



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

MTF Bulletin

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FY 2024 Fiscal Update & Closeout Supplemental Budget

On September 11th, Governor Healey filed her administration’s closeout supplemental budget for Fiscal Year (FY) 2024; roughly two months after the official last day of the fiscal year. A closeout supplemental budget is filed and passed each year; its purpose being to resolve all outstanding deficiencies and ensure that the fiscal year ends in balance. The enactment of this final spending bill will allow the comptroller to “close the books” on FY 2024 and finalize mandated financial reports.

To provide context to the supplemental budget filed by Governor Healey and under consideration by the Legislature, this brief takes a closer look at each of the factors impacting budget balance in FY 2024. It begins with an examination of state tax revenue collections, estimates their impact on the resources available for the budget, and then summarizes the administration’s spending proposal. It also describes the additional actions proposed by the administration to build up reserve balances in FY 2025 to address known spending exposures, and increase the budget’s resiliency to deal with revenue shortfalls or resource needs.

State tax revenue collections ended the year nearly \$1 billion ahead of benchmark. However, after accounting for the impact of the income surtax, the administration faced an on-budget tax revenue shortfall of approximately \$230 million. The spending bill proposed by Governor Healey includes an additional \$714.5 million in gross spending, but through a combination of additional non-tax revenues, savings from unexpended appropriations, and excess surtax revenues, the administration expects their proposal to close a projected budget gap and end the fiscal year in balance. Additionally, through proposals to redirect the consolidated net surplus, excess surtax revenues, and above-threshold capital gains collections, the bill proposes to transfer approximately \$800 million into the Transitional Escrow Fund and other reserves to prepare for known and unexpected cost exposures in FY 2025 and beyond.

In the last five years, the closeout supplemental budget has typically been filed at the end of August or early September, but the Legislature has not historically finalized the bill until much later in the year. Last year, the closeout supplemental budget was filed on September 13th and sent to the Governor’s desk on December 4th.

FY 2024 Tax Revenue Collections

State tax revenue collections in FY 2024 totaled \$40.8 billion, \$1.6 billion (4.2 percent) above FY 2023 and \$967 million (2.4 percent) above the FY 2024 benchmark.

FY 2024 Revenue Collections v. FY 2023 and Benchmark

	FY 2023 Actuals	FY 2024 Benchmark	FY 2024 Actuals	FY 2024 v. FY 2023 (\$)	FY 2024 v. BM (\$)
Withholding	\$16,654	\$17,577	\$17,967	\$1,320	\$390
Non-Withholding	\$5,125	\$5,408	\$6,150	\$1,016	\$742
Sales	\$9,401	\$9,441	\$9,323	-\$73	-\$118
Corporate/Business	\$5,062	\$4,896	\$4,833	-\$232	-\$63
Other	\$2,922	\$2,513	\$2,528	-\$395	\$15
Total	\$39,164	\$39,835	\$40,801	\$1,636	\$967

\$ in millions

Revenues in FY 2024 were buoyed by strong collections in the withheld and non-withheld income tax categories, with collections exceeding FY 2023 by 7.9 percent and 19.8 percent, respectively. Sales and use, corporate and business, and other tax collections all came in below FY 2023 levels; with the largest decrease in the other tax category. According to the Department of Revenue (DOR), this is predominantly related to a decrease in estate tax collections, which is a category that is challenging to predict and can be volatile.

Despite the strong performance of income tax collections and the fact that total revenues came in nearly \$1 billion above benchmark, the administration does not have access to a \$1 billion tax revenue surplus to help balance the FY 2024 budget. This is due to the impact of the income surtax and the unique process by which these revenues are collected and spent.

Income Surtax Revenue

In FY 2024, the state collected \$2.2 billion in surtax revenue, which is included in the total \$40.8 billion figure noted above. These revenues, however, can only be spent on education and transportation programs and must be redistributed and spent according to the following process that policymakers established as part of the FY 2024 state budget:

1. All revenues related to the income surtax are certified by DOR, deducted from total tax collections, and transferred to the Education and Transportation Trust Fund.
2. Surtax revenues up to a specific threshold, known as the “surtax spending cap,” are appropriated and spent on education and transportation-related initiatives, approved as part of the annual operating budget.
3. Surtax revenues collected in excess of the surtax spending cap are transferred from the Education and Transportation Trust Fund to two other trust funds: 85 percent to the Education and Transportation Innovation and Capital Fund and 15 percent to the Education and Transportation Reserve Fund (the balance of which cannot exceed one-third of that year’s surtax spending cap).

In FY 2024, the surtax spending cap was established at \$1 billion and policymakers appropriated that amount of surtax revenue towards education and transportation initiatives in the FY 2024 state budget. Notwithstanding any proposed changes to the process outlined above, the \$1.2 billion in

surtax revenue collected above the cap would be distributed to the Innovation and Capital Fund and the Reserve Fund as demonstrated in the table below.

Distribution of FY 2024 Income Surtax Revenue

	Surtax Revenue
FY 2024 Income Surtax Revenue Collections	\$2,199
FY 2024 Surtax Spending (in GAA)	(\$1,000)
Above Surtax Spending Cap Collections	\$1,199
85% to the Innovation & Capital Fund	\$1,019
15% to the Surtax Reserve Fund	\$180

\$ in millions

Budget Impact of FY 2024 Tax Collections

In FY 2023, total tax revenue collections were \$39.2 billion; but after setting aside the \$242 million in surtax revenues collected during the second half of the fiscal year, revenues in FY 2023 came in at \$38.9 billion. After deducting FY 2024 surtax revenue collections from the total tax revenue figure of \$40.8 billion, non-surtax revenues in FY 2024 come in at \$38.6 billion, approximately \$320 million below FY 2023 and \$231 million below the non-surtax revenue benchmark.

FY 2024 Collections (Non-Surtax) v. FY 2023 and Benchmark

	Revenue Collections
FY 2023 Revenue Collections (non-surtax)	\$38,922
FY 2024 Revenue Benchmark (non-surtax)	\$38,833
FY 2024 Revenue Collections (non-surtax)	\$38,602
FY 2024 v. FY 2023	-\$320
FY 2024 v. Benchmark	-\$231

\$ in millions

As the Healey administration assesses the state of budget balance in FY 2024, this non-surtax revenue shortfall must be reconciled and managed alongside supplemental spending needs, non-tax revenue collections, and the availability of other one-time state resources.

Governor Healey’s FY 2024 Closeout Supplemental Budget

The closeout supplemental budget filed by the Healey administration includes \$714.5 million in gross spending (\$149.1 million net after accounting for offsetting revenues), intended to address known spending deficiencies in FY 2024 and support new investments in FY 2025. Of the \$669.5 million in deficiency spending, 84 percent is related to the MassHealth program, all of which is anticipated to be offset by federal revenues. The remaining \$104 million in deficiencies are predominantly related to the Sheriffs, the School Breakfast Program, and Section 35 Treatment Facilities.

New spending put forward by the Healey administration totals \$45 million. While a few of these investments reflect priorities of the Governor that were not fully funded in the FY 2025 GAA, others are related to startup costs associated with new initiatives.

Summary of Governor Healey’s FY 2024 Closeout Supplemental Budget

	Gross Spend	Revenue Offset	Net Spend
Program Deficiencies	\$104.1	\$0.0	\$104.1
MassHealth Deficiencies	\$565.4	-\$565.4	\$0.0
New Spending	\$45.0	\$0.0	\$45.0
Totals	\$714.5	-\$565.4	\$149.1

\$ in millions

Additional details on the most notable spending items in the bill are included below:

- **MassHealth** (\$565 million, Deficiency) – The Governor’s spending bill includes \$565 million in gross spending for MassHealth. This increase in spending appears to be driven by updated caseload assumptions; however, because the caseload increases are concentrated among lower-cost members, the net cost increase to the state is limited. The appropriation is expected to be offset by increased federal reimbursement tied to this spending, as well as other revenues that are anticipated to come in above expectations.
- **Sheriffs’ Reserve** (\$46 million, Deficiency) – The closeout supplemental budget includes \$46 million for the 14 county Sheriffs’ offices across the state. While the Sheriffs’ have historically required supplemental funding at the end of the fiscal year, in FY 2024 these cost increases are partially related to Medication-Assisted Treatment and other costs.
- **Disaster Relief & Resiliency Fund Transfer** (\$11 million, New) – Prior to certifying the consolidated net surplus for FY 2024, the bill directs \$11 million to be transferred to the Disaster Relief and Resiliency Fund, created in the FY 2025 GAA. The Fund is intended to provide emergency relief to municipalities, non-profits, and businesses for damage caused by natural disasters.
- **Massachusetts Life Sciences Center** (\$10 million, New) – The Governor’s bill includes a \$10 million transfer to the MLSC, which restores funding that was excluded from the FY 2025 GAA.
- **Massachusetts Clean Energy Center** (\$10 million, New) – The supplemental budget also includes an additional \$10 million transfer to the Clean Energy Center, increasing the total transfer in FY 2025 to \$30 million.
- **Online Lottery Start-Up Reserve** (\$2.5 million, New) – To support the costs of implementing an online lottery over the next two years, the closeout spending bill includes \$2.5 million.

Outside Policy Sections

The bill is also notable for the number of outside policy sections that it includes, totaling 117. Of particular importance to the state's fiscal position, there are several outside sections that permit the use of excess surtax revenues, above-threshold capital gains, and pandemic-era federal funds to support FY 2024 costs or bolster reserve balances. Notable sections include:

Budget & Fiscal – The supplemental budget includes nine sections to effectuate several budget balancing and fiscal strategies. Proposals include:

- Amending the distribution of surtax revenue collections in FY 2024 to:
 - Increase the amount of surtax revenues used to support operating budget expenses from \$1 billion to \$1.225 billion;
 - Increase the transfer of surtax collections to the Education and Transportation Reserve Fund in FY 2024 to \$250 million (from \$179.9 million);
 - Transfer \$150 million in surtax collections to the High Quality Early Education and Care Affordability Fund.
- Dedicating \$11 million from any initial FY 2024 end of year surplus to the newly created Disaster Relief and Resiliency Fund.
- Transferring any remaining consolidated net surplus to the Transitional Escrow Fund. Without this section, any end of year surplus would be automatically transferred into the Stabilization Fund.
- Diverting 45 percent of any excess capital gains collections in FY 2024 to the Transitional Escrow Fund; without this section, these revenues would go directly into the Stabilization Fund.
- Repurposing unexpended federal COVID-19 funds to cover costs otherwise borne by the General Fund. General Fund resources would be made available to support any outstanding spending items in COVID recovery supplemental budgets that had previously planned to rely on federal funds. This section ensures the state uses all remaining federal COVID funds within required federal timelines.

Climate – The Governor includes 63 policy sections relating to energy siting, battery storage, and wind procurement. These sections, or versions of them, were part of House and Senate climate legislation that remains in conference committee. The sections fall into three categories:

- Overhauling the state's process for siting and permitting of energy infrastructure. These changes comprise 56 sections.
- Creating a procurement process for clean energy storage systems. Similar language was included in the House climate bill.
- Authorizing the Department of Energy Resources to pursue a combined solicitation of long-term clean energy contracts with other New England states. Similar language was included in both House and Senate climate bills.

Technical Fixes and Timing Changes to Recently Passed Legislation – The proposal includes 19 sections that make technical fixes and adjustments to legislation passed this session, including the

FY 2025 budget, the Affordable Homes Act, maternal health legislation, and the HEROs Act. Changes include extending the effective date of home equity theft protection provisions included in the FY 2025 budget to July 1, 2025.

Collective Bargaining Agreements (CBAs) – The Governor includes three sections related to collective bargaining agreements, creating a \$200 million line item in the FY 2025 budget to pay for ratified agreements and ratifying 38 agreements. The FY 2025 budget assumed \$200 million in CBA ratification costs, but did not include a line-item reserve.

Balancing the FY 2024 Budget

In this section, MTF offers an overview of how, in combination with other factors, the administration’s supplemental budget proposal would close the books on FY 2024. As discussed in detail in the subsequent section, the administration also proposes a number of initiatives to increase the balances of several reserve funds that will help support costs in FY 2025 and beyond.

Preliminary Estimate of Budget Balance

The first step towards closing the books in FY 2024 is identifying the spending and revenue shortfall that must be reconciled. As demonstrated in the table below, compared to the FY 2024 GAA, variances in spending and revenue assumptions took place throughout the fiscal year. Combined, these lead to a preliminary budget gap estimated by MTF of approximately \$280 million.

FY 2024 MTF Estimated Budget Gap

FY 2024 Preliminary Budget Gap Build-Up	
Tax Revenues v. FY 2024 GAA	(\$1,178)
Spending Updates v. GAA	(\$1,936)
<i>FY 2023 Carry-Forward Spending</i>	<i>(\$844)</i>
<i>Mid-Year Supplemental Spending</i>	<i>(\$377)</i>
<i>Closeout Supplemental Deficiencies</i>	<i>(\$670)</i>
<i>Closeout Supplemental New Spending</i>	<i>(\$45)</i>
Revenue Updates / Offsets v. GAA	\$2,836
<i>Non-Tax Revenue Updates</i>	\$1,202
<i>Carry-Forward Spending Offset</i>	\$844
<i>Closeout Spending Revenue Offsets</i>	\$565
<i>Reversions</i>	\$225
Preliminary Balance	(\$278)

\$ in millions

This gap reflects the mid-year supplemental budget that was recently passed by the Legislature, which included \$362 million in spending, as well as the spending proposed in Governor Healey’s closeout supplemental budget. Additionally, spending over and above the FY 2024 GAA was predominantly supported by funding carried forward from FY 2023, known as “prior appropriations continued” or “PACs.” For example, in the FY 2023 closeout budget, \$10 million was appropriated for Department of Mental Health loan forgiveness programs and then carried

forward to offset program costs in the recently ended fiscal year. Therefore, the prior year spending helps to reduce spending needs in FY 2024.

New spending compared to the GAA is offset by non-tax revenue updates, expected revenue offsets related to spending, as well as reversions. Notable non-tax revenue updates include increased interest payments generated by the state’s General Fund, as well as federal reimbursements associated with pandemic-era spending. Reversions refer to appropriations in the state budget that remain unspent at the end of the fiscal year and are returned to the General Fund. These savings are then available to help balance the budget.

Closing the Budget Gap

The administration’s closeout budget includes several proposals to address this preliminary budget gap and bring the budget into balance.

FY 2024 MTF Estimated Budget Balance

FY 2024 Budget Balance Build-Up	
Preliminary Budget Gap	(\$278)
Surtax Revenue Transfer	\$225
Tobacco Settlement Revenue Diversion	\$25
Minor Fiscal Management / Trust Fund Sweeps	\$26
Estimated Budget Balance	(\$2)

\$ in millions

Additional details on each of the factors included above are provided below:

- **Surtax Revenue Transfer & Budget Impact** – The administration proposes making \$225 million in excess surtax revenues available to support spending in FY 2024, effectively increasing the surtax spending cap for the fiscal year from \$1 billion to \$1.225 billion. Specifically, the Secretary of Administration and Finance is granted the discretion to allocate these resources towards the FY 2024 costs of the childcare operational grants program (known as C3), MassDOT operations, and universal school meals. By covering a larger portion of the FY 2024 costs of these programs with surtax revenue than originally planned, this proposal frees up some General Fund and Commonwealth Transportation Fund revenue to help balance the budget.
- **Tobacco Settlement Revenue Diversion** – Through an outside section proposal, the administration eliminates a requirement that 10 percent of tobacco settlement proceeds be transferred to the State Retiree Benefits Trust Fund; instead, those revenues will be deposited into the state’s General Fund in FY 2024. The anticipated benefit of this proposal is \$25 million.
- **Minor Fiscal Management/Trust Fund Sweeps** – To close the books on the fiscal year, the administration has a number of fiscal management tools at its disposal, including trust fund sweeps. In FY 2024, the administration expects to generate \$26 million in revenue related to the reconciliation of several minor trust funds.

Prior to the Legislature taking action on the closeout budget, and before accounting for the Governor’s efforts to build up reserve accounts, the administration projects FY 2024 to end in balance. However, the size of any surplus at the end of the fiscal year will be impacted by the continued reconciliation of non-tax revenue collections, savings, and additional spending.

Building Up Budget Reserves

The Governor’s spending bill also includes several proposals to build up reserve accounts in FY 2025 and beyond. Considering the cost exposures that the state is likely to face, it is a prudent decision by the administration to continue to capitalize these funds. However, transparency regarding how these deposits are being made and how they will be used is critical.

Proposed Budget Reserve Deposits

Reserve Proposals	
Consolidated Net Surplus Transfer	
<i>Transitional Escrow Fund</i>	At least \$89
Surplus Surtax Revenue	
<i>Education & Transportation Reserve Fund</i>	\$250
<i>High Quality EEC Trust Fund</i>	\$150
Excess Capital Gains	
<i>Transitional Escrow Fund</i>	\$265
Total Proposed Reserve Deposits	~\$800

\$ in millions

Consolidated Net Surplus

Without legislative action, the consolidated net surplus at the close of a fiscal year is automatically deposited into the Stabilization Fund. In FY 2024, Governor Healey proposes that any consolidated net surplus would instead be transferred to a different reserve: the Transitional Escrow Fund.

The final amount transferred to the Transitional Escrow Fund will be a function of final spending levels. For example, because the mid-year supplemental budget passed by the Legislature reduces spending from previous proposals, if they also adopted the Governor’s closeout budget proposal as filed, the consolidated net surplus would increase compared to the administration’s initial estimate.

That final surplus is also subject to increase based on a policy adopted by the Legislature in the mid-year supp, that allows the administration to expedite the expenditure of federal funds received through the American Rescue Plan Act. This section permits the Secretary of Administration and Finance to allocate any unexpended funds in the COVID-19 Response Fund for items funded by the General Fund in FY 2024 and FY 2025. According to an analysis published by the Federal Funds Office in March 2024, there remains approximately \$89 million¹ in unallocated resources in the COVID-19 Response Fund. The effective outcome of this proposal is that those resources

¹ <https://www.mass.gov/doc/arpa-deck/download>

would become available to the General Fund to help support additional spending or increase the anticipated consolidated net surplus.

Surplus Surtax Revenue

In addition to dedicating \$225 million in surplus surtax revenue towards certain FY 2024 program costs, the Healey administration is also proposing to use these resources to increase the balances of the High-Quality Early Education and Care Affordability Fund and the Education and Transportation Reserve Fund.

Proposed Distribution of Surplus Surtax Revenue

	Surtax Revenue
FY 2024 Income Surtax Revenue Collections	\$2,199.0
FY 2024 Surtax Spending (in GAA)	-\$1,000.0
Above Surtax Spending Cap Collections	\$1,199.0
<i>Surtax Transfer for FY 2024 Costs</i>	-\$225.0
<i>Surtax Transfer to EEC Trust Fund</i>	-\$150.0
<i>Surtax Transfer to Surtax Reserve Fund</i>	-\$250.0

\$ in millions

Over the last two fiscal years, the EEC Trust Fund has been used to support the full-year costs of the Childcare Operational Grants program (known as C3). In the FY 2025 GAA, this program was funded partially with revenues to be collected through an online lottery. Because that program is in the early stages of implementation and revenue collections remain uncertain, maintaining a balance in the EEC Trust Fund can help to ensure that the state maintains its obligation to the C3 program. With this transfer, the balance of the EEC Trust Fund would increase to \$215 million in FY 2025.

If the Legislature agrees with the Governor’s proposal to increase the deposit into the Education and Transportation Reserve Fund to \$250 million, the remaining balance of above cap surtax revenue collections would be directed to the Education and Transportation Innovation and Capital Fund. In combination with the surtax revenues collected in FY 2023, the balances of the funds would increase as shown in the table below.

Estimated Education & Transportation Fund Balances

	E & T Reserve Fund	E & T Innovation & Capital Fund
FY 2023 Surtax Revenues	\$36.3	\$205.7
FY 2024 Surtax Revenues	\$250.0	\$574.0
Total Balances	\$286.3	\$779.7

\$ in millions

Absent this proposal, the balance of the Reserve Fund would grow to \$216.3 million and the Innovation and Capital fund would increase to \$1.224 billion. Funds in the Education and Transportation Innovation and Capital Fund will remain available for the administration and

Legislature to appropriate in future supplemental budget vehicles. While the language describing how these resources may be used is fairly vague, the intent is for them to support one-time and capital-related costs.

Excess Capital Gains Revenue

In FY 2024, the state collected \$2.1 billion in capital gains revenue. Under statute, capital gains revenue above a certain threshold (\$1.48 billion in FY 2024) is automatically deposited into the Stabilization Fund and other reserves. In her closeout supplemental budget, Governor Healey includes a proposal to amend the distribution of excess capital gains revenue, directing up to \$265 million towards the Transitional Escrow Fund.

Distribution of Excess Capital Gains Revenue

FY 2024 Capital Gains Collections	\$2,070.0	
FY 2024 Capital Gains Threshold	\$1,480.0	
Above Threshold Collections	\$590.0	
	Standard Distribution	Proposed Distribution
Stabilization Fund	\$531.0	\$265.50
Transitional Escrow Fund	\$0.0	\$265.50
Pension Liability Fund	\$29.5	\$29.50
State Retiree Benefit Fund	\$29.5	\$29.50

\$ in millions

Despite decreasing the proposed transfer of excess capital revenue from \$531 million (90 percent) to \$265 million (45 percent), the Governor’s proposal would still allow for a sizeable deposit into the state’s Stabilization Fund. Under this distribution, the balance of the fund is projected to reach \$8.7 billion.

The direction of \$265 million in excess capital gains revenue towards the Transitional Escrow Fund is discussed in greater detail in the following section. At a high level, this transfer allows the Healey administration to sustain the balance of a fund that has been a critical source of flexible funding for the state since FY 2021.

Transitional Escrow Fund & Looking Ahead to FY 2025

The Transitional Escrow Fund was created as part of the FY 2021 closeout budget to hold a consolidated net surplus of approximately \$1.4 billion. In FY 2022, an additional \$4.8 billion in state surplus revenues were deposited into the fund, roughly half of which (\$2.4 billion) were used for taxpayer rebates in accordance with Chapter 62F.

Over the last three years, a substantial amount of supplemental spending has been supported by the Transitional Escrow Fund, including more than a billion dollars for COVID recovery and economic development investments, fiscally strained hospitals, school districts, and the state’s Emergency Assistance (EA) shelter system.

At the beginning of FY 2024, the balance of the fund was \$1.1 billion. In a supplemental budget approved earlier this year, policymakers agreed to use up to \$426 million from the fund to support additional EA shelter costs in FY 2024 and FY 2025. If TEF resources are applied to cover remaining EA costs in FY 2025 (approximately \$518 million), it would deplete the fund’s current balance.

FY 2024 Transitional Escrow Fund Balance

FY 2024 TEF Starting Balance	\$1,073.52
EA Proposal for FY 2024	-\$251.00
EA Proposal for FY 2025	-\$175.00
Subtotal Spending	-\$426.00
FY 2024 Remaining Balance	\$647.52

\$ in millions

To prevent the Transitional Escrow Fund from being fully depleted, the closeout budget includes two proposals that could allow for at least \$350 million to be deposited into the fund in FY 2025.

- **Excess Capital Gains Revenue** – As discussed in the earlier section, the Governor proposes to amend the distribution of above threshold capital gains revenue to permit 45 percent (\$265 million) of those collections to be deposited into the Transitional Escrow Fund.
- **Consolidated Net Surplus Transfer** – The Governor’s bill also includes a section that would permit the FY 2024 consolidated net surplus to be transferred to the Transitional Escrow Fund, as opposed to the Stabilization Fund. The final amount deposited into the Fund would be the product of two things:
 - **Remaining General Fund Revenues** – Any surplus in spending against revenue creates a CNS. We lack sufficient final spending and revenue information to estimate the level of surplus expected under the Governor’s proposal, but if the Legislature adopts less spending that put forward by the administration, the surplus would increase.
 - **Unspent Federal Funds** – In the mid-year supplemental budget, the Legislature approved a proposal that would allow the administration to allocate any unexpended funds in the COVID-19 Response Fund for items funded by the General Fund. As described above, the effective fiscal impact of this proposal to the General Fund is estimated to be \$89 million.

Given the ongoing cost exposures heading into FY 2025 and beyond, continuing to maintain a balance in the Transitional Escrow Fund is a prudent decision by the Healey administration. As the state continues to manage demand on the EA shelter system and resolve the Steward hospital crises, having access to a flexible pool of funds – that will still require legislative approval – can ensure that the state’s operating budget is not bearing the brunt of these costs.

Next Steps

The Governor's closeout supplemental budget is now under consideration by the House and Senate Committees on Ways and Means. The House will have an opportunity to assess the administration's spending and policy proposals before the process moves to the Senate.

As policymakers consider the administration's proposals, MTF offers the following recommendations.

- **Use FY 2023 surtax revenues to adjust surtax spending in the operating budget and provide greater clarity for how funding is applied.** The Governor's bill uses excess surtax revenues collected in FY 2024 to increase the operating budget spending supported by the surtax from \$1 billion to \$1.225 billion. This increase in surtax spending is intended to cover a larger share of the costs of the C3 childcare operational grants program, universal school meals, and MassDOT in FY 2024. If lawmakers move forward with a proposal to increase surtax spending in FY 2024, MTF offers the following recommendations:
 - Lawmakers should use surtax revenues collected in FY 2023, rather than FY 2024, to support a greater share of program costs in FY 2024. Surtax revenues collected in FY 2023 totaled \$242 million and were unaccounted for in the state's operating budget. While they are currently held in the various Education and Transportation Funds, they could be deployed to help cover certain education and transportation-related FY 2024 program costs. By using FY 2023 surtax revenues, policymakers can remain faithful to the structure put in place for surtax spending in the FY 2024 budget, while still ensuring that critical education and transportation programs are supported and the fiscal year ends in balance.
 - The House and Senate should provide greater clarity on how any additional surtax spending will be distributed among specific education and transportation-related programs. Each of the programs identified by the Governor to receive additional surtax funding represent significant areas of new state investment and were supported by surtax revenues in the FY 2024 and FY 2025 GAAs. While the Governor's proposal identifies five budget accounts that may receive additional surtax funding, the exact amounts are not identified.

Lastly, as we assess the first full year of surtax revenue collections, MTF recommends that policymakers consider potential adjustments to the process that has been established to track, spend, and save these resources. While any revisions must maintain a high level of transparency on the use of surtax revenues and be faithful to the intent of the law, there are likely several policy changes that deserve consideration. For example, while creating a surtax spending cap for the fiscal year as part of the budget development process provides clarity and structure for state budget writers; it may also be appropriate to re-evaluate that spending cap at the end of the fiscal year, just as the consensus revenue benchmarks are evaluated based on actual revenue trends. MTF will elaborate on potential adjustments to the surtax structure in future publications.

- **Maintain a sufficient balance in the Education and Transportation Innovation & Capital Fund to support supplemental spending needs.** The Education and

Transportation Innovation & Capital Fund was created to collect excess surtax revenues and support one-time and capital related costs across the education and transportation sectors. In FY 2025 and beyond, the state faces a number of urgent needs that would benefit from this fund, namely the MBTA. As MTF has previously [reported](#), funds from the Innovation & Capital Fund can be a crucial tool in helping to address the FY 2026 MBTA budget shortfall. While increasing deposits into other reserves is also beneficial, it cannot come at the expense of building a sufficient balance in the Innovation & Capital Fund.

- **Prepare for FY 2025 funding challenges by building reserves.** The administration puts forward a number of proposals to prepare for FY 2025 challenges by building reserve balances. Proactively building the balances of the Transitional Escrow Fund, EEC Trust Fund, and the Stabilization Fund will put the state in a stronger position to withstand known and unexpected cost exposures – like the EA shelter system and Steward hospital crisis – and MTF encourages lawmakers to adopt this approach in the closeout supplement budget.

While the Governor has historically filed her final spending bill in the August – September timeframe, the Legislature has not enacted the bill until much later in the year. As deliberations on the closeout supplemental budget continue, MTF will continue to analyze the various proposals put forward by the House and Senate.

Closeout Supplemental Budgets, Filed & Enacted Dates

Fiscal Year	Closeout Budget Filed	Closeout Budget Enacted
FY 2019	September 9, 2019	December 12, 2019
FY 2020	October 1, 2020	November 6, 2020
FY 2021	August 18, 2021	October 14, 2021
FY 2022	August 31, 2022	November 3, 2022
FY 2023	September 13, 2023	December 4, 2023