



News Release

For Immediate Release

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MTF Analysis: Fiscal 2003 Shortfall of \$1.7 - \$2.1 Billion

Warning that the state is heading into a fiscal crisis, the Massachusetts Taxpayers Foundation today released a new analysis which concludes that the Commonwealth faces a budget shortfall between \$1.7 and \$2.1 billion in fiscal 2003.

According to the report, the 2002 budget will also likely end the year between \$125 and \$450 million out of balance.

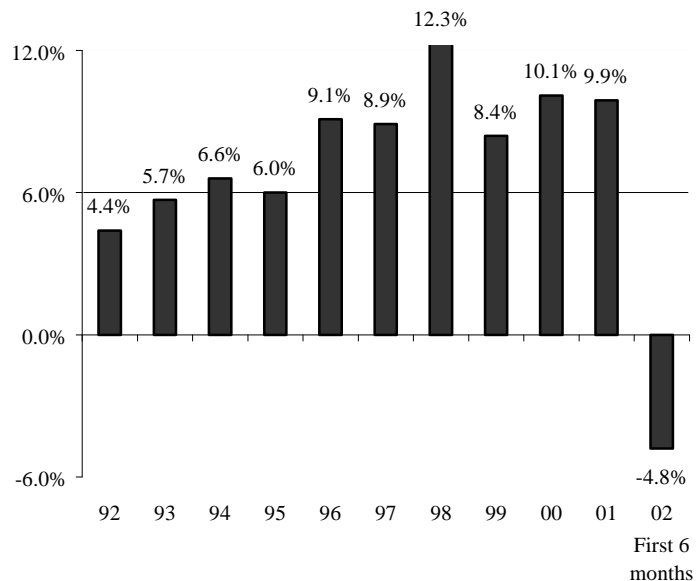
"Driven by a dramatic decline in tax revenues, the state is heading for a crash similar to the fiscal crisis of the late 1980s," the report said. "The rate of decline rivals the freefall that created the last fiscal crisis, and like their counterparts a decade ago, state leaders have not coped adequately with the dramatically changing fiscal circumstances."

The Commonwealth will confront this huge gap even assuming the economy recovers in 2002, the report strikingly concludes.

The state will enter fiscal 2003 with a "structural deficit" of approximately \$1 billion, that is, with revenues that are \$1 billion less than the rate of spending. In addition, the phasing in of the voter-approved income tax cut will further reduce revenues by almost \$500 million in 2003.

"Because of the magnitude of the structural deficit, the state faces multi-billion dollar shortfalls through fiscal 2005 even if the economy recovers in 2002," said MTF President Michael J. Widmer.

**Tax Revenue Growth
(Before Cuts)**



The Foundation's analysis shows that after growing an average of 10 percent a year for the past six years, baseline tax revenues (before adjusting for tax cuts) dropped almost five percent through the first six months of fiscal 2002. If the trend persists, revenues for the fiscal year will miss the official, recently-revised-downward estimate of \$14.93 billion by roughly \$275 million and quite possibly more.

Complicating the fiscal situation are recession-driven caseload growth in cash assistance and human services, and especially the largely uncontrollable, double-digit increases in the Commonwealth's health care programs. Spending on Medicaid, nearly one quarter of the state's budget, has risen 22 percent since 2000 as a result of jumps in enrollment and the average cost per recipient.

In attempting to close the 2002 budget shortfall, lawmakers avoided larger cuts by drawing too heavily on rainy day funds – \$800 million of the \$2.3 billion available. While the legislative leadership has agreed to use another \$500 million to help close the 2003 deficit, this will still leave a shortfall of \$1.2 to \$1.6 billion.

Given the likelihood of significant deficits in fiscal 2002 through 2005, the state needs a multi-year plan that brings spending in line with reduced tax revenues and rations reserves over the next three fiscal years. Otherwise, there is serious risk that the Commonwealth will deplete all its reserves by the end of fiscal 2003, leaving the state facing a financial crisis as daunting as the one in the late 1980s.

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. The Foundation has won six prestigious national awards in as many years for its work on capital spending and the Central Artery, business costs, management of state budget surpluses, reform of the MBTA, and, most recently, the cost impact of Question 5, the universal health care ballot proposal rejected by voters in 2000.
