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MTF Bulletin

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Senate Ways and Means Economic Development & Surplus Legislation

Just days after the House concluded its debate, the Senate Committee on Ways and Means (SWM) released its version of a \$4.8 billion proposal that makes direct appropriations, authorizes capital spending, proposes tax relief and includes economic development policy initiatives. The bill spends from both the FY 2022 budget surplus and remaining Fiscal Recovery Funds (FRF).

Administration, House, SWM Resource Comparison¹

	Governor	House	Senate
Surplus & ARPA spending	\$3,953.9	\$2,339.9	\$2,403.1
Taxpayer rebates	\$0.0	\$510.0	\$510.0
Capital authorizations	\$1,255.8	\$1,430.3	\$1,386.8
Tax changes	\$741.0	\$569.5	\$522.0
Total	\$5,950.7	\$4,849.7	\$4,821.9
<i>\$ in millions</i>			

This Bulletin provides an initial analysis and overview of the key spending, capital authorization, revenue and policy proposals in the legislation and compares it to both the House and Governor’s plans.

Direct Appropriations

Unlike the House, SWM does not cap using either FY 2022 surplus or FRF resources, but instead provides broad discretion for the executive branch to determine the most appropriate resource. The House bill places a cap of \$1.43 billion on each of the budget surplus and federal resources to cover direct appropriations, including rebate payments.

Direct rebates to qualifying taxpayers, estimated at \$510 million, are the largest single expenditure in the SWM spending proposal, while housing, healthcare and environmental infrastructure comprise two-thirds (\$1.6 billion) of the remaining spending.

¹ Administration totals include Governor’s tax legislation, FORWARD Act and recent supplemental budget proposal. House & Senate tax changes include tax relief proposal and additional economic development tax proposals.

Surplus & FRF Spending by Category

Category	Gov. Supp	Gov. Forward	House	SWM
Community EcDev/Small biz	\$130.0	\$311.5	\$408.4	\$84.4
Community Supports	\$0.0	\$0.0	\$80.0	\$22.5
Deficiency	\$22.7	\$0.0	\$24.7	\$24.7
Early Education	\$10.0	\$0.0	\$0.0	\$150.0
Environmental & Tourism Projects	\$0.0	\$231.6	\$24.3	\$0.0
Health Care	\$0.0	\$250.0	\$660.0	\$692.5
Housing	\$360.0	\$0.0	\$186.0	\$400.0
Human Services	\$0.0	\$0.0	\$101.0	\$250.0
Infrastructure - Education/Childcare	\$225.0	\$35.0	\$0.0	\$0.0
Infrastructure - Environmental	\$200.0	\$938.1	\$400.0	\$510.0
Infrastructure - Ports	\$100.0	\$0.0	\$0.0	\$100.0
Infrastructure - Broadband	\$0.0	\$0.0	\$50.0	\$0.0
Other	\$5.0	\$0.0	\$0.0	\$14.0
Oversight	\$0.0	\$25.0	\$5.0	\$5.0
Public health	\$0.0	\$100.0	\$0.0	\$0.0
Transportation	\$580.0	\$0.0	\$0.0	\$0.0
Workforce	\$55.0	\$75.0	\$0.5	\$50.0
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Rebates	\$0.0	\$0.0	\$510.0	\$510.0
Unemployment Insurance	\$0.0	\$300.0	\$300.0	\$100.0
Offshore Wind Ports	\$0.0	\$0.0	\$100.0	\$0.0
Total line item	\$1,687.7	\$1,966.2	\$1,939.9	\$2,303.1
<i>Earmarks added on floor</i>			\$229.7	
Total off-budget	\$0.0	\$300.0	\$910.0	\$610.0
Total	\$1,687.7	\$2,266.2	\$2,849.9	\$2,913.1

The table above compares the three proposals. Many of SWM’s priority areas are shared with earlier versions. For example, like the Governor SWM includes significant funding for housing production and, like the House, SWM provides support for hospitals, nursing homes and rest homes. However, SWM also includes new funding for childcare and clean energy transition not proposed by the Administration or House.

Major spending areas include:

- *Health care (\$692.5 million)* – SWM adopts a House proposal to distribute \$300 million to distressed hospitals based on a formula that takes into account relative price and public pay mix. SWM provides a further \$100 million to be distributed by the Executive Office of Health and Human Services to independent community hospitals with a high public-pay mix. SWM also adopts House proposals to provide funds to nursing homes (\$165 million),

community health centers (\$80 million), rest homes (\$30 million) and reproductive health service providers (\$17.5 million)

- *Housing (\$400 million)* – SWM appropriates \$400 million for housing initiatives divided between the Commonwealth Builders Program (\$100 million), workforce housing (\$150 million), and the Affordable Housing Trust Fund (\$150 million)
- *Human services (\$250 million)* – like the House, SWM provides \$100 million for human service organizations that contract with the state. SWM also includes \$150 million to be distributed in FY 2024 based on a revised methodology to be developed by EOHHS.
- *Environment & ports (\$610 million)* – the SWM bill includes \$100 million for port improvements and \$125 million for public space purchase and rehabilitation, both included in the House bill. In addition, SWM includes \$100 million to subsidize electric car purchases and increase the number of charging stations. Finally, the bill includes \$150 million to fund water infrastructure improvements and \$125 million for the Clean Energy Center to fund innovative clean energy initiatives.
- *Early Education (\$150 million)* – SWM provides a further \$150 million to continue childcare stabilization grants. The FY 2023 budget, enacted yesterday, provides \$250 million to extend the program for the first six months of the current fiscal year.
- *Unemployment insurance (\$100 million)* – SWM deposits \$100 million into the state’s Unemployment Insurance Trust fund to offset estimated overpayments made during the course of the pandemic. Both the House and Baker Administration provided \$300 million to the fund, which is consistent with the Administration’s estimate of the overpayment cost not attributable to federal programs.

The SWM tax rebate proposal is identical to the House bill. The plan will provide rebates of \$250 to eligible single tax filers and \$500 to joint filers. This rebate plan builds on \$460 million in rebate payments provided to lower-wage workers earlier in the year.

House & Senate Rebate Proposal

Program	Minimum income	Maximum income	Amount	Cost
Essential Employee Premium Pay	\$12,750 in 2020 \$13,500 in 2021	300 percent of the federal poverty level (\$38,640 for individual)	\$500	\$460M
House/Senate proposal	\$38,000	\$100K for individuals \$150K for joint filers	\$250 for individual \$500 for joint filers	\$500M

Rebate programs provide some relief to lower and middle-income taxpayers who face rising costs. They are a one-time use of a resource that avoids a long-term expenditure. However, it is a large expenditure with diffuse and temporary benefits. The legislative rebate program is intended to build on the essential worker premium pay program implemented earlier in the year. Very low-

wage residents who do not meet minimum earning requirements will not benefit from either rebate program.

Tax Relief

SWM puts forward a \$502 million tax relief proposal and proposes an increase to the Housing Development Income Program tax credit.

The SWM relief plan includes the same major components as the House, but differs in two material ways. First, SWM takes a different approach to the estate tax, proposing an exemption for estates valued at \$2 million and less and allowing all filers an estate tax credit of \$99,600, which mitigates the “cliff effect.” SWM excludes the House proposal to increase the marginal estate tax rate over \$5 million.

Second, SWM’s tax changes are effective in 2022, whereas the House bill delays implementation until tax year 2023.²

In addition to tax relief, the SWM bill includes two other tax provisions

- *Housing Development Incentive Program (HDIP)* – SWM increases the annual cap on this tax credit to \$30 million (the current cap is \$10 million) with a temporary increase to \$57 million in 2023;
- *Brownfields Redevelopment Tax* – the bill extends the existing credit for five years.

Comparison of Tax Relief Proposals

Tax Proposal	Gov	House	SWM	Gov	House	House
Dependent care/dependent	\$240/\$480 (dependent) \$480/\$960 (expenses)	\$310 credit per dependent/no cap	\$310 credit per dependent/no cap	\$167	\$130	\$130
Rental deduction	50% of rent up to \$5,000	50% of rent up to \$4,000	50% of rent up to \$4,000	\$77	\$35	\$35
Senior circuit breaker	Max credit ~\$2,340	Max credit ~\$2,340	Max credit ~\$2,340	\$60	\$60	\$60
Estate tax	\$2M threshold Tax applies to threshold and above	\$2M threshold; increase rate for \$5M+ estates Tax applies to threshold and above	\$99,600 credit applied to all estates	\$231	\$207	\$185
Short-term capital gains	5%	Not included	Not included	\$117	\$0	\$0
Non-tax status	\$12.4 Single; \$18.65K HoH; \$24.8 Joint	Not included	Not included	\$89	\$0	\$0
Earned Income Tax Credit	Not included	Increase state credit to 40% of federal	Increase state credit to 40% of federal	\$0	\$92	\$92
				\$741	\$524	\$502

The SWM tax relief package, at an annualized cost of \$502 million, is less than both the House proposal and the Administration’s plan.

² SWM tax changes for dependent care, EITC, senior circuit breaker and rent deduction are effective on 1/1/2022. Estate tax changes will be effective when the bill becomes law.

Capital Authorizations

SWM follows the capital authorization template in the FORWARD Act, including all \$1.26 billion put forward by Governor Baker.

Comparison of Economic Development Capital Authorizations

Category	Gov	House	SWM
Broadband	\$62.0	\$72.0	\$62.0
Environmental Infrastructure	\$114.0	\$114.0	\$114.0
Housing	\$268.8	\$268.8	\$268.8
Innovation support	\$327.0	\$327.0	\$402.0
Local economic development	\$465.0	\$619.5	\$521.0
Tourism & zoos	\$19.0	\$19.0	\$19.0
Total	\$1,255.8	\$1,420.3	\$1,386.8
<i>\$ in millions</i>			

Notable capital proposals common to all three branches include:

- \$400 million to reauthorize the state’s MassWorks economic development grant program;
- \$200 million in matching grants to enable academic institutions and other organizations to compete for federal research and development grants in a number of high-tech areas;
- \$104 million for the state’s Water Pollution Abatement Trust;
- \$95.2 million for capital improvements at housing authorities;
- \$73.1 million to recapitalize the Housing Stabilization and Investment Trust Fund; and
- \$50 million to provide matching funds for leveraging federal broadband infrastructure funding.

SWM added several new capital authorizations:

- \$75 million for the MassTech Collaborative to assist the state’s robotics industry;
- \$30 million for capital improvements at a performing arts center at UMass Dartmouth; and
- \$25 million in capital assistance for startups owned by historically disenfranchised populations.

Policy Sections

The SWM bill includes 157 policy sections, of which 126 are the same or similar to sections included in the House bill. In addition to the tax change sections described above, other notable sections include:

- ***Massachusetts Center for Employee Ownership (sections 4, 8 & 9)*** – SWM creates this new Center within the Massachusetts of Business Development. The center is intended to

provide resources related to employee ownership of businesses. These sections were also included in the House bill.

- ***Healthy Incentive Program (section 7)*** – SWM codifies the Health Incentive Program, which is designed to increase healthy food options for SNAP recipients.
- ***Starter Home Zoning (sections 29 –73)*** – SWM includes a number of sections making adjustments to the state’s Smart Growth Zoning Program, which was created several years ago but has yet to have much impact. Similar changes were included in the Governor’s FORWARD Act and in the House bill.
- ***COVID-19 Standing Order (section 109)*** – SWM includes language authorizing a standing order for pharmacists to dispense certain COVID-19 tests and medications without a prescription. Similar language was included in the House bill and was previously filed by Governor Baker.
- ***Auto Body Rates (section 110)*** – SWM establishes a minimum hourly rate of \$55 for auto body work on insurance claims. The section also creates an advisory group within the Division of Insurance to assess and update the rate going forward.
- ***Convention Center Authority Expansion (section 141)*** – SWM directs the state’s Convention Center Authority (MCCA) to update and supplement its 2019 expansion report. The new report must include an examination of Boston’s competitiveness to attract conventions, the impact of COVID on future events and the physical plant improvements needed to improve air filtration and other concerns. Unlike the House section, it is not apparent that this refiled report will fulfill the requirement that the MCCA notify the legislature prior to undertaking a new capital expansion related to the study.
- ***Hynes Convention Center (section 142)*** – SWM creates a five-member commission to study the feasibility of different options for disposing of the Hynes Convention Center, with their findings due at the end of 2023. The House tasked a different group to examine the issue and required the report be completed by the end of 2022.
- ***Excess Capital Gains (section 152)*** – SWM changes the disposition of excess capital gains tax revenue in FY 2023. Currently, 90 percent of these revenues go to the Stabilization Fund. SWM lowers that to 80 percent and increases the share directed towards pension and OPEB liabilities.
- ***K-12 required spending (section 153)*** – SWM allows school districts to underspend standard state requirements in FY 2022 through FY 2024. Districts would be able to deposit up to 10 percent of the required spending amount in a reserve account for use through FY 2027. Districts that underspend required spending by more than 10 percent would lose state aid in the following year. This section is likely designed to assist districts who face deadlines for spending federal education funds and are receiving large increases through the Student Opportunity Act (SOA). However, any flexibility in districts setting aside funds for future years should be accompanied by required investments outlined in the SOA.

Resource Usage

SWM spends \$2.9 billion in direct appropriations without specifying the amount used from each funding source, therefore, it is not possible to estimate the remaining surplus and FRF funds. The table below provides a general comparison of resources used.

Use of Resources

Resources			
Initial surplus	\$3,523.0		
FRF remaining	\$2,266.0		
Proposed Spending			
	Governor	House	SWM
Surplus spending	\$1,688	\$1,427	NA
FRF spending	\$2,266	\$1,427	NA
Total spending	\$3,954	\$2,854	\$2,913
Surplus remaining	\$1,835	\$2,096	NA
FRF remaining	\$0	\$839	NA
Total remaining	\$1,835	\$2,935	\$2,876
<i>\$ in millions</i>			

Based on current estimates, the SWM bill would leave \$2.9 billion in combined resources still available. This number could grow if June tax revenues exceed benchmark.

Bottom Line

The SWM economic development bill is similar in scope and approach to the bill adopted by the House last weeks. Both spend just under \$3 billion in surplus and federal resources, proposal just over \$500 million in tax relief and authorize approximately \$1.4 billion in economic development capital spending. However, there are several key differences between the bills:

- *Tax policy* – as noted earlier, the SWM bill implements a universal credit for the estate tax, as opposed to the House proposal to allow a \$2 million deduction for all estates, but to increase the marginal rate for high value estates. The Senate also follows Governor Baker’s lead in making tax policy changes effective in 2022;
- *Spending* – while the bottom line spending totals for the House and SWM bills are similar, the components are quite different. Based on initial analysis, \$1.8 billion in spending is shared by both bills, while more than \$2 billion is unique to either House or Senate. Therefore the bottom line of the final bill could grow well above either the House or Senate versions.
- *Policy* – both the House and SWM bills are full of varied policy proposals, and the Senate will certainly add additional policy provisions on the floor. Even among similar proposals – such as the process to expand the convention center in Boston or to sell the Hynes – there are important differences that will need to be negotiated.

The Senate is likely to add hundreds of project earmarks, include several new program line items and adopt a number of policy proposals during floor debate. This will leave two incredibly large, complicated, and important pieces of legislation that will need to be synthesized into one bill in just over one week. Time is growing short to complete this herculean task, but the stakes are too high for the legislature not to do so.