



*Massachusetts Taxpayers Foundation*

# State Finances: A Large and Growing Crisis

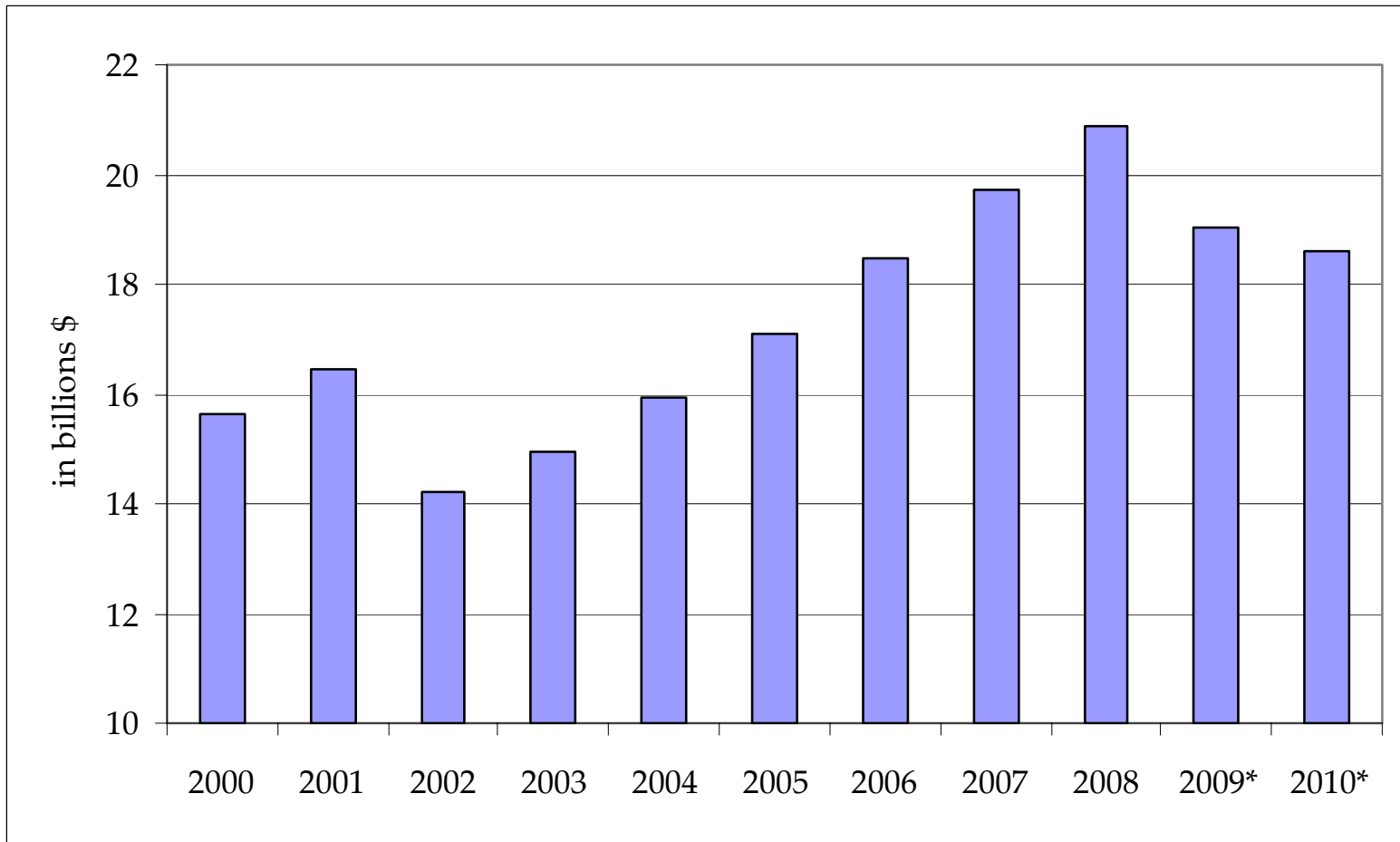
Presentation to the House of Representatives

Michael J. Widmer

President, Massachusetts Taxpayers Foundation

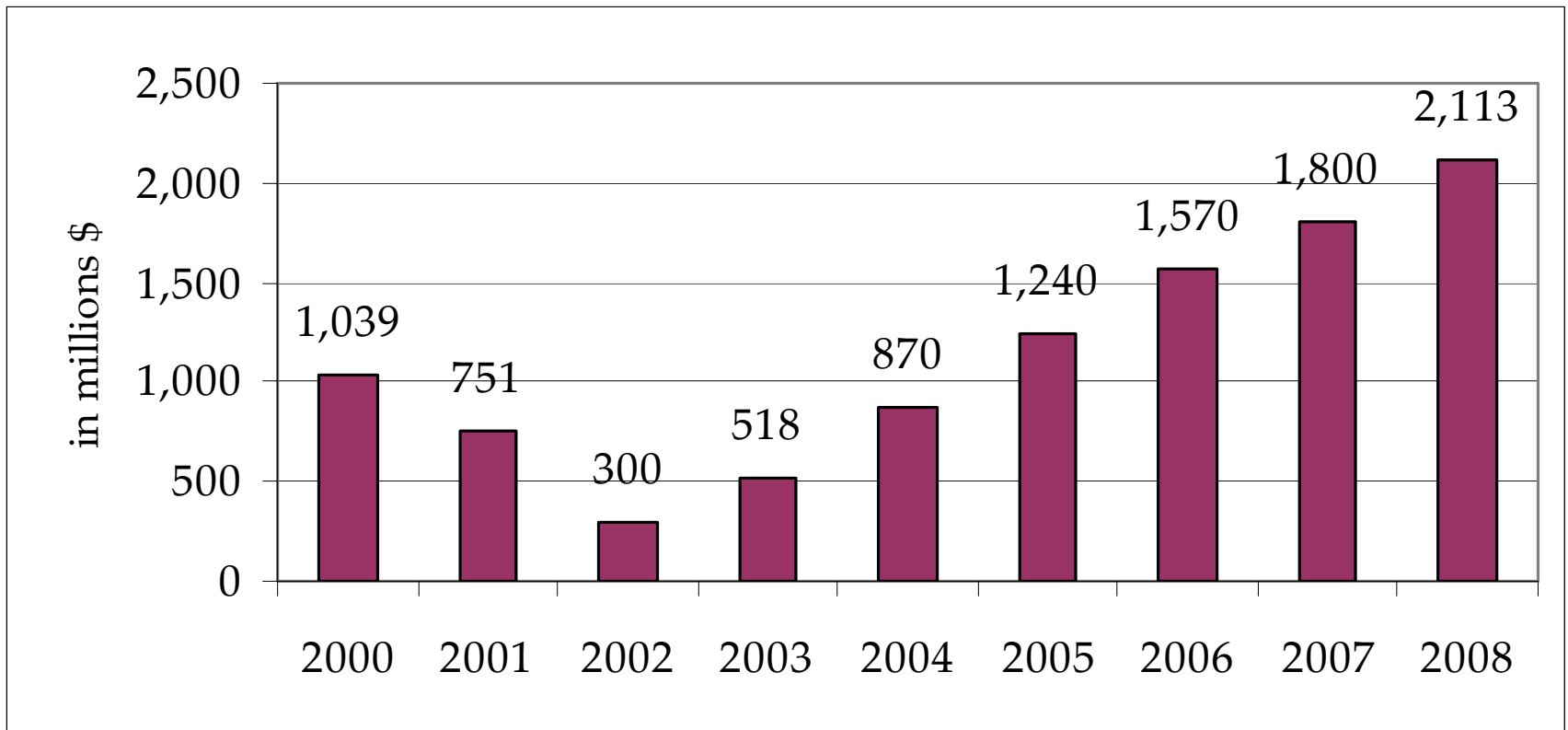
March 10, 2009

# Total Tax Revenues



\* Projections

# Capital Gains Taxes



Fiscal 2009

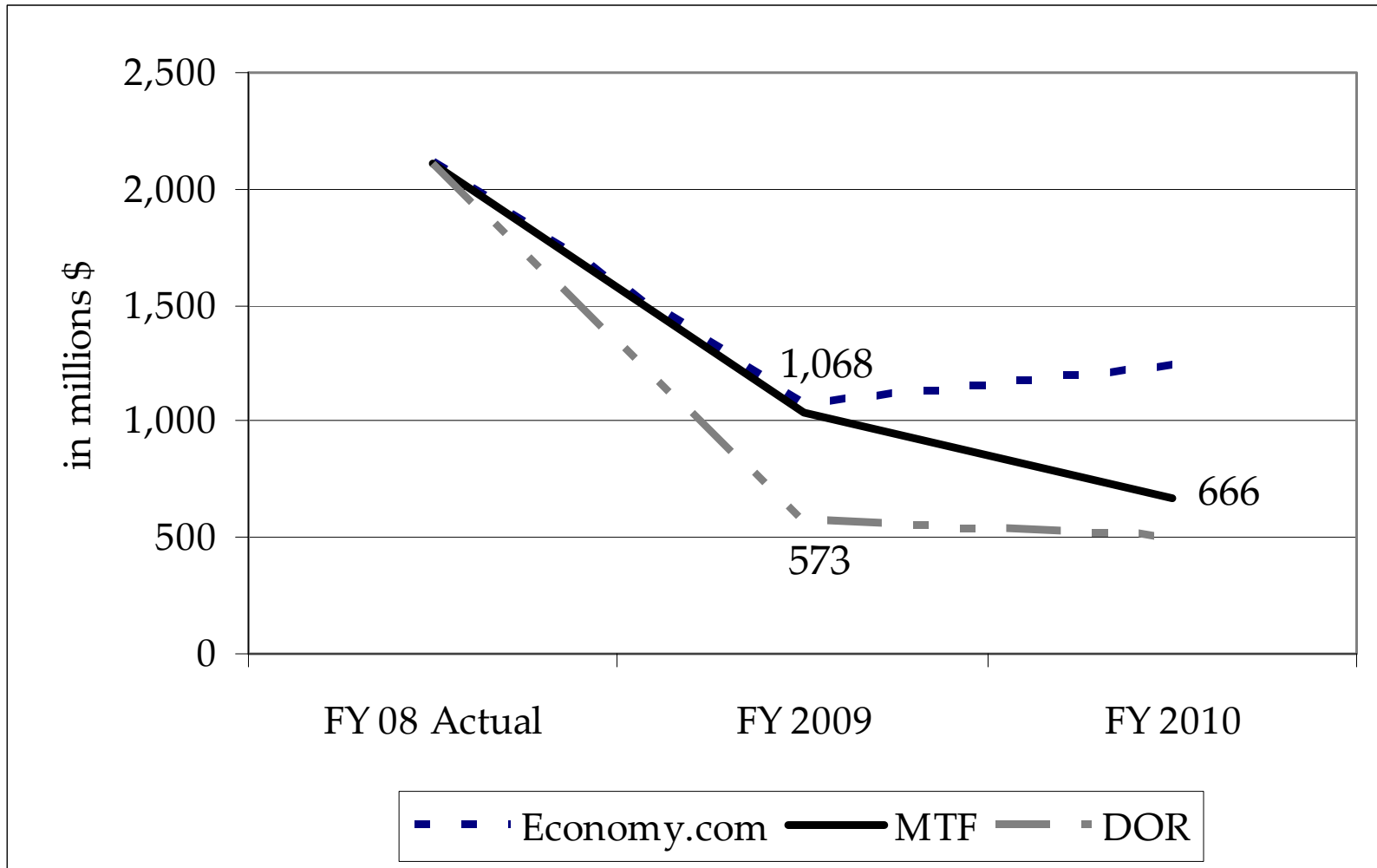
# Dramatic Decline in Tax Revenues

(\$ 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%
03/10/09 (MTF Estimate)	19,050*	-8.8%

\* Includes \$305 million of one-time corporate tax settlements

# Capital Gains Tax Forecasts



# Administration's Estimates of FY 2009 Shortfall through January

10/15/08 Shortfall	revenues	\$1.1 billion
	deficiencies	<u>\$300 million</u>
	subtotal	\$1.4 billion
01/15/09 Additional Shortfall	revenues	\$950 million
	deficiencies	<u>\$150 million</u>
	subtotal	\$1.1 billion
<b>Total Shortfall</b>		<b><u>\$2.5 billion</u></b>

# Closing \$2.5 Billion 2009 Shortfall

(\$ millions)

	10/15/2008	1/15/2009	Total
<b>Spending Cuts</b>	<b>1,053</b>	<b>191</b>	<b>1,244</b>
Governor's Budget Cuts	755	191	946
Spending Controls	146		146
Voluntary Cuts	52		52
Pension Savings	100		100
<b>Additional Revenue</b>	<b>168</b>	<b>50</b>	<b>218</b>
New Federal Funds	55		55
DOR Tax Settlements	100	25	125
Eliminate Sales Tax Exemptions		25	25
Telecom Tax Change	13		13
<b>Stabilization Fund</b>	<b>200</b>	<b>327</b>	<b>527</b>
<b>Federal Recovery Aid (FMAP)</b>		<b>533</b>	<b>533</b>
<b>Total Solutions</b>	<b>1,421</b>	<b>1,101</b>	<b>2,522</b>



# March Estimate - Another \$450 Million Shortfall for 2009

(\$ millions)

## Revenues

Revenues Below 1/15/09 Benchmark (MTF Estimate)	400
Cigarette Tax Shortfall	45
Lottery Shortfall	60

## Expenses

Unaccounted for Deficiencies	100
Payment to Federal Government	87
Shortfall	692
Additional Federal Funds (Administration Estimate)	-247
<b>Additional FY 09 Shortfall</b>	<b>445</b>

# One-Time Revenues in FY 2009 Budget

(\$ millions)

<b>Stabilization Reserves</b>	<b>1,377</b>
Original FY 09 GAA	400
October 2008	200
January 2009	327
June 2009 (MTF Estimate)	450
<b>Federal Recovery Aid (FMAP)</b>	<b>780</b>
1/15/09 Shortfall	533
Additional Federal Funds	247
<b>Total One-Time Revenues</b>	<b>2,157</b>

# Stabilization Fund Balance

(\$ millions)

FY 08 Ending Balance	2,262
Interest	90
Subtotal	2,352
FY 09 Budget	-1,377
Projected FY 09 Ending Balance	<u>975</u>

Fiscal 2010

# FY 2010 Tax Revenues

(\$ millions)

Consensus Forecast	19,530
Mass Taxpayers Foundation (12/08)	<u>18,600</u>
Potential Revenue Shortfall	930

# FY 10 Structural Deficit

(\$ millions)

One-Time Revenues in FY 09	-2,157
Corporate Tax Settlements	-330
Pension Adjustment	-100
Potential Revenue Shortfall*	-450
Maintenance Budget**	<u>-1,231</u>
<b>Total</b>	<b>-4,268</b>

\* The difference between MTF's revenue estimates of \$19.05 billion for FY 09 and \$18.6 billion for FY 10

\*\*Administration and Finance

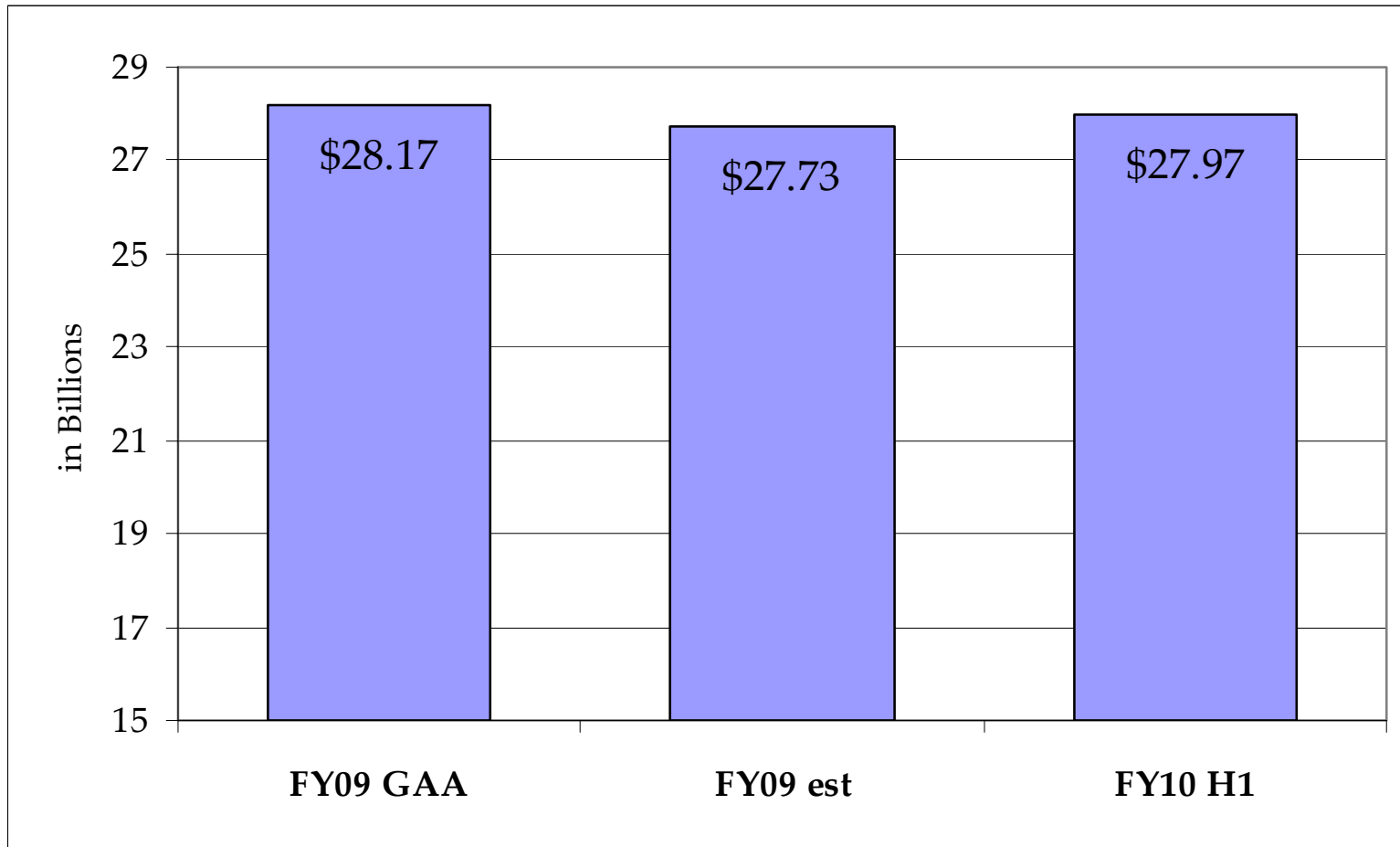
# House 1

## New Revenues - \$587 million

(\$ millions)

Meals and Hotel Taxes for Local Aid	148
Eliminate Sales Tax Exemptions for candy, sweetened beverages and alcohol	150
Departmental Fees	289
Registry of Motor Vehicle Fees	75
Nursing Home User Fee	75
Bottle Bill Extended	20
New DOR Auditors	25
Other	21
Temporary Assistance for Needy Families (federal reimbursement)	73

# House 1 Spending





# House 1 Cuts and Increases

(\$ millions)

	FY 07	FY 08	FY 09	FY 09	FY 10	FY 09 GAA to FY 10 H1	
			GAA	Projected	House 1	\$	Percent
<b>Education</b>	<b>5,584</b>	<b>5,912</b>	<b>6,237</b>	<b>6,133</b>	<b>5,977</b>	<b>-259</b>	<b>-4.2%</b>
Elementary and Secondary	4,035	4,292	4,565	4,537	4,493	-72	-1.6%
Higher Education	1,055	1,076	1,086	1,028	918	-168	-15.4%
<b>Health and Human Services</b>	<b>12,170</b>	<b>13,051</b>	<b>13,563</b>	<b>13,429</b>	<b>13,748</b>	<b>185</b>	<b>1.4%</b>
Medicaid*	7,378	8,065	8,430	8,416	8,680	250	3.0%
Public Health	516	549	589	560	513	-76	-12.9%
Mental Health	657	672	685	648	636	-50	-7.2%
Transitional Assistance**	830	864	893	914	810	-83	-9.3%
Youth Services	154	158	163	159	150	-13	-7.7%
Children & Families	779	811	836	816	791	-45	-5.4%
Developmental Services	1,191	1,236	1,272	1,266	1,246	-26	-2.1%

\* The FY10 total of \$8,680 for Medicaid does not include \$290 million in off-budget spending that the administration proposes to move on budget in FY10

\*\*The \$810 million in proposed funding of DTA includes \$36 million for emergency shelter programs which the administration proposes to shift to the Department of Housing and Community Development

# House 1 Cuts and Increases

(\$ millions)

	FY 07	FY 08	FY 09	FY 09	FY 10 House 1	FY 09 GAA to FY 10 H1	
			GAA	Projected		\$	Percent
<b>Judiciary</b>	<b>781</b>	<b>823</b>	<b>825</b>	<b>800</b>	<b>752</b>	<b>-73</b>	<b>-8.8%</b>
Trial Courts	561	583	605	581	560	-45	-7.4%
<b>Public Safety***</b>	<b>1,148</b>	<b>1,249</b>	<b>1,235</b>	<b>1,239</b>	<b>1,211</b>	<b>-25</b>	<b>-2.0%</b>
Dept. of Corrections	467	540	540	544	543	2	0.4%
<b>Transportation</b>	<b>238</b>	<b>231</b>	<b>182</b>	<b>240</b>	<b>184</b>	<b>2</b>	<b>1.2%</b>
RTAs	52	58	58	59	51	-7	-12.5%
Group Insurance	1,022	853	928	896	1,035	107	11.6%
Pensions	1,335	1,399	1,465	1,314	1,377	-88	-6.0%
Debt Service	1,937	1,926	1,806	1,796	1,870	64	3.5%

\*\*\*The \$1,211 million in proposed funding for Public Safety includes \$124 million that the administration plans to move from county corrections to the Sheriffs' Departments

# House 1 Local Aid Funding

(\$ millions)

	FY04	FY05	FY06	FY07	FY08	FY09	FY09*	FY10
<b>Total</b>	<b>4,154</b>	<b>4,223</b>	<b>4,429</b>	<b>4,804</b>	<b>5,039</b>	<b>5,262</b>	<b>5,134</b>	<b>4,893</b>
Chapter 70	3,114	3,183	3,289	3,506	3,726	3,949	3,949	3,948
Lottery and Add'l Assistance	1,040	1,040	1,140	1,299	1,314	1,314	1,186	945
<b>Percent Change</b>	<b>-7.3%</b>	<b>1.7%</b>	<b>4.9%</b>	<b>8.5%</b>	<b>4.9%</b>	<b>4.4%</b>	<b>-2.4%</b>	<b>-7.0%</b>

\* After 9C cuts in Lottery aid and additional assistance

# Reserves and Federal Matching Funds Available for Four-Year Fiscal Crisis

(\$ millions)

Stabilization Fund	2,352
Federal Recovery Aid (FMAP)	2,500
<b>Total</b>	<b>4,852</b>
Use in FY 09	-2,157
<b>Remaining Available</b>	<b>2,695</b>

# MTF Recommendation for Use of Remaining FMAP and Stabilization Reserves

(\$ millions)

	FY 10	FY 11	FY 12
FMAP	-1,100	-620	0
Stabilization	-100	-300	-575
Total	-1,200*	-920	-575

\* House 1 similarly recommends \$1.2 billion (\$711 million from FMAP and \$489 million from the stabilization fund)

# Dilemma Facing Legislature in Fiscal 2010

- Make an additional \$1 billion in spending cuts beyond House 1 or raise revenues beyond the \$587 million

OR

- Drain remaining stabilization reserves and make deeper cuts in fiscal 2011 and 2012

# FY 11 Structural Deficit

(\$ millions)

One-Time Revenues in FY 10	-1,200
Minimal Maintenance Budget	-1,000
Stabilization Reserves and FMAP	920
Revenue Growth (2.5%)	500
<b>Deficit</b>	<b>-780</b>

# FY 12 Structural Deficit

(\$ millions)

One-Time Revenues in FY 11	-920
Minimal Maintenance Budget	-1,000
Stabilization Reserves and FMAP	575
Revenue Growth (4%)	800
<b>Deficit</b>	<b>-545</b>