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House FY 2021 Budget Analysis

Introduction

This week the House debated and passed its budget, four and a half months after the beginning of the fiscal year. With four consolidated amendments adding \$24.53 million to spending, the budget, totaling \$46.06 billion, is approximately \$285 million larger than the Governor's \$45.78 billion revised budget and 5.7 percent greater than the FY 2020 General Appropriations Act (GAA) spending of \$43.6 billion.

The speed with which the House passed its budget once released by the House Ways and Means Committee is one more indication of the uniqueness of this budget cycle. The Senate is expected to release its budget today and will likely also complete its budget in an expedited fashion. As budget writers have indicated since FY 2021 began, they have been working collaboratively throughout the process and that collaboration is reflected in the minor relative differences between the Governor's and the House's spending plans.

Generally speaking, the two plans align. The House assumes an additional \$180 million in revenues and shifts its spending towards schools, housing, college students, and small businesses to help mitigate the social and economic impacts of COVID-19 at the expense of some public safety and transportation services.

Revenues

The House budget assumes tax revenues of \$27.59 billion as certified by the Secretary of Administration and Finance (ANF) in October in accordance with Chapter 29 Section 5B of the M.G.L. After making the statutorily required pre-budget pension obligation payments, and the sales tax revenue transfers to the MBTA and the MA School building Authority, and funds for the Workforce Training Fund totaling \$5.18 billion, both the Governor and House budgets (Table 1) assume \$22.4 billion of tax revenues are available for their respective spending priorities.

The House adopts several of the revenue provisions included in the Baker administration's spending plan including:

- One-time sales tax revenues of \$267 million by accelerating the due date of remittance for certain vendors; this change advances revenues that would have been applied to FY 2022 to FY 2021,
- Delay in the charitable deduction for one year (\$64 million),
- \$100 million in tax settlements or \$50 million more than the Governor’s budget
- Three incidental measures that add \$8 million.

The House expects department revenues of \$4.83 billion, \$68 million less than the Governor and relies on \$70 million less in consolidated transfers. The House proposes a larger withdrawal from the Stabilization Fund to account for the differences in revenue resulting from these lower assumptions. The proposed withdrawal of \$1.55 billion is \$200 million more than the administration’s plan, and provides the House with approximately \$180 million more in budgeted funds. Under the House spending plan, the Stabilization Fund would end FY 2021 with a balance of \$2 billion.

Table 1 – FY 2021 Revenues by Source (in \$ millions)

	Governor	House
Tax Revenues	27,592	27,592
Statutory Transfers		
Pensions	3,115	3,115
MBTA	1,102	1,102
MSBA	942	942
Workforce Training Fund	25	25
Subtotal Transfers	5,183	5,183
Consensus Tax for Budget	22,409	22,409
Other Tax		
Tax Settlements	50	100
Sales Tax Acceleration	267	267
MBTA Transfer	-39.9	-39.9
MSBA Transfer	-39.9	-39.9
Charitable Deduction Delay	64	64
Sales Tax Integrity	2	2
MBTA/MSBA Transfers	-0.2	-0.2
Life Sciences	5	5
Treasury Offset Program	1.2	1.2
Other Tax Subtotal	309	359
Non-Tax Revenue		
Federal Reimbursements	13,859	13,929
Department Revenues	4,898	4,830
Consolidated Transfers	2,110	2,037
Stabilization Fund	1,350	1,550
Non-Tax Subtotal	22,217	22,346
Total	44,935	45,114

There are several other revenue differences between the House and the administration. The House does not include new fees on transportation network companies (TNCs) and does not allow legalized sports betting. Additionally, the House adopts a different method to accelerate sales tax collections than the Governor. While the House version is preferable as it pertains only to prepayment of taxes and not a future daily remittance requirement, both as written pose implementation challenges and new costs to businesses (see MTF's [Prepayment is Preferable to Daily Sales Tax Remittance](#)).

Both the House and the administration make use of approximately \$3.5 billion in non-recurring revenues to balance the FY 2021 budget. The bulk of these funds come from federal financial assistance included in the Cares Act that are unlikely to be available next year, setting up a significant potential revenue shortfall in FY 2022.

Spending

The House shifted a portion of its spending towards programs to help mitigate the ongoing impacts of the pandemic. (For a complete breakdown of spending for FY 2020 GAA, the Governor's FY 2021 plan and the House's FY 2021 budget, see Appendix A.)

Economic Development

The House invests \$46.35 million in the Economic Recovery Planning and Response to COVID-19 program to assist small businesses and retain and create jobs. The program specifies that \$22.28 million, or approximately half of funds proposed, be directed as follows:

- \$17.5 million for grants to support small businesses with 50 or fewer employees;
- \$3.85 million directed to technical assistance and grants for women-owned and minority business enterprises;
- \$17.5 million for matching grants to community development financial institutions; and
- \$7.5 million for matching grants to low- and moderate-income entrepreneurs with 20 or fewer employees and annual revenues less than \$ 2,500,000.

Local Aid

The House provides \$5.28 billion in Chapter 70 education aid that is an increase of \$107 million over FY 2020 funding and matches the amount the Governor proposed. Both the House and Governor delay for one year the start of the Student Opportunity Act, the major education reform law enacted last year. Under the SOA's phased-in timeline for providing an additional \$1.5 billion to K-12 schools, Chapter 70 aid would have increased by more than \$400 million. Further, both the House and administration proposals provide \$1.13 in unrestricted general government aid (UGGA) which is level funded from FY 2020.

	FY 20 GAA	Gov FY 21	House FY 21
Chapter 70 Education Aid	5,176,002,652	5,283,651,632	5,283,651,632
Unrestricted General Government Aid	1,128,617,436	1,128,617,436	1,128,617,436
Circuit Breaker Special Ed.	345,154,803	345,154,803	328,362,411
Other K-12 Education Aid	247,459,942	206,740,505	291,404,937

The House reduces funding for the special education circuit breaker by \$16.8 million from FY 2020 GAA spending levels (which was the funding level proposed by the Governor), however, they increase other K-12 education aid by \$84.7 million more than the administration. The House targeted school needs related to the pandemic that includes:

- One-time COVID-19 response, remote learning, student support grants - \$50 million
- Grants “for planning and implementing expanded learning time in the form of longer school days or school years” - \$8.6 million
- After school and out-of-school grants - \$8 million

Health Care

MassHealth is the program with the largest spending increases year-over-year. FY 2021 spending levels increase by approximately \$1.78 billion or 10.7 percent from the FY 2020 GAA. Higher Federal Medical Assistance Percentage (FMAP) reimbursement rates for the first three quarters of FY 2021, provide an additional \$11.64 billion in federal funds, making the state’s net spending portion of the program total \$6.6 billion.

	FY 20 GAA	Gov FY 21	House FY 21
MassHealth	16,765,492,316	18,540,636,338	18,555,321,338
Medical Assistance Trust Fund	481,260,000	505,250,000	505,250,000
Other Health Care	302,551,091	264,672,811	244,585,771

The \$58 million decline in other health care costs from the FY 2020 GAA is due to a \$71 million reduction in payments to the Safety Net Provider Trust Fund, savings likely derived from foregone routine care prompted by the pandemic, among other reasons.

Early Education

Although early education and childcare is a longstanding House spending priority, the amounts in the House budget fall shy of what was proposed by the Governor. The House increases funding for childcare by the Department of Children and Families (DCF) and the Department of Transitional Assistance (DTA) by \$40 million over FY 2020, bringing total spending to \$315.8 million, however this amount is \$35 million less than the administration proposed. The House increased rates for early education and care by \$10 million more than the Governor’s plan for a total of \$20 million, which is the same spending level as the FY 2020 GAA.

It should be noted that FY 2020 GAA aid for early education included \$90 million for the Caseload and Deficiency Reserve that was not part of budget proposals by either the administration or the House.

	FY 20 GAA	Gov FY 21	House FY 21
Early Education	776,700,576	775,064,108	757,314,981
Higher Education	1,288,161,235	1,302,712,450	1,341,405,557

Higher Education

Higher Education funding was augmented by \$38.7 million in the House budget. A portion of that money – \$14.4 million – is dedicated to the scholarship program for enrolled college students. The House also created the Community College Success program, to provide wrap-around support and services for the most vulnerable populations and funded it at \$7 million.

Human Services

The largest differences in spending levels between the House and the Governor are concentrated in an array of social services to help mitigate some of the consequences of the pandemic. Three housing initiatives - Housing Authorities Subsidies, the Massachusetts Rental Voucher Program, and Residential Assistance for Families in Transition - got an additional \$54 million. The House added \$17.4 million in new funding for Home Health Aide and Homemaker Rate increases and provided the Bureau of Substance Addiction Services (BSAS) with \$14.4 million more than last year’s appropriation.

	FY 20 GAA	Gov FY 21	House FY 21
Developmental Services	2,187,199,438	2,210,062,825	2,228,842,654
Cash Assistance	682,437,192	710,055,759	740,140,761
Mental Health	891,952,253	904,187,971	910,558,539
Public Health	702,283,923	687,145,222	719,454,139
Housing Support	522,521,658	517,922,359	589,359,426
Senior Support	559,454,548	575,465,917	597,018,539

Other changes include:

- Community Day and Work Programs increased by \$19.8 million
- Services for Children and Families increased by \$7.0 million
- Congregate Care Services increased by \$9 million
- Healthy Incentives Program increased by \$8 million
- Transitional Aid to Families with Dependent Children – increased by \$9.4 million

Public Safety

The House reduced spending on public safety and transportation relative to the Governor in order to shift funds to other needs but still provided more than last year. The House lowers funding for the Department of Corrections by \$13.7 million to \$749.7 million from the

administration’s budget. This \$748.6 million represents a \$14.4 million increase over FY 2020 GAA or a 1.8 percent increase.

	FY 20 GAA	Gov FY 21	House FY 21
Corrections	735,343,775	763,326,059	749,747,516
Sheriffs	603,460,491	644,371,129	617,054,852
Judiciary	1,034,313,177	1,046,484,234	1,071,489,866
State Police	408,309,564	422,444,124	410,586,120

Funding for some sheriff offices was less than last year for a total savings of \$26 million, broken down as follows: Essex County (\$10.8 million), Bristol County (\$6.2 million), Norfolk County (\$2.2 million), Plymouth County (\$5.7 million), and Suffolk County (\$1.1 million).

Transportation

The House does not provide any net new spending for transportation but does spend its transportation dollars slightly differently than the Governor. In addition to the \$1.1 billion from the sales tax transfer and the \$127 million in contract assistance, the MBTA could receive as much as \$59 million more in FY 2021 under the House’s proposal from a combination of sales tax acceleration (\$40 million) and adjusted sales tax revenues (\$19 million). The Regional Transit Authorities FY 2021 appropriation remains unchanged from the Governor’s at \$90.5 million

	FY 20 GAA	Gov FY 21	House FY 21
MassDOT/ Other	345,813,615	385,813,615	336,038,615
Regional Transit	90,500,000	90,500,000	90,500,000
Registry	10,168,209	10,968,209	10,968,209
MBTA*	1,228,500,000	1,228,500,000	1,228,500,000

The most noticeable difference is the House’s lower contribution to the Commonwealth Transportation Fund (CTF). At \$338.5 million, this amount is \$50 million less than the Governor’s FY 2021 budget and \$10 million less than FY 2020 GAA.

In summary, the House budget differs from the Governor’s spending plan in few material ways and is more aligned than in past years. This alignment reflects the challenging fiscal environment that does not allow for much discretionary funding, the late release of the budget that incorporates level spending amounts for the past 5 months, and the collaborative approach that budget writers have taken towards the budget given the unprecedented nature of this year’s process resulting from the pandemic. This is especially true given the short window between finalizing the FY 2021 budget and the need to prepare for the challenging FY 2022 budget cycle.

Appendix A

	FY 20 GAA	Gov FY 21	House FY 21
Health Care			
MassHealth	16,765,492,316	18,540,636,338	18,555,321,338
Medical Assistance Trust Fun	481,260,000	505,250,000	505,250,000
Other Health Care	302,551,091	264,672,811	244,585,771
Local Government Support			
Chapter 70 Education Aid	5,176,002,652	5,283,651,632	5,283,651,632
Unrestricted General Govern	1,128,617,436	1,128,617,436	1,128,617,436
Circuit Breaker Special Ed.	345,154,803	345,154,803	328,362,411
Other K-12 Education Aid	247,459,942	206,740,505	292,294,937
Charter School Reimburseme	115,000,000	115,000,000	117,357,887
Regional School Transportati	75,856,506	75,856,506	82,178,615
Other Local Aid	108,570,412	105,307,916	100,873,673
Other Education			
Early Education	776,700,576	775,064,108	757,364,981
Higher Education	1,288,161,235	1,302,712,450	1,341,405,557
Human Services			
Developmental Services	2,187,199,438	2,210,062,825	2,228,842,654
Family Services	1,276,049,860	1,413,155,630	1,428,272,796
Cash Assistance	682,437,192	710,055,759	740,140,761
Mental Health	891,952,253	904,187,971	910,558,539
Public Health	702,283,923	687,145,222	719,454,139
Housing Support	522,521,658	517,922,359	589,829,426
Senior Support	559,454,548	575,465,917	597,018,539
Veteran Services	151,743,358	152,297,709	153,057,708
Public Safety			
Corrections	735,343,775	763,326,059	749,747,516
Sheriffs	603,460,491	644,371,129	617,054,852
Judiciary	1,034,313,177	1,046,484,234	1,071,489,866
State Police	408,309,564	422,444,124	410,586,120
District Attorneys	138,885,610	142,756,517	146,492,797
Attorney General	55,736,340	55,117,750	56,254,292
Other Public Protection	110,654,887	105,573,245	109,103,558
Transportation			
MassDOT/ Other	345,813,615	385,813,615	336,038,615
Regional Transit	90,500,000	90,500,000	90,500,000
Registry	10,168,209	10,968,209	10,968,209
MBTA*	1,204,000,000	1,228,500,000	1,228,500,000
Economic Development			
Business and Labor	200,189,510	193,032,777	241,799,294
Environment and Energy	303,732,224	300,306,001	320,200,105
Employee Benefits			
GIC	1,764,566,073	1,797,153,335	1,797,153,335
Retiree Health Care	450,000,000	500,000,000	500,000,000
Pensions*	3,115,200,000	3,115,200,000	3,115,200,000
Capital Support			
Debt Service	2,517,630,017	2,373,394,245	2,373,394,245
Contract Assistance	258,339,917	331,720,069	331,720,069
Other/General Government			
	657,463,956	666,971,975	666,577,678
Total	47,788,776,564	49,992,591,181	50,277,219,351
*MBTA & Pension Statutory Transfers	-4,216,700,000	-4,216,700,000	-4,216,700,000
FY 21 Budget	43,572,076,564	45,775,891,181	46,060,519,351