



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

MTF Brief

October 31, 2023

FY 2023 Fiscal Update & Closeout Supplemental Budget

The Fiscal Year (FY) 2024 budget was signed into law on August 9th, but four months into the new fiscal year, work remains for administrative and legislative budget writers to close the books on FY 2023. This work – typically marked by the passage of a closeout supplemental budget – is completed every year; however, a number of factors impacting FY 2023 make this year’s task more challenging. Below benchmark tax revenue collections, new income surtax revenues, outstanding and unanticipated spending obligations, and unexpended appropriations must be reconciled to ensure that the fiscal year ends in balance.

To close the books on FY 2023, lawmakers will need to resolve spending proposals included in a number of different vehicles: supplemental budgets filed by Governor Healey in March and May, spending bills passed by the Legislature in July, and the administration’s closeout supplemental budget filed on September 13th. To provide further context on how the resolution of various spending bills impact the state’s fiscal situation, this brief takes a deeper look at each of the factors impacting budget balance in FY 2023. It begins with an examination of state tax revenue collections and the effects of the income surtax and capital gains tax revenues. It then reviews the closeout supplemental budget filed by Governor Healey and the current status of the Transitional Escrow Fund. Lastly, it describes the additional action that will need to be taken by the Legislature and highlights a few key recommendations for policymakers.

FY 2023 Tax Revenue Collections

State tax revenue collections for FY 2023 totaled \$39.164 billion, \$605 million (1.5 percent) below the FY 2023 benchmark and \$1.9 billion (4.7 percent) below FY 2022 collections.



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

FY 2023 Revenue Collections v. FY 2022 Actuals and FY 2023 Benchmarks

	FY 2022 Collections	FY 2023 Benchmark	FY 2023 Collections	FY 2023 v. FY 2022	FY 2023 vs. Benchmark
Income - Withholding	\$15,915	\$16,628	\$16,654	\$739	\$26
Income - Non Withholding	\$8,422	\$6,225	\$5,125	-\$3,297	-\$1,099
Sales	\$8,765	\$9,268	\$9,401	\$635	\$133
Corporate/Business	\$5,069	\$4,846	\$5,062	-\$7	\$216
Other	\$2,934	\$2,802	\$2,922	-\$12	\$120
Total	\$41,105	\$39,769	\$39,164	-\$1,941	-\$605

\$ in millions

For the first time since FY 2020 and the height of the pandemic, state tax revenue collections failed to meet benchmark. However, it’s important to clarify that a \$605 million tax revenue shortfall does not equate to a \$605 million budget gap. In FY 2023, there are two primary factors impacting the relationship between total tax revenue collections and state budget resources: the income surtax and capital gains tax revenues.

Income Surtax Revenues

The four percent surtax on income over \$1 million went into effect on January 1, 2023. At the beginning of the calendar year, the Department of Revenue estimated that the surtax would generate approximately \$242 million in revenue during the second half of FY 2023 (January – June). Nearly 60 percent of the collections were anticipated to come from withholding income, while the remaining 40 percent are related to non-withheld income, like capital gains.

FY 2023 Estimated Income Surtax Revenue Collections

	FY 2023 Surtax Revenue
Income - Withholding	\$138
Income - Non-Withholding	\$104
Total Collections	\$242

\$ in millions

Based on outside section policy language included in the FY 2024 General Appropriations Act (GAA), all revenue collected via the income surtax is automatically transferred to a new Education and Transportation Trust Fund. Because these resources are not available to support general budget



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

spending, they must be deducted from the assessment of the tax revenues available for budgeted spending in FY 2023.

Capital Gains Revenues

In FY 2023, the entirety of the tax revenue shortfall can be attributed to a decline in non-withheld income tax collections. In fact, if this category of revenue were excluded from state totals, revenue collections would have exceeded the fiscal year benchmark by nearly \$500 million. Revenues in the non-withheld income category are predominantly related to capital gains collections, and those revenues above a certain threshold (\$1.4 billion in FY 2023) are automatically deposited into the Stabilization Fund and other state reserves. In FY 2023, state budget writers originally anticipated a total capital gains collection of \$2.9 billion; which would have resulted in a state reserve deposit of \$1.5 billion.

After removing capital gains collections related to the income surtax, actual capital gains tax revenue in FY 2023 totaled \$2.2 billion; decreasing the planned deposits into the Stabilization Fund and other reserves by nearly \$700 million. Offset by minimal increases to the statutorily required transfers to the School Building Authority (SBA) and the MBTA driven by increased sales tax collections, the reduced transfer of capital gains tax revenues has a positive effect on the revenues available for budgeted spending.

FY 2023 Estimated Tax Revenue Shortfall on Budget

FY 2023 Tax Revenues for Budget	
Below Benchmark Revenue Margin	-\$605
<i>Withholding Surtax Revenues</i>	-\$138
<i>Non-Withholding Surtax Revenues</i>	-\$104
Total Surtax Revenues	-\$242
<i>Capital Gains Transfer Downgrade</i>	\$697
<i>SBA & MBTA Transfer Upgrade</i>	-\$28
Total Statutory Transfer Adjustment	\$669
Estimated on Budget Tax Revenue Shortfall	-\$177

\$ in millions

After taking into account the revenues related to the income surtax and the net positive impact of reduced statutory transfers, the estimated budget impact of the \$605 million revenue shortfall is \$177 million.



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

Governor Healey’s FY 2023 Closeout Supplemental Budget & Budget Balance

Closing the books on FY 2023 not only requires an accurate accounting of the on-budget impact of the tax revenue shortfall, but also an examination of the other major factors that influence the budget’s balance sheet, including: supplemental budget spending to date, outstanding spending obligations, updated non-tax revenues, and anticipated reversions. The closeout supplemental budget is typically the final spending bill for a fiscal year; it covers any outstanding obligations and enables the fiscal year to end in balance.

On September 13th, Governor Healey filed a closeout supplemental budget for FY 2023 totaling \$2.4 billion; including \$2.1 billion required to meet outstanding spending obligations. The spending bill also includes \$272 million in spending supported by the Transitional Escrow Fund which, as discussed below, does not impact budget balance in FY 2023. Notably, the Governor’s bill does not include approximately \$496 million in spending from earlier supplemental budgets, which remain pending before the Legislature. The majority of that spending would likely be supported by Transitional Escrow Fund resources, and further details are included later on in the brief.

The following table presents an overview of how, in combination with other factors, the administration’s spending plan would close the books on FY 2023 with a net positive balance of approximately \$30 million prior to a proposed transfer to the Massachusetts Life Sciences Center.

FY 2023 MTF Estimated Budget Balance

On Budget Tax Revenue Shortfall	-\$177
Spending Obligations & Offsets	
Supplemental Spending to Date	-\$389
FY 2023 Closeout Deficiencies	-\$2,203
Updated Non-Tax Revenues	\$2,195
Estimated Reversions	\$500
CCTF & Minor Solutions	\$65
Transitional Escrow Fund Offset	\$40
Estimated Budget Balance	\$31
<i>MassLife Sciences Center CNS Transfer</i>	-\$10
Estimated Remaining Resources	\$21

\$ in millions



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

FY 2023 is balanced predominantly through an infusion of greater than expected non-tax revenue collections. Additional information on these revenues is provided below, as well as further detail on the other factors impacting budget balance.

- **Supplemental Spending to Date** – On March 29th, Governor Healey signed into law the first supplemental budget for FY 2023 and the first of her administration. It included \$389 million in direct appropriations supported by General Fund resources. Notable spending in the bill included \$130 million for SNAP Emergency Benefits, \$68 million for the Child Care Operational Grants program (known as “C3”), and \$65 million for the continuation of the Universal School Meals program. In July, the Governor signed into law a second supplemental budget, which included \$200 million in spending supported by Transitional Escrow Fund resources. That spending bill is not reflected in the table above, because Transitional Escrow Spending does not impact budget balance, as discussed below.
- **FY 2023 Closeout Deficiencies & Non-Tax Revenues** – 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 Consolidated Appropriations Act, 2023 (CAA) extended the PHE to May 11, 2023 and created a phase-out schedule for the enhanced federal match revenue throughout calendar year 2023. As a result, total MassHealth costs for the fiscal year increased by over \$2 billion; but, that increase is almost entirely offset by enhanced federal Medicaid reimbursement. Of the \$2.15 billion in FY 2023 deficiency spending included in Governor Healey’s closeout supplemental budget, \$2.11 billion is related to MassHealth program costs. The spending bill also includes funding to address deficiencies related to Section 35 treatment centers at sheriffs’ facilities and the administration of the Executive Office of Labor and Workforce Development. Smaller, yet notable, changes in non-tax revenue collections compared to the beginning of the fiscal year include greater than anticipated interest on the General Fund, and shifts in the timing of federal reimbursements related to emergency management costs.
- **Estimated Reversions** – Each year, a portion of the funds appropriated in the state budget remain unspent and are reverted back to the General Fund. The level of reversions varies from year to year, and during the pandemic reversions grew substantially. The \$500 million estimate reflected in the table above is consistent with recent trends.
- **Commonwealth Care Trust Fund & Minor Solutions** – To close the books on the fiscal year, the administration has a number of fiscal management tools at its disposal; including



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

fund split adjustments, cancelled transfers, and trust fund sweeps. Combined, these tools provide the administration with approximately \$65 million in resources to ensure that FY 2023 ends in balance. The most notable of these includes the cancellation of a \$50 million transfer to the Commonwealth Care Trust Fund, the balance of which currently stands at \$476 million.¹

- **Transitional Escrow Fund Offset** – The final factor impacting budget balance in FY 2023 is a proposed \$40 million transfer from the Transitional Escrow Fund to the General Fund. The Transitional Escrow Fund was created in 2021 to hold one-time state surplus tax revenues and currently has a balance of approximately \$1.2 billion. While spending supported by the Transitional Escrow Fund has been passed or proposed throughout the fiscal year, it does not impact budget balance and is not reflected in the table above. Further details on this spending are provided below.

After taking into consideration the major spending obligations and offsets that impact budget balance in FY 2023, there remains an estimated \$30 million in resources. The closeout supplemental budget filed by Governor Healey proposes to transfer \$10 million of that funding to the Massachusetts Life Sciences Investment Fund.

Transitional Escrow Fund & Outstanding Spending Obligations

The above analysis of FY 2023 budget balance does not reflect spending appropriated throughout the fiscal year, items currently pending before the Legislature, or spending proposed by Governor Healey in the closeout supplemental budget to be supported by Transitional Escrow Fund resources. The balance of the Transitional Escrow Fund is excluded from the calculation of the consolidated net surplus², and therefore spending supported by the fund does not impact budget balance.

The Transitional Escrow Fund began FY 2023 with a balance of approximately \$1.4 billion. On July 31st, the Legislature enacted the FY 2024 Conference Budget, which relied on a \$205 million transfer from the Transitional Escrow Fund. On the same day, a supplemental budget was also sent to Governor Healey’s desk that appropriated \$200 million in spending supported by escrow resources; including \$180 million for fiscally strained hospitals and \$20 million for disaster

¹ <https://cthru.data.socrata.com/dataset/Chart-of-Non-Budgeted-Special-Revenue-and-Trusts/ggrr-6ytu>

² Massachusetts General Law defines “consolidated net surplus” as the undesignated ending balances in the budgeted funds; which are those funds subject to the state’s annual appropriation process. Certain budgeted funds, including the Transitional Escrow Fund and the Federal COVID-19 Response Fund, are statutorily exempt from the determination of the consolidated net surplus.



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

mitigation costs for farmers impacted by recent flooding in Western Massachusetts. The Governor ultimately vetoed the use of one-time resources used to balance the FY 2024 budget.

Across the supplemental budget proposals filed by Governor Healey in March and May, and the spending bills passed by the House and Senate in July, there is approximately \$434 million in outstanding spending items that, if adopted, would likely be paid for with Transitional Escrow Resources. Notable outstanding spending items include \$100 million for a supplemental transfer toward the state’s pension liability, \$75 million for out-of-district special education costs, \$60.3 million for increasing staffing and caseload costs at the Department of Transitional Assistance, and \$20 million for the MBTA workforce.

The Governor’s closeout supplemental budget included \$272 million in spending supported by the Transitional Escrow Fund, including a \$250 million reserve for the Emergency Assistance shelter system. Within the reserve, funds are earmarked specifically for the operational costs of sheltering families, temporary shelter sites, and various support services such as medical care, legal assistance, and additional aid for school districts. Without these resources, the state would not be able to respond quickly to any unexpended cost increases or service needs associated with the migrant crisis.

The table below demonstrates that if all of the proposed and pending appropriations supported by the Transitional Escrow Fund were adopted, the balance of the fund would fall to approximately \$500 million.

MTF Estimated Transitional Escrow Fund Balance

Beginning Balance	\$1,448
July Supplemental Appropriations	\$200
Pending Before the Legislature	\$434
Closeout Supplemental Budget	\$273
<i>Sheriff's Reserve</i>	<i>\$16</i>
<i>American Rescue Plan Act</i>	<i>\$2</i>
<i>Consolidated Appropriations Act</i>	<i>\$1</i>
<i>Ziterion Theatre</i>	<i>\$4</i>
<i>Family Shelter Reserve</i>	<i>\$250</i>
Transfer to General Fund	\$40
Total Pending Appropriations	\$707
Estimated Remaining Balance	\$501

\$ in millions



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

The balance of the Transitional Escrow Fund is also impacted by the proposed transfer of \$40 million to the General Fund to balance the budget in FY 2023.

Next Steps

The Governor’s FY 2023 Closeout Supplemental Budget is currently under consideration by House Ways and Means. In addition to taking action on a closeout spending bill, it is also likely that the Legislature will move to address the outstanding spending items from the supplemental budgets proposed by the Governor in the spring and passed by the House and Senate in July.

While the timing of legislative action on the closeout supplemental budget or other spending vehicles is difficult to predict, historically it has been driven by the Comptroller’s statutory responsibility to file the state’s end-of-year financial report by October 31st. However, in recent years, final enactment of a closeout supplemental budget has extended into November and December.

Enactment of Closeout Supplemental Budgets, FY 2018 – FY 2022

Fiscal Year	Closeout Budget Enacted
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 policymakers consider closing the books on FY 2023, they should remain mindful of a few key priorities. Taking quick action to address outstanding spending obligations, maintaining a balance in the Transitional Escrow Fund to the greatest extent possible, and limiting the addition of new spending obligations for FY 2024 will ensure that the state has the resources necessary to respond to unexpected fiscal downturns and address unanticipated cost increases. This will become increasingly important as the administration continues to monitor uncertain revenue collection trends and manage the emerging migrant crisis.