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*MTF Bulletin*

August 9, 2023

**FY 2024 Budget Veto Summary**

On August 9<sup>th</sup>, Governor Healey signed the Fiscal Year (FY) 2024 budget; sending back \$276 million in gross spending vetoes (\$205 million net), amending 8 outside policy sections, and vetoing one policy section. The Governor’s vetoes eliminate the budget’s reliance on \$205 million in one-time resources, which MTF highlighted as a fiscal concern in our Conference Summary. Thirty-five budget accounts are impacted by spending vetoes, with most funding levels being reduced to what was originally proposed in the Governor’s budget. After accounting for these proposed cuts, spending in the FY 2024 budget still grows by 6.7 percent over the enacted FY 2023 General Appropriations Act (GAA)<sup>1</sup>.

Spending vetoes had become a rarity in recent years, with Governor Baker vetoing only \$8 million and \$480K in spending during his last two years in office. However, the FY 2022 and FY 2023 budgets benefitted from multi-billion dollar tax revenue upgrades made during the conference committee process. The FY 2024 budget relies on the same revenue assumptions developed in January, with the conference committee adding \$205 million in one-time resources to accommodate spending increases above House and Senate final budgets. By vetoing this one-time revenue use and associated spending, the administration improves the structural balance of the budget and its ability to withstand unexpected downturns.

This bulletin summarizes the Governor’s recent budget actions and the current status of the FY 2024 General Appropriations Act (GAA).

*FY 2024 Budget Action Summary*

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Line-Items Reduced	0	136	7	4	35
\$ Reduction	\$0	\$159	\$8	\$0.48	\$276 (gross) / \$205 (net)
Sections Vetoes	0	0	2	0	1
Sections Amended	9	17	25	41	8

*\$ in millions*

<sup>1</sup> MTF measures spending growth through a comparison of direct appropriations in Sections 2, 2E, and 2F of the budget. It does not include ‘off-budget spending’ in this comparison, including transfers to trust funds. If FY 2023 transfers to early education, K-12, and pension funds are included, spending grows by 5.1 percent in FY 2024.



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**Budget Resources**

The FY 2024 Conference Budget sent to Governor Healey’s desk was built on the consensus revenue foundation of \$40.4 billion. For the first time in seven years, the Conference Budget did not adjust the original consensus revenue estimate due to changing revenue trends. The FY 2024 revenue estimate was predicated on a slowdown in revenue growth based on declining non-withheld income and the repayment of Pass-Through Entity tax credits. As the steep revenue decline in April demonstrated, those expected trends emerged in the latter half of FY 2023.

In addition to the consensus revenue estimate, the FY 2024 budget utilized \$24.1 billion in non-tax revenues to support spending; \$622 million of which were one-time resources from trust funds.

*Trust Fund Resources in the FY 2024 Budget*

	<b>Governor's Budget</b>	<b>House Budget</b>	<b>Senate Budget</b>	<b>Conference Budget</b>
Transitional Escrow Fund	\$0	\$0	\$0	\$205
EEC Fund	\$150	\$0	\$245	\$225
Behavioral Health Trust Fund	\$0	\$0	\$192	\$192
<b>Total Resources</b>	<b>\$150</b>	<b>\$0</b>	<b>\$437</b>	<b>\$622</b>

*\$ in millions*

The budget proposal sent to the Governor’s desk relies on revenues from the High Quality Early Education and Care Trust Fund and the Behavioral Health Trust Fund; both of which were created in the last few years to support additional investments in these areas. Spending supported by these funds was previously proposed in whole or in part by both the administration and the Senate.

The Conference Budget also drew down \$205 million from the Transitional Escrow Fund<sup>2</sup> or the Federal COVID-19 Response Fund<sup>3</sup> to balance the budget. This use of one-time revenues contributed to the sizeable spending increase seen in the Conference Budget over any of the earlier budget proposals. The spending plan sent to the Governor’s desk exceeded her original proposal by \$974 million, and the House and Senate budgets by \$804 million and \$305 million, respectively.

<sup>2</sup> The Transitional Escrow Fund was established in Section 16 of Chapter 76 of the Acts of 2021 to hold the net surplus revenues collected in FY 2021 and FY 2022. MTF estimates the unobligated balance for the fund to be \$1.2 billion.

<sup>3</sup> The Federal COVID-19 Response Fund was established in Section 2JJJJ of Chapter 29 of the Massachusetts General Laws for the Coronavirus State Fiscal Recovery Funds appropriated in the American Rescue Plan Act (ARPA). MTF estimates there to be to be approximately \$300 million in remaining ARPA funding.



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Additionally, the Conference Budget reflects a \$200 million savings assumption for reversions in FY 2024. Reversions are appropriations that go unspent during a fiscal year and get returned to the General Fund. The amount of appropriations that go unspent each year typically exceeds \$200 million; however, budgeting on these savings inhibits the state’s ability to offset unknown spending needs or other revenue losses later in the year.

Paying for operating budget expenditures with one-time resources and assumed savings can create structural budget challenges in the future when those resources are exhausted or spending trends differ from expectations. The Governor’s veto of the use of surplus funds<sup>4</sup> reduces the budget’s structural risk.

After accounting for the Governor’s vetoes, spending in the FY 2024 budget still grows by 6.7 percent over the FY 2023 budget signed by Governor Baker. This high rate of growth is primarily driven by spending increases for non-MassHealth related accounts.

*Summary of FY 2024 Spending Trends*

Category	House Budget	Senate Budget	Conference Budget	Governor's Vetoes	FY 2024 (post-vetoes)	Spending v. FY 2023
MassHealth	\$19,960	\$19,929	\$19,960	\$143	\$19,817	1.7%
Surtax Spending	\$1,000	\$1,000	\$1,000	\$0	\$1,000	--
All Other Line-Items	\$34,493	\$35,022	\$35,297	\$133	\$35,167	6.7%
<b>Total Spending</b>	<b>\$55,452</b>	<b>\$55,951</b>	<b>\$56,256</b>	<b>\$276</b>	<b>\$55,981</b>	<b>6.7%</b>

*\$ in millions*

This level of spending growth is notable, particularly because of moderate revenue growth assumptions in FY 2024. As the state exits a period of unprecedented revenue growth and federal pandemic-era programs come to an end, it will be necessary for spending to more closely correlate with expected recurring revenue growth.

**Spending Vetoes**

Governor Healey vetoes \$276 million in gross spending (\$205 million net) from the FY 2024 budget across 35 separate line items. This level of spending cuts is directly tied to her veto of outside section language that permitted \$205 million in surplus funds to be transferred to the

<sup>4</sup> The use of ‘surplus funds’ here and throughout the rest of the brief refers to the \$205 million transfer of resources from the Transitional Escrow Fund or the Federal COVID-19 Response Fund.



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General Fund. Many of the vetoes appear to affect items that have access to remaining funds from prior spending bills or where the reduction can be absorbed without impacting new policy initiatives. The table below organizes the spending vetoes by category.

*FY 2024 Spending Vetoes by Category*

Category	Governor's Vetoes
Early Education	\$36
Economic Development	\$15
Energy and Environment	\$1
Healthcare	\$158
Housing	\$3
K-12 Education	\$7
Other	\$2
Public Safety	\$4
Support Services	\$34
Workforce	\$17
<b>Grand Total</b>	<b>\$276*</b>

*\$ in millions*

\*The reduction to MassHealth spending is offset by approximately \$71 million in federal reimbursement, bringing the net total of vetoes to \$205 million.

The largest spending vetoes proposed by the Governor include a \$142.6 million reduction in MassHealth Fee for Service Payments and a \$35 million reduction for Center-Based Child Care Rate Increases. The administration believes that they will be able to manage the MassHealth program and accommodate new policy initiatives within this reduced funding level, and that striking the funding for center-based rate increases will improve parity between center-based and family child care providers. In the FY 2024 Conference Budget, the rate reserve account also included a \$15 million earmark for the child care costs of early education providers, but the administration notes in their filing materials that the FY 2024 costs of this program will be covered through other budget investments and FY 2023 surplus funds.

The Governor also reduces funding for a number of programs that received substantial state support through the two COVID Recovery and Economic Development bills; much of which remains unspent. Programs with continued access to other state resources include the Workforce Competitiveness Trust Fund (\$10 million veto), the Summer Jobs Program (\$6.1 million veto), and Grants to Local Boards of Health (\$5 million veto).



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Other notable spending vetoes include:

- ***Emergency Aid to the Elderly Disabled*** (\$18 million veto) – The Governor strikes \$18 million in funding from the EAEDC program, bringing the total funding level to \$186.4 million. This reduction is based on updates to projected caseload needs, as well as the removal of an earmark to fund a reimbursement rate increase for residential care facilities and rest homes. The administration indicates that the rate increase can be implemented within the reduced funding level.
- ***Community Action Agency Operating and Outreach Grants*** (\$7.7 million veto) – The administration strikes the entire \$7.7 million appropriation for this program, which directs operating grants to community action agencies across the state. This program was initially created in the FY 2021 budget in response to the COVID-19 pandemic.
- ***SSI State Supplement*** (\$7 million veto) – The Governor vetoes \$7 million in funding from the State Supplement to Federal Supplemental Security Income program. This funding was tied to a reimbursement rate increase for residential care facilities and rest homes, which the administration believes can be implemented within the proposed funding level of \$202.7 million.
- ***DCF Family Resource Centers*** (\$6 million veto) – The administration reduces funding for Family Resource Centers under the Department of Children and Families by \$6 million, bringing the total appropriation to \$27.8 million.
- ***Special Education Circuit Breaker*** (\$5.6 million) – The Governor vetoes \$5.6 million from the Special Education Circuit Breaker program. This program is not anticipated to expend its entire FY 2023 appropriation, and the funds carried forward into FY 2024 are anticipated to offset the Governor’s spending reduction.

The Governor largely avoided spending vetoes related to local earmarks, local aid for municipalities, and other budget priorities including child care operational grants (“C3”), universal school meals, and access to behavioral health services.

### **Policy Vetoes**

Governor Healey vetoes one outside policy section and returns 8 with amendments. While veto overrides will require a two-thirds majority vote in both chambers, budget amendments become new bills that will require a majority vote to adopt, reject, or amend. The Governor retains her ability to veto any budget amendments that come back to her desk.

Notable policy actions include:



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- ***One-Time Surplus Transfer to the General Fund*** (Section 100) - The Governor vetoes this section in its entirety, which allowed the administration to transfer \$205 million from the Transitional Escrow Fund or the Federal COVID-19 Response Fund to the General Fund. As aforementioned, vetoing the use of one-time resources to support operating budget expenditures improves the structural balance of the budget and its ability to withstand unanticipated downturns.
- ***Gaming Establishment Alcohol Enforcement*** (Section 15) – This section would have required the Division of Gaming Liquor Enforcement, under the Alcoholic Beverages Control Commission, to regulate and enforce the distribution of alcoholic beverages outside of the gaming areas at the state’s three gaming facilities. The Governor returns this section with a study, recommending that lawmakers further assess the implications of this policy change.
- ***MassHealth Ambulance Reimbursement*** (Section 87) – This section requires that all ambulance ground transportation provided to MassHealth Fee-for-Service and Managed Care Plan members is reimbursed at 100 percent of the Medicare reimbursement rate at the time of service. The Governor’s amendment clarifies that the rate increase will occur contingent on federal approval.

The remaining amendments all maintain the policies passed by the Legislature, but push back the effective dates of the sections to allow for longer implementation timelines. Without amendment, all sections would have been effective with the signing of the bill.

- ***Crumbling Concrete Foundations*** (Sections 8, 101) – This section creates a new process through which individuals seeking to own and operate a quarry, sand, and gravel operation for the purpose of producing concrete must submit a license application to the state. The license application must include a geological source report, as well the results of testing for the presence of pyrite and pyrrhotite. The presence of these minerals in concrete foundations can lead to their disintegration and collapse over time. The Governor’s amendment delays implementation of this section for six months.
- ***Incarcerated Individual Calls*** (Sections 50, 85, and 111) – The Conference Budget included a provision that requires the Department of Corrections and House of Corrections to provide free phone calls to individuals committed to their facilities. The Governor’s budget had originally provided for 1,000 minutes of free phone calls a month to individuals in DOC facilities. Her amendment delays implementation of this policy until December 1, 2023 to help mitigate the costs of the new program.
- ***Paid Family Medical Leave Wage Replacement*** (Section 57) – This section amends Section 3 of Chapter 175M of the General Laws to allow employees to supplement paid





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family and medical leave benefit amounts with accrued sick time, vacation time, or other paid leave under an employer policy. It also requires employers to provide notice of these benefits to their employees. The Governor’s amendment delays implementation of this new policy until 180 days after passage.

### **Next Steps**

Governor Healey’s budget actions leave largely intact a spending plan with significant new investments across a range of areas including child care, food security, and transportation. Her decision to veto the use of \$205 million in one-time resources, and the associated level of spending, makes sense as it reduces fiscal risk in FY 2024 and improves the structural balance of the budget going forward.

As the Legislature assesses the Governor’s vetoes, there are a number of key factors to consider. First, the Department of Revenue has yet to certify FY 2023 revenues or establish monthly revenue benchmarks for FY 2024. MTF estimates that FY 2023 will end in balance, but the precipitous drop in revenues last April dramatically altered the state’s fiscal position heading into FY 2024. Before considering action on spending vetoes, legislative leaders would be well served to wait for revenue collections from September, which is a significant month for revenues due to many individuals and corporations making estimated payments.

Lastly, the Governor’s spending vetoes should not affect prompt action on tax relief. As noted above, the goal of the vetoes is to reduce the use of one-time resources to support ongoing spending; particularly at a time when spending increases are quickly outpacing the expected growth of recurring revenues. The conference budget’s inclusion of nearly \$600 million for the FY 2024 costs of ongoing tax relief is designed to help Massachusetts retain and attract people and economic investment. Targeting high costs (like child care and housing) and reducing the disincentives to live and work in Massachusetts is essential to maintaining a strong foundation of revenue collections and the state’s long-term growth.

The Legislature has until the end of the legislative year to override gubernatorial vetoes and until the end of the legislative session to act on budget amendments. Under the joint rules, all formal business during the first-year of the legislative session must be completed by the third Wednesday in November (November 15, 2023); so veto overrides must be completed prior to that date. All action on budget vetoes or amendments must originate in the House. If the Legislature does not act on a budget amendment, the original language will not take effect.