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# MTF Bulletin

April 13, 2022

## House Ways and Means FY 2023 Budget

The next stage in the fiscal year (FY) 2023 budget begins today with the release of the House Ways and Means (HWM) committee’s budget proposal. Like Governor Baker’s proposal released in January, the HWM budget makes historic investments in K-12 education, while continuing to build the Stabilization Fund to record levels. Unlike Governor Baker’s version, the HWM budget does not include tax relief proposals. HWM instead makes significant ongoing investments in areas including universal school meals, workforce supports and rate improvements for the state’s early education and care system.

### Budget Overview

HWM proposes \$49.6 billion in line-item spending, along with \$6.9 billion in off-budget transfers, for total spending of \$56.5 billion. This is an increase of \$2.1 billion over the FY 2022 budget signed into law last July.

#### *HWM Spending and Revenue in Brief*

<b>Spending</b>				
	<b>FY 2022</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2023</b>
	<b>GAA</b>	<b>Current</b>	<b>Gov</b>	<b>HWM</b>
Line Item Spending	\$47,613.8	\$49,363.4	\$48,231.4	\$49,629.5
Medical Asst. Trust	\$471.4	\$471.4	\$575.9	\$575.9
Pre-budget Transfers	\$5,755.5	\$5,755.5	\$6,258.8	\$6,258.7
Other Spending	\$600.0	\$600.0	\$225.0	\$60.0
<b>Total Spend</b>	<b>\$54,440.7</b>	<b>\$56,190.3</b>	<b>\$55,291.1</b>	<b>\$56,524.1</b>

<b>Revenue</b>				
	<b>FY 2022</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2023</b>
	<b>GAA</b>	<b>Current</b>	<b>Gov</b>	<b>HWM</b>
Total Tax Revenue	\$34,540.4	\$36,136.4	\$36,251.0	\$37,107.0
<i>Consensus Tax Revenues</i>	<i>\$34,350.0</i>	<i>\$35,951.0</i>	<i>\$36,915.0</i>	<i>\$36,915.0</i>
<i>Tax settlements</i>	<i>\$50.0</i>	<i>\$50.0</i>	<i>\$50.0</i>	<i>\$150.0</i>
<i>Total tax initiatives</i>	<i>\$140.4</i>	<i>\$135.4</i>	<i>-\$714.0</i>	<i>\$42.0</i>
Federal	\$14,117.8	\$15,379.5	\$12,393.2	\$13,088.2
Departmental & Transfers	\$7,234.8	\$7,141.7	\$7,473.0	\$7,416.4
Stabilization Fund & Transfers	-\$1,170.8	-\$1,261.0	-\$824.4	-\$906.7
<b>Total Revenue</b>	<b>\$54,722.2</b>	<b>\$57,396.6</b>	<b>\$55,292.8</b>	<b>\$56,704.9</b>

*\$ in millions*

The HWM budget proposes \$1.2 billion more in spending than Governor Baker’s budget, but the difference is partially due to more current Medicaid spending assumptions. HWM increases spending by approximately \$600 million based on the assumption that the federal government will extend the Public Health Emergency (PHE) declaration, which delays reassessment of MassHealth member eligibility, adding to the FY 2023 cost of the program.

The HWM budget assumes \$37.1 billion in FY 2023 tax revenue, consistent with the Consensus Revenue Agreement after adjusting for other tax assumptions. Tax revenue supports approximately two-thirds (65.6 percent) of HWM spending, while federal reimbursements provide an additional \$13.1 billion in revenue. Department revenues, including revenues from lottery and casino gaming, make up the remaining \$7.4 billion in budget resources.

### *HWM Budget – Five Things to Know*

Several aspects of the HWM budget stand out as particularly notable for what is either included or excluded. Each of the items listed below will impact the Senate process and the final FY 2023 budget ultimately signed into law:

1. The HWM budget does not adopt the Governor’s tax relief plan and opts to increase spending in a variety of areas instead. Governor Baker proposed a \$741 million tax relief plan, while HWM spends \$803 million more than the Governor (after accounting for MassHealth differences);
2. The childcare and education sectors are prioritized in the HWM budget, with sizable increases for early education (\$91.8 million), K-12 (\$212.6 million) and higher education (\$102.7 million) compared to the Governor;
3. The HWM budget mitigates the potential loss of federal COVID spending by directing \$110 million to maintain universal school meals and \$40 million in new funding for eviction diversion and supports;
4. This HWM budget differs from the Administration’s MassHealth spending and revenue assumptions. Based on more up-to-date information from the federal government, HWM relies on an additional \$685.6 million in MassHealth revenue from the federal government to offset close to \$600 million in additional requisite spending; and
5. HWM’s policy proposals have a health care focus. HWM largely adopts the Governor’s proposal to significantly increase an annual hospital assessment and reinvest the proceeds in the health care system. HWM also creates a two-year pilot to significantly increase the population eligible for premium subsidies through the state’s Health Connector.

### **Key Revenue Sources**

The HWM budget relies on \$56.7 billion in revenue, comprised of numerous sources; however, to organize this Bulletin, MTF’s analysis categorizes HWM revenue into four broad groups:

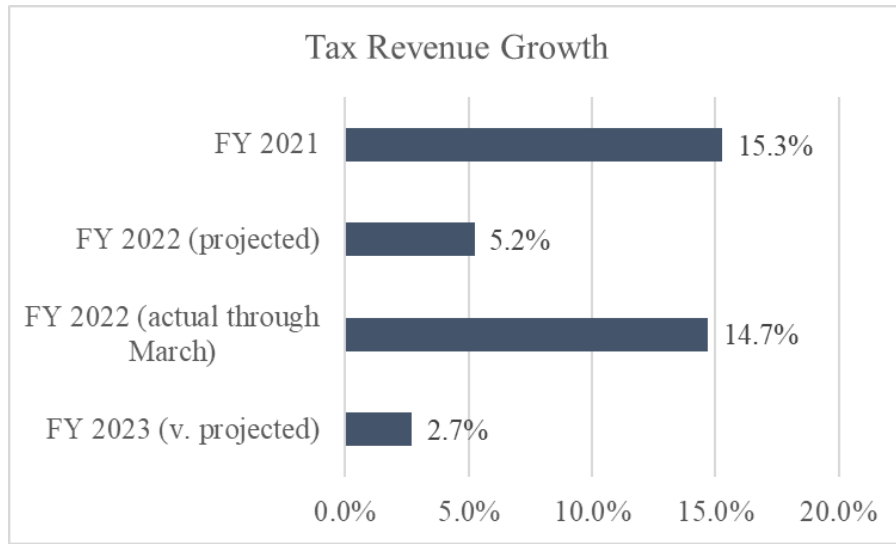
- Tax revenue assumptions and new tax proposals;
- Non-tax revenue initiatives;
- Notable non-tax revenue assumptions;

- Examination of ongoing versus one-time revenue initiatives

*Tax Revenue in HWM budget*

The revenue foundation for the HWM budget is the \$36.9 billion consensus estimate agreed to in January. This estimate assumes that baseline tax growth will slow markedly in FY 2023 after two exceptionally strong years.

*Tax Revenue Growth – FY 2021 to FY 2023*



Since the consensus tax estimate was reached, FY 2022 collections have continued to outpace expectations. Between January and March, the state’s tax intake has exceeded the benchmark by \$1.5 billion and collections to date have grown by close to 15 percent over FY 2021.<sup>1</sup> While the HWM budget makes no adjustment to FY 2023 tax projections, if current trends hold, an increase in expected tax revenues for the coming year is warranted.

Governor Baker’s budget package included a \$741 million tax relief plan as well as several tax code updates. As illustrated in Table 3, the HWM budget does not include any of the Governor’s tax relief proposals, but does include an important tax modernization.

<sup>1</sup> The estimate of \$1.5 billion is adjusted for the implementation of a pass-through-entity tax in FY 2022, which boosted collections in December and January, but will likely decrease collections in April.

*HWM Disposition of Baker Administration Tax Proposals*

<b>Proposal</b>	<b>Category</b>	<b>HWM</b>
<b>Dependent tax credits</b>	Tax relief	Not included
<b>Rent deduction</b>	Tax relief	Not included
<b>Senior circuit breaker</b>	Tax relief	Not included
<b>Estate tax</b>	Tax relief	Not included
<b>Short-term capital</b>	Tax relief	Not included
<b>No-tax status</b>	Tax relief	Not included
<b>Federal income conformity</b>	<i>Proposed modernization</i>	<i>Included</i>
<b>Research tax credit</b>	Proposed modernization	Not included
<b>Remote software classification</b>	Proposed modernization	Not included
<b>Real-time sales tax</b>	Proposed modernization	Not included

Governor Baker’s tax relief package was filed with his budget as separate legislation, and is currently being considered by the Joint Committee on Revenue. The House could act on tax changes through a budget amendment or in another legislative vehicle.

The HWM budget includes an Administration proposal to update the connection between state and federal income tax law. The Massachusetts personal income tax code currently conforms to the 2005 version of the Internal Revenue Code (IRC). Sections 24 and 25 in the HWM budget tie the state’s code to the IRC in effect for 2022. This change would represent “static” conformity, meaning that the state tax code would remain tied to 2022 and would not automatically adjust to federal changes, barring state legislative action. As in the Governor’s budget, the HWM language would also decouple the Massachusetts income tax code from the current IRC with respect to the federal business income deduction. This change would be retroactive to January 1<sup>st</sup> and is expected to boost tax revenues by \$42 million in FY 2023.

The HWM budget assumes the state will collect \$150 million in tax settlement revenue in FY 2023, compared to a \$50 million projection included in the Governor’s budget. The \$150 million estimate is not likely to materialize; in the last year with complete data (FY 2021), Massachusetts collected \$32.9 million in settlements.

### *Notable Non-tax revenue*

The HWM budget does not include two non-tax revenue initiatives that are reflected in Governor Baker's budget worth \$65 million. The first would have authorized debit card purchase of lottery and scratch tickets, which would generate an estimated \$30 million. The second provision relates to the legalization of sports gaming, estimated to bring in \$35 million in the Governor's budget. HWM did not include this revenue in spite of the fact that they passed legislation on this topic earlier in the session.

The HWM budget does not include any policy initiatives to generate new non-tax revenues, but makes the following assumptions for existing non-tax revenue sources:

- ***Enhanced MassHealth reimbursements*** (+\$250 million more than Governor's budget) The HWM budget includes \$250 million in enhanced federal Medicaid reimbursements based on the likely extension of the federal Public Health Emergency. More information on the PHE and its implications for the FY 2023 budget is included in the MassHealth & Health Care section of the Bulletin.<sup>2</sup>
- ***Lottery*** (+6.5 million more than Governor's budget) – Based on the strong performance of lottery revenues over FY 2021 and FY 2022, HWM, assumes that net profits will be \$1.193 billion in FY 2023, compared to \$1.157 billion in FY 2022. Based on actual collection trends, both of these estimates may be conservative.
- ***Gaming*** (level with Governor's budget) – Gaming revenue estimates in both the HWM and Administration budgets appear conservative. HWM assumes gaming excises will be flat in FY 2023, with \$181.3 million going to support the budget. Through February, collections from gaming have grown by more than 30 percent over FY 2021.

### **Ongoing v. One-time revenues**

In a positive development common to both the HWM and Governor's budget, no new one-time (or non-recurring) revenue initiatives are used to balance the FY 2023 budget. The HWM budget does utilize \$250 million in expected enhanced MassHealth revenues, but these temporary revenues are offset by temporary spending obligations.

However, one-time resources continue to support billions in COVID recovery spending separate from the operating budget, primarily through Fiscal Recovery Funds provided through the American Rescue Plan. MTF will soon publish an assessment of the sustainability of recovery investments made outside of the budget process.

### **Key Spending Areas**

The HWM budget increases line-item spending by \$266 million (0.5 percent) over the FY 2022 budget and by \$1.4 billion over Governor Baker's spending proposal. This increase in spending

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<sup>2</sup> In addition to \$250 million in increase MassHealth revenues, the PHE extension will boost reimbursements for other EHS departments by ~\$30 million.

is partially due to changes in MassHealth enrollment projections, described elsewhere in this Bulletin.

*HWM Line-item Spending Compared*

	<b>FY 2022 Current</b>	<b>FY 2023 Gov.</b>	<b>FY 2023 HWM</b>	<b>HWM v. FY 2022</b>	<b>HWM v. Gov</b>
MassHealth	\$19,299.7	\$18,160.2	\$18,755.3	-\$544.4	\$595.0
Other Line-items	\$30,063.7	\$30,071.2	\$30,874.2	\$810.5	\$803.0
<b>Total line-item</b>	<b>\$49,363.4</b>	<b>\$48,231.4</b>	<b>\$49,629.5</b>	<b>\$266.0</b>	<b>\$1,398.0</b>

Holding MassHealth spending aside, the HWM budget increases spending by \$810.5 million over FY 2022 and \$803 million over the Administration proposal. Increased spending on childcare & education, housing and workforce comprises more than two-thirds of new spending compared to the Governor. As with Governor Baker’s budget, increasing inflation appears to impact the budget more generally. For example, spending on 20 personnel and administration accounts increases by 8.6 percent over FY 2022, quite close to the 8.5 percent increase in consumer prices reported earlier this week.

*MassHealth & Health Care*

The HWM devotes 37.8 percent of all line-item spending, or \$18.8 billion, to MassHealth. As also happened in FY 2022, HWM significantly adjusts its MassHealth enrollment, spending, and revenue assumptions from the Administration’s FY 2023 plan based on more recent information on the status of the PHE. It now appears likely that the PHE will not end until at least the first quarter of FY 2023, which means that plans to re-determine MassHealth member eligibility will likely be delayed by at least three months. This delay increases HWM MassHealth spending by about \$600 million over the Governor’s budget. However, because of the continuation of enhanced Medicaid revenues, as well as standard reimbursement generated by new spending, the net cost of the MassHealth program is actually \$90.5 million less in the HWM budget.<sup>3</sup>

*MassHealth Spending and Federal Reimbursement in FY 2023*

	<b>FY 2022 Current</b>	<b>FY 2023 Gov.</b>	<b>FY 2023 HWM</b>	<b>HWM v. FY 2022</b>	<b>HWM v. Gov</b>
Standard Fed. Reimbursement	\$10,573.0	\$9,972.0	\$10,407.6	-\$165.4	\$435.6
Enhanced Fed. Reimbursement	\$1,000.0	\$0.0	\$250.0	-\$750.0	\$250.0
<i>% of Total Spending</i>	<i>60.0%</i>	<i>54.9%</i>	<i>56.8%</i>	<i>NA</i>	<i>NA</i>
State Share	\$7,726.7	\$8,188.2	\$8,097.7	\$370.9	-\$90.5
<b>Total MassHealth Spending</b>	<b>\$19,299.7</b>	<b>\$18,160.2</b>	<b>\$18,755.3</b>	<b>-\$544.4</b>	<b>\$595.0</b>

*\$ in millions*

<sup>3</sup> Spending and revenue related to the PHE is difficult to entangle from other MassHealth spending decisions. The HWM Executive Summary states that \$645 million in spending was added to account for the PHE extensions. The numbers in this Bulletin are based on programmatic spending totals.

The HWM budget largely adopts the Administration's proposal to revise the state's existing hospital assessment. Assessment revenue, and associated federal reimbursements, are then used to reinvest in the health care system through various payments authorized through the state's Medicaid waiver. The current assessment of approximately \$422.5 million expires in October and, without further legislative action, would revert to \$165 million in fees dedicated to the Health Safety Net Trust Fund. The HWM and Administration budgets propose more than doubling the current assessment to \$880 million. The additional assessment revenue will be used for off-budget Medicaid payments eligible for federal reimbursement.<sup>4</sup>

Under the new plan, assessment revenue would be distributed as follows:

- \$532 million will go to a new Hospital Investment and Performance Trust Fund (HIPTF), which will also receive federal reimbursements related to spending made through the new fund;
- \$115.5 million will go to a newly created Population Health Investment Trust Fund;
- \$62.5 million will go to the Safety Net Provider Trust Fund;
- \$10 million will go to the Non-Acute Care Hospital Reimbursement Trust Fund;
- The remaining amount will support the state's existing Health Safety Net Trust Fund;
- The increased assessment will sunset after five years.

The assessment revenues are eligible for federal reimbursement, thereby augmenting the assessment revenue collected. This enables the HIPTF to disburse an average of \$1.21 billion annually for the next five years. Payments fall into four categories:

- Health equity incentive payments;
- Clinical quality incentive payments;
- Additional rate payments for MassHealth acute hospital services, which will average \$560 million annually; and
- Targeted payments to certain acute hospitals of at least \$50 million per year.

The Population Health Investment Trust Fund will spend an average of \$255 million annually for the next five years:

- The payments will go to qualifying providers or care organizations and will be used to support primary care and complex care management, to address health-related social needs, and other system reform activities; and
- The fund will be supported by a combination of hospital assessments and federal revenue.

The HWM budget includes 24 sections to effectuate this proposal, which requires both state and federal approval. Under the plan, the assessment mechanism for hospitals is also altered. Currently, hospitals pay based on a flat assessment rate applied to their commercial patient

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<sup>4</sup> The proliferation of off-budget trust funds, particularly those related to healthcare, are well-documented in a recent MTF publications. These trust funds are not subject to the same level of scrutiny that annual budgetary appropriations, therefore, better oversight, explicit goals, more regular reporting and detailed accounting of the fund uses are necessary to ensure the money is being effectively used.

charges. Under the proposal, hospitals are organized into five groups, with each group paying a specified rate. Providers with the smallest share of commercially insured payments would pay a higher rate and the rate would decline for hospitals that are more reliant on non-publicly insured patients.

While the HWM largely adopts Governor Baker's proposal, there are several differences worth noting:

- The average annual spending requirement for the Population Health Investment Trust Fund has been lowered from \$290 million to \$255 million and the assessment amount dedicated to the fund has been lowered from \$131 million to \$115.5 million;
- Annual MassHealth rate add-ons have been increased from \$550 million to \$560 million, while targeted payments to acute hospitals has been lowered by the same amount;
- The assessment rate schedule, set forth in section 35, has been altered slightly, though the general approach and method of classifying providers remains the same.

All of the sections related to the new assessment are made contingent upon necessary federal approval of the state's Medicaid waiver application, which is expected sometime later this year.

Other healthcare-related proposals in the HWM budget:

- *Connector eligibility expansion pilot* (sections 52, 68 and 73) – HWM creates a two-year pilot program, beginning in June of 2023, which would expand eligibility for health care cost subsidies to members at or below 500 percent of the federal poverty level (FPL), or \$67,950 for an individual. Currently, state subsidies are available for those at or below 300 percent of FPL (\$40,770 for an individual). While the annual estimated cost of this pilot is not clear, HWM does increase funding for the Connector by \$15 million compared to the Governor's budget;
- *Substance Use Trust Fund* (sections 14, 15 and 50) – The HWM budget revises the existing off-budget substance use trust fund related to the state's Medicaid waiver, in order to increase authorized spending levels to be consistent with expected levels of revenue dedicated to the fund. HWM also requires EOHHS to make quarterly reports to the Legislature on spending made from the trust fund in support of the state's behavioral health roadmap. The reporting language was not included in the Governor's proposal;
- *Medicare Savings Expansion* (sections 28 & 60) – The budget expands eligibility for the Medicare Savings Program from 165 percent of the federal poverty level to 250 percent of the federal poverty level. The Governor's budget proposed expanding the program to 200 percent of FPL;
- *HPC COVID study* (section 54) – HWM requires HPC to conduct an analysis of the pandemic on emergency department boarding of behavioral health patients.

The HWM budget does not adopt an Administration proposal to increase annual insurer assessments by \$33.7 million to capitalize a trust fund that support several behavioral health initiatives. The COVID recovery bill, enacted in December, included \$400 million for a variety of new behavioral health programs.



*Chapter 70 & Unrestricted Local Aid*

HWM proposes \$6 billion in direct aid to school districts (Chapter 70 aid) and \$1.2 billion in unrestricted aid to cities and towns (UGGA).

*Chapter 70 and Unrestricted Local Aid in FY 2023*

<b>Program</b>	<b>FY 2021</b>	<b>FY 2022 Current</b>	<b>FY 2023 Gov</b>	<b>FY 2023 HWM</b>
<b>K-12 State Aid</b>	<b>\$5,283.65</b>	<b>\$5,503.27</b>	<b>\$5,988.52</b>	<b>\$5,998.21</b>
<i>\$ Increase</i>	<i>\$107.66</i>	<i>\$219.62</i>	<i>\$485.25</i>	<i>\$494.94</i>
<i>% Increase</i>	<i>2.1%</i>	<i>4.2%</i>	<i>8.8%</i>	<i>9.0%</i>
<b>Local Aid</b>	<b>\$1,128.62</b>	<b>\$1,168.12</b>	<b>\$1,199.66</b>	<b>\$1,199.66</b>
<i>\$ Increase</i>	<i>\$0.00</i>	<i>\$39.50</i>	<i>\$31.54</i>	<i>\$31.54</i>
<i>% Increase</i>	<i>0.0%</i>	<i>3.5%</i>	<i>2.7%</i>	<i>2.7%</i>

*\$ in millions*

The HWM budget fully implements the second year of the Student Opportunity Act, increasing funds by a record \$494.9 million over FY 2022. HWM divides its school aid into two items – one identical in funding to the Governor, and the other funding additional per-pupil aid. The distribution of aid in the HWM budget appears to follow the administration’s phase-in of the SOA, although the HWM budget retains language using a hybrid approach of current and historic data to count low-income students. The Governor’s budget used only current data, consistent with the SOA. Both versions increase assumed spending rates for low-income students, English learners, and several other areas by 1/6 of the target rates set forward in the law.

The HWM budget adds \$9.7 million in school aid to the Governor’s proposal, increasing per-pupil aid for each district to at least \$60. In contrast, the SOA, and the Governor’s plan, guarantee at least \$30 dollars in new per-pupil aid. It is unclear if the additional minimum aid will be included in a district’s base aid in FY 2024.

The HWM budget continues the practice of increasing unrestricted local aid by the expected rate of tax revenue growth in the coming year. In FY 2023 this means an increase of \$31.5 million (2.7 percent) in unrestricted local aid.

The connection between expected tax revenue growth and local aid increases has added consistency and predictability to local aid increases in recent years, addressing what had been two chronic problems. However in both FY 2021 and FY 2022, actual tax revenue growth has far outpaced initial expectations, meaning that none of the state’s tax revenue windfall is reflected in increased local aid appropriations. If UGGA were based on expected tax revenue growth compared to the FY 2022 estimate used in the original budget, it would increase next year’s local aid by a further \$82.5 million.

*Other K-12 Spending*

The HWM budget provides \$900.1 million for K-12 funding programs related to special education, transportation, charter school attendance and school nutrition. This is an increase of \$270.4 million (42.9 percent) over the FY 2022 budget and \$160.5 million higher than the Governor’s proposal.

*Major K-12 Programs in FY 2023*

Program	FY 2022 Current	FY 2022 Reimb. %	FY 2023 Gov	FY 2023 HWM
Special Education Reimbursements	\$373.3	75%	\$414.6	\$440.5
Charter School Reimbursement	\$154.6	87%	\$219.4	\$243.8
Regional School Transportation	\$82.2	95%	\$77.8	\$77.8
Non-Resident Pupil Transportation	\$0.3	6%	\$0.3	\$0.0
Homeless Student Transportation	\$14.4	70%	\$23.0	\$23.0
School Nutrition	\$4.9	NA	\$4.6	\$115.0
<b>Total</b>	<b>\$629.7</b>		<b>\$739.6</b>	<b>\$900.1</b>

*\$ in Millions*

The significant increase in K-12 funding in the HWM budget is attributable to three proposals:

- ***Charter school reimbursements***– the SOA required the state to meet its charter reimbursement obligation by FY 2023, but that process was delayed by one year due to the pandemic. The Governor’s budget funded 90 percent of the total obligation, consistent with the one-year delay, but the HWM budget speeds up the process and meets the FY 2023 deadline for full funding. HWM also adopts the Administration’s proposal to statutorily increase charter school facilities aid, and associated reimbursement, to \$1,088 per student (from the current level of \$893 per student).
- ***Special education reimbursements*** – Similarly, in special education, HWM puts the state back on track to meet the SOA’s original timeline for fully reimbursing districts for out-of-district special education transportation costs by FY 2024. HWM funds 75 percent of the estimated obligation. The Governor’s budget funded 50 percent, consistent with the one-year delay in SOA implementation.
- ***School nutrition*** – HWM provides \$110 million to maintain universal school meals for K-12 students. During the pandemic, the federal government provided school districts with funding to offer free meals to all students. Currently, the federal program is set to expire at the end of June. The HWM budget would use state funds to maintain that program for the 2022-23 school year.

*Early Childhood Education*

The HWM budget provides \$912 million in funding for early childhood education programs, an increase of \$93 million over FY 2022 budget spending and \$92 million over the Governor’s FY 2023 proposal.

*Early Education Spending in FY 2023*

Program	FY 2022 Current	FY 2023 Gov	FY 2023 HWM
Income Eligible Subsidies	\$298.7	\$368.1	\$368.1
DTA and DCF Child Care	\$358.9	\$325.5	\$325.5
Rate Reimbursement Increase	\$20.0	\$0.0	\$70.0
Provider Professional Development / Higher Ed	\$5.0	\$0.0	\$10.0
Head Start	\$15.0	\$15.0	\$16.5
Other Early Education	\$121.5	\$111.6	\$121.9
<b>Total</b>	<b>\$819.1</b>	<b>\$820.3</b>	<b>\$912.1</b>

The HWM budget exceeds the Governor’s budget proposal in several notable areas.

- **Department of Early Education and Care (EEC)** – HWM dedicates \$11.6 million for EEC administration, an increase of \$5 million over the Governor’s budget. The increase is accounted for in a \$5 million earmark for navigation support and outreach to families. HWM also includes language to base subsidy reimbursements for providers off of enrollment instead of attendance. This change is likely to cost between \$4 and \$5 million in FY 2023, but does not appear to be included in the total spending figure.
- **Head Start** – HWM proposes \$16.5 million for grants to Head Start and Early Head Start programs, a \$1.5 million increase over the Governor’s proposal.
- **Child Care Resource and Referral Agencies (CCR&R’s)** – the HWM budget includes \$15 million for regional administration and coordination provided by CCR&R’s, representing a \$3 million increase compared to the Governor’s budget.

The HWM includes two line-items not included in the Governor’s FY 2023 budget. These additions are consistent with the immediate recommendations from the Early Education and Care Economic Review Commission.

- \$70 million to raise subsidy reimbursement rates for center-based providers.
- \$10 million for professional development and higher education supports for providers.

The HWM budget allocates \$70 million to raise reimbursement rates for center-based providers that accept child care subsidies. The federal government recommends that states set their reimbursement rates at the 75<sup>th</sup> percentile of the market rate. Subsidy reimbursement rates in the state are well below the market rate and not enough to cover the true cost of care.<sup>5</sup> The funding levels proposed in the HWM budget falls short of the \$100 and \$200 million cost estimated by the Commission needed to reach the 75<sup>th</sup> percentile. HWM also included language that allocates at least \$10 million of the \$70 million total for grants to providers for expenses related to their own child care needs.

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<sup>5</sup> Currently MA reimbursement rates are roughly 50-65% of the market rate depending on the region. See: Special Legislative Early Education and Care Economic Review Commission Final Report. March 2022.

HWM also provides \$10 million for professional development and higher education opportunities and supports for early educators. This is a \$5 million increase from FY 2022 spend, but does not include any program changes or additional line-item language.

The current HWM budget does not include funding to extend the Commonwealth Cares for Children (C3) stabilization grant program. As has been highlighted in previous [MTF briefs](#), C3 stabilization funds are set to sunset in July 2022 when federal and already appropriated resources expire. The Commission recommended extending C3 grants for at least another six months in order to provide funding consistency while greater improvements to the child care system are considered. Governor Baker’s FY 2022 supplemental budget proposed \$450 million for C3 using a mix of unappropriated Child Care and Development Block Grant funds from ARPA and state and EEC surpluses. This would have likely extended stabilization grants through FY 2023, but it was not included in the final supplemental budget, possibly due to timing with the Commission’s findings. If C3 grants are not included in the final FY 2023 budget, the program will either expire at the end of FY 2022 or need funding through another vehicle to continue.

*Higher Education*

HWM funds higher education at \$1.55 billion, with \$1.32 billion in direct support for public higher education campuses and a further \$223.4 million in funding for scholarships, student assistance, and other programs. In total, this represents an increase of \$164.7 million (11.9 percent) over FY 2022 and \$102.7 (7.1 percent) over the Governor. However, these increases are a little overstated, as they do not fully account for collective bargaining costs funded separately in the Governor’s budget, but built into campus appropriations by HWM.

*Higher Education Spending in FY 2023*

Program	FY 2022 Current	FY 2023 Gov	FY 2023 HWM
Community Colleges	\$333.3	\$341.3	\$348.2
State Universities	\$298.4	\$319.9	\$323.0
UMass	\$574.9	\$586.5	\$653.4
Scholarship Programs	\$141.3	\$164.5	\$166.8
Other Higher Education	\$35.5	\$33.1	\$56.6
<b>Total</b>	<b>\$1,383.3</b>	<b>\$1,445.4</b>	<b>\$1,548.1</b>

*\$ in Millions*

The HWM matches or exceeds the Governor’s funding level for each of the Commonwealth’s 25 higher education campuses. It appears that state universities and community colleges receive FY 2022 funding plus one percent in addition to new collective bargaining agreement costs. HWM provides this increase directly to campuses, while the Administration proposed making the funds available as performance-based grants. HWM also includes \$20 million in state funds to match private donations to public higher education endowments.

HWM increases UMass funding by \$64.5 million over the Governor (although the Governor’s budget assumed about \$30 million in UMass CBA costs in a separate reserve). This increase includes CBA costs, additional financial aid funding, and new funding to mitigate inflation

pressures. HWM also devotes \$6 million of the increase to campus behavioral health services (\$4 million) and funding for a program that reimburses campuses for allowing small companies to use their space and equipment (\$2 million).

HWM spends \$166.8 million on scholarship programs, an increase of \$25.5 million (18.1 percent) over FY 2022 and \$2.3 million higher than the Governor. Of that total, HWM directs amounts to several specific scholarships:

- \$18.2 million in new funding for MASSGrant and MASSGrant plus, which provides needs-based financial aid to Massachusetts residents attending public or private college; and
- \$22 million for the state’s Gilbert Grant program, which provides financial aid to students pursuing nursing degrees.

In addition, the HWM budget includes \$35 million in new targeted scholarship and loan forgiveness programs:

- \$20 million in loan forgiveness and tuition reimbursements for behavioral health workers within the Department of Mental Health. HWM also includes a section (section 51) requiring EOHHS to create a website providing information on the availability of loan forgiveness and tuition reimbursements for those pursuing careers in behavioral health;
- \$15 million for scholarships and loan forgiveness to students or recent graduates who go into teaching. Half of the amount will revive the “Tomorrow’s Educator” program, which provides scholarships to promising students pursuing teaching careers. The remaining \$7.5 million targeted to improve the recruitment and retention of diverse educators through student loan repayment.

Finally, HWM provides \$19 million to expand Early College and dual enrollment programs that enroll high school students in credit-bearing college courses. Both HWM and the Governor propose large increases (\$7.2 million and \$8 million respectively) for this program which has a strong track record of success.

*Transportation*

The MBTA, MassDOT, and Regional Transit Authorities (RTAs) receive \$2.01 billion in the HWM budget, an increase of \$9 million over FY 2022, but a decrease of \$63.1 million compared to the Governor.

*Transportation Spending in FY 2023*

	FY 2022 Current	FY 2023 Gov	FY 2023 HWM
Transfer to MassDOT	\$403.0	\$455.9	\$392.8
Transfer to MBTA	\$127.1	\$187.0	\$187.0
Transfer to RTAs	\$94.0	\$94.0	\$94.0
MBTA Sales Tax Transfer*	\$1,266.0	\$1,325.1	\$1,325.1
Other Transportation	\$111.3	\$11.6	\$11.6
<b>Total</b>	<b>\$2,001.5</b>	<b>\$2,073.6</b>	<b>\$2,010.5</b>

*\$ in millions/\*FY 2022 GAA figure reflects January sales tax revenue upgrade*

HWM expects the sales tax transfer to the MBTA to grow by \$59.1 million over FY 2022 and adopts the Administration's proposal to transfer \$60 million in MBTA funding from the capital to the operating budget.

The biggest reduction in transportation spending from FY 2022 is due to a recent \$100 million supplemental appropriation to municipalities to make winter road recovery repairs. This spending is one-time for FY 2022 and is not included in either the Administration or HWM budgets.

HWM reduces the MassDOT subsidy by \$63.1 million compared to the Governor. The Administration proposed an increased subsidy for MassDOT to cover expected maintenance, meet expected snow and ice removal obligations, and cover personnel and planning costs related to the federal Bipartisan Infrastructure Law. Given budget resources, funding shortfalls are imprudent and could hurt the Commonwealth's ability to take advantage of federal transportation funding.

#### *Other spending of note*

Below is a brief description of notable funding items and areas in the Governor's proposal:

- ***New spending initiatives*** – HWM spends \$80.7 million to fund 9 new line-items and initiatives. Several of the new items have already been highlighted in the Bulletin, but other notable new spending includes:<sup>6</sup>
  - \$20 million to fund the cost of allowing free calls for incarcerated individuals;
  - \$10 million to improve workforce recruitment for shelter and housing services;
  - \$2.5 million for a correctional facility pilot program to treat inmates with serious mental illness.
- ***Housing*** – HWM increases housing funding by \$841 million over the FY 2022 budget and provides \$124.5 million more than the Governor's budget. Notable housing investments include:
  - ***Residential Assistance for Families in Transition (RAFT)*** – HWM provides \$140 million for RAFT, which provides housing stabilization and eviction diversion services to low-income families, an increase of \$60 million over the Governor's proposal. RAFT funding has ramped up recently, especially as federal housing dollars provided during the pandemic expire. The recent supplemental budget provided \$100 million to boost resources in both FY 2022 and FY 2023;
  - ***Massachusetts Rental Voucher Program (MRVP)*** – HWM increases MRVP spending by \$20 million over both FY 2022 and the Governor's budget. This program provides housing vouchers to low-income families;
  - ***Individual homeless shelters*** – HWM provides \$100 million for individual homeless shelters, an increase of approximately \$40 million over FY 2022 and \$16.7 million over the Governor;
  - ***HomeBASE*** – the HWM budget includes \$59.4 million for this program which also provides housing stabilization funds to help families leave or avoid family

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<sup>6</sup> Mental health loan forgiveness (\$20M), educator recruitment initiatives (\$15M) and \$30 in addition K-12 per-pupil aid (\$9.7M) are all included in the \$80.7M total

shelter. The HWM funding level is an increase of approximately \$25 million over FY 2022 and \$2.5 million over the Governor.

- **Workforce** – HWM budget funds 24 separate workforce and career readiness items at \$261 million, an increase of \$51.1 million from the FY 2022 budget and \$96.9 compared to the Administration’s budget. Notable workforce investments include:
  - **Elder care wage increases** – HWM includes \$40 million rate increases for elder care human service workers, including personal care attendants and home health aides. This program was funded at \$27.9 million in FY 2022 and was not included in the Governor’s budget;
  - **Adult Basic Education** – HWM provides \$60 million for a variety of adult learning programs run by the Department of Elementary and Secondary Education. This is an increase of \$10 million over FY 2022 and \$9.5 million over the Governor’s proposal;
  - **Career technical institutes (CTI)** – CTI funds the use of vocational school facilities to offer off-hour training programs for fast-growing trades. HWM provides \$20.4M for CTI, an increase of \$5 million over both FY 2022 and the Governor’s budget;
  - **Summer Jobs for At-Risk Youth** – HWM provides \$28.3 million for this program which supports internships, summer and year-round employment for historically underserved youth. This is an increase of \$4.3 million over FY 2022 and \$12 million over the Governor;
  - **Workforce Competitiveness Trust Fund (WFCTF)** – this trust fund provides training grants for several different programs, many of which have been expanded since the start of the pandemic. HWM provides a transfer of \$17 million, level with FY 2022 and an increase of \$10 million compared to the Governor.
- **Energy and environment** – HWM provides \$345.6 million for emergency and environment departments, an increase of \$20.2 million over FY 2022 and \$8.4 million over the Governor. The majority of the increase compared to the Governor is due to a \$5 million funding boost for the Department of Environmental Protection Administration.
- **Police reform implementation** – HWM and the Administration both provide \$5 million to operate the Police Officer Standards & Training Commission, while a further \$600,000 funds four Commissions also created in recent police reform legislation:
  - The Commission on the Status of African Americans;
  - The Commission on the Status of Latinos and Latinas;
  - The Commission on the States of Persons with Disabilities; and
  - The Commission on the Social Status of Black Men and Black Boys.
- **Non-discretionary spending** – HWM includes \$9 billion for debt service, health care costs for current and retired public employees and transfers to the state’s retiree benefits trust fund.
  - HWM does not include a \$250 million supplemental pension fund transfer proposed by the Governor;
  - Debt service costs grow by just over 2 percent to \$2.8 billion (level with the Governor);

- Health care costs for public employees and retirees will grow by just over 5 percent to \$1.9 billion (level with the Governor).
- **Commonly underfunded accounts** – the HWM budget largely follows the Administration’s lead in providing sufficient funding for historically underfunded line-items to account for expected cost growth. In years past, these accounts would often be underfunded, creating structural deficits approaching \$200 million. In four of the largest chronically underfunded areas, HWM appropriates \$1.44 billion, \$10.9 million less than the Administration (though this total masks some underfunding in single accounts).<sup>7</sup> As noted earlier, HWM may be underfunding MassDOT costs.
  - HWM adopts the Governor’s proposal to increase salaries for public counsel staff; HWM increases total CPCS funding by \$17.5 million over FY 2022, which presumably will cover caseload growth and the cost of salary increases.

**Stabilization Fund**

The Stabilization Fund balance at the end of FY 2022 is projected to be \$5.9 billion and the HWM budget anticipates \$819.7 million in additional deposits over the course of FY 2023. The \$6.7 billion end of FY 2023 balance estimated by HWM would be 13.5 percent of line-item spending and represent growth of 350 percent over the last 10 years.

*FY 2022 and FY 2023 Stabilization Fund Estimates*

<b>FY 2022 Starting Balance</b>	<b>\$4,626.0</b>	
<i>Planned Deposits</i>	\$1,260.8	
<b>FY 2022 Ending Balance</b>	<b>\$5,887.2</b>	
	<b>Gov.</b>	<b>HWM</b>
<i>FY 2023 Capital Gains Deposits</i>	\$681.0	\$786.0
<i>FY 2023 Other Deposits</i>	\$68.4	\$33.7
<i>FY 2023 Withdrawal</i>	\$0.0	\$0.0
<b>Assumed FY 2023 Ending Balance</b>	<b>\$6,636.6</b>	<b>\$6,706.9</b>

*\$ in Millions*

The HWM projects a larger FY 2023 deposit into the Stabilization Fund than the Administration because HWM does not adopt the proposal to reduce the short-term capital gains rate. Reducing the capital gains rate would lessen “above-benchmark” capital gains revenue collections that are automatically deposited into the Stabilization Fund. It is possible, that the HWM budget actually underestimates the FY 2023 ending balance as it does not include a possible \$34.7 million deposit related to sale of abandoned property.

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<sup>7</sup> The four underfunded areas are: emergency shelters, public counsel services, MassHealth technology costs, and county corrections offices.



## Policy Sections

The HWM budget includes 72 policy sections, of which 57 are the same or similar to policies proposed in Governor Baker’s budget.

### *HWM Policy Section Summary*

FY 2023 HWM	FY 2023 GOV Sections	Similar Sections	FY 2022 HWM Sections
72	95	57	47

Policy sections related to revenue, health care, and education have been highlighted earlier in the Bulletin. Other notable policy sections include:

- ***Incarcerated phone calls*** (sections 38, 29, & 53) – these sections require the Department of Youth Services, the Department of Corrections and county sheriffs to allow committed juveniles and inmates to make phone calls free of charge. The HWM budget includes \$20 million to reimburse agencies and sheriffs for the cost of the free calls.
- ***Elimination of probation and parole surcharges*** (section 45 & 46) – these sections, included in the Administration’s budget, would eliminate monthly supervision fees (typically \$45-60) for individuals on probation and parole.
- ***National Guard compensation*** (section 21) – this section, included in the Administration’s budget, increases the compensation due to National Guard Members, in the event of death or disability in the line of duty, from \$100,000 to \$200,000.
- ***District Attorney and Sheriff Salary Increases*** (sections 4 & 22) – these sections, included in the Administration’s budget, increase salaries for District Attorneys and Sheriffs to \$195,000.

## Bottom Line

The HWM budget shares several similarities with Governor Baker’s initial plan, with historic funding increases for the state’s school aid formula, major increases for housing, and a major overhaul of a hospital assessment used to make health care investments. However, the two spending proposals differ significantly in their approaches to using resources over and above the level necessary to maintain existing state services. Governor Baker proposed a tax relief package that will benefit low-income families and make long-needed improvements to tax competitiveness. HWM opts to make new spending investments in free school meals, childcare salary supports, and a variety of education, workforce and housing programs.

Both budgets are balanced, build reserves to record levels, and use a tax revenue foundation that is likely in need of significant upward revision. As the budget process moves forward, policymakers must find a way to closely coordinate annual operational spending with appropriation of remaining federal and surplus funds to best leverage these substantial resources. They must also commit to pairing key investments with impactful tax relief.