

REMARKS OF TREASURER DEBORAH B. GOLDBERG

*Consensus Revenue Hearing
Gardner Auditorium
State House, Boston, MA 02133
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Secretary Heffernan, Chairwoman Spilka, Chairman Sanchez, and members of the Committee – thank you for the opportunity to testify this morning.

I always appreciate having an open conversation with you about the revenue projections and fiscal outlook for Massachusetts.

Unclaimed Property

Today, I will begin by updating you on our Unclaimed Property Division.

In case you haven't visited our new-and-improved website, FindMassMoney.com, I urge you to do it today. A quick review by staff found at least 19 members of this committee have missing money waiting for them!

In all seriousness, I am pleased to report the Division continues to provide superior service to the people of Massachusetts.

For FY 2017, we returned more than \$107 million in cash, stock, and mutual funds to its rightful owners and reverted \$106,561,800.38 million to the general fund.

For FY 2018, we anticipate we will trigger the requirements of Chapter 29, Section 5H of General Laws. The law requires 75 percent of Unclaimed Property's revenue – when it exceeds the amount collected the previous fiscal year – goes into the stabilization fund.

As a result, our estimated reversion of \$126,121,976 would send \$111,076,844 to the General Fund and \$15,045,132 to the stabilization fund.

Looking ahead to FY 2019, we have made a total reversion estimate of \$131,255,622, which would again prompt another response to the requirement.

Massachusetts State Lottery

The State Lottery continues to provide significant unrestricted local aid to all 351 communities in the Commonwealth.

In FY 2017, for the first time in our history, the Lottery's net profit crossed the \$1 billion mark at \$1.04 billion, a 5.1 percent increase in profit over FY 2016. For the third straight year, we topped the \$5 billion mark, with a total of \$5.1 billion, in sales.

Historically more than 70 percent of Lottery sales have come from one product line: instant tickets. Over the last five years, instant tickets sales have been flattening. During FY 2017, instant tickets continued this long-term, downward trend with a decrease of -2.7 percent in sales compared to FY 2016. So far this fiscal year, instant tickets are up less than 0.75 percent.

We anticipate sales for instant tickets will continue to flatten or decline year over year, particularly when factoring in inflation. Consumers' purchasing habits and methods of engagement and entertainment continue to change. We must change with them.

To help combat this trend, I have instructed the Lottery to diversify current product offerings as much as possible. In that effort, we have expanded Keno operations. In FY 2017, Keno revenues increased 1.1 percent over FY 2016, bringing in an additional \$9.8 million in sales revenue.

Keno continues to be a strong performer during FY 2018, currently up over 7 percent with an additional \$30 million in sales for the fiscal year to date. Combined, instant tickets and Keno accounted for 86.9 percent of all Lottery sales.

Thanks to your investment through the \$65 million bond authorization, we continue upgrading both our hardware and software, and we have been able to place 600 terminals now operating in the field. We will continue distributing more, looking first at the busiest agents operating throughout the state.

Massachusetts customers benefit from a payout structure that makes our games particularly attractive. We are closely watching the competition, especially near our northern border, where some of our highest producing retail agents reside.

That includes New Hampshire, where seven more communities recently voted to allow Keno, and their Legislature authorized online gaming as part of their state budget this past year.

The good news is our local retail and small business partners, who make this all possible, earned close to \$292 million in commissions and bonuses.

Additionally, we have been able to keep administrative costs in check at less than 2 percent of our revenues – the lowest ratio of any lottery in the country.

As you most certainly recall, everyone here in Massachusetts was extremely excited about the record Powerball ticket. I am pleased to note the results of that amounted to approximately \$24 million in additional tax revenue to state.

For the remainder of FY 2018, we have projected the Lottery will return about \$968 million in net profit. Looking ahead to FY 2019, we anticipate returning about \$965 million.

I'm proud our Lottery remains the most profitable and efficient in the country, but the challenges I have discussed previously with you have not gone away.

We are dedicated to providing critical resources to all cities and towns in the Commonwealth.

To continue to do so, we have no choice but to modernize and move into the 21st century, if we want to maintain our edge.

If the Lottery is to uphold its commitment to reliable local aid that benefits everyone in Massachusetts, we must be proactive about improving games and developing new offerings.

ABCC

The Alcoholic Beverages Control Commission (ABCC), was able to generate \$4.9 million in revenue for the Commonwealth in FY 2017.

The majority of ABCC revenue stems from license applications, including the issuance of new licenses, new license types, fees and fines, as well as renewals. In calendar year 2016, the Commission issued more than 30,000 licenses, certificates and permits for alcoholic beverages.

The ABCC works with other state agencies to generate other additional revenue. In FY 2017, for example, they worked with the Department of Unemployment Assistance, the Department of Industrial Accidents, the Lottery, and the Department of Revenue to collect millions in outstanding taxes, fines and other debt owed to the state.

The Commission anticipates they will collect \$4.9 million in FY 2018, and projects the same figure for FY 2019. They accomplish this work with a budget of \$2.43 million, 28 employees, and while ranking 45th in the country for their enforcement agents to licensees ratio.

It is clear the ABCC provides significant value to our Commonwealth. It supports businesses that create economic growth, while generating revenue for the state.

However, the ABCC will require additional resources if we want to continue supporting local communities. Fifteen inspector/investigators must balance the responsibilities of visiting each location in order to process a high volume of licenses, while also investigating public safety issues and possible violations.

I look forward to receiving a final report soon from the Alcohol Task Force I convened, detailing their findings and recommendations for providing even better service to the people of Massachusetts.

Pension Fund Assumed Rate of Return

Turning to the state pension, as chair of the board that manages our \$70 billion fund, I am proud it earned a return of 13.2 percent last fiscal year.

That puts us in the top 25 percent for our peer group, the top 10 percent for the three years ending Sept. 30, and the top 20 percent for the five-year period.

We should take pride in the fact that plans across the country want to know what it is we're doing in Massachusetts to achieve such positive results.

At the same time, however, we are realistic about the challenges we face.

Like most states, Massachusetts maintains a large unfunded pension obligation. However, we are on track to be fully funded by 2037, and we continue to post strong returns in spite of an uncertain economic environment.

This fiscal year, the state's contribution to the Commonwealth's pension fund was to decline from a 10 percent annual increase to 7 percent. In recognition of its ongoing challenges, the funding schedule instead includes an increase in funding by 8.94 percent over the next three years.

Additionally, because rating agencies and our investors alike expect practical policies, I have consistently recommended reducing the assumed rate of return to where it stands today at 7.5 percent.

Last year, we chose to take a pause due to unpredictable markets. Since then, observing relative stability, I believe we should again be considering a long-term strategy on how to reduce the rate of return, without having significant impact on the funding schedule.

Therefore, pending the results of the New England Pension Consultants study due out in January, I would recommend we revisit this issue.

We must be realistic about what could be tough times ahead. At the same time, we have a responsibility to uphold our obligations to retirees.

We cannot turn our backs on them to address financial concerns.

Stabilization Fund

It is important to remember, as we manage Massachusetts' unfunded pension liability, that our adherence to prudent fiscal policies had helped us earn excellent bond ratings in the past.

From the beginning of my administration, I have emphasized how critical it is that we strengthen the Rainy Day Fund.

All of you are aware that earlier this year, Standard & Poor's downgraded our long-term General Obligation rating from AA+ to AA.

Because Massachusetts remains ahead of the nation when it comes to recovery from recent downturns, Standard & Poor's pointed out that we had not taken advantage of that progress, and failed to build our reserves when times were good.

I know all of you take the development from Standard & Poor's very seriously, as do I.

And, I am confident we will respond by working together to reaffirm the priorities that had enabled us to achieve one of the highest quality state credits in the nation.

Despite that, I am very proud of our debt team's accomplishments.

This past calendar year, due to a well-planned and executed refunding strategy, our debt team refunded \$1.1 billion of bonds and achieved over \$125 million in gross savings, almost 11 percent.

We experienced aggressive pricing levels for our new money issuances, including 8 times oversubscription on our short-term revenue anticipation notes issuance, and record retail investor participation in our most recent transportation bond issuance.

We have done our best to capitalize on a dynamic market of more available cash than high quality bonds, and I am proud of our team for achieving outstanding results.

Massachusetts' credit is still rated very high. Moody's and Fitch have reaffirmed our ratings at AA1 and AA+, respectively, and investors are looking for highly rated credit.

Additionally, a few weeks ago, we held our seventh annual investor conference with our highest turnout to date.

Attendees benefited from panels on the economy, PRIM's investment returns and strategies, and challenges Massachusetts is working to overcome related to housing, health care and climate change. To top it all off, our luncheon keynote speaker was "Mr. Wonderful," Kevin O'Leary of Shark Tank.

Conclusion

Thank you again for allowing me to testify this morning.

I look forward to many more conversations about these issues in the months ahead, and working closely with you as you develop the state budget.

Now, my colleagues and I are happy to answer any questions.