



Massachusetts Taxpayers Foundation

MTF

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April 30, 2020

Mr. Michael J. Heffernan
Secretary of Administration and Finance
The Executive Office for Administration and Finance
24 Beacon Street
State House Room 373
Boston, MA 02133

The Honorable Michael J. Rodrigues, Chair
Senate Committee on Ways and Means
State House Room 212
Boston, MA 02133

The Honorable Aaron Michlewitz, Chair
House Committee on Ways and Means
State House Room 243
Boston, MA 02133

Dear Secretary Heffernan, Senator Rodrigues, and Representative Michlewitz,

The Commonwealth of Massachusetts faces truly unprecedented times as a result of the COVID-19 global pandemic. While everyone remains focused on the most important task of addressing the public health crisis, I write today to highlight items for your consideration as you address the public finance crisis caused by the pandemic.

For nearly 90 years, the Massachusetts Taxpayers Foundation has provided public and private-sector decision-makers with accurate, timely, and unbiased research to strengthen the state's finances and position the Commonwealth for long-term growth.



Fiscal 2020

The efforts to slow the outbreak of COVID-19 are certain to have a significant impact on state tax revenue. The ranks of the unemployed have swelled, reducing income tax collections, and economic activity is curtailed, impacting collections for sales, corporate, and the numerous other excise tax revenues generated by economic activity in the Commonwealth. The magnitude of this impact, however, is difficult to forecast due to its unprecedented nature, the natural lag in the public disclosure of tax revenue collection, as well as the delay in the state tax filing deadline from April 15 to July 15 announced by Gov. Baker, Senate President Karen Spilka, and Speaker Robert DeLeo on March 27, 2020.

Given these factors, MTF provided policymakers with a range of potential scenarios for fiscal 2020 tax collections at the Virtual Economic Roundtable on April 14, 2020 in lieu of a formal revised tax forecast for the year. These scenarios highlight the magnitude of a tax shortfall. For example, if tax collections are 5 percent below expectations through the rest of fiscal 2020, in combination with a projected shortfall in capital gains tax collections, that would translate to approximately \$830 million less tax revenue than expected for the state budget.¹

Because of where we are in the budget cycle, most of the budget-balancing efforts will fall on the Baker Administration. These may include restricting agency expenditures to maximize unspent balances (reversions), identifying unneeded balances in off-budget trust accounts (trust sweeps), and other efforts (reversing the so-called “MassHealth timing shift”, for example). Given the natural interplay between the state’s fiscal years and the requirement for a balanced budget, I urge you to approach these efforts with a heightened level of financial transparency. Publication of a regular report that summarizes the projected gap between revenue and spending as well as the steps taken to balance the budget would be a valuable resource for decision-makers and stakeholders. Additionally, it would be helpful to publish all letters required to close the books on fiscal 2020 between the Executive Office for Administration and Finance and the Office of the Comptroller.

Efforts to balance the budget will also be complicated by the extended tax filing deadline mentioned above. The postponed deadline means that some portion of an

¹ [FY2021 Tax Revenue Forecast – COVID-19 Pandemic](#), Massachusetts Taxpayers Foundation, April 14, 2020. Page 9.



expected \$9 billion in fiscal year 2020 tax revenue will be collected during state fiscal year 2021 and policymakers will need to determine how to account for this. Options include extending fiscal 2020 through July as New Jersey has done or developing a process to distinguish between revenue that would have come in during fiscal 2020 instead of fiscal 2021 and then authorizing the Department of Revenue and Comptroller to “book back” this revenue to fiscal 2020 or some other measure.

Fiscal 2021

MTF provided policymakers with a revised fiscal 2021 tax forecast at the Virtual Economic Roundtable on April 14, 2020. This forecast projected \$26.756 billion in tax collections, a decrease of \$4.4 billion compared to the original consensus tax revenue forecast.² On April 16, 2020, MTF followed up this forecast with a revised “taxes available for budget” estimate – the amount of tax revenue available to be allocated by policymakers after adjusting for earmarked sales tax revenue and the annual contribution to the state pension system – of \$21.7 billion, or about 15 percent less than the \$25.621 billion assumed in the consensus forecast.³

In our view, the next step in the budget process per statute is for the Governor to send the legislature a message with corrective amendments to his original budget recommendation filed in January.⁴ Lawmakers will then have just a few weeks to develop a budget before fiscal 2021 begins on July 1. We urge you to ensure that as much of this process occurs in public as is possible, including both public hearings and posting all relevant documents on the Internet in a user-friendly format.

Potential Solutions and Cautionary Notes

It seems highly likely that the fiscal 2021 budget will be most difficult in recent memory. Despite the incredible efforts made in recent years to improve the education funding formula, maintain our commitment to amortizing the unfunded pension obligation by fiscal 2037, and building up the Commonwealth’s “rainy day” fund, you face an array of hard choices on these items and others as you work to balance the budget. This

² For more information, see [FY2021 Tax Revenue Forecast – COVID-19 Pandemic](#), Massachusetts Taxpayers Foundation, April 14, 2020. This forecast was presented at the [Virtual Economic Roundtable](#) hosted by the Senate & House Chairs of Ways & Means and the Secretary of Administration & Finance on April 14, 2020.

³ [COVID-19 Impact: What MTF’s Tax Forecast Means for MBTA, MSBA, “Rainy Day” Fund, and Pension Contribution](#). Massachusetts Taxpayers Foundation, April 16, 2020.

⁴ M.G.L. Chapter 29 § 7H



exercise is made even more challenging by the uncertainty surrounding the role of federal aid in the state budget for fiscal 2020 and fiscal 2021.

Impact on the Student Opportunity Act Implementation

Prior to COVID-19, education finance reform was on track to be the centerpiece of the fiscal 2021 budget. Lawmakers enacted the Student Opportunity Act in November 2019 to make major changes to the financial relationship between the state and public-school districts in Massachusetts. The new law is scheduled to steer more than \$2 billion in additional support for public education over the next seven years (FY2021-2027) through the state's "Chapter 70" funding formula.

After the fiscal impact of COVID-19, however, policymakers may need to modify the implementation schedule for this new law. For example, lawmakers may postpone the start of implementation until fiscal 2022, presumably after the crisis caused by the COVID-19 pandemic has abated.

Annual Contribution to the State Pension System

The Baker Administration and the legislature adopted a new triennial pension funding schedule as part of the consensus tax revenue agreement announced on January 13, 2020. This plan aims to fully amortize the Commonwealth's more than \$40 billion unfunded pension obligations by July 1, 2037 by increasing the annual contribution to the state pension system by 9.6 percent annually. In fiscal 2021, this implies a contribution of \$3.1 billion.

Reducing the pension payment has been used as a short-term cost-saving measure in the past and policymakers may choose to do so again; however, this strategy is not without risk. This step would be viewed unfavorably by credit rating agencies that evaluate the state's creditworthiness. For example, a recent rating by Standard & Poors noted that the state's credit rating would be improved if, "the commonwealth strengthened its pension funding discipline based on a prudent actuarial footing..."⁵

⁵ [Massachusetts; Appropriations; CP; General Obligations; General Obligation Equivalent Security](#), S&P Global Ratings. February 14, 2020. Accessed April 27, 2020.



Federal Funds and Stabilization Fund

As MTF noted in our recent testimony, the total size and scope of federal support for the states is unknown at this time but will have a major impact on the state's fiscal response to the crisis.⁶

Federal assistance will be necessary to weather the present fiscal storm and lawmakers should maximize federal revenue opportunities but do so with a clear understanding of the long-term challenges associated with using non-recurring revenue to balance the state's budget. After the Great Recession in fiscal 2009-2010, it took until fiscal 2012 for budgeted tax revenue to exceed fiscal 2008 levels. Over-reliance on federal funds may make fiscal 2021 easier but put the Commonwealth on course for even more painful tax hikes or spending cuts in future fiscal years. Similar risks are associated with using withdrawals from the 'rainy day' fund and lawmakers should tread carefully.

Tax Law Changes and Other Revenue Proposals

The governor's original budget recommendation included approximately \$311 million in budgeted revenue from tax law changes, including an Accelerated Sales Tax Remittance (ASTR) proposal to change when sales tax trustees remit the taxes to the Commonwealth, a gross receipts tax on the sale of opioids, an administrative cap on the Life Science Tax Credit, and a set of policy changes to address the use of so-called "zappers" that falsify sales tax records.⁷

Gov. Baker's plan also assumed approximately \$61 million in revenue associated with legalized sports betting, a new penalty on excessive price increases on certain pharmaceuticals, and an assumed additional payment from tobacco manufacturers related to the 1998 Master Settlement Agreement litigation.

Similarly, the House of Representatives adopted a major transportation revenue bill in February 2020 that was assumed to generate approximately \$450 million in additional unrestricted revenue for the state budget by increasing the gas tax, imposing new fees on rides provided by companies like Uber and Lyft, and imposing a new corporate minimum tax.

⁶ [FY2021 Tax Revenue Forecast – COVID-19 Pandemic](#), Massachusetts Taxpayers Foundation, April 14, 2020.

⁷ For more information, see [Further Analysis: Closing the Gap on Fiscal 2021](#), Massachusetts Taxpayers Foundation, March 11, 2020.



It is unclear whether any of these proposals are supported by their original proponents in the wake of the COVID-19 pandemic. I urge you to carefully assess whether the cost of new taxes or fees outweighs the benefits at a time when taxpayers are under considerable strain to restart businesses and regain their footing economically.

Conclusion

Thank you and your teams for all the hard work required to respond to the public health crisis caused by COVID-19 and the efforts you will make to balance the state budget while maintaining critical services. These are unprecedented times. Please know that MTF stands ready to assist in any way that we can as a resource for information and analysis to support the Commonwealth's decision-makers during this time.

Sincerely,



Eileen McAnneny
President
Massachusetts Taxpayers Foundation

CC:

His Excellency Charles D. Baker, Governor
State House Room 360
Boston, MA 02133

The Honorable Karen E. Spilka, Senate President
State House Room 332
Boston, MA 02133

The Honorable Robert A. DeLeo, Speaker
State House Room 356
Boston, MA 02133

