

State Fiscal Climate and Economic Outlook

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Hogan Conference Center
College of the Holy Cross, Worcester, MA

September 21, 2023

EMERGING ISSUES FORUM

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Massachusetts
Taxpayers Foundation

MTF Presentation to PERAC Emerging Issues Forum



About MTF

Founded in 1932, the Massachusetts Taxpayers Foundation (MTF) is a non-profit, non-partisan public policy organization focused on state and local fiscal, tax and economic policies.

MTF's record of high quality research and non-partisan analysis has earned the organization broad credibility on Beacon Hill and across the Commonwealth.

Our mission is to provide accurate, unbiased research with thoughtful recommendations that strengthen the state's finances and economy to foster the long-term well-being of the Commonwealth and economic opportunity for all.



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Outline

I. State Fiscal Update

- i. Budget Basics
- ii. FY 2024 Signed Budget
- iii. Current Fiscal Picture
- iv. Tax Relief
- v. Long-Term Fiscal Trends

II. Municipal Fiscal Update

- i. State Aid
- ii. Local Revenues
- iii. Local Spending

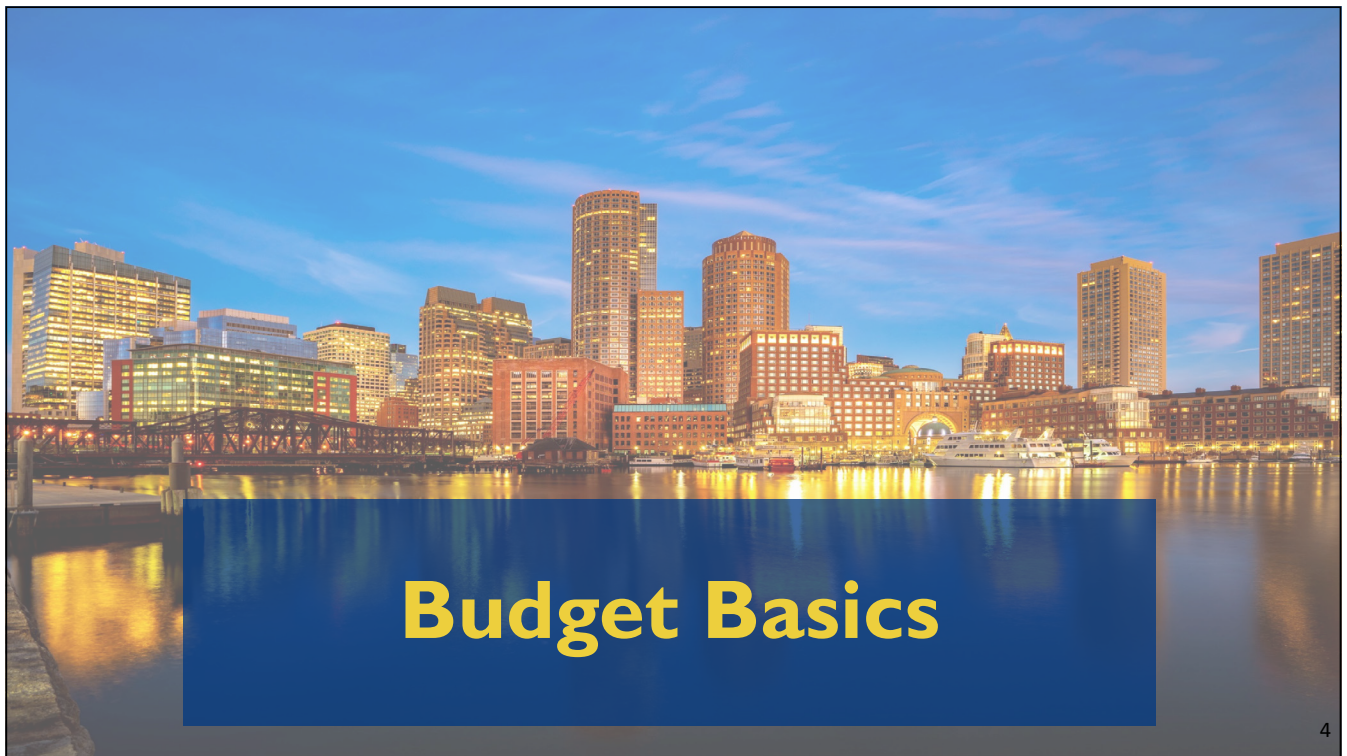
III. Demographic & Economic Outlook



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NOTES:



Budget Basics

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Budget Basics

Fiscal Year: July 1st – June 30th

Annual Budget Toplines

- \$60B in spending
- 700+ program line-items
- 1000+ revenue sources
- Hundreds of outside policy sections

Other Budget Action

- Administrative revenue adjustments
- Supplemental budgets to support unanticipated costs
- 9C cuts

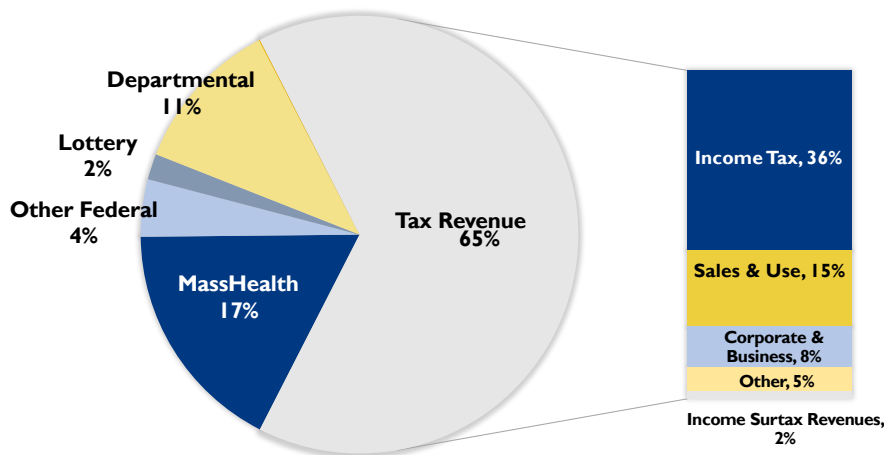


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Budget at a Glance: Revenue



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Budget Spending: On vs. Off-Budget

In addition to line-item spending, the budget also includes **~\$7 billion** in transfers commonly referred to as “off-budget” spending.

Sections 2B & 2D of the state budget reflect intergovernmental service funds – payments between state departments – and federal grant appropriations. Combined, these sections reflect approximately **~\$23 billion in spending**.

Category of Spending	FY 2024 GAA	% of Total Spending
Line-Item Spending	\$55,751	88%
Medical Asst. Trust Fund	\$505	1%
Pre-Budget Transfers	\$6,898	11%
<i>School Building Authority</i>	<i>\$1,304</i>	<i>2%</i>
<i>MBTA</i>	<i>\$1,464</i>	<i>2%</i>
<i>Pension Fund</i>	<i>\$4,105</i>	<i>6%</i>
<i>Workforce Training Fund</i>	<i>\$27</i>	<i>0%</i>
Other Off-Budget Spending	\$200	0%
<i>Collective Bargaining Agreements</i>	<i>\$200</i>	<i>–</i>
Total Spend	\$63,354	100%



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Budget Spending

The state budget in FY 2024 will include nearly **\$60 billion** in line-item spending.

The largest categories of spending in the state budget are:

- 47% - Healthcare / MassHealth
- 14% - K-12 Education
- 10% - Support Services (DTA, DCF, Veterans)
- 5% - Debt Service
- 4% - Public Safety
- 3.5% - Higher Education
- 3% - Early Education

Other spending categories comprise ~14% of budget spending.

The off-budget transfer to the state's Pension System represents 6% of total spending, and the transfer to the State Retiree Benefits Trust Fund represents less than 0.05% of spending.



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Budget Spending: On vs. Off-Budget

In addition to line-item spending, the budget also includes **~\$7 billion** in transfers commonly referred to as “off-budget” spending.

The 4 main transfers include:

Transfer	FY 2024 Amount	Description
MBTA	\$1.463	Penny on the sales tax + \$160M
MSBA	\$1.303	Penny on the sales tax
Pension Fund	\$4.105	3-year funding schedule
Workforce Training Fund	\$27	0.05% surcharge on UI tax

\$ in millions

The budget may also include “off-budget” transfers to other trust funds like the Student Opportunity Act Trust Fund or the High-Quality Early Education & Care Trust Fund.

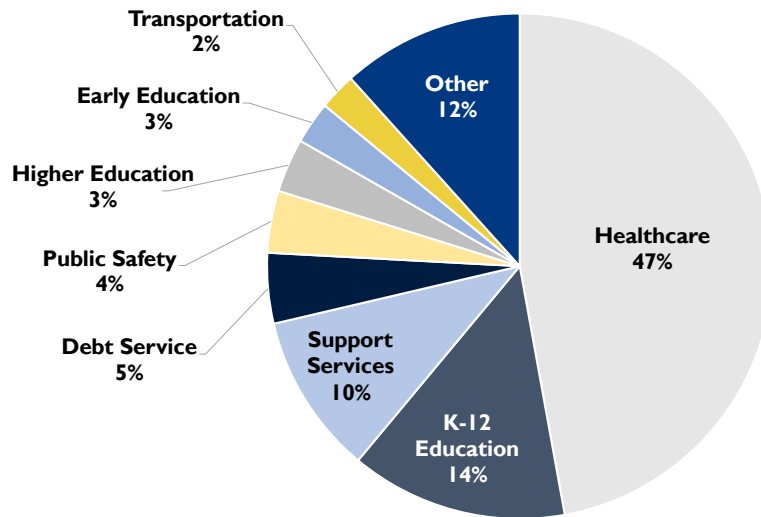


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Budget at a Glance: Spending



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Five Things to Know

1. All versions of the FY 2024 budget are predicated on the passage of a major tax relief bill.
2. This is the first budget that accounted for the tracking and spending of income surtax revenues.
3. The House and Senate budgets had few major policy differences but differed on spending.
4. The House and Senate relied on one-time resources to accommodate higher spending levels in the final bill.
5. Governor Healey vetoed more than \$200 million in spending to reduce fiscal risk in the budget.



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Total Budget Spend v. Available Resources

	House	Senate
Initial Spending (no surtax)	\$54,652.1	\$54,951.2
Spending in Common	\$54,060.4	
Unique Spending	\$591.6	\$890.7
Maximum Spending	\$55,542.8	
Maximum Revenues	\$55,028.1	
Difference	-\$514.7	

To fund all shared & unique spending between the House & Senate budgets would cost **\$55.5 billion** (excluding surtax spending).

- \$54.1 billion in shared spending.
- \$1.5 billion in unique spending.

There is a maximum of **~\$55 billion in available revenues**. Approximately ~\$500 million in proposed spending will need to be cut or funded with other resources.



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Surtax Spending Choices

	House Budget Total	Senate Budget Total	Shared	House Unique	Senate Unique
Education	\$500	\$500	\$129	\$371	\$371
Early Education	\$65	\$80	\$25	\$40	\$55
K-12 Education	\$261	\$110	\$0	\$261	\$110
Higher Education	\$174	\$310	\$104	\$70	\$206
Transportation	\$500	\$500	\$320	\$180	\$180
MBTA	\$320	\$195	\$195	\$125	\$0
MassDOT	\$100	\$100	\$50	\$50	\$50
RTAs	\$70	\$100	\$70	\$0	\$30
Local/Pilot Program	\$10	\$105	\$5	\$5	\$100
Total Investments	\$1,000	\$1,000	\$449	\$551	\$551



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Major Spending Differences

Non-surtax	House	Senate	Total
Behavioral health trust investments	\$0	\$212	\$212
MassDOT funding	\$0	\$51	\$51
Early education investments	\$80	\$85	\$165
Low income supports	\$0	\$20	\$20
Local aid	\$0	\$20	\$20
MassHealth	\$56	\$0	\$56
Small business grants	\$25	\$0	\$25
Earmarks	\$193	\$242	\$435
Surtax	House	Senate	Total
School meals	\$161	\$0	\$161
MBTA	\$125	\$100	\$225
Green schools	\$100	\$0	\$100
Targeted scholarships	\$50	\$0	\$50
Higher education capital	\$0	\$125	\$125
Transportation funding	\$0	\$150	\$150



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FY 2024 Conference Committee Budget

Category	FY 2023 GAA	Governor's Budget	House Budget	Senate Budget	Conference Budget	FY 2024 v. FY 2023
MassHealth	\$19,480	\$19,817	\$19,960	\$19,929	\$19,960	2.5%
Surtax Spending	\$0	\$1,000	\$1,000	\$1,000	\$1,000	0.0%
All Other Line-Items	\$32,965	\$34,465	\$34,493	\$35,022	\$35,297	7.1%
Total Spending	\$52,445	\$55,282	\$55,452	\$55,951	\$56,256	7.3%



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Understanding Spending Differences

Spending	
Conference budget	\$56,256
Gov's budget	\$55,282
Difference	\$974
Resource Differences	
Early education trust	\$225
BH Trusts	\$212
Transitional escrow	\$205
Reversions	\$200
MassHealth	\$72
Other Tax Changes	\$162
Misc	\$25
Difference	\$1,101



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Income Surtax Spending

	Governor's Budget	House Budget	Senate Budget	FY 2024 Budget
Education	\$510	\$500	\$500	\$524
Early Education	\$140	\$65	\$80	\$71
K-12 Education	\$10	\$261	\$110	\$224
Higher Education	\$360	\$174	\$310	\$229
Transportation	\$490	\$500	\$500	\$477
MBTA	\$186	\$320	\$195	\$206
MassDOT	\$264	\$100	\$100	\$75
RTAs	\$25	\$70	\$100	\$90
Local/Pilot Program	\$15	\$10	\$105	\$106
Total Investments	\$1,000	\$1,000	\$1,000	\$1,000



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Resolution of Spending Differences

Non-surtax	House	Senate	Total	Total
Behavioral health trust investments	\$0	\$212	\$212	\$212
MassDOT funding	\$0	\$51	\$51	\$44
Early education investments	\$80	\$85	\$165	\$135
Low income supports	\$0	\$20	\$20	\$20
Local aid	\$0	\$20	\$20	\$20
MassHealth	\$56	\$0	\$56	\$56
Small business grants	\$25	\$0	\$25	\$0
Earmarks	\$193	\$242	\$435	\$435
Surtax	House	Senate	Total	Total
School meals	\$161	\$0	\$161	\$161
MBTA	\$125	\$100	\$225	\$115
Green schools	\$100	\$0	\$100	\$50
Targeted scholarships	\$50	\$0	\$50	\$25
Higher education capital	\$0	\$125	\$125	\$50
Transportation funding	\$0	\$150	\$150	\$150



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Income Surtax Structure

Proposal	House Budget	Senate Budget	FY 2024 Budget
New Trust Funds	3	3	3
Quarterly Payments into the Fund	Yes	Yes	Yes
Annual Certification of Fund Balance	Yes	Yes	Yes
New Budget Section (2F)	Yes	Yes	Yes
Line-Item Language Specifies One-Time vs. Recurring Costs	No	No	No
Exempt from 62F	Yes	Yes	Yes
Exempt from Capital Gains Stabilization Fund Transfer	Yes	Yes	Yes
Collections Above the Cap	15% to Stab Surtax Fund. 85% to Innovation Fund	15% to Stab Surtax Fund. 85% to Innovation Fund	15% to Stab Surtax Fund. 85% to Innovation Fund



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Governor Healey's Vetoes

Total vetoes	\$276
MassHealth	\$143
Child care rates	\$35
Low-income benefits	\$25
Workforce spending	\$10
Community grants	\$8
Youth employment	\$6
Other	\$49
Revenue offset	-\$71
Net vetoes	\$205

- Governor Healey vetoed budget reliance on \$205M from transitional escrow fund
 - 35 accounts affected
- Governor did not strike any other sections
- Amended 8 sections
 - Delayed effective date for 3 sections
 - Requirement that state receive federal reimbursement for MassHealth ambulance rate increase



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Current Fiscal Picture

Five Things to Know

1. State tax collections fell in FY 2023 after 40 percent growth over the previous two years.
2. The budget was built on declining revenues and even with worse than expected collections, the state will end the year in balance.
3. The state was able to build the balance of the Stabilization Fund to record levels.
4. The state continues to have access to significant federal COVID recovery and FY 2022 surplus resources.
5. An influx of migrants seeking emergency shelter has created a major new funding exposure heading into FY 2024.



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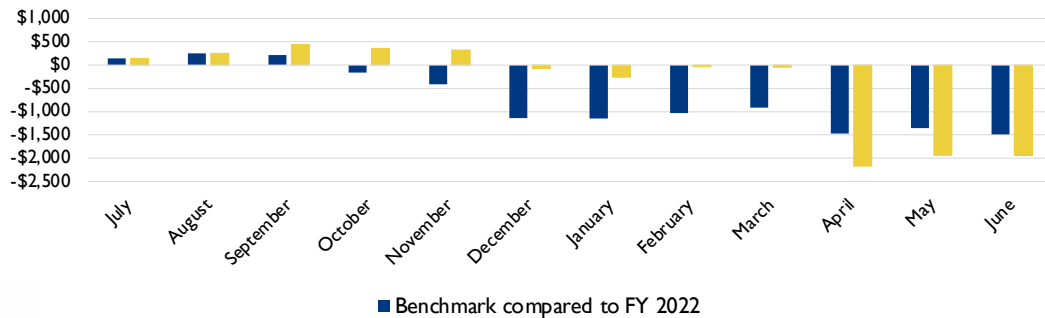
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FY 2023 Revenue Collections in Context

FY 2023 state tax revenue collections ended the year **\$605 million** below the updated benchmark of **\$39.768 billion**. This is a notable improvement from April, when collections were running **\$1.2 billion** below benchmark.

Important to Note: A \$605 million revenue shortfall does not equal a \$605 million budget gap.

FY 2023 Collections vs. FY 2022 (Aggregated)



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FY 2023 Tax Revenues

	FY 2022 Actuals	FY 2023 Benchmark	FY 2023 Actuals	FY22 v. FY23 Actuals (\$)	FY22 v. FY23 Actuals (%)	FY23 Actuals v. BM. (\$)
Income - Withholding	\$15,915	\$16,628	\$16,654	\$739	4.6%	\$26
Non-Withholding	\$8,422	\$6,224	\$5,125	-\$3,297	-39.1%	-\$1,099
Sales	\$8,765	\$9,268	\$9,401	\$635	7.3%	\$133
Corporate/Business	\$5,069	\$4,846	\$5,062	-\$7	-0.1%	\$216
Other	\$2,935	\$2,802	\$2,922	-\$12	-0.4%	\$120
Total	\$41,106	\$39,768	\$39,164	-\$1,941	-4.7%	-\$605

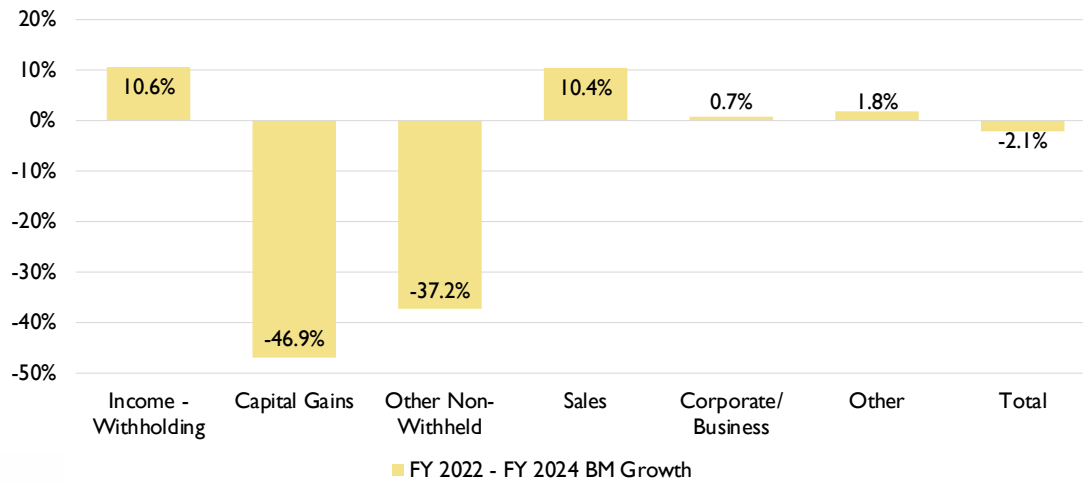


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Revenue Projections, FY 2022-2024

MTF's Revenue Projections



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A Closer Look at the Tax Shortfall

FY 2023 Tax Revenues for Budget

Below Benchmark Revenue Margin	-\$605
Withholding Surtax Revenues	-\$138
Non-Withholding Surtax Revenues	-\$104
Total Surtax Revenues	-\$242
Capital Gains Transfer Downgrade	\$697
SBA & MBTA Transfer Upgrade	-\$28
Total Statutory Transfer Adjustment	\$669
Estimated on Budget Revenue Shortfall	-\$177

State tax revenue collections fell **\$605 million** below benchmark for the year. The impact on the state budget is much less, due to a downgrade in statutory transfers.

Due to reduced capital gains tax collections, the state's deposits into the Stabilization Fund and other reserves falls by **\$669 million**

FY 2023 revenue collections also include approximately **\$242 million** in revenue related to the 4% income surtax which isn't available for the budget

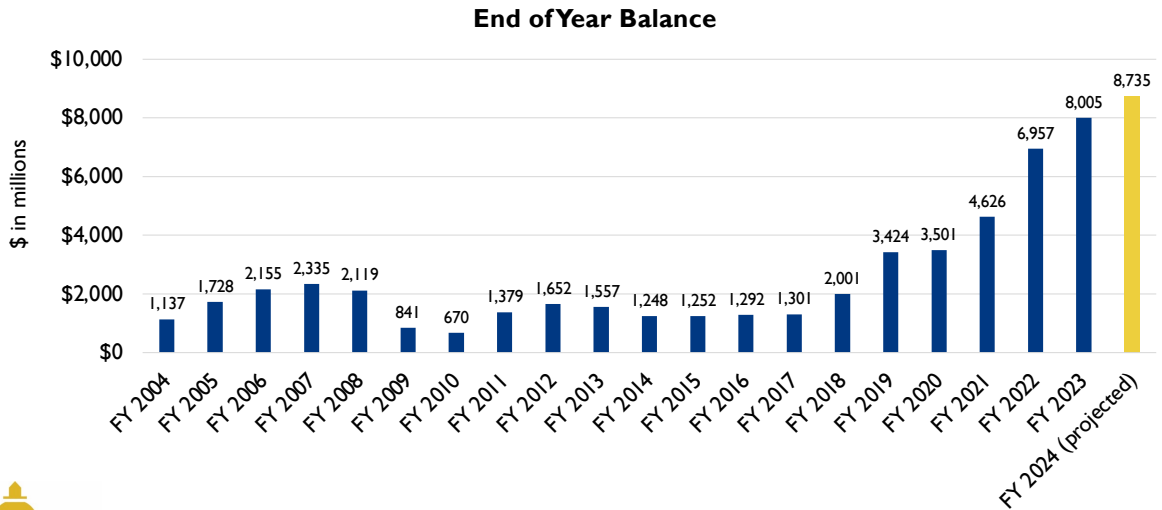


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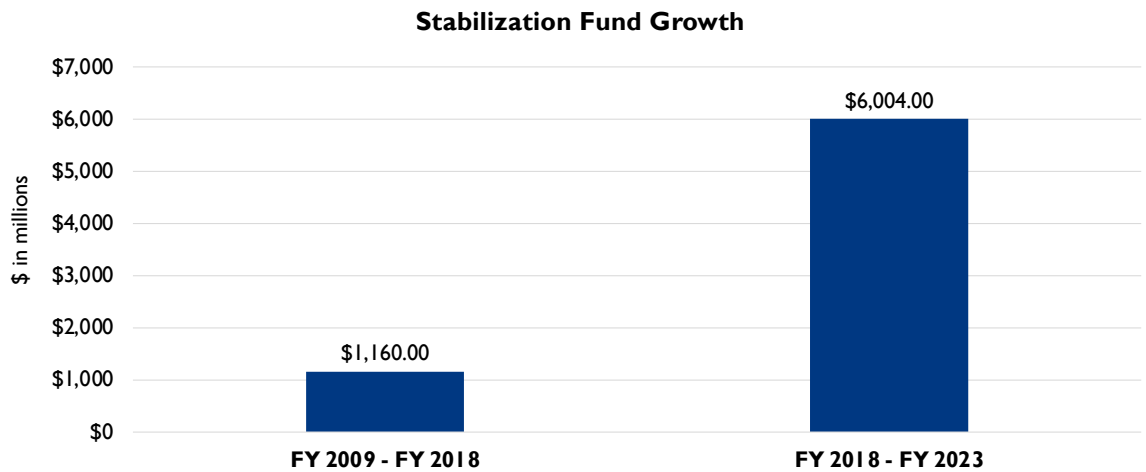
Stabilization Fund



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Stabilization Fund Growth in Context



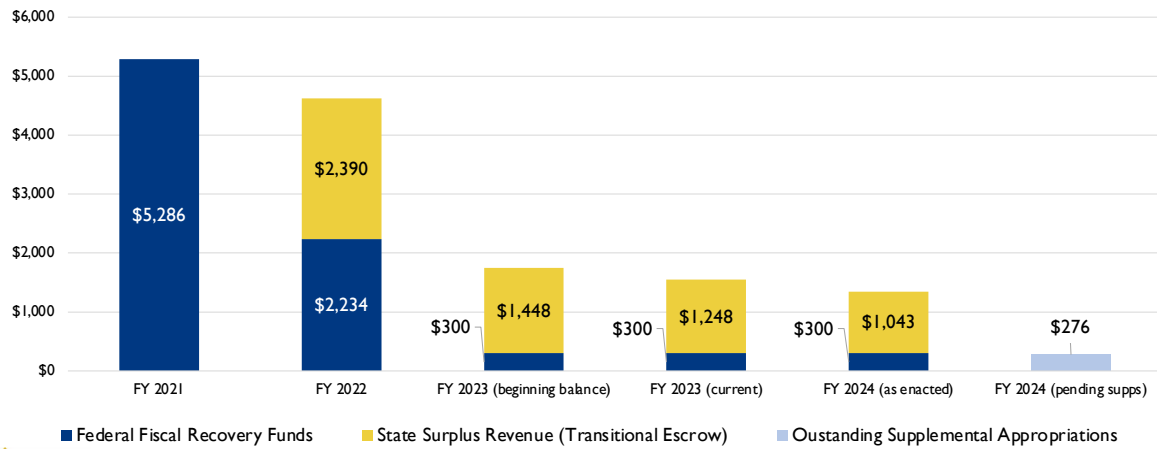
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ARPA & Surplus Reserves

Balance of ARPA & State Surplus Revenues



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State Pension Basics

- Statutory requirement to fully fund by 2040
- Current schedule to fully fund by 2036
- Current schedule:
 - Increase contributions by 9.63% each year until FY 2028
 - 4% increases thereafter
- Assumed rate of return = 7%
 - In 2013, assumed rate of return = 8.25%

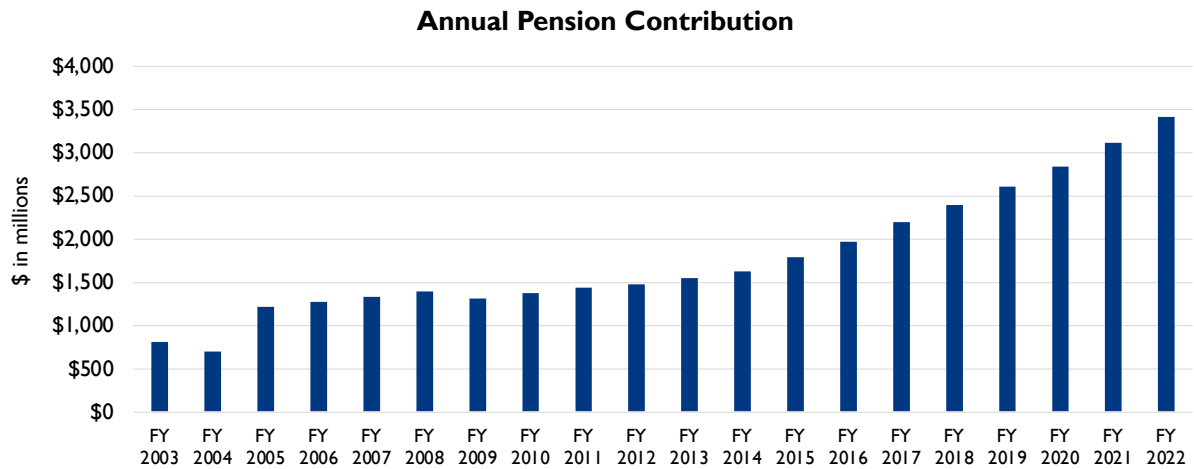


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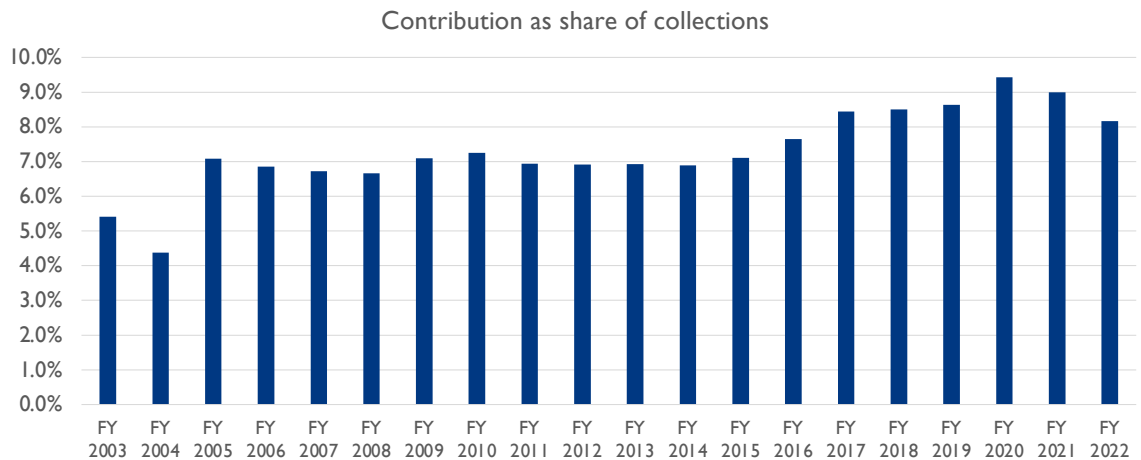
State Pension Contributions Are Now Increasing >9% Annually



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Contribution as Share of Tax Revenues

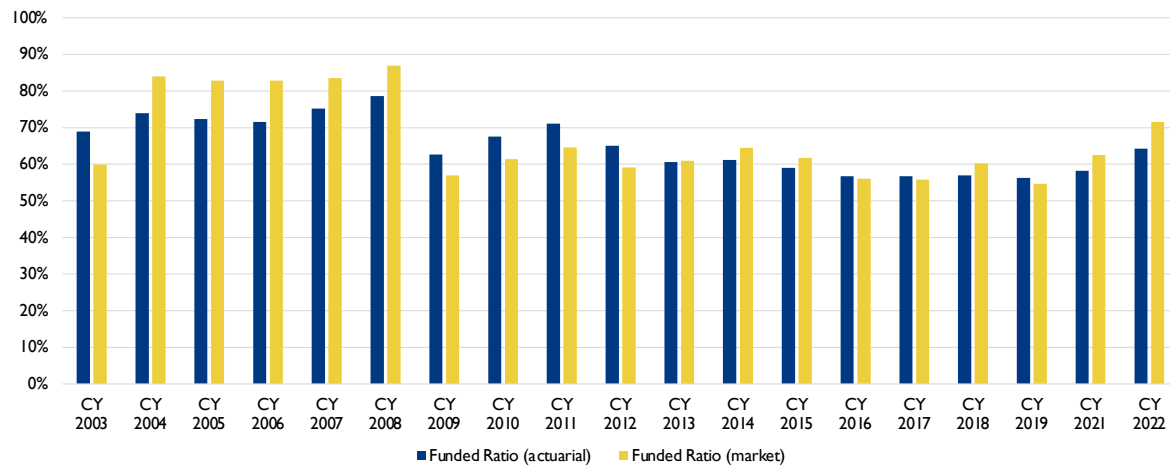


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NOTES:

But the State's Funded Ratio Doesn't Look Much Different



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NOTES:

Current State of Tax Relief

- Both House and Senate have engrossed tax legislation and \$580 million is set aside in the FY 2024 budget to pay for the first year costs of a tax relief package.
- Conferees have been appointed to negotiate differences:

	House Member	Senate Member
Ways & Means Chairs	Rep. Michlewicz	Sen. Rodrigues
Revenue Chairs	Rep. Cusack	Sen. Moran
Ways & Means Ranking Minority Members	Rep. Smola	Sen. O'Connor

- Conference reports:
 - Cannot be amended*
 - Generally are bound by proposals in either bill



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Tax Legislation Summary

		All Proposals	
		FY 2024	MTF Annualized
Identical	EITC	\$91	\$91
	Circuit Breaker	\$60	\$60
	Rental Deduction	\$40	\$40
Shared	CDTC	\$165	\$458
	Estate Tax	\$231	\$231
House Unique	Short Term Cap Gains	\$67	\$130
	Single Sales	\$0	\$79
Senate Unique	LIHTC	\$0	\$55
	HDIP*	\$0	\$20
	Minor Provisions (9)	\$14	\$14
Total Fiscal Impact		\$668	\$1,178
Total Impact Net to Budget		\$601	\$1,048



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NOTES:

Tax Relief Comparison - Policy

	Governor	House	SWM
Child Tax Credit	\$600 credit/ no cap	\$600 credit/ no cap	\$310 credit/no cap
Rent Deduction	Increase cap to \$4K	Increase cap to \$4K	Increase cap to \$4K
Senior Circuit Breaker	Double base credit	Double base credit	Double base credit
EITC	Not included	Increase match to 40% of fed	Increase match to 40% of fed
Estate Tax	\$3M threshold with credit	\$2M credit with exclusion	\$2M credit with credit
Short Term Capital Gains	Reduction to 5%	Reduction to 5%	Not included
Mandatory Single Sales	Not included	Mandatory	Not included
Phase In	All effective TY 2023	Provisions phased in	All effective TY 2023



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Smaller Tax Provisions

The Senate includes 9 other smaller tax proposals:

Policy Proposal	Description
Title V Replacement Credit	Tripled Credit from \$6K to \$18K
Apprenticeship Credit	Doubled to \$5M
Employer Student Loan Assistance	Exempt from taxable income
Commuter Benefits	Expanded to RTA and bike expenses
Brownfields Credit	Extended through 2028
Lead Paint Remediation	Doubled tax credit
Dairy Tax Credit	Increased from \$6M to \$8M
Property Tax Deduction for Volunteer Services	Increased from \$1,500 to \$2,000
Taxtion of Ciders	Updated alcohol thresholds
Combined Fiscal Impact	Approximately \$14M



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NOTES:

Other Provisions

House

- Requirement that 62F rebates be paid out equally
 - Currently, the rebate is proportional to taxes paid
- Increase in maximum Stabilization Fund balance from 15 to 25.5 percent of budgeted revenues



Senate

- Requirement for married couples to file jointly on state taxes if joint on federal
- Requirement that the Comptroller report monthly on tax collections and trends v. 62F threshold
- Local option to exempt low-income housing from property tax
- Study of advance payments for child tax credit
- Study of expanding state's Pass Through Entity tax to account for surtax

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Limits on Reserves

62F

- Each year "allowable tax revenues" are calculated
 - Calculation is prior year limit adjusted for 3 year wage & salary growth
 - Excess amounts returned to taxpayer in proportion to income tax liability
- In FY 2022, for the first time in 30+ years, actual collections exceeded the trigger by \$2/9B

Tax Reduction Fund

- Balance of the Stabilization fund is capped at 15% of state revenues
 - In FY 2022, cap was \$9.3B
- Amounts in excess of that amount dedicated to "Tax Reduction Fund"
 - Tax Reduction Fund to be used to increase personal exemption (subject to appropriation)



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NOTES:

Chapter 62F in FY 2023

Actual Tax Revenue Collections	FY 2023 Allowable v. Actual Revenue Collections				
		5.21% Growth	5.89% Growth	6.41% Growth	7.60% Growth
	FY 2023 Actual Revenues, Below Benchmark by ~\$600M (\$39.164B)	-\$1,083	-\$1,347	-\$1,548	-\$2,013
	Revenues Meet Revised BM (\$39.768B)	-\$479	-\$743	-\$944	-\$1,409
	Revenues Exceed Benchmark by \$500M (\$40.268B)	\$21	-\$243	-\$444	-\$909

Based on FY 2023 revenue collections, at no level of reasonably projected wage and salary growth does it appear likely that state tax revenue collections would trigger Chapter 62F rebates.



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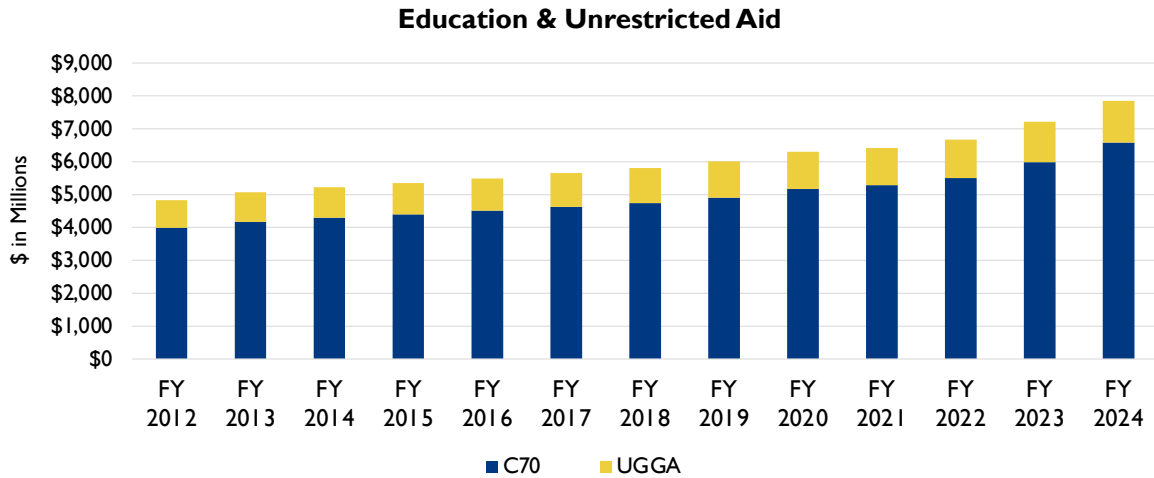
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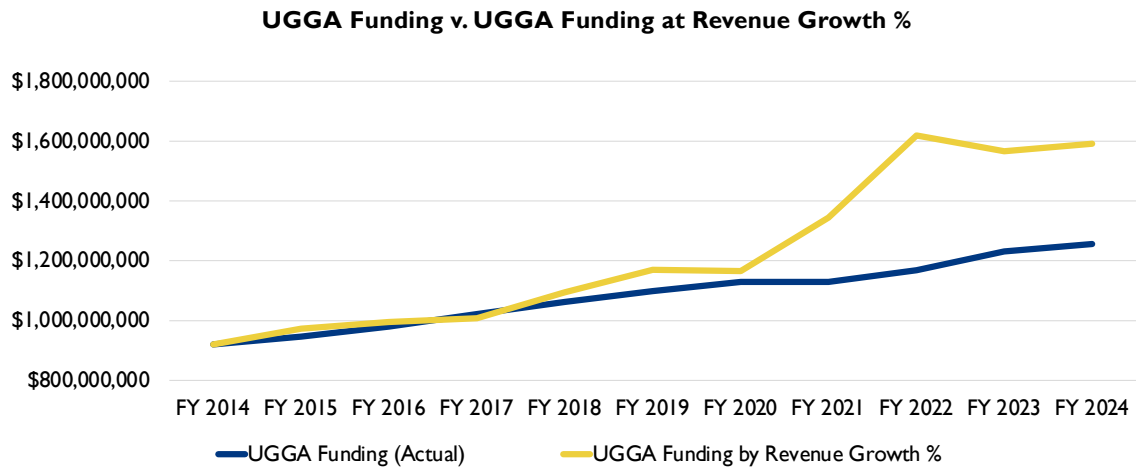
State Local Aid Since FY 2012



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Revenue Growth v. UGGA Growth



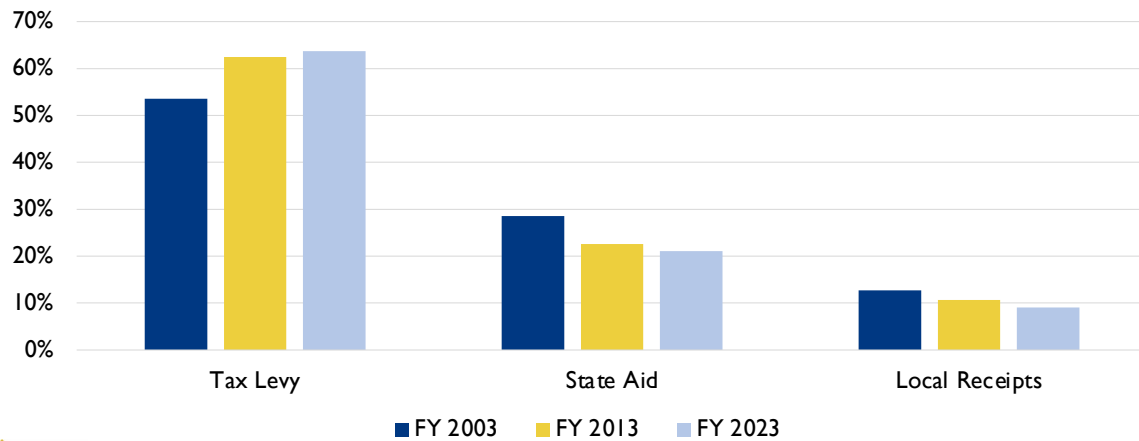
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Local Revenue Composition

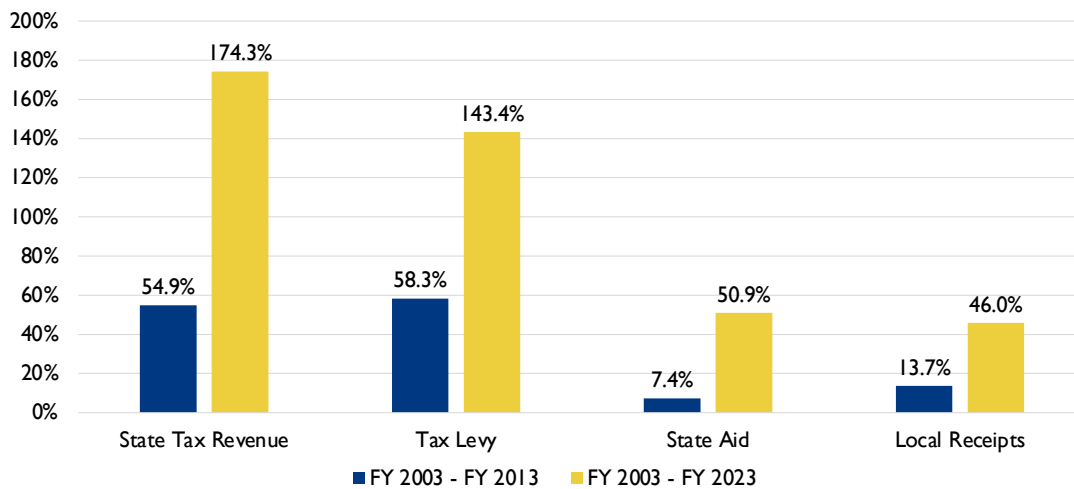
Revenue Sources as Share of Total Receipts



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Local Revenue Growth Compared



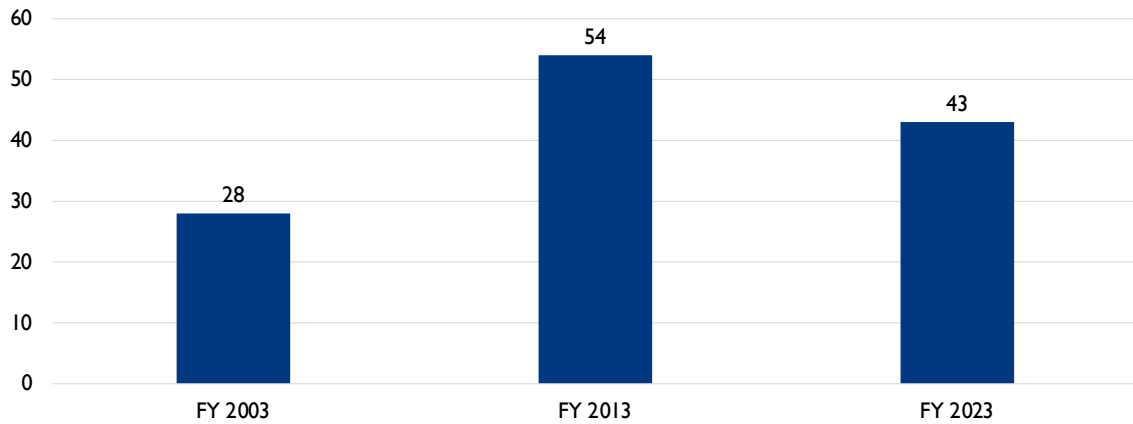
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Levy Ceiling Constraints Have Slackened

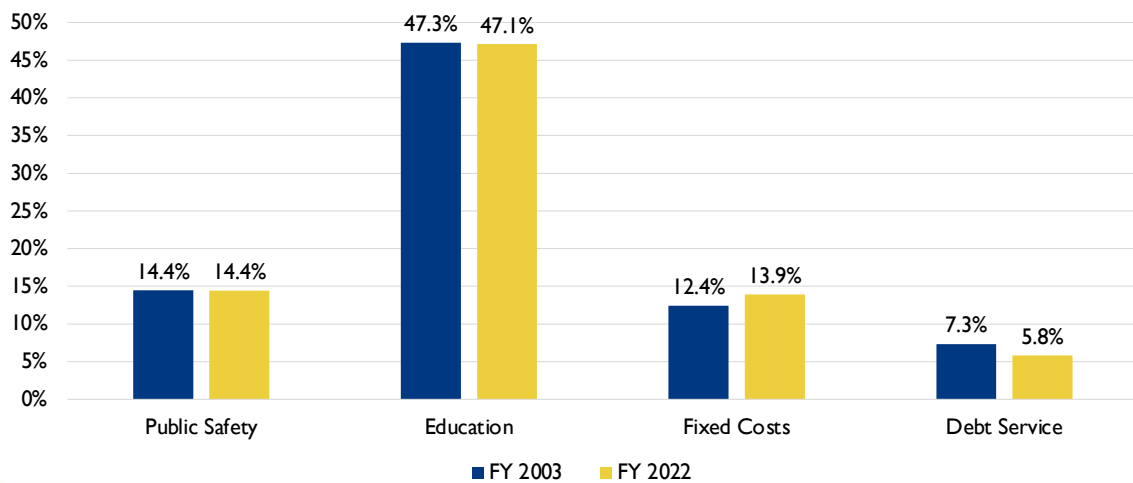
Communities at 75% of Levy Ceiling



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Components of Spending Remain Very Similar



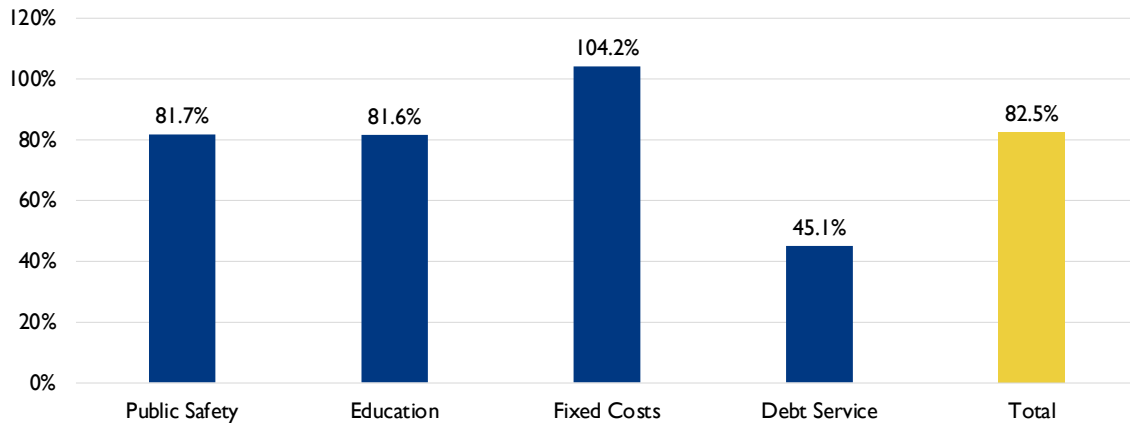
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Local Spending Over Time

Local Spending Growth, FY 2003 - FY 2022

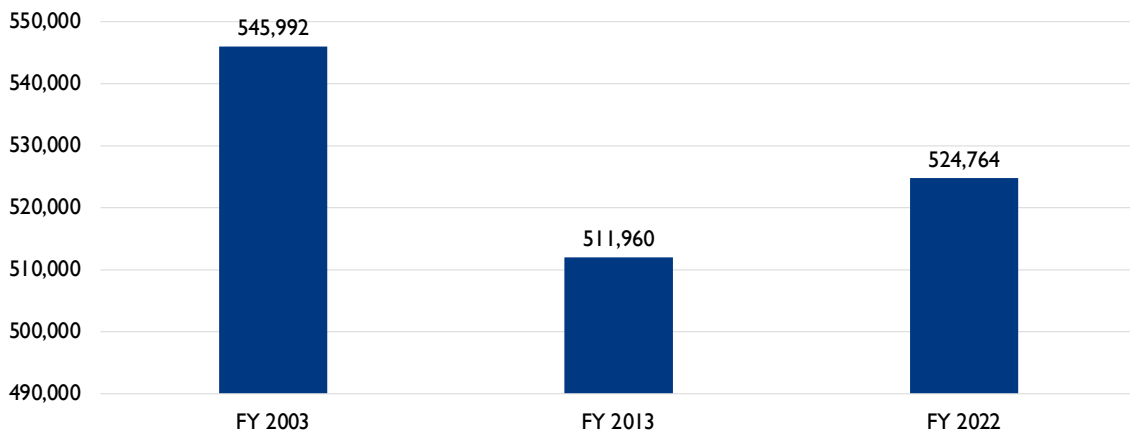


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Municipal Employee Counts Over 20 Years

Municipal Employee Count

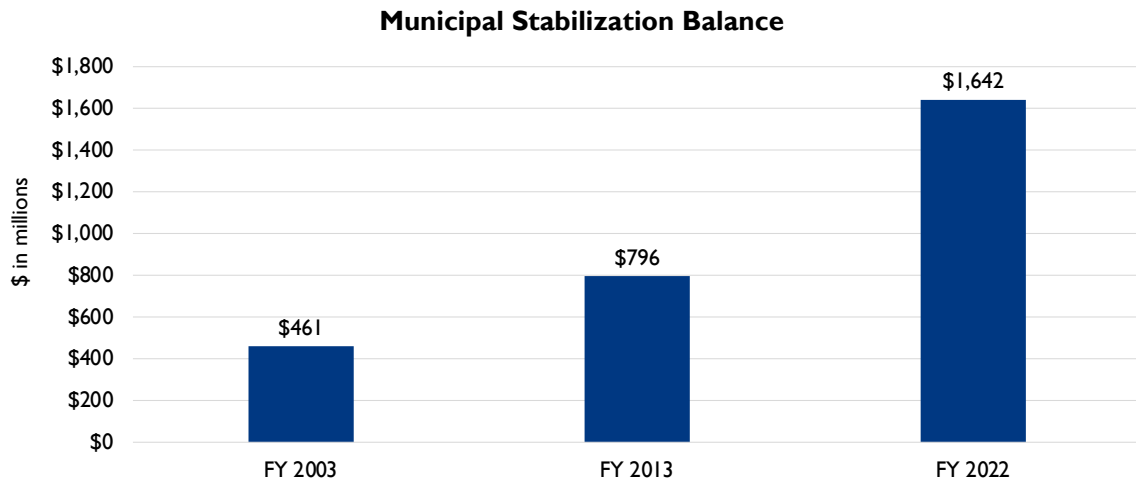


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Local Reserves



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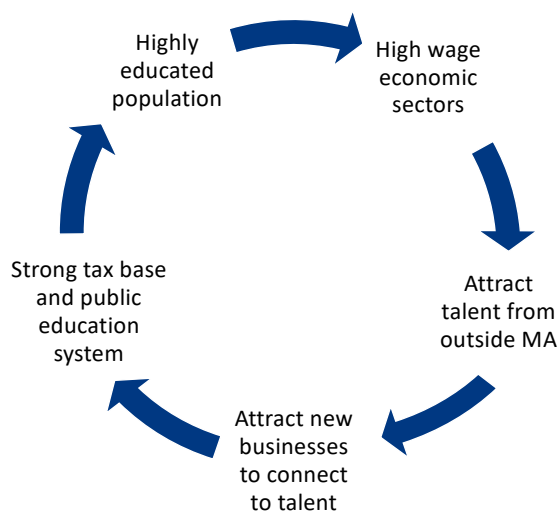
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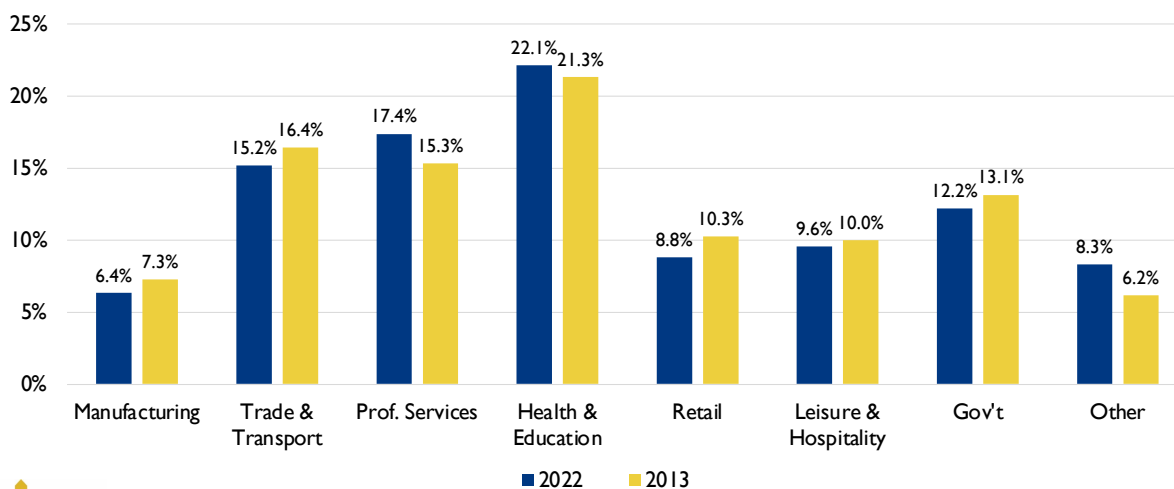
Theory of the MA Economy



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MA Economic Sectors

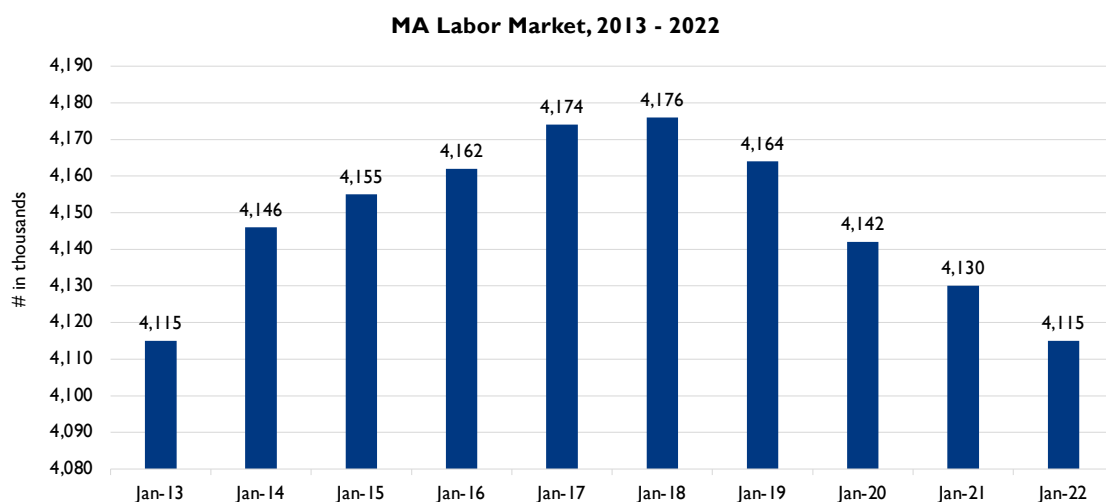


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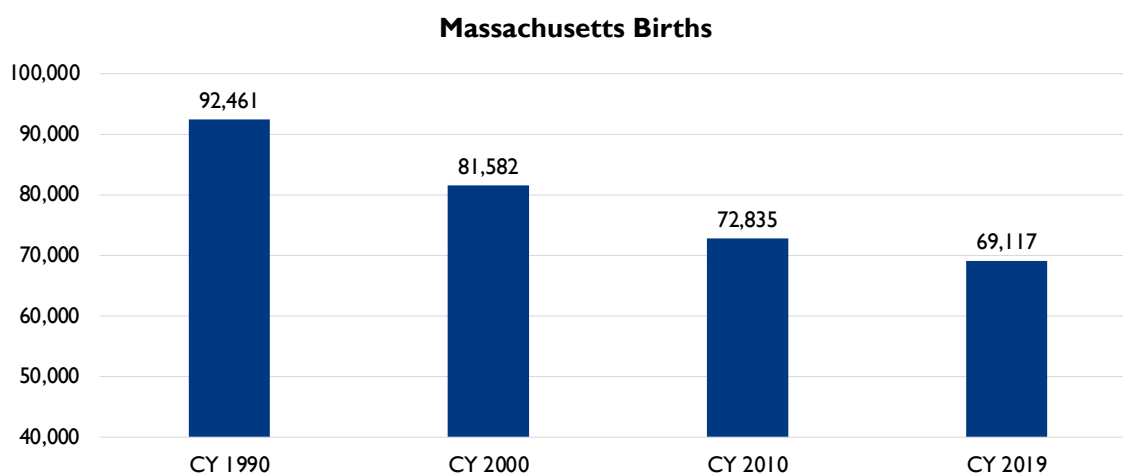
MA Labor Market Peaked Before Pandemic



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MA Birth Rate Down 25% Since 1990



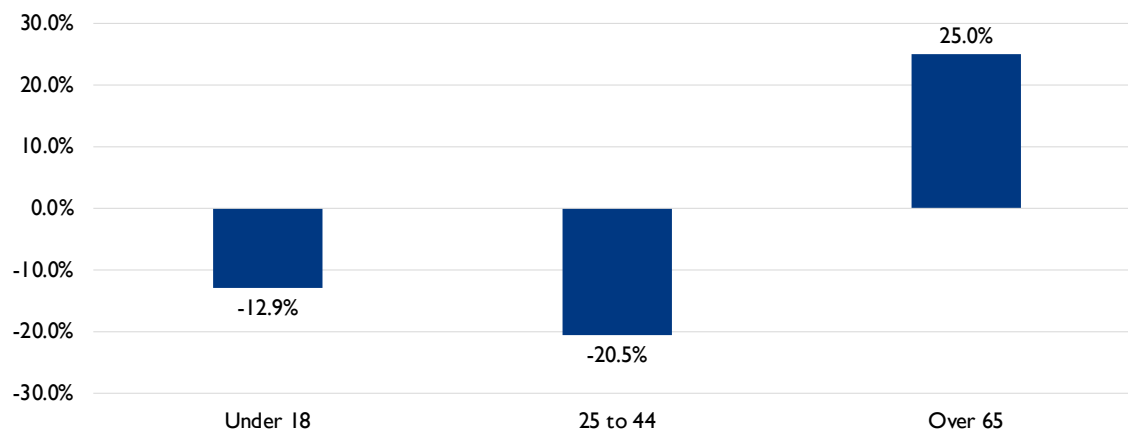
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NOTES:

The Changing Profile of the MA Population

Change in Share of the Population – 1990 to 2020

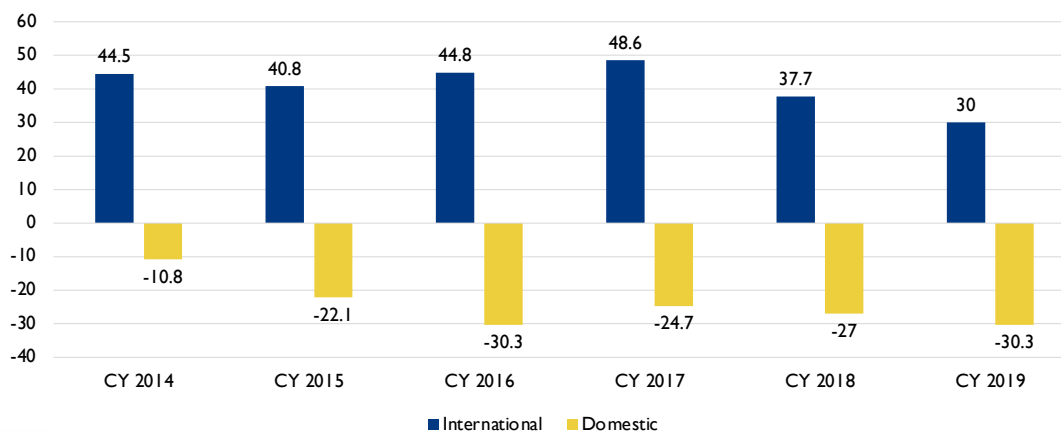


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Migration Pre-Pandemic

International & Domestic Migration
(in thousands)



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NOTES:

Migration Before/After Pandemic

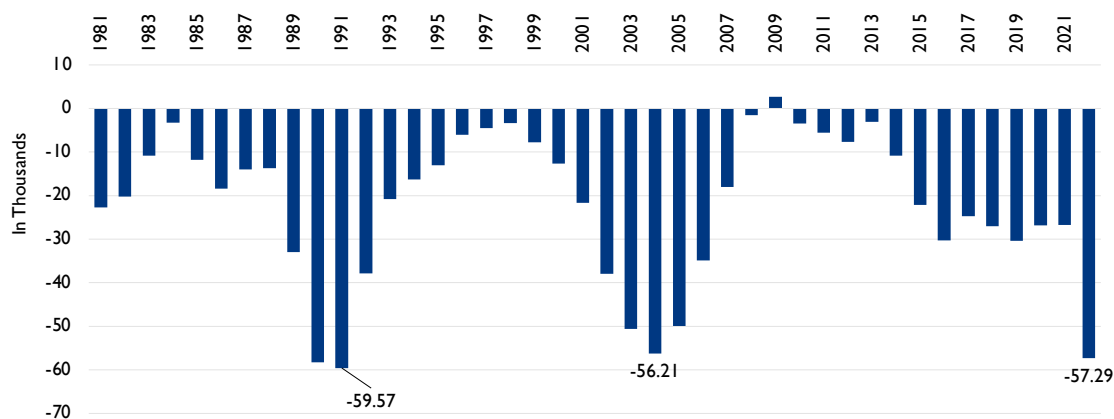
	International Migration	Domestic Migration	Net
CY 2017 - 2019	116.3	-82.0	34.3
CY 2020 - 2022	61.3	-110.9	-49.6
Difference	-55.0	-28.9	-83.9
Numbers in thousands			



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Domestic Migration in Context

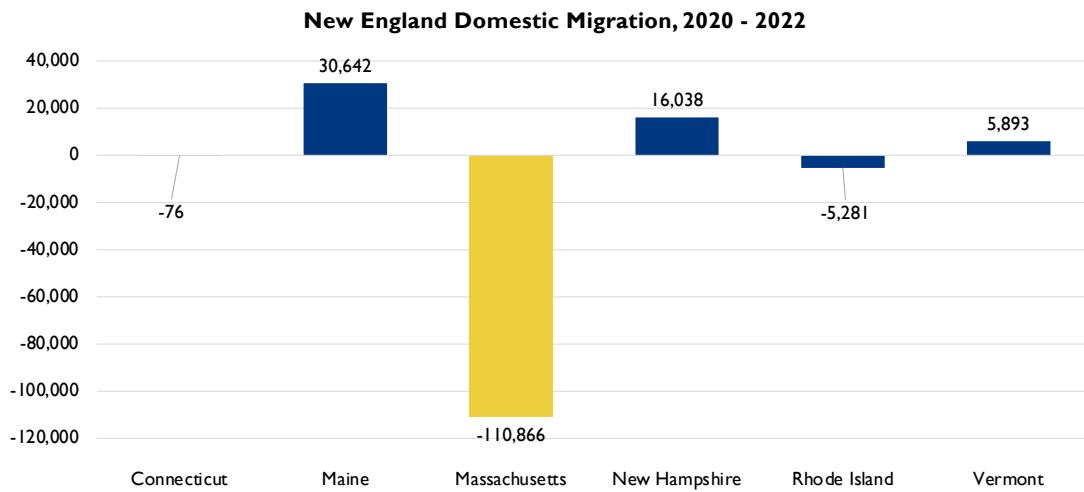


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NOTES:

Comparing Ourselves to Other States



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NOTES:

Budget Revenues

The state budget is funded through a combination of approximately **\$60 billion** in tax, departmental, federal, and other revenue sources.

Tax revenues support **~65 %** of state budget spending:

- 36% from Income Taxes
- 15% from Sales Taxes
- 8% from Corporate & Business Taxes
- 5% from Other Taxes
- 2% from the Income Surtax

Departmental & Federal Revenues support **~35%** of state budget spending

- MassHealth Federal Reimbursement comprises **~17%** of total state revenues in FY 2024 (\$11 billion).



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NOTES:

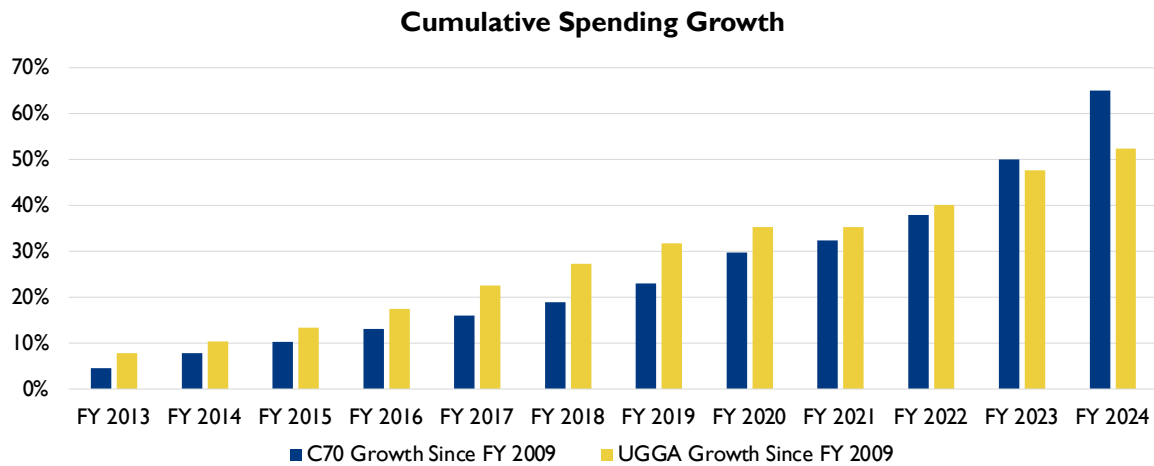
Thinking About Balance

FY 2023 Budget Balance	
Closeout Supplemental Budget Spending	-\$1,930
Closeout Supplemental Budget Revenue Offsets	\$1,962
Transitional Escrow Draw Down	\$180
Closeout Supplemental Budget Net Impact	\$212
Estimated on Budget Tax Revenue Shortfall	-\$177
Supplemental Spending to Date	-\$389
Estimated Reversions	\$450
Initial Budget Balance	-\$116
Total Budget Balance	\$96



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State Aid Growth Compared



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NOTES:

Smaller Tax Proposals

- **The Senate includes 10 other tax proposals:**

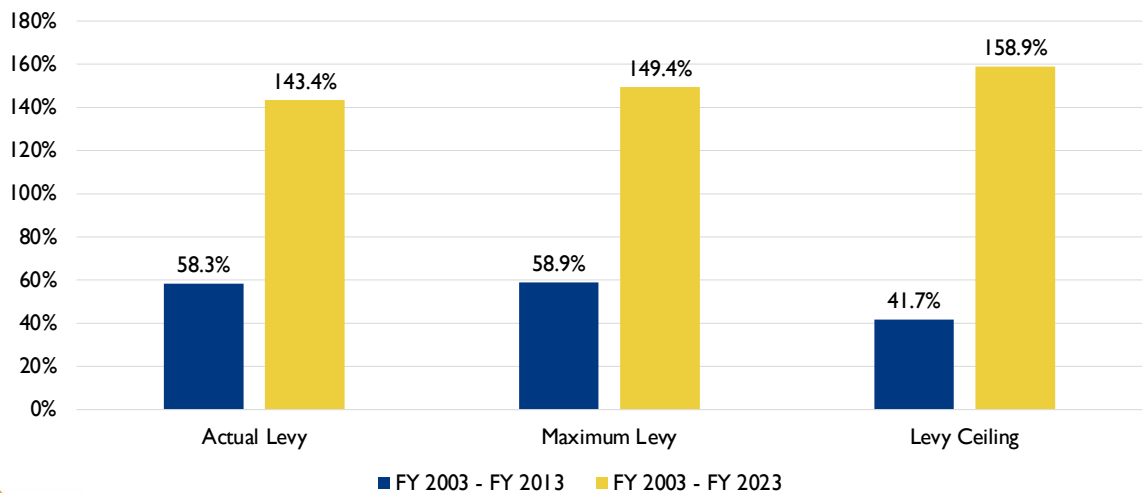
- Increasing Housing Development Incentive Program cap from \$10M to \$30M (and \$57M in CY 2023)
- Increasing Low Income Housing Tax Credit cap increase from \$40M to \$60M
- Title V replacement repair maximum credit tripled from \$6K to \$18K
 - Gov. Healey doubled
- Doubling apprenticeship credit cap to \$5M
- Exempting employer student loan assistance from taxable income
- Expanding commuter benefits to RTA and bike expenses
- Extending Brownfields Credit through 2028
 - House did this in budget
- Doubling tax credits for lead paint remediation
- Increasing dairy tax credit from \$6M to \$8M
- Increasing the property tax deduction for volunteer services from \$1,500 to \$2,000



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Property Taxes and Constraints Over Time



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NOTES:

NOTES:

EMERGING ISSUES FORUM



COMMONWEALTH OF MASSACHUSETTS **Public Employee Retirement Administration Commission**

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