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MTF UPDATE ON FY 2017

Last week, the legislature enacted a fiscal year (FY) 2017 supplemental budget to address \$144.4M in costs unaccounted for in the original budget. With this spending bill completed, MTF takes stock of the state’s fiscal position as we head into the final three months of the fiscal year.

Spending

Appropriated spending for FY 2017 now stands at \$43.4 billion. This total, about \$100 million more than the original budget, reflects adjustments for funds held over from the prior year, supplemental spending and October’s 9C spending reductions. Even after accounting for these adjustments, spending requirements through February have not deviated much from initial expectations.

	Spending held over from FY 2016	Budget (post veto)	9C cuts	Supplemental spending	Spending to Date
Line item	103,876,121	39,249,261,765	-118,541,951	\$144,382,350	39,378,978,284
Other	0	4,053,793,000	-27,200,000	0	4,026,593,000
Total	103,876,121	43,303,054,765	-145,741,951	144,382,350	43,405,571,284

The \$144.4 million in spending included in the supplemental budget addresses several areas underfunded or not addressed in the original budget, notably:

- \$28 million for budget exposures within the 14 county sheriffs;
- \$26.9 million for indigent defense services provided through the Committee for Public Counsel Services (CPCS);
- \$20.9 million for family homelessness services;
- \$14 million for the Department of Corrections (DOC);
- \$12.5 million for collective bargaining salary increases; and
- \$10.8 million in unanticipated costs for Turning 22 clients served through the Department of Developmental Disabilities.

Each of these spending items were included in the Governor’s supplemental budget filed in January. However, the legislature removed approximately \$115 million in other spending from the Governor’s

original proposal. Most of this difference can be attributed to the legislature’s prioritization of time-sensitive deficiencies while postponing spending that can be addressed later. Deficiencies not included in this supplemental budget, but likely to be addressed in the future, include:

- \$66 million in further funding for CPCS, DOC and the sheriffs;
- \$20 million to cover MassDOT winter cleanup costs;
- \$15 million for human service salary increases; and
- \$4 million for National Guard tuition and fee waivers.

In addition, recent winter storms and MassHealth pharmacy costs will require additional money to cover higher than expected expenses, but the total sum is not known yet.

Revenues

While the budget’s spending side has been relatively straightforward, sluggish growth in tax revenues continues to complicate the revenue picture. Expected tax revenues have been revised downward twice already and collections still lag behind these revised expectations by \$134 million as of the end of February. The last quarter of the fiscal year is a critical one for revenue collections as almost 40 percent of annual revenues will come in during that period. If the past four years is any guide, being below benchmark at this point in the fiscal year does not bode well for end of year collections since final quarter collections tend to track collections over the first three quarters.

	v. Benchmark Feb (net of settlements)	v. Benchmark end of FY (net of settlements)	Feb - Jun change	% of Revenue Collected After Feb.
FY 2013	\$198.2	\$493.2	\$295.0	39.4%
FY 2014	-\$103.1	-\$267.0	-\$163.9	37.8%
FY 2015	\$232.0	\$391.0	\$159.0	38.6%
FY 2016	-\$123.0	-\$484.0	-\$361.0	38.4%
FY 2017	-\$134.0	NA	NA	NA

As with the last fiscal year, April collections will likely hold the key as to whether or not further action will be necessary to balance the budget. The later in the fiscal year that a budget problem materializes, the fewer options are available and the more heavily one-time revenues and other quick fixes have to be relied on to close the gap. Closing budget gaps in FY 2016 and early in FY 2017 has already required the use of more than \$230 million in these types of solutions meaning that fewer options exist for the rest of the year.