MTF
Massachusetts
Taxpayers Foundation

333 Washington Street | Suite 853 | Boston, MA 02108 | 617.720.1000
www.masstaxpayers.com

MTF Bulletin *July 14, 2025*

Governor Healey's FY 2026 Fiscal Response Supplemental Budget

The same day that Governor Healey signed the Fiscal Year (FY) 2026 budget, while trimming $130.2 million in spending, she filed a supplemental budget proposing several fiscal management tools to help the state address revenue volatility or unmet spending needs in the months ahead.

This brief is the companion to MTF's analysis of Governor Healey's vetoes, published last week. It outlines the provisions included in Governor Healey's supplemental budget proposal and contextualizes them in the current fiscal climate.

The Context for Governor Healey's Proposal

The fiscal risk and uncertainties that face the Commonwealth as it begins FY 2026 are well documented. In MTF's veto analysis, those risks were distilled into five primary factors that pose threats to the Commonwealth's fiscal stability:

- Economic uncertainty leading to state tax revenue declines;
- Reduced federal funding and related increases in demand on state services;
- Overreliance on surtax resources;
- Underfunding in the budget of up to $1 billion in major program areas; and
- Increasing use of one-time resources.

These factors are a combination of external events and considerations – such as the broader economy and the impact of federal actions – and decisions made within the FY 2026 budget. Combined they present Governor Healey and budget makers with an unmistakable message: failure to prepare for adverse events could jeopardize the state's fiscal health .

The work to prepare for potential challenges can be seen in each iteration of the budget since Governor Healey filed her proposal in January. From the House, to the Senate, to the Conference Committee report, each budget version reduced bottom line spending from the version before. When the budget got to Governor Healey's desk, total spending was close to $1 billion lower than the administration's budget recommendation. By vetoing a further $130 million, Governor Healey further reduced bottom-line spending.

However, even with those appropriate reductions, spending in the FY 2026 budget is still proposed to grow by 5.4 percent over the FY 2025 budget signed into law last July. The challenge of supporting that level of spending growth given economic uncertainty and the potential for material reductions in federal funds remains, and Governor Healey's supplemental budget proposal is designed to help the state meet that challenge.

Understanding Governor Healey's Proposal

Governor Healey's supplemental budget includes six proposals to improve the administration's ability to manage the budget in a challenging year. The proposals can be divided into two categories: general budget management tools and more narrowly tailored proposals specific to an individual program or agency.

General Budget Management

Expanded 9C Authority – Under state law (section 9C of chapter 29), the Governor is empowered to reduce spending allotments for agencies controlled by the administration after certifying that revenues are insufficient to meet required expenditures. Those 9C powers do not apply to a variety of line-items not considered under the control of administration controlled agencies – including local aid, K-12 formula funding, and judiciary spending.

Governor Healey is proposing an expansion of those 9C powers to all spending areas if one of two conditions is met in FY 2026:

- Tax collections fall $400 million or more below the consensus revenue target, as certified by the Secretary of Administration and Finance;
- Federal policy changes result in a "material negative impact" of $400 million or more, as certified by the Secretary of Administration and Finance.

Should either condition occur, any spending appropriated by the Legislature would be eligible for mid-year reductions under these expanded 9C powers.

Contingency Spending – The administration is proposing $130 million be set aside to address budget underfunding and other potential funding shortfalls in the fiscal year. Of this $130 million:

- $30 million would be dedicated to the Housing Preservation and Stabilization Trust Fund (HPSTF). HPSTF, which was created in 2013, can be used to support a variety of state programs to provide affordable housing or give support to families at risk of becoming homeless. By transferring resources into the fund, the Executive Office of Housing and Livable Communities will have a pool of flexible resources available to mitigate potential federal affordable housing reductions and buttress state resources available for the Emergency Assistance Shelter Program.
- $100 million for a broad contingency reserve. The resources in this newly proposed line-item would be available to "fund necessary costs to the commonwealth and respond to federal policy actions in fiscal year 2026." MTF identified close to $1 billion in potential funding shortfalls built into the FY 2026 budget, with the largest potential shortfall in MassHealth. This reserve would provide the administration with ready funds to address immediate underfunding needs.

Line-item Transferability – The administration is proposing line-item spending transferability of up to 5 percent within each department and secretariat. Without authorization, funds appropriated to a line-item can only be spent within that program and any excess funds return to the General Fund at the end of the year. With transferability, the administration can move resources around more freely to address shortfalls in a given item with unused funds from another program.

Some level of line-item transferability is included in each year's budget, typically for caseload-driven accounts in agencies like the Department of Early Education and Care, the Department of Children and Families, and the Department of Development Disabilities. In most fiscal years, the final supplemental budget of the year allows some transferability in MassHealth. This proposal would broaden authorized transferability and, just as importantly, institute transferability in MassHealth much earlier in the year.

Agency Specific Proposals

GIC GLP-1 Coverage – The administration vetoed $27.5 million from the Group Insurance Commission and in her supplemental budget proposes a related section authorizing the GIC to amend the terms of its health plan offerings in FY 2026. While the authorization to make changes is not limited, according to the Governor's veto message and filing letter the intent is to allow the GIC to limit coverage of GLP-1 weight loss drugs to medically necessary uses, including diabetes treatment.

MassDOT Capital Spending – The supplemental budget would allow MassDOT to pay employee salaries through its capital budget in instances where the employee is assigned to a capital project included in MassDOT's FY 2026 capital spending plan. Shifting costs – often salaries – to the capital budget is a common tool used to reduce pressure on the operating budget, though at the cost of reducing resources available for capital projects. Due to prior concerns with the level of personnel costs being borne by the capital budget, a provision was placed into law prohibiting personnel costs from being paid for through the MassDOT capital budget. However, the Baker administration and now the Healey administration have proposed easing that restriction.

EOHLC Surplus Transferability – The Governor's proposal includes a section giving EOHLC broad authority to transfer any projected surpluses between 25 different housing and homelessness line-items. Significantly broader than the 5 percent transferability proposal highlighted earlier, this provision would provide the Secretariat with greater ability to address potential shortfalls in programs like EA with unused funds from other accounts.

In addition to these budget-balancing proposals, the Governor's supplemental budget proposal also includes several unrelated provisions to update criteria for MassVentures grants in light of federal policy changes, and to grant the Department of Public Health additional authority in determining which vaccines should be included in the state's Childhood Vaccine Program, as well as what vaccine issues are to be considered by the state's Vaccine Program Advisory Council.

Bottom Line

Governor Healey's supplemental budget, which was filed with her budget signing and designed to put in place expanded fiscal authority in preparation for a future revenue downturn, is a unique combination of two relatively rare bill filings. The last time a supplemental budget accompanied a budget signing was in 2017 and the last time such a proposal also included expanded 9C authority was during Governor Patrick's administration.

The atypical nature of the administration's proposal is a reflection of the atypical circumstances in which the state finds itself. FY 2025 is expected to end in balance, potentially with a small budget surplus, and while Trump administration policies have already affected grants in Massachusetts, the state has yet to experience significant budgeted federal revenue declines. However, it is clear that the state faces significant risk in FY 2026 due to a volatile economy and the direct impacts of federal policy changes. At the same time, the budget begins the fiscal year with potential shortfalls in major accounts and an increasing reliance on one-time resources.

Contingency planning for how to address a budget shortfall – and establishing criteria for when those contingencies can be put in place – makes sense. If history is any guide, the House and Senate will be reluctant to cede new budget authority to the administration, but as MTF has recommended in the past, coordinated action between the three branches to develop a clear plan for how to assess and respond to revenue risks is critical. Part of that response should entail defining circumstances in which the administration is empowered to act quickly and decisively to balance the budget and protect core services. The Governor's proposal should galvanize coordinated conversations and Legislative actions to make sure the state is prepared for what is ahead.