FACT SHEET - STABILIZATION FUND CONSTITUTIONAL AMENDMENT

As Massachusetts begins to emerge from the budget crisis that began in FY 2002, several competing proposals have been offered that would shape the Commonwealth's fiscal policy for years to come. One such proposal would amend the Massachusetts Constitution to mandate annual deposits into the Commonwealth Stabilization Fund and to impose restrictions on future withdrawals from the Fund. This fact sheet details some of the shortcomings of that amendment and discusses other budget process rules that could help to prevent future deficits.

Specific Provisions of the Amendment Could Prove Problematic

Three provisions of the proposed amendment could hinder the Commonwealth's ability to respond to fiscal challenges in the future. Those provisions would:

1. *Subject withdrawals from the Stabilization Fund to a two-thirds vote in each branch of the general court.* Consequently, just 14 Senators could block the use of rainy day funds in the midst of a fiscal crisis. In turn, the Legislature would be forced to consider either more wrenching changes – such as deeper cuts in essential public services – or less responsible ones – such as securitizing annual tobacco settlement payments – in order to balance the budget.

2. *Limit total withdrawals from the Fund in any given year to no more than 50 percent of its balance.* This too could create a dynamic in which less desirable approaches to closing a particular budget gap would need to be used.

3. *Potentially mandate deposits into the Fund during periods of fiscal stress.* The proposed amendment would require the Commonwealth to set aside each year, in the Stabilization Fund, a sum equal to one percent of the preceding year's total tax receipts. That requirement would be lifted only in a year in which tax receipts have declined from the preceding year or in the first year immediately following a year in which receipts have declined. However, during the fiscal crisis of the early 1990s, tax receipts did not fall from year to year, while the more recent crisis has continued beyond the second year of relief allowed for by the proposed amendment.

Other Rules Could Help to Prevent Structural Deficits

Until 2003, the federal budget process was governed, in part, by what were known as "PAYGO" rules, which stipulated that any legislation to cut taxes or to increase entitlement spending had to offset such changes with a corresponding tax increase or entitlement spending reduction elsewhere in the budget. The adoption of similar rules in Massachusetts could help to prevent permanent, large-scale tax cuts from jeopardizing the Commonwealth's long-term fiscal health. For instance, Massachusetts could put in place rules that would:

- Require that, in any given year, any tax revenue that exceeds a specified baseline be deposited in a newly-created Fiscal Responsibility Fund (FRF);

- Prohibit appropriations from the FRF except for non-recurring uses;

- Ensure that the full fiscal impact of any tax cut or spending increase is not shifted off into future years, by requiring that the difference between the current cost of any such tax cut or spending increase and its full annualized cost be deposited in the FRF.

Variations on these rules are of course possible, but the basic goals should remain the same: the promotion of long-term thinking about fiscal policy, the preservation of the Commonwealth's flexibility in addressing changing economic and fiscal circumstances, the recognition that tax cuts should be treated in the same manner as spending increases, and the accumulation of budgetary reserves during times of prosperity.

Last updated: June 23, 2004