



For Immediate Release

First Look: Tough Choices Ahead in Fiscal 2021

Low Tax Growth, Rising Spending to Squeeze State Budget in Next Fiscal Year

After two consecutive fiscal years of above-trend tax growth and manageable spending increases, an initial analysis of the state's finances suggests policymakers will face tough choices as they begin budget development for state fiscal year 2021.

A model of the fiscal 2020-2021 budget developed by the Massachusetts Taxpayers Foundation (MTF) highlights the strain of new spending commitments related to education combined with ongoing concerns like Medicaid and pension obligations amid low-growth tax revenue.

Three Key Takeaways

1. The fiscal 2021 budget process begins with projected spending exceeding revenue by **at least \$880 million**. Policymakers will need to **raise revenue and/or reduce spending** to balance projected spending with expected revenue.
2. While the recent debate on education finance reform noted concerns about the long-term affordability of the new law, the MTF model suggests **education finance reform may strain state finances in the short term**. Additional spending for "Chapter 70", the state's cost sharing formula grants to cities, towns, and regional school districts could consume \$428 million of the \$521 million in new fiscal 2021 tax revenue, or **about 82 percent of tax revenue growth**.
3. Though the fiscal 2020 budget required only modest growth for MassHealth, changes to federal reimbursement rates and other adjustments mean that total costs for the federal-state partnership that provides health care benefits to more than 1.8 million Massachusetts residents could jump **\$432 million** with the state's share rising **\$297 million, or 4.6 percent**, over fiscal 2020

Fiscal 2021 Budget Squeeze

Fiscal 2021 Summary	
<i>Major Budget Changes vs FY2020</i>	<i>\$ Chng vs FY20</i>
Revenue Changes	
Tax Revenue	521.0
Tax-Related Settlements & Judgments	-50.0
Tax Transfers (MBTA, MSBA, etc)	-44.5
Add'l Capital Gains Revenue for Budget	286.0
<u>Subtotal, Budgeted Tax Revenue</u>	<u>712.5</u>
Non-Tax Revenue	9.7
<u>Total New Revenue</u>	<u>722.2</u>
Spending Changes	
MassHealth	432.0
Chapter 70	427.8
Other HHS	304.4
Pensions	273.6
Debt Service	75.0
All Other	89.6
<u>Total New Spending</u>	<u>1,602.5</u>
Budget Gap	-880.2

Figures in \$ millions.

Figure 1: Modeled changes to Massachusetts operating budget in FY21 vs FY20

This initial model of the state fiscal landscape suggests budget writers face a starting gap of approximately \$880 million, highlighting the financial squeeze caused by low-growth tax revenue expectations and rising spending related to education finance reform (Chapter 70), the state share of MassHealth expenses, other health and human service costs, pension obligations, and other items.

Budget officials will confront this imbalance between revenue and spending, sometimes called a “current services” or “maintenance budget” gap, as they consider programmatic expansions and cuts to develop their budget plan for the coming fiscal year. This starting gap may not appear in public facing materials when the governor unveils his budget proposal on January 22, 2020, or when the House and Senate provide their recommendations in April and May 2020, respectively.

A starting gap of \$880 million indicates budget writers will have to make several tough decisions to propose a balanced budget as required by statute.¹ It should be noted, however, that every budget begins with challenges. Without a consistent public process for identifying a maintenance gap each year, it is difficult to assess whether this starting gap is larger, smaller, or about the same as other years.

Nonetheless, the presence of such a gap provides early warning that significant changes will be considered in order to balance the budget, such as tax increases or spending cuts. Stakeholders and opinion leaders should prepare to consider such actions as budget deliberations begin.

Tax Revenue Analysis

Consensus Tax Revenue

At the annual consensus tax revenue hearing held on Wednesday, December 4, 2019, executive and legislative decision-makers received tax revenue forecasts for fiscal 2020 and 2021 from the Massachusetts Department of Revenue (DOR), Professor Alan Clayton-Matthews, the Beacon Hill Institute (BHI), and MTF.²

All four forecasts suggested that tax revenue collections would likely rise in fiscal 2020 compared to current expectations, and three of the four anticipate slowing growth rates in fiscal 2021 as shown in Figure 1.

Particular attention was paid to demographic trends that will weigh on the Massachusetts economy in the coming years. The decline of the working-age population (18-64 years of age) will impact the state budget in the form of lower growth in withheld personal income tax payments and sales tax collections. This trend may have been obscured in recent years by the relative strength of capital markets and the impact of federal tax reform on the state tax base, but it is projected to become more pronounced in the coming years.

¹ [M.G.L. Chapter 29 § 6E](#)

² For more information about MTF's fiscal 2021 tax revenue forecast, see [Update: Tax Revenue Growth Slows](#) by Massachusetts Taxpayers Foundation, December 4, 2019.

Consensus Tax Revenue Forecasts, FY20-21

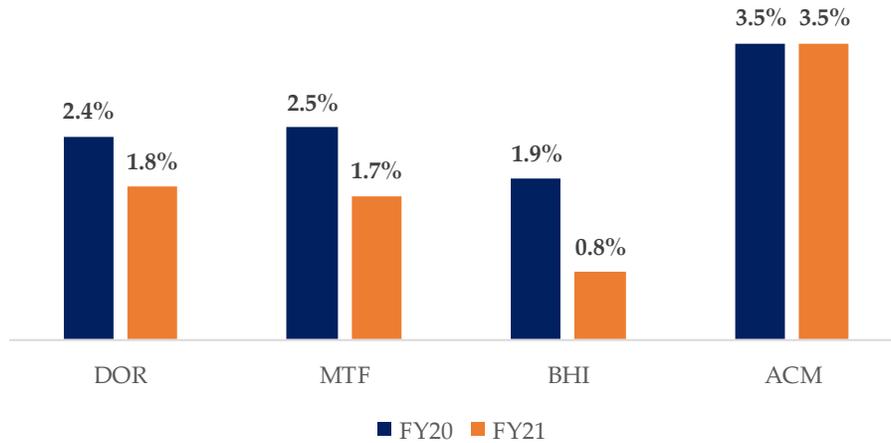


Figure 2: Fiscal 2020 and 2021 Tax Forecasts for the consensus tax revenue hearing from the Department of Revenue (DOR), Massachusetts Taxpayers Foundation (MTF), Beacon Hill Institute (BHI), and Professor Alan Clayton-Matthews (ACM).

The forecasts for fiscal 2021 reflect a marked decline in expected tax growth compared to previous years as depicted in Figure 2. Using the MTF forecast for fiscal 2020 and 2021, compared to tax growth projections that added nearly \$1.2 billion in fiscal 2016 and approximately \$1 billion in fiscal 2018, the fiscal 2021 projections anticipate only \$521 million in year-over-year tax revenue growth.

Consensus Tax Revenue Forecasting				
	Base	Projection	Change	Growth
FY16	24,325.0	25,479.0	1,154.0	4.7%
FY17	25,751.0	26,860.0	1,109.0	4.3%
FY18	26,056.0	27,072.0	1,016.0	3.9%
FY19	26,661.0	27,594.0	933.0	3.5%
FY20	28,592.0	29,431.5	839.5	2.9%
FY21 MTF	30,441.0	30,962.0	521.0	1.7%

Figure 3: Tax revenue figures adopted during the consensus tax revenue process, FY16-FY20. Figures in \$ millions. MTF forecast used as FY21 model values. Note that FY20 figures are adjusted to include the impact of recreational marijuana tax revenue in the base and projection. Data from the Commonwealth Information Statement dated August 9, 2019, page A-15.

After accounting for statutorily required transfers of sales tax revenue to the Massachusetts Bay Transportation Authority (MBTA) and Massachusetts School Building Authority (MSBA), and transfer of the unemployment insurance surcharge to

the Workforce Training Trust Fund (WTF), the fiscal 2021 forecast leaves budget writers with just \$477 million in new tax revenue to support spending growth.

The impact of the state's revenue volatility cap in fiscal 2020 and fiscal 2021, however, means that more tax revenue will be available for the budget in fiscal 2021. MTF's consensus tax revenue forecast projected capital gains tax revenue of \$1.64 billion in fiscal 2021, of which only \$331 million would be subject to the revenue volatility cap compared to \$617 million in fiscal 2020. This change adds \$286 million in new tax revenue available to the budget in fiscal 2021.

Spending Pressures

Education Finance Reform

Public elementary and secondary schools in Massachusetts are funded through a partnership between the Commonwealth and cities and towns primarily through the state's education cost sharing formula that will distribute nearly \$5.2 billion for public schools in FY20.

On November 26, 2019, the Student Opportunity Act (SOA) was signed into law, enacting the largest set of changes to the Commonwealth's education cost sharing formula since its inception in 1993.³ The new law overhauls the state's financial commitment to public education by pledging more than \$1.4 billion in new funding, and an estimated \$2.1 billion including inflation over the next seven fiscal years. Most of the new money is aimed at school districts with high concentrations of low-income students.

The scale of the new investment appears likely to strain the state's finances in the short term. According to Department of Elementary and Secondary Education (DESE) cost estimates released during the legislative debate on the SOA, spending on "Chapter 70", or state aid to cities, towns, and regional school districts, is projected to rise to \$5.6 billion in fiscal 2021, an increase of \$428 million, or 8.3 percent, over fiscal 2020 levels.⁴ Put another way, a Chapter 70 increase of this magnitude would consume about 82 percent of the \$521 million in new tax revenue, leaving few tax dollars to support growth in all other areas of the budget.

³ [Baker Signs \\$1.5 Billion Education Bill](#), Chris Lisinski, State House News, November 26, 2019

⁴ [District \\$\\$\\$ Impact Unclear Ahead of Senate Ed Debate](#), Matt Murphy, State House News, October 2, 2019. Note that these estimates were heavily criticized during the legislative debate for being misleading. Nonetheless, they remain the only public cost projections produced by DESE.

MassHealth

The Commonwealth provides health care benefits to qualified Massachusetts residents through the MassHealth program, which combines two “state-federal cooperative federalism programs”, Medicaid and the Children’s Health Insurance Program (CHIP) into one program.⁵

As MassHealth is a federal-state partnership, the federal government requires the Commonwealth to comply with both state and federal rules and regulations. In exchange, the federal government reimburses the Commonwealth for a significant portion of the program’s costs. Additionally, the program also generates considerable revenue in addition to federal reimbursements, such as drug rebates, fees, fines, and penalties, and other sources.

At least two sets of changes will have a material impact on MassHealth’s finances in fiscal 2021. First, lawmakers approved a plan to “shift” a portion of MassHealth costs from fiscal 2020 to fiscal 2019 as part of the fiscal 2020 budget development process.⁶ A portion of the shifted costs were recurring in nature and must be accounted for in fiscal 2021. Second, changes to federal reimbursement rates associated with certain populations go into effect in state fiscal year 2021, reducing the amount the federal government will pay and increasing state costs.

Timing Shift

As part of the fiscal 2020 budget, policymakers approved a plan to “shift” costs from fiscal 2020 into fiscal 2019. The change had the effect of both managing MassHealth spending between fiscal years and reducing the year-over-year growth rate for the program.

This action moved \$222 million in total spending from fiscal 2020 to fiscal 2019, including \$122 million in costs reimbursed by the federal government and \$100 million of net state costs. Of these amounts, approximately \$115 million in total costs and \$52 million in net state costs were substantially non-recurring in nature, while the remaining \$107 million in total costs and \$48 million in net state costs are recurring.

⁵ “State-federal cooperative federalism program” is a descriptive phrase for Medicaid articulated in *Coalition for Basic Human Needs v. King*, and other related cases. The description of MassHealth as a combination of Medicaid and CHIP is as described on the [MassHealth website](#) on December 16, 2019.

⁶ For more information, see [Further Analysis of Governor Baker’s FY2020 Budget](#), Massachusetts Taxpayers Foundation, April 5, 2019, page 5.

Absent other policy changes, these expenses must be supported by fiscal 2021 revenue going forward.

MassHealth Growth Analysis				
			\$	%
With FY19/FY20 Timing Shift	FY19	FY20	Change	Change
Total Spending	16,528.5	16,538.8	10.3	0.1%
Revenue Offsets	9,899.5	9,865.7	-33.7	-0.3%
Net Spending	6,629.1	6,673.1	44.0	0.7%
Without FY19/FY20 Timing Shift				
Total Spending	16,306.3	16,761.0	454.7	2.8%
Revenue Offsets	9,777.2	9,987.9	210.7	2.2%
Net Spending	6,529.1	6,773.1	244.0	3.7%

Figures in \$ millions

Note: Revenue offsets exclude enhanced EMAC

Figure 4: Summary of MassHealth growth rates adjusted for timing shift as reflected by the Governor’s Budget Recommendation for FY2020

Changing Federal Reimbursement Rates

Scheduled reductions in federal reimbursement rates will push more of the costs associated with MassHealth benefits to the Commonwealth in fiscal 2021. Most notably, matching assistance for the Children’s Health Insurance Program (CHIP) will decrease, causing an expected reduction in federal reimbursement of approximately \$79 million in fiscal 2021. Similarly, a decrease in the Federal Medical Assistance Percentages (FMAP) for the Affordable Care Act (ACA) expansion population will reduce federal reimbursement by a further \$41 million.⁷

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⁷ Figures from [MassHealth: The Basics Facts and Trends](#) by the Massachusetts Medicaid Policy Institute, updated July 2019, slide 17 footnotes 1 and 2.

Pensions

The Commonwealth manages pension benefit systems for more than 300,000 retired or active state employees and municipal teachers.⁸ Years of underfunding these obligations mean that though the total expected liability exceeds \$96 billion, only about \$55 billion has been saved, leaving an unfunded liability of more than \$41 billion.⁹

The existing pension funding schedule includes the payment required to address newly incurred liabilities each year and amortize the unfunded pension liability by July 1, 2037. The Executive Office for Administration and Finance (A&F) reviews the pension funding plan and issues a new funding schedule on a triennial basis in coordination with the House and Senate Committees on Ways and Means. The most recent schedule was issued on January 13, 2017 and required the annual pension contribution to increase 8.9% each year. In fiscal 2020, this payment will total \$2.841 billion.

A&F will issue a new schedule in January 2020. At the annual consensus tax revenue hearing on December 4, 2019, Senator Michael Rodrigues noted that the Public Employee Retirement Administration Commission (PERAC) had recommended annual increases of 9.63 percent for the next three-year period. An increase of this amount would add \$273 million to the fiscal 2020 pension contribution and bring the fiscal 2021 payment to \$3.1 billion.

Other Health & Human Services

The state provides an array of so-called “Other Health & Human Services” to thousands of Massachusetts residents through the Department of Developmental Services (DDS), Department of Mental Health (DMH), Department of Public Health (DPH), Department of Children & Families, and other agencies. Costs associated with providing these services has risen substantially in recent years with an annual growth rate trend of nearly 5 percent.

Given spending of more than \$6 billion annually, even a below-trend growth rate assumption of 4.7 percent implies more than \$304 million in new costs for other health and human services in fiscal 2021.

⁸ [Commonwealth Information Statement dated August 9, 2019](#), page A-48

⁹ [Commonwealth Information Statement dated August 9, 2019](#), page A-53

Debt Service

The state's debt service obligations will total nearly \$2.5 billion in fiscal 2020. Assuming these non-discretionary costs rise at the long-term growth rate trend of approximately 3 percent, budget writers can expect an additional \$75 million in debt service costs in fiscal 2021.

All Other

For the purposes of the initial budget model, this analysis assumes that the costs associated with all other state programs not mentioned above will grow at 2.5 percent, including assumed inflation of 2 percent and assumed population growth of 0.5 percent. In the budget model, these costs are offset by a smaller statutory transfer to the CSF of \$331 million in fiscal 2021 versus \$617 million in fiscal 2020. This means that more tax revenue will be generally available to support spending rather than being deposited in the "rainy day" fund.

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Potential Budget Solves

Fiscal 2021 Potential Budget Solves	
<i>Possible Changes vs FY20</i>	<i>\$ Value</i>
<i>Consensus Tax Revenue</i>	
<u>Consensus Tax Revenue vs MTF Forecast</u>	<u>233.0</u>
<i>Proposed Last Year</i>	
Accelerated Sales Tax Remittance (ASTR)	306.0
ASTR to MBTA/MSBA	-77.4
<u>Net ASTR</u>	<u>228.6</u>
Sports Wagering	35.0
Opioids Gross Receipts Tax	14.0
Life Science Tax Credit Cap	5.0
Sales Tax Integrity Measures	2.0
<u>Subtotal, Proposed Last Year</u>	<u>284.6</u>
<i>Fund Balance Sweeps</i>	
Commonwealth Care Trust Fund	95.3
Debt Reduction Fund	18.5
Race Horse Development Fund	13.3
<u>Subtotal, Fund Balance Sweeps</u>	<u>127.1</u>
<i>Other Revenue Measures</i>	
Assume Tax-Related Settlements	50.0
Repurpose Gaming Revenue	36.0
<u>Subtotal, Other Revenue Measures</u>	<u>86.0</u>
<u>Total, Revenue Changes</u>	<u>730.7</u>
<i>Spending Changes</i>	
More MassHealth Timing Shift	-100.0
Revise SOA Implementation Schedule	-173.6
Agency Line Item Cuts	?
<u>Subtotal, Spending Changes</u>	<u>-273.6</u>
<u>Total Potential Budget Solves</u>	<u>1,004.3</u>

Figures in \$ millions.

Figure 5: Potential budget solves for fiscal 2021

Consensus Tax Revenue

Executive and legislative budget writers are required by statute to agree on a tax revenue estimate to be used for fiscal 2021 budget proposals by the Governor, House, and Senate.¹⁰

On January 13, 2020, the Secretary of Administration and Finance, Michael Heffernan, Senate Ways and Means Chair Michael Rodrigues and House Ways and Means Chair Aaron Michlewitz announced their agreement to a consensus tax revenue forecast of \$31.151 billion for fiscal 2021 and a revision of the fiscal 2020 tax estimate of \$190 million, increasing the full-year benchmark amount to \$30.289 billion. After accounting for required transfers to the MBTA, MSBA, WTTF, and capital gains tax revenue above the revenue volatility cap, the agreement adds approximately \$233 million compared to the MTF tax forecast for fiscal 2021.

Compared to the tax forecasts offered by independent experts, the consensus tax revenue agreement assumes tax growth of 2.0 percent in fiscal 2020, which is lower than forecast by three of the four experts, and 2.8 percent growth in fiscal 2021, which is higher than projected by three of the four experts.

Proposed Last Year

Governor Baker has suggested tax law changes as part of his budget recommendations each fiscal year. In fiscal 2020, these proposals tallied nearly \$500 million.¹¹ Some of these earlier proposals may be included again in fiscal 2021. Last year, the Governor proposed a version of Accelerated Sales Tax Remittance (ASTR) with an estimated value of \$306 million, or \$229 million after accounting for required transfers to the MBTA and MSBA. This revenue would be generated in fiscal 2021 only due to the timing change associated with collections and be one-time in nature.

Gov. Baker also proposed to legalize sports wagering in Massachusetts, a measure that was estimated to generate an additional \$35 million in revenue; an opioid gross receipts tax estimated at \$14 million; an administrative cap on the Life Science Tax Credit with a value of \$5 million; and \$2 million from a set of changes to more rigorously enforce

¹⁰ [M.G.L. Chapter 29 § 5B](#)

¹¹ For more information, see [Further Analysis of Governor Baker's FY2020 Budget](#), Massachusetts Taxpayers Foundation, April 5, 2019, page 13.

sales tax laws related to the use of so-called “zappers”, which allow businesses to evade responsibility for remitting sales taxes to the Commonwealth.

Fund Balance Sweeps

The Commonwealth has numerous funds, trust funds, and other spending accounts that carry balances from year to year. These funds are typically required to be spent on certain policy areas or programs specified in statute. It is very common, however, for unspent balances to build up in these funds over time. For example, approximately \$8.3 billion was carried forward from fiscal 2019 into fiscal 2020.¹²

While many of these balances are necessary for future obligations, such as the more than \$1.6 billion in the unemployment compensation trust fund, some balances are no longer necessary for the purposes for which they were made available and are able to be transferred to the General Fund.¹³ For example, a portion of payments from the Employer Medical Assistance Contribution (EMAC) have accrued in the Commonwealth Care Trust Fund (CCTF) as above-trend tax collections obviated the need for this revenue. Since the beginning of fiscal 2018, an additional balance of \$95 million has built up in the fund. Similar balances of about \$19 million and \$13 million exist in the Debt and Long-Term Liability Reduction Fund and Race Horse Development Fund, respectively.

Other Revenue Measures

Fiscal 2021 will represent the second full fiscal year with three gaming facilities operating in Massachusetts, including one slots parlor (Plainridge Park Casino in Plainville, MA) and two resort-style casinos (MGM Springfield and Encore Boston Harbor). In fiscal 2020, these facilities are expected to generate \$294 million in total tax revenue, though only \$200 million of this new revenue is appropriated through the annual budget process. The remaining \$94 million was earmarked for various purposes.¹⁴ Shifting a portion of these funds into the budget process could generate an additional \$36 million in revenue in fiscal 2021.

¹² Per the Office of the Comptroller [Non-Budgeted Special Revenue Funds and Trust](#) database, accessed December 17, 2019.

¹³ [M.G.L. Chapter 29 § 13A](#).

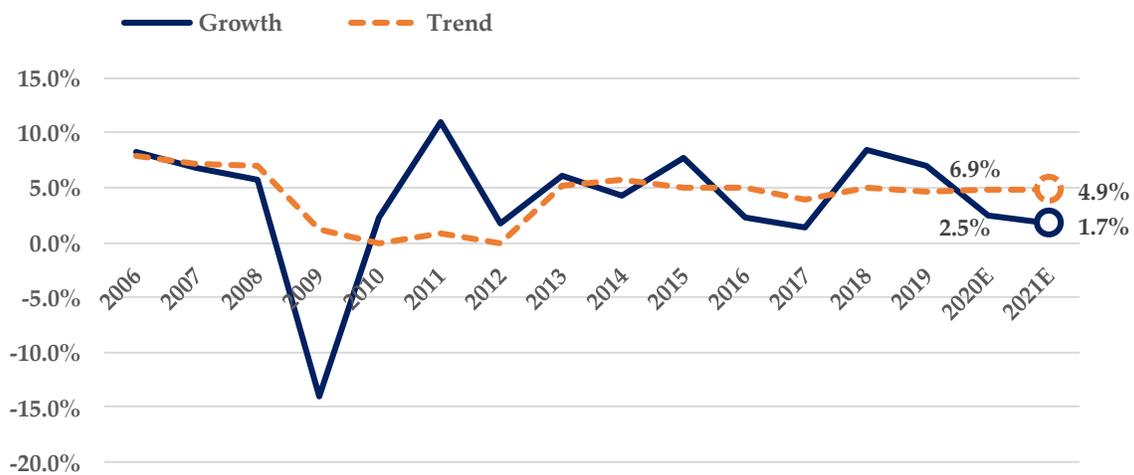
¹⁴ For more information, see [Technical Backgrounder: Gaming Tax Revenue](#), Massachusetts Taxpayers Foundation, May 1, 2019.

Spending Changes

As described above, shifting certain MassHealth costs between fiscal 2019 and 2020 allowed the state to move spending between fiscal years without an adverse impact on the program. Given the expectation for continued strength in tax collections, the Commonwealth is likely able to afford this strategy again in fiscal 2020 and 2021.

The SOA implementation schedule calls for changes to be phased in over a seven-year period with the bulk of the changes “front loaded” in fiscal 2021. If these changes were phased in at a rate more consistent with the long-term tax growth rate over the fiscal 2021-2027 period, it would reduce pressure on the fiscal 2021 budget.

Total Tax Growth vs Trend, FY06-FY21E



Using even the relatively robust trend growth rate of 4.9 percent implied by the fiscal 2021 tax revenue forecast, increasing Chapter 70 spending by this rate would reduce fiscal 2021 costs by \$174 million but still put the Commonwealth on a path to fully fund the new SOA commitments by fiscal 2027.

Agency Line Item Cuts

The most common method for closing budget gaps is to assign all or a portion of the shortfall to agencies and allow them to identify spending cuts in the next fiscal year. These cuts take an array of different forms but often take the form of reduced or delayed employee hiring.

Conclusion

It is important to note that this analysis excludes several spending obligations for which there is ample evidence of need for reform but few public calculations of the financial requirements. For example, the modeled budget ignores the cost of addressing the unfunded liability associated with providing health insurance benefits to retired state employees (i.e. Other Post-Employment Benefits, or OPEB). Similarly, though concerns have been raised in recent months about the MBTA's financial stability and approach to user safety, this analysis does not explicitly include additional revenue or spending for the MBTA.

This very early look at the fiscal 2021 budget suggests a challenging process that will force decision-makers to consider choices like tax increases or spending cuts to balance revenue with expenditures. Careful evaluation of the tradeoffs associated with each choice is an important part of the budget development process and will improve the quality of the budget that is ultimately adopted for fiscal 2021. The long-term economic wellbeing of the Commonwealth relies on a balanced, thoughtful approach to addressing the state's finances and economy.

About MTF

The Massachusetts Taxpayers Foundation is a non-partisan research organization that serves as the independent source of information for the Commonwealth's decision-makers. Founded in 1932, MTF's mission is to provide accurate, unbiased research with balanced, thoughtful recommendations that strengthen the state's finances and economy in order to foster the long-term wellbeing of the Commonwealth.

MTF contributes to the public policymaking dialogue in four major ways, including an annual forecast of tax revenue provided as part of the state's consensus tax revenue deliberations, budget planning and tracking, policy research on major issues such as transportation financing, the opioid epidemic, the income surtax, and migration trends, and supporting policymakers and opinion leaders with high quality analysis.

Appendix I: Methodological Notes

The early stages of development for the fiscal 2021 budget are more complicated than previous years due to the delays associated with closing the books on fiscal 2019, the lack of an updated Commonwealth Information Statement, and the presence of major new policy initiatives adopted by policymakers in recent months. Together, these factors impede efforts to assess the state's fiscal health and identify the choices facing budget writers.

Delay in Closing the Books on Fiscal 2019

In fiscal 2019, which ended June 30, 2019, tax collections exceeded estimates by \$1.1 billion, and approximately \$718 million after accounting for statutorily required transfers to the Commonwealth Stabilization Fund (CSF), the state's "rainy day" fund. After further adjusting for variances to budget for non-tax revenue, unspent balances in spending accounts, and appropriations extended into fiscal 2020, policymakers had a budget surplus of approximately \$870 million to allocate in order to close the books on fiscal 2019.¹⁵

Though a plan for such spending is typically adopted in October, lawmakers did not adopt a plan for the budget surplus until December 11, 2019 and the Governor approved the legislation on December 13, 2019. These late actions make it difficult to know exactly how much of the fiscal 2019 surplus spent on new programs will need to be continued in the fiscal 2021 budget and delayed the publication of the Statutory Basis Financial Report (SBFR), the Commonwealth's annual report detailing the state's finances.

Much of the budget surplus was deposited in the CSF in preparation for the next economic downturn.¹⁶ While some of the remaining \$283 million in new spending items are one-time in nature, other items will need to be incorporated into the fiscal 2021 budget plans. For example, the law included approximately \$21 million for pay raises for certain human service workers.¹⁷ These higher wages will be supported in fiscal 2020 with funds from the fiscal 2019 budget surplus but will require support from general operating revenue going forward in fiscal 2021. Further analysis is required to assess the full implications of the new law on fiscal 2021.

¹⁵ For more information, see [Analysis: Closing the Books on Fiscal 2019](#) by the Massachusetts Taxpayers Foundation, October 16, 2019.

¹⁶ [House, Senate Pass \\$541 Mil Spending Bill](#), Matt Murphy, State House News, December 12, 2019

¹⁷ [An Act Relative to Rates for Human and Social Service Programs](#), 2008 Mass. Acts 257.

Moreover, late action to close the year's books delayed publication of the fiscal 2019 SBFR, which is required by statute to be published by October 31, but was actually published on January 6, 2020.¹⁸ In addition to finalizing revenue and spending figures, this report also identifies fund balances that will be carried into the next fiscal year.

Lack of Commonwealth Information Statement

State financial managers update the Commonwealth Information Statement (IS) when the state sells municipal bonds.¹⁹ This document typically provides investors, and by extension the general public, useful and timely information about the state's current financial situation. As of December 31, 2019, the state has not published an IS since August 9, 2019, meaning bondholders have not received an update on the state's finances in 144 days, among the longest durations since 2007 (the earliest year of available data).

New Policy Initiatives

The fiscal 2021 picture is also complicated by the series of new policy reforms enacted by policymakers in recent months. For example, the passage of the Student Opportunity Act (SOA) changed the education cost sharing formula that distributes more than \$5 billion annually to cities and towns or regional school districts. This analysis uses cost estimates put forward by the Department of Elementary and Secondary Education (DESE) for fiscal 2021 even though they were publicized prior to the adoption of the new law and were criticized as potentially misleading during the legislative debate.²⁰

Model Notes

This analysis overcomes these issues by constructing a model budget as a proxy for fiscal 2020 revenue and spending estimates and then applies growth rates that have either already been identified publicly or based on recent historical trends to generate fiscal 2021 projections.

In absence of information about fiscal 2020 revenue and spending estimates that would normally be included in IS updates, the model budget adjusts the fiscal 2020 spending estimates as published in the August 2019 update for the typical amount of

¹⁸ [M.G.L. 7A, § 12](#).

¹⁹ An archive of Commonwealth Information Statements is available on the [Mass Bondholder website](#).

²⁰ [District \\$\\$\\$ Impact Unclear Ahead of Senate Ed Debate](#), Matt Murphy, State House News, October 2, 2019

appropriations that go unspent each fiscal year as shown in the Comptroller’s Budget vs Actual Spending database as of December 31, 2019.²¹ This method produces a rough approximation of likely fiscal 2020 spending levels. Revenue collections are assumed to be aligned with historical trends.

Fiscal 2021 revenue and spending amounts are calculated based on publicly available information and trend growth rate calculations for each articulated spending category.

The model excludes the impact of intragovernmental service fund revenue and spending and assumes all budgeted minor funds have no impact on beginning or ending balances.

Category	FY21 Growth
All Other	2.5%
Chapter 70	8.3%
Debt Service	3.0%
MassHealth	2.0%
Other HHS	4.7%
Pensions	9.6%

Figure 6: Underlying Growth Assumptions by Spending Category

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²¹ [Budget-to-Actual Spending in the Commonwealth’s Budgeted Funds](#), Massachusetts Office of the Comptroller, data as of December 31, 2019.

Adjustment Name	Type	Adjustment Description	2020	2021
Medical Assistance Trust	Spending	Assumed FY19 values	481,260,000	481,260,000
MassDOT Contract Assistance	Spending	Set at the contract agreement amount	125,000,000	125,000,000
"Necessary Costs" Reserve	Spending	Allocated caseload reserve to Snow & Ice and Sheriffs	0	0
Excess Capital Gains to Stabilization Fund	Spending	Excess capital gains	617,000,000	331,000,000
90% of Excess Capital Gains Credited to Stab Fund	Revenue	90% of Excess capital gains	555,300,000	297,900,000
Lottery Profit	Revenue	Assume lottery profit of \$1 B	1,000,000,000	1,000,000,000
Chapter 29 2zzz amount for FY20	Spending	Does not repeat in FY21	210,000,000	0
MassHealth Timing Shift impact	Spending	gross value of FY19-FY20 timing shift to build back in	0	100,000,000
MassHealth Timing Shift impact	Revenue	reimbursement for timing shift	0	52,000,000
MassHealth reimbursement rate change	Revenue	CHIP decrease		-79,000,000
MassHealth reimbursement rate change	Revenue	ACA population expansion decrease		-41,000,000
Chapter 29 2zzz amount for FY20	Revenue	Chapter 29, 2zzz	210,000,000	0
Snow and Ice	Spending	\$50 M of caseload reserve allocated to Snow and Ice	50,000,000	50,000,000
Sheriffs Reserve	Spending	\$40 M of caseload reserve allocated to Sheriffs; FY21 value assumes 2.5% growth	40,000,000	41,000,000

Adjustment Name	Type	Adjustment Description	2020	2021
CPCS Deficiency	Spending	\$15 M CPCS 2020 deficiency; FY21 value assumes 2.5% growth	15,000,000	15,375,000
DOC Deficiency	Spending	\$13.6 M DOC 2020 deficiency; FY21 value assumes 2.5% growth	13,600,000	13,940,000
Settlements & Judgments Deficiency	Spending	\$10 M Settlements & Judgments Reserve	10,000,000	10,000,000
HHS IT Deficiency	Spending	HHS IT deficiency; FY21 value assumes Other HHS growth value	14,600,000	14,600,001
Stabilization Fund Interest	Revenue	Stabilization Fund interest assumed at \$50 M	50,000,000	50,000,000
Fringe Revenue	Revenue	Fringe assumed at FY18 levels; TRE codes aligned with spending	91,893,036	91,893,036
Fringe Revenue	Revenue	Fringe assumed at FY18 levels; TRE codes aligned with spending	7,876,137	7,876,137
Fringe Revenue	Revenue	Fringe assumed at FY18 levels; TRE codes aligned with spending	197,601,353	197,601,353
Fringe Revenue	Revenue	Assumes \$0 fringe revenue in CTR codes	0	0
Fringe Revenue	Revenue	Assumes \$0 fringe revenue in CTR codes	0	0
Fringe Revenue	Revenue	Assumes \$0 fringe revenue in CTR codes	0	0
Master Settlement Agreement	Revenue	Tobacco Settlement assumed at approximately FY19 actual amount	235,000,000	235,000,000

Fiscal 2021 Model Financial Statement

Beginning Fund Balances	FY20	FY21	\$ Change	% Change
Reserved or Designated	478.4	65.4	-413.0	-86.3%
Stabilization Fund	3,424.4	4,029.7	605.3	17.7%
Undesignated	10.7	10.7	0.0	0.0%
Total, Beginning Fund Balances	3,913.5	4,105.8	192.3	4.9%
Revenue and Other Sources				
Consensus Tax Revenue	30,441.0	30,962.0	521.0	1.7%
Tax-Related Settlements & Judgments	50.0	0.0	-50.0	-100.0%
Tax Transfers				
MBTA	-1,081.5	-1,103.8	-22.3	2.1%
MSBA	-921.5	-943.8	-22.3	2.4%
WTF	-24.5	-24.5	0.0	0.0%
<u>Subtotal Tax Transfers</u>	<u>-2,027.5</u>	<u>-2,072.0</u>	<u>-44.5</u>	<u>2.2%</u>
Total Budgeted Operating Tax Revenue	28,463.5	28,890.0	426.5	1.5%
Non-Tax Revenue				
Federal Reimbursements	11,784.9	12,134.0	349.1	3.0%
Departmental Revenue	4,777.2	4,761.5	-15.7	-0.3%
Consolidated Transfers	2,527.7	2,083.5	-444.2	-17.6%
<u>Subtotal, Non-Tax Revenue</u>	<u>19,089.8</u>	<u>18,979.0</u>	<u>-110.8</u>	<u>-0.6%</u>
Budgeted Revenue and Other Sources	47,553.3	47,868.9	315.7	0.7%
Expenditures and Other Uses				
MassHealth	16,598.6	17,030.6	432.0	2.6%
Chapter 70	5,175.0	5,602.9	427.8	8.3%
Other HHS	6,490.2	6,794.6	304.4	4.7%
Pensions	2,841.5	3,115.2	273.6	9.6%
Debt Service	2,500.5	2,575.5	75.0	3.0%
All Other	13,478.9	13,282.6	-196.4	-1.5%
Budgeted Expenditures and Other Uses	47,084.8	48,401.3	1,316.5	2.8%
Revenues vs Expenditures	468.4	-532.3	-1,000.8	-213.6%
Ending Balances				
Reserved or Designated	65.4	65.4	0.0	0.0%
Stabilization Fund	4,029.7	4,377.6	347.9	8.6%
Undesignated	10.7	10.7	0.0	0.0%
Subtotal, Ending Balances	4,105.8	4,453.7	347.9	8.5%
Implied CNS Balance				
CNS Balance	276.2	-880.2		

Figures in \$ millions