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THE FY 21 INTERIM BUDGET – IT'S DIFFERENT THIS TIME

Introduction

On Friday, June 19, Governor Baker filed H. 4806 a one month, $5.25 billion spending authorization to keep the government operational through July 31 that the legislature has since enacted. In this interim budget, the guidance indicates that for each account, spending will be the lower of the FY 20 GAA and FY 21 H2 budgets. This analysis outlines the unique attributes of this interim budget and its implications for the final FY2021 spending plan.

Background

Interim budgets to fund state operations in Massachusetts are not new. In fact, there have been several such temporary spending authorizations in recent years. Typically, an interim budget provides a short-term bridge of days or weeks to keep the state running while lawmakers finalize a permanent budget. When signed, the General Appropriation Act (GAA) for the upcoming fiscal year immediately supersedes the interim budget.

During a standard budget process, the House, Senate, and administration would each have produced a budget by now and either a conference committee would be resolving the differences or a final bill would have been enacted or awaiting the Governor's signature in anticipation of the start of the new fiscal year on July 1st. If the final budget has not been resolved and an interim budget becomes necessary, agencies' expenditures for the interim period would typically default to the lowest of the relevant House 1, House, or Senate spending recommendations.[1]

Different Process

Like so many other disruptions from the pandemic, this time the interim budget process and implications are different. Uncertainties about the size of the FY 21 budget gap resulting from the pandemic's economic effects sidetracked the budget process. During April and May, the time ordinarily when the House and Senate would finalize their respective budgets, both

[1] Interim Budget Guidance (A&F 9), June 28, 2016.

branches were receiving revised revenue forecasts from economists in order to better understand the magnitude of the budget gap confronting lawmakers. Because the House and Senate have not proposed their respective FY 21 spending plans, and the new fiscal year is days away, lawmakers had little choice but to move forward with an interim spending bill. Unlike past interim budgets that have few if any fiscal implications, this interim budget is determinative of what the state will spend for at least the month of July as a GAA will not be finalized in the next 31 days.

The Baker administration provided guidance to agencies for how spending should be handled under an interim budget generally. That 2016 guidance states that no funding for new or expanded programs, no discretionary expenditures, and no hiring for new or backfilled positions can occur without authorization from Administration and Finance (A&F).[2] Further, departments should abide by the lowest of the relevant House 1, House, or Senate spending recommendations absent ANF approval.

Given this ANF guidance, in the absence of House and Senate budgets, the default spending for this interim budget would be the lower of the FY 20 General Appropriations Act (enacted FY 20 budget) or H.2., the Governor's budget plan filed back in January prior to the pandemic.

In a recent directive to municipal leaders to provide short-term clarity regarding anticipated levels of state aid, the Division of Local Services (DLS), in consultation with Administration and Finance, announced that the first two months of FY 21 local aid funding (Chapter 70 and Unrestricted General Government Aid) will be based on the FY 20 cherry sheet to municipalities.[3]

Currently, there is no timeline for completion of the budget and there is unlikely to be one until state lawmakers have greater clarity on the size and scope of the budget shortfall. A crucial input is the amount of federal assistance for states and municipalities, if any, that will be forthcoming from Capitol Hill and that amount may not be known before the legislative session is scheduled to end on July 31st. Therefore, it is likely that the state will operate under interim spending authorizations for more than one month.

Different Implications

Given the scope of the fiscal shortfall and the likelihood that lawmakers will enact more than one interim budget, the default appropriation levels take on added importance and raises some key questions.

- ✓ What would FY 21 spending look like if the interim budget remained in place for the year?

[2] Interim Budget Guidance (A&F 9), June 28, 2016.
[3] *FY2021 Cherry Sheets and Monthly Local Aid Distributions*, Department of Local Services, BUL–2020-09, June 2020

✓ Does an interim budget take anticipated revenue losses into account sufficiently?

While the data presented below is not an MTF policy recommendation, it is illustrative of what an interim budget would yield as part of a budget gap solution and the consequences to certain areas of government.

The difference between FY 20 GAA and FY 21 H2 was presented in an MTF report on the Governor's FY 21 budget proposal in January 2020.[4] FY 20 GAA spending is approximately $1.5 billion less than FY 21 H2 (Table 1). Were those levels of spending to continue for the full fiscal year, the reduction would represent approximately 25 percent of the estimated $6 billion revenue shortfall.

The largest reductions would be to education ($484 million), Health and Human Services ($498 million), and transportation ($155 million, approximately $40 million for snow and ice removal) – three sectors that have been upended by the pandemic.

Table 1

	FY 2021 H2	**FY 2020 GAA**	**$ Change**	**% Change**
Administration and Finance	2,645.9	2,627.1	-18.8	-0.7%
Education	9,600.3	9,116.5	-483.8	-5.0%
Energy and Environmenatl Affairs	298.0	294.0	-4.0	-1.3%
Health and Human Services	24,002.1	23,503.7	-498.4	-2.1%
Housing and Economic Development	605.6	618.3	12.7	2.1%
Labor and Workforce Development	80.1	75.8	-4.3	-5.4%
Public Safety and Security	1,318.2	1,268.1	-50.1	-3.8%
Technology Services and Security	56.8	37.5	-19.3	-34.0%
Transportation	853.4	698.5	-154.9	-18.2%
All Other	5,104.6	4,869.0	-235.6	-4.6%
Total	**44,565.0**	**43,108.5**	**-1,456.5**	**-3.3%**

The reduced spending in education can be largely attributed to level funding of Chapter 70 from the FY 20 cherry sheet. These figures do not reflect the subsequent education funding formula changes embodied in the Student Opportunity Act that would have increased spending by $303 million or 5.5 percent (Table 2) in the Governor's budget proposal (H2) that incorporates the education finance reform law adopted in November 2019.

[4] *High-Level Themes: Governor Baker's Fiscal 2021 Budget*, January 23, 2020.

Table 2

Local Aid	FY 2021 H2	FY 2020 GAA	$ Change	% Change
Chapter 70	5,479.5	5,176.0	-303.5	-5.5%
Unrestricted General Government Local Aid	1,160.2	1,128.6	-31.6	-2.7%

Unrestricted General Government Local aid, which was increased by 2.7 percent in H2, consistent with Governor Baker's pledge to increase UGGA at the same rate as tax revenue growth, would fall by $32 million (Table 2).

Table 3

	FY 2021 H2	FY 2020 GAA	$ Change	% Change
MassHealth	16,800	16,698	102	0.6%
Dept. of Children / Dept. of Mental Health	7,000	6,763	237	3.4%
Total	**23,800**	**23,461**	**339**	**1.4%**

Spending on MassHealth, the Department of Children, and Department of Mental Health would increase by $339 million or 1.4 percent if the interim budget spending levels were permanent for FY 21.

Conclusion

Unless a GAA is signed into law, the $5.25 billion interim budget will determine appropriations for July and may continue until lawmakers gain clarity on the size of the shortfall and the amount of additional federal support. Should the interim budget be extended, spending would follow FY 20 GAA levels which were 3.3 percent below Governor Baker's H2. These lower appropriation levels address the need for continuing government operations while adjusting for lower tax revenue collections, but even this reduced spending could prove to be overly optimistic should federal assistance levels fall short, the economic recovery is delayed or circumstances otherwise further decline.