



OFFICE OF THE TREASURER AND RECEIVER GENERAL

Deborah B. Goldberg


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Remarks of Treasurer Deborah B. Goldberg delivered at the Consensus Revenue Hearing

December 5, 2018

Consensus Revenue Hearing - Gardner Auditorium State House, Boston, MA 02133 - Wednesday, December 5, 2018

Secretary Heffernan, Vice Chairwoman Lovely, Chairman Sanchez, and members of the Committee – thank you for the opportunity to testify this morning.

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

Bond Ratings and Stabilization Fund

Most of you have heard me consistently speak about the need to replenish the Rainy-Day fund.

I am here today to thank you for your commitment of depositing surplus revenue into the state's stabilization account – boosting its total to more than \$2 billion for the first time since Fiscal Year 2008. This is something to be proud of, and means we will have nearly doubled the Rainy-Day Fund over the past four years. Afterall, it is not only the rating agencies that place significant focus on this, but is what the state must rely on during tough financial times. Given the uncertainties in our world-wide economies, this is excellent progress.

I do need to highlight a few changes that have occurred in the past year. The sweeping tax reform enacted by Congress has had impact on tax-exempt issuers. Notably, the new law took away the federal tax break for advance refunding bonds, a strategy that has been commonly used.

Because the Commonwealth judiciously advanced refunded upcoming bonds in prior years, taking advantage of historically low interest rates and locking in savings, we do not have significant amount of bonds maturing in the near term and our refunding needs will be modest in the next few years.

After years of unprecedented low interest rates, the Federal Reserve had begun to accelerate its pace of rate increases, resulting in increased volatility in the bond markets. I am happy to report that the Commonwealth navigated the markets effectively this year.

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As chair of the board that manages our \$73 billion pension fund, I am proud that in the last fiscal year, the fund earned a return of 10 percent gross (9.5 percent net). We know of no other fund of our size or larger that outperformed us.

Earlier this year, we were excited to announce that PRIM Private Equity was ranked #1 among 163 U.S. public pension funds based on 10-year performance. PRIM is the only fund that has been in the Top 5 of all private equity portfolios in every year the ranking has been conducted – including #1 rankings in 2015 and 2013.

We evaluate the performance of the PRIT fund on three equally important metrics: return, risk, and cost. And in this regard, the PRIT Fund has achieved very strong returns, while costs and risk have remained tightly controlled.

In fact, the ratio of total expenses to total assets was 0.53%, or 53 basis points, in Fiscal Year 2018. That compares to 54 basis points in Fiscal Year 2017, even with this year's higher allocation to more expensive, but higher-performing alternative asset classes. We believe the risk-adjusted return of the fund is among the highest in the country. This means that our portfolio has higher returns relative to our peers, even though it has comparatively lower risk and low costs.

PRIM's strong performance in the up market of Fiscal Year 2018 and Calendar Year 2017, combined with our strong outperformance in the down market of Fiscal Year 2016, where we had nation-leading, positive performance, gives us confidence that our investment program is performing as designed.

However, we are realistic about the challenges faced and have taken a forward-looking approach.

Like most states, Massachusetts continues to actively manage its unfunded pension obligation. Our pension system is on track to be fully funded by 2040 and our investment team continues to post positive returns, in spite of an unpredictable economic environment.

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

We will not turn our backs on them to address financial concerns.

Unclaimed Property

Moving on to Unclaimed Property, I am pleased to report the Division continues to provide superior service to the people of Massachusetts.



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directly to the Stabilization Fund.

In Fiscal Year 2018, we turned over nearly \$111 million to the General Fund [\$110,990,702] and nearly \$13.5 million to the Rainy-Day Fund [\$13,450,076].

For the current Fiscal Year 2019, we are on track to meet our total reversion estimate of over \$131 million [\$131,255,622], which would prompt another response to the overage requirement.

Looking ahead to Fiscal Year 2020, we are estimating a reversion of roughly \$81 million [\$80,740,124], which as it stands, would all flow directly to the General fund with no reversion to the Rainy-Day fund. You will notice that this reversion number is less than in previous years. The decrease is due to the success of our department – we are consistently returning more and more money to rightful owners.

Massachusetts State Lottery

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

For the fourth straight year, we topped the \$5 billion mark in revenues with a total of \$5.29 billion in sales, while returning over \$997 million in net profit. For Fiscal Year 2019, we project we will return \$966 million in net profit and in Fiscal Year 2020, we anticipate returning about \$967 million.

As you are aware, the landscape of the gaming industry has shifted in Massachusetts, and across the country. To the extent possible within our current statutory constraints, our team at the Lottery has adapted to the changing marketplace.

In response to consumer preferences and expectations, our prize payout percentage is now 73.54 percent [Fiscal Year 2018] – one of the highest in the country.

And, we have increased investments in our retail partners. Thanks to \$40 million technology upgrade, made possible through a \$65 million bond the Legislature approved, we have rolled out new digital Lottery terminals at retail locations across the state. Over 7,500 new terminals have been installed and the project is 99 percent complete.

These terminals provide a modern, user-friendly system, with touch-screen technology, full color customer displays, direct communication from Lottery staff to their agents and customers, and better reliability for our brick and mortar stores.

This commitment to our retail partners contributed to their record \$303 million in earned commissions and bonuses this past fiscal year.



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good enough.

The landscape has shifted and technology has transformed every aspect of our lives. I am confident that our Lottery will continue to maximize its performance, maintain current revenues, and meet the need for unrestricted local aid – but all of us as partners must take the next steps together.

And, what is that next step? Allowing the Lottery to go online. We need to provide the Lottery with the tools and resources necessary to win new customers, utilizing digital marketing and providing frictionless transactions through cashless purchasing options.

Our competitors are already ahead.

A growing number of states have implemented an iLottery. In fact, of the 44 states with their own lotteries, one-quarter [11] now offer games online. Our neighbor to the north, New Hampshire, started selling online in September and in just twelve weeks, their lottery posted over \$1.3 million [\$1,359,581] in net gaming revenue from online sales alone. As the marketplace grows, we know more states will follow.

We face competition not just from other states, but here at home as well.

Online gaming is not new to the Commonwealth. The Legislature has authorized Daily Fantasy Sports to operate over the internet and on mobile applications. And, since 2002, Massachusetts consumers have been able to legally place wagers on horse racing online or over the phone [see MGL c. 128A § 5C]. Since the introduction of smartphones, consumers have also been able to place these wagers on mobile applications. One Massachusetts racing licensee reported over \$90 million in wagers placed through these means in 2016.

Imagine what our Lottery could do and what that could mean for our local communities.

I understand full-well that progress will not be realized without partnership. As a former retailer myself, I want to make sure we protect our retailers - particularly our convenience store operators and gas stations/quik-marts. Done right, an online Lottery will help them – directing new customers through their doors.

If we want to uphold our commitment to supplying reliable local aid to our cities and towns, we have no choice but to respond proactively to these challenges.

Before I move on, I would also like to reiterate my willingness to assist, should the Commonwealth choose to engage in conversations or in the implementation of sports betting. My office has developed expertise in this area, and we hope to assist in navigating its complexities.



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The ABCC works with other state agencies to generate other additional revenue. In FY 2018, 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 \$5 million in FY 2019, and projects the same figure for FY 2020.

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

Thank you for recognizing the value of the Commission and for investing in its important work. For Fiscal Year 2019, the Legislature and the Administration provided to the ABCC its first significant budget increase in at least a decade.

I want you to know that we have put these funds to work. We are in the process of hiring inspector investigators, eliminating backlogs, and streamlining the licensing process.

The ABCC is a lean operation that recognizes its impact on the business community and its connection to economic growth. The people who work there take that role very seriously and have accomplished a lot. I look forward to working with you, in order to further enhance operations, so we can continue to stimulate local and statewide businesses.

Conclusion

Thank you again for allowing me to testify this morning.

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

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

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