



Bulletin

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Closing the books on FY15

MTF

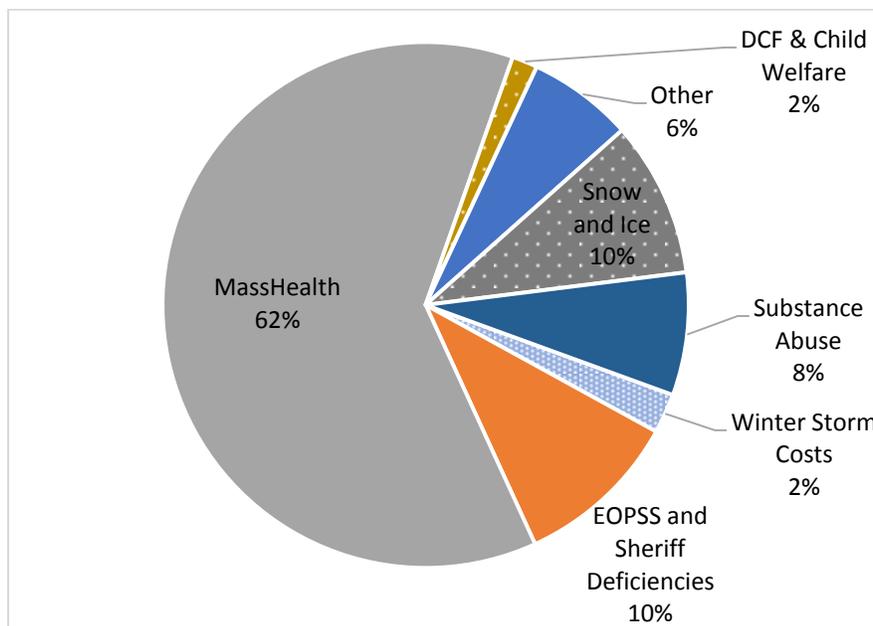
The final supplemental budget for fiscal year 2015, enacted on October 28th, closes the books on a challenging fiscal year in which the Administration and legislature adopted a series of measures – including two rounds of spending cuts – to close a mid-year budget gap in excess of \$1 billion. As a result of the actions taken to close this gap, a strong final six months of tax collections, and the measured approach to spending in this final supplemental budget, the state will end the year with a surplus that allows for a Rainy Day Fund deposit of \$120 million and provides an additional \$113.2 million to pay down existing debt obligations.

The use of the surplus to rebuild reserves and address future obligations will help the Commonwealth as it grapples with serious fiscal challenges to maintain a balanced budget in FY 2016 and develop the FY 2017 budget.

New Spending in the FY 2015 Final Supplemental Budget

The FY 2015 final supplemental budget includes approximately \$328 million in total new spending, with approximately one-third of that offset by federal reimbursements. The single largest spending item in the bill, \$203 million in MassHealth payments, generates \$101.5 million in new federal reimbursements for Medicaid spending, resulting in a net spending total of \$225.6 million. In addition to MassHealth, several other programs receive additional funding in the final FY 2015 money bill, as shown in Figure 1.

Figure 1: FY2015 Final Supplemental Budget Spending by Category



The vast majority of this spending addresses previously identified exposures, such as snow and ice removal costs, as opposed to new discretionary spending. In fact, more than 95 percent (\$314.7 million) of the new spending in this supplemental budget was proposed in the original version of the bill filed by the Baker Administration in July and then retained by both the House and the Senate.

The fiscal restraint regarding new discretionary spending is important for two reasons. First, it enables lawmakers to replenish state reserves. Just as importantly, it does not add to the existing budget deficit by including new discretionary spending with future budget implications.

Other Use of Resources

In addition to new spending, the final supplemental budget in a fiscal year also includes provisions that allow departments to carry-forward unspent appropriations into the following fiscal year.

The final FY 2015 supplemental budget identifies approximately \$32 million in previously approved spending that will be carried into FY 2016. Approximately half of this carry-over spending (\$14.6 million) relates to new collective bargaining contracts, human service provider rate payments, and funds to support subsidized child care placements.

As with the new spending, the vast majority of these carry over items (\$30.4 million) were first proposed in the supplemental budget filed by the Administration and then included in both the House and the Senate versions of the bill.

Other Policy Sections

The final supplemental budget includes relatively little in the way of major policy sections. While the bill does include 80 non-appropriation sections, in large part these relate to spending included in the bill. In addition, there are a number of sections making technical changes to existing statute or amending the membership or reporting deadline for various commissions. Other sections of note require the Department of Children and Families to make a November report to the legislature on the progress of child safety improvements undertaken over the last year, establish September 8th as the date of next year's primary elections and ratify collective bargaining agreements.

Impact on Long-term Fiscal Health

Perhaps most noteworthy about the final FY 2015 supplemental budget is the commitment to deposit \$120 million in the state's Stabilization Fund and use \$113.2 million to pay down Commonwealth debt obligations. The combined \$233.2 million for these two initiatives in the final bill passed exceeds the amount used for the same purposes in any previous version of the bill.

Both of these commitments help the Commonwealth's long-term fiscal health by rebuilding reserves and paying down debt that would otherwise be due in the future. With the recent downgrade of the departmental revenue forecast for FY 2016 and a continued structural budget deficit that will impact the FY 2017 budget development process, this prudent use of the FY 2015 budget surplus is an important sign of fiscal discipline.