

Meeting of the Advisory Board to the Comptroller

December 21, 2022



OFFICE OF THE COMPTROLLER
COMMONWEALTH OF MASSACHUSETTS



Advisory Board to the Comptroller

Statutory Members

- ★ **Michael Heffernan**, Secretary of Administration and Finance (Chair)
- ★ **Suzanne M. Bump**, State Auditor
- ★ **Deborah Goldberg**, Treasurer
- ★ **Maura Healey**, Attorney General
- ★ **John Bello**, Court Administrator of Massachusetts Trial Court

Appointed Members

- ★ **Michael Esmond**, Chief Fiscal Officer of Massachusetts Convention Center Authority
- ★ **Natalie Monroe**, First Assistant Inspector General

Agenda

- I. Call to order; authorization for remote meeting**
Secretary Michael Heffernan
- II. Review and approval of September 8, 2022 Advisory Board meeting minutes**
Secretary Michael Heffernan
- III. Remarks and reporting process overview from the Comptroller**
Comptroller William McNamara
- IV. Review of the Statutory Basis Financial Report (SBFR)**
Pauline Lieu, Chief Financial Reporting Officer & Assistant Comptroller
Howard Merkowitz, Senior Advisor
- V. CliftonAllenLarson (CLA) Report to the Board**
Christian Rogers, CPA and colleagues
- VI. Items not reasonably anticipated by the Chair**
- VII. Timing outlook for next meeting**
- VIII. Meeting adjournment**

Meeting Information

- ★ Due to the outbreak of the 2019 novel coronavirus (“COVID-19”), the Governor issued an Executive Order on March 10, 2020, that, among other things, allowed all members of public bodies to participate in deliberations remotely. Thus, the requirement that a quorum of the Advisory Board be physically present at a meeting was suspended. On July 16, 2022, Chapter 107 of the Acts of 2022 extended certain state of emergency accommodations, including the remote meeting provisions, until March 31, 2023.
- ★ Accordingly, this meeting will be held using Zoom and may be accessed by the public as either a video conference or as a telephone conference call using the following contact information:

Date and Time: December 21, 2022 at 12:00pm

Location: Zoom <https://macomptroller.zoom.us/j/84933151735?pwd=UEJuaWE2aWhvRkhVSHhaU1FMS1d3dz09>

Dial-In: (929) 205-6099

Meeting ID: 849 3315 1735

Passcode: 335899

Review and approval of the September 8, 2022 Meeting Minutes

Michael Heffernan
Secretary of Administration and Finance (Chair)

Remarks and reporting process overview from the Comptroller

William McNamara
Comptroller of the Commonwealth

Comptroller remarks

- ★ Thank you to Advisory Board members
- ★ Office of the Comptroller organizational updates
- ★ BEST progress update
- ★ SBFR timing

Three major reporting requirements

SBFR	ACFR	“Single Audit”
Statutory Basis Financial Report	Annual Comprehensive Financial Report	Term for set of federal requirements
<ul style="list-style-type: none"> Massachusetts-specific requirement under M.G.L. c. 7A, § 12 Some other states have similar requirements 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 Accepting Accounting Principles (GAAP) for those governments and entities 	<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 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"> <i>Report created by Office of the Comptroller; review by independent CPA firm</i> 	<ul style="list-style-type: none"> <i>Report created by Office of the Comptroller; audit opinion by independent CPA firm</i> 	<ul style="list-style-type: none"> <i>Conducted primarily by independent CPA firm; Comptroller facilitates process and filing</i>

Office of the Comptroller FY2022 Statutory Basis Financial Report (SBFR)

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

Fiscal Year 2022

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; 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), some of the Massachusetts Department of Transportation (MassDOT), and 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 (or Transitional Escrow Fund in FY2022)
- ★ 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 (92.0%) and Commonwealth Transportation Fund (3.2%) account for the bulk of spending activity
- ★ In FY2022, per the final supplemental bill, the entire surplus was to be transferred to the Transitional Escrow Fund for spending in FY2023, rather than being deposited in the Stabilization Fund

Fiscal Year 2022 Statutory Basis Financial Report (SBFR)

- ★ FY2022 ended with a “**consolidated net surplus**” of **\$4.812** billion in the budgeted funds
- ★ That \$4.812 billion was transferred to the Transitional Escrow Fund, which is intended to hold the FY2022 surplus for appropriation in FY2023
- ★ There was an **FY2022 operating gain of \$6.101 billion** in the budgeted funds, compared to a \$7.804 billion operating gain in FY2021. Operating gain is due primarily to strong growth in tax revenue of \$6.815 billion
 - Budgeted fund **ending balance of approximately \$18.200 billion**, of which:
 - \$6.938 billion is held in the Stabilization Fund
 - \$2.311 billion deposited in the Stabilization Fund in FY2022
 - \$5.654 billion is in the Transitional Escrow Fund
 - \$6.076 billion designated for FY2023 appropriations
FY2023 prior appropriations continued, or PACs and debt service

Fiscal Year 2022 Statutory Basis Financial Report (SBFR)

- ★ Total budgeted fund revenue (prior to transfers between budgeted funds) totaled \$62.084 billion, **an increase of \$5.202 billion, or 9.1%**, from FY2021
- ★ \$1.629 billion of this growth was due to the net impact of implementation of a “pass-through entity excise tax”, which partially offset the impact of the cap on deductibility of state income taxes on federal returns
- ★ Budgeted fund **tax revenue totaled \$38.587 billion, up \$6.815 billion, or 21.5%** from FY2021 (or \$5.184 billion and 16.3%, adjusting for revenues from the pass-through entity excise), \$6.383 billion above the original FY2022 tax estimate and \$5.925 billion above the final FY22 estimate, as Massachusetts experienced a strong economic recovery from the COVID-19 pandemic
 - Total personal income tax collections were \$24.336 billion, up \$4.718 billion, or 24.1%, and up \$3.089 billion and 15.7% adjusting for the impact of the pass-through excise
 - Personal income tax withholding was up \$1.196 billion, or 8.1%

Fiscal Year 2022 Statutory Basis Financial Report (SBFR)

- ★ **Non-withheld personal income tax** (excluding the pass-through entity tax) increased by \$1.144 billion, or 24.7%, the latter driven entirely by **growth in capital gains tax revenue**, which totaled \$3.877 billion an increase of \$1.293 billion, or 50.1%, from FY2021
- ★ **Sales & use tax sales and use tax (excluding cannabis sales tax)** increased by **\$741 million**, or 13.7%, including a \$388 million, or 41.0% increase in meals taxes
- ★ **Corporate and business taxes** totaled \$5.110 billion, an increase of \$957 million, or 23.0%
- ★ Increases in the deeds excise, (\$75 million, or 18.9%), cannabis sales and excise tax (\$63 million, or 40.7%), and estate taxes (\$81 million, or 10.2%)
- ★ FY2022 tax revenues exceeded the allowable fiscal year tax limit by \$2.941 billion, resulting in refunds paid out to Massachusetts taxpayers in FY2023
- ★ **Federal Reimbursements** totaled \$15.779 billion, a decrease of \$2.560 billion, or 14.0%
 - Non-recurring FY2021 revenue of \$4.892 billion for the America Rescue Plan Act (ARPA)
 - Federal reimbursements for the Commonwealth's Medicaid program totaled \$13.895 billion, an increase of \$1.557 billion, or 12.6%
- ★ **Lottery profits** totaled \$1.101 billion, a decrease of \$7 million, or 0.7%, from FY2021

Fiscal Year 2022

Statutory Basis Financial Report (SBFR)

- ★ **Budgeted fund expenditures** and other uses (prior to transfers between budgeted funds) totaled \$55.983 billion, an **increase** of \$6.905 billion, or 14.1%, from FY2021
- ★ Medicaid expenditures totaled \$19.846 billion, an increase of \$1.723 billion, or 9.5%, from FY2021, due to caseload increases, and the extension of the Federal Public Health emergency, during which disenrollment of beneficiaries was suspended
- ★ Direct local aid spending (both education aid and unrestricted aid) was \$6.743 billion, was up \$260 million, or 4.0%, from FY2021
- ★ Transfers to the state pension fund of \$3.415 billion in accordance with the Commonwealth's actuarially-determined pension funding schedule, an increase of \$300 million, or 9.6%, from FY2021, and additional pension contributions funded by \$250 million appropriation from general revenues and a \$126 million transfer of capital gains taxes
- ★ Budgeted debt service totaled \$2.423 billion, up \$133 million, or 5.8%, from FY2021
- ★ Interfund transfers from budgeted to non-budgeted funds totaled \$3.372 billion, an increase of \$1.927 billion or 133.4%, from FY2021
- ★ \$600 million in ARPA revenue transfers to the Unemployment Insurance Compensation Trust Fund, including \$500 million for repayment of loans taken out from the federal government to pay unemployment insurance benefits during the pandemic

Fiscal Year 2022

Statutory Basis Financial Report (SBFR)

- ★ \$460 million in transfers of ARPA revenues to fund a COVID-related program providing assistance to low-income front line workers
- ★ \$246 million, or 48.7% increase in transfers to the Medical Assistance Trust Fund for payments to hospitals that treat large populations of lower income patients
- ★ \$255 million in new funding for a COVID-related program providing relief to fiscally strained hospitals
- ★ \$350 million to create a Student Opportunity Act Investment Fund
- ★ \$100 million for targeted funding to help municipalities repair roads from winter damage, modeled after the 2015 Winter Recovery Assistance Program
- ★ Transfers among the Budgeted Funds totaled \$8.230 billion, an increase of \$5.130 billion, or 165.5%, from FY2021, primarily due to an increase in transfers of \$1.196 billion, to \$2.312 billion in capital gains tax revenue deposited in the Stabilization Fund and an increase in transfers of \$3.352 billion, to \$4.812 billion, in the transfer of the FY2022 consolidated net surplus to the Transitional Escrow Fund

Fiscal Year 2022 Statutory Basis Financial Report (SBFR)

FY2022 Commonwealth Stabilization (“Rainy Day”) Fund Activity (Figures in Thousands)

Stabilization Fund Balance as of July 1, 2021	\$4,626,419
Capital Gains Tax Revenue Transfers	\$2,272,593
Abandoned Property Transfer	14,639
Certain Lottery Withholding Taxes	260
Interest Earnings	22,481
Adjustment for Change in Value of Short-Term Bond Fund	(22,836)
Transfer of 10% of casino gaming tax revenue	24,308
Stabilization Fund Balance as of June 30, 2022	\$6,937,864
Memo: Change in Stabilization Fund Balance, FY2021-2022	\$2,311,445

As of June 30, 2022, the Commonwealth’s Stabilization Fund balance as a percentage of General Fund own source expenditures was 16.9%, well above the projected national median of 11.4% as reported in the Fall 2022 survey of the National Association of State Budget Officers (NASBO), and up 3.6 percentage points from FY2021.

Fiscal Year 2022 Statutory Basis Financial Report (SBFR)

Non-Budgeted Special Revenue Fund Revenue & Expenditures

- ★ FY2022 revenues and other sources totaled \$21.026 billion, up \$2.687 billion, or 14.7%, from FY2021
- ★ \$731 million increase in federal revenues, many related to programs responding to COVID-19
- ★ \$246 million increase in transfers to the Medical Assistance Trust Fund for payments to hospitals that treat large populations of lower income patients
- ★ Much of the other increases in revenues were the result of transfers from the budgeted to non-budgeted funds for programs financed by the FY2021 surplus and/or ARPA revenues, including:
 - \$350 million to fund relief payments for Massachusetts Hospitals;
 - \$460 million to fund premium pay for essential front-line workers who staffed businesses and government throughout the during the COVID-19 pandemic
- ★ FY2022 expenditures and other uses totaled \$20.754 billion, up \$2.158 billion, or 11.6%, from FY2021, with much of the increase in spending due to the result of programs responding to the pandemic

CLA Report to the Board

Chris Rogers, CPA
Managing Principal, CliftonLarsonAllen LLP

Items not reasonably anticipated by the Chair

Michael Heffernan
Secretary of Administration and Finance (Chair)

Next Meeting Date

Michael Heffernan

Secretary of Administration and Finance (Chair)

Adjournment

Michael Heffernan

Secretary of Administration and Finance (Chair)