

## **Governor Healey's FY 2027 Budget – 5 Things to Know**

- 1. Spending growth is reduced, but still exceeds expected tax revenue growth.** Governor Healey's budget proposes a 3.8 percent increase in spending over the FY 2026 signed budget (GAA). This rate of growth is notably less than the 5.5 percent year over year spending building into the FY 2026 GAA, but still materially exceeds assumed FY 2027 tax revenue growth of 2.4 percent. This mismatch between spending and revenue creates a structural budget deficit that must be addressed through other means.
- 2. The Healey administration closes a projected budget gap of more than \$3 billion using a variety of revenue and spending tools.** Using reasonable spending and revenue assumptions, MTF estimates an FY 2027 budget gap of \$3.4 billion. Governor Healey closes that gap by reducing MassHealth spending growth rates, adjusting the pension funding schedule, tapping \$1.5 billion in one-time resources and proposing a permanent increase in capital gains tax revenues dedicated to the budget. In total, the Governor's budget is balanced, but continues an elevated reliance on one-time solutions.
- 3. The surtax supports nearly \$4 billion in spending when the operating budget is combined with the Governor's Innovation and Capital (IC) Supplemental Budget proposal.** The operating budget relies on \$2.7 billion in surtax resources – the entirety of projected collections in FY 2027 – while the complementary supplemental spending proposal uses \$1.15 billion in prior year surtax collections dedicated to the Innovation and Capital Fund. As in FY 2026, a portion of that supplemental spending is used to support the operating budget, which could create a funding cliff in the future.
- 4. Funding for K-12 Education and the MBTA follows through on important policy commitments.** The Governor's budget includes full funding for the final year of Student Opportunity Act implementation – a six-year effort that has provided more than \$2.3 billion in new state aid to school districts around the state. In addition, the Governor's budget and IC supplemental budget proposal is consistent with last year's Transportation Finance Task Force recommendations to provide multi-year funding certainty to the MBTA and other transportation agencies and strategically use surtax resources to leverage capital investment.
- 5. Health care spending growth is down, at least temporarily.** Based in MTF's historic categorization of MassHealth spending, the Governor proposes a 1 percent increase in gross spending for the program compared to the FY 2026 GAA, whereas the FY 2026 GAA included MassHealth growth of 10.2 percent. The reasons for this reduced spending growth are likely due to a combination of federal-related enrollment impacts, proposed reform efforts and fiscal management tools. The role of each these factors will become more clear in the coming weeks.