

FY 2022 BUDGET BRIEFING:

Making sense of the **state budget**, **taxes** and the **Governor's proposal**



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About MassBudget



MassBudget is a leading think tank advancing equitable policy solutions that create an inclusive, thriving Commonwealth.

Why the state budget matters



It's a tool for:

- Racial equity
- Health equity
- Social justice
- Economic security
- Political power



Equitable Investments are Critical

Investing in policies and programs that bring collective well-being and joy.

Divesting from what is harming Black and Brown communities.

Today's agenda

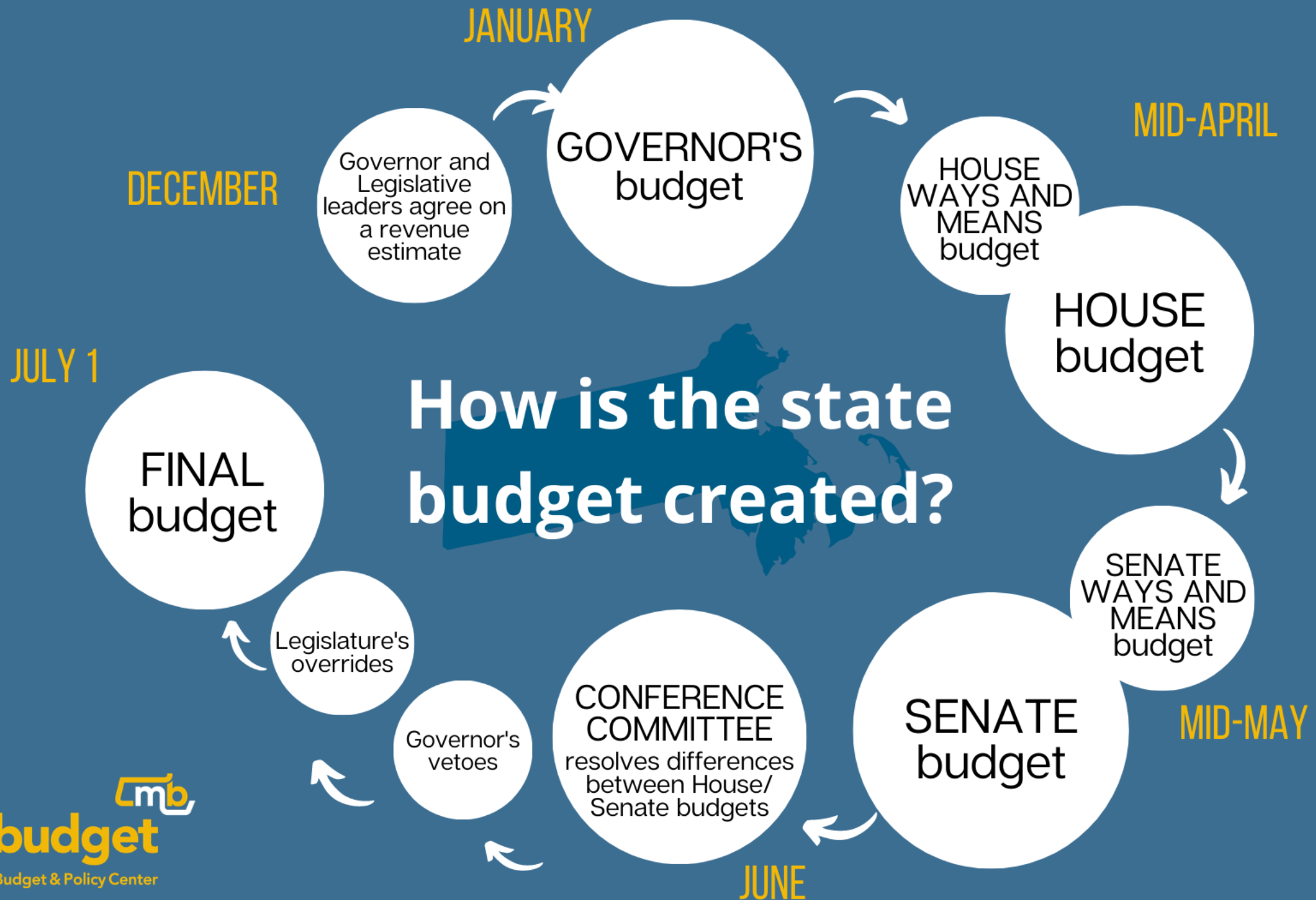
- How the **budget** works
- How **taxes** work
- Highlights from the **Governor's FY22 proposal**
 - Including federal relief outside the budget
- Other **revenue** considerations
 - PPP deductibility



How does the **state budget** work?

What is the state budget?







How **taxes** work

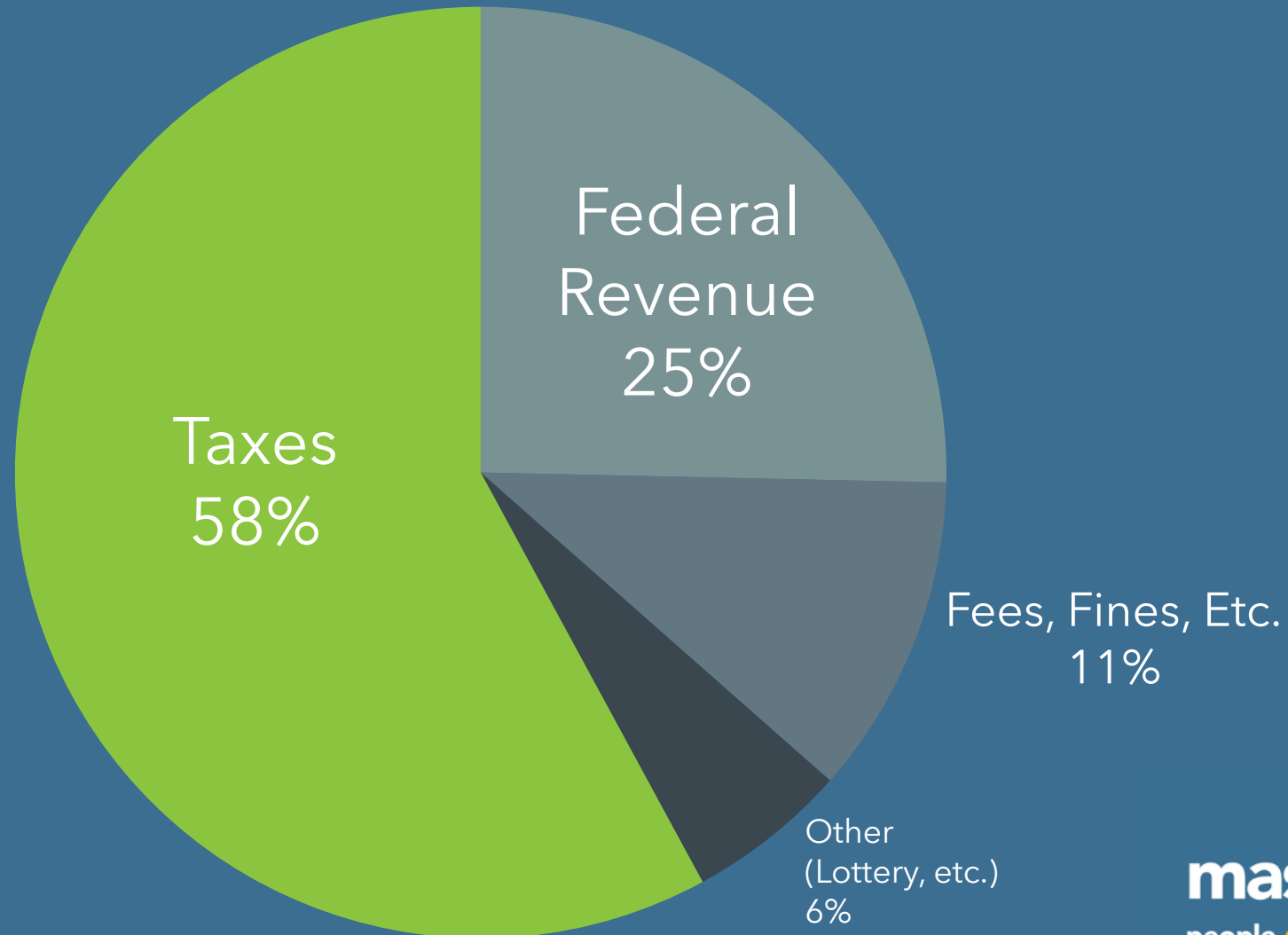
Our State Constitution says:

We must have a balanced budget.





Where does Massachusetts' revenue come from?



What does our tax system look like?

Guess: What share of all the personal income generated in MA each year goes toward state and local taxes?



What does our tax system look like?

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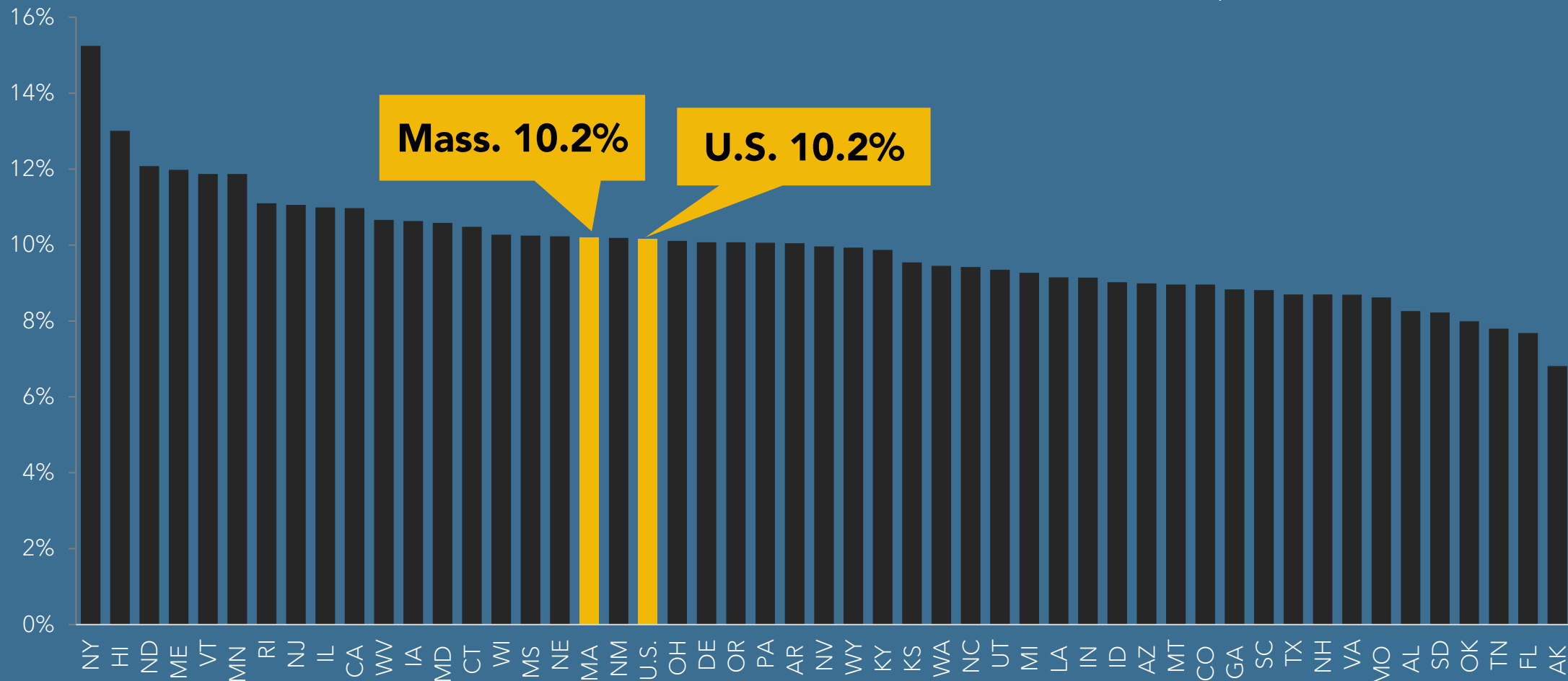


State and
Local Taxes
10.2%



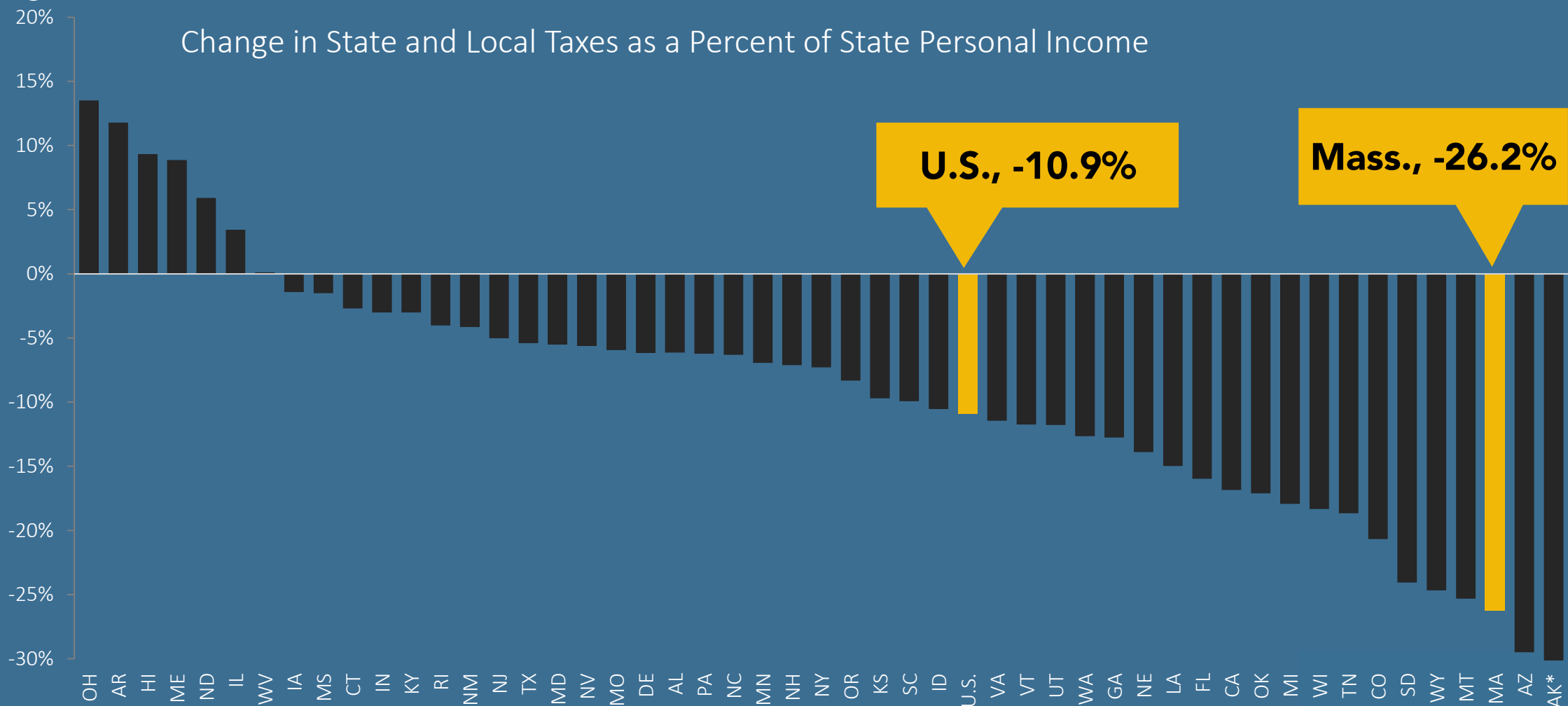
Massachusetts' taxes are **average**

State and Local Taxes as a Percent of State Personal Income, 2016





Massachusetts has been a **tax cutter**: 1977-2016



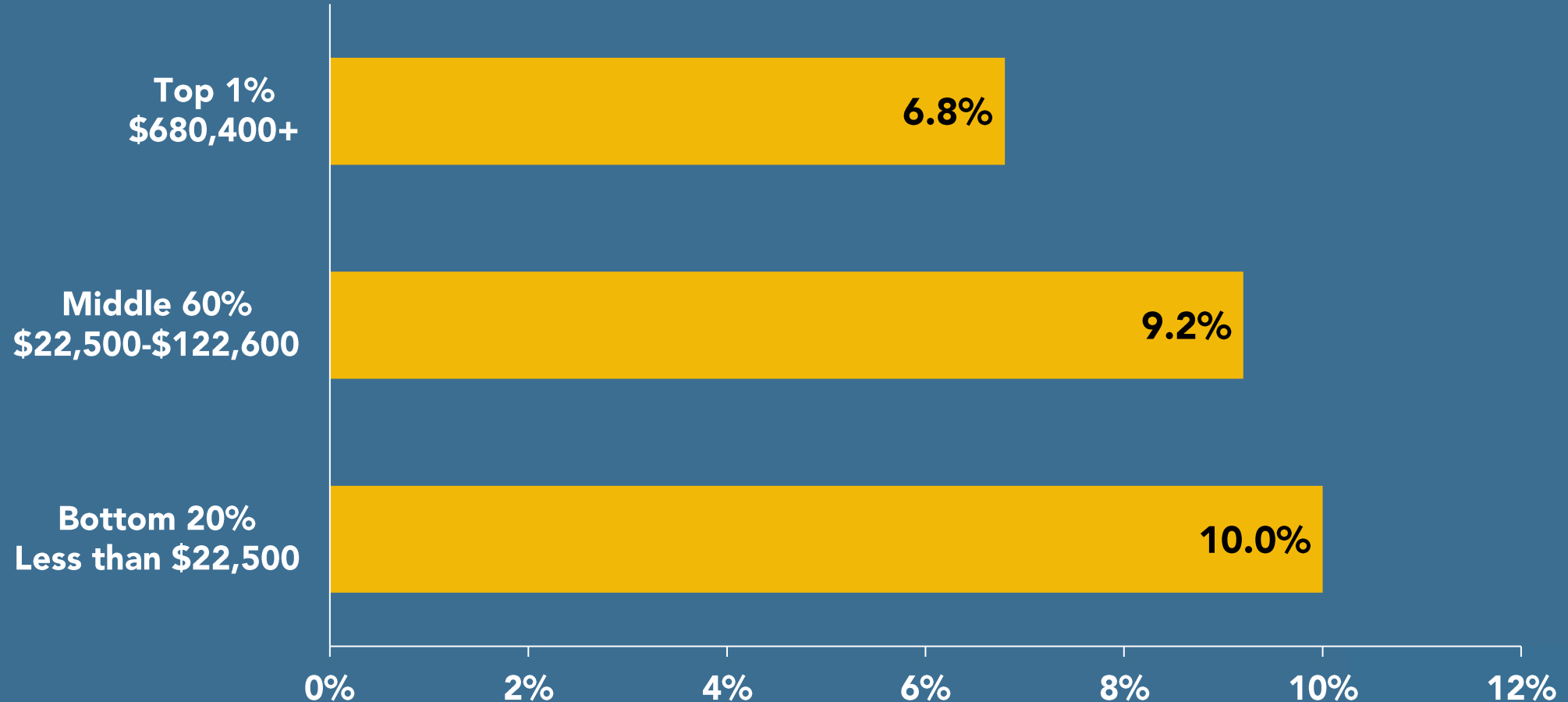
Decades-old income tax cuts alone today cost
about **\$4 billion/year**.

**These cuts affect essential
services — and health equity.**



Who pays Massachusetts taxes?

% of personal income paid to state and local taxes, 2018 projected





Highlights from the Governor's **FY22** proposal

The big picture

- This once-in-a-lifetime crisis is far from over. **People are continuing to suffer.** This is not the time for our state to hold back on funding for public services.
- **The Governor is relying heavily on federal relief to meet ongoing needs.**
 - While it's great that the federal government is helping us fill gaps, this short-term funding will leave us with gaps in the future.

Track funding through our Budget Browser

massbudget.org/budget-browser

Massachusetts State Budget

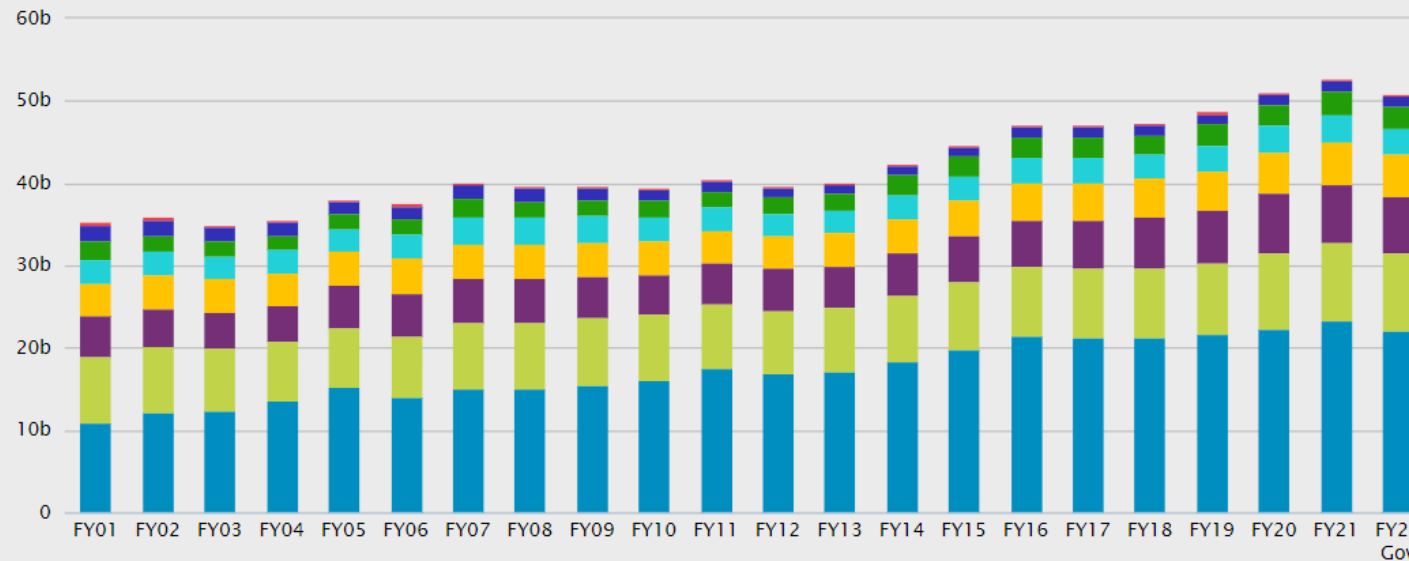
Entire Budget // Learn About Programs In...

Funding History

SEARCH

funding levels adjusted for inflation (CPI)

[download as image](#)

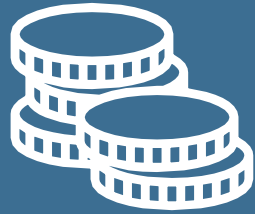


Health
Education
Other
Human Services
Law & Public Safety
Infrastructure, Housing & Economic Development
Environment & Recreation
Local Aid

Highcharts.com

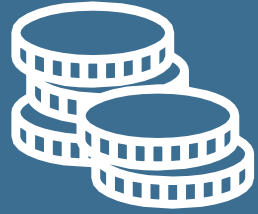
Let's look at the revenue side
of the ledger





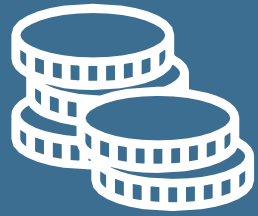
Tax revenue

- The state expects to collect \$30.12 billion in tax revenue for FY22.
- This is **\$1 billion less** than it expected a year ago for FY21.



Tax revenue

- The Governor's budget includes **no major tax proposals**.
 - One small, positive proposal - delay the state charitable deduction.



Tax revenue

- The Governor's FY22 budget relies on a **potential \$1.6 billion draw from the Rainy Day Fund** (the state's savings account).
 - This is on top of a possible \$1.7 billion from the Rainy Day Fund for FY21.
 - Pulling from our savings during hard times makes sense, but will not sustain us in the long run.



Non-Tax revenue - federal

- The Governor estimated previously that Massachusetts could receive **\$12.6 billion in federal funding**, mostly in reimbursements to MassHealth.
- MA will continue to receive an additional **6.2 percentage point increase in FMAP**.
 - This could yield up to **\$100 million more** than what is needed to meet increased MassHealth need.



Non-Tax revenue – more federal

- \$68 billion in federal funding has already come to Massachusetts from several COVID relief packages.
- More relief will likely be coming – \$8.26 billion in the American Rescue Plan.
 - \$4.5b for the state; \$3.7b for local governments.

And now, to the spending side





Early Education

- Governor Baker proposes **cutting** child care funding by **\$77 million (9 percent)**. (Federal funds could close this gap.)
 - By last summer, early education providers had lost up to \$250 million per month in private tuition during the shutdown.



K-12 schools

- Governor Baker's proposal leaves us **a year behind on the Student Opportunity Act (SOA)** — a landmark law that was supposed to make MA's public education funding more equitable.
- Baker's proposal *does* **count more students as low-income**, which helps schools get the funding needed to provide kids with a good education.



K-12 schools

- Baker's budget uses October 2020 **school enrollment numbers**, which many worry **won't reflect actual student enrollment** in FY22.
 - Partly because of COVID-19, the October 2020 enrollment numbers **declined by 31,000 kids** (3.3 percent).
 - This is important because school funding is based on enrollment numbers.



Higher education

- Funding to community colleges, state universities, and the UMass system are either the **same or less than FY21**.
 - The average net cost to attend college for a median Black or Latinx household is about **two times** that of a white household, as a percentage of their household income.
 - Chronic underfunding of higher education and reductions to state scholarships are likely to **hit Black and Latinx households hardest**.



Housing

- In the Governor's budget proposal, housing programs will have to rely heavily on federal funding in FY22.
 - Overreliance on one-time federal assistance is risky, because it is unclear how much support to expect from the federal government and for how long.
 - Massachusetts already had a housing crisis before, which has been exacerbated by COVID-19.



Housing

- Although the federal eviction moratorium has been extended through March, **many still are being forced out of their homes.**
- In early January, **1.5 million** Massachusetts adults reported they are having at least some **difficulty paying for usual household expenses**, like rent or utilities.



MassHealth

- MassHealth (Medicaid) **caseload has risen** during the pandemic and will likely not drop back to pre-COVID levels soon.
 - While the federal public health emergency is in place, MassHealth members **will not lose health coverage**.
- Fortunately, the **federal government will help the state cover these increased costs** through the emergency.

A **better budget**
is possible



Options to raise **\$2.5 billion** through **progressive taxes***...



- Restore the tax rate on **corporate profits**.



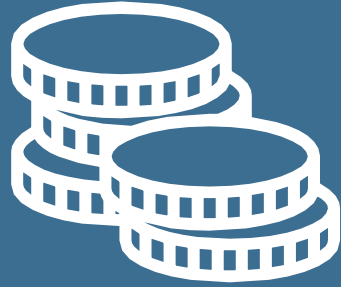
- Limit some of the most egregious forms of **off-shore tax dodging** (GILTI).



- Increase the tax rate that investors pay on income from the **stock market**, **dividends**, **assets**.

*Progressive taxes are ones in which the highest-income households pay a larger percentage of their incomes compared with lower-income households.

Longer term option: Fair Share Amendment “millionaire’s tax”



- 4% surtax to income above \$1 million.
- Would raise about **\$2 billion/year** for the state.
- If all goes well, it will be on the **November 2022 ballot**.
- If voters say yes, it would take effect January 2023.

Another issue to watch: PPP Deductibility



- MA businesses received over \$14.3 billion in PPP loans.
- Much will be converted to grants.
- Grant amounts **NOT** subject to federal or state income tax.
- S.D. 172 creates new, "double-dip" tax break.
- Revenue loss = **\$165 million**.

A healthy state budget is essential to our collective well-being.



Please submit feedback:
<https://forms.gle/8rvtbEzFozXApYs68>

Meet our budget team

<https://massbudget.org/contact/>



La-Brina
Almeida
Housing



Marie-Frances
Rivera
President



Nancy
Wagman
*Non-tax
revenue
MassHealth*



Phineas
Baxandall
*Transportation
Unemployment
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Colin Jones
*K-12 education
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Kurt Wise
Tax revenue



Monique Ching
State budget



Anastasia
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