Massachusetts Taxpayers Foundation

Bulletin

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MTF

FY 2017 Tax Revenue Agreement Reached

Today, the Executive Office of Administration & Finance (ANF) and the House and Senate Committees on Ways and Means announced that the FY 2017 state budget will be built on $26.860 billion in tax revenues. This consensus figure, which assumes 4.3% growth over an updated FY 2016 tax benchmark of $25.751 billion, is the first milestone in the FY 2017 budget process.

Background

State law requires that ANF and the Ways and Means Committees reach an agreement on total tax revenues for the upcoming year by January 15th. This estimate is used as the tax revenue foundation for the Governor's budget recommendations, the House and Senate budgets and the General Appropriations Act ultimately signed into law.

The purpose of this agreement is to ensure that budget proposals start from the same revenue base. Taxes comprise more than 60% of annual state revenues and even a minor difference in assumed tax growth would have major implications for the budget. In addition, tax revenues determine annual spending commitments to the Massachusetts Bay Transportation Authority (MBTA), the School Building Authority (MSBA) as well as the amount of capital gains tax revenue dedicated to the Stabilization Fund and retiree health care obligations. Without prior agreement on the amount of tax revenues available, it would be nearly impossible to reconcile different budget proposals and finalize the budget in a timely manner.

FY 2017 Consensus Revenue Hearing

On December 16th, revenue projections were provided by the Department of Revenue (DOR presented estimates of 3 vendors), the Massachusetts Taxpayers Foundation (MTF), the Beacon Hill Institute (BHI) and Northeastern Professor Alan Clayton-Matthews to the Secretary of ANF and the Ways and Means Committees. Figure 1 summarizes these estimates.

Figure 1. FY 2017 Tax Revenue Estimates

	FY 2016	FY 2017	$ Increase	% Change
Economy.com (DOR Vendor)	$25,758	$26,858	$1,100	4.27%
Global Insight (DOR Vendor)	$25,681	$26,657	$976	3.80%
NEEP (DOR Vendor)	$25,843	$26,895	$1,052	4.07%
MTF	$25,712	$26,689	$977	3.80%
BHI	$25,933	$27,381	$1,448	5.58%
Professor Clayton-Matthews	$25,793	$26,651	$858	3.33%
Average of Estimates	$25,787	$26,855	$1,069	4.14%
Median of Estimates	$25,776	$26,774	$998	3.87%
Consensus Agreement	***$25,751***	***$26,860***	***$1,109***	***4.31%***

The estimates provided at the hearing varied substantially but generally reflected a note of caution for FY 2017. In fact, of the 6 estimates provided, 5 projected FY 2017 tax revenue growth of less than 4.3% and half of the estimates projected revenue growth of less than 4%. By way of comparison, since the end of the recession consensus revenue estimates have averaged a 4.5% growth assumption. The FY 2016 budget assumed tax revenue growth of 4.8%.

Five of the estimates provided at the hearing also included projections of capital gains tax revenues. The amount of capital gains revenue collected is important because, under statute, any capital gains revenues in excess of an annual benchmark ($1.128 billion in FY 2017) is automatically set aside for the Stabilization Fund and retiree health care obligations and therefore not available for the operating budget.

Figure 2. Capital Gains Tax Revenue Projections

	FY 2016	FY 2017	Amount Over Threshold
Economy.com	$1,531	$1,539	$411
Global Insight	$1,557	$1,554	$426
NEEP	$1,531	$1,539	$411
MTF	$1,603	$1,417	$289
Alan Clayton Matthews	$1,531	$1,356	$228
Average of estimates	$1,551	$1,481	$353
Median of estimates	$1,531	$1,539	$411
Consensus Agreement		***$1,484***	***$356***

FY 2017 Consensus Revenue Agreement

Based on the testimony presented at the December hearing, a consensus tax revenue number of $26.860 billion has been agreed upon for FY 2017. This amount assumes 4.3% revenue growth over a revised FY 2016 estimate of $25.751 billion. While this growth percentage is on the high end of estimates presented in December, the revenue total is in line with two of the forecasting vendors included in DOR's testimony (Economy.com and NEEP). In addition to the total tax revenue figure, the agreement has several important elements for the FY 2017 budget:

- *Capital gains tax revenue – $1.484 billion*. Given the FY 2017 capital gains revenue benchmark of $1.128 billion, $356 million in estimated FY 2017 capital gains revenue will be held aside from the operating budget.
- *Pension transfer - $2.198 billion.* This transfer reflects a triennial pension funding agreement made in 2014 as well as additional pension costs related to the FY 2016 Early Retirement Program.
- *MBTA transfer - $1.001 billion.* This transfer is based on the prior year transfer and adjusted for inflation.
- *MSBA transfer - $867.1 million.* The SBA, which helps fund school building and rehabilitation projects throughout the Commonwealth, receives an amount equal to one penny of the sales tax each year.
- *Workforce Training Fund transfer - $21.4 million*. This transfer dedicates all projected Unemployment Insurance Surcharge tax revenues to the state's Workforce Training Fund.

FY 2017 Budget Implications

The amount of tax revenues used in the budget can differ from the consensus amount if new tax provisions impacting revenues are adopted; however, the likelihood of any changes having a major impact on tax revenues is small.

Assuming no further tax changes for the budget, the increase in total tax revenues from FY 2016 will be $1.109 billion. Much of this new tax revenue in FY 2017 is already accounted for, leaving very little new money for discretionary line-item spending:

- $356 million is set aside as capital gains revenues received above benchmark.
- $15.8 million will be used to increase the transfer to the MBTA to $1.001 billion.
- $63.2 million will be used to increase the transfer to the MSBA to $867.1 million.
- $197.2 million is necessary to fund a scheduled increase in the state's pension fund payment to $2.198 billion.

After accounting for these, $476.8 million in new tax revenue remains to balance the FY 2017 budget.