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FY 2019 Consensus Revenue Agreement

Today, the Secretary for Administration and Finance and the House and Senate Committees on Ways and Means announced a consensus tax revenue figure of \$27.594 billion for FY 2019. As part of the agreement, the FY 2018 tax estimate has been upgraded by \$157 million to \$26.661 billion. Budget makers expect tax revenue to grow by \$933 million (3.5 percent) as they put together the FY 2019 budget.

Tax Revenue Agreement in Context

Determining a tax revenue estimate figure required the Administration and the Ways and Means Committees to balance several conflicting factors. On one hand, overoptimistic revenue estimates have hampered each of the last three budgets. In both FY 2017 and FY 2018, the initial consensus revenue figure had to be downgraded substantially before either fiscal year started because it was clear that the original agreement was untenable. This recent experience and continuing concerns about the seeming disconnect between the strength of the economy and tax collections argued for a very conservative revenue estimate.

| | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|-------------------------------------|----------|----------|----------|----------|
| Initial CR | \$24,337 | \$25,479 | \$26,860 | \$27,072 |
| Assumed growth | 4.90% | 4.74% | 4.31% | 3.90% |
| Conference revenue change | \$50 | \$132 | -\$629 | -\$568 |
| Final revenues (net of settlements) | \$24,705 | \$25,269 | \$25,604 | NA |
| Actual growth | 7.72% | 2.28% | 1.33% | |
| <i>Numbers in millions</i> | | | | |

In contrast, testimony at the recent Consensus Revenue hearing and revenue collections to date in FY 2018 argued for a less conservative revenue agreement. At last month’s hearing each forecast presented expected revenue growth of at least 3.3 percent over the \$26.504 billion in tax revenue assumed in the budget – substantially greater than the FY 2016 and FY 2017 growth figures.





| | FY 2019 Estimate | % Growth v. \$26,504 BM |
|-----------------------|------------------|-------------------------|
| DOR (Current/Hybrid) | \$27,392 | 3.4% |
| DOR (Economy.com) | \$27,582 | 4.1% |
| DOR (Global Insight) | \$27,374 | 3.3% |
| MTF | \$27,586 | 4.1% |
| Beacon Hill Inst. | \$27,581 | 4.1% |
| Alan Clayton-Matthews | \$28,697 | 8.3% |

The hearing was followed by news that December revenues beat the monthly benchmark by \$527 million, further supporting the notion that a less conservative revenue estimate was called for.

FY 2019 Revenue Agreement in Detail

Budget makers struck a middle ground between conservative and optimistic approaches. The tax revenue growth assumption – 3.5 percent – is the lowest chosen since FY 2010. However, that growth level still far exceeds actual growth in both FY 2016 and FY 2017. This agreement also raises estimated FY 2018 tax revenues. FY 2019 tax revenue is expected to grow by 4.1% compared to the prior FY 2018 revenue benchmark of \$26.504 billion.

| | FY 2018 | FY 2018 | \$ Growth | % Growth | 2019 Cap Gains | Above Threshold |
|----------------------------|----------|----------|-----------|----------|----------------|-----------------|
| DOR (Current/Hybrid) | \$26,504 | \$27,392 | \$888 | 3.35% | \$1,239 | \$28 |
| DOR (Economy.com) | \$26,596 | \$27,582 | \$986 | 3.71% | \$1,291 | \$80 |
| DOR (Global Insight) | \$26,530 | \$27,374 | \$844 | 3.18% | \$1,279 | \$68 |
| <i>CR Agreement</i> | \$26,661 | \$27,594 | \$933 | 3.50% | \$1,300 | \$89 |
| MTF | \$26,845 | \$27,586 | \$741 | 2.76% | \$1,281 | \$70 |
| BHI | \$26,828 | \$27,581 | \$753 | 2.81% | | |
| ACM | \$27,050 | \$28,697 | \$1,647 | 6.09% | \$2,411 | \$1,200 |

The agreement assumes \$88.5 million in capital gains revenue will exceed the \$1.212 billion threshold in FY 2019, meaning that this revenue should be deposited in the state Stabilization Fund and other reserves making them unavailable in the budget. It does not appear that any of the \$157 million upgrade to FY 2018 revenues is set aside as above threshold capital gains. Any capital gains collections that exceed the FY 2018 threshold of \$1.168 billion are similarly required to be deposited into state reserves.

The consensus revenue process also includes three “pre-budget” spending transfers:

- \$2.608 billion to the state pension fund. This amount, which was determined last year as part of a long-term pension schedule, is an increase of \$214 million over FY 2018.
- \$1.032 billion to the MBTA. This amount, which is based on estimated sales tax revenues as well as inflation growth, is an increase of \$24.9 million over FY 2018.



- \$858.9 million to the School Building Authority. This amount, which is based on estimated sales tax revenues, is an increase of \$11.8 million over FY 2018.

In addition, the agreement assumes that an income tax rate reduction to 5.05 percent will be triggered for calendar year 2019.

Implication for the FY 2019 Budget

The consensus revenue agreement this year, as in other years, assumes no major tax law changes. However, pending ballot questions to raise the income tax and lower the sales tax along with other externalities make that assumption unlikely to hold true. Given that the state's current revenue structure may not continue past the next election cycle, it is vital that FY 2019 budget plans include contingencies for a steep drop in tax revenues. Setting aside above benchmark tax revenue in FY 2018 and committing to a sizable stabilization fund deposit in FY 2019 is the best way to plan for those contingencies.

