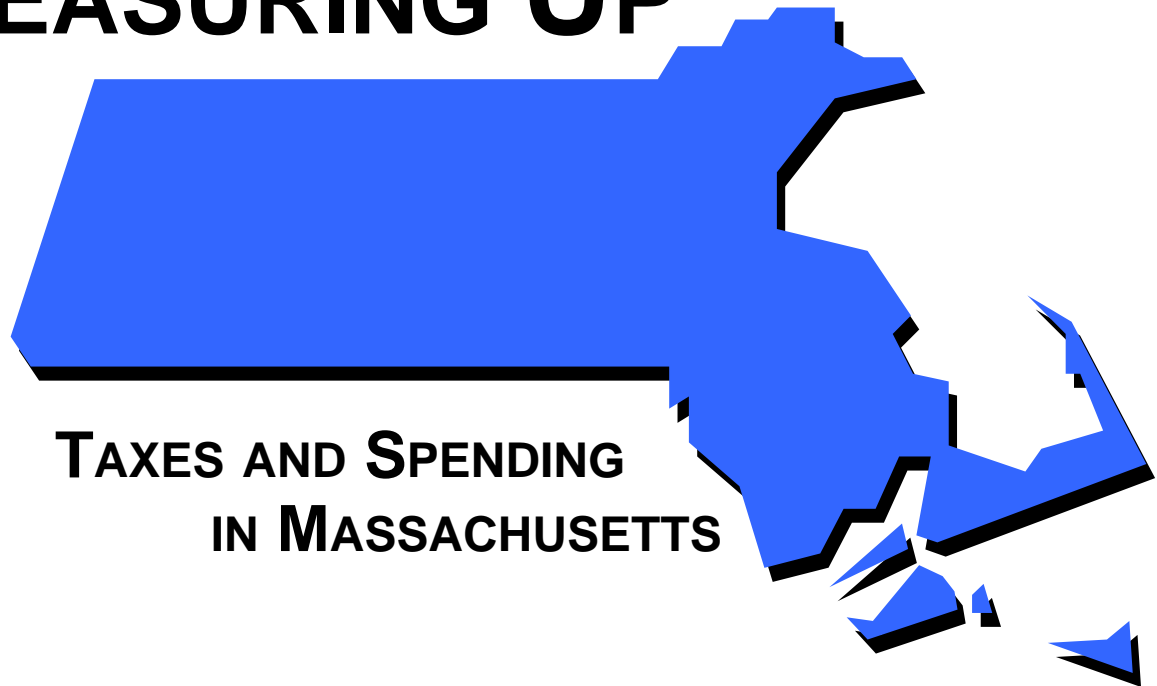


MEASURING UP



TAXES AND SPENDING IN MASSACHUSETTS

NOVEMBER 2006



MASSACHUSETTS

BUDGET AND POLICY CENTER

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FY 2004 edition

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MASSACHUSETTS
BUDGET AND POLICY CENTER

The Massachusetts Budget and Policy Center provides independent research and analysis of state budget and tax policies, as well as economic issues, that affect low- and moderate-income people in Massachusetts. Work on this project was supported by grants from the Ford Foundation, the Charles Stewart Mott Foundation, the New Prospect Foundation, and the New Directions Foundation, as well as from other institutional and individual donors.

MEASURING UP

Taxes and Spending in Massachusetts – FY 2004

Executive Summary

Each year the state enacts a budget that reflects critical decisions about the share of the resources of the people of Massachusetts that will be dedicated to public purposes: police to protect local communities; schools to educate today's children and tomorrow's workforce; public health initiatives and environmental protection efforts to protect people's health and the health of the natural world around them; and much more. Such decisions should not take place in a vacuum. By comparing Massachusetts tax and spending levels to other states, this report aims to inform those decisions.

Based on revenue and expenditure data for state and local governments collected by the U.S. Census Bureau for fiscal year 2004 – the latest year for which such data are available – this report examines the major sources of revenue for the Commonwealth (and its localities) and the categories of spending to which that revenue is distributed. In addition, it compares Massachusetts to the other 49 states of the union on the basis of the amount of revenue generated through various methods and on the basis of the amount of spending devoted to certain program areas. Finally, this report illustrates the manner in which the Commonwealth's tax levels and spending priorities have changed over the last two decades or so.

The picture that emerges is clear. Simply put, the data presented in this report demonstrate that both taxes and expenditures in Massachusetts – relative to the size of its economy – are lower than in most states. Moreover, the Census data indicate that Massachusetts' current position among the states is due in large measure to a sizable long-term reduction in the share of economic resources the Commonwealth – and its cities and towns – collect in revenue.

Some of the report's specific findings include:

State and Local Revenue

- Total state and local “own-source” revenue (i.e. taxes, fees, and charges levied by the Commonwealth and its municipalities) amounted to a smaller share of personal income in Massachusetts than in all but seven other states; that is, Massachusetts ranks 43rd among the 50 states. In fiscal year 2004, state and local “own-source” revenue amounted to 14.2 percent of personal income in Massachusetts, compared to the national average of 15.6 percent. State and local own-source revenue would have been \$3.5 billion higher in FY 2004 if Massachusetts had been at the national average.
- Massachusetts also ranked in the bottom half of all states in terms of total state and local taxes as a share of personal income. In the Commonwealth in FY04, state and local taxes equaled 10.4 percent of personal income, below the overall national level of 10.7 percent and 32nd out of the 50 states.

- While both own-source revenue and state and local tax revenue, when measured as a share of personal income, have risen modestly over the past few years, they remain below the average levels that obtained in the 1990s and are considerably below the levels reached in the late 1970s. In fact, over the long-term, Massachusetts has reduced both own-source revenue and state and local tax revenue – again, relative to personal income – more than just about any other state in the nation. In fact, between FY 1978 and FY 2004, state and local tax revenue as a share of personal income declined nearly 25 percent in Massachusetts, the next to largest decline in the country.
- Over the short-term – namely, the five year period encompassing FY 2000 through FY 2004 – own source revenue grew modestly in Massachusetts, rising from 13.9 percent to 14.2 percent of personal income. During the same period, however, state and local taxes in Massachusetts declined from 10.5 percent of personal income to 10.4 percent. Non-tax revenue such as fees, charges, and other miscellaneous general revenue climbed from 3.4 percent of personal income in Massachusetts in FY00 to 3.9 percent in FY04, a jump of 13 percent and the second largest increase in the country over that time frame.

State and Local Expenditures

- Since a state’s level of spending is, to some extent, a function of the level of revenue it raises, it should come as no surprise that, in FY04, Massachusetts ranked fairly low – 39th – in terms of total state and local spending as a share of personal income. In FY04, state and local direct general expenditures amounted to 18.6 percent of personal income in Massachusetts, but 20.2 percent for the United States in its entirety, a difference of approximately 9 percent.
- Massachusetts spent less, as a share of income, on elementary and secondary education, on higher education, and on education overall than virtually every state in the nation in FY04. In fact, Massachusetts ranked 48th on overall spending on education, 48th on spending for elementary and secondary education, and 50th on spending for higher education that year.
- Massachusetts also ranked exceptionally low in terms of spending on wages and salaries for state and local government employees (such as teachers, firefighters, and police officers). Massachusetts placed 48th in this category in FY04. This, in part, reflects Massachusetts’ comparatively small public workforce. In 2004, the Commonwealth and its cities and towns employed 55.7 government workers per 1,000 residents. Only four states had fewer state and local government employees relative to the size of their overall populations in 2004.

Introduction

Each year the state enacts a budget that reflects critical decisions about the share of the resources of the people of Massachusetts that will be dedicated to public purposes: police to protect local communities; schools to educate today's children and tomorrow's workforce; public health initiatives and environmental protection efforts to protect people's health and the health of the natural world around them; and much more. Such decisions should not take place in a vacuum. By comparing Massachusetts tax and spending levels to other states, this report aims to inform those decisions.

Based on revenue and expenditure data for state and local governments collected by the U.S. Census Bureau for fiscal year 2004 – the latest year for which such data are available – this report examines the major sources of revenue for the Commonwealth (and its localities) and the categories of spending to which that revenue is distributed. In addition, it compares Massachusetts to the other 49 states of the union on the basis of the amount of revenue generated through various methods and on the basis of the amount of spending devoted to certain program areas. Finally, this report illustrates the manner in which the Commonwealth's tax levels and spending priorities have changed over the last two and a half decades.

The picture that emerges is clear. Simply put, the data presented in this report demonstrate that both taxes and expenditures in Massachusetts – relative to the size of its economy – are lower than in most states. Moreover, the Census data indicate that Massachusetts' current position among the states is due in large measure to a sizable long-term reduction in the share of economic resources the Commonwealth – and its cities and towns – collect in revenue.

To elaborate, in order to create a proper standard for comparison, nearly all of the tax and spending measures in this report are based on combined state and local data and are expressed as a share of personal income. Combined state and local data are used, rather than simply state data, since responsibilities for levying and collecting taxes and for providing public services vary by jurisdiction across states. These data, in turn, are expressed as a share of state personal income, as that measure takes into account each state's ability to finance its respective level of taxes and services.¹ Dollar to dollar comparisons, to some extent, would simply mirror differences in population among the states, while per capita measures would not account for differences in the economic resources available in each state.

As an illustration, consider that, in FY 2004, Massachusetts raised about \$27 billion in state and local taxes, while Florida collected close to \$54 billion. Obviously, a significant portion of this difference can be attributed to the fact that 6.4 million people lived in Massachusetts that year and 17.4 million lived in Florida. Thus, a common standard for comparison is necessary; this

¹ State personal income is defined by the U.S. Department of Commerce's Bureau of Economic Analysis (the agency responsible for compiling such data) as "the income that is received by all persons [residing in a state] from all sources [and] is calculated as the sum of wage and salary disbursements, supplements to wages and salaries, proprietors' income ... rental income ... personal dividend income, personal interest income, and personal current transfer receipts, less contributions for government social insurance." The personal income data employed in this report were downloaded from the Bureau of Economic Analysis website (<http://www.bea.gov/bea/regional/sqpi>) on September 27, 2006 and have been adjusted to reflect income for fiscal year 2004 for each state.

report follows a regular practice of public finance analysis and converts each dollar figure to a percentage of state personal income. In FY 2004, state personal income in Massachusetts was \$260.8 billion and \$539.4 billion in Florida. Dividing Massachusetts' \$27 billion in state and local taxes by \$260.8 billion yields 10.4 percent and dividing Florida's roughly \$54 billion in state and local taxes by \$539.4 billion produces 10.0 percent, suggesting that the two states' overall tax burdens are much more similar than they first appear.

One particular shortcoming of the personal income data employed in this report is worth emphasizing. The state personal income data compiled by the US Bureau of Economic Analysis and used throughout this report excludes income from capital gains (i.e. the income received from the sale of stocks or other assets). As a result, the measures in this report tend to overstate the share of economic resources collected via a particular tax or allocated to a particular category of expenditure. Stated slightly differently, if capital gains income were included in personal income, the denominator of each of the measures in this report (i.e. total personal income) would be larger and thus produce smaller fractions (i.e. a particular tax or expenditure as a share of personal income) overall. Further, the degree to which the failure to include capital gains income in the definition of personal income results in overstatements of taxes and expenditures varies with the amount of capital gains income – the larger the amount of capital gains realized in a given year, the more taxes and expenditures, measured as a share of personal income, are overstated.

Critics of expressing taxes and expenditures relative to personal income will observe that Massachusetts ranks relatively low on many tax and spending measures, when they are calculated in this fashion, because it has a fairly sizable economy, reflected in the amount of personal income. Yet, this is precisely the point. Massachusetts does have a relatively large amount of personal income. Its \$260.8 billion in personal income in FY04 was the tenth largest amount among the fifty states. However, Massachusetts does not use the economic resources available within its borders in the same way that other states do. That is, the Commonwealth ranks relatively low because of the choices that voters in Massachusetts and their elected officials have made about how to use those economic resources or, more precisely, the degree to which those economic resources should be devoted to securing public goods. In the end, the Commonwealth is in a relatively fortunate position in that, as a more affluent state, it could collect the same share of personal income in state and local taxes as average-income states, and yet have more revenue. To some degree this revenue is needed because Massachusetts, like most high income states, is also a high cost state. A high income state like Massachusetts has a very different cost structure than a low income state like Mississippi. Both private and public sector institutions pay more in Massachusetts for labor, facilities, health care and other basic expenses. But, in addition to compensating for high costs, the high overall income levels can also allow Massachusetts – without taxing at higher rates than other states – to provide higher quality education, public safety, and other basic public services.

While this report is based on data for FY 2004 – the most recent year for which such data are available from the Census Bureau – it seems unlikely that the events of the past several years will fundamentally alter its conclusions. For example, state tax revenue growth in Massachusetts has exceeded expectations in each of the past two fiscal years and has thus permitted the Commonwealth to begin to restore funding in a variety of program areas. Yet, state tax revenue

growth has been somewhat slower in Massachusetts than in other states over this period. Based on data from the Rockefeller Institute for Government at the State University of New York (Albany), state tax revenue in Massachusetts grew at an average annual rate of 7.6 percent between FY 2004 and FY 2006, a rate that surpassed those in only nine out of the 45 states for which complete data are available.² Personal income growth in Massachusetts has similarly lagged behind the rest of the country during this time frame. The Commonwealth's average annual growth rate of 5.3 percent was 37th out of the 50 states between FY 2004 and FY 2006. The combination of these two trends suggests that a dramatic shift in Massachusetts' relative position among the states is doubtful. Of course, state taxes are only one aspect of the trends examined in this report, but they are a major one, as they comprise a significant portion of own-source revenue, as well as total state and local tax revenue, and, by extension, help to determine the amount of economic resources dedicated to each category of expenditure.

State and Local Revenue

Overview

According to the U.S. Census Bureau, in fiscal year 2004, Massachusetts state and local general revenue totaled \$47.2 billion. The majority of those funds – more than \$37.1 billion or 78.6 percent – came from sources within the Commonwealth. The federal government provided the remaining 21.4 percent through such means as grants or matching funds. This report focuses on the former type of revenue – commonly referred to as “own-source” revenue – as it derives most directly from the residents of the Commonwealth and as it is the funding stream over which state and local officials exert the most control.

Under the Census Bureau's classification system, own-source revenue can likewise be separated into two categories: revenue generated by taxes and revenue attributable to fees, charges, and other sources, such as tuition for public institutions of higher education or highway tolls. In FY 2004, state and local tax revenue in Massachusetts amounted to \$27.0 billion or 72.8 percent of total own-source revenue, while fees, charges, and miscellaneous revenue equaled \$10.1 billion, thus providing the remaining 27.2 percent.

In turn, as Figure 1 illustrates, three types of taxes account for the bulk of tax revenue in the Commonwealth. The single largest source of tax revenue in FY 2004 were the property taxes levied by the Commonwealth's cities and towns, which, taken together, generated 26.4 percent of own-source revenue that year. The personal income tax produced nearly a quarter – 23.8 percent – of own-source revenue in FY04, while sales and excise taxes yielded 15.5 percent. The corporate income tax and other taxes (which include license taxes) were responsible for significantly smaller shares of total own-source revenue – 3.5 percent and 3.6 percent respectively.

² Author's calculations based on data downloaded from <http://rfs.rockinst.org/data/revenue> on October 2, 2006.

Figure 1.

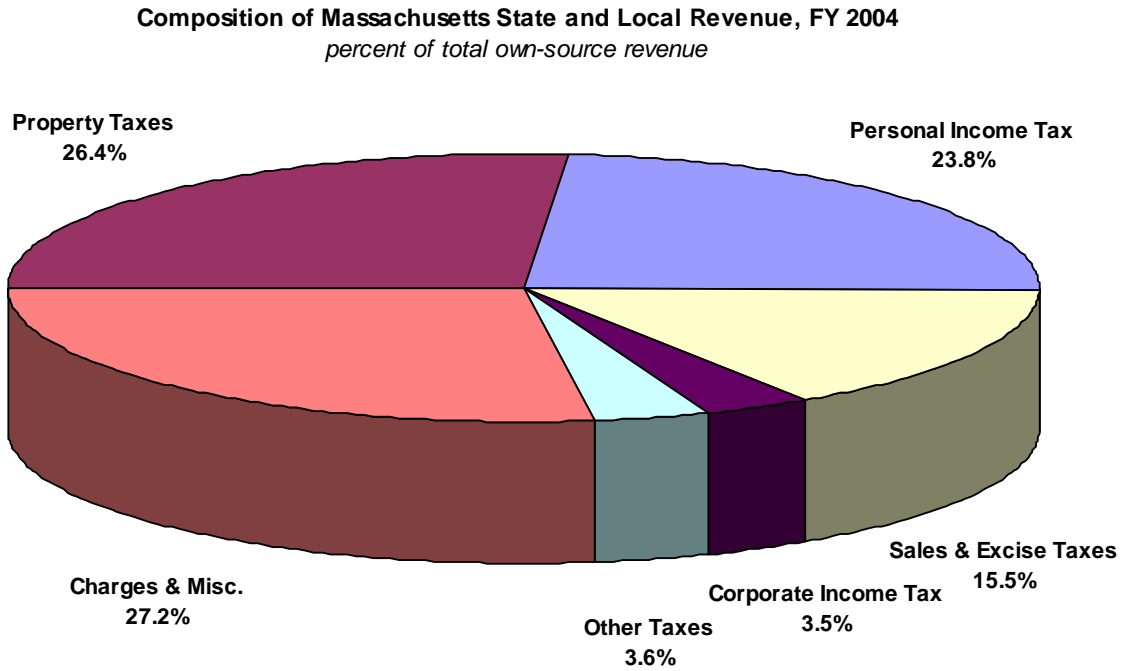
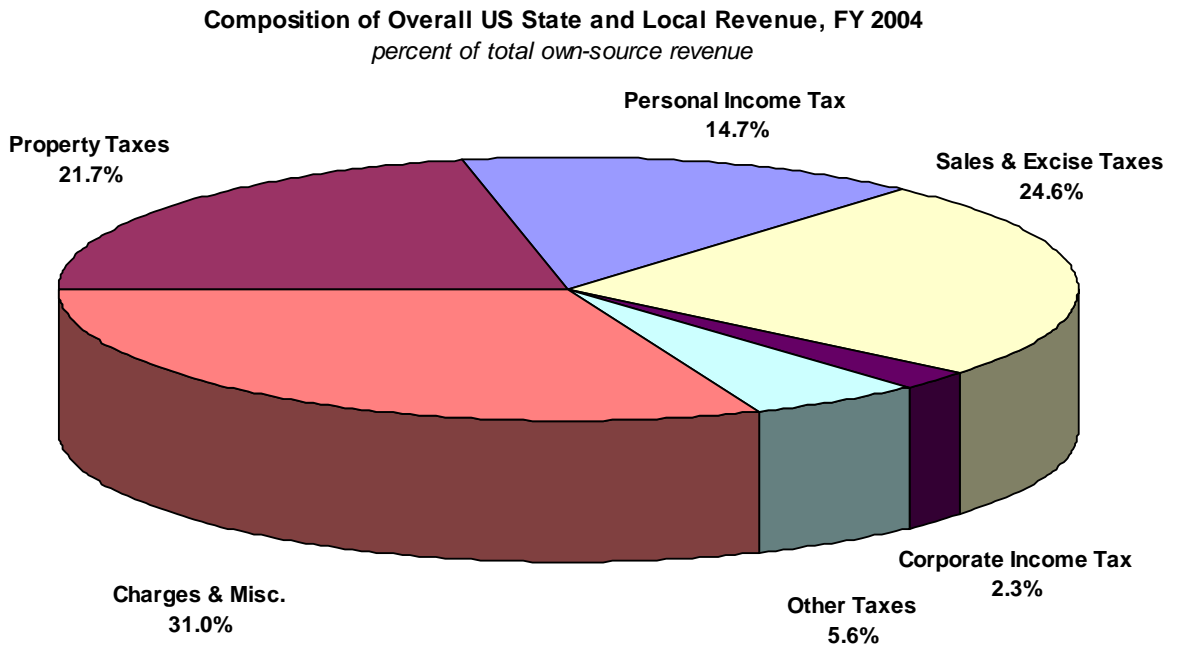
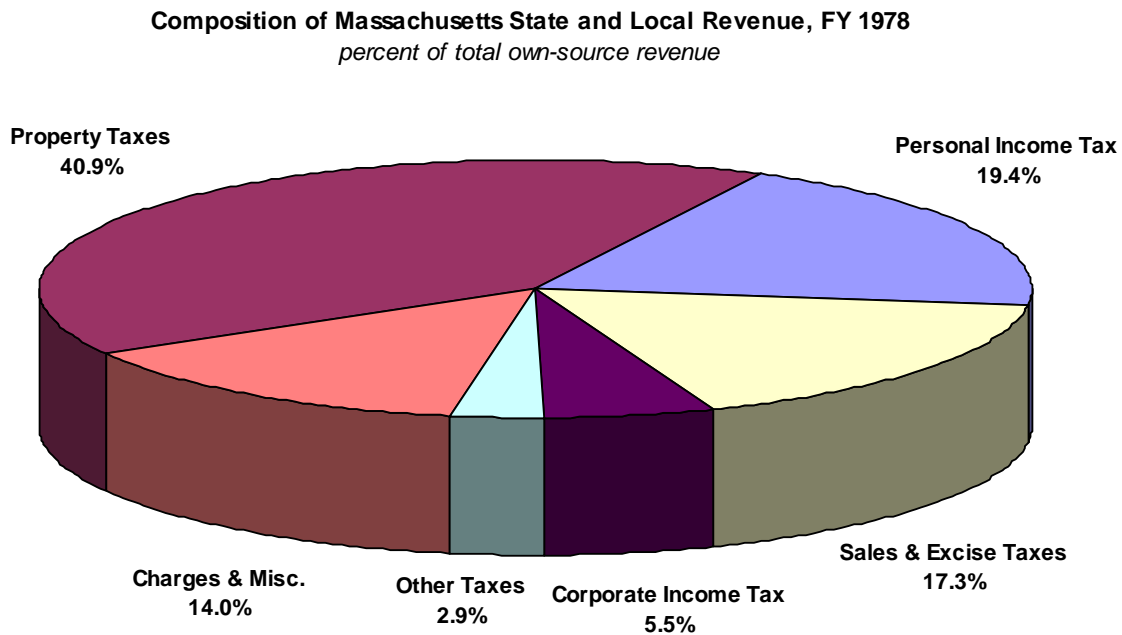


Figure 2.



This particular composition of own-source revenue stands in contrast not only with the fifty states in the aggregate, but also with the Massachusetts of roughly twenty-five years ago, as Figures 2 and 3 reveal. In the aggregate, states relied even more heavily on charges and miscellaneous general revenue than Massachusetts did in FY04; sales and excise taxes also produced a larger share of own-source revenue nationally than they did here in Massachusetts. On the other hand, states on the whole counted on property and personal income taxes less than Massachusetts did in FY 2004. These differences mean that the system by which Massachusetts generates revenue for essential public services is likely more equitable than most other states' revenue systems, since both fees and other charges and sales and excise taxes tend to be regressive. In fact, data from the Institute on Taxation and Economic Policy's 2003 study, *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*, suggest that Massachusetts' tax system (which, by definition, excludes miscellaneous general revenue) is on the whole regressive, but is still more fair than the tax systems of more than half the states.

Figure 3.



When the composition of own-source revenue in Massachusetts in FY 2004 is compared to that for FY 1978, several differences stand out. First and foremost, in the late 1970s – before the property tax-cutting initiative known as Proposition 2 ½ was adopted – Massachusetts depended on property taxes to a far greater degree than it does at present. In FY 1978, property taxes comprised 40.9 percent of all own-source revenue, whereas, in FY 2004, it composed 26.4 percent. In addition, in FY78, both the personal income tax and charges and miscellaneous revenue were not nearly as important to the state's fiscal condition as they are today. These two sources of revenue respectively amounted to 19.4 percent and 14.0 percent of own-source revenue in FY78, but represented 23.8 percent and 27.2 percent in FY04. Of course, the very

constraints imposed by Proposition 2 ½ make it unlikely that the Commonwealth could return to a situation in which the personal income tax played the smaller role it once did. State government in Massachusetts now relies on that form of taxation to generate the revenue necessary to finance aid to local governments to make up for the funds lost to Proposition 2 ½. While the preceding comparisons reveal both important differences between Massachusetts and the rest of the country and critical changes within the Commonwealth over time with regard to the composition of revenue, it is also useful to examine state and local taxes relative to the size of the Massachusetts economy and how that relationship compares to other states. One approach that can be used in such an examination is to measure all of the own-source revenue collected by a state as a share of that state's personal income. (Recall that own-source revenue consists not only of all the taxes that a state and its localities may levy but also all of the fees and other miscellaneous charges they may collect.)³ Figure 4 presents data on own-source revenue as a share of personal income for both Massachusetts and the United States as whole for the period FY 1978 to FY 2004. It shows that total own-source revenue amounted to 14.2 percent of personal income in Massachusetts in FY 2004, below the comparable national mark of 15.6 percent of personal income.⁴ Moreover, Figure 4 indicates that, although own-source revenue, as a share of income, has grown in Massachusetts since FY 2002 – just as it has risen nationwide – it remains below its average level from the 1990s and is still considerably below the level that obtained in the late 1970s.⁵

Another less comprehensive, but more commonly used, measure of government revenue is total state and local taxes. Accordingly, Figure 5 displays data on state and local taxes, measured as a share of personal income, for both Massachusetts and the United States as whole for the period FY 1978 to FY 2004. As was the case with own-source revenue, state and local taxes, when expressed as a share of personal income, were lower in Massachusetts than for the fifty states overall in FY04. State and local taxes equaled 10.4 percent of personal income in Massachusetts that year, but were 10.7 percent of personal income nationally. Such differences may appear quite small, but, had Massachusetts been at the national mark in FY04, the Commonwealth, in combination with its cities and towns, would have collected an additional \$990 million. In addition, though state and local taxes as a share of personal income in Massachusetts were higher in FY04 than they were in FY02, they were still lower in FY04 than they were through much of the 1980s and all of the 1990s.

³ A recent memorandum from the New England Public Policy Center at the Federal Reserve Bank of Boston suggests that “the best simple measure of tax burden is widely considered to be total own-source revenue as a share of personal income.” Memorandum from Matthew Nagowski, New England Public Policy Center, the Federal Reserve Bank of Boston to David Emer, Office of Massachusetts Representative James B. Eldridge, July 2006, downloaded from <http://www.bos.frb.org/economic/neppc/memos/2006/nagowski071306.pdf> on October 2, 2006.

⁴ Tables presenting total own-source revenue (as well as individual types of tax revenue) as a share of personal income for each of the fifty states for FY 2004 appear later in this section of the paper.

⁵ The U.S. Census Bureau did not publish its state and local government finance data on a fifty state basis for either FY 2001 or FY 2003; Figures 4 and 5 thus have gaps for Massachusetts for those years.

Figure 4.

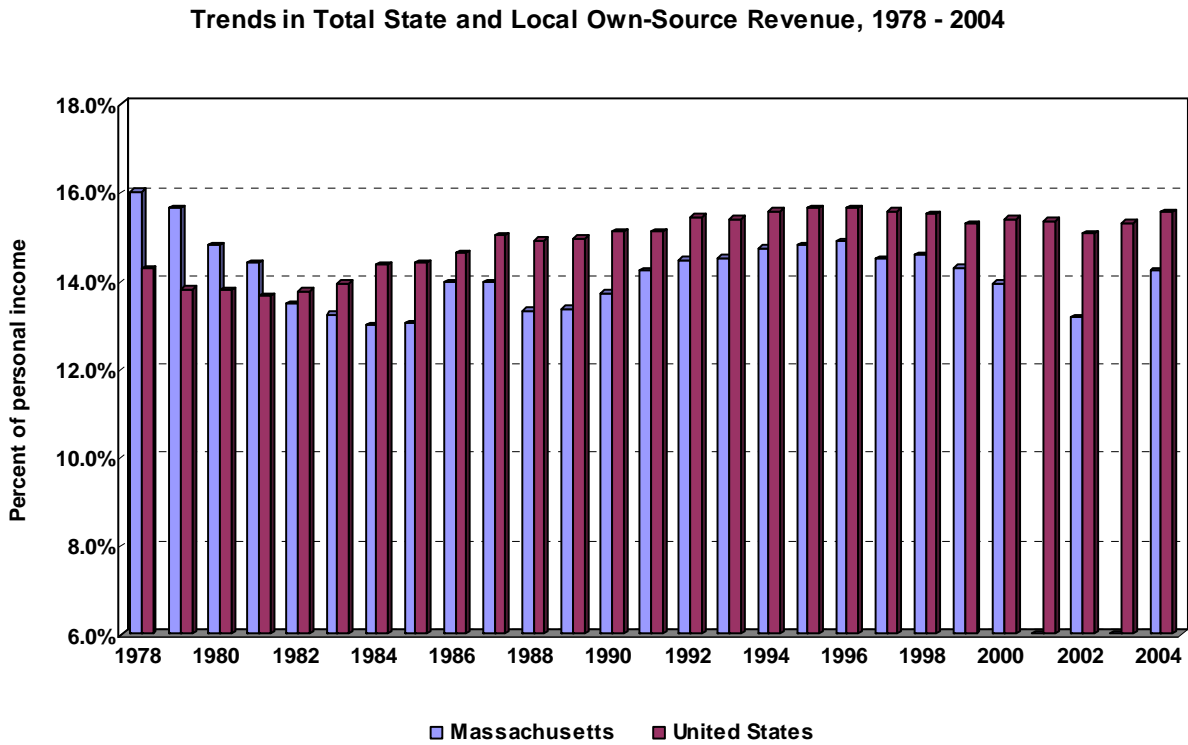
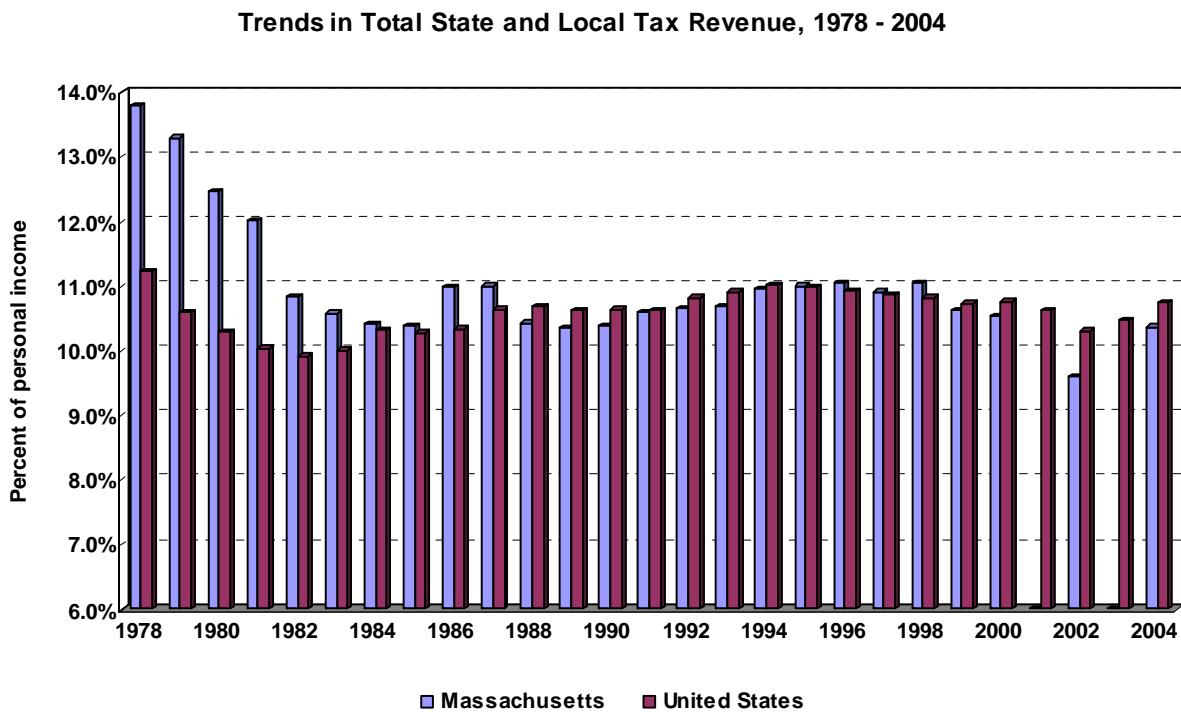


Figure 5.



Figures 4 and 5 demonstrate that own-source revenue generally – and taxes in particular – are lower in Massachusetts, relative to the size of the Commonwealth’s economy, than they are in the rest of the country. They show as well that, within Massachusetts, own-source revenue generally – and taxes in particular – are lower now than they were near the end of the 1970s and for most of the 1980s and 1990s. Figures 6 and 7 below put these two points in an even broader context and show how changes in own-source revenue and in taxes in Massachusetts compare to those in other states, over both the long-term (the period from FY 1978 to FY 2004) and the short-term (the period beginning with FY 2000 and ending with FY 2004).

Figures 6 and 7 make it quite clear that few states in the nation, relative to their available economic resources, have reduced either own-source revenue or tax revenue as much as Massachusetts has over the long-term. Own-source revenue in Massachusetts fell from 16.0 percent of personal income in FY 1978 to 14.2 percent of personal income in FY 2004, a decline of 11.2 percent. As Figure 6 shows, however, most states over this time frame went in the opposite direction, with 43 states experiencing an increase in own-source revenue as a share of personal income; indeed, for the United States as a whole, own-source revenue rose from 14.2 percent of personal income to 15.6 percent, a jump of 9.5 percent. In the end, none of the fifty states have witnessed a larger long-term decline in own-source revenue relative to personal income than Massachusetts.

Similar trends hold when one examines long-term changes in state and local tax revenue. Between FY78 and FY04, state and local taxes, as a share of personal income, rose in 27 states, though in the aggregate, state and local taxes fell 4.3 percent (from 11.2 percent of personal income in FY78 to 10.7 percent in FY04). In Massachusetts, state and local taxes dropped from 13.8 percent of personal income to 10.4 percent, a difference of 24.9 percent. Only Alaska reduced state and local taxes more, relative to personal income, over this span of time.

Over the short-term, own-source revenue has grown somewhat in Massachusetts, but that growth is neither inconsistent with trends in other states nor sufficient to reverse the long-term trend within the Commonwealth. Specifically, between FY 2000 and FY 2004, own-source revenue rose from 13.9 percent of personal income in Massachusetts to 14.2 percent, a gain of 2.0 percent. Massachusetts was one of twenty-three states in which own-source revenue climbed during this five-year period, while its two percent increase was the 18th largest change in the nation. Despite the increase, own-source revenue in Massachusetts, as a share of personal income, remained near the bottom of the fifty states, as will be discussed later in this section.

In contrast, state and local taxes in Massachusetts fell once more during the FY00 to FY04 period. Over the course of that five year span, state and local taxes declined from 10.5 percent of personal income to 10.4 percent, a change of negative 1.6 percent. State and local taxes fell in the aggregate over this span as well, but not by as much as in Massachusetts.

Figure 6.

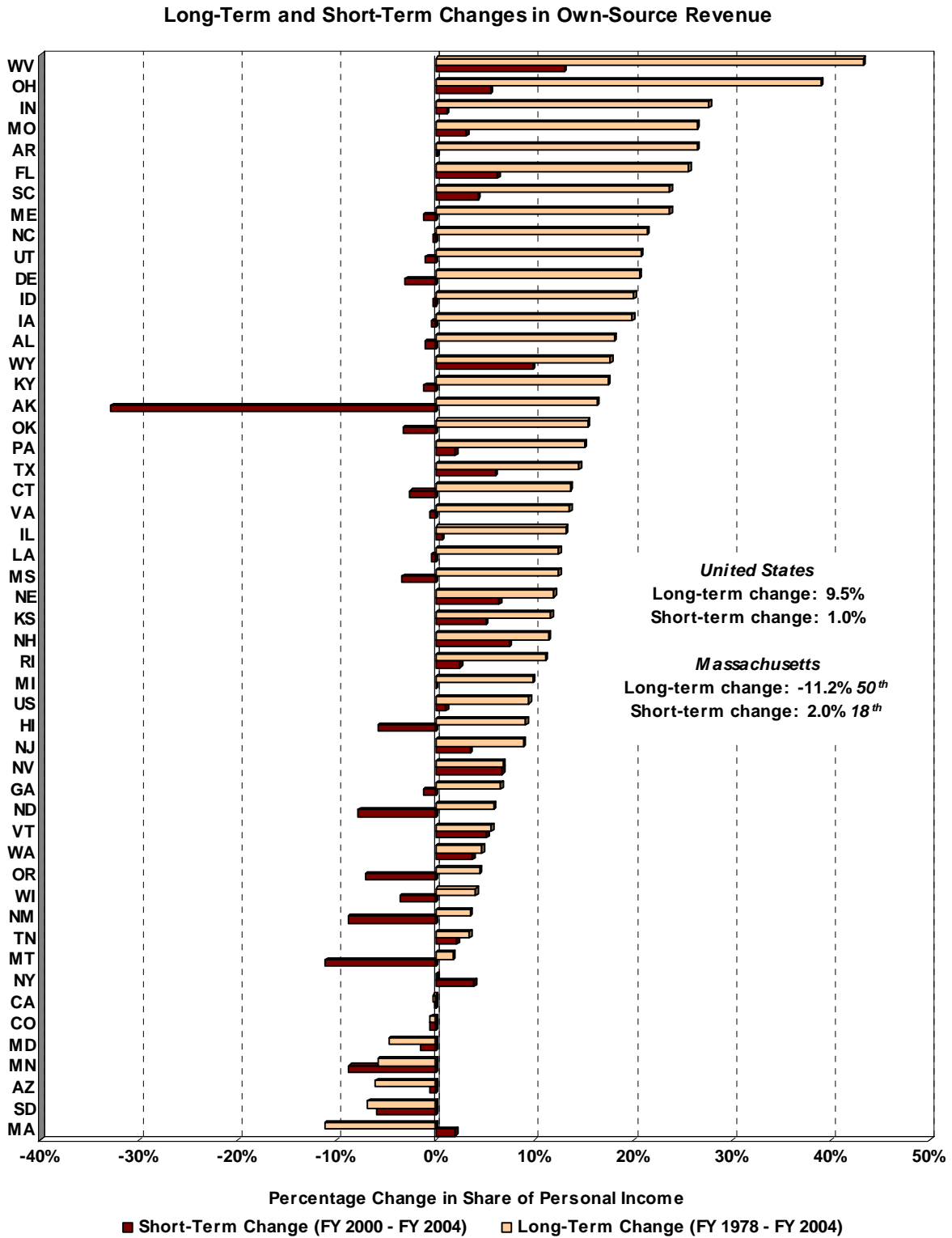
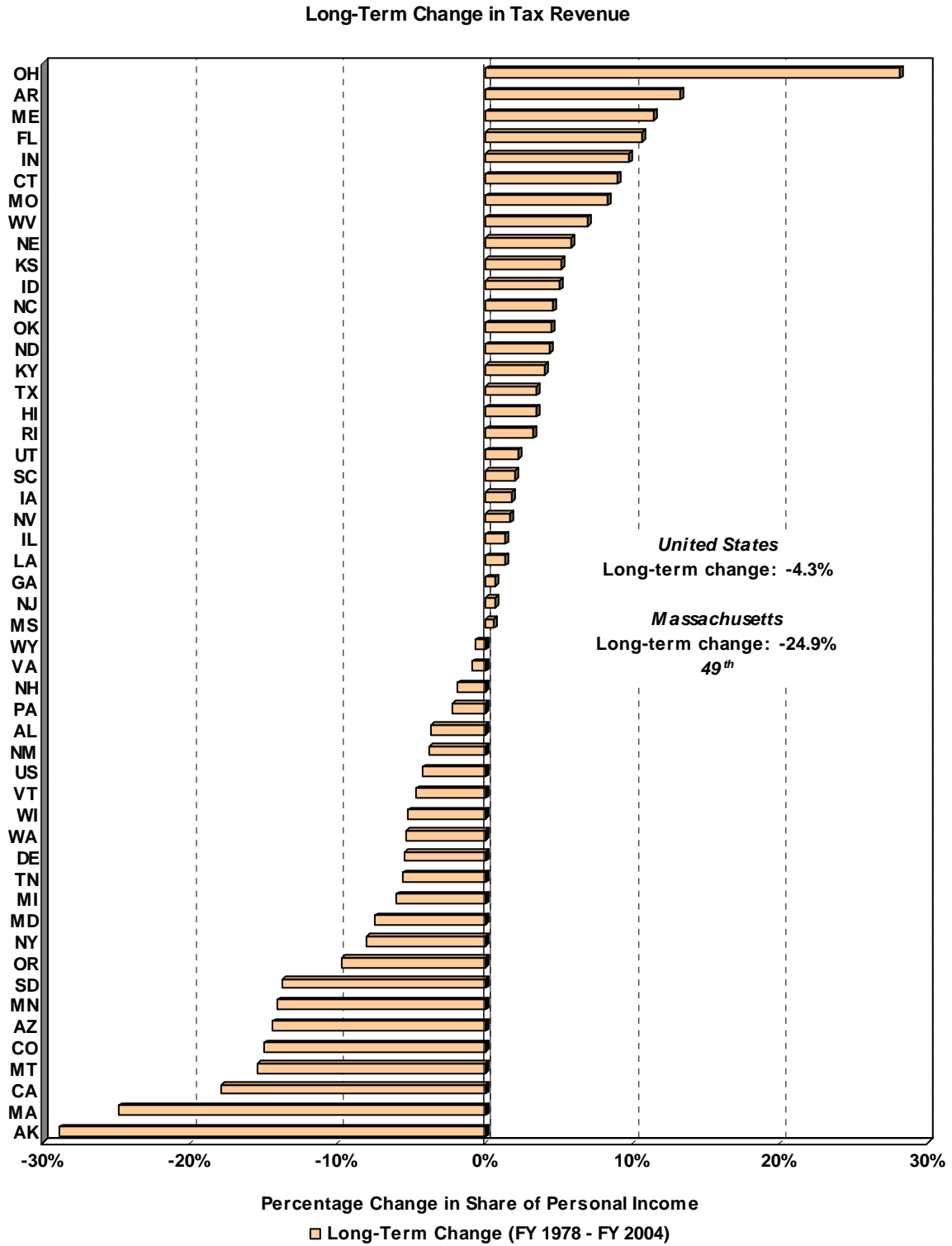


Figure 7.

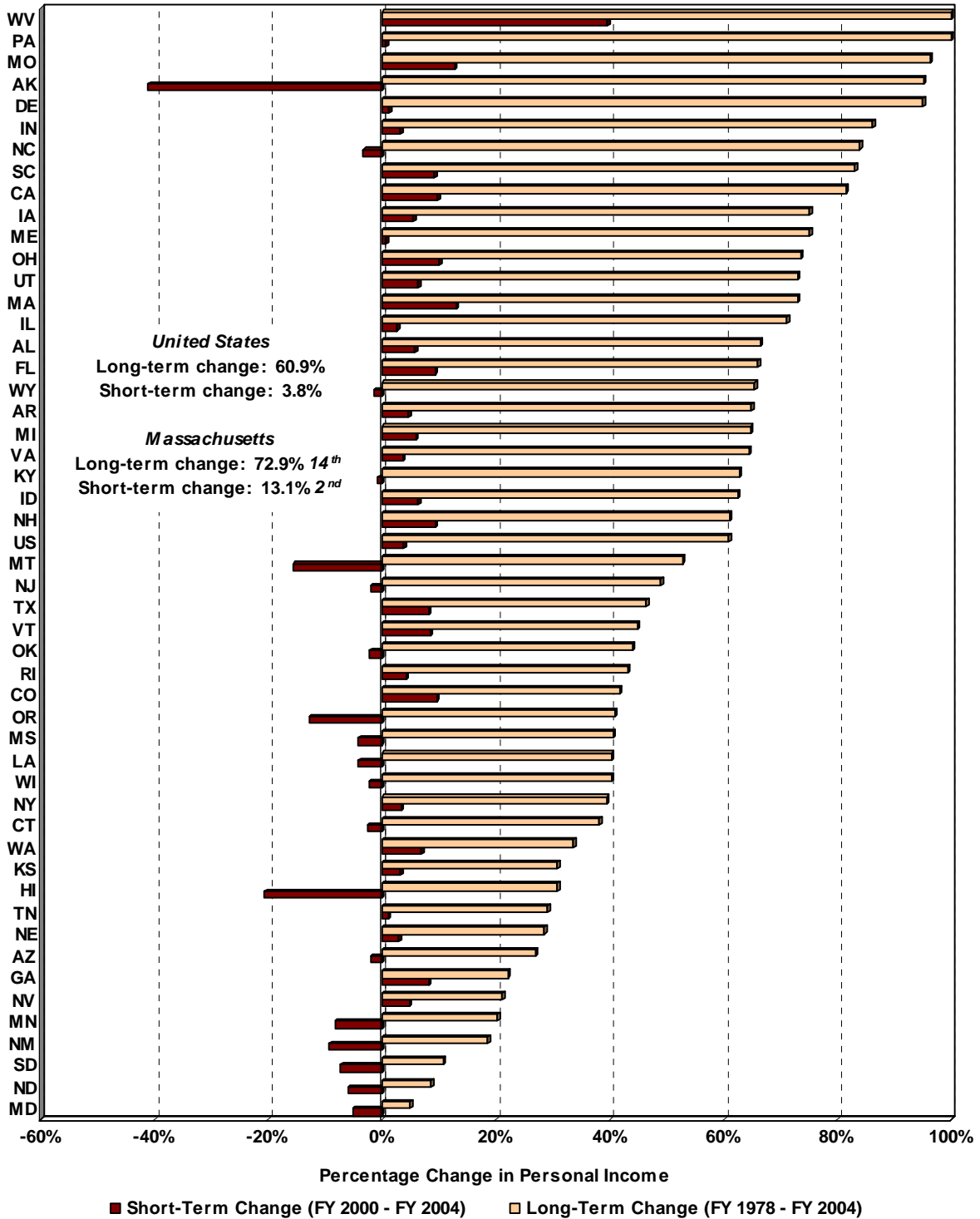


These differing trends in own-source revenue and in state and local taxes in Massachusetts – over both the long- and short-term – may be explained in part by changes in non-tax revenue. That is, fees, charges, and other miscellaneous general revenue appear to have compensated for losses in tax revenue over both the long- and short-term. Between FY78 and FY04, non-tax revenue, relative to personal income, climbed 72.9 percent in Massachusetts, the 14th largest increase in the country; between FY00 and FY04, this form of revenue rose 13.1 percent, the second largest increase nationally, behind only West Virginia.

In short, while revenue, broadly writ, has dropped in Massachusetts, the more sizable decline in tax revenue means that fees, charges, and other miscellaneous general revenue have come to play a more prominent role in financing public services in Massachusetts. Since fees and charges tend to be a less equitable means of generating revenue (as they generally represent a larger proportion of the incomes of low-paid workers and their families), a greater reliance on them may mean that the Commonwealth's overall system of public finance has become less fair.

Figure 8.

Long-Term and Short-Term Changes in Non-Tax Revenue



WV increased non-tax revenue 175.4% between FY78 and FY04 while PA increased such revenue 100.1%

Total State and Local Own-Source General Revenue

In Massachusetts in FY 2004, state and local own-source revenue equaled 14.2 percent of personal income. In fact, own-source revenue, which provides the bulk of funding for government operations, comprised a smaller share of personal income in Massachusetts than in all but seven states.

Total state and local own-source revenue ranged from a high of 28.3 percent of personal income in Alaska to a low of 12.8 percent in New Hampshire. Alaska outdistanced all other states, as it has in past years, largely on the strength of revenues associated with its oil reserves. Across the country as a whole, total state and local own-source revenue was 15.6 percent of personal income.

Under the Census Bureau's classification system, state and local general revenue from own sources has two components:

- taxes and;
- charges and miscellaneous general revenue.

The tax category naturally ranges from property and sales taxes to individual and corporate income taxes. Charges and miscellaneous general revenue includes, but is not limited to, revenue arising from school lunch sales, tuition at public institutions of higher learning, hospitals, fees related to parks and recreation, and "commercial-type operations of governments, such as port facilities, airports, toll highways, and housing projects."

However, the Census Bureau's definition of own-source general revenue excludes revenue associated with utility operations (e.g. water supply or electric power), liquor stores (the operations from which at least 20 states derive some revenue), and insurance trust transactions (e.g. contributions to public employee retirement systems as well as to unemployment compensation and workers compensation funds).

TABLE 1. OWN-SOURCE REVENUE

RANK	STATE	SHARE OF PERSONAL INCOME
1	Alaska	28.3%
2	Wyoming	21.6%
3	West Virginia	19.2%
4	New York	19.0%
5	Delaware	18.2%
6	New Mexico	17.8%
7	Maine	17.8%
8	Utah	17.4%
9	Louisiana	17.1%
10	South Carolina	16.8%
11	Nebraska	16.8%
12	Vermont	16.7%
13	Mississippi	16.6%
14	North Dakota	16.5%
15	Wisconsin	16.4%
16	Hawaii	16.3%
17	Idaho	16.2%
18	Ohio	16.2%
19	California	16.2%
20	Iowa	16.1%
21	Kansas	15.8%
22	Michigan	15.8%
23	Montana	15.8%
24	Rhode Island	15.7%
25	Minnesota	15.7%
26	Oregon	15.6%
27	Washington	15.6%
--	United States	15.6%
28	Florida	15.5%
29	Indiana	15.5%
30	Kentucky	15.4%
31	Arkansas	15.3%
32	North Carolina	15.2%
33	Nevada	15.1%
34	Alabama	15.0%
35	Pennsylvania	15.0%
36	Oklahoma	15.0%
37	New Jersey	14.6%
38	Georgia	14.5%
39	Texas	14.4%
40	Arizona	14.4%
41	Colorado	14.4%
42	Virginia	14.2%
43	Massachusetts	14.2%
44	Missouri	14.1%
45	Illinois	14.0%
46	Connecticut	13.9%
47	Maryland	13.8%
48	Tennessee	13.0%
49	South Dakota	13.0%
50	New Hampshire	12.8%

Total State and Local Tax Revenue

Massachusetts also ranks in the bottom half of all states in terms of total state and local tax revenue as a share of personal income. In FY04, total state and local tax revenue equaled 10.4 percent of personal income in Massachusetts, or 32nd out of the 50 states.

In New York, where it was highest, total tax revenue amounted to 14.4 percent of personal income. In Alabama, where it was lowest, total tax revenue as a share of personal income was 8.5 percent.

Taken together, the fifty states generated total tax revenue of 10.7 percent of personal income in FY04. Had state and local taxes in Massachusetts simply been at this national mark of 10.7 percent of personal income in FY 2004, the Commonwealth – and its cities and towns – would have collected an additional \$991 million in taxes.

The various types of taxes that the Census Bureau includes in this category are:

- property taxes;
- sales taxes, including taxes on motor fuels, alcoholic beverages, and tobacco products;
- individual income taxes;
- corporate income taxes, and;
- motor vehicle license and other taxes.

TABLE 2. TOTAL TAX REVENUE

RANK	STATE	SHARE OF PERSONAL INCOME
1	New York	14.4%
2	Wyoming	13.2%
3	Maine	13.0%
4	Hawaii	12.2%
5	Vermont	11.9%
6	Wisconsin	11.9%
7	Rhode Island	11.7%
8	Nebraska	11.6%
9	Ohio	11.3%
10	West Virginia	11.3%
11	Connecticut	11.2%
12	New Jersey	11.2%
13	New Mexico	11.2%
14	Kansas	11.1%
15	Louisiana	11.0%
16	Alaska	11.0%
17	California	11.0%
18	Minnesota	10.9%
19	Utah	10.8%
--	United States	10.7%
20	Nevada	10.6%
21	Pennsylvania	10.6%
22	Delaware	10.6%
23	Kentucky	10.5%
24	Idaho	10.5%
25	Michigan	10.5%
26	Arizona	10.5%
27	Mississippi	10.5%
28	Maryland	10.5%
29	Washington	10.4%
30	Illinois	10.4%
31	North Dakota	10.4%
32	Massachusetts	10.4%
33	Iowa	10.3%
34	North Carolina	10.3%
35	Indiana	10.2%
36	Arkansas	10.2%
37	South Carolina	10.2%
38	Florida	10.0%
39	Georgia	10.0%
40	Oklahoma	9.8%
41	Montana	9.8%
42	Oregon	9.7%
43	Texas	9.7%
44	Virginia	9.7%
45	Missouri	9.6%
46	Colorado	9.1%
47	New Hampshire	8.9%
48	Tennessee	8.8%
49	South Dakota	8.7%
50	Alabama	8.5%

Property Taxes

With regard to specific forms of taxation, Massachusetts ranked 15th in terms of property taxes as a share of personal income in FY04. Property taxes totaled 3.8 percent of personal income in the Commonwealth, slightly higher than the aggregate level of property taxes for the United States as a whole (3.4 percent).

It is true that despite Proposition 2 ½ – the property tax-cutting initiative enacted in 1980 – property taxes in Massachusetts are still modestly above the national average. However, as is evident in Table 3, northeastern states typically rely more on property taxes than other states. Of the states in this region, Massachusetts has a relatively low level of property tax collections; in fact, it is the only one in the area not to rank among the top ten.

Property taxes, relative to personal income, were highest in New Hampshire in FY04; they were equal to 5.5 percent of personal income. They were lowest in Alabama, where they generated revenue amounting to 1.3 percent of personal income.

TABLE 3. PROPERTY TAX

RANK	STATE	SHARE OF PERSONAL INCOME
1	New Hampshire	5.5%
2	Maine	5.5%
3	New Jersey	5.2%
4	Vermont	5.0%
5	Rhode Island	4.9%
6	New York	4.6%
7	Connecticut	4.4%
8	Wisconsin	4.3%
9	Texas	4.2%
10	Illinois	4.1%
11	Wyoming	4.0%
12	Alaska	4.0%
13	Kansas	3.9%
14	Montana	3.9%
15	Massachusetts	3.8%
16	Michigan	3.8%
17	Nebraska	3.7%
18	Iowa	3.6%
19	Florida	3.4%
--	United States	3.4%
20	South Carolina	3.4%
21	Indiana	3.3%
22	Ohio	3.3%
23	Oregon	3.2%
24	North Dakota	3.2%
25	Pennsylvania	3.1%
26	Washington	3.1%
27	Arizona	3.1%
28	Georgia	3.0%
29	South Dakota	3.0%
30	Idaho	3.0%
31	Virginia	3.0%
32	Colorado	3.0%
33	Nevada	2.9%
34	California	2.8%
35	Maryland	2.8%
36	Minnesota	2.8%
37	Mississippi	2.7%
38	Utah	2.7%
39	Missouri	2.5%
40	North Carolina	2.5%
41	West Virginia	2.2%
42	Tennessee	2.1%
43	Kentucky	2.0%
44	Louisiana	1.9%
45	Hawaii	1.8%
46	New Mexico	1.7%
47	Oklahoma	1.7%
48	Arkansas	1.6%
49	Delaware	1.6%
50	Alabama	1.3%

Sales and Excise Taxes

Massachusetts was close to the bottom end of the range of states when it came to sales and excise taxes in fiscal year 2004. In fact, taken in combination, sales and excise taxes amounted to 2.2 percent of personal income, putting the Commonwealth in 45th place overall. The only states with lower consumption taxes relative to personal income were the five states without a statewide general sales tax.

Massachusetts' relatively low standing is likely due to a number of factors. The Commonwealth's general sales tax rate of 5.0 percent is exceeded by 23 states and, since cities and towns in Massachusetts are not permitted to levy their own sales taxes, the combined maximum state and local rate is lower here than 42 other states. In addition, Massachusetts exempts food, clothing (up to \$175 per item), and medical supplies and devices from the sales tax. It also imposes the sales tax on very few services; of the 168 different types of services identified by the Federation of Tax Administrators, the Commonwealth taxes just 19. In contrast, states like Hawaii, New Mexico, South Dakota, and West Virginia impose their sales taxes on more than 100 different kinds of services.⁶

Taken together, sales and excise taxes as a share of personal income were highest in Hawaii and lowest in Oregon. These taxes generated revenue equal to 6.6 percent of personal income in the former state and 0.9 percent in the latter. The comparable figure for the country as a whole was 3.8 percent.

Separately, excise and other selective sales taxes (such as taxes on gasoline, alcoholic beverages, or tobacco products) amounted to 0.8 percent of personal income in Massachusetts in FY04. The Commonwealth ranked next to last in the country in this category in FY04. Overall, excise taxes were 1.2 percent of personal income in the United States in FY04.

TABLE 4. SALES & EXCISE TAXES

RANK	STATE	SHARE OF PERSONAL INCOME
1	Hawaii	6.6%
2	Washington	6.3%
3	Louisiana	6.1%
4	Nevada	6.1%
5	Arkansas	5.4%
6	New Mexico	5.4%
7	Tennessee	5.2%
8	Mississippi	5.1%
9	Arizona	5.1%
10	Florida	5.1%
11	West Virginia	4.9%
12	South Dakota	4.6%
13	Utah	4.5%
14	Texas	4.4%
15	Wyoming	4.3%
16	Nebraska	4.3%
17	Alabama	4.2%
18	Kansas	4.1%
19	North Dakota	4.0%
20	Kentucky	4.0%
21	Missouri	4.0%
22	Idaho	3.9%
23	New York	3.9%
--	United States	3.8%
24	Indiana	3.8%
25	Oklahoma	3.8%
26	California	3.7%
27	North Carolina	3.7%
28	Minnesota	3.7%
29	Georgia	3.7%
30	Rhode Island	3.7%
31	South Carolina	3.6%
32	Vermont	3.6%
33	Ohio	3.6%
34	Illinois	3.5%
35	Maine	3.5%
36	Michigan	3.5%
37	Wisconsin	3.4%
38	Iowa	3.4%
39	Colorado	3.4%
40	Pennsylvania	3.2%
41	Connecticut	3.2%
42	Virginia	2.8%
43	New Jersey	2.8%
44	Maryland	2.6%
45	Massachusetts	2.2%
46	Montana	1.8%
47	Alaska	1.7%
48	New Hampshire	1.5%
49	Delaware	1.4%
50	Oregon	0.9%

⁶“Are You Being Served?”, *Tax Administrators News*, Federation of Tax Administrators (Washington, DC), May 2005.

Personal Income Taxes

For fiscal year 2004, personal income taxes in the Commonwealth yielded an amount of revenue equal to 3.4 percent of personal income. Only four states – New York, Oregon, Maryland, and Ohio – generated more revenue from the personal income tax than Massachusetts when measured as a share of personal income. In contrast, nine states, including Texas and Florida, do not have a personal income tax and, therefore, did not generate any revenue in this fashion.⁷

In the aggregate, personal income taxes among the 50 states produced funds equal to 2.3 percent of personal income in FY04.

The data for this section and for the preceding section on sales and excise taxes illustrate a choice Massachusetts makes – in order to achieve some measure of fairness. Sales and excise taxes in Massachusetts were 2.2 percent of personal income in FY04, a relatively small amount compared to other states. The sales tax is generally regarded as one of the more regressive means of generating revenue, as it imposes a larger burden on low-income individuals and families, since they often must spend every dollar they earn to meet their most basic needs. In contrast, Massachusetts ranked relatively high on the personal income tax scale, as Table 5 shows. In comparison, the personal income tax is usually viewed as a much more equitable way of producing the revenue necessary to finance public services. In fact, despite constitutional prohibitions on a progressive rate structure as part of its income tax, Massachusetts has made great progress in minimizing the effect of its personal income tax on low-income taxpayers. Due to features such as a sizable personal exemption, a “no-tax” threshold, and an earned income tax credit, the annual income at which a two-parent family of four in Massachusetts must begin paying the personal income tax was \$24,300 in 2004, according to the Center on Budget and Policy Priorities. Only 10 of the 41 states with a personal income tax had higher thresholds for families of that composition.⁸

TABLE 5. PERSONAL INCOME TAX

RANK	STATE	SHARE OF PERSONAL INCOME
1	New York	4.4%
2	Oregon	4.1%
3	Maryland	3.9%
4	Ohio	3.5%
5	Massachusetts	3.4%
6	Kentucky	3.3%
7	Minnesota	3.2%
8	North Carolina	3.1%
9	Wisconsin	3.1%
10	Maine	3.0%
11	California	3.0%
12	Hawaii	3.0%
13	Delaware	2.9%
14	Virginia	2.9%
15	Connecticut	2.8%
16	Utah	2.8%
17	Georgia	2.7%
18	Pennsylvania	2.6%
19	Rhode Island	2.5%
20	Idaho	2.5%
21	Arkansas	2.5%
22	Montana	2.4%
23	West Virginia	2.4%
24	Oklahoma	2.4%
25	Missouri	2.4%
26	Indiana	2.3%
27	Kansas	2.3%
28	Iowa	2.3%
--	United States	2.3%
29	Nebraska	2.3%
30	Vermont	2.2%
31	South Carolina	2.2%
32	Colorado	2.1%
33	New Jersey	2.1%
34	New Mexico	2.1%
35	Michigan	2.0%
36	Alabama	1.9%
37	Louisiana	1.8%
38	Illinois	1.7%
39	Mississippi	1.6%
40	Arizona	1.5%
41	North Dakota	1.2%
42	New Hampshire	0.1%
43	Tennessee	0.1%
44	South Dakota	0.0%
45	Alaska	0.0%
46	Florida	0.0%
47	Nevada	0.0%
48	Texas	0.0%
49	Washington	0.0%
50	Wyoming	0.0%

⁷ New Hampshire and Tennessee do not tax wages, but do levy an income tax on investment income

⁸ Llobera, Joseph and Zahradnik, Robert, *The Impact of State Income Taxes on Low-Income Families in 2004*, Center on Budget and Policy Priorities (Washington, DC), April 12, 2005, p. 9.

Charges and Miscellaneous General Revenue

Lastly, revenue generated from such miscellaneous sources as state-operated parking facilities or tuition for public institutions of higher education amounted to 3.9 percent of personal income in Massachusetts in FY04. A mere four states – Illinois, New Jersey, Maryland, and Connecticut – derived a smaller amount of revenue, measured as a share of personal income, from these sources in FY04.

Charges and miscellaneous general revenue in Alaska, which garners a considerable amount of state revenue from its oil reserves, amounted to 17.3 percent of personal income in FY04, by far the highest level of any state. Connecticut produced the least amount of revenue in this fashion, generating funds equal to 2.7 percent of personal income. Overall, the 50 states generated revenues equal to 4.8 percent of personal income in FY04 from such miscellaneous sources.

TABLE 6. CHARGES & MISC. REVENUE

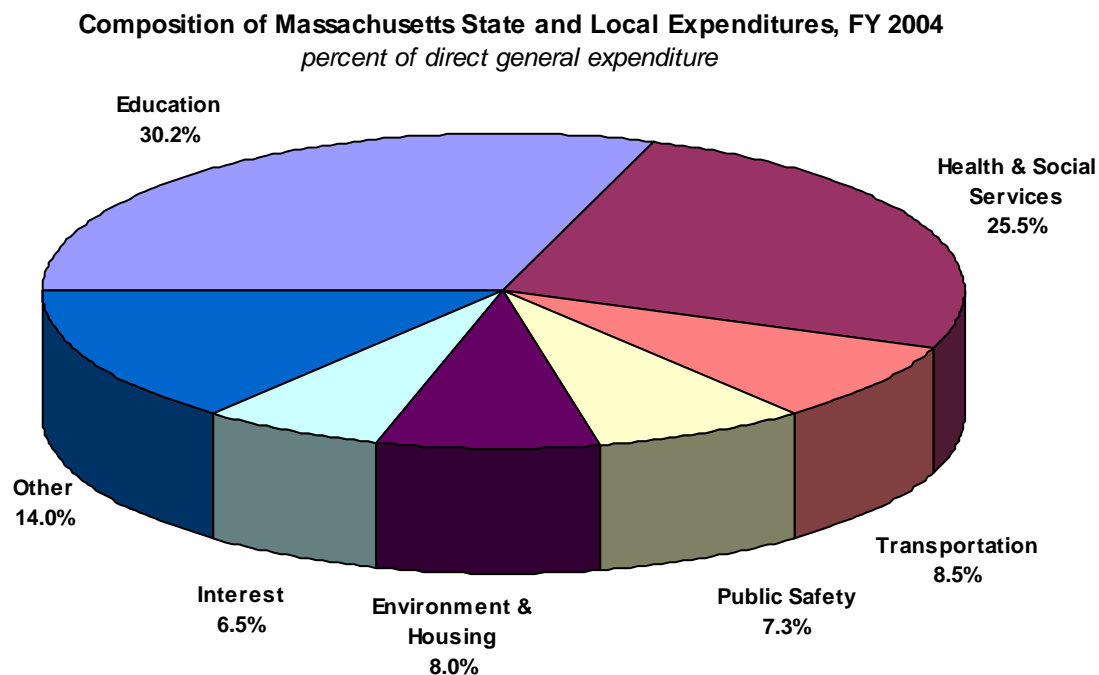
RANK	STATE	SHARE OF PERSONAL INCOME
1	Alaska	17.3%
2	Wyoming	8.4%
3	West Virginia	8.0%
4	Delaware	7.6%
5	South Carolina	6.7%
6	New Mexico	6.6%
7	Alabama	6.6%
8	Utah	6.5%
9	North Dakota	6.2%
10	Mississippi	6.2%
11	Louisiana	6.1%
12	Montana	6.0%
13	Oregon	5.9%
14	Iowa	5.8%
15	Idaho	5.7%
16	Florida	5.5%
17	Michigan	5.3%
18	Indiana	5.3%
19	Colorado	5.2%
20	California	5.2%
21	Nebraska	5.2%
22	Oklahoma	5.2%
23	Washington	5.2%
24	Arkansas	5.1%
25	North Carolina	4.9%
26	Ohio	4.9%
27	Kentucky	4.8%
29	Minnesota	4.8%
28	Maine	4.8%
--	United States	4.8%
30	Vermont	4.8%
31	Texas	4.7%
32	Kansas	4.7%
33	New York	4.6%
34	Georgia	4.6%
35	Virginia	4.6%
36	Wisconsin	4.6%
37	Missouri	4.6%
38	Nevada	4.5%
39	Pennsylvania	4.4%
40	South Dakota	4.3%
41	Tennessee	4.2%
42	Hawaii	4.0%
43	Rhode Island	4.0%
44	New Hampshire	3.9%
45	Arizona	3.9%
46	Massachusetts	3.9%
47	Illinois	3.6%
48	New Jersey	3.4%
49	Maryland	3.4%
50	Connecticut	2.7%

State and Local Expenditures

Overview

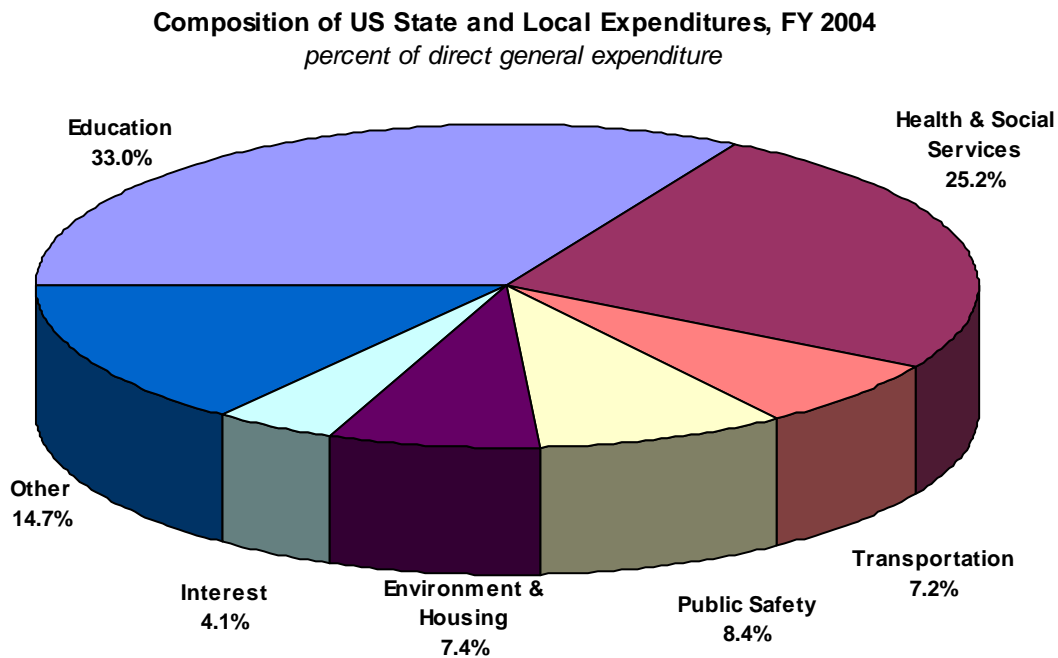
In fiscal year 2004, Massachusetts devoted over half of all state and local direct general expenditures to two priorities, education and social services, the latter of which includes health care programs. As Figure 9 shows, spending on education comprised 30.2 percent of all state and local spending, while spending on social services – chiefly, health care and income support programs – constituted 25.5 percent of such expenditures. Spending on transportation, public safety, and environment and housing each accounted for slightly less than 10 percent of general expenditures. The Commonwealth (its cities and towns included) used 6.5 percent of general expenditures to pay interest on previous borrowing.

Figure 9.



As Figure 10 reveals, these priorities generally mirror those for the country as a whole, with two exceptions. First, although education plays a prominent role in budgets both locally and nationally, the fifty states in the aggregate dedicate a somewhat larger share of total spending to education than Massachusetts does. Nationally, education expenditures made up 33.0 percent of direct general expenditures, compared to 30.2 percent within Massachusetts. Second, the cost of servicing past debts consumes more of overall spending here in Massachusetts than it does across the United States. Interest expenses represented 6.5 percent of state and local expenditures in Massachusetts in FY 2004, but just 4.1 percent of such expenditures for the fifty states as a whole.

Figure 10.



While Massachusetts' budgetary priorities are similar to those for the country as a whole, the Commonwealth does not dedicate the same share of economic resources to achieving them as the fifty states in the aggregate. In FY 2004, state and local direct general expenditures amounted to 18.6 percent of personal income in Massachusetts but 20.2 percent for the United States in its entirety. Moreover, as Figure 11 reveals, Massachusetts spent a smaller share of the state's total personal income on education, on social services, on public safety, and on environment and housing than the country as a whole did in FY04. In these four categories, the Commonwealth spent 5.6 percent, 4.7 percent, 1.4 percent, and 1.5 percent of personal income respectively, while the nation as a whole dedicated 7.0 percent, 5.3 percent, 1.8 percent and 1.6 percent of personal income to these ends.

Massachusetts has also reduced somewhat the share of resources it allocates to public spending priorities over the last twenty-five years. In FY 1978, Massachusetts devoted 18.8 percent of personal income to direct general expenditures; in FY 2004, state and local direct general expenditures were the equivalent of 18.6 percent of personal income. As Figure 12 indicates, while some specific areas of expenditure, such as education and public safety, have shrunk relative to personal income since FY 1978, others, like environment and housing have grown.

Figure 11.

State and Local Expenditures as a Share of Personal Income
Massachusetts and US Average, FY 2004

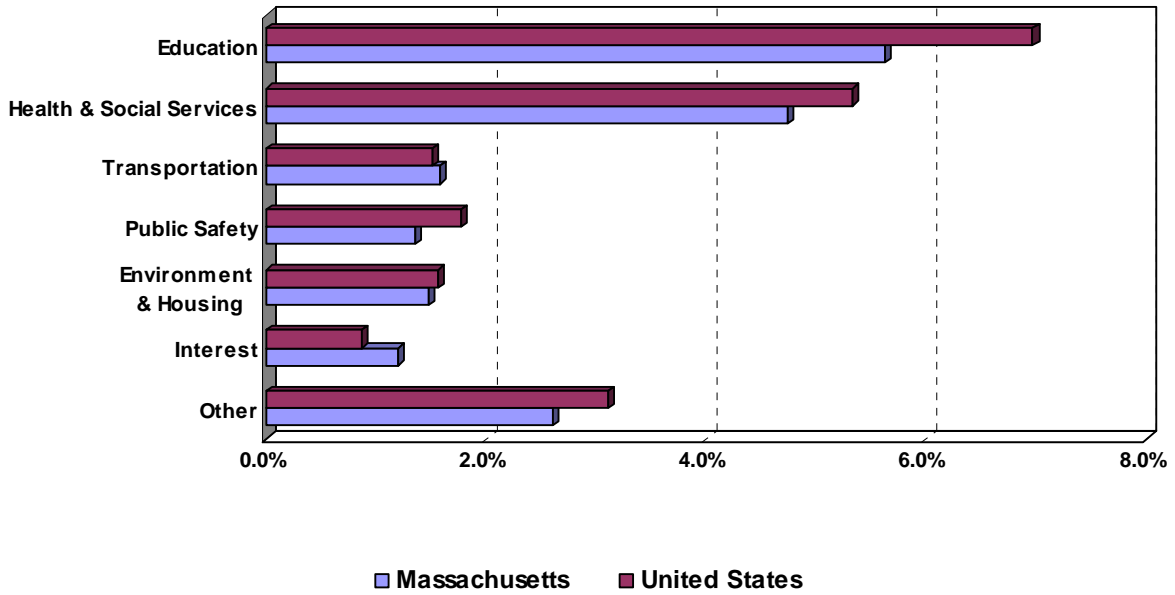
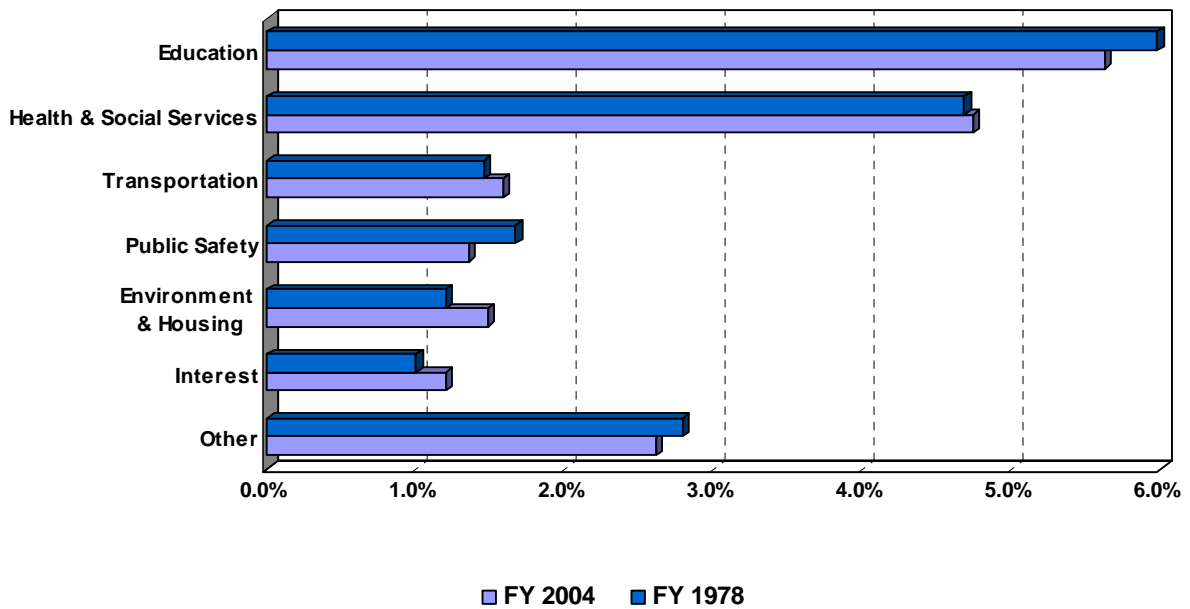


Figure 12.

Massachusetts State and Local Expenditures as a Share of Personal Income
FY 1978 and FY 2004



Direct General Expenditure

Direct general expenditure in Massachusetts in FY04 ranked 39th in the country. In that year, the Commonwealth made direct general expenditures equal to 18.6 percent of personal income. Only eleven states had spending below that level, with direct general expenditure lowest in Maryland – at 16.0 percent of personal income.

At the opposite end of the spectrum, Alaska dedicated a larger share of personal income to direct general expenditure than any other state. It spent the equivalent of 39.3 percent of personal income in FY04. (Again, this level of expenditure is likely affected by the funds generated by Alaska’s oil reserves.) Among the 50 states overall, direct general expenditure amounted to 20.2 percent of personal income.

Direct general expenditure may be viewed, in some respects, as the converse of state and local general own-source revenue. It is a broad measure of total state and local spending that encompasses not only current programmatic and operational spending but capital spending as well. It does not include utility, liquor store, or insurance trust expenditures, just as general own-source revenue did not count the funds produced in such categories. However, where own-source revenue excludes funds received from the federal government, direct general expenditure includes spending supported by federal grants and subsidies.

TABLE 7. DIRECT GEN. EXPENDITURE

RANK	STATE	SHARE OF PERSONAL INCOME
1	Alaska	39.3%
2	Wyoming	26.6%
3	New Mexico	25.9%
4	Mississippi	25.5%
5	New York	25.0%
6	Maine	24.2%
7	West Virginia	24.0%
8	South Carolina	23.3%
9	Vermont	23.0%
10	Louisiana	22.9%
11	Utah	22.7%
12	North Dakota	22.7%
13	Montana	22.3%
14	Hawaii	22.1%
15	Delaware	21.8%
16	Alabama	21.8%
17	Ohio	21.6%
18	Kentucky	21.4%
19	Wisconsin	21.4%
20	California	21.4%
21	Rhode Island	21.3%
22	Arkansas	21.3%
23	Michigan	21.2%
24	Iowa	21.0%
25	Idaho	20.8%
26	Oregon	20.7%
27	Washington	20.7%
28	Minnesota	20.5%
--	United States	20.2%
29	Pennsylvania	20.0%
30	North Carolina	20.0%
31	Nebraska	19.8%
32	Kansas	19.6%
33	Georgia	19.5%
34	Indiana	19.4%
35	Arizona	19.2%
36	Oklahoma	18.9%
37	Florida	18.7%
38	Tennessee	18.6%
39	Massachusetts	18.6%
40	Texas	18.6%
41	Illinois	18.3%
42	Missouri	18.3%
43	Nevada	18.1%
44	Colorado	17.8%
45	South Dakota	17.8%
46	New Jersey	17.4%
47	Virginia	16.6%
48	New Hampshire	16.5%
49	Connecticut	16.3%
50	Maryland	16.0%

State and Local Capital Spending

Capital spending in Massachusetts was the equivalent of 2.2 percent of personal income in FY04, slightly less than the states in the aggregate devoted to this category of spending. Overall, 35 states spent a larger share of personal income on capital projects than the Commonwealth did.

Looking at the states individually, capital spending ranged from 6.1 percent of personal income in Alaska to 1.4 percent of personal income in Rhode Island.

Under the Census Bureau’s classification system, capital outlays consist of expenditures for the “construction of buildings ... and other improvements” and for the “purchase of equipment, land, and existing structures.” It does not include interest payments on any debt issued to finance capital outlays, nor does it include payments of principal to retire such debt. Like all of the other expenditure categories that follow (e.g. education, transportation), capital outlays are considered a subset of direct general expenditure under the Census Bureau’s classification scheme. However, the data presented for each of the expenditure categories that follow are not exclusive of capital expenditures. For instance, the data presented on higher education expenditures include any capital investments made at state colleges and universities in FY 2004.

TABLE 8. CAPITAL EXPENDITURES

RANK	STATE	SHARE OF PERSONAL INCOME
1	Alaska	6.1%
2	Wyoming	4.5%
3	Washington	3.4%
4	Utah	3.3%
5	Nevada	3.2%
6	North Dakota	3.1%
7	Nebraska	3.0%
8	Montana	3.0%
9	Iowa	3.0%
10	Arizona	3.0%
11	Florida	2.9%
12	Colorado	2.9%
13	South Dakota	2.9%
14	Idaho	2.8%
15	Texas	2.8%
16	Georgia	2.8%
17	Delaware	2.8%
18	South Carolina	2.7%
19	New York	2.7%
20	Alabama	2.7%
21	Minnesota	2.7%
22	Louisiana	2.7%
23	New Mexico	2.7%
24	Kansas	2.6%
25	Mississippi	2.6%
26	Kentucky	2.5%
27	California	2.5%
28	Ohio	2.5%
--	United States	2.5%
29	Wisconsin	2.5%
30	Arkansas	2.4%
31	West Virginia	2.4%
32	North Carolina	2.3%
33	Missouri	2.3%
34	Oregon	2.3%
35	Indiana	2.3%
36	Massachusetts	2.2%
37	Michigan	2.2%
38	Maine	2.2%
39	Illinois	2.1%
40	Oklahoma	2.0%
41	Hawaii	1.9%
42	Virginia	1.9%
43	Pennsylvania	1.8%
44	New Jersey	1.8%
45	Tennessee	1.8%
46	New Hampshire	1.7%
47	Vermont	1.6%
48	Maryland	1.5%
49	Connecticut	1.4%
50	Rhode Island	1.4%

State and Local Spending on Wages and Salaries

Spending on wages and salaries for state and local government employees (such as firefighters, police officers, and teachers) amounted to 5.6 percent of personal income in Massachusetts in FY04. Only two states – New Jersey and New Hampshire – spent a smaller share of personal income on its workforce than Massachusetts did in FY04.

In the aggregate, state and local governments spent 7.1 percent of personal income on wages and salaries, with Alaska leading the way at 11.4 percent of personal income.

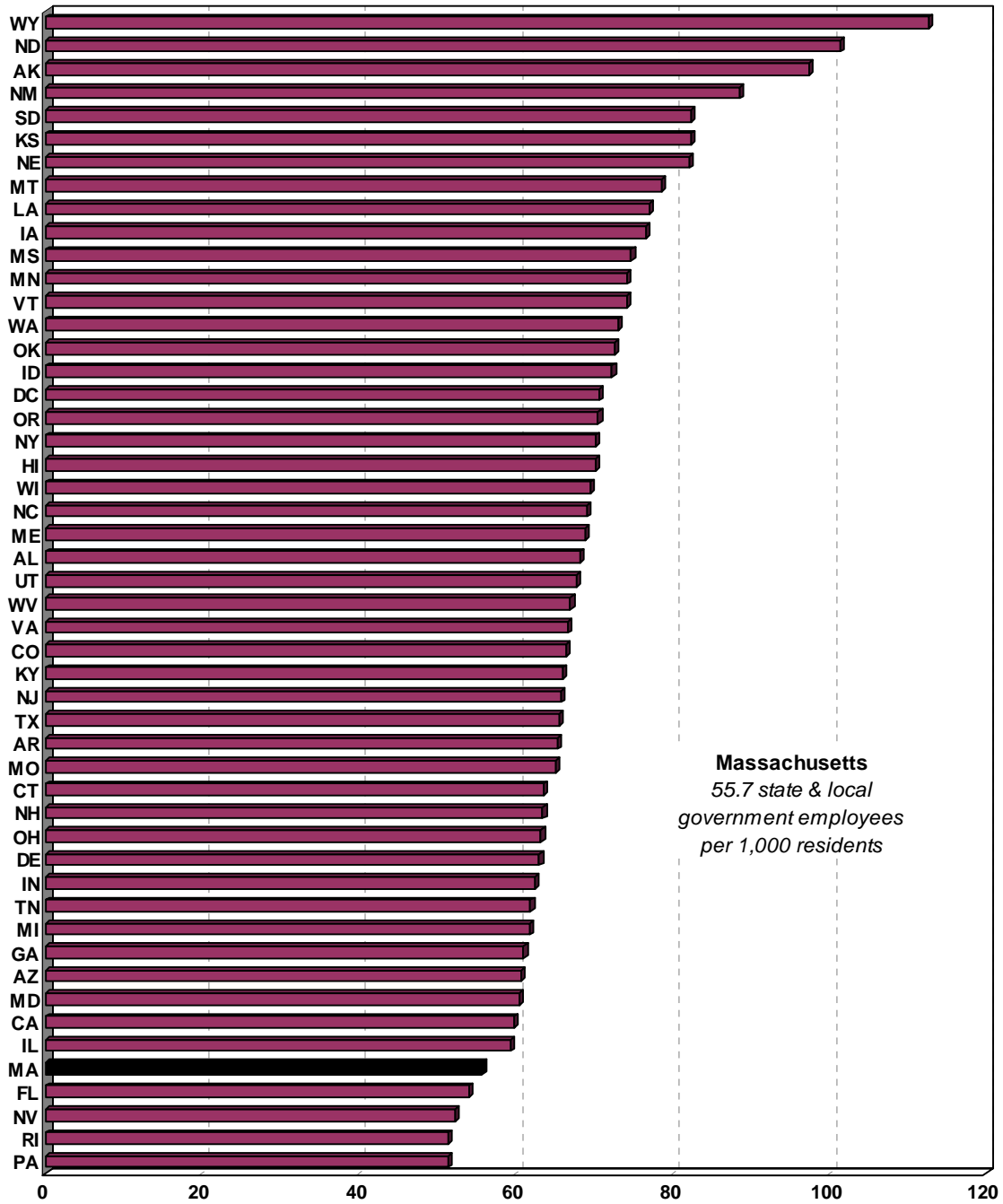
Massachusetts’ comparatively low position is likely due in part to its fairly small public workforce. According to data from the Current Employment Statistics survey, state and local government employment in Massachusetts totaled 357,000 positions in calendar year 2004. That, in turn, works out to 55.7 government employees per 1,000 people in Massachusetts. As Figure 13 indicates, only four states – Florida, Rhode Island, Nevada, and Pennsylvania – had fewer state and local government employees relative to the size of their overall population in 2004.

TABLE 9. WAGES & SALARIES

RANK	STATE	SHARE OF PERSONAL INCOME
1	Alaska	11.4%
2	Delaware	9.7%
3	Wyoming	9.1%
4	New Mexico	8.8%
5	New York	8.8%
6	Nebraska	8.7%
7	Louisiana	8.3%
8	Mississippi	8.2%
9	Utah	8.2%
10	South Carolina	7.9%
11	Oregon	7.9%
12	Washington	7.8%
13	Vermont	7.8%
14	North Carolina	7.7%
15	Iowa	7.6%
16	Rhode Island	7.6%
17	California	7.6%
18	Ohio	7.6%
19	West Virginia	7.5%
20	Montana	7.5%
21	North Dakota	7.4%
22	Alabama	7.3%
23	Idaho	7.2%
24	Arizona	7.2%
25	Texas	7.1%
--	United States	7.1%
26	Kentucky	7.1%
27	Michigan	7.1%
28	Kansas	7.0%
29	Wisconsin	7.0%
30	Hawaii	7.0%
31	Minnesota	6.9%
32	Virginia	6.8%
33	Georgia	6.8%
34	Indiana	6.7%
35	Missouri	6.7%
36	Colorado	6.5%
37	Illinois	6.5%
38	Arkansas	6.5%
39	Oklahoma	6.4%
40	Pennsylvania	6.4%
41	Maryland	6.2%
42	Tennessee	6.2%
43	Connecticut	6.1%
44	Florida	5.9%
45	Maine	5.9%
46	South Dakota	5.9%
47	Nevada	5.7%
48	Massachusetts	5.6%
49	New Jersey	5.5%
50	New Hampshire	5.4%

Figure 13.

State and Local Government Employees, 2004



State and local government employees per 1,000 residents

State and Local Spending on Education

As discussed previously, education was Massachusetts' top budgetary priority in FY04, with 30.2 percent of the Commonwealth's aggregate state and local budget dedicated to that purpose. However, relative to the other states, Massachusetts devoted a very small share of its resources to education in FY04. The 5.6 percent of personal income spent on education overall was the lowest level of funding of any state in the country, save two. Only Nevada and Florida allocated smaller shares of personal income to education overall than Massachusetts did.

In contrast, each of the states in the top ten, including West Virginia, Wyoming, and Mississippi, spent 8.0 percent of personal income or more on education overall in FY04. The states as a whole spent 7.0 percent of personal income on education that same year, nearly 25 percent more than in Massachusetts. Had Massachusetts dedicated the same share of resources to education in FY04 as the states in the aggregate, educating spending would have been \$3.5 billion higher that year.

TABLE 10. EDUCATION

RANK	STATE	SHARE OF PERSONAL INCOME
1	Alaska	10.6%
2	New Mexico	9.6%
3	Vermont	9.2%
4	Utah	8.9%
5	West Virginia	8.5%
6	Michigan	8.5%
7	Wyoming	8.4%
8	North Dakota	8.3%
9	Mississippi	8.3%
10	South Carolina	8.2%
11	Iowa	8.0%
12	Arkansas	7.9%
13	Montana	7.8%
14	Wisconsin	7.8%
15	Delaware	7.7%
16	Ohio	7.7%
17	Alabama	7.6%
18	Georgia	7.5%
19	Kansas	7.5%
20	Maine	7.4%
21	Texas	7.4%
22	Indiana	7.4%
23	Nebraska	7.4%
24	New York	7.3%
25	Idaho	7.3%
26	Louisiana	7.2%
27	Oklahoma	7.2%
28	Pennsylvania	7.1%
29	Kentucky	7.1%
30	North Carolina	7.1%
31	Oregon	7.0%
32	New Jersey	7.0%
--	United States	7.0%
33	Washington	6.9%
34	California	6.9%
35	Rhode Island	6.8%
36	Minnesota	6.7%
37	Illinois	6.6%
38	Arizona	6.4%
39	Missouri	6.4%
40	Hawaii	6.3%
41	Virginia	6.2%
42	South Dakota	6.1%
43	Colorado	6.1%
44	New Hampshire	6.0%
45	Maryland	5.9%
46	Tennessee	5.8%
47	Connecticut	5.7%
48	Massachusetts	5.6%
49	Nevada	5.5%
50	Florida	5.4%

State and Local Spending on Primary and Secondary Education

Given the level of resources it allots to education overall, Massachusetts naturally lags behind most of the states in terms of funding for primary and secondary education. In FY04, Massachusetts spent 3.97 percent of personal income on primary and secondary education. This level of spending put Massachusetts in 48th place.⁹

Alaska spent nearly twice as much on K-12 education – 7.49 percent of personal income – as Massachusetts did in FY04. Maryland’s 3.84 percent of personal income was the least of any state.

TABLE 11. K-12 EDUCATION

RANK	STATE	SHARE OF PERSONAL INCOME
1	Alaska	7.49%
2	Vermont	6.04%
3	New Mexico	5.83%
4	New York	5.82%
5	Michigan	5.79%
6	New Jersey	5.58%
7	Wyoming	5.55%
8	West Virginia	5.46%
9	Ohio	5.43%
10	South Carolina	5.42%
11	Maine	5.40%
12	Georgia	5.24%
13	Texas	5.18%
14	Wisconsin	5.08%
15	Rhode Island	5.04%
16	Mississippi	5.03%
17	Arkansas	4.99%
18	Pennsylvania	4.92%
19	Montana	4.92%
20	Utah	4.90%
21	Indiana	4.86%
22	North Dakota	4.85%
23	California	4.82%
24	Iowa	4.82%
--	United States	4.81%
25	Nebraska	4.76%
26	Delaware	4.75%
27	Louisiana	4.74%
28	Idaho	4.71%
29	Minnesota	4.62%
30	Oklahoma	4.50%
31	Missouri	4.49%
32	New Hampshire	4.49%
33	Illinois	4.47%
34	Kansas	4.45%
35	Oregon	4.38%
36	Alabama	4.35%
37	Washington	4.34%
38	Virginia	4.33%
39	Connecticut	4.29%
40	Hawaii	4.26%
41	Kentucky	4.19%
42	Arizona	4.16%
43	South Dakota	4.14%
44	North Carolina	4.13%
45	Colorado	4.10%
46	Nevada	4.07%
47	Florida	3.97%
48	Massachusetts	3.97%
49	Tennessee	3.94%
50	Maryland	3.84%

⁹ These figures differ from estimates of state and local primary and secondary education expenditures in Massachusetts that appear in the June 2006 MBPC publication, *Public School Funding in Massachusetts: Putting Recent Reform Proposals in Context*. The primary reason for the difference is that the US Census Bureau publishes two sources of data on public primary and secondary education spending: its *Public Education Finances* series and its *State and Local Government Finances* series. Those two sources, in turn, rely on different data collection methods and therefore arrive at different estimates of state and local primary and secondary education expenditures. (For instance, in years not ending in “2” or “7”, the Bureau’s *State and Local Government Finance* series uses statistical sampling, rather than directly collecting data from local governments.) This report is based on the Bureau’s *State and Local Government Finance* series, while the MBPC’s earlier publication utilizes data from the *Public Education Finances* series.

State and Local Spending on Higher Education

The preceding picture becomes even more dim when one turns to higher education. Massachusetts once again stood dead last – 50th out of the fifty states – in this category in FY04. It spent 1.04 percent of personal income on higher education in FY04, while states such as Utah and New Mexico more than tripled the share of resources the Commonwealth invested in higher education.

Across the country, spending on higher education was 1.84 percent of personal income in FY04, 77 percent above the Massachusetts level.

TABLE 12. HIGHER EDUCATION

RANK	STATE	SHARE OF PERSONAL INCOME
1	Utah	3.65%
2	New Mexico	3.23%
3	North Dakota	3.11%
4	Mississippi	2.82%
5	Iowa	2.82%
6	North Carolina	2.78%
7	Alabama	2.71%
8	Vermont	2.71%
9	Alaska	2.69%
10	Kansas	2.66%
11	Michigan	2.49%
12	Wyoming	2.48%
13	Wisconsin	2.46%
14	Delaware	2.45%
15	Oregon	2.44%
16	Arkansas	2.43%
17	Nebraska	2.40%
18	Montana	2.38%
19	Oklahoma	2.38%
20	West Virginia	2.33%
21	Kentucky	2.31%
22	Idaho	2.28%
23	Indiana	2.18%
24	Washington	2.13%
25	South Carolina	2.10%
26	Texas	2.09%
27	Arizona	1.99%
28	Hawaii	1.96%
29	Louisiana	1.93%
--	United States	1.84%
30	Ohio	1.83%
31	California	1.80%
32	Colorado	1.80%
33	Illinois	1.76%
34	Georgia	1.74%
35	Maryland	1.73%
36	Maine	1.71%
37	Minnesota	1.68%
38	South Dakota	1.68%
39	Virginia	1.67%
40	Missouri	1.61%
41	Tennessee	1.58%
42	Pennsylvania	1.58%
43	Rhode Island	1.38%
44	New Hampshire	1.34%
45	Nevada	1.33%
46	New York	1.26%
47	Florida	1.25%
48	New Jersey	1.24%
49	Connecticut	1.20%
50	Massachusetts	1.04%

State and Local Social Services Spending

Overall in FY04, Massachusetts spent 4.74 percent of personal income on social services and income maintenance. This category of spending includes expenditures for public welfare programs, health programs, veterans' services, hospitals, and payments to augment Supplemental Security Income (SSI) benefits for the elderly and the disabled. The 4.74 percent of personal income that the Commonwealth spent on social services put it at 35th in the nation.

Mississippi had the highest level of social services spending across the country in FY04, while New Jersey had the lowest. In the former state, it amounted to 9.32 percent of personal income and, in the latter, it totaled 3.24 percent.

TABLE 13. SOCIAL SERVICES

RANK	STATE	SHARE OF PERSONAL INCOME
1	Mississippi	9.32%
2	New York	7.78%
3	Alaska	7.75%
4	South Carolina	7.69%
5	Maine	7.60%
6	Alabama	7.47%
7	Wyoming	7.26%
8	New Mexico	7.10%
9	Tennessee	6.86%
10	Louisiana	6.63%
11	West Virginia	6.49%
12	Rhode Island	6.33%
13	Kentucky	6.30%
14	Minnesota	6.19%
15	Ohio	6.10%
16	Arkansas	6.04%
17	North Carolina	6.04%
18	Iowa	5.99%
19	Vermont	5.90%
20	Pennsylvania	5.73%
21	Washington	5.55%
22	Georgia	5.43%
23	Idaho	5.43%
24	Wisconsin	5.40%
25	Michigan	5.39%
--	United States	5.33%
26	Hawaii	5.31%
27	California	5.31%
28	Missouri	5.17%
29	Oklahoma	5.08%
30	Indiana	5.02%
31	Nebraska	5.00%
32	Utah	4.95%
33	Oregon	4.88%
34	Delaware	4.87%
35	Massachusetts	4.74%
36	Florida	4.64%
37	Montana	4.60%
38	North Dakota	4.58%
39	Arizona	4.48%
40	Texas	4.46%
41	Kansas	4.37%
42	Illinois	3.96%
43	South Dakota	3.92%
44	Connecticut	3.92%
45	Virginia	3.83%
46	New Hampshire	3.76%
47	Colorado	3.56%
48	Maryland	3.46%
49	Nevada	3.34%
50	New Jersey	3.24%

State and Local Public Welfare Spending

Massachusetts spent 3.95 percent of personal income on public welfare programs in FY04 – the principal category of social services spending – an amount above the level of spending for the country as a whole (3.56 percent of personal income).

Massachusetts ranked 17th in the country in terms of public welfare expenditures in FY04. Measured as a share of personal income, Alaska dedicated more money than any other state to its public welfare programs in FY04. It spent 6.36 percent of personal income. Nevada spent the least of any state – just 1.94 percent of personal income.

Under the Census Bureau’s classification system, public welfare spending includes direct cash assistance payments to low-income families and individuals, vendor payments, and expenditures made to cover the costs of administering such programs. Of those three classes of expenditure, vendor payments comprised the bulk of public welfare spending in Massachusetts in FY04. Of the \$10.3 billion the Commonwealth dedicated to public welfare programs that year, approximately \$9.1 billion – or 88 percent – took the form of payments to private vendors for medical care and other services provided as part of needs-based assistance programs such as MassHealth.

TABLE 14. PUBLIC WELFARE

RANK	STATE	SHARE OF PERSONAL INCOME
1	Alaska	6.36%
2	Maine	6.01%
3	New York	5.76%
4	Mississippi	5.70%
5	Rhode Island	5.41%
6	Vermont	5.31%
7	New Mexico	5.25%
8	West Virginia	5.12%
9	Minnesota	4.98%
10	Kentucky	4.84%
11	Tennessee	4.60%
12	South Carolina	4.48%
13	Arkansas	4.40%
14	Pennsylvania	4.39%
15	Ohio	4.22%
16	Wisconsin	3.99%
17	Massachusetts	3.95%
18	North Dakota	3.92%
19	Alabama	3.72%
20	Oklahoma	3.68%
21	Delaware	3.60%
22	Nebraska	3.57%
--	United States	3.56%
23	North Carolina	3.53%
24	Iowa	3.52%
25	Hawaii	3.48%
26	Louisiana	3.43%
27	Idaho	3.40%
28	Georgia	3.38%
29	Missouri	3.37%
30	New Hampshire	3.30%
31	California	3.29%
32	Utah	3.28%
33	Oregon	3.27%
34	Michigan	3.21%
35	Arizona	3.16%
36	Washington	3.16%
37	Indiana	3.13%
38	Montana	3.12%
39	South Dakota	3.04%
40	Kansas	3.01%
41	Florida	2.99%
42	Wyoming	2.97%
43	Texas	2.72%
44	Connecticut	2.72%
45	Illinois	2.66%
46	Maryland	2.63%
47	Virginia	2.40%
48	New Jersey	2.31%
49	Colorado	2.00%
50	Nevada	1.94%

State and Local Transportation Spending

Under the Census Bureau’s classification scheme, Massachusetts dedicated 1.58 percent of personal income to transportation spending in FY04, nearly the same as the 1.51 percent of personal income that all state and local governments spent that year.

The high and low states in terms of transportation spending for FY04 were Alaska and Connecticut, which respectively spent 5.88 and 0.88 percent of personal income.

The Census Bureau includes highway spending (both current and capital), spending on airports, and spending on sea and inland port facilities in this category of expenditure. However, the Census Bureau considers the Commonwealth’s annual transfers to the Massachusetts Bay Transportation Authority (MBTA) an intergovernmental expenditure and thus excludes the value of those transfers from direct general expenditures and, by extension, from transportation expenditures; it also classifies expenditures by the MBTA as utility expenditures, which are likewise excluded from direct general expenditures. If the Commonwealth’s transfers to the MBTA had been included within transportation expenditures, then the share of income Massachusetts dedicates to that area would have been 1.84 percent in FY 2004 and its corresponding ranking would have been 20th. (Of course, that assumes that no other similar adjustments would be necessary in other states.)

TABLE 15. TRANSPORTATION

RANK	STATE	SHARE OF PERSONAL INCOME
1	Alaska	5.88%
2	Wyoming	3.35%
3	North Dakota	2.99%
4	Montana	2.72%
5	South Dakota	2.68%
6	Nevada	2.63%
7	West Virginia	2.39%
8	Mississippi	2.12%
9	Kentucky	2.08%
10	Nebraska	2.07%
11	Idaho	2.00%
12	Maine	1.99%
13	Kansas	1.96%
14	Arkansas	1.94%
15	Delaware	1.92%
16	Iowa	1.90%
17	Utah	1.88%
18	Minnesota	1.86%
19	Vermont	1.86%
20	Wisconsin	1.83%
21	Washington	1.83%
22	Missouri	1.82%
23	Colorado	1.80%
24	New Mexico	1.80%
25	Florida	1.77%
26	Louisiana	1.73%
27	Arizona	1.72%
28	South Carolina	1.63%
29	North Carolina	1.61%
30	Texas	1.59%
31	Massachusetts	1.58%
32	Oklahoma	1.52%
33	New York	1.52%
--	United States	1.51%
34	Oregon	1.50%
35	Virginia	1.46%
36	Alabama	1.43%
37	Hawaii	1.41%
38	Indiana	1.40%
39	Michigan	1.38%
40	Illinois	1.35%
41	Ohio	1.33%
42	Pennsylvania	1.32%
43	Rhode Island	1.27%
44	Georgia	1.24%
45	New Hampshire	1.23%
46	California	1.19%
47	Tennessee	1.15%
48	Maryland	1.10%
49	New Jersey	0.95%
50	Connecticut	0.88%

State and Local Public Safety Spending

Massachusetts spent 1.35 percent of personal income for public safety purposes in FY04, making it 41st in the country in this area.

Overall, state and local governments spent 1.77 percent of personal income on public safety in FY04. Nevada led the way in FY04, with public safety spending amounting to 2.33 percent of personal income. North Dakota spent 1.11 percent of personal income, the lowest level of any state.

The Census Bureau defines public safety spending as spending on police and fire protection, as well as on corrections facilities.

TABLE 16. PUBLIC SAFETY

RANK	STATE	SHARE OF PERSONAL INCOME
1	Nevada	2.33%
2	California	2.31%
3	Alaska	2.27%
4	New Mexico	2.25%
5	Florida	2.13%
6	Arizona	2.12%
7	New York	2.12%
8	Rhode Island	2.11%
9	Oregon	2.05%
10	Louisiana	1.98%
11	Wyoming	1.94%
12	Wisconsin	1.87%
13	Utah	1.86%
14	Idaho	1.77%
--	United States	1.77%
15	Ohio	1.75%
16	Washington	1.75%
17	Georgia	1.72%
18	Michigan	1.72%
19	Delaware	1.71%
20	Mississippi	1.67%
21	Arkansas	1.66%
22	Maryland	1.64%
23	Oklahoma	1.63%
24	Illinois	1.63%
25	Montana	1.61%
26	Colorado	1.61%
27	New Jersey	1.59%
28	Texas	1.58%
29	South Carolina	1.56%
30	North Carolina	1.55%
31	Virginia	1.52%
32	Kentucky	1.49%
33	Missouri	1.49%
34	Kansas	1.48%
35	Tennessee	1.47%
36	Hawaii	1.46%
37	Pennsylvania	1.44%
38	Alabama	1.42%
39	Nebraska	1.42%
40	Vermont	1.38%
41	Massachusetts	1.35%
42	Maine	1.35%
43	Indiana	1.32%
44	Minnesota	1.31%
45	West Virginia	1.28%
46	New Hampshire	1.24%
47	Connecticut	1.24%
48	Iowa	1.16%
49	South Dakota	1.13%
50	North Dakota	1.11%

State and Local Spending on Housing and the Environment

Under the Census Bureau’s classification, this category of expenditure encompasses a wide range of activities. It includes spending for the conservation and development of state and local natural resources, for parks and recreation, for housing and community development, and for sewers and solid waste management.

For this category of expenditure, Massachusetts ranked 30th out of the fifty states in FY04, spending 1.48 percent of personal income. Taken together, state and local governments around the country spent 1.56 percent of personal income in FY04.

Alaska spent the most of any state – 3.07 percent of personal income – on housing and the environment, while Kansas spent the least – 1.10 percent of personal income.

TABLE 17. HOUSING & ENVIRONMENT

RANK	STATE	SHARE OF PERSONAL INCOME
1	Alaska	3.07%
2	Montana	2.35%
3	Wyoming	2.35%
4	Hawaii	2.11%
5	Washington	2.05%
6	California	1.96%
7	North Dakota	1.93%
8	Florida	1.92%
9	Louisiana	1.89%
10	Utah	1.88%
11	Oregon	1.88%
12	New Mexico	1.87%
13	Delaware	1.80%
14	Arizona	1.79%
15	Maine	1.77%
16	New York	1.71%
17	Idaho	1.68%
18	Wisconsin	1.66%
19	Vermont	1.60%
20	Minnesota	1.60%
21	Illinois	1.59%
22	Ohio	1.59%
23	Nevada	1.56%
--	United States	1.56%
24	Nebraska	1.56%
25	South Dakota	1.55%
26	Maryland	1.53%
27	Colorado	1.52%
28	Alabama	1.50%
29	West Virginia	1.49%
30	Massachusetts	1.48%
31	North Carolina	1.44%
32	Georgia	1.42%
33	Michigan	1.38%
34	Arkansas	1.36%
35	Mississippi	1.36%
36	Indiana	1.35%
37	Rhode Island	1.33%
38	Virginia	1.29%
39	Pennsylvania	1.29%
40	Kentucky	1.27%
41	New Jersey	1.25%
42	South Carolina	1.24%
43	Iowa	1.20%
44	Missouri	1.19%
45	New Hampshire	1.17%
46	Tennessee	1.16%
47	Texas	1.14%
48	Oklahoma	1.13%
49	Connecticut	1.12%
50	Kansas	1.10%



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