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MTF Bulletin

June 22, 2023

MTF Preview of the FY 2024 Conference Committee Budget

Fiscal Year (FY) 2024 is just over two weeks away and House and Senate budget negotiators are in the process of reconciling countless spending, policy, and technical differences between the two bills. This year, the always complex budget negotiation process is further complicated by separate tax bill negotiations and the need to significantly pare down surtax spending proposals to fit within the \$1 billion spending cap.

This bulletin previews the major differences between the House and Senate budgets, highlights potential challenges for resolution, and identifies several priorities for a sustainable and effective spending plan.

Budget Revenues

The House and Senate budgets are both built on a consensus tax revenue foundation of \$40.4 billion. In addition, the two budgets share \$22.2 billion in non-tax revenue, which provides the Conference Committee with at least \$55.1 billion in starting resources after accounting for statutorily required transfers and before estimating the fiscal impact of tax relief.

House and Senate Shared Revenue Assumptions

Type	Amount
Consensus Tax Revenues (net of transfers)	\$32,978
Shared Medicaid revenue	\$11,024
Other shared revenue	\$11,143
Initial revenues	\$55,145

\$ in millions

A major tax revenue decision before budget conferees is to determine the amount of revenue to deduct from total resources to account for tax relief legislation. The two budgets assumed similar levels of tax relief in FY 2024, but the components of the two plans differ significantly. Depending on the final tax agreement, this creates a wide spectrum of potential budget cost.



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House and Senate Tax Proposals Compared

FY 2024 Fiscal Impact	House	Senate
<i>Child & dependent</i>	-\$165.00	-\$165.00
<i>Estate tax</i>	-\$231.00	-\$185.00
<i>Rental deduction</i>	-\$40.00	-\$40.00
<i>Senior circuit breaker</i>	-\$60.00	-\$60.00
<i>EITC</i>	-\$91.00	-\$91.00
<i>Single sales</i>	\$0.00	\$0.00
<i>Short-term capital gains</i>	\$0.00	\$0.00
<i>Housing Development Incentive Program</i>	\$0.00	-\$20.00
<i>Low-Income Housing Tax Credit</i>	\$0.00	-\$20.00
<i>Other Tax Policy Reforms</i>	\$0.00	-\$14.00
Total	-\$587.00	-\$595.00
<i>Total Shared Costs</i>	-\$541.00	
<i>Total Unique Costs</i>	-\$100.00	

\$ in millions

There is no requirement that the tax bill and the budget be resolved at the same time. If the budget is finalized prior to an agreement on tax relief, the bill sent to the Governor is likely to include an estimate in the range of \$600 million for total tax relief in FY 2024.

In addition to tax decisions, there are several other notable revenue differences between the two budgets:

- **Trust fund sweeps** (\$437 million/Senate) – The Senate budget uses resources from two trust funds to support investments in early education and behavioral health:
 - \$245 million is transferred from the High-Quality Early Education & Care Affordability Fund to fund a portion of the Senate’s \$475 million Childcare Stabilization Grant appropriation. This early education trust fund was created in the FY 2023 budget and capitalized with \$490 million in surplus tax revenue.
 - \$192 million from the Behavioral Health Trust Fund to support a variety of workforce investments and behavioral health supports for health care workers and students. This trust fund was proposed in the 2021 COVID Recovery spending bill and \$198.7 million was set aside to support the recommendations of an advisory



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commission tasked with identifying gaps in behavioral health care. The Senate budget uses most of the trust fund balance to support the commission’s recent recommendations.

- **iLottery** (\$200 million/House) – The House budget includes several sections expanding the state’s lottery to online and mobile applications. House leaders estimate that this expansion will generate approximately \$200 million in new annual revenue, though it is likely that first year revenues would be less as the new product line will take time to create. The House budget also dedicates iLottery revenues to support Childcare Stabilization Grants.
- **Medicaid Reimbursements** (\$15 million/House) – The House budget relies on \$15 million more in federal Medicaid reimbursement than the Senate, generated by \$30 million in spending to increase ambulance rates paid by MassHealth.

Excluding revenue from iLottery and increased Medicaid reimbursements, which will only be available based on policy and spending negotiations, the Conference Committee budget has access to approximately \$55 billion in non-surtax resources to support spending.

Potential Revenues Available for Conference

Initial Revenues	\$55,145
Tax Revenue Adjustment	-\$600
Early Education Trust Fund	\$245
Behavioral Health Trust Fund	\$192
Misc. Revenue Maximization	\$47
Potential Maximum Revenue	\$55,028

\$ in millions

This number will change if iLottery is included in the final budget and budget negotiators can agree on a FY 2024 revenue estimate. It will also change if conferees elect to adjust the \$40.4 billion consensus tax revenue figure established in January. In each year since FY 2017, unanticipated revenue trends have led conferees to adjust the original revenue estimate.



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Budget Conference Committee Revenue Changes, FY 2017 – FY 2023

Year	Conference Adjustment
FY 2017	-\$750
FY 2018	-\$650
FY 2019	\$667
FY 2020	\$594
FY 2021	-\$3,559
FY 2022	\$4,230
FY 2023	\$2,660

\$ in millions

However, while Conference Committee tax revenue adjustments have become the norm, as of now an adjustment is not warranted. As MTF has written, the FY 2024 revenue estimate was predicated on a slowdown in revenue growth based on declining non-withheld income and the repayment of Pass-Through Entity tax credits. As the steep revenue decline in April demonstrated, those expected trends have emerged and warrant continued caution in FY 2024. Given recent revenue trends, the current estimate remains sound and, barring a major revenue loss in June, the consensus revenue figure should be retained.

Budget Spending

The FY 2024 Conference Committee will be the first to reconcile spending supported by surtax revenue, in addition to standard budget spending. Because surtax spending is held distinct from all other spending and can only be used for transportation and education, it will likely be reconciled separately from traditional spending negotiations. Therefore, it is helpful to assess surtax and non-surtax spending independently when considering key decisions before the Conference Committee.

Non-Surtax Spending

The Senate budget includes about \$500 million more in line-item spending than the House, but \$200 million of this difference is attributable to the fact that the House does not appropriate \$200 million in assumed iLottery revenue intended to support Childcare Stabilization Grants. Once this difference is accounted for, the difference in spending is approximately \$300 million.



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House and Senate Non-Surtax Spending Compared¹

	House	Senate
Line-item spending	\$53,947.1	\$54,446.2
MATF	\$505.0	\$505.0
Initial spend	\$54,452	\$54,951
iLottery adjustment	\$200.0	\$0.0
Total	\$54,652	\$54,951

\$ in millions

The majority of increased spending in the Senate budget (approximately 66 percent) is due to the Senate’s use of \$192 million from the Behavioral Health Trust Fund to support behavioral health initiatives.

The key question before budget writers is how to resolve spending differences within the revenue constraints described above. In order to do that, they must agree on the level of spending common to both budgets and the amount of spending unique to either proposal. MTF estimates shared and unique spending as follows:

MTF Shared and Unique Spending Estimate

	House	Senate
Initial Spending (no surtax)	\$54,652.1	\$54,951.2
Spending in Common	\$54,060.4	
Unique Spending	\$591.6	\$890.7
Maximum Spending	\$55,542.8	
Maximum Revenues	\$55,028.1	
Difference	-\$514.7	

\$ in millions

As shown above, the combination of all spending in both budgets exceeds available revenue by about \$500 million; therefore, cuts to the House and Senate proposals will be necessary. This number would be reduced if the House and Senate agree to include iLottery revenue.

The majority of House and Senate spending differences (72.6 percent) are due to earmarks, health care, and education spending choices.

¹ House, Senate and Administration budget leaders often use different methods to count total spending. The MTF calculation included above is the sum total of all appropriations in sections 2 and 2E of the respective budgets.



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Summary of House and Senate Spending Differences

Category	House Unique	Senate Unique	Total Unique
Earmarks	\$193.2	\$242.1	\$435.3
Healthcare	\$126.7	\$272.8	\$399.5
Education	\$123.6	\$118.2	\$241.8
Housing	\$21.0	\$37.4	\$58.4
Workforce	\$41.1	\$10.1	\$51.2
Transportation	\$0.0	\$50.0	\$50.0
Economic Development	\$21.1	\$28.2	\$49.4
Support Services	\$16.2	\$32.3	\$48.5
Public Safety	\$9.9	\$23.2	\$33.0
Other	\$39.0	\$76.6	\$115.5
<i>Energy and Environment</i>	<i>\$4.7</i>	<i>\$17.0</i>	<i>\$21.7</i>
<i>Local Aid</i>	<i>\$0.0</i>	<i>\$19.7</i>	<i>\$19.7</i>
<i>Judiciary</i>	<i>\$7.9</i>	<i>\$7.0</i>	<i>\$14.9</i>
<i>Constitutionals</i>	<i>\$3.9</i>	<i>\$0.7</i>	<i>\$4.6</i>
<i>Administration</i>	<i>\$0.0</i>	<i>\$0.6</i>	<i>\$0.6</i>
<i>Debt Service</i>	<i>\$0.0</i>	<i>\$0.0</i>	<i>\$0.0</i>
Total	\$591.6	\$890.7	\$1,482.4

\$ in millions

The FY 2024 budget is likely to be the first in several years for which resources will not be sufficient to support all spending. Historically, this is a regular part of the Conference Committee process, as the two budgets typically share revenue assumptions while differing on spending. In the past, local earmarks have been prioritized for inclusion and so reductions typically occur in programmatic or administrative spending areas. In FY 2024, both the House and Senate include a substantial number of earmarks, comprising a total of \$435.3 million in unique spending.

Surtax Spending

As agreed to in January, income surtax spending in the FY 2024 budget is capped at \$1 billion. This hard cap is a good fiscal control to ensure sustainable surtax investment, but it creates a challenge for budget negotiators as they try to reconcile very different surtax spending proposals.



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House and Senate Surtax Spending Compared

	House Budget Total	Senate Budget Total	Shared	House Unique	Senate Unique
Education	\$500	\$500	\$129	\$371	\$371
<i>Early Education</i>	\$65	\$80	\$25	\$40	\$55
<i>K-12 Education</i>	\$261	\$110	\$0	\$261	\$110
<i>Higher Education</i>	\$174	\$310	\$104	\$70	\$206
Transportation	\$500	\$500	\$320	\$180	\$180
<i>MBTA</i>	\$320	\$195	\$195	\$125	\$0
<i>MassDOT</i>	\$100	\$100	\$50	\$50	\$50
<i>RTAs</i>	\$70	\$100	\$70	\$0	\$30
<i>Local/Pilot Program</i>	\$10	\$105	\$5	\$5	\$100
Total Investments	\$1,000	\$1,000	\$449	\$551	\$551

\$ in millions

In total, of the 26 surtax spending items included in either budget, only three are identical between the House and Senate and more than two-thirds of surtax spending included by either branch is unique. This means that budget writers will have to pare down combined surtax spending by \$551 million to fit within the \$1 billion cap.

The task of eliminating or reducing surtax spending proposals will be challenging, but it will be aided by the fact that much of the spending is for programs that do not yet exist and therefore have no set funding level established. For example, the House dedicates \$100 million in surtax spending to a proposed Green School Works program, while the Senate dedicates \$100 million to enable the state’s School Building Authority to reimburse communities for increased school building costs. If the final budget were to reduce both of these spending levels by half, it would simply limit the scope of two new initiatives as opposed to cutting a program on which school districts are already relying.

Policy

There are more than 130 policy sections in the House and Senate budgets and the vast majority (more than 70 percent) are unique to one proposal or the other.

FY 2024 Budget Policy Sections Compared

Shared	House Unique	Senate Unique
38	56	43



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A small number of differing sections (9) relate directly to spending proposals, while a further five differences are simply effective dates for other sections. Still, there remain a number of significant policy differences between the two bills, including the Senate’s inclusion of in-state tuition and financial aid consideration for undocumented students (read MTF’s analysis [here](#)) and the House’s proposal to legalize iLottery and dedicate revenues to early education (read MTF’s analysis [here](#)).

Major House and Senate Policy Differences

Policy	House	Senate	Description
iLottery	Yes	No	Legalizes iLottery and dedicates revenue to Child Care Stabilization Grants
Universal school meals	Yes	No	Mandates universal school meals in statute
MBTA board	Yes	No	Adds 2 seats to MBTA Board, including a representative of the City of Boston
ConnectorCare pilot	Yes	No	Creates a two-year pilot to expand Connector eligibility up to 500% of the federal poverty level
Brownfields tax credit	Yes	No	Extends the Brownfields tax credit to 2028
Medicaid ambulance rates	Yes	No	Requires MassHealth ambulance rates be equal to Medicare rates
MSBA cap	Ups cap to \$1.1B	Ups cap to \$1.2B and changes annual adjustment	Increases the statutory grant cap for the MSBA to fund school building projects.
In-state tuition & financial aid	No	Yes	Makes undocumented HS students eligible for in-state tuition, fees, and financial aid at MA public higher education institutions
MassHealth rebates	No	Yes	Expands the state's supplemental drug rebate program to additional medications and medical devices
Auto body labor rates	No	Yes	Establishes minimum auto body rates and a rate setting process for work related to an insurance claim
Capital gains transfer	No	Yes	Increases the share of over-threshold capital gains dedicated to pension and OPEB liabilities
GIC coverage	No	Yes	Requires new state employees receive insurance coverage on first day of employment
Community Preservation Act	No	Yes	Transfers \$30M of any FY 2023 budget surplus to the CPA



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Bottom Line

In recent years, budget negotiations have extended past the July 1st start of the fiscal year, and this year's Conference Committee process has several wrinkles that could complicate resolution:

- The budget must accommodate the fiscal impact of an unfinished tax relief bill;
- Combined surtax spending proposals exceed the FY 2024 spending cap by more than \$500 million;
- The availability of a significant amount of non-surtax revenue (more than \$600 million) will depend on the resolution of policy negotiations related to iLottery and the use of trust fund resources;
- Both bills propose a number of major policy changes not included in the other bill.

In order to put a sound and sustainable budget on Governor Healey's desk in a timely manner, there are several things policy-makers must do:

1. Work to resolve the tax relief bill concurrently with the budget. While the two bills do not have to be finished at exactly the same time, it is critical that a tax plan be hammered out prior to August break;
2. Maintain the current consensus revenue figure. Unlike in recent years, upgrading tax assumptions in Conference Committee is not a responsible option in FY 2024;
3. Stick to the \$1 billion surtax spending cap set in January.

If budget conferees adhere to those principles, the state should continue the recent streak of entering the new fiscal year with a balanced budget that positions the state well to withstand the unexpected.