



News Release

MTF Analysis: Stabilization Fund Dip During Recovery Puts State At Risk

Solutions needed for measured replenishment and growth

BOSTON, November 9, 2015 - Troubling state budgetary practices have left the Commonwealth's Stabilization Fund balance insufficient to meet the next fiscal downturn and immediate action is needed to increase and safeguard the fund for future use, according to a report released today by the Massachusetts Taxpayers Foundation (MTF).

The reliance on one-time funds to cover operating expenses has diminished the purpose of the fund, which serves as a safety net during unforeseen fiscal and economic periods. Without strong reserves, the state is more exposed to risk and expands its structural deficit.

"A clear, disciplined plan for consistent growth can keep our reserves healthy," said MTF President Eileen McAnney. "Exercising fiscal prudence as MTF suggests by establishing a clear goal and the means to achieve it is essential to put the Commonwealth on the path for long term budgetary stability."

The 2015 Stabilization Fund balance accounts for just three percent of state spending – comparable to the low points following the 2002 and 2008 recessions and far lower than best practices would suggest. Creditors prefer and best practices dictate a balance of greater than five percent of spending given Massachusetts' dependence on volatile sources of revenues which is a level of reserves the state has not reached since the 2008 fiscal crisis. This translates into a targeted stabilization fund balance of approximately \$2.5 – \$3 billion for Massachusetts – a considerable gap to bridge given the current balance.

Given the current state of the Stabilization Fund balance, the Foundation recommends:

1. Growing the stabilization fund balance to ten percent of annual state tax revenues within five years and then maintain the fund balance at that level thereafter. To meet this standard for FY 2016 would require attaining a balance of approximately \$2.5 billion.
2. Transferring a minimum of one percent of annual budgeted tax revenues each year to the Stabilization Fund as a pre-budget transfer backed by capital gains tax revenues above the threshold, settlement revenues in excess of \$10 million, and if those sources are insufficient, by General Fund revenues.

“Now is the time to employ measures for rebuilding this fund in anticipation of weak revenue performance during the next, inevitable economic downturn,” added McAnney. “ While choosing between funding programs today and putting money in the rainy day fund for tomorrow is a difficult challenge, showing fiscal restraint now will enable the Commonwealth to mitigate the impacts on the state budget during the next fiscal crisis.”

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The Massachusetts Taxpayers Foundation is a nationally recognized, independent, nonprofit research organization whose purpose is to promote the most effective use of tax dollars, improve the operations of state and local governments, and foster positive economic policies. Over the past 15 years the Foundation has won 16 national awards for its work on health care access and costs, transportation reform, business costs, capital spending, state finances, MBTA restructuring, state government reform, and municipal health reform.