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MTF Bulletin

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House Ways and Means FY 2022 Budget

Today, the House Committee on Ways and Means (HWM) released its \$47.6 billion spending plan for fiscal year (FY) 2022. House members will file amendments to the budget in the coming days, with debate scheduled for the week of April 26th. This Bulletin provides an overview of major spending and policy provisions.

Spending in the HWM budget is comprised of \$47.2 billion in line-item spending and a further \$6.1 billion in pre-budget transfers and other off-budget spending. This spending level is a \$1.3 billion (2.6 percent) increase over expected FY 2021 spending and \$1.6 billion (3.1 percent) more than the Governor’s FY 2022 proposal (H1). About 80 percent of the spending increase over H1 can largely be attributed to more up-to-date MassHealth spending and caseload assumptions. Setting the \$1.4 billion MassHealth difference aside, the HWM budget includes \$377.6 million in spending more than H1.

Figure 1. FY 2022 Budget Spending and Revenue Summary

	Spending Comparison					
	FY 2021 Conference	FY 2021 Current	FY 2022 H1	FY 2022 HWM	Difference v. Current	Difference v. H1
Line item spending	\$45,953.8	\$45,840.0	\$45,399.9	\$47,177.7	\$1,337.7	\$1,777.8
MATF	\$505.3	\$537.2	\$456.5	\$471.4	-\$65.8	\$14.9
Pre-budget transfers	\$5,183.4	\$5,331.0	\$5,628.6	\$5,628.6	\$297.6	\$0.0
Supp assumption	\$0.0	\$173.9	\$0.0	\$0.0	-\$173.9	\$0.0
Assumed reversions	-\$225.0	-\$109.6	\$0.0	-\$200.0	-\$90.4	-\$200.0
CRF Offset	-\$550.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Spend	\$50,867.5	\$51,772.5	\$51,484.9	\$53,077.6	\$1,305.1	\$1,592.7
	Revenue Comparison					
	FY 2021 Conference	FY 2021 Current	FY 2022 H1	FY 2022 HWM	Difference v. Current	Difference v. H1
Consensus Tax Revenues	\$27,592.0	\$28,751.0	\$30,120.0	\$30,120.0	\$1,369.0	\$0.0
<i>Tax settlements</i>	\$125.0	\$50.0	\$50.0	\$125.0	\$75.0	\$75.0
<i>Other tax adjustments</i>	\$5.0	\$8.0	\$2.7	\$2.7	-\$5.3	\$0.0
<i>Less capital gains transfer</i>	\$0.0	\$0.0	-\$165.0	-\$165.0	-\$165.0	\$0.0
New revenue initiatives	\$331.0	\$331.0	\$279.0	\$64.0	-\$267.0	-\$215.0
Federal						
<i>MassHealth</i>	\$10,349.6	\$10,146.3	\$10,089.7	\$11,019.7	\$873.4	\$930.0
<i>MassHealth enhanced</i>	\$802.0	\$1,110.0	\$0.0	\$500.0	-\$610.0	\$500.0
<i>Other</i>	\$2,879.4	\$2,706.3	\$2,471.9	\$2,518.4	-\$187.9	\$46.5
Departmental & Transfers						
<i>Lottery</i>	\$1,124.4	\$1,154.3	\$1,154.3	\$1,184.3	\$30.0	\$30.0
<i>Other</i>	\$5,826.1	\$5,903.2	\$5,913.2	\$5,950.7	\$47.5	\$37.5
Net beginning balance	\$300.0	\$300.0	\$0.0	\$0.0	-\$300.0	\$0.0
Stabilization Fund transfer	\$1,700.0	\$1,098.0	\$1,600.0	\$1,875.0	\$777.0	\$275.0
Total Revenue	\$51,365.5	\$51,889.1	\$51,794.8	\$53,258.8	\$1,369.7	\$1,464.0

\$ in millions/FY 2021 Comparisons v. Current estimate

I. Resource Themes

The HWM budget, like the Governor’s proposal before it, relies on \$30.12 billion in tax revenue, comprising 56.6 percent of total budget resources. Tax collections continue to [surpass earlier expectations](#) and are likely to exceed the FY 2021 tax estimate used to create the FY 2022 tax projection by more than \$1 billion. However, given that two major tax collection months are still outstanding, the HWM appropriately opts not to alter tax revenue assumptions at this time.

The HWM budget differs from revenue assumptions used in the Governor’s budget in several important ways. First and foremost, the HWM budget includes approximately \$500 million in additional federal revenue related to the decision of Biden Administration to extend enhanced Medicaid reimbursements throughout at least the first six months of FY 2021. H1 did not include additional enhanced Medicaid revenue. The HWM budget does not upgrade Federal Emergency Management Agency (FEMA) revenue from the \$50 million assumed in H1. The Biden Administration has also increased federal reimbursements for FEMA which is likely to generate additional FY 2022 revenue.

Figure 2. FY 2022 Revenue Initiatives

	H1	HWM	Ongoing or one-time
Hospital assessment	\$75.0	\$0.0	One-time
Drug price penalty	\$70.0	\$0.0	Ongoing
Charitable delay	\$64.0	\$64.0	One-time
Sports gaming	\$35.0	\$0.0	Ongoing
Cashless lottery	\$30.0	\$0.0	Ongoing
Opioid gross receipts	\$5.0	\$0.0	Ongoing
Total	\$279.0	\$64.0	
<i>Numbers in millions</i>			

The HWM budget does not adopt \$215 million of the \$279 million in revenue initiatives proposed in the Governor’s budget. As shown in Figure 2., the HWM budget does not increase state assessments on hospitals, nor does it include two separate assessments on pharmaceutical manufacturers. As in last year’s budget, HWM does not rely on revenue from the legalization of sports gaming or from allowing debit cards to be used to purchase lottery tickets (though the HWM budget does upgrade lottery revenues by \$30 million).

The HWM budget continues the delay on a charitable deduction on the income tax, generating \$64 million in revenue in FY 2022. The Governor’s budget made this tax change effective for the first year after the state did not make a withdrawal from the Stabilization Fund. The HWM budget simply suspends the implementation of the change for Tax Year 2022. The HWM budget does not propose any major new revenue initiatives.

By not adopting Administration revenue proposals, the HWM budget foregoes more than \$200 million used in H1, while spending \$1.6 billion more. This resource gap is filled by approximately \$1.4 billion in additional MassHealth reimbursements, a \$200 million in assumed budget savings over the course of the year, and the use of \$1.875 billion Stabilization Fund withdrawal, compared to a \$1.6 billion draw in H1.

Figure 3. FY 2022 Stabilization Fund Assumptions

	Gov	HWM
FY 2021 starting balance	\$3,501.2	\$3,501.2
FY 2021 deposits	\$119.7	\$119.7
Conference report planned draw	-\$1,700.0	-\$1,700.0
Draw adjustment	\$602.0	\$602.0
FY 2022 starting balance	\$2,522.9	\$2,522.9
FY 2022 deposits	\$181.9	\$182.0
Withdrawal	-\$1,600.0	-\$1,875.0
Assumed end of year balance	\$1,104.8	\$829.9

\$ in Millions

The HWM’s greater reliance on the Stabilization Fund, while tax revenue growth appears strong, requires additional context for analysis. The HWM budget does not unilaterally upgrade tax revenue assumptions or use the American Rescue Plan (ARP) federal aid prior to the release of vital federal guidance or the development of a comprehensive spending plan. With these two major sources of revenue in limbo for now, HWM uses the Stabilization Fund to balance the budget and support spending increases.

The assumption of \$200 million in reversion savings over the course of the year is based on the fact that the state typically underspends line item appropriations by \$200 million or more each year, but baking these savings into the budget at the start of the year significantly reduces the margin for error if revenue collections falter or unexpected costs occur in the coming year.

The HWM budget does not use any of the state’s estimated \$4.5 billion Coronavirus State Fiscal Relief Plan (CSFRF) award provided by the ARP. The state has not yet received any of these funds and federal guidance on limitations on how these resources can be used is expected in May. Separating CSFRF spending decisions from the annual budget process is the most sensible approach for developing a thoughtful plan for this temporary assistance.

Non-recurring Revenues

The HWM budget relies on \$2.6 billion in one-time resources to balance the budget, which is \$775 million more than the H.1.

Figure 4. One-Time Budget Resources

	FY 2021 Conference	FY 2021 Current	FY 2022 H1	FY 2022 HWM
Stabilization fund	\$1,700	\$1,098	\$1,600	\$1,875
Net beginning balance	\$300	\$300	\$0	\$0
Accelerated Sales Tax (net of transfers)	\$187	\$187	\$0	\$0
Assumed CRF funding	\$550	\$0	\$0	\$0
Enhanced Medicaid reimbursements	\$802	\$1,110	\$0	\$500
Judgements & settlements	\$125	\$50	\$50	\$125
Charitable deduction delay	\$64	\$64	\$64	\$64
Hospital assessment	\$0	\$0	\$75	\$0
Total	\$3,728	\$2,809	\$1,789	\$2,564

Numbers in Millions

Figure 4. summarizes the different uses of one-time resources in recent spending plans and also illustrates the fast-changing nature of the fiscal landscape during COVID-19. In FY 2021, stronger than expected tax collections have enabled the state to use less in one-time revenues than initially planned. Since the House and Senate agreed on a budget in November, the state has been able to reduce reliance on one-time revenues by approximately \$1 billion and further reductions are likely.

Enhanced federal Medical reimbursements of approximately \$500 million comprise one of the largest non-recurring revenue sources for the HWM budget, helping to ease the budgetary pressures from MassHealth, while the larger Stabilization Fund draw accounts for most of the remainder. The HWM budget does not include one-time resources related to the hospital assessment proposed by the Governor, but does assume \$75 million more in tax settlement collections in FY 2022 than H1.

It is likely that the amount and makeup of FY 2022 non-recurring revenues will change significantly prior to the start of the fiscal year. Reliance on the Stabilization Fund should decrease as other revenue assumptions, including tax revenue, are adjusted. One year into the COVID-19 crisis budget-makers must begin to turn their attention to reducing the use of one-time resources and rebuilding reserves.

II. Spending Themes

The three major spending themes in the HWM budget are MassHealth, K-12 education and continued support of House spending priorities increased in FY 2021. Material changes to MassHealth enrollment numbers make direct spending comparisons between HWM and H1 challenging, but Figure 5 adjusts for this difference. (A more detailed discussion on MassHealth differences between the two budgets is provided in the Health Care Section of the bulletin).

Figure 5. FY 2022 Bottom Line Spending Comparison

	FY 2021	Gov	HWM	HWM v. FY 2021	HWM v. Gov
Total line item spending	\$45,840.0	\$45,399.9	\$47,177.7	\$1,337.7	\$1,777.8
MH adjustment	\$0.0	\$0.0	\$1,400.2	\$1,400.2	\$1,400.2
Adjusted spending total	\$45,840.0	\$45,399.9	\$45,777.5	-\$62.5	\$377.6

HWM increases spending for 398 of the budget's 740 line-items, while it level funds 171 items and reduces or eliminates spending in 216 areas. Like H1, the majority of spending increases occurs in non-discretionary areas, like MassHealth and education aid, though HWM provides millions more in discretionary spending than the Governor.

First year implementation of the Student Opportunity Act accounts for \$219.6 million in new HWM spending, the largest area of spending increase after MassHealth. Similar to its approach in FY 2021, HWM invests more than \$200 million over H1 on a variety of priority programs. A number of these increases, such as \$15 million for education support grants, \$18 million for emergency food programs or \$34.2 million for housing and rental assistance, are closely linked to the state's pandemic response and recovery. The HWM budget also includes significant increases (compared to H1) for early educator rates and higher education, the court system and funding to support continuation of increased benefits for low-income families.

Figure 6. Major HWM Spending Initiatives

Title	FY 2021	FY 2022 Gov	FY 2022 HWM	v Gov
Courts & DA's	\$745.5	\$745.0	\$762.2	\$17.2
Legal Assistance	\$29.0	\$29.0	\$35.0	\$6.0
Housing supports	\$305.8	\$246.0	\$280.2	\$34.2
Food supports	\$44.4	\$25.0	\$43.0	\$18.0
Early Education	\$892.4	\$775.2	\$803.5	\$28.3
Low-income Economic Supports	\$548.2	\$554.6	\$586.1	\$31.4
Substance Use	\$182.4	\$155.0	\$173.3	\$18.3
DDS Day & Work programs	\$244.2	\$205.0	\$220.0	\$15.0
Adult Education	\$46.0	\$40.6	\$50.0	\$9.4
COVID Education Supports	\$53.1	\$0.0	\$15.0	\$15.0
Extended/After School Learning	\$23.8	\$6.6	\$14.6	\$8.0
Community Colleges	\$322.3	\$307.6	\$332.0	\$24.5
State Universities	\$291.7	\$284.5	\$297.6	\$13.1
Umass	\$565.6	\$563.5	\$573.9	\$10.3
Scholarships	\$126.0	\$126.6	\$140.8	\$14.2
Total	\$4,420.5	\$4,064.1	\$4,327.0	\$262.9
<i>\$ in millions</i>				

The HWM budget creates several new funding streams for state agencies specifically to respond to demands of the COVID-19 crisis. These include:

- \$15 million for the Department of Development Services to enhance community day and work programs;
- \$5 million for the Office of Travel & Tourism to provide grants to the tourism and hospitality industry; and
- \$5 million to respond to increased need for domestic violence treatment and prevention services.

To help balance its budget, HWM appears to fund several programs at less than their projected spending levels, such as snow and ice removal and the Commonwealth Care Trust Fund. By providing less than needed for these line-items, the budget creates approximately \$100 million in budget savings. However, this shortfall could require supplemental funding later in the year.

Spending & Revenue Summary

Figure 7 compares key components of the HWM budget plan with the final FY 2021 appropriations levels. The increase in MassHealth projections drive the 2.5 percent increase. As with H1, the vast majority of new spending in the HWM budget occurs in non-discretionary areas, though the HWM budget includes discretionary spending increases in places like early education, housing, food and legal assistance.

Figure 7. Spending & Revenue Highlights

HWM Budget in a Box				
Spending			Revenue	
Total spending			Consensus tax revenue	\$30,120.0
	Change	\$1,330.1	Change	\$1,369.0
	Spending growth	2.5%	Revenue growth	3.5%
MassHealth			Rainy Day fund	
	Change	\$797.9	Assumed start balance	\$2,522.9
Chapter 70			Assumed change	-\$1,693.0
	Change	\$219.5	Assumed end balance	\$829.9
Other non-discretionary			One-time solutions	\$2,564.0
	Change	\$363.9	New ongoing revenues	\$0.0
Discretionary spending				
	Change	-\$109.5		
Total spending items				
	New	9		
	Increased	398		
	Maintained	171		
	Decreased/eliminated	216		
<i>Numbers in millions/Comparisons v. FY 2021 Current Estimates</i>				

III. Major Spending Categories

Health Care

The HWM budget differs from H1 in several ways on health care spending. Most notably, the HWM budget includes \$19.2 billion for MassHealth, an increase of \$820 million (4.5 percent) over than projected FY 2021 spending and \$1.4 billion more than H1. The HWM budget reflects the fact that, under the federal Public Health Emergency declaration, the state is prohibited for standard enrollment redetermination practices until at least January of 2022 as a condition for receiving enhanced Medicaid reimbursements. This means that MassHealth enrollment, which has grown by approximately 260,000 members over the past year, will likely continue to grow over the coming months. The HWM budget includes \$1.4 billion in new spending to account for this growth.

The MassHealth cost increase is offset by \$1.43 billion in additional federal reimbursements, compared to H1. This amount is the combination of standard Medicaid reimbursements for MassHealth members and enhanced federal reimbursements related to the pandemic.¹

Figure 8. MassHealth Spending

	FY 2020 Spending	FY 2021 GAA	FY 2021 Projected	FY 2022 H1	FY 2022 HWM
MassHealth Spending	\$16,887.67	\$18,517.55	\$18,424.73	\$17,822.41	\$19,222.59
Federal Reimbursement	\$9,697.92	\$11,151.64	\$11,256.25	\$10,089.71	\$11,519.70
Net Cost	\$7,189.75	\$7,365.91	\$7,168.48	\$7,732.70	\$7,702.89
Reimbursement % of Spending	57.4%	60.2%	61.1%	56.6%	59.9%

The HWM budget does not create a new trust fund to support up to \$35 million in supplemental payments to community hospitals as required by health care legislation passed in 2020. H1 created a trust fund to effectuate

¹ Certain MassHealth members, notably those made eligible for the program through Affordable Care Act expansions, generate federal reimbursement in excess of 50 percent.

these payments and used assessments on pharmaceutical companies to support the spending. The 2020 legislation requires the payments to occur, so they would likely be expended through the MassHealth program under the HWM plan.

The HWM budget does not increase hospital assessments in the next fiscal year (as proposed in the Governor’s budget) nor does it adopt the Administration proposal to expand the state’s MassHealth pharmacy rebate program.

Other notable health care provisions:

- Requires MassHealth to conduct an analysis of differing rates of payment for inpatient psychiatric and substance use services;
- Directs MassHealth nursing home rate supplemental payments to hourly wage increases and other payments to workers;
- Reduces the budget transfer to the state’s Health Connector to \$35 million, from the \$94.1 million proposed in H1. This reduction may be related to additional federal subsidies for available for individuals and families purchasing insurance through the Connector;
- Creates a trust fund within the Department of Public Health to support the agency’s Academic Health Department and Academic Volunteer Corps; and
- Authorizes up to \$12.8 million from the Prescription Advantage Program to be used to support the state’s Medicare Savings and Medicare Buy-In programs.

Chapter 70 & Unrestricted Local Aid

Last week, House and Senate leaders announced a local aid agreement to the state’s K-12 funding formula (C70) and unrestricted local aid (UGGA). The HWM budget reflects this agreement providing \$5.5 billion for C70 and \$1.16 billion for UGGA.

Figure 9. Chapter 70 & UGGA

Program	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022 H1	FY 2022 H1
C70	\$4,746.95	\$4,907.57	\$5,176.00	\$5,283.65	\$5,481.30	\$5,503.17
<i>\$ Increase</i>	\$118.94	\$160.62	\$268.43	\$107.65	\$197.65	\$219.52
<i>%Increase</i>	2.6%	3.4%	5.5%	2.1%	3.7%	4.2%
UGGA	\$1,061.78	\$1,098.95	\$1,128.62	\$1,128.62	\$1,168.12	\$1,168.12
<i>\$ Increase</i>	\$39.86	\$37.16	\$29.67	\$0.00	\$39.50	\$39.50
<i>%Increase</i>	3.9%	3.5%	2.7%	0.0%	3.5%	3.5%

FY 2022 is the first year the Student Opportunity Act, landmark education finance legislation enacted in 2019, will be funded through the state budget, after pandemic delayed implementation in FY 2021. At the time of enactment, the goal was to fully implement the provisions of the bill by 2027. The Governor’s budget implemented one-seventh of SOA rate changes, putting the state on a 2028 timeline for full funding. The HWM budget provides a \$219.6 million increase to support one-sixth of the phase-in, putting the state back on the original implementation timeline.

Figure 10. SOA in FY 2022

	House 1 approach	HWM Approach
Low-income enrollment	Higher of 2015-16 share & 133% of FPL	Higher of 2015-16 share & 133% of FPL
Low-income rates	1/7 of full rate	1/6 of full rate
English learner	1/7 of full rate	1/6 of full rate
SPED out-of-district tuition	1/7 of full rate	1/6 of full rate
Employee benefits & fixed charges	1/7 of full rate	1/6 of full rate
Guidance & Psychological services	1/7 of full rate	1/6 of full rate
\$30 per-pupil aid	Funded	Funded

Figure 10 summarizes how the HWM budget and H1 differ in SOA implementation approach. Both budgets use a more inclusive definition of low-income student and this change accounts for the majority of new C70 funding. The SOA requires funding rates in several categories (notably low-income students and costs related to employee benefits) to be increased, and the Governor’s FY 2022 budget increased those rates by one-seventh of the gap between the current level and the level called for in the bill. The HWM budget increases those same rates by one-sixth.

The cost of putting the state back on track for fully funding the SOA is relatively small (~\$22 million over H1) for two reasons. First, the FY 2022 C70 formula is based on a 30,579 drop in statewide student enrollment. This decline limits costs related to foundation budget changes. Second, the primary driver in initial state costs for SOA implementation is in the more expansive definition of low-income students; in this area, the HWM and H1 budgets are identical.

The HWM budget, like H1, increases UGGA for cities and towns by \$39.5 million for a total of \$1.168 billion. The level of this increase, 3.5 percent compared to FY 2021, is the same as the expected increase in FY 2022 tax revenues compared to the prior year. Since the start of the Baker Administration, unrestricted local aid levels have been tied to expected tax revenue growth.

Other K-12 Spending

The HWM budget includes \$658.9 million in other education programs that reimburse school districts for costs related to transportation, charter schools and enrollment loss. This level is \$60.5 million more than H1 and \$88.6 million more than FY 2021. The increase over FY 2021 is related to SOA implementation and the creation of a new account to address potential impacts of higher expected enrollment in the coming school year.

Figure 11. Education Reimbursement Accounts

Program	FY 2021 GAA	FY 2021 Projected	FY 2021 Reimbursement Level	FY 2022 H1	FY 2022 HWM
C70 Enrollment Reserve	\$0.00	\$0.00	NA	\$0.00	\$40.00
SPED Circuit Breaker	\$345.15	\$357.07	75.0%	\$367.65	\$367.65
Charter School Reimbursement	\$117.36	\$117.36	72.6%	\$143.50	\$154.60
Regional School Transportation	\$82.18	\$82.18	95.0%	\$75.86	\$82.18
Non-Resident Pupil Transportation	\$0.25	\$0.25	5.6%	\$0.25	\$0.00
Homeless Student Transportation	\$13.45	\$13.45	70.1%	\$11.10	\$14.45
Total	\$558.39	\$570.30		\$598.36	\$658.89
<i>Numbers in Millions</i>					

The SOA requires full funding of the state’s charter school reimbursement program within three years and requires the state to expand special education reimbursements to include out-of-district transportation costs over a four year period. Like H1, the HWM budget provides sufficient funding to meet the first year commitment for both of these and provides additional charter school reimbursements for districts that meet certain charter school tuition requirements.

The local aid agreement commits the House and Senate to providing a \$40 million reserve to assist districts impacted by potential underestimates of enrollment for the 2021-22 school year. Each year, the Department of Elementary and Secondary Education uses enrollment from October of the prior year to estimate likely enrollment in the next school year. This approach, which ordinarily does a good job of projecting future enrollment, creates challenges during COVID-19 when many families may have delayed children starting school or elected to attend private or parochial school. When and if these children return to public school, they will not be included in initial enrollment numbers. The \$40 million reserve in the HWM budget will address these unanticipated costs enrollment underestimates. It is important to note, that school districts also have access to more than \$2 billion in federal education funds, not included in the state budget, designed to be used for costs associated with the pandemic such as the cost of educating students returning to school.

Early Education & Higher Education

The HWM budget includes \$803.5 million for early education and care spending. This level falls below the FY 2021 budget by \$88.9 million, but exceeds H1 by \$28.3 million. Early education has been a clear priority in the state’s COVID-19 response and this is again reflected in the HWM budget which provides \$20 million for an early educator rate reserve.

The drop in spending compared to FY 2021 is misleading for two reasons. First, it is likely that all amounts appropriated in FY 2021 will not be expended by the end of the year and may remain available in FY 2022. Second, the HWM budget does not include more than \$600 million in additional federal early education funds that Massachusetts has or will receive through the ARP and previous federal legislation. The ARP federal funds are largely comprised of two programs: a further \$196.6 million through the CCDBG and \$314.4 million in childcare stabilization funds, while another \$130.3 million in CCDBG funding provided in December is yet to be appropriated. As with other elements of the ARP, the state will need to develop a plan for these resources in the months ahead.

Figure 12. Early Education & Care

Program	FY 2020 Spending	FY 2021 Projected	FY 2022 H1	FY 2022 HWM
Income Eligible Subsidies	\$291.0	\$326.2	\$298.7	\$298.7
DTA and DCF Childcare	\$297.1	\$350.9	\$358.9	\$358.9
Parent Fee Assistance	\$0.0	\$40.0	\$0.0	\$0.0
Workforce Supports	\$10.0	\$45.0	\$0.0	\$20.0
Head Start	\$12.0	\$15.0	\$12.0	\$15.0
Other Early Education	\$114.7	\$115.3	\$105.6	\$110.8
Total	\$724.8	\$892.4	\$775.2	\$803.5
<i>Numbers in Millions</i>				

The HWM includes \$1.4 billion in funding for public higher education and scholarships. This funding level is an increase of \$37.5 million over FY 2021 and \$68.6 million more than H1. HWM provides campuses with increases of 1.5 to 2 percent over FY 2021 while increasing scholarship support by more than 10 percent.

Figure 13. Higher Education

Program	FY 2020 Spending	FY 2021 Projected	FY 2022 H1	FY 2022 HWM
Community Colleges	\$305.2	\$322.3	\$307.6	\$332.0
State Universities	\$285.2	\$291.7	\$284.5	\$297.6
UMass	\$563.9	\$565.6	\$563.5	\$573.9
Scholarship programs	\$119.2	\$126.0	\$126.6	\$140.8
Other Higher Education	\$44.0	\$32.6	\$24.9	\$31.5
Total	\$1,317.5	\$1,338.2	\$1,307.1	\$1,375.7
<i>Numbers in Millions</i>				

Transportation

The HWM budget provides \$1.75 billion for transportation, a \$35.5 million decrease over FY 2021 and \$46.5 million less than H1. The entire decrease is due to a \$50 million reduction to the MassDOT transfer, compared to H1. HWM budget language does not indicate the rationale for the decrease, but it is likely that it results from funding the snow and ice removal budget at less than the recommended amount. HWM matches the FY 2022 funding level for Regional Transit Authorities (RTAs) at \$94 million, a \$3.5 million increase over H1. Through three rounds of federal stimulus, RTAs will receive approximately \$400 million in supplemental funding outside of the state budget.

Figure 14. Transportation

	FY 2020 Spending	FY 2021 Projected	FY 2022 H1	FY 2022 HWM
Transfer to MTTF	\$345.8	\$386.0	\$401.6	\$351.6
Transfer to MBTA	\$177.0	\$127.0	\$127.0	\$127.0
Transfer to RTAs	\$90.5	\$94.0	\$90.5	\$94.0
MBTA Sales Tax Transfer	\$1,077.30	\$1,175.40	\$1,174.30	\$1,174.30
Other Transportation	\$10.2	\$11.0	\$11.3	\$11.3
Total	\$1,690.61	\$1,782.44	\$1,793.39	\$1,746.89
<i>Numbers in millions</i>				

The HWM budget does not adopt several transportation related policy section included in H1 which included the creation of an MBTA board (to replace the Fiscal Management & Control Board whose term expires on June 30), altering MBTA project procurement options and improving ride-sharing data collection.

Non-discretionary Spending

The HWM budget largely mirrors H1 funding for four major, non-discretionary areas of the budget:

- \$3.4 billion for pension obligations. This funding amount is consistent with the current pension funding schedule;
- \$2.8 billion for debt service and contract assistance, with HWM providing an additional \$24.4 million for the state’s Clean Water Trust;
- \$500 million for state retiree health benefits; and
- \$1.84 billion for the Group Insurance Commission.

Figure 15. Non-discretionary spending

	FY 2020 Spending	FY 2021 Projected	FY 2022 H2	FY 2022 HWM
Pension	\$2,841.5	\$3,115.2	\$3,415.0	\$3,415.0
Debt Service	\$2,710.8	\$2,577.9	\$2,726.4	\$2,750.7
Retiree Health Insurance	\$450.0	\$500.0	\$500.0	\$500.0
Group Insurance Commission	\$1,733.0	\$1,743.7	\$1,839.7	\$1,839.7
Total	\$7,735.32	\$7,936.74	\$8,481.11	\$8,505.48
<i>Numbers in millions</i>				

Commonly Underfunded Programs

The HWM budget does not appear to underfund several of the budget areas most often requiring supplemental funding in recent years, including indigent defense, houses of correction and emergency family shelters. However, as described earlier, the HWM budget reduces funding for MassDOT and the Health Connector by \$100 million compared to H1. If these reductions are not sustainable over the course of the year, they create a budget exposure for the state.

Figure 16. Commonly Underfunded Accounts

	FY 2020 Spending	FY 2021 GAA	FY 2021 Projected	FY 2022 H2	FY 2022 HWM
Public Counsel Services	\$261.3	\$256.2	\$260.3	\$260.3	\$258.2
Emergency Shelters	\$205.0	\$208.1	\$214.8	\$221.9	\$221.9
MassHealth IT	\$120.1	\$140.1	\$142.4	\$143.4	\$143.4
Houses of Correction	\$645.0	\$647.8	\$646.8	\$646.3	\$651.1
Total	\$1,231.32	\$1,252.19	\$1,264.26	\$1,271.78	\$1,274.57
<i>Numbers in millions</i>					

Policy Sections

The HWM includes 47 policy sections, compared to 43 sections in the FY 2021 HWM budget and 105 sections in the Governor’s FY 2022 budget. Notable HWM policy sections include:

- Energy and Environment

- Creates an Offshore Wind Energy Career Training Trust Fund, administered by the Clean Energy Center and transfers \$10 million from the General Fund to the new Trust. (Sections 5 & 33)
- Authorizes the Department of Energy Resources to place liens on property of energy suppliers with outstanding compliance payments. (Section 6/included in H1)
- Allows Community Preservation Act funds to be used to acquire land to create rail trails. (Section 10/included in H1)
- Authorizes the Department of Conservation and Recreation to lease property on Peddock's Island. (Section 18/included in H1)
- Health care
 - Creates a trust fund at the Department of Public Health to support the agency's Academic Health Department and Academic Volunteer Corps programs. (Section 8)
 - Makes several technical corrections to 2016 legislation related to insurance coverage of Lyme disease treatment. (Sections 19 -23)
 - Authorizes the transfer of \$40 million for the Delivery System Reform Trust Fund to the General Fund to cover related health care costs. (Section 32/included in H1)
 - Authorizes up to \$12.8 million from the Prescription Advantage Program to be used to support the state's Medicare Savings and Medicare Buy-In programs. (Section 34/similar language in H1)
 - Requires the Department of Mental Health to provide information to frontline workers on supports and services available for those experience trauma related to COVID-19. (Section 42)
 - Directs the Department of Public Health to study the impact of COVID-19 on health care workers and their families. (Section 43)
 - Directs the Department of Public Health to create a public information campaign on the availability of 12 month prescriptions for contraceptives. (Section 44)
- Taxation
 - Makes permanent the state tax deduction for contributions to college savings programs operated by the Massachusetts Educational Finance Agency. (Section 24/included in H1)
 - Delays the implementation of a state charitable tax deduction in tax year 2022. (Section 2022/H1 also delayed implementation, but in a different way)
 - Creates a tax credit (up to \$5,000 in the first year and \$2,000 in subsequent years) for businesses that employ workers with eligible disabilities. (Sections 11 &12/included in H1)
 - Allows certain small and rural investment companies to apply to the Office of Business Development for eligibility to receive tax credits for investment in rural areas. (Section 12)
- Transportation
 - Sets forth how the \$94 million transfer to the RTAs will be distributed, with \$90.5 million in operating assistance and \$3.5 million to be distributed through performance grants. (Section 41)
- Economic development
 - Makes several technical corrections to the 2020 Economic Development bill. (Sections 9, 25 & 26).
- Judiciary
 - Allows the Supreme Judicial Court to reduce the length of time records related to certain infractions (including littering and civil parking infractions) must be retained from 10 years to 5 years. (Section 16/included in H1)
- Creates special commissions to:
 - Develop best practices and recommendations for public safety responses to mental health emergencies. (Section 45)
 - Examine nursing home licensure processes and requirements. (Section 46)

- Assess how the Commonwealth can promote and celebrate the 250th anniversary of the American Revolution. (Section 47)

The HWM budget does not include a number of policy proposals included in H1, summarized in Figure 17.

Figure 17. H1 Policy Proposals in HWM Budget

Gov. Proposal	Topic	Included in HWM
Opioid tax	Taxation	No
Drug price assessment	Taxation	No
Real-time sales tax	Taxation	No
Deemed repatriation adjustment	Taxation	No
SALT deduction adjustment for pass-through entities	Taxation	No
Remote software taxation	Taxation	No
MBTA board creation	Transportation	No
MBTA & MassDOT project delivery and development	Transportation	No
TNC data and municipal spending	Transportation	No
Hospital assessment	Health care	No
Community hospital & health center trust fund	Health care	No

Bottom Line

In two weeks the House will debate the HWM budget plan. Based on previous debates, it is likely that the final House budget will increase spending by a further \$60-\$80 million, with a focus on local projects and programs around the state. HWM budget resources appear sufficient to support this level of increased spending.

The HWM budget responds well to three important elements of a changing fiscal landscape. First, the budget does not make use of ARP funding to balance the budget or support unsustainable spending. Second, the budget avoids unilaterally adjusting next year's tax estimates. Finally, the HWM budget appropriately accounts for projected MassHealth spending needs given the extension of the federal Public Health Emergency. In each of these areas, the decisions made in the HWM budget are consistent with a fiscal approach that has served the state well since the start of the pandemic.

The HWM budget increases the draw on the Rainy Fund and uses a large reversion assumption to help balance the budget; both of these strategies are problematic if they are included in the final FY 2022 conference report. Both the House and Senate may view these resources as short-term placeholders as we await clarity on federal guidance on the ARP and further tax collection information, but starting the next fiscal year with a strategy to rebuild reserves and reduce the structural deficit is vital for the state to sustainably emerge from this crisis.