



333 Washington Street | Suite 853 | Boston, MA 02108 | 617.720.1000
www.masstaxpayers.com

MTF Bulletin

April 29, 2021

House FY 2022 Budget

Earlier today, the House completed three days of budget debate to finalize their fiscal year (FY) 2022 budget. This Bulletin summarizes notable changes made to the House Ways and Means (HWM) proposal and looks ahead to key issues to watch when the Senate Ways and Means Committee (SWM) releases its budget.

House Debate & Final Budget Overview

Figure 1. FY 2022 Budget Spending Compared

	FY 2021	Gov	HWM	House Floor	House Final	House v. FY 2021	House v. Gov
Total line item spending	\$45,840.0	\$45,399.9	\$47,177.7	\$66.1	\$47,243.8	\$1,337.7	\$1,777.8
<i>MH adjustment</i>	\$0.0	\$0.0	\$1,400.2	\$0.0	\$1,400.2		
Adjusted spending total	\$45,840.0	\$45,399.9	\$45,777.5	\$66.1	\$45,843.6	\$3.5	\$443.7

\$ in Millions

Over the course of the debate, the House adopted \$66.1 million in new spending, as well as 71 new policy sections. Once this floor spending is included, the final House budget totals \$47.2 billion, an increase of \$1.78 billion over the Governor’s original budget. Setting aside spending differences due to updated MassHealth enrollment figures, the House budget adds \$443.7 million in spending over and above the Governor’s plan.

Earmarks, primarily for local programs around the state, account for the vast majority of (53.4 million) of the \$66.1 million in new House spending. Other notable spending increases include cash assistance payments to low-income families, funding for senior nutrition programs and support for dual enrollment programs for high school students.

The House budget more than doubled the number of policy sections included in the original HWM bill. New policy sections include the repeal of the sunset on the state’s film tax credit, an extension of the historic rehabilitation tax credit, expediting the timeline for offshore wind procurement and providing pay increases for sheriffs, court clerks and attorneys representing indigent clients.

House Budget Resource Changes

The HWM budget carried a surplus of approximately \$85 million, meaning that the level of new spending added on the floor can be supported without additional resources. The House did not adopt any amendments to increase revenues in FY 2022, though they did add \$5 million in additional MassHealth payments, which could generate \$2-\$3 million more in Medicaid revenue.

The final budget reduced spending for the state's Temporary Assistance for Families with Dependent Children (TAFDC) by \$5 million from the HWM budget, in spite of the fact that the House also increased the FY 2022 standard payment to TAFDC families by 20 percent from the FY 2020 level. This spending reduction may be possible, in spite of the benefit increase, due to the projected reduction in TAFDC caseload.

The House adopted three amendments that will impact the Commonwealth's finances in future years. Most notably, the House budget makes permanent the state's film tax credit by eliminating the existing 2023 sunset date put in place in 2007. The Department of Revenue estimates that the film tax credit costs between \$65 and \$80 million per year. In the past, the Senate has proposed limiting the scope of the credit to reduce the cost.

The House also phases in a temporary increase in the conservation land tax credit (CLC) cap, from \$2 million to \$5 million over three years. It will remain at \$5 million until 2032, when it returns to \$2 million.

Finally, the House postpones the sunset for the historic rehabilitation tax credit (HRC) from 2022 to 2027. The HRC has an annual cost of approximately \$7 million per year.

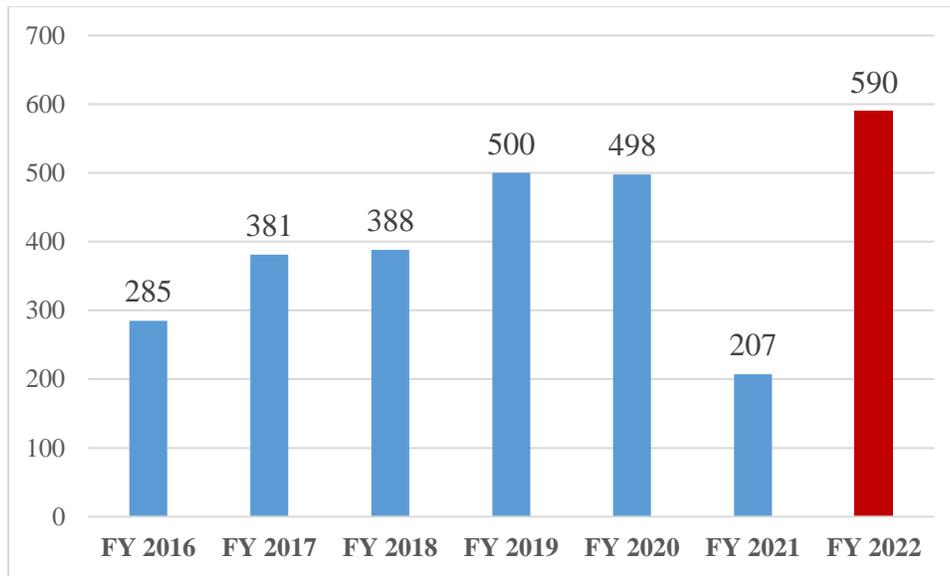
House Spending Additions

The House adopted, in whole or in part, 652 amendments that added \$71.1 million in spending, offset by the \$5 million reduction to TAFDC, for total net new spending of \$66.1 million. Spending can be divided into two categories: general program spending increases and new funds earmarked for specific local projects or service providers.

Earmark Spending

After a sharp reduction in FY 2021, the 590 earmarks adopted by the House make up the bulk of spending added by amendment.

Chart 1. House Earmarks Added by Year



Earmarks are typically small amounts of dedicated funding for a specific use within a larger program. The median earmark in the House budget is \$50,000, with the largest number of earmarks (179) going to local economic development and tourism programs. Public safety, public and substance use prevention, and education and after-school programs are also common recipients of earmark funding.

Figure 2. House Spending by Policy Area

Category	Gross	Earmarks	Non-earmark
Education & Local Aid	\$6,545,000	\$4,645,000	\$1,900,000
Constitutional Officers & State Administration	\$3,550,000	\$2,430,000	\$1,120,000
Transportation	\$1,320,000	\$1,320,000	\$0
Energy & Environmental Affairs	\$6,367,000	\$5,895,000	\$472,000
Social Services & Veterans	\$4,393,568	\$1,115,000	\$3,278,568
Mental Health & Disability Services	\$962,500	\$862,500	\$100,000
Housing	\$941,000	\$881,000	\$60,000
Public Health	\$9,370,000	\$9,215,000	\$155,000
Health & Human Services & Elder Affairs	\$8,300,000	\$7,250,000	\$1,050,000
Public Safety & Judiciary	\$5,340,904	\$5,040,904	\$300,000
Labor & Economic Development	\$11,916,000	\$7,916,000	\$4,000,000
Corrective amendment	\$7,060,433	\$6,861,000	\$199,433
Total spending	\$66,066,405	\$53,431,404	\$12,635,001

Other Spending

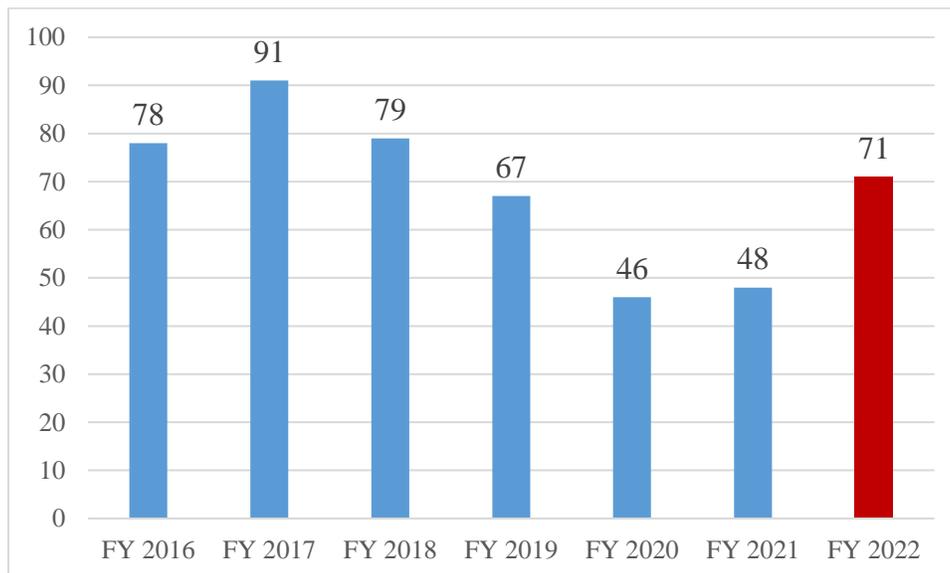
The House added \$18.2 million to 22 line-items, not including earmarks or the \$5 million reduction to TAFDC. Notable funding increases include:

- \$8.1 million to increase the standard benefit for recipients of Emergency Aid to the Elderly, Disabled and Children (EAEDC). The House augmented the 10% benefit increase in the HWM version by an additional 10 percent, for a 20 percent increase over the FY 2020 funding level;
- \$2 million for additional regional tourism grants;
- \$2 million to increase funding for the Commonwealth Zoological Corporation from \$4.6 to \$6.6 million;
- \$1.3 million to increase funding from \$4 million to \$5.3 million for the Department of Higher Education’s Dual Enrollment program, which enables high school students to take college coursework for credits;
- \$1 million to increase support for regionalization incentives for municipalities (from \$600,000 to \$1.6M);
- \$630,000 to provide aid to communities educating a large number of students of military personnel; and
- \$100,000 to support the work of the Early Education and Care Economic Review Commission.

Policy Sections

The House added 71 new policy sections amended five other sections included in the original HWM budget.

Chart 2. House Policy Sections Added by Year



Notable adopted policy amendments include:

- Film Tax Credit extension – the House eliminated the 2023 sunset for the state’s film tax credit;

- Historic Rehabilitation Tax Credit extension – the House extended the sunset on the HRC from 2022 to 2027;
- Conservation Land Tax Credit – the House phases in an increase to the CLC to a maximum level of \$5 million in 2024. The increased cap would expire in tax year 2032;
- Offshore wind procurement – the House adopted an amendment that establishes a deadline for 2027 for the state to procure 5,600 megawatts of offshore wind energy. Currently, 2027 is the deadline for procuring 4,000 megawatts of wind energy, with a further 1,600 to be procured by 2035;
- Insurer reinsurance standards – the House adopted an amendment to update state statutes related to insurance company reinsurance standards to conform to federal requirements;
- Regional Transit Authority performance grants – the House eliminates HWM language that would have required \$3.5 million of the \$94 million RTA subsidy to be distributed based on RTA success in meeting performance metrics. Instead, the \$3.5 million would be distributed based on a formula related to ridership, population and service area;
- Parkinson’s disease registry – the House requires DPH to create a registry to collect incidence of Parkinson’s disease in the Commonwealth;
- Salary increases – the House adopted amendments to provide salary increases for sheriffs, court clerks and CPCS attorneys; and
- Retired public worker hour cap – the House adopted an amendment to increase the cap on the number of hours retired public employees can work, part-time, in the public sector from 960 to 1,200 hours per year.

Looking Ahead to the Senate

The next step in the budget process is the release of the Senate Ways and Means (SWM) budget, the week of May 10th. The SWM budget will respond to the same fiscal questions MTF raised in its recent budget [preview](#). Based on the budget process to date, we can expect several things from the SWM budget:

1. Exclusion of American Rescue Plan resources. The House elected to separate the state’s \$4.5 billion Coronavirus State Fiscal Relief Fund award from the budget process as we await federal guidance and the state develops a thoughtful plan. The same rationale applies to the SWM budget and it seems likely that they will take a similar approach.
2. Using the Stabilization Fund to bridge the fiscal gap. Both the Governor and the House relied on Stabilization Fund draws in excess of the \$1.5 billion to balance the budget. Penciling a large Rainy Day fund withdrawal allowed budget-makers to support new spending, while awaiting clarity on additional tax revenue and federal aid. The SWM budget is likely to follow suit by utilizing substantial reserves; however these assumed withdrawals should be significantly reduced during Conference Committee when more accurate federal and tax revenue estimates are available.
3. Student Opportunity Act implementation. The Chairs of House and Senate Ways and Means announced a joint agreement on local aid that phases in one-sixth of the Student

Opportunity Act and sets aside \$40 million to help districts affected by enrollment volatility related to COVID-19, and commits to the House 1 figure for Unrestricted General Government Aid.

4. Enrollment (and revenue) growth in MassHealth. The SWM budget, like the House, needs to account for a fundamentally different MassHealth outlook than reflected in House 1. Both the House and Senate budgets must address more than \$1 billion in increased costs resulting from changed federal Medicaid policies, but can also expect new revenue to offset these additional expenses.
5. Similar spending playbook. After accounting for MassHealth, the HWM budget increased spending by \$377.6 million more than the Governor's proposal. If history is a guide, the SWM budget will put forward a budget with a similar aggregate spending total, though with major differences in several major investment areas.

The SWM budget will also provide answers to several fiscal questions that are more difficult to forecast:

1. Will the Senate be more receptive than the House to revenue proposals put forward by Governor Baker? The Governor's budget put forward \$274 million in revenue proposals only one of which (a delay in the charitable deduction) made its way into the House budget. Two of the Administration's other proposals, an excise on opioid manufacturers and expanding lottery sales to debit card purchases, have been included in recent Senate budgets.
2. Will the Senate maintain the \$1.875 billion Stabilization draw in the House budget? The SWM budget will almost certainly assume a significant withdrawal from the Stabilization Fund, but the extent of the drawdown will be determined by other spending and revenue choices. The House budget is relatively conservative in several revenue areas – including enhanced MassHealth reimbursements, FEMA payments to the state and the lottery – and if the Senate elects to upgrade those assumptions, it could impact the Stabilization Fund draw necessary to balance the budget.
3. Will the Senate propose any tax changes? The House budget includes several tax changes, such as making the film tax credit permanent, and this means that the Senate can also entertain tax policy changes as part of their process. The Senate could adopt tax proposals made by the Governor, the House or propose new tax changes for consideration in Conference.
4. Will the Senate budget be policy-heavy? The HWM budget was relatively light on policy proposals, though the House added tax, energy and other riders through amendment. Historically, Senate budgets have contained more policy sections than the House.
5. What investment areas will the Senate prioritize? In recent years, Senate budgets have been notable for investments in mental health, education and human services, but the demands of the pandemic and the approach taken by the House could alter Senate priorities in FY 2022.