

Ready for Resolution: The Fiscal Year 2023 Senate Budget

By MassBudget Staff

OVERVIEW

After debate and quick consideration of more than 1,000 amendments, the Senate increased their Fiscal Year (FY) 2023 budget bottom line by more than \$90 million. The budget debate has highlighted the power of this \$50 billion bill to set the tone and the direction for the state in the year to come.

The FY 2023 budget now moves into the [final step](#) in its annual legislative process, and a Conference Committee made up of members from the House and the Senate will soon begin meeting to resolve the differences between the budget proposals from the House and the Senate. Both chambers will then meet to approve a reconciled Legislature's budget and will submit it to the Governor for his signature. The goal is to have this process completed by July 1 when the new state fiscal year begins.

The final Senate budget proposal differs from the House budget in several important areas. Among the most notable funding differences, the Senate proposes \$217 million more than the House does to help ensure that the youngest children of the Commonwealth are receiving higher quality and more affordable care. This level of funding would be an important first step in building a universal high-quality and accessible early education and care system that would be affordable for the families of the Commonwealth.

The Senate also proposes \$32 million more than the House in unrestricted local aid for cities and towns to fund vital local services such as police and fire protection, playgrounds, and public works. This increase would be helpful to communities with unmet needs created by the pandemic that are bumping up against an inability to raise revenue to meet those needs. Even though some municipalities may be benefiting from increased property tax revenue due to rapidly rising housing prices, there are limitations on how much property tax revenue can increase each year (due to restrictions built into Proposition 2½). While this FY 2023 local aid increase on the surface appears to address some of these challenges, the value of this increase over FY 2022 levels is eroded by the impacts of inflation. The Senate proposal – when compared to FY 2022 funding levels – would overall just cover the cost of inflation.

There are some areas where the House funds services at a level notably higher than the Senate. For example, the House budget includes \$110 million to extend universal free school meals for another year (see further discussion below). The House also provides \$62 million more than the Senate for services for persons with disabilities, and \$41 million more for elder services. These are two areas of publicly-funded community-based services that have been devastated by the pandemic and that are struggling with a critical worker shortage.

There are areas where both chambers included new proposals that will not require reconciliation. For example, both the House and the Senate include identical language to expand a common application for public benefits and services. Barring a veto by the Governor, this proposal would significantly improve access to a wide variety of critical services and supports, such as SNAP food assistance, veterans services, cash assistance, housing assistance, subsidized child care, and more.

Both the House and Senate include a provision to provide persons who are incarcerated with access to free phone calls or similar forms of communication. This policy would be an important step for helping preserve connections to family and community for people during incarceration. The language in the two proposals is different, however, and the House provides \$20 million in funding. These differences would need to be resolved in the Conference Committee before the program could become part of the final budget.

Even when the House or Senate have proposed increases in funding, there are programs that are still under-funded relative to the needs of the people in the Commonwealth. There are still significant worker shortages all across the care-providing professions, and inadequate wages paid to many of these state-funded workers, particularly those providing care to young children and persons with disabilities. Moreover, without meaningful increases over FY 2022 levels, inflation erodes the value of funding for many programs and services. Recent data suggest that inflation between FY 2022 and FY 2023 could be more than 4 percent, so any increase in funding below that might not turn out to be a real increase at all.

Below are selected highlights from the budget proposal in revenue, education, housing, MassHealth, and transportation. (Details of the Senate budget proposal funding amounts can be tracked in MassBudget's online [Budget Browser](#) and a summary funding chart is included below.)

REVENUE

As was true of the House FY 2023 budget, the Senate budget proposal contains no major tax changes. If the House and Senate move to consider a package of tax cuts later in the session in stand-alone legislation, it will be important to target the benefits toward low- and middle-income households.

One notable tax element included in both the House and Senate budget proposals is an update of the year to which Massachusetts' personal income tax is linked to federal income tax rules. Currently, Massachusetts links to the federal tax code as of 2005. The proposed conformity

update would link our state code to 2022 federal tax rules. While updating our conformity date to a more current year makes sense in general, it can have substantial impacts in terms of the amount of revenue that will be collected – or not – annually by the Commonwealth. Lawmakers estimate this change would net an additional \$42 million in FY 2023, but some provisions in the federal code (in particular, the opportunity zones tax break) may have large costs that will appear only five or ten years down the road.

Similarly, though the Commonwealth has decoupled from a number of especially costly federal provisions and would remain decoupled from these under the proposed updating, the Massachusetts tax code is linked to other federal tax provisions that result in the loss of hundreds of millions in revenue annually. The current strong interest in updating Massachusetts' conformity with federal tax rules to the current year offers a good opportunity for lawmakers – and the Tax Expenditure Review Commission – to undertake a full review of these linkages, independent of the budget process, before moving ahead.

Finally, higher-than-expected collections during the current fiscal year FY 2022 has led to an official revision to the current year's estimated revenue total. This raises the question about whether policymakers will seek an update to the FY 2023 Consensus Revenue Estimate, and the timing of when that revision would occur.

EDUCATION

Early Education and Care

The early care crisis for young children, their families, and for early education teachers continues to create significant challenges across the Commonwealth. The Senate FY 2023 budget proposal provides \$1.13 billion for early education programs, a significant increase of \$217 million more than the House 2023 budget. Increased investment in early childhood programs would move Massachusetts closer to a stable system of affordable high-quality care across Massachusetts, especially given that nearly one-in-five providers ceased operations during the COVID pandemic.

Not only are the Senate and House funding totals different, there are differences in how funds are distributed among rate increases for all providers or for subsidized care, and more. These structural differences will have to be resolved by the Conference Committee. Even with the increases proposed by the Senate, the added investment would still be somewhat less than the amounts proposed by a recent legislative commission that called for between \$595-\$712 million in immediate added funding for child care.

K-12 Education

Both the House and Senate budgets contain sufficient funding for K-12 Chapter 70 school aid and grants to fully implement the Student Opportunity Act (SOA), the landmark education funding law passed in 2019. FY 2023 will be the second year of a six-year phase-in of the law, and

funding covers the planned increases needed for the second year of the SOA, along with funding for key grant programs.

The Senate budget does not include the House proposal to add \$110 million to the budget to support universal free school meals for all students across the state. This highly successful program began during the pandemic supported by federal funding, and will require further investment of state and/or federal funds to continue through FY 2023. Continuing this support for public schools would help ensure that no children in classrooms across our state face the challenges of learning on an empty stomach.

Higher Education

The Senate FY 2023 budget, like the House version, provides \$1.56 billion to public higher education campuses and programs across the state. It appears this investment would limit, but not totally prevent, tuition hikes at UMass for next year.

Increased state funding for public higher education should also help create an important bridge as the roughly \$1.6 billion in federal COVID relief that has supported higher education campuses and students winds down over the next several years. This is an important first step towards creating a system of affordable, world-class public higher education campuses that would be educating students who could attend without accruing unreasonable levels of college debt.

HOUSING

Both the House and Senate budget proposals make some effort to address the loss of critical emergency rental assistance support with the expiration of the federal Emergency Rental Assistance Program (ERAP). The Senate budget in particular proposes \$23.1 million less in total housing funding than the House. The Senate proposes \$10 million more than the House for Rental Assistance for Families in Transition (RAFT) and \$4.3 million more for the Massachusetts Rental Voucher Program (MRVP). These increases are important, but not enough, particularly as the Senate proposes less in funding for homelessness assistance.

There is an important relationship between funding for rental assistance programs and homelessness. Critical homelessness initiatives such as funding for the Home and Healthy for Good program, HomeBase, and support for shelters for homeless individuals or permanent supportive housing all received less funding in the Senate budget compared to the House proposal. Even with funding amendments for services for veterans and youth experiencing homelessness that were added during Senate floor debate, the budget proposals do not come near to addressing the needs of people who are precariously housed in the Commonwealth.

MASSHEALTH

The final Senate budget proposal includes \$18.56 billion for the MassHealth program, an increase of \$108.3 million compared to the House. As MassHealth is only partially paid for by

state dollars, the “net” cost to the state of the Senate proposal (that is, the total state MassHealth program budget less federal reimbursement the state receives) is only \$8.8 billion – less than half the total as presented in the Senate budget.

Both the House and Senate budgets assume that the national public health emergency – in place since January 2020 – will end at some point in FY 2023. As of now, the earliest expected end date is mid-August. As long as a state agreed to protect Medicaid recipients from losing coverage during the pandemic based on changes in their income or based on failure to return renewal application forms, the state would receive an additional 6.2 percentage point reimbursement from the federal government for the duration of the emergency. (For a deeper discussion of these details in Massachusetts, see [What is the Actual State Cost of MassHealth in State Fiscal Year 2022.](#))

Over the course of the pandemic, the Administration has counted on as much as \$2.6 billion from this enhanced federal Medicaid reimbursement. At the same time, because of this “continuous coverage” in enrollment, participation in the MassHealth program has grown from about 1.7 million people to close to 2.2 million. With an anticipated end of the public health emergency, both the House and Senate budgets assume that there will be a gradual reduction in MassHealth enrollment over the course of a year that will be closer to pre-pandemic levels, as well as the discontinuation of the enhanced federal reimbursement revenue.

The Senate includes \$35 million more for an increase to nursing home rates compared to the House. The nursing home industry was deeply affected by the pandemic. As has been the case for direct care across the state, maintaining staffing levels adequate to providing appropriate care has been a challenge for these long-term care facilities.

The Senate proposes increasing the eligibility threshold for the Medicare Savings Program from 165% of the federal poverty level to 225%, while the House had proposed increasing the threshold to 250% of the federal poverty level. The Medicare Savings Program helps eligible people pay their Medicare Part B premiums and out-of-pocket costs. This program expansion would save some money for the state’s Prescription Advantage program and the Health Safety Net.

Unlike the House, the Senate includes a recommendation to bring in additional revenue from rebates negotiated with manufacturers. This proposal would extend the rebate program to include the purchases of medical devices and additional types of medications.

TRANSPORTATION

Neither the House nor Senate budget recommendations for public transportation would provide state support at levels that keep up with inflation. Transportation has benefited from federal support during the pandemic, yet as in other state budget areas, public transit authorities could encounter a “fiscal cliff” next year as this federal relief phases out and transit authorities spend down federal pandemic funds. In the face of significant inflation such as higher fuel prices and

bus driver wages, stagnant state funding sets up transit authorities for budget shortfalls in coming years.

House and Senate proposals would provide the same \$187 million total in operating assistance to the Massachusetts Bay Transportation Authority (MBTA) as in 2016, a 19 percent reduction in state support when adjusted for inflation. The Senate recommends \$96.5 million for the Commonwealth’s fifteen regional transit authorities (RTAs), \$2.5 million more than the House. The additional Senate funds would be targeted for grants to RTAs to support discounted fare pilot programs for low-income riders.

Public buses, trains, and ferries will need to play a growing role in coming years in order for Massachusetts to meet commitments to reduce global warming emissions. Transportation is the largest source of greenhouse emissions in Massachusetts, and public transit provides a key role in enabling people to drive less. Increased transit ridership can also play an important role in revitalizing downtowns in the wake of COVID-19.

FUNDING BY BUDGET CATEGORY AND SUBCATEGORY

BUDGET BY CATEGORY AND SUBCATEGORY (\$ millions)	FY 2022 Current	FY 2023 Governor	FY 2023 House	FY 2023 Senate
Education	9,993.7	10,416.5	10,828.3	10,919.0
Early Education & Care	951.7	820.3	912.2	1,129.2
Higher Education	1,397.2	1,454.8	1,559.6	1,562.0
K-12: Chapter 70 Aid	5,543.3	5,988.5	5,998.2	5,998.2
K-12: Non-Chapter 70 Aid	1,087.2	987.8	1,193.3	1,064.5
K-12: School Building	1,014.3	1,165.1	1,165.1	1,165.1
Environment & Recreation	294.5	275.6	288.6	302.9
Environment	139.2	126.9	128.6	135.6
Fish & Game	35.7	35.7	37.1	37.6
Parks & Recreation	119.6	113.1	122.9	129.7
Health	24,206.9	22,687.3	23,429.7	23,528.1
MassHealth (Medicaid) & Health Reform	20,475.2	19,012.5	19,659.0	19,749.7
Mental Health	987.8	986.0	1,013.2	1,014.1
Public Health	898.4	833.0	901.7	908.5
State Employee Health Insurance	1,845.4	1,855.8	1,855.8	1,855.8
Human Services	6,660.5	5,768.6	5,968.5	5,886.5

Child Welfare	1,134.0	1,190.6	1,191.1	1,195.2
Disability Services	2,762.4	2,481.0	2,555.7	2,494.2
Elder Services	623.1	655.1	701.0	660.3
Juvenile Justice	169.6	175.8	175.8	176.4
Transitional Assistance	825.0	826.4	902.8	918.1
Other Human Services	1,146.4	439.7	442.2	442.4
Infrastructure, Housing & Economic Development	3,130.1	3,154.6	3,311.9	3,330.1
Commercial Regulatory Entities	92.7	94.7	99.9	100.0
Economic Development	359.8	255.4	330.4	308.7
Housing	767.8	731.0	869.1	846.1
Transportation	1,909.8	2,073.5	2,012.4	2,075.4
Law & Public Safety	3,421.3	3,550.2	3,620.8	3,597.5
Courts & Legal Assistance	942.6	994.4	1,029.9	1,046.0
Law Enforcement	513.9	528.9	528.7	525.5
Prisons, Probation & Parole	1,655.6	1,717.1	1,724.6	1,710.9
Prosecutors	211.4	220.6	246.0	226.6
Other Law & Public Safety	97.9	89.2	91.6	88.5
Local Aid	1,239.3	1,263.6	1,265.0	1,298.0
General Local Aid	1,168.1	1,199.7	1,199.7	1,231.2
Other Local Aid	71.2	63.9	65.4	66.8
Other	8,590.4	7,722.8	7,403.6	7,293.1
Constitutional Officers	93.3	104.5	118.0	113.7
Debt Service	2,769.8	2,829.5	2,829.5	2,829.5
Executive & Legislative	85.8	88.3	89.2	91.3
Libraries	36.5	36.4	38.9	40.8
Pensions	3,478.3	4,037.7	3,787.7	3,787.7
Other Administrative	2,126.6	626.4	540.3	430.0
Total Budget	57,536.6	54,839.1	56,116.5	56,155.2

- FY 2023 Senate includes a reduction of \$125.0 million in the “Other Administrative” subcategory to accommodate anticipated savings and cost reductions across multiple departments.
- FY 2022 Current total does not include COVID relief appropriations paid out of federal funds. Totals subject to change if final spending allocations shift.