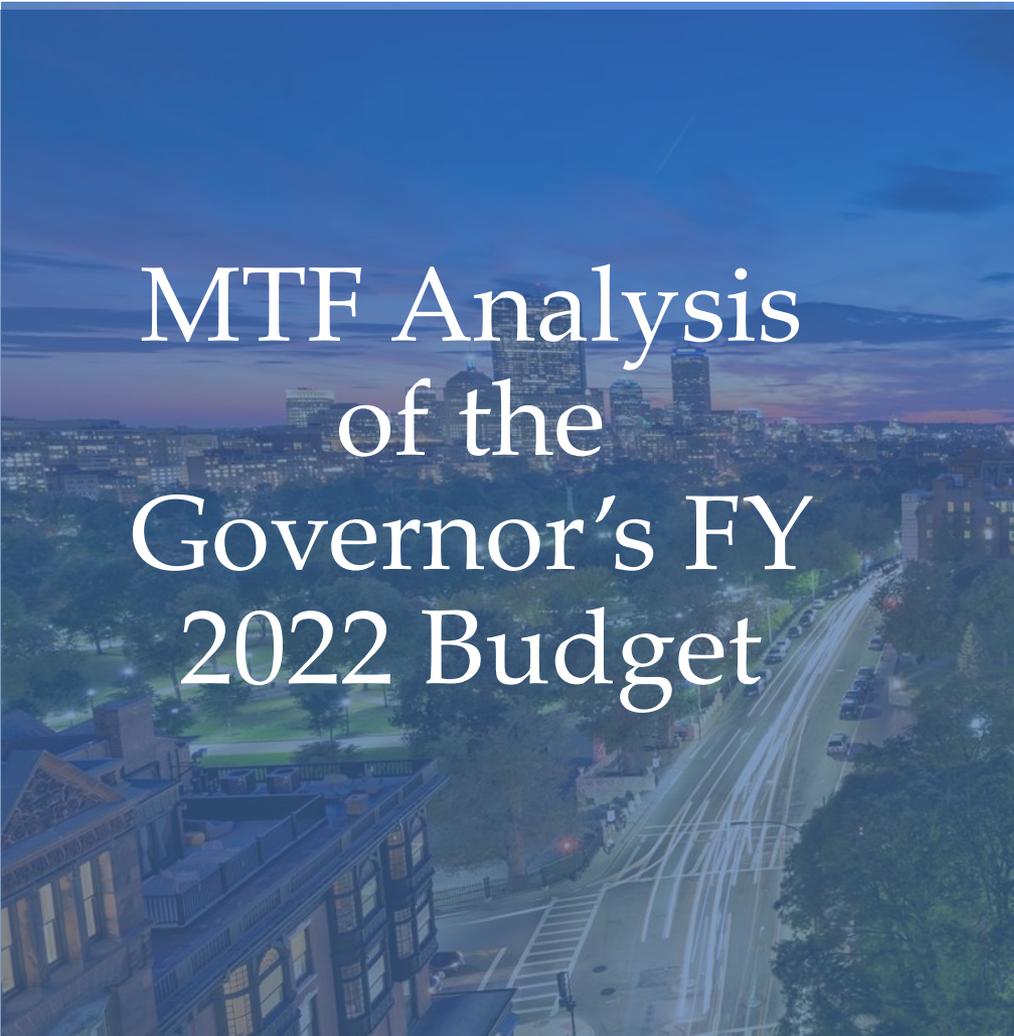
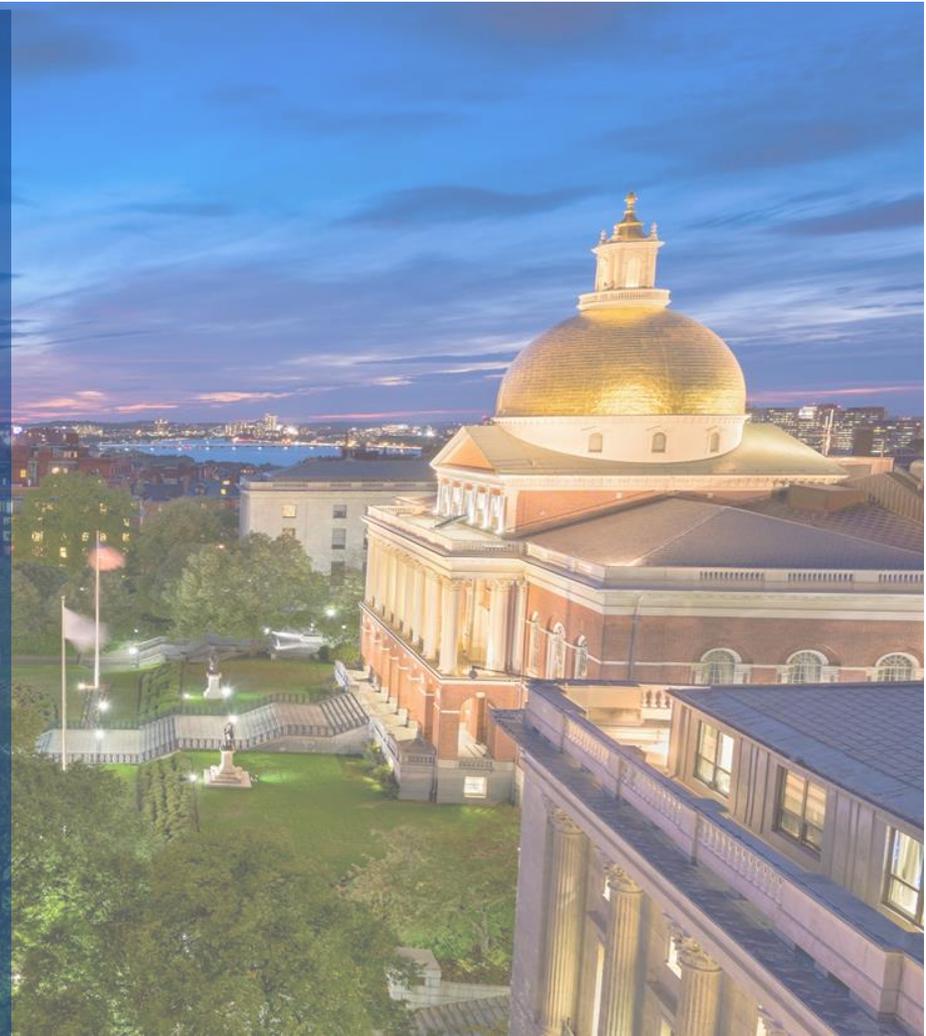




Massachusetts  
Taxpayers Foundation

An aerial night photograph of a city street, showing light trails from cars moving down the road. The surrounding city buildings are illuminated, and the sky is a deep blue.

MTF Analysis  
of the  
Governor's FY  
2022 Budget



# About MTF...

- Founded in 1932, the Massachusetts Taxpayers Foundation (MTF) is a non-profit, non-partisan public policy organization focused on state and local fiscal, tax and economic policies.
- MTF's record of high quality research and non-partisan analysis has earned the organization broad credibility on Beacon Hill and across the Commonwealth.
- Our mission is to provide accurate, unbiased research with thoughtful recommendations that strengthen the state's finances and economy to foster the long-term well-being of the Commonwealth and economic opportunity for all.



# Outline

## I. Fiscal Background

- FY 2021 Budget
- Tax revenues

## II. Governor's budget

- Big picture
- Revenue & resources
- Notable spending
- Policy

## III. Next steps



# FY 2021 Recap

- FY 2021 conference report adopted in mid-December
- Major factors in final budget:
  - Improving revenue picture/Biden win
  - Focus on COVID investments/avoiding cuts
- Notable features:
  - Spending growth outpaced recent years
    - Lots of new programs
  - Heaving reliance on one-time resources

# One-Time Resources in FY 2021

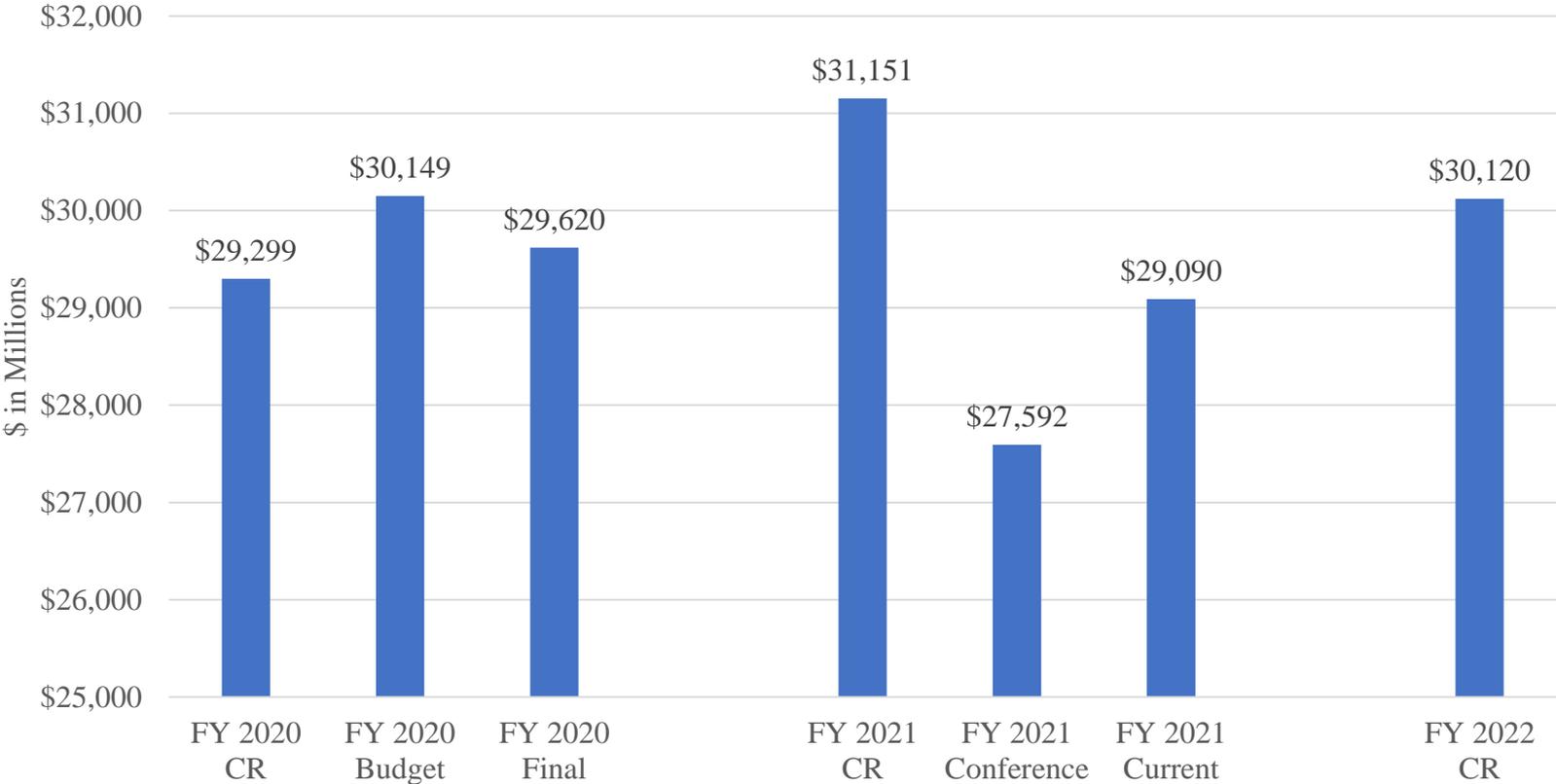
\$ in millions

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



# Tax Revenue Projections

Tax Revenue Estimates, FY 2020 - FY 2022



# FY 2021 Estimates Have Positive Risk

	Collections to date	Collections based on BM	Difference
July	\$2,142	\$1,872	\$270
August	\$1,964	\$1,802	\$162
September	\$3,159	\$3,191	-\$33
October	\$2,090	\$1,872	\$218
November	\$2,124	\$1,816	\$308
December	\$2,842	\$2,515	\$327
Total	\$14,321	\$13,067	\$1,254



# Governor's FY 2022 Budget – Big Picture

- Spending

- Definitely a maintenance/level funding budget
- Full implementation of SOA\*
- MassHealth costs go down
- Nothing new

- Resources

- Big Stabilization Fund draw (\$1.6 billion)
- ~\$300M in new revenue initiatives

- Policy

- Tax
- Health care
- Transportation



# House | Revenues & Resources

	Revenue Comparison			\$ Difference	% Difference
	FY 2021 Conference	FY 2021 Current	FY 2022 H1		
<b>Consensus Tax Revenues</b>	\$27,592.0	\$29,090.0	\$30,120.0	\$1,030.0	3.5%
<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%
<b>New revenue sources</b>					
<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%
<b>Federal</b>					
<i>MassHealth</i>	\$10,349.6	\$10,446.7	\$10,089.7	-\$357.0	-3.4%
<i>MassHealth add-on</i>	\$802.0	\$809.5	\$0.0	-\$809.5	-100.0%
<i>Other</i>	\$2,879.4	\$2,706.3	\$2,471.9	-\$234.4	-8.7%
<b>Departmental &amp; Transfers</b>					
<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%
<b>Net beginning balance</b>	\$300.0	\$300.0	\$0.0	-\$300.0	-100.0%
<b>Stabilization Fund transfer</b>	\$1,700.0	\$1,098.0	\$1,600.0	\$502.0	45.7%
<b>Total Revenue</b>	<b>\$51,034.5</b>	<b>\$51,894.1</b>	<b>\$51,515.8</b>	<b>-\$378.2</b>	<b>-0.7%</b>



# New House | Revenues

	Total revenue	Revenue for budget	Ongoing or one-time
Hospital assessment	\$75.0	\$75.0	One-time
Drug price penalty	\$70.0	\$22.5	Ongoing
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
<b>Total</b>	<b>\$279.0</b>	<b>\$231.5</b>	
<i>Numbers in millions</i>			

# One-Time Resource Comparison

	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
<b>Total</b>	<b>\$3,728</b>	<b>\$2,809</b>	<b>\$1,789</b>
Numbers in Millions			



# House | Spending

	<i>Spending Comparison</i>				
	FY 2021 Conference	FY 2021 Current	FY 2022 H1	\$ Difference v. Current	% Difference v. Current
<b>Line item spending</b>	\$45,953.8	\$45,840.0	\$45,399.9	-\$440.2	-1.0%
MATF	\$505.3	\$537.2	\$456.5	-\$80.7	-16.0%
<b>Pre-budget transfers</b>	\$5,183.4	\$5,331.0	\$5,628.6	\$297.6	5.7%
<b>Supp assumption</b>	\$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%
<b>Total Spend</b>	\$50,867.5	\$51,772.5	\$51,484.9	-\$287.6	-0.6%

# MassHealth

	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 % of Spending	57.4%	60.2%	61.1%	56.6%

- Spending decline attributable to utilization
- MassHealth enrollment up ~200K members since start of COVID

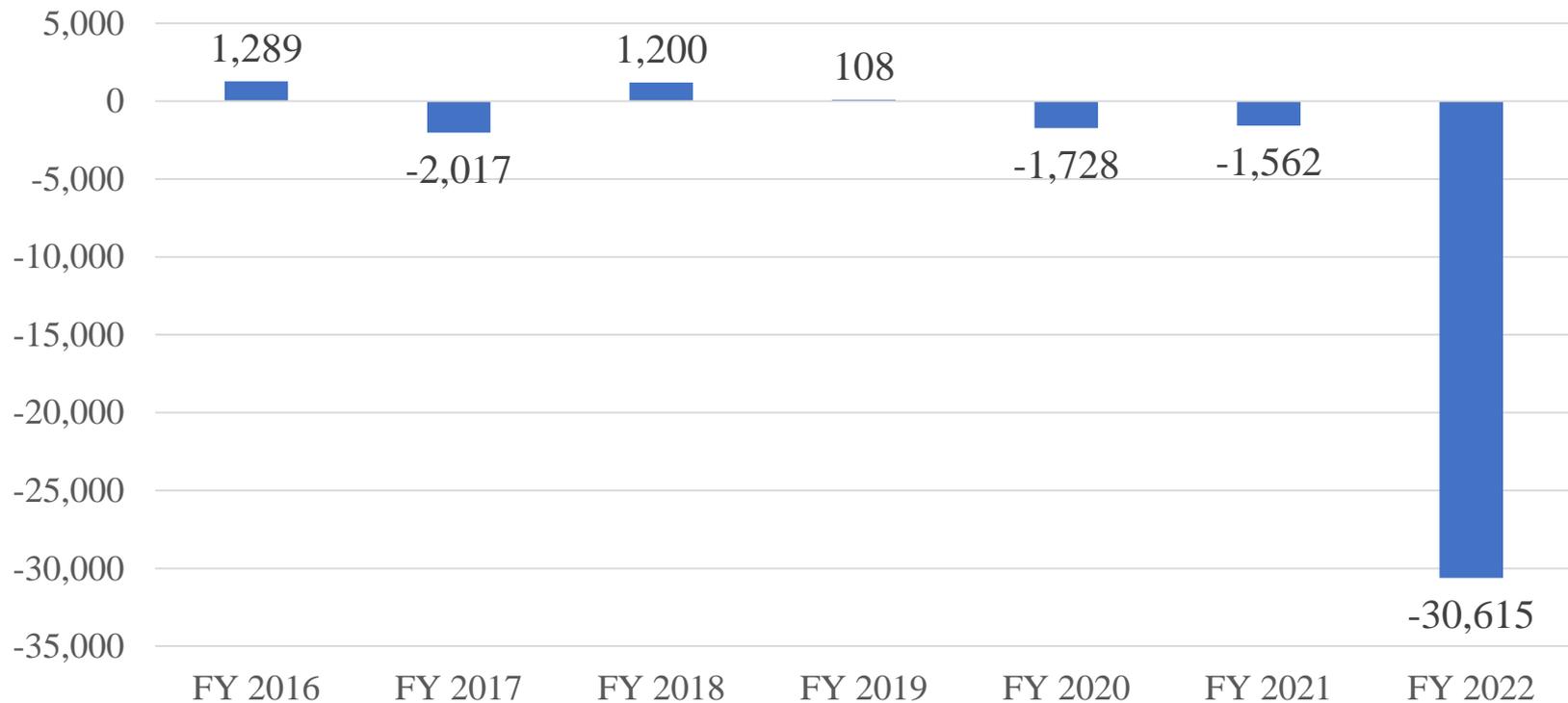
# Student Opportunity Act

- House I increases C70 by \$197.7M to fully fund SOA year 1
- Good news:
  - All SOA rates are increased by the same level (~14%)
  - All provisions of SOA are accounted for
- Bad news:
  - Affordability is predicated on 30K drop in K-12 enrollment
    - In FY 2020, statewide foundation increased by \$581M;
    - In HI, statewide foundation increase is \$257M

# K-12 Enrollment Drop in Context

## Statewide K-12 Enrollment Change, FY 2016 - FY 2022

Note: Total Enrollment in FY 2015 was 940,831



# FY 2021 Budget Initiatives & 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
<b>Total</b>	<b>\$0</b>	<b>\$237.68</b>	<b>\$0</b>



# Healthcare Policy

- Increase hospital assessment
  - \$100M increase from 10/21 to 10/22 used to support budget
  - Ongoing increase (\$42.5?) dedicated to MassHealth systems trust
  - Predicated on CMS approval
- Community hospital/Health center trust
  - \$47.5M in CY 2021 & CY 2022
  - \$25M thereafter
  - Supported by drug price increase penalty
- Pharmaceutical assessments
  - Increase drug price penalty (~\$70M?)
  - Opioid manufacturer (\$5M)
- Additional MassHealth rebates



# Tax Policy I

- Real-time sales (section 25)
  - Identical to FY 2021 proposal
  - Effective FY 2025
- Deemed repatriation statute of limitations (section 26)
  - Extends the time period during which DOR can adjust assessments on deemed repatriation income from three to six years.
- Software license taxation (sections 31 & 32)
  - Includes software licenses hosted out of state as tangible personal property

# Tax Policy 2

- Pass-through entity taxation (section 28)
  - Allows S corps, partnerships to pay personal income tax rate at entity level
- Disability employment tax credit (sections 24, 27, 99)
  - Creates refundable tax credit for wages paid to employees with qualifying disabilities
- MEFA college savings deduction (section 74)
  - Makes program permanent

# What's Next

- Continue to track state collections
- Assess likelihood/impact of federal action
- Drill down on policy proposals:
  - Hospital assessment
  - Community hospital/health center fund
  - SOA
- Monitor impact of vaccines/recovery on economy and public programs
  - MassHealth
  - K-12

# About MTF...

Thank you!

[www.masstaxpayers.org](http://www.masstaxpayers.org)

@masstaxpayersfd

# Stabilization Fund

<b>Stabilization Fund</b>	
FY 2021 starting balance	\$3,501.2
FY 2021 deposits	\$119.7
Conference report planned draw	-\$1,700.0
Draw adjustment	\$602.0
FY 2022 starting balance	\$2,522.9
FY 2022 deposits	\$181.9
House 1	-\$1,600.0
Assumed end of year balance	\$1,104.8

# House | Summary

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

*Numbers in millions/Comparisons v. FY 2021 Current Estimates*