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The Legislature Passes the FY 2021 Budget

Introduction

The Legislature passed its FY 2021 budget Friday, December 5th hoping to avoid the need for another interim budget and just days before the FY 2022 consensus revenue hearing that kicks off the next budget process.

The budget, now awaiting the Governor's response, comes in at \$46.46 billion or \$692 million greater than the \$45.77 billion revised proposal from the administration in October. The Legislature's plan represents a \$2.9 billion increase over the FY 2020 General Appropriations Act or a hike of 6.6 percent.

Clearly, this is not an austerity budget. In fact, the conference committee tacked on nearly \$300 million to the Senate budget and \$385 million to the House's proposal. The actions taken by the Legislature depict a growing concern for those harmed by the pandemic and a fear that the federal government may fall short in its efforts to mitigate further damage to the economy. Should federal relief not materialize, FY 2022 will be exceptionally challenging as a result of these actions.

Revenues

The Legislature increased total budgeted revenues to \$45.38 billion for FY 2021, \$446 million more than the administration, \$267 million more than the House budget, and \$297 million greater than the Senate's plan (Table 1).

The Legislature assumes \$27.59 billion in tax revenues, the same as certified by the Secretary of Administration and Finance (ANF) in October in accordance with Chapter 29 Section 5B of the M.G.L. Statutorily required pre-budget payments for pensions, sales tax revenue transfers to the MBTA and the MA School Building Authority, and funds for the Workforce Training Fund total \$5.18 billion, the same amount that is in the Governor's and House's budgets. After these transfers, all three plans are left with \$22.4 billion in tax revenues for line-item spending.

The Legislature adopts the following Baker administration's revenue provisions:

- One-time sales tax revenues of \$267 million obtained by accelerating the due date of remittance for certain vendors; this change advances revenues that would have been applied to FY 2022 to FY 2021;

- Tax settlements of \$125 million, \$75 million more than the Governor’s \$50 million estimate, more than both the House and Senate proposals, and higher than actual collections in recent years;
- Delay in the charitable deduction for one year (\$64 million); and
- Life Sciences, Sales Tax Integrity, and a Treasury offset program that cumulatively adds \$8 million.
- Collectively these measures account for \$384 million in additional revenues.

In addition to tax revenues, the Legislature projects federal reimbursements of \$13.88 billion, \$4.91 billion in department revenues, and \$2.1 billion in consolidated transfers to cover annual operating expenses.

The biggest difference between the conference committee report and the earlier budget proposals is a proposed withdrawal of \$1.7 billion from the Stabilization Fund that is \$350 million greater than the administration’s budget. It would leave the Fund balance at approximately \$1.8 billion for future needs.

Table 1 – FY 2021 Revenues by Source (in \$ millions)

	Governor	House	Senate	Legislature
Tax Revenues	27,592	27,592	27,592	27,592
Statutory Transfers				
Pensions	3,115	3,115	3,115	3,115
MBTA	1,102	1,102	1,102	1,102
MSBA	942	942	942	942
Workforce Training Fund	25	25	25	25
Subtotal Transfers	5,183	5,183	5,183	5,183
Consensus Tax for Budget	22,409	22,409	22,409	22,409
Other Tax				
Tax Settlements	50	100	50	125
Sales Tax Acceleration	267	267	267	267
MBTA Transfer	-39.9	-39.9	-39.9	-39.9
MSBA Transfer	-39.9	-39.9	-39.9	-39.9
Charitable Deduction Delay	64	64	64	64
Sales Tax Integrity	2	2	2	2
MBTA/MSBA Transfers	-0.2	-0.2	-0.2	-0.2
Life Sciences	5	5	5	5
Treasury Offset Program	1.2	1.2	1.2	1.2
Other Tax Subtotal	309	359	309	384
Non-Tax Revenue				
Federal Reimbursements	13,859	13,929	13,859	13,880
Department Revenues	4,898	4,830	4,921	4,913
Consolidated Transfers	2,110	2,037	2,085	2,095
Stabilization Fund	1,350	1,550	1,500	1,700
Non-Tax Subtotal	22,217	22,346	22,365	22,588
Total	44,935	45,114	45,084	45,381

The Legislature relies on approximately \$3.7 billion in non-recurring revenues to balance the FY 2021 budget. These funds are unlikely to be available next year, setting up significant challenges in the FY 2022 budget absent a quick revenue rebound with the arrival of vaccines or a new federal relief package. Should either of these developments emerge, it would reduce the size of the Stabilization Fund withdrawal in the FY 2021 budget.

Spending

As noted above, the Legislature increases spending over the Governor's budget by \$692 million. This additional spending is concentrated on a series of safety net need outlined below, as federal relief programs expire with no confirmation of immediate assistance (For a complete breakdown of spending proposals see Appendix A.) There is also additional money for economic development initiatives in recognition of the need to help communities that are also suffering from the pandemic.

Major Funding Increases in the Legislature's budget include:

Housing programs - \$82.5 million

- Residential Assistance for Families in Transition - \$33.7 million
- Rental Voucher Program - \$12.3 million
- Housing Authority subsidies - \$8 million
- Down payment assistance program - \$5 million

Other K-12 Education Aid - \$114 million

- One-Time COVID-19 Response, Remote Learning and Student Support Grants - \$53.6 million
- Community Grant Programs - \$20 million
- After-School and Out-of-School Grants - \$8.67 million

Early Education - \$77.2 million

- EEC Parent Fee Reserve - \$40 million
- EEC COVID-19 Workforce and Support Reserve - \$25 million

Higher Education - \$45.4 million

- Scholarship Reserve - \$14.4 million
- MA Community Colleges and the Community Colleges Success Fund - \$12.9 million
- State University Incentive Grants - \$5.5 million

Department of Public Health - \$73 million

- Bureau of Substance Abuse - \$22 million
- Domestic violence and sexual assault prevention services - \$10.5 million
- Behavioral Health Access, Outreach and Support Trust Fund - \$10 million
- Youth At-Risk Matching Grants - \$6.4 million

Economic Development - \$72.6 million

- Economic Recovery Planning and Response - \$46.4 million
- Local Economic Development Grants - \$5.7 million
- Community Action Agency Operating and Outreach Support - \$5 million
- Youths-At-Risk Summer Jobs - \$3.6 million

Emergency Food Assistance - \$10.8 million

Conclusion

In summary, the legislative FY 2021 budget is an aggressive attempt to increase spending on vital needs – housing for those at risk, early and higher education, safety net services, and communities suffering from the economic challenges of the pandemic.

The legislature is able to supplement programmatic spending in these select areas despite the anticipated loss of \$3.6 billion in tax revenue while balancing the budget in FY21 by its heavy reliance on \$3.7 billion in one-time revenues. These include a Stabilization Fund withdrawal of \$1.8 billion, one-time tax revenues, and non-recurring federal relief funds that set the upcoming FY 2022 budget as the budget of reckoning with fewer reserves.

In addition to having to replacing the \$3.7 billion of non-recurring revenues, increases in just three accounts – pensions, Chapter 70 following the start of the Student Opportunities Act, and MassHealth – could add \$1 billion or more in additional spending requirements. Another withdrawal from the Stabilization Fund (a \$500 million - \$700 million balance must be left for emergencies) will provide a partial solution, but that leaves approximately a \$4 billion structural deficit. Substantial federal assistance could prove to be the Hail Mary pass that Beacon Hill needs, but that will provide only a temporary reprieve and speaks to the need for more structural budgetary reform. If a federal package for state and local governments is not forthcoming, lawmakers will have only a few short months to enact some combination of multi-billion budgetary cuts and new revenue proposals to balance the budget.

Appendix A – FY 2021 Spending Proposals

	FY 20 GAA	Gov FY 21	Legislature FY 21	\$ Change Gov. vs Legis.
Health Care				
MassHealth	16,765,492,316	18,540,636,338	18,573,186,338	32,550,000
Medical Assistance Trust Fund	481,260,000	505,250,000	505,250,000	0
Other Health Care	302,551,091	264,672,811	264,872,811	200,000
Local Government Support				
Chapter 70 Education Aid	5,176,002,652	5,283,651,632	5,283,651,632	0
Unrestricted General Government Aid	1,128,617,436	1,128,617,436	1,128,617,436	0
Circuit Breaker Special Ed.	345,154,803	345,154,803	345,154,803	0
Other K-12 Education Aid	247,459,942	206,740,505	321,464,007	114,723,502
Charter School Reimbursement	115,000,000	115,000,000	117,357,887	2,357,887
Regional School Transportation	75,856,506	75,856,506	82,178,615	6,322,109
Other Local Aid	108,570,412	105,307,916	110,037,362	4,729,446
Other Education				
Early Education	776,700,576	775,064,108	852,274,986	77,210,878
Higher Education	1,288,161,235	1,302,712,450	1,348,380,001	45,667,551
Human Services				
Developmental Services	2,187,199,438	2,210,062,825	2,233,311,398	23,248,573
Family Services	1,276,049,860	1,413,155,630	1,439,313,025	26,157,395
Cash Assistance	682,437,192	710,055,759	741,440,761	31,385,002
Mental Health	891,952,253	904,187,971	911,642,258	7,454,287
Public Health	702,283,923	687,145,222	760,464,718	73,319,496
Housing Support	522,521,658	517,922,359	600,435,724	82,513,365
Senior Support	559,454,548	575,465,917	598,926,183	23,460,266
Veteran Services	151,743,358	152,297,709	155,956,208	3,658,499
Public Safety				
Corrections	735,343,775	763,326,059	751,102,516	-12,223,543
Sheriffs	603,460,491	644,371,129	647,766,436	3,395,307
Judiciary	1,034,313,177	1,046,484,234	1,083,623,541	37,139,307
State Police	408,309,564	422,444,124	410,681,121	-11,763,003
District Attorneys	138,885,610	142,756,517	147,125,841	4,369,324
Attorney General	55,736,340	55,117,750	56,421,747	1,303,997
Other Public Protection	110,654,887	105,573,245	113,553,828	7,980,583
Transportation				
MassDOT/ Other	345,813,615	385,813,615	381,038,615	-4,775,000
Regional Transit	90,500,000	90,500,000	94,000,000	3,500,000
Registry	10,168,209	10,968,209	10,968,209	0
MBTA*	1,204,000,000	1,228,500,000	1,228,500,000	0
Economic Development				
Business and Labor	200,189,510	193,032,777	265,682,353	72,649,576
Environment and Energy	303,732,224	300,306,001	324,376,470	24,070,469
Employee Benefits				
GIC	1,764,566,073	1,797,153,335	1,797,153,335	0
Retiree Health Care	450,000,000	500,000,000	500,000,000	0
Pensions*	3,115,200,000	3,115,200,000	3,115,200,000	0
Capital Support				
Debt Service	2,517,630,017	2,373,394,245	2,337,789,353	-35,604,892
Contract Assistance	258,339,917	331,720,069	331,720,069	0
Other/General Government	647,696,871	657,204,890	693,142,355	35,937,465
Total	47,779,009,479	49,982,824,096	50,663,761,942	692,962,846
*MBTA & Pension Statutory Transfers	-4,216,700,000	-4,216,700,000	-4,216,700,000	0
Total	43,562,309,479	45,766,124,096	46,459,086,942	692,962,846