

## **Minutes of the Advisory Board to the Comptroller**

**Meeting Date:** Thursday, February 4, 2025  
**Time:** 2:30 p.m.  
**Location:** Virtually via ZOOM, consistent with Section 40 of Chapter 2 of the Acts of 2023.

### **MEMBERS AND OTHER ATTENDEES**

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#### **Members Present**

**Matthew Gorzkowicz** (Chair), Secretary for Administration and Finance  
**Meredith Barrieau** (Designee), First Deputy State Auditor, Office of the State Auditor  
**Kathleen McNamara** (Designee), Director of Internal Audit, Office of the State Treasurer  
**Paula McManus** (Designee), Chief Operating Officer, Office of the Attorney General  
**Thomas G. Ambrosino**, Court Administrator of Massachusetts Trial Court  
**Natalie Monroe** (Gubernatorial Appointment), Chief Magistrate, Massachusetts Division of Administrative Law Appeals  
**Michael Esmond** (Gubernatorial Appointment), Director of Municipal Finance, Town of Braintree

#### **Members Absent**

None

#### **Office of the Comptroller Attendees**

Tamia Buckingham, Deputy Financial Reporting Officer  
Jessica Cogswell, Statewide Payments and Tax Reporting Manager  
Melissa Diorio, Chief Human Resources Officer  
David Godin, Single and Internal Audit Lead  
Kristine Hill-Jones, Assistant Comptroller  
Kristin Lacroix, Assistant Comptroller and Chief Accounting Officer  
Nana Law, Auditor  
Sage Lewis, Accountant  
Pauline Lieu, Assistant Comptroller and Chief Financial Reporting Officer  
Parris Lourenco, Senior Assistant General Counsel  
Diane Martinos, Executive Assistant to the Comptroller  
William McNamara, Comptroller  
Howard Merkowitz, Senior Advisor  
Halona Mui, Ledger Unit Manager  
Amy Nable, Assistant Comptroller and General Counsel

Jennifer O’Callaghan, Contracts Unit Manager  
Darian Roberts, Assistant General Counsel / Records Access Officer  
Michael Sangalang, Communications Manager  
Dara Valcour, Multimedia Producer  
Andrea Wadsworth, Chief Financial Officer  
Jessie Zuberek, Budget Manager

**Clifton Larson Allen (CLA) Attendees**

Chris Rogers, Managing Principal of Industry, State and Local Government  
Matthew Goulet, Manager, State and Local Government

**AGENDA**

**1. CALL TO ORDER**

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**1.1 Recording Announcement by the Chair**

The Chair announced that, pursuant to the Commonwealth’s Open Meeting Law, Massachusetts General Laws, Chapter 30A, Section 20, any person may make a video or audio recording of this open meeting.

The Chair noted that the Office of the Comptroller (“CTR”) was recording for the purpose of keeping the minutes and asked anyone else making a recording to please identify themselves. Colin Young from the State House News Service stated that he was recording the meeting as well.

**1.2 Statement on Remote Participation**

The Chair announced that 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 will be taken by roll call.

## **2. REVIEW AND APPROVAL OF JULY 11, 2024, ADVISORY BOARD MEETING MINUTES**

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On a motion by Thomas Ambrosino, seconded by Natalie Monroe, the Board approved by roll call vote the July 11, 2024, Advisory Board meeting minutes.

- Secretary Gorzkowicz – Yes
- Meredith Barrieau – Yes
- Kathleen McNamara – Yes
- Paula McManus – Yes
- Thomas Ambrosino – Yes
- Natalie Monroe - Yes
- Michael Esmond – Yes

## **3. REMARKS FROM THE CHAIR OF THE ADVISORY BOARD**

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The Chair welcomed participants and observers to the meeting. He stated that the purpose of this meeting is to review the Statutory Basis Financial Report (SBFR). The Chair stated that the fiscal condition of the Commonwealth is on solid ground and that he wanted to discuss Fiscal Year 2024 (FY24). He said that FY24 was challenging, as the Commonwealth dealt with modest revenue growth, with several months coming in with underperforming revenues. About one year ago, Governor Healey used her 9C authority to cut about \$375 million in spending to account for the underperformance and the midyear revenue projection was downgraded by about \$1 billion. FY24 total revenues ended at about \$40.8 billion, which was about \$965 million more than the revised benchmark. However, that overage was due to surtax revenue, which came in at about \$2.46 billion. The Commonwealth only budgeted for about \$1 billion in surtax revenue, so this was an overage of about \$1.46 billion. This money is constitutionally segregated for transportation and education purposes, and the Governor recently announced plans for how the Commonwealth should spend that money. However, this left a gap in the General Fund of about \$463 million that had to be accounted for in the FY24 closeout supplemental budget that was passed and signed by the Governor in October 2024.

The Chair said that, for FY25, the Commonwealth has collected \$19.2 billion of the roughly \$41 billion revenue projection. This is about \$159 million (about 1%) above the year-to-date benchmark. This is a much better place financially than the Commonwealth was at this point last year. The Stabilization Fund is also in a good position. The Commonwealth did not need to draw from it after FY24 to balance the budget, and actually made deposits into the fund.

The Chair then turned the presentation over to the Comptroller.

#### **4. FISCAL YEAR 2024 REPORTING PROCESS OVERVIEW AND HIGHLIGHTS**

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The Comptroller said that CTR plans to publish the SBFR on Friday, February 7, 2025. He then provided a brief overview of CTR's three major reporting requirements: the SBFR, the ACFR, and the Single Audit. The SBFR contains core functions of state government that are recorded on the Commonwealth's general ledger system. The big timing driver for completion of the SBFR is when the closeout supplemental budget is passed. The ACFR contains the same information as the SBFR, but adds information regarding business-type activities and component units. It takes information from the Commonwealth general ledger but also includes financial statements from other entities that keep their own general ledgers. The Single Audit is a federal requirement structured around federal programs. The state entities responsible for the federal programs chosen to be audited engage in the Single Audit process.

The Comptroller then provided highlights regarding FY24 and the SBFR. The SBFR reflects that FY24 financial activities were in accord with the General Appropriations Act (GAA), supplemental budgets, and state finance law. Timing of the fiscal/budgetary process and state reporting is a serious concern. This SBFR meeting date is a slight improvement over last year, but it is still late. The statutory due date for the SBFR is October 31, but the closeout budget was not signed until December 4, 2024, making it impossible for CTR to meet that deadline. Significant delay in completing the SBFR has become a pattern over the past few years. When the closeout budget is not signed before the end of October, it further delays the time to produce the SBFR because work on the ACFR and Single Audit also become competing priorities. The Comptroller said that timing can be improved if the Legislature passes more interim supplemental budgets earlier throughout the year, resolving issues before they get to the closeout budget, and if the GAA is enacted closer to the July 1 due date. The closeout budget

should also be focused on resolving the previous fiscal year budget and minimizing unrelated policy components.

The Comptroller then turned the presentation over to Howard Merkowitz, CTR Senior Advisor, and Pauline Lieu, Assistant Comptroller and Chief Financial Reporting Officer, to review the SBFR.

## **5. REVIEW OF THE STATUTORY BASIS FINANCIAL REPORT (SBFR)**

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Mr. Merkowitz first provided an overview of the SBFR. The SBFR is presented on a budgetary or statutory basis. This means that it includes cash receipts and expenditures, including the two-month accounts payable and receivable period. It excludes trust funds, most business-type activities such as unemployment and institutions of higher education, and component units such as MassDOT and the MBTA. The SBFR determines whether the budget is balanced according to state finance law. It also determines the calculation of the consolidated net surplus and the end of year transfer to the Stabilization Fund.

Mr. Merkowitz next provided a summary of balances at FY24 year end. FY24 ended with a balanced budget, with a consolidated net surplus of \$426 million in the budgeted funds, all of which was transferred to the Student Opportunities Investment fund. There was an operating loss of \$334 million, compared to \$2.862 billion in FY23. This loss represents an 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. There was a budgeted fund ending balance of \$15.004 billion: \$8.524 in the Stabilization Fund (including \$488 deposited during FY24); \$599 million in the Transitional Escrow Fund; and \$3.172 billion designated for FY25 appropriations.

Mr. Merkowitz next reviewed FY24 total budgeted revenues and income tax revenues. Total budgeted fund revenue totaled \$61.735 billion, an increase of \$4.32 billion (7.5%) from FY23. Budgeted fund tax revenue (not included sales tax revenue allocated to the MBTA and MSBA) totaled \$38.138 billion, up \$4.425 billion (13.2%) from FY23. This large increase was due to a one-time reduction in FY23 revenues of \$2.875 billion, and implementation of the 4% “fair share” surtax. Total personal income tax collections were \$24.112 billion, personal income

tax withholding was \$17.967 billion, and non-withheld personal income tax was \$6.145 billion. Sales & use tax totaled \$6.626 billion and corporate and business taxes totaled \$4.833 billion. Other notable changes include a decrease in the estate and inheritance tax of \$400 million and a decline in the deeds excise tax of \$337 million. Budgeted fund federal reimbursements totaled \$14.603 billion, a decrease of \$622 million due primarily to a decline in the state's Medicaid federal reimbursements. Budgeted fund departmental revenue totaled \$6.429 billion. Lottery profits totaled \$1.151 billion.

Ms. Lieu reviewed FY24 expenditures and transfers. Budgeted fund expenditures and other uses totaled \$62.069 billion, an increase of \$1.793 billion (3%). Medicaid expenditures totaled \$20.070 billion, a decrease of \$1.630 billion (7.5%), as the pandemic-era suspension of eligibility redeterminations expired, and Medicaid beneficiaries were removed from the program. Direct local aid spending was \$7.949 billion, up \$654 million (9%). Transfers to the state pension fund were \$4.104 billion, an increase of \$360 million (9.6%), with additional pension contributions of \$30 million from capital gains taxes. Budgeted fund debt service totaled \$2.425 billion, virtually identical to FY23.

Ms. Lieu reviewed interfund transfers and surtax spending. Interfund transfers from budgeted to non-budgeted funds totaled \$1.520 billion, an increase of \$281 million (22.6%). The net increase was due primarily to a \$420 million increase in a transfer to the Medical Assistance Trust Fund, partially offset by smaller declines in other transfers. There was \$903 million in new education and transportation spending from surtax personal income revenues, including: \$264 million for elementary and secondary education; \$207 million for higher education; and \$430 million for transportation.

Mr. Merkowitz reviewed Stabilization Fund activity. The total balance at the end of FY24 was \$8.524 billion, up from \$8.036 billion at the end of FY23. The Stabilization Fund balance as a percentage of the General Fund own source expenditures was 19.6%, well above the national average of 13.5%.

Ms. Lieu reviewed non-budgeted special revenue fund revenues and expenditures. FY24 revenues and other financing sources totaled \$21.939 billion, up \$1.280 billion (6.2%). This includes: \$7.126 billion in federal revenues, up \$632 million (9.7%); an increase of \$356

million (27.2%) in assessment revenue; an increase of \$211 million (2.7%) of departmental revenue; and transfers of \$1.679 billion, identical to FY23. FY24 expenditures and other uses totaled \$22.001 billion, up \$1.433 billion (7%). This includes: COVID-related spending of \$2.117 billion, an increase of \$420 million; \$1.124 billion in spending from the Hospital Investment and Performance Trust Fund, an increase in \$230 million; \$275 million in spending from the Population Health Investment Trust Fund, an increase in \$249 million; and \$241 million in spending from the Regional Greenhouse Gas Initiative Auction Trust, an increase in \$213 million.

Ms. Lieu reviewed FY24 Commonwealth spending on capital projects. FY24 spending on capital projects totaled \$3.941 billion, down \$230 million (6.2%). Significant categories of capital spending included \$2.143 billion (more than half of all capital spending) on transportation-related projects, \$508 million on non-transportation state infrastructure, \$316 million on housing, \$320 million on environmental projects, \$281 million on education, and \$191 million on information technology. To fund the FY24 capital budget and FY23 capital expenditures that had not been bonded as of June 30, 2023, the Commonwealth borrowed by issuing general and special obligation bonds with proceeds of \$4.927 billion, and issued refunding bonds with proceeds of \$2.308 billion. The Commonwealth received \$779 million in federal reimbursements for capital spending. At the end of FY24, the capital projects funds had a \$1.595 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 the fiscal year.

The presentation was then turned over to Chris Rogers, Managing Principal of Industry, State and Local Government, at the independent auditing firm CliftonLarsonAllen (CLA).

## **6. CLIFTONLARSONALLEN (CLA) REPORT TO THE BOARD**

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Mr. Rogers provided an overview of CLA's SBFR audit. He stated that the objective of CLA's SBFR review is to obtain limited assurance as a basis for reporting whether material modifications should be made to the financial statements for the SBFR to comply with statutory requirements. The review is substantially less in scope than an audit. It does not assess fraud risk

and there is no testing of accounting records through inspection, observation, confirmation, or examination of source documents. The scope of CLA's review includes:

- Budgeted funds (General Fund, Commonwealth Transportation Fund, Stabilization Fund, 24 other "nonmajor" budgeted funds).
- Non-budgeted special revenue funds. These are revenue sources that support specific governmental activities (such as federal grants, Lottery, gaming, etc.).
- Capital projects funds, which include acquisition and construction of major capital assets financed primarily through the issuance of bonds.

Mr. Rogers stated that the Commonwealth and CLA each have different responsibilities regarding review of the SBFR. The Commonwealth is responsible for preparation and fair presentation of the SBFR in accordance with the Commonwealth statutory basis of accounting. They must design, implement, and maintain internal controls relevant to preparation and fair presentation of a SBFR that is free from material misstatement (whether by fraud or error). They must provide unrestricted access to information and personnel requested, and a representation letter at the conclusion of the review. CLA is responsible for concluding whether or not material modifications should be made to the combined financial statements, the combined individual fund statements, and supplemental information. They conduct engagement in accordance with statements on standards for accounting and review services, published by the American Institute of Certified Public Accountants ("AICPA"). They must comply with the AICPA's Code of Professional Conduct, including ethical principles of integrity, objectivity, professional competence, and due care.

Mr. Rogers said that CLA performs analytical procedures and inquiries of management during their review. CLA looks at balances reported in the SBFR to identify any odd or unusual relationships that are contrary to expectations. If identified, such relationships require further inquiry, to determine if it makes sense due to factors affecting the Commonwealth during the fiscal year.

Mr. Rogers said that CLA is in the review process still, but they have not identified any material modifications up to this point and there have been no difficulties with management.

Mr. Rogers turned the presentation over to the Chair. The Chair asked if any Board members had questions regarding CTR or CLA's presentations on the FY24 SBFR? Mr. Ambrosino asked about the balance of the Stabilization Fund, because his last review showed it at about \$9 billion. The Chair explained that there have been transfers through new legislation to try and attract and match federal funds that account for the new balance.

Seeing no other questions, the Chair then turned to the Comptroller to discuss a potential pause in federal grants.

## **7. BRIEF UPDATE: PAUSE IN FEDERAL GRANTS**

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The Comptroller provided an update about a possible federal grants pause. He first provided a timeline of events related to the issue. On January 27, 2025, the federal Office of Management and Budget (OMB) issued a memo detailing a "temporary pause" in federal grants, to be effective January 28, 2025 at 5:00pm. On January 28, 2025 a federal judge issued a temporary stay, effective until March 3, 2025 at 5:00pm. On January 29, 2025 OMB rescinded the January 27, 2025 memo, but not related executive orders. On January 31, 2025, a second federal judge issued a restraining order, stating that the Trump Administration cannot, "pause, freeze, impede, block, cancel, or terminate" taxpayer money already allocated by Congress.

In response to the OMB memo, CTR and the Executive Office of Administration of Finance (A&F) issued a joint memo directing statewide financial staff to generate updated information on spending and balances related to federal grants, categorized by program and grant type. Similar activity has been regularly required when federal government shutdowns are possible.

The Comptroller said that the status of the pause is unclear. The OMB memo was rescinded, but related executive orders remain in place. Massachusetts must prepare for what comes next despite uncertainty. The statewide effort led by CTR and A&F will continue. But, the Comptroller note, it is too early for specifics on possible impacts or response.

## **8. ITEMS NOT REASONABLY ANTICIPATED BY THE CHAIR**

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The Chair asked if there were items not reasonably anticipated by the Chair to be discussed? None were raised.

#### **9. TIMING OUTLOOK FOR NEXT MEETING**

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The Chair said that the next meeting date will be determined on the issuance date of the ACFR. The Comptroller said that CTR will try to send out a target date for the next meeting to Board members next week.

#### **10. MEETING ADJOURNMENT**

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The Chair adjourned the meeting.