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MTF Bulletin

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Governor Baker's FY 2022 Budget Plan

Today, the Baker Administration released their budget proposal (House 1) for FY 2022, just over 6 weeks after signing the FY 2021 General Appropriations Act. This bulletin provides an overview of notable spending, revenue and policy elements of the \$45.9 billion plan.

The Administration's budget includes \$45.4 billion in line-item spending, \$456.5 million for the Medical Assistance Trust Fund, and an additional \$5.5 billion in pre-budget transfers and other spending for a bottom line of \$51.5 billion, a decrease of 0.6 percent over estimated spending for FY 2021.

Figure 1. Governor's Budget Spending and Revenue Summary

	Spending Comparison			\$ Difference v. Current	% Difference v. Current
	FY 2021 Conference	FY 2021 Current	FY 2022 H1		
Line item spending	\$45,953.8	\$45,840.0	\$45,399.9	-\$440.2	-1.0%
MATF	\$505.3	\$537.2	\$456.5	-\$80.7	-16.0%
Pre-budget transfers	\$5,183.4	\$5,331.0	\$5,628.6	\$297.6	5.7%
Supp assumption	\$0.0	\$173.9	\$0.0	-\$173.9	0.0%
Assumed reversions	-\$225.0	-\$109.6	\$0.0	\$109.6	-48.7%
CRF Offset	-\$550.0	\$0.0	\$0.0	\$0.0	0.0%
Total Spend	\$50,867.5	\$51,772.5	\$51,484.9	-\$287.6	-0.6%
	Revenue Comparison			\$ Difference	% Difference
	FY 2021 Conference	FY 2021 Current	FY 2022 H1		
Consensus Tax Revenues	\$27,592.0	\$28,751.0	\$30,120.0	\$1,369.0	4.8%
<i>Tax settlements</i>	\$125.0	\$50.0	\$50.0	\$0.0	0.0%
<i>Other tax adjustments</i>	\$5.0	\$5.0	\$2.7	-\$2.3	-46.0%
<i>Less capital gains transfer</i>	\$0.0	\$0.0	-\$165.0	-\$165.0	0.0%
New revenue sources					
<i>Charitable delay</i>	\$64.0	\$64.0	\$64.0	\$0.0	0.0%
<i>Accelerated sales tax</i>	\$267.0	\$267.0	\$0.0	-\$267.0	-100.0%
<i>Hospital assessment</i>	\$0.0	\$0.0	\$75.0	\$75.0	0.0%
<i>Drug price penalty</i>	\$0.0	\$0.0	\$70.0	\$70.0	0.0%
<i>Sports gaming</i>	\$0.0	\$0.0	\$35.0	\$35.0	0.0%
<i>Cashless lottery</i>	\$0.0	\$0.0	\$30.0	\$30.0	0.0%
<i>Opioid gross receipts</i>	\$0.0	\$0.0	\$5.0	\$5.0	0.0%
Federal					
<i>MassHealth</i>	\$10,349.6	\$10,146.3	\$10,089.7	-\$56.5	-0.6%
<i>MassHealth add-on</i>	\$802.0	\$1,110.0	\$0.0	-\$1,110.0	-100.0%
<i>Other</i>	\$2,879.4	\$2,706.3	\$2,471.9	-\$234.4	-8.7%
Departmental & Transfers					
<i>Lottery</i>	\$1,124.4	\$1,154.3	\$1,154.3	\$0.0	0.0%
<i>Other</i>	\$5,826.1	\$5,903.2	\$5,913.2	\$10.0	0.2%
Net beginning balance	\$300.0	\$300.0	\$0.0	-\$300.0	-100.0%
Stabilization Fund transfer	\$1,700.0	\$1,098.0	\$1,600.0	\$502.0	45.7%
Total Revenue	\$51,034.5	\$51,555.1	\$51,515.8	-\$39.2	-0.1%

\$ in millions/Comparisons v. Current estimate

Revenue Themes

The Governor’s budget assumes \$30.12 billion in baseline tax revenue collections in FY 2022 – the Consensus Revenue figure agreed to by House, Senate and Administration budget-makers. Of this amount, \$5.63 billion is set aside for transfers to the state’s pension fund, the MBTA and the School Building Authority, while a further \$165 million is automatically transferred to the state Stabilization Fund and other reserve accounts. After these transfers, \$24.32 billion in baseline tax revenue remains for annual operating expenses.

House 1 includes several tax and assessment policy proposals to generate additional revenue to help balance the budget, some of which have been introduced in prior budgets.

Figure 2. Revenue Initiatives in H1

	Total revenue	Revenue for budget	Ongoing or one-time
Drug price penalty	\$70.0	\$22.5	Ongoing
Hospital assessment	\$75.0	\$75.0	One-time
Charitable delay	\$64.0	\$64.0	One-time
Sports gaming	\$35.0	\$35.0	Ongoing
Cashless lottery	\$30.0	\$30.0	Ongoing
Opioid gross receipts	\$5.0	\$5.0	Ongoing
Total	\$279.0	\$231.5	
<i>Numbers in millions</i>			

Hospital assessment (sections 18, 45-51, 69 & 70, 75, 89, 90, 101, 104 & 105) - \$75 million
House 1 increases the Health Safety Net Assessment on hospitals. In hospital fiscal year 2022, that assessment will be increased by \$100 million with the new revenue dedicated to the General Fund (resulting in a state fiscal year transfer of \$75 million). After hospital fiscal year 2022, the assessment will be lowered by \$57.5 million (\$42.5 million higher than the current level) and the increased revenue will be dedicated to hospital payments.

Drug price increase penalty (sections 28 & 98) - \$70 million

The Governor’s budget re-introduces a new tax on drug manufacturers that exceed price benchmark, subjecting them to a fee equal to 80 percent of the excessive price of the drug. Under the Governor’s proposal, \$47.5 million generated from this penalty would go to an off-budget trust to support community hospital payments, as established in last session’s health care bill, with the remaining \$22.5 million to the General Fund.

Charitable delay (section 23) - \$64 million

The Baker Administration proposes delaying the implementation a state-level charitable tax deduction for the second straight year, increasing state revenues by \$64M. Under the House 1 proposal, the charitable deduction would go into effect in the fiscal year following a year in which no draw is made from the Stabilization Fund.

Sports gaming (separate legislation) - \$35 million

For the third straight year, the Administration assumes \$35 million in revenue from legalized sports gaming.

Cashless lottery (section 6) - \$30 million

As in his FY 2021 budget, this budget once again allows debit cards to be used for lottery purchases.

Opioid tax (sections 28 & 97) - \$5 million

For the third straight year, the Administration proposes a new tax on opioid manufacturers. House 1 assumes \$5 million in new revenue in the first year of implementation.

The largest non-tax source of revenue is federal assistance. House 1 estimates \$12.6 billion in federal support with Medicaid reimbursements for the state’s MassHealth program accounting for \$10.1 billion or 80.3 percent of this total.

Notably, House 1 does not include any revenue from the extension enhanced federal Medicaid reimbursed authorized during the COVID-19 pandemic. Congress authorized this rate add-on in the Families First Coronavirus Response Act, passed in March of 2020. The rate add-on will continue through the federal fiscal quarter in which the COVID public health emergency ends. Days ago, the US Department of Health and Human Services informed states that this rate add-on would continue at least through the end of 2021. As a result of the federal action, the state will likely receive at least \$500 million in additional Medicaid reimbursements not assumed in House 1.

House 1 assumes \$7.1 billion in other state revenues. This figure includes \$1.2 billion from the lottery (level with expected FY 2021 collections).

Spending Themes

House 1 spends less than the GAA or current spending estimates for FY2021. This reduction in spending is driven by a \$600+ million reduction in MassHealth costs, resulting from COVID-19 related utilization declines. In addition, House 1 eliminates more than \$200 million in new spending and initiatives from the FY 2021 budget.

Figure 3. Spending Eliminated in House 1

Program	FY 2020 GAA	FY 2021 GAA	FY 2022 House 1
Affordable Housing Trust Fund	\$0	\$10.00	\$0
EEC Parent Fee Reserve	\$0	\$40.00	\$0
EEC COVID-19 Workforce and Support Reserve	\$0	\$25.00	\$0
Inpatient Behavioral Health Beds	\$0	\$10.00	\$0
Economic Recovery Planning and Response	\$0	\$46.35	\$0
Community Empowerment Grant	\$0	\$15.00	\$0
Other community spending	\$0	\$10.00	\$0
K-12 COVID-19 grants	\$0	\$53.06	\$0
Community College SUCCESS Fund	\$0	\$7.00	\$0
New public health programs	\$0	\$11.27	\$0
Other	\$0	\$10.00	\$0
Total	\$0	\$237.68	\$0

With the exception of savings due to MassHealth utilization and savings from the elimination of a number of line-items, the Governor’s budget proposes modest budget growth, with new spending targeted for implementation of the Student Opportunity Act (\$246.3 million in new spending), expansion of behavioral health services, increased costs for DDS and DMH (\$201.8 million) and increased local aid (\$39.5 million). House 1 focuses on level funding many programs and increasing spending where necessary to protect and maintain existing services as opposed to a focus on new initiatives.

House 1 reduces line-item spending by \$607.1 million as compared to the FY 2021 GAA and \$520.9 million

as compared to current spending estimates. House 1 cuts or eliminates 243 items, while level funding 399 line items. Spending for the remaining 126 items are increased.

Figure 4. Spending & Revenue Highlights

Governor's Budget in a Box			
Spending		Revenue	
Total spending		Consensus tax revenue	\$30,120.0
Change	-\$287.6	Change	\$1,030.0
Spending growth	-0.6%	Revenue growth	3.5%
MassHealth		Rainy Day fund	
Change	-\$602.3	Assumed start balance	\$2,522.9
Chapter 70		Assumed change	-\$1,418.0
Change	\$197.7	Assumed end balance	\$1,104.9
Other non-discretionary		One-time solutions	\$1,789.0
Change	\$307.8	New ongoing revenues	\$215.0
Discretionary spending		Hospital assessment	\$75.0
Change	-\$424.0	Drug price penalty	\$70.0
Total spending items		Sports gaming	\$35.0
New	4	Cashless lottery	\$30.0
Increased	126	Opioid gross receipts	\$5.0
Maintained	399		
Decreased/eliminated	243		
<i>Numbers in millions/Comparisons v. FY 2021 Current Estimates</i>			

Non-recurring Revenues

The FY 2021 conference committee budget was balanced with more than \$3.5 billion in one-time resources. Replacing that revenue is among the biggest challenge budget writes face in balancing the FY2022 budget. In order to balance the budget while avoiding devastating cuts, the House and Senate relied on a withdrawal from the state's Stabilization Fund, COVID-related federal revenues, and revenue from the acceleration of sales tax remittances, among other measures.

Figure 5. One-Time Budget Resources

	FY 2021 Conference	FY 2021 Current	FY 2022 H1
Stabilization fund	\$1,700	\$1,098	\$1,600
Net beginning balance	\$300	\$300	\$0
Accelerated Sales Tax (net of transfers)	\$187	\$187	\$0
Assumed CRF funding	\$550	\$0	\$0
Enhanced Medicaid reimbursements	\$802	\$1,110	\$0
Judgements & settlements	\$125	\$50	\$50
Charitable deduction delay	\$64	\$64	\$64
Hospital assessment	\$0	\$0	\$75
Total	\$3,728	\$2,809	\$1,789
Numbers in Millions			

State tax collections have continued to outpace expectations allowing the Administration to upgrade revenue projected FY 2021 revenues by \$1.159 billion since the budget was sent to the Governor. In addition, MassHealth and other caseload account utilization have been significantly lower than expected due to COVID, resulting in budget savings. This has significantly reduced the amount of one-time resources

expected to be used in the current fiscal year, enabling a \$700 million reduction in the Stabilization Fund draw in FY 2021.

House 1 uses \$1.8 billion in one-time resources, with the vast majority coming from a \$1.6 billion draw from the Stabilization Fund. If this draw occurs, the Stabilization Fund will stand at approximately \$1 billion at the end of FY 2022, compared to \$3.5 billion at the start of FY 2021. As noted earlier, House 1 does not use any revenue from the continuation of enhanced Medicaid reimbursements. HHS recently indicated that this enhancement will continue until at least the end of 2021, meaning that House 1 likely undercounts federal revenues by \$500 million or more. House 1 reduces one timers by approximately \$2 billion from the FY 2021 GAA due to ongoing tax revenue growth and savings generated by reduced program utilization.

Major Spending Areas

MassHealth

MassHealth is the largest single area of spending in House 1, totaling \$17.8 billion, or 38.8 percent of all line-item spending. Still, MassHealth spending declines by 3.2 percent from expected FY 2021 levels as many residents continue to defer health treatment during the pandemic. By way of comparison, between FY 2018 and FY 2019 (the last two fiscal years prior to COVID), MassHealth spending grew by about 5 percent. House 1 does not put in place any restrictions on MassHealth benefits or eligibility.

Figure 6. MassHealth Spending & Revenue

	FY 2020 Spending	FY 2021 GAA	FY 2021 Projected	FY 2022 H1
MassHealth Spending	\$16,887.67	\$18,517.55	\$18,424.73	\$17,822.41
Federal Reimbursement	\$9,697.92	\$11,151.64	\$11,256.25	\$10,089.71
Net Cost	\$7,189.75	\$7,365.91	\$7,168.48	\$7,732.70
Reimbursement Share of Spending	57.4%	60.2%	61.1%	56.6%

Because of the continuation of availability of enhanced federal reimbursement in FY 2021, the net cost of MassHealth fell below 40 percent (total spending less federal revenues). House 1 shows a drop in federal revenues as a share of MassHealth spending because it assumes no enhanced reimbursement in FY 2022. In reality, federal reimbursements should offset a further \$550 million in MassHealth costs next year.

The easing of MassHealth budget pressures occurs as program enrollment rises. In order to receive enhanced federal reimbursements, the federal Families First Coronavirus Response Act (FFCRA) required states to suspend standard Medicaid redetermination practices, thereby maintaining coverage for low-income residents who might otherwise have lost eligibility. Maintaining coverage for all members, while continuing to enroll new applicants has resulted in 208,000 additional MassHealth members between February and December of 2020. MassHealth membership now stands at 1.965 million members, the highest level since January of 2015

MassHealth utilization will play a key role in shaping the FY 2022 budget. If utilization increases significantly as the crisis abates and enrollment remains close to two million members, it will place a significant strain on the budget – especially if enhanced federal reimbursements expire at the end of the calendar year.

The Governor’s budget also proposes several policy sections with implications for the MassHealth program and the health care sector:

MassHealth waiver hospital assessment (sections 18, 45-51, 69 & 70, 75, 89, 90, 101, 104 & 105)
 House 1 increases assessments on hospitals by \$100 million from October of 2021 to October of 2022 and uses this revenue (\$75 million in FY 2022) to help balance the budget. After October of 2022, the assessment will be reduced by \$57.5 million (remaining \$42.5 million higher than the current level) and the additional revenue will be used to make MassHealth system reform payments to hospitals pursuant to a federal waiver. MTF will follow-up on this proposal as we learn more.

Community hospital reinvestment (sections 14, 15 & 106)
 Health care legislation signed in December provided two years of enhanced rates to community hospitals that met certain financial and organizational criteria. House 1 creates an off-budget trust, capitalized at \$47.5 million per year, to make these payments and similar payments to qualifying community health centers and acute care hospitals. The Governor’s budget proposes paying for these costs through an assessment on pharmaceuticals that exceed reasonable price benchmarks.

Expanded MassHealth rebates (section 42)
 House 1 again proposes allowing MassHealth to negotiate supplemental rebates for drugs and other medical devices not subject to the enhanced rebate program created in the FY 2020 budget. It is unclear how much additional revenue is expected from this change.

Chapter 70 & Unrestricted Local Aid

House 1 proposes \$5.48 billion in direct aid to school districts (Chapter 70 aid) and \$1.168 billion in unrestricted aid to cities and towns (UGGA). Chapter 70 funding increases by \$197.7 million to fully fund the first year of implementation of the Student Opportunity Act (SOA). The SOA, passed in 2019, overhauled the financial assumptions used to determine local education spending requirements and is ultimately expected to increase state education aid by more than \$1.4 billion over inflation. Due to the budget uncertainty brought on by COVID-19, the FY 2021 budget did not begin implementation of the SOA.

Figure 7. Chapter 70 & UGGA

Program	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022 H1
C70	\$4,746.95	\$4,907.57	\$5,176.00	\$5,283.65	\$5,481.30
<i>\$ Increase</i>	\$118.94	\$160.62	\$268.43	\$107.65	\$197.65
<i>%Increase</i>	2.6%	3.4%	5.5%	2.1%	3.7%
UGGA	\$1,061.78	\$1,098.95	\$1,128.62	\$1,128.62	\$1,168.12
<i>\$ Increase</i>	\$39.86	\$37.16	\$29.67	\$0.00	\$39.50
<i>%Increase</i>	3.9%	3.5%	2.7%	0.0%	3.5%

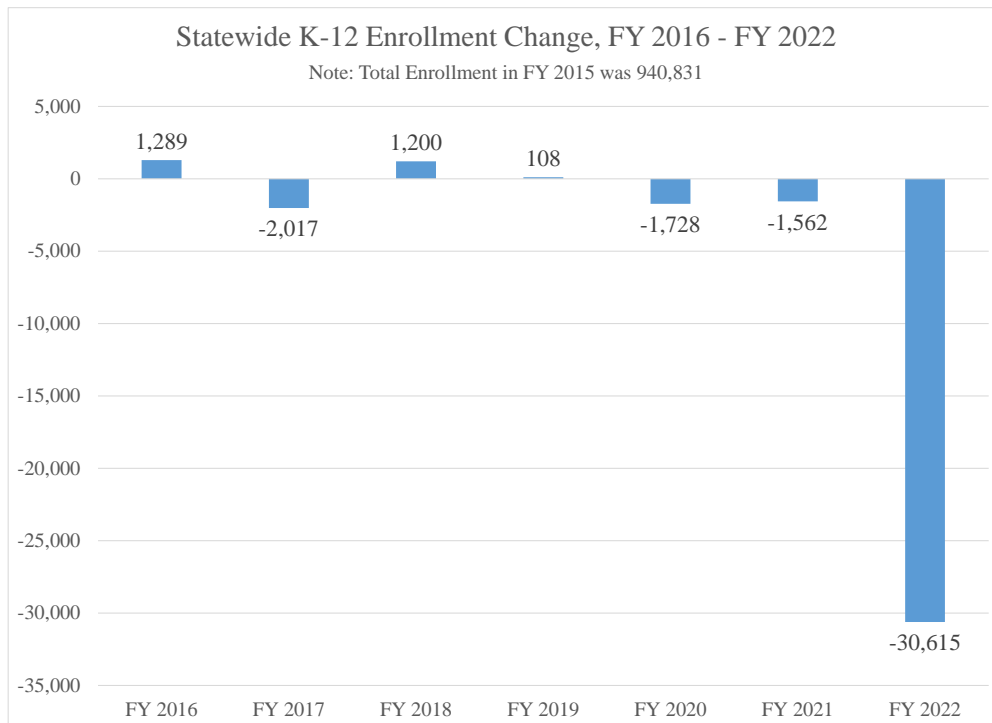
House 1 increases all SOA rates by 1/7 of the full amount – consistent with a seven year phase-in for full implementation – and guarantees all districts at least \$30 in additional per-pupil aid. House 1 also follows through on the SOA requirement that, as the state determines a method for accurately capturing students at or below 185 percent of the federal poverty level (FPL), districts’ low-income enrollment is the higher of the number of students at or below 133 percent of FPL or the share of low-income students in that district in the 2015-2016 school year.

Figure 8. SOA in House 1

House 1 approach	
Low-income enrollment	Higher of 2015-16 share & 133% of FPL
Low-income rates	1/7 of full rate
English learner	1/7 of full rate
SPED out-of district tuition	1/7 of full rate
Employee benefits & fixed charges	1/7 of full rate
Guidance & Psychological services	1/7 of full rate
\$30 per-pupil aid	Funded

The cost of first-year implementation of the SOA is significantly lower in FY 2022 than it was estimated to be in FY 2021 prior to COVID-19 for two reasons. First, Chapter 70 inflation is even lower (1.42 percent) than the 1.99 percent inflation in FY 2021. More importantly, COVID-19 has resulted in significant enrollment declines in the K-12 system thereby limiting cost growth in the enrollment-based aid formula. Chart 1. compares year over year K-12 enrollment changes since FY 2016. The decline in FY 2022 far exceeds enrollment changes in previous years.

Chart 1. K-12 Enrollment



The Governor’s budget also includes a policy provision to mitigate the fiscal impact of increases in district required local contributions (RLCs). As foundation budgets rise with the implementation of the SOA so too will the amount that cities and towns are required to contribute. House 1 allows districts with increasing RLCs to use federal Elementary and Secondary School Emergency Relief (ESSER) funds provided through

COVID stimulus legislation to cover increases in local spending requirements. Under the House 1 plan, districts could use up to 75 percent of planned ESSER spending in FY 2022 to apply to any RLC increases.

House 1 increases UGGA for cities in towns by \$39.5M or 3.5 percent. This increase is consistent with Baker Administration’s approach in previous budgets tying the percent increase in UGGA to expected tax revenue growth.

Other K-12 Spending

House 1 proposes \$598.36 million for education programs that reimburse school districts for eligible costs related to transportation, special education and students attending charter schools. This funding level represents an increase of \$18.4 million (3.2 percent) over FY 2021. Much of this increase is due to SOA provisions related to SPED Circuit Breaker and charter school reimbursements to traditional school districts.

Figure 9. Education Reimbursement Accounts

Program	FY 2020 Spending	FY 2021 GAA	FY 2021 Projected	FY 2021 Reimbursement Level	FY 2022 H1
SPED Circuit Breaker	\$338.08	\$345.15	\$357.07	75.0%	\$367.65
Charter School Reimbursement	\$120.00	\$117.36	\$117.36	72.6%	\$143.50
Regional School Transportation	\$81.04	\$82.18	\$82.18	85.0%	\$75.86
Non-Resident Pupil Transportation	\$0.25	\$0.25	\$0.25		\$0.25
Homeless Student Transportation	\$13.10	\$13.45	\$13.45		\$11.10
Total	\$552.48	\$558.39	\$570.30		\$598.36

Numbers in Millions

The SOA expanded the special education reimbursement program (SPED Circuit Breaker) by including out-of-district transportation costs (to be phased-in over four year period) and requiring the state to fully fund charter school reimbursement requirements within three years. House 1 increases funding for both programs by \$10.6 million and \$16.1 million respectively to comply with the first year of implementation. The funding level for charter reimbursements also includes some funding to buffer the impact of reduced charter school tuition as a result of districts applying ESSER funds to their required local contributions.

Early Education & Higher Education

Early education was a budget priority in the FY 2021 GAA, providing \$127.5 million over projected FY 2020 and notable investments to cover parent fees for subsidized care and significant supports for the early education and care workforce. House 1 did not maintain these new items, and instead incorporated them into the two main subsidized childcare programs.

In total, the Governor’s budget reduces early education and care spending by \$77.1 million compared to the FY 2021 GAA. It is important to note, that a significant amount of early education funding appropriated in FY 2021 will remain unspent and be made available in FY 2022. Neither these amounts, nor \$130 million in newly available Child Care Development Block Grant funding, are reflected in the House 1 funding and so spending comparisons with FY 2021 may be misleading.

Figure 10. Early Education & Care

Program	FY 2020 Spending	FY 2021 GAA	FY 2021 Projected	FY 2022 H1
Income Eligible Subsidies	\$291.0	\$286.7	\$326.2	\$298.7
DTA and DCF Childcare	\$297.1	\$350.9	\$350.9	\$358.9
Parent Fee Assistance	\$0.0	\$40.0	\$40.0	\$0.0
Workforce Supports	\$10.0	\$45.0	\$45.0	\$0.0
Head Start	\$12.0	\$15.0	\$15.0	\$12.0
Other Early Education	\$114.7	\$114.6	\$115.3	\$105.6
Total	\$724.8	\$852.3	\$892.4	\$775.2
<i>Numbers in Millions</i>				

Governor Baker’s budget provides \$1.31 billion for public colleges and universities and other higher education programs. This amount, a \$31.1 million decrease from FY 2021 spending, level funds each campus at the amount recommended in Governor Baker’s revised FY 2021 budget submission. In the FY 2021 budget, higher education campuses were generally level funded at FY 2020 levels (including CBA costs), though several campuses received additional increases.

Figure 11. Higher Education

Program	FY 2020 Spending	FY 2021 GAA	FY 2021 Projected	FY 2022 H1
Community Colleges	\$305.2	\$322.3	\$322.3	\$307.6
State Universities	\$285.2	\$291.7	\$291.7	\$284.5
UMass	\$563.9	\$565.6	\$565.6	\$563.5
Scholarship programs	\$119.2	\$130.3	\$126.0	\$126.6
Other Higher Education	\$44.0	\$30.9	\$32.6	\$24.9
Total	\$1,317.5	\$1,340.8	\$1,338.2	\$1,307.1
<i>Numbers in Millions</i>				

Transportation

House 1 appropriates \$1.79 billion in direct funding for transportation, an increase of \$11 million over projected FY 2021 levels. This increase is driven by a \$15.6 million uptick in the state’s transfer to the Massachusetts Transportation Trust Fund. The adoption of accelerated sales tax last year resulted in a \$40 million boost in the amount of the sales tax pre-budget transfer to the MBTA in FY 2021, causing the transfer this fiscal year to decline slightly over last year’s level.

Figure 12. Transportation

	FY 2020 Spending	FY 2021 GAA	FY 2021 Projected	FY 2022 H1
Transfer to MTTF	\$345.8	\$381.0	\$386.0	\$401.6
Transfer to MBTA	\$177.0	\$127.0	\$127.0	\$127.0
Transfer to RTAs	\$90.5	\$94.0	\$94.0	\$90.5
MBTA Sales Tax Transfer	\$1,077.30	\$1,141.60	\$1,175.40	\$1,174.30
Other Transportation	\$10.2	\$11.0	\$11.0	\$11.3
Total	\$1,690.61	\$1,743.64	\$1,782.44	\$1,793.39
<i>Numbers in millions</i>				

The Governor’s budget also proposes several transportation policy sections. These sections include:

MBTA Board (sections 59, 63 & 96)

House 1 proposes the creation of a new seven member MBTA board upon the expiration of the MBTA Fiscal Management and Control Board (effective at the start of FY 2022). The MBTA board would include the Secretary of Transportation, five members appointed by the Governor and one member appointed by the MBTA advisory board.

MBTA project delivery & A+B bidding (sections 60, 61 & 84)

These sections give the MBTA flexibility to use alternative procurement and contracting methods for the engineering, design, financing and operation of projects and allow MassDOT to use the alternative “cost plus time” contract method.

MBTA & MassDOT transit oriented development (sections 5 & 62)

House 1 allows MBTA to require developers with which it works to guarantee mitigation to the agency or the construction of assets to be owned by the agency.

TNC data collection (sections 55 – 58)

These sections empower DPU to collect TNC data with a greater degree of specificity related to shared and non-shared rides, cost, vehicle and driver information, mileage data and other information. The sections also set forth how information collected is to be provided to DPU and shared.

Municipal TNC revenue expenditure (sections 71 – 73)

These sections enable municipalities receiving \$25,000 or less from TNC assessments to expend the revenue without further appropriation. Municipalities that exceed the \$25,000 revenue threshold would still need to spend TNC subject to certain restrictions.

Non-discretionary Spending

Pension, debt service and health insurance costs for active and retired state employees are generally non-discretionary. Combined, these four spending areas total \$6.6 billion in FY 2022, a \$448.3 increase over FY 2021. The largest of these non-discretionary items is the annual contribution to the state’s pension fund, which is governed by a three year funding schedule last established in FY 2021.

In FY2021, public officials refinanced debt to reduce borrowing costs by taking advantage of low interest rates. In House 1, debt service costs increase by \$148.5 million, returning to just above FY 2020 levels.

Figure 13. Non-discretionary spending

Non-Discretionary Spending				
	FY 2020 Spending	FY 2021 GAA	FY 2021 Projected	FY 2022 H2
Pension	\$2,841.5	\$3,115.2	\$3,115.2	\$3,415.0
Debt Service	\$2,710.8	\$2,669.5	\$2,577.9	\$2,726.4
Retiree Health Insurance	\$450.0	\$500.0	\$500.0	\$500.0
Group Insurance Commission	\$1,733.0	\$1,759.2	\$1,743.7	\$1,839.7
Total	\$6,002.33	\$6,284.68	\$6,193.08	\$6,641.37
<i>Numbers in millions</i>				

Commonly Underfunded Programs

One of the most common financial exposures in the annual budget is the underfunding of major spending areas. Historically, several accounts have often been underfunded by \$150 - \$250 million in the original General Appropriations Act. This approach frees up room for other investments in the short-term, but creates an immediate deficit that must be dealt with through the veto process later in the year. The FY 2021

budget avoided this budget gimmick and, by and large, appropriately funded these areas of the budget. The Governor’s budget essentially level funds these programs at the FY 2021 amount.

Figure 14. Commonly Underfunded Accounts

	FY 2020 Spending	FY 2021 GAA	FY 2021 Projected	FY 2022 H2
Public Counsel Services	\$261.3	\$256.2	\$260.3	\$260.3
Emergency Shelters	\$205.0	\$208.1	\$214.8	\$221.9
MassHealth IT	\$120.1	\$140.1	\$142.4	\$143.4
Houses of Correction	\$645.0	\$647.8	\$646.8	\$644.4
Total	\$1,231.32	\$1,252.19	\$1,264.26	\$1,269.93
<i>Numbers in millions</i>				

Policy Sections

House 1 includes 105 policy sections, compared with 108 in the Governor’s initial FY 2021 budget and 115 included in the Governor’s revised spending plan. Forty of the sections in House 1 have been included in Governor Baker’s previous budgets.

Policy proposals that generate revenue, related to health care or transportation are described earlier in the Bulletin. Other notable policy sections include:

Real-time sales tax (sections 25 and 107)

For the fourth consecutive year, the Administration has proposed a version of real-time sales tax remittance for debit and credit card purchases. The policy would be effective for the start of FY 2025. The language is identical to the proposal included in last year’s budget.

Early Education & Care Advisory Committee (sections 7)

House 1 merges two existing EEC advisory entities (the Advisory Council on Early Education & Care and the Early Education & Care Workforce Council) into one advisory group that includes elements of the charge and membership of both existing groups.

Wireless & Broadband Development Division within MOBD (sections 9, 10)

This budget proposes eliminating with Wireless & Broadband Development Division within MOBD. Some of the functions of the group would be transferred to the Department of Telecommunications and Cable.

MEMA Emergency Relief Fund (section 19)

This section creates a new trust fund, capitalized by reversions from state MEMA spending and up to 5 percent of MEMA reimbursements received from the Federal government. MEMA would be authorized to spend against the fund – allowing for a negative balance of \$5 million – to respond to emergencies without waiting for the appropriation process.

CPA Funds for Rail Trails (section 22)

House 1 adds expenditures for rail trails to the list of allowable uses for municipal revenue from the Community Preservation Act.

Disability Employment Tax Credit (sections 24 and 27)

As he did in FY 2021, the Governor proposes a tax credit for wages paid to employees with qualifying disabilities. The refundable credit would be equal to \$2,000 or 30 percent of qualified wages paid.

Deemed repatriation statute of limitations (section 26)

This section extends the time period during which DOR can adjust assessments on deemed repatriation income from three to six years.

Taxation of pass-through entities (section 28)

House 1 proposes allowing eligible pass-through entities (S corporations, partnerships and some limited liability companies) to elect to tax at the corporate level at five percent, as opposed to members of the pass-through to pay individually.

Remote Software Taxation (sections 31 & 32)

These sections make clear that the purchase of a software license, even if that software is hosted outside of the commonwealth, is taxable.

MEFA college savings tax deduction (section 74)

House 1 makes permanent the MEFA college savings tax deduction program, created in the 2016 economic development bill.

County government working group (section 75)

Governor Baker proposes the creation of a nine-member working group, chaired by the Division of Local Services, to assess the long-term viability and efficiency of remaining county governments.

Bottom Line

Governor Baker's FY 2022 budget proposal focuses on reducing reliance on one-time resources, implementing the Student Opportunity Act and maintaining government services. Continued declines in MassHealth utilization result in total budget spending that actually falls below FY 2021 estimates. It is important to note that much of the state's COVID response is supported through federal resources that do not flow through the budget, which makes it challenging to get a full picture of all the resources the state will likely use in the upcoming fiscal year.

As the budget process proceeds, the Governor's budget provides the legislature with much to consider. The use of \$1.6 billion from the Stabilization Fund would put a significant dent in available reserves, while several of House 1's revenue proposals – including new assessments on hospitals and pharmaceutical companies – require more information on the likely impact on the health care system.

This budget underlines the importance of the state's prudent fiscal management in the years preceding the COVID crisis and the reality that challenging fiscal times will be with us for several years. In order to craft a responsive and responsible FY 2022 budget, policymakers will need to closely monitor state tax collection trends and further federal stimulus legislation. In the weeks ahead, MTF will examine both of these issues and their impact on the FY 2022 budget.