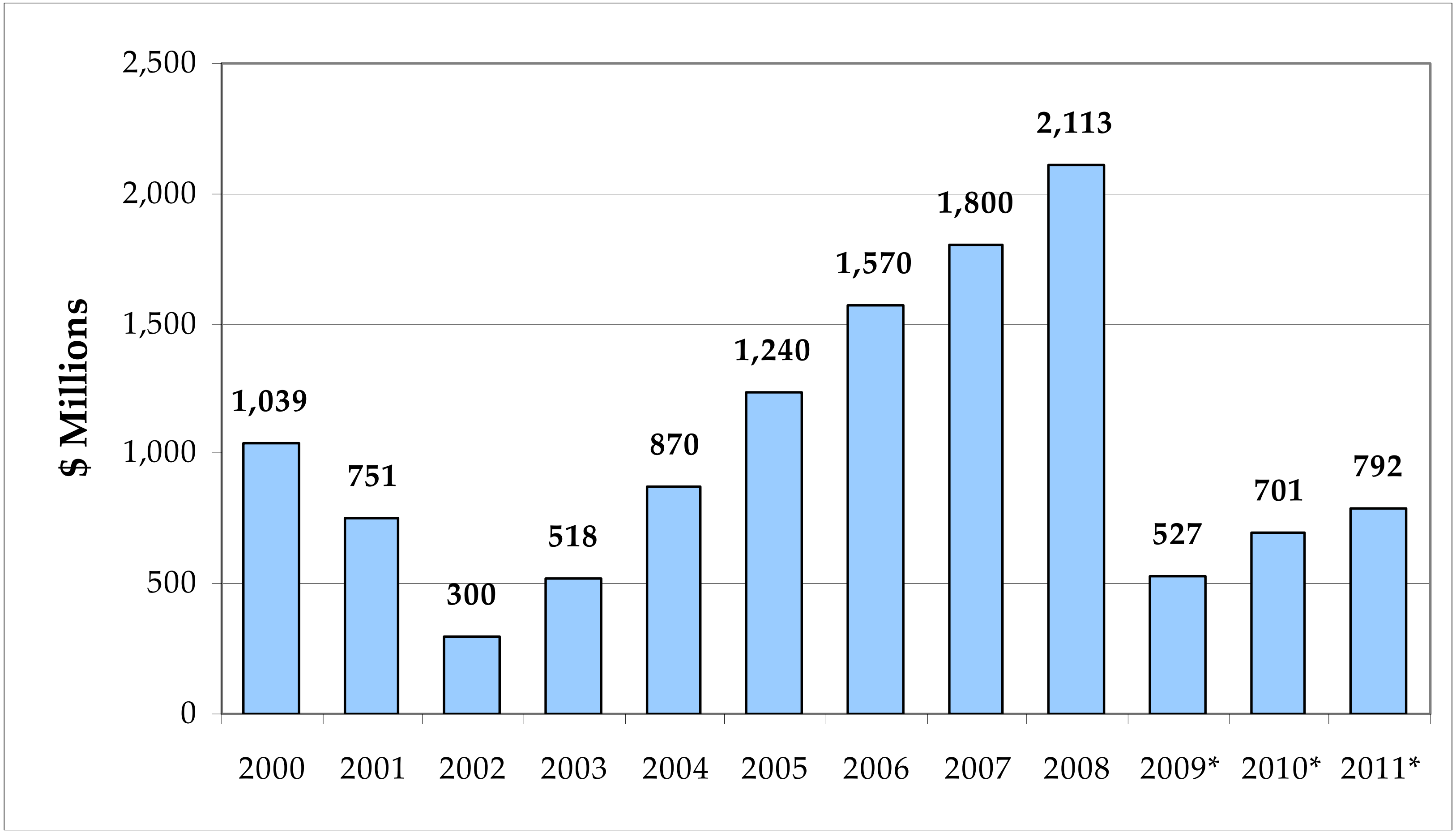
How Has Massachusetts Fared?

- 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)

Dramatic Decline in State Tax Revenues

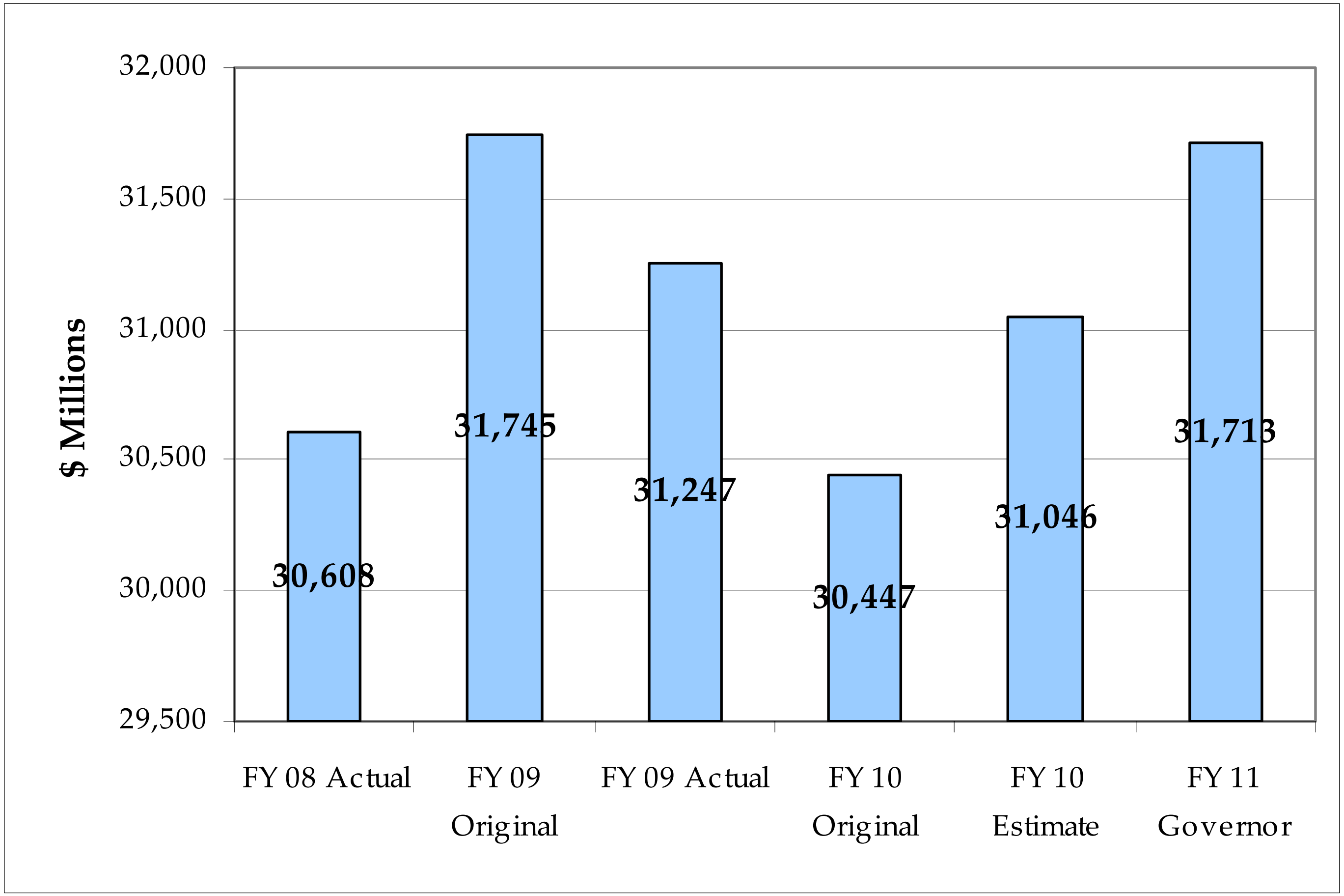


Volatility of Capital Gains Taxes



* Administration and Finance Estimates

State Spending



Spending Supported by One-Time Funds

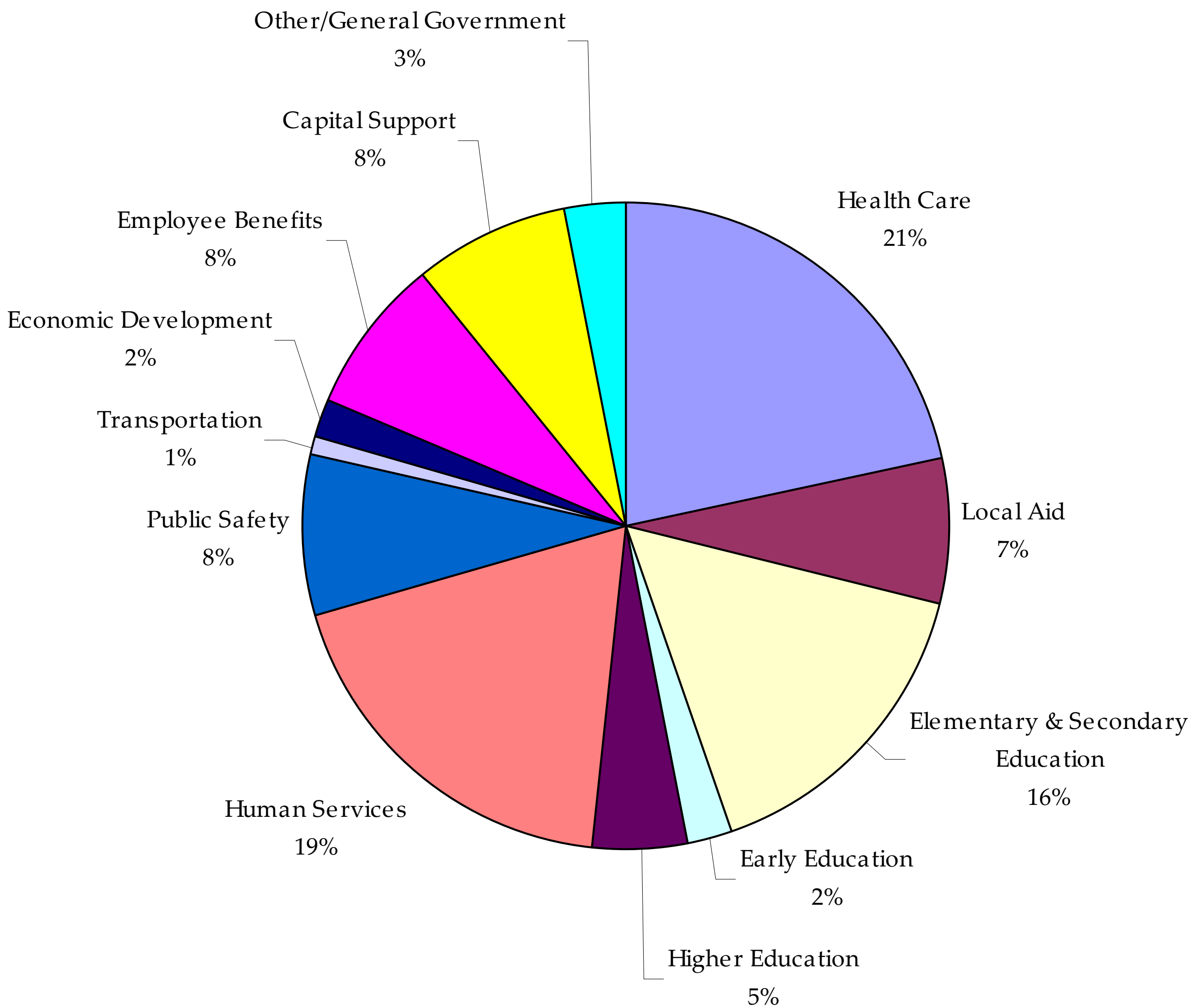
($ Millions)

	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

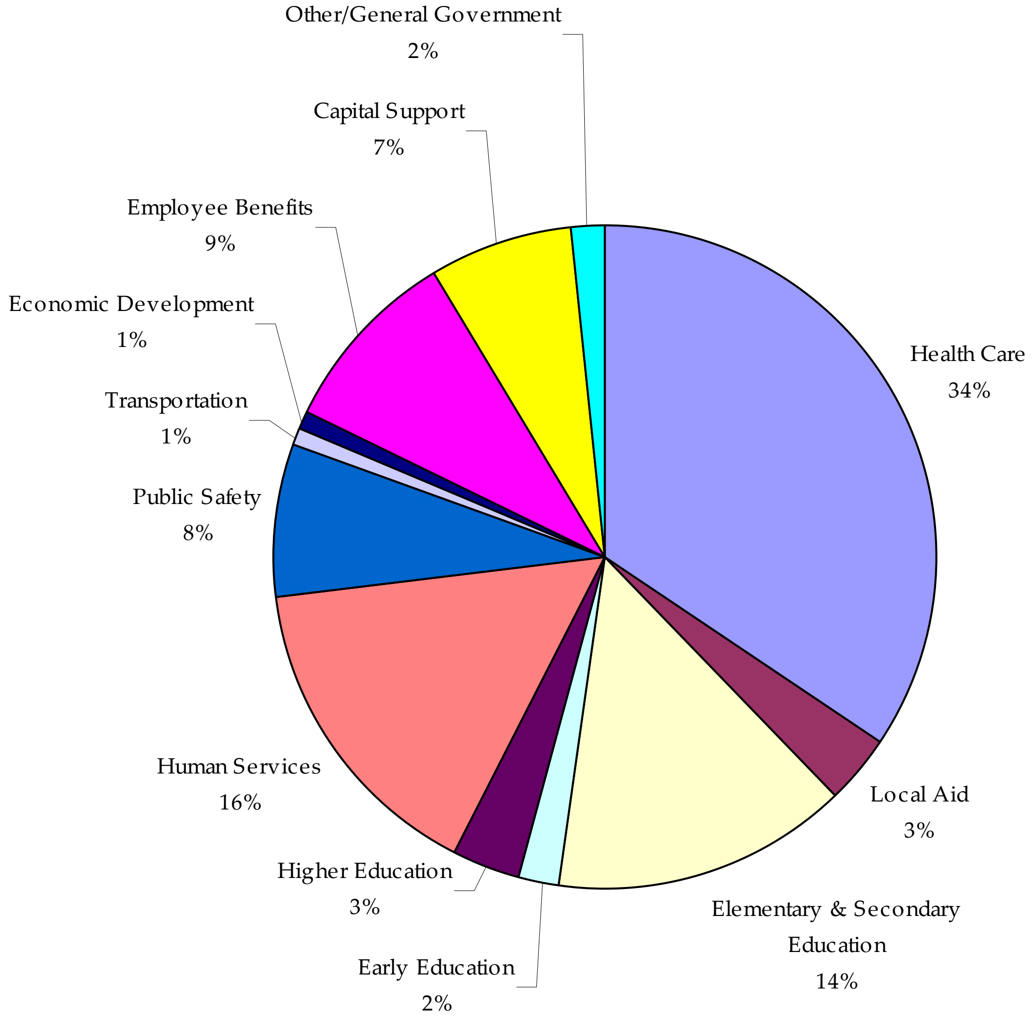
* Current Estimate

** Governor's Budget

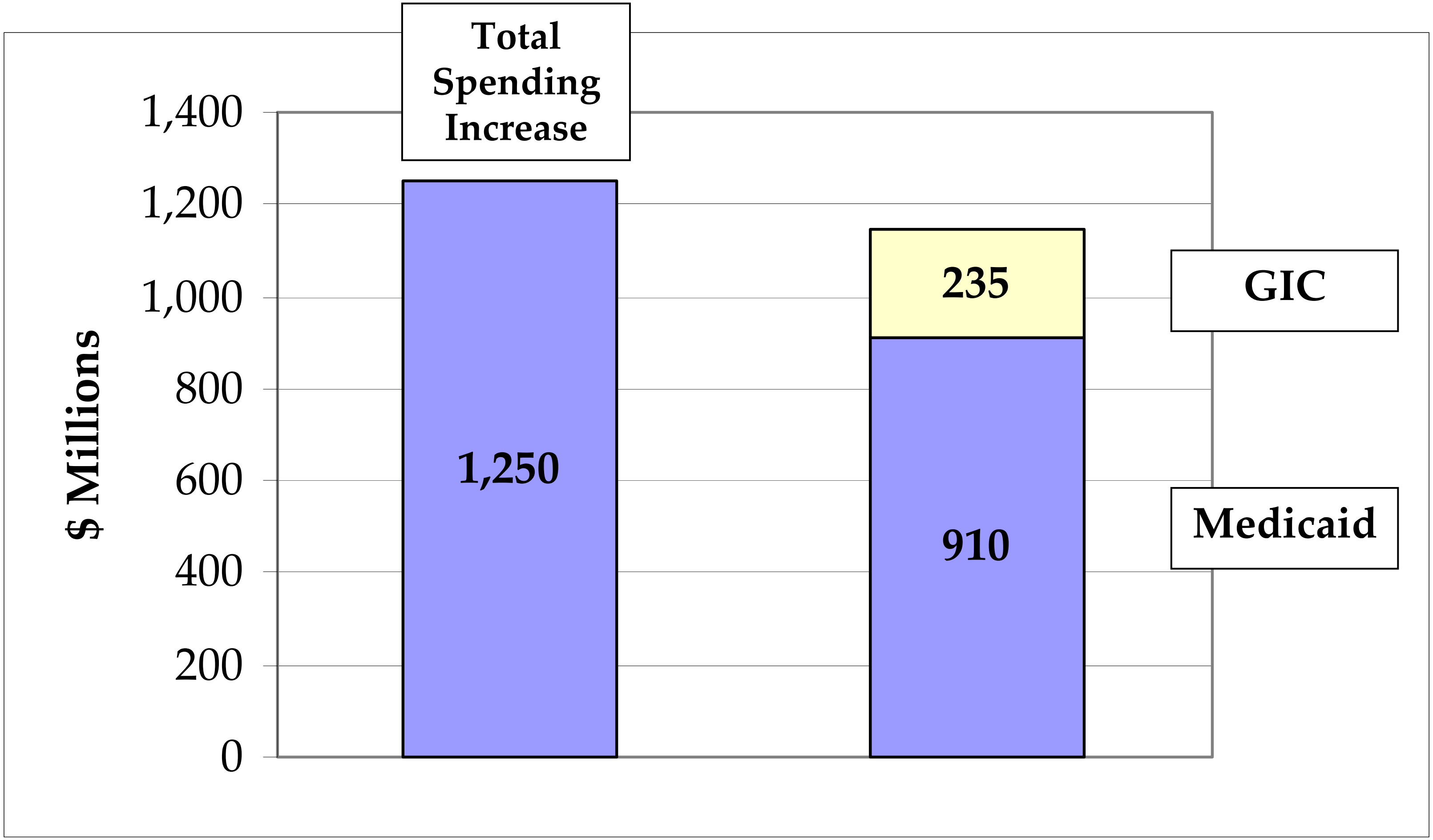
FY 2000 State Spending



FY 2010 State Spending



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



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
Projected Balance	**545**

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
Total	**-2,500**

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

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 – Group Insurance Commission raised co-pays and deductibles for state employees to close a budget shortfall in fiscal 2010
- As many as 175 communities do not currently require retirees to enroll in Medicare as their primary insurer
- The state and municipalities face a huge unfunded obligation for post retirement health benefits

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**

Unfunded Post Retirement Health Benefits (OPEB)

- The state’s post retirement health care liabilities (OPEB) exceed $15 billion with less than 2 percent funded

- Total municipal OPEB liabilities are well in excess of $15 billion; Boston’s liability is roughly $5.5 billion

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 of 104 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's Pension Reform Bill

- Saves $2 billion over 30 years
- 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