



# News Release

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For Immediate Release

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## *MTF* **MTF Report on State Spending: The Perfect Storm...Unleashed**

In releasing its annual report on state spending today, the Massachusetts Taxpayers Foundation called on state leaders to develop a fiscal blueprint for 2004 and 2005 to address the Commonwealth's massive and growing structural deficit.

The report, *State Budget '03: The Perfect Storm...Unleashed*, recommends that legislative leaders and the Romney administration work together over the next three months -- concurrent with the fiscal 2004 budget process and the consideration of structural reforms -- to produce a multiyear fiscal recovery plan.

Two years ago the Foundation's report, *The Perfect Storm*, warned that a series of forces were conspiring to change dramatically the state's fiscal fortunes. The new report documents the "gigantic gap" between available revenues and the spending needed to sustain programs and services at their current levels.

"The Commonwealth faces a multiyear problem which requires a multiyear strategy to address its worst fiscal crisis in more than 50 years," said MTF President Michael J. Widmer. "The problem cannot be adequately addressed through the annual budget process."

According to the report, two important structural forces are creating an ever widening budget gap in 2004 and beyond:

- An imbalance between ongoing revenues and expenditures that will total more than \$1 billion in 2003.
- A mismatch between the rate of annual spending growth, especially in health care, and the rate of annual revenue growth.

Specifically, the Foundation's analysis estimates that spending would need to grow by \$1.6 billion in 2004 to sustain programs and services at 2003 levels, while the consensus revenue forecast for 2004 is only \$30 million greater than 2003 revenues. In addition, the state is relying on more than \$1 billion of reserves and one-time revenues to pay 2003 bills. This combination of factors produces an estimated budget deficit of \$2.4 billion in 2004, with reserves largely depleted.

"Strikingly, these shortfalls are occurring despite almost \$1 billion of tax increases enacted last year, spending cuts approaching \$2 billion over the last 18 months, and the expectation that the state economy will begin to recover in fiscal 2004," the report said.

The report concludes that a deficit of this size cannot practically be addressed in a single budget year. "Without action on the structural problem that is driving the shortfall in 2004, the Commonwealth will face an even larger problem in 2005," the report said.

According to the Foundation's analysis, over the past 18 months the state has reduced spending in a broad array of specific programs by \$1.6 billion below actual 2001 expenditures, a 20 percent reduction that does not include the additional cuts required to offset inflationary and other cost increases in these programs.

"The sheer scale of the reductions that have already taken place underscores how extraordinarily difficult it will be to close an even larger 2004 budget gap through spending cuts alone," the report said.

The Foundation strongly supports the Romney administration's commitment to improving the delivery of state services, and the report highlights major opportunities to reform state government.

However, the report cautions that, "the dollar savings from such efforts are much more likely to be counted in the tens of millions than in the billions. Moreover, their benefits will be realized over years, not months, providing little relief from the immediate crisis."

The report documents that the vast majority of spending is devoted to basic services, with almost half directed to health care and human services, one fourth to education and other aid to cities and towns, and 20 percent to the costs of capital borrowing, pensions, courts, prisons and public higher education.

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 seven prestigious national awards in as many years for its work on business costs, capital spending, state finances, reform of the MBTA, and health care.

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