

News Release

For Immediate Release

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MTF Proposal: Tighter Standards for Tapping Rainy Day Fund

The Massachusetts Taxpayers Foundation today released a proposal that tightens the standards for using the Commonwealth's stabilization or rainy day fund, ensuring that the fund would be tapped only if there is a drop in revenue growth due to a recession or a slowing economy.

Under MTF's proposal, which would provide clear guidelines for the first time, the fund could be used only if the expected growth in tax revenues is less than the rate of inflation, or if actual tax revenues fall significantly during the year. In addition, the Foundation recommends that the state limit the amount that may be withdrawn each year so that the fund would remain available during a prolonged economic downturn. The recommendations strike a balance between excessively loose criteria that allow the fund to be used to offset even the slightest drop in revenues and overly restrictive standards that would limit the use of the fund to only the most extreme economic situations.

The buildup of the state's rainy day fund represents one of the signal fiscal accomplishments of the Legislature and administration over the past decade. The fund now totals almost \$1.7 billion, close to the statutory limit of 7.5 percent of budgeted revenues, placing Massachusetts among the top five states in terms of the fund's size as a percentage of the state budget. However, 30 of the 45 states that have a rainy day fund tightly restrict its use to address actual revenue shortfalls, significant budget deficits or other serious fiscal emergencies. In contrast, Massachusetts law allows the fund to be tapped under essentially any circumstance and for practically any purpose.

"With the Commonwealth entering a more challenging fiscal period, the state needs to establish guidelines for use of the fund," said MTF President Michael J. Widmer. "The Foundation's proposal would enable the state to manage through difficult economic times while reducing the temptation to use the reserves to support unsustainable rates of spending growth."

The Foundation's proposal addresses two key circumstances in which the fund could be tapped: (1) when revenue growth has declined while the state is preparing the budget for the next fiscal year, and (2) when revenues fail to meet targets during the year, after the budget has been approved.

The specific proposal:

- If the consensus forecast for the rate of growth in baseline tax revenues in the coming year is less than the three-year average rate of inflation, the fund may be used to cover the difference; or
- If on April 15 the Administration estimates that actual tax revenues will fall more than two percent below the amount of tax revenues included in the state budget, the fund may be used to cover that portion of the tax revenue shortfall that exceeds two percent.

However, if actual tax collections exceed the forecast or the revised estimate, a payback provision would require that those additional tax revenues be used to replace the monies initially transferred from the fund. In addition, total withdrawals from the fund in any fiscal year would be capped at 2.5 percent of budgeted revenues, one-third of the fund's statutory limit.

Founded in 1932, the Massachusetts Taxpayers Foundation is an independent, nonprofit organization which conducts research and policy analysis on state and local taxes, government spending and the economy. Dedicated to the public interest, MTF ranks as one of the largest and most effective organizations of its kind in the country. The Foundation has won five prestigious national awards in as many years for its work on capital spending, business costs, management of state budget surpluses, and reform of the MBTA.
