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## MTF Brief

November 29, 2023

### FY 2023 Closeout Supplemental Budget Preview

Governor Healey filed her administration’s FY 2023 closeout supplemental budget on September 13<sup>th</sup>, and versions of the spending bill were passed by the House and Senate on November 8<sup>th</sup> and 14<sup>th</sup>, respectively. While the House and Senate bills largely reflect shared spending that is necessary to address outstanding deficiencies related to MassHealth, special education, and collective bargaining agreements, there are substantive policy differences related to supplemental funding for the state’s Emergency Assistance shelter system and other items that need to be resolved.

On November 16<sup>th</sup>, a conference committee was appointed to reconcile these differences between the two proposals. As MTF highlighted in an earlier fiscal update, expeditiously finalizing the FY 2023 closeout supplemental budget is necessary to ensure that the state has the resources it requires to respond to unexpected fiscal downturns and unanticipated cost increases. This is increasingly important in light of uncertain revenue collection trends and the growing migrant crisis.

This brief reviews the major spending and policy proposals put forward by the House and Senate, highlighting key commonalities and differences.

### **FY 2023 Closeout Supplemental Budget Proposals**

The Governor’s original closeout supplemental budget totaled \$2.4 billion, including \$2.1 billion required to meet outstanding spending deficiencies and \$272 million in spending supported by Transitional Escrow Fund resources. In addition, in the filing letter submitted with the bill, the Governor highlighted the need for the Legislature to approve approximately \$496 million in pending appropriations from earlier supplemental budgets. Combined, the Governor called for \$2.9 billion in needed spending to close the books on FY 2023 and ensure the fiscal year ends in balance.

The House and Senate bills adhere closely to the spending proposal put forward by Governor Healey, but do not include all spending items proposed by the Administration, resulting in total spending of between \$100 and \$150 million less than the \$2.9 billion in the Governor’s proposal. All three proposals call for spending to be supported by either General Fund or Transitional Escrow Fund resources. However, while the Governor’s bill specified which items would be supported by each fund, the House and Senate granted the administration discretion over how those resources would be used.

*FY 2023 Closeout Supplemental Budget Summary*

	<b>Governor</b>	<b>House</b>	<b>Senate</b>
General Fund	\$2,151	\$2,459	\$2,473
Transitional Escrow	\$272	--	--
Pending Appropriations	\$496	\$287	\$342
<b>Total Spending</b>	<b>\$2,919</b>	<b>\$2,746</b>	<b>\$2,815</b>

*\$ in millions*



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Across the House and Senate bills, over \$2.7 billion supports shared spending, while \$69 million is unique to either branch. The final FY 2023 closeout supplemental budget could include all spending proposed by the House and Senate for a total of \$2.8 billion.

*MTF Shared and Unique Spending Estimate*

	House	Senate
Initial Spending	\$2,748	\$2,815
<b>Shared Spending</b>	<b>\$2,746</b>	
Unique Spending	\$2	\$69
<b>Maximum Spending</b>	<b>\$2,817</b>	

*\$ in millions*

Over 99 percent of spending between the House and Senate supplemental budgets is shared, with major items in common highlighted below. However, despite the broad overlap, the two bills include several proposals with important spending and policy differences. Most notably, each branch included \$250 million for the state’s Emergency Assistance (EA) family shelter system, but the language governing how the funds are to be used differs sharply.

**Shared Spending Proposals**

- **MassHealth Fee for Service** (\$2.1 billion gross/\$1.3 billion net) – In FY 2023, the largest shift in spending and revenue assumptions are related to the MassHealth program. 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 PHE was extended until May 2023, and as a result, total MassHealth costs for the fiscal year increased by over \$2 billion.
- **Supplemental Pension Transfer** (\$100 million) – As part of the FY 2024 Consensus Revenue Agreement, administration and legislative budget writers agreed to a \$100 million transfer to the state’s unfunded pension liability in FY 2023. The funding is intended to pay down the unfunded liability associated with the Early Retirement Incentive Program (ERIP) instituted by the Baker administration in 2015.
- **Special Education Extraordinary Relief Payments** (\$75 million) – In FY 2024, school districts are facing large increases in special education expenses related to inflation and workforce-related cost increases at private special education schools. This funding would provide additional assistance to school districts facing instructional cost increases of greater than 25 percent over FY 2023. Districts would also be eligible for increased reimbursement if their instructional costs increase by 7.5 percent, and that total increase exceeds 0.5 percent of Net School Spending requirements. In order to be eligible for relief aid, districts must have a spending plan for remaining Elementary and Secondary School Relief (ESSER) funds that has been approved by the Department of Elementary and Secondary Education.

- **Department of Transitional Assistance Staffing & Caseload** (\$60.3 million) – Throughout FY 2023, the Department of Transitional Assistance (DTA) experienced a sharp uptick in the number of families applying for direct benefit assistance. This reserve account will support staffing and payroll costs at the department, which will allow them to review the increased number of applications for SNAP, TAFDC, and EAEDC assistance.

### Emergency Assistance Shelter System Reserve

The House and Senate bills each included a \$250 million reserve for the state’s Emergency Assistance shelter system, originally proposed by Governor Healey to ensure that the state has the necessary resources to respond quickly to unexpected cost increases or service needs associated with the migrant crisis. However, while the total funding amount is the same, there are substantial differences in line-item language that governs how the funds will be used. For example, the House bill earmarks specific amounts of funding for supplemental school district costs, temporary emergency shelter sites, and wrap-around family services. In contrast, the Senate bill includes no discreet earmarks, but directs the administration to report back to the Legislature bi-weekly on how it plans to use the reserve to support the influx of families seeking shelter.

#### *House & Senate EA Shelter System Reserve Proposals*

	House	Senate
Program	Amount	Amount
Supplemental School District Costs	\$75	<i>No earmarks included in Senate language, but the administration may use the reserve to support all of the programs delineated in the House language.</i>
Housing, Food, Onsite Shelter Staffing	\$65	
Overflow Emergency Shelter Sites	\$50	
Temporary Emergency Shelter Sites	\$18	
Family Wraparound Support Services	\$12	
Resettlement Agencies	\$10	
Municipal Support	\$6	
Supplemental EA Staffing Costs	\$6	
Migrant & Refugee Workforce Programs	\$5	
Family Welcome Centers	\$3	
<b>Total Earmark Funding</b>	<b>\$250</b>	<b>\$0</b>
<b>Total Reserve Funding</b>	<b>\$250</b>	<b>\$250</b>

*\$ in millions*

The most notable difference between the two proposals is a \$50 million earmark included by the House for state funded emergency shelter sites for families that have been placed on waitlists for shelter placement as a result of the state surpassing its capacity limit of 7,500 families in the EA system. According to the House language, if the state is unable to stand up emergency shelter sites within 30 days of the bill’s passage, the 7,500 family capacity limit must be lifted.



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## Unique Spending & Policy Proposals

Approximately \$69 million in spending between the House and Senate proposals is unique to either branch, or used for distinct purposes. The programs below represent the largest spending differences between the two branches.

- ***EOHHS Workforce Reserve*** – In 2022, as part of the second COVID Recovery and Economic Development bill, the Legislature appropriated \$200 million for a reserve to support temporary staffing costs at nursing homes, group care facilities, and Soldiers’ Homes to continue COVID-19 response and mitigation efforts. The \$55 million appropriation included in the Senate bill, in combination with \$81 million that will be carried forward from FY 2023, would support similar efforts in FY 2024.
- ***Natural Disaster Mitigation & Extraordinary Relief*** – The House proposal includes \$12 million for a reserve to assist municipalities impacted by storms and other natural disasters in 2023. The Senate bill increases this support for municipalities to \$15 million, and includes additional line-item language allowing municipalities to coordinate the use of these resources with local emergency relief organizations.
- ***Resettlement Agencies*** – The Senate bill includes a \$10 million appropriation for resettlement agencies under the Office for Refugees and Immigrants (ORI). Funding in this item would be used to support eligible individuals and families that are newly arriving in the state and to prevent families from entering the EA shelter system. The House bill similarly includes \$10 million in funding for resettlement agencies; however, it is an earmark within the larger EA shelter system reserve, not a standalone appropriation.

## Major Outside Policy Sections

The House’s closeout supplemental budget proposal includes 92 outside policy sections, and the Senate proposal includes 174. The majority of the outside policy sections are technical in nature or allow funding from FY 2023 to be carried forward and expended in FY 2024. Both bills also appropriate over \$300 million for more than 90 ratified collective bargaining agreements. However, each branch also put forward unique policy proposals. Brief descriptions of the major shared and unique policy proposals are included in the table below.

*Shared & Unique Outside Section Policy Proposals*

Policy	House	Senate	Description
Consumer Directed Care (CDC) Workforce Council	Yes (Section 3)	No	Defines the CDC service delivery model under the state's home care program, creates a CDC Workforce Council, and establishes CDC workers as public employees with collective bargaining rights.
Municipal Natural Disaster Debt	Yes (Section 77)	Yes (Section 161)	Allows municipalities to amortize the costs of responding to natural disasters occurring in July 2023, offering relief to cities and towns recently impacted by flooding.
DPU Recoveries	Yes (Section 79)	No	Grants the Department of Public Utilities the ability to allow electrical distribution companies to recover expenditures from service agreements that have been impacted by a recent change to Maine State Law.
Everett Soccer Stadium	No	Yes (Section 164)	Removes 43-acres of land from the 'designated port area' in the city of Everett to be converted into a professional soccer stadium.
Transitional Escrow / General Fund Transferability	No	Yes (Section 150)	Directs the Secretary of A&F to pay for appropriations included in the supplemental budget with General Fund, Transitional Escrow Fund, and Federal COVID-19 Response Fund Resources. Escrow and Response Fund resources cannot be used unless the consolidated net surplus is less than zero.
Trial Court Justices	No	Yes (Sections 33 & 34)	Increases the total number of justices and special justices in the Trial Courts by nine, and the number of justices appointed to the probate and family court department by eight.
COVID Recovery & Economic Development Bill Resources	Yes (Section 40)	Yes (Section 49)	Updates the amount available from the Federal COVID-19 Response Fund to support appropriations in the first COVID Recovery and Economic Development bill.
2024 State Primary Date	Yes (Section 76A)	Yes (Section 154)	Sets the 2024 State Primary Election for Tuesday, September 3, 2024.
Single Sales Factor Apportionment Clarifications	Yes (Sections 11 & 75)	Yes (Section 18 & 149)	Further defines "value-added agricultural products" for the purposes of the single-sales factor (SSF) tax reforms. Also clarifies that the SSF reforms will apply to tax years beginning on or after January 1, 2025.
Surtax Revenue Transfer	Yes (Section 87)	Yes (Section 169)	Directs the Commission of DOR to transfer from the General Fund to the Education and Transportation Fund the amount of tax revenues collected in FY 2023 that are attributable to the new four percent income surtax.

**Next Steps**

The last formal session of 2023 took place on November 15<sup>th</sup>, meaning that final passage of the FY 2023 closeout supplemental budget will need to take place during an informal session. This poses potential challenges for policymakers because during an informal session any one House or Senate member can prevent a bill from passing. However, those challenges should not stand in the way of action. This spending bill is necessary to address outstanding deficiencies from FY 2023 and provide needed supplemental funds



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for FY 2024. Given that the vast majority of funding proposed by the House and Senate is for shared priorities, MTF urges policymakers to act expeditiously to resolve outstanding spending and policy differences. In recent years, final enactment of the closeout supplemental budget has stretched into November, but this year's delay is threatening to reach December.

*Enactment of Closeout Supplemental Budgets, FY 2018 – FY 2022*

<b>Fiscal Year</b>	<b>Closeout Budget Enacted</b>
FY 2018	October 15, 2018
FY 2019	December 12, 2019
FY 2020	November 6, 2020
FY 2021	October 14, 2021
FY 2022	November 3, 2022

As MTF recommended in an earlier fiscal update, it will be crucial for policymakers to maintain the balance of the Transitional Escrow Fund to the greatest extent possible and limit the addition of new spending obligations in FY 2024 in the final bill. While the House and Senate bills grant the administration flexibility over the specific appropriations that can be supported by Transitional Escrow Fund resources, if the total amount of spending budgeted to the fund exceeds \$400 million, its balance is likely to fall close to \$500 million.