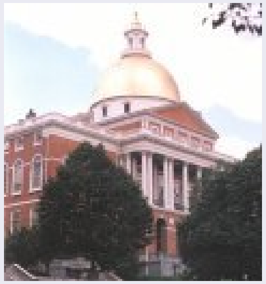


Executive Office for Administration and Finance

State House
Rooms 373 & 272
Boston, MA 02133

The Research Bureau

Wednesday March 11, 2009

AGENDA

I. Consensus Revenue Estimate / Budget Gap

II. Fiscal Year 2010 Solutions

III. Review of the FY2010 Blue Print for Closing the Gap
- Reductions
- Departmental Revenue
- Tax Revenue
- Federal Stimulus
- Stabilization Funds

IV. Treatment of Local Aid

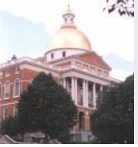
Consensus Revenue Update

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 made up of:**
    - $1.9 billion revenue
    - $1.2 billion maintenance
    - $0.4 million use of 1X



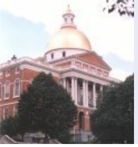
FY2010 Solves

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

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

FY2010 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 or an **increase of 0.5%** from FY09 estimated spending.
- The bottom line of the budget must also consider revenue transfers made to separate funds for spending in the areas of health care, retiree health insurance and life sciences.
  - Including these items represents a total FY10 proposal of $32.221 billion or a 0.97% decrease from FY09.
- 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 reductions across all areas of Government including Executive, Non-Executive and Local Aid.



FY2010 Solves: Departmental Revenue

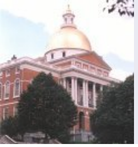
$18 million in FY09 and $289 million in FY10

- 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. **(Budget Brief available on ANF Website)**
  - $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. **(Budget Brief available on ANF Website)**
  - $20 million from other smaller fee proposals offered by agencies.

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

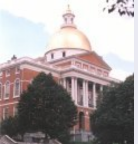
- Our plan files some revenues in the emergency legislation so that it (approximately $18 million in RMV fees) can be used in helping to close the FY09 budget gap.



FY2010 Solves: Tax Revenue

- Sales Tax Exemptions:
  - 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. **(Budget Brief available on ANF Website)**

- Statewide Meals and Hotel/Motel Room Occupancy Excises
  - 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

Combined Use of Federal Aid and Stabilization Funds	**Beginning Balance**	**FY2009 October**	**FY 2009 January**	**FY2010**	**Funds Remaining for FY2011**
Federal stimulus funds (anticipated FMAP Funding)	$ 1,600		$ (533)	$ (711)	$ 356
Stabilization Funds*	$ 2,262	$ (601)	$ (327)	$ (489)	$ 845
Total Use of One-time Resources:	***$ 3,862***	***$ (601)***	***$ (860)***	***$ (1,200)***	***$ 1,201***

* included $100 million deposit planned for fiscal year 2009

- 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 $1.244 billion ($533 million in FY09 and $711 million in FY10) in anticipated Federal aid through enhanced Medicaid matching funds (FMAP).
- 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
  - 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.

Treatment of Local Aid

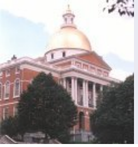
- In formulating the fiscal year 2010 budget, the Administration worked to minimize cuts to local aid amid unprecedented fiscal challenges.
- Section 3 was re-structured in order to ensure an equal reduction methodology and also allow for administrative savings.
- A new category of “Unrestricted General Government Aid” was created which combines what was previously Additional Assistance and Lottery Aid.
- Additionally, 2 new columns were included representing the revenues generate from the statewide meals and hotel / motel tax dedicated to each municipality.
- Chapter 70 was preserved at FY09 levels representing $3.949 billion of the budget.
- Overall, local aid (Chapter 70, Unrestricted General Government Aid, revenue enhancements) is funded at $5.042 billion or 4.17% below FY09 levels.

Treatment of Local Aid (continued)

- Because cities and towns rely heavily on State Aid to support all areas of local Government from schools to critical public safety and other spending as well as to manage the local property tax burden, the Administration worked to mitigate these reductions.

- Without the revenue enhancements provided through the statewide meals and hotel/motel tax, the Local Aid budget is reduced $375 million or 7.1% below FY09.

- By implementing these statewide taxes, $156 million in reductions is mitigated and ensures that each community reduction is no more than a 10 percent loss in fiscal year 2010 total Section 3 local aid.



Current Status

- 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 will work with agencies on a spending plan process to further refine the plans to accommodate reductions that will be necessary in FY10
- Revenue numbers are being closely monitored in March.