



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

MTF Bulletin

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FY 2023 Budget Conference Summary

The House and Senate have enacted a \$59.6 billion fiscal year (FY) 2023 budget, which includes all major spending proposals in either budget as well as several new large investments in areas like early education, K-12, and transportation.¹

The conference budget includes close to \$2.8 billion more in spending than either the House or Senate versions. This increase is prompted by a major upgrade in expected tax revenues as well as updated assumptions for Medicaid spending and revenue.

New Spending v. New Resources

| New Spending | |
|----------------------------|----------------|
| Additional line-item spend | \$1,900 |
| Additional transfers | \$76 |
| New off-budget trusts | \$840 |
| Total new spend | \$2,816 |
| New resources | |
| Upgrade tax revenues | \$1,978 |
| MassHealth upgrade | \$815 |
| Other resources | \$100 |
| Total new resources | \$2,893 |
| <i>\$ in millions</i> | |

The budget now moves to the Governor's desk, where he has ten days to sign the budget as is, veto line-items or specific sections, or return provisions with amendments.

FY 2023 Resources

For the second straight year, the first task facing budget-makers was to determine the appropriate revision to the tax revenue assumption used to balance the budget. Since the original FY 2023 consensus revenue figure was established in January, FY 2022 collections have exceeded expectations by billions. As MTF wrote in our recent preview, the question was not if, but rather how this year's tax figure would be adjusted.

¹ This spending total is the sum of line item appropriations (\$52.4 billion) pre-budget transfers (\$6.3B) and new trust spending (\$840 million)

The conference committee increased tax revenue projections by \$2.66 billion from \$36.915 billion to \$39.575 billion. This increase still falls short of expected FY 2022 total revenues. The new conference figure assumes that taxes will grow by 2.15 percent, after assuming a \$1.6 billion decline in non-withholding tax revenue. The decision to reduce non-withholding taxes is consistent with MTF’s recent recommendation and makes sense in light of a volatile stock market and the potential future revenue impact of recent tax changes.

Conference Committee Tax Revenue Adjustment

| | Consensus Revenue | Conference Adjustment | Difference |
|------------------------------|-------------------|-----------------------|----------------|
| Tax revenue assumption | \$36,915 | \$39,575 | \$2,660 |
| Pre-budget transfers | -\$6,259 | -\$6,335 | -\$76 |
| Excess cap gains | -\$873 | -\$1,555 | -\$682 |
| Remaining tax revenue | \$29,783 | \$31,685 | \$1,902 |
| <i>\$ in millions</i> | | | |

After accounting for pre-budget transfers and the requisite deposit of expected above-benchmark capital gains collections into reserves, \$1.9 billion is available for additional operational spending.

The conference committee budget does not include any tax relief provisions, as the House and Senate are using ongoing economic development legislation to advance tax changes. However, the budget includes \$315 million to cover possible FY 2023 costs for tax changes. While the annualized value of the tax framework announced by House and Senate leaders is more than \$500 million, the first-year budget impact will likely be less because such changes will not be effective for the entire fiscal year.

One of the primary differences between the House and Senate tax plans is that the House would delay implementation of the changes until tax year 2023, while the Senate would implement this year. If the Senate approach prevails there will be a FY 2023 fiscal impact.

The House and Senate budgets used very similar non-tax revenue assumptions, but the conference committee resolved several other material resource differences:

- **Tax settlements** – the conference committee, assumed \$100 million in tax settlement collections, which is between the Senate’s estimate of \$50 million and the House figure of \$150 million. Though even this amount may be overly optimistic since tax settlement collections have fallen short of \$100 million in recent years;
- **Debit card lottery** – the conference budget does not include a Senate provision to legalize debit card purchase of lottery tickets. This reduces conference revenues by \$30 million;
- **Reversions** – the conference budget does not rely on any savings from unspent appropriations. The Senate budget assumed \$125 million in reversions.

The conference budget projects Medicaid revenue will increase by approximately \$800 million to account for the continued extension of the federal public health emergency as well as the standard reimbursement received for elevated MassHealth caseload levels that result. The PHE will last at

least three months longer than expected in the House or Senate budgets providing enhanced federal reimbursements for an additional fiscal quarter.

FY 2022 Spending

The conference committee budget includes \$52.4 billion in line-item spending, an increase of \$1.9 billion over the Senate budget and \$2.1 billion more than the House. The final budget spends the higher amount in either the House or Senate budgets and adds approximately \$320 million in appropriations not included in either budget. In addition, budget-makers set aside \$840 million into several off-budget trust funds.

FY 2023 Spending Comparison

| | FY 2022 Current | FY 2023 Gov | FY 2023 House | FY 2023 Senate | FY 2023 Conference |
|-----------------------------------|----------------------------|------------------------|--------------------------|---------------------------|-------------------------------|
| Line-Item Spending | \$49,363.4 | \$48,231.4 | \$49,759.1 | \$49,922.5 | \$51,868.7 |
| Medical Asst. Trust | \$471.4 | \$575.9 | \$575.9 | \$575.9 | \$575.9 |
| Pre-budget Transfers | \$5,755.5 | \$6,258.8 | \$6,258.7 | \$6,258.7 | \$6,258.7 |
| <i>Tax relief fund</i> | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$315.0 |
| <i>Early education fund</i> | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$175.0 |
| <i>SOA fund</i> | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$150.0 |
| <i>Pension & OPEB</i> | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$200.0 |
| Other Spending | \$600.0 | \$225.0 | \$60.0 | -\$65.0 | \$60.0 |
| Total Spend | \$56,190.3 | \$55,291.1 | \$56,653.7 | \$56,692.1 | \$59,603.3 |
| Difference with Conference | \$3,413.0 | \$4,312.2 | \$2,949.7 | \$2,911.2 | NA |
| <i>\$ in millions</i> | | | | | |

The new \$320 million in line-item spending included in the conference budget is comprised of \$266.3 million appropriated for MBTA safety improvements as well as \$27.8 million to expedite the implementation of increased low-income benefits provided by the Department of Transitional Assistance.

House and Senate conferees followed last year’s playbook by using new spending to capitalize trust funds to address ongoing fiscal obligations and cover potential FY 2023 costs of tax relief. In total, the budget now includes \$840 million set aside for five trust funds.

Trust Spending in FY 2022 & FY 2023

| | FY 2022 | FY 2023 |
|-------------------------|----------------|----------------|
| Taxpayer relief fund | \$0 | \$315 |
| Early Education fund | \$0 | \$175 |
| Student Opportunity Act | \$350 | \$150 |
| Pension supplement | \$250 | \$100 |
| OPEB supplement | \$0 | \$100 |
| Total | \$600 | \$840 |
| <i>\$ in millions</i> | | |

The trust deposits shown in the table above are in addition to spending in the budget. For example, the budget includes \$250 million for early education stabilization grants, \$60 million for increasing subsidy rates and other new investments in addition to the \$175 million trust fund transfer.

FY 2022 Surplus and Stabilization Fund

The conference committee budget plans on \$1.47 billion in Stabilization Fund deposits in FY 2023. If that occurs, it would boost the Stabilization Fund balance to more than \$8 billion, from the current \$6.6 billion, equivalent to 15.4 percent of all line-item spending.

Stabilization Fund in FY 2022 & FY 2023

| | | | | |
|---------------------------------------|------------------|------------------|------------------|-------------------|
| FY 2022 Starting Balance | \$4,626.0 | | | |
| <i>Planned Deposits</i> | <i>\$1,979.8</i> | | | |
| FY 2022 Ending Balance | \$6,605.8 | | | |
| | Gov. | House | Senate | Conference |
| <i>FY 2023 Capital Gains Deposits</i> | <i>\$681.0</i> | <i>\$786.0</i> | <i>\$786.0</i> | <i>\$1,399.5</i> |
| <i>FY 2023 Other Deposits</i> | <i>\$68.4</i> | <i>\$33.7</i> | <i>\$68.4</i> | <i>\$68.4</i> |
| <i>FY 2023 Withdrawal</i> | <i>\$0.0</i> | <i>\$0.0</i> | <i>\$0.0</i> | <i>\$0.0</i> |
| Assumed FY 2023 Ending Balance | \$7,355.2 | \$7,425.5 | \$7,460.2 | \$8,073.7 |

\$ in Millions

FY 2023 Policy

The House and Senate budgets included 253 combined policy sections, most of which were unique to one branch. The resolution of major policy differences is summarized in the table below:

Resolution of Notable Policy Differences

| Title | House | Senate | Conf. | Description |
|-------------------------------------|--------------|---------------|--------------|---|
| ConnectorCare expansion pilot | ✓ | ✗ | ✓ | Creates a two-year pilot (beginning in June 2023) to increase Connector premium subsidies to 500 percent of FPL |
| MBTA Board | ✓ | ✗ | Compromise | Adds 2 appointments to board: appointee of Boston Mayor and another municipal official (appointed by Gov.) |
| DA & sheriff pay raises | ✓ | ✗ | ✗ | Increases the salaries of district attorneys and sheriffs. |
| Conservation land tax credit | ✓ | ✗ | ✗ | Increases the cap on the credit to \$5 million for 10. |
| Drug coupons | ✓ | ✗ | ✓ | Extends prescription drug coupons through FY 2026 |
| PFML wage replacement | ✓ | ✗ | ✓ | Allows PFML users to use vacation and sick time concurrent with PFML. |
| Behavioral health crisis assessment | ✗ | ✓ | Compromise | Creates a two-year assessment on health insurance payers to support improvement of behavioral health crisis services. After three years, the HPC is to provide recommendations for ongoing financing. |
| MassHealth rebate expansion | ✗ | ✓ | ✗ | Expands MassHealth's authority to negotiate supplemental rebates for pharmaceuticals and medical devices. |
| Remote meeting and notarization | ✗ | ✓ | ✗ | Extends the legal authorization for remote municipal/board meeting and notary public services. |
| Indigence assessment | ✗ | ✓ | ✗ | Eliminates \$150 fee for indigent defendants seeking CPCS representation |

Next steps

Governor Baker has until July 28th to sign the budget. If he utilizes the full amount of time, the House and Senate will have less than a week to consider or override any of the Governor's vetoes or amendments.

Governor Baker's Veto Actions, FY 2016 – FY 2021

| | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 |
|--------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Line items reduced | 96 | 302 | 167 | 45 | 0 | 136 | 7 |
| \$ reduction | \$163 | \$264 | \$320 | \$49 | \$0 | \$159 | \$8 |
| Sections vetoed | 21 | 36 | 9 | 0 | 0 | 0 | 2 |
| Sections amended | 9 | 23 | 25 | 19 | 9 | 17 | 25 |

\$ in millions

Last year, after the major tax revenue upgrade, Governor Baker signed almost all spending in the budget and veto or amended close to 30 policy sections.

The next steps in the FY 2023 budget are made more complicated by the pending tax relief and economic development legislation. For example, the House and Senate tax proposals differ in both estate tax policy and implementation date. Given the limited time left in the legislative session, the size of the revenue surplus, and the benefits of the elements of the tax relief plan, accounting fully for those changes in the FY 2023 budget makes sense.