



April 11, 2019

Analysis of HWM Budget

On April 10, the Massachusetts Legislature's House Committee on Ways and Means (HWM) released its version of the fiscal 2020 budget, which begins on July 1, 2019.¹ The proposal, the first under new Chair Aaron Michlewicz, details the House's spending priorities totaling \$43.2 billion. This release comes two months after Governor Baker offered his budget recommendation (House 1) and will be followed by the Senate's budget in May.

This policy brief highlights key elements of the plan and provides an initial analysis of the HWM budget.² This represents initial analysis of the HWM budget and will be revised and extended as necessary in the coming weeks.

Major Moving Pieces

Comparing the major moving pieces of the Governor's budget to the HWM proposal highlights the differences between the two plans. These are summarized in Figure 1.

As noted in Figure 1, HWM revenues exceed spending by \$95.3 million, presumably to support spending added by amendment during the floor debate.

¹ Figure excludes \$620 million for intragovernmental service fund spending that has no net impact on spending or statutory balance.

² This analysis should be viewed as a companion to the [FY20 Further Analysis](#) published by MTF on April 4, 2019. It is available on the MTF website, <https://www.masstaxpayers.org/>.

FY20 Major Moving Pieces vs FY19 Estimates		
Net impact on balance		Figures in \$ millions.
Starting Point	GOV	HWM
<i>FY19 Balance</i>	-36.2	-36.2
Revenue Changes	\$ Change vs FY19	\$ Change vs FY19
Tax Growth	1,105.6	1,133.7
Gaming Revenue	160.5	125.5
EJ Sullivan Courthouse	28.3	28.3
Abandoned Property	-43.4	-43.4
EMAC Expiration	-225.9	-225.9
<u>Subtotal, Revenue Changes</u>	<u>1,025.0</u>	<u>1,018.1</u>
Spending Changes		
Education	-323.0	-364.4
Pensions	-204.2	-204.2
<i>Other HHS</i>	-72.8	-67.1
<i>MassHealth</i>	-44.0	-59.0
<u>Subtotal, MassHealth and Other HHS</u>	<u>-116.8</u>	<u>-126.2</u>
State Employee Health Insurance (GIC)	-79.5	-52.5
Debt Service	-62.5	-62.5
All Other Changes	-200.1	-76.9
<u>Subtotal, Spending Changes</u>	<u>-986.1</u>	<u>-886.6</u>
<i>FY20 Balance</i>	<i>2.6</i>	<i>95.3</i>

Figure 1: Major moving pieces in the HWM budget compared to the Governor's recommendation

I. Tax Revenue

The Consensus Tax Revenue (CTR) agreement between the administration and the legislature establishes common tax revenue assumptions for fiscal 2020 budget planning, including projected tax revenue growth of 2.7%, or \$770 million, over revised fiscal 2019 benchmarks, excluding tax revenue generated by the sale of recreational marijuana.

As noted in MTF's further analysis of the Governor's budget, the CTR agreement assumes tax revenue base growth of 4.6%, which may be overly-ambitious. The HWM budget includes several tax revenue initiatives as summarized in Figure 2 and described in greater detail below.



Tax Changes Already Enacted

HWM included revenue associated with two tax law changes already in effect, related to recreational marijuana and transient accommodation/room occupancy tax reform, adding \$160 million to total tax revenues.

Proposed Tax Changes

Identical to the sales tax marketplace proposal included in House 1, the HWM budget also counts on \$42 million in total revenue from requiring e-commerce platforms, such as eBay or Etsy, to collect and remit sales tax revenue on behalf of the vendors using their websites. Of this amount, approximately \$13 million is pledged to the MBTA and MSBA, while the remaining \$28 million would be available for the budget.

Like the Governor's Budget Recommendation, HWM includes \$5 million associated with enforcing an administrative cap of \$20 million on life science tax credits claimed by qualifying businesses in the Commonwealth. The current statute allows DOR to approve up to \$25 million in life science tax credits to qualifying applicants, but for several years DOR has administratively enforced a lower cap of \$20 million. This initiative assumes the lower cap of \$20 million for fiscal 2020.

Tax-Related Settlements and Judgments

HWM includes tax-related settlement and judgments revenue of \$100 million, an increase of \$50 million compared to the Governor's budget. In fiscal 2019, the Commonwealth expects to receive \$49 million from this type of revenue.

Sports Wagering

HWM did not include taxes, licensing fees, and other revenues associated with legalizing sports wagering in the Commonwealth. The Governor had assumed revenue of \$35 million based on his proposal to permit sports wagering, which was largely modeled on the regulatory regime in New Jersey.

House 1 Tax Initiatives Not Included In HWM

As proposed, HWM chose not to pursue several tax revenue initiatives suggested by the Governor, including sales tax acceleration (\$306 million), a gross receipts tax on the sale of opioids (\$14 million), extending the treatment of cigarette and marijuana taxes to e-cigarettes and vaping supplies (\$6 million), and other smaller items (\$6 million).



HWM Tax Revenue Initiatives vs H.1		Figures in \$ millions.		
Already Enacted	GOV	HWM	\$ Change	
Recreational Marijuana	132.5	132.5	0.0	
Transient Accommodation/Room Occupancy Tax	27.5	27.5	0.0	
Subtotal, Enacted	160.0	160.0	0.0	
Proposed				
Sales Tax Marketplace	41.7	41.7	0.0	
Life Sciences	5.0	5.0	0.0	
Subtotal, Proposed	46.7	46.7	0.0	
Other Projections				
Tax-Related Settlements & Judgments	50.0	100.0	50.0	
Total, Tax Revenue Initiatives	256.7	306.7	50.0	
Tax Transfers				
Sports Wagering	35.0	0.0	-35.0	
Revenue Initiatives Not Included in HWM				
Sales Tax Acceleration	306.0	0.0	-306.0	
Opioid gross receipts tax	14.0	0.0	-14.0	
Vaping	6.0	0.0	-6.0	
Withholding on non-resident property sales	4.0	0.0	-4.0	
Sales Tax Integrity	2.0	0.0	-2.0	
Deeds/Climate Change	0.0	0.0	0.0	
Stamp Smokeless Tobacco	0.0	0.0	0.0	
Subtotal, Revenue Initiatives Not Included	367.0	0.0	-367.0	

Figure 2: Tax revenue initiatives in the HWM budget

EMAC

The HWM budget did not assume continuation of the enhanced Employer Medical Assistance Contribution (EMAC) that is scheduled to expire at the end of calendar year 2019. Enhanced EMAC will raise an estimated \$313 million in fiscal 2019 but drop to \$87 million as it phases out.



II. Spending

Education Reform

Like the Governor's proposal, education finance reform is arguably the centerpiece of the HWM budget. The House plan increases funding for Chapter 70 by \$218 million over fiscal 2019, driven partly by setting minimum aid to municipalities and school districts at \$30 per pupil, providing an increase to 318 districts across the Commonwealth according to calculations by HWM. This represents \$18 million more than included in the Governor's budget.

HWM projects \$23 million in additional funding for charter school reimbursements and includes revisions to the charter school reimbursement formula.

HWM includes an increase in higher education funding of \$55 million compared to fiscal 2019 spending. This is comprised of \$40 million in additional support for UMass and \$12 million for state universities and community colleges, primarily associated with collectively bargained increases in wages and salaries.

MassHealth

In the HWM budget, MassHealth gross spending growth is projected to increase \$40 million over fiscal 2019.

Like House 1, HWM assumed \$222 million gross, \$100 million in net costs that could be paid in either fiscal 2019 or fiscal 2020 are "pulled forward" to fiscal 2019. Without this timing change, the total spending growth rate would be 2.8% over the adjusted fiscal 2019 base, and 3.7% growth on a net basis. In either scenario, the rate of growth is significantly smaller than the growth rate earlier in the decade.

Like the Governor's bill, HWM included language authorizing MassHealth to negotiate directly with manufacturers for prescription drugs, though the language may confer less authority to negotiate than proposed by the Governor.

HWM also added \$30 million in gross spending, of which \$15 million is federally reimbursed, to increase nursing home rates paid by MassHealth.



State Employee Health Insurance (GIC)

Compared to fiscal 2019, the HWM budget includes an additional \$19 million in offsetting revenue from federal grants and non-budgeted trust funds for state employee health care costs, so-called “fringe revenue”. This may be viewed as a proxy for the expected difference between spending authorization and actual cost experience.

All Other Changes

The HWM budget includes \$77 million in all other spending changes, substantially less than the \$200 million Governor’s budget but does not include spending that may be added during the amendment process.

Compared to fiscal 2019, these changes include:

- \$37 million in increased funding for trial courts, primarily driven by salary and benefit costs
- \$30 million increase for Unrestricted General Government Aid (UGGA), which distributes \$1.1 billion aid to cities and towns
- \$18 million to fund the Commonwealth’s employer costs associated with the Paid Family and Medical Leave Act for state employee salaries supported by the operating budget
- \$7 million increase for legal aid services to the indigent, including fully funding spending items that were typically underfunded in prior years

Potential Exposures

The largest differences between the Governor’s proposal and HWM are in a relatively small set of revenue and spending items as depicted in Figure 3. Tax-related settlements and judgments exceeding \$10 million each (shown in Figure 3 as simply “Tax-related Settlements and Judgments”) are described above.

GIC and Other Revenues

The HWM proposal appears to include additional so-called “fringe revenue”, charges assessed to federal grants, nonbudgeted special revenue trusts, and other funds to pay for state employee health insurance costs. HWM includes \$27 million in additional fringe revenue above H.1. This item requires further analysis before a firm conclusion is reached about the potential exposure. Various other revenue sources exceed the Governor’s budget by \$22 million and also warrant further review.



Potential Exposures in the HWM Budget	
Revenue	Figures in \$ millions.
Tax-Related Settlements & Judgments	-50.0
GIC Revenue	-27.0
Other	-21.8
<u>Subtotal, Revenue</u>	<u>-98.8</u>
Spending	
Snow and Ice	50.0
Sheriffs	45.8
CBA	26.4
DOC	14.2
Family Shelter	12.2
Other	31.8
<u>Subtotal, Spending</u>	<u>180.4</u>
Net Impact of Potential Exposures	-279.2

Figure 3: Potential Exposures in the HWM Budget.

MassDOT Operations/Snow and Ice Control

The annual transfer to MassDOT primarily funds employee salaries, benefits, and costs associated with snow and ice control during the winter months. The Legislature typically funds this line item assuming a so-called “blue skies” budget (assuming no impact of unpredictable events) and then supplements the appropriation as needed during the fiscal year. This approach reduces fiscal 2020 authorizations by \$50 million in the HWM budget but needs to be accounted for in a balanced budget.

Sheriffs

Sheriffs’ departments operate Houses of Correction across the Commonwealth and run various public safety-related programs in their jurisdictions. Despite numerous efforts to control costs in these departments, they represent a perennial point of contention in the state budget. HWM provides \$46 million less than requested in the Governor’s budget for the various Sheriffs’ departments.

Department of Correction

HWM provides \$677 million for the Department of Correction’s primary appropriation, which is \$14 million less than requested by the Governor. Considering the criminal justice reform package adopted in April 2018 and the ongoing challenges associated



with hiring and retaining corrections' officers, it remains to be seen whether this amount represents an adequate level of funding.

Family Shelter and Other

Caseload associated with homeless shelters for families is difficult to predict and even small changes in caseload can have a large impact on the budget. The HWM budget is \$12 million lower than the Governor's request. Other smaller accounts added together represent other potential exposures of approximately \$32 million.

Conclusion

The HWM budget includes several provisions that are also in Governor Baker's proposal, such as a similar thematic approach on education finance reform, allowing EMAC to expire on schedule, and the assumptions related to the MassHealth spending shift between fiscal 2019 and fiscal 2020.

The differences are equally plain. The HWM budget does not include several of the tax revenue initiatives included in the Governor's budget. At the same time, HWM supports higher levels of spending than the Governor on certain priorities, such as education, and reserves money for amendments by underfunding the accounts noted above. Potential exposures of \$279 million represent a relatively moderate level of risk in a more than \$40 billion budget, but a more cautious approach may be warranted given the uncertain economic outlook and possibility of unanticipated events.

The amendment and floor debate will no doubt continue to shape the proposal as it proceeds through the budget development process.

