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## MTF Brief

August 18, 2021

### Governor Baker's FY 2021 Closeout Supplemental Budget Proposal

On August 18<sup>th</sup>, Governor Baker filed the fiscal year (FY) closeout supplemental budget. The House will next take up the bill, likely in late September or October. This MTF Brief summarizes the key elements of the Governor's proposal.

#### Fiscal background

- Massachusetts ended FY 2021 with \$34.1 billion in tax revenue - \$5 billion higher than the revenue benchmark established in January.
  - \$1.1 billion of this surplus is due to capital gains collections that exceed a sustainable benchmark (\$1.312 billion) and so is automatically deposited in the Stabilization Fund and other reserves;
  - \$1.1 billion is necessary to eliminate a planned FY 2021 Stabilization Fund draw;
  - \$173 million goes to the SBA and MBTA as part of their dedicated sales tax transfers;
  - \$809 million is necessary to offset delays in receipt of federal reimbursements, non-tax revenue downgrades and to make several FY 2022 MassHealth payments in FY 2021.

Figure 1. Disposition of Above Benchmark Tax Revenue

<b>Taxes above benchmark</b>	<b>\$5,000</b>
Statutory transfers	
Capital gains above benchmark	-\$1,100
Increased transfers to MBTA and SBA	-\$173
<b>Tax revenue remaining</b>	<b>\$3,727</b>
Other Offsets	
Elimination of planned Stabilization draw	-\$1,100
Non-tax revenue downgrades	-\$100
FY 2022 receipt of FEMA revenue	-\$250
FY 2022 receipt of CCDBG & TANF	-\$159
FY 2022 MassHealth spending in FY 2021	-\$300
<b>Surplus remaining</b>	<b>\$1,818</b>

\$ in millions

- The Governor appropriates (or otherwise uses) \$1.76 billion of the approximately \$1.82 billion in resources remaining after accounting for all offsets.

**Big picture spending**

- The Administration bill uses \$1.76 billion of the \$1.82 billion net surplus as follows:
  - \$1 billion deposit to the state’s UI trust fund, which will reduce necessary borrowing to ensure fund solvency and repay federal loans;
  - \$484 million towards public employee and human service contract labor costs and premium pay:
    - \$405M for a collective bargaining reserve for signed or anticipated agreements;
    - \$40M to provide bonuses of up to \$2,000 for front-line state employees required to work in-person last winter;
    - \$39M to support a rate increase for contracted human service providers.
  - \$47M for other investments also largely related to increasing rates or supporting workforce costs for entities providing public services:
    - \$20M to support workforce costs at residential special education schools (766 schools);
    - \$17M to fund 800 additional individual homeless shelter beds in FY 2022 and provide a rate increase to providers;
    - \$5M to fund an evidence-based supportive housing model for homeless individuals;
    - \$3M to help Quinsigamond and Worcester Community Colleges absorb students displaced by the closing of Becker College.
  - \$208M for FY 2022 deficiencies and the shift of unexpended FY 2021 appropriations into FY 2022. This includes:
    - \$60M in FY 2021 GIC appropriations moved into FY 2022;
    - \$25M to cover budget deficiencies for sheriffs and to support a substance use program at the Hampden County House of Corrections.
  - \$20M in transfers to the Massachusetts Life Sciences Center (\$10M) and the Community Preservation Trust (\$10M).

**State reserves**

- After accounting for the proposed spending, approximately \$60 million of the surplus remains, which would be transferred to the Stabilization Fund.
- Under the Governor’s closeout bill, the Stabilization Fund balance would change as follows:

*Figure 2. Estimated FY 2021 Stabilization Fund Balance*

<b><i>FY 2020 ending balance</i></b>	<b><i>\$3,501.0</i></b>
<b>FY 2021 deposits</b>	
Above benchmarks capital gains	\$990.0
Fund interest	\$27.3
Gaming and other dedicated revenues	\$114.0
Unexpended surplus transfer	\$58.0
<b><i>Projected FY 2021 balance</i></b>	<b><i>\$4,690.3</i></b>

## Policy Proposals

- The Administration proposes tax policy changes:
  - Exempting several forms of COVID-related relief from taxation:
    - PPP loans (previous legislation made these loans nontaxable in tax year 2020, this language extends that change to tax year 2021);
    - Economic Injury Disaster Loan advances (previous legislation made these loans nontaxable in tax year 2020, this language extends that change to tax year 2021);
    - Shuttered Venue Operator grants;
    - Restaurant Revitalization grants;
    - Mass. Growth Capital Corporation grants.
  - Implementing the state charitable tax deduction effective January 1<sup>st</sup>, 2022.
- Other policy changes:
  - Creating a trust fund to receive enhanced federal reimbursements related to the American Rescue Plan’s Home and Community Based Medicaid pilot program;
    - The bill also creates a \$300M appropriation from this fund to support expansion of home and community-based health care programs in the state.
  - Expanding MassHealth’s rebate negotiation program to medical devices and other non-pharmaceuticals;
  - Making service members who die in training be eligible for the state’s Medal of Liberty;
  - Expanding the state’s municipal vulnerability grant preparedness program to non-municipal entities.

## Next steps

- The closeout supplemental budget needs to be signed into law for the state to close its books on FY 2021 and complete annual financial reports;
- In recent years, the timing on the closeout supplemental bill is as follows:

*Figure 3. FY 2017 – FY 2021 Closeout Timeline*

	Gov. Filed	Initial legislative engrossment	Final legislative enactment	Signed into law
FY 2017	8/3/2017	10/11/2017	11/2/2017	11/3/2017
FY 2018	7/13/2018	10/15/2018	10/15/2018	10/23/2018
FY 2019	9/9/2019	10/17/2019	12/12/2019	12/13/2019
FY 2020	10/1/2019	11/4/2020	11/6/2020	11/10/2020
FY 2021	8/18/2021			

- The Governor’s closeout proposal will be referred to House Ways and Means. Over the last decade, the legislature has typically begun action on the final supplemental budget in October. The primary driver of the timeline for the end of year supplemental budget is the requirement, by law, that the Comptroller file the state’s end-of-year financial report by October 31<sup>st</sup>.