

STATE SAVINGS, SPENDING TO GET LIFT FROM \$1.2 BIL REVENUE SURPLUS

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STATE HOUSE, BOSTON, JULY 6, 2018....Projecting that state tax collections will surpass estimates for the year that just ended by \$1.2 billion, the Baker administration is forecasting a surplus of \$150 million to \$200 million in funds that are not yet earmarked for any purpose and signaling to the Legislature that it may have up to \$200 million in additional money to play with for the fiscal 2019 budget that is nearly a week overdue.

The new revenue forecasts come as the House and Senate are locked in increasingly antagonistic negotiations over a budget that is expected to exceed \$41 billion for the fiscal year that began on Sunday, July 1. In a reversal of the trend over the past couple years that have seen tax revenues drop off each spring, forcing the state to retreat from spending plans, the state is suddenly flush with cash and now may face decisions about how to spend it.

"We are pleased that the Commonwealth's finances are in such a strong position, but we must remain disciplined and keep future spending in line with recurring revenue," Administration and Finance Secretary Mike Heffernan said in a statement.

The one note of caution the administration sounded on Friday was that the excess revenues flooding into state coffers were coming from historically volatile sources and may have a lot to do with decisions made around the federal tax reform law signed by President Donald Trump. The bump in revenues many not carry over into the next year, according to officials who discussed the situation with the News Service.

For instance, \$690 million in excess revenues are believed to have come from capital gains taxes and taxes on other non-withholding income linked to federal tax reform, according to the administration. Another \$300 million in additional corporate tax revenue could be tied partially to the new federal law and the repatriation of foreign investments that will be a non-recurring revenue stream for the state.

The strength of the state's economy, the administration said, has likely contributed to strong corporate profits as well, and collections from traditional income and sales taxes each will exceed estimates by \$80 million.

The amount of discretionary funds, however, may not be as large as it seems it should be.

After accounting for \$90 million less in one-time settlements than had been budgeted and unraveling an attempt that hasn't come to fruition to collect sales taxes in real time, the state will have about \$1 billion in revenue in excess of what had been budgeted for fiscal 2018.

About half of that, or \$450 million to \$500 million in capital gains tax revenues, will be funneled by statute directly into the state's reserve account, which credit rating agencies have been urging the state to build up as a bulwark against the next recession.

Another \$300 million, according to administration officials, is needed to cover spending that has already occurred. In the coming weeks as these tax numbers get finalized, Gov. Charlie Baker is expected to file a supplemental spending bill to close the books on fiscal 2018 that will enumerate those expenses.

That leaves an estimated \$150 million to \$200 million in unallocated revenue that, if left untouched, would also go into reserves, but could also be spent by lawmakers. Administration officials said the governor will have more to say about his preference for the use of those funds when he files the close-out budget bill.

Lawmakers and the Baker administration have already approved \$168 million in spending spread over three mid-year spending bills approved this fiscal year, but that money was already accounted for in January when Baker revised the state's revenue forecast upward by \$157 million.

This is all good news for those on Beacon Hill who are still reeling from a Supreme Judicial Court decision that took a potential new revenue source -- a surtax on millionaires -- off the ballot for November and left questions about where new money would come from to invest in a long list of priorities like transportation and education.

After needing to lower their revenue estimate in each of the last two budget cycles, House Speaker Robert DeLeo and Senate budget conferee Sen. Joan Lovely have acknowledged that budget negotiators are currently giving their fiscal 2019 revenue estimate a second look, but with the possibility of raising it.

While cautioning that she was not saying the estimate would be changed, Lovely told the News Service last week, "They're coming to an agreement on what that number's actually going to look like."

Baker budget officials said they are not yet ready to formally revise upward the revenue estimate for fiscal 2019, but are comfortable projecting that revenues may come \$100 million to \$200 million higher than the estimates agreed to in January to build the new state budget.

Using a higher estimate might enable Democrats in the House and Senate to resolve differences over spending proposals. The business-backed Massachusetts Taxpayers Foundation has also suggested an adjustment to the estimate might be warranted.

June is the second biggest tax collection month of the year, behind April. Revenue Commissioner Chris Harding in a June 20 letter to House Ways and Means Chairman Jeffrey Sanchez and Senate Ways and Means Chairwoman Karen Spilka reported the state collected \$1.717 billion from taxpayers over the first half of June.

That's up \$370 million or 27.4 percent compared to the same period in June 2017. Administration officials project that tax revenue growth for the year may approach 8 percent.

Income taxes totaled \$872 million and were up 17 percent over the first half of the month, sales and use tax collections of \$114 million were up 16.1 percent, and corporate and business collections of \$647 million were up 48 percent.

Capital gains tax collections have been pouring into state coffers this fiscal year at such a high volume that it's triggered a \$290 million deposit into the state's rainy day fund, with a second large automatic deposit likely based on capital gains collections in June. The administration expects that some \$450 million to \$500 million could ultimately wind up being funneled into the state's reserves.

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