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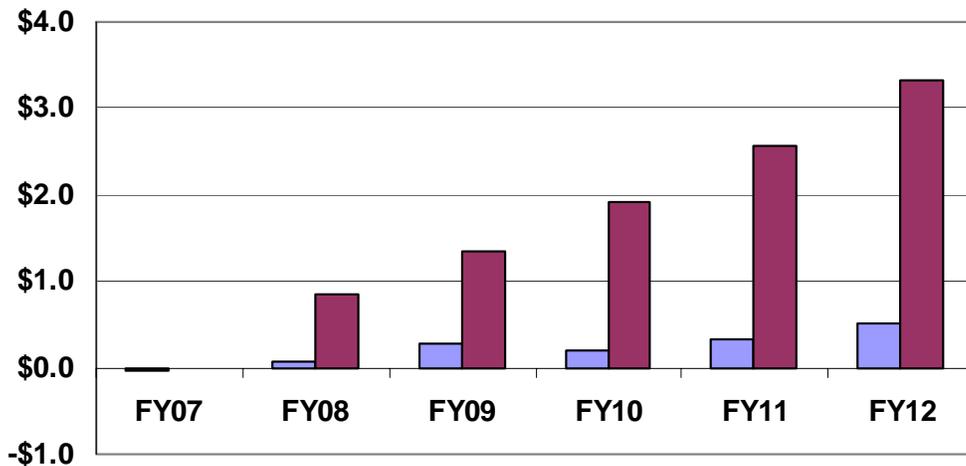
MTF Five-Year Fiscal Analysis: Long-Term Mismatch Between Revenues and Priorities

The next Governor and Legislature will face a staggering mismatch between expected revenues and the costs of a broad array of important priorities, according to a detailed analysis of the state’s financial outlook over the next five years released today by the Massachusetts Taxpayers Foundation.

The new report, *The Long-Term Mismatch Between Available Resources and Important State Priorities: A Five-Year Fiscal Analysis*, concludes that the state’s leaders will soon have to grapple with a large and rapidly growing disparity – potentially in the billions of dollars – between likely revenues and the amounts needed to address economically important initiatives such as greater local aid, additional spending for higher education, and increased capital investment.

According to the analysis, “The situation is further complicated by proposals to cut the income tax rate from 5.3 to 5.0 percent, with an annual revenue impact of almost \$700 million. The more accelerated the tax cut, the greater the impact on funding for various

Long-Term Mismatch Between Available Revenues and Important State Priorities
(\$, billions)



- Projected Revenues Available for New Priorities
- Cost of Selected Restorations, Obligations and Other Initiatives

priorities, including providing relief to hard-pressed local property taxpayers via the Foundation's recommendation to dedicate 40 percent of tax revenues to cities and towns."

Contrary to public claims of billion dollar surpluses, the state ended fiscal 2006 with an estimated surplus of approximately \$400 million – which has already been spent – and the fiscal 2007 budget is more than \$500 million out of balance, according to the report.

MTF President Michael J. Widmer said, "Both those who are pressing for major expansions in spending and those who are advocating for a more rapid reduction in the income tax will have to come to grips with the difficult fiscal realities that lie ahead."

The Foundation built its analysis of 2008-2012 state finances on three critical elements:

1. The revenues likely to be available to meet future needs, with tax revenue growth at an assumed rate of just over six percent a year, reflecting the long-term average growth in the Massachusetts economy and inflation of three percent.
2. The costs of maintaining the state's current commitments and obligations, predicated on a "bare-bones" approach to budgeting with no further restorations of the deep spending cuts during the fiscal crisis and no expansion in areas such as local aid and higher education.
3. The future costs of a limited set of initiatives crucial to the state's competitiveness, including MTF's proposal to dedicate 40 percent of tax revenues to local aid, expanded infrastructure investment, and addressing the unfunded liability for medical costs of state retirees.

Combining the assumptions in elements 1 and 2 of healthy revenue growth and bare-bones budgets, the analysis projects a tiny budgetary surplus of only \$62 million in 2008 – before considering initiatives – a figure that would rise to about \$500 million in 2012. Achieving these surpluses would be possible only through extremely tight budgeting, with no spending expansions, and the bare minimum needed to sustain existing services and honor commitments that have been already made, including previously authorized tax cuts. They would also require continued strong revenue performance, with no evaporation of the volatile capital gains and corporate receipts that have driven the recent surge in tax collections – and no recession.

The report finds that the costs of the new priorities considered in the analysis would dramatically exceed the projected surpluses, requiring additional annual spending of \$840 million in 2008 and rising to \$3.3 billion in 2012, or more than six times the projected \$500 million surplus in 2012. Even if the list of priorities – and their costs – were trimmed by half, the state budget would still be unable to accommodate them.

The Massachusetts Taxpayers Foundation is a nationally recognized, nonprofit research organization working to promote the most effective use of tax dollars, improve the operations of state and local governments, and foster positive economic policies. Our credibility is based on independent, objective, and accurate analysis of state and local

spending, taxes and the economy. The quality and impact of the Foundation's work is reflected in ten prestigious national awards earned over the past decade for research on business costs, capital spending, state finances, MBTA restructuring, state government reform, and health care.
