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## MTF Bulletin

June 30, 2025

### FY 2026 Conference Committee Report Summary

The House and Senate are preparing to enact a Fiscal Year (FY) 2026 budget, totaling \$61.03 billion in line-item spending. The compromise budget includes \$443.4 million less in spending than the final House budget and \$395.1 million more in spending than the Senate budget, meaning that the Conference Report includes \$941.2 million less than Governor Healey's original spending plan. The FY 2026 conference report proposes spending growth of \$3.3 billion, or 5.6 percent over the FY 2025 General Appropriations Act (GAA).

In spite of the significant reduction in spending, the FY 2026 Conference Report does not adjust the non-surtax tax revenue assumptions established during the Consensus Revenue process in January. The Conference Report assumes \$41.214 billion in non-surtax collections. As MTF noted in its recent [Conference Preview series](#), the economic picture has darkened since January and it is likely that the Healey administration will revise revenue assumptions at some point in the summer or fall.

The Conference Report differs significantly from the House and Senate budgets by relying on all \$2.4 billion in surtax resources expected to be collected in FY 2026, as opposed to the \$1.95 billion surtax spending threshold agreed to as part of the Consensus Revenue process. The additional surtax spending is used to cover additional K-12 funding formula and child care financial assistance spending, but adds budget risk should the economy falter.

Finally, the Conference Report is notable in that the final balance sheet retains more than \$800 million in unexpended budgeted revenues. It is unclear what the plan is for this significant balance, but it could be effectively a placeholder to mitigate the impact of future tax revenue declines.

The June 30<sup>th</sup> filing of the Conference Report is the earliest date for budget resolution in more than a decade. While the degree of spending and policy differences between the House and Senate budgets were not substantial, it also appears that budget makers prioritized getting a budget to Governor Healey's desk at the start of the fiscal year as opposed to keeping FY 2026 spending in a holding pattern while waiting for further news on Congressional Reconciliation legislation and June revenue collections.

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### FY 2026 Conference Report – Top 3 Things to Know

- 1. The Conference Committee Report reduces spending, but does not make adjustments to non-surtax revenue assumptions.** Since the start of the FY 2026 budget process, a consistent theme has been increasing economic and federal policy uncertainty. That uncertainty has led to calls for the House and Senate to make material changes to assumptions for federal support or total tax

collections. MTF recommended deferring any adjustments to resource assumptions until the budget reached Conference Committee, as multiple rounds of revisions would simply have added chaos to the budget process without the benefit of specific new information. The Conference Report did not elect to make revenue adjustments, but did reduce spending by \$395 million from the Senate budget – the smallest of the three budget proposals. The spending reduction was accomplished by reducing MassHealth and other items significantly below levels proposed in the House and Senate budgets. The Conference Report also leaves a budget surplus of more than \$800 million, which could mitigate negative tax revenue impacts in the future.

2. **The Conference Report increases the surtax spending cap to \$2.4 billion.** The Conference budget increases surtax spending by \$450 million over the \$1.95 billion surtax spending cap agreed to as part of the Consensus Revenue agreement. This increase is used to cover additional K-12 school aid and child care financial assistance accounts. This increase in surtax spending could be related to the news that FY 2025 surtax collections are likely to near \$3 billion in FY 2025. However, the volatility of the surtax means that upping the operating budget's reliance adds risk, while also reducing the level of resources available for Innovation and Capital Fund spending in future years.
3. **The FY 2026 budget includes less for the MBTA than either the House or Senate budgets.** Last summer, [MTF laid out the case](#) for providing multiple years of budget certainty for the MBTA in order to maintain momentum on work being done to improve service reliability and safety. That approach was reflected in the Governor's Transportation Finance Plan and adopted in the House version of the FY 2026 budget, as well as the related Innovation and Capital Fund supplemental budget. Now that both spending bills have been resolved, it appears that the MBTA will have about \$217 million less for its operating subsidy than the amount put forward by the administration and House. While the influx of funds from the recent Innovation and Capital Fund supplemental budget, combined with the FY 2026 operating subsidy, should close the MBTA's gap in FY 2026, it is unclear if FY 2027 will be resolved as well.

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## **FY 2026 Budget Resources**

### *Baseline Tax Revenues*

As noted above, Conference negotiators assume \$41.214 billion in non-surtax tax collections in their final budget, the same assumption used in each earlier versions of the budget.

Since January, when the consensus tax revenue figure was established, state tax revenue collections have been strong, but they mask a more complicated story that implies risk in FY 2026. Through May, collections are up \$2.8 billion (7.8 percent) over FY 2025 and exceed benchmark by \$2 billion. However, more than half of the growth over last year, and almost the entirety of the growth compared to benchmark is due to non-withheld income tax collections. These collections are heavily concentrated in capital gains and surtax-able income which are largely set aside from the budget and typically reflect past economic activity. Given some

of the changes in the overall economic outlook, it is reasonable to believe that these revenue types will weaken in the months ahead, creating revenue risk in FY 2026.

MTF’s recent conference preview, [Re-Evaluating FY 2026 Revenues](#), laid out the reasons for caution in establishing FY 2026 revenues and the rationale for an adjustment to underlying assumptions in the weeks and months ahead.

### *Income Surtax Revenue*

The Conference Committee Report increases the surtax spending cap for FY 2026 to \$2.4 billion from \$1.95 billion. This is the first time the Conference Committee has adjusted the operating budget cap after it was originally set in the Consensus Revenue process. This new threshold, which is 85 percent higher than the \$1.3 billion figure used in the FY 2025 budget, is now equal to the \$2.4 billion in total surtax collections estimated during the FY 2026 Consensus Revenue process.

The Department of Revenue (DOR) recently certified that through April, surtax collections in FY 2025 were \$2.6 billion, implying that surtax revenues could reach \$3 billion by the end of the fiscal year. This new information likely played a role in the decision to up the operating surtax cap in the Conference Report. However, it is important to note that only one full year of surtax collections has been certified, in FY 2024, when collections equaled \$2.46 billion. Relying on \$2.4 billion in the FY 2026 operating budget leaves far less room for error if collections do trend downward and also reduces the level of resources available for future Innovation and Capital Fund supplemental spending.

Last week, Governor Healey signed the first surtax- supported Innovation and Capital Fund supplemental budget, which appropriated \$1.3 billion in excess surtax revenues for a variety of uses with a large focus on transportation needs.

### *One-Time Revenues*

The Conference Report relies on \$1.5 billion in revenue initiatives, all of which are one-time solutions. This level of one-time solutions is essentially the same amount used in the Senate budget and \$300 million more than used on the House or Governor’s budget. One-time resources do not recur and so must be replaced in subsequent budgets, thereby providing a rough estimate for the structural deficit of a budget.

*FY 2026 Conference: One-Time Resources*

Proposal	FY 2025 GAA	FY 2026 - Governor	FY 2026 - House	FY 2026 - Senate	FY 2026 - Conference	FY 2026 v. FY 2025
Tax Amnesty Program	\$100	\$0	\$0	\$0	\$0	-\$100
High-Quality EEC Trust Fund	\$200	\$0	\$17	\$10	\$0	-\$190
EEC Operational Grant Fund	\$0	\$115	\$115	\$115	\$115	\$115
SOA Investment Fund	\$200	\$207	\$207	\$200	\$200	\$0
B.H. Trust Fund	\$0	\$0	\$0	\$0	\$0	\$0
COVID Grant Recoupment	\$0	\$200	\$200	\$350	\$350	\$350

*(table continued below)*

Proposal	FY 2025 GAA	FY 2026 - Governor	FY 2026 - House	FY 2026 - Senate	FY 2026 - Conference	FY 2026 v. FY 2025
Above Threshold Cap. Gains	\$375	\$400	\$400	\$566	\$566	\$191
Other One-Timers	\$0	\$200	\$175	\$200	\$200	\$200
Gaming Fund Redistribution	\$100	\$100	\$100	\$108	\$100	\$8
<b>Subtotal One-Time</b>	<b>\$975</b>	<b>\$1,222</b>	<b>\$1,214</b>	<b>\$1,549</b>	<b>\$1,531</b>	<b>\$574</b>

*\$ in millions*

The majority of one-timers (\$916 million; 59.8 percent) come from two sources:

- **\$566 million in capital gains diversions** – The Conference Report dedicates the majority of capital gains revenues exceeding \$1.66 billion to cover pension obligations costs, thereby freeing up other general fund resources to balance the budget. Based on the Consensus Revenue agreement, capital gains collections are expected to exceed \$1.66 billion by \$666 million. The House budget proposed diverting \$400 million in capital gains revenues.
- **\$350 million in COVID spending recoupments** – In 2021 and 2022, the state passed two major surplus spending bills to address a range of COVID recovery and economic development programs. Several years later, a significant portion of those appropriations have yet been spent. Governor Healey’s budget proposed recouping \$200 million in unexpended COVID funds; the Conference report, like the Senate budget proposed recouping \$350 million.

While the Conference budget diverts capital gains resources that would otherwise be deposited into the Stabilization Fund (and other reserves), the budget does not reduce the balance of the Stabilization Fund and in fact assumes an FY 2026 deposit of \$33.3 million, which would result in a balance of \$8.26 billion.

The final Conference Report also uses \$315 million from two education trust funds created during pandemic, and recapitalized in recent years to ensure continued reserve balances for key initiatives:

- \$200 million from the Student Opportunity Act Trust Fund, leaving a balance of \$286.7 million; and
- \$115 million from the from the Early Education and Care Operational Grant Fund, leaving a balance of \$35 million.

The Conference budget does not use any resources from the High-Quality Early Education and Care Trust Fund. Both House and Senate budgets had proposed using some level of the \$17 million in that fund to cover early education costs.

The \$1.5 billion in one-time resources in the FY 2026 Conference Committee Report is not out of line with historic levels of non-recurring revenues, however it is an increase of \$574 million over the level used in last year’s budget. While the state will enter FY 2026 with strong reserve balances, this uptick in a reliance on one-time solutions increases the budget pressure in the coming year.

## **FY 2026 Budget Spending**

### *Line-Item Spending*

The FY 2026 Conference Report includes \$61.03 billion in total line-item spending, including \$2.4 billion in surtax investments and \$547.6 million for a transfer to the Medical Assistance Trust Fund. This total represents a \$3.3 billion (5.6 percent) increase over the FY 2025 GAA. This spending total is \$443.4 million less than the House budget and \$395.1 million below Senate total spending. The budget Governor Healey will review is \$941.2 million less than her original FY 2026 proposal.

### *FY 2026 Conference: Line-Item Spending*

	FY 2025 GAA	FY 2026 Governor	FY 2026 House	FY 2026 Senate	FY 2026 Conference
Line-Item Spending	\$55,779.3	\$59,577.3	\$59,079.5	\$58,977.7	\$58,060.9
Surtax Spending	\$1,300.0	\$1,950.0	\$1,950.0	\$1,950.0	\$2,399.8
Medical Asst. Trust Fund	\$682.2	\$547.6	\$547.6	\$547.6	\$547.6
Behavioral Health Outreach, Access, Support	\$20.0	\$0.0	\$0.0	\$31.5	\$25.4
<b>Total Line-Item Spending</b>	<b>\$57,781.5</b>	<b>\$62,074.9</b>	<b>\$61,577.1</b>	<b>\$61,506.8</b>	<b>\$61,033.7</b>
Pre-Budget Transfers	\$7,297.4	\$7,651.0	\$7,651.0	\$7,651.0	\$7,651.0
Other Off-Budget	\$200.0	\$0.0	\$200.0	\$75.0	\$100.0
<b>Total Spend</b>	<b>\$65,258.9</b>	<b>\$69,725.9</b>	<b>\$69,428.1</b>	<b>\$69,232.8</b>	<b>\$68,784.7</b>

*\$ in millions*

According to MTF's analysis, 98 percent of non-surtax spending was shared between the House and Senate proposals; however, budget makers still needed to reconcile \$959.6 million in spending differences. Those differences, combined with the decision to reduce spending by between \$400 and \$450 million below House and Senate levels, results in several final appropriations that differ from both earlier versions.

Notable line items with Conference spending less than either House or Senate proposals include:

- **MassHealth** – Conference MassHealth spending is \$22.1 billion, \$284 million less than the Senate proposal and \$305 million less than the House proposal. It is unclear if any specific programmatic changes are assumed in this lower spending figure.
- **MBTA** – Conference MBTA spending is \$470.2 million. This figure is \$216.8 million less than the amount proposed in the Governor and House budgets and \$30 million less than that proposed by the Senate.

Even with the reduced bottom line, the Conference Report still includes a number of unique House and Senate spending priorities:

### House Priorities

- **\$25 million for supplemental nursing home rates.** This was a House spending initiative, originally funded at \$30 million and not included in the Senate budget;
- **\$20 million for the Clean Energy Center (CEC).** The House budget included \$25 million for the CEC, while the Senate included just \$5 million.
- **\$50.6 million for Emergency Food Assistance.** The House budget included \$55 million in non-earmarked spending for food insecurity support, versus \$42.05 million in the Senate budget.

### Senate Priorities

- **\$694.4 million for adult mental health services.** Both the House and Senate budgets prohibited the administration from making changes to Department of Mental Health case management services as originally proposed by the administration. The Conference appropriation, like the Senate budget, would support the cost of maintaining the service.
- **\$1.32 billion for Unrestricted General Government Aid (UGGA).** The House budget reduced UGGA spending by \$28.8 million from the Governor's proposed level, while the Senate matched the Governor. The Conference report split the difference between the two spending levels, providing \$14.4 million more than the House, but less than the Senate.

In addition, the Conference report includes more than 1,400 programmatic and local earmarks, totaling more than \$250 million in unique spending retained in the compromise.

### Surtax Spending

The FY 2026 Conference Report includes \$2.4 billion in surtax spending. The spending is heavily skewed towards education (70.3) compared to transportation (29.7 percent).

#### FY 2026 Conference: Surtax Investments

	FY 2025 GAA	FY 2026 Governor	FY 2026 House	FY 2026 Senate	FY 2026 Conference	FY 2026 v. FY 2025
<b>Education</b>	<b>\$762</b>	<b>\$1,185</b>	<b>\$1,185.0</b>	<b>\$1,185.0</b>	<b>\$1,688.0</b>	<b>\$927</b>
Early Education	\$278	\$373	\$428	\$433	\$661	\$383
K-12 Education	\$245	\$475	\$515	\$518	\$760	\$516
Higher Education	\$239	\$337	\$242	\$234	\$267	\$28
<b>Transportation</b>	<b>\$539</b>	<b>\$765</b>	<b>\$765.0</b>	<b>\$600.0</b>	<b>\$711.9</b>	<b>\$173</b>
MBTA	\$261	\$500	\$500	\$350	\$0	-\$261
MassDOT	\$123	\$155	\$155	\$130	\$0	-\$123
RTAs	\$110	\$110	\$110	\$120	\$162	\$52
Local/Pilot Program	\$45	\$0	\$0	\$0	\$0	-\$45
Unspecified CTF	\$0	\$0	\$0	\$0	\$550	\$550
<b>Reserve Fund Transfer</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$165</b>	<b>\$0</b>	<b>\$0</b>
<b>Total Investments</b>	<b>\$1,300</b>	<b>\$1,950</b>	<b>\$1,950</b>	<b>\$1,950</b>	<b>\$2,400</b>	<b>\$1,100</b>

*\$ in millions*

As with non-surtax line-item spending, there was more in unique surtax spending proposed in the House and Senate budgets than could be accommodated by the \$1.95 billion operating cap. MTF analysis found that total surtax spending proposed was \$2.234 billion - \$284 million greater than the cap. However, because Conferees upped the surtax cap by \$450 million, more spending was able to be accommodated.

The bulk of the increase in surtax spending - \$354 million – was related to shifting K-12 funding formula and child care financial assistance spending from the General Fund to the surtax. This left approximately \$2.05 billion to support surtax spending proposals in the House and Senate budgets. Both branches, however, saw one of their key priorities not included in the final compromise:

- ***MBTA spending is lower than the House*** proposed level by \$216.8 million. This reduction will make it very challenging for the MBTA to implement a two-year budget gap closing plan.
- ***No surtax resources were diverted to the Education and Transportation Reserve Fund.*** The Senate proposed sending \$165 million of this year's surtax spending to the reserves.

#### *House Surtax Priorities*

- ***\$180 million for school meals.*** The House and Senate differed in school meals support by \$20 million, with the House at \$190 million and the Senate at \$170 million. The conference report split the difference at \$180 million.
- ***\$10 million in funding to undertake public school climate and energy efficiency projects.*** This program, first established by the House, was funded at \$20 million in their proposal and not included by the Senate.

#### *Senate Surtax Priorities*

- ***\$93.7 million for childcare supports and waitlist remediation.*** The House and Senate each dedicated surtax resources to support of the Child Care Financial Assistance System, with the Senate providing \$98 million for a range of supports, with the House including \$68 million, with \$15 million dedicated to reducing waitlists. The Conference report, includes \$10.7 million for waitlist remediation and \$83 million for other supports.
- ***\$85 million for higher education financial aid.*** The Conference report reduced funding for financial aid expansion compared to the Senate proposal of \$100 million; however, this funding level is higher than the \$80 million provided in the House budget.
- ***\$209 million for regional transit authorities.*** The Conference report includes the Senate RTA funding level of \$214 million compared to \$204 million in the House proposal. Of the total RTA transfer, \$162 million comes directly from surtax resources.

The Conference Report handled transportation surtax spending differently than either the House or Senate budgets. The Conference Report dedicates \$550 million in surtax spending to the Commonwealth Transportation Fund on an ongoing basis, splitting the difference between the House (\$500 million and Senate (\$600 million). However, unlike the House and Senate budgets, the Conference report does not



specify how the new CTF transfer would be divided between the MBTA, MassDOT and other transportation needs. Instead, the additional CTF transfer is wrapped up into the larger appropriations for those agencies.

MBTA funding in the FY 2026 budget was a key element of a broader transportation finance plan put forward by Governor Healey in January and broadly adopted in the House budget. The recently negotiated Innovation and Capital Fund supplemental budget committed \$548 million to the MBTA, which can be used over the next several years. It is unclear whether the \$470.2 million MBTA subsidy will enable the closure of both the FY 2026 and the FY 2027 gaps.

### *Underfunded Accounts*

Underfunded accounts – line items where the appropriated amount is materially less than the projected actual need – can create budget shortfalls later in the fiscal year. That danger is heightened in FY 2026, when economic uncertainty also creates revenue risks.

The conference report includes several areas of concern for underfunding:

- **Emergency Assistance Shelter** – The Conference Report includes \$276.4 million for Emergency Assistance shelter. The Governor’s budget proposed \$325.3 million in funding for the program, while actual FY 2025 program costs will top \$500 million. While caseload trends are on the decline, the Conference appropriation is an aggressive spending target for the program in FY 2026.
- **MassHealth** – While MassHealth is the largest spending program in the budget, topping \$22.1 billion, the administration flagged several hundred million in potential MassHealth exposures heading into Conference Committee. The final budget reduced MassHealth spending by \$471 million from the amount originally proposed by the Governor.

As noted earlier, the Conference budget reduced spending by \$395.1 million from the Senate budget – \$941.2 million less than the Governor’s original proposal. This reduction reduces overall planned spending and eases budget pressures, but in some instances, like MassHealth and EA, can increase the chances of the need for future supplemental budgets.

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### **FY 2026 Policy Sections**

The Conference report includes 135 policy sections, compared to the 200 total sections included in either the House or Senate budgets.

#### *FY 2026 Conference Committee Report: Outside Sections*

Shared	House Unique	Senate Unique
68	48	84
<b>Potential Policy Sections</b>		<b>200</b>
Shared in Con.	House in Con.	Senate in Con.
68	30	35
<b>Total Conference Sections</b>		<b>135</b>



The final Conference report included all shared policy sections, while also adding almost exactly half (49.2 percent) of the House and Senate unique sections. The final budget added two sections – a section related to Gold Star spouse annuities and an effective date related to brokers fees – not included in either the House or Senate budgets. The Conference report did not include a House proposal to transfer \$230 million from the Commonwealth Care Trust Fund to the Health Safety Net; the Senate version of the section was included instead.

The final compromise dropped many of the more notable unique sections – including a House proposal to pause changes to vocational admissions and Senate proposals to institute caps on certain drug prices and allow municipalities to establish their own liquor license thresholds. Perhaps the most notable shared provision included in the Conference budget is a proposal to require rental brokers’ fees only be paid by the person who contracted with the broker.

*FY 2026 Conference: Resolution of Notable House Policy Sections*

House Section	Title	In Conference?	Description
11	Early Ed. Provider For-Profit Cap	No	Increases the cap of C3 funds that for-profit operators with more than 10 centers can receive from 1 percent of the total appropriation to 1.25 percent
17, 18, 20, 21	MBTA Advisory Board	Yes (Sections 24, 25, 27, 28)	Permits employees of the MBTA Advisory Board to be eligible for state pension and health insurance benefits.
61, 62, 63	Connector Pilot Program	Yes (Sections 96 - 98)	Extends the existing ConnectorCare pilot program, which provides coverage to those with incomes up to 500 percent of the FPL, to the end of 2026. Currently, the pilot is due to sunset after two years, at the end of 2025. The cost of the extension is expected to be borne by resources within the Commonwealth Care Trust Fund.
64A	Early Ed. Provider Revenue Retention	No	Maintains a unit-rate reimbursement system for contracted early education providers, rather than the cost-based reimbursement system that EEC implemented after the contract reprocurement last October. A unit-rate reimbursement system may limit the information that the department is able to collect related to program administrative expenses.
65, 68	Vocational Admissions	No	Creates a task force to make recommendations on vocational school admissions policies and prohibits DESE from making changes to vocational admissions policies until the recommendations are released (and prior to the 2026-2027 school year)
67B	Legislative Commission on Pappas Hospital	Yes (Section 112)	Establishes a special legislative commission on the future of Pappas Rehabilitation Hospital for Children. The commission would be comprised of 13 members and is directed to conduct a review of the hospital's finances, programs, pediatric services, and infrastructure.
74	Disaster Relief	Yes (Section 122)	Transfers \$14 million from any FY 2026 end of year surplus to the Disaster Relief and Resiliency Fund

*FY 2026 Conference: Notable Senate Sections*

Senate Sections	Title	In Conference	Description
9, 10, 11, 12, 13, 14, 20, 49, 141, 142, 143, 153	Lowering Prescription Drug Costs	No	Aims to lower the costs of prescription drugs by address four major components: 1) the process by which pharmaceutical manufacturers provide early notice to the Health Policy Commission regarding drug price increases or a new drug coming to market; 2) the ability of the HPC to monitor the impacts of eligible drug costs on patient access and establish upper payment limits for drugs which, due to their cost, may create access and affordability challenges for patients in MA; 3) the establishment of a Prescription Drug Cost Assistance Trust Fund; and 4) the establishment of a Prescription Drug Cost Assistance Program, to provide financial assistance for prescription drugs used to treat chronic conditions.
22	Housing Production Dashboard	Yes (Section 12)	Directs the Executive Office of Housing and Livable Communities (EOHLC) to publish an online dashboard detailing the funding sources used by the office to support housing production and preservation in the Commonwealth.
23	Race Horse Development Fund	No	Adjusts the distribution of the daily assessment of gross gaming revenues to direct 4.5 percent towards the General Fund and 4.5 percent towards the Race Horse Development Fund. Currently, the entire 9 percent assessment is directed to the Race Horse Development Fund.
29	Transportation Capital Spending Dashboard	Yes (Section 19)	Requires DOT to create a dashboard to monitor the transportation capital projects supported by the state's increased borrowing capacity resulting from the dedication of surtax revenues into the CTF. Language prohibits SO bonds backed by the CTF from supporting a capital project with a total cost greater than \$1 billion, unless that project has been authorized by the Legislature.
57, 58	Benefits Owed to Foster Children	Yes (Sections 48 and 49)	Clarifies the role of the Department of Children and Families (DCF) is receiving, managing, and administering the federal financial benefits for which a child is eligible, such as social security income.
59 - 67, 148	Local Liquor Licenses	No	Prevents the transfer of liquor licenses between establishments and allows a city or town to determine the number of liquor licenses that may be issued by its licensing authority under certain conditions.
70	Fare-Free RTAs	Yes (Section 52)	Eliminates passenger fares for all fixed route and paratransit services. The program is subject to appropriation.

### **Next Steps**

The FY 2026 Conference Report is notable for reducing spending significantly from either the House or Senate levels. Consistent with MTF's Conference recommendations, conferees made adjustments to their spending plan to account for increased economic uncertainty and create resource capacity in the larger budget. While underfunding in MassHealth and other areas will need to be addressed, the decision to further reduce spending is appropriate given the current fiscal picture.

However, the Conference Committee also shifted \$450 million in spending onto the income surtax and, for the first time, increased the surtax spending threshold from the figure established in January. This move to increase reliance on the surtax, while reflective of strong recent collections, increases the budget risk in any

future downturn given the expected volatility of these revenues. Further, the Conference Report reduces MBTA support from the levels in either the House or Senate spending proposals, making it much more challenging for the MBTA to plan around two years of stable budgets.

The FY 2026 Conference Report now goes to Governor Healey’s desk for signing. Governor Healey will have until July 10<sup>th</sup> to sign the budget, veto or reduce spending, strike line-item language, veto policy sections or return sections with amendment.

*FY 2026 Conference: Veto History*

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Line-Items Reduced	136	7	4	35	59
\$ Reduction	\$159	\$8	\$0.48	\$276 (gross)	\$317 (gross)
Sections Vetoes	0	2	0	1	0
Sections Amended	17	25	41	8	3

*\$ in millions*

Based on past practice, it is likely that Governor Healey will use her veto powers to reduce spending to address expected revenue shortfalls or the need to accommodate underfunded accounts. Decisive veto action, and careful monitoring of both the economy and federal reconciliation and authorization legislation will be critical in keeping the Commonwealth on sound fiscal footing heading into an uncertain year. It would be advisable for any spending vetoes to stand at least until revenues are initially certified in October.