

Governor Releases Budget for Next Year and Introduces Other Legislation

On Jan. 27, Governor Deval Patrick filed his budget (House 2) for FY11 which begins June 2010. This begins the process of approving the annual budget which will be first debated in the House likely in late April and in the Senate in May.

His proposed budget for FY11 is good news for public education given the current fiscal realities. Both pre-K-12 and higher education budgets are funded at the same level as last year and will face virtually no cuts in programs. Chapter 70 – which provides state funds to local school districts – is funded at over \$4 billion. This is a slight increase over last year. Most programs including the environment, mental health, housing and human services were cut. However, the Governor's proposal protects public education from severe cutbacks.

Public higher education is also level-funded at roughly current levels. The remaining state stabilization monies from last year's federal stimulus package (\$96 million) were used to keep higher education at current levels.

The Governor's proposal relies on the likelihood that the federal government will provide additional state fiscal relief. The House of Representatives has passed a jobs bill which includes money in it for public education. Should that not pass the Senate and be enacted, then there will have to be more budget cuts or an increase in taxes.

To help close the budget gap the Governor proposes a series of important tax revenue initiatives that raise close to \$200 million.

Along with the budget, the governor filed two bills – one that makes changes to the pension system and another that allows for a local option early retirement for employees who are part of the municipal pension system. (Note: no proposals for early retirement for teachers or state employees were filed.)

Below are summaries of House 2 Higher Education provisions, employee benefits and revenues, as well as summaries of the proposed legislation.

Higher Education

- Higher Education campus accounts are funded at the FY10 level, with no cuts proposed to any state or community college line item, and only a very small (\$157,449; less than .1 percent) cut proposed to the University of Massachusetts.
- A 4 percent cut to higher education "central accounts" is proposed, most of which appears to be the elimination of funding for the Toxics Use Reduction Institute (TURA). A 4 percent cut to the scholarship reserve is also proposed (\$3.5 million).
- The Governor does not propose any change to the health insurance premium shares for state employees, leaving the premium payment split at 80/20.

Employee Benefits

- A cost-of-living adjustment (COLA) for retiree pensions of 3 percent on the first \$12,000 of retirement income will be included in the Governor's budget.
- The Governor's budget includes a transfer of \$1.44 billion into the trust fund that supports the state's pension system. Separate from this budget document, the Governor has proposed significant pension reforms that he anticipates would reduce pension costs over the long term.

New Revenues (summary from Mass Budget and Policy Center)

The Joint Revenue Estimate adopted by the Governor, the House and the Senate estimates that FY 2011 tax revenues will total approximately \$19.05 billion, 3.2 percent above the December 2009 estimated FY 2010 tax revenue total of \$18.46 billion. The budget does not propose broad-based tax increases, but there are several important tax revenue initiatives. These include:

- \$75 million in savings for FY 2011 anticipated from capping total cost of the film tax credit at \$50 million a year for FY 2011 and FY 2012.
- \$5 million in savings anticipated from reducing FY 2011 life science credit awards.
- \$4.2 million in savings anticipated from repealing the aircraft sales tax exemption.
- \$51.7 million in savings anticipated from repealing the sales tax exemption for candy and soda. The savings from this would help pay for the state's public health programs.
- \$15 million anticipated savings from a repeal of the increased sales tax exemption on smokeless tobacco and cigars. The savings from this would be dedicated to the Commonwealth Care Trust Fund to help pay for the state's health reform initiatives.
- \$30.5 million anticipated from improvements in tax collection and child support collection at the Department of Revenue.

The Governor's budget also proposes several initiatives to bring in more non-tax revenues. These include:

- Expansion of the bottle bill to include non-carbonated drinks, such as water, juice and sport drinks. The Governor estimates this change would generate approximately \$20 million in revenue (\$5 million of which would be dedicated to recycling programs).
- Additional support for state oversight agencies, estimated to bring in approximately \$15 million in recoveries of program fraud or abuse.

The Governor also proposes using a variety of "one-time" revenues in order to balance the budget. These include:

- \$1.394 billion in federal recovery funds, including \$96 million from what is referred to as the state fiscal stabilization fund, \$690 million in enhanced Medicaid reimbursements (FMAP) in the first part of FY 2011, and the expectation that the federal government will extend enhanced FMAP reimbursements beyond December 2010, for a projected additional total of \$608 million.
- \$175 million withdrawal from the state's stabilization fund (the "rainy day" fund).

- \$160 million estimated in reimbursement from the federal government for payments to recipients of Social Security Disability Insurance (SSDI), who had been paid for by the Massachusetts Medicaid program, rather than the federal Medicare program.
- \$154 million from other initiatives, such as selling certain state lands (\$19 million), restructuring the state's debt (\$100 million), and transferring funds into the General Fund that are currently sitting in off-budget trust funds (\$35 million).

Pension Reform Proposal

Governor Patrick's recommendations to further reform the public employee pension system were filed on Jan. 26. If enacted into law, the bill's provisions would apply to all new public employees hired on or after July 1, 2010. Additionally, some provisions would apply to current employees.

Major provisions affecting MTA members (as well as other public employees) include:

Applies to Current and New Employees

Creditable Service

Interest charged for the purchase of creditable service for out-of-state service and for prior service withdrawals upon re-entry is increased from 4.125 percent to 8.25 percent if not paid in full in one year.

Pro-rates Employer Retiree Health Insurance Premium Shares

Pro-rates retiree health insurance costs to previous and current public employers based on the portion of an employee's service in each governmental jurisdiction.

Anti-Spiking

Limits the annual increase in pensionable earnings to no more than 7 percent plus inflation of the average pensionable earnings over the previous two years. This provision would affect salary increases due to promotions unless they are determined to be "bona fide" by the applicable retirement board. Also, the bill could negatively impact teacher stipends which are pensionable under current law.

Applies to New Employees Only

Retirement Age Increase

The factors used to determine one's retirement allowance depend, in part, on the member's age at retirement. The bill reduces each age factor in the retirement formula by 0.125 percent instead of the current 0.10 percent. As written, depending on one's age and years of creditable service, a new teacher will need to work between two and five years longer to receive the same benefits as current teachers under Retirement Plus. While the bill appears to reduce Retirement Plus benefits for teachers hired on or after July 1, 2010, there is no corresponding reduction in the teacher's 11 percent contribution rate. However, this section of the bill is ambiguous and the Governor's office is re-looking at the impact of the bill on the current Retirement Plus law which the Administration supports.

Average Earnings

Average earnings used to calculate a member's retirement allowance is increased from 3-5 years.

Pension Cap

Caps the maximum annual pension payment at \$85,000, just 43 percent of the federal limit indexed to inflation.

Early Retirement

Repeals current law permitting employees with 20 years of service who are terminated without fault (e.g. layoff) from taking early retirement.

Employee Contributions

Except for teachers, the bill caps the retirement contribution level for Group 1 employees at 8.5 percent effective July 1, 2010.

Early Retirement for Municipal Employees

(Note: no ER proposals for teachers or state employees were filed.)

On Jan. 22, the Governor filed municipal relief legislation that includes an optional early retirement incentive for municipal employees with at least 20 years of service in the affected local retirement system, provided participants forego any rights to accrued sick and vacation time. The bill does not apply to teachers as they are members of a state retirement system, not a municipal retirement system. However, non-teacher employees of a school district may be eligible since they are members of local retirement systems. Benefits for those eligible would permit one's retirement benefit to be increased by a combination of years of creditable service and years of age not exceeding three years or a lesser amount established by the municipality. Each municipality must decide whether or not to take advantage of this option.