

MTF Bulletin

April 16, 2025

10 Key Questions for the House Ways & Means Budget

- 1. How does spending in the HWM budget compare to the FY 2025 budget signed into law last July, the Healey administration's anticipated spending level for FY 2025, and Governor Healey's FY 2026 budget proposal?**

The HWM budget for FY 2026 spends \$580 million less than the Governor, and spending grows by \$3.7 billion (6.4 percent) over the FY 2025 GAA. Proposed spending increases by \$1.2 billion (2.1 percent) compared to the Healey administration's estimated spending level for FY 2025. Notably, spending in the House proposal grows by one percentage point (more than \$500 million) less over the prior year than the Governor's budget. In FY 2026, spending growth over the prior fiscal year is primarily driven by non-discretionary program costs related to MassHealth, the Group Insurance Commission, and state aid for public school districts. In the HWM budget, spending for 49 different non-discretionary programs tracked by MTF grows by \$2.8 billion (7.6 percent).

- 2. Does the HWM budget adjust state tax revenue assumptions for FY 2026?**

The HWM budget does not make adjustments to the FY 2026 revenue benchmark. Spending in the HWM budget is predominantly supported by the \$41.214 billion consensus tax revenue figure agreed to in January by the Healey administration, House, and Senate. Due to recent federal actions, legitimate questions have been raised regarding revenue assumptions and if it is appropriate to amend expectations for FY 2026. As detailed in MTF's budget analysis, we strongly recommend that policymakers view all budget decisions within the context of federal action and economic uncertainty, but hold on adjusting the revenue benchmark until June, as this will provide additional data on state revenue collections, the federal budget and the broader economic picture.

- 3. What level of revenue-generating initiatives is relied upon to support spending in the HWM budget, and does the House proposal reflect any tax policy changes?**

The HWM budget does not include any of Governor Healey's tax proposals while relying on approximately \$1.5 billion in other revenue-generating initiatives and one-time solutions to support spending in FY 2026. Nearly all of the proposals reflected in the HWM budget were originally put forward by Governor Healey, including initiatives to divert above-threshold capital gains revenue towards the Pension Fund, recoup \$200 million in COVID-era appropriations that remain unexpended, redirect certain gaming revenues onto the budget, and maximize several other trust funds and departmental initiatives.

- 4. Does the HWM budget divide income surtax-supported spending between the education and transportation sectors?**

Assessed holistically, surtax spending across the HWM budget proposal for FY 2026 and the Innovation and Capital Fund supplemental budget is evenly divided between the education and transportation sectors. As MTF has highlighted in previous work, achieving a 50/50 division for education and transportation surtax-supported

spending should be accomplished through the operating budget and supplemental spending bills. This will ensure that each sector is receiving its fair share of resources, as well as the resources most appropriate to meet their distinct needs.

5. Does the HWM budget adopt the Governor’s proposal to reallocate a greater share of above-threshold capital gains revenue towards the state’s pension and post-retiree benefit liabilities?

Yes. The HWM budget reflects the Healey administration’s proposal to redirect a larger share of above-threshold capital gains revenue towards the state’s Pension Fund and post-retiree benefit liabilities. At the same time, the House continues to build the balance of the Stabilization Fund; depositing \$133 million of above-threshold capital gains revenue and increasing the balance to \$8.4 billion by the end of FY 2026. While using one-time revenues, like above-threshold capital gains revenue, to fund ongoing costs – like the state’s required Pension Fund transfer – should generally be avoided, given the fiscal constraints facing budget writers in FY 2026, this practice is reasonable.

6. Does the House adopt the Governor’s proposals to securitize dedicated streams of surtax revenue in support of expanding higher education capital spending capacity?

No. The HWM budget does not adopt the Healey administration’s proposal to dedicate \$125 million in surtax revenue to support a new higher education capital financing strategy. Through the permanent allocation of these resources towards a new reserve account, the administration anticipated the ability to support the issuance of up to \$2.5 billion in new Special Obligation (SO) bonds over ten years to fund higher education capital improvement projects. MTF supports this proposal as a strategic way to enhance the long-term impact of surtax revenues.

7. How does spending for the MassHealth program under the HWM budget compare to other areas of investment, as well as to the Governor’s budget proposal?

The HWM budget is notable for \$166 million less in MassHealth spending than the Governor’s budget, while also providing \$30 million more for nursing home rates; meaning that close to \$200 million in gross MassHealth spending reductions are assumed compared to the administration. Even with this significant reduction in spending, MassHealth remains the primary driver of cost increases in the HWM budget, representing 63.6 percent of new budgeted spending compared to the FY 2025 GAA.

8. Under the HWM spending proposal, is growth in local aid for cities and towns tied to the consensus revenue growth estimate?

No. The HWM budget proposes to level fund Unrestricted General Government Aid (UGGA) to cities and towns in FY 2026 at \$1.31 billion. Conversely, the Governor’s budget proposed to increase UGGA funding to \$1.34 billion, an increase of \$28.8 million (2.2 percent). That increase would have been consistent with the expectations for revenue growth in FY 2026 of 2.2 percent.

9. Does the HWM budget continue to support Student Opportunity Act implementation, moving towards full implementation by FY 2027?

Yes. The HWM budget fully funds the fifth year of SOA implementation, including a total of \$7.36 billion for FY 2026. In addition, HWM proposes to increase the minimum aid per pupil amount to \$150. In the Governor’s budget, minimum aid per pupil was funded at \$75 and in the FY 2025 GAA it was set at \$104. To support the

costs of Chapter 70 in FY 2026, the HWM budget relies on General Fund (\$6.9 billion), SOA Implementation Fund (\$207 million), Education Fund (\$48.3 million), and income surtax (\$240 million) resources.

10. Does the HWM budget reflect the administration's transportation finance strategy and the recommendations of the Transportation Finance Task Force?

Yes. The HWM budget includes the key elements of Governor Healey's larger transportation finance strategy. Most notably, investments in the HWM budget and the Innovation and Capital Fund supplemental spending bill provide the funding necessary to stabilize the MBTA's operating budget over the next three years. Specifically, the increase in MBTA operating support to \$687 million and the inclusion of \$790 million in supplemental surtax spending for the authority are projected to close 90 percent of their operating budget deficit through FY 2028. The authority would be responsible for closing the remaining 10 percent.