

News Release

For Immediate Release

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MTF Report on State Finances: Soaring Appetites, Critical Choices

With the Commonwealth in its third year of financial recovery, the state's leaders now face the challenge of choosing from a long list of competing funding priorities that far exceed the state's ongoing fiscal capacity, according to the Massachusetts Taxpayers Foundation's annual report on state finances released today.

"Although the state is clearly on stronger financial footing, legislators face a series of critical decisions that will shape the future of the state's economy, said MTF President, Mike Widmer. "As we learned from the most recent recession, the state's ability to manage the next fiscal downturn will undoubtedly be formed by the choices made during more positive fiscal times."

The report: *State Budget '07: Soaring Appetites, Critical Choices*, concludes that while the state's improved fiscal outlook – with sustained revenue growth and modest operating surpluses – is undoubtedly good news, the state budget cannot possibly accommodate the billions of dollars in competing priorities now under consideration.

The report documents a wide array of areas vying for increased funding. Largely unavoidable spending increases in programs like Medicaid and debt service could reach upwards of \$400 to \$500 of additional spending each year while prior commitments such as dedicating one cent of sales tax revenue to the MBTA and school construction projects respectively will approach almost \$1.5 billion annually when fully phased in. Meanwhile, after adjusting for inflation, the 2006 budget is \$2.5 billion below 2001 levels in several of the most critical areas of state government, including higher education and human services

Despite the state's improved fiscal picture, the report cautions that a few key factors highlight continued tight times for the Commonwealth.

- The recommended increases in overall spending – 5 percent by the Governor and 5.4 percent by House Ways and Means – barely keep up with inflation, much less restore substantial amounts of the prior cuts.
- Job growth remains anemic. Since early 2004, the monthly rate of job growth has inched at an annualized rate of 0.5 percent, on average, and total employment remains 161,000 below the pre-recession peak.
- While the state has recently experienced robust revenue growth, two-thirds of the year-to-date gains are concentrated in some of the state's most volatile revenue sources – capital gains, bonuses and other non-withholding income.
- Much of the state's new-found flexibility has already been consumed by two freshly made commitments: at least \$200 million to the new health reforms and \$160 million to lift the cap on local lottery aid that otherwise would have been phased in over four years.

The report singles out four priorities that are critical for the state to maintain its future competitiveness. These recommendations include: implementing the just-agreed-upon health reforms, taking gradual steps toward the Foundation's recommendation of dedicating 40 percent of annual income, corporate and sales tax revenues to local aid, restoring funding to the University of Massachusetts and other public higher education institutions, and addressing the state's many critical infrastructure needs by increasing by \$250 million the state's \$1.25 billion annual cap on bond-funded capital spending.

The Massachusetts Taxpayers Foundation is an independent, nonprofit organization that conducts research on state and local taxes, government spending, and the economy. Founded in 1932, MTF ranks among the largest and most effective organizations of its kind in the country. Over the past decade, the Foundation has won nine prestigious national awards for its work on business costs, capital spending, state finances, MBTA restructuring, state government reform, and health care.
