Massachusetts Taxpayers Foundation

News Release

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MTF Forecast: Healthy Revenue Growth in Fiscal 2011 and 2012, But State Still Faces Large Structural Deficit In 2012

Fiscal 2012 tax revenues will grow by $923 million or 4.7 percent to reach a total of $20.56 billion, according to a new forecast released today by the Massachusetts Taxpayers Foundation.

The Foundation projects tax collections of $19.63 billion in fiscal 2011, an increase of $554 million over the current consensus forecast, and approximately $1.1 billion or 5.9 percent over tax collections in 2010.

MTF President Michael J. Widmer presented the Foundation's economic and revenue forecast to members of the House and Senate Ways and Means Committees and the Secretary of Administration and Finance at their annual consensus revenue hearing at the State House today.

Summary	Baseline Revenues	Sales Tax Increase	Total State Tax Revenues	% Change over Previous Year
2008 Actual	20,888		20,888	
2009 Actual	18,259		18,259	-12.6%
2010 Actual	17,654	890	18,544	1.6%
2011 Consensus Forecast	18,038	1,040	19,078	2.9%
2011 MTF Forecast	18,592	1,040	19,632	5.9%
2012 MTF Forecast			**20,555**	**4.7%**

"Despite almost a billion dollars in revenue growth, the state faces a fiscal 2012 shortfall of approximately $2 billion with no federal stimulus dollars and limited state reserves," Mr. Widmer said. "The 2012 budget will require yet another round of cuts in local aid, human services, higher education, and almost all other state programs."

The estimated $2 billion structural gap in 2012 is driven by the use of $2.1 billion of one-time funds in the 2011 budget and at least $1 billion in increased spending on obligatory accounts such as Medicaid, pensions and debt service. The improving revenue picture in fiscal 2011 will not make a meaningful dent in the 2012 deficit because the higher tax collections will be needed to make up for shortfalls in non-tax revenues and to fund deficiencies, principally in Medicaid, in the 2011 budget.

Approximately half of the $1.1 billion increase in fiscal 2011 is produced by the income tax with the bulk from withholding due to an uptick in employment and modest growth in wages and personal income. Roughly $180 million of the $233 million increase in sales tax revenues in 2011 is due to a full 12 months of collections at 6.25 percent – two months more than in fiscal 2010. Corporate and business taxes are expected to increase by nearly 12 percent in 2011 as corporate profits continue to rebound from the 2009 recession.

In fiscal 2012, income taxes account for 85 percent of all revenue growth. Massachusetts is projected to add 45,000 jobs, double that of 2011, with increases in both personal income and wages and salaries growing by 5.6 percent, the highest rates since 2007.

	FY 10	FY 11 Forecast	$ Change 11 vs 10	% Change 11 vs 10	FY 12 Forecast	$ Change 12 vs 11	% Change 12 vs 11
Income	10,110	10,659	549	5.4%	11,457	798	7.5%
Sales	4,612	4,845	233	5.1%	4,890	45	0.9%
Corporate and Business	2,165	2,418	253	11.7%	2,457	39	1.6%
All Other	1,657	1,710	53	3.2%	1,751	41	2.4%
Total	**18,544**	**19,632**	**1,088**	**5.9%**	**20,555**	**923**	**4.7%**

National Picture

The Foundation's Massachusetts projections are based on the most recent national economic forecast from Moody's that expects a strengthening recovery in fiscal 2012 with a 4.3 percent increase in the U.S. gross domestic product, compared to growth of less than 1 percent in 2010 and 2.7 percent in fiscal 2011.

Moody's projects wage and salaries to increase by 5.6 percent in 2012, double the rate expected in 2011 while real personal income increases 2.9 percent in 2011 and 2.7 percent in 2012. The employment picture will remain weak, however, as the national unemployment rate stays above 9 percent in 2012 for the third successive year. The 1.8 percent projected increase in national jobs in 2012 would be the highest annual growth rate since 2006 yet total U.S. employment would still be nearly 5 million below the 2008 peak.

The Moody's forecast assumes that Congress will extend the tax cuts set to expire in December 2010. If they fail to do so and the rates rise in 2011, the risks of a recession will increase quickly, according to Mark Zandi, Moody's chief economist. While the Massachusetts economy has preformed better than most of the U.S. with increased tax revenues and a lower unemployment rate, the state's economic condition would deteriorate quickly should the U.S. economy falter.

Massachusetts

Employment

MTF forecasts that Massachusetts employment will continue to recover, albeit slowly, adding approximately 20,000 jobs in fiscal 2011 and 45,000 in fiscal 2012. Total employment is expected to climb to 3.25 million, the highest figure since 2008 but still 120,000 below 2000. The unemployment rate, projected to stay more than 1 percent below the national rate, will remain elevated through fiscal 2012 at approximately 8 percent.

Personal Income / Wages and Salaries
After virtually no growth in fiscal 2009 and 2010, MTF forecasts that Massachusetts' personal income will increase by 3 percent in 2011 and 5.1 percent in 2012. After falling 3.6 percent in fiscal years 2009 and 2010, Massachusetts wages are forecast to increase by 2.4 percent in 2011 and 5.6 percent in 2012.

Capital Gains
MTF projects capital gains tax collections of $735 million in fiscal 2012, roughly $80 million more than 2011 collections but still $1.4 billion below fiscal 2008.

Sales Taxes
MTF forecasts baseline sales tax growth of 3 percent in fiscal 2012. However, the loss of $100 million in alcohol sales tax revenues reduces the 2012 projection to $45 million or 1 percent.

Corporate and Business Taxes
MTF projects that corporate and business taxes will increase by $253 million or 11.7 percent to $2.42 billion in 2011 as the Massachusetts recovery outpaces the U.S. economy. Corporate and business taxes are projected to show only modest growth of $40 million or 1.6 percent in 2012.

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, the Foundation has won numerous prestigious national awards over the last decade for its work on business costs, capital spending, state finances, MBTA restructuring, transportation reform, state government reform, and health care.

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MASSACHUSETTS TAXPAYERS FOUNDATION
FISCAL YEAR FORECAST SUMMARY

MOODY'S NATIONAL FORECAST					<<< History		Forecast >>>	
December 2010	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Personal Income (billions of 2000 $)	9,085	9,364	9,687	9,902	9,717	9,737	10,015	10,285
% change	2.8	3.1	3.4	2.2	-1.9	0.2	2.9	2.7
Employment (millions)	132.5	135.0	137.0	137.7	133.9	130.0	130.6	132.9
% change	1.5	1.9	1.4	0.6	-2.8	-3.0	0.5	1.8
Unemployment Rate	5.3	4.8	4.5	4.9	7.6	9.8	9.9	9.3
CPI (% change)	3.0	3.8	2.6	3.7	1.0	-0.8	2.2	2.9
PPI (% change)	6.9	7.7	2.9	9.0	-2.2	-2.5	8.4	6.8
Federal Discount Rate	3.2	5.2	6.3	4.3	1.2	0.6	0.8	1.5
Prime Commercial Rate	5.2	7.2	8.3	6.7	3.9	3.3	3.2	3.6
Standard & Poor's 500 Index (% change*)	17.3	6.8	8.6	12.7	-22.5	12.3	5.3	4.4

					<<< History		Forecast >>>	
MTF MASS. ECONOMIC FORECAST	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Personal Income (billions of current $)	274.4	294.0	314.6	330.2	330.0	330.5	340.3	357.7
% change	5.2	7.1	7.0	5.0	-0.1	0.1	3.0	5.1
Personal Income (billions of 2000 $)	242.5	248.7	256.7	265.3	260.7	262.1	264.9	270.7
% change	1.4	2.6	3.2	3.3	-1.7	0.5	1.1	2.2
Total Employment (000s)	3,202	3,228	3,263	3,294	3,166	3,185	3,203	3,249
% change	0.4	0.8	1.1	0.9	-3.9	0.6	0.6	1.4
Unemployment Rate	4.9	4.8	4.6	4.6	6.8	9.2	8.5	7.9

					<<< History		Forecast >>>	
MTF MASS. TAX FORECAST	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Income Tax (millions $)	9,690	10,483	11,391	12,499	10,593	10,110	10,659	11,457
% change	9.7	8.2	8.7	9.7	-15.3	-4.6	5.4	7.5
Sales Tax	3,886	4,004	4,066	4,088	3,870	4,612	4,845	4,890
% change	3.7	3.0	1.5	0.5	-5.3	19.2	5.1	0.9
Corporations Tax	1,063	1,391	1,585	1,584	1,548	1,601	1,749	1,805
% change	6.5	30.9	14.0	-0.1	-2.3	3.4	9.2	3.2
TOTAL TAXES**	17,087	18,487	19,732	20,888	18,272	18,544	19,632	20,555
% change	7.1	8.2	6.7	5.9	-12.5	1.5	5.9	4.7
TOTAL TAXES FOR BUDGET***	14,368	16,011	17,105	17,967	15,560	15,809	16,780	17,544
% change	3.6	11.4	6.8	5.0	-13.4	1.6	6.1	4.6

* Percent change in index for prior calendar year.

** Includes collections from other tax sources not detailed above.

*** Tax revenues available for appropriation in the budget exclude a portion of sales tax receipts dedicated to the MBTA, school building construction, and tax revenues dedicated to pension funding.