



333 Washington Street | Suite 853 | Boston, MA 02108 | 617.720.1000
www.masstaxpayers.com

MTF in Brief

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The FY 2021 Surplus and Fiscal Recovery Funds

In the coming weeks, the House and Senate will take up legislation to spend Fiscal Recovery Funds, provided through the American Rescue Plan, as well as the FY 2021 budget surplus. This Brief provides important background on both resources and previews key policy considerations.

The FY 2021 Surplus

- FY 2021 tax revenues exceeded benchmark by \$5.08 billion, but the practical surplus available to policymakers was closer to \$2B:

<i>Calculating the Initial Surplus</i>	
<i>Taxes above benchmark</i>	\$5,080
<i>Statutory transfers</i>	
Capital gains above benchmark	-\$1,220
Increased transfers to MBTA and SBA	-\$173
<i>Tax revenue remaining</i>	\$3,687
<i>Other Offsets</i>	
Elimination of planned Stabilization draw	-\$1,100
FY 2022 receipt of federal revenues	-\$409
Other spending/revenue exposures	-\$120
<i>Estimated surplus remaining</i>	\$2,058
<i>\$ in millions</i>	

- The closeout supplemental budget signed into law this week used \$564 million to cover necessary deficiencies, personnel and other costs, leaving \$1.49 billion of the surplus remaining;
 - The Governor has proposed using \$1 billion of the remaining surplus to subsidize the state’s Unemployment Insurance Trust Fund;
- The Legislature is depositing the surplus in a temporary fund, making it available to spend over the next year.

Fiscal Recovery Funds

- Massachusetts received \$5.3 billion in FRF resources and \$4.9B requires legislative appropriation:

<i>Massachusetts Fiscal Recovery Funds</i>	
Total MA Award	\$5,286.1
Supplemental distribution to Chelsea, Everett, Methuen & Randolph	\$109.0
Administration set-aside	\$200.0
COVID paid leave set-aside	\$75.0
VaxMillions	\$10.0
Amount remaining for appropriation	\$4,892.1
<i>\$ in million</i>	

- There are four eligible uses of FRF resources, the most flexible of which is revenue replacement for general government services which allows the state to spend up to \$3.7 billion on a wide range of spending programs;
 - MTF has provided details on the rules governing FRF spending [here](#);
- Governor Baker has proposed spending \$2.9 billion of the FRF on five priority areas:
 - Affordable housing - \$1 billion;
 - Water, sewer and other infrastructure - \$1 billion;
 - Economic development and revitalization - \$450 million;
 - Workforce supports - \$240 million;
 - Health care, mental health and addiction services - \$225 million.

ARPA/Surplus Spending Considerations

1. Federal spending restrictions and oversight requirements
 - All FRF spending must ultimately be assigned to one of four spending categories;
 - FRF spending is also subject to relatively stringent reporting and oversight requirements. Those requirements must be met by the state as well as by entities receiving FRF funding through the state.
2. Combining FRF and surplus funds in one bill
 - It is likely that the Legislature will include both FRF and surplus funds in its next spending bill. The benefit of this approach is that it removes/reduces some of the limitations on the federal funds and provide a wider range of policy options.
3. Spending now vs. spending later
 - FRF can be obligated until the end of 2024. The Legislature must make a significant FRF investment now in order to support the recovery and provide sufficient time to effectively implement new programs;
 - At the same time, the Legislature should adopt Governor Baker's strategy of setting aside a portion of FRF to ensure we can respond to future recovery needs that are not yet apparent.