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Financial Resiliency Should Be Top Priority Going Forward

MTF President Eileen McAnneny Reacts to April Tax Revenue Collections

BOSTON – Eileen McAnneny, the President of the Massachusetts Taxpayers Foundation (MTF), reacted today to the announcement of April tax revenue collections by the Massachusetts Department of Revenue (DOR). "Robust revenue collection is a good news story," said McAnneny. "But given how volatile tax collections have been in recent years, and the possibility that much of this revenue is non-recurring in nature, now is the time to build our financial resiliency for the future."

According to DOR, tax revenue collections are $961 million above expectations through April. With two months remaining in state fiscal year 2019, it seems likely the Commonwealth will end the year with surplus revenue.

After lagging in recent months, non-withheld income tax payments rebounded considerably in April and exceeded the monthly benchmark by $942 million, bringing it $336 million above benchmark year-to-date. As recently as March, the category was $582 million *below* benchmark, highlighting the volatility in this tax revenue category. Further, corporate and business tax revenue is up more than $600 million year-to-date. Other major tax revenue categories, such as withheld income and sales, are tracking close to projections. While there is no doubt the economy is strong, some portion of this surplus is likely from corporate dividend repatriation, a component of federal tax reform that is one-time in nature. Budget writers had estimated the impact at $65 million, but this was likely too conservative.

While further analysis is required to identify specific amounts, McAnneny articulated three broad principles of financial resiliency to keep in mind as the prospect of surplus revenue is considered. They are summarized as follows:

- **Build reserves for the next recession** – The Stabilization Fund is an important counterweight to cyclical fluctuations in revenue. State budget writers projected we would reach $2.5 billion by the end of fiscal 2019. A considerable portion of any potential surplus revenue should go to reaching the next critical milestone for the Stabilization Fund, which is $3 billion. This would represent approximately 7 percent of state spending, or 12 percent of budgeted tax revenue and better position us to withstand recessionary revenue shortfalls.

- **Address unfunded liabilities** – The Commonwealth's unfunded liabilities for pensions and other post-employment benefits (OPEB) exceed $52 billion, according to the most recent Comprehensive Annual Financial Report (CAFR) by the State Comptroller. Surplus revenue should be invested now to gain the benefits of compound interest over time and address this long-term challenge to the Commonwealth's fiscal stability.

- **Make one-time investments in the future** – Improving the transportation system in Massachusetts, mitigating and adapting to the impacts of climate change, and paying for other one-time costs are wise uses of any remaining surplus revenue.

"May and June are important months for tax revenue collection," McAnneny noted. "We should not bank on such a sizeable year-end surplus quite yet. But if there is surplus revenue at the end of the fiscal year, decision makers should strengthen the state's finances and economy by paying down current debt or other obligations, and/or making capital investments in key priorities such as transportation, education and climate resiliency rather than increasing annual operating spending unsupported by sustainable tax revenues."

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