



Commonwealth of Massachusetts
Executive Office for
Administration and Finance

The Economic Outlook and Agenda for the Healey Administration

MASSBUYS EXPO

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Agenda



- Economic Outlook
- Tax Revenue Trends
- FY 2024 Fiscal Outlook
- FY 2025 H.2 Budget
- Economic Competitiveness Agenda



Economic Outlook

Economists anticipate a soft landing in Massachusetts and across the nation

Overview

- The economy continues to recover from the impacts of the pandemic and is affected by high inflation
- Earlier fears of a recession have been quelled with most economists forecasting a **soft landing**
- Uncertainty around the timing of lowered interest rates continue to be a factor to watch

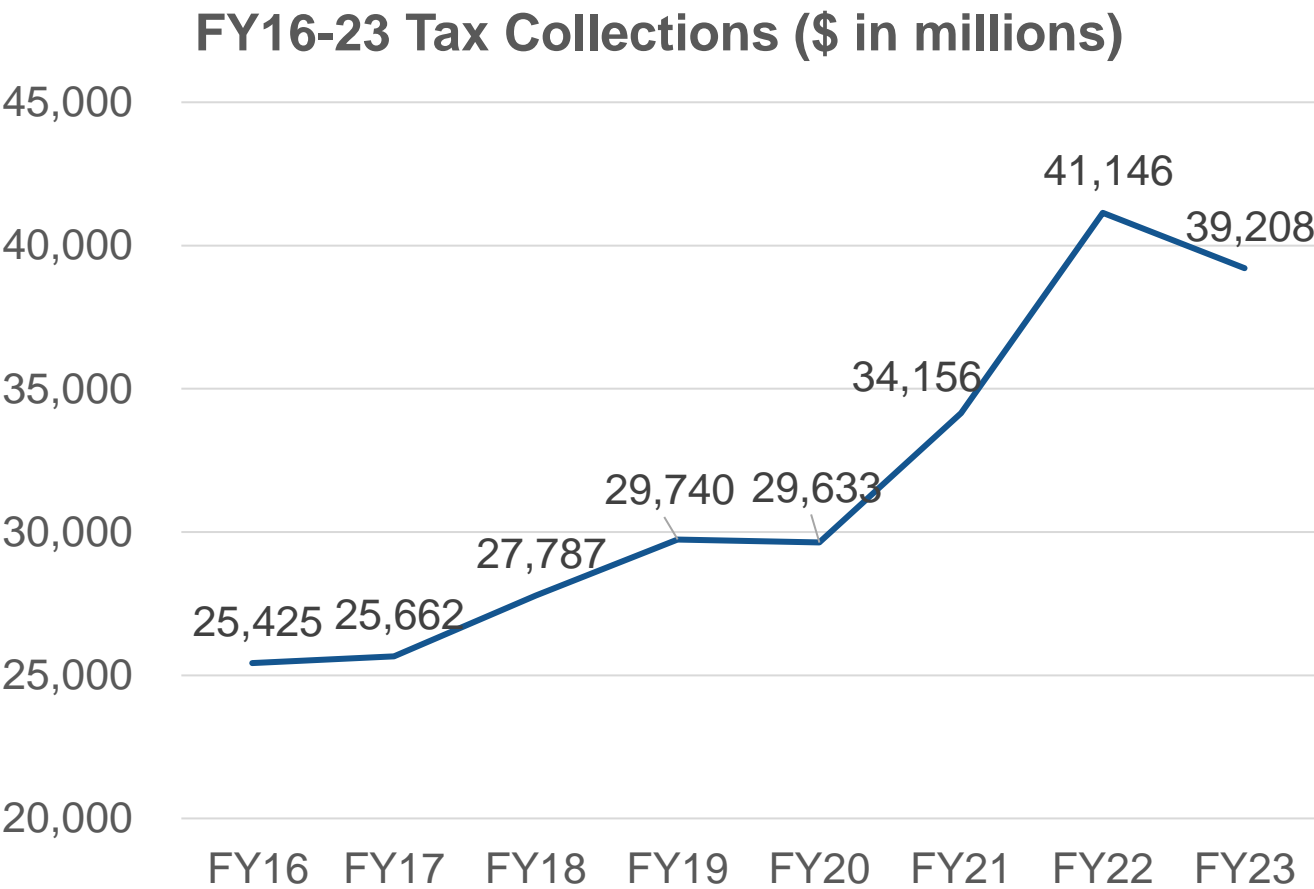
Massachusetts

- MassBenchmarks at the UMass Donahue Institute provides analysis on economic trends in Massachusetts
- Through Q4 of 2023, Massachusetts GDP grew by 1.2%, compared to 3.3% nationwide
 - The main drivers of slow growth were:
 - (1) limitations on labor capacity;
 - (2) sensitivity to interest rates in prominent sectors; and
 - (3) housing supply constraints
- Spending on goods subject to the regular sales tax was down 3.5% compared to the fourth quarter of 2022
- MA unemployment rose to 3.2% in December 2023 from 2.6% in September 2023, based on its model
- Wages and salaries declined 9.6% from the third quarter, likely driven by weaker year-end bonuses, largely in the financial sector



Tax Revenue Trends

Tax collections were inflated over the course of the pandemic



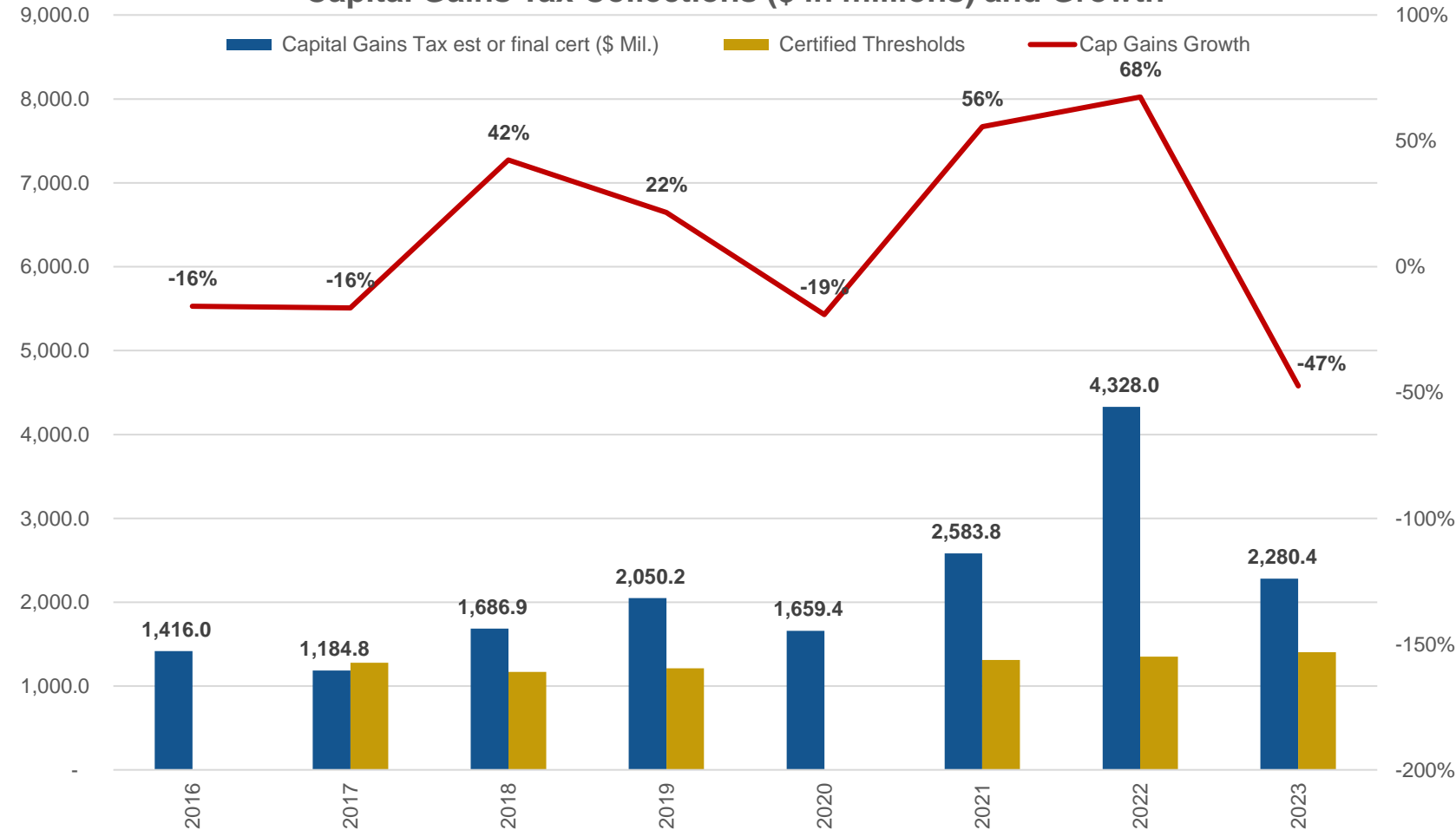
- Tax collections between FY19 and FY20 remained relatively flat, impacted by the federal stimulus
 - Initial expectations suggested significant revenue loss due to the pandemic shutdown
- Between FY20 and FY22, collections rose by nearly 140%, driven largely by non-withheld income growth
 - Capital gains made up a significant portion of these collections
- Collections in FY22 were so strong that more than \$2.9 B was statutorily returned to taxpayers
 - However, much of this revenue was one-time in nature
- FY23 collections came in below the prior fiscal year with non-withheld income as the source of weakness



Capital Gains Trends

Tax collections were inflated over the course of the pandemic

Capital Gains Tax Collections (\$ in millions) and Growth



- Capital gains collections are extremely volatile and reliant on the capital market
- MA has created safeguards to ensure the budget is not overly reliant on this collection category
- Capital gains collection over a statutorily established threshold support the Stabilization Fund and other long-term liabilities:
 - 90% to Stabilization Fund
 - 5% to State Retiree Benefits Trust Fund (OPEB)
 - 5% to Pension Liability Fund
- The last few fiscal years have allowed us to build our reserves to historic levels (more details later)



FY 2024 Fiscal Outlook

Economic slowdown has impacted state tax collections compared to past years

- Massachusetts tax collections have been impacted by the economic trends noted earlier
- FY 2024 benchmarks originally assumed \$40.41 B in tax collections, an increase of 3.6% (excluding income surtax revenues)
- Through December 2023, collections were **\$769 M** below the year-to-date benchmark
- In conjunction with partners in the Legislature, collection assumptions were reduced by **\$1 B**
- The Healey-Driscoll Administration put together a fiscally-responsible package to solve for the reduction:

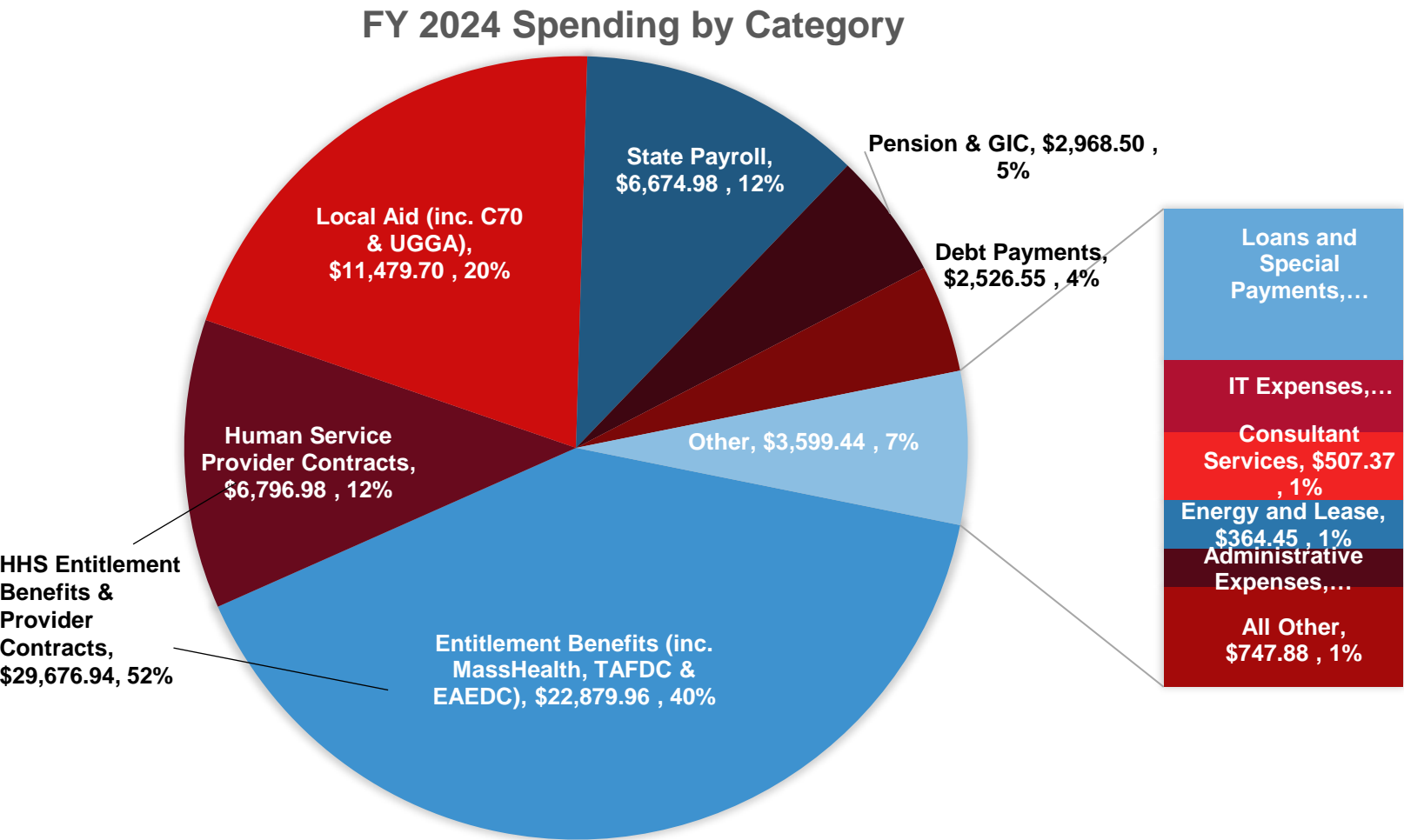
Solutions	Amount (\$ M)
Spending Reductions	375
Non-Tax Revenue and Other	625
Total Solves	1,000

- Since the revenue downgrade, collections have trailed the new benchmark by **\$145 M**
 - March exceeded its monthly benchmark by **\$129 M** and was the first month to finish over benchmark in FY 2024
- April is our largest collection month and continues to be monitored closely this week
 - April includes significant payments in surtax (the first full year of collections in FY24) and capital gains



Major Cost Drivers

Personnel, human service contracts, state benefit programs, and local aid make up the majority of the FY24 GAA’s \$55.98 billion in appropriations



- Spending growth is largely driven by formulaic increases, existing commitments, and major cost centers including:
 - Chapter 70
 - Ch. 257 health and human service rates
 - MassHealth
 - Unrestricted General Government Aid
 - State Employee Health Insurance



FY 2025 H.2 Budget

Building Toward the Future



Building Toward the Future

Addressing the challenges our Commonwealth faces head-on through continued investments that drive affordability, equity, and competitiveness, including:

- **Delivering savings to families, caregivers, renters, seniors, farmers, businesses, and commuters** through the next-phase in of historic tax cuts that make Massachusetts more affordable and competitive
- **Maintaining our commitment to strong state-local partnership** though full funding for the fourth-year phase in of the Student Opportunity Act and supplemental Chapter 90 funding from Fair Share
- **Making continued investments in high-quality early education and child care**, including putting us on a path to universal Pre-K in Gateway Cities, sustaining C3 grants and investing in improved literacy initiatives
- Investing in **safe, affordable, reliable transportation across the state**, including doubling MBTA operating support, establishing a system-wide reduced fare for low-income riders, and fare equity for all RTAs
- Continuing to make **public higher education more affordable and accessible** by further expanding MassReconnect, maintaining MASSGrant Plus, and addressing capital needs for Higher Ed campuses
- **Addressing climate change and its impacts** by once again dedicating 1% of the overall budget to EEA, including \$30 M for CEC, and establishing a permanent Disaster Relief and Resiliency Fund
- **Tackling the state's housing crisis** through continued investment in the new Secretariat of Housing and Livable Communities and increased funding for programs like the Massachusetts Rental Voucher Program (MRVP)



FY 2025 Tax Revenue

House 2 relies on the consensus tax revenue agreement, which is essentially level with the FY24 GAA

- The FY 2025 consensus tax revenue agreement totaled **\$40.2 B**, \$208 M below the FY 2024 GAA – essentially flat
- FY 2025 estimates represent the continued expectation for soft landing for the economy

	FY24 GAA	FY25 H.2	\$ Change
Total Tax Revenue	\$40,410	\$40,202	-\$208
Pension Fund Transfer	\$4,105	\$4,500	\$395
MBTA Sales Tax Transfer	\$1,463	\$1,465	\$2
MA School Building Authority Sales Tax Transfer	\$1,303	\$1,305	\$2
Excess Capital Gains	\$584	\$513	-\$70
Workforce Training Trust Fund	\$27	\$27	\$0
Pre-Budget Transfers	\$7,483	\$7,811	\$328
Taxes Available for Budget	\$32,928	\$32,391	-\$536
4% Income Surtax	\$1,000	\$1,300	\$300



House 2 Bottom Line

House 2 limits non-surtax growth to 2.9%, below current inflation growth of 3.4%, to keep Massachusetts competitive

\$ in millions	FY24 GAA	FY25 House 2	\$ vs. FY24 GAA	% vs. FY24 GAA
FY25 H.2 Appropriations	\$54,558	\$56,152	\$1,594	2.9%
Medical Assistance Trust Fund (MATF)	\$505	\$682	\$177	35.1%
Education & Transportation Fund Spending (Fair Share)	\$1,000	\$1,300	\$300	30.0%
Total Spend	\$56,063	\$58,134	\$2,071	3.7%

- The Governor's FY25 budget recommendation totals **\$56.15 B**, an increase of **\$1.59 B, or 2.9%**, over the FY24 GAA, excluding spending tied to the income surtax and the Medical Assistance Trust Fund
- Spending growth is held below inflation. The consumer price index currently is up **3.4%** compared to last year *(Source: Bureau of Labor Statistics)*
- Statutory pre-budget obligations to pension, MBTA, school buildings, further reduce revenues available for spending by **\$536 M** compared to FY24
- Statutory cost pressures, including the Student Opportunity Act (+\$270 M) and Ch. 257 (+\$390 M), outpace available tax revenues

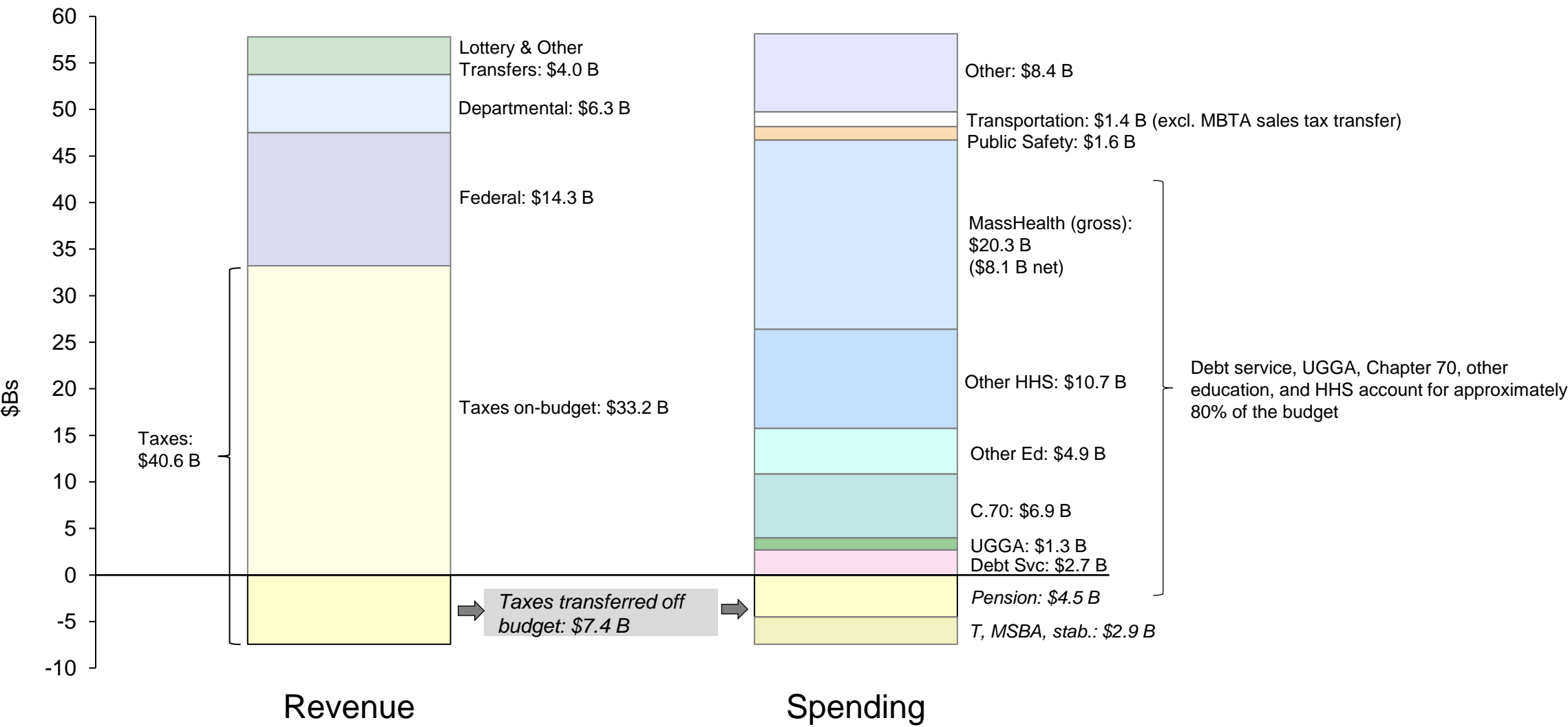
Fiscal Year	GAA Total*	% over prior GAA
FY25 H.2	56,152	2.9%
FY24	54,558	5.2%
FY23	51,868	8.9%
FY22	47,614	3.6%
FY21	45,954	6.6%

*Excludes Fair Share and Medical Assistance Trust Fund spending.



FY25 H.2 Budget Recommendation At A Glance

\$56.15 B in budgeted spending, a 2.9% increase over FY24, excluding Fair Share and MATF investments





Fair Share Investments

H.2 uses the income surtax to make transformative investments in our education and transportation systems

Education	FY25
<i>\$ in millions</i>	H.2
Early Education & Care	311.0
Child Care Grants to Providers	150.0
CPPI Pre-K Initiative	21.0
Provider Rates	65.0
Child Care Affordability	75.0
K-12 Education	210.0
Early College and Innovation Pathways	5.0
Universal School Meals	170.0
Mental Health Systems and Wraparounds	5.0
Literacy Launch	30.0
Higher Education	229.0
MASSGrant Plus	80.0
Higher Education Capital Funding	125.0
MassReconnect	24.0
Total	750.0

Transportation	FY25
<i>\$ in millions</i>	H.2
Municipal Assistance	124.0
Supplemental C90/Rural Road Aid	124.0
MassDOT	306.0
CTF Bonding Capacity	250.0
Service, Safety, and Sustainability	56.0
MBTA	45.0
Fare Equity	45.0
MassDOT Rail and Transit	75.0
Regional Transit Funding, Grants, and Fare Equity	75.0
Total	550.0



Achieving a Balanced Budget

H.2 relies on a thoughtful combination of new recurring revenues, limited one-time and multi-year resources and managed spending growth to create a balanced budget that advances key priorities

<i>\$ in millions</i>	Total	
Resource	\$1,250	Designation
Gaming Fund Consolidation	\$100	Recurring
Lottery Modernization	\$75	Recurring
Tax Fairness & Modernization Policies	\$60	Recurring
SOA Investment Fund	\$300	Multi-Year
Excess Capital Gains	\$375	One-Time
High-Quality EEC Affordability Fund	\$265	One-Time
Tax Amnesty	\$75	One-Time

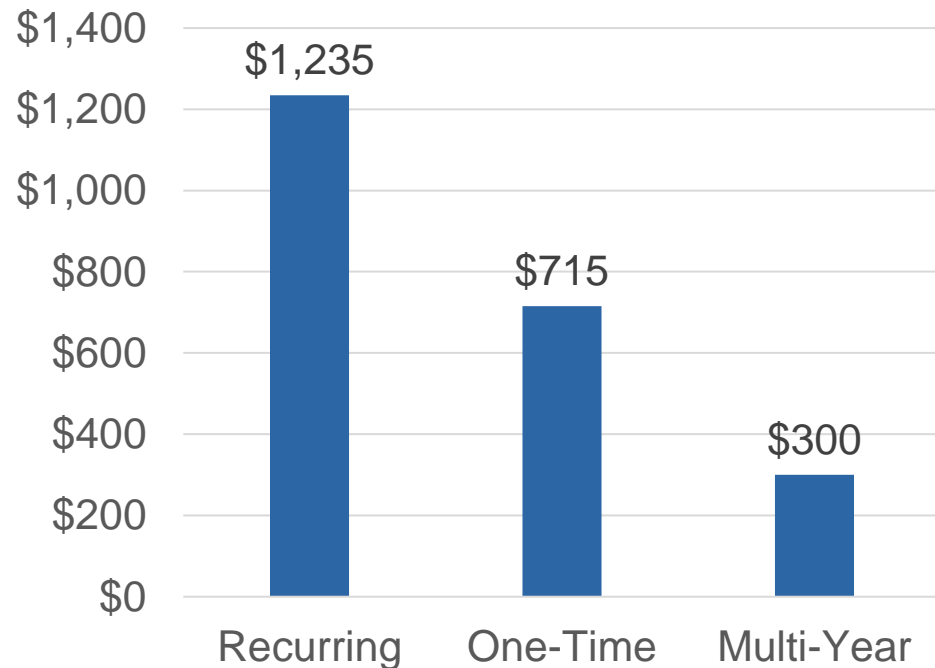
- H.2 does not use the Stabilization Fund
- H.2 proposes a glidepath into future fiscal years by proposing new recurring non-tax revenues that will grow over time
- One-time and limited multi-year resources are used to create a bridge until tax revenues begin to rebound
- Spending is managed across the budget to ensure affordability while minimizing impact to our most vulnerable residents and achieve a growth rate of 2.9%



A Glidepath to Future Fiscal Years

H.2 relies primarily on recurring resources and targeted spending reductions to mitigate outyear cliffs and prioritize fiscal stability

H.2 Proposals by Category



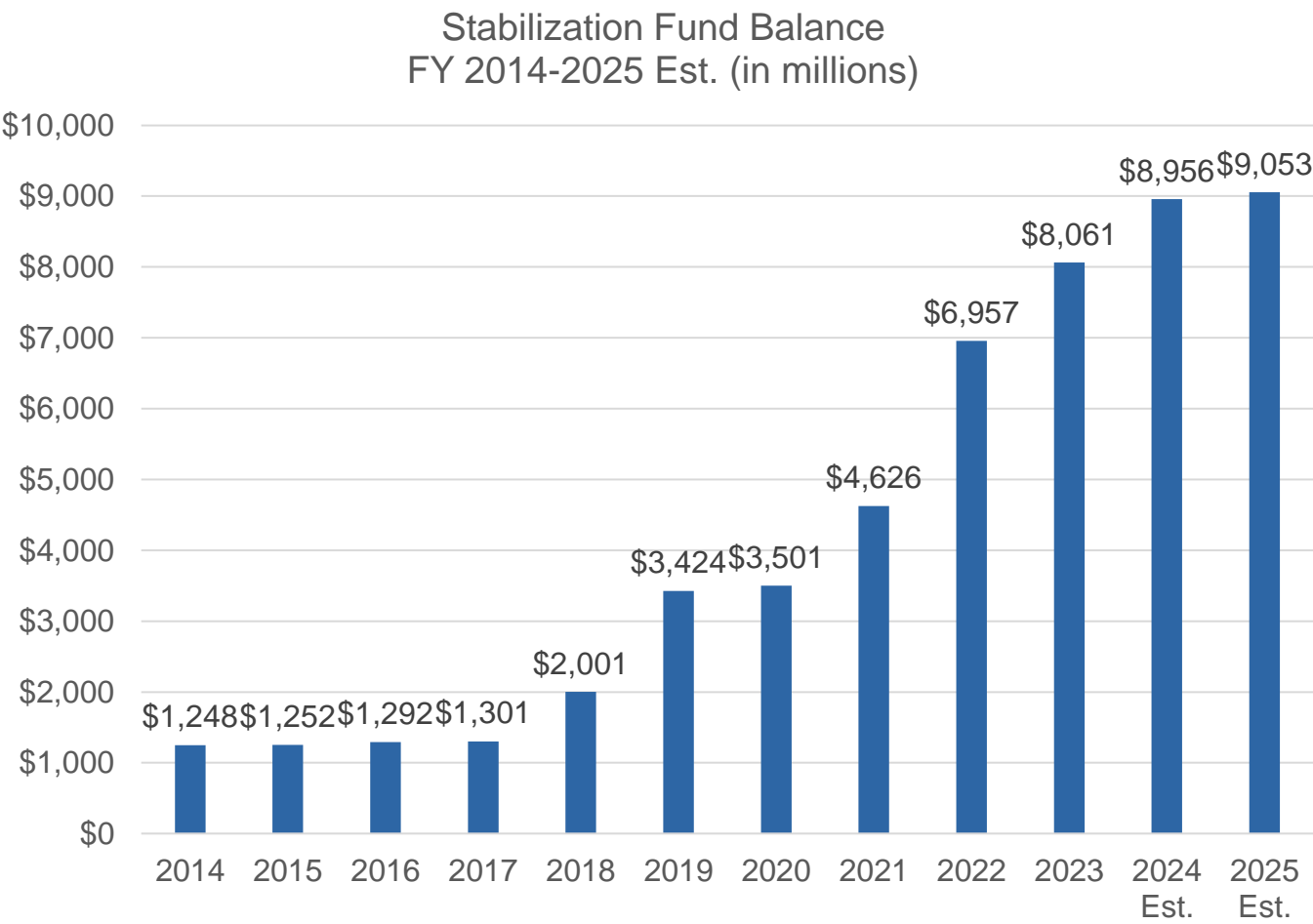
- The House 2 budget is primarily balanced through recurring revenue and managed spending
- Spending reductions are guided by the availability of expiring federal resources, updates to program caseloads, and removing one-time costs to operate government more efficiently
- H.2 emphasizes the importance of ensuring stable spending for the state's most critical services and programs
- The Administration's proposal establishes a glidepath to future fiscal years that promotes reasonable growth, creative recurring revenues, and limited one-time resources



Stabilization Fund

Commonwealth’s reserves have grown substantially in recent years and continues trend in H.2

- Stabilization Fund balance has increased by roughly 546% since FY14 to \$8.06 billion in FY23
- H.2. assumes a balance of \$9.05 B by the end of FY25
 - Represents 15.5% of total expenditures (excluding surtax) compared to 3.6% in FY14
- The state has demonstrated its commitment to rebuild its reserves as stipulated through its own fiscal policies
- The Stabilization Fund is funded primarily through capital gains tax revenues exceeding a specific threshold be transferred
 - 90% to Stabilization Fund
 - 5% to State Retiree Benefits Trust Fund (OPEB)
 - 5% to Pension Liability Fund
- H.2 proposes dedicating 10% of excess cap gains to a new Disaster and Resiliency Trust Fund, as well as increasing contributions to other long-term liabilities





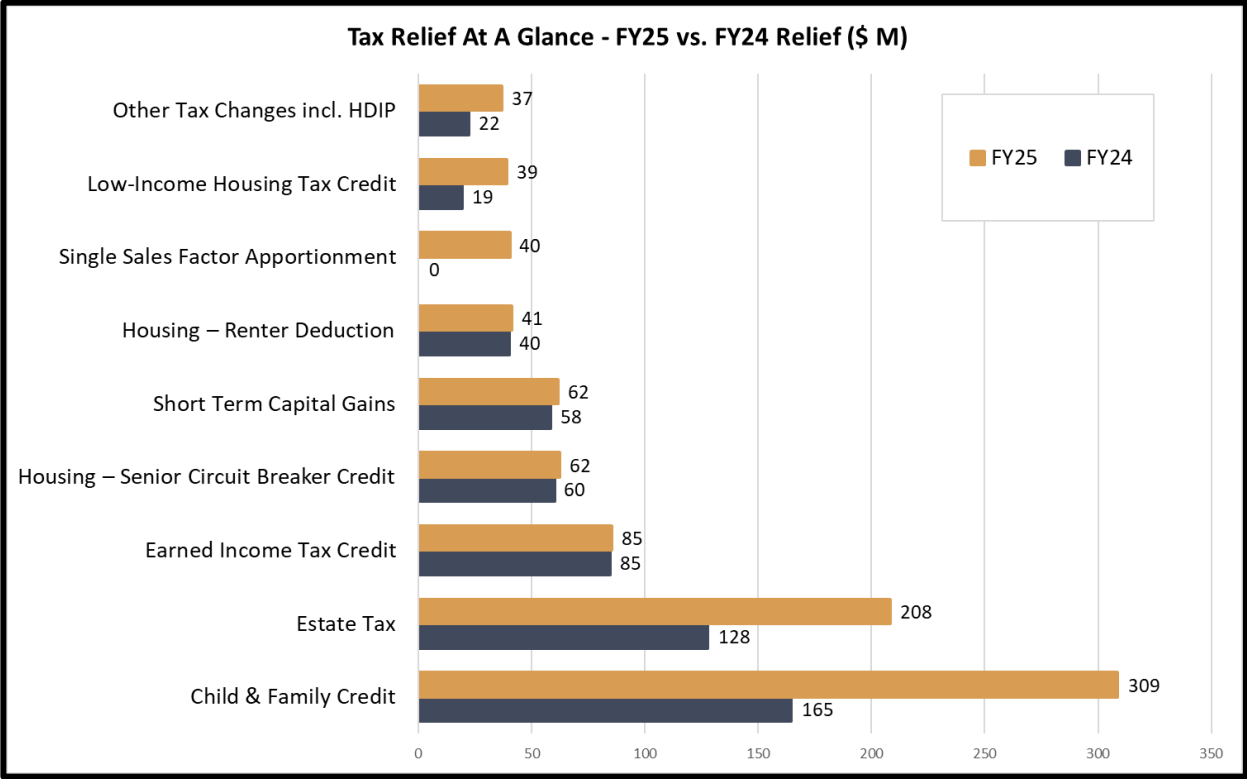
Economic Competitiveness Agenda



Providing Meaningful Tax Relief

H.2 annualizes the omnibus tax relief package signed into law last year to provide sustainable and meaningful relief. Several provisions provide additional relief in FY25

- **Child and Family Tax Credit** – eliminated two-dependent cap and increased credit from \$180 per dependent child, disabled adult, or senior to \$310 for 2023 and to \$440 on a permanent basis, starting in tax year 2024
- **Single Sales Factor** – shifted from three-factor apportionment system based on sales, payroll, and property to apportionment based solely on sales beginning in FY25
- **Low-Income Housing Tax Credit (LIHTC)** – increased annual program cap from \$40M to \$60M beginning in calendar year (CY) 2024
- **Housing Development Incentive Program (HDIP)** – increased annual program cap from \$10M to \$57M in 2023, and \$30M annually beginning in CY 2024
- **Estate Tax** – increased threshold from \$1M to \$2M with a credit that mitigates cliff effect (already effective, but greater fiscal impact starting FY25)





Economic Competitiveness Agenda

Key economic and fiscal priorities are also being advanced in other pending legislation, including:

- **Affordable Homes Act (H4138):** A \$4 B plan to jumpstart production of homes and make housing more affordable statewide. *Filed October 18, 2023*
- **An Act to Provide for Competitiveness and Infrastructure in Massachusetts (S2554):** A proposal to unlock \$800 M in additional state funding over the next three year to enable the state to aggressively pursue historic federal funding opportunities. *Filed October 19, 2023*
- **FutureTech Act (H4242):** A bond bill that supports key projects aimed at improving residents' digital experience, making government IT systems and more secure, and preparing the state for emerging tech such as AI. *Filed January 9, 2024*
- **Municipal Empowerment Act:** Legislation aims to arm local governments with more tools and supports to generate local resources and access the products and workers needed to best serve Massachusetts residents. *Filed January 22, 2024*
- **Mass Leads: An Act Relative to Strengthening Massachusetts' Economic Leadership (H4459):** A bond bill based on the Healey-Driscoll Administration's first economic development plan, focused on competing in critical sectors such as life sciences and climatetech. *Filed March 1, 2024*