



333 Washington Street | Suite 853 | Boston, MA 02108 | 617.720.1000  
[www.masstaxpayers.com](http://www.masstaxpayers.com)

# MTF Bulletin

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## House Ways and Means Economic Development & Surplus Legislation

Less than three weeks before the end of formal session, House Ways and Means has released a \$4.3 billion bill that makes direct appropriations, authorizes capital spending and proposes tax relief. This massive bill includes \$2.55 billion in immediate spending in FY 2022 surplus and American Rescue Plan funds, \$1.255 billion in capital authorizations, and a \$500 million tax relief package.

### *Administration v. House Spending Comparison<sup>1</sup>*

	Governor	HWM
Surplus & ARPA spending	\$3,953.9	\$2,035.2
Taxpayer rebates	\$0.0	\$510.0
Capital authorizations	\$1,255.8	\$1,255.8
Tax changes	\$741.0	\$549.5
<b>Total</b>	<b>\$5,950.7</b>	<b>\$4,350.5</b>
<i>\$ in millions</i>		

This Bulletin provides an initial overview of the spending, capital authorization, revenue and policy proposals in the legislation and compares its components to three proposals previously put forward by Governor Baker. More in-depth analysis of this proposal will follow in the coming days.

### Direct Appropriations

HWM proposes using up to \$1.275 billion in FY 2022 surplus revenues and \$1.275 billion in federal Fiscal Recovery Funds (FRF) to support \$2.5 billion in direct spending.

Direct rebates to qualifying taxpayers, estimated at \$510 million comprise the largest part of the HWM spending proposal, while a further \$300 million is transferred directly to the

<sup>1</sup> Administration totals include Governor’s tax legislation, FORWARD Act and recent supplemental budget proposal.

Unemployment Insurance Trust and a \$100 million to a new Offshore Wind Port program. The remaining \$1.64 billion is appropriated among 18 line-items that can be categorized as follows:

*HWM v. Governor Surplus & FRF Spending*

Category	Gov. Supp	Gov. Forward	HWM	HWM v. Gov.
Community EcDev/Small biz	\$130.0	\$311.5	\$200.0	-\$241.5
Community Supports	\$0.0	\$0.0	\$40.0	\$40.0
Deficiency	\$22.7	\$0.0	\$24.7	\$2.0
Early Education	\$10.0	\$0.0	\$0.0	-\$10.0
Health Care	\$0.0	\$250.0	\$640.0	\$390.0
Housing	\$360.0	\$0.0	\$175.0	-\$185.0
Human Services	\$0.0	\$0.0	\$100.0	\$100.0
Infrastructure - Education/Childcare	\$225.0	\$35.0	\$0.0	-\$260.0
Infrastructure - Environmental	\$200.0	\$1,169.7	\$400.0	-\$969.7
Infrastructure - Ports	\$100.0	\$0.0	\$0.0	-\$100.0
Infrastructure - Broadband	\$0.0	\$0.0	\$50.0	
Other	\$5.0	\$0.0	\$0.0	-\$5.0
Oversight	\$0.0	\$25.0	\$5.0	-\$20.0
Public health	\$0.0	\$100.0	\$0.0	-\$100.0
Transportation	\$580.0	\$0.0	\$0.0	-\$580.0
Workforce	\$55.0	\$75.0	\$0.5	-\$129.5
<b><i>Off-Budget</i></b>				
Rebates	\$0.0	\$0.0	\$510.0	\$510.0
Unemployment Insurance	\$0.0	\$300.0	\$300.0	\$0.0
Offshore Wind Ports	\$0.0	\$0.0	\$100.0	\$100.0
<b>Total line item</b>	<b>\$1,687.7</b>	<b>\$1,966.2</b>	<b>\$1,635.2</b>	<b>-\$2,018.66</b>
<b>Total off-budget</b>	<b>\$0.0</b>	<b>\$300.0</b>	<b>\$910.0</b>	<b>\$610.00</b>
<b>Total</b>	<b>\$1,687.7</b>	<b>\$2,266.2</b>	<b>\$2,545.2</b>	<b>-\$1,408.7</b>
<i>\$ in millions</i>				

The table above compares the HWM proposal with Governor Baker’s most recent supplemental budget, as well as his proposal for remaining federal Fiscal Recovery Funds (FRF). While both proposals provide \$300 million to repay the Unemployment Trust Fund to account for overpayments made during the pandemic, there are many differences in the two approaches. HWM spends much more on health care providers, an offshore wind program and acquisition of public lands while the Governor prioritized housing initiatives and educational and environmental infrastructure investments.

### *HWM priorities*

- **Health care** – HWM provides \$640 million for health care uses, including \$350 million for hospital supports (compared to \$250 million proposed by the Governor), \$195 million for nursing homes and rest homes and \$80 million to address capital investments and deferred care at community health centers.<sup>2</sup> HWM also includes \$15 million for grants to reproductive health and family planning providers. The Administration did not include spending for nursing homes and community health centers.
- **Human services** – HWM includes \$100 million in supplemental payments for private human service providers who contract with the state, with 90 percent of the funds earmarked for the direct care workforce.
- **Community supports** – HWM includes \$15 million in gun violence prevention grants and \$25 million for additional food security infrastructure grants.
- **Public land** – HWM provides \$300 million for publicly owned recreation and conservation properties. The amount is split between two programs, with \$125 million dedicated for environmental justice communities and the remainder available for other communities. Governor Baker proposed \$231.6 million for similar investments in his FORWARD Act.
- **Offshore Wind Ports** – HWM creates a new trust fund for an Offshore Wind Port support program. Of the \$100 million set aside, \$45 million is earmarked for the port of Salem. Governor Baker also included \$45 million for Salem in his supplemental budget, along with smaller earmarks for ports in New Bedford and Somerset.

### *Other Major Spending Areas*

- **Housing** – Governor Baker proposed \$360 million for four housing production and affordability programs in his recent supplemental budget, while HWM includes \$175 million. HWM adopts the Administration’s proposal to create an equitable development fund (\$75 million in the HWM bill) which assists residential and mixed use property development in Gateway Cities or in areas disproportionately affected by the pandemic, but does not include three other Administration housing production proposals. HWM does propose \$100 million to increase production and equitable distribution of affordable housing units.
- **Educational infrastructure** – Governor Baker proposed \$260 million for infrastructure investments at childcare facilities, educational lab space and at public colleges. HWM does not include any of these items.
- **Small business** – Governor Baker proposed \$130 million for three new programs to help small businesses purchase property and mitigate losses. HWM provides \$200 million for more general small business support. Of the HWM amount, \$75 million is set aside for hotels and \$75 million is reserved for businesses in underserved markets or under minority, female, veteran or immigrant/first-generation ownership.

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<sup>2</sup> HWM includes a section specifying the formula for distributing \$300 million in hospital payments. The formula appears to differ from the initial EOHHS approach, but more analysis is required.

*Tax Rebates*

The House rebate proposal, announced jointly with the Senate last week, will provide rebates of \$250 rebates to eligible single filers and \$500 to joint filers (see the table below for eligibility details). This rebate plan builds on \$460 million in rebate payments provided to lower-wage workers earlier in the year.

*House & Senate Rebate Compared to Premium Pay*

<b>Program</b>	<b>Minimum income</b>	<b>Maximum income</b>	<b>Amount</b>	<b>Cost</b>
Essential Employee Premium Pay	\$12,750 in 2020 \$13,500 in 2021	300 percent of the federal poverty level (\$38,640 for individual)	\$500	\$460M
House/Senate proposal	\$38,000	\$100K for individuals \$150K for joint filers	\$250 for individual \$500 for joint filers	\$510M

Rebate programs provide some relief to lower and middle-income taxpayers who face rising costs. They are a one-time use of a resource that avoids a long-term expenditure. However, it is a large expenditure with diffuse and temporary benefits.

The legislative rebate program is intended to build on the essential worker premium pay program implemented earlier in the year. Very low-wage residents who do not meet minimum earning requirements will not benefit from either rebate program.

*Tax Relief*

HWM puts forward a \$524 million tax relief proposal, as well as \$25 million in economic development tax incentives. The HWM tax relief plan contains some of the provisions in Governor Baker’s original proposal, but makes changes to several of the components. HWM also makes these changes effective in January of 2023, delaying the benefit to taxpayers until the spring of 2024.

*Comparison of Tax Relief Proposals*

Tax Proposal	Current	Gov	HWM	Gov. \$	HWM \$
<b>Gov's Budget Proposal</b>					
<b>Dependent care/dependent</b>	\$180/\$360 (dependent) \$240/\$480 (expenses)	\$480/\$960 (dependent) \$240/\$480 (expenses)		\$167	\$130
<b>Rental deduction</b>	50% of rent up to \$3,000	50% of rent up to \$5,000	50% of rent up to \$4,000	\$77	\$35
<b>Senior circuit breaker</b>	Max credit ~\$1,170	Max credit ~\$2,340	Max credit ~\$2,340	\$60	\$60
<b>Estate tax</b>	\$1M threshold Tax applies to entire value	\$2M threshold Tax applies to threshold and above		\$231	\$207
<b>Short-term capital gains</b>	12%	5%	Not included	\$117	\$0
<b>Non-tax status</b>	\$8K Single; \$14.4K HoH; \$16.4K Joint	\$12.4 Single; \$18.65K HoH; \$24.8 Joint	Not included	\$89	\$0
<b>Earned Income Tax Credit</b>	30% of federal credit	Not included	Increase state credit to 40% of federal	\$0	\$92
				<b>\$741</b>	<b>\$524</b>

Notable elements of the HWM tax relief plan:

- **Estate tax** – HWM adopts Governor Baker’s proposal to provide a \$2 million estate tax credit, thereby increasing the state’s threshold for the tax and eliminating the cliff effect. However, HWM also proposes a percentage point increase to the tax rate for estates valued at more than \$5 million. For very high value estates, those most likely to relocate based on tax policy, this change could actually increase tax liability and undercuts the goal of the change.
- **Child and dependent tax credit** – HWM adjusts how this tax credit would work. Currently the value of the credit depends on whether or not expenses are itemized and the value is capped. HWM creates one credit of \$310 for eligible dependents, which is not capped and does not require itemization.
- **Rental deduction** – Governor Baker proposed increasing the current rent deduction cap from \$3,000 to \$5,000. HWM increases the cap to \$4,000.
- **Earned Income Tax Credit** – HWM proposes increasing the state match on the federal EITC from 30 percent to 40 percent. The Governor did not change the EITC.
- **No-tax status & short-term capital gains** – HWM does not include Governor Baker’s proposal to increase the state’s no-tax status to the federal level or to reduce the short-term capital gains rate.

The combined impact of these differences is a HWM tax relief proposal with an annualized impact of \$524 million versus \$741 million in the Governor’s original proposal. However, the biggest short-term difference in the proposals is the fact that HWM delays implementation until Tax Year 2023. Given the state’s budget surplus and inflationary pressures, such relief should be effective for this tax year.

In addition to the tax relief package, HWM also includes three smaller economic development tax proposals:

- ***Housing Development Incentive Program (HDIP)*** – HWM adopts the Governor’s proposal to increase annual HDIP tax credits, which help to finance eligible housing programs, from \$10 million to \$30 million. HWM would temporarily increase the program cap to \$57 million in FY 2023 and establishes a minimum product credit of \$3 million.
- ***Brownfields Redevelopment Tax*** – HWM, like the Governor, extends the state’s Brownfields Credit by five years. HWM also increases maximum grants for certain eligible expenditures.
- ***Live performance tax credit*** – HWM proposes a \$5 million annual tax credit for eligible live performance theaters. Under the credit, productions will be eligible for credits based on in-state payroll and production costs.<sup>3</sup>

**Capital Authorizations**

HWM adopts the Governor’s proposal to authorize \$1.3 billion in capital spending on a variety of economic development programs. About half of the authorizations (\$660 million) go to existing programs, while the remainder (\$590 million) creates new programs or provides state match for federal dollars.

*Comparison of Economic Development Capital Authorizations*

Category	Gov	HWM
Broadband	\$62.0	\$62.0
Environmental Infrastructure	\$114.0	\$114.0
Housing	\$268.8	\$268.8
Innovation support	\$327.0	\$327.0
Local economic development	\$465.0	\$465.0
Tourism & zoos	\$19.0	\$19.0
<b>Total</b>	<b>\$1,255.8</b>	<b>\$1,255.8</b>

Notable capital proposals include:

- \$400 million to reauthorize the state’s MassWorks economic development grant program;
- \$200 million in matching grants to enable academic institutions and other organizations to compete for federal research and development grants in a number of high-tech areas;
- \$104 million for the state’s Water Pollution Abatement Trust;
- \$95.2 million for capital improvements at housing authorities;
- \$73.1 million to recapitalize the Housing Stabilization and Investment Trust Fund; and
- \$50 million to provide matching funds to leverage federal broadband funding.

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<sup>3</sup> This proposal is included in sections 85 and 93. The language makes the maximum credit for one recipient \$5M and

**Policy Sections**

The HWM bill includes 148 policy sections to implement tax and other policy changes. In addition to the tax proposals and Brownfields and HDIP credits, other notable policy proposals include:

- **Massachusetts Center for Employee Ownership** (sections 4 – 6) – HWM creates this new Center, within the Massachusetts of Business Development. The center is intended to provide resources related to employee ownership of businesses.
- **Starter Home Zoning** (sections 26 – 69, 71) – HWM includes a number of sections making adjustments to the state’s Smart Growth Zoning Program, which was created several years ago but has yet to have much impact. Similar changes were included in the Governor’s FORWARD Act.
- **SBA Advisory Board** (Sections 98 & 99) – HWM adds three members to the School Building Authority Advisory Board. All new seats are related to vocational schools.
- **COVID-19 Standing Order** (section 101) – HWM includes language authorizing a standing order for pharmacists to dispense certain COVID-19 tests and medications without a prescription. The Baker Administration has filed similar language.
- **Convention Center Authority Expansion** (section 132) – HWM directs the state’s Convention Center Authority (MCCA) to update its 2019 expansion report. When that report is filed, it will fulfill the requirement that the MCCA notify the legislature prior to undertaking a new capital expansion related to the study.
- **Hynes Convention Center** (section 133) – HWM directs the Mayor of Boston, state Treasurer and Auditor to jointly study the feasibility of different options for disposing of the Hynes Convention Center. Governor Baker proposed authorizing the sale of the Hynes, with the profits earmarked for affordable housing as well as redevelopment in the Back Bay.

**Resource Usage**

HWM uses up to \$1.275 billion of the FY 2022 surplus and \$1.275 billion in FRF resources to support the appropriations in the bill, leaving more than \$3 billion remaining from both sources.

*Gov. v. HWM Use of Resources*

Resources		
Initial surplus	\$3,588.0	
FRF remaining	\$2,268.1	
Proposed Spending		
	Governor	HWM
Surplus spending	\$1,688	\$1,275
FRF spending	\$2,266	\$1,275
<b>Surplus remaining</b>	<b>\$1,900</b>	<b>\$2,313</b>
<b>FRF remaining</b>	<b>\$2</b>	<b>\$993</b>
<i>\$ in millions</i>		

Without further legislative action, any surplus remaining at the end of FY 2022 will be deposited directly in the Stabilization. However, last year lawmakers opted to put into a temporary escrow fund used for future spending bills and could do something similar this year.

Because HWM does not implement its tax relief proposal until tax year 2023, there is no FY 2022 or FY 2023 fiscal impact. Under the HWM plan, taxpayers would wait until spring of 2024 to benefit from the tax changes.

### **Bottom Line**

The HWM's major spending, tax and policy bill released today will take time to fully assess. However, there are several key takeaways that are clear from our initial assessment:

- The House is proposing a significant tax relief plan that adheres to much of Governor Baker's proposal. However, HWM makes several major changes including a delay in the effective date and a tax rate increase for high-value estates that could undercut some of the benefits of the plan.
- Once again, HWM increases the spending focus on health care and community supports, while reducing the Governor's proposed infrastructure spending.
- The bill would leave a major FY 2022 surplus and additional FRF resources for future use.

The House and Senate now have less than three weeks to vote on, negotiate and finalize legislation that spends billions in available resources, authorizes capital spending and provides tax relief. Meeting that timeline in a thoughtful, transparent and sustainable way is a very tall task.