



**MASSACHUSETTS  
HIGH TECHNOLOGY  
COUNCIL**

## ***HIGH TECH NEWS***

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### **Putting the State On the Path to Fiscal Stability Council's Budget Growth Limit Update**

**New Limit is  
Born ...**

On July 29, the Council scored one of its largest public policy gains in recent years when **Governor Jane Swift** signed into law the state's **\$22.95 billion** budget for fiscal year 2003, in the process approving a Council-supported long-term budget growth limit that will help prevent a future repeat of this year's fiscal crisis.

**Finneran, Swift  
Key Players ...**

The budget growth limit, the product of a compromise between **Speaker Thomas Finneran (D-Mattapan)** and Swift, will cap the amount available for annual state budget expansion by limiting spending increases to two percent plus the rate of inflation. Had the limit been in place over the past decade, the state budget would have come in under \$21 billion for FY 03, rather than the \$23 billion approved by the Legislature. This more than \$2 billion difference roughly equals the deficit that was filled by increasing taxes, cutting services and tapping rainy day funds.

**Prevent Future  
Tax Hikes ...**

Early this spring, the Council's **Executive Committee** called for the establishment of a statutory cap to control state spending growth before considering any tax hikes. While the Council opposed the specifics of the Legislature's tax package, the growth limit provides discipline so that tax rates will not need to be raised in the future.

**Government Won't  
Grow Too Fast ...**

The version of the limit proposed by the Council in April differed from the one that ultimately became law. While the Council based its annual growth rate on the three-year average of wage and salary growth, the state method used inflation plus a static two percent growth factor. In the end, both limits work to ensure that the public sector will not grow faster than the private sector in good and bad economic periods.

**More Relief to  
Taxpayers  
Sought ...**

One major difference in the philosophy of the plans was what should be done with the revenues above the limit. The Council plan would have returned all excess funds to the taxpayers – to stimulate the economy and provide relief for overburdened taxpayers, particularly in the wake of a \$1.2 billion tax increase last spring. The final state plan divides the surplus among the rainy day fund, capital improvement projects, open space protection and also returns a modest amount to the taxpayers.

**Would Have  
Prevented Fiscal  
Crunch ...**

If adopted a decade ago, the Council plan would have returned nearly \$10.7 billion to Massachusetts taxpayers between 1992 to 2001, as opposed to just over \$4 billion under the state plan for the same period. However, the state plan would have reduced aggregate state spending by nearly \$12 billion over the same 10-year period, while the Council plan would have suppressed state spending by an aggregate \$9 billion. See Table 1 for more detail on the impact both plans would have had on state finances if implemented in 1992.

Table 1

## Comparisons of Mass High Tech Method and New State Method

FY	Tax Revenues (\$ 000)			Actual - Allowable (\$ 000)		Transfers to Tax Reduction Fund (\$ 000)	
	(A)	(B)	(C)	(D)	(E)	(F)	(G)
	Actual	Allowable: Mass High Tech Method	Allowable: New State Method	Mass High Tech Method [A - B]	New State Method [A - C]	Mass High Tech Method	New State Method
1990	8,518,000	9,500,609	8,518,000	-982,609	0	0	0
1991	8,995,000	9,438,360	8,995,000	-443,360	0	0	0
1992	9,484,000	9,434,866	9,315,798	49,134	168,202	49,134	16,820
1993	9,930,000	9,598,110	9,749,897	331,890	180,103	331,890	18,010
1994	10,607,000	9,825,083	10,177,338	781,917	429,662	781,917	42,966
1995	11,165,000	10,241,968	10,696,864	923,032	468,136	923,032	46,814
1996	12,049,000	10,744,318	11,198,713	1,304,682	850,287	1,304,682	85,029
1997	12,865,000	11,377,263	11,682,469	1,487,737	1,182,531	1,487,737	118,253
1998	14,026,000	12,163,735	12,125,942	1,862,265	1,900,058	1,862,265	776,628
1999	14,291,000	13,078,865	12,599,943	1,212,135	1,691,057	1,212,135	818,161
2000	15,689,000	14,166,200	13,406,244	1,522,800	2,282,756	1,522,800	959,653

2001	16,729,000	15,538,905	14,205,273	1,190,095	2,523,727	1,190,095	1,191,859
<b>TOTALS</b>	<b>144,348,000</b>	<b>135,108,282</b>	<b>132,671,479</b>	<b>9,239,718</b>	<b>11,676,521</b>	<b>10,665,687</b>	<b>4,074,193</b>

**Council Maintains  
Watchdog Role ...**

The final version of the state plan is the product of the legislative process, but is built squarely on the plan that the Council began pushing early in the year. Overall, it moderates spending growth, protects against the boom and bust budget cycle and provides some relief to Bay State taxpayers. The Council will work closely with the Legislature and the next Administration to ensure the letter and spirit of the new budget growth limit are met.

**Huge Cost to  
Businesses,  
Employees ...**

Because of continually sliding state revenues, the budget growth limit will most likely not trigger in fiscal year 2003, which ends next June 30. Through the first two months of FY03, revenues are down 3 percent, or \$65 million, from last fiscal year. So it appears the next fiscal debate on Beacon Hill will be a repeat of this summer – how to close a billion dollar projected deficit. We will keep you apprised on the status of the budget growth limit on a quarterly basis. The Council would like to thank **David Tuerck and Rebecca Moryl from Suffolk University's Beacon Hill Institute** for their research support through the entire process.