

## MTF Report

January 28, 2026

### **Governor Healey's Fiscal Year 2027 Budget**

This afternoon, the Healey-Driscoll administration released its Fiscal Year (FY) 2027 budget proposal. The \$63.36 billion spending plan increases spending over the FY 2026 General Appropriations Act (GAA) by \$2.3 billion (3.8 percent) and over the administration's estimated spending level for FY 2026 by \$668 million (1.1 percent).

In FY 2027, the state budget development process is notable for the sizeable budget gap resulting from stagnating revenue collections, spending growth for non-discretionary programs, and the recent increases in the use of one-time solutions to balance the budget. The Healey administration appears to rely on approximately \$3.4 billion in spending and revenue solutions to close a projected budget gap that is initially estimated by MTF to exceed \$3.3 billion.

As in FY 2026, the administration has also filed a supplemental budget proposal to spend \$1.15 billion in surplus surtax revenue currently held in the Education and Transportation Innovation and Capital Fund. In FY 2027, these resources are increasingly relied upon to support operating budget expenses related to education and transportation. In the relevant spending sections below, this report summarizes the supplemental budget investments and how they relate to the Governor's operating budget recommendations.

In the coming weeks, MTF will publish additional research on the Governor's budget proposal, including in-depth analyses of the projected FY 2027 budget gap, the use of surtax revenues, and the major spending and policy initiatives put forward by the administration.

### **Budget Overview**

The Governor's FY 2027 budget proposal includes \$63.36 billion in total spending, a \$2.3 billion (3.8 percent) increase over the FY 2026 GAA. Excluding the surtax and a transfer to the Medical Assistance Trust Fund, spending totals \$60.1 billion, a \$2 billion (3.5 percent) increase over the prior year and \$676 million (1.1 percent) over the administration's reported estimate for FY 2026 actual spending.

When also accounting for \$7.89 billion in statutorily required transfers, the Governor's budget includes \$71.25 billion in total spending commitments.

### Governor Healey's FY 2027 Spending Overview

	FY 2025 GAA	FY 2026 GAA	Governor's Budget	\$ v. FY 2026 GAA	% v. FY 2026 GAA
Line-Item Spending	\$56,089.2	\$58,073.0	\$60,113.7	\$2,040.7	3.5%
Surtax Spending	\$1,300.0	\$2,400.0	\$2,700.0	\$300.0	12.5%
Medical Asst. Trust Fund	\$682.2	\$547.6	\$548.0	\$0.5	0.1%
B.H. Outreach, Access, Support	\$20.0	\$25.4	\$0.0	-\$25.4	--
<b>Total Line-Item Spending</b>	<b>\$58,091.4</b>	<b>\$61,046.0</b>	<b>\$63,361.7</b>	<b>\$2,315.7</b>	<b>3.8%</b>
Pre-Budget Transfers	\$7,297.4	\$7,651.0	\$7,887.0	\$236.0	3.1%
Other Off-Budget	\$200.0	\$100.0	\$0.0	-\$100.0	--
<b>Total Spend</b>	<b>\$65,568.8</b>	<b>\$68,797.0</b>	<b>\$71,248.7</b>	<b>\$2,451.7</b>	<b>3.6%</b>

*\$ in millions*

Governor Healey's budget is supported by \$71.31 billion in total revenues, primarily comprised of the non-surtax consensus revenue figure of \$42.2 billion agreed to by the Healey administration, House, and Senate budget leaders [earlier this month](#). It also relies on \$2.7 billion in income surtax revenue, consistent with the surtax spending projection established as part of the consensus revenue process.

### Governor Healey's FY 2027 Revenue Overview

	FY 2025 GAA	FY 2026 GAA	Governor's Budget	\$ v. FY 2026 GAA	% v. FY 2026 GAA
<b>Total Tax Revenue</b>	<b>\$41,573.6</b>	<b>\$43,563.8</b>	<b>\$45,092.5</b>	<b>\$1,528.7</b>	<b>3.5%</b>
Consensus Tax Agreement	\$40,202.0	\$41,214.0	\$42,200.0	\$986.0	2.4%
Cap Gains Diversion	-\$138.4	-\$100.0	-\$256.0	-\$156.0	156.0%
Tax Settlements	\$50.0	\$50.0	\$50.0	\$0.0	0.0%
Fed. Conformity Phase-In	\$0.0	\$0.0	\$108.0	\$108.0	--
PTE Expansion	\$0.0	\$0.0	\$296.0	\$296.0	--
Tax Initiatives	\$160.0	\$0.0	-\$5.5	-\$5.5	--
4% Income Surtax	\$1,300.0	\$2,399.8	\$2,700.0	\$300.2	12.5%
<b>Federal Revenue</b>	<b>\$14,368.6</b>	<b>\$15,609.6</b>	<b>\$15,828.8</b>	<b>\$219.2</b>	<b>1.4%</b>
<b>Dept. Revenue &amp; Transfers</b>	<b>\$9,361.5</b>	<b>\$10,101.1</b>	<b>\$9,566.9</b>	<b>-\$534.2</b>	
<b>Trust Funds Used</b>	<b>\$400.0</b>	<b>\$315.0</b>	<b>\$827.0</b>	<b>\$512.0</b>	<b>162.5%</b>
<b>Total Revenue</b>	<b>\$65,579.2</b>	<b>\$69,589.5</b>	<b>\$71,315.3</b>	<b>\$1,725.8</b>	<b>2.5%</b>

*\$ in millions*

### Estimating the FY 2027 Budget Gap

In preparation for the budget development process, MTF developed a budget gap estimate for FY 2027 using basic spending and revenue assumptions. This analysis will be further refined over the coming weeks, but it provides a helpful starting point for understanding the fiscal challenges facing state budget writers and the range of budget-gap closing solutions proposed by the Healey administration.

*MTF Initial Estimate of FY 2027 Budget Gap*

Revenue	Base	Est. Growth	FY 2027
Non-Surtax Revenues	\$41,214	2.4%	\$42,200
Surtax Revenue	\$2,400	12.5%	\$2,700
Medicaid	\$13,772	6.0%	\$14,598
Other Ongoing Revenues	\$10,400	3.0%	\$10,712
One-Time Solutions	\$1,531	0%	\$0
<b>Total revenue</b>	<b>\$69,317</b>		<b>\$70,210</b>
Spending	Base	Est. Growth	FY 2027
Pre-Budget Transfers	\$8,317	3.5%	\$8,611
GAA Base	\$31,543	3.5%	\$32,647
Medicaid	\$22,128	6.0%	\$23,456
Chapter 70	\$7,362	6.8%	\$7,862
Supp Needs	\$1,000	0.0%	\$1,000
<b>Total</b>	<b>\$70,350</b>		<b>\$73,576</b>
<b>Initial Gap</b>			<b>\$3,365</b>

*\$ in millions*

MTF estimates an initial FY 2027 budget gap of approximately \$3.4 billion, predominantly driven by the use of \$1.5 billion in one-time resources used to balance the budget in FY 2026 and ongoing spending pressures outpacing expected revenue growth in FY 2027.

The administration's budget appears to address a gap similar in size to the MTF estimate. Their gap-closing solutions are further detailed in the sections below, but at a high-level several key themes emerge:

- **Reallocation of existing resources towards operating budget expenses.** The administration recommends an adjustment to the capital gains threshold, directs a greater share of capital gains revenue towards post-retiree benefit obligations, and increases the state budget's reliance on surtax revenues to fund operating expenses. Each of these recommended actions repurposes revenues that would otherwise be directed towards the Stabilization Fund or other reserves towards the operating budget.
- **Adjustments to annual growth in the state pension schedule.** Prior to the release of the Governor's budget, the administration announced a new triennial pension funding schedule which caps the increase in the state's annual transfer to the Pension Fund for the next three years at four percent.
- **Increased reliance on education-related trust funds and surtax revenue to fully-fund obligations.** To fund the final year of Student Opportunity Act implementation, support the Childcare Operational Grant Program ("C3"), and fully fund the Special Education Circuit Breaker program, the Governor's budget relies on \$827 million in education-related trust funds and \$150 million in supplemental surtax revenue.
- **Administrative strategies and savings initiatives to limit FY 2027 cost growth.** In several areas of the budget—notably debt service and MassHealth—the administration deploys new strategies to limit cost growth in FY 2027. These strategies include pre-payments, coverage limitations, and new working groups to identify savings and efficiencies.

Of particular concern in the FY 2027 budget is the continued use of surtax revenues from the Education and Transportation Innovation and Capital Fund to support ongoing operating budget expenses. In FY 2026, the final budget relied on nearly \$200 million in surplus surtax revenue to fund the Special Education Circuit Breaker program and Regional School Transportation. In FY 2027, the amount of surplus surtax revenue used to fund operating expenses increases to at least \$300 million.

As highlighted in MTF's [analysis](#) of the FY 2027 Consensus Revenue Agreement, there are two primary concerns related to the increasing use of surtax revenues to balance the budget:

- *Surtax revenue collections are subject to volatility and incorporating them too quickly into the operating budget creates new exposures that threaten the long-term stability of the state budget.*  
The majority of surtax revenues are collected through non-withheld income taxes, which are closely tied to stock market performance and may experience more pronounced declines if the economy falters. By shifting the costs of major programs onto the surtax, particularly in the education sector, the structural stability of the state budget is weakened in the event of an economic downturn.
- *The Education and Transportation Innovation and Capital Fund was purposefully created to support critical, one-time transportation, infrastructure, and capital projects.*  
Resources in the Innovation and Capital Fund have proved crucial to stabilizing the MBTA, supporting higher education capital improvement projects, and funding the expansion of Career Technical Education programs. As an increasing amount of these resources are used to stabilize operating budget expenses and overall deposits into the fund decrease, the state loses its ability to meet one of the primary goals of the surtax—to divide the revenues equally between education and transportation.

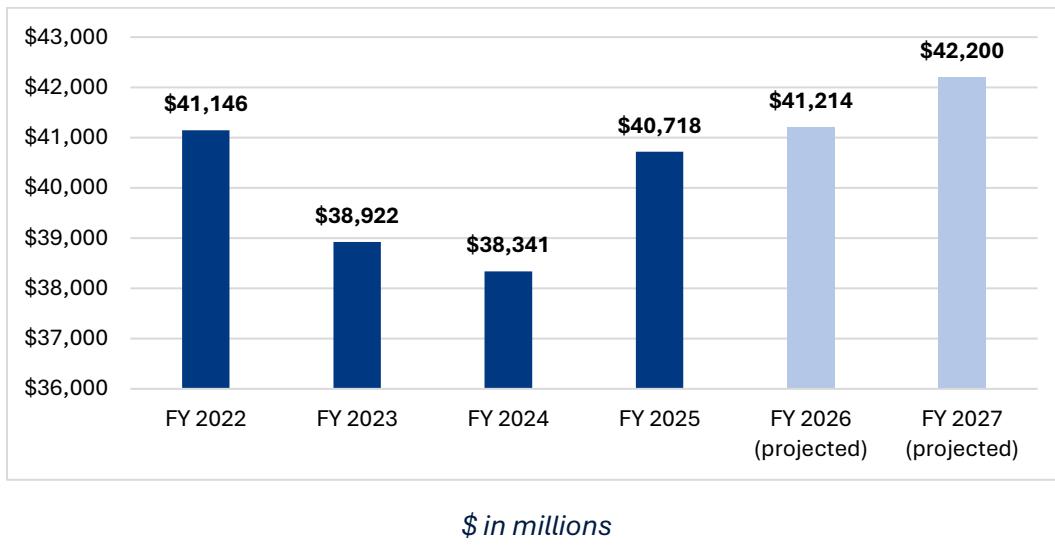
## **FY 2027 Budget Revenues**

Governor Healey's budget proposal relies on \$71.31 billion in total state revenue to support spending. To assess the resources used by the Healey administration to support spending in FY 2027, this brief organizes them into five categories: (1) baseline tax revenues, (2) income surtax revenues, (3) revenue initiatives, (4) non-tax revenues, and (5) trust fund resources.

### **Baseline Tax Revenues**

The revenue foundation for the administration's FY 2027 budget is the \$42.2 billion non-surtax consensus tax revenue estimate established earlier this month. In FY 2027, non-surtax revenues are expected to grow by \$986 million (2.4 percent) over projected FY 2026 collections of \$41.214 billion.

*FY 2022 – FY 2027 Actual & Projected Tax Revenue Projections (non-surtax)*



*\$ in millions*

The 2.4 percent growth rate included in the FY 2027 consensus revenue agreement is conservative compared to projections shared by economic experts at December's Consensus Revenue Hearing. At that hearing, anticipated revenue growth ranged from 2.1 percent to 7.1 percent, with a median estimate of 3.5 percent. It's worth noting that this median was influenced by two forecasts that expected stronger growth driven by inflation and robust capital gains collections.

The consensus revenue agreement made no adjustment to the FY 2026 revenue benchmark and the projections for FY 2026 and FY 2027 assume no changes to the state's federal tax conformity status.

On January 15<sup>th</sup>, the Healey administration filed legislation to delay the state's conformity to the federal tax code as it relates to several provisions included in the One Big Beautiful Bill Act (OB3). The bill also includes a proposal to expand the existing Pass-Through Entity excise to capture income related to the four percent income surtax.

In the coming weeks, MTF will publish a detailed summary of the Governor's conformity proposal, but as it relates to the FY 2027 budget, the administration anticipates that it will have a positive revenue impact on the next fiscal year of approximately \$404 million.

#### *Pre-Budget Transfers*

The consensus revenue estimate for FY 2027 also reflects four "pre-budget" transfers to the Workforce Training Trust Fund, the Pension Fund, the MBTA, and the School Building Authority (SBA). In FY 2027, the pre-budget transfers total \$7.887 billion, not including the deposit of excess capital gains tax revenue into the Stabilization Fund. This represents a \$237 million increase over expected FY 2026 transfers, primarily driven by an increase to the state's pension obligation.

In FY 2027, the Pension Fund transfer represents a four percent increase over the prior year and reflects the new triennial schedule announced by the administration last week. According to the administration, this schedule keeps the Commonwealth ahead of its statutory obligation to fully fund its pension liability by 2040,

but pushes back the estimated date of full funding from 2036 to 2038. Between FY 2024 and FY 2026, the pension funding schedule dictated annual increases of 9.6 percent.

Under the prior schedule, the FY 2027 transfer to the Pension Fund was estimated to be \$5.408 billion. By reducing pension growth to four percent, this new schedule also provides the administration with \$277 million in tax revenue that would have been unavailable to support budgeted spending with 9.6 percent growth.

#### *FY 2027 Pre-Budget Transfers*

	FY 2026 Est. Transfer	FY 2027 Guaranteed	FY 2027 CR Agreement	Increase over FY 2026
Workforce Trust Fund	\$27	\$0	\$27	\$0
School Building Authority	\$1,265	\$0	\$1,284	\$19
MBTA	\$1,425	\$160	\$1,445	\$20
Pension fund	\$4,933	\$0	\$5,131	\$198
<b>Total pre-budget transfers</b>			<b>\$7,887</b>	<b>\$237</b>

*\$ in millions*

#### *Capital Gains Revenue*

In FY 2027, capital gains collections are anticipated at \$2.5 billion; an increase of \$179 million (7.7 percent) over FY 2026. Under current statute, the capital gains threshold would increase to \$1.783 billion, resulting in a projected Stabilization Fund deposit of \$651 million.

However, based on the recently released recommendations of the Stabilization Fund and Long-Term Liability Financing Task Force<sup>1</sup>, the Governor's budget adjusts the capital gains threshold up to \$2.25 billion, an increase of \$467 million. The budget makes this change on a one-time basis for FY 2027, but also uses \$2.25 billion as the new base on a go-forward basis.

The administration also amends the distribution of capital gains collections above the adjusted threshold, directing a greater share towards state retiree benefits (53.1 percent) and the Disaster Relief and Resiliency Fund (7.8 percent). The remaining balance is deposited into the Stabilization Fund (39.1 percent).

Ultimately, the combination of these two proposals—a one-time adjustment to the capital gains threshold and the redistribution of above-threshold collections—results in an estimated Stabilization Fund deposit of \$100 million in FY 2027.

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<sup>1</sup> The Stabilization Fund and Long-term Liability Task Force was created in September 2024 when Governor Healey signed into law [\*An Act to provide for competitiveness and infrastructure investment in Massachusetts\*](#).

*FY 2027 Capital Gains Distribution Proposal*

<b>FY 2027 Capital Gains Estimate</b>	
FY 2027 Capital Gains Estimate	\$2,506
FY 2027 Capital Gains Threshold	\$2,250
<b>Above Threshold Collections</b>	<b>\$256</b>
<b>Proposed Distribution</b>	
53.1% to State Retiree Benefits	\$136
39.1% to Stabilization Fund	\$100
7.8% to Disaster Relief & Resiliency	\$20

*\$ in millions*

In FY 2027, the Healey administration anticipates the starting balance of the Stabilization Fund to be \$8.14 billion and for it to end the year at \$8.24 billion.

*FY 2027 Stabilization Fund Estimate*

	<b>Governor's Budget</b>
<b>FY 2026 Beginning Balance</b>	<b>\$8,110.7</b>
<i>Planned Deposits &amp; Uses</i>	\$33.3
<b>FY 2026 Ending Balance</b>	<b>\$8,144.0</b>
<i>FY 2027 Capital Gains Deposit</i>	\$100.0
<b>FY 2027 Ending Balance</b>	<b>\$8,244.0</b>

*\$ in millions*

After taking into account pre-budget transfers and the proposed transfer of capital gains revenue to the Stabilization Fund, Pension Fund, and other Post-Retiree Benefits, \$34.06 billion in consensus tax revenues remain for state budget appropriations.

*FY 2027 Consensus Tax Revenues Available for Budgeted Spending*

	<b>FY 2026 GAA</b>	<b>FY 2027 Governor</b>
<b>Consensus Tax Revenues</b>	<b>\$41,214</b>	<b>\$42,200</b>
<i>Workforce Training Trust Fund</i>	-\$27	-\$27
<i>School Building Authority</i>	-\$1,265	-\$1,284
<i>MBTA</i>	-\$1,426	-\$1,445
<i>Pension Fund</i>	-\$4,933	-\$5,131
<i>Capital Gains Transfer</i>	-\$67	-\$256
<b>Pre-Budget Transfers (excl. Cap. Gains)</b>	<b>-\$7,651</b>	<b>-\$7,887</b>
<b>CR Taxes Remaining for Budget</b>	<b>\$33,496</b>	<b>\$34,057</b>

*\$ in millions*

For additional details on revenue expectations in FY 2026 and FY 2027, read MTF's recent brief on the [FY 2027 Consensus Tax Revenue Agreement](#).

## Income Surtax Revenue

Governor Healey's budget relies on \$2.7 billion in revenue generated by the income surtax to support education and transportation spending priorities. This figure is consistent with the income surtax projection agreed to by the administration, House, and Senate during the consensus revenue process, and it represents a \$300 million increase over the \$2.4 billion surtax spending cap in the FY 2026 GAA.

### FY 2027 Surtax Revenue Projection & Spending Cap

	FY 2027
Surtax Revenue Projection	\$2,700
Surtax Spending Cap	\$2,700
Above Cap Surtax	\$0
<b>Innovation &amp; Capital Fund</b>	<b>\$0</b>
<b>Surtax Reserve Fund</b>	<b>\$0</b>

*\$ in millions*

For the second year in a row, budget writers have agreed to spend the entirety of the surtax revenue projection for the fiscal year in the operating budget. As discussed earlier, this creates new exposures for the stability of the budget and undermines one of the primary goals of the surtax.

While actual surtax revenue collections may exceed \$2.7 billion in FY 2027, the current projection does not anticipate any deposits into either the Education and Transportation Innovation and Capital Fund or the Education and Transportation Reserve Fund.

As further detailed in the respective spending sections of this report, Governor Healey directs \$1.73 billion (63.9 percent) of surtax spending in the operating budget towards the education sector and \$975 million towards transportation (36.1 percent).<sup>2</sup>

### FY 2027 Income Surtax Spending in the Operating Budget by Category

	FY 2026 GAA	FY 2027 Governor	Governor v. FY 2026	% of Total (Governor)
<b>Education</b>	<b>\$1,688</b>	<b>\$1,725</b>	<b>\$37</b>	<b>63.9%</b>
<i>Early Education</i>	\$661	\$636	-\$25	23.6%
<i>K-12 Education</i>	\$760	\$853	\$93	31.6%
<i>Higher Education</i>	\$267	\$236	-\$31	8.7%
<b>Transportation</b>	<b>\$712</b>	<b>\$975</b>	<b>\$263</b>	<b>36.1%</b>
<i>MBTA</i>	\$0	\$470	\$470	17.4%
<i>MassDOT</i>	\$0	\$220	\$220	8.2%
<i>RTAs</i>	\$162	\$185	\$23	6.8%
<i>Other/Local Transportation</i>	\$0	\$100	\$100	3.7%
<i>Undesignated CTF</i>	\$550	\$0	-\$550	0.0%
<b>Total Investments</b>	<b>\$2,400</b>	<b>\$2,700</b>	<b>\$300</b>	

*\$ in millions*

<sup>2</sup> Certain surtax-supported items in the Governor's budget impact both education and transportation; for example, a \$62 million investment in student transportation programs. In MTF's analysis, that spending is categorized under education.

Furthermore, the administration has chosen to file an Innovation and Capital Fund supplemental budget on the same day as their operating budget proposal. The surtax-supported investments included in the Governor's FY 2027 spending plan should be viewed alongside this supplemental spending, which totals \$1.15 billion.

In the supplemental budget, spending is more heavily weighted towards transportation (\$785 million, 68 percent) than education (\$358 million, 31 percent). When the two spending bills are taken together, the distribution of surtax resources moves closer to an even divide, though the majority still goes to education.

*Total Surtax Spending Proposed in FY 2027*

	FY 2027 - Governor	Innovation & Capital Fund (2026)	Total Proposed Surtax	% of Total Surtax
<b>Education</b>	<b>\$1,725</b>	<b>\$358</b>	<b>\$2,083</b>	<b>54%</b>
<i>Early Education</i>	\$636	\$150	\$786	20%
<i>K-12 Education</i>	\$853	\$190	\$1,043	27%
<i>Higher Education</i>	\$236	\$18	\$254	7%
<b>Transportation</b>	<b>\$975</b>	<b>\$785</b>	<b>\$1,760</b>	<b>46%</b>
<i>MBTA</i>	\$470	\$645	\$1,115	29%
<i>MassDOT</i>	\$220	\$80	\$300	8%
<i>RTAs</i>	\$185	\$60	\$245	6%
<i>Local/Pilot Program</i>	\$100	\$0	\$100	3%
<b>Other Initiatives</b>	<b>\$0</b>	<b>\$10</b>	<b>\$10</b>	<b>0.3%</b>
<b>Total Investments</b>	<b>\$2,700</b>	<b>\$1,153<sup>3</sup></b>	<b>\$3,853</b>	

*\$ in millions*

### Revenue Initiatives

As previewed above, to close a projected budget gap and support spending needs in FY 2027, Governor Healey proposes a range of one-time and ongoing solutions that total approximately \$2.7 billion. In addition to the new pension fund schedule and capital gains-related proposals described earlier, revenue initiatives include:

- **Delayed Conformity** (\$108 million) – The Governor's budget reflects a \$108 million revenue assumption in FY 2027 related to the tax conformity legislation filed by her administration on January 15<sup>th</sup> and currently under consideration by the Legislature. The bill proposes to delay conformity for the five provisions estimated to have the largest state revenue impact. The domestic research and experimental expenditure deduction change is delayed until tax year 2026, while the remaining four provisions are delayed until tax year 2027.

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<sup>3</sup> In 2025, Governor Healey filed the DRIVE Initiative, which would dedicate \$200 million in surtax resources towards research at public higher education institutions. When that funding is included, total supplemental surtax spending reaches \$1.35 billion.

- **Expanded Pass-Through Entity Excise** (\$296 million) – House 2 similarly includes a revenue assumption related to the expansion of the Pass-Through Entity excise, a proposal also included in the tax conformity legislation. The bill would allow PTEs to elect to pay an additional excise of four percent on taxable income that exceeds the surtax threshold<sup>4</sup> and provides qualified members with a 90 percent credit of the member’s share of the excise tax. The reduced level of the state credit is anticipated to generate \$296 million in FY 2027.
- **Education-related Trust Funds** (\$827 million) – As further detailed below, the Governor’s budget relies on \$827 million in education-related trust fund resources to support the costs of Chapter 70 state aid, the Special Education Circuit Breaker program, Child Care Financial Assistance, and the Childcare Operational Grant program.
- **Surplus Surtax Revenue** (\$150 million) – The Innovation and Capital Fund supplemental budget filed by the administration includes a \$150 million reserve for the Special Education Circuit Breaker program. This funding, in combination with \$653 million in the operation budget, is intended to fully meet program obligations in FY 2027.
- **Efficiencies and Effectiveness Initiative** (\$100 million) – To identify inefficiencies and save taxpayer dollars across state government, the administration is proposing a new initiative to identify operational and programmatic savings. It is expected that these identified savings could generate \$100 million.
- **Other Department and Trust Initiatives** (\$342 million) – The budget assigns approximately \$342 million in revenue to several one-time revenue sources, including several trust sweeps and the redirection of non-budgeted trust fund interest to the General Fund. MTF will provide additional information on these revenues when available.

*FY 2027 Proposed Revenue Generating Initiatives*

Proposal	Revenue Assumption
Pension Fund Schedule	\$277.0
Capital Gains Threshold Adjustment	\$467.0
Capital Gains OPEB Dedication	\$100.0
OB3 Delayed Conformity	\$108.0
Expanded Pass-Through Entity Excise	\$296.0
Education-Related Trust Funds	\$826.8
Surplus Surtax Revenue	\$150.0
Efficiencies & Effectiveness Initiative	\$100.0
Other Departmental & Trust Initiatives	\$341.5
<b>Total</b>	<b>\$2,666.3</b>

*\$ in millions*

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<sup>4</sup> The surtax threshold was set at \$1 billion in 2023 and is adjusted annually for inflation. In 2025 the surtax threshold was determined to be \$1.08 billion.

Initiatives to address a portion of the FY 2027 budget gap through spending reductions—including adjustments to MassHealth payments and coverage are detailed in the Healthcare section below.

## Non-Tax Revenues

The Healey administration's budget is supported by \$25.29 billion in revenues related to non-tax sources. In addition to revenue generated from taxes and revenue initiatives, the state budget also relies on hundreds of individual revenue resources related to federal grants and departmental operations. The most notable non-tax revenue sources used in Governor Healey's budget include:

- **State Medicaid Reimbursements** (\$14.1 billion) – Massachusetts receives significant federal reimbursement for spending on the state's Medicaid program, known as MassHealth. The Governor's budget expects these revenues to increase by \$338 million over the FY 2026 GAA assumed amount of \$13.8 billion.
- **Gaming** (\$382.4 million) – On-budget gaming revenues are expected to total \$382.4 million in FY 2027, a decrease of \$3.7 million compared to the FY 2026 GAA assumption.
- **Lottery** (\$1.29 billion) – Net profits from the Lottery are assumed to be \$1.29 billion in FY 2027, a \$54 million increase compared to the FY 2026 GAA. This total includes a \$75 million assumption related to online Lottery revenues, which are dedicated to the Early Education and Care Operational Grant Fund.

## Spending Down Trust Fund Resources

As noted above, the Healey administration's budget spends down \$827 million from trust funds primarily created in recent years to maintain K-12 and early education investments:

- *Student Opportunity Act Investment Fund (\$568.1 million)* – The Governor's budget proposes to use \$568.1 million from the SOA Investment Fund to cover approximately six percent of the FY 2027 appropriation for Chapter 70 public school aid and 26 percent of the Special Education Circuit Breaker appropriation. This would deplete existing resources in the fund.
- *High-Quality Early Education and Care Affordability Fund (\$183.7 million)* – To support a portion of Child Care Financial Assistance costs in FY 2027, House 2 relies on \$183.7 million from the EEC Affordability Fund. This is possible due to the administration's proposal to recapitalize this trust fund with \$150 million in surplus surtax revenue through the Innovation and Capital Fund supplemental budget.
- *Early Education and Care Operational Grant Fund (\$75 million)* – The administration plans to deploy \$75 million from the EEC Operational Grant Fund to support a portion of the C3 Operational Grant Program in FY 2027. This revenue is expected to be generated through the online lottery.

## One-Time v. Ongoing Revenue Sources

In the FY 2026 GAA, MTF identified approximately \$1.5 billion in one-time revenue solutions used to balance the budget. In the Governor's proposal for FY 2027, the level of one-timers remains about \$1.5 billion.

#### FY 2027 One-Time Revenues

Proposal	Revenue Assumption
OB3 Delayed Conformity	\$108.0
Education-Related Trust Funds	\$752.0
Surplus Surtax Revenue	\$150.0
Efficiencies & Effectiveness Initiative	\$100.0
Other Departmental & Trust Initiatives	\$341.5
<b>Total</b>	<b>\$1,451.5</b>
Capital Gains Threshold Adjustment <sup>5</sup>	\$467.0

*\$ in millions*

A number of the temporary solutions utilized by the administration in FY 2027 have been seen before, including an increase in the amount of capital gains revenue diverted to the operating budget, greater reliance on trust funds, and larger assumptions regarding appropriations that go unspent and revert to the General Fund. Additionally, one-time resources continue to make up less than four percent of the total revenues used to support spending in FY 2027.

However, what remains concerning is that the amount of one-time solutions used to balance the budget in recent years continues to reach \$1.5 billion. When that is combined with the growing reliance on surtax revenues for operating expenses and the continued gap between stable revenue growth and state spending trends, it's clear that there are major risks to the structural stability of the state budget.

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#### **FY 2027 Governor's Budget Spending**

Governor Healey's FY 2027 budget proposal includes \$63.36 billion in line-item spending, a \$2.3 billion (3.8 percent) increase over the FY 2026 budget signed into law last summer.

Excluding surtax-supported spending and a transfer to the Medical Assistance Trust Fund, spending totals \$60.11 billion, a \$2 billion (3.5 percent) increase over the prior year. Compared to the administration's expected FY 2026 spending level of \$59.44 billion, non-surtax spending grows by \$676 billion (1.1 percent).

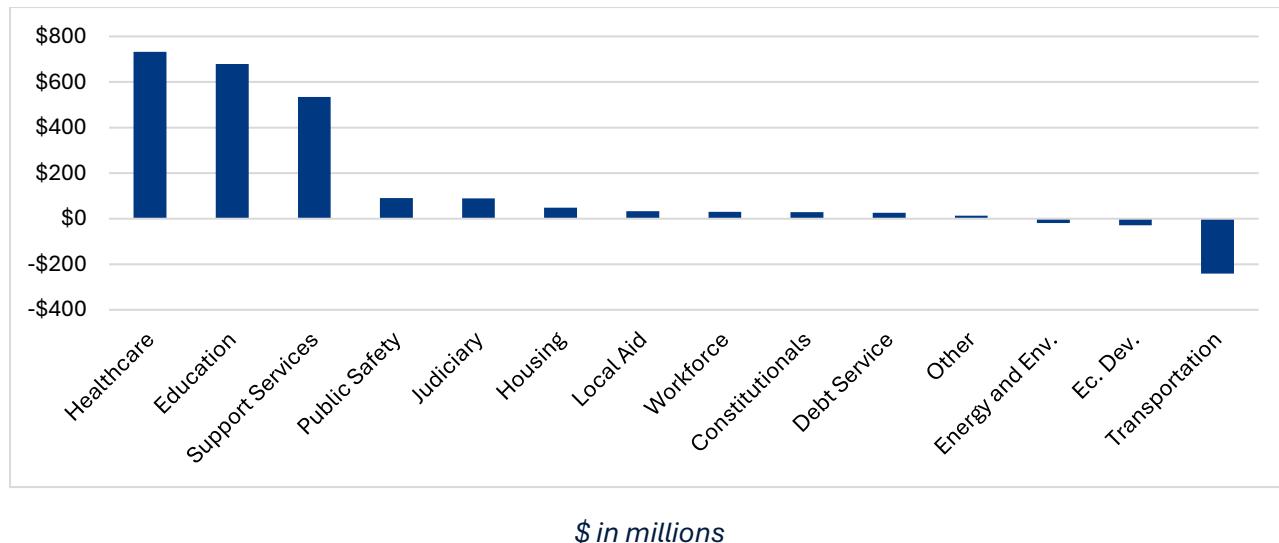
When broken down by category and compared to the FY 2026 GAA, several notable spending trends in the Governor's budget emerge. First, cost growth related to healthcare, education, and support services far outpaces all other areas of spending growth. Second, as a greater share of transportation spending is shifted onto the surtax, non-surtax spending in that category decreases compared to FY 2026 by \$240 million. Lastly,

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<sup>5</sup> The Governor's budget recommends a one-time adjustment to the capital gains threshold in FY 2027, to \$2.25 billion. They also include a proposal to permanently re-base the threshold at \$2.25 billion, and adjust it according to the 10-year average of capital gains collections on a go-forward basis. While in past years the use of capital gains revenues has been a one-time solution, if the permanent adjustment to the capital gains threshold is adopted, these would be new ongoing revenues available for the budget.

following the top three drivers of spending, every other category experiences increases of less than \$100 million; highlighting the constraints that state budget writers are facing.

*FY 2027 Spending by Category v. FY 2026 GAA (excl. surtax & MATF transfer)*



## MassHealth & Healthcare

### *MassHealth*

The largest category of spending in the state's operating budget is MassHealth, totaling \$22.35 billion and representing 35 percent of all line-item spending in the Healey administration's FY 2027 budget proposal. According to MTF's analysis, compared to spending in the FY 2026 GAA, gross state spending on MassHealth increases by only \$219 million (1 percent), while the net cost of the program will decrease by \$119 million (1.4 percent).<sup>6</sup>

*FY 2027 MassHealth Spending & Federal Reimbursement*

	FY 2024 GAA	FY 2025 GAA	FY 2026 GAA	FY 2027 - Governor
Federal Reimbursement Share	\$12,014	\$12,410	\$13,772	\$14,110
<i>% of Total Spending</i>	60.6%	61.8%	62.2%	63.1%
State Share	\$7,803	\$7,660	\$8,356	\$8,237
<b>Total MassHealth Spending</b>	<b>\$19,817</b>	<b>\$20,070</b>	<b>\$22,128</b>	<b>\$22,347</b>

*\$ in millions*

It is not yet clear how various factors, including projected caseload and acuity, timing of payments, rate changes, or reform initiatives relate to this reduction in spending growth. MTF will publish more details on

<sup>6</sup> MTF uses historic MassHealth spending and revenue data to determine gross and net state spending levels. These totals may differ compared to figures reported by the administration, which include spending for a new Human Services Transportation line-item.

the Governor's MassHealth spending plan as we learn more, but several new initiatives are highlighted in budget documents and accompanying briefs:

#### *Targeted Reductions*

- The administration plans to eliminate weight-loss coverage for GLP-1s.
- The Governor's budget authorizes MassHealth to limit adult dental benefits and assumes a cap on adult dental coverage at \$1,000 per member per year. This cap would not apply to pediatric dental benefits or members receiving services through the Department of Developmental Services.
- The administration reduces funding for care management services and eliminates a requirement for Accountable Care Organizations (ACOs) to contract with community partner organizations.

#### *Savings Initiatives*

- The Governor's budget reflects savings based on the recommendations of the Personal Care Attendant (PCA) working group, which total \$68 million (gross). The group is also tasked with identifying further savings in preparation for the FY 2028 budget development process.
- The administration creates two new working groups for Adult Day Health and Adult Foster Care, which will be asked to identify budget savings totaling \$100 million (gross).
- The administration plans to convene a working group focused on improving the efficiency and cost of pharmacy benefits.

#### *Cash Management Strategies*

The administration has also indicated their intention to pursue one-time strategies to manage MassHealth costs over multiple fiscal years. This strategy has been employed a number of times in recent years and typically entails prepaying costs through the current fiscal year, or moving end of year costs into FY 2028.

#### *Healthcare Outside Sections*

There are a number of outside policy sections in the Governor's budget related to healthcare, including several MassHealth-specific sections that are likely associated with an FY 2027 savings assumption. Those sections are further detailed later in the report, and MTF will publish a detailed analysis of their fiscal impact in the coming weeks.

## **Municipal Finance**

The Governor's budget funds Unrestricted General Government Aid (UGGA) at \$1.36 billion, a \$33 million (2.5 percent) increase over FY 2026. The increase for local aid to cities and towns proposed by Governor Healey slightly exceeds the estimate established by state budget leaders for non-surtax revenues in FY 2027 of 2.4 percent; which has been used as a benchmark for local aid spending growth for most of the last decade.

PILOT—Payment in Lieu of Taxes for State Owned Land—is funded in Governor Healey's spending bill at \$55.4 million, an \$850K (1.6 percent) increase over the prior year. Of the total appropriation, \$1.52 million is

allocated for one-time additional reimbursements, to ensure that no city or town receives less in PILOT reimbursements in FY 2027 than they received in FY 2026.

#### *UGGA and PILOT Funding in FY 2027*

Program	FY 2024 GAA	FY 2025 GAA	FY 2026 GAA	FY 2027 - Governor
<b>UGGA</b>	\$1,270.6	\$1,308.7	\$1,323.1	\$1,356.1
\$ Increase v. Prior Year	\$39.4	\$38.1	\$14.4	\$33.0
% Increase v. Prior Year	3.2%	3.0%	1.1%	2.5%
<b>PILOT</b>	\$51.5	\$53.0	\$54.5	\$55.4
\$ Increase v. Prior Year	\$6.5	\$1.5	\$1.5	\$0.9
% Increase v. Prior Year	14.4%	3.0%	2.9%	1.6%

\$ in millions

#### *Other Municipal Investments*

In FY 2027, the administration funds the Municipal Regionalization and Efficiencies Reserve at \$7.5 million, which is level with the Governor's original recommendation for FY 2026. Spending for this reserve is typically bolstered in the final budget by funding for local projects.

The Governor's budget reflects several programmatic earmarks within the reserve, including:

- \$2 million for a competitive grant program related to emergency staffing and public safety, administered by the Executive Office of Public Safety and Security.
- \$3 million for the District Local Technical Assistance Fund.
- \$2 million for communities engaging in best practices, as determined by the Community Compact Cabinet.
- \$500K for the Local Finance Commonwealth Fellowship Program.

As detailed below, through the Governor's operating budget proposal and surtax supplemental budget, the administration recommends \$8.76 billion in local aid funding related to education, including the Chapter 70 state aid program, the Special Education Circuit Breaker, and student transportation reimbursement programs.

## **Education**

### **Early Education**

Governor Healey recommends \$1.88 billion in total operating budget funding for early education and care programs in FY 2027. This includes \$1.25 billion in non-surtax spending and \$636 billion in surtax-supported investments. In total, this funding level represents a \$182 million increase over the FY 2026 GAA.

Additionally, the Innovation and Capital Fund supplemental budget filed earlier today deposits \$150 million in the High Quality Early Education and Care Affordability Fund.

*FY 2027 Early Education & Care Spending*

Program	FY 2025 GAA	FY 2026 GAA	FY 2027 - Governor
<b>Administration</b>	<b>\$80.3</b>	<b>\$57.0</b>	<b>\$61.3</b>
<b>Child Care Operational Grants (C3)</b>	<b>\$300.0</b>	<b>\$115.0</b>	<b>\$115.0</b>
<b>Child Care Financial Assistance</b>	<b>\$773.8</b>	<b>\$773.8</b>	<b>\$976.7</b>
<i>DCF and DTA Related Child Care</i>	\$356.6	\$356.6	\$477.8
<i>Income-Eligible Child Care</i>	\$417.2	\$417.2	\$498.9
<b>Program Supports &amp; Expansion</b>	<b>\$46.0</b>	<b>\$33.0</b>	<b>\$32.9</b>
<i>Preschool Partnership Initiative</i>	\$17.5	\$5.0	\$5.0
<i>Grants to Head Start Programs</i>	\$18.5	\$20.0	\$20.0
<b>Child Care Resource &amp; Referral Orgs.</b>	<b>\$20.0</b>	<b>\$20.0</b>	<b>\$20.0</b>
<b>Reimbursement Rate Reserve</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>Other Early Education</b>	<b>\$44.3</b>	<b>\$41.9</b>	<b>\$41.5</b>
<b>Income Surtax Spending</b>	<b>\$278.0</b>	<b>\$661.3</b>	<b>\$636.1</b>
<i>Child Care Operational Grants (C3)</i>	\$175.0	\$360.0	\$360.0
<i>DCF and DTA Related Child Care</i>	\$0.0	\$91.6	\$119.4
<i>Income-Eligible Child Care</i>	\$0.0	\$100.4	\$124.7
<i>Preschool Partnership Initiative</i>	\$5.0	\$15.5	\$32.0
<i>Income Eligible Waitlist</i>	\$15.0	\$10.7	\$0.0
<i>Child Care Supports</i>	\$0.0	\$83.0	\$0.0
<b>Total EEC Spending</b>	<b>\$1,542.4</b>	<b>\$1,701.9</b>	<b>\$1,883.5</b>

*\$ in millions*

Notable investments included in the Governor's budget for early education include:

- **C3 Child Care Operational Grants** (\$475 million) – The C3 Child Care Operational Grant program is funded at \$475 million and supported through a combination of General Fund (\$40 million), EEC Operational Grant Fund (\$75 million), and surtax (\$360 million) revenues. The \$75 million in trust fund resources reflects the administration's assumption for online lottery revenues in FY 2027.
- **Child Care Financial Assistance** (\$1.22 billion) – The administration provides a total of \$1.22 billion in funding for the state's Child Care Financial Assistance (CCFA) programs, including \$597.2 million for DCF and DTA Related Child Care and \$623.6 million for Income-Eligible Child Care. This represents an increase of \$255 million (26 percent) over the FY 2026 GAA. This increase is mostly driven by DCF and DTA Related Child Care and appears to maintain current reimbursement rates and caseload. House 2 does not include any funding for additional rate increases in FY 2027.
- **Grants to Head Start** (\$20 million) – The Governor's budget includes \$20 million for grants to Head Start in FY 2027, level with the FY 2026 GAA. Though Head Start is largely funded by the federal government, the state traditionally provides additional state support for the program.
- **Commonwealth Preschool Partnership Initiative** (\$37 million) – House 2 funds the CPPI program at a total of \$37 million in FY 2027, through a combination of General Fund (\$5 million) and surtax revenues (\$32 million). According to the administration, this funding level will support the expansion

of the CPPI program into the remaining seven Gateway Cities not currently participating in the program.

#### *Operating Budget Surtax Investments*

In the Governor's budget, \$636 million in early education spending is supported by the income surtax; representing 23.6 percent of all surtax spending in the operating budget. This is a slightly smaller dedication of surtax revenues for early education compared to FY 2026, which totaled \$661 million. In FY 2027, these revenues are predominantly used to support the state's largest childcare programs, including:

- \$360 million for the C3 grant program.
- \$244 million for Child Care Financial Assistance.
- \$32 million for the Commonwealth Preschool Partnership Initiative.

#### *Innovation & Capital Fund Supplemental Spending*

The surplus surtax spending bill includes \$150 million for a transfer to the High Quality Early Education and Care Affordability Fund. These same resources are then used to support spending in the FY 2027 budget proposal.

### **K-12 Education**

#### *Chapter 70 State Aid*

In FY 2027, Governor Healey funds the sixth and final year of Student Opportunity Act (SOA) implementation, bringing Chapter 70 aid spending to \$7.6 billion. This represents a \$241.8 million (3.3 percent) increase over FY 2026.

Completing the six-year implementation schedule for the SOA is a major achievement for the Healey administration in the FY 2027 budget. Despite an initial interruption due to the coronavirus pandemic, the state maintained its commitment to fully funding the SOA by FY 2027, delivering more than \$2.3 billion in new state investment to public school districts across the state.

#### *FY 2027 Chapter 70 State Aid Funding*

Program	FY 2022 GAA	FY 2023 GAA	FY 2024 GAA	FY 2025 GAA	FY 2026 GAA	FY 2027 - Governor
<b>Chapter 70 State Aid</b>	\$5,503.3	\$5,988.5	\$6,584.8	\$6,864.9	\$6,864.9	\$7,053.0
<i>Minimum Aid Supplement</i>	\$0.0	\$9.7	\$7.9	\$0.0	\$0.0	\$0.0
<i>SOA Implementation Support (surtax)</i>	\$0.0	\$0.0	\$0.0	\$0.0	\$496.9	\$550.6
<i>Minimum Aid Supplement</i>	\$0.0	\$0.0	\$0.0	\$37.0	\$0.0	\$0.0
<b>Total State Aid</b>	<b>\$5,503.3</b>	<b>\$5,998.2</b>	<b>\$6,592.6</b>	<b>\$6,901.9</b>	<b>\$7,361.9</b>	<b>\$7,603.6</b>
<i>\$ Increase v. Prior Year</i>	\$219.6	\$494.9	\$594.4	\$309.3	\$459.9	\$241.8
<i>% Increase v. Prior Year</i>	4.2%	9.0%	9.9%	4.7%	6.7%	3.3%
<b>SOA Implementation Schedule</b>	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6

*\$ in millions*

The cost of Chapter 70 state aid is supported through a combination of General Fund (\$6.6 billion), SOA Implementation Fund (\$400 million), Education Fund (\$44 million), and income surtax (\$551 million) resources.

In addition to fully funding the SOA, the Governor's budget also reflects minimum aid of \$75 per pupil. The foundation inflation index appears to be set at 2.76 percent, consistent with data from the Bureau of Economic Analysis on state and local government inflation.

#### *Education Reimbursement Programs*

The Healey-Driscoll administration recommends a total of \$1.16 billion in funding for other major education reimbursement programs in FY 2027, including Charter Tuition Reimbursement, Special Education Circuit Breaker, and Student Transportation Reimbursement. This funding level represents a \$143 million increase (14 percent) compared to FY 2026.

As detailed in the following sections, this total includes \$150 million in additional surtax spending for the Special Education Circuit Breaker program reflected in the Innovation and Capital Fund supplemental budget.

#### *FY 2027 K-12 Education Reimbursement Programs*

Program	FY 2025 GAA	FY 2026 GAA (+ surtax)	FY 2027 - Governor	Surplus Surtax Spending	Total FY 2027 Funding
SPED Circuit Breaker	\$493.2	\$674.9	\$652.7	\$150.00	\$802.7
Charter Tuition Reimbursement	\$199.0	\$199.0	\$200.4	\$0.00	\$200.4
Regional School Transpo.	\$99.5	\$111.9	\$112.3	\$0.00	\$112.3
Non-Resident Voc. Transpo.	\$1.0	\$0.0	\$6.8	\$0.00	\$6.8
Homeless Student Transpo.	\$28.7	\$28.7	\$35.2	\$0.00	\$35.2
<b>Total Education Reimbursement</b>	<b>\$821.3</b>	<b>\$1,014.5</b>	<b>\$1,007.4</b>	<b>\$150.00</b>	<b>\$1,157.4</b>

\$ in millions

Notable details regarding the funding levels for these programs include:

- **Charter Tuition Reimbursement** (\$200.4 million) – The administration funds Charter Tuition Reimbursement at \$200 million in FY 2027, which represents full funding. They also recommend an increase to the per-pupil facilities aid component of the reimbursement formula—to \$1,288—which directs funding to charter schools for facility and capital improvements.
- **Special Education Circuit Breaker** (\$802.7 million) – Between the Governor's operating budget proposal and the surtax supplemental budget, a total of \$802.7 million is made available for the Special Education Circuit Breaker in FY 2027. The administration anticipates that this funding level will meet the program's full obligations for both instructional and transportation reimbursement.
- **Student Transportation Reimbursement** (\$154.3 million) – The Governor's budget includes a total of \$154.3 million for student transportation reimbursement programs, including \$112.3 million for Regional School Transportation, \$35.2 million for Homeless Student Transportation, and \$6.8 million for Non-Resident Vocational School Transportation. Funding totals for Regional School

Transportation and Non-Resident Vocational School Transportation reflect \$62 million supported by surtax revenues.

#### *Operating Budget Surtax Investments*

K-12 education spending is bolstered by \$853 million in income surtax investments, comprising 32 percent of all surtax spending in the Governor's budget. In the FY 2026 GAA, K-12 education received \$760 million in surtax support. The FY 2027 investments include:

- \$551 million to support the final year of implementation of the Student Opportunity Act.
- \$198 million for the full-year costs of Universal School Meals.
- \$62 million for School Transportation Reimbursements, available to support Regional School Transportation and Non-Resident Vocational School Transportation.
- \$25 million for Early Literacy, an increase of \$10 million over the FY 2026 GAA funding level of \$15 million. The Early Literacy Initiative provides grants, programming, and materials to public schools to support evidence-based literacy instruction for students in pre-kindergarten through grade 3.
- \$11.2 million for Reimagining High School, which was funded at \$8 million in FY 2026.
- \$6 million for Mental Health Supports and Wrap Around Supports.

#### *Innovation & Capital Fund Supplemental Spending*

In addition to the surtax spending reflected in the Governor's operating budget for K-12 education, the administration includes \$190 million in the surplus surtax supplemental budget for a range of education initiatives.

- \$150 million for the Special Education Circuit Breaker Reserve, intended to supplement the operating budget appropriation to provide full funding in FY 2027.
- \$25 million for High Dosage Tutoring, which will provide tutoring opportunities to more than 10K students in kindergarten through grade 3.
- \$10 million for Accelerating Achievement, a new K-12 initiative focused on improving student outcomes in Massachusetts' lowest-performing schools.
- \$5 million for Adult Basic Education and English Language services to reduce the waitlist and expand services.

#### **Higher Education**

In FY 2027, Governor Healey funds the public higher education sector at \$2.17 billion, an increase of \$80 million (3.8 percent) over FY 2026. This funding level includes \$1.94 billion in non-surtax spending and \$236 million in surtax-supported investment.

Additionally, the Innovation and Capital Fund supplemental budget filed by the Governor earlier today dedicates \$18.3 million towards higher education. That spending is further detailed later in this section.

*FY 2027 Higher Education Spending by Sector*

Category	FY 2025 GAA	FY 2026 GAA	FY 2027 - Governor
<b>Community Colleges</b>	<b>\$381.7</b>	<b>\$385.1</b>	<b>\$415.1</b>
<b>State Universities</b>	<b>\$373.9</b>	<b>\$374.9</b>	<b>\$407.9</b>
<b>University of Massachusetts</b>	<b>\$770.0</b>	<b>\$836.6</b>	<b>\$887.6</b>
<i>University of Massachusetts</i>	\$764.7	\$833.0	\$884.0
<b>Scholarship Programs</b>	<b>\$197.0</b>	<b>\$198.5</b>	<b>\$199.4</b>
<i>Community College SUCCESS Fund</i>	\$14.7	\$14.0	\$14.0
<i>Foster Care and Adopted Fee Waiver</i>	\$7.3	\$7.2	\$7.2
<i>Foster Care Financial Aid</i>	\$1.5	\$1.5	\$1.5
<i>Massachusetts State Scholarship Program</i>	\$173.4	\$175.8	\$176.7
<b>Other Higher Education</b>	<b>\$32.7</b>	<b>\$26.2</b>	<b>\$21.3</b>
<b>Income Surtax Spending - Higher Ed</b>	<b>\$239.0</b>	<b>\$266.7</b>	<b>\$236.0</b>
<i>Financial Aid Expansion</i>	\$80.0	\$85.0	\$85.0
<i>State University SUCCESS</i>	\$14.0	\$14.0	\$14.0
<i>Free Community College</i>	\$93.5	\$96.0	\$137.0
<b>Total Higher Education Spending</b>	<b>\$1,994.3</b>	<b>\$2,088.0</b>	<b>\$2,167.4</b>

*\$ in millions*

*Public Higher Education Campuses*

Funding increases for public higher education campuses in the Governor's budget are driven by the ratification of collective bargaining agreements, as well as the annualization of \$43 million in total formula funding from FY 2026 for Community Colleges and State Universities.

- Base funding for Community Colleges in the Governor's budget totals \$415 million, an increase of \$30 million (7.8 percent) over the FY 2026 GAA. On average, campus appropriations receive increases of 8 percent.
- State University campuses are funded at a total of \$408 million, a \$33 million (8.8 percent) increase over FY 2026. Campus operating appropriations are increased by an average of 8.8 percent.
- The University of Massachusetts is funded at \$884 million, a \$51 million (6.1 percent) increase over the prior year.

*Scholarship Programs & Addressing Student Costs*

In FY 2027, non-surtax funding for scholarship programs and wraparound student supports is essentially level with the FY 2026 GAA at \$199 million. The state's Scholarship Reserve is funded at \$176.7 million and is complemented by an \$85 million surtax investment for financial aid expansion. Additionally, \$18.3 million is included in the surtax supplemental budget for financial aid support. The Community College SUCCESS program is level funded at \$14 million.

### *Operating Budget Surtax Investments*

Funding for higher education in Governor Healey's budget proposal is supported by \$236 million in income surtax revenue in FY 2027, representing 8.7 percent of all surtax investments in her operating budget proposal. FY 2026 surtax spending for higher education totaled \$267 million. The Governor's investments include:

- \$85 million for Financial Aid Expansion, available for Massachusetts students enrolled in a public higher education institution.
- \$14 million for the State University SUCCESS program, level funded with FY 2026.
- \$137 million for Free Community College, including the MassReconnect program.

### *Innovation & Capital Fund Supplemental Spending*

The surtax supplemental budget includes \$18.3 million for higher education, entirely dedicated to financial aid for students enrolled at public institutions of higher education.

## **Workforce & Career Readiness**

MTF assesses state budget spending on workforce and career readiness programs across 45 state programs and 16 state agencies. As described in prior MTF work, programs are organized into three categories: individual workforce training programs, sector-based programs, and training opportunities for state-serving populations.

In FY 2027, Governor Healey proposes \$547 million in total funding for these programs, a \$30 million (5.8 percent) increase compared to the FY 2026 GAA. A large driver of the increase in workforce-related funding is Community Day and Work Programs. In FY 2027, this program receives an increase of \$26 million which is related to the annualization of prior year rate increases and elevated caseload assumptions.

*FY 2027 Workforce Spending by Sector*

Category	FY 2025 GAA	FY 2026 GAA	FY 2027 - Governor
<b>Sector-Based</b>	<b>\$50.6</b>	<b>\$42.5</b>	<b>\$49.2</b>
<i>Career Technical Institutes</i>	\$9.6	\$9.2	\$8.9
<i>Innovation Pathways</i>	\$5.4	\$4.8	\$4.8
<i>Transfer to Workforce Competitiveness Trust Fund</i>	\$10.0	\$8.0	\$8.0
<i>Community Workforce Partnership Grant Program</i>	\$0.0	\$0.0	\$10.0
<b>Training Opportunities for State Populations</b>	<b>\$348.8</b>	<b>\$352.0</b>	<b>\$377.8</b>
<i>Community Day and Work Programs</i>	\$288.0	\$287.4	\$313.5
<i>Employment Services Program</i>	\$18.9	\$20.6	\$20.4
<i>Vocational Rehabilitation for People with Disabilities</i>	\$26.2	\$28.8	\$29.2

*(table continued below)*

<b>Individual Workforce Training</b>	<b>\$128.0</b>	<b>\$122.6</b>	<b>\$120.0</b>
<i>Adult Basic Education</i>	\$59.9	\$58.9	\$58.4
<i>Dual Enrollment Grant and Subsidies</i>	\$13.1	\$13.1	\$12.9
<i>Early College Programs</i>	\$15.2	\$14.4	\$15.0
<i>MassHire Career Centers</i>	\$8.9	\$8.2	\$8.1
<i>School-to-Career Connecting Activities</i>	\$8.1	\$7.0	\$6.5
<i>Summer Jobs Program for At-Risk Youth</i>	\$15.9	\$15.4	\$15.4
<b>Total Workforce Spending</b>	<b>\$527.3</b>	<b>\$517.1</b>	<b>\$547.0</b>

*\$ in millions*

Notable workforce investments in the Governor's budget include:

- **Community Day and Work Programs** (\$313.5 million) – The Governor proposes \$313.5 million for the Community Day and Work Programs, an increase of \$26.1 million (9.1 percent) over the FY 2026 GAA. The proposed funding increase represents annualized FY 2026 reimbursement rates for providers who offer DDS clients employment and skill development services.
- **Community Workforce Partnership Grant Program** (\$10 million) – The Governor proposes \$10 million for the Community Workforce Partnership Grant Program, a new workforce line-item. While this is an existing program administered by the Executive Office of Economic Development, the proposal dedicates funding through a stand-alone line-item that was not included in the FY 2026 GAA. The program funds community-led training programs in areas with high rates of poverty and criminal justice involvement.
- **Reimagining High School** (\$11.2 million) – Supported by surtax investments, the Governor's budget proposal includes \$11.2 million for existing programs, including Early College and Innovation Career Pathways, that prioritize college and career readiness in high school. The proposal is a \$3.2 million (40 percent) increase over the FY 2026 GAA and is intended to expand program capacity and cover Advanced Placement (AP) STEM testing fees for underrepresented communities.

The Governor's Innovation and Capital Fund supplemental budget also includes \$5 million in workforce funding for Adult Basic Education (ABE)/English for Speakers of Other Languages (ESOL). This investment is intended to build on the state's efforts to reduce the waitlist for ESOL services and expand training capacity.

## Transportation

The Healey-Driscoll administration proposes total funding of \$1.34 billion for transportation in FY 2027 through a combination of base operating transfers and surtax-supported spending. This represents an increase of \$94 million (7.5 percent) over the FY 2026 GAA.

Through the Innovation and Capital Fund supplemental budget also filed today, the Governor has proposed \$785 million in additional spending for transportation. Between these two spending plans, there is \$2.13 billion for transportation-related investments, of which \$1.76 billion is supported by the income surtax.

*FY 2027 Transportation Spending in the Operating Budget*

Category	FY 2024 GAA	FY 2025 GAA	FY 2026 GAA	FY 2027 - Governor
Base Transfer to MassDOT	\$523.9	\$478.6	\$558.9	\$424.8
Base Transfer to MBTA	\$187.0	\$186.8	\$470.2	\$0.0
Base Transfer to RTAs	\$94.0	\$94.0	\$209.0	\$32.7
Other Non-Surtax Transportation	\$11.7	\$11.7	\$11.7	\$11.7
<b>Non-Surtax Transportation Funding</b>	<b>\$816.6</b>	<b>\$771.0</b>	<b>\$1,249.8</b>	<b>\$469.1</b>
<b>Income Surtax Spending (CTF Fund)</b>	<b>\$0.0</b>	<b>\$250.5</b>	<b>\$550.0</b>	<b>\$975.0</b>
<i>Transfer to MassDOT</i>	\$0.0	\$60.0		\$220.2
<i>Transfer to MBTA</i>	\$0.0	\$127.5	\$478.0	\$470.0
<i>Transfer to RTAs</i>	\$0.0	\$0.0		\$184.8
<i>CTF Debt Service</i>	\$0.0	\$63.0	\$72.0	\$0.0
<i>Human Service Transportation</i> <sup>7</sup>	\$0.0	\$0.0	\$0.0	\$100.0
<b>Other Surtax Spending</b>	<b>\$476.5</b>	<b>\$288.5</b>	<b>\$0.0</b>	<b>\$0.0</b>
<i>Federal Matching Funds</i>	\$25.0	\$0.0	<i>All surtax spending for transportation is transferred to the CTF. Base transfer amounts above are inclusive of a combined \$478M in CTF spending.</i>	<i>All surtax spending for transportation is distributed through the CTF.</i>
<i>Highway Bridge Preservation</i>	\$50.0	\$0.0		
<i>MBTA Capital Investments</i>	\$180.8	\$60.0		
<i>MBTA Means Tested Fares</i>	\$5.0	\$20.0		
<i>MBTA Workforce/Safety Reserve</i>	\$20.0	\$36.0		
<i>MBTA Academy</i>	\$0.0	\$10.0		
<i>Regional Transit Funding and Grants</i>	\$90.0	\$110.0		
<i>Roads &amp; Bridges Supplemental Aid</i>	\$100.0	\$45.0		
<i>Water Transportation</i>	\$5.7	\$7.5		
<b>Total Transportation Funding</b>	<b>\$1,293.1</b>	<b>\$1,310.0</b>	<b>\$1,249.8</b>	<b>\$1,344.1</b>

*\$ in millions*

Building on a proposal that was first adopted in the FY 2025 GAA, the Governor recommends increasing the annual transfer of surtax revenues into the Commonwealth Transportation Fund (CTF) to \$975 million. This represents an increase of \$425 million over the transfer agreed to in FY 2026 of \$550 million.

As MTF has written previously, directing all surtax-supported spending for transportation through the CTF is a strategic decision that has several benefits. First, the automatic transfer mechanism of surtax revenues into the fund improves its debt coverage ratio, allowing the state to increase its borrowing capacity for transportation capital projects. Second, once the revenues are in the CTF, they can still be used to support operating expenses for the MBTA, MassDOT, and RTAs. And lastly, it provides a guaranteed level of surtax support for transportation in future fiscal years.

In the table above, CTF spending is broken out for illustrative purposes, but in the following sections funding is described holistically.

<sup>7</sup> In FY 2027, the administration proposes using \$100 million in surtax revenue, through the Commonwealth Transportation Fund, to support a portion of the costs of Human Service Transportation. This investment is excluded in the total transportation funding figure included in the table above.

#### *MBTA*

In the Governor's budget, the MBTA receives an operating transfer of \$470 million; essentially level with the FY 2026 GAA. This funding is supplemented by \$645 million included in the surtax supplemental budget; of which \$523 million is for MBTA operating needs and \$122 million is for a Workforce and Safety Reserve.

Based on the MBTA's most recent public estimates, this funding if maintained in FY 2028, will allow the authority to address a projected budget gap in FY 2027 and close much of a projected FY 2028 estimated gap. MTF has consistently recommended providing multiple year funding for transportation agencies to improve predictability and reduce the disruption caused by mid-year funding gaps. In the coming weeks, MTF will publish a detailed analysis of the Governor's transportation finance plan.

#### *MassDOT*

The Department of Transportation transfer totals \$645 million in FY 2027, an increase of \$86 million over the prior year. This increase is intended to support municipal snow and ice removal. In addition, \$85 million is included in the surtax supplemental budget to support three distinct programs:

- \$43 million to support the creation of a workforce pipeline, as well as capital project delivery.
- \$30 million for a reserve to support sustainable aviation fuel.
- \$7 million for a pilot program to provide grant to municipalities for repairs to unpaved roads.

#### *Regional Transit Authorities*

Base operating support for the RTAs totals \$217 million in the Governor's budget, an increase of \$8.5 million over the FY 2026 GAA. This total includes \$94 million to maintain historic levels of state operating support, as well as \$123.5 million to maintain and expand service improvements. As in prior years, line-item language dictates several specific requirements for the distribution of funding, including:

- \$66 million for operating enhancements and improvements;
- \$35 million for grants for fare equity programs;
- \$10 million to improve route connectivity; and
- \$4 million for expanded mobility options through the Community Transit Grant Program.

RTAs also receive \$60 million through the surplus surtax spending bill, including \$45 million for general operating support and \$15 million for micro-transit and last mile innovation grants.

#### *Supplemental Surtax Spending for Transportation*

Investments	Proposed Funding
<b>MBTA</b>	<b>\$644.7</b>
MBTA Operating Subsidy	\$523.0
FTA Reserve	\$121.7

(table continued below)

<b>MassDOT</b>	<b>\$80.0</b>
MassDOT Service Investments	\$43.0
Sustainable Aviation Fuel Credit	\$30.0
Unpaved Roads	\$7.0
<b>RTAs</b>	<b>\$60.0</b>
RTA Supports	\$45.0
Micro-transit and Last Mile Innovation Grants	\$15.0
<b>Transportation Total</b>	<b>\$784.7</b>

*\$ in millions*

## Housing

In FY 2027, Governor Healey funds programs related to housing stabilization, homelessness prevention, and housing financial assistance programs at a total of \$1.2 billion. This represents an increase of \$48 million (4.2 percent) over the FY 2026 GAA.

### *FY 2027 Housing Investments*

Category of Program	FY 2025 GAA	FY 2026 GAA	FY 2027 - Governor
<b>Housing Stabilization &amp; Homelessness Prevention</b>	<b>\$543.3</b>	<b>\$496.0</b>	<b>\$532.5</b>
<i>EA Family Shelters and Services</i>	\$326.1	\$276.4	\$258.6
<i>HomeBASE</i>	\$57.3	\$57.3	\$82.3
<i>Operation of Homeless Programs</i>	\$17.6	\$18.2	\$27.8
<i>Family Shelter Diversion</i>	\$0.0	\$0.0	\$7.5
<i>Winter Beds</i>	\$0.0	\$0.0	\$12.0
<b>Housing Financial Assistance</b>	<b>\$452.0</b>	<b>\$496.8</b>	<b>\$515.3</b>
<i>Alternative Housing Voucher Program</i>	\$16.4	\$19.5	\$19.3
<i>Massachusetts Rental Voucher Program</i>	\$219.2	\$253.3	\$278.3
<b>Counseling &amp; Education Services</b>	<b>\$9.0</b>	<b>\$5.9</b>	<b>\$5.0</b>
<b>Public Housing</b>	<b>\$114.3</b>	<b>\$116.9</b>	<b>\$119.1</b>
<b>Other Housing</b>	<b>\$39.6</b>	<b>\$39.7</b>	<b>\$31.9</b>
<b>Total Housing Spending</b>	<b>\$1,158.2</b>	<b>\$1,155.2</b>	<b>\$1,203.8</b>

*\$ in millions*

Notable housing-related investments in the Governor's budget include:

- **Massachusetts Rental Voucher Program** (\$278.3 million) – The administration's proposal includes a \$25 million (10 percent) increase in funding for the MRVP program. This is expected to support the leasing of over 11.5K vouchers, including more than 340 new project-based vouchers.
- **HomeBASE** (\$82.3 million) – The Governor's budget also includes a \$25 million (44 percent) increase for HomeBASE, driven by expected caseload growth.

- **Family Shelter Diversion** (\$7.5 million) – A new initiative in the Governor’s budget, Family Shelter Diversion is intended to quickly rehouse families experiencing homelessness, keeping them away from shelters.
- **Winter Beds** (\$12 million) – The administration also funds for the first time a winter shelter initiative to support 800 additional shelter beds during the cold weather months, as well as additional overnight warning center capacity.
- **Emergency Assistance Shelter** (\$258.6 million) – Funding for Emergency Assistance (EA) shelter decreases in FY 2027 by \$17.7 million (6 percent), which according to the administration reflects a caseload that is 70 percent lower than its peak of 7,500 families.

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## **FY 2027 Outside Policy Sections**

The Healey-Driscoll administration’s FY 2027 budget proposal includes 99 outside policy sections, 39 fewer than the Governor’s FY 2026 budget and 36 fewer than the FY 2026 Conference budget.

### *Policy Sections in Governor Healey’s Budget for FY 2027*

	FY 2024 Governor	FY 2025 Governor	FY 2026 Governor	FY 2026 Conference	FY 2027 Governor
Policy Sections	29	112	138	135	99

In FY 2027, the policy proposals in the Governor’s budget cover a range of topics, but proposals that relate to the state’s fiscal health, both in FY 2027 and beyond, emerge as a clear theme. The Governor’s proposal includes 16 sections that directly impact resources in the FY 2027 budget or have longer-term fiscal implications. The Governor also puts forward several notable non-budget policy proposals that relate to transportation, alcohol licensing, and workforce. Unlike in FY 2026, the Governor’s budget does not include any tax law change proposals; however, the Healey-Driscoll administration filed separate legislation that addresses federal corporate tax conformity earlier in January.

Of the 99 sections in the Governor’s budget, only 22 are shared, in whole or in part, with the Governor’s FY 2026 proposal. These include sections to expand MassHealth’s drug rebate authority and a proposal to allow for camera enforcement of speed limits.

Notable policy sections include:

### ***FY 2027 Finances***

*Gaming Fund Diversion (Section 88)* – This section diverts approximately \$112 million in gaming tax revenues, otherwise dedicated to off-budget funds, to the General Fund. Similar proposals have been included in the FY 2025 and FY 2026 budgets. This year’s budget increases the share of on-budget diversions slightly, primarily by increasing the level of funds dedicated to the Gaming Local Aid Fund.

*Capital Gains Distribution (Section 89)* – This section would alter the distribution of above threshold capital gains resources in FY 2027 so that 53.1 percent (\$135.9 million) would be applied to the state’s pension contribution, 39.1 percent (\$100.1 million) would go to the Stabilization Fund, and 7.8 percent (\$19.5 million) would go to the State Retiree Benefits Trust Fund. Without a change, 90 percent would go to the Stabilization Fund and the remaining 10 percent would be split between pension and retiree health benefit obligations. Both the FY 2025 and FY 2026 budgets also adjusted the distribution of excess capital gains.

*Interest Earnings (Section 92)* – This section directs interest earnings on state held, non-budgeted, trust fund balances to the General Fund. Currently, interest on these funds is retained by the generating trust fund. The Administration estimates that this redirection would provide approximately \$150 million to the budget in FY 2027. This section would not apply to the Stabilization Fund, whose interest is redirected to the Commonwealth Federal Matching and Debt Reduction Fund.

*Abandoned Property Revenues (Section 94)* – This section requires that, in FY 2027, all revenue from the sale of abandoned property would go to the General Fund. Without this proposal, 75 percent of any growth in abandoned property revenue compared to FY 2026 would be dedicated to the Stabilization Fund.

### ***Ongoing Finances***

*Capital Gains Threshold (Sections 17, 18, and 93)* – The Governor’s budget includes several sections to change how the state determines the level of sustainable capital gains revenue. Currently, the state’s capital gains threshold is based on a \$1 billion threshold that is adjusted by inflation each year. The \$1 billion number was set in the FY 2011 budget. The recent Administration report recommends rebasing the capital gains threshold in terms of growth in those collections over the last 15 years. Under the Governor’s proposal, the capital gains threshold would be \$2.25 billion and going forward the threshold would be equal to 95 percent of average capital gains collections for the last ten completed fiscal years, adjusted for inflation.

*Stabilization Fund and Long-Term Liability Financing Task Force (Section 19)* – The Governor proposes creating a permanent version of the Long-Term Financing Task Force, first created in federal funds infrastructure legislation signed into law in 2024. As with the original Task Force, the standing Task Force would focus on assessing the appropriate long-term balance of the Stabilization Fund and the plan for addressing other long-term liabilities. In addition to specific elements of the Task Force charge laid out in the original bill, the Governor proposes that the group also assess the state’s resilience in addressing the fiscal impact of natural disasters.

*Budget Stress Test (Section 19)* – This section requires the Administration to conduct an annual multi-year budget forecast that assesses the Commonwealth’s ability to withstand various fiscal scenarios. The forecasts would look ahead at least three years and identify key risks, likely impacts of changes in revenue or spending trends, and the sufficiency of reserves to address potential negative shocks.

### ***Health and Human Services***

*Bureau of Substance Abuse Services Payer of Last Resort (Section 48)* – This section amends statute to allow the state’s Bureau of Substance Abuse Services (BSAS) to pay medical costs of BSAS clients in a treatment facility, subject to appropriation. Current law requires BSAS to pay any maintenance and treatment costs

unmet by the client or other available sources at private facilities. There is likely an FY 2027 savings assumption associated with this section.

*Emergency Aid to the Elderly Disabled and Children Asset Limit (Section 49)* – This section amends existing statute to enable the Department of Transitional Assistance to establish an asset minimum of \$2,000 for all EAEDC applicants. Currently, a \$2,000 asset limit applies to applicants residing in rest homes. There is likely an FY 2027 savings assumption associated with this section.

*Expanded Pharmaceutical Rebates (Section 50)* – This section would expand MassHealth's authority to negotiate supplemental rebates to non-drug products and pharmaceuticals not currently covered by the MassHealth rebate program. This proposal has been included in previous budgets by the administration and the Senate. There is likely an FY 2027 savings assumption associated with this section.

*MassHealth Overpayment Recovery (Section 51)* – This section establishes a six-year statute of limitations for MassHealth overpayment recoveries, but also asserts MassHealth's right to recoup overpayments for six years.

*Connector Care Pilot Program (Sections 73, 74 and 76)* – These sections would extend an existing Connector Care pilot program, which provides coverage to those with income up to 500 percent of the Federal Poverty Level, to the end of 2027. Currently, the pilot is due to sunset at the end of 2026, after an extension of one-year included in the FY 2026 budget. The cost of the extension is expected to be borne by resources within the Commonwealth Care Trust Fund.

*MassHealth Dental Services (Section 78)* – This section authorizes MassHealth to determine the level of dental services, not required under the federal Medicaid program, covered by the program and in the Health Safety Net. The section allows MassHealth, beginning in FY 2027, to impose coverage caps, coverage changes, exclusions and limitations for adult dental services. The same authorization would also exist for the Health Safety Net. There is likely an FY 2027 savings assumption associated with this section.

*Health Safety Net Transfer for HIV Drug Assistance (Sections 79 & 80)* – These sections allow transfers from the Health Safety Net to cover costs associated with the Department of Public Health's HIV Drug Assistance Program, supported by line-item 4512-0106. The sections allow these transfers in both FY 2026 and FY 2027.

### ***Transportation***

*Camera Enforcement of Speeding (Sections 4, 29-30, 46, 96 & 100)* – These sections empower MassDOT to create a camera enforcement of speeding program to be implemented by MassDOT and participating municipalities. The sections lay out provisions of the program, by which cameras can be used to create speeding citations. In order to participate in the program, municipalities must have a program implementation plan approved by MassDOT. MassDOT must develop regulations for the program by the end of 2027. A similar proposal was put forward by the administration in the FY 2026 budget.

*Driver's License Non-Renewals (Sections 5, 28, 31-45, 68, 97 & 98)* – These sections amend various existing statutes to eliminate the automatic non-renewal of drivers licenses and registration as a penalty for various unpaid taxes and fines.

*Commonwealth Transportation Fund Surtax Dedication (Section 16)* – This section increases the annual amount of surtax revenue dedicated to the Commonwealth Transportation Fund (CTF) to \$975 million. The FY 2025 budget dedicated \$250 million in annual surtax revenues to the CTF. That amount was increased to \$550 million in the FY 2026 budget.

*Progressive Design Build Pilot (Section 77)* – The Governor’s budget proposes allowing MassDOT and the MBTA the authority to launch progressive design build pilot programs for 14 specific capital projects, which include the Cape Code bridge replacements, the I-90 interchange in Allston, and MBTA power systems upgrades. Design build refers to a process by which the project bidder selects a project manager based largely on cost at the start of a project. Progressive design build entails more collaboration between the state and the selected bidder on scope and cost as the project continues.

### ***Workforce & Employers***

*Workforce Investment Trust Fund & Economic Development Trust Fund (Sections 9 – 14)* – These sections alter the distribution of sports wagering revenue, reducing the share to the Workforce Investment Trust Fund from 17.5 percent to 10 percent and dedicating 7.5 percent to the Economic Development Trust Fund. The sections also change the language governing the Workforce Investment Trust Fund, requiring consultation on all expenditures with the Secretary of Labor and Workforce Development, and allowing funds to be used to support internships and apprenticeships. The Economic Development Trust Fund can be used for operating costs for the state’s Office of Community Development and Mass. Marketing Partnership, as well as costs of other economic development programs and initiatives.

*Workforce Productivity Fund (Sections 66-67 & 95)* – These sections direct \$1 million in contributions to the state’s Paid Family and Medical Leave Fund to a new Workforce Productivity Fund. The fund would provide grants to employers seeking temporary employment assistance due to PFML leave.

### ***Housing***

*Disposition of Public Housing (Section 53)* – This section eliminates a two-year minimum vacancy requirement for the disposition of subsidized housing units under the control of a housing authority. The statute retains the requirement that housing authorities cannot otherwise dispose of units whose vacancy is the fault of the authority.

*Alternative Voucher Housing Program (Section 72)* – This section rewrites the session law (Chapter 179 of the Acts of 1995) which created the program. The proposed language would update the program to better align with the state’s Rental Voucher Program and provide the Executive Office of Housing and Livable Communities with flexibility in terms of program design and eligibility.

### ***Other***

*Lottery Commission Game Offerings (Section 6)* – This section allows the state lottery commission to enter into contracts or group agreements for lottery games not currently or previously authorized by the state lottery commission.

*Owner's Representatives in Public Construction Projects (Sections 20, 21, 64, and 65)* – These sections increase the threshold, from \$50 million to \$100 million, for certain public construction projects to be required to maintain an owner's representative to provide professional oversight of the project. Currently, owner's representatives are required to be registered professional engineers with not less than 5 years of experience in the type of construction of the project. In addition to increasing the threshold for projects requiring an owner's representative, the Governor proposes eliminating the requirement that owner's representatives are registered professional engineers.

*Simplified Subscription Cancellation (Section 47)* – This section requires that any product where non-response by a consumer can be taken as affirmative action to accept an offer of service to also have a simple mechanism for cancellation of the service. Violation of the requirement shall constitute an unfair or deceptive business practice under the state's consumer protection laws.

*Alcohol Modernization (Sections 54-62)* – These sections allow certain licenses for the sale of alcohol to include sales at locations on the premises that are operated by the licensee but are not adjoining the licensed structure. Currently, the sale of alcohol by certain licenses – such as hotels, wineries and breweries – is limited to areas that are adjoining the licensed structure. The Governor proposes authorizing these licensees to sell alcohol at all locations on the licensed premises. The Governor also proposes expanding eligibility for certain licenses to sell alcohol to include individuals previously convicted of a felony or federal or state narcotics laws.

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## **Bottom Line**

The Healey-Driscoll administration filed a \$63.36 billion spending plan for FY 2027. It increases spending over the FY 2026 GAA by \$2.3 billion (3.8 percent) and over the administration's estimated spending level for FY 2026 by \$668 million (1.1 percent).

In crafting their proposal, the administration first faced the challenge of closing a sizeable budget gap stemming from stagnating revenue collections, increasing spending pressures, and a recent reliance on one-time solutions to balance the budget. Earlier this year, MTF estimated the FY 2027 budget gap to be approximately \$3.4 billion and the Governor's budget reflects a range of revenue and spending-side solutions that appear to close the entirety of that gap.

On the revenue side, the administration's solutions include re-directing existing resources towards the operating budget, drawing down existing trust fund balances, and utilizing surplus surtax revenues to support state budget expenses. Their FY 2027 budget proposal is also balanced based on revenue assumptions tied to recently filed tax conformity legislation.

### *FY 2027 Est. Budget Gap and Proposed Solutions*

<b>FY 2027 Budget Gap Estimate &amp; Proposed Solutions</b>	
MTF Budget Gap Estimate for FY 2027	\$3,365.0
Proposed Solutions in Governor's Budget	\$3,426.3
<i>Proposed Revenue Solutions</i>	\$2,666.3
<i>Proposed Spending Solutions</i>	\$760.0
<b>Remaining Gap</b>	<b>\$0</b>

*\$ in millions*

On the spending side, administrative strategies to manage costs over multiple fiscal years and targeted reductions in MassHealth coverage also help to keep spending growth below five percent.

As the budget process now moves to the Legislature, House and Senate leaders must decide if they will adopt the same gap-closing framework as the administration or introduce new initiatives. Over the coming months, MTF will continue to encourage policymakers to adhere to several principles:

- Limit total state budget spending to no greater than the Governor’s proposal. If lawmakers choose to spend less than the Governor—as they did in FY 2026—then reductions must reflect policy or programmatic changes that allow for cuts to be implemented effectively.
- Adopt sensible resource solutions, such as reassessing a sustainable capital gains threshold and constructively deploying all interest earnings. At the same time, aggressively pursuing state government efficiencies is a common-sense approach that could offer immediate revenue benefits.
- Proactively prepare for FY 2028 by identifying cost savings and efficiencies in FY 2027. The Governor’s budget wisely reflects several initiatives to begin planning for cost savings strategies in FY 2028 and future fiscal years, including the PCA working group, the Adult Day Health and Adult Foster Care working groups, and the permanent establishment of the Stabilization Fund and Long-Term Liability Financing Task Force. The state budget challenges seen this year are likely to persist and all options should remain on the table to identify a sustainable path forward.