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## MTF Bulletin

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### Fiscal Year 2025 Budget: A Closer Look

#### *Transportation Funding in the Governor's Budget*

The Healey administration filed its Fiscal Year (FY) 2025 budget proposal on January 24<sup>th</sup>, totaling \$58.13 billion. The spending plan includes critical investments in healthcare and education, as well as a notable funding increase for transportation supported by new income surtax revenues.

Governor Healey's FY 2025 budget provides \$1.37 billion in transportation funding for MassDOT, the MBTA, 15 Regional Transit Authorities (RTAs), municipalities, and the Merit Rating Board. The \$1.37 billion total represents a \$77.6 million (6 percent) increase over the \$1.29 billion included in the FY 2024 General Appropriations Act.

#### *Summary of Transportation Investments in the Governor's Budget*

The \$1.37 billion is comprised of \$820.7 million in base-funding and \$550 million in income surtax revenues. Base-funding increased by a mere \$4.1 million over FY 2024, while surtax-supported spending jumped by \$73.5 million or 15 percent; demonstrating the potential role of surtax revenues in addressing transportation challenges.

Category	FY 2024 GAA	FY 2025 - Governor	\$ vs. FY 2024 GAA
Transfer to MassDOT	\$523.9	\$528.0	\$4.1
Transfer to MBTA	\$187.0	\$187.0	\$0.0
Transfer to RTAs	\$94.0	\$94.0	\$0.0
Other Transportation	\$11.7	\$11.7	\$0.0
<b>Base Transportation Spending</b>	<b>\$816.6</b>	<b>\$820.7</b>	<b>\$4.1</b>
Income Surtax Spending (CTF Fund)	\$0.0	\$250.0	\$250.0
Income Surtax Spending (Other)	\$476.5	\$300.0	-\$176.5
<b>Total Income Surtax Spending</b>	<b>\$476.5</b>	<b>\$550.0</b>	<b>\$73.5</b>
<b>Total Transportation Spending</b>	<b>\$1,293.1</b>	<b>\$1,370.7</b>	<b>\$77.6</b>
<b>% of Total Budget Spending</b>	<b>2.3%</b>	<b>2.4%</b>	

*\$ in millions*

#### Income Surtax Revenues for Transportation

Surtax revenues available to support budgeted spending increased to \$1.3 billion in FY 2025 from the \$1 billion imposed cap in FY 2024. Education funding receives \$750 million (58 percent) with

the remaining \$550 million (42 percent) dedicated to transportation. While this represents a proportional reduction from the 48 percent of last year, the nominal increase of \$73.5 million helps address a series of transportation funding needs in FY 2025.

*Summary of Surtax Spending in the Governor’s Budget*

	<b>FY 2024 GAA</b>	<b>FY 2025 - Governor</b>	<b>\$ vs. FY 2024 GAA</b>
<b>Total Education Spending</b>	<b>\$524</b>	<b>\$750</b>	<b>\$226</b>
<b>Total Transportation Spending</b>	<b>\$476</b>	<b>\$550</b>	<b>\$74</b>
<i>Income Surtax Transfer to CTF</i>	\$0	\$250	\$250
<i>Income Surtax Spending (Other)</i>	\$477	\$300	(\$177)
<b>Total Surtax Spending</b>	<b>\$1,000</b>	<b>\$1,300</b>	<b>\$300</b>

*\$ in millions*

The Governor’s budget divides the \$550 million dedicated towards transportation into two tranches: \$250 million to the Commonwealth Transportation Fund (CTF) and \$300 million transferred to transportation agencies.

*Income Surtax Transfer to the CTF - \$250 Million*

Through an outside policy section, the Healey administration proposes making the \$250 million pre-budget transfer to the CTF permanent. The permanent dedication of resources to the CTF has a number of benefits, including improving the predictability and reliability of future surtax revenues available for transportation. However, the proposal must be approved by the House and Senate, and the details are important.

The \$250 million transfer to the CTF aims to achieve two goals: 1) it will unlock up to \$1.1 billion in potential borrowing capacity for future capital projects, and 2) it will provide additional operational support for MassDOT and the MBTA in FY 2025.

To the first goal, the permanent dedication of surtax resources to the CTF will expand the revenue base of the fund, improve its debt coverage ratio, and allow for up to \$1.1 billion in new borrowing capacity. The CTF is currently supported by motor fuels taxes and fees collected from the Registry of Motor Vehicles (RMV); and according to the administration, would only be able to support the issuance of \$740 million in bonds between FY 2025 and FY 2029. In FY 2025, to support the fund’s increased borrowing capacity, the Governor reserves \$63 million of the \$250 million to support capital borrowing.

To the second goal, the Governor’s budget proposes transferring the remaining \$187 million in funds to MassDOT (\$60 million) and the MBTA (\$127 million). The supplemental transfer of \$60 million to MassDOT represents new funds in FY 2025 while the \$127 million is added to the \$187 million the MBTA received in FY 2024.<sup>1</sup>

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<sup>1</sup> The MBTA received \$187 million in state contract assistance in FY 2024; \$127 million for operations and \$60 million in bond cap available to pay for capital budget salaries.

If the Legislature adopts the administration’s proposal to turn the \$250 million into a permanent pre-budget transfer, in future years, \$63 million of the total dedicated would be annually reserved to support capital expenses. The remaining \$187 million would be available for transportation spending after debt services obligations are covered.

*Income Surtax Transfer Agencies - \$300 Million*

The \$300 million proposed transfer to fund transportation needs breaks down as follows:

- \$56 million for service, safety, and sustainability at MassDOT.
- \$45 million for the MBTA’s fare equity program.
- \$75 million for Regional Transit funding, grants, and fare equity.
- \$124 million for supplemental Chapter 90 payments and rural road aid to municipalities.

As shown below, there are notable items funded with income surtax revenues in FY 2024 that are excluded in the Governor’s proposal for FY 2025, including funding for capital investments such as reductions to MassDOT’s highway bridge preservation projects (-\$50 million) and MBTA capital investments (-\$180 million).

*Other Income Surtax Spending for Transportation*

	<b>FY 2024 GAA</b>	<b>FY 2025 - Governor</b>	<b>\$ vs. FY 2024 GAA</b>
<b><i>Income Surtax Spending (Other)</i></b>	<b>\$477</b>	<b>\$300</b>	<b>(\$177)</b>
<i>Roads &amp; Bridges Supplemental Aid</i>	\$100	\$124	\$24
<i>Regional Transit Funding and Grants</i>	\$90	\$75	-\$15
<i>Safety, Service, and Sustainability</i>	\$0	\$56	\$56
<i>MBTA Means Tested Fares</i>	\$5	\$45	\$40
<i>MBTA Capital Investments</i>	\$181	\$0	-\$181
<i>Highway Bridge Preservation</i>	\$50	\$0	-\$50
<i>Federal Matching Funds</i>	\$25	\$0	-\$25
<i>MBTA Workforce/Safety Reserve</i>	\$20	\$0	-\$20
<i>Water Transportation</i>	\$6	\$0	-\$6

*\$ in millions*

**Looking At Funding by Agency**

Turning to the individual agencies, the next section breaks down the Governor’s proposed transportation funding amounts and sources for MassDOT, the MBTA, the Regional Transit Authorities, and municipalities in FY 2025 with comparisons to previous budgets.

*MassDOT*

Revenues for MassDOT operations originate from funds deposited into the CTF which, aside from the proposed \$250 million income surtax transfer, are estimated at \$2.36 billion in FY 2025. The primary revenue sources for the CTF are motor fuels taxes (\$726.5 million), motor vehicle sales taxes (\$875 million) and departmental fees such as registry and inspection fees (\$692 million).

Approximately two-thirds of the \$2.36 billion are used to pay for transportation related debt service expenses in the Governor’s budget.

Category	FY 2023 GAA	FY 2024 GAA	FY 2025 - Governor	\$ vs. GAA
Transfer to MassDOT	\$457.1	\$523.9	\$528.0	\$4.1
Supplemental Transfer to MassDOT	\$0.0	\$0.0	\$60.0	\$60.0
Highway Bridge Preservation	\$0.0	\$50.0	\$0.0	(\$50.0)
Safety, Service, and Sustainability	\$0.0	\$0.0	\$56.0	\$56.0
<b>Subtotal</b>	<b>\$457.1</b>	<b>\$573.9</b>	<b>\$644.0</b>	<b>\$70.1</b>

In the Governor’s budget, MassDOT receives \$644 million in total funding, an increase of \$70.1 million over the FY 2024 funding level of \$573.9 million. The \$644 million combines \$588 million in base-funding from CTF funds for operations and \$56 million in surtax revenues. On the operations side, there are additional funds for customer service at the RMV, as well as \$85 million transferred from the Massachusetts Transportation Trust Fund to pay for snow and ice removal.

The \$56 million in surtax revenue is dedicated to service, safety, and sustainability of the state’s transportation infrastructure needs, including:

- Tech systems for road safety and congestion management;
- water transportation systems for docks and additional vessels;
- tech assistance for economic justice, rural, and gateway communities;
- climate resiliency and adaptation projects for high-risk transportation assets; and
- grants for recreational trail and shared-use pathway projects across the commonwealth.

### *The MBTA*

Historically, the MBTA receives funding from three outside sources to support operational expenses: dedicated sales tax revenues that are transferred to the MBTA pre-budget (~50 percent of total revenues), local government assessments (~7 percent), and state contract assistance (~8 percent).

One-time pandemic-related federal support of approximately \$2 billion has helped the MBTA close large budget gaps since FY 2020. Those gaps were driven principally by declines of nearly \$300 million in fare revenues along with increased expenses to fund safety and service expansions.

Facing an estimated \$620 million operating budget gap in FY 2025,<sup>2</sup> the MBTA applies \$300 million from its resiliency fund while seeking \$140 million in potential savings that, if successful, would leave a \$180 million gap in its operating budget. The Governor’s budget provides \$172 million from income surtax revenues for operating costs to help close that gap – \$127 million in contract assistance and \$45 million to cover the costs of a low-income fare program.

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<sup>2</sup> The operating budget gap includes a means tested fare program estimated to cost \$45 million in FY 2025.

Category	FY 2023 GAA	FY 2024 GAA	FY 2025 - Governor	\$ vs. GAA
Transfer to MBTA	\$187.1	\$187.0	\$187.0	\$0.0
Supplemental Transfer to MBTA	\$0.0	\$0.0	\$127.0	\$127.0
MBTA Capital Investments	\$0.0	\$180.8	\$0.0	(\$180.8)
MBTA Means Tested Fares	\$0.0	\$5.0	\$45.0	\$40.0
MBTA Workforce/Safety Reserve	\$0.0	\$20.0	\$0.0	(\$20.0)
<b>Subtotal</b>	<b>\$187.1</b>	<b>\$392.8</b>	<b>\$359.0</b>	<b>(\$33.8)</b>

The \$45 million for the MBTA’s fare equity program would cover the costs of foregone fare revenues, operating and administrative costs, and greater community engagement.

The pre-budget transfer of sales tax revenues to the MBTA in FY 2025 totals \$1.465 billion, a \$2 million increase over FY 2024, pending certification for both years from the Comptroller. While the gain in FY 2025 is marginal, sales tax revenues increased by \$370 million over the prior five years, from \$1.05 billion in FY 2019 to \$1.42 billion in FY 2023, representing a nearly 9 percent annual increase, helping to close budget gaps since the start of the pandemic.

### *Regional Transit Authorities*

The RTAs receive \$169 million in the Governor’s budget, down from \$184 million in FY 2024. The direct transfer of \$94 million is unchanged whereas funding from surtax revenues declined by \$15 million from \$90 million to \$75 million in FY 2025. The \$75 million in operations and grants is directed to three uses:

- \$56 million to support operational enhancements, expanded service hours, weekend services and route expansions,
- \$15 million for fare equity programs across the RTAs, and
- \$4 million for expanded mobility grants to make Massachusetts more accessible and affordable for all communities.

Category	FY 2023 GAA	FY 2024 GAA	FY 2025 - Governor	\$ vs. GAA
Transfer to RTAs	\$96.5	\$94.0	\$94.0	\$0.0
Regional Transit Funding and Grants	\$0.0	\$90.0	\$75.0	(\$15.0)
<b>Subtotal</b>	<b>\$96.5</b>	<b>\$184.0</b>	<b>\$169.0</b>	<b>(\$15.0)</b>

### *Municipalities*

Municipalities receive \$124 million in surtax revenues in FY 2025, of which \$100 million is supplemental Chapter 90 aid.<sup>3</sup> This funding would be in addition to FY 2025 Chapter 90 Aid. Governor Healey proposed a \$200 million authorization for Chapter 90 in FY 2025, which was included in the Governor’s recently filed Transportation Bond Bill. The remaining \$24 million of surtax funding, which was added in the Governor’s budget, is to fund rural and regional transportation programs.

<sup>3</sup> The Chapter 90 Program, begun in 1973, provides an annual funding source for capital improvements to local transportation systems. Each municipality is allocated a portion of program funds which have historically been set at \$200 million annually. For more information on the Chapter 90 Program, click [here](#).

In FY 2024, the \$100 million in income surtax supplemental aid employed two funding formulas: the first \$50 million used the traditional Chapter 90 formula (local road mileage (58.33%), population (20.83%), and employment (20.83%)), and the second \$50 million was distributed based on each municipality's share of road mileage. The Governor's budget similarly includes language that directs funding to be distributed using a formula based on each municipality's population, locally owned road miles, and employment.

### **Key Takeaways for the House and Senate**

- **Will the Legislature divide income surtax revenues evenly between education and transportation initiatives? If so, how will the additional transportation funds be appropriated?**

*In FY 2024, the House and Senate budgets followed MTF's recommendation to evenly split surtax spending between transportation and education. The final budget shifted the split slightly, upping the education share to 52 percent. In Governor Healey's budget, we see a further shift towards education receiving nearly 60 percent of resources. This shift is problematic. While an identical allotment may not be possible each year, it is important that both areas eligible for surtax spending receive the same attention. The importance of this is further underlined by the fact that major shortfalls in both operating and capital transportation budgets are projected as soon as FY 2026. To the extent possible, the House and Senate should return to the even split approach of their FY 2024 budgets.*

- **Will the Legislature adopt the Governor's proposal to permanently direct \$250 million of income surtax revenue collections towards the Commonwealth Transportation Fund?**

*It's become clear that funding needs for public transit and roads and bridges will escalate over the next few years demanding creative revenue sources. Dedicating a portion of income surtax revenues to the CTF adds borrowing capacity and a level of funding certainty for operational spending. The Governor's proposal to automatically transfer \$250 million to the CTF is a worthy policy step that could lead to a more permanent solution in the coming years as the state certifies how much it can expect to receive from the surtax.*

- **The MBTA will exhaust all reserves to close its FY 2025 budget gap, leaving little room for financial flexibility. Will the Legislature increase operating contract assistance to the MBTA to provide funds for unanticipated exposures as the state seeks a long-term solution?**

*The state relies on a healthy stabilization fund balance to address economic downturns, fiscal stress, and unanticipated expenses. Rating agencies have stated that insufficient reserves will adversely impact a state's bond rating. With that said, it does not make sense for the MBTA to exhaust all reserves to close the FY 2025 budget leaving the authority with little financial flexibility. Should expenses climb from higher personnel or maintenance costs or should revenues slip, or both, the MBTA would be forced to pursue*

*more aggressive funding alternatives such as deploying a portion of federal matching funds for operations rather than critical capital costs. The benefit of maintaining its current reserves outweighs the rationale for forcing the MBTA to sweep its accounts to balance its budget – a common practice employed by the authority over the past decade or more.*