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MTF Brief

July 6, 2022

Estimating the FY 2022 Budget Surplus

Fiscal year 2023 began on July 1st, but policymakers have yet to close the books on FY 2022 which requires disposing of a significant budget surplus. This Brief provides an estimate of the surplus and examines how it fits in to the larger fiscal picture.

Understanding the Budget Surplus

A budget surplus is the difference between the resources available and spending that has either been appropriated or is necessary to cover incurred or anticipated obligations. Often tax revenues above benchmark are referred to as surplus revenues, but the budget surplus calculation takes into account a number of other factors, including ongoing spending needs, non-tax revenue collections, and revenues collected, but unavailable for spending. For example, in FY 2021, while tax revenues exceeded benchmark by $5.1 billion, the budget surplus was approximately $1.5 billion after offsets and other factors were included.

Projecting the FY 2022 Budget Surplus

FY 2022 began in balance, making the surplus estimate relatively straightforward. Lawmakers must add up unanticipated revenues and subtract spending requirements and necessary offsets.

Preliminary Estimate of FY 2022 Surplus

Original budget estimate	$34,451
January upgrade	$1,548
May upgrade	$1,718
Current above benchmark	$2,666
Total above benchmark	**$5,932**
Dedicated to SBA/MBTA	-$257
Capital gains above benchmark	-$1,200
Supplemental spending to date	-$1,614
Additional federal revenue	$750
Outstanding deficiencies	-$23
Initial surplus	**$3,588**

$ in millions

Record tax collections drive the budget surplus. After accounting for various offsets, MTF projects a surplus of $3.6 billion, more than double the FY 2021 figure. The primary reason the surplus is larger this year is because the original FY 2021 budget relied on close to $2 billion in one-time resources, including the Stabilization Fund. Much of last year's excess tax revenue was used to eliminate the need for these temporary revenues. The original FY 2022 budget did not rely on the Stabilization Fund or other one-time resources, freeing up excess tax revenues for the surplus.

The table above uses reasonable assumptions to estimate the surplus, but it is important to highlight budget variables that could materially change the amount:

- ***June tax collections*** – MTF's estimate assumes that June collections meet current benchmark. If June revenues beat those estimates the surplus will increase.
- ***Capital gains above benchmark*** – through May, the state has collected $3.5 billion in capital gains taxes, which is $899 million more than assumed in the original FY 2022 budget. Last June, the state collected $306.2 million in capital gains and the table above assumes a similar level of collections this June. Depending on total June collections, a larger amount of capital gains could reduce the surplus because that money is statutorily required to be deposited into state reserves.
- ***Outstanding deficiencies*** – Governor Baker filed a supplemental budget in May that identified $22.7 million in necessary spending obligations. That number is likely to grow as the state closes its books, which would reduce the surplus.
- ***Unexpended appropriations*** – the table above makes no assumption for previously appropriated funds that go unexpended, often called 'reversions.' The level of reversions varies from year to year, but has easily exceeded $300 million in each of the last four years. Significant reversions would increase the budget surplus.

Given these caveats, the surplus will differ from the $3.6 billion presented above, but MTF's calculation provides a reasonable estimate to guide policymakers.

Putting the Surplus in Context

The surplus is just one piece of the fiscal puzzle facing policymakers over the next month. In addition, the state still has $2.3 billion in federal Fiscal Recovery Funds (FRF) that must be obligated by the end of 2024.

Governor Baker has put forward separate legislation to use remaining FRF resources and to spend $1.7 billion of the FY 2022 surplus. Last year, lawmakers elected to combine surplus and COVID recovery spending in one $4 billion vehicle that mixed federal and state funds. Combining these resources has a couple of benefits. First, it helps the Administration best leverage federal funds by giving them discretion to assign those resources to programs that best align with ARPA requirements. Second, it makes it easier to concentrate resources and track their use.

The FY 2022 budget surplus will be historic and it will require careful planning to use it effectively and sustainably. As MTF noted in last week's FY 2023 Conference Preview, the fiscal goal for the month should be to balance investments and tax relief with continued planning for bumps in the road ahead.