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MTF Bulletin

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FY 2023 Fiscal Update

The Fiscal Year (FY) 2024 budget development process is well underway, but with about 4 months remaining in FY 2023 this brief takes a fresh look at the state’s current fiscal picture. Based on current spending and revenue collections to date, the fiscal year appears in balance with an estimated surplus of approximately \$600 million. However, above benchmark revenue collections are liable to diminish, impacting the resources available.

To provide further context on the state’s fiscal position, this brief begins with an examination of revenue collection trends to date and an estimation of the resources available to support supplemental spending in FY 2023. It then provides an update on two supplemental budgets recently passed by the Legislature and filed by the Governor and assesses how they may impact available resources.

Fiscal Background

Eight months through FY 2023, state tax revenue collections are about level with the prior year. This is in contrast to the revenue surge the Commonwealth experienced between FY 2020 and FY 2022, when revenues grew by over \$11.5 billion. However, because of the conservative approach taken to setting tax revenue benchmarks for FY 2023, revenues are currently performing nearly \$1 billion ahead of the year-to-date benchmark (Table 1).

Table 1. FY 2023 Year-to-Date Revenues Collections vs. FY 2022 & FY 2023 Benchmarks

	FY22 YTD Collections	FY23 YTD Collections	FY23 YTD Benchmark	FY22 v. FY23 YTD	FY23 YTD Actuals v. Benchmark
Income – withholding	\$10,507	\$10,890	\$11,097	\$383	-\$207
Income – non withholding	\$3,235	\$2,359	\$1,605	-\$876	\$754
Sales	\$5,770	\$6,279	\$5,852	\$509	\$427
Corporate/Business	\$2,149	\$2,159	\$1,974	\$10	\$185
Other	\$2,027	\$1,964	\$2,124	-\$63	-\$160
Total	\$23,688	\$23,651	\$22,652	-\$37	\$999

\$ in millions

Revenue collections above benchmark are often referred to as ‘surplus revenues.’ However, while state tax collections are currently \$999 million ahead of benchmark, that does not mean the state has a nearly \$1 billion surplus. As the next section demonstrates, an assessment of the resources available to support new spending in FY 2023 must also take into consideration a number of other

factors, including outstanding spending obligations, unanticipated revenue collections, state funds set aside in reserves, and revenue collections unavailable for spending.

Estimating the FY 2023 Budget Surplus & Available Resources

To estimate the budget resources available in FY 2023, policymakers must first tally tax revenue collections above the original benchmark and other available resources, then subtract new spending requirements and obligations (Table 2).

Table 2. Estimated FY 2023 Surplus & Available Resources

Original FY 2023 Revenue Benchmark	\$39,618.0
Total Above Benchmark Revenue	\$999.0
Statutory Transfers	-\$483.7
Estimated Reversions	\$250.0
Unanticipated Dept./Federal Revenue	\$2,362.3
New Spending Obligations	-\$1,930.4
Passed & Proposed Supplemental Budget Spending	-\$1,102.6
Proposed Transitional Escrow Offset	\$508.5
Initial Surplus Estimate	\$603.1

\$ in millions

The current FY 2023 surplus estimate presented above is predominantly buoyed by the \$999 million in excess state tax revenue collections to date.

The other variables impacting the FY 2023 budget surplus include:

- **Statutory Transfers** – A significant portion of the above benchmark revenue collections to date in FY 2023 are related to the sales tax and non-withheld income. As statutorily required, a portion of the increased sales tax collections are transferred to the Massachusetts School Building Authority and MBTA. This transfer constitutes approximately \$136.6 million of current above benchmark collections. Revenue collections in the non-withheld income tax category are predominantly related to capital gains, and collections above a certain threshold (\$1.4 billion in FY 2023) are automatically deposited into the Stabilization Fund and other reserves. Current above benchmark revenues attributable to capital gains tax collections are estimated at \$347.1 million. These revenues are unavailable for use in FY 2023.
- **Estimated Reversions** – Each year, a portion of the funds appropriated in the state budget remain unspent and are reverted back to the General Fund. The level of reversions varies from year to year, and during the pandemic reversions grew substantially. The estimate above assumes that in FY 2023 reversions begin to decrease compared to pandemic trends, and come in at approximately \$250 million. This figure could be conservative and is likely to fluctuate based on the Legislature’s approach to carrying previously appropriated funding into the next fiscal year.

- Unanticipated Revenues & New Spending Obligations** – Throughout the fiscal year, the spending and revenue assumptions included in the state budget are updated based on new demands, as well as unanticipated federal and departmental revenue collections. In FY 2023, the largest shift in spending and revenue assumptions are related to MassHealth. The FY 2023 budget was built on the assumption that the federal Public Health Emergency (PHE) would end in calendar year 2022, resulting in decreased state costs related to redeterminations and a decrease in federal Medicaid reimbursement. Instead, the federal Consolidated Appropriations Act, 2023 (CAA) extended the federal PHE to May 11, 2023 and created a phase-out schedule for the enhanced federal match revenue throughout calendar year 2023. As a result, total MassHealth costs in FY 2023 are anticipated to increase by over \$2B; however, that increase will be almost entirely offset by enhanced federal Medicaid reimbursement. Other notable increases in revenue collections in FY 2023 are related to the legalization of sports wagering, reimbursement for pandemic-related costs through the Federal Emergency Management Agency (FEMA), as well as increased interest earnings on the state’s General and Stabilization Funds.
- Supplemental Budget Spending** – On March 23rd, the House and Senate enacted an FY 2023 supplemental budget that currently awaits action from the Governor. The bill includes \$388.7 million in direct appropriations. The Healey administration also filed another supplemental appropriations bill on March 17th, which has not yet been acted upon by the Legislature. The table above reflects the combined total of enacted and proposed supplemental budget spending.
- Transitional Escrow Fund Offset** – In the supplemental budget filed on March 17th, Governor Healey proposes up to \$508.5 million in spending supported by one-time state surplus funds previously set aside in the Transitional Escrow Fund. As MTF recently [reported](#), there is approximately \$1.7 billion in the Transitional Escrow Fund that was initially appropriated in support of COVID Response and Economic Development spending that is now available due to the Baker and now Healey administration’s push to quickly obligate federal Fiscal Recovery Funds. If the spending proposed by Governor Healey is passed by the Legislature, approximately \$1.2 billion in one-time state surplus funds would remain (Table 3.)

Table 3. Estimated Transitional Escrow Fund Balance

Transitional Escrow Fund Balance	\$1,748.0
Proposed Supplemental Budget Spending	-\$508.5
Remaining Balance	\$1,239.5

\$ in millions

The \$603.1 million initial FY 2023 surplus figure above relies on reasonable assumptions to estimate the resources that remain available for spending this fiscal year. It is predicated on the state maintaining current above benchmark revenue collections, which are liable to diminish in the final months of the fiscal year. If the state were to give back above benchmark collections and end the fiscal year at the revised revenue benchmark that administrative and legislative budget writers

agreed to in January, due to various offsets, it's likely FY 2023 would continue to remain in balance.

Additional updates to spending and revenue expectations, future supplemental appropriations, and changes in department and program expenditure plans will alter the estimate presented above. However, this figure provides policymakers with a useful measure by which to assess additional investments made in FY 2023.

FY 2023 Supplemental Budget Update

Enacted Supplemental Budget & Bond Authorizations

In late January, Governor Maura Healey filed the first supplemental budget and bond authorization proposals of her administration. The **\$282 million** supplemental budget sought to address the shelter, housing, and supportive service needs of families experiencing homelessness in the Commonwealth; in addition to extending two school and family food security programs. The bond authorization bill targeted what the administration identified as the “immediate needs” of the Commonwealth, and included **\$987 million** for investments in housing, public infrastructure, and economic development. Detailed summaries published by MTF at the time the bills were filed can be found [here](#).

On March 23rd, the House and Senate enacted a supplemental budget that includes **\$388.7 million** in direct appropriations and **\$740.3 million** in bond authorizations.

	Governor Healey	Enacted Bill	Comparison
Supplemental Appropriations	\$282.0	\$388.7	\$106.7
Bond Authorizations	\$987.4	\$740.3	-\$247.1
Total Spending	\$1,269.4	\$1,129.0	-\$140.4

Direct Appropriations

The Legislature included **\$106.7 million** more in direct spending than the Governor’s supplemental budget proposal. The most notable differences in spending are related to the following investments:

- **Childcare “C3” Stabilization Grants** (\$68M) – The House and Senate each included \$68 million for the continuation of the child care stabilization grant program, known as “C3.” As MTF has [written](#) extensively, this program provides critical operational support to providers and creates a unique opportunity to incentivize the collection of new data that informs greater reform of the child care system. Without this appropriation, the C3 grant program was likely to run out of funds in April.
- **Residential Assistance for Families in Transition (RAFT)** (\$15.7M) – Originally proposed by Governor Healey in the supplemental budget filed on March 17th, this funding is intended to address a projected deficiency in the RAFT program, which provides

financial assistance to families at risk of housing instability or homelessness. Without this appropriation, the program was anticipated to run out of funding in May.

- **Immigrants & Refugees Reserve** (\$7M) – A new reserve account to provide funding for resettlement agencies, non-profits, community organizations and resource centers helping to address and coordinate the needs of newly arrived immigrants and refugees in the Commonwealth.
- **Family and Adolescent Health** (\$1.25M) – A \$1 million earmark to support a public awareness campaign related to crisis pregnancy centers and pregnancy resource centers. This funding was initially included in the economic development bill last December, but was vetoed by Governor Baker. There is also a \$250K earmark for Reproductive Equity Now, Inc.

The Legislature funded the entire \$282 million supplemental appropriations request submitted by Governor Healey, including the following investments related to emergency housing and migrant support services and food security:

Governor Healey Supplemental Budget Spending

Program	Funding Level
Emergency Assistance Housing Programs	\$45 million
Support Services and School District Reserve	\$40 million
Universal School Meals Program	\$65 million
SNAP Emergency Benefits Reserve	\$130 million
SNAP Benefit Theft Reimbursement	\$2 million
Total	\$282 million

Bond Authorizations

The House and Senate bills include approximately \$250 million less in capital authorizations than proposed in Governor Healey’s *An Act Financing the Immediate Economic Revitalization, Community Development, and Housing Needs of the Commonwealth*. Notably, however, the Legislature prioritizes reauthorizing programs that have depleted resources or are facing increasing demands, as well as programs that leverage state resources to improve applications for federal grant opportunities.

Notable capital authorizations included by the Legislature include:

- \$400 million to reauthorize the MassWorks grant program, the largest and most flexible public infrastructure grant program in the state.

- \$125 million to enable academic institutions, non-profits, and other economic development corporations to compete for research and workforce development grants in the federal CHIPS and Science Act; \$75 million less than the \$200 million authorization filed by Governor Healey for these purposes.
- \$34 million for the Underutilized Properties program to rehabilitate and redevelop underused properties across the state.
- \$30 million to leverage federal broadband infrastructure funding made available through the Bipartisan Infrastructure Law (BIL).
- \$29 million total for matching grants to support collaboration between manufacturers, higher education institutions, and non-profit organizations in the promotion of advanced manufacturing.
- \$9.3 million to support capital improvements to broadband infrastructure, including the “middle mile” that supports high-speed internet access in rural areas of the state.

Policy Proposals

The supplemental budget enacted by the Legislature includes 85 outside sections, many of which are technical in nature. However, a handful of sections reflect more notable policy proposals, including permitting cities and towns to allow outdoor dining, extending the ability of restaurants to serve alcoholic beverages to go, and making permanent remote notarization. The bill also includes a handful of sections proposed more recently by Governor Healey related to end of the Public Health Emergency.

Proposed Supplemental Budget

On March 17th, Governor Healey filed the second supplemental budget of her administration; a **\$733.9 million** bill that aims to meet new spending needs in the current fiscal year and build upon the investments included in her FY 2024 budget proposal. The bill also includes **32 outside section policy proposals**, a far greater number than the one section included in the January supplemental budget.

Spending

The supplemental spending put forward by Governor Healey can largely be organized into two categories: appropriations supported by General Fund dollars to meet new needs in the current fiscal year, and appropriations supported by one-time state surplus funds in the Transitional Escrow Fund that expand upon the administration’s FY 2024 budget proposal.

Funding Source	Spending
General Fund	\$225.4
Transitional Escrow Fund	\$508.5
Total Spending	\$733.87

\$ in millions

To meet new spending obligations in FY 2023, the administration utilizes up to **\$225.4 million** in surplus revenue collections from the General Fund. While a portion of this spending goes to

support routine mid-year costs, like newly ratified collective bargaining agreements and one-time start-up costs for new programs; other investments are more notable, including:

- **Critical Health & Human Services and Workforce Reserve** (\$200M) – A reserve to support temporary staffing costs at nursing homes, group care facilities, state hospitals, and Soldiers’ Homes to continue COVID-19 response and mitigation efforts. It builds on the \$200 million appropriation included for the same purposes in the COVID Response and Economic Development legislation passed in December 2022, and the appropriation will remain available through FY 2024.
- **MassHealth Administration** (\$3.5M) – Beginning in May 2023, Massachusetts will begin the redetermination process for the roughly 2.3 million people currently receiving care through MassHealth. As part of this process, MassHealth is partnering with Health Care for All and the Massachusetts Health Connector, as well as community-groups, advocates, and local health providers on an outreach campaign to help as many people as possible retain their health care coverage. This funding will help support the costs of that campaign, and the initial redetermination process.
- **Residential Assistance for Families in Transition** (\$15.7M) – Based on current spending trends for the RAFT housing financial assistance program, funding is estimated to run out by mid-May. This appropriation was ultimately included in the supplemental budget enacted by the Legislature on March 23rd and brings total FY 2023 RAFT funding to \$245 million, inclusive the funding carried forward from FY 2022.

Governor Healey also proposes drawing down at least **\$508.5 million** in one-time state surplus funds previously set aside in the Transitional Escrow Fund. While many of these investments expand on her FY 2024 budget proposal, the funding included in the supplemental budget focuses primarily on extending pandemic-era programs and addressing short-term cost increases for existing state programs. Funding these investments with Transitional Escrow Funds, instead of through the state’s operating budget, provides a clear distinction between ongoing costs and temporary expansions for one-time cost increases.

The administration’s proposal also includes the \$100 million commitment to fully pay down pension liabilities related to the state’s Early Retirement Incentive Program. This payment was a part of the FY 2024 consensus revenue agreement reached by administrative and legislative budget leaders, and based on line-item language may be paid for using either General Fund or Transitional Escrow Fund resources.

Additional investments proposed by Governor Healey include:

- **Special Education Extraordinary Relief Payments** (\$75M) – An expansion of the \$20 million extraordinary relief program included in the administration’s FY 2024 budget, intended to help offset large increases in special education costs for public school districts related to inflation and workforce related cost increases at private special education schools. This funding would provide additional assistance to school districts experiencing greater than 25 percent increases in their out of district special education costs.

- **Universal School Meals Pilot Program** (\$171M) – A one-year extension of the universal free school meals pilot program for the 2023 – 2024 school year. This funding level would support the full-year costs of the program, based on current spending trends.
- **Victims of Crime Act (VOCA) Bridge** (\$20M) – A supplemental appropriation to the Victim and Witness Assistance Board to maintain critical victim services in response to federal funding cuts. Beginning in FY 2023, the Massachusetts Office for Victim Assistance had been anticipating a \$60 million shortfall in federal funding over the course of three years, which will eventually be offset by new federal funds. In response to the temporary shortfall, state lawmakers have provided two rounds of bridge funding for the program. Combined with investments made in the FY 2023 budget and economic development legislation, this appropriation will fully fund the \$60 million federal funding gap known as the ‘VOCA Bridge.’
- **DTA Caseworkers & Staff Reserve** (\$60.3M) – A new reserve account to support payroll and staffing costs at the Department of Transitional Assistance, which has experienced a sharp uptick in the number of families applying for direct benefit assistance in recent years. This appropriation will allow the department to review the increased number of applications and perform its recertification process for SNAP, TAFDC, and EAEDC assistance; the latter two programs receiving a 10 percent grant increase in the FY 2023 budget.
- **MBTA Workforce Reserve** (\$20M) – An additional investment to support the recruitment and retention of employees at the MBTA, including funds for hiring and retention bonuses, increases to entry-level pay for bus operators, and a marketing campaign to promote recruitment efforts.
- **Advancing Careers Trust Fund** (\$10M) – The creation of a new trust fund (section 4), capitalized at \$10 million, to advance career ladders across the health care sector, including licensed practical nursing and certified nursing assistants.

Policy Proposals

Governor Healey’s supplemental budget includes **32 outside section policy proposals** to simplify and streamline municipal finance and governance laws, respond to the end of the Public Health Emergency, and provide additional flexibility in the expenditure of federal and state resources. The sections related to the end of the Public Health Emergency were included in the supplemental budget enacted by the Legislature. Proposals include:

- Section 24: K-12 Education State Aid Spending
 - Revives a proposal included last year by Governor Baker and the Senate to help school districts spend down increased state and federal resources over the course of Student Opportunity Act implementation. In FY 2023 and FY 2024, school districts would be allowed, without penalty, to deposit up to 10 percent of their required school spending amount into a local reserve fund and expenditures from the fund would be authorized through FY 2027. There is no language included in the outside

section dictating how school districts may use this funding to meet the goals of the Student Opportunity Act.

- Section 29: Flexibility in the expenditure of state and federal funds
 - Allows the administration to fund certain appropriations made in the two COVID-19 Recovery and Economic Development (CRED) bills using state General Fund resources, one-time state surplus resources in the Transitional Escrow Fund, or federal Fiscal Recovery Funds. The additional flexibility would enable the administration to better match funding sources to appropriations, helping to ensure the timely use of federal funds before the obligation deadline and the expenditure of one-time surplus funds for investments that are short-term in nature.
- Section 7: Sheriff Salaries
 - Increases nearly all sheriff salaries to \$191,000; with the exception of the sheriffs of Dukes and Nantucket counties, whose salaries would increase to \$150,527 and \$120,846 respectively.
- Sections 8, 9, 10, 11, 12, 23: Municipal Finance & Governance
 - Allows for the establishment of special municipal stabilization funds for school building projects or other purposes to be specified by the town. Unlike existing municipal stabilization funds, expenditures from these special funds would not require a super-majority.
 - Provides municipalities with additional flexibility in spending small, unanticipated revenues (i.e. insurance claims of not more than \$150,000) without specific appropriations.
 - Simplifies the processes for setting spending caps on municipal departmental revolving funds, and accounting for host community and mitigation payments.
 - Allows municipalities' greater flexibility in spending opioid settlement money without further appropriation.
- Sections 16, 25, 26, 33, 34, 35, 36: End of the Public Health Emergency
 - Updates certain ambulance staffing requirements related to the pandemic.
 - Allows certain community health program staff to continue to administer pre-packaged medication without specific certifications or licenses.
 - Extends a COVID-era public health order related to the administration of dialysis care.

Bottom Line

Based on current spending and revenue collection trends, FY 2023 is in balance with a projected surplus of approximately \$600 million. If revenue collections return to benchmark in the final months of the fiscal year, it is likely the budget will continue to remain in balance, due to various offsets.

In addition, the state continues to have access to \$1.7 billion in one-time state surplus resources previously set aside in the Transitional Escrow Fund. Governor Healey has proposed drawing down up to \$500 million of these funds to expand upon her FY 2024 budget proposal; addressing one-time cost increases and temporarily extending certain pandemic-related programs. Now in the

process of developing their own FY 2024 budget proposal, the Legislature will have to decide whether or not to incorporate these proposals into the state's operating budget or take a similar approach of supporting short-term costs with one-time resources.

In comparison to previous fiscal years, the availability of surplus resources in the Transitional Escrow Fund provides policymakers with greater opportunity and flexibility to expand on spending proposals for FY 2024 and extend certain COVID-19 era programs that may be facing sharp decreases in federal funding.