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MTF Bulletin

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FY 2024 Conference Committee Report Summary

The House and Senate are set to enact a Fiscal Year (FY) 2024 budget, totaling \$56.2 billion¹. The conference committee report was filed on July 30th, one month after the start of the new fiscal year. This year, separate tax bill negotiations, the new income surtax, and an uncertain FY 2023 revenue picture imposed additional complications on the budget negotiation process.

The FY 2024 budget includes \$804 million more in spending than the House, and \$305 million more than the Senate budget. As MTF [reported](#) earlier this summer, the FY 2024 budget was the first in several years for which resources were not sufficient to support all of the shared and unique spending proposed by the House and Senate. To accommodate more spending than either earlier versions, the FY 2024 budget permits the administration to transfer \$205 million from the Transitional Escrow Fund or the COVID-19 Response Fund² into the General Fund.

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

FY 2024 Conference Report – Top 3 Things to Know

1. **The FY 2024 conference committee report does not reflect a specific tax relief proposal**, instead setting aside \$580 million to cover the FY 2024 costs of a forthcoming compromise tax bill. The House passed its tax bill on April 13th, and the Senate passed its version on June 15th; a conference committee was appointed on June 20th. As MTF previously [reported](#), a tax relief package that is inclusive of all House and Senate proposals can be implemented with an FY 2024 budget cost of approximately \$600 million and an ongoing budget impact of \$1 billion.
2. **The conference report includes \$1 billion in spending supported by income surtax revenue collections**, and essentially divides investments between education (52 percent) and transportation (48 percent) initiatives evenly. Heading into budget negotiations, more than two-thirds of surtax spending included by either branch was unique, requiring budget

¹ This spending total reflects line-item appropriations in Section 2, 2E, and 2F of the FY 2024 conference budget. It does not include pre-budget transfers (\$6.9 billion) or other spending, including sections 2B or 2D.

² The Federal COVID-19 Response Fund was established in Section 2JJJJ of Chapter 29 of the Massachusetts General Laws for the Coronavirus State Fiscal Recovery Funds appropriated in the American Rescue Plan Act (ARPA). MTF has previously estimated there to be approximately \$300 million in remaining federal ARPA funding.

writers to pare down combined surtax spending by \$551 million to fit within the \$1 billion cap. All but three of the unique programs proposed by either the House or Senate are included in the conference report; however, many items are reduced from their original proposed levels.

3. **The FY 2024 budget directs the administration to transfer \$205 million in one-time resources from the Transitional Escrow Fund or the COVID-19 Response Fund to the General Fund** to accommodate additional spending. If the entirety of the transfer comes from the Transitional Escrow Fund, it would be left with a balance of approximately \$1.2 billion. In a recently passed supplemental budget, the House also proposed using \$700 million in state surplus resources to direct aid to fiscally strained hospitals, increase support for school districts facing special education cost increases, and cover the costs associated with collective bargaining agreements.

FY 2024 Budget Resources

Baseline Tax Revenues

The FY 2024 budget is built on the consensus revenue foundation of \$40.4 billion. For the first time in seven years, the Conference Committee does not adjust the original estimate due to changing revenue trends. The FY 2024 revenue estimate was predicated on a slowdown in revenue growth based on declining non-withheld income and the repayment of Pass-Through Entity tax credits. As the steep revenue decline in April demonstrated, those expected trends emerged in the latter half of FY 2023. However, given the relative strength of revenue collections in May, the \$40.4 billion estimate for FY 2024 remains sound.

After accounting for \$6.9 billion in “pre-budget transfers” to the Workforce Training Trust Fund, Pension Fund, the MBTA, and the School Building Authority (SBA); as well as the transfer of excess capital gains tax revenue collections to the Stabilization Fund and other reserves, \$32.9 billion in consensus tax revenues remained for state budget spending.

Income Surtax Revenue

The conference budget relies on \$1 billion in revenue generated by the 4 percent income surtax on income over \$1 million. This is consistent with the agreement made between the administration and legislative budget writers in January, as well as the budgets proposed by the Governor, House, and Senate.

The FY 2024 budget divides income surtax spending almost evenly, with 52 percent (\$524 million) going toward education investments and 48 percent (\$477 million) going toward transportation initiatives. This division is slightly different from House and Senate versions, which split the funding evenly.

FY 2024 Income Surtax Revenue Investments

	Governor's Budget	House Budget	Senate Budget	Conference Budget
Education	\$510	\$500	\$500	\$524
<i>Early Education</i>	\$140	\$65	\$80	\$71
<i>K-12 Education</i>	\$10	\$261	\$110	\$224
<i>Higher Education</i>	\$360	\$174	\$310	\$229
Transportation	\$490	\$500	\$500	\$477
<i>MBTA</i>	\$186	\$320	\$195	\$206
<i>MassDOT</i>	\$264	\$100	\$100	\$75
<i>RTAs</i>	\$25	\$70	\$100	\$90
<i>Local/Pilot Program</i>	\$15	\$10	\$105	\$106
Total Investments	\$1,000	\$1,000	\$1,000	\$1,000

\$ in millions

Heading into Conference, the House and Senate budgets included \$449 million in shared surtax spending priorities and \$1.1 billion in unique spending initiatives; meaning that budget-writers had to pare down surtax spending by \$551 million to fit within the \$1 billion cap. While a number of programs supported by surtax revenue remain fully funded in the conference budget; including MassReconnect (\$20 million), Supplemental Aid for Roads & Bridges (\$100 million), and MSBA Capital Supports (\$100 million); other programs see reduced funding amounts. Notable surtax spending reductions include:

- \$50 million for Public Higher Education Capital Funding, originally included in the Senate budget at \$125 million;
- \$50 million for the Green School Works program, originally funded in the House budget at \$100 million; and
- \$20 million for the MBTA Workforce and Safety Reserve, originally funded in the House budget at \$65 million.

Universal School Meals is another initiative that appears to experience a marked reduction, with surtax funding of just \$69 million; however, full funding for the program is achieved through the use of approximately \$100 million in General Fund resources.

Income Surtax Collection & Use Methodology

The process to collect, track, and spend income surtax revenue included in the FY 2024 budget largely reflects the proposals passed by the House and Senate.

Income Surtax Collection & Use Process

Proposal	House Budget	Senate Budget	FY 2024 Budget
New Trust Funds	3	3	3
Quarterly Payments into the Fund	Yes	Yes	Yes
Annual Certification of Fund Balance	Yes	Yes	Yes
New Budget Section (2F)	Yes	Yes	Yes
Line-Item Language Specifies One-Time vs. Recurring Costs	No	No	No
Exempt from 62F	Yes	Yes	Yes
Exempt from Capital Gains Stabilization Fund Transfer	Yes	Yes	Yes
Collections Above the Cap	15% to Stab Surtax Fund. 85% to Innovation Fund	15% to Stab Surtax Fund. 85% to Innovation Fund	15% to Surtax Reserve Fund. 85% to Innovation Fund

An element of the process that has been clarified by the conference report concerns the use of income surtax revenue collections above the \$1 billion spending cap. Revenues in excess of the annual spending cap are diverted to the Reserve Fund and the Innovation and Capital Fund in the following manner:

- **Education and Transportation Reserve Fund:** 15 percent of revenue collections above the annual spending limit are diverted to the Education and Transportation Reserve Fund; the balance of which cannot exceed 33 percent of the annual spending limit. Any balance of the fund in excess of 33 percent is sent to the Innovation and Capital Fund.
- **Education and Transportation Innovation and Capital Fund:** 85 percent of revenue collections above the annual spending limit are sent to the Education and Transportation Innovation and Capital Fund. The conference report, like the Senate budget, specifies that resources in this fund may be used for one-time education and transportation investments, including pay-go capital and other one-time projects.

Tax Relief Legislation

The FY 2024 budget does not reflect any specific tax reform initiatives; however, it does set aside \$580 million in revenues to cover the FY 2024 costs of a future tax relief bill. As MTF previously [reported](#), a comprehensive tax relief package – inclusive of House and Senate proposals – could be implemented with an FY 2024 budget cost of approximately \$600 million.

The failure to produce a compromise tax bill in conjunction with the FY 2024 budget increases uncertainty regarding the future of necessary relief; however, the setting aside of revenues to cover the costs of future legislation signals the continued commitment of legislative leaders to finalize a tax relief package after nearly nineteen months of negotiation. For an in-depth summary of the

similarities and differences between the House and Senate tax bills, see MTF's [Tax Relief Conference Preview](#).

Non-Tax Revenue

The Conference budget relies on \$24.1 billion in non-tax revenue to support spending, including the \$205 million transfer of one-time resources to the General Fund, which is summarized earlier in the brief. Other notable non-tax revenues include:

- ***High-Quality Early Education and Care Affordability Fund*** (\$225 million) – The FY 2024 budget appropriates \$225 million from this \$490 million trust fund to support a portion of the full-year costs of the Child Care Operational Grants program administered by the Department of Early Education and Care. The Senate initially proposed using \$245 million from this trust fund to support the program.
- ***Behavioral Health Trust Fund*** (\$192 million) – The conference budget uses \$192 million in resources from the Behavioral Health Trust Fund to support a variety of programs related to strengthening the behavioral health workforce; including an existing student loan repayment assistance program, a program to provide stipends for unpaid clinical hours, and an initiative to help K-12 students transition back to the classroom after extended mental health-related absences. This was originally a Senate budget initiative.
- ***State Medicaid Reimbursements*** (\$11 billion) – The FY 2024 budget relies on \$11 billion in enhanced federal Medicaid reimbursement, level with the House budget and \$16 million more than the Senate. The conference report's revenue assumptions related to MassHealth reflect the end of the federal Public Health Emergency (PHE), as well as the increased federal reimbursement made available by a \$112 million increase for nursing home rates, and a \$30 million increase for the reimbursement rates for ambulance ground transportation.
- ***Reversions*** (\$200 million) – The conference budget reflects a \$200 million savings assumption for reversions in FY 2024. Reversions are appropriations that go unspent during a fiscal year and get returned to the General Fund. Reversions in a typical year far exceed \$200 million, but budgeting on these savings reduces fiscal flexibility to offset unknown spending needs or other revenue losses later in the year.

FY 2024 Budget Spending

Line-Item Spending

The FY 2024 budget includes \$56.2 billion in total spending, including \$505 million for the Medical Assistance Trust Fund and \$1 billion for surtax-supported investments. This total is \$804 million greater than the House budget and \$305 million more than the Senate. The FY 2024 conference budget includes \$3.8 billion more in spending than the FY 2023 budget signed by Governor Baker.

Total spending in the FY 2024 conference report grows by 7.3 percent over the FY 2023 budget; however, separating out surtax and MassHealth-related spending offers a more interesting comparison of trends. MassHealth-related spending grows by 2.5 percent, while non-surtax spending grows by 7.1 percent. This level of spending growth for non-MassHealth accounts is abnormal and reflects the build-up of resources during two years of historic tax revenue gains, as well as lower than usual MassHealth spending growth. In FY 2025, non-MassHealth spending will need to correlate with expected recurring revenue growth.

FY 2024 Line-Item Spending

Category	Governor's Budget	House Budget	Senate Budget	Conference Budget	FY 2024 v. FY 2023
MassHealth	\$19,817	\$19,960	\$19,929	\$19,960	2.5%
Surtax Spending	\$1,000	\$1,000	\$1,000	\$1,000	--
All Other Line-Items	\$34,465	\$34,493	\$35,022	\$35,297	7.1%
Total Spending	\$55,282	\$55,452	\$55,951	\$56,256	7.3%

\$ in millions

Over 98 percent of spending in the House and Senate budgets was shared; however, there remained nearly \$1.5 billion in unique priorities. The largest portion of unique spending was attributable to earmarks, which constituted \$435 million in unique spending according to MTF’s analysis. The final conference report includes more than 1,400 programmatic and local earmarks, which is consistent with the number of earmarks that MTF had previously estimated were included in the House and Senate versions of the bill.

Unlike the FY 2022 and FY 2023 budgets enacted by the Legislature, the FY 2024 conference budget does not include the higher funding levels proposed for all accounts. Notable non-surtax funding levels included in the FY 2024 conference budget include:

- \$97.1 million for Regional School Transportation, equal to a 90 percent reimbursement rate for districts. The House originally proposed 100 percent reimbursement.
- \$6 million for MassHire Career Centers, \$9 million less than the House budget.
- \$5.2 million for the Small Business Technical Assistance Grant Program, a reduction of \$25 million compared to the House and \$2.3 million compared to the Senate.
- \$1 million for Non-Resident Pupil Transportation, equal to a 20 percent reimbursement rate for districts. The Senate originally proposed 100 percent reimbursement.

Stabilization Fund

The conference budget reflects a \$730 million deposit into the Stabilization Fund for FY 2024; an increase of \$105 million over the Governor and House, and \$174 million more than the Senate. The increase over the Governor and House is attributable to the exclusion of the short-term capital gains tax reduction from 12 to 5 percent, which would have decreased the planned Stabilization Fund transfer by \$105 million. The increase over the Senate is related to the proposed decrease in the share of excess capital gains revenue automatically deposited into the Stabilization Fund from 90 percent to 60 percent. That proposal is not included in the FY 2024 conference budget.

FY 2023 & FY 2024 Stabilization Fund Balance

FY 2023 Beginning Balance	\$6,937.50			
<i>MTF est. Planned Deposits</i>	\$600.00			
MTF Est. FY 2023 Ending Balance	\$7,537.50			
	Governor	House	Senate	Conference
<i>FY 2024 Capital Gains Deposit</i>	\$420.00	\$420.00	\$350.36	\$525.04
<i>FY 2024 Other Deposits</i>	\$205.04	205.04	\$205.04	\$205.30
<i>FY 2024 Withdrawal</i>	\$0.00	\$0.00	\$0.00	\$0.00
FY 2024 Ending Balance	\$8,162.54	\$8,162.54	\$8,092.90	\$8,267.84

\$ in millions

Based on capital gains tax collections year-to-date and MTF estimates, the planned deposit into the Stabilization Fund for FY 2023 likely will not exceed \$600 million. This is notably less than the original planned deposit for FY 2023 of \$1.6 billion. Based on MTF’s assumptions, the FY 2023 ending balance of the Stabilization Fund would be \$7.5 billion and the FY 2024 ending balance would be closer to \$8.2 billion³.

FY 2024 Policy Sections

The conference committee report includes 112 outside policy sections, a greater number than what had been adopted by either the House (48) or Senate (91). The table below summarizes the resolution of a number of major policy differences between the two branches.

FY 2024 Conference Budget, Resolution of Notable Policy Sections

Topic	Policy	House	Senate	Conference	Description
Tax-Related Policy	Surtax Implementation I	✓	✓	✓	Incorporates the surtax into the law governing income tax (MGL 62:4). States that the tax shall apply to Parts A, B, and C of taxable income and that losses in one part cannot be used to reduce income in another part.
	Surtax Implementation II	✓	✓	✓	Incorporates the surtax into the law governing the taxation of income earned in MA by non-residents (MGL 62:5A).
	Capital Gains Transfer Change	✗	✓	✗	Increases the share of over-threshold capital gains dedicated to pension and OPEB liabilities
	iLottery	✓	✗	✗	Legalizes iLottery and dedicates revenue to Child Care Stabilization Grants
	Brownfields Extension	✓	✗	✓	Extends the Brownfields tax credit to 2028

³ The conference report reflects earlier House and Senate budget assumptions, which included a \$1.6 billion deposit into the Stabilization Fund. This would result in an FY 2023 Stabilization Fund ending balance of \$8.5 billion, and an FY 2024 ending balance of \$9.2 billion.

Topic	Policy	House	Senate	Conference	Description
Healthcare Policy	ConnectorCare Pilot	✓	✗	✓	Creates a two-year pilot to expand Connector eligibility up to 500% of the federal poverty level
	Medicaid Ambulance Rates	✓	✗	✓	Requires MassHealth ambulance rates be equal to Medicare rates
	MassHealth Rebates	✗	✓	✗	Expands the state's supplemental drug rebate program to additional medications and medical devices
	GIC Coverage	✗	✓	Compromise	Requires new state employees receive insurance coverage on first day of first full month of employment.
	Child Death Oversight	✓	✓	✓	Requires the Chief Medical Examiner to review and approve the findings of any autopsy report for a child under the age of two.
Other Notable Policy	Universal School Meals	✓	✗	✓	Mandates universal school meals in statute
	MBTA Board	✓	✗	Compromise	Adds two seats to the MBTA Board, including a representative of the City of Boston.
	MSBA Cap	✓	✓	✓	Increases the statutory grant cap for the MSBA to fund school building projects to \$1.2B, excludes the Accelerated Repair Program from the cap.
	In-State Tuition & Financial Aid	✗	✓	✓	Makes undocumented HS students eligible for in-state tuition, fees, and financial aid at MA public higher education institutions
	Autobody Labor Rates	✗	✓	✗	Establishes minimum auto body rates and a rate-setting process for work related to an insurance claim
	Community Preservation Act	✗	✓	✗	Transfers \$30M of any FY 2023 budget surplus to the CPA
	Data Equity	✓	✗	Compromise	Directs state agencies to use specific collection and tabulation delineations for racial and ethnic subgroups.

Next Steps

Governor Healey has until August 10th to sign the budget, veto certain line-items or sections, or propose amendments to specific provisions. Spending vetoes typically occur when an administration determines that Conference Committee appropriations are unworkable or revenue assumptions are unrealistic. When an outside policy section is returned with an amendment, the Legislature must decide whether to reject, amend, or adopt the Governor’s proposal in the form of a new bill. The Governor retains the ability to veto amendments once they are returned to her desk.

At \$56.2 billion, the FY 2024 conference report includes a record amount of spending. Despite dealing with tighter budget constraints than in more recent years, budget negotiators managed to maintain investments across the education sectors, in mental and behavioral health care, and workforce programming, while also depositing \$730 million into the Stabilization Fund. Additionally, the Legislature has established a clear process to collect, track, and spend income surtax revenues that is transparent and sustainable.

The conference report’s exclusion of a specific tax relief package is a missed opportunity; however, it’s \$580 million set aside for a future compromise tax bill is an important signal for

near-term action on a bill. Legislators have a unique opportunity to address key cost pressures for residents and improve the state’s competitiveness this year; it cannot be passed by.

Spending vetoes have become a rarity in recent years, with Governor Baker only vetoing \$8 million and \$480K in spending during his last two years in office. However, the continued uncertainty of revenue collection trends means that the Healey administration will want to ensure that we head into FY 2024 with a balanced budget that is built to withstand unanticipated events.

Governor Baker’s Budget Actions, FY 2020 – FY 2023

	FY 2020	FY 2021	FY 2022	FY 2023
Line-Items Reduced	0	136	7	4
\$ Reduction	\$0	\$159	\$8	\$0.48
Sections Vetoes	0	0	2	0
Sections Amended	9	17	25	41

\$ in millions