

TESTIMONY OF TREASURER DEBORAH B. GOLDBERG

*Joint Ways & Means Hearing
Gardner Auditorium
State House, Boston, MA 02133
Tuesday, February 2, 2016*

As prepared for delivery:

Chairwoman Spilka, Chairman Dempsey, and members of the Committee – thank you for the opportunity to testify on the Governor’s budget proposal and our economic outlook heading into FY17.

Economic Empowerment

First, I want to begin today by thanking you. When I testified before you last year, I requested support for an innovative economic empowerment agenda that included public-private partnerships, with high impact data-driven programming. At the time, I asked for additional tools to accomplish this goal, including the creation of the Economic Empowerment Trust Fund and I am excited to say that the new Trust Fund has already made significant progress.

As an example, you may have noticed the recent roll out of \$eedMA, our college savings plan. Beginning this year in the City of Worcester, every kindergarten student will have access to a seed funded college savings account. This pilot will give us the data and information we need in order to ultimately introduce this program statewide. The funds to support this initiative are being raised through public-private partnerships with non-profits and foundations.

We have also expanded access to Credit for Life Fairs, which is possible through a collaboration with the Division of Banks. These fairs put students, typically high schoolers, through real life scenarios, handling and managing their finances. They start the day with a job and a projected salary, and then have to budget their lives; housing, transportation, food, clothing, and even their cell phone bills. They are put through their paces, and by the end of the day, they agree it has been an eye opening experience in the importance of financial planning.

Again, we are able to expand these programs to more schools because of the tools granted to us through the creation of the Economic Empowerment Trust Fund.

We have also revamped “Operation Money Wise.” In the past, this program was a free financial empowerment conference, offered once a year to members of the military community. While impactful for those that attended, we felt we were not able to reach enough people. Now, this a grant opportunity for a range of non-profit organizations and public agencies, giving them the opportunity to provide this important information to

veterans, service members, and their families across the state. We will be more impactful utilizing partners who work directly with this population on an ongoing basis. They will be able to engage more veterans and their families, and be better able to provide more access to money management skills, planning for college, and saving for retirement.

For FY17, the Governor in House 2, has level funded the Economic Empowerment Trust Fund. This amount would allow us to continue the work that we have begun, and also sends a powerful message to those foundations and non-profit entities that we are intending to partner with, that the Commonwealth is maintaining its support for these initiatives.

Lottery & Local Aid

An area of the Treasurer's Office that is often of great interest to the members of this Committee is our State Lottery. When I visited with you in December, and discussed our revenue projections for the upcoming fiscal year, I shared my concern about our reliance upon two games – Instant Tickets and Keno.

I also reported to you that we do remain on track to meet our revenue projection of \$962 million for FY16. In general, there are many variables that can impact our projection throughout the year, especially our historically high prize payouts.

As you know, our more expensive instant tickets, the \$10, \$20, and \$30 tickets, carry significant payout structures, with some as high as 80%. Our customers know our products, and for the past several years, we have seen our sales gravitate toward those games. We will review our overall sales in early April, which will allow us to reaffirm or revise our FY16 projection.

Also, to add some perspective to our year to date sales figures, our Instant Tickets and Keno represent a combined 88% of our sales through December. Powerball, which got all of the recent press, accounts for 1.8%. We are in the process of reviewing our January data now, and will share it with the Committee once it is compiled.

During my testimony at your consensus revenue hearing, I projected \$980.7 million in profit for FY17, an increase over this fiscal year. This number conservatively assumes level funding of Lottery's accounts, including \$8 million in advertising.

The Governor's budget does in fact level fund the Lottery's accounts. While our projected profit is based upon level funding, there are certain structural cost increases that will have to be absorbed by the Lottery's line items. For instance, there are contractual increases for wages, products, and services that are not accounted for within a level funded budget.

As a result, I would ask that you consider increasing our administrative account to support the variety of structural increases that we have identified in our recent submission.

Similarly, I would also request an increase in our monitor games account. This account supports not only Keno, but also a second monitor game. Last month, I indicated that we were preparing to introduce a replacement game for Jackpot Poker. "All or Nothing" will

be introduced at the beginning of FY17. We hope you will consider supporting this new game with sufficient resources to ensure its success.

Finally, Lottery advertising. We have worked to use the \$8 million available to us as creatively as possible. This includes the traditional television and broadcast media, while expanding and emphasizing our digital and social media marketing.

Our holiday advertising campaign is a good example of this strategy.

Through this new expansion, our commercials reached 454,156 users on Instagram and over 1 million users on Facebook. Our commercial was viewed more than 5 million times. Through Facebook alone, we were also able to generate 16,880 clicks to the Lottery's web site. And once they visited our site, users most often visited the "where to play" page.

I mentioned earlier that in order for the Lottery to successfully realize the net profit necessary to adequately support local aid, we would require additional tools. What this year's innovative advertising campaign proved to me is that there is an available online market.

The challenge today is that once they visit our web site, we have no correlating products ready to deliver to them. Consumers are able to identify their closest retailer, but we have no way of evaluating whether they in fact followed through on their interest.

While online gaming may not be a topic for today, this is interesting information that should merit your consideration in the future. In December, I shared that we were planning to publish an RFI relative to online gaming. We have done so, and will be accepting responses through the end of this month.

I am hopeful that the responses will help to inform all of us about whether the Lottery should develop online offerings. In order to fulfill the promise of increased local aid, we will have to continue to find value where we can, and pursue innovation where appropriate. I am confident that with your help, we can meet that challenge, and I look forward to further discussions with you as we proceed.

Alcoholic Beverages Control Commission

I would next like to discuss the Alcoholic Beverages Control Commission (ABCC).

Year after year, the ABCC returns nearly double the amount it is appropriated. Last month, I shared with you a projected revenue of \$4.3 million for FY17. I also mentioned that they are responsible for the collection of more than \$13 million in revenue through their collaboration with the Department of Unemployment Assistance, the Department of Revenue, the Lottery, as well as the Department of Industrial Accidents.

However, level funding to post-9C appropriations of this important public safety agency is increasingly more difficult. There are 26 people responsible for processing 30,217 license transactions on a yearly basis. This includes reviewing the necessary paperwork,

coordinating with all 351 local licensing authorities, conducting on-site inspections, and maintaining our enforcement presence and programming.

Between the Direct Wine Shipper licenses, the Caterer's License, and the Farmer Pouring Permits, the staff at the ABCC have not only processed additional licenses, but have also had to field nationwide questions to ensure compliance with the new laws. There are multiple proposals currently under consideration that would similarly increase the volume of transactions that the ABCC must confront.

The livelihood of every bar, restaurant, liquor store and brewery depends upon a timely and thorough response from the ABCC. With few staff, meeting those expectations is an increasingly daunting task.

On the enforcement front, we continue to have the fifth lowest ratio of enforcement agents to licensees in the country. These are the folks that are responsible for conducting background reviews of applicants by day, and enforcement operations by night. They work hard, and they work often.

I would like to use an example to explain exactly what I mean. We are often confronted with these scenarios in late Spring-time, and I am sure it will happen again this year.

Say, for instance, the Town of Hopkinton wants to expand a particular liquor license to include outdoor seating, and the local licensing authority approves of such a plan in mid-May. The restaurant is hoping to have that seating by Memorial Day.

It would next proceed to the ABCC, who must conduct a site visit to ensure that the area meets the specifications identified in the application, including confirming the maximum occupancy and that the area is roped or fenced off.

This is a time consuming process. Every one of those applications is submitted with a certain sense of urgency, especially since there are only so many months to embrace that additional revenue source.

Our investigators must make these site visits statewide, and review each and every application, amendment, or expansion. Each application is entitled to the same thorough review in order to guarantee the public's safety and also support local communities, increase revenue sources, and ensure businesses do not incur inadvertent liabilities.

Our budget submission reflects the staff and resources that we believe are necessary to sustain the current efficiency of license processing, while also ensuring that we can adequately maintain and promote public safety and awareness.

Also factored into this request are additional resources to support our enforcement activities. Bars that overserve, or that serve to minors, pose a threat to everyone's public safety across Massachusetts. An increased presence of our staff, in partnership with state and local authorities, will represent a significant deterrent.

Of course, equally as important as enforcement actions, are the preventative educational programs that the ABCC provides. An increase of staff or resources will allow for additional programming around underage drinking and impaired driving. This is particularly important during the holidays, summer concerts, or prom seasons.

We will continue to pursue efforts to streamline operations, or identify areas for increased efficiency. But, additional support will ensure that we are doing all that we can to prevent alcohol related injuries and deaths across the state. I would be grateful for your support in that endeavor.

Treasury Operations

I would next like to address the Treasury's administrative account. House 2 level funds this account, however, this amount maintains the 9C cut that was absorbed in FY15.

I would respectfully ask that you consider funding this line item at our requested amount. What this modest increase would provide is the ability to fill key vacancies throughout Treasury, allow for targeted investments in technology, and cover increases in contracted services.

We have realized certain efficiencies throughout Treasury since taking office, and I am confident that we will continue to pursue them where available. However, I would be grateful for any flexibility you may be able to provide within our administrative line item.

Economic Outlook

Finally, before leaving you today, I feel compelled to offer comments on some of the funding mechanisms contained within House 2.

The Administration took significant steps to minimize the Commonwealth's reliance on one-time revenues to balance the budget. That will not go unnoticed by the rating agencies, and most importantly, represents good fiscal policy. I commend them on doing so.

However, one of the primary concerns that was raised by the rating agencies last Fall was with respect to the Rainy Day Fund. They noted that although we have in place statutory mechanisms for replenishing the Fund, they have not been consistently followed.

House 2 diverts \$150 million of capital gains tax collections that was otherwise destined for the Rainy Day Fund to the General Fund, to support funding levels contained in the budget.

While House 2 still anticipates a potential deposit of \$206 million into the stabilization fund, this diversion will likely raise red flags with the rating agencies.

As you know, what their adjusted outlook means is that at any time during the next two years, they can, and may, downgrade our bond rating without warning.

This would have a significant impact on our borrowing ability moving forward, and would absolutely impact your budget deliberations. Simply put, it would cost us more to borrow the same amount of money. Any additional funds that we would have to devote to paying debt service would result in less money being available for the programs that you and your colleagues have prioritized and advocated for.

We have been able to take advantage of favorable market conditions with some of our recent issuances, and have realized the benefits of our AA+ rating. And, we will continue to borrow as effectively and prudently as possible.

Lastly, I was pleased to see that House 2 fully funds the state's contribution to the pension fund. I know this is a sizable commitment, especially when confronted with the myriad of worthwhile requests and causes that you must balance, but it is critical that we continue to meet our obligations.

In my discussions with the rating agencies, they consistently reference our pension liability as a concern. This is true for many states across the country. Where we differ from many, however, is in our shared commitment to achieving full funding. I am confident that this will remain amongst our collective priorities.

Conclusion & Thank You

I know you have many requests to consider, and I appreciate the work that you and each of your staffs do in reviewing and preparing your respective budgets. I, of course, am grateful for your consideration of my requests. I thank you again for the opportunity to join you here today.

My colleagues and I will be happy to answer any questions that you might have.