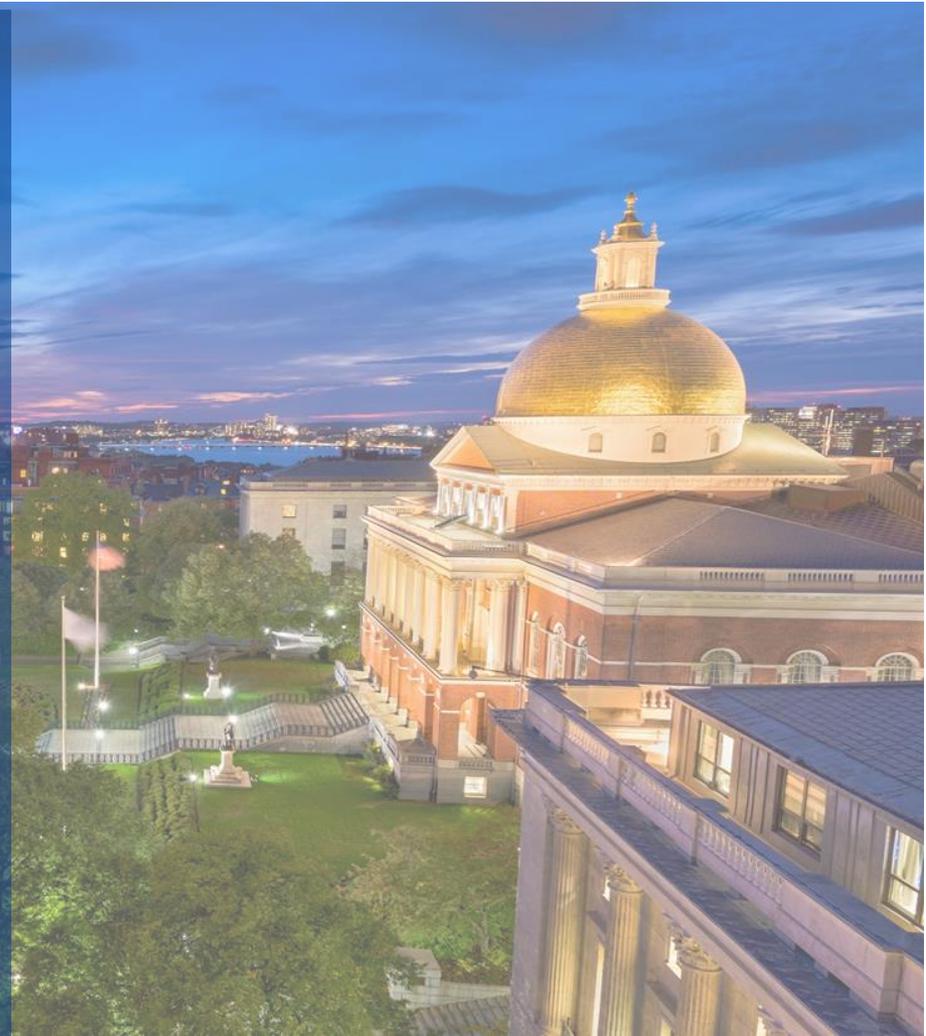




Massachusetts
Taxpayers Foundation



Analysis of FY 2022 SWM Budget



Outline

I. Background

- Changing landscape
- Major

II. SWM big picture

- Key themes
- Revenue & resources
- Spending trends

III. SWM detail

- Health care
- Education
- Senate priorities
- Tax
- Other Policy

IV. Senate debate preview



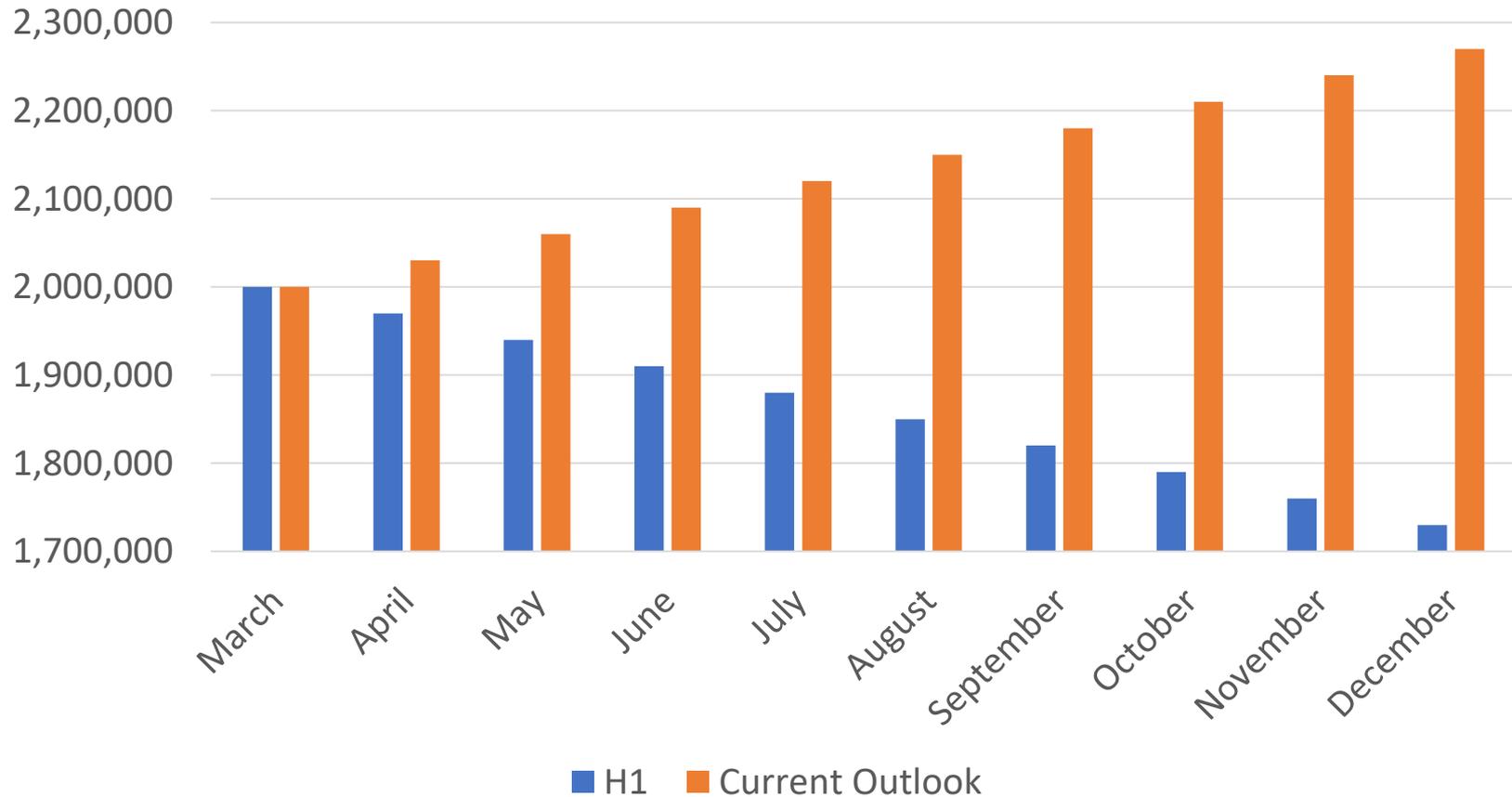


Background

Context for SWM Budget

- Biden Administration policy changes
 - Extension of PHE
 - Additional \$500M in FY 2021 revenue
 - Additional 300-400K in MassHealth caseload
 - Retroactive increase in FEMA reimbursement
- American Rescue Plan
 - \$4.5 billion in flexible state aid
 - Guidance released on 5/10
 - ~\$12 billion in targeted aid
- State tax collections
 - \$1.4 billion above benchmark
 - Benchmarks upgraded in January

PHE Impact on FY 2022

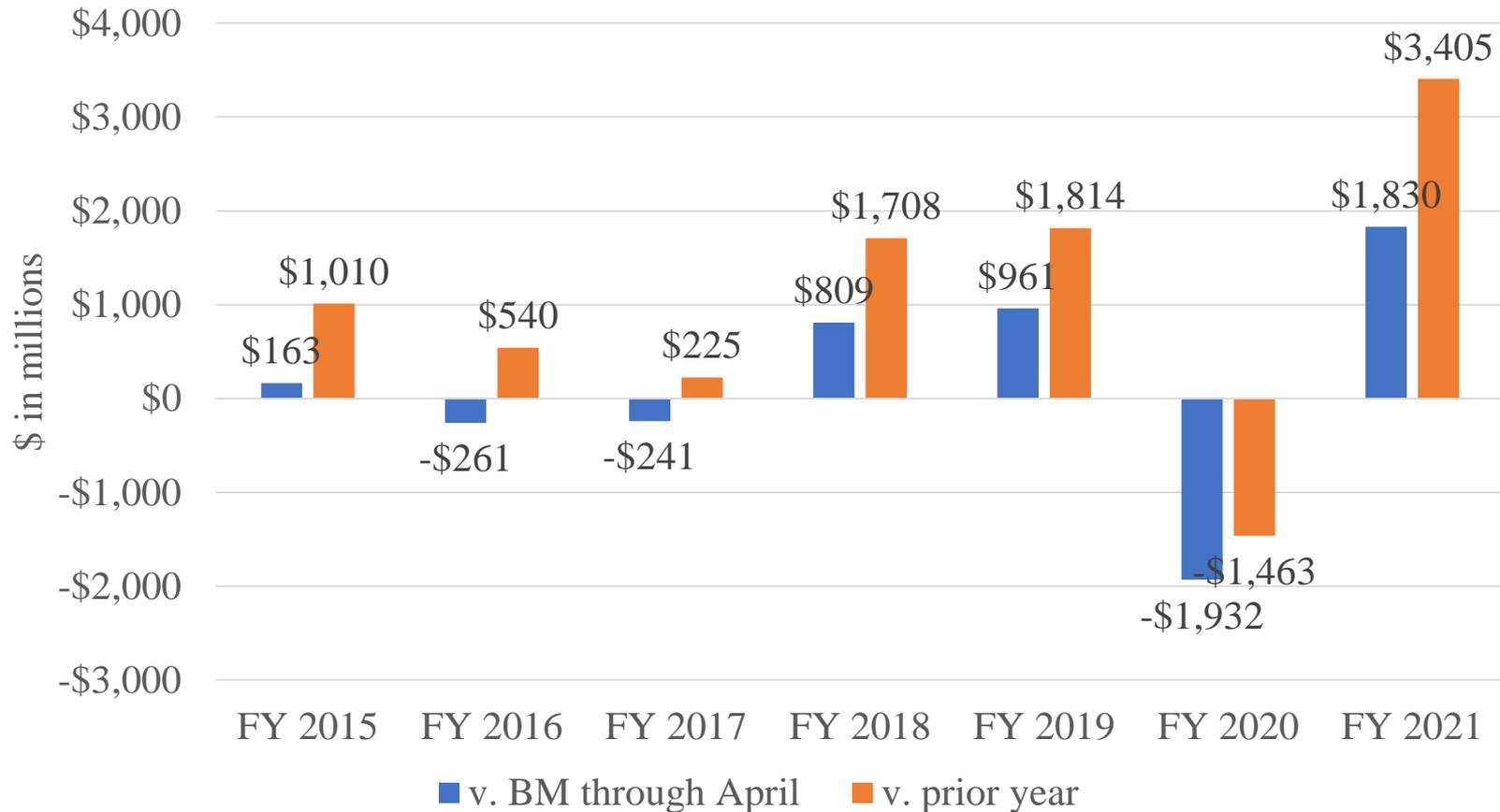


ARP and the State Budget

	Direct Budget Assistance	Indirect Budget Assistance
CSFRF	\$4,547.1	\$0.0
CCDBG	\$196.6	\$0.0
CLFRF	\$0.0	\$3,414.6
ESSER	\$0.0	\$1,842.1
Transit	\$0.0	\$1,000.0
Higher education	\$0.0	\$825.5
Childcare stabilization	\$0.0	\$314.4
Eviction mitigation	\$0.0	\$350.0
<i>Total</i>	<i>\$4,743.7</i>	<i>\$7,746.6</i>



FY 2021 Tax Revenues in Context



Key Budget Elements

- Spending:
 - MassHealth
 - Student Opportunity Act (SOA) implementation
 - ~\$300 million in House investments
- Resources:
 - Stabilization draw (\$1.6B in HI/\$1.875B in House)
 - \$280M in HI revenue initiatives
- Policy
 - Hospital assessment increase
 - Pharmacy assessment to make community hospital payments
 - Film tax credit



SWM Big Picture

SWM Big Picture

- Key themes
 - Interesting wrinkles on revenue
 - Lower stabilization fund
 - Follows House lead on spending
- Revenue & resources
 - SALT/Child deduction proposal
 - Takes advantage of revenue updates to net \$175M v. House
- Spending
 - MassHealth adjustment changes fiscal picture
 - SOA 1/6 phase-in
 - ~\$300 million in other Senate priority spending

Revenue in SWM

	<i>Revenue Comparison</i>			
	FY 2021	FY 2022	FY 2022	FY 2022
	Current	H1	House	SWM
Consensus Tax Revenues	\$28,751.0	\$30,120.0	\$30,120.0	\$30,120.0
<i>Tax settlements</i>	\$50.0	\$50.0	\$125.0	\$125.0
<i>Other tax adjustments</i>	\$8.0	\$2.7	\$2.7	\$2.7
<i>Less capital gains transfer</i>	\$0.0	-\$165.0	-\$165.0	-\$165.0
New revenue initiatives	\$331.0	\$279.0	\$64.0	\$187.5
Federal				
<i>MassHealth</i>	\$10,146.3	\$10,089.7	\$11,041.7	\$11,027.9
<i>Enhanced Medicaid</i>	\$1,110.0	\$0.0	\$478.0	\$515.0
<i>Other</i>	\$2,706.3	\$2,471.9	\$2,518.4	\$2,553.5
Departmental & Transfers				
<i>Lottery</i>	\$1,154.3	\$1,154.3	\$1,184.3	\$1,207.7
<i>Other</i>	\$5,903.2	\$5,913.2	\$5,950.7	\$6,023.7
Net beginning balance	\$300.0	\$0.0	\$0.0	\$0.0
Stabilization Fund transfer	\$1,098.0	\$1,600.0	\$1,875.0	\$1,550.0
Total Revenue	\$51,558.1	\$51,515.8	\$53,194.8	\$53,148.0
<i>\$ in millions/FY 2021 Comparisons v. Current estimate</i>				

Revenue Initiatives in SWM

	H1	House	SWM	Ongoing or one-time
Hospital assessment	\$75.0	\$0.0	\$0.0	One-time
Drug price penalty	\$70.0	\$0.0	\$0.0	Ongoing
Charitable delay	\$64.0	\$64.0	\$64.0	One-time
Sports gaming	\$35.0	\$0.0	\$0.0	Ongoing
Cashless lottery	\$30.0	\$0.0	\$30.0	Ongoing
Opioid gross receipts	\$5.0	\$0.0	\$0.0	Ongoing
Race Horse Development	\$0.0	\$0.0	\$19.8	One-time
SALT deduction	\$0.0	\$0.0	\$90.0	Ongoing
Child/dependent credit	\$0.0	\$0.0	-\$16.3	Ongoing
Total	\$279.0	\$64.0	\$187.5	
<i>Numbers in millions</i>				

SWM SALT Tax Proposal Background

- TCJA caps SALT at \$10,000
- IRS has approved workaround for partnerships & S-Corps
 - Entity level tax combined reduces personal income for filer
 - Personal income tax credit prevents double taxation
 - State tax revenue held harmless/ Federal income tax liability reduced
- Gov. included proposal in House 1
 - Entities have option to participate
 - Not included in House budget
- Senate limits personal income tax credit
 - Estimate \$90M annually in additional state tax revenue



SWM SALT Proposal

Partnership Income	\$1,500,000		
	Current	Gov	SWM
Partnership income taxed at entity level	\$0	\$1,500,000	\$1,500,000
<i>Entity tax collected by state (5% rate)</i>	<i>\$0</i>	<i>\$75,000</i>	<i>\$75,000</i>
Income subject to PIT	\$1,500,000	\$1,425,000	\$1,425,000
Corp tax credit calc.	0%	95%	90%
Credit for corporate taxes paid	\$0	-\$71,250	-\$67,500
<i>State income tax paid</i>	<i>\$75,000</i>	<i>\$0</i>	<i>\$3,750</i>
<i>Federal tax savings</i>	<i>\$0</i>	<i>-\$22,750</i>	<i>-\$22,750</i>
<i>New state tax revenue</i>	<i>\$0</i>	<i>\$0</i>	<i>\$3,750</i>

PIT = MA Personal Income Tax



One-Time Resources

	FY 2021 Current	FY 2022 H1	FY 2022 House	FY 2022 SWM
<i>Stabilization fund</i>	<i>\$1,098</i>	<i>\$1,600</i>	<i>\$1,875</i>	<i>\$1,550</i>
Net beginning balance	\$300	\$0	\$0	\$0
Accelerated Sales Tax (net of transfers)	\$187	\$0	\$0	\$0
Assumed CRF funding	\$0	\$0	\$0	\$0
<i>Enhanced Medicaid reimbursements</i>	<i>\$1,110</i>	<i>\$0</i>	<i>\$478</i>	<i>\$515</i>
<i>Judgements & settlements</i>	<i>\$50</i>	<i>\$50</i>	<i>\$125</i>	<i>\$125</i>
<i>Charitable deduction delay</i>	<i>\$64</i>	<i>\$64</i>	<i>\$64</i>	<i>\$64</i>
Hospital assessment	\$0	\$75	\$0	\$0
<i>Race Horse Fund</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$20</i>
Total	\$2,809	\$1,789	\$2,542	\$2,274
<i>Numbers in Millions</i>				

Stabilization Fund

	Gov	House	SWM
FY 2021 starting balance	\$3,501.2	\$3,501.2	\$3,501.2
FY 2021 deposits	\$119.7	\$119.7	\$119.7
Conference report planned draw	-\$1,700.0	-\$1,700.0	\$1,700.0
Draw adjustment	\$602.0	\$602.0	\$602.0
FY 2022 starting balance	\$2,522.9	\$2,522.9	\$2,522.9
FY 2022 deposits	\$181.9	\$181.9	\$181.9
Withdrawal	-\$1,600.0	-\$1,875.0	-\$1,550.0
Assumed end of year balance	\$1,104.8	\$829.8	\$1,154.8
<i>\$ in Millions</i>			

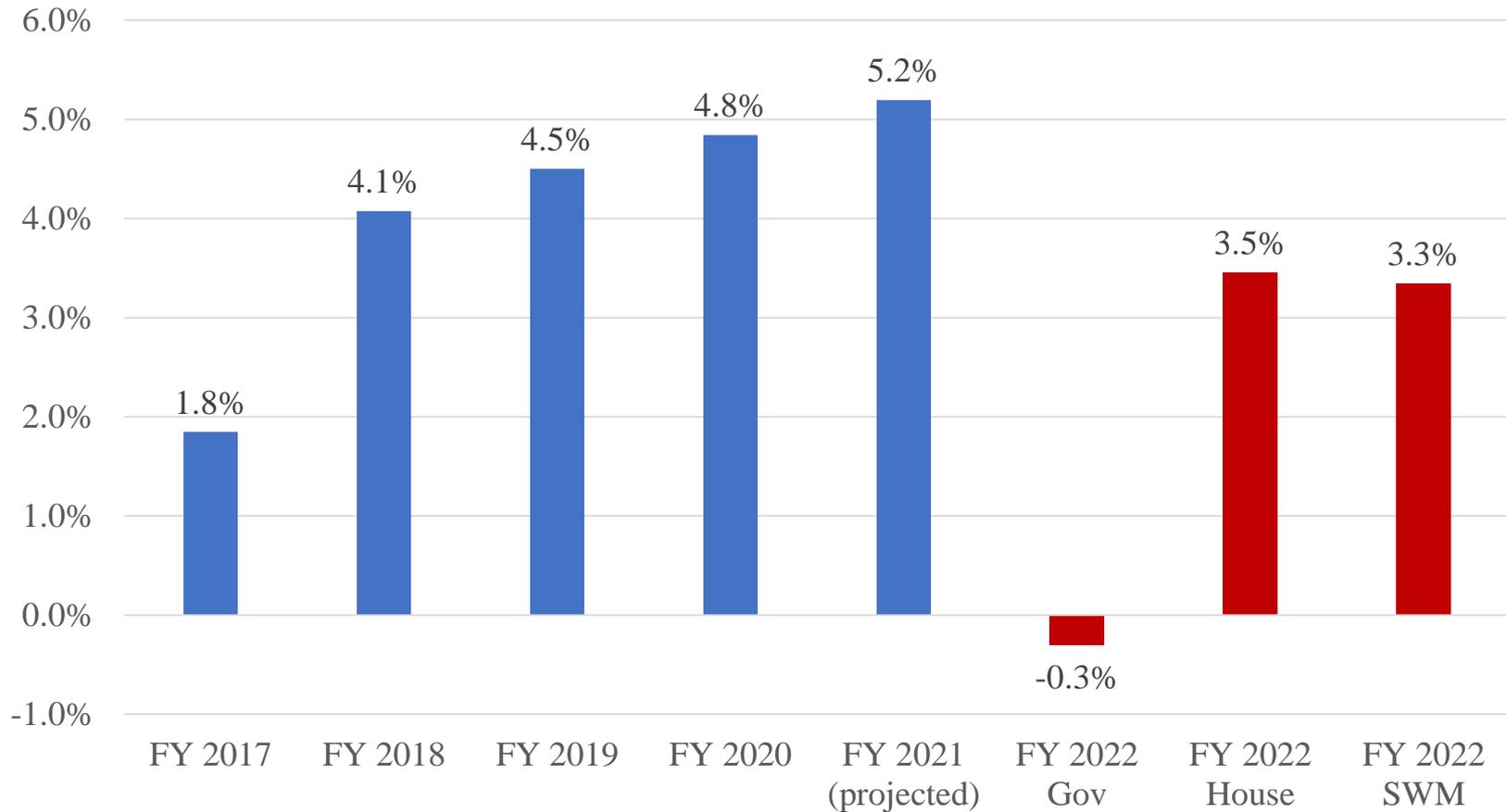


FY 2022 Adjusted Spending Comparison

- SWM/House budget accounts for ~350K additional MassHealth members by at end of CY 2021
- This change makes comparisons with HI challenging

	FY 2021	Gov	House Final	SWM
Total line item spending	\$45,840.0	\$45,399.9	\$47,243.8	\$47,188.0
<i>MH adjustment</i>	<i>\$0.0</i>	<i>\$0.0</i>	<i>\$1,400.2</i>	<i>\$1,400.2</i>
Adjusted spending total	\$45,840.0	\$45,399.9	\$45,843.6	\$45,787.8
<i>v. SWM</i>		\$387.9	-\$55.7	

Putting SWM Spending in Context





SWM Detail

MassHealth Spending Estimate

- PHE extension results in increased federal revenue AND continuation of Maintenance of Enrollment requirements

	H1	House	Senate	SWM v. H1
Projected 12/21 enrollment	1,750,000	2,100,000	2,100,000	350,000
FY 2022 gross spend	\$17,882	\$19,285	\$19,298	\$1,415
Associated revenue	\$10,090	\$11,042	\$11,028	\$938
Enhanced Medicaid (MassHealth)	\$0	\$428	\$465	\$465
Enhanced Medicaid (non-MassHealth)	\$0	\$50	\$50	\$50
Net change in MH				-\$38

\$ in millions

Health Care Policy

- \$42M in nursing home rate increases
 - \$27M for base year change
 - \$15M in rate add-on
- \$10M in grants to improve “assertive community-based treatment” for children/young adults with experiencing mental health issues
- Supplemental rebate expansion as proposed in H I
- Comparative analysis of in-patient psychiatric rates

K-12 Education

- **Student Opportunity Act**
 - Puts state on track to fully fund by 2027
 - Full expansion of low-income enrollment
 - 1/6 of foundation rates
 - Phase in of charter school and SPED reimbursement commitments
 - Adopt HI proposal to districts to use ESSER 2 funds to cover increases in required local contribution
 - Districts can use up to 75% of ESSER 2 towards RLC increase
 - ~\$115M in local savings (if all eligible districts opt-in)
- **\$40M reserve account to address enrollment issues**
- **\$6M for K-12 social & emotional learning grants**

Early Education

Program	FY 2020 Spending	FY 2021 Projected	FY 2022 H1	FY 2022 House	FY 2022 SWM
Income Eligible Subsidies	\$291.0	\$326.2	\$298.7	\$298.7	\$298.7
DTA and DCF Childcare	\$297.1	\$350.9	\$358.9	\$358.9	\$358.9
Parent Fee Assistance	\$0.0	\$40.0	\$0.0	\$0.0	\$9.0
Workforce Supports	\$10.0	\$45.0	\$0.0	\$20.0	\$0.0
Head Start	\$12.0	\$15.0	\$12.0	\$15.0	\$15.0
Other Early Education	\$114.7	\$115.3	\$105.6	\$111.2	\$107.1
Total	\$724.8	\$892.4	\$775.2	\$803.8	\$788.6

Numbers in Millions

- **\$8.9M** in supplemental CCDBG funds used to support parent fee waiver
 - More than \$300M in CCDBG funds still to be spent
- No provider rate reserve
- Drop-off from FY 2021 misleading:
 - Not all of FY 2021 is going to be spent



Higher Education

Program	FY 2020 Spending	FY 2021 Projected	FY 2022 H1	FY 2022 House	FY 2022 SWM
Community Colleges	\$305.2	\$322.3	\$307.6	\$332.1	\$321.7
State Universities	\$285.2	\$291.7	\$284.5	\$297.7	\$298.1
UMass	\$563.9	\$565.6	\$563.5	\$574.2	\$574.3
Scholarship programs	\$119.2	\$126.0	\$126.6	\$140.8	\$135.7
Other Higher Education	\$44.0	\$32.6	\$24.9	\$32.9	\$27.3
Total	\$1,317.5	\$1,338.2	\$1,307.1	\$1,377.7	\$1,357.2

Numbers in Millions

- SWM builds in last year's formula grants to base funding
 - \$12.1M in new funds for additional formula
 - House provided increase on top of base + formula

Senate Priority Spending

Title	FY 2021	FY 2022 Gov	FY 2022 House	FY 2022 SWM
<i>Low-income Economic Supports</i>	<i>\$548.2</i>	<i>\$554.6</i>	<i>\$589.1</i>	<i>\$595.5</i>
<i>Substance Use</i>	<i>\$182.4</i>	<i>\$155.0</i>	<i>\$176.6</i>	<i>\$188.5</i>
Housing supports	\$305.8	\$246.0	\$280.2	\$276.7
<i>Mental Health Initiatives</i>	<i>\$27.9</i>	<i>\$0.0</i>	<i>\$0.0</i>	<i>\$26.0</i>
Food supports	\$44.4	\$25.0	\$43.0	\$43.3
<i>DCF</i>	<i>\$1,084.2</i>	<i>\$1,087.6</i>	<i>\$1,090.4</i>	<i>\$1,102.8</i>
DDS Day & Work programs	\$244.2	\$205.0	\$220.0	\$220.0
<i>Nursing home rate supplment</i>	<i>\$0.0</i>	<i>\$0.0</i>	<i>\$0.0</i>	<i>\$15.0</i>
<i>Community Organizations</i>	<i>\$20.0</i>	<i>\$0.0</i>	<i>\$0.0</i>	<i>\$12.5</i>
Adult Education	\$46.0	\$40.6	\$50.0	\$50.0
Scholarships	\$126.0	\$126.6	\$140.8	\$135.7
Extended/After School Learning	\$23.8	\$6.6	\$14.6	\$12.8
Legal Assistance	\$29.0	\$29.0	\$35.0	\$35.0
At-risk Youth	\$25.3	\$3.4	\$11.0	\$8.1
Suicide Prevention	\$6.7	\$4.7	\$6.5	\$7.0
<i>Total</i>	<i>\$2,652.9</i>	<i>\$2,446.9</i>	<i>\$2,604.6</i>	<i>\$2,678.8</i>

Tax Policy in the FY 2022 Budget

- SALT work-around
 - Optional
 - Modeled on CT approach
- Child & dependent tax credit
 - Currently a deduction (max \$9,600)
 - Converted to refundable credit (max \$480)
 - Amount of credit depends on number of children and whether or not expenses itemized
- Extends MEFA 529 plan deduction through TY 2026

Film Tax Credit Comparison

	Current	House	SWM
Sunset	2023	Permanent	2027
Eligible salary cap	No	No	\$1 million
Minimum film days/expenses in MA	50%	50%	75%
Transferable	Yes	Yes	Not

Tax Policy Comparison

	Gov	House	Senate
SALT/Pass-through entity change	✓	✗	✓
Real-time sales tax	✓	✗	✗
Deemed repatriation adjustment	✓	✗	✗
Remote software taxation	✓	✗	✗
Charitable delay	✓	✓	✓
Disabled employee tax credit	✓	✓	✗
MEFA college savings extension	✓	✓	✓
Film tax credit	✗	✓	✓
Conservation land tax credit increase	✗	✓	✗
Historic rehab credit extension	✗	✓	✗
Child tax credit	✗	✗	✓

Other Policy in SWM Budget

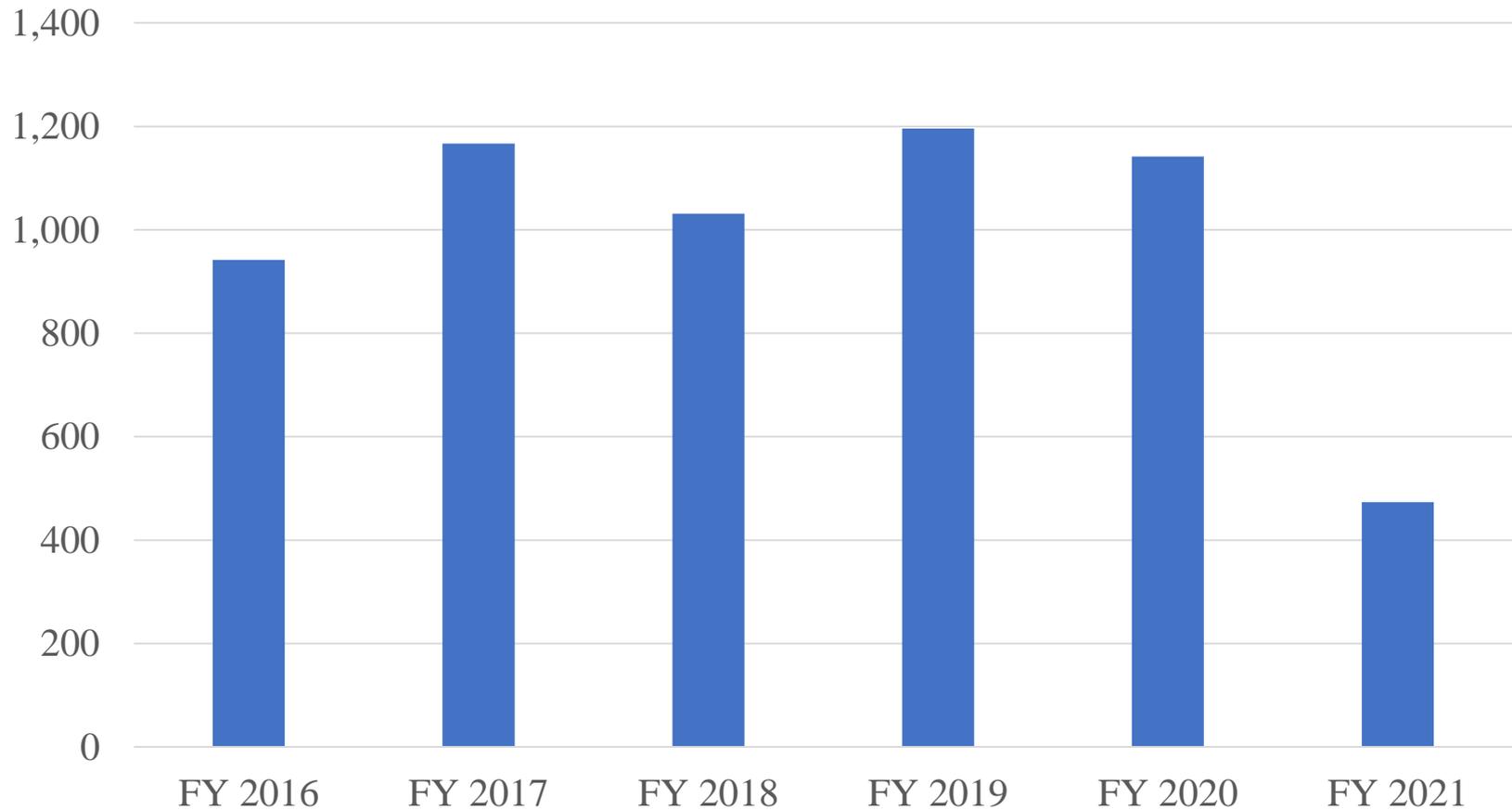
- Criminal Justice Community Support TF (section 8)
- ESSER reporting (section 39)
- Elimination of EAEDC/TAFDC asset limit (sections 18 & 19)
- CPCS salary increase (section 25-29)
- Allows New Bedford/Fall River state piers to be used for offshore wind industry (section 36)
- Puts in place:
 - Poverty Commission
 - DESE evaluation of impact of COVID-19 on marginalized populations
 - Analysis of impact of COVID-19 on children's BH

Policy Comparison with House 1

Gov. Proposal	Topic	In House	In SWM
Opioid tax	Tax/Revenue	No	No
Drug price assessment	Tax/Revenue	No	No
<i>Debit card lottery sales</i>	<i>Tax/Revenue</i>	<i>No</i>	<i>Yes</i>
MBTA board creation	Transportation	No	No
MBTA & MassDOT project delivery and development	Transportation	No	No
TNC data and municipal spending	Transportation	No	No
<i>Expanded drug rebates</i>	<i>Health care</i>	<i>No</i>	<i>Yes</i>
Hospital assessment	Health care	No	No
Community hospital & health center trust fund	Health care	No	No



Senate Budget Amendments by Year



Senate Budget Action Over Time

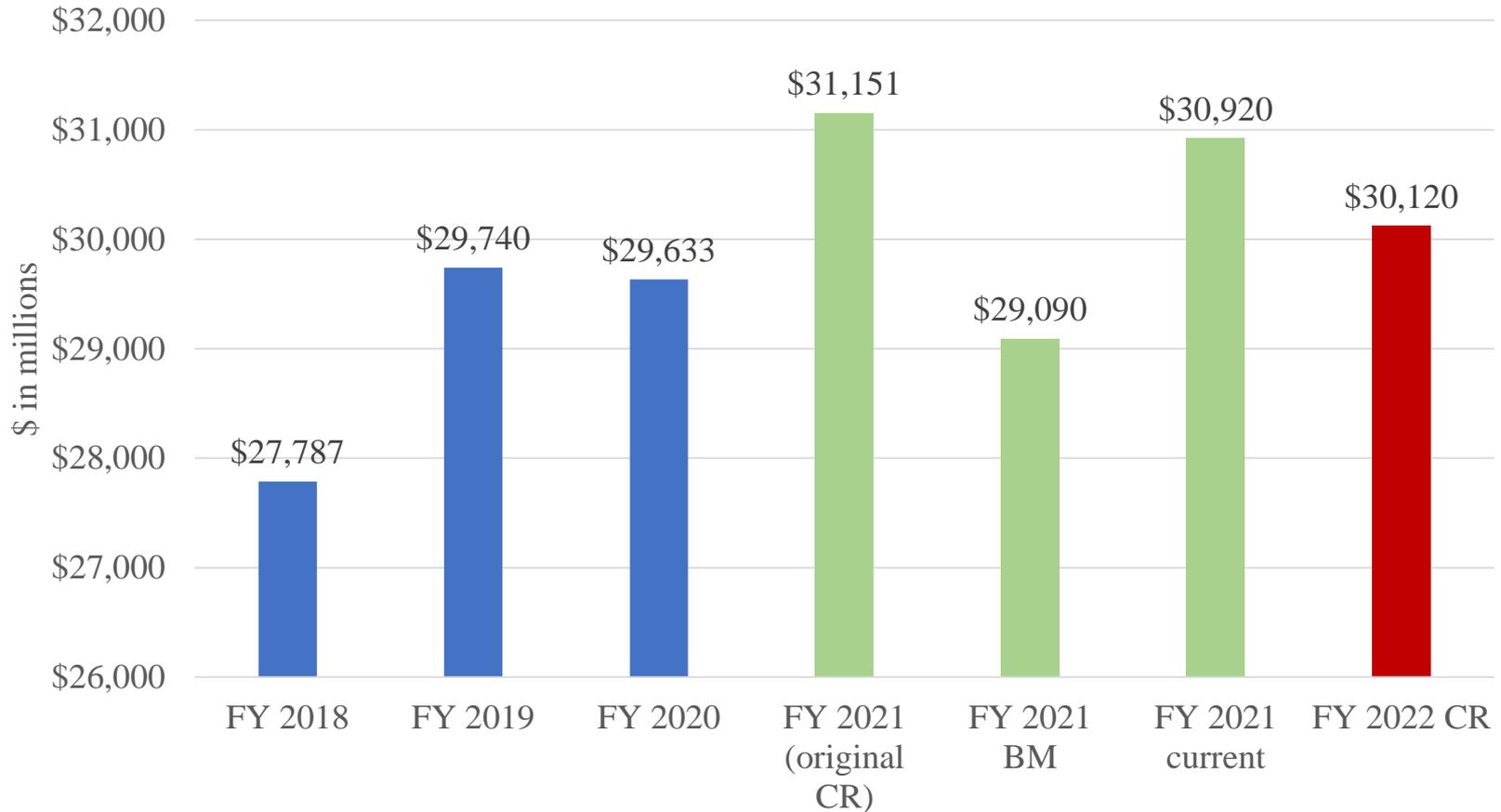
	Spending	Sections Added
FY 2021	\$26.6	47
FY 2020	\$74.4	53
FY 2019	\$75.5	60
FY 2018	\$50.5	111
FY 2017	\$61.1	78
FY 2016	\$86.2	107

\$ in millions

Likely Senate Debate Themes

- Spending focus on earmarks
 - 80% of House spending on earmarks
- Push to separate ARP process
- Possible policy topics:
 - K-12 enrollment
 - Money bill amendments
 - COVID response oversight
 - Staff compensation

Tax Benchmark Refresher



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