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MTF Bulletin

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Fiscal Year 2027 Budget: A Closer Look

Local Aid & K-12 Education Spending in the Governor's Budget

On January 28th, the Healey-Driscoll administration filed its budget proposal for Fiscal Year (FY) 2027. The $63.36 billion spending plan increases spending over the FY 2026 General Appropriations Act (GAA) by $2.32 billion (3.8 percent) and over the administration's estimated spending level for FY 2026 by $668 million (1.1 percent).

In total, Governor Healey's budget includes $9.97 billion for Unrestricted General Government Aid (UGGA), Chapter 70 state aid for public schools, and other major K-12 education programs. This includes funding for these programs supported by the income surtax[1] and it represents 15.7 percent of all spending in the administration's plan for FY 2027. Funding for local aid and K-12 education is the second largest category of investment in the state budget, only behind spending on MassHealth.

Summary of Local Aid & K-12 Education Investments in the Governor's Budget

Program	FY 2026 GAA	FY 2027 - Governor
Unrestricted General Government Aid	$1,323.1	$1,356.1
Chapter 70 State Aid	$7,361.9	$7,603.6
Education Reimbursement Programs	$766.4	$1,007.4
Total Spending	**$9,451.3**	**$9,967.2**
% of Total Budget Spending	**15.5%**	**15.7%**

$ in millions

To provide context for an analysis of the Governor's proposals for local aid and K-12 education funding, this brief evaluates programs' recent funding histories and describes the major factors that impact spending trends in FY 2027.

This brief also details spending included for K-12 education in the Innovation and Capital Fund supplemental budget proposal, which was filed by the administration on the same day as House 2. That spending bill appropriates $1.15 billion in surtax resources currently held in the Education and Transportation Innovation and Capital Fund. Of that amount, $190 million is directed towards K-12 education.

[1] The $9.97 billion funding total for local aid and K-12 education includes spending supported by the income surtax in the Governor's FY 2027 operating budget proposal. It does not include spending for K-12 education included in the supplemental surtax spending bill, also filed by the administration on January 28th.

Local Aid for Cities and Towns

Unrestricted General Government Aid

Unrestricted General Government Aid (UGGA) is the largest source of discretionary aid for cities and towns funded through the state budget. Communities' aid amounts are not tied to a specific distribution formula;[2] instead, increases in local aid are made proportionately so that each municipality receives the same percent increase over the prior year.

In FY 2027, Governor Healey funds UGGA at $1.36 billion, a $33 million (2.5 percent) increase over FY 2026. This percent increase 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.

Recent Funding History of UGGA in the State Budget

Program	FY 2024 GAA	FY 2025 GAA	FY 2026 GAA	FY 2027 - Governor
UGGA	$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%*

$ in millions

At 2.5 percent, the proposed increase for UGGA is smaller than overall state budget spending growth of 3.8 percent. When spending related to the income surtax and a transfer to the Medical Assistance Trust Fund is excluded, spending growth in the Governor's budget is slightly reduced at 3.5 percent.

Funding Increases for Local Aid v. All Other Spending Growth

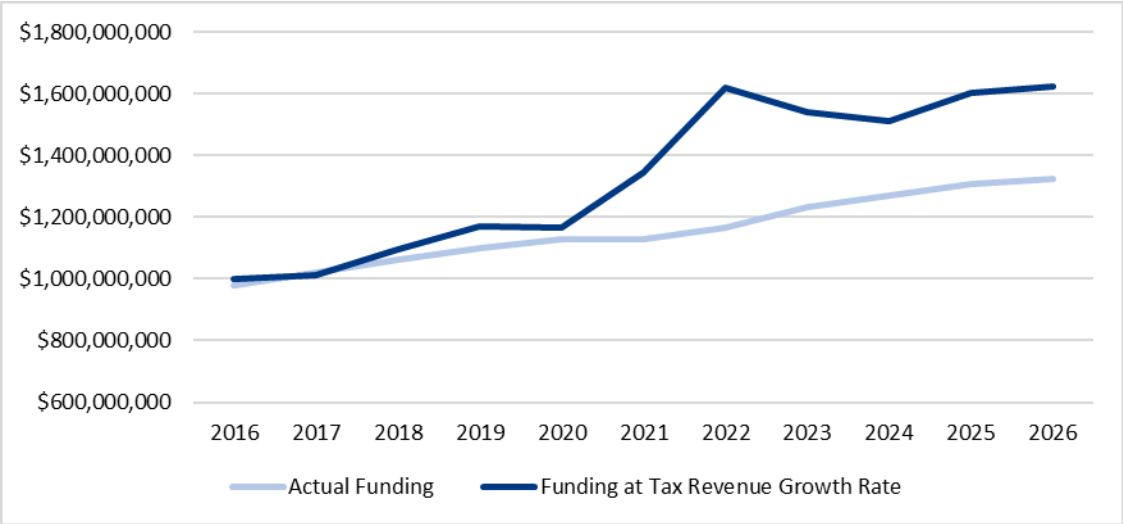
	FY 2026 GAA	FY 2027 GAA	% Growth
Total Line-Item Spending	$61,046.0	$63,361.7	3.8%
Line-Item Spending (w/o Surtax & MATF)	$58,098.4	$60,113.7	3.5%
UGGA Spending	**$1,323.1**	**$1,356.1**	**2.5%**

$ in millions

In recent years, municipalities have increased their advocacy for a substantial increase in UGGA funding. In addition to highlighting the fiscal pressures facing cities and towns related to constrained revenue growth and increasing costs, a key point in that advocacy has been that while local aid increases have been largely tied to *expected* tax revenue growth, they have not reflected *actual* tax revenue growth. As illustrated by the graph below, if UGGA funding had reflected actual tax revenue growth trends between FY 2016 and FY 2026, the local aid appropriation would be approximately $300 million larger.

[2] Unrestricted General Government Aid was created in FY 2010 through the combination of Lottery Aid and Additional Assistance. While each of those programs originally distributed aid to municipalities via formula, since their combination, aid amounts have been unilaterally increased or decreased across the board.

Comparison of UGGA Funding, Expected vs. Actual Tax Revenue Growth



Yet despite this divergence between actual and projected funding for UGGA, local aid for cities and towns has increased by more than $150 million over the last five years. That is a nominal increase greater than what was received by 97 percent of all programs funded through the state budget.

Other Municipal Investments

In addition to funding for UGGA, the Governor's FY 2027 budget proposal funds a number of other programs that provide critical support for cities and towns. Other notable investments for municipalities include:

- **Payment-in-lieu-of-Taxes for State Owned Land (PILOT)** – PILOT is funded by the Governor 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 reimbursements, to ensure that no city or town receives less in PILOT reimbursements in FY 2027 than they did in FY 2026.

- **Municipal Regionalization and Efficiencies Reserve** – This reserve is funded at $17.5 million for FY 2027, level with the Governor's original recommendation for FY 2026. This appropriation is typically increased in the final budget due to funding for local projects. Included in the reserve are several programmatic earmarks, including: $2 million for emergency staffing and public safety, $3 million for the District Local Technical Assistance Fund, $2 million for the Community Compact initiatives, and $500K for the Local Finance Commonwealth Fellowship Program.

- **Aid for Public Libraries** – The Governor's budget includes a total of $40 million for aid to public libraries ($20.4 million) and regional libraries ($19.4 million). This represents a two percent increase over the prior year for each appropriation.

- **Local Roads and Transportation Infrastructure** – Alongside their FY 2027 budget proposal, the Healey administration filed a bond bill that includes a $1.2 billion Chapter 90 authorization. This four-year authorization would provide $300 million per year to cities and towns, a $100 million annual increase over the historic Chapter 90 funding level of $200 million and level with last year's

authorization amount. Similar to the approach adopted in last year's Chapter 90 bond bill, the $100 million in additional aid would be distributed to communities on the basis on road miles, delivering increased aid to rural communities. Prior to 2025, the Chapter 90 authorization had remained at $200 million for ten years.

State Aid for K-12 Public Schools

Chapter 70 State Aid

State aid for public schools in Massachusetts is governed by Chapter 70 of the Massachusetts General Laws and it is the single largest source of state support for cities and towns funded through the state budget. It is calculated according to an enrollment-based "foundation budget formula" that determines the state and local education spending that is required to provide all students with an equitable public education. The state aid component of the formula is referred to as "Chapter 70 state aid."

In 2019, a landmark piece of education finance reform legislation was signed into law, known as the Student Opportunity Act (SOA). The SOA overhauled the foundation budget formula to more accurately reflect the cost of providing all students with a high-quality education, including significant increases to the cost assumptions for low-income students, English learner students, employee health insurance, and mental health services for students.

In FY 2027, Governor Healey fully funds the sixth and final year of SOA implementation, bringing Chapter 70 state aid to $7.6 billion. This represents a $241.8 million (3.3 percent) increase over FY 2026. Completing the SOA implementation schedule is a major achievement for the Healey administration. Despite an initial interruption due to the pandemic, the state maintained its original commitment to fully funding the new law by FY 2027. Between FY 2022 and FY 2027, Chapter 70 state aid has increased by more than $2.3 billion.

Chapter 70 State Aid Funding, FY 2022 – FY 2027

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

$ in millions

Chapter 70 state aid is funded through a combination of General Fund ($6.6 billion), Education Fund ($44 million), SOA Implementation Fund ($400 million), and income surtax ($551 million) resources in FY 2027.

The SOA Implementation Fund was created in FY 2022 and over the last four fiscal years has been capitalized with surplus budget resources and surtax revenues. The FY 2025 and FY 2026 state budgets both relied on

the trust fund to support $200 million in Chapter 70 state aid costs and heading into FY 2027 the balance of the fund is projected to be $568 million.

Under the Governor's budget proposal, the trust fund's remaining balance would be used to support the costs of Chapter 70 state aid ($400 million) and the Special Education Circuit Breaker program ($168 million) in FY 2027.

While the use of one-time trust fund resources to support ongoing budget spending can create challenges in future fiscal years, it makes sense to align this drawdown with the completion of the SOA implementation schedule.

SOA Implementation Fund Balance

Fund Deposits	Amount
FY 2022 GAA	$350
FY 2023 GAA	$150
FY 2024 Closeout Budget	$426
FY 2025 Closeout Budget	$100
Fund Withdrawals	**Amount**
FY 2025 GAA (Chapter 70)	-$200
FY 2026 GAA (Chapter 70)	-$200
2025 Surtax Supplemental Budget	-$58
Remaining Balance	**$568**

$ in millions

Foundation Inflation Trends

Each year, the per-pupil rates within the foundation budget formula are increased by an inflation factor. As the Chapter 70 statute dictates, this factor—known as the foundation inflation index—is the lesser of a calculation of state and local government inflation or 4.5 percent. In FY 2027, this calculation results in a foundation inflation index of 2.76 percent.

At 2.76 percent, the FY 2027 inflation rate is higher than the prior two years and generally consistent with the ten-year average inflation rate of 2.3 percent.

Within the foundation budget formula, a unique inflation factor is applied to the per-pupil rates for employee benefits and fixed charges. This rate is calculated according to the three-year average premium increases for Group Insurance Commission plans and in FY 2027 is set at 8.29 percent. The purpose of this unique factor is to account for healthcare cost increases rising faster than other cost categories included in the foundation budget calculation.

Foundation Inflation Index Recent Trends

Fiscal Year	Inflation Rate
FY 2025	1.35
FY 2026	1.93
FY 2027	**2.76**
10-Year Avg	**2.33**

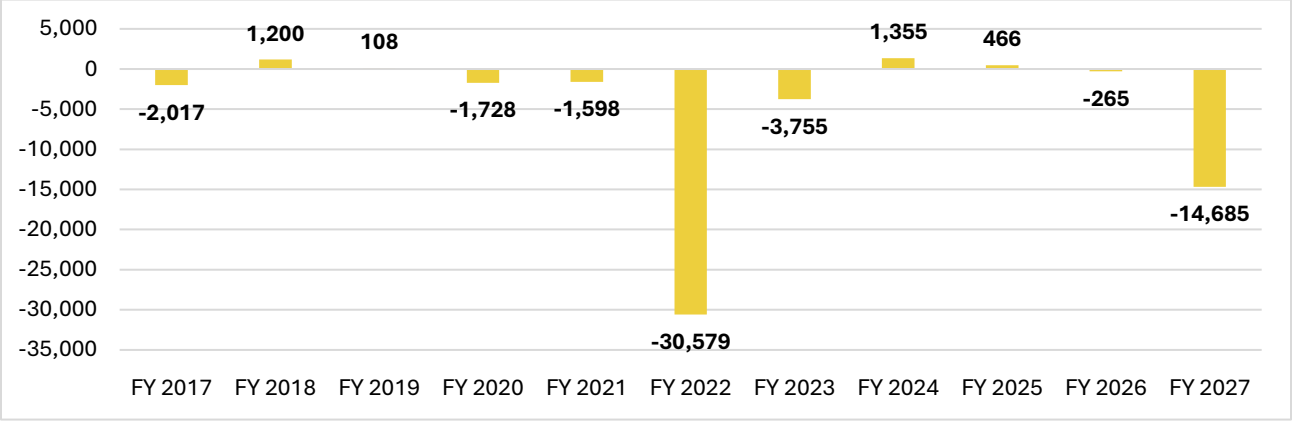
Foundation Enrollment Trends

The foundation budget formula is fundamentally an enrollment-based calculation. It determines the amount of state and local education spending that is necessary to provide all students with an adequate education, based on the number of students being educated in a district and their unique demographic characteristics.

In FY 2027, total foundation enrollment is 890,622; a decrease of nearly 15,000 students compared to the prior year. This represents the second-largest single year decrease in foundation enrollment since FY 2022, when enrollment loss exceeded 30,000 students. While the enrollment decrease in FY 2022 was predominantly related to the pandemic, it is more challenging to identify a single cause of the enrollment loss in FY 2027. While federal immigration policy changes may be one factor impacting enrollment losses,

decreases are not concentrated among specific types of districts. For example, Lexington and Holyoke serve student bodies similar in size but drastically different in terms of their demographic characteristics. Both districts saw enrollment losses of about three percent (~200 students) between FY 2026 and FY 2027.

Annual Foundation Enrollment Changes, FY 2017 – FY 2027



While enrollment trends vary significantly across districts, foundation enrollment decreased for 236 operating districts and increased for 81 districts.

Minimum Aid Communities

As a result of moderate inflation and decreasing enrollments across the state, the vast majority of school districts in FY 2027 receive a "minimum aid" increase to their Chapter 70 state aid amount. Minimum aid is calculated by multiplying a district's foundation enrollment by a per-pupil aid amount, and in FY 2027 Governor Healey sets that amount at $75.

In recent years, as enrollment has fallen, an increasing number of school districts are receiving minimum aid. In FY 2026, 244 districts were considered "minimum aid" communities; and in FY 2027 that number increases to 271 school districts.

If the Legislature were to increase the per-pupil minimum aid amount—as they did in FY 2026—the number of minimum aid communities would also increase.

Per-Pupil Minimum Aid Trends

Fiscal Year	# of Min. Aid Districts	Minimum Aid Amount
FY 2024	124	$60
FY 2025	212	$104
FY 2026	244	$150
FY 2027 - Gov	271	$75

K-12 Education Reimbursement Programs

In addition to Chapter 70 state aid, the state funds five other major education reimbursement programs related to special education, charter schools, and student transportation. Between the Governor's operating budget proposal and the Innovation and Capital Fund supplemental budget, there is a total of $1.16 billion made available for these programs in FY 2027.

Special Education Circuit Breaker

The Special Education Circuit Breaker program reimburses school districts for the costs associated with providing students with out-of-district special education services. While the program historically reimbursed districts for instructional costs associated with special education services, under the SOA, out-of-district transportation claims also became eligible for reimbursement. This policy change was implemented according a three-year schedule and at full implementation districts are eligible to receive 75 percent reimbursement for allowable instructional and transportation costs above a specific per-student threshold. In FY 2027, the threshold is estimated to be $54,906.[3]

In the Governor's operating budget proposal, the Circuit Breaker program is funded at $652.7 million. In combination with a $150 million appropriation in the Innovation and Capital Fund supplemental budget, total funding available for the program is $802.7 million. This represents an increase of nearly $130 million over the prior year and the administration anticipates this funding level to meet the full reimbursement requirements of the program.

Special Education Circuit Breaker Funding in FY 2027

Funding Source	Amount
Governor's Budget	$652.7
Surplus Fair Share	$150.0
Total FY 2027 Funding	**$802.7**
FY 2026 Funding	$674.9
Increase over FY 2026	**$127.8**

$ in millions

For the second year in a row, the administration proposes to fully fund the Circuit Breaker program through the use of surplus surtax revenues. While the full funding of this program provides critical support to school districts and municipalities, stakeholders should be aware that using above-cap surtax revenues to fund ongoing operating costs could create long-term challenges for the structural balance of the operating budget and short-term funding cliffs for the programs supported by these resources.

To be further detailed in MTF's Budget Deep Dive on Surtax Spending, the surtax revenues appropriated through the fair share supplemental budget are not guaranteed in future fiscal years. While more than $1 billion is available to support additional education and transportation investments this year, the amount of above-cap surtax revenues is projected to decrease in future fiscal years.

Charter Tuition Reimbursement

The Charter Tuition Reimbursement program compensates districts for year-over-year increases in their charter tuition payments. In the first year of a tuition payment increase a district is reimbursed for 100

[3] In FY 2026, the per-student cost threshold for the Special Education Circuit Breaker program was $53,431. According to Section 5A of Chapter 71B of the MGL, the threshold is adjusted each year by the foundation inflation index calculated for the Chapter 70 state aid program. In FY 2027, the foundation inflation index is 2.76 percent.

percent of the cost; in the second and third-years following the tuition increase, a district is reimbursed for 60 percent and then 40 percent of the original increase.

In FY 2027, the Governor's budget funds Charter Tuition Reimbursement at $200.4 million, an increase of $1.4 million over the prior year. Included in this funding level is a $100 increase to the per-pupil facilities aid component of the reimbursement formula—up to $1,288—which directs funding to charter schools for facility and capital improvements.

While this proposed funding level is based on estimated charter school enrollment for the upcoming school year and is subject to change, it is currently projected to fully fund the reimbursement formula.

Student Transportation Reimbursement

The Governor's budget includes a total of $154.3 million for student transportation reimbursement, which includes $62 million funded via the income surtax.

- **Regional School Transportation** ($112.3 million) – Funded through a combination of $57.1 million in General Fund resources and $55.2 million in surtax revenue, this total funding level is anticipated to provide 87 percent reimbursement for Regional School Transportation costs.
- **Non-Resident Voc. Transportation** ($6.8 million) – Funded by a portion of the $62 million surtax investment for student transportation, expected to reach 100 percent reimbursement.
- **Homeless Student Transportation** ($35.2 million) – Supports districts in meeting federally-mandated student transportation requirements. It is not yet clear the reimbursement rate that this funding level supports.

Summary of Major Education Reimbursement Program Funding

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
Total Education Reimbursement	**$821.3**	**$1,014.5**	**$1,007.4**	**$150.00**	**$1,157.4**

$ in millions

Surtax Spending for K-12 Education in the Governor's Budget & Fair Share Supplemental Budget

Across the Governor's operating budget proposal for FY 2027 and the surtax supplemental budget, the administration provides an additional $1.04 billion for K-12 education. The single largest surtax-supported investment between the two bills is a $551 million reserve to support the final year of Student Opportunity Act implementation.

For the last two years, the administration and Legislature have proposed using surtax revenues in support of Chapter 70 state aid costs, specifically those tied to the SOA. Given that the SOA clearly results in new and increased state spending for public school districts across the state related to a major overhaul in the school funding formula, MTF views the use of surtax revenues for these costs as consistent with the original intent of the revenue stream.

Additional investments supported by income surtax revenues can generally be organized into two categories: (1) maintenance and expansion of existing state programs, and (2) continued support for new initiatives.

Surtax-Supported Spending in the Governor's Budget & Fair Share Supplemental Budget

Program	FY 2026 GAA	FY 2027 - Governor
Student Opportunity Act Expansion	$496.9	$550.6
Universal School Meals	$180.0	$198.0
School Transportation Reimbursements	$50.0	$62.0
Early Literacy	$15.0	$25.0
Mental Health Supports and Wraparounds	$0.0	$6.0
Reimagining High School	$8.0	$11.2
Green Schoolworks	$10.0	$0.0
Operating Budget Surtax Spending	**$759.9**	**$852.8**
Program	**2025 IC Supp**	**2026 IC Supp - Governor**
ABE & ESOL Waitlist Remediation	$10.0	$5.0
High Dosage Early Literacy Tutoring	$25.6	$25.0
SPED Circuit Breaker Reserve	$190.0	$150.0
Accelerating Achievement	$0.0	$10.0
Local Education Projects	$34.5	$0.0
Regional School Transportation	$8.1	$0.0
Green Schoolworks	$10.0	$0.0
Supplemental Surtax Spending	**$278.2**	**$190.0**
Total Surtax Spending	**$1,038.1**	**$1,042.8**

$ in millions

Surtax spending that supports the maintenance or expansion of existing state programs includes Universal School Meals, Student Transportation Reimbursements, and the Special Education Circuit Breaker. Newer initiatives that continue to receive surtax support under the Governor's proposals include Early Literacy programs, Reimagining High School, and Accelerating Achievement Academies.

In 2025, the Legislature also used the fair share supplemental budget to invest in local education programs and unique priorities like the Green Schoolworks grant program for energy efficient school building projects. While it is likely that some level of unique spending will be included in the House and Senate supplemental budget proposals in 2026 as well, a smaller amount of discretionary spending may be possible given the budgetary pressures faced in FY 2027.

Key Questions for the House and Senate

As the House and Senate now undertake their own budget development processes, they must answer several key questions related to local aid and K-12 education funding:

- ***Will the Legislature increase funding for Unrestricted General Government Aid over the Governor's budget or consider other proposals to ease municipal budget pressures?***
  In many ways, local cities and towns are facing the same fundamental challenge as the state when it comes to balancing their budgets. Increasing cost pressures are growing faster than expected revenue collections, leading to structural budget gaps that must be solved through a combination of temporary revenue solutions or spending cuts. As MTF wrote in an earlier budget brief, in FY 2027 state policymakers are faced with a budget gap that likely exceeds $3.5 billion. While the Healey administration put forward a framework to close that gap, it leaves little remaining resources to support large discretionary funding increases. While there is no guarantee that the Legislature will adopt the same revenue or spending solutions as the administration, the underlying reality will remain the same: FY 2027 is a tight budget year and the ability of the House or Senate to increase funding for Unrestricted General Government Aid will be limited. Additionally, in FY 2026, the Legislature chose to fund local aid at a lower level than the administration's original recommendation. But while operating budget resources are scarce, there may be opportunities to alleviate local spending pressures through the state's Capital Investment Plan.

- ***With the conclusion of SOA implementation, will the House and Senate consider proposals to amend the required local contribution side of the foundation budget formula?***
  Since FY 2022, the Commonwealth has been incrementally phasing-in the reforms of the SOA according to a six-year schedule. FY 2027 is the final year of that implementation schedule and presents an organic opportunity to look back and assess the results of the largest reform to education finance in the past thirty years. Between FY 2022 and FY 2027, Chapter 70 state aid has increased by $2.3 billion; of that increase, $1.7 billion (75 percent) has been directed towards 52 school districts serving the highest numbers of low-income and English learner students. The remaining 267 operating districts across the state have seen their Chapter 70 state aid increase by a total of $587 million over the same time period.

  This uneven—though intentional—distribution of new Chapter 70 state aid, coupled with municipal budget pressures, has led to calls for a review of the required local contribution side of the foundation budget formula. Through examining the elements of the formula that determine how much a city or town should contribute towards the costs of educating their students, school districts that did not receive the largest benefits from the SOA hope to increase their levels of state aid.

  As policymakers consider the options before them, the challenges in implementing large scale reforms to the foundation budget formula should not be understated. First, in a tight budget year, formula changes that would benefit a large number of districts are likely to be cost prohibitive. Second, investments in specific grant programs—like Rural School Aid—may do a better job of providing targeted benefits to districts facing the most acute local finance challenges. Lastly, the FY 2026 GAA included funding and language directing DESE to study and make recommendations on the municipal contribution side of the

foundation budget formula. The department is instructed to submit a report with recommendations to improve the formula by June 30, 2026. Policymakers should wait for that analysis and the department's recommendations before pursuing significant policy changes.

- ***Will the House and Senate increase the amount of surtax spending for K-12 education in the operating budget or the Innovation and Capital Fund supplemental budget?***
  The Governor's FY 2027 budget proposal includes $2.7 billion in spending supported by the income surtax. Of that total, $853 million (32 percent) is dedicated to K-12 education—making that category the largest beneficiary of the surtax in the administration's spending plan. Surtax resources in the operating budget are largely used to support the ongoing costs of large programs, including Chapter 70 state aid, Universal School Meals, and Student Transportation Reimbursement. As state budget spending pressures have increased in recent years, a larger share of these programs have been shifted onto the surtax to free up resources for other areas of the budget that do not have access to a dedicated revenue stream. While the House and Senate may adjust the exact amounts of surtax revenue to support K-12 education programs, it is more likely that those shifts will be done to balance the budget as opposed to introduce new funding initiatives in FY 2027.

  In the Innovation and Capital Fund supplemental budget, the Governor directs $190 million towards K-12 education; almost the entirety of which is used to support Special Education Circuit Breaker costs in FY 2027. As in the operating budget, while it's possible that the House and Senate may make marginal changes to the amount of surtax revenue available for K-12 education programs, it's unlikely that those changes would result in substantially more funding for the sector.