

Meeting of the Advisory Board to the Comptroller

February 15, 2024



OFFICE OF THE COMPTROLLER
COMMONWEALTH OF MASSACHUSETTS

Advisory Board to the Comptroller

Statutory Members

- ★ **Matthew Gorzkowicz**, Secretary of Administration and Finance (Chair)
- ★ **Diana DiZoglio**, State Auditor
- ★ **Deborah B. Goldberg**, Treasurer and Receiver General
- ★ **Andrea Joy Campbell**, Attorney General
- ★ **Thomas G. Ambrosino**, Court Administrator of Massachusetts Trial Court

Appointed Members

- ★ **Michael Esmond**, Chief Financial Officer of Massachusetts Convention Center Authority
- ★ **Natalie S. Monroe**, Chief Administrative Magistrate, Division of Administrative Law Appeals

Agenda

- I. Call to order; authorization for remote meeting**
Matthew Gorzkowicz, Secretary, Executive Office for Administration and Finance
- II. Review and approval of the prior Advisory Board Meeting Minutes**
Secretary Gorzkowicz
- III. Remarks from the Chair of the Advisory Board**
Secretary Gorzkowicz
- IV. Remarks and reporting process overview from the Comptroller**
William McNamara, Comptroller of the Commonwealth
- V. Review of the Statutory Basis Financial Report (SBFR)**
Pauline Lieu, Chief Financial Reporting Officer & Assistant Comptroller
Howard Merkowitz, Senior Advisor
- VI. CliftonLarsonAllen (CLA), Report to the Board**
Christian Rogers, CPA, Managing Principal, and colleagues
- VII. Items not reasonably anticipated by the Chair**
Secretary Gorzkowicz
- VIII. Timing outlook for next meeting**
Secretary Gorzkowicz / Comptroller McNamara
- IX. Meeting adjournment**
Secretary Gorzkowicz

Meeting Information

On March 29, 2023, Governor Healey signed into law a supplemental budget bill which, among other things, extends certain temporary provisions pertaining to the Open Meeting Law until March 31, 2025. Specifically, this further extension allows public bodies to continue holding meetings remotely without a quorum of the public body physically present at a meeting location, and to provide "adequate, alternative" access to remote meetings.

In accordance with that law, all members of the Advisory Board and members of the public are participating remotely in today's meeting.

Because members of the Board are participating remotely, all votes today will be taken by roll call.

Meeting Information	
Date and Time:	February 15, 2024
Location:	Zoom
Meeting ID:	843 2236 3486
Passcode:	094521
Link:	https://macomptroller.zoom.us/j/84322363486?pwd=TGwxMnlSY0k3WUFAyYmJsUDZQdGJGZz09
Dial-in:	1-929-205-6099

Agenda Item I
Call to order and
Authorization for remote meeting

Matthew Gorzkowicz
Secretary, Executive Office for Administration and Finance

Agenda Item II

Review and approval of minutes

Matthew Gorzkowicz
Secretary, Executive Office for Administration and Finance

Agenda Item III

Remarks from the Advisory Board Chair

Matthew Gorzkowicz
Secretary, Executive Office for Administration and Finance

Agenda Item IV

Remarks and Reporting Process Overview

William McNamara
Comptroller

Remarks from the Comptroller

- ★ The SBFR shows the **sound financial condition of the Commonwealth**
 - Total balances in budgeted funds stood at \$15.338 billion at the end of Fiscal Year 2023
 - The amount in the Stabilization Fund rose from \$6.938 billion to \$8.036 billion in Fiscal Year 2023. It now stands at \$8.273 billion, placing Massachusetts among leaders nationwide.
- ★ The SBFR signifies that the **Fiscal Year 2023 General Appropriations Act, supplementary budgets, and state finance law** have been faithfully executed
 - Expenditures were in accordance with the budget
 - Statutory transfer processes executed
- ★ The timing of legislative and financial processes remains an issue
 - Timing of the “closing supp” (SBFR and ACFR)
 - Ability of component units and delegated financial entities to produce reports (ACFR)
 - To be addressed in subsequent meetings of the Advisory Board

Three major reporting requirements

SBFR	ACFR	Single Audit
Statutory Basis Financial Report	Annual Comprehensive Financial Report	A step in a series of federal requirements
<ul style="list-style-type: none"> • Required under state law (M.G.L. c. 7A, § 12) • Most other states have similar reports • Present the results of the prior fiscal year activity in the Commonwealth’s funds primarily on a cash, non-GAAP basis • Compute and certify the annual budget balance and end of fiscal year transfer to the Stabilization Fund • Disclose and report certain aspects of financial performance as directed by statute or judged relevant by the Comptroller 	<ul style="list-style-type: none"> • 50-state requirement (plus other local government entities) • Financial statements of a state, municipal or other governmental entity that complies with the accounting requirements promulgated by the Governmental Accounting Standards Board (GASB), which sets Generally Accepted Accounting Principles (GAAP) for those governments and entities • Key differences versus SBFR: Statements on a “modified accrual” basis; addition of multiple component units and other required information 	<ul style="list-style-type: none"> • Uniform Guidance: authoritative set of administrative and financial requirements for recipients of federal grants & funds • SEFA: Schedule of Expenditure of Federal Awards; details the use of federal funds across the state • Single Audit: Organization-wide financial statement and federal awards’ audit of entities that expend \$750,000 or more in federal funds. Focused on internal controls and compliance with program requirements.
<ul style="list-style-type: none"> • Reviewed by the independent CPA firm 	<ul style="list-style-type: none"> • Audited by the independent CPA firm 	<ul style="list-style-type: none"> • Conducted by the independent CPA firm

Agenda Item V
Review of the Statutory Basis Financial Report

Pauline Lieu, Assistant Comptroller & Chief Financial Reporting Officer
Howard Merkowitz, Senior Advisor

Fiscal Year 2023 Statutory Basis Financial Report (SBFR)

- ★ The SBFR is presented on a budgetary or statutory basis – cash receipts and expenditures, including two months accounts payable and receivable period ("modified cash basis"); by statute excludes trust funds and most activity of so-called business-type activities such as unemployment and the Institutions of Higher Education.
- ★ The SBFR excludes “component units” such as Massachusetts School Building Authority (MSBA), the Massachusetts Department of Transportation (MassDOT), Massachusetts Bay Transportation Authority (MBTA), and the Massachusetts Development Finance Agency (MassDevelopment).
- ★ The SBFR determines whether the budget is balanced according to state finance law. The report also determines the calculation of the “consolidated net surplus” and the end of year transfer to the Stabilization Fund.
- ★ Consolidated net surplus (CNS) is defined as the “undesignated” (or unreserved) balance in certain budgetary funds (i.e., funds subject to the Commonwealth’s annual budget process) as of June 30, of which the General Fund of (87.5%) and Commonwealth Transportation Fund (3.5%) account for the bulk of spending activity.

Fiscal Year 2023 Statutory Basis Financial Report (SBFR)

- ★ FY2023 ended with a balanced budget, i.e., a “**consolidated net surplus**” of **\$0** in the budgeted funds, after enactment of legislation that reserved \$4.578 billion in unexpended balances for re-appropriation ("prior appropriations continued", PACs) in FY2024.
- ★ There was an **FY2023 operating loss** of \$2.862 billion in the budgeted funds, compared to a \$6.101 billion operating gain in FY2022. The operating loss was due primarily to changes in tax laws or triggering of adjustments to the Commonwealth's personal income tax, which reduced FY2023 revenue by a total of \$4.708 billion, as well as drop in capital gains taxes, which declined by \$2.048 billion compared to FY2022.
- ★ The \$2.862 billion figure represents the excess of yearly expenditure over revenue received, which results in a lower year-end balance in budgeted funds. It does not represent deficit spending or an increase in debt.
- ★ The budgeted fund **ending balance of approximately** \$15.338 billion includes the following:
 - \$8.036 billion held in the Stabilization Fund
 - \$1.098 billion was deposited in the Stabilization Fund in FY2023
 - \$1.891 billion in the Transitional Escrow Fund from the FY2021 and FY2022 surpluses
 - \$4.578 billion designated for FY2024 appropriations (FY2023 prior appropriations continued, or PACs) and for debt service

Fiscal Year 2023 Statutory Basis Financial Report (SBFR)

- ★ Total budgeted fund revenue (prior to transfers between budgeted funds) totaled \$57.414 billion, a **decrease of \$4.670 billion, or 7.5%**, from FY2022.
- ★ Budgeted fund **tax revenue (not including sales tax revenue allocated to the MBTA and MSBA) totaled \$33.704 billion, down \$4.883 billion, or 12.7%** from FY2022, with the entire decline the result of the triggering of certain tax laws that resulted in an increase in personal income tax refunds, and a decline in capital gains tax revenue. Adjusting for the three tax law changes only, tax revenue was down \$417 million, or 1.1%. The \$417 million remaining decline was due to a drop in capital gains taxes, partially offset by growth in other tax types.
 - **Total personal income tax** collections were \$18.995 billion, down \$5.341 billion, or 21.9%.
 - **Personal income tax withholding** was up \$732 million, or 4.6%, as employment continued to grow steadily.
 - **Non-withheld personal income tax** decreased by \$6.074 billion, or 72.1%, with the decline due to "Chapter 62F" refunds of \$2.879 billion (triggered by FY2022 tax revenue above a statutory maximum), FY2022 non-recurring pass-through entity tax revenues of \$1.829 billion, and a decline in capital gains tax revenues of \$2.048 billion, partially offset by \$199 million in new non-withheld revenues generated from the implementation of a 4% surtax on taxable incomes of more than \$1 million and growth in other non-withheld income tax.
- ★ **Sales & use tax increased by \$480 million, or 7.7%**, including a \$161 million, or 12.1% increase in meals taxes as diners continued to return to restaurants post-pandemic.

Fiscal Year 2023 Statutory Basis Financial Report (SBFR)

- ★ **Corporate and business taxes** totaled \$5.108 billion, virtually identical to FY2022 collections.
- ★ Other notable changes in tax collections include an **increase in the estate and inheritance tax** of \$105 million, or 12.1% and a **decline in the deeds excise tax** of \$135 million, or 28.7% .
- ★ **Federal Reimbursements** totaled \$15.225 billion, a decrease of \$554 million, or 3.5%.
 - Non-recurring FY2022 revenue of \$1.023 billion for pandemic relief funds received by the Massachusetts Emergency Management Agency (MEMA).
 - This MEMA revenue decline was partially offset by federal reimbursements for the Commonwealth's Medicaid program, which increased by \$418 million, or 3.0%, to \$14.312 billion.
- ★ **Departmental revenue** increased \$669 million, or 12.4%, mainly due to interest earnings, which increased from \$44 million in FY2022 to \$698 million, as a result of higher interest rates on large cash balances.
- ★ **Lottery profits** totaled \$1.188 billion, an increase of \$87 million, or 7.9%, from FY2022.

Fiscal Year 2023 Statutory Basis Financial Report (SBFR)

- ★ **Budgeted fund expenditures** and other uses (prior to transfers between budgeted funds) totaled \$60.276 billion, an increase of \$4.293 billion, or 7.7% from FY2022.
- ★ **Medicaid expenditures** totaled \$21.700 billion, an increase of \$1.855 billion, or 9.3%, from FY2022, due to normal growth and a shift in the timing of some payments to providers.
- ★ **Direct local aid** spending (both education aid and unrestricted aid) was \$7.295 billion, was up \$552 million, or 8.2%.
- ★ **Transfers to the state pension fund** in accordance with the Commonwealth's actuarially determined pension funding schedule were \$3.743 billion, an increase of \$328 million, or 9.6%, from FY2022, and additional pension contributions were a \$200 million appropriation from the General Fund and a \$42 million transfer of capital gains taxes.
- ★ **Budgeted fund debt service** totaled \$2.420 billion, virtually identical to debt service expenditures in FY2022.

Fiscal Year 2023 Statutory Basis Financial Report (SBFR)

- ★ **Interfund transfers** from budgeted to non-budgeted funds totaled \$1.239 billion, a decrease of \$2.132 billion or 63.2%, from FY2022.
 - The decline was mainly due to several large FY2022 non-recurring transfers, including funding to repay Unemployment Insurance loans from the federal government taken out during the pandemic, transfers to finance local hospitals that treat Medicaid patients, and for COVID-related programs.
- ★ **Transfers among the Budgeted Funds** totaled \$5.555 billion, a decrease of \$2.674 billion, or 32.5%, from FY2022,
 - A decrease of \$4.812 billion due to one-time FY2022 surplus transfers to the Transitional Escrow Fund
 - A decrease of \$1.691 billion, to \$833.7 million, in capital gains tax revenue transferred to the Stabilization Fund, State Retiree Benefits Trust, and State Pension Funds
 - Partially offset by a transfer of \$2.879 billion from the Transitional Escrow Fund to the General Fund to finance the Chapter 62F income tax refunds and several new appropriated transfers from the General Fund to finance new programs

Fiscal Year 2023 Statutory Basis Financial Report (SBFR)

	2023 (\$ millions)	2022 (\$ millions)	\$ Change	% Change
Beginning Balances	18,200	12,099	6,101	50.4%
Taxes	33,704	38,587	(4,883)	(12.7)%
Federal reimbursements	15,225	15,779	(554)	(3.5)%
Other budgeted revenues	8,486	7,718	768	10.0%
Budgeted revenues and other financing sources	57,414	62,084	(4,670)	(7.5)%
Transfers between budgeted funds ("gross-ups")	5,555	8,230	(2,675)	(32.5)%
Total revenues and other financing sources	62,970	70,314	(7,344)	(10.4)%
Budgeted expenditures and other financing uses	60,276	55,983	4,293	7.7%
Transfers between budgeted funds ("gross-ups")	5,555	8,230	(2,675)	(32.5)%
Total expenditures and other financing uses	65,831	64,213	1,618	2.5%
Excess/(deficiency) of revenues over expenditures	(2,862)	6,101	(8,963)	N/A
Ending fund balances:				
Reserved for Prior Appropriations Continued & Debt Service	4,578	6,076	(1,498)	(24.7)%
Reserved for Stabilization Fund	8,036	6,938	1,098	15.8%
Other Undesignated	2,726	5,186	(2,460)	(47.4)%
Total ending fund balances	\$ 15,338	\$ 18,200	(2,862)	(15.7)%

Fiscal Year 2023 Statutory Basis Financial Report (SBFR)

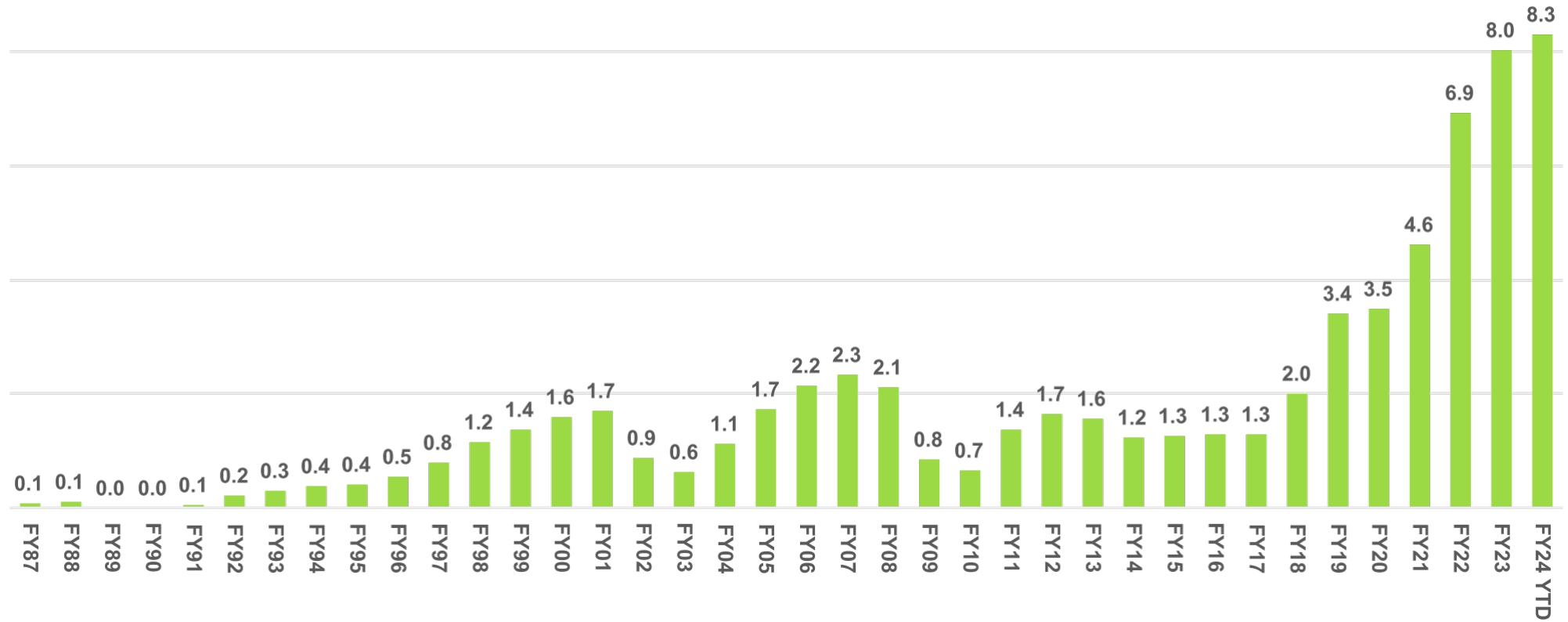
FY2023 Stabilization Fund Activity (in \$ Thousands)

Stabilization Fund Balance as of July 1, 2022	\$	6,937,864
Capital Gains Tax Revenue Transfers		750,263
Abandoned Property Transfer		56,453
Certain Lottery Withholding Taxes		154
Interest Earnings		271,514
Adjustment for Change in Value of Short-Term Bond Fund		(6,025)
Transfer of 10% of casino gaming tax revenue		25,828
Stabilization Fund Balance as of June 30, 2023	\$	8,036,051
Memo: Change in Stabilization Fund Balance, FY2022-2023	\$	1,098,187

As of June 30, 2023, the Commonwealth's Stabilization Fund balance was the 3rd largest among the states. It represents 19.3% of "General Fund own-source expenditures," well above the projected national median of 12.1% reported in the Fall 2023 survey of the National Association of State Budget Officers (NASBO), and up 3.6 percentage points from FY2022.

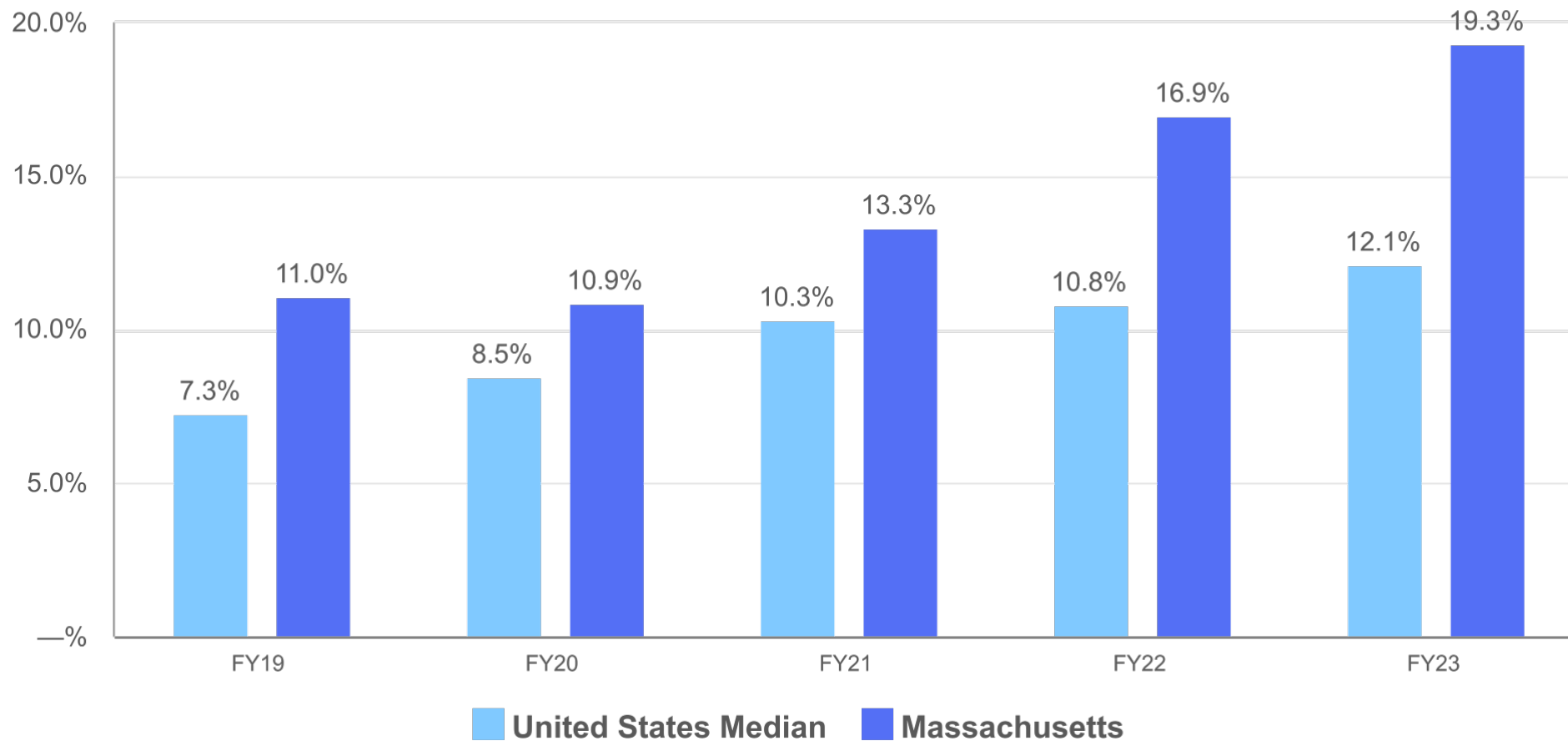
Fiscal Year 2023 Statutory Basis Financial Report (SBFR)

End of Fiscal Year Stabilization Fund Balances
In \$ Billions



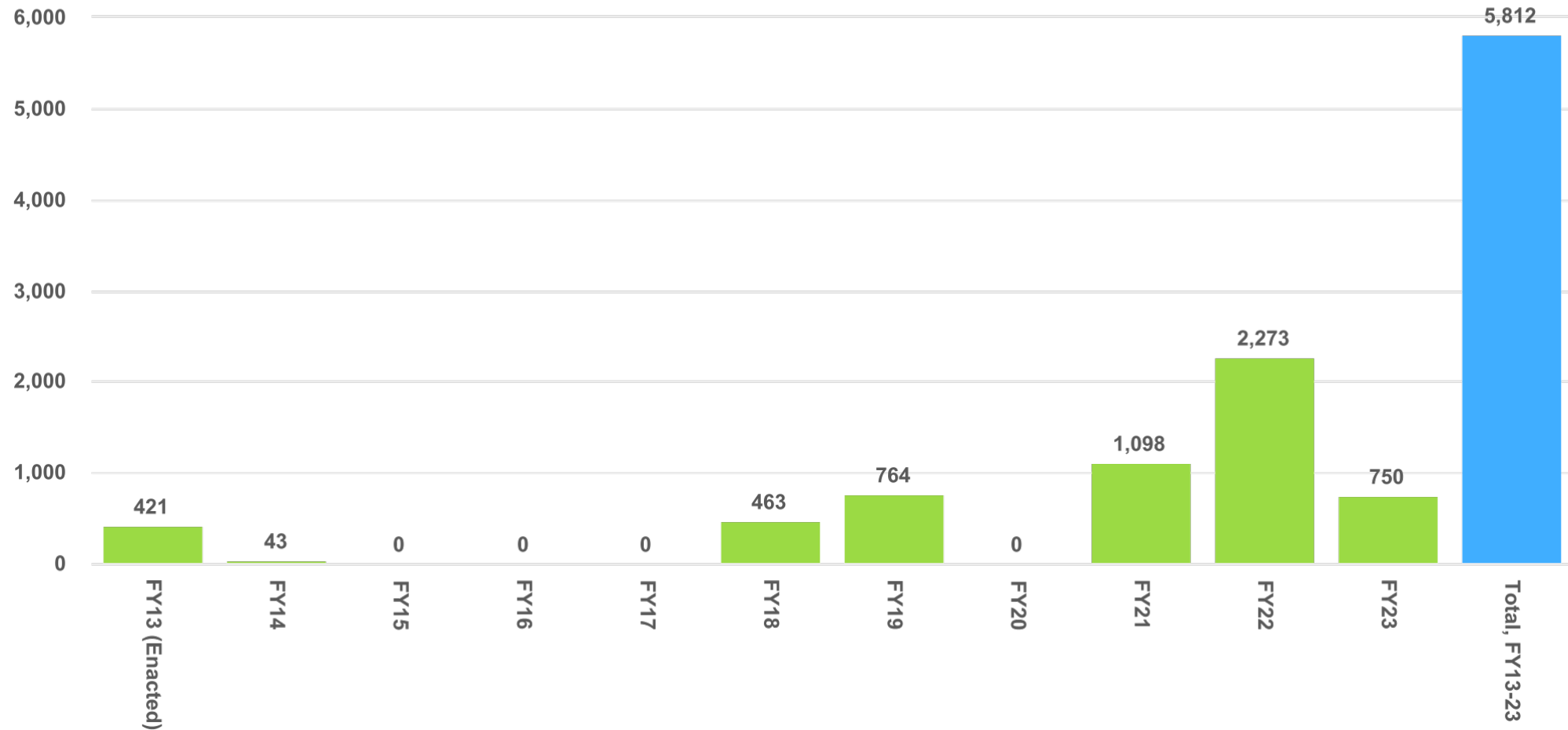
Fiscal Year 2023 Statutory Basis Financial Report (SBFR)

Stabilization Fund Balance as a Percentage of General Fund Own-Source Spending
Massachusetts vs. Median of all U.S. States



Fiscal Year 2023 Statutory Basis Financial Report (SBFR)

Capital Gains Tax Transfers to Stabilization Fund In \$ Millions



Fiscal Year 2023 Statutory Basis Financial Report (SBFR)

Non-Budgeted Special Revenue Fund Revenue & Expenditures

- ★ FY2023 revenues and other sources totaled \$20.659 billion, down \$367 million, or 1.7%, from FY2022
 - \$6.495 billion in federal revenues, virtually identical to FY2022
 - Assessment revenue increased by \$237 million, or 18.1%
 - Departmental revenue increased by \$376 million, or 4.9%
 - Offset by decreased transfers of \$1.288 billion, or (77.9)%, mostly due to FY2022 non-recurring transfers.
 - COVID-19 Massachusetts Emergency Fund Paid - \$84 million
 - COVID-19 Public Health Emergency Hospital - \$250 million
 - COVID-19 Essential Employee Premium Pay - \$500 million
 - Medical Assistance Fund decreased by \$667 million, or 88.7%

Fiscal Year 2023 Statutory Basis Financial Report (SBFR)

Non-Budgeted Special Revenue Fund Revenue & Expenditures (continued)

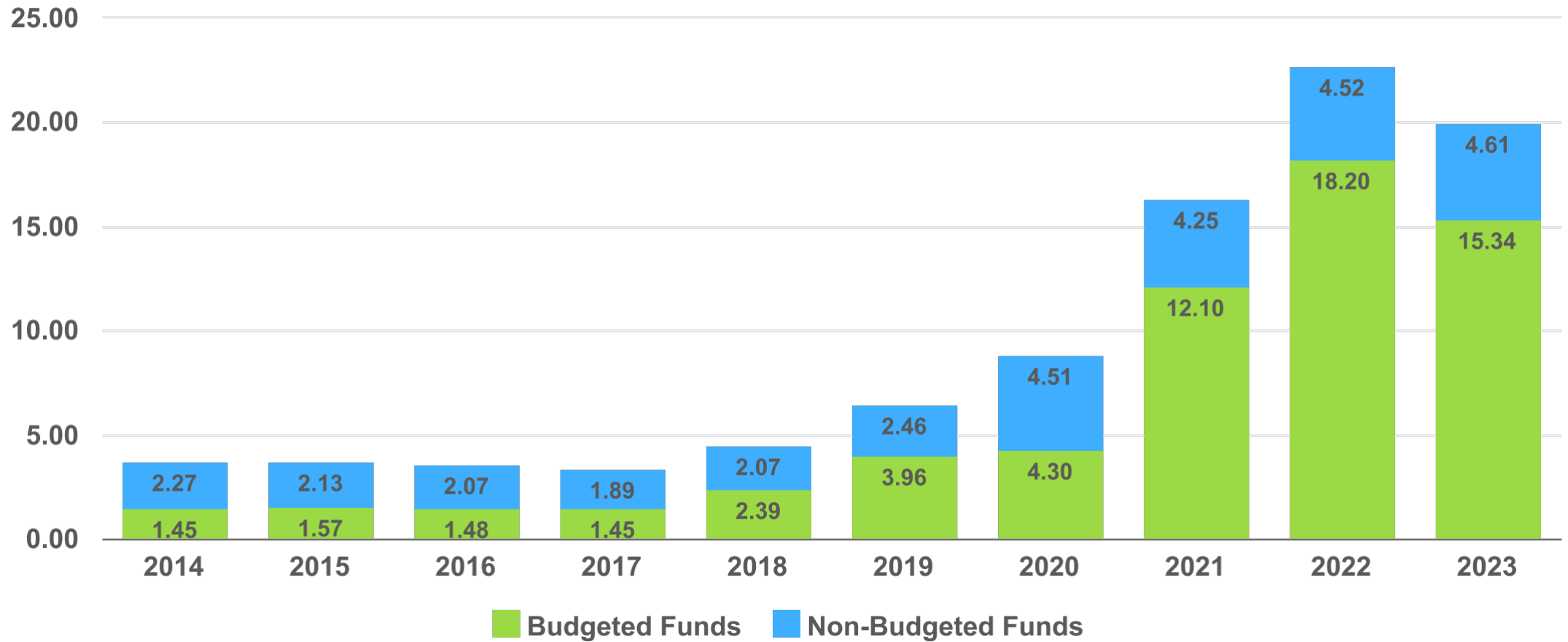
★ FY2023 expenditures and other uses totaled \$20.568 billion, down \$187 million, or 0.9%, from FY2022.

Notable spending changes included:

- A reduction of almost \$1.3 billion in COVID-19-related spending as the pandemic wound down.
- An increase of \$893 million in new spending from the Hospital Investment and Performance Trust Fund
- An increase of \$269 million in Lottery prize money distributed

Fiscal Year 2023 Statutory Basis Financial Report (SBFR)

Budgeted and Non-Budgeted Fund Balances as of June 30 (Excluding Capital)
in \$ Billions



Fiscal Year 2023 Statutory Basis Financial Report (SBFR)

Capital Projects Spending and Revenue

- ★ FY2023 Commonwealth spending on capital projects totaled \$3.711 billion, virtually identical to FY2022 capital spending. Significant categories of capital spending included \$2.064 billion, or more than half of total capital spending, on transportation-related projects, \$612 million on non-transportation state infrastructure, \$258 million on housing, \$247 million on environmental projects, \$224 million, on education, and \$177 million on information technology. List of individual projects starts on page 19 of the SBFR.
- ★ To fund the FY2023 capital budget, the Commonwealth borrowed by issuing general obligation debt with proceeds of \$1.776 billion; no new special obligation debt was issued in FY2023. The Commonwealth received \$769 million in federal reimbursements for capital spending (most of it for transportation projects).
- ★ At the end of FY2023, the capital projects funds had a \$3.326 billion negative balance, as the Commonwealth had not yet reimbursed itself for capital spending that it typically funds in arrears through subsequent bond issues. The capital projects funds normally have a negative balance at the close of each fiscal year.

Agenda Item VI
CLA Report to the Advisory Board

Chris Rogers, Managing Principal of Industry
CliftonLarsonAllen

Agenda Item VII
Items not reasonably anticipated by the Chair

Matthew Gorzkowicz
Secretary, Executive Office for Administration and Finance

Agenda Item VIII
Next meeting

Matthew Gorzkowicz
Secretary, Executive Office for Administration and Finance

Agenda Item IX Adjournment

Matthew Gorzkowicz
Secretary, Executive Office for Administration and Finance