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MTF Brief

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Governor Baker's FY 2022 Supplemental Budget

Governor Baker has put forward a $2.4 billion supplemental budget that uses $1.6 billion of the state's fiscal year (FY) 2022 anticipated revenue surplus and several federal revenue sources to maintain and expand several COVID-19 related programs, cover ongoing public costs and increase funding for municipal infrastructure assistance programs.

The Governor's proposal does not use any of the state's remaining $2.3 billion Fiscal Recovery Funds, but in many ways builds on the $4 billion COVID recovery legislation signed into law in December. Investments in areas like early childhood education, local transportation infrastructure as well as funds to address ongoing public health costs were not a part of the December package, but are included in this proposal. The legislative outcome of the Governor's proposal will help define when, if, and how the legislature plans to use additional Fiscal Recovery Funds this year.

Resources

The majority of the spending in the Governor's proposal (66.9 percent) is paid for through the anticipated FY 2022 revenue surplus, while $803.1 million comes from federal reimbursements and grants.

Resource Use in Governor Baker's Proposal

FY 2022 Supplemental Sources	
Surplus tax revenues	$1,630.9
ARPA Home & Community Based Waiver reimbursements	$346.1
FEMA reimbursement for COVID costs	$260.8
ARPA Child Care Development Block Grant supplement	$196.2
Total resources	**$2,434.0**

$ in millions

Through January, tax revenues exceed the original FY 2022 estimate by $2.3 billion.[1] A significant portion of this increase is likely due to capital gains collections which will automatically be transferred to the state's Stabilization Fund and other reserves and therefore is not available for operational spending. However, even after accounting for this transfer, the revenue surplus available for the budget is significant. Three of the largest tax collection months (April, March, and June) are upcoming and collections for those three months could alter the current trends, especially in light of increased geopolitical risks. However, given the size of the surplus to date and the fact that collections in April largely reflect economic activity from the prior year, a sizable revenue surplus in FY 2022 is a near certainty.

Approximately one-third of the Administration's spending proposal is offset by federal revenues. Two of the sources of federal revenue, supplemental Childcare Development Block Grant funds and reimbursements for the state's Home and Community Based Services Medicaid waiver, were provided through the American Rescue Plan. The Administration also expects $260.8 million in COVID-19 testing and vaccination costs to be reimbursed by FEMA. During the pandemic, FEMA has expanded costs eligible for reimbursement and covered 100 percent of those costs. Currently, FEMA's COVID-19 emergency declaration is set to end on April 1st. Should that deadline be extended, the FEMA reimbursements available to offset state costs will increase.

Spending Overview

Of the $2.4 billion in spending proposed by the Administration, more than two-thirds is directly related to COVID response and recovery efforts. Other spending proposals include $450 million for local infrastructure products and $109.9 million to fund recently negotiated collective bargaining agreements.

Governor Baker's FY 2022 Supplemental Budget by Category

Spending Category	
COVID - public health	$700.0
COVID - human service rates	$401.1
COVID - childcare	$400.0
COVID - special education schools	$140.0
Local funding	$450.0
CBAs	$109.9
Other	$207.0
Total	**$2,408**

$ in millions

[1] This above benchmark figure adjusts for timing issues related to the implementation of a Pass-Through-Entity excise which shifted approximately $650 million in collections to earlier in the year.

COVID-19 related spending:

- $700 million is proposed for several ***COVID-19 public health needs***. The Administration expects this funding, which is in addition to $75 million recently appropriated for testing and PPE, will generate $260.8 million in federal FEMA reimbursements. Spending is broken down as follows:
  - $433 million for testing costs;
  - $125 million is for temporary staffing costs associated with COVID-19 response;
  - $72 million for COVID-19 treatment; and
  - $45.5 million for vaccination and vaccination site costs.
- $400 million is appropriated to continue ***early childhood education stabilization grants*** throughout FY 2023. Of the $400 million appropriated in the bill, $196.2 million is paid for using supplemental Childcare Development Block Grant funds provided through ARPA. In addition, the Administration proposes language allowing any excess FY 2022 early education funds, estimated at $50 million, to be carried forward into FY 2023 to further support these grants. In total, the Administration estimates that $450 million will be necessary to continue stabilization grants over the course of the next fiscal year.[2]
- $346.1 million to strengthen ***home and community-based services*** provided through the Medicaid program, primarily by increasing rates for service providers. This funding is offset by ARPA funds specifically dedicated for this purpose.
- $140 million for state-***approved special education schools*** to assist them in addressing a variety of COVID-19 related fiscal challenges. These school provide special education services, both residential and non-residential, to public school students outside of their traditional public school. The pandemic resulted in significant staffing challenges and additional funds are proposed to attract and retain workers.
- $55 million in rate increases for ***human service providers*** who contract with the state (so-called Chapter 257 providers). In 2008, the state passed legislation to create a streamlined process for determining human service rates that prioritized making rates more adequate, equitable, and predictable. This appropriation would cover current year costs of recently finalized Chapter 257 rates that will also help providers address COVID-related staffing needs.

Local funding:

- $200 million in ***local transportation infrastructure funding***. Half of the amount is dedicated to the state's annual local transportation grants (Chapter 90), with the other half to be used as grants to help cities and towns repair potholes and cover other transportation costs related to winter damage.
- $150 million for the Administration's ***Municipal Vulnerability Preparedness (MVP) grants***, which help cities and towns pay for climate change adaptation, resiliency and preparedness programs. The recent ARPA bill included $100 million for this program,

[2] The state implemented early childhood stabilization grants at the start of FY 2022. The grants, which are available to providers irrespective of whether or not they participate in state subsidy programs, will use previously awarded federal childcare resources to support the program in FY 2022.

with approximately $13.2 million earmarked for specific programs. In a departure from typical practice, the Administration proposes earmarking $105.3 million for 70 specific local projects.

- $100 million for grants to non-***profit organizations that serve children*** to make necessary capital facility improvements. This new grant program would require matching funds from local or private sources and would prioritize projects that can match 100 percent of state dollars.

Other notable spending:

- $109.9 million to cover recently ratified ***collective bargaining agreements***. The bill also includes a section to ratify 42 collective bargaining agreements that have been negotiated;
- $62.8 million to expand FY 2022 ***housing stabilization and homelessness services***. The Governor's recent budget proposal funded the FY 2023 costs of expanding of several state programs in anticipation of increased demand as federal eviction diversion funds come to an end. These supplemental budget items fund these expansions for the current fiscal year;
- $60 million in grants to organizations that provide services to ***victims of violent crime***. These grants have historically been covered through federal funding, but this state appropriation will mitigate a temporary shortfall in federal funds;
- $50 million to recruit and increase compensation for ***guardians ad litem (GAL)***. GALs work in the court system to assess what outcome in child welfare proceedings is in the best interests of the child. The Governor's supplemental budget includes language mandating that each juvenile court case related to the abuse or neglect of a child have a GAL assigned. The funding will allow for the hiring of additional GALs, increase compensation, and improve training; and
- $24 million for ***behavioral health programs***, including $5 million to help fund a statewide 24/7 crisis hotline and $14 million for staffing, operations, and infrastructure improvements at facilities that treat people civilly committed for substance use treatment.

Policy Proposals

The Administration's supplemental spending proposal also includes 65 policy sections. A large number of these sections (38) make technical corrections to the $4 billion ARPA spending bill and other recent legislation. Notable policy proposals include:

- ***Job order contracting*** (section 3) – makes permanent the job order contracting for state agency maintenance and repair projects costing $150,000 or less;
- ***Vocational rehabilitation trust funds*** (section 8) – dedicates federal revenue received through the Vocational Rehabilitation Cost Reimbursement Program to two new trust funds that would use those, and other resources, to support state vocational service programs for blind and disabled residents;
- ***Stay of eviction*** (section 25) – extends the period in which courts can grant stays in eviction proceedings due to non-payment of rent in cases where the tenant has applied for rental assistance. The section would extend the ability to grant a stay to January 1st of 2023.

- ***Guardian ad litem*** (section 12) – requires the juvenile court to appoint a guardian ad litem to advocate for the best interests of the child in any proceeding in which abuse or neglect is alleged. The section defines the role and duties of guardians ad litem and ties their compensation to that of CPCS child care and protection attorneys;
- ***Paid Family and Medical Leave administrative costs*** (section 17) – reduces the cap on administrative costs for the Department of Family and Medical Leave from five percent of annual deposits to five percent of the fund balance at the end of the prior year, with a safeguard added to prevent the administrative cap from decreasing by more than five percent from one year to the next.
- ***Premium pay tax treatment*** (section 64) – exempts state premium payments for low-wage workers from the state income tax;
- ***Educator licenses*** (section 21) – extends the Commissioner of Elementary and Secondary Education's emergency authority to grant educator licenses to 180 days after the end of the Public Health Emergency;
- ***Mystic River bridge*** (section 65) – authorizes the Department of Environmental Protection to issue a license for the construction of a pedestrian and bicycle bridge over the Mystic River from Somerville to the Encore Boston Harbor casino.

Bottom Line

The Administration has acted quickly to put forward a spending proposal for the expected FY 2022 revenue surplus that makes complementary investments to the recent $4 billion COVID recovery package. In addition to covering necessary public health costs, Governor Baker proposes extending childcare stabilization grants through FY 2023. Extending these grants now will provide certainty on the continuation of the project through the next fiscal year and avoid the disruptions that would otherwise occur if the proposal gets wrapped up in FY 2023 budget negotiations.

The legislature is likely to act on an FY 2022 supplemental budget over the next two months, but whether House and Senate leaders will adopt the Governor's approach to use much of the FY 2022 surplus now is less clear. Last year, the Governor proposed separate legislation to use the FY 2021 budget surplus and to spend ARPA Fiscal Recovery Funds, but the legislature ultimately combined them into one bill.

The fate of this proposal will affect how additional Fiscal Recovery Funds are deployed in the coming year. If lawmakers elect to focus on an FY 2022 surplus spending bill next, it may make near-term action on remaining Fiscal Recovery Funds less likely. This Governor's bill, combined with December's COVID recovery bill, provides more than $6 billion in new investments over a few months. Ensuring that those investments are spent effectively and efficiently should be a top priority for lawmakers and the Administration.