

News Release

For Immediate Release

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MTF Forecast: Revenues Collapse in Fiscal 2009 and 2010

A rapidly deteriorating economy will drag Massachusetts tax revenues down to \$17.82 billion in fiscal 2010, an unprecedented \$3.1 billion decline from fiscal 2008, according to a new forecast released today by the Massachusetts Taxpayers Foundation.

The \$17.8 billion is \$1.7 billion below the consensus estimate of \$19.53 for fiscal 2010 and \$800 million less than the Foundation's forecast at the consensus revenue hearing in December. The Foundation's \$18.6 billion forecast was the lowest of the tax forecasts presented by economists at the December hearing.

The Foundation estimates that fiscal 2009 tax revenues will total \$18.52 billion, \$2.9 billion less than the original \$21.4 consensus estimate for 2009 and an 11 percent decline from 2008.

The precipitous drop in April's tax revenues, roughly 35 percent below April 2008, dramatizes the drastic decline in state revenues, which means that the state will likely end fiscal 2009 with only \$500 to \$800 million in reserves. For fiscal 2010, the recently passed House budget includes about \$1.7 billion in spending that has no funding source, even with the increase in the sales tax.

The economic forecasts for the U.S. and Massachusetts have continued to worsen over the past several months. According to the new MTF forecast, the Massachusetts unemployment rate is expected to average 9.4 percent in fiscal 2010 compared to 8.1 percent in the December forecast. Massachusetts has lost 92,000 jobs in the past six months with an unemployment rate of 7.8 percent in March.

State Tax Revenues (\$ Billions)

2008	Actual	20.89
2009	Original Estimate	21.40
2009	Latest Administration Estimate	18.44
2009	MTF Forecast	18.52
2010	MTF Forecast	17.82

The Foundation's Massachusetts projections are based on the most recent national economic forecast from Global Insight, an economic forecasting firm located in Waltham. The latest forecast anticipates that the U.S. economy will reach bottom in the fourth quarter of calendar 2009 or the first quarter of 2010. Any recovery will be slow as the nation's unemployment rate will rise to over 10 percent in 2010 and is not expected to fall below 8 percent until 2012.

Several factors shape MTF's forecast of sharply declining revenues in 2009 and 2010:

Employment

The forecast estimates that Massachusetts will lose 143,000 jobs from 2008 to 2010 with an average unemployment rate of 7.0 percent in fiscal 2009 and 9.4 percent in fiscal 2010, twice the 2008 unemployment rate of 4.6 percent.

Personal Income

MTF forecasts that personal income will grow only 1 percent in 2009 and 2010 compared to 6 percent average annual growth from 2006 to 2008. This large decline is caused by the drop in employment and a significant slowing in the growth of wages and salaries from a 5.2 percent annual average between 2006 and 2008 to zero growth in 2010.

Capital Gains

Capital gains revenues are projected to decline from \$2.1 billion in fiscal 2008 to \$324 million in 2010, a staggering two-year drop of 85 percent.

Sales Taxes

MTF forecasts that sales tax revenues will fall from \$4.1 billion in fiscal 2008 to \$3.8 billion in 2009 and \$3.6 billion in 2010, a decline of 5.9 percent in 2009 and 6.2 percent in 2010.

Corporate Profits

MTF projects that corporate tax revenue will fall 25 percent from \$1.5 billion in fiscal 2008 to \$1.1 billion in 2009 and by another \$53 million in 2010.

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, the Foundation has won numerous prestigious national awards over the last decade for its work on business costs, capital spending, state finances, MBTA restructuring, state government reform, and health care.

MASSACHUSETTS TAXPAYERS FOUNDATION
FISCAL YEAR FORECAST SUMMARY

GLOBAL INSIGHT NATIONAL FORECAST

					<<< History		Forecast >>>	
April 2009	2003	2004	2005	2006	2007	2008	2009	2010
Personal Income (billions of 2000 \$)	8,439	8,636	8,902	9,148	9,470	9,746	9,742	9,700
% change	0.2	2.3	3.1	2.8	3.5	2.9	0.0	-0.4
Employment (millions)	130.1	130.5	132.5	135.0	137.0	137.8	134.7	131.1
% change	-0.6	0.3	1.5	1.9	1.4	0.6	-2.2	-2.7
Unemployment Rate	5.9	5.8	5.3	4.8	4.5	5.0	7.5	10.0
CPI (% change)	2.2	2.2	3.0	3.8	2.6	3.7	1.0	-0.8
PPI (% change)	3.3	4.8	6.9	7.7	2.9	9.0	-2.2	-7.9
Federal Discount Rate	1.6	2.0	3.2	5.2	6.3	4.3	1.2	0.5
Prime Commercial Rate	4.4	4.0	5.2	7.2	8.3	6.7	3.9	3.3
Standard & Poor's 500 Index (% change*)	-16.5	-3.2	17.3	6.8	8.6	12.7	-17.3	-36.5

MTF MASS. ECONOMIC FORECAST

					<<< History		Forecast >>>	
	2003	2004	2005	2006	2007	2008	2009	2010
Personal Income (billions of current \$)	250.3	260.8	272.6	289.2	307.3	324.7	328.1	330.9
% change	0.4	4.2	4.5	6.1	6.3	5.7	1.0	0.9
Personal Income (billions of 2000 \$)	235.2	239.2	242.5	248.7	256.7	265.3	262.8	263.5
% change	-1.4	1.7	1.4	2.6	3.2	3.3	-0.9	0.2
Total Employment (000s)	3,227	3,190	3,202	3,228	3,264	3,294	3,228	3,151
% change	-1.9	-1.1	0.4	0.8	1.1	0.9	-2.0	-2.4
Unemployment Rate	5.6	5.6	4.9	4.8	4.6	4.6	7.0	9.4

MTF MASS. TAX FORECAST

					<<< History		Forecast >>>	
	2003	2004	2005	2006	2007	2008	2009	2010
Income Tax (millions \$)	8,026	8,830	9,690	10,483	11,391	12,493	10,707	10,319
% change	1.4	10.0	9.7	8.2	8.7	9.7	-14.3	-3.6
Sales Tax	3,708	3,749	3,886	4,004	4,066	4,086	3,844	3,608
% change	0.3	1.1	3.7	3.0	1.5	0.5	-5.9	-6.1
Corporations Tax	799	998	1,063	1,391	1,585	1,512	1,134	1,081
% change	36.3	24.8	6.5	30.9	14.0	-4.6	-25.0	-4.6
TOTAL TAXES**	14,964	15,953	17,087	18,487	19,732	20,888	18,520	17,823
% change	4.7	6.6	7.1	8.2	6.7	5.9	-11.3	-3.8
TOTAL TAXES FOR BUDGET***	14,279	13,867	14,368	16,011	17,105	17,967	15,737	14,949
% change	4.8	-2.9	3.6	11.4	6.8	5.0	-12.4	-5.0

* Percent change in index for prior calendar year.

** Includes collections from other tax sources not detailed above.

*** Tax revenues available for appropriation in the budget exclude a portion of sales tax receipts dedicated to the MBTA and school building construction, tax revenues dedicated to pension funding, and net revenues in excess of permissible tax revenues.