

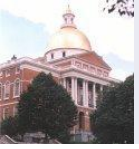
**Executive Office for
Administration and Finance**

State House
Rooms 373 & 272
Boston, MA 02133

Fiscal Year 2010 House 1 Briefing

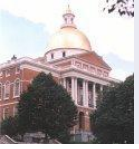
Somerville Budget Forum

April 1, 2009



AGENDA

- I. Consensus Revenue Estimate
- II. H1 Statistics
- III. Fiscal Year 2010 Budget Gap
- IV. Fiscal Year 2010 Solutions
- V. Review of the FY2010 Blue Print for Closing the Gap
 - Reductions
 - Consolidations
 - Departmental Revenue
 - Tax Revenue
 - Federal Stimulus
 - Stabilization Funds



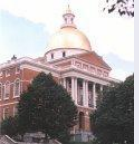
Consensus Revenue Update

Fiscal Year 2009

- Original consensus revenue estimate = \$21.402 billion
- October revision = \$20.302 billion
- January revision = \$19.450 billion (includes \$100 million in corporate tax settlements)
- A downward revision of \$950 million from the October estimate
- Current balance sheet is out of balance by approximately \$180 million
- Approximately \$100 million more may be needed to cover deficiencies
- **Total FY09 Shortfall is \$1.132 billion**

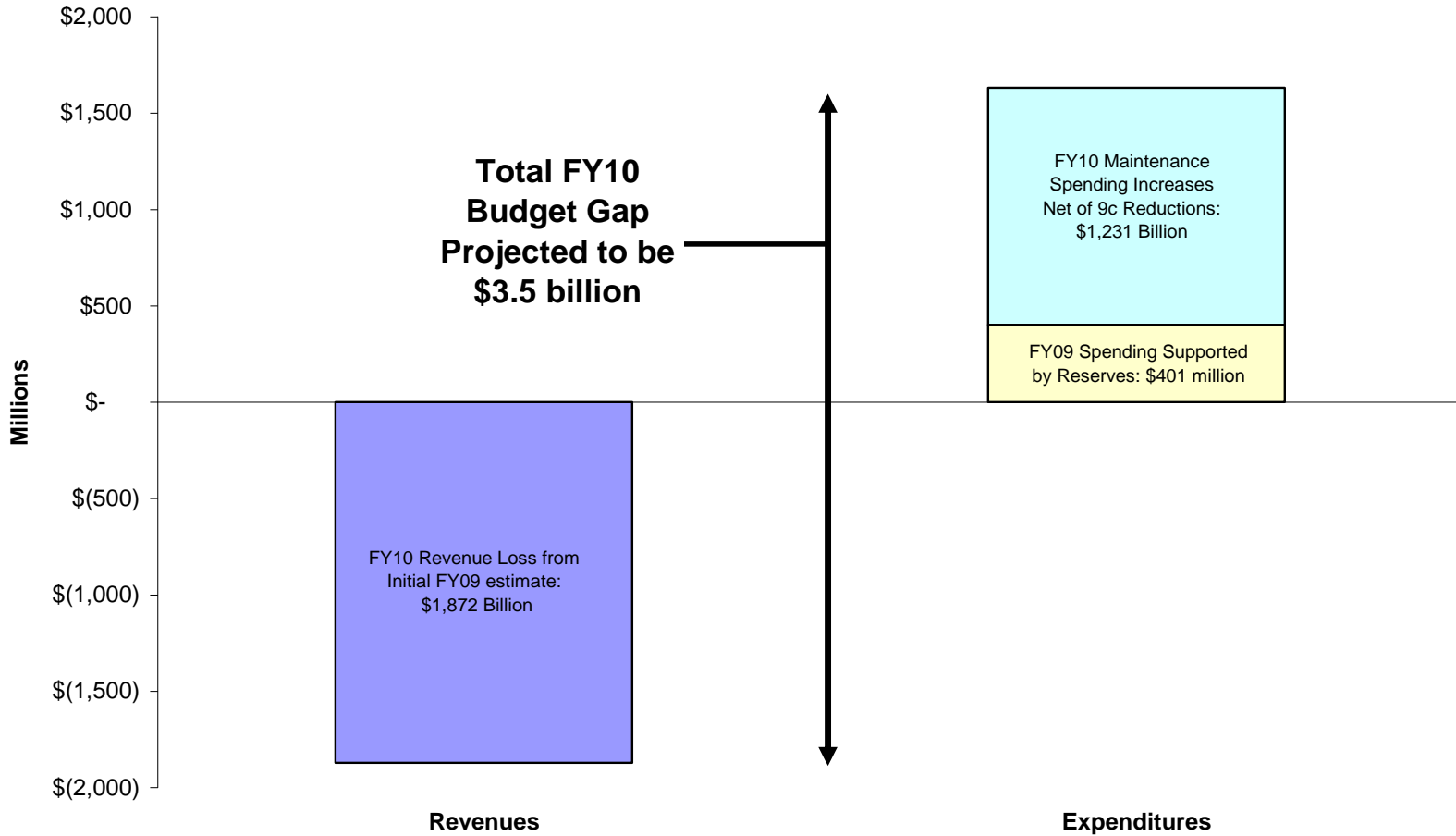
Fiscal Year 2010

- Consensus revenue estimate = \$19.530 billion
- This estimate is \$1 billion below our original FY2010 estimate based on the October revision
- **Total FY10 Shortfall is approximately \$3.5 billion**

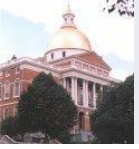


Administration and Finance

FY2010 Budget Gap



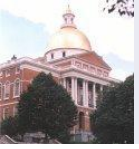
**Projected Growth in FY10 Non-Tax Revenue remains mostly flat.*



FY2010 Solves

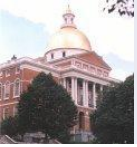
Fiscal Year 2010 Solutions	(millions)
A. Net Cuts, Spending Reductions & Savings from Maintenance	\$ 1,630
<i>State Employee Health Care Contributions</i>	\$ 60
<i>Medicaid Cost Controls and Savings - (net of FFP loss)</i>	\$ 178
<i>Local Aid Reductions</i>	\$ 220
<i>Maintain C.70 at Current Year Funding Levels</i>	\$ 300
<i>Executive Branch Cuts (net of revenue loss)</i>	\$ 674
<i>Non Executive Branch Cuts</i>	\$ 197
B. Net Revenue Initiatives	\$ 587
<i>Meals and Hotel & Motel Tax Dedicated to Local Aid</i>	\$ 148
<i>Elimination of Sales Tax Exemptions - Dedicated to the Commonwealth Wellness Fund</i>	\$ 150
<i>Other Departmental Revenue Initiatives</i>	\$ 289
C. *Stabilization Fund Use	\$ 586
D. Federal Recovery Aid	\$ 711
Total Solutions:	\$ 3,513

*includes \$97 million from suspending the statutorily required deposit for fiscal year 2010



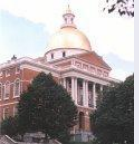
FY2010 Solves: Bottom Line

- The bottom line for FY10 H.1 is \$27.973 billion.
- This represents a **decrease of -0.7%** from the FY09 GAA.
- To make a more accurate comparison, the FY09 budget must be adjusted for 9C's and the FY10 budget must be adjusted for the County Sheriffs transition.
- With these adjustments, the bottom line for H.1 is \$27.902.
- This represents an **increase of 0.5%** from FY09 estimated spending.



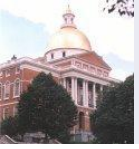
FY2010 Solves: Bottom Line

	<u>FY2009</u>	<u>FY2010</u>	
FY2009 Est. Spending	27,763		
House 1 FY 2010:		27,973	0.76%
Adjustments: County Corrections Reform		(71)	
Adjusted House 1 FY 2010:		27,902	0.50%
Spending Through Consolidated Transfers:			
Commonwealth Care Trust Fund	1,023	697	
Medical Assistance Trust Fund	509	379	
State Retiree Benefit Trust Fund	372	394	
Reimbursement for FY08 Lottery Shortfall	32	-	
Essential Community Provider Trust Fund	25	-	
E-Health Institute Trust Fund	15	-	
RMV Revenues to the Transportation Improvement Fund	9	17	
Mass Cultural Facilities Trust Fund	6	-	
Life Sciences Trust Fund	-	20	
<i>Subtotal of Consolidated Transfers:</i>	<u>1,991</u>	<u>1,507</u>	
Spending Through Statutory Transfers:			
Pensions	1,314	1,376	
MBTA	767	767	
SBA	702	669	
<i>Subtotal of Statutory Transfers:</i>	<u>2,783</u>	<u>2,812</u>	
Grand Total of Spending:	<u>32,537</u>	<u>32,221</u>	-0.97%



FY2010 Solves: Bottom Line

- The fiscal year 2010 budget recommendation authorizes spending of \$27.973 billion, a decrease of about 0.7% from the fiscal year 2009 General Appropriations Act. When compared to fiscal year 2009 estimated spending which includes 9C reductions and after accounting for County Sheriffs being brought on budget, the House 1 recommendation is for a 0.5% increase over current year spending levels
- We continue to prioritize reforms in government and restraint in spending.
- Spending cuts account for about 50 percent of our FY09 and FY10 budget solutions, including \$300 million in additional 9C cuts for FY09 (on top of \$1.053 billion in total cuts from October), and \$2.2 billion in cuts from maintenance in FY10.
- FY10 Reductions are across all areas of Government including Executive, Non-Executive and Local Aid.

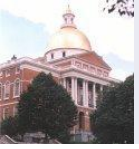


Line Item Consolidations

- The FY09 GAA includes approximately 840 line items.

- H.1 proposes to reduce the number of line items by approximately 1/2.

- The consolidated line item approach will give the Administration maximum flexibility in developing a revised spending plans for each department after H.1 is released.
 - It provides for flexibility in managing funds within a department.
 - It provides for flexibility in managing reductions as part of the post H.1 spending plan process.



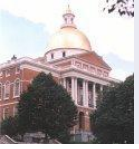
FY2010 Solves: Departmental Revenue

\$289 million in FY10

- Our FY10 budget blueprint includes \$289 million in increased departmental revenues.
 - \$74.5 million in increased RMV revenues (the low end of various policy options to increase fees) from reforming the current fee structure of nearly 250 fees down to 50 (some of which have not been updated for one-to-two decades). All new revenues would be dedicated to the Highway fund to cover current transportation expenditures.
 - \$75 million increase in the nursing home user fee.
 - \$26 million for Tax Revenue increases related to additional DOR auditors.
 - \$20 million by expanding the types of beverages to which the Bottle Bill applies.
 - \$20 million from other smaller fee proposals offered by agencies.

- An additional \$73 million would come from claiming TANF contingency funds again in FY10.

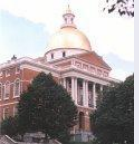
- Our plan files some revenues in the emergency legislation so that it (approximately \$18 million in RMV fees) can be used in helping to close the FY09 budget gap.



FY2010 Solves: Tax Revenue

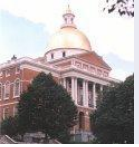
\$150 million in FY10

- Our plan proposes to end sales tax exemptions for alcohol, soda and candy (effective in April of 2009, thus generating revenues in *both* FY09 and FY10).
- Revenues are to be dedicated to a new “Health and Wellness Fund” for anti-substance abuse initiatives and other public health programs at the Department of Public Health, in order to minimize cuts in those areas.
- While the new revenues will not provide for expansion in the FY10 budget a link is drawn between the new revenues and our dedication of these new revenues.



Statewide Meals and Hotel/Motel Tax

- The Governor's House 1 budget includes two enhanced revenue sources for municipalities that serve to mitigate the reductions that are necessary for fiscal year 2010 budget.
- These revenues will be generated from an increase of 1% on the statewide meals and hotel/motel room occupancy excises.
- To mitigate more significant reductions to Local Aid, these new revenues were allocated, which we propose to be enacted at the statewide level and exclusively dedicated to local aid: a 1% increase to the existing meals tax (estimated to yield \$125 million) and a 1% increase to the existing statewide hotel and motel room occupancy tax (estimated to yield \$24.25 million).
- With Local Aid Assistance from new revenues, \$156 million is mitigated bringing the Local Aid Budget to 4.2% below FY09 ensuring that all Communities Local Aid budget are reduced by < 10%.



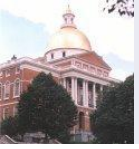
Use of Federal Stimulus and Stabilization

One-Time Resources	Total Available	FY2009 October (1)	FY2009 January	FY2010 (2)	Balance Remaining for FY2011
FMAP - Budgeted (based on original assumptions in H.1)	1,600	-	(533)	(711)	356
FMAP - Amount over budget (based on revised projections)	886		(273)	(406)	207
Education Stabilization (81.8%)	812	-		(328)	484
Other Government Stabilization (18.2%)	182	-		-	182
Stabilization Funds	2,259	(601)	(327)	(489)	842
Total Use of One-timers	5,739	(601)	(1,133)	(1,934)	2,071
		Total for FY09			
			(1,734)		

(1) \$400 million was appropriated in the original GAA, \$201 million was added in October to bring the total draw to \$601

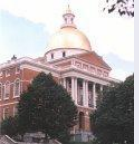
(2) Does not include approximately \$167 million in projected spending (on-going) generated from approximately \$274 million in FFP.

- While the use of stimulus and stabilization funds are important to balance the budget without deeper reductions, the goal is to use the funds in a responsible way while recognizing that a structural deficit is created.
- Use of Federal Stimulus –
 - Our FY09 and FY10 budget blueprint utilize \$2.517 billion (\$806 million in FY09 and \$1.711 million in FY10) in anticipated Federal aid through enhanced Medicaid matching funds (FMAP).
 - It does not include other Stimulus funds being discussed such as Education.
 - The goal is to use more of the federal stimulus in FY09/10 to get us through what is expected to be the worst years of the fiscal crisis and to preserve stabilization.



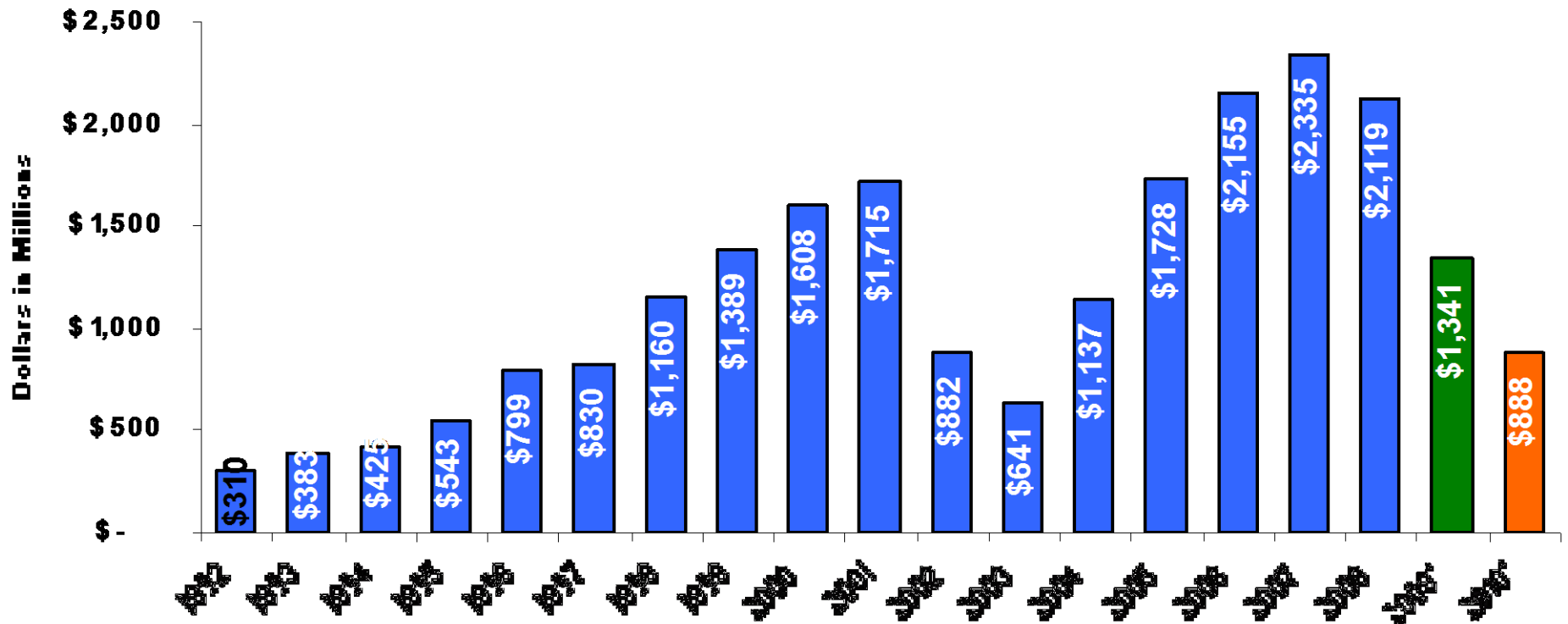
Use of Federal Stimulus and Stabilization

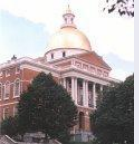
- Use of Stabilization –
 - Our plan uses an additional \$325 million of stabilization funds in FY09, on top of \$600 million has been used to preserve the budget to date.
 - For FY10, \$489 million in stabilization is proposed leaving a balance of \$850-\$888 million
 - Most importantly, we would propose to file language in the budget and the emergency legislation providing for the flexibility to reduce our proposed draws from the Stabilization Fund and offset them with Federal Stimulus should the Federal aid exceed our current estimates.
 - Stabilization Funds are the most flexible reserves we have and this strategy allows us to hold onto these funds for a longer period of time to help us grow out of our structural deficit in future years.



Stabilization Balance

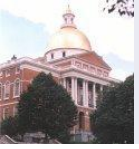
Massachusetts Stabilization Fund Ending Balances





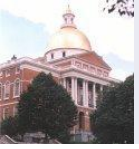
Post H.1 Spending Plan Process

- Due to the extent of reductions necessary to balance FY2010, it was not possible to readily identify every action that would have to be taken to live within appropriated levels
- Immediately following the filing of H1, A&F has worked with agencies on a spending plan process to further refine the plans to accommodate reductions that will be necessary in FY10



Related Legislation

- Emergency recovery bill, including
 - State revenue from repealing sales tax exemptions for candy, soda, alcohol (\$150 million)
 - Municipal revenue from statewide increases in meals (\$125 million) and hotel-motel room (\$24.2 million) taxes
 - Additional municipal revenue from local-option meals and hotel-motel room taxes (same maximum amounts)
 - Municipal revenue from ending property tax exemption for telecom property (\$52 million)



Additional Related Legislation

- Tax credit transparency (H. 1 Section 12)
- Transfer county sheriffs to the Commonwealth
- Expedited disposition of surplus state property using smart growth principles
- Municipal partnership II
- Pension reform
- Transportation reform
- Ethics reform