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MTF Bulletin

June 25, 2024

FY 2025 Conference Committee Preview

Fiscal Year (FY) 2025 begins on July 1st, and House and Senate budget negotiators are actively engaging in conversations to craft a compromise budget proposal. The Conference Committee process involves reconciling countless spending, policy, and technical differences between the two bills; and this year, the process will be further impacted by an uncertain fiscal picture for FY 2024 and a more constrained revenue outlook in FY 2025.

Furthermore, the House and Senate have each proposed an array of surtax-supported priorities across the education and transportation sectors; the total amount of which exceeds the \$1.3 billion spending cap set for FY 2025. The final budget sent to the Governor’s desk must live within that cap, requiring either the use of other resources to support certain programs or spending cuts.

This brief previews the major spending and policy differences between the House and Senate budgets, identifies several challenges for timely resolution, and proposes a handful of key principles for achieving a balanced and sustainable budget plan.

Reviewing the House & Senate Final Budgets

After three days of debate in each chamber, the House and Senate finalized their respective proposals for FY 2025. The House budget includes \$58.07 billion in total spending, while the Senate Budget is just \$9.2 million higher at \$58.08 billion.

Each budget increases spending compared to the FY 2024 General Appropriations Act (GAA) by over \$2 billion, and spends less than the Governor’s original recommendation for FY 2025 by at least \$50 million.

FY 2025 House & Senate Final Budget Proposals

	FY 2024 GAA	FY 2025 Governor	FY 2025 House	FY 2025 Senate
Line-Item Spending	\$54,558.1	\$56,152.2	\$56,090.4	\$56,079.6
Surtax Spending	\$1,000.0	\$1,300.0	\$1,300.0	\$1,300.0
Medical Asst. Trust Fund	\$505.0	\$682.2	\$682.2	\$682.2
Behavioral Health Outreach, Access, Support	\$0.0	\$0.0	\$0.0	\$20.0
Total Line-Item Spending¹	\$56,063.1	\$58,134.4	\$58,072.6	\$58,081.8

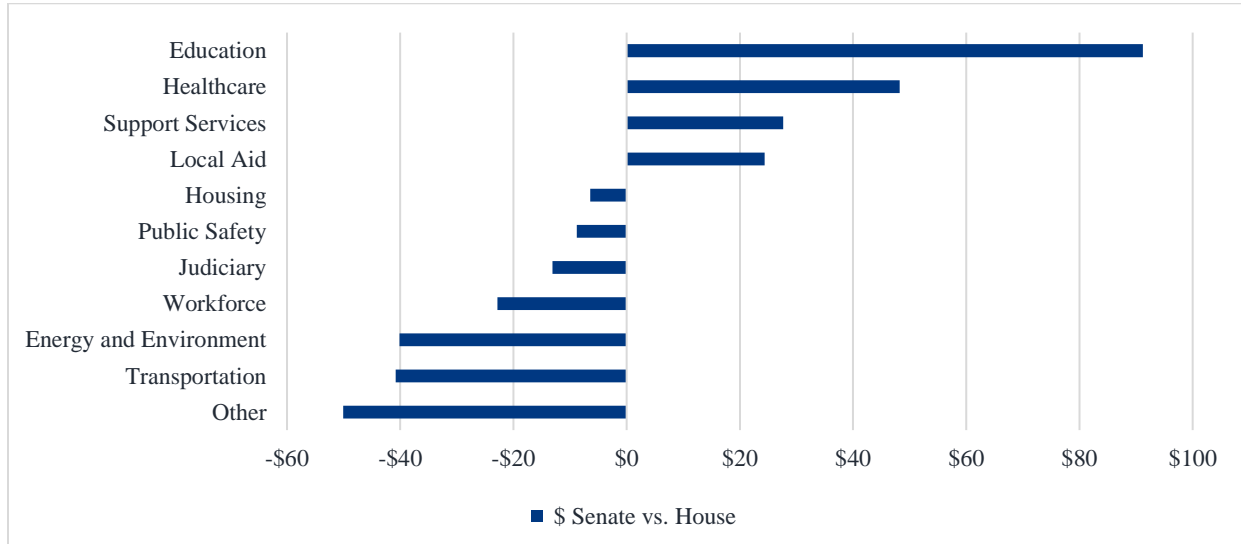
\$ in millions

While the overall spending difference between the House and Senate final budgets is slim, there is nearly \$1.4 billion in unique spending initiatives across the two bills. The graph below compares bottom line

¹ MTF includes in its total line-item spending the \$63 million deposit into the Commonwealth Transportation Trust Fund (included in all three budget proposals for FY 2025).

spending across different categories of investment, and clearly illustrates the Senate’s focus on healthcare, education, and local aid; as well as the House’s dedication of resources towards workforce, energy and the environment, and transportation.

House v. Senate Final Budgets by Category of Investment



\$ in millions

Understanding where the House and Senate budgets are aligned and where they diverge is a crucial step for Conference Committee negotiations. However, before spending decisions can be made, budget writers must come to agreement on the resources that will be available to support that spending in the upcoming fiscal year. In the sections that follow, this brief assesses the revenue proposals put forward by the House and Senate and evaluates the shared and unique spending priorities of each branch.

Budget Revenues

The House and Senate budgets are built on the same consensus tax revenue foundation of \$40.2 billion, excluding surtax revenues. After accounting for statutorily required transfers, as well as a deposit into the Stabilization Fund of excess capital gains tax revenue, both budgets have access to \$32.8 billion in consensus tax revenues. In addition, the two bills share \$23.4 billion in non-tax revenues and assume \$50 million in revenue related to tax settlements and judgements. This provides the Conference Committee with at least \$56.2 billion in starting resources to support spending.

House and Senate Shared Revenue Assumptions

Type of Revenue	Amount
Consensus Tax Revenue Estimate	\$40,202
<i>Statutorily Required Transfers</i>	-\$7,298
<i>Excess Capital Gains Transfer to Stabilization Fund</i>	-\$138
<i>Tax Settlements & Judgements</i>	\$50
Shared Non-Tax Revenues	\$23,362
Initial Estimate of Available Revenues	\$56,179

\$ in millions

One-Time and Ongoing Revenue-Generating Initiatives

As MTF has reported previously, in response to slow revenue growth expectations, each version of the FY 2025 budget put forward by the administration, House, and Senate has relied on over \$1 billion in one-time and ongoing revenue-generating initiatives to support spending. While both budgets adopt the same basic framework regarding these resources, there are key differences.

In the table below, the maximum and minimum revenue assumptions associated with each proposal are compared to demonstrate the range of potential revenue outcomes. For example, if conference negotiators adopt the high-end revenue estimate for each proposal, they have access to an additional \$950 million in resources. If the low-end revenue estimates are adopted, they have \$640 million in new revenue. This table excludes the use of \$375 million in excess capital gains revenue to support spending, included by both branches, because it is reflected in the consensus tax revenue estimate above.

One-Time and Ongoing Revenues in FY 2025

	House	Senate	Maximum	Minimum
Tax Revenue Initiatives				
Tax Amnesty Program	\$75	\$100	\$100	\$75
Tax Fairness & Modernization	\$60	\$60	\$60	\$60
Non-Tax Revenue Initiatives				
Online Lottery	\$100	\$0	\$100	\$0
Debit Card Lottery Sales	\$0	\$25	\$25	\$0
Gaming Fund Redistribution	\$80	\$100	\$100	\$80
Trust Fund Resources				
High-Quality EEC Trust Fund	\$200	\$265	\$265	\$200
SOA Trust Fund	\$300	\$225	\$300	\$225
Available Resources	\$815	\$775	\$950	\$640

\$ in millions

In addition, there are several non-tax revenue maximization opportunities included by the House and Senate, some of which are tied to specific spending proposals. For example, the House budget reflects an additional \$25 million in federal Medicaid reimbursement revenue, tied to its inclusion of \$50 million in supplemental nursing home rate payments.

Potential Non-Surtax Revenues Available for Conference

	House	Senate	Maximum	Minimum
Initial Tax Revenues Available	\$56,179	\$56,179	\$56,179	\$56,179
Tax Revenue Initiatives	\$135	\$160	\$160	\$135
Non-Tax Revenue Initiatives	\$180	\$125	\$225	\$80
Trust Fund Resources	\$500	\$490	\$565	\$425
Revenue Maximization Opportunities	\$76	\$67	\$143	\$0
Total Available	\$57,069	\$57,021	\$57,272	\$56,819

\$ in millions

Depending on the approach adopted by the Conference Committee on the above initiatives, available non-surtax revenues in FY 2025 are estimated to be in the range of \$56.8 billion to \$57.3 billion.

Budget Spending

In this analysis, non-surtax and surtax-supported spending are assessed independently when considering key decisions before the Conference Committee. Because surtax spending is subject to an annual spending cap and constitutionally dedicated to education and transportation, differences between the House and Senate proposals will likely be dealt with separately from traditional spending negotiations.

Non-Surtax Spending

Excluding surtax spending, the House and Senate budgets both include approximately \$57 billion in total spending (including \$200 million set aside for collective bargaining agreements); and across the two proposals, more than 95 percent of spending is in common (\$56.5 billion). However, despite this high percentage of shared spending, there remains nearly \$1 billion in unique spending across the two bills.

The House budget includes \$494 million in spending not reflected in the Senate budget, while the Senate budget incorporates \$441 million in spending not adopted by the House. This amount of unique spending is less than what conference negotiators had to reconcile in FY 2024, when it approached \$1.5 billion, but still presents policymakers with a challenge due to the constrained revenue picture for FY 2025.

Summary of House and Senate Spending Differences

Category	House Unique Spending	Senate Unique Spending	Total Unique Spending
Earmarks	\$185	\$156	\$341
Education	\$40	\$56	\$96
Energy and Environment	\$47	\$5	\$52
Healthcare	\$98	\$150	\$248
Local Aid	\$1	\$25	\$26
Workforce	\$29	\$4	\$33
Other	\$94	\$45	\$139
Total	\$494	\$441	\$934

\$ in millions

Approximately 85 percent of the spending differences between the House and Senate are attributable to earmarks and five other categories of investment: education, energy and environment, healthcare, local aid, and workforce.

The cost to include all non-surtax spending put forward by the House and Senate in the FY 2025 final budget is approximately \$57.5 billion.

House and Senate Maximum Potential Spending

	House	Senate
Total Spending (no surtax)	\$57,035	\$56,982
Spending in Common	\$56,541	
Unique Spending	\$494	\$441
Maximum Spending	\$57,475	

\$ in millions

Compared to the high-end revenue estimate of \$57.3 billion provided above, budget writers would need to reduce spending levels by approximately \$200 million to fit within available resources. However, if

policymakers do not adopt an all-in approach to revenue, proposed spending could exceed available revenues by over \$650 million.

Potential Spending & Revenue Gap Estimate (no surtax)

	Max. Revenue Estimate	Min. Revenue Estimate
Maximum Spending	\$57,475	
Available Revenues ²	\$57,272	\$56,819
Potential Spending & Revenue Gap	-\$204	-\$657

\$ in millions

Surtax Spending

As agreed to by the Healey administration, House, and Senate back in January, the amount of spending supported by the income surtax is capped at \$1.3 billion in FY 2025. While the adherence to this spending cap aims to ensure a sustainable level of surtax investment each year, it also creates challenges for budget negotiators as they work to reconcile two distinct proposals for the use of surtax revenues.

In total, the House and Senate have proposed \$1.7 billion in surtax-supported investment; nearly \$400 million greater than the \$1.3 billion cap.

Summary of House and Senate Surtax Spending

	House Budget Total	Senate Budget Total	Shared	House Unique	Senate Unique
Education	\$695	\$735	\$475	\$158	\$260
<i>Early Education</i>	\$270	\$310	\$215	\$30	\$95
<i>K-12 Education</i>	\$267	\$193	\$180	\$50	\$13
<i>Higher Education</i>	\$158	\$233	\$80	\$78	\$153
Transportation	\$605	\$565	\$390	\$215	\$175
<i>MBTA</i>	\$362	\$175	\$147	\$215	\$28
<i>MassDOT</i>	\$123	\$123	\$123	\$0	\$0
<i>RTAs</i>	\$90	\$120	\$90	\$0	\$30
<i>Local/Pilot Program</i>	\$30	\$148	\$30	\$0	\$118
Total Investments	\$1,300	\$1,300	\$865	\$373	\$435

\$ in millions

Across the House and Senate budgets, there are 32 individual line-items related to surtax spending. Of those, twelve are included in some form in both proposals, contributing to \$865 million in shared spending. Notable shared items include:

- ***Commonwealth Transportation Fund Dedication*** – Both branches have agreed with the Governor’s proposal to permanently dedicate \$250 million in surtax revenues towards the Commonwealth Transportation Fund, which will allow the state to access over \$1 billion in

² For this comparison, the minimum revenue estimate excludes certain revenue assumptions tied to spending. If that associated spending is included in the final budget, it would generate approximately \$96 million in revenue; reducing the gap between minimum revenues and spending to ~\$560 million.

increased borrowing capacity for transportation-related infrastructure projects and provide additional operational support for the MBTA and MassDOT.

- ***Universal School Meals*** – The House and Senate have each contributed surtax revenues towards another full year of Universal School Meals. The House included \$190 million, while the Senate included \$170 million; guaranteeing a minimum of \$170 million in the final budget for the program, level with the FY 2024 GAA.
- ***Financial Aid Expansion*** – The Legislature has dedicated at least \$80 million towards financial aid expansion in FY 2025, which will continue to expand access to the MassGrant Plus program for Pell-eligible students enrolled in the community college, state university, or University of Massachusetts system.

Twenty line-items are unique to either the House or Senate; and ultimately, budget writers will need to cut surtax spending by \$373 million to fit within the \$1.3 billion cap. Notable unique surtax-supported items include:

- ***MBTA Operational, Capital, & Workforce Supports*** (House Priority) – The House budget uniquely includes \$215 million in surtax spending for four MBTA programs: MBTA Capital Support (\$75 million), MBTA Workforce/Safety Reserve (\$65 million), MBTA Workforce Academy (\$60 million), and the MBTA Resilient Rails program (\$35 million).
- ***Green School Works*** (House Priority) – The House provides a second year of funding for the Green School Works program, at \$10 million. This program was created in the FY 2024 GAA, and offers competitive grants to public schools to install or maintain clean energy infrastructure.
- ***State University SUCCESS Program*** (House Priority) – House lawmakers dedicate \$14 million to a new State University SUCCESS program, which builds off the success of the Community College program. SUCCESS grants provide wraparound supports and services to improve higher education outcomes for vulnerable populations of students.
- ***Free Community College*** (Senate Priority) – The Senate budget includes \$117.5 million to implement a free community college system. The Senate’s proposal will cover tuition and fee costs for all students beginning in the fall of 2024, and provide additional stipends of up to \$1,200 for students whose income is less than 125 percent of the state median income (SMI) to cover the costs of books, supplies, and other necessities.
- ***Income-Eligible Childcare Expansion*** (Senate Priority) – The Senate independently adopts the Governor’s proposal to increase the initial eligibility threshold for the income-eligible childcare program from 50 percent to 85 percent of SMI, and includes \$80 million to fund the expansion.
- ***Commuter Rail Capital Improvements*** (Senate Priority) – The Senate’s proposal directs \$24.5 million towards commuter rail capital improvement.

In last year’s budget, reducing surtax spending levels to fit within the \$1 billion cap was made easier by the fact that many of the proposed programs were new and had no established funding history. Discretionary grant programs, like the Green School Works program for K-12 public schools, were able to be scaled back without the risk of taking away resources that were already relied upon by school districts.

In FY 2025, the task of eliminating or reducing surtax spending proposals will be more challenging; particularly because each branch has championed unique investments as key priorities for FY 2025, like free community college and increased MBTA support.

Policy

There are 309 distinct policy sections in the House and Senate budgets, more than double the number of so-called “outside sections” that were under consideration during the FY 2024 Conference Committee process. This sharp increase in the number of policy sections is common for the second year of a legislative session, when time is running out to resolve policy priorities through the normal legislative process.

FY 2025 Budget Policy Sections

Shared	House Unique	Senate Unique
79	119	111
Total Sections		309

Fewer than one-third of the sections are common to both bills, meaning that the vast majority of policy proposals will be subject to Conference Committee negotiation. Sections can either be retained, dropped (or ‘held in conference’) or changed into a new form.

Several of the unique sections deal with various revenue proposals, such as the creation of an online lottery, or establish effective dates for specific sections, but there remains a number of major policy differences between the two budgets which will need to be resolved.

The House budget includes 198 sections, of which 119 are not included in the Senate budget. Notable House proposals include:

Sections Unique to the House Budget

Policy	House	Senate	Description
Online Lottery	Yes	No	Legalizes online lottery and dedicates revenue to childcare grants for providers that do not serve subsidized children.
Conservation Land Tax Credit	Yes	No	Increases the state's conservation tax credit from \$2M to \$5M for a seven year period.
DA Salaries	Yes	No	Increases DA salaries from \$191K to \$223K.
Synthetic Media	Yes	No	Requires campaign ads to disclose AI generated content.
MSP and CHIP Copays and Cost Sharing	Yes	No	Eliminates copays and cost sharing for MassHealth's Medical Security Program and CHIP.
Clean Energy Center Board	Yes	No	Amends the board composition of the Clean Energy Center, replacing a mandated position for the Massachusetts Workforce Alliance with a gubernatorial appointment with knowledge of workforce development in the clean energy sector. The same policy was included in the Governor’s budget.

The Senate budget includes 190 sections, of which 111 are not included in the House budget. Notable proposals in the Senate budget include:

Sections Unique to the Senate Budget

Policy	House	Senate	Description
Senate Child Care Bill	No	Yes	Includes a number of policies also included in the Senate's childcare bill. This includes codification of C3 and Childcare Financial Assistance programs, a pilot program for employer support of childcare, and the creation of a childcare provider career ladder.
Cashless Lottery	No	Yes	Authorizes debit card purchases of lottery products.
Expanded MassHealth Rebates	No	Yes	Expands MassHealth's rebate program to medical devices and pharmaceuticals not currently covered.
Gender Identity on State Records	No	Yes	Allows citizens to change their gender identity on birth certificates, marriage licenses, drivers' licenses and other state issued forms of identification and requires that ANF develop a plan to allow all relevant state forms to include an option other than male or female.
Home Equity Theft	No	Yes	Establishes a process by which "excess equity" – remaining value after accounting the taxes, interest, fees, and costs reasonably incurred after foreclosure – is returned to the homeowner.
School Finance Task Force	No	Yes	Creates a task force to make recommendations for updating the formula determining local contributions for K-12 school funding. The task force will examine the current formula and assess ways to improve fairness and accuracy.

In addition to sections unique to either the House or Senate, several proposals are common to both budgets, but include important differences. For example:

- Both the House and Senate propose redirecting some level of gaming revenues historically set aside from the budget for use in FY 2025. The House proposes a one-time redirection of \$80 million, while the Senate proposes permanently redirecting about \$100 million per year;
- The Senate budget proposes using a different method for determining a health insurance assessment from the version originally proposed by the Governor and incorporated into the House budget; and

The two budgets both codify childcare operational (C3) grants in statute, but the language to do so differs significantly. Of note, the House specifies the percentage of C3 funding to go to different provider types, based on a providers' makeup of children served, while the Senate does not mandate this level of detail.

Key Principles for Conference Committee

As budget writers continue to negotiate the details of a compromise FY 2025 budget, they will confront several challenges:

- **Different approaches to revenue-generating proposals in FY 2025.** The House and Senate budgets both rely on more than \$1 billion in one-time and ongoing revenue generating proposals to support spending in FY 2025. While both spending plans utilize the same basic framework, and there is agreement on a number of initiatives, there are several differences concerning the creation of an online lottery, the use of debit cards for lottery sales, and the utilization of trust fund

resources. Before spending decisions can be made, these differences must be reconciled, and the final outcome has the potential to increase or reduce available resources by hundreds of millions of dollars.

- **Divergent Priorities for Surtax Spending in FY 2025.** Administration and legislative budget leaders agreed to a surtax spending cap of \$1.3 billion for FY 2025. However, the House and Senate have proposed nearly \$1.7 billion in total surtax-supported programs, meaning that surtax spending proposals will need to be reduced or cut by up to \$400 million. These decisions will be difficult, particularly because both branches have identified certain surtax-supported initiatives as key priorities for FY 2025, like free community college and increased MBTA investment.
- **An Uncertain Fiscal Picture for FY 2024.** Revenue collections throughout FY 2024 have fluctuated considerably, making it difficult to determine if total fiscal year revenues will fall below benchmark or exceed expectations. As MTF has written previously, there are a number of factors that impact the state's ability to end the fiscal year in balance, including: tax revenue collections, supplemental spending needs, and the availability of one-time resources. This year, managing the balance of the state budget will be made more difficult by uncertainties regarding income surtax revenues. Without a clear picture of the resources available in FY 2024, the process to finalize the FY 2025 budget may be extended.

To respond to each of these challenges and produce an FY 2025 budget that is balanced and sustainable, yet inclusive of each chambers' priorities, MTF offers the following recommendations to budget writers:

- **Maximize the Impact of Revenue-Generating Initiatives.** The House and Senate budgets both rely on over \$1 billion in new ongoing and one-time revenue initiatives to support spending in FY 2025. To the extent possible, the Conference Committee should maximize the impact of these proposals and adopt revenue assumptions that are consistent with historic trends and projections. For example, the Senate budget increases the revenue assumption related to implementing a tax amnesty program to \$100 million, \$25 million higher than the House. The last time the state implemented a tax amnesty program, in FY 2016, it generated \$136 million in one-time revenues.
- **Reduce the Use of One-Time Revenues by Making Certain Proposals Permanent.** In FY 2025, both branches propose changing the distribution of gaming funds to direct additional resources towards the operating budget. While the House budget only applies this change to FY 2025, the Senate proposes making the redistribution permanent. As a result, the Senate's budget relies on fewer one-time resources to support spending. If negotiators adopt this same approach in conference, budget writers in FY 2026 and beyond will also benefit from the additional support.
- **Do Not Adjust the Consensus Revenue Estimate for FY 2025.** The House and Senate budgets both rely on the same \$40.2 billion consensus tax revenue estimate agreed to by administration and legislative budget leaders in January. Despite the uncertainty that surrounds FY 2024 revenue collections, budget writers should not proactively adjust the consensus tax revenue estimate for FY 2025. Instead, conference negotiators should prioritize limiting the use of one-time revenues and maintaining an overall spending growth rate of approximately 3.5 percent.
- **Minimize Future Budget Exposures by Addressing Underfunded Accounts.** Given the volatility of FY 2024 revenue collections and their potential impacts on FY 2025, budget writers should aim to minimize future fiscal risk by addressing underfunded accounts in the FY 2025 budget. Compared to the Governor's proposal, the Legislature underfunded certain key accounts by at least \$100 million. For example, across just eight accounts related to transportation, public

health, mental health, and public safety, the Legislature reduced funding compared to the Governor's budget by \$98 million. Beginning FY 2025 with appropriate spending assumptions will greatly benefit the administration and Legislature as they work throughout the fiscal year to monitor revenue trends and maintain a balanced budget.

- **Do Not Increase the Surtax Spending Cap for FY 2025.** The Healey administration, House, and Senate agreed to a surtax spending cap of \$1.3 billion for the FY 2025 budget. In FY 2024, it appears likely that surtax revenue collections will approach \$2 billion, which is the high end of the Department of Revenue's projections. Despite the strength of surtax revenue collections to date, budget writers should not increase the surtax spending cap for the FY 2025 budget. The spending cap for surtax resources is purposefully less than actual or projected collections to ensure that surtax spending is sustainability incorporated into the state's operating budget. Furthermore, the majority of surtax collections above \$1.3 billion in FY 2025 will be deposited into an Education and Transportation Innovation and Capital Fund, and policymakers will have additional opportunities to appropriate these resources later in the fiscal year.