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MTF Bulletin

June 25, 2025

Fiscal Year (FY) 2026 Conference Committee Preview

Fulfilling the Recommendations of the Transportation Finance Task Force

The Conference Committee for the Fiscal Year (FY) 2026 budget is actively working to reconcile all spending, policy, and technical differences between the House and Senate budgets, with the goal of delivering a compromise spending bill to the Governor's desk by July 1st.

As MTF detailed in its first Conference Committee preview, [*Reconciling Revenue and Spending Differences Between the House and Senate Final Budgets*](#), at a high-level the House and Senate budgets share many similarities that would ordinarily suggest a quick conference resolution. Both bills exclude the Governor's tax policy proposals, spend less than the administration by approximately \$500 million, and forego many substantive policy initiatives.

However, these big picture commonalities obscure some key differences. In particular, the House and Senate budgets reflect two different approaches to implementing the recommendations of the Transportation Finance Task Force (TFTF), specifically those related to maximizing the impact of surtax revenues through securitization and providing multi-year operating budget support to the MBTA.

In this Conference Committee preview, MTF reviews the original recommendations of the TFTF, assesses how the House and Senate budgets meet those recommendations, and provides a roadmap for how the investments in the FY 2026 operating budget and Innovation and Capital Fund supplemental budget can provide meaningful support to the state's transportation systems.

Ultimately, MTF urges budget leaders to adopt the Senate's proposal to securitize \$600 million in surtax revenue for transportation capital investment and to adopt the House's proposal to increase ongoing operating support for the MBTA to a total of \$687 million annually. As further described below, when this increased support is paired with the investments in the Innovation and Capital Fund supplemental budget, policymakers would succeed in closing projected operating budget deficits at the MBTA for at least two years and put support for all the state's transportation agencies – both capital and operating – on sounder footing.

Recommendations of the Transportation Finance Task Force

In January 2024, Governor Healey announced the creation of a Transportation Finance Task Force (TFTF) to develop recommendations that would address immediate transportation finance challenges and make recommendations for long-term funding improvements.

The final report and recommendations of the TTF were released in early 2025, and they laid out a multi-pronged approach to stabilize and improve the Commonwealth’s transportation system through enhanced operating and capital investments. Specifically, the report recommended a “surtax-first” approach that focuses on effectively appropriating and maximizing the resources newly available for transportation spending.

The core tenets of the TTF report, as reflected in [Governor Healey’s FY 2026 operating budget recommendation](#) and the administration’s fair share supplemental budget proposal, include:

- Achieving a 50/50 split of surtax resources between education and transportation through the combination of operating budget and supplemental budget investments.
- Maximizing a dedicated stream of surtax revenues towards transportation to expand the state’s borrowing capacity for increased capital spending.
- Closing projected operating budget deficits at the MBTA for multiple years.

Comparing the House & Senate Budgets

In the sections below, the investments included in the Legislature’s FY 2026 budget proposals and spending in the Innovation and Capital Fund supplemental budget are compared to the main goals of the TTF.

Achieving a 50/50 Divide of Surtax Resources

In FY 2026, state budget leaders agreed to a surtax spending cap in the operating budget of \$1.95 billion; an increase of \$650 million (50 percent) over the FY 2025 General Appropriations Act (GAA).

The House and Senate final budgets both dedicate \$1.185 billion of the spending cap towards education, with the remaining balance (\$765 million) dedicated to transportation in the House budget. The Senate, in contrast, reserves \$165 million for the Education and Transportation Reserve Fund; providing only \$600 million for transportation-related investment.

Division of Surtax Resources in the House and Senate FY 2026 Budgets

	FY 2026 House	FY 2026 Senate	% of Total (House)	% of Total (Senate)
Education	\$1,185	\$1,185	60.8%	60.8%
Transportation	\$765	\$600	39.2%	30.8%
Reserve Fund Transfer	\$0	\$165	0.0%	8.5%
Total Investments	\$1,950	\$1,950	100.0%	100.0%

\$ in millions

On their own, the FY 2026 budget proposals from the Legislature do not succeed in evenly dividing surtax revenues between the education and transportation sectors. However, when considered alongside the Innovation and Capital Fund supplemental budget enacted by the Legislature on June 18th, the distribution in both bills moves closer towards 50/50.

The supplemental budget sent to the Governor’s desk spends \$1.32 billion¹ in surplus surtax revenue collected in FY 2023 and FY 2024, and those resources are divided between education (\$561 million, 42.5 percent) and transportation (\$759 million, 57.5 percent).

Surtax Spending in the IC Supp & FY 2026 Budget Proposals

	FY 2026 - House	FY 2026 - Senate	Innovation & Capital Supp	% of Total (House)	% of Total (Senate)
Education	\$1,185	\$1,185	\$561	53%	53%
Transportation	\$765	\$600	\$759	47%	42%
Reserve Fund Transfer	\$0	\$165	\$0	0%	5%
Total Investments	\$1,950	\$1,950	\$1,320	100%	100%

\$ in millions

If surtax spending in the FY 2026 budget more closely resembles the House distribution – which would require a higher level of investment in transportation, and most notably the MBTA – the overall divide of surtax revenues between education and transportation is nearly even.

Maximizing the Impact of Surtax Revenues through Securitization

In FY 2025, lawmakers approved a proposal to annually and automatically dedicate \$250 million in surtax revenue to the Commonwealth Transportation Fund (CTF). The creation of this automatic transfer mechanism allowed the state to increase the borrowing capacity of the CTF by up to \$1.1 billion by expanding its dedicated revenue base. It also immediately provided additional operating resources for transportation, because once the revenues were transferred to the CTF, they could then be reappropriated for MassDOT, the MBTA, and other transportation-related programs.

In FY 2026, the Healey administration and Legislature expanded on this strategy, increasing the automatic deposit of surtax revenues into the CTF. However, while the Governor recommended increasing the annual deposit to \$765 million, the House and Senate increased it to \$500 million and \$600 million, respectively.

Proposed Annual Surtax Transfer to CTF

Fiscal Year	Governor	House	Senate
FY 2025	\$250		
FY 2026	\$765	\$500	\$600

\$ in millions

The redirection of surtax revenues for transportation to the CTF is a strategic policy decision that maximizes the long-term impact of the surtax while still allowing for enhanced operating support through the annual budget. The Healey administration estimated that a recurring deposit of \$765 million into the CTF would increase the fund’s debt coverage ratio to support up to \$5 billion in new capital spending over the next ten

¹ Total spending in the IC supp is \$1.39 billion, with \$1.32 billion in spending supported by surtax revenues held in the Education and Transportation Innovation and Capital Fund. The final bill also includes a \$58 million appropriation for the Special Education Circuit Breaker program in FY 2025 supported by the Student Opportunity Act trust fund; as well as \$10 million for the Boston Holocaust Museum, supported by the Transitional Escrow Fund.

years. This expanded borrowing capacity would not only help the Commonwealth meet its transportation investments goals, but it would also provide more opportunity for capital investment in housing, energy and environmental infrastructure, and higher education by alleviating some of the current pressure on the state's bond cap.

Neither the House nor Senate provided a specific estimate for the expanded capital spending made possible by a \$500 million or \$600 million transfer into the CTF; however, MTF urges the Conference Committee to adopt the Senate's higher proposal. Surtax revenues for transportation that do not flow through the CTF are not maximizing the potential of this new resource.

Closing Projected Operating Budget Deficits at the MBTA

A major goal of the TFTF is to stabilize the MBTA's operating budget for multiple years using predictable streams of state support.

The investments included by the Governor in her FY 2026 budget recommendation and surtax supplemental budget sought to close MBTA projected budget gaps for the next three fiscal years by:

- Permanently increasing the state's operating budget transfer to the MBTA to \$687 million;
- Dedicating \$300 million of surplus surtax revenues towards replenishing MBTA reserves that had been previously used to close past budget gaps; and
- Retiring the MBTA's legacy debt to generate additional savings.

The House's spending proposals largely followed the strategy but forward by the Governor, dedicating a total of \$1.48 billion to the authority through the FY 2026 operating budget and surtax supplemental budget. The Senate, in contrast, directed \$890 million to the MBTA across the two bills.

MBTA Funding Proposals, House v. Senate

	House	Senate
Operating Transfer to the MBTA	\$687	\$500
<i>Base Transfer</i>	\$187	\$150
<i>Supplemental CTF Transfer</i>	\$500	\$350
MBTA Reserve Deposits	\$700	\$300
<i>MBTA Workforce / Safety Reserve</i>	\$400	\$100
<i>MBTA Reserve Replenishment</i>	\$300	\$200
Other MBTA Spending	\$93	\$90
<i>MBTA Physical Infrastructure</i>	\$60	\$0
<i>Low-Income Fare Relief</i>	\$20	\$20
<i>Revenue & Traffic Mitigation</i>	\$13	\$0
<i>Water Transportation Infrastructure</i>	\$0	\$20
<i>Commuter Rail Infrastructure</i>	\$0	\$50
Total MBTA Spending	\$1,480	\$890

\$ in millions

While projected MBTA budget gaps have historically fluctuated throughout the year, the combination of solves recommended by the Governor and adopted by the House were projected to close 90 percent of the MBTA's operating deficits between FY 2026 and FY 2028; and the authority would be required to close the remaining 10 percent. It was unclear how the Senate's funding plan would impact the authority's ability to balance its operating budget.

In the Innovation and Capital Fund supplemental budget enacted by the Legislature last week, a total of \$548 million in funding was included for the MBTA.

Supplemental Surtax Spending for the MBTA

	Final IC Supp
MBTA Reserve Deposits	\$475
<i>MBTA Workforce / Safety Reserve</i>	\$175
<i>MBTA Reserve Replenishment</i>	\$300
Other MBTA Spending	\$73
<i>MBTA Physical Infrastructure</i>	\$40
<i>Low-Income Fare Relief</i>	\$20
<i>Revenue & Traffic Mitigation</i>	\$0
<i>Water Transportation Infrastructure</i>	\$13
<i>Commuter Rail Infrastructure</i>	\$0
Total MBTA Spending	\$548

\$ in millions

In the following section, MTF demonstrates that if this supplemental funding is paired with an increased operating transfer to the MBTA of \$687 million, the authority's projected budget gaps will be closed for at least two fiscal years, based on current modeling.

Providing Budget Sustainability for the MBTA

Providing multiple years of budget sustainability for the MBTA must be a shared goal of the administration and Legislature for a clear reason: a stable and financially solvent authority will provide safer, faster, and more reliable public transportation to millions of people who rely on the MBTA to get to work, school, or back home. A well-functioning high-speed rail system is a competitive asset for Massachusetts.

Based on the FY 2026 final operating budget presented at the MBTA's June Board Meeting, the authority projected a budget gap of \$864 million. In a February 2025 proforma, the MBTA estimates that gap expands to \$954 million in FY 2027. Prior to the enactment of the Innovation and Capital Fund supplemental budget, they anticipated roughly \$3.2 billion to \$3.4 billion in operating expenses to be offset by approximately \$2.4 billion in revenues generated from standard operations, local assessments, a direct transfer of sales tax collections, and state support.

Projected Operating Budget Gaps at the MBTA in FY 2026 and FY 2027

	FY 2026	FY 2027
Expenses	\$3,243	\$3,397
Operating	(\$535)	(\$555)
Sales Tax	(\$1,425)	(\$1,465)
Local Assessment	(\$196)	(\$200)
Other	(\$35)	(\$36)
Base State Subsidy	(\$187)	(\$187)
Estimated Gap	\$864	\$954
Existing MBTA Reserves	\$250	\$250

\$ in millions

The surtax supplemental budget included \$548 million in funding for the MBTA, and as demonstrated by the table below, if those investments are paired with an increase to the state's operating subsidy of \$500 million, the authority's projected budget gaps would be closed for the following two fiscal years.

MTF Estimate of Operating Budget Gaps at the MBTA

	FY 2026	FY 2027
MBTA Estimated Gap	(\$864)	(\$954)
10% Projected Savings	(\$86)	(\$95)
Starting Gap (post-savings)	(\$778)	(\$859)
Additional Operating Subsidy	\$500	\$500
50% Non-Reserve Spending	\$37	\$37
50% Workforce Reserve Spending	\$88	\$88
Remaining Gap	(\$154)	(\$235)
Additional Reserve Draw	\$154	\$235
Final Budget Gap	(\$0)	(\$0)
Remaining Reserves (Existing & New)	\$396	\$161

\$ in millions

Like the Governor's original proposal, this build-up assumes that the MBTA will remain responsible for closing 10 percent of its projected operating deficit in each year. It also assumes that 50 percent of non-reserve spending in the Innovation and Capital Fund supplemental budget and 50 percent of the MBTA workforce reserve are drawn down in FY 2026 and FY 2027. Additional reserve draws of \$154 million and \$235 million, in FY 2026 and FY 2027, are then required to close the remaining budget gaps.

Importantly, at the end of FY 2027, this build-up maintains approximately \$150 million in reserve funding for the MBTA. Ensuring that a reserve balance is available for the authority heading into FY 2028 is critical, because this financing plan does not offer three years of budget sustainability.

Conclusion

The FY 2026 operating budget and the Innovation and Capital Fund supplemental budget offer policymakers a unique opportunity to make meaningful progress on fulfilling the state’s long-term transportation finance goals. By combining the most notable elements from both the House and Senate budgets – the Senate’s proposal to increase the surtax dedication to the CTF to \$600 million, and the House’s proposal to increase the MBTA’s operating subsidy to \$687 million – lawmakers will succeed in several notable ways:

- Addressing projected operating budget gaps at the MBTA for multiple years; and
- Increasing the state’s capital spending capacity for transportation infrastructure investments.

Most importantly, the House and Senate will have demonstrated that surtax revenues are being used strategically and effectively; moving closer to a 50/50 split of these resources and following the TTF’s “surtax-first” framework.