



The State of the State and its Impact on Milton

February 11, 2009

Senator Brian A. Joyce

2001 – 2008

- Phase in of previous tax cuts and income tax reduction locked the state into a \$1 billion tax reduction.
- The collapse of the dot-com bubble precipitated a sharp decline in tax revenues.
- The largely unavoidable state obligations, including health care, pensions, and debt service.
- Massachusetts was better prepared than other states. 2001 Stabilization Fund nearly \$2.3 billion dollars.
- Between 2001 and 2006, state spending was cut by more than \$2.1 billion.

The Economic Tsunami of 2008



- Unprecedented wave of events triggers a global economic downturn overwhelming national and state economies around the world.
- While the U.S. has been hard hit, other countries, such as Iceland, face even greater crises, including the total collapse of their banking system.

Economic Triggers and Effects

The Trigger:

- Confluence of related events; the crash of the U.S. housing market and the realization that large financial institutions were saddled with billions of dollars worth of assets backed by bad mortgages.

Effects:

- Precipitous fall of the Stock market in September.
- Collapse of large financial institutions – Bear Stearns, Lehman Brothers.
- Freezing of the credit markets.
- Layoffs, falling home prices and tumbling consumer spending.

The National Economy

“The fact is that recent economic numbers have been terrifying, not just in the United States, but around the world. Manufacturing, in particular, is plunging everywhere. Banks aren’t lending; businesses and consumers aren’t spending. Let’s not mince words: this looks an awful lot like the beginning of a second Great Depression.”

—Paul Krugman, Nobel Prize winning economist

The National Economy

On December 1st, the National Bureau of Economic Research declared the U.S. Economy has been in recession since December 2007.

Job Loss 2008:

- Unemployment rose to **7.6%** in January.
- Annual job loss was **2.6M**, highest annual job loss since the Great Depression.
- Economists have found that unemployment rises by **7 percentage points** on average after a severe financial crisis and does not peak until 4 years after the crisis.

Stock Market 2008:

- The entire global stock market has lost **55%** of its value.
- The Dow Jones was down **33.8%**.
- The S&P 500 was down **38.5%** .
- The NASDAQ was down **40.5%**

All 10 economic sectors measured by Standard and Poor's posted losses for the year.

The National Economy

Housing:

- U.S. housing values are decreasing faster than any time since the Great Depression.
- It has been estimated that American homeowners will have collectively lost more than **\$2 trillion** in home values by the end of 2008.
- Purchases of both new and existing houses dropped **7.6%** from October to an annual rate of **4.43M**, the biggest decline since January 1989.
- Approximately **11.7M** Americans owe more on their mortgage balances than their homes are worth.

Massachusetts



Massachusetts Economy

- The diversity of our economy, and our smaller reliance on construction sectors, had somewhat protected us from what was damaging other states' economies.
- In fact, through April 2008 the MA economy was far outpacing the national economy, growing at an annual rate of **3.2%** compared to the national economy at **0.6%** (five times the rate). This outpacing was due in large part to our technology, science, and healthcare sectors.
- In addition, MA was spared the worst of the housing collapse and mortgage industry meltdown because it did not experience the same level of speculative building as other states such as California, Florida, and Nevada.

Massachusetts Economy

Job Loss:

- The national economy was losing jobs at the start of 2008 (200K jobs/Jan-Mar) while Massachusetts was still adding jobs (4,600 jobs/Jan-Mar).
- But Massachusetts lost **19,000** jobs in September-November.

“The forecast projects that Massachusetts will lose 75,000 jobs in FY09 and 51,000 in 2010—a 3.8% drop in employment from 2008 to 2010...The Massachusetts unemployment rate will rise from today’s 5.5% to an annual average of 8.1% in FY10.”

—Massachusetts Taxpayers Foundation

December 15, 2008

- MA unemployment is at its highest level in last 15 years at **6.9 %**.
- Several economic forecasts project **125K** jobs lost, or about **4%** of employment by the end of this recession.

Massachusetts Economy

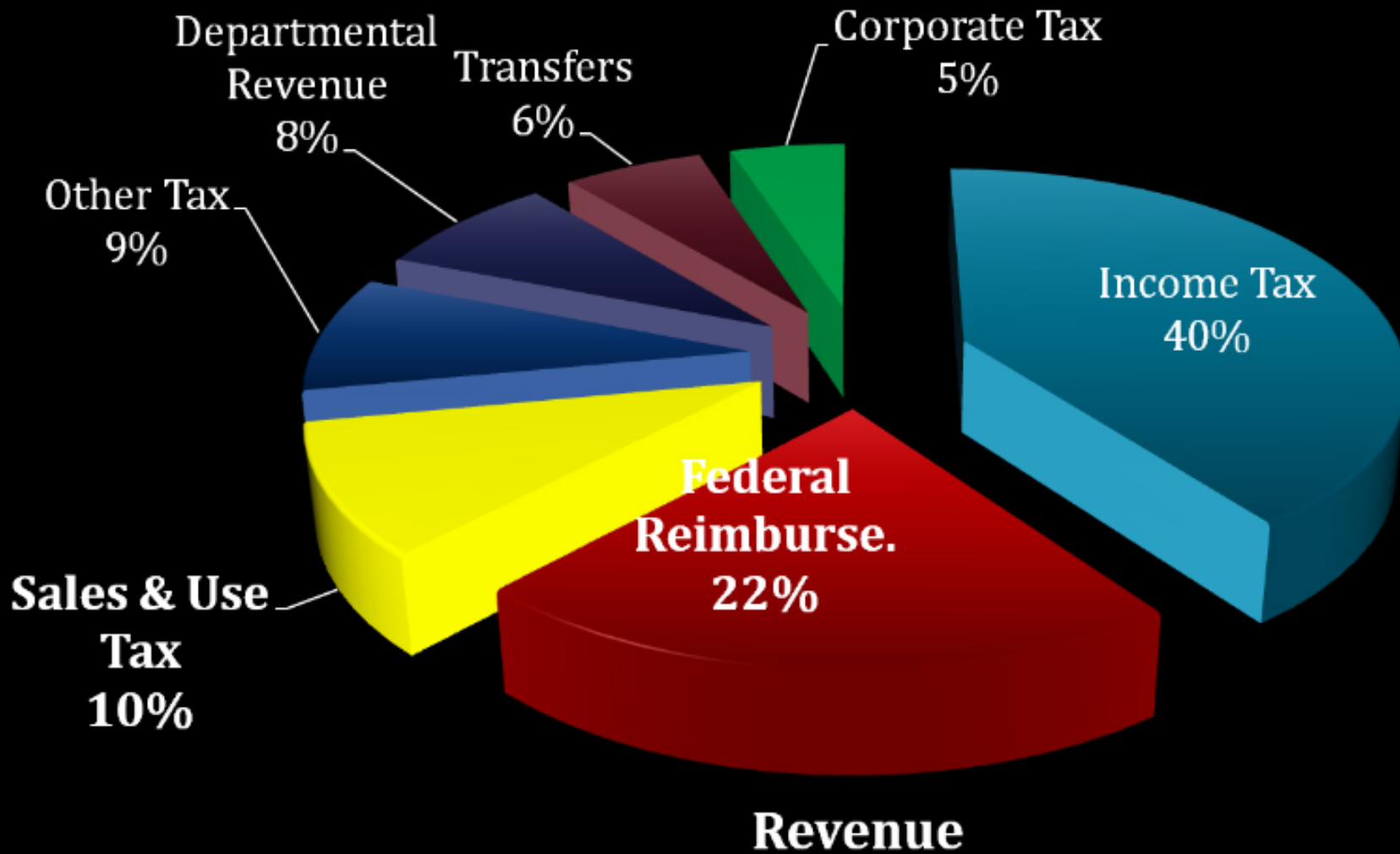
Housing:

- Massachusetts home sales plunged **18.4%** in November, compared to the same period in 2007. Prices fell **16.7%**, the steepest such decline in more than 20 years.
- Foreclosures in Massachusetts increased **72%** from 2007 to 2008.
- Major greater Boston projects put on hold – including the redevelopment of the Filene's block in Boston's Downtown Crossing and the owners of the Hancock Tower were reported to default on their January mortgage payment (2006 - \$1.3B acquisition).
- However, Milton's home sales **rose 5.2%** and prices rose 3.5% in 2008.

State Budget Background

- Since 2001, state spending has increased by **\$6.7 billion**, an average annual increase of approximately **3.5%**.
- Of this increase, **\$5.6 billion** came in two areas:
 - 1. **\$5 billion** in Medicaid and health care costs, including health care reform
 - 2. **\$600 million** in education
- There has been a **16%** increase in funding for Ch. 70 combined with an average **\$200 million** increase in general aid to communities.
- The remaining increase in spending for all other areas of state government over the last eight years totals only **\$1.1 billion, or approximately 1% growth each year.**

Sources of State Revenue



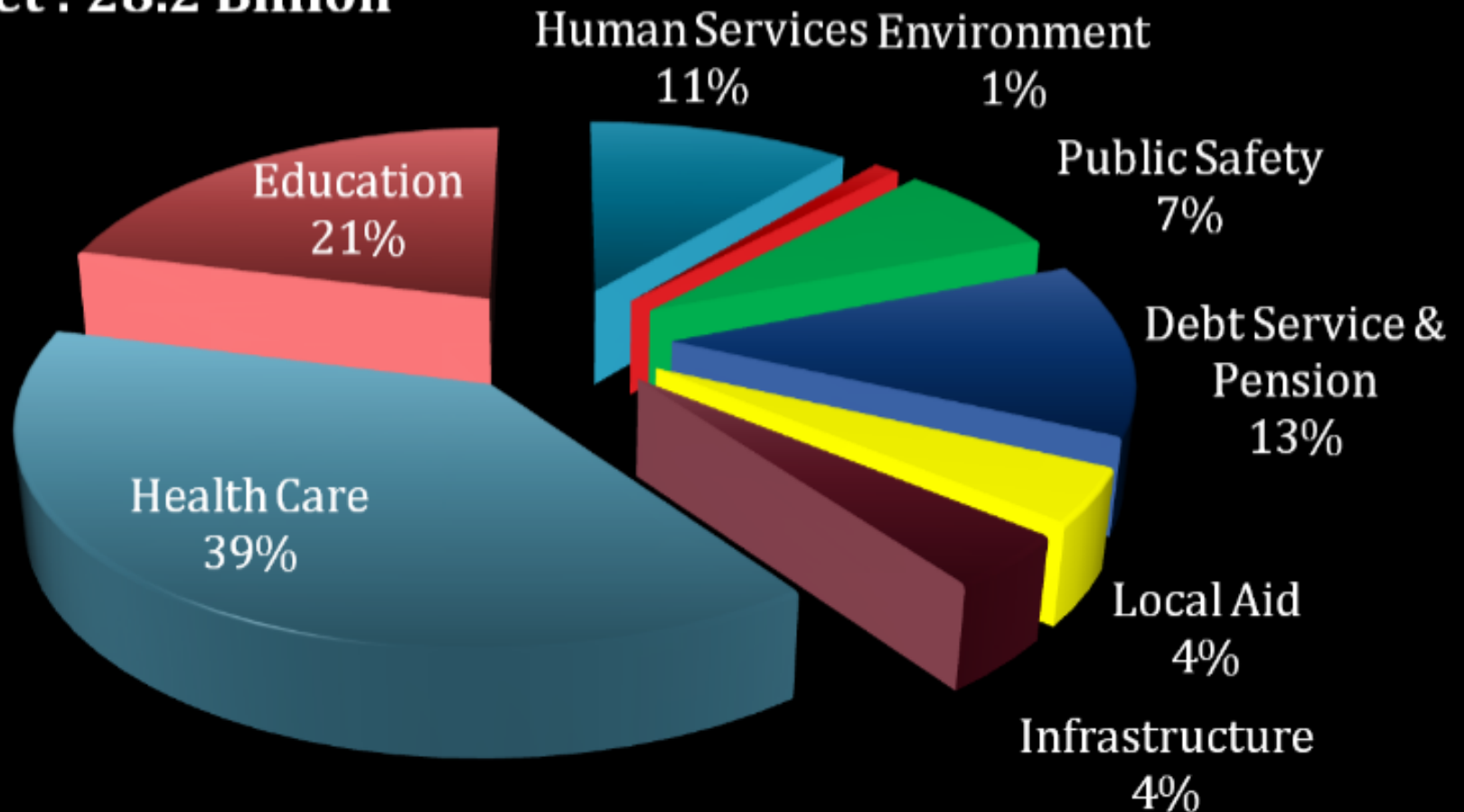
Based on State Comptroller's Comprehensive FY07 Financial Report

Current Budget – FY09

- **\$1.4** billion budget gap in October.
- In times of recession, state budgets are caught in a vise of shrinking revenue and growing need for safety net services.
- As the market drops and capital gains profits vanish, capital gains taxes decline. Lost jobs lead to a decline in income taxes.
- Lost investment income and labor decline, leads to less consumer purchasing and a drop in sales tax receipts.
- The cumulative effect is an additional revenue shortfall of **\$952 million** and an overall budget deficit of **\$1.1 billion** in January.

What We Pay For With State Taxes – FY 2009 State Budget

Total Budget : 28.2 Billion



Massachusetts Tax Revenues

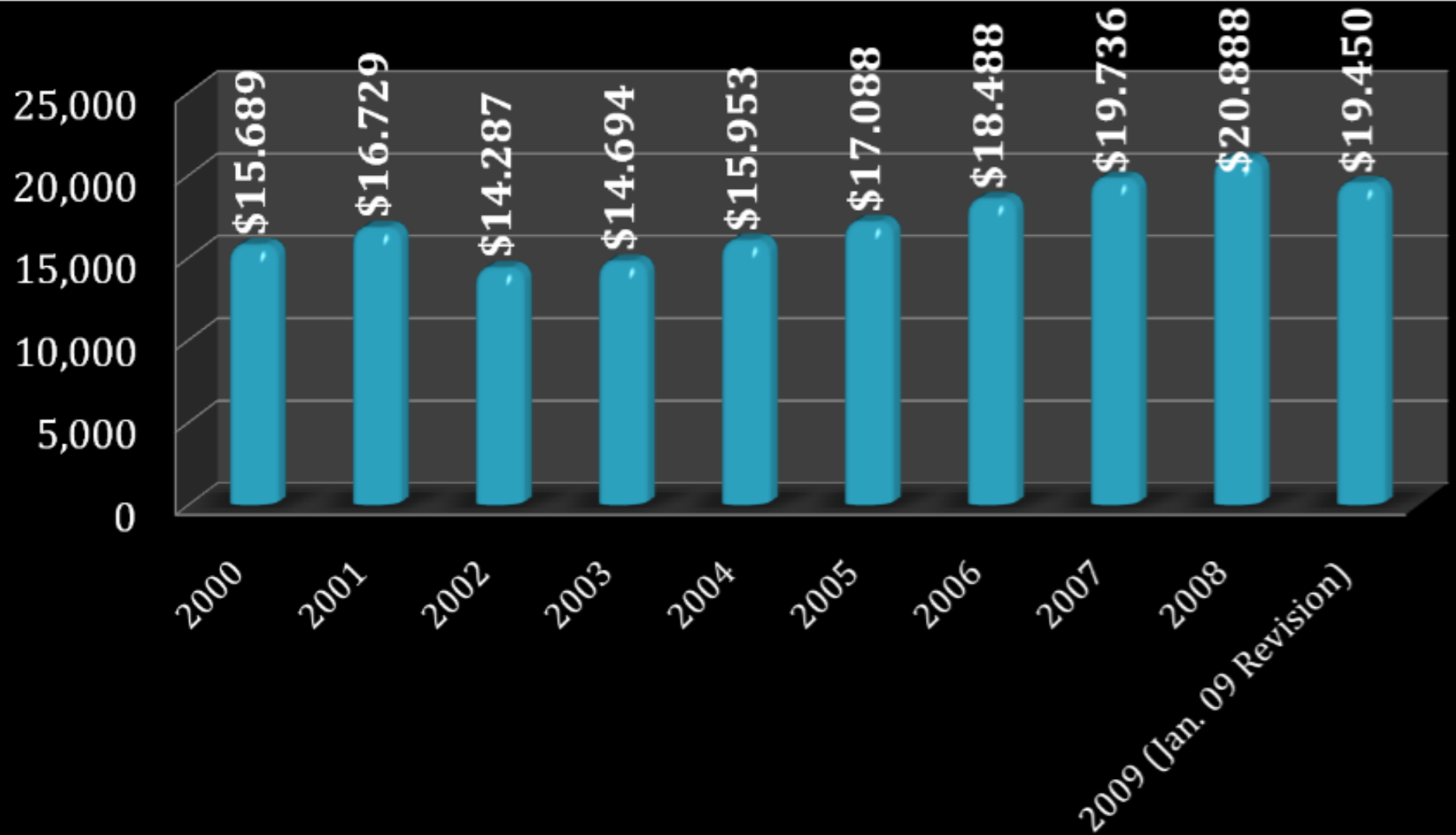
- **Massachusetts Taxpayers Foundation Revenue Forecast:**

- **Tax Revenues (\$ Billions)**


- FY2008 Actual 20.9
- FY2009 Original Estimate 21.4
- FY2009 Revised Estimate 20.3
- FY2009 MTF Forecast 19.4
- FY2010 MTF Forecast 18.6

10 Years of Massachusetts Tax Revenues

In Billions



Significant Reserves Lessen the Impact of the Economic Downturn

- The Stabilization Fund with a balance of **\$2.3 billion**, ranked as the nation's largest per capita at the close of fiscal year 2007.
 - **\$1.4 billion** of which has been or is being allocated to help stabilize the FY09 & FY10 budgets.
 - Even with heavy reliance on the stabilization fund significant cuts necessary.
- 

October Cut FY09:

Budget gap estimated at \$1.4 billion

- **\$822.5 million** cut from FY09 budget through a combination of 9C cuts and spending controls.
- Education, health and human services were hardest hit, as they comprise the largest portions of state spending – **21%**, **36%**, and **13%**, respectively.
- Nearly **65%** of the state budget, approximately **\$18 billion**, is mandated spending and cannot be cut.

January Budget Gap

Additional \$1.1 billion shortfall

- 9C cuts totaling **\$191 million**, \$128 million of which is local aid.

Remaining shortfall made up with:

- **\$68 million** in additional revenue.
 - **\$25 million** from repeal of sales tax exemptions for alcoholic beverages, candy, and sweetened drinks.
 - **\$25 million** in additional revenues from tax settlements;
 - **\$18 million** in Registry of Motor Vehicle fee increases.
- **\$327 million** from the Rainy Day Fund.
- **\$533 million** in anticipated federal Medicaid funds.

Governor's Proposed FY10 Budget

- Holds spending growth to **0.5%**.
- Consolidate “Lottery and Additional Assistance” into a single account called Unrestricted General Government Local Aid.
- **7%** reduction in local aid totaling **\$375 million**.
- Maintain Chapter 70 school funding at FY09 levels.

Governor's Proposed FY10 Budget Continued

- Proposed new revenue sources:
- Raise sales tax on meals & hotels by 1% - allow cities and towns to add another 1% on the local portion of the meals & hotel tax.
- Create “wellness fund” to pay for health programs by lifting sales tax exemption on alcohol, candy & sweetened beverages.
- Expand bottle deposit law to non-carbonated beverages.
- Increase Registry of Motor Vehicle fees.

The Town of Milton



FY09 Budget Crisis & its Impacts on Milton

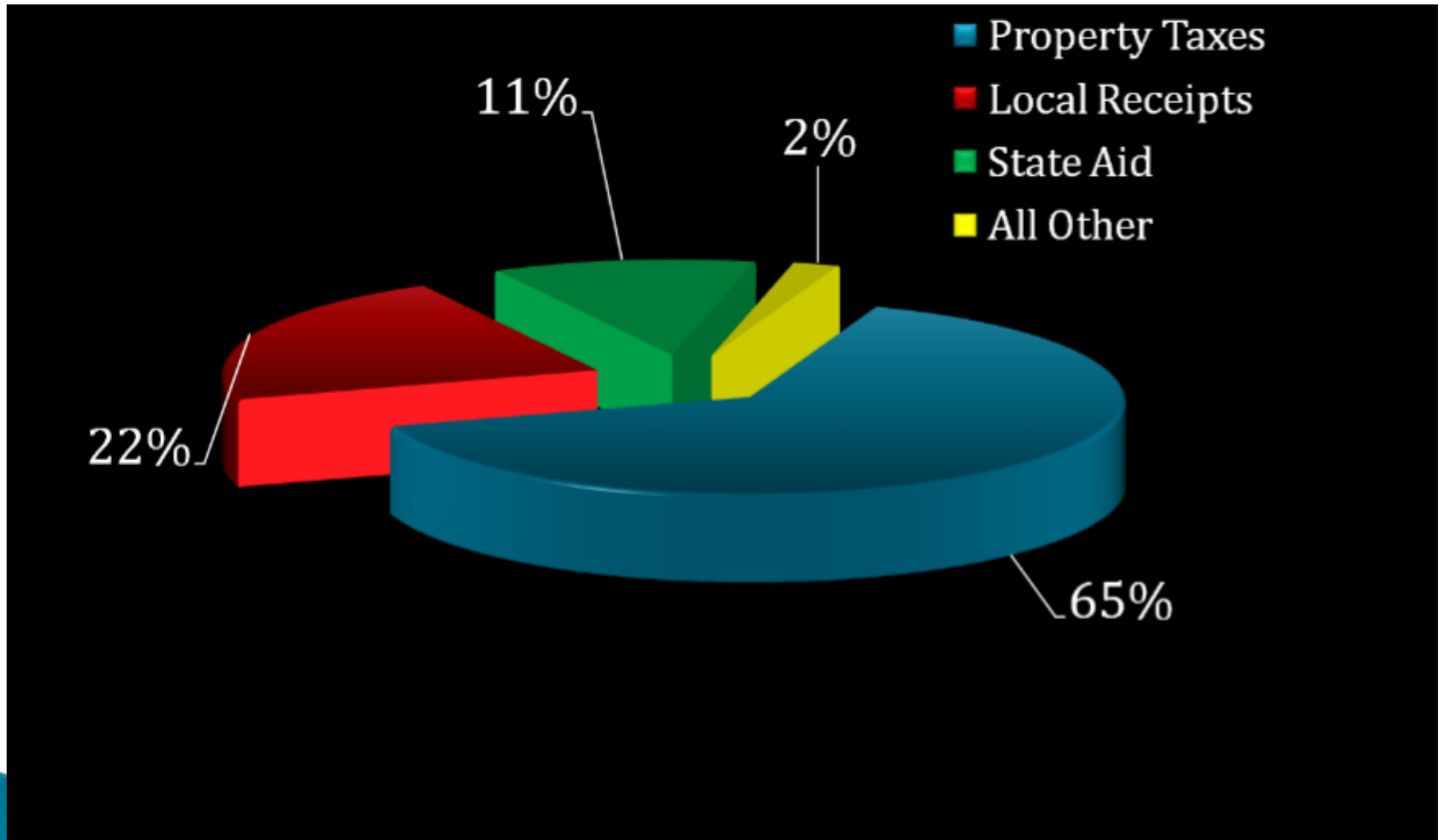
- No cuts to chapter 70 school funding.
- For Milton, that means maintained Ch. 70 funds of **\$4,786,872**.
- **3.9%** reduction in total state aid, resulting in a local aid reduction of **\$389,693**.
- Milton's total remaining state aid for FY09 is **\$9,490,967**.

Governor's FY10 Budget & Impacts on Milton

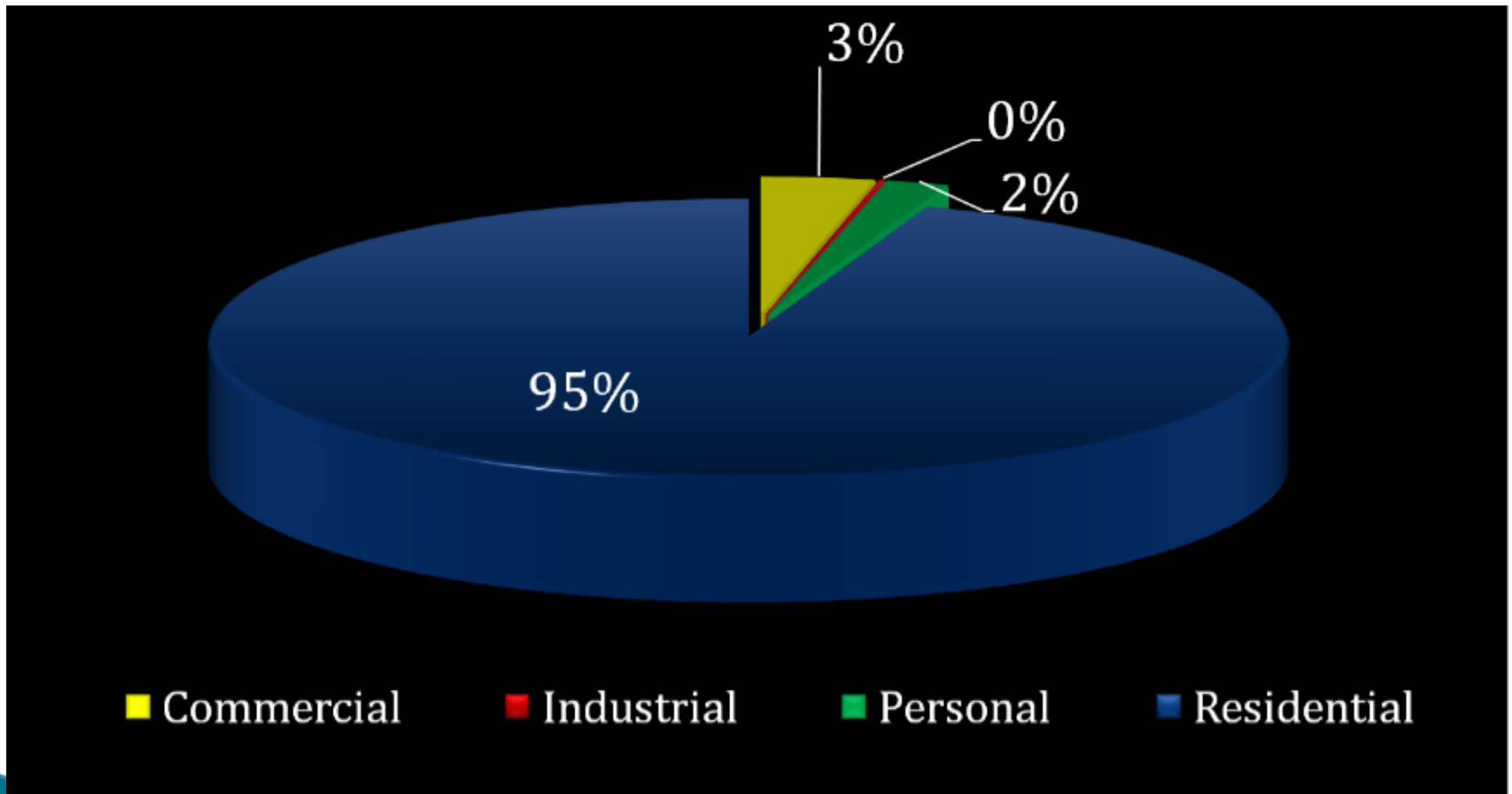
- Chapter 70 funding maintained at FY09 levels; that means **\$4,786,872** for Milton
- **8.3%** reduction in total state aid, resulting in a state aid reduction of **\$771,190*** .
- Milton's total remaining state aid for FY10 would be **\$9,109,470*** .
- FY10 House 1 PILOT money is **\$608,274**, a reduction of **\$427** from FY09.

** Numbers assume additional revenue from the Governor's proposed Meals/Hotel tax*

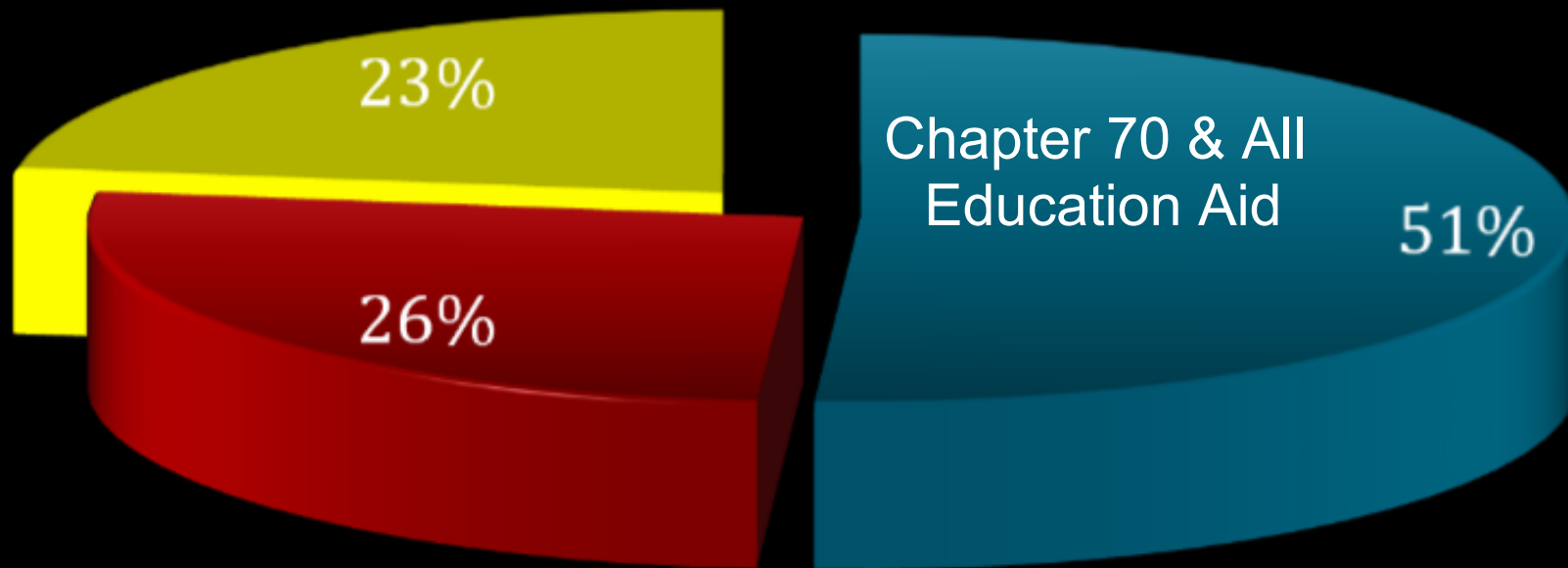
FY09 State Aid is \$9,490,967 11% of Town Revenue



Milton Property Tax Revenue Breakdown



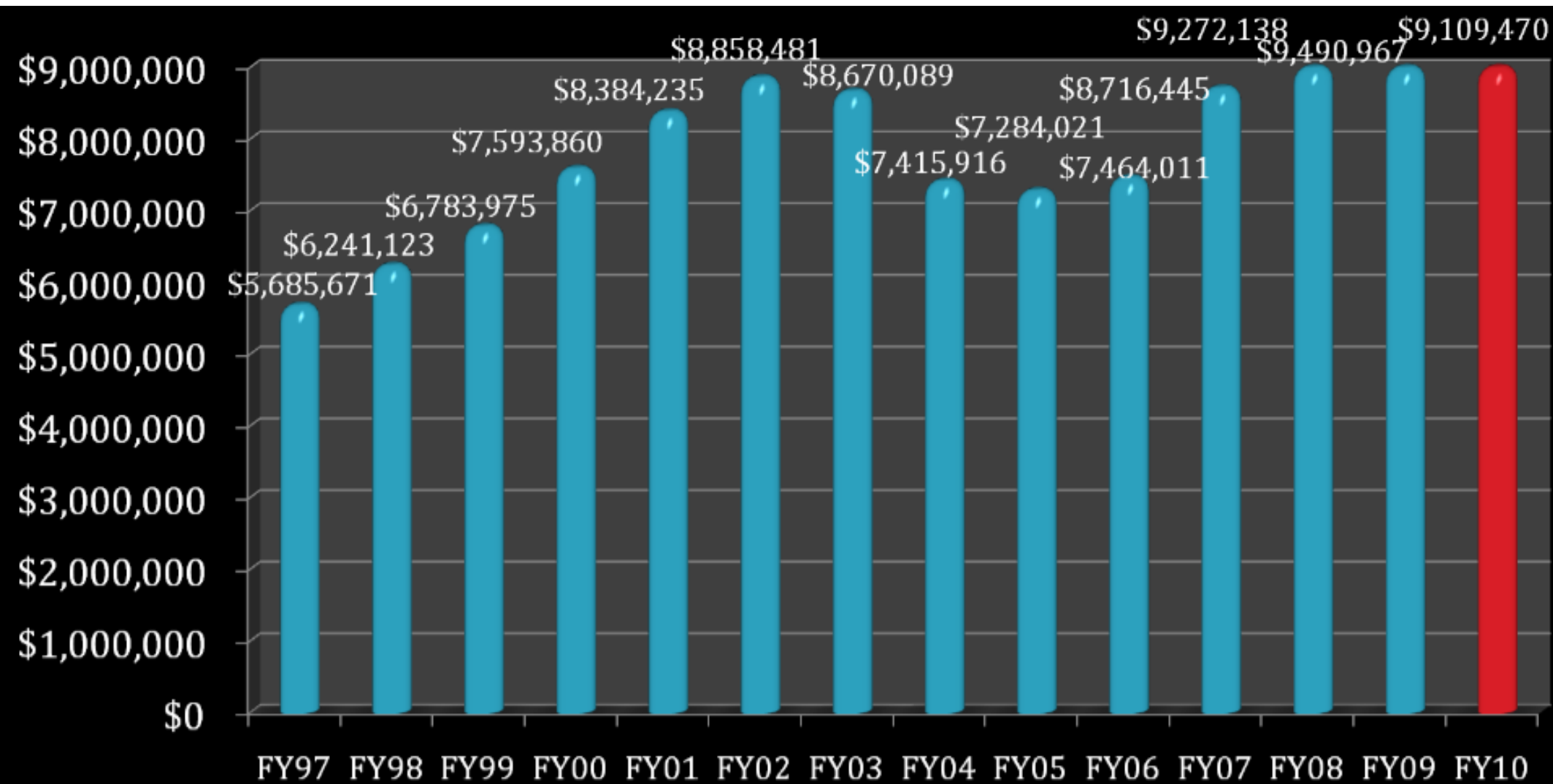
Milton State Aid Breakdown



- Chapter 70
- Lottery Aid
- All Other: addn'l assist., vet's benefits, etc.

Milton State Aid

State aid rose nearly 67% between 1997 and 2009



Governor's Proposed
Budget

Financial Highlights for Milton Include...

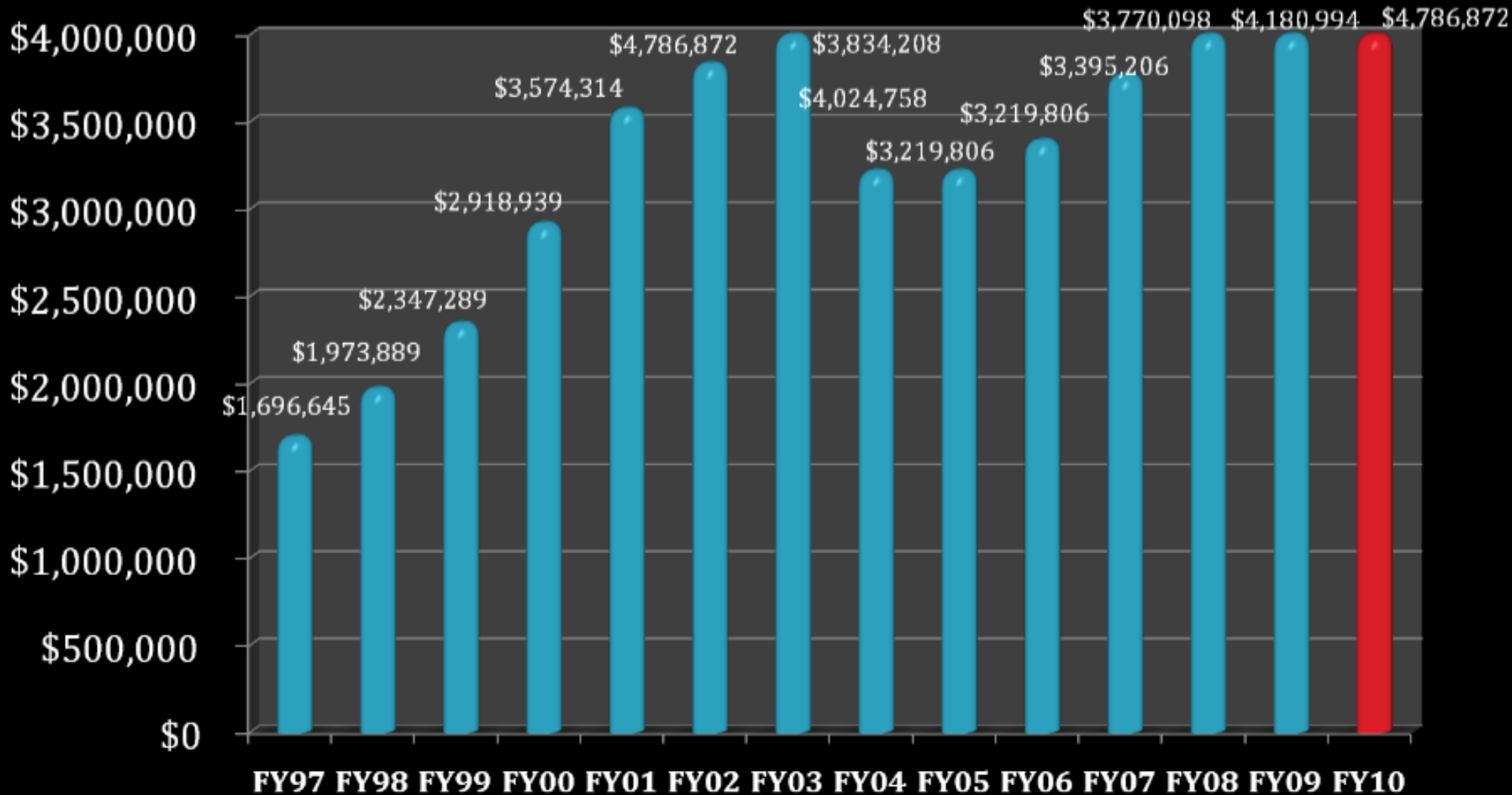
- **Announced today: \$65,000** state grant for a wind turbine feasibility study
- **\$7 million** to repave Route 28 from Quincy to Reedsdale Rd., including sidewalks, lighting, safety, infrastructure and aesthetic improvements.
- **\$1 million** for the Blue Hills Pkwy. to complete Phase I.
- **\$5 million** to improve Route 28 from Central Ave. to Blue Hills Pkwy., repairs to stone walls and fencing along Kelly Field (08 Bond bill).
- **\$2 million** from the MBTA to improve the Capen St., Valley Rd., Central Ave. and Milton trolley stops(08 Bond Bill).
- **\$1 million** for Milton Village including pavement and sidewalk reconstruction, improvements to the drainage system along Adams St., and aesthetic upgrades.

Financial Highlights Continued

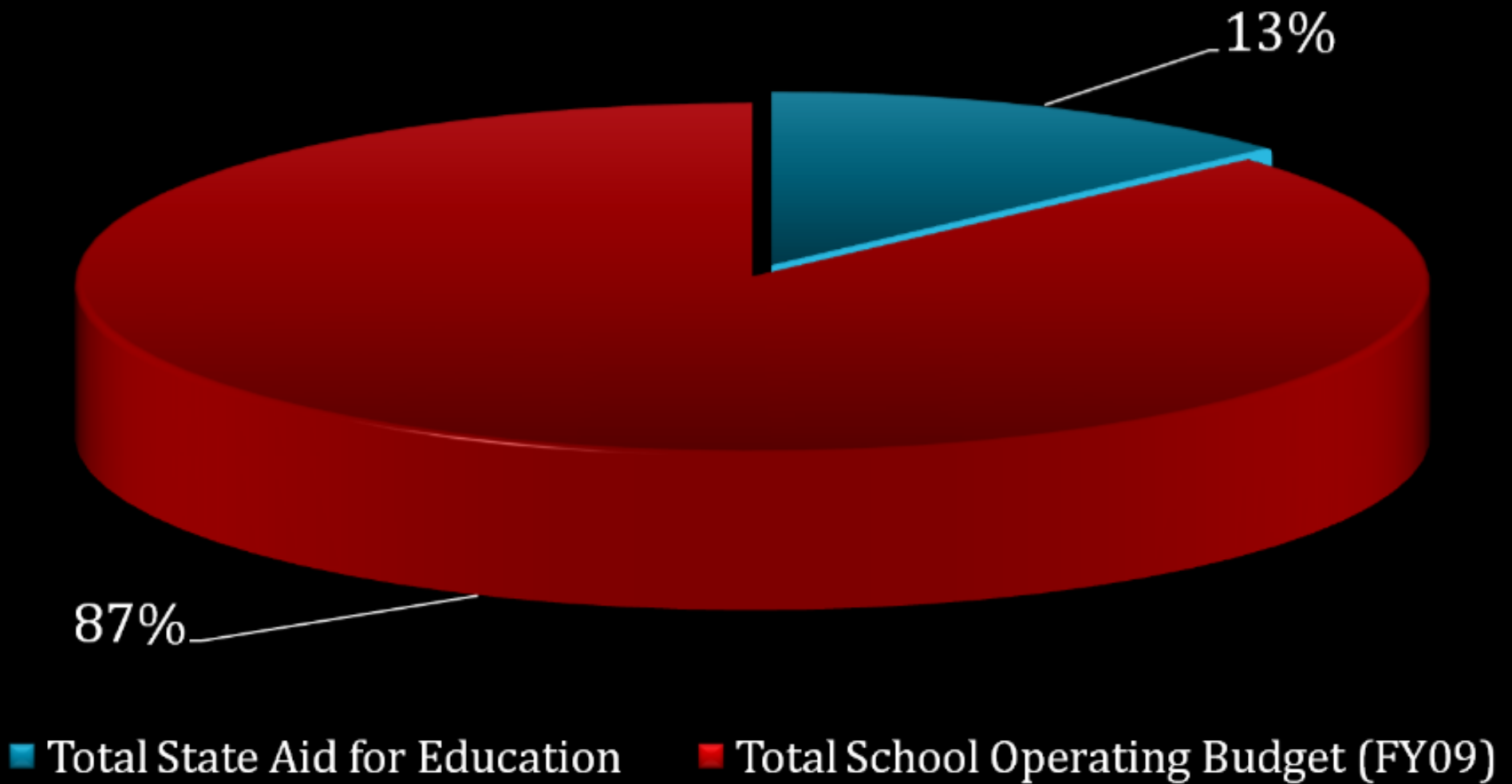
- **\$1 million** for economic revitalization in and around the Central Ave. Business District.
- **\$989,000** to extend Adams Street from the intersection of Canton and Randolph Avenues and High Street.
- **\$500,000** for Central Avenue Business District to convert overhead utilities to underground.
- **\$400,000** for the Pine Tree Brook project.
- **\$25,000** for Brook Road including the design and construction of school zone signage to help address dangerous traffic situations affecting students at Saint Mary of the Hills School.

Milton Chapter 70 Funding

182% Increase Since FY97



Impact of State Aid on Milton Public Schools



The Prognosis

- The governor's proposal is the first step in the budget process.
- After several years of economic growth and post 9/11 recovery, we face the greatest economic challenge of our generation and there are no easy solutions.
- Fiscal Year 2010 will be a difficult year for the state and municipalities requiring shared sacrifices.

- Massachusetts recently topped the Information Technology & Innovation Foundation's rankings of states poised for strong economic growth once the recession abates.
- We have retained our strong bond rating, allowing the state to borrow money for necessary projects at relatively low rates.
- President Obama and Congress are developing an economic stimulus plan focused on rebuilding and expanding America's infrastructure, in hopes of creating opportunities for communities such as Milton to get funding for needed capital projects.
- The Stimulus package, as passed by the U.S. House of Representatives, would provide Massachusetts with **\$11.5 billion** in federal aid and tax relief. The Senate passed their own stimulus bill yesterday . The final bill is now being negotiated by the Senate and House.

Additional Opportunities for Milton

- Group Insurance Commission - local option for cities and towns to buy their health insurance through the state insurance plan.
- GIC rates rose by just **5%** in 2008 compared to **11.3%** for all other Massachusetts employers.
- Randolph recently opted-in to the GIC and anticipates annual savings in the range of **\$750,000**.

Discussion