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MTF Brief

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House Final Economic Development & Surplus Legislation

The House engrossed a \$4.8 billion spending, economic development, and tax relief package last week increasing the fiscal impact of the bill by \$499.2 million after two days of debate. This Brief summarizes the new spending, tax, and policy provisions added during the House debate. The bill now moves to the Senate, where action is expected this week.

Summary of Fiscal Impact¹

	Governor	HWM	House Floor	House
Surplus & ARPA spending	\$3,603.9	\$2,035.2	\$304.7	\$2,339.9
Taxpayer rebates	\$0.0	\$510.0	\$0.0	\$510.0
Capital authorizations	\$1,255.8	\$1,255.8	\$174.5	\$1,430.3
Tax changes	\$741.0	\$549.5	\$20.0	\$569.5
Total	\$5,600.7	\$4,350.5	\$499.1	\$4,849.7

\$ in millions

Operating Spending

The House added \$304.7 million in line-item spending during debate, with more than 75 percent of the spending (\$230.1 million) in the form of local project earmarks. As with last December's COVID Recovery legislation, earmarks varied greatly in size and scope, ranging from as large as \$50 million (for improvements to a transit station in Norfolk County) to as small as \$10,000. The number of earmarks (361) is actually smaller than the number the House added last December, but the total cost is significantly larger (\$230.1 million v. \$154 million).

Operating Spending Added

¹ The House added two sales tax exemptions during debate. The \$20 million in this chart is an initial estimate of the cost that will be revised with additional information.

	Number of earmarks	Amount
Earmark spending	\$361	\$230.6
Programmatic spending		\$74.1
Total		\$304.7

In addition, the House added \$74 million in narrowly-targeted, programmatic spending which includes the following:

- \$40 million to offset gaps in federal funds for the state’s crime victim assistance program;
- \$20 million to certain community health centers affected by the pandemic;
- \$10 million in supplemental funding for the Low Income Home Energy Assistance Program (LIHEAP);
- \$3 million for a grant program to support movie theaters;
- \$1 million for grants to address human trafficking.

The final House bill includes \$2.85 billion in operating spending, including the \$510 million rebate program.

Capital Authorizations

The House increased capital authorizations by \$174.5 million, for total allowed spending of \$1.43 billion. As with operating budget amendments, local earmarks comprise the largest share of the authorization increase. The House added 141 capital project earmarks totaling \$154.5 million. Capital earmarks are supported by state bonding, as opposed to the operating budget. Unlike the annual operating budget, capital earmarks are supported by state bonding and the Administration has almost total discretion to determine which projects are ultimately funded and so there is no guarantee that these earmarks will ultimately get funding.

The House also added two programmatic line-items to be paid for through bonding:

- \$10 million in grants for low-income communities to build broadband networks;
- \$10 million for a tuition forgiveness program for nursing students.

The nursing tuition forgiveness program, designed to address the ongoing health care worker shortage, would be better placed as an operating budget item and not funded through future state borrowing.

Tax changes

The House adopted several tax policy changes through amendment, including adjustments to the HWM estate tax proposal. Under the final House proposal, a top marginal rate of 17 percent will now apply to estates with taxable values over \$5 million.² As MTF pointed out in our initial summary, this change increases the tax liability for high value estates and could increase rather than eliminate the incentive for wealthy families to leave the state.

² More information on the current estate tax can be found in MTF’s recent publication: <https://masstaxpayers.org/estate-tax-massachusetts-dire-need-reform>

Other House tax changes:

- ***Rolling stock*** – the House adopted an amendment to exempt rolling stock from the sales and use tax. In recent years, the Department of Revenue has begun assessing the sales tax on shipping and other trucks that enter Massachusetts to pick up or deliver goods. This policy, which is an outlier among states, has a disproportionate impact on trucking and transportation companies and ultimately adds to the cost of shipping for remote purchases.
- ***Qualified data center sales tax exemption*** – the House added language creating a sales tax exemption for the purchase of data center equipment to be used at a qualified data center. Under the language, the Executive Office of Housing and Economic Development could designate a data center, which meets certain criteria for size and job creation, as eligible for the credit, which is presumably intended to spur investment in the center.
- ***Gas transmission pipelines*** – the House adopted a provision that would assign aboveground aspects of gas transmission pipelines to the municipality in which it resides for the purpose of local tax assessment. Currently, the value of the pipeline is distributed among all communities in which the pipeline travels.
- ***Study of property tax exemption*** – the House directs the Department of Revenue to study municipal revenue loss associated with property tax exemption for public and other properties valued at \$1 million or more.

Policy changes

Biennial economic development legislation, like the annual budget, typically includes a wide array of policy riders that get added during debate. This legislation is no exception as 64 sections were added. In addition to changing state regulation of money transfer services, a new statute regulating travel insurance, and a new requirement for public school districts and charter schools to have diversity plans, several sections were added that affect public finance. These include:

- ***i-Lottery*** – the House adopted several sections to expand the state lottery online and to mobile apps. The sections authorize the Lottery Commission to develop and establish rules for an online lottery. Under the House proposal, revenue from i-Lottery would be dedicated to a new fund to improve the state’s early childhood education system. House leaders estimate i-Lottery revenue at \$200 million per year.
- ***Large scale energy storage*** – the House creates a commission to examine potential benefits, and costs, of increasing investment in large scale energy storage to potentially reduce costs and increase the reliability of sustainable energy production.
- ***Prohibition of mandatory arbitration*** – the House adopts language prohibiting employers from requiring prospective hires to address employment claims through mandatory arbitration prior to or instead of pursuing claims through the court system.
- ***Designated port area adjustment*** – the House added two new sections which exempt a parcel of land in Everett from the area’s Designated Port Area and exclude the parcel from certain restrictions provided the parcel is used to build a sports or events center.