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MTF Bulletin

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Senate Ways and Means FY 2022 Budget

The Senate Committee on Ways and Means (SWM) released its fiscal year (FY) 2022 budget today totaling \$47.19 billion. Senators now have a chance to offer amendments. The plan will be debated and amended by the full Senate in two weeks and then reconciled with the House’s budget proposal that was finalized last week.

The SWM budget includes \$47.19 billion in line-item spending and \$6.1 billion in pre-budget and off-budget spending, for a total of \$53.3 billion as depicted in Figure 1.

Figure 1. FY 2022 Budget Spending and Revenue Summary

	Spending Comparison				\$ v. Current	\$ v. Gov	\$ v. House
	FY 2021 Current	FY 2022 Gov	House Final	FY 2022 SWM			
Line item spending	\$45,840.0	\$45,399.9	\$47,243.8	\$47,188.0	\$1,348.0	\$1,788.1	-\$55.7
MATF	\$537.2	\$456.5	\$471.4	\$471.4	-\$65.8	\$14.9	\$0.0
Pre-budget transfers	\$5,331.0	\$5,628.6	\$5,628.6	\$5,628.6	\$297.6	\$0.0	\$0.0
Supp assumption	\$173.9	\$0.0	\$0.0	\$0.0	-\$173.9	\$0.0	\$0.0
Assumed reversions	-\$109.6	\$0.0	-\$200.0	-\$200.0	-\$90.4	-\$200.0	\$0.0
Total Spend	\$51,772.5	\$51,484.9	\$53,143.7	\$53,088.0	\$1,315.4	\$1,603.0	-\$55.7
	Revenue Comparison				\$ v. Current	\$ v. Gov	\$ v. House
	FY 2021 Current	FY 2022 HI	FY 2022 House	FY 2022 SWM			
Consensus Tax Revenues	\$28,751.0	\$30,120.0	\$30,120.0	\$30,120.0	\$1,369.0	\$0.0	\$0.0
<i>Tax settlements</i>	\$50.0	\$50.0	\$125.0	\$125.0	\$75.0	\$75.0	\$0.0
<i>Other tax adjustments</i>	\$8.0	\$2.7	\$2.7	\$2.7	-\$5.3	\$0.0	\$0.0
<i>Less capital gains transfer</i>	\$0.0	-\$165.0	-\$165.0	-\$165.0	-\$165.0	\$0.0	\$0.0
New revenue initiatives	\$331.0	\$279.0	\$64.0	\$187.5	-\$143.5	-\$91.5	\$123.5
Federal							
<i>MassHealth</i>	\$10,146.3	\$10,089.7	\$11,041.7	\$11,027.9	\$881.7	\$938.2	-\$13.8
<i>Enhanced Medicaid</i>	\$1,110.0	\$0.0	\$478.0	\$515.0	-\$595.0	\$515.0	\$37.0
<i>Other</i>	\$2,706.3	\$2,471.9	\$2,518.4	\$2,553.5	-\$152.8	\$81.6	\$35.1
Departmental & Transfers							
<i>Lottery</i>	\$1,154.3	\$1,154.3	\$1,184.3	\$1,207.7	\$53.4	\$53.4	\$23.4
<i>Other</i>	\$5,903.2	\$5,913.2	\$5,950.7	\$6,023.7	\$120.5	\$110.5	\$73.0
Net beginning balance	\$300.0	\$0.0	\$0.0	\$0.0	-\$300.0	\$0.0	\$0.0
Stabilization Fund transfer	\$1,098.0	\$1,600.0	\$1,875.0	\$1,550.0	\$452.0	-\$50.0	-\$325.0
Total Revenue	\$51,558.1	\$51,515.8	\$53,194.8	\$53,148.0	\$1,372.8	\$1,467.0	-\$16.8

\$ in millions/FY 2021 Comparisons v. Current estimate

SWM bottom-line spending exceeds FY 2021 spending by \$1.32 billion (2.5 percent) and is \$55.7 million less than the House budget. Like the House budget, the SWM budget includes \$1.4 billion in MassHealth costs and offsetting revenue not included in the Governor’s House 1 budget. If differences in MassHealth are set aside, the SWM budget includes \$387.9 million more in spending than House 1 (see Figure 6).

I. Resource Themes¹

The SWM budget adopts \$94 million in revenue initiatives that were proposed by the Governor and approximately \$175 million from updated revenue assumptions (compared to the House budget) based on changes in federal policy and more current information.

Figure 2. FY 2022 Revenue Initiatives

	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
SALT deduction	\$0.0	\$0.0	\$90.0	Ongoing
Child/dependent credit	\$0.0	\$0.0	-\$16.3	Ongoing
Total	\$279.0	\$64.0	\$167.7	
<i>Numbers in millions</i>				

SWM, like the Administration and the House, delays implementation of the charitable tax deduction for another year, increasing tax collections by \$64 million. The SWM budget also goes along with Administration proposals to allow debit cards to be used for lottery purchases, projected to boost lottery revenues by \$30 million annually.

Perhaps the most notable new revenue source comes from the SWM’s provision related to the federal state and local tax deduction limitation (SALT). The SWM budget puts forward a new tax revenue proposal that will provide relief to a subset of tax-filers affected by the federal income tax limit on the deduction of state and local taxes (SALT). As part of the 2017 Tax Cut and Jobs Act (TCJA), the federal deduction for state and local tax payments was capped at \$10,000. House 1 provides businesses organized as partnerships or S-corporations the option to pay entity-level taxes on income, and provided an offsetting personal income deduction. This approach, which has been approved by the Internal Revenue Service, maintains state tax collections while enabling filers to reduce their federally taxable personal income. The Senate adjusts the Administration’s approach by limiting the personal income tax credit allowable for filers to 90 percent of entity-level taxes paid. SWM estimates that this change will generate \$90 million in tax revenue for the state, while still providing federal tax relief. The House did not include a SALT provision. Figure 3 uses the

¹ This section relates to revenue and savings proposals with a fiscal impact on FY 2022. Discussion of the SWM proposal to limit the state’s film tax credit, which has no FY 2022 impact, is included in the policy proposal section of the bulletin.

example of a business partnership with \$1.5 million in income to illustrate how the SWM approach differs from that put forward by the Administration.

Figure 3. Comparison of SALT Tax Proposals

Partnership Income	\$1,500,000		
	Current	Gov	SWM
Partnership income taxed at entity level	\$0	\$1,500,000	\$1,500,000
Entity tax collected by state (5% rate)	\$0	\$75,000	\$75,000
Income subject to PIT	\$1,500,000	\$1,425,000	\$1,425,000
PIT credit against corp tax	0%	95%	90%
Credit for corporate taxes paid	\$0	-\$71,250	-\$67,500
State income tax paid	\$75,000	\$0	\$3,750
Federal tax savings	\$0	-\$22,750	-\$22,750
Total state tax revenue	\$75,000	\$75,000	\$78,750

PIT = MA Personal Income Tax

The SWM budget also proposes an expansion of the state’s child and dependent care tax credit that will reduce state revenues by \$16.3 million in FY 2022. Under the SWM proposal, these existing tax deductions for eligible childcare costs would be turned into refundable tax credits. This change will provide additional income of up to \$480 per year for eligible low-income families with more than one child.

Neither legislative branch relies on revenues related to two pharmacy taxes, an increased hospital assessment or legalized sports gaming, all of which were included in House 1. The hospital assessment proposal will likely evolve over the coming months in conjunction with negotiations for the extension of the state’s 1115 Medicaid waiver, as a related hospital assessment is due to expire next year.

The SWM budget relies on \$175 million in revenue more than the House budget based on revised revenue projects for the state lottery, Abandoned Property program, federal disaster reimbursements and enhanced Medicaid revenues. As discussed in [MTF’s FY 2022 budget preview](#), lottery revenues are on pace to exceed FY 2021 projections by between \$50 and \$60 million. The SWM budget assumes that some of this growth will persist in FY 2022 and assumes \$53.4 million more in lottery revenue than the Administration or the House.

The SWM budget incorporates \$33.9 million in federal revenue related to disaster reimbursements and supplemental childcare funding. SWM accounts for the Biden Administration’s policy to reimburse states for 100 percent of allowable COVID-19 disaster costs, as opposed to the 75 percent assumed in both the Governor and House budgets. The increased reimbursement will generate \$25 million for the state in FY 2022. SWM also relies on \$8.9 million of \$326.6 million the state is slated to receive in additional Childcare Development Block Grant funds through the American Rescue Plan and a previous federal bill to cover fees for families receiving subsidized childcare.

Finally, SWM assumes \$515 million in enhanced Medicaid revenue for the first six months of FY 2022, compared to \$438 million in the House budget.² The SWM assumption more closely aligns with the enhanced Medicaid revenue collected since the pandemic began. According to information statements, the state received \$540 million in enhanced Medicaid reimbursements over a six month period in FY 2020 and collected at least \$250 million in revenue in all but one quarter since the pandemic began.

Through revenue initiatives and revised estimates, the SWM budget uses approximately \$300 million more in revenues than the House budget. These revenue differences enable SWM to reduce its reliance on the Stabilization Fund to \$1.55 billion, a lower amount than assumed in either House 1 or the House budget. Both the SWM and House budgets assume \$200 million in FY 2022 reversions, thereby generating savings for the budget.

Figure 4. FY 2022 Stabilization Fund Assumptions

	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>			

The House and Senate have indicated that the \$4.5 billion the state is slated to receive as part of the Coronavirus State Fiscal Recovery program in the ARP will be expended through a separate legislative process. With the exception of the \$8.9 million in CCDBG funds described above, the SWM budget does not use federal COVID funds and does not adjust the consensus tax revenue figure.³ In recent years, the House and Senate have worked with the Administration to make consensus revenue adjustments during conference committee deliberations, and this year, with FY

² The Governor’s FY 2022 budget was based on federal enhanced Medicaid reimbursements ending in FY 2021.

³ CCDBG funds provided in federal legislation passed in December remain unexpended which may be the source of the \$8.9 million used in the SWM budget

2021 tax revenues exceeding the benchmark by \$1.83 billion through April, such an adjustment is almost certain to occur.

Non-recurring Revenues

The Senate relies on \$2.27 billion in one-time revenues, a decrease of \$228 million compared to the House and \$485 million more than the Governor. The comparison to the Governor’s House 1 budget is misleading, however, because the difference is primarily attributable to \$515 million in enhanced Medicaid revenue not included in House 1 due to the timing of the Biden Administration’s announcement on the continuation of these funds. This revenue is one-time because eventually the state’s Medicaid reimbursement percentage will return to the normal level (50 percent for most costs).

Figure 5. One-Time Budget Resources

	FY 2021 Conference	FY 2021 Current	FY 2022 H1	FY 2022 House	FY 2022 SWM
Stabilization fund	\$1,700	\$1,098	\$1,600	\$1,875	\$1,550
Net beginning balance	\$300	\$300	\$0	\$0	\$0
Accelerated Sales Tax (net of transfers)	\$187	\$187	\$0	\$0	\$0
Assumed CRF funding	\$550	\$0	\$0	\$0	\$0
Enhanced Medicaid reimbursements	\$802	\$1,110	\$0	\$438	\$515
Judgements & settlements	\$125	\$50	\$50	\$125	\$125
Charitable deduction delay	\$64	\$64	\$64	\$64	\$64
Hospital assessment	\$0	\$0	\$75	\$0	\$0
Race Horse Fund	\$0	\$0	\$0	\$0	\$20
Total	\$3,728	\$2,809	\$1,789	\$2,502	\$2,274
<i>Numbers in Millions</i>					

For the fifth consecutive budget, SWM proposes transferring \$15 million from the Race Horse Development Fund to the General Fund and dedicating all resort casino revenue that would otherwise go to the race horse fund (\$4.8 million) to support the state budget in FY 2022. The current balance of the race horse fund, created in legislation to legalize gaming, is approximately \$20 million.

Like the House, the Senate takes a bridge approach in its use of the Stabilization Fund and other one-time resources to balance the budget and support new spending. As MTF previously stated, it must be a priority of the budget conference committee to reduce reliance on state reserves and other one-time or unpredictable savings initiatives in the final budget that makes its way to the Governor’s desk. Limiting or eliminating use of the Stabilization Fund in FY 2022 is even more important, with recent federal guidance stating that ARP funds cannot be used to replenish reserves.

II. Spending Themes

The SWM budget aligns with the House in directing the majority of new spending to MassHealth and K-12 education, with several hundred million dedicated to supporting historic Senate spending priorities. This level of priority funding is similar to the House budget, but areas of support differ.

After accounting for spending differences related to updated MassHealth caseload numbers, the SWM budget appropriates \$385 million more than the Governor’s budget and \$55.7 million less than the House budget.

Figure 6. FY 2022 Bottom Line Spending Comparison

	Gov	HWM	House Final	SWM
Total line item spending	\$45,399.9	\$47,177.7	\$47,243.8	\$47,188.0
<i>MH adjustment</i>	\$0.0	\$1,400.2	\$1,400.2	\$1,400.2
Adjusted spending total	\$45,399.9	\$45,777.5	\$45,843.6	\$45,787.8
<i>v. SWM</i>	\$387.9	\$10.3	-\$55.7	

Of the 735 line-items, the SWM budget increases 384 of them compared to FY 2021, level funds 175 and reduces or eliminates 226 of them. MassHealth and Chapter 70 combined account for \$924.6 million (70.2 percent) of new spending.

The SWM budget proposes approximately \$232 million in new discretionary investments, including \$65.7 million for 13 newly funded programs, compared to House 1. The SWM budget continues to invest in mental health services with \$10 million for the Behavioral Health Access, Outreach and Support trust fund and \$10 million to fund grants to improve community-based treatment options for children and young adults.

Figure 7 summarizes the major SWM spending initiatives. Notable among them include:

- \$39.4 million more for families receiving transitional or emergency family benefits. After a 10 percent increase in FY 2021, the House budget upped that amount to 20 percent for FY 20202 during their debate. The SWM budget mirrors the 20 percent increase adopted by the House;
- \$10 million for grants to local boards of public health;
- \$7.5 million for community investment grants targeted to low-income communities;
- \$7.3 million to increase support for the Bureau of Substance Addiction Services, including \$2 million for Medication Assisted Treatment technical assistance;
- \$5.55 million in new funding for Department of Children and Families’ (DCF) Family Resource Centers, which help DCF involved families connect with a variety of state and local assistance services; and
- \$5 million in grants to community foundations to assist residents disproportionately affected by COVID-19.

Figure 7. Major SWM Spending Initiatives

Title	FY 2021	FY 2022 Gov	FY 2022 HWM	FY 2022 House	FY 2022 SWM	v. House	v. Gov
Low-income Economic Supports	\$548.2	\$554.6	\$586.1	\$589.1	\$595.5	\$6.4	\$40.9
Substance Use	\$182.4	\$155.0	\$173.3	\$176.6	\$188.5	\$12.0	\$33.5
Housing supports	\$305.8	\$246.0	\$280.2	\$280.2	\$276.7	-\$3.5	\$30.8
Mental Health Initiatives	\$27.9	\$0.0	\$0.0	\$0.0	\$26.0	\$26.0	\$26.0
Food supports	\$44.4	\$25.0	\$43.0	\$43.0	\$43.3	\$0.3	\$18.3
DCF	\$1,084.2	\$1,087.6	\$1,089.8	\$1,090.4	\$1,102.8	\$12.4	\$15.3
DDS Day & Work programs	\$244.2	\$205.0	\$220.0	\$220.0	\$220.0	\$0.0	\$15.0
Nursing home rate supplement	\$0.0	\$0.0	\$0.0	\$0.0	\$15.0	\$15.0	\$15.0
Community Organizations	\$20.0	\$0.0	\$0.0	\$0.0	\$12.5	\$12.5	\$12.5
Adult Education	\$46.0	\$40.6	\$50.0	\$50.0	\$50.0	\$0.0	\$9.4
Scholarships	\$126.0	\$126.6	\$140.8	\$140.8	\$135.7	-\$5.1	\$9.1
Extended/After School Learning	\$23.8	\$6.6	\$14.6	\$14.6	\$12.8	-\$1.8	\$6.2
Legal Assistance	\$29.0	\$29.0	\$35.0	\$35.0	\$35.0	\$0.0	\$6.0
At-risk Youth	\$25.3	\$3.4	\$6.9	\$11.0	\$8.1	-\$2.9	\$4.7
Suicide Prevention	\$6.7	\$4.7	\$6.5	\$6.5	\$7.0	\$0.5	\$2.3
Total	\$2,652.9	\$2,446.9	\$2,597.7	\$2,604.6	\$2,678.8	\$74.2	\$231.9
	<i>\$ in millions</i>						

Spending & Revenue Summary

Figure 8 highlights several key points of comparison between the SWM spending plan and the FY 2021 budget. Total spending grows by 2.5 percent over current year estimates and is supported by \$1.55 billion from the Stabilization Fund and \$120 million in additional revenues.

Figure 8. Spending & Revenue Highlights

SWM Budget in a Box			
Spending		Revenue	
Total spending		Consensus tax revenue	\$30,120.0
Change	\$1,348.0	Change	\$1,369.0
Spending growth	2.5%	Revenue growth	3.5%
MassHealth		Rainy Day fund	
Change	\$812.9	Assumed start balance	\$2,522.9
Chapter 70		Planned draw	-\$1,550.0
Change	\$219.6	Offsetting deposits	181.9
		Assumed end balance	\$1,154.8
Other non-discretionary		One-time solutions	
Change	\$356.0		\$2,263.0
Discretionary spending		New FY 2022 ongoing revenues	
Change	-\$106.3	SALT adjustment	\$90.0
Total spending items		Debit card lottery	\$30.0
New	13		
Increased	384		
Maintained	175		
Decreased/eliminated	226		
<i>Numbers in millions/Comparisons v. FY 2021 Current Estimates</i>			

III. Major Spending Categories

Health Care

MassHealth, the state’s Medicaid program, totals \$19.3 billion of the SWM budget and accounts for 42 percent of line-item spending. MassHealth costs grow by 4.3 percent over FY 2021. This growth is attributable to a substantial increase in MassHealth enrollment as a result of the pandemic and federal policies that limit eligibility redeterminations.

Figure 9. MassHealth Spending

	FY 2021 Projected	FY 2022 H1	FY 2022 HWM	FY 2022 House	FY 2022 SWM
MassHealth Spending	\$18,484.73	\$17,882.41	\$19,282.59	\$19,284.59	\$19,297.59
Federal Reimbursement	\$11,256.25	\$10,089.71	\$11,519.70	\$11,519.70	\$11,542.94
Net Cost	\$7,228.48	\$7,792.70	\$7,762.89	\$7,764.89	\$7,754.65
Reimbursement % of Spending	60.9%	56.4%	59.7%	59.7%	59.8%

As a result of these factors, MassHealth membership has grown by more than 250,000 members (15 percent) since the start of the pandemic. The extension of enhanced Medicaid revenue through the end of the calendar means that further MassHealth caseload growth is likely, resulting in cost increases of \$1.4 billion.

Both the House and SWM budgets assume that the increase in MassHealth costs will be offset by additional revenue. In the SWM budget, enhanced Medicaid revenue exceeds new MassHealth spending by \$38 million, freeing up resources for the remainder of the budget.

Figure 10. Impact of MassHealth Enrollment in FY 2022

	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

FY 2022 is the first year of new supplemental payments to a subset of community hospitals, as required by last session’s health care legislation (chapter 260 of the acts of 2020). House 1 set up a new trust fund to make the payments, and capitalized the trust fund with a new tax on pharmaceuticals that exceed cost benchmarks. The SWM budget, like the House budget, foregoes the trust fund route and presumably includes the \$30 million in payments within the larger MassHealth budget.

Other notable health care provisions in the SWM budget:

- \$42 million in additional MassHealth nursing home rates. Approximately two-thirds of this increase, \$27 million, is due to changing the base-year on which nursing home rates are calculated from 2017 to 2019, a change also included in the House budget. The SWM budget also provides \$15 million in further MassHealth rate add-ons for nursing homes;
- Expansion of the state’s supplemental drug rebate program to include additional pharmaceuticals and medical devices. The MassHealth drug rebate program was expanded in FY 2020 and the SWM change mirrors a proposal included in House 1;
- Requiring MassHealth to allow MassHealth applicants to apply for SNAP benefits at the same time;
- Inclusion of language requiring MassHealth to conduct an analysis of rate differences between MassHealth and commercial payers for inpatient psychiatric services; and
- Adopting the House funding level for the state’s Commonwealth Care Trust Fund, which is \$59.1 million less than the amount proposed in House 1. This reduction is possible due to a temporary expansion in federal health care subsidies included in the ARP that will offset state costs.

Chapter 70 & Unrestricted Local Aid

The SWM budget reflects the K-12 formula (Chapter 70) and local aid agreement announced by House and Senate leaders in April. That agreement commits to a \$219.6 million school funding formula increase that will put the state back on track to fully fund the Student Opportunity Act by the 2026-27 school year.⁴ The agreement also adopts the Governor’s proposed \$39.5 million increase to unrestricted local aid.

Figure 11. Chapter 70 & UGGA

Program	FY 2019	FY 2020	FY 2021	FY 2022 H1	FY 2022 House	FY 2022 SWM
C70	\$4,907.57	\$5,176.00	\$5,283.65	\$5,481.30	\$5,503.17	\$5,503.27
\$ Increase	\$160.62	\$268.43	\$107.65	\$197.65	\$219.52	\$219.62
%Increase	3.4%	5.5%	2.1%	3.7%	4.2%	4.2%
UGGA	\$1,098.95	\$1,128.62	\$1,128.62	\$1,168.12	\$1,168.12	\$1,168.12
\$ Increase	\$37.16	\$29.67	\$0.00	\$39.50	\$39.50	\$39.50
%Increase	3.5%	2.7%	0.0%	3.5%	3.5%	3.5%

The Student Opportunity Act implements a more expansive definition of low-income students and increases foundation budget rates (and thereby state and local funding) related to low-income students, English language learners, special education costs, mental health services and employee benefit costs. Initially slated for a seven-year phase in to cover the \$1.5 billion estimated state cost, the first year of implementation was delayed due to the uncertain budget impacts of COVID. The FY 2022 budget increases SOA rates by one-sixth of the full-funding level. If the one-sixth approach is maintained, the SOA will meet the original seven-year phase-in plan.

⁴ The SWM and House budgets differ slightly in their Chapter 70 appropriation due to different in Municipal Revenue Growth Factors used to determine local contribution.

Figure 12. SOA in FY 2022

	House 1 approach	House/Senate Approach
Low-income enrollment	Higher of 2015-16 share & 133% of FPL	Higher of 2015-16 share & 133% of FPL
Low-income rates	1/7 of full rate	1/6 of full rate
English learner	1/7 of full rate	1/6 of full rate
SPED out-of-district tuition	1/7 of full rate	1/6 of full rate
Employee benefits & fixed charges	1/7 of full rate	1/6 of full rate
Guidance & Psychological services	1/7 of full rate	1/6 of full rate
\$30 per-pupil aid	Funded	Funded

SWM incorporates language included in House 1 that allows school districts with increasing required local contributions to use up to 75 percent of Elementary and Secondary School Emergency Relief (ESSER) awards provided in the Coronavirus Response and Relief Supplemental Appropriations Act (federal legislation passed in December). Eligible school districts are not required to use eligible ESSER funds toward their local contribution, but under the House 1 chapter 70 approach, they could opt to offset local costs by approximately \$114 million; that number will be slightly higher under the House/Senate Chapter 70 approach.

Other K-12 Spending

The SWM budget provides \$655.4 million for six other education reimbursement programs, which include reimbursements for special education and charter schools in satisfaction of SOA requirements along with regional transportation expenditures.⁵

⁵ The SOA required that charter school reimbursements be fully-funded within three years and meet 75 percent of full funding by year one. The SOA also expands the state’s special education reimbursement program to include out-of-district transportation costs, with those costs to be fully incorporated within four years. The schedules for both provisions have been delayed by one year due to COVID-19.

Figure 13. Education Reimbursement Accounts

Program	FY 2021 Projected	FY 2021 Reimbursement Level	FY 2022 H1	FY 2022 House	FY 2022 SWM
C70 Enrollment Reserve	\$0.00	NA	\$0.00	\$40.00	\$40.00
SPED Circuit Breaker	\$357.07	75.0%	\$367.65	\$368.15	\$372.88
Charter School Reimbursement	\$117.36	72.6%	\$143.50	\$154.60	\$149.14
Regional School Transportation	\$82.18	95.0%	\$75.86	\$82.18	\$78.63
Non-Resident Pupil Transportation	\$0.25	5.6%	\$0.25	\$0.00	\$0.25
Homeless Student Transportation	\$13.45	70.1%	\$11.10	\$14.45	\$14.45
Total	\$570.30		\$598.36	\$659.39	\$655.35
<i>Numbers in Millions</i>					

As part of the local aid agreement, the Senate and House committed to setting aside \$40 million for districts impacted by COVID-19 enrollment disruptions. The state uses enrollment figures as of October for the funding formula that determines state aid in the following school year. The October, 2021 headcount shows an enrollment drop of more than 30,000 students, which will have a sizeable impact on the FY2022 funding formula. If many of these students return for the 2021-22 school year funding formula enrollment estimates could significantly undercount students in some districts. The \$40 million set aside in the House and SWM budgets provides resources for impacted districts without creating a more complicated, and precedent setting, enrollment calculation. The SWM budget does not include House language enabling districts with increasing transportation costs to apply for the enrollment set-aside.

Other notable K-12 provision in the SWM budget:

- \$6 million for a new grant program for school districts to support social and emotional learning programs;
- \$4.7 million more in SPED circuit breaker funding, compared to the House, to meet up to date projections for the cost of fully funding eligible instructional costs and one quarter of newly eligible transportation costs;
- \$5.5 million less than the House for charter school reimbursements. The majority of this reduction is due to SWM not including a \$2.9 million earmark dedicated to districts meeting certain charter school tuition thresholds. The SWM policy to allow districts to use a portion of ESSER funds as part of required spending also has a small impact on charter tuition and reimbursements; and
- \$3 million in aid to rural school districts.

Early Education & Higher Education

Early education was a priority in the Senate budget in FY 2021 and remains so in the SWM FY 2022 proposal. The budget includes \$788.6 million in early education spending, an increase of \$13.4 million over House 1 and \$12.2 million less than the House budget.

Early education spending in the SWM budget falls short of the projected FY 2021 level, but this is because the FY 2021 budget was finalized halfway through the fiscal year. As a result, much of the new spending will likely remain available into the next fiscal year making year-over-year spending comparisons difficult. The SWM budget uses only \$8.9 million of the more than \$300

million in federal Childcare Development Block Grant supplements that will be separately appropriated by the legislature.

The SWM budget takes a different approach to the House in its priorities for new early education and care funding in FY 2022. SWM does not include the \$20 million provider rate reserve as was in the House budget. Instead, SWM dedicates just under \$9 million to cover the cost of fees for families participating in subsidized care and increases spending for the Preschool Partnership Initiative from less than \$6 million to \$10 million.

Figure 14. Early Education & Care

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
<i>Numbers in Millions</i>					

The SWM budget includes \$1.2 billion for public higher education campuses, \$38.5 million more than the Governor, and \$9.9 million less than the House budget. SWM provides each campus with their FY 2021 appropriation plus any funding formula amount received last year and sets aside \$12.1 million for new funding formula grants in FY 2022. The House budget also provided each campus with a further increase on top of the SWM level.

Figure 15. 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
<i>Numbers in Millions</i>					

Scholarship and tuition waiver programs receive \$135.7 million in the SWM budget, an increase of \$9.1 million over the Governor and \$5.1 million less than the House. The \$125.4 million for the main scholarship line-item proposed in the SWM budget represents a \$9.6 million increase over the FY 2021 level.

Transportation

Transportation funding accounts for \$1.75 billion in the SWM budget, a decrease of \$46.5 million from the Governor’s budget due largely to a \$50 million reduction for snow and ice removal and \$1.5 million less than the House budget. Winter snow removal costs vary significantly from year to year, but the lower level creates a possible funding gap to start the year.

Transportation funding in the SWM and House budgets is nearly identical. The slightly higher spending in the House side is due to several transportation earmarks adopted via amendment. The SWM budget sets aside \$3.5 million in RTA funding performance grants, whereas the House does not link any RTA funding to meeting performance metrics.

Figure 16. Transportation

	FY 2020 Spending	FY 2021 Projected	FY 2022 H1	FY 2022 House	FY 2022 SWM
Transfer to MTF	\$345.8	\$386.0	\$401.6	\$352.9	\$351.6
Transfer to MBTA	\$177.0	\$127.0	\$127.0	\$127.1	\$127.0
Transfer to RTAs	\$90.5	\$94.0	\$90.5	\$94.0	\$94.0
MBTA Sales Tax Transfer	\$1,077.3	\$1,175.4	\$1,174.3	\$1,174.3	\$1,174.3
Other Transportation	\$10.2	\$11.0	\$11.3	\$11.3	\$11.3
Total	\$1,690.61	\$1,782.44	\$1,793.39	\$1,748.36	\$1,746.89
<i>Numbers in millions</i>					

Non-discretionary Spending

The SWM and Administration budgets take the same approach for major non-discretionary funding areas:

- \$3.42 billion to the state’s pension fund. This funding amount is consistent with the current pension funding schedule;
- \$2.73 billion for debt service and contract assistance. The House budget increased funding for the state’s Clean Water Trust by \$24.4 million over the House 1 and SWM funding level;
- \$1.84 billion for the Group Insurance Commission, which provides health insurance for state employees and retirees as well as employees of participating municipalities; and
- \$500 million for the state share of retired worker healthcare costs.

Figure 17. Non-discretionary spending

	FY 2020 Spending	FY 2021 Projected	FY 2022 H2	FY 2022 House	FY 2022 SWM
Pension	\$2,841.5	\$3,115.2	\$3,415.0	\$3,415.0	\$3,415.0
Debt Service	\$2,710.8	\$2,577.9	\$2,726.4	\$2,750.7	\$2,726.4
Retiree Health Insurance	\$450.0	\$500.0	\$500.0	\$500.0	\$500.0
Group Insurance Commission	\$1,733.0	\$1,743.7	\$1,839.7	\$1,839.7	\$1,839.7
Total	\$7,735.32	\$7,936.74	\$8,481.11	\$8,505.48	\$8,481.11
<i>Numbers in millions</i>					

Commonly Underfunded Programs

The SWM budget fully funds a number of programs that have been chronically underfunded in recent years. Providing the projected full-funding level for the programs listed in Figure 18, avoids beginning the upcoming fiscal year with a structural deficit and the need for future supplemental appropriations.

Both the House and SWM budgets include salary increases for Committee for Public Counsel Services (CPCS) attorneys. The House increased salaries temporarily for FY 2022, while SWM

proposes making salary increases permanent. The salary increases in the SWM budget vary from 10 percent for homicide cases (from \$100 per hour to \$110 per hour) to 36 percent for children and family and child protection cases.

Figure 18. Commonly Underfunded Accounts

	FY 2020 Spending	FY 2021 GAA	FY 2021 Projected	FY 2022 H1	FY 2022 House	FY 2022 SWM
Public Counsel Services	\$261.3	\$256.2	\$260.3	\$260.3	\$258.2	\$265.2
Emergency Shelters	\$205.0	\$208.1	\$214.8	\$221.9	\$221.9	\$221.9
MassHealth IT	\$120.1	\$140.1	\$142.4	\$143.4	\$143.4	\$143.4
Houses of Correction	\$645.0	\$647.8	\$646.8	\$646.3	\$651.2	\$649.6
Total	\$1,231.32	\$1,252.19	\$1,264.26	\$1,271.78	\$1,274.62	\$1,280.07
<i>Numbers in millions</i>						

Policy Sections

The SWM budget includes 60 policy sections, on par with last year.

Figure 19. Policy Sections in the FY 2022 Budget

FY 2021 Senate	FY 2021 GAA	FY 2022 H1	FY 2022 HWM	FY 2022 House	FY 2022 SWM
55	113	105	47	117	60

While rejecting some of the revenue proposals in House 1, SWM does adopt several others.

Figure 20. H1 Policy Proposals in House and SWM Budgets

Gov. Proposal	Topic	In House	In SWM
Opioid tax	Tax/Revenue	No	No
Drug price assessment	Tax/Revenue	No	No
Real-time sales tax	Tax/Revenue	No	No
Deemed repatriation adjustment	Tax/Revenue	No	No
SALT deduction adjustment for pass-through entities	Tax/Revenue	No	Adjusted
Remote software taxation	Tax/Revenue	No	No
Debit card lottery sales	Tax/Revenue	No	Yes
MBTA board creation	Transportation	No	No
MBTA & MassDOT project delivery and development	Transportation	No	No
TNC data and municipal spending	Transportation	No	No
Expanded drug rebates	Health care	No	Yes
Hospital assessment	Health care	No	No
Community hospital & health center trust fund	Health care	No	No

Notable SWM policy sections include:

- Health care and mental health
 - Creates a new Criminal Justice Community Support trust fund which will provide grants for jail diversion and law enforcement training to assist them in their interactions with individuals with mental health issues in order to minimize incarceration. The fund is not capitalized in the SWM budget. (Section 8)
 - Expands the state's MassHealth rebate program to medical devices, other non-drugs and drugs not currently covered. The SWM budget expands on similar language in House 1 by including a requirement that EOHHS report to House and Senate Ways and Means on the scope and impact of the rebate expansion. (Included in House 1/section 20)
 - Allows the Department of Public Health to impose sanctions on nursing homes short of license revocation when a nursing home is delinquent on payment of applicable fees. (Included in House 1/sections 21 and 22)
 - Allows the Administration to use up to \$12.8 million in appropriated Prescription Advantage funds to support Medicare Savings or Medicare Buy-in programs. (Similar language included in House 1 and House budgets/section 55)
 - Updates the basis for MassHealth nursing home payments to 2019 beginning in October of 2021. (Similar language included in the House budget/section 59)
- Tax & revenue
 - Allows lottery tickets to be bought with debit cards, which will increase annual lottery sales by approximately \$30 million per year. (Included in House 1/section 4)
 - Amends the state's existing child and dependent income tax deductions, which allows filers to reduce their taxable income based on allowable childcare expenditures, by turning it into a refundable tax credit of up to \$240 per child or dependent (each credit can be doubled if more than one eligible child/dependent). By changing the deduction into a refundable credit, it increases the benefit for low-income families. (Sections 11, 14 & 61)
 - Limits the scope of the state's film tax credit by capping salaries eligible for the credit at \$1 million, eliminating credit transferability and requiring at least 75 percent of a qualifying production's costs or film days to occur in Massachusetts (current law requires 50 percent). These changes would reduce the cost of the credit by \$10 - \$15 million per year. The SWM budget extends the sunset date on the credit from 2024 to 2027. The House budget made the credit permanent. (House budget made tax credit permanent/sections 12, 13, 15, 16, 33, 44 & 62)
 - Allows partnerships and S-corporations to pay tax at the entity-level and provides eligible members of the corporation with a personal income credit to offset the entity-level tax. This option enables impacted filers to reduce their exposure to the federal cap on the deductibility of state and local income taxes. Unlike a similar proposal in House 1, the SWM budget caps the personal income deduction of entity-level taxes paid at 90 percent, thereby increasing state tax revenue by an

- estimated \$90 million annually. (Similar to a proposal in House 1/sections 17 & 61)
 - Extends the state’s college savings tax deduction through tax year 2026. (Included in House 1 and House budgets/section 34)
 - Delays implementation of income tax deduction for charitable contributions in tax year 2022. (Similar language included in House 1, language included in House budget/section 43)
 - Transfers \$15 million from the Race Horse Development Fund to the General Fund and redirects all FY 2022 revenue from the race horse fund to the state budget. (Section 49)
- Education
 - Expands existing COVID-19 reporting requirements to include information school districts are required to submit to the federal government related to Elementary and Secondary School Emergency Relief (ESSER) funds. (Section 39)
- Transportation
 - Establishes framework for the distribution of \$94 million in operating assistance for RTAs, including \$3.5 million in performance grants. (Similar sections in House 1 and House budgets/section 45)
- Economic Development & human services
 - Eliminates the asset limit disqualification for eligibility for Emergency Aid for Families with Dependent Children (EAEDC) and Transitional Aid to Families with Dependent Children (TAFDC). Income, including income generated by assets, would still be used to determine eligibility. (Sections 18, 19 & 32)
- Energy & Environment
 - Amends existing prohibition on the use of Fall River state pier to allow for use to support offshore wind development. (Section 36)
- Judiciary & Criminal Justice
 - Increases salaries for Committee for Public Counsel Services attorneys. Salary increases vary by type of case. (Sections 25 – 29)
- Other
 - Creates an Emergency Relief and Immediate Commonwealth Assistance trust fund, to be capitalized by unexpended MEMA appropriations, for use in responding to disasters within the state. (Included in House 1/section 7)
 - Creates a 29 member commission to study poverty in the commonwealth, which will submit policy recommendations by 12/31/2022. (Section 46)
 - Directs DESE to conduct a study to evaluate the impact of the COVID-19 pandemic on marginalized student populations, including students with disabilities, English learners, low-income students, students of color and students subject to discrimination due to sexual orientation or gender identity. (Section 47)
 - Directs the Children’s Behavioral Health Advisory Council to conduct an analysis on the impact of the COVID-19 pandemic on children’s behavioral health services. (Section 48)

- Provides a cost of living adjustment for state retiree pensions. (Included in House 1 and House budgets/section 54)

Bottom Line

Amendments to the Senate budget are due this Friday, while debate will take place the week of the 24th. Based on the SWM budget's financial statements, and recent history, it is likely that the Senate will add between \$50-\$70 million in spending via amendment, with a focus on local projects and program earmarks. It is also likely that the Senate will consider and adopt several significant policy changes during debate; historically, the Senate has been more apt than the House to adopt policy proposals through amendment.

The Senate budget is consistent with the Administration and House budgets, in several respects: full funding of the first year of the SOA; reliance on the Stabilization Fund to balance the budget; and setting ARP resources aside from the state budget; but does provide some interesting departures. Most notable, is the Senate's approach to the SALT deduction that will generate approximately \$90 million in state tax revenue. This new revenue not only supports budget spending, but also covers the cost of making the state's child tax credit fully refundable. The SWM budget also increases funding for mental health services, provides child-care fee relief costs, increases benefits for low-income families, and adds funding for the Department of Children and Families.

The SWM budget offers a responsible spending plan that minimizes spending exposures and targets new funding to priority areas. As with the House budget, however, a final assessment cannot be made until there is greater clarity on how budget-maker adjust tax revenue estimates in light of robust FY 2021 tax collections and significantly reduce or eliminate use of the Stabilization Fund withdrawals in the coming year.