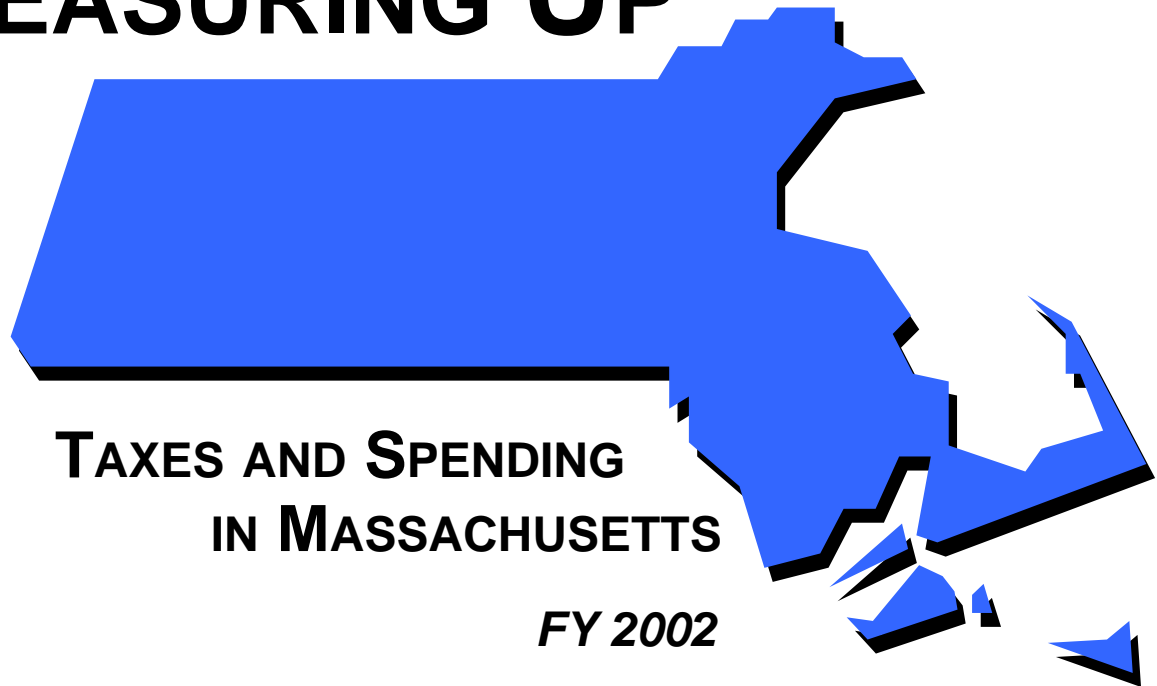


MEASURING UP



**TAXES AND SPENDING
IN MASSACHUSETTS**

FY 2002



MASSACHUSETTS

BUDGET AND POLICY CENTER

MEASURING UP

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FY 2002

JEFF MCLYNCH
AUGUST 2005



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 2002

Executive Summary

In crafting the Commonwealth's budget each year, policymakers must make a wide variety of difficult decisions about both the appropriate levels and forms of taxation and the proper allocation of public funds to achieve desired policy goals. Such decisions cannot take place in a vacuum. They should take into account not only the taxes that the citizens of the Commonwealth pay, but also the resources spent in order to address important priorities like education, health care, and public safety. Moreover, given that many debates over taxes and spending occur in the context of the Commonwealth's "competitive position" relative to other states, policymakers should bear in mind the levels of taxes and spending in other states.

This report – the MBPC's third edition of *Measuring Up* – attempts to inform that context. Based on revenue and expenditure data for state and local governments collected by the U.S. Census Bureau for fiscal year 2002 – 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 rather clear – and considerably at odds with the conventional wisdom about where Massachusetts fiscal policy stands in relation to that of other states. Simply put, the data presented in this report demonstrate that neither expenditures nor taxes in Massachusetts – when taken in the aggregate and compared with other states – are excessively high. In fact, analysis of the Census Bureau data shows that Massachusetts raises and spends much less, relative to the size of its economy – as reflected in the amount of personal income within the Commonwealth – than most states.

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 three other states; that is, Massachusetts ranks 47th among the 50 states. In fiscal year 2002, state and local "own-source" revenue amounted to 13.2 percent of personal income in Massachusetts, compared to the national average of 15.1 percent. State and local own-source revenue would have been \$4.7 billion higher in FY02 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 FY02, state and local taxes



equaled 9.6 percent of personal income, slightly below the overall national level of 10.3 percent and 38th out of the 50 states.

- Both of these measures – total state and local own-source revenue as a share of personal income and total state and local tax revenue as a share of personal income – were at or near their lowest levels in twenty-five years in FY02. In addition, FY02 marked the largest gap between own-source revenue in Massachusetts and the United States overall (expressed as a share of personal income) since FY 1982. As for taxes, at no point since FY 1978 have state and local taxes in Massachusetts, measured as a share of personal income, been lower than they were in FY 2002. State and local tax levels had been roughly comparable in Massachusetts and the country overall since the late 1980s, but given the decline in state and local taxes in the Commonwealth since FY 1998, a gap has emerged here as well.
- Between FY 1998 and FY 2002, state and local taxes, as a share of personal income, fell more in Massachusetts than in all but a handful of states. To be sure, state and local taxes declined relative to personal income in most places during that five year span, but only in Montana, New Mexico, Connecticut, and Alaska was the drop more severe than in Massachusetts, where they went down by more than 13 percent. Much the same could be said of own-source revenue. While few states saw appreciable growth in own-source revenue relative to personal income between FY98 and FY02, the 9.7 percent fall in own-source revenue in Massachusetts was matched or exceeded by only a select few states.

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 FY02, Massachusetts ranked very low – 45th – in terms of total state and local spending as a share of personal income. In FY02, state and local direct general expenditures amounted to 17.0 percent of personal income in Massachusetts, but 19.7 percent for the United States in its entirety, a difference of more than 13 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 FY02. In fact, Massachusetts ranked 48th on overall spending on education, 42nd 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 47th in this category in FY02. This, in part, reflects Massachusetts' comparatively small public workforce. In 2002, the Commonwealth and its cities and towns employed 57.8 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 2002.

Introduction

In crafting the Commonwealth's budget each year, policymakers must make a wide variety of difficult decisions about both the appropriate levels and forms of taxation and the proper allocation of public funds to achieve desired policy goals. Such decisions cannot take place in a vacuum. They should take into account not only the taxes that the citizens of the Commonwealth pay, but also the resources spent in order to address important priorities like education, health care, and public safety. Moreover, given that many debates over taxes and spending occur in the context of the Commonwealth's "competitive position" relative to other states, policymakers should bear in mind the levels of taxes and spending in other states, as well as how the levels of taxes and spending in Massachusetts may have changed over time.

This report – the MBPC's third edition of *Measuring Up* – attempts to inform that context. Based on revenue and expenditure data for state and local governments across the country collected by the U.S. Census Bureau, it 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 rather clear – and considerably at odds with the conventional wisdom about where Massachusetts fiscal policy stands in relation to that of other states. Simply put, the data presented in this report demonstrate that neither expenditures nor taxes in Massachusetts – when taken in the aggregate and compared with other states – are excessively high. In fact, analysis of the Census Bureau data shows that Massachusetts raises and spends much less, relative to the size of its economy, than most states.

To elaborate, 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. For instance, of the nearly \$10.3 billion that was spent on elementary and secondary education in the Commonwealth in FY 2002, all but \$7.3 million occurred at the local level under the Census Bureau's classification scheme, whereas virtually all of the \$1.4 billion that Hawaii spent on elementary and secondary education came from its state government rather than from its municipal or regional ones. These data, in turn, are expressed as a share of state personal income in an attempt to remove the variations that exist among the states and, thus, to create a proper standard for comparison.¹ Dollar to dollar comparisons, to some extent, would simply mirror differences in population, while per capita measures would not account for differences in the cost of living from state to state. Comparisons on the basis of "shares of income" provide a more accurate picture of the available resources states have devoted to certain program areas.

¹ Personal income data were obtained from the U.S. Department of Commerce, Bureau of Economic Analysis and were adjusted to reflect income for fiscal year 2002 for each state.

As an illustration, consider that, in fiscal year 2002, Massachusetts raised \$23.9 billion in state and local taxes, while Texas collected close to \$59 billion. Obviously, a significant portion of this difference can be attributed to the fact that 6.3 million people lived in Massachusetts that year and 20.9 million lived in Texas. Thus, a common standard for comparison is necessary; this report follows a regular practice of public finance analysis and converts each dollar figure to a percentage of state personal income. In FY 2002, state personal income in Massachusetts was \$249.2 billion and \$621.2 billion in Texas. Dividing Massachusetts' \$23.9 billion in state and local taxes by \$249.2 billion yields 9.6 percent and dividing Texas' roughly \$59 billion in state and local taxes by \$621.2 billion produces 9.5 percent, suggesting that the two states' overall tax burdens are much more similar than they first appear.

Critics of this approach will observe that Massachusetts ranks relatively low on many tax and spending measures, when they are expressed as a share of personal income, 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 \$249.2 billion in personal income in FY02 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. If Massachusetts made the same choices about what share of economic resources to allocate to achieving certain public ends as other states, millions of dollars more would be appropriated each year by state and local governments across the Commonwealth. To provide just one example, in FY 2002, total state and local spending on public safety amounted to 1.44 percent of personal income in Massachusetts and 1.78 percent of personal income among the fifty states in the aggregate. Massachusetts was 36th in the country by this measure. If Massachusetts had chosen to allocate 1.78 percent of its personal income to public safety in FY 2002 – or 0.34 additional percentage points – spending for police, fire, corrections, and other such services would have climbed \$847 million. In the end, the Commonwealth is in a relatively fortunate position in that, as a more affluent state, it could provide an average level of public services while devoting a smaller share of total personal income to taxes than lower income states. If its effective tax rate were set closer to the national average, its public sector would have greater resources than the public sectors in average income states, resources that could be used to strengthen public schools, expand access to healthcare, enhance public safety, and improve local services.

While this report is based on data for fiscal year 2002 – the most recent year for which such data are available from the Census Bureau – the events of the past several years are unlikely to alter its fundamental conclusions. Fiscal circumstances have, of course, changed considerably in Massachusetts since FY 2002. That year marked the nadir of the Commonwealth's recent fiscal crisis, as, due to a combination of poor economic performance and the implementation of previously scheduled tax cuts, state tax revenue fell roughly 15 percent from the preceding year. In fact, adjusted for inflation, state tax revenue has yet to return to its FY 2001 levels. In response to this protracted decline, the Commonwealth adopted an approximately \$1 billion tax package as part of its FY 2003 budget, has reduced spending by more than \$3 billion, and has withdrawn hundreds of millions of dollars from its Stabilization Fund. Nevertheless,

Massachusetts' relative standing has probably not shifted in any meaningful way since FY 2002, for a number of reasons. Despite the enactment of the FY03 tax package, the effective personal income tax rate still fell between FY02 and FY03 due to previously scheduled changes in law, while a major element of that FY03 package was a freeze in further scheduled reductions in the rate. Thus, while that element of the package generated additional personal income tax revenue relative to the amount of revenue that the Commonwealth otherwise would have collected in FY03 and in years thereafter, it did not raise personal income taxes relative to FY02. Similarly, although the Commonwealth enacted dramatic cuts in spending during the fiscal crisis, it was not alone in doing so, as most other states experienced some fiscal stress over this period.

Importantly, some have maintained that this recent fiscal crisis was the result of excessive spending. As this report demonstrates, though, spending overall, as well as spending in key areas, is significantly below the national average and constitutes a much smaller share of economic resources than in many states. The converse of that, of course, is that taxes in Massachusetts are also below the national mark and again, lower, relative to the size of the Commonwealth's economy, than is true of most states. Thus, if Massachusetts were to reconsider some of the many tax cuts put in place during the 1990s in order to regain a degree of fiscal stability and to improve its ability to invest in the future, it seems unlikely that the old moniker of "Taxachusetts" could be revived. Indeed, even if the Commonwealth were to repeal approximately half of the remaining net tax cuts adopted since the start of the 1990s – thus generating approximately \$1.7 billion annually – state and local taxes as a share of personal income in Massachusetts would likely still be lower than the national mark.

State and Local Revenue

Overview

According to the U.S. Census Bureau, in fiscal year 2002, Massachusetts state and local general revenue totaled \$39.0 billion. The overwhelmingly majority of those funds – more than \$32.8 billion or 84.2 percent – came from sources within the Commonwealth. The federal government provided the remaining 15.8 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 2002, state and local tax revenue in Massachusetts amounted to \$23.9 billion or 72.8 percent of total own-source revenue, while fees, charges, and miscellaneous revenue equaled \$8.9 billion, thus providing the remaining 27.2 percent.

Figure 1.

Composition of Massachusetts State and Local Revenue, FY 2002
percent of total own-source revenue

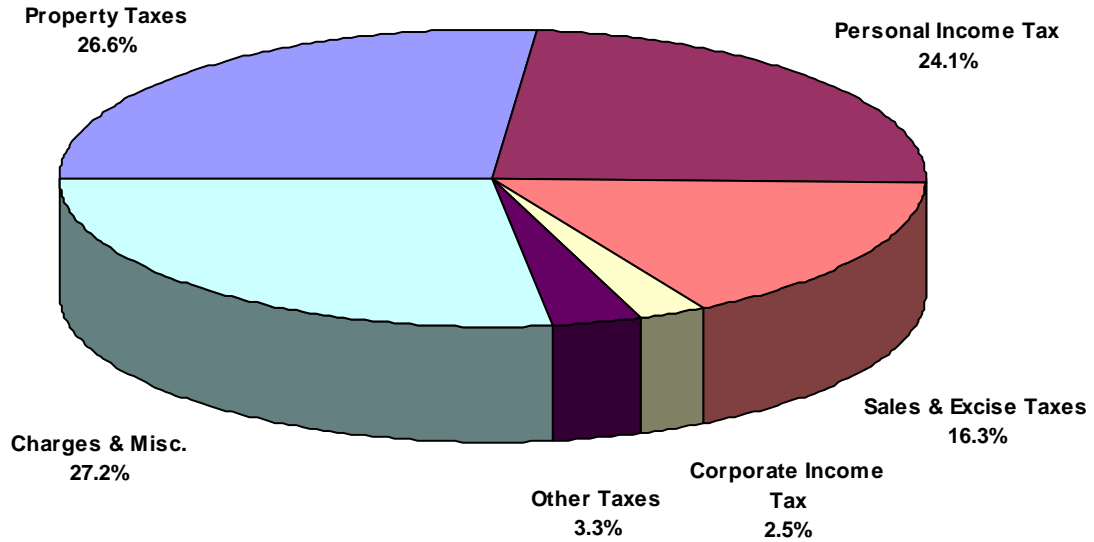
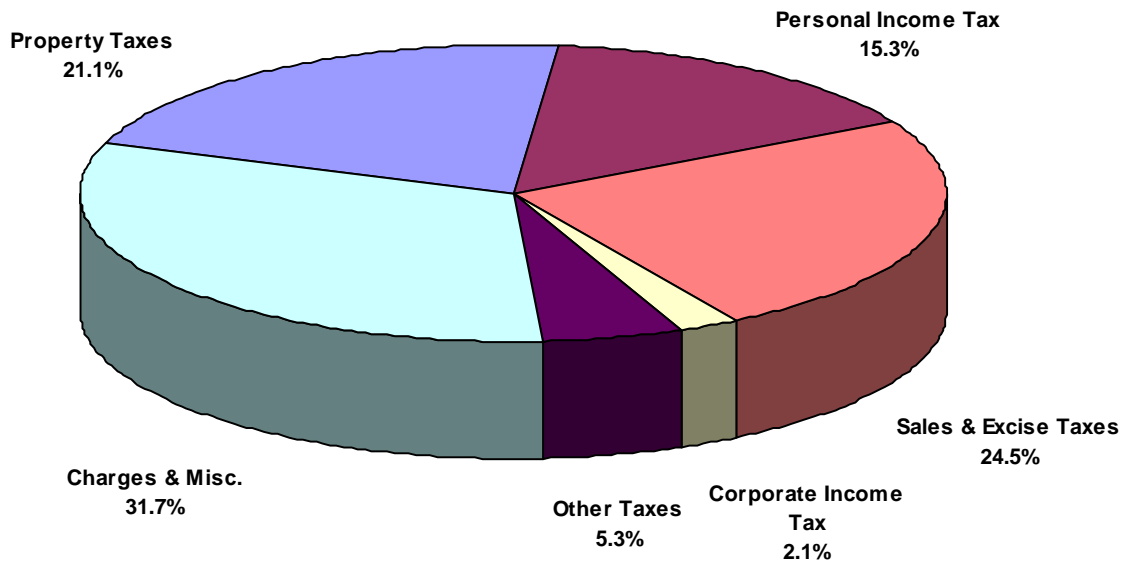


Figure 2.

Composition of Overall US State and Local Revenue, FY 2002
percent of total own-source revenue

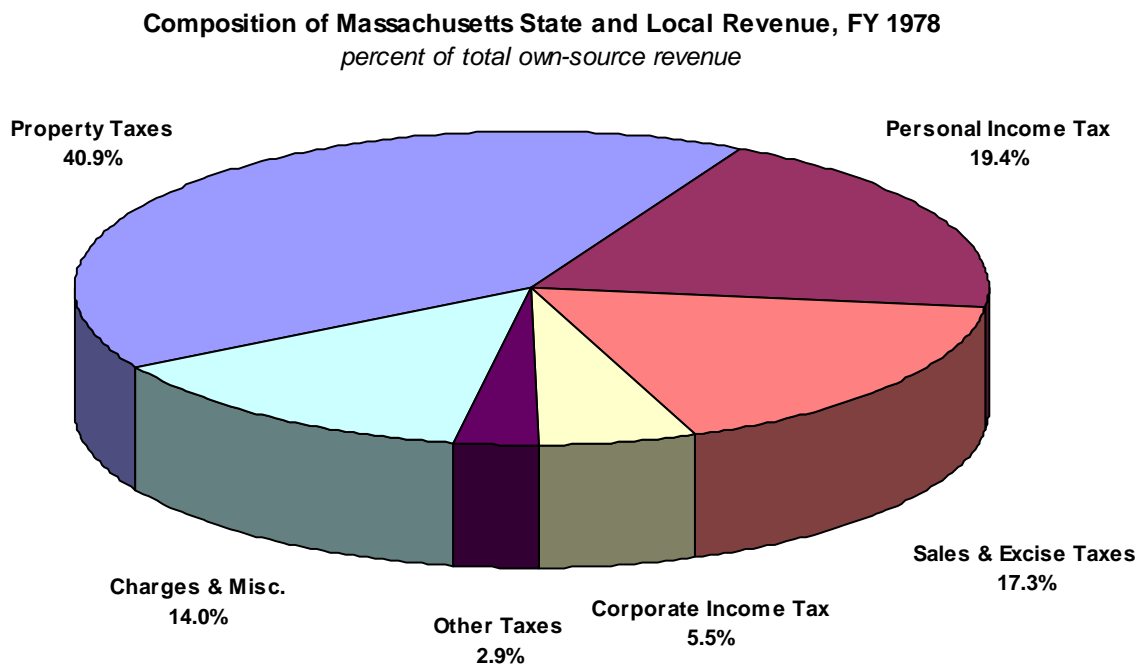


In turn, as Figure 1 illustrates, four types of taxes account for the bulk of tax revenue in the Commonwealth. The single largest source of tax revenue in FY 2002 were the property taxes levied by the Commonwealth’s cities and towns, which, taken together, generated 26.6 percent of own-source revenue that year. The personal income tax produced nearly a quarter – 24.1 percent – of own-source revenue in FY02, while sales and excise taxes yielded 16.3 percent. The corporate income tax and other taxes (which include license taxes) were responsible for significantly smaller shares of total own-source revenue – 2.5 percent and 3.3 percent respectively.

This particular composition of own-source revenue stands in contrast not only with the fifty states as a whole but also with the Massachusetts of 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 FY02; 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 2002.

When the composition of own-source revenue in Massachusetts in FY02 is compared to that for FY 1978, several differences stand out. First and foremost, twenty-five years ago – prior to the adoption of the property tax-cutting initiative known as Proposition 2 ½ – 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 2002, it composed 26.6 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

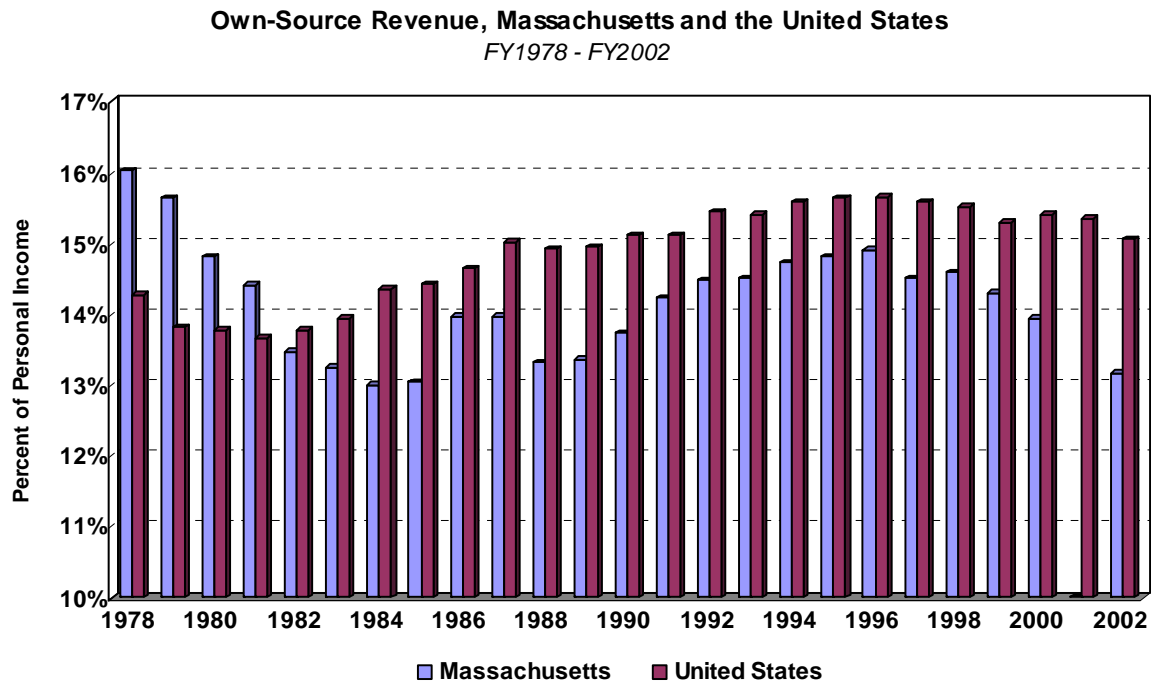
Figure 3.



sources of revenue respectively amounted to 19.4 percent and 14.0 percent of own-source revenue in FY78, but represented 24.1 percent and 27.2 percent in FY02. 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.

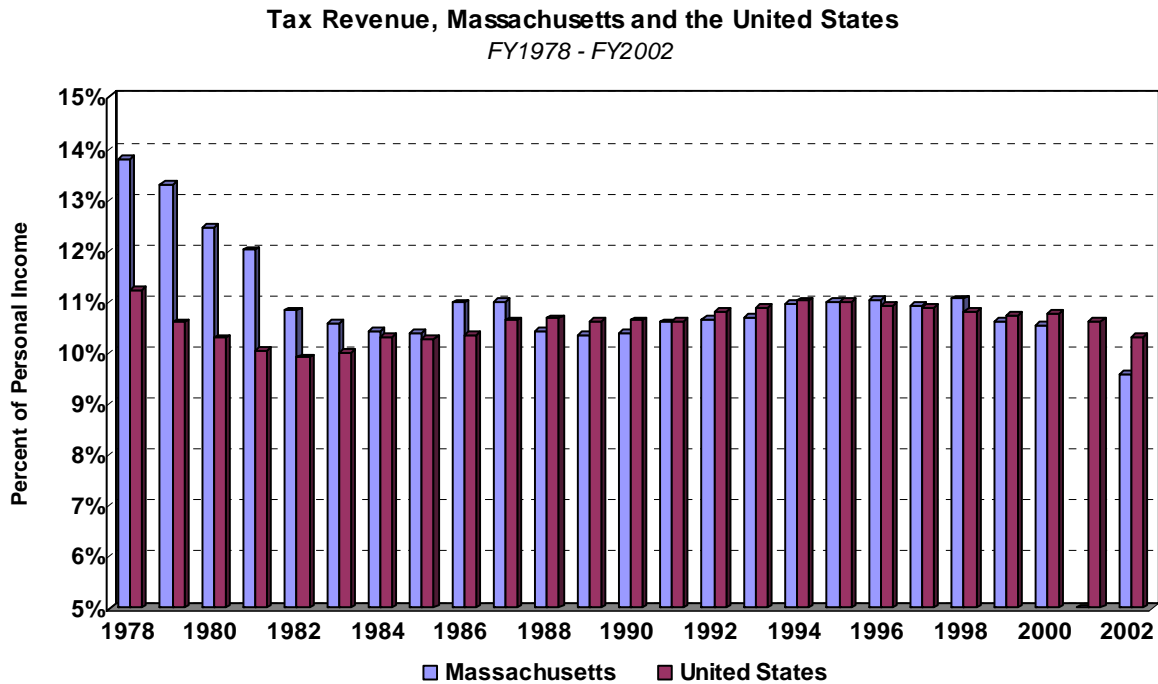
Expressed as a share of personal income in Massachusetts, total own-source revenue amounted to 13.2 percent of personal income in FY02. State and local tax revenue in the Commonwealth was the equivalent of 9.6 percent of income. Of note, both of these measures were at or near their lowest levels in twenty-five years in FY02 and were below the corresponding measures for the fifty states as a whole. As can be seen in Figure 4, total own-source revenue in Massachusetts in FY02 was only slightly higher than its FY 1984 nadir of 13.0 percent and was conspicuously lower than the 15.1 percent of personal income that own-source revenue for all fifty states comprised that same year. In fact, FY02 marked the largest gap between own source revenue in Massachusetts and the United States overall (expressed as a share of personal income) since Massachusetts dropped below the United States in FY 1982. Similarly, as Figure 5 indicates, state and local tax revenue as a share of personal income in FY02 was lower in Massachusetts, where it amounted to 9.6 percent, than throughout the nation as a whole, where it was 10.3 percent.

Figure 4.



Note: The Census Bureau did not release state-by-state data for FY 2001.

Figure 5.



Note: The Census Bureau did not release state-by-state data for FY 2001.

As revealing as Figures 4 and 5 are, they still do not fully convey just how much both own-source revenue and tax revenue, as a share of personal income, have fallen in Massachusetts over the past twenty-five years relative to other states. Figure 6 presents data on the percentage change in each of these measures for each of the fifty states and for the country as a whole between FY 1978 and FY 2002. It shows that Massachusetts reduced own-source revenue as a share of personal income more than any other state in the country over that span of two and a half decades; it further demonstrates that the Commonwealth's decline in tax revenue as a share of personal income was exceeded only by Alaska. Between FY78 and FY02, state and local own-source revenue nationwide fell 6.0 percent; it declined by 17.8 percent in Massachusetts. Between FY78 and FY02, state and local tax revenue as a share of personal income dropped 7.8 percent for the country as a whole; in Massachusetts, it plummeted 30.5 percent.

Figures 4 and 5 do suggest that a significant portion of this overall trend occurred in the late 1970s and early 1980s, but the events of recent years have certainly contributed as well. That is, state and local tax levels had been roughly comparable in Massachusetts and the country overall since the late 1980s, but, as can be seen in Figure 7, between FY 1998 and FY 2002, state and local taxes, as a share of personal income, fell more in Massachusetts than in all but a handful of states. To be sure, state and local taxes declined in most places during that five year span, but only in Montana, New Mexico, Connecticut, and Alaska was the drop more severe than in Massachusetts. Much the same could be said of own-source revenue generally. As Figure 7 also reveals, while few states saw appreciable growth in own-source revenue relative to personal income between FY98 and FY02, the fall in own-source revenue in Massachusetts was matched or exceeded by only a select few states.

Figure 6.

Change in Total Own-Source Revenue & Tax Revenue, FY 1978 to FY 2002

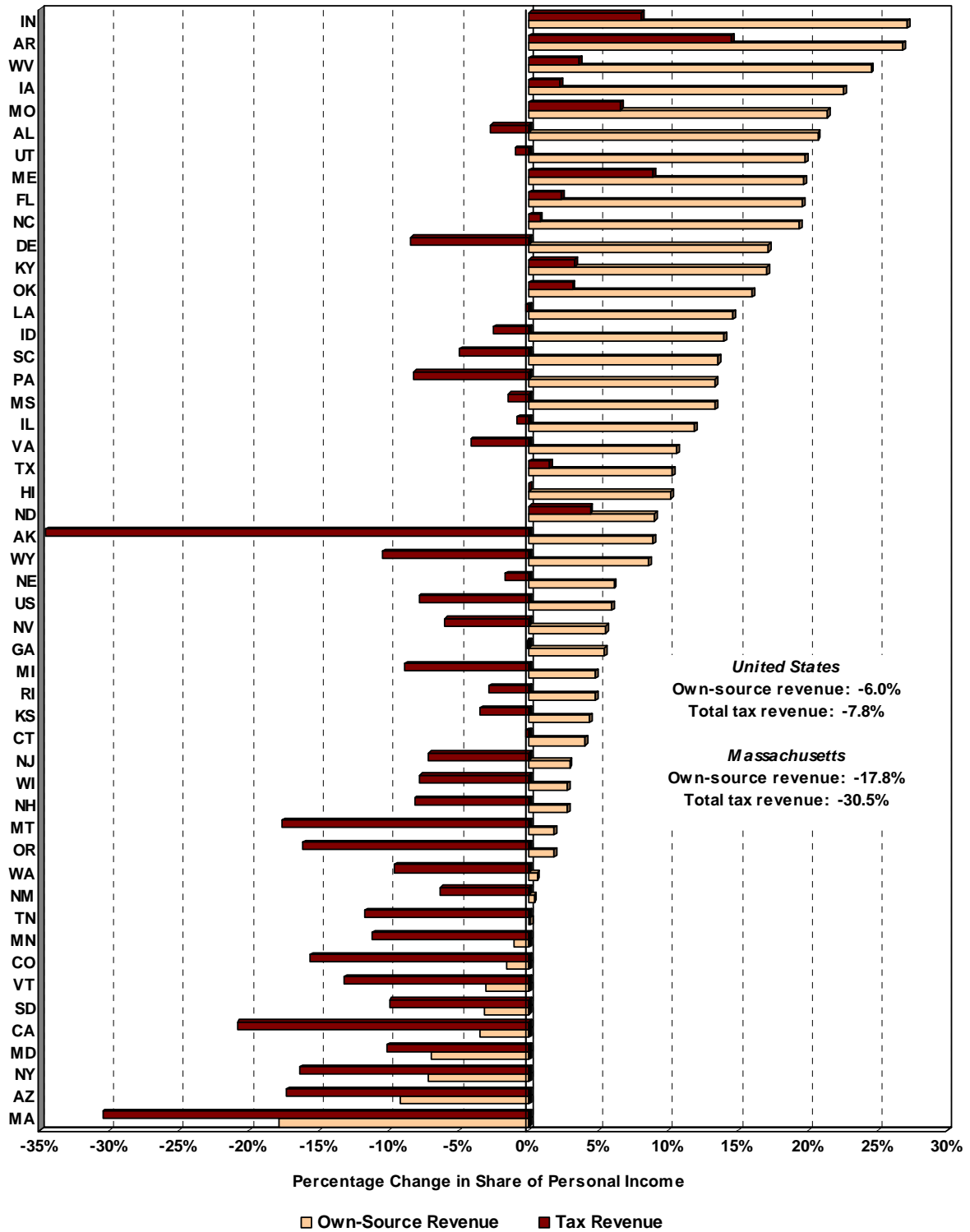
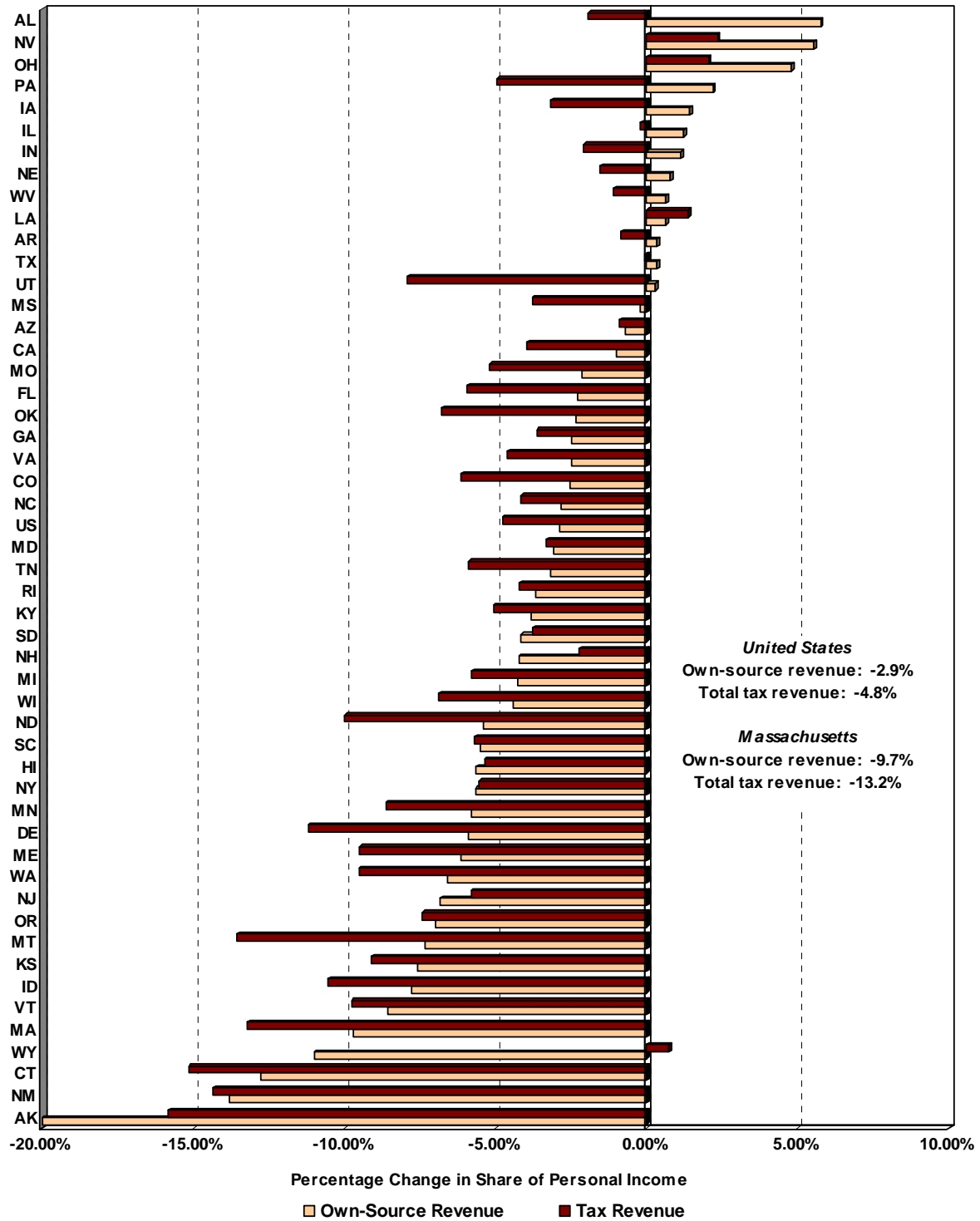


Figure 7.

Change in Total Own-Source Revenue & Tax Revenue, FY 1998 to FY 2002



N.B.: Alaska reduced own-source revenue by 47.4 percent between FY 1998 and FY 2002.

These trends have enormous consequences for the level of economic resources that is available to provide public goods and services, but they also have serious implications for the manner in which those resources are extracted. As a result of the more sizable decline in tax revenue, fees, charges, and other miscellaneous general revenue have come to play a more prominent role in financing public services in Massachusetts. In FY 1978, this source of revenue equaled 2.2 percent of personal income, but, by FY 2002, it had reached 3.6 percent, a more than 50 percent jump. 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 means that the Commonwealth's overall system of public finance has become less fair.

Total State and Local Own-Source General Revenue

In Massachusetts in FY 2002, state and local own-source revenue equaled 13.2 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 three states.

Total state and local own-source revenue ranged from a high of 26.5 percent of personal income in Alaska to a low of 11.8 percent in New Hampshire. Alaska outdistanced all other states on this measure 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 15.1 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 23 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	26.5%
2	Wyoming	19.9%
3	Delaware	17.7%
4	New York	17.6%
5	Louisiana	17.4%
6	New Mexico	17.3%
7	Maine	17.2%
8	Utah	17.2%
9	North Dakota	17.0%
10	Mississippi	16.8%
11	West Virginia	16.7%
12	Minnesota	16.5%
13	Iowa	16.4%
14	Hawaii	16.4%
15	Wisconsin	16.2%
16	Nebraska	15.9%
17	Montana	15.8%
18	Ohio	15.7%
19	California	15.7%
20	South Carolina	15.4%
21	Idaho	15.4%
22	Indiana	15.4%
23	Alabama	15.4%
24	Vermont	15.4%
25	Arkansas	15.3%
26	Kentucky	15.3%
27	Oregon	15.3%
28	Michigan	15.1%
29	Oklahoma	15.1%
--	United States	15.1%
30	Washington	15.0%
31	Nevada	14.9%
32	North Carolina	14.9%
33	Rhode Island	14.9%
34	Pennsylvania	14.8%
35	Kansas	14.8%
36	Florida	14.8%
37	Georgia	14.4%
38	Colorado	14.2%
39	Arizona	13.9%
40	Texas	13.9%
41	Virginia	13.9%
42	New Jersey	13.8%
43	Illinois	13.8%
44	Missouri	13.6%
45	South Dakota	13.5%
46	Maryland	13.5%
47	Massachusetts	13.2%
48	Connecticut	12.8%
49	Tennessee	12.6%
50	New Hampshire	11.8%

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 FY02, total state and local tax revenue equaled 9.6 percent of personal income in Massachusetts, or 38th out of the 50 states.

In New York, where it was highest, total tax revenue amounted to 13.1 percent of personal income. In Tennessee, where it was lowest, total tax revenue as a share of personal income was 8.2 percent. Taken together, the fifty states generated total tax revenue of 10.3 percent of personal income in FY02.

This table demonstrates quite clearly the relatively low level to which taxes have fallen in Massachusetts. For instance, had state and local taxes in Massachusetts simply been at the national mark of 10.3 percent of personal income in FY 2002, the Commonwealth – and its cities and towns – would have collected an additional \$1.76 billion 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	13.1%
2	Maine	12.7%
3	Wyoming	11.9%
4	Hawaii	11.8%
5	Wisconsin	11.6%
6	Minnesota	11.2%
7	Rhode Island	11.0%
8	Ohio	11.0%
9	West Virginia	10.9%
10	New Mexico	10.9%
11	Vermont	10.9%
12	Louisiana	10.8%
13	Nebraska	10.8%
14	California	10.6%
15	Utah	10.5%
16	Kentucky	10.4%
17	North Dakota	10.4%
18	New Jersey	10.4%
19	Iowa	10.3%
20	Arkansas	10.3%
--	United States	10.3%
21	Connecticut	10.3%
22	Mississippi	10.3%
23	Delaware	10.2%
24	Kansas	10.2%
25	Michigan	10.2%
26	Illinois	10.2%
27	Maryland	10.2%
28	Arizona	10.1%
29	Alaska	10.1%
30	Indiana	10.0%
31	Washington	10.0%
32	Pennsylvania	10.0%
33	North Carolina	9.9%
34	Georgia	9.9%
35	Nevada	9.8%
36	Idaho	9.8%
37	Oklahoma	9.7%
38	Massachusetts	9.6%
39	Montana	9.5%
40	Texas	9.5%
41	South Carolina	9.5%
42	Missouri	9.4%
43	Virginia	9.4%
44	Florida	9.2%
45	Colorado	9.1%
46	South Dakota	9.0%
47	Oregon	9.0%
48	Alabama	8.6%
49	New Hampshire	8.3%
50	Tennessee	8.2%

Property Taxes

With regard to specific forms of taxation, Massachusetts ranked 17th in terms of property taxes as a share of personal income in FY02. Property taxes totaled 3.5 percent of personal income in the Commonwealth, slightly higher than the aggregate level of property taxes for the United States as a whole (3.2 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 Maine in FY02, although this may be due, in part, to the prevalence of vacation homes and property owned by out-of-state residents in that state; they were equal to 5.3 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	Maine	5.3%
2	New Hampshire	5.0%
3	New Jersey	4.8%
4	Vermont	4.6%
5	Wyoming	4.5%
6	Rhode Island	4.5%
7	Connecticut	4.1%
8	Alaska	4.1%
9	Wisconsin	4.0%
10	New York	4.0%
11	Texas	3.9%
12	Illinois	3.9%
13	Montana	3.8%
14	Iowa	3.6%
15	Nebraska	3.5%
16	Indiana	3.5%
17	Massachusetts	3.5%
18	South Dakota	3.3%
19	Michigan	3.3%
20	Florida	3.2%
21	Ohio	3.2%
22	Kansas	3.2%
23	North Dakota	3.2%
--	United States	3.2%
24	Minnesota	3.2%
25	Oregon	3.2%
26	South Carolina	3.0%
27	Arizona	3.0%
28	Washington	3.0%
29	Pennsylvania	2.9%
30	Idaho	2.8%
31	Virginia	2.8%
32	Maryland	2.8%
33	Georgia	2.7%
34	Colorado	2.7%
35	California	2.7%
36	Nevada	2.6%
37	Mississippi	2.6%
38	Utah	2.5%
39	Missouri	2.4%
40	North Carolina	2.4%
41	Tennessee	2.2%
42	West Virginia	2.1%
43	Kentucky	1.9%
44	Louisiana	1.7%
45	Hawaii	1.7%
46	New Mexico	1.7%
47	Oklahoma	1.6%
48	Arkansas	1.6%
49	Delaware	1.5%
50	Alabama	1.3%

Sales and Excise Taxes

Massachusetts was fairly close to the bottom end of the range of states when it came to sales and excise taxes in fiscal year 2002. 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 25 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.²

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 6.3 percent in the former state and 0.9 percent in the latter. The comparable figure for the country as a whole was 3.7 percent.

Separately, excise and other selective sales taxes (such as taxes on gasoline, alcoholic beverages, or tobacco products) amounted to 0.7 percent of personal income in Massachusetts in FY02. The Commonwealth ranked last in the country in this category in FY02, although this position was realized prior to the recent 75-cent-per-pack increase in the cigarette excise. Overall, excise taxes were 1.1 percent of personal income in the United States in FY02.

TABLE 4. SALES & EXCISE TAXES

RANK	STATE	SHARE OF PERSONAL INCOME
1	Hawaii	6.3%
2	Louisiana	6.2%
3	Washington	6.1%
4	Nevada	5.9%
5	Arkansas	5.3%
6	New Mexico	5.2%
7	Mississippi	5.1%
8	Arizona	5.0%
9	Tennessee	4.7%
10	Florida	4.7%
11	West Virginia	4.7%
12	Texas	4.6%
13	South Dakota	4.6%
14	Utah	4.6%
15	Wyoming	4.5%
16	Alabama	4.2%
17	North Dakota	4.1%
18	Kansas	3.9%
19	Georgia	3.9%
20	Kentucky	3.8%
21	Oklahoma	3.8%
22	Missouri	3.8%
--	United States	3.7%
23	Nebraska	3.7%
24	California	3.6%
25	Minnesota	3.6%
26	Iowa	3.6%
27	Rhode Island	3.6%
28	Wisconsin	3.5%
29	Maine	3.5%
30	Colorado	3.5%
31	North Carolina	3.5%
32	Michigan	3.4%
33	Illinois	3.4%
34	Idaho	3.4%
35	South Carolina	3.3%
36	New York	3.3%
37	Ohio	3.3%
38	Indiana	3.3%
39	Vermont	3.2%
40	Connecticut	3.1%
41	Pennsylvania	3.0%
42	Virginia	2.8%
43	New Jersey	2.6%
44	Maryland	2.5%
45	Massachusetts	2.2%
46	Montana	1.7%
47	Alaska	1.5%
48	New Hampshire	1.4%
49	Delaware	1.2%
50	Oregon	0.9%

²"Are You Being Served?", *Tax Administrators News*, Federation of Tax Administrators (Washington, DC), May 2005.

Personal Income Taxes

For fiscal year 2002, personal income taxes in the Commonwealth yielded an amount of revenue equal to 3.2 percent of personal income. Only seven states – New York, Maryland, Oregon, Ohio, Kentucky, Minnesota, and North Carolina – 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.³

In the aggregate, personal income taxes among the 50 states produced funds equal to 2.3 percent of personal income in FY02.

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 FY02, a relatively small amount compared to other states. Yet, 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. Of course, the personal income tax is 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.⁴

TABLE 5. PERSONAL INCOME TAX

RANK	STATE	SHARE OF PERSONAL INCOME
1	New York	4.5%
2	Maryland	3.9%
3	Oregon	3.7%
4	Ohio	3.6%
5	Kentucky	3.4%
6	Minnesota	3.3%
7	North Carolina	3.2%
8	Massachusetts	3.2%
9	Hawaii	3.1%
10	Wisconsin	3.1%
11	Maine	3.0%
12	Delaware	2.9%
13	California	2.9%
14	Virginia	2.8%
15	Utah	2.8%
16	Georgia	2.7%
17	Oklahoma	2.5%
18	Pennsylvania	2.5%
19	Rhode Island	2.5%
20	Connecticut	2.5%
21	Idaho	2.5%
22	Arkansas	2.5%
23	Missouri	2.5%
24	Indiana	2.4%
25	West Virginia	2.4%
26	Kansas	2.4%
27	Nebraska	2.3%
28	Montana	2.3%
--	United States	2.3%
29	South Carolina	2.3%
30	Colorado	2.3%
31	Vermont	2.3%
32	Iowa	2.3%
33	New Mexico	2.2%
34	Michigan	2.2%
35	New Jersey	2.1%
36	Alabama	1.9%
37	Illinois	1.8%
38	Louisiana	1.6%
39	Mississippi	1.5%
40	Arizona	1.5%
41	North Dakota	1.2%
42	New Hampshire	0.2%
43	Tennessee	0.1%
44	Texas	0.0%
45	Alaska	0.0%
46	Florida	0.0%
47	Nevada	0.0%
48	South Dakota	0.0%
49	Washington	0.0%
50	Wyoming	0.0%

³ New Hampshire and Tennessee do not tax wages, but do levy an income tax on investment income

⁴ 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 3.6 percent of personal income in Massachusetts in FY02. A mere four states – New Jersey, New Hampshire, Maryland, and Connecticut – derived a smaller amount of revenue, measured as a share of personal income, from these sources in FY02.

Charges and miscellaneous general revenue in Alaska, which garners a considerable amount of state revenue from its oil reserves, amounted to 16.4 percent of personal income in FY02, by far the highest level of any state. Connecticut produced the least amount of revenue in this fashion, generating funds equal to 2.5 percent of personal income. Overall, the 50 states generated revenues equal to 4.8 percent of personal income in FY02 from such miscellaneous sources.

TABLE 6. CHARGES & MISC. REVENUE

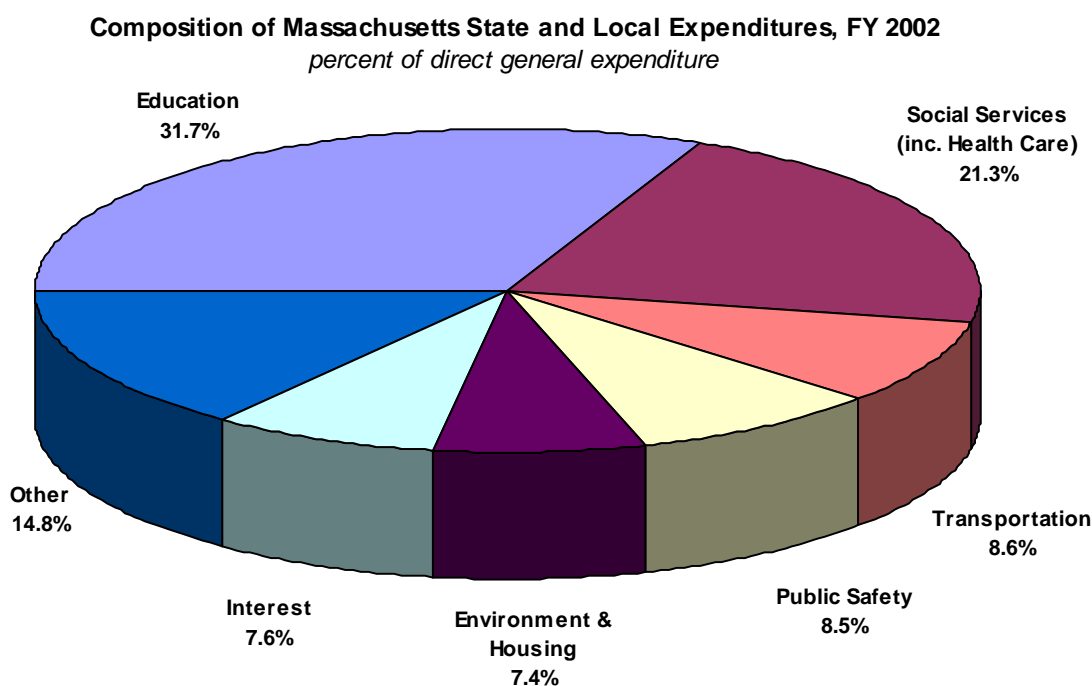
RANK	STATE	SHARE OF PERSONAL INCOME
1	Alaska	16.4%
2	Wyoming	8.0%
3	Delaware	7.4%
4	Alabama	6.8%
5	Utah	6.7%
6	North Dakota	6.7%
7	Louisiana	6.6%
8	Mississippi	6.5%
9	New Mexico	6.4%
10	Montana	6.2%
11	Oregon	6.2%
12	Iowa	6.1%
13	South Carolina	6.0%
14	West Virginia	5.8%
15	Idaho	5.7%
16	Florida	5.5%
17	Oklahoma	5.4%
18	Indiana	5.4%
19	Minnesota	5.3%
20	Colorado	5.1%
21	Nebraska	5.1%
22	Nevada	5.1%
23	California	5.1%
24	Arkansas	5.0%
25	Washington	5.0%
26	North Carolina	5.0%
27	Michigan	4.9%
28	Kentucky	4.9%
29	Pennsylvania	4.8%
--	United States	4.8%
30	Ohio	4.7%
31	Wisconsin	4.7%
32	Hawaii	4.6%
33	Kansas	4.6%
34	Maine	4.6%
35	Virginia	4.5%
36	Georgia	4.5%
37	New York	4.5%
38	South Dakota	4.5%
39	Vermont	4.5%
40	Tennessee	4.4%
41	Texas	4.4%
42	Missouri	4.1%
43	Rhode Island	3.8%
44	Arizona	3.8%
45	Illinois	3.6%
46	Massachusetts	3.6%
47	New Jersey	3.5%
48	New Hampshire	3.5%
49	Maryland	3.3%
50	Connecticut	2.5%

State and Local Expenditures

Overview

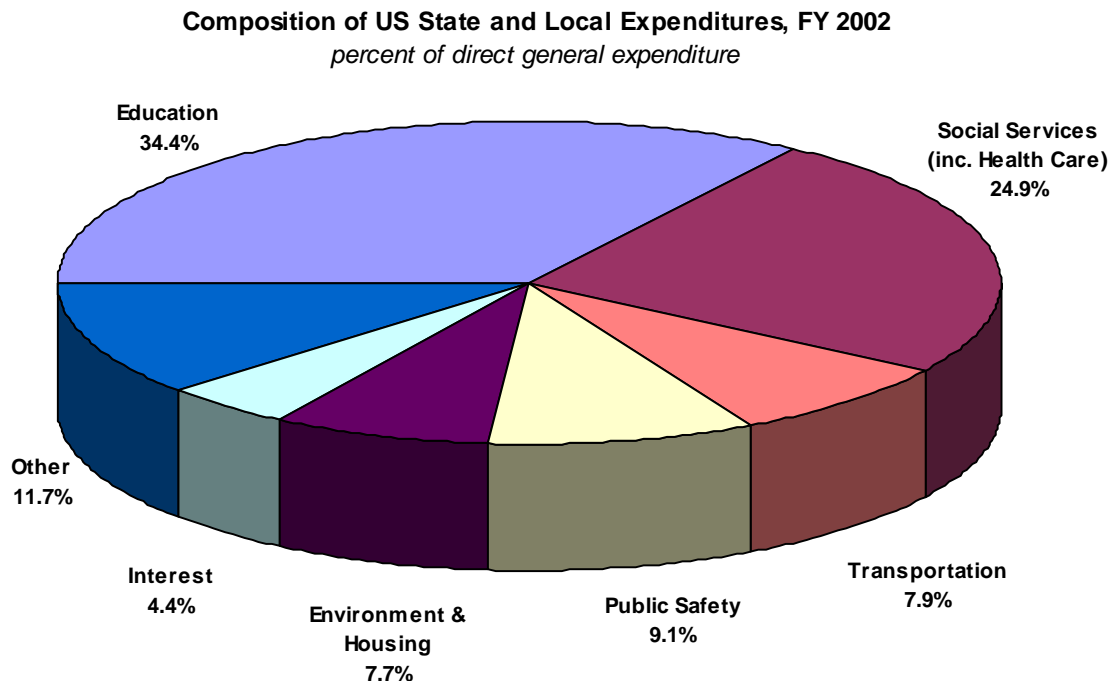
In fiscal year 2002, Massachusetts devoted over half of all state and local direct general expenditures to two priorities, education and social services, the latter of which includes public health care programs. As Figure 8 shows, spending on education comprised 31.7 percent of all state and local spending, while spending on social services – chiefly, health care and income support programs – constituted 21.3 percent of such expenditures. Spending on transportation, public safety, and environment and housing each accounted for slightly less than 10 percent of general expenditures. Notably, the Commonwealth (its cities and towns included) used 7.6 percent of general expenditures to pay interest on previous borrowing.

Figure 8.



As Figure 9 reveals, these priorities generally mirror those for the country as a whole, with two exceptions. First, although education and social services play a prominent role in budgets both locally and nationally, the fifty states in the aggregate dedicate a somewhat larger share of total spending to those two categories than Massachusetts does. Nationally, education and social services expenditures respectively make up 34.4 percent and 24.9 percent of direct general expenditures, compared to 31.7 percent and 21.3 percent locally. 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 7.6 percent of state and local expenditures in Massachusetts in FY 2002, but just 4.4 percent of such expenditures for the fifty states as a whole.

Figure 9.



While Massachusetts generally has the same budgetary priorities as the country as a whole, it does not dedicate the same share of economic resources to achieving them as the fifty states in the aggregate. In FY 2002, state and local direct general expenditures amounted to 17.0 percent of personal income in Massachusetts but 19.7 percent for the United States in its entirety. Moreover, as Figure 10 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 FY02. In these four categories, the Commonwealth spent 5.4 percent, 3.6 percent, 1.4 percent, and 1.2 percent of personal income respectively, while the nation as a whole dedicated 6.8 percent, 4.9 percent, 1.8 percent and 1.5 percent of personal income to these ends.

In fact, Massachusetts is neither keeping up with the country as a whole nor is it matching the share of resources it allocated to many vital spending priorities 25 years ago. As shown in Figure 11, state and local expenditures for education, social services, and public safety in FY 2002, when measured as a share of personal income, were all below their FY 1978 levels. Specifically, state and local expenditures on education amounted to 6.0 percent of personal income in Massachusetts in FY78, compared to 5.4 percent in FY02. Likewise, social services spending was 4.7 percent of personal income in FY78 and 3.6 percent in FY02. The comparable figures for public safety were 1.7 percent and 1.4 percent. All told, state and local direct general expenditures in FY78 were the equivalent of 18.8 percent of personal income, as opposed to 17.0 percent in FY02.

Figure 10.

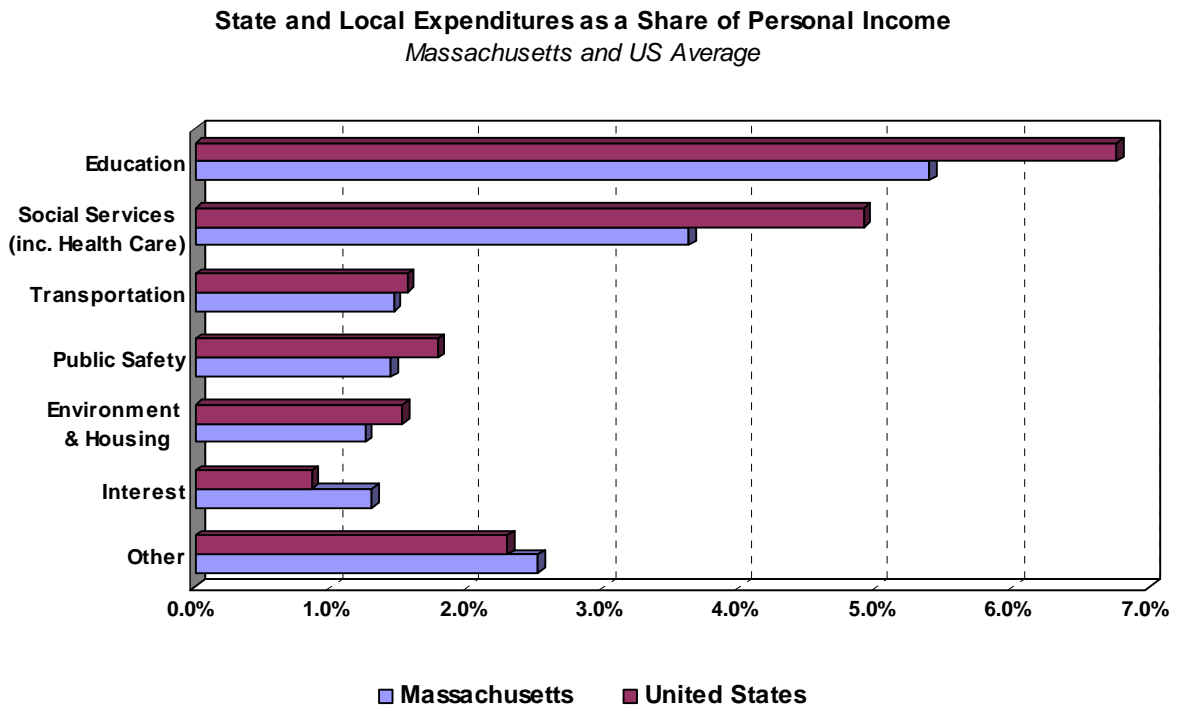
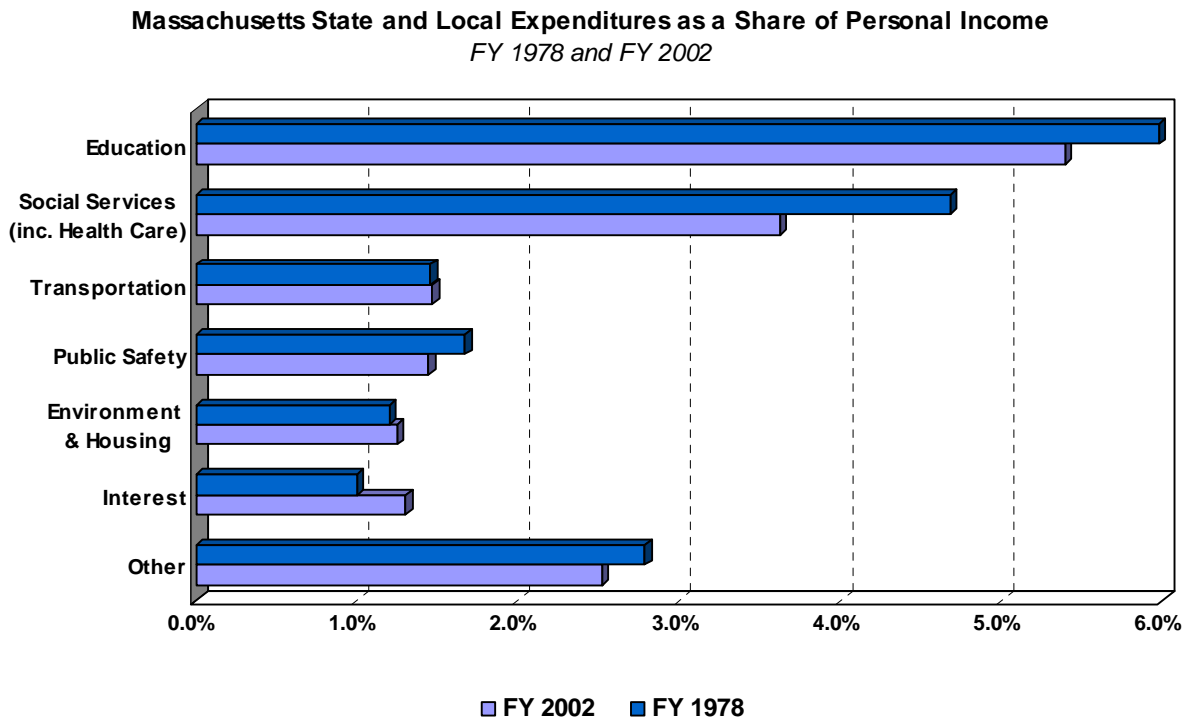


Figure 11.



Direct General Expenditure

Direct general expenditure in Massachusetts in FY02 ranked 45th in the country. In that year, the Commonwealth made direct general expenditures equal to 17.0 percent of personal income. Only five states – Virginia, Connecticut, New Jersey, Maryland, and New Hampshire – had spending below that level.

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 41.2 percent of personal income in FY00. (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 19.7 percent of personal income.

Direct general expenditure may be viewed 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.

TABLE 7. DIRECT GEN. EXPENDITURE

RANK	STATE	SHARE OF PERSONAL INCOME
1	Alaska	41.2%
2	New Mexico	25.6%
3	Wyoming	25.2%
4	Mississippi	24.2%
5	New York	23.8%
6	North Dakota	23.3%
7	Hawaii	23.1%
8	West Virginia	23.1%
9	South Carolina	23.1%
10	Oregon	23.1%
11	Montana	22.5%
12	Utah	22.4%
13	Maine	22.2%
14	Alabama	21.7%
15	Louisiana	21.6%
16	Iowa	21.3%
17	Minnesota	21.3%
18	Wisconsin	21.2%
19	Vermont	21.1%
20	Kentucky	20.9%
21	Arkansas	20.8%
22	California	20.7%
23	Rhode Island	20.6%
24	Ohio	20.4%
25	Delaware	20.4%
26	Michigan	20.2%
27	Idaho	20.2%
28	Oklahoma	20.1%
29	Washington	19.8%
30	Nebraska	19.7%
--	United States	19.7%
31	North Carolina	19.6%
32	Pennsylvania	19.4%
33	Indiana	19.4%
34	South Dakota	19.1%
35	Kansas	19.1%
36	Georgia	18.5%
37	Tennessee	18.4%
38	Missouri	18.1%
39	Illinois	18.1%
40	Texas	18.0%
41	Nevada	18.0%
42	Florida	17.9%
43	Arizona	17.8%
44	Colorado	17.7%
45	Massachusetts	17.0%
46	Virginia	16.6%
47	Connecticut	16.5%
48	New Jersey	16.3%
49	Maryland	16.3%
50	New Hampshire	14.6%

State and Local Capital Spending

Capital spending in Massachusetts was the equivalent of 2.3 percent of personal income in FY02, slightly less than the states in the aggregate devoted to this category of spending. Overall, 37 states spent a larger share of personal income on capital projects than the Commonwealth did.

Looking at the states individually, capital spending ranged from 6.9 percent of personal income in Alaska to 1.6 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.” 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 (with the natural exception of wages and salaries for public employees). For instance, the data presented on higher education expenditures include any capital investments made at state colleges and universities in FY 2002.

TABLE 8. CAPITAL OUTLAYS

RANK	STATE	SHARE OF PERSONAL INCOME
1	Alaska	6.9%
2	Wyoming	4.2%
3	Utah	3.5%
4	North Dakota	3.5%
5	Nevada	3.2%
6	South Dakota	3.2%
7	Nebraska	3.2%
8	Iowa	3.1%
9	Washington	3.1%
10	Minnesota	3.1%
11	New York	3.1%
12	New Mexico	3.1%
13	Georgia	3.0%
14	South Carolina	3.0%
15	Florida	2.9%
16	Wisconsin	2.9%
17	Alabama	2.9%
18	Hawaii	2.8%
19	Colorado	2.8%
20	Illinois	2.8%
21	Texas	2.8%
22	Delaware	2.7%
23	Montana	2.7%
24	Mississippi	2.7%
25	Arizona	2.7%
26	Ohio	2.6%
--	United States	2.6%
27	Idaho	2.6%
28	Oregon	2.5%
29	Oklahoma	2.5%
30	Missouri	2.5%
31	Kentucky	2.5%
32	Michigan	2.5%
33	Arkansas	2.5%
34	West Virginia	2.4%
35	Louisiana	2.4%
36	Indiana	2.4%
37	Pennsylvania	2.3%
38	Massachusetts	2.3%
39	North Carolina	2.3%
40	Kansas	2.3%
41	Virginia	2.2%
42	California	2.2%
43	Tennessee	2.1%
44	Maryland	2.1%
45	Maine	2.0%
46	Connecticut	1.9%
47	Vermont	1.8%
48	New Jersey	1.6%
49	New Hampshire	1.6%
50	Rhode Island	1.6%

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 5.8 percent of personal income in Massachusetts in FY02. Only three states – Connecticut, New Hampshire, and New Jersey – spent a smaller share of personal income on its workforce than Massachusetts did in FY02.

In the aggregate, state and local governments spent 7.0 percent of personal income on wages and salaries, with Alaska leading the way at 12.1 percent of personal income.

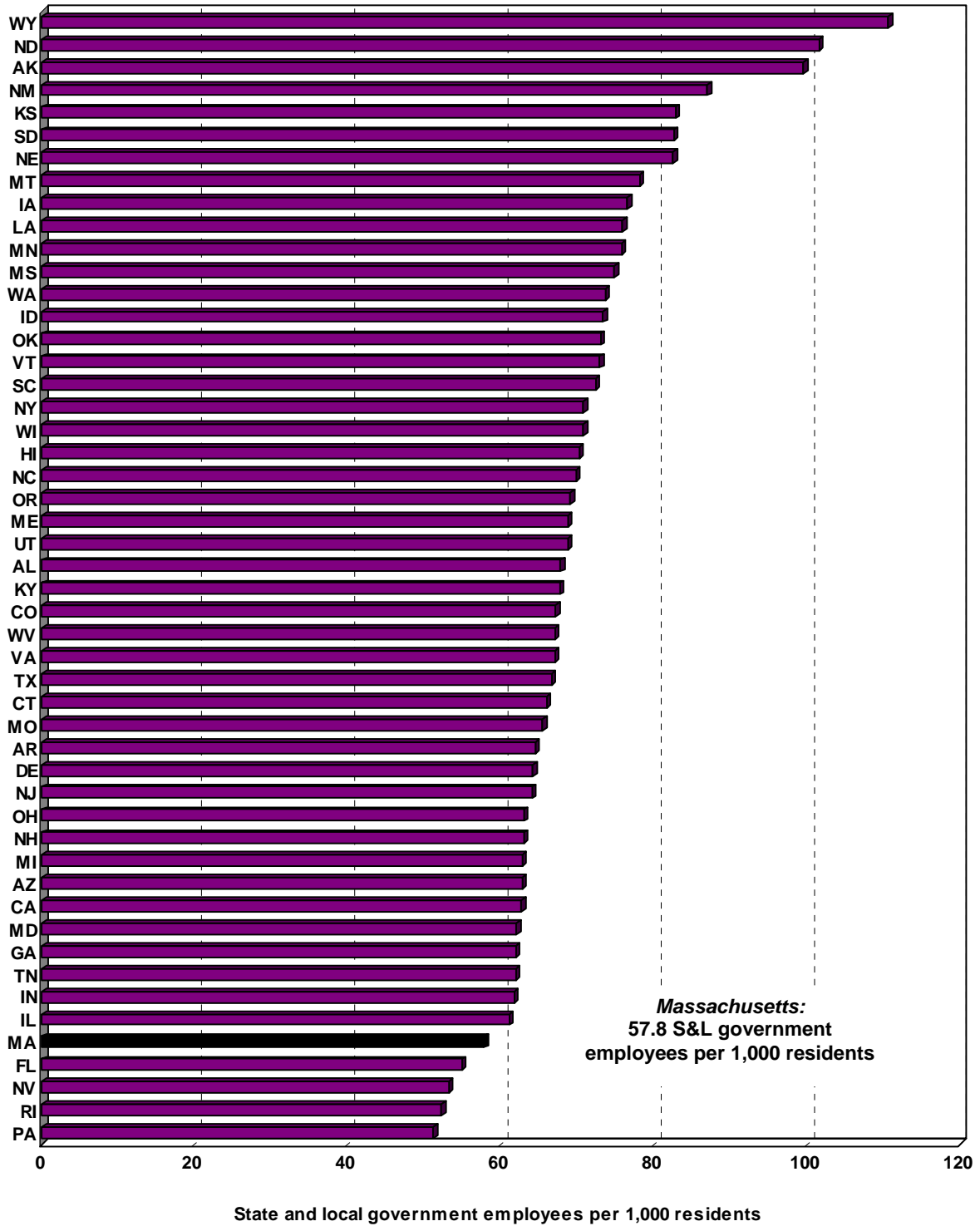
Massachusetts' comparatively low position is likely due in part to its fairly small public workforce. According to data from the Current Employment Statistics survey, state and local government employment in Massachusetts totaled 370,900 positions in calendar year 2002. That, in turn, works out to 57.8 government employees per 1,000 people in Massachusetts. As Figure 12 indicates, only four states – Florida, Nevada, Rhode Island, and Pennsylvania – had fewer state and local government employees relative to the size of their overall population in 2002.

TABLE 9. WAGES & SALARIES

RANK	STATE	SHARE OF PERSONAL INCOME
1	Alaska	12.1%
2	Nebraska	9.2%
3	Wyoming	9.2%
4	New York	8.7%
5	New Mexico	8.7%
6	Louisiana	8.4%
7	Oregon	8.0%
8	Iowa	8.0%
9	Mississippi	7.9%
10	Montana	7.8%
11	South Carolina	7.8%
12	California	7.7%
13	Utah	7.6%
14	Alabama	7.6%
15	West Virginia	7.6%
16	Washington	7.6%
17	Idaho	7.5%
18	Delaware	7.4%
19	North Carolina	7.3%
20	North Dakota	7.3%
21	Ohio	7.2%
22	Minnesota	7.2%
23	Vermont	7.1%
24	Kentucky	7.1%
25	Kansas	7.1%
26	Wisconsin	7.0%
--	United States	7.0%
27	Rhode Island	6.9%
28	Arkansas	6.9%
29	Oklahoma	6.8%
30	Michigan	6.8%
31	Hawaii	6.7%
32	Georgia	6.7%
33	Missouri	6.7%
34	Indiana	6.6%
35	Nevada	6.6%
36	Texas	6.5%
37	Maine	6.4%
38	Arizona	6.4%
39	Florida	6.4%
40	Illinois	6.3%
41	Maryland	6.3%
42	Colorado	6.3%
43	South Dakota	6.2%
44	Tennessee	6.0%
45	Pennsylvania	5.9%
46	Virginia	5.8%
47	Massachusetts	5.8%
48	Connecticut	5.4%
49	New Hampshire	5.1%
50	New Jersey	5.0%

Figure 12.

State and Local Government Employees, 2002



State and Local Spending on Education

As discussed previously, education was Massachusetts' top budgetary priority in FY02, with 31.7 percent of the Commonwealth's aggregate state and local budget dedicated to that purpose. However, relative to the other states, Massachusetts devoted an exceptionally small share of its resources to education in FY02. The 5.4 percent of personal income spent on education overall was the lowest level of funding of any state in the country, save two. Only Connecticut and Florida, each of which spent roughly 5.3 percent of personal income, allocated smaller shares of personal income to education overall than Massachusetts did.

In stark contrast, each of the states in the top ten, including Mississippi, West Virginia, and Wyoming, spent 8.0 percent or more on education overall in FY02. The states as a whole spent 6.8 percent of personal income on education that same year, 26 percent more than in Massachusetts. Had Massachusetts dedicated the same share of resources to education in FY02 as the states in the aggregate, educating spending would have been \$3.4 billion higher that year.

TABLE 10. EDUCATION

RANK	STATE	SHARE OF PERSONAL INCOME
1	Alaska	10.3%
2	New Mexico	9.3%
3	Utah	9.0%
4	Wyoming	8.3%
5	West Virginia	8.3%
6	South Carolina	8.1%
7	Vermont	8.1%
8	Iowa	8.0%
9	Mississippi	8.0%
10	Montana	8.0%
11	Michigan	7.9%
12	North Dakota	7.9%
13	Wisconsin	7.8%
14	Nebraska	7.7%
15	Oklahoma	7.6%
16	Arkansas	7.6%
17	Oregon	7.6%
18	Delaware	7.4%
19	Texas	7.4%
20	Alabama	7.3%
21	Indiana	7.2%
22	Idaho	7.2%
23	Ohio	7.2%
24	Georgia	7.1%
25	Louisiana	7.1%
26	Kansas	7.0%
27	New York	7.0%
28	Maine	7.0%
29	Minnesota	6.9%
--	United States	6.8%
30	California	6.7%
31	North Carolina	6.7%
32	South Dakota	6.7%
33	Kentucky	6.7%
34	Rhode Island	6.6%
35	Missouri	6.6%
36	Washington	6.6%
37	Pennsylvania	6.4%
38	Virginia	6.4%
39	Illinois	6.4%
40	Hawaii	6.3%
41	Maryland	6.2%
42	Arizona	6.2%
43	New Jersey	6.1%
44	Tennessee	6.0%
45	Colorado	5.9%
46	New Hampshire	5.6%
47	Nevada	5.6%
48	Massachusetts	5.4%
49	Connecticut	5.3%
50	Florida	5.3%

State and Local Spending on Primary and Secondary Education

Given the relatively parsimonious 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 FY02, Massachusetts spent 4.12 percent of personal income on primary and secondary education. This level of spending put Massachusetts in 42nd place.

Alaska spent more than one and a half times as much on K-12 education – 7.32 percent of personal income – as Massachusetts did in FY02. Kentucky’s 3.77 percent of personal income was the least of any state.

It is worth noting that Massachusetts ranking by this measure is unlikely to improve in the near future. Research by Andy Reschovsky of the University of Wisconsin indicates that, while state government spending on elementary and secondary education grew 4.5 percent between FY 2002 and FY 2004 for the nation as a whole, it dropped 7.5 percent in Massachusetts. Moreover, after accounting for rising education costs and changes in enrollment between FY 2002 and FY 2004, Reschovsky finds that Massachusetts reduced real per pupil state aid by a larger percentage than any other state during that span.⁵

⁵ Andrew Reschovsky, "The Impact of State Government Fiscal Crises on Local Governments and Schools," La Follette School of Public Affairs, University of Wisconsin (Madison, WI), December 2003, p.27.

TABLE 11. K-12 EDUCATION

RANK	STATE	SHARE OF PERSONAL INCOME
1	Alaska	7.32%
2	New York	5.65%
3	New Mexico	5.60%
4	Wyoming	5.60%
5	South Carolina	5.59%
6	West Virginia	5.36%
7	Michigan	5.32%
8	Wisconsin	5.27%
9	Vermont	5.19%
10	Texas	5.16%
11	Georgia	5.06%
12	Montana	5.06%
13	Maine	5.03%
14	Nebraska	5.02%
15	Ohio	5.02%
16	Utah	4.95%
17	Oklahoma	4.85%
18	Idaho	4.84%
19	Oregon	4.83%
20	Rhode Island	4.80%
21	New Jersey	4.79%
22	Minnesota	4.73%
23	Iowa	4.72%
24	Indiana	4.72%
25	Arkansas	4.70%
--	United States	4.68%
26	California	4.67%
27	Louisiana	4.64%
28	Mississippi	4.64%
29	South Dakota	4.62%
30	Missouri	4.62%
31	Delaware	4.58%
32	North Dakota	4.49%
33	Alabama	4.48%
34	Kansas	4.43%
35	Virginia	4.40%
36	Illinois	4.40%
37	Pennsylvania	4.36%
38	Nevada	4.23%
39	North Carolina	4.22%
40	Washington	4.19%
41	New Hampshire	4.18%
42	Massachusetts	4.12%
43	Maryland	4.09%
44	Arizona	4.06%
45	Connecticut	4.06%
46	Hawaii	4.03%
47	Tennessee	3.91%
48	Colorado	3.84%
49	Florida	3.83%
50	Kentucky	3.77%

State and Local Spending on Higher Education

The preceding picture becomes even more dim when one turns to higher education. Massachusetts stood dead last – 50th out of the fifty states – in this category in FY02. It spent 1.01 percent of personal income on higher education in FY02, 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 1.78 percent of personal income in FY02, 76 percent above the Massachusetts level. Here too, Massachusetts standing seems unlikely to improve very soon, as the Commonwealth has reduced spending on higher education by 16 percent – or by more than \$177 million – in inflation-adjusted terms since FY 2002.

TABLE 12. HIGHER EDUCATION

RANK	STATE	SHARE OF PERSONAL INCOME
1	Utah	3.71%
2	New Mexico	3.27%
3	North Dakota	3.06%
4	Mississippi	2.89%
5	Iowa	2.89%
6	Oregon	2.55%
7	Oklahoma	2.46%
8	Michigan	2.43%
9	Nebraska	2.42%
10	Delaware	2.39%
11	Alabama	2.39%
12	Alaska	2.38%
13	Vermont	2.37%
14	Wyoming	2.36%
15	West Virginia	2.35%
16	Kentucky	2.33%
17	Wisconsin	2.31%
18	Arkansas	2.29%
19	Kansas	2.27%
20	North Carolina	2.26%
21	Montana	2.26%
22	Hawaii	2.21%
23	Indiana	2.14%
24	South Carolina	2.07%
25	Idaho	2.05%
26	Washington	2.04%
27	Texas	2.01%
28	Arizona	1.90%
29	Tennessee	1.88%
30	Colorado	1.87%
31	Louisiana	1.86%
32	Maryland	1.81%
33	Minnesota	1.79%
34	California	1.79%
--	United States	1.78%
35	South Dakota	1.78%
36	Ohio	1.77%
37	Virginia	1.76%
38	Missouri	1.65%
39	Georgia	1.60%
40	Illinois	1.59%
41	Maine	1.56%
42	Pennsylvania	1.53%
43	Rhode Island	1.46%
44	New Hampshire	1.30%
45	Nevada	1.24%
46	New Jersey	1.20%
47	Florida	1.19%
48	New York	1.18%
49	Connecticut	1.06%
50	Massachusetts	1.01%

State and Local Social Services Spending

Overall in FY02, Massachusetts spent 3.62 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.

Unfortunately, Massachusetts did not compare particularly well to the other states on the basis of social services spending in FY02. The 3.62 percent of personal income that the Commonwealth spent put it at 44th in the nation.

Mississippi had the highest level of social services spending across the country in FY02, while New Hampshire had the lowest. In the former state, it amounted to 8.6 percent of personal income and, in the latter, it totaled 2.85 percent.

TABLE 13. SOCIAL SERVICES

RANK	STATE	SHARE OF PERSONAL INCOME
1	Mississippi	8.60%
2	South Carolina	7.37%
3	Alabama	7.35%
4	New York	6.76%
5	Alaska	6.64%
6	New Mexico	6.62%
7	Maine	6.47%
8	Oregon	6.35%
9	West Virginia	6.32%
10	Louisiana	6.31%
11	Tennessee	6.25%
12	Kentucky	6.11%
13	North Carolina	6.10%
14	Wyoming	6.06%
15	Rhode Island	6.02%
16	Minnesota	5.83%
17	Iowa	5.80%
18	Arkansas	5.67%
19	Ohio	5.46%
20	Washington	5.30%
21	Pennsylvania	5.27%
22	Hawaii	5.14%
23	Michigan	5.12%
24	Oklahoma	5.05%
25	California	4.99%
26	Missouri	4.99%
27	Idaho	4.97%
28	Indiana	4.92%
--	United States	4.91%
29	Wisconsin	4.84%
30	Nebraska	4.78%
31	Montana	4.75%
32	Vermont	4.69%
33	North Dakota	4.64%
34	Georgia	4.58%
35	Utah	4.29%
36	Kansas	4.20%
37	Florida	4.15%
38	Texas	4.08%
39	South Dakota	3.90%
40	Delaware	3.80%
41	Illinois	3.76%
42	Connecticut	3.72%
43	New Jersey	3.65%
44	Massachusetts	3.62%
45	Virginia	3.38%
46	Arizona	3.21%
47	Maryland	3.21%
48	Colorado	3.21%
49	Nevada	3.21%
50	New Hampshire	2.85%

State and Local Public Welfare Spending

Massachusetts spent 2.3 percent of personal income on public welfare programs in FY02 – the principal category of social services spending – an amount considerably below the level of spending for the country as a whole (3.18 percent of personal income).

Massachusetts ranked 46th in the country in terms of public welfare expenditures in FY02. Measured as a share of personal income, Mississippi dedicated more money than any other state to its public welfare programs in FY02. It spent 5.09 percent of personal income. Nevada spent the least of any state – just 1.71 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 FY02. Of the \$5.7 billion the Commonwealth dedicated to public welfare programs that year, nearly \$4 billion – or just under 70 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	Mississippi	5.09%
2	Rhode Island	5.08%
3	Alaska	5.05%
4	West Virginia	5.03%
5	Maine	5.00%
6	New York	4.79%
7	Kentucky	4.67%
8	New Mexico	4.64%
9	Minnesota	4.55%
10	South Carolina	4.25%
11	Vermont	4.19%
12	Arkansas	4.13%
13	Tennessee	4.10%
14	Oregon	4.06%
15	North Dakota	3.98%
16	Pennsylvania	3.84%
17	Ohio	3.73%
18	Alabama	3.66%
19	Oklahoma	3.53%
20	Wisconsin	3.46%
21	Nebraska	3.45%
22	Missouri	3.45%
23	North Carolina	3.37%
24	Iowa	3.33%
25	Michigan	3.27%
26	Hawaii	3.19%
--	United States	3.18%
27	Washington	3.17%
28	Indiana	3.14%
29	California	3.12%
30	Idaho	3.07%
31	Montana	3.00%
32	Louisiana	2.99%
33	South Dakota	2.97%
34	Utah	2.78%
35	Florida	2.57%
36	Kansas	2.57%
37	Georgia	2.53%
38	Delaware	2.51%
39	Wyoming	2.49%
40	Maryland	2.42%
41	Illinois	2.42%
42	Texas	2.40%
43	New Hampshire	2.38%
44	Connecticut	2.36%
45	Arizona	2.31%
46	Massachusetts	2.30%
47	New Jersey	1.98%
48	Virginia	1.98%
49	Colorado	1.84%
50	Nevada	1.71%

State and Local Transportation Spending

Under the Census Bureau's classification scheme, Massachusetts dedicated 1.47 percent of personal income to transportation spending in FY02, slightly less than the 1.56 percent of personal income that all state and local governments spent that year.

The high and low states in terms of transportation spending for FY02 were Alaska and Connecticut, which respectively spent 5.47 and 0.90 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.

TABLE 15. TRANSPORTATION

RANK	STATE	SHARE OF PERSONAL INCOME
1	Alaska	5.47%
2	Wyoming	3.36%
3	North Dakota	3.10%
4	South Dakota	2.95%
5	New Mexico	2.73%
6	Montana	2.59%
7	West Virginia	2.55%
8	Iowa	2.32%
9	Nevada	2.18%
10	Arkansas	2.16%
11	Vermont	2.13%
12	Mississippi	2.09%
13	Colorado	2.07%
14	Kentucky	2.07%
15	Utah	2.03%
16	Nebraska	2.02%
17	Minnesota	2.02%
18	Delaware	2.00%
19	Kansas	2.00%
20	Wisconsin	2.00%
21	Idaho	2.00%
22	Maine	1.92%
23	Missouri	1.88%
24	Oklahoma	1.87%
25	Florida	1.80%
26	Virginia	1.73%
27	Hawaii	1.70%
28	Arizona	1.69%
29	Washington	1.69%
30	Louisiana	1.66%
31	South Carolina	1.65%
32	Alabama	1.63%
33	Pennsylvania	1.63%
34	Illinois	1.57%
--	United States	1.56%
35	Oregon	1.50%
36	North Carolina	1.49%
37	Texas	1.48%
38	Massachusetts	1.47%
39	New York	1.38%
40	Georgia	1.35%
41	Ohio	1.35%
42	Michigan	1.34%
43	California	1.32%
44	Indiana	1.29%
45	Tennessee	1.28%
46	Rhode Island	1.27%
47	New Hampshire	1.23%
48	Maryland	1.16%
49	New Jersey	0.91%
50	Connecticut	0.90%

State and Local Public Safety Spending

Massachusetts spent 1.44 percent of personal income for public safety purposes in FY02, making it 36th in the country in this area.

Overall, state and local governments spent 1.78 percent of personal income on public safety in FY02. Alaska led the way in FY02, with public safety spending amounting to 2.73 percent of personal income. New Hampshire spent 1.10 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	Alaska	2.73%
2	Nevada	2.46%
3	California	2.39%
4	New Mexico	2.21%
5	Oregon	2.18%
6	New York	2.15%
7	Arizona	2.14%
8	Florida	2.10%
9	Rhode Island	2.04%
10	Delaware	1.95%
11	Wisconsin	1.93%
12	Wyoming	1.89%
13	Louisiana	1.89%
14	Utah	1.78%
--	United States	1.78%
15	Idaho	1.78%
16	Ohio	1.74%
17	Georgia	1.70%
18	Washington	1.70%
19	Michigan	1.69%
20	Maryland	1.68%
21	Oklahoma	1.66%
22	Illinois	1.66%
23	Texas	1.62%
24	Colorado	1.61%
25	Mississippi	1.61%
26	Montana	1.59%
27	Arkansas	1.58%
28	South Carolina	1.55%
29	New Jersey	1.55%
30	Hawaii	1.54%
31	North Carolina	1.52%
32	Missouri	1.51%
33	Kentucky	1.51%
34	Virginia	1.50%
35	Pennsylvania	1.48%
36	Massachusetts	1.44%
37	Nebraska	1.44%
38	Kansas	1.42%
39	Tennessee	1.40%
40	Indiana	1.37%
41	Alabama	1.35%
42	Connecticut	1.34%
43	Minnesota	1.33%
44	Vermont	1.27%
45	Maine	1.25%
46	Iowa	1.25%
47	South Dakota	1.21%
48	West Virginia	1.17%
49	North Dakota	1.16%
50	New Hampshire	1.10%

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 40th out of the fifty states in FY02, spending 1.25 percent of personal income. Taken together, state and local governments around the country spent 1.52 percent in FY02.

Alaska spent the most of any state – 3.02 percent of personal income – on housing and the environment, while New Hampshire spent the least – 0.97 percent of personal income.

TABLE 17. HOUSING & ENVIRONMENT

RANK	STATE	SHARE OF PERSONAL INCOME
1	Alaska	3.02%
2	Hawaii	2.52%
3	Wyoming	2.13%
4	North Dakota	2.12%
5	Montana	2.00%
6	Washington	1.99%
7	Oregon	1.94%
8	Utah	1.86%
9	Florida	1.85%
10	California	1.81%
11	Minnesota	1.81%
12	Idaho	1.72%
13	Illinois	1.69%
14	Wisconsin	1.67%
15	South Dakota	1.63%
16	New Mexico	1.63%
17	Louisiana	1.62%
18	Alabama	1.61%
19	New York	1.60%
20	Arizona	1.58%
21	Maine	1.54%
22	Delaware	1.54%
--	United States	1.52%
23	Ohio	1.51%
24	Nevada	1.51%
25	Indiana	1.49%
26	Maryland	1.48%
27	Georgia	1.47%
28	Vermont	1.46%
29	North Carolina	1.46%
30	Colorado	1.46%
31	Iowa	1.45%
32	Arkansas	1.41%
33	West Virginia	1.39%
34	Rhode Island	1.38%
35	Pennsylvania	1.35%
36	Nebraska	1.35%
37	Kentucky	1.34%
38	New Jersey	1.34%
39	Michigan	1.32%
40	Massachusetts	1.25%
41	Oklahoma	1.22%
42	Mississippi	1.21%
43	Virginia	1.21%
44	South Carolina	1.21%
45	Tennessee	1.19%
46	Texas	1.18%
47	Missouri	1.11%
48	Kansas	1.09%
49	Connecticut	1.07%
50	New Hampshire	0.97%



MASSACHUSETTS
BUDGET AND POLICY CENTER

15 COURT SQUARE, SUITE 700, BOSTON, MA 02108
TEL: 617.426.1228 • FAX: 617.695.1295 • www.massbudget.org