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MTF Bulletin

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Fiscal Year 2027 Budget: A Closer Look

Transportation Funding in the Governor’s Operating Budget and Supplemental Surtax Proposals

The Healey-Driscoll administration’s Fiscal Year (FY) 2027 budget proposal tops \$63 billion, increasing spending over the FY 2026 General Appropriations Act (GAA) by \$2.3 billion (3.8 percent) and over the administration’s estimated spending level by \$668 million (1.1 percent). The \$63.36 billion spending plan includes \$2.7 billion in surtax-supported investments obligated to education and transportation.

The administration’s budget includes \$1.34 billion in direct appropriations for transportation, including investments for the Department of Transportation (MassDOT), the MBTA, 15 Regional Transit Authorities (RTAs), and the Merit Rating Board. This funding level represents an increase over the FY 2026 GAA of \$94 million (7.5 percent) and represents 2.12 percent of total line-item spending.

Direct Spending on Transportation in the Governor’s Budget

Funding	FY 2026 GAA	FY 2027 - Governor
Total Transportation Spending¹	\$1,249.8	\$1,344.1
<i>Income Surtax Spending (CTF Fund)</i>	\$550.0	\$975.0
<i>Income Surtax Spending (non-CTF Fund)</i>	\$162.0	\$0.0
Total Operating Budget Spending	\$61,046.0	\$63,361.7
% of Operating Budget Spending for Transportation	2.05%	2.12%

\$ in millions

Alongside their operating budget proposal, the administration also filed two pieces of legislation to effectuate a broader transportation finance plan. On the same day that their FY 2027 budget proposal was released, the administration filed a supplemental budget bill appropriating \$1.15 billion in surplus surtax revenues currently held in the Education and Transportation Innovation and Capital Fund; of which \$785 million is dedicated to transportation needs.

¹ Total transportation spending in the FY 2026 GAA and the Governor’s budget proposal for FY 2027 includes spending supported by the income surtax. In FY 2026, policymakers agreed to dedicated \$550 million in surtax revenue directly to the Commonwealth Transportation Fund and those funds were subsequently used to support operating budget expenses. An additional \$162 million from the Education and Transportation Fund was directed to Regional Transit Authorities. In the Governor’s budget, the entire \$975 million allotment of surtax revenue for transportation is dedicated to the CTF.

Additionally, on January 23rd, the Governor filed a \$2.3 billion transportation bond bill that includes a \$1.2 billion four-year authorization for the Chapter 90 program, as well as \$1.1 billion in other transportation infrastructure investments.

To provide a complete analysis of the funding proposals for transportation put forward by the Healey-Driscoll administration, this brief will review the spending included in the Governor’s operating budget, the supplemental surtax spending bill, and the Chapter 90 bond bill. It will assess how recommended funding levels align with the state’s long-term transportation financing strategy; and finally, it will highlight several key takeaways for the Legislature.

On March 18th, the House finalized their version of the Innovation and Capital Fund supplemental budget. In total, they propose spending \$1.85 billion; \$1.29 billion of which is supported by excess surtax revenues collected in FY 2025 and current held in the Innovation and Capital Fund. Those funds are divided between the transportation (\$834 million) and education (\$455.6 million) sectors. When the House takes up their FY 2027 operating budget proposal in April, MTF will expand on this analysis to explain how spending in the supplemental budget complements overall investment in education and transportation.

Background

In 2024, Governor Healey announced the creation of a Transportation Finance Task Force (TFTF) to develop recommendations to address immediate transportation finance challenges and make recommendations for long-term funding improvements.

The final report and recommendations of the TFTF were released in early 2025, and they laid out a multi-pronged approach to stabilize and improve the Commonwealth’s transportation system through enhanced operating and capital investments. Specifically, the report recommended a “surtax-first” approach that focused on effectively appropriating and maximizing the resources newly available for transportation spending.

The core tenets of the TFTF report reflected the following goals:

- Achieving an even divide of surtax resources between education and transportation through the combination of operating budget and supplemental budget investments;
- Closing projected budget deficits at the MBTA for multiple fiscal years; and
- Maximizing a dedicated stream of surtax revenues towards transportation to expand the state’s borrowing capacity.

Last year, through the combination of investments in the FY 2026 GAA and the 2025 Innovation and Capital Fund supplemental budget, incremental progress was made towards achieving each of these goals.

Achieving an Even Divide of Surtax Revenues Between Education and Transportation

Between the FY 2026 GAA and the 2025 Innovation and Capital Fund supplemental budget, a total of \$3.7 billion in surtax-supported spending was appropriated for education and transportation. Of that total, \$2.25 billion (60 percent) was dedicated to the education sector and \$1.47 billion (40 percent) went towards transportation.

While that is clearly not a 50/50 distribution of surtax revenues for both sectors, it did represent positive movement in the right direction. On its own, the FY 2026 GAA heavily weighted surtax spending towards education, with 70 percent of the \$2.4 billion surtax spending cap going towards early education, K-12 education, and higher education investments.

In the supplemental budget, however, the majority of spending (57 percent) supported transportation. By using excess surtax revenues held in the Innovation and Capital Fund to primarily support the MBTA, Regional Transit Authorities, and other transportation investments policymakers made progress towards a more equal division of total surtax spending.

FY 2026 GAA & IC Supplemental Surtax Spending

Category of Spending	FY 2026 GAA	IC Supp. Budget (2025)	Total Spending	% of Total
Education	\$1,688.0	\$561.0	\$2,249.0	60%
Transportation	\$712.0	\$758.4	\$1,470.4	40%
Total Surtax Spending	\$2,400.0	\$1,319.4	\$3,719.4	

\$ in millions

As discussed later in the brief, through her FY 2027 budget proposal and 2026 Innovation and Capital Fund supplemental budget, the Governor goes further to improve the distribution of surtax revenues.

Closing Projected Budget Deficits at the MBTA

In FY 2026, the Healey administration originally put forward a financing plan that was projected to close MBTA operating budget deficits for the following three years. The primary components of that plan included:

- A permanent increase to the MBTA’s operating budget transfer to \$687 million;
- A dedication of \$300 million in surplus surtax revenues to replenish MBTA reserves; and
- The retiring of the MBTA’s legacy debt to generate additional savings.

The spending associated with this framework totaled approximately \$1.5 billion, including \$687 million through the operating budget and \$780 million in the surtax supplemental budget. Ultimately, when the final FY 2026 and Innovation and Capital Fund supplemental budgets were signed into law, \$965 million was included for MBTA operating costs and reserve deposits. While it appeared that this funding would enable the MBTA to address a projected budget gap in FY 2026, it did not appear to provide multiple years of budget certainty for the authority.

MBTA Investments in FY 2026

	Final
Operating Transfer to the MBTA	\$470
<i>Base Transfer</i>	\$187
<i>Supplemental CTF Transfer</i>	\$283
MBTA Reserve Deposits	\$495
<i>MBTA Workforce / Safety Reserve</i>	\$175
<i>MBTA Reserve Replenishment</i>	\$300
<i>Low-Income Fare Relief</i>	\$20
Operating & Reserve MBTA Spending	\$965
Non-Operating MBTA Spending	\$53

\$ in millions

Through her operating budget proposal for FY 2027 and the surtax supplemental budget, the Governor builds on the funding framework adopted by the Legislature in FY 2026. The specific details of the plan are provided below, and the administration anticipates closing the MBTA’s projected budget gaps for multiple fiscal years.

Maximizing a Dedicated Stream of Surtax Revenues Towards Transportation

In FY 2025, lawmakers approved a proposal to annually and automatically dedicate \$250 million in surtax revenue to the Commonwealth Transportation Fund (CTF). The creation of this automatic transfer mechanism allowed the state to increase the borrowing capacity of the CTF by expanding its dedicated revenue base and it immediately provided additional operating resources for transportation.

In the FY 2026 GAA, the automatic surtax transfer to the CTF was increased to \$550 million. In addition to supporting \$478 million in state budget spending for the MBTA, MassDOT, and RTAs, this increased transfer was expected to expand the borrowing capacity of the fund by more than \$5 billion over the next ten years.

Since the initial transfer of surtax revenue into the CTF was approved, the Commonwealth has been able to support \$305.8 million in additional capital investments for transportation to date. By using surtax revenues to create new opportunities for capital spending, pressures on other areas of the state’s Capital Investment Plan can be alleviated and the state can further support complementary investments, like an increase in Chapter 90 funding.

The Governor’s Proposed Transportation Investments in FY 2027

In FY 2027, total state investment in transportation (excluding capital spending) is likely to reach \$5.4 billion; including a pre-budget transfer of sales tax revenue to the MBTA, the payment of debt service costs by revenues collected in the Commonwealth Transportation Fund (CTF), and direct appropriations through the operating budget and fair share supplemental spending bill.

Operating Spending for Transportation in FY 2027

All Transportation Spending	FY 2027
FY 2027 Governor's Budget Proposal	\$4,616.2
Sales Tax Revenues - Pre-budget Transfer to MBTA	\$1,445.0
Debt Service Payments	\$1,727.1
Base Transfers to MassDOT, MBTA, RTA's, etc.	\$469.1
Income Surtax Spending	\$975.0
Fair Share Supplemental Budget Proposal	\$784.7
Surplus Surtax Spending for Transportation	\$784.7
Total Transportation Spending	\$5,400.2

\$ in millions

The majority of this funding—approximately \$3.2 billion—supports non-discretionary transfers and debt service payments. To contextualize the transportation-related decisions that now pend before the House and Senate, this brief will primarily focus on the \$1.34 billion in direct funding included in the operating budget and the \$785 million in supplemental surtax spending.

Operating Budget Spending

The \$1.34 billion of transportation spending in the Governor’s budget represents an increase of \$94 million (7.5 percent) over the FY 2026 GAA. The majority of this spending growth is due to an \$86 million increase in funding for MassDOT, which likely supports snow and ice removal costs not funded in FY 2026.

In the table below, the total transportation spending figures include spending supported by surtax revenue that is first directed to the Commonwealth Transportation Fund, as well as additional surtax spending for RTAs included in the FY 2026 GAA. Surtax spending is broken out in the table below for comparison purposes.

Transportation Spending in the Governor’s Budget

Transportation	FY 2026 GAA	FY 2027 - Governor	\$ v. FY 2026 GAA
Total Transportation Spending	\$1,249.8	\$1,344.1	\$94.3
<i>Transfer to MassDOT</i>	\$558.9	\$645.0	\$86.0
<i>Transfer to MBTA</i>	\$470.2	\$470.0	-\$0.2
<i>Transfer to RTAs</i>	\$209.0	\$217.5	\$8.4
<i>Other Transportation Spending</i>	\$11.7	\$11.7	\$0.0
Surtax Spending for Transportation	\$712.0	\$975.0	\$263.0
<i>Income Surtax Spending (CTF Fund)</i>	\$550.0	\$975.0	--
<i>Other Income Surtax Spending</i>	\$162.0	\$0.0	--
CTF Funding Distribution	\$550.0	\$975.0	\$425.0
<i>Transfer to MassDOT</i>		\$220.2	--
<i>Transfer to MBTA</i>	\$478.0	\$470.0	--
<i>Transfer to RTAs</i>		\$184.8	--
<i>Human Services Transportation</i>	\$0.0	\$100.0	--
<i>CTF Debt Service</i>	\$72.0	\$0.0	--

\$ in millions

In FY 2027, the administration directs the entirety of its surtax allotment for transportation in the operating budget (\$975 million) to the Commonwealth Transportation Fund (CTF). Once this revenue is deposited into the CTF, it can be immediately used to increase operating support for the MBTA, MassDOT, RTAs, and other transportation services; and the automatic transfer mechanism improves the debt coverage ratio of the fund, allowing the state to increase its borrowing capacity for transportation capital projects.

In total, the Governor recommends increasing the amount of surtax spending for transportation in the operating budget by \$263 million compared to FY 2026.

Fair Share Supplemental Budget

The investments in the Governor’s operating budget proposal are enhanced by the administration’s supplemental spending bill that appropriates \$1.15 billion currently held in the Education and Transportation Innovation and Capital Fund; of which \$785 million is dedicated to transportation.

Supplemental Surtax Spending for Transportation

Proposed Surtax Investments	Funding
MBTA	\$644.7
<i>MBTA Operating Subsidy</i>	<i>\$523.0</i>
<i>FTA Reserve</i>	<i>\$121.7</i>
MassDOT	\$85.0
<i>MassDOT Service Investments</i>	<i>\$43.0</i>
<i>Sustainable Aviation Fuel Credit</i>	<i>\$30.0</i>
<i>Unpaved Roads</i>	<i>\$7.0</i>
<i>Transportation Spinout</i>	<i>\$5.0</i>
RTAs	\$60.0
<i>RTA Supports</i>	<i>\$45.0</i>
<i>Micro-transit and Last Mile Innovation Grants</i>	<i>\$15.0</i>
Total	\$784.7

\$ in millions

The Governor’s supplemental budget proposal most notably provides \$644.7 million in additional support for the MBTA, including \$523 million for MBTA operating costs and \$121.7 million for the MBTA Workforce and Safety Reserve to address staffing shortages and support safety initiatives. As discussed in greater detail below, when combined with operating budget investments, this funding is intended to provide two years of budget stability for the MBTA.

As MTF details in the FY 2027 Budget Deep Dive on Surtax Spending, resources in the Innovation and Capital Fund are intended to support one-time and capital-related expenditures for education and transportation. MTF categorizes all of the Governor’s transportation spending in the Innovation and Capital Fund supplemental budget as one-time. However, while not categorized as ongoing, there are areas where one-time transfers of surplus dollars are being used in the Governor’s FY 2027 budget to support operating expenses, including the subsidy to the MBTA. In the sections that follow, this brief will assess the specific investments in the Governor’s proposal alongside her funding recommendations for FY 2027.

Agency Funding Breakdown

MassDOT

Across Governor Healey’s FY 2027 budget proposal and the fair share supplemental budget, the administration recommends total funding of \$730 million for MassDOT, comprised of \$645 million in the FY 2027 budget and \$85 million in the supplemental budget. This total represents a \$154.6 million increase over FY 2026.

Proposed Spending for MassDOT, FY 2027 Budget and Fair Share Supplemental Budget

MassDOT	FY 2026 GAA	FY 2027 - Governor	\$ vs FY 2026 GAA
Operating Budget Spending	\$558.9	\$645.0	\$86.1
<i>Massachusetts Transportation Trust Fund</i>	--	\$424.8	--
<i>Supplemental CTF Transfer</i>	--	\$220.2	--
Fair Share Supplemental Spending	\$16.5	\$85.0	\$68.5
Total	\$575.4	\$730.0	\$154.6

\$ in millions

The \$86 million increase for MassDOT in the Governor’s operating budget proposal for FY 2027 is intended to support municipal snow and ice removal. According to the administration, the five-year average annual spending rate on snow and ice removal has been approximately \$85 million.

In the Innovation and Capital Fund supplemental budget, a primary focus of the MassDOT investments is to build a pipeline of skilled workers to support capital project delivery at the statewide and local level. The bill includes \$43 million for this effort, which will also support partnerships between MassDOT and institutions of higher education to convert internships into full-time positions.

Additionally, the bill directs \$7 million towards a pilot program—first funded in FY 2026—to provide grants to cities and towns for the repair, maintenance, and improvement of unpaved roads. This funding would only be available for public roads currently maintained by the municipality.

The surtax supplemental spending bill also includes \$35 million for two initiatives that aim to improve the development and deployment of new transportation technologies:

- \$30 million for a reserve to support the distribution and use of sustainable aviation fuel.
- \$5 million for a transfer to the Infrastructure and Transportation Innovation Fund, created in this bill. The fund, to be administered by MassVentures, would support investment in transportation-related start-ups and technologies that would improve infrastructure, expand access, and reduce the environmental impacts of transportation.

MBTA

In addition to the \$1.45 billion in sales tax revenues that are automatically transferred to the MBTA, the administration proposes \$1.11 billion in funding for the MBTA through the Governor’s operating budget (\$470.2 million) and the Innovation and Capital Fund supplemental budget (\$644.7 million). Compared to the operating resources available to the authority in FY 2026, this represents an increase of \$150 million.

Proposed Spending for the MBTA, FY 2027 Budget and Fair Share Supplemental Budget

MBTA	FY 2026 GAA	FY 2027 - Governor	\$ vs FY 2026 GAA
Operating Budget Spending	\$470.2	\$470.0	-\$0.2
<i>Base Operating Transfer</i>	\$187.0	\$0.0	--
<i>CTF Surtax Transfer</i>	\$283.0	\$470.0	--
<i>Other Surtax Spending</i>	\$0.0	\$0.0	--
IC Supplemental Surtax	\$495.0	\$644.7	\$149.7
Total	\$965.2	\$1,114.7	\$149.5

\$ in millions

Notably, the entire \$470 million operating transfer to the MBTA included in the Governor’s budget proposal for FY 2027 is funded using surtax revenues that are first directed to the CTF. While this represents a small percentage (17 percent) of the total \$2.7 billion surtax spending cap for the operating budget, it does shift MBTA operating support onto a revenue source that is likely to be more volatile than other types of revenues collected by the state.

In addition, the Innovation and Capital Fund supplemental budget includes \$122 million for the Workforce and Safety Reserve and \$523 million to replenish the MBTA’s deficiency fund. In total, support for MBTA operating costs in the surtax supplemental spending bill increases by \$150 million over FY 2026.

As in FY 2026, a primary goal for the administration through these two spending bills is to provide the MBTA with multiple years of relative budget stability. This certainty would allow lawmakers more time to grapple with longer-term operating budget shortfalls at the authority.

In FY 2027 and FY 2028, operating expenses at the MBTA are projected to exceed available revenues by \$1.1 billion and \$1.3 billion, respectively. This initial budget gap estimate does not reflect additional state support through the operating budget or supplemental surtax spending bill.

Estimated MBTA Budget Gaps in FY 2027 & FY 2028

	FY 2027	FY 2028
Expenses	(\$3,390)	(\$3,640)
Revenue		
Operating	\$585	\$617
Sales Tax	\$1,450	\$1,475
Local Assessment	\$200	\$204
Other	\$36	\$37
Estimated Initial Gap	(\$1,119)	(\$1,307)

\$ in millions

After accounting for savings targets and the Governor’s funding proposals, it is projected that the authority’s budget gap would be fully closed in FY 2027 and a small surplus of \$84 million would be generated. When added to the existing MBTA reserve balance of \$433 million, there would be \$513 million in reserve funding carried forward into FY 2028.

In FY 2028, assuming the authority again receives a \$470 million operating budget transfer, the MBTA faces an initial budget gap of \$732 million. This gap could be largely offset by the \$513 million in reserve funding; a \$219 million deficiency would remain.

Estimated MBTA Budget Gaps in FY 2027 & FY 2028 with Governor's Proposal

	FY 2027	FY 2028
MBTA Estimated Gap	(\$1,119)	(\$1,307)
Projected Savings	\$88	\$105
Starting Gap (post-savings)	(\$1,031)	(\$1,202)
Operating Budget Transfer (Surtax)	\$470	\$470
Operating Budget Subsidy (IC Supp)	\$523	\$0
Workforce and Safety Reserve (IC Supp)	\$122	\$0
Remaining Gap	\$84	(\$732)
Add'l Reserve Draw	--	\$513
Final Budget Gap	\$84	(\$219)
Remaining Reserves (Existing & New)	\$513	\$0

\$ in millions

A deficit of \$219 million could be addressed within the MBTA budget through lower headcount growth, debt restructuring, or other budget management tools. Additionally, this estimate does not reflect funding that could be made available through an Innovation and Capital Fund supplemental budget in FY 2028; though as MTF highlighted in the FY 2027 Budget Deep Dive on Surtax Spending, it is likely that supplemental surtax resources will be more limited in future fiscal years.

The bottom line of the administration's FY 2027 budget proposal is that the MBTA receives two years of relative budget stability by using \$1.115 billion in surtax funds, the majority of which are one-time in nature through the Innovation and Capital Fund.

Regional Transit Authorities (RTAs)

In total, RTAs would receive \$277.5 million in funding through Governor Healey's FY 2027 budget proposal and the fair share supplemental budget; including \$217.5 million in base operating support and \$60 million in additional surtax spending. This represents an \$18.5 million increase over the funding provided in FY 2026.

Proposed Spending for RTAs, FY 2027 Budget and Fair Share Supplemental Budget

Regional Transit Authorities	FY 2026 GAA	FY 2027 - Governor	\$ vs FY 2026 GAA
Operating Budget Spending	\$209.0	\$217.5	\$8.5
Commonwealth Transportation Fund	--	\$32.7	--
Supplemental CTF Transfer	--	\$184.8	--
Fair Share Supplemental Spending	\$50.0	\$60.0	\$10.0
Total	\$259.0	\$277.5	\$18.5

\$ in millions

The \$217.5 million funding recommendation for RTAs included in the Governor's operating budget includes \$94 million to maintain historic levels of state operating support, as well as \$123 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, intended to support expanded service hours, weekend service, route expansions, and other operational improvements across the Commonwealth's 15 Regional Transit Authorities. These funds would be distributed as supplemental State Contract Assistance to support service reliability and address rising operational costs.
- \$35 million to support systemwide fare-free transit across all RTAs to reduce cost barriers for riders who rely on regional transit for daily travel. This represents a \$5 million increase over FY 2026.
- \$10 million is allocated to improve route connectivity, supporting projects designed to strengthen connections between transit networks and improve coordination between RTAs and other transportation services.
- \$4 million for the Community Transit Grant Program, which supports expanded mobility options for older adults, individuals with disabilities, and low-income residents through programs that support expanded service to rural areas, travel training, and other community-based transportation initiatives.

The \$60 million for RTAs in the surplus surtax spending bill includes \$45 million for general operating support and \$15 million for micro-transit and last mile innovation grants.

The Governor's Chapter 90 Bond Bill

The week before the Governor filed her FY 2027 proposal, she also filed a Chapter 90 bond bill that included \$2.3 billion in authorizations for municipalities to improve local transportation infrastructure. The bill reflects a \$1.2 billion multi-year authorization for the Chapter 90 program, which allocates funds to municipalities using a distribution formula, accounting for local road mileage, population, and employment.

Last year, the Governor similarly proposed a multi-year authorization for the Chapter 90 program; however, the Legislature ultimately approved a one-year \$300 million authorization. This represented a \$100 million increase in Chapter 90 funding, which had remained at \$200 million annually for the prior ten years. Under the proposal, \$200 million would continue to be distributed based on the traditional formula, while the additional \$100 million would be allocated based on local road mileage. This adjustment was intended to redistribute funding in a way that prioritized rural communities.

The Governor's bill filed in January would continue this new distribution formula and delivery \$300 million annually to municipalities, but the multi-year certainty would improve local planning processes.

The increased Chapter 90 authorization is made possible, in part by increased surtax deposits into the Commonwealth Transportation Fund, which expands the state's transportation borrowing capacity. As mentioned earlier, the automatic deposit of \$550 million in surtax revenue into the CTF approved by lawmakers in the FY 2026 GAA is expected to increase the state's capital spending ability for transportation by \$5 billion over the next ten years. That expanded capacity eases pressure on other areas of the state's Capital Investment Plan by creating a new avenue to support transportation investments.

Chapter 90 Bond Bill Authorizations

Program	Authorization
Construction and Reconstruction of Municipal Ways	\$1,200
Bridge and Pavement Lifecycle Asset Management Program (LAMP)	\$500
Transportation Capital Projects to Support Housing Development	\$200
Parkway Resilience Improvement and Safety Modernization (PRISM)	\$200
Rail Reliability	\$200
Total	\$2,300

\$ in millions

In addition to the four-year \$1.2 billion proposal, the bond bill also authorizes:

- \$500 million for MassDOT’s road and bridge lifecycle asset management program (LAMP) to improve bridges and pavement statewide on an accelerated schedule;
- \$200 million for transportation infrastructure that directly supports new housing development;
- \$200 million for the improvement of transportation infrastructure under the control of the Department of Conservation and Recreation; and
- \$200 million for MBTA vehicle renewal, including cleaner and quieter locomotives for the commuter rail.

The bill also proposes continuing \$3.2 billion in authorizations that were originally included in the 2022 transportation bond bill to support Shared Streets and Spaces municipal grants, the Municipal Pavement program, and federally aided and non-federal aid eligible highway projects.

Key Takeaways for the House and Senate

As the FY 2027 budget and the Innovation and Capital Fund supplemental budget now move to the House and Senate for their consideration, there are several important questions that policymakers must answer:

- ***Will the House and Senate continue to make progress towards achieving a 50/50 split in surtax revenues for education and transportation through investments in the operating budget and supplemental spending bill?***

In FY 2026, the Healey administration originally put forward operating budget and supplemental surtax spending proposals that would have resulted in surtax revenues being divided evenly between the education and transportation sections. Ultimately, the final FY 2026 GAA and the 2025 Innovation and Capital Fund supplemental budget directed 60 percent of the surtax towards education and 40 percent towards transportation. Though not an equal distribution, the Innovation and Capital Fund supplemental budget did favor investments in transportation; offsetting the education spending in the operating budget.

In FY 2027, the Governor’s spending recommendations again make incremental progress towards achieving a 50/50 split of surtax revenues. Between her operating budget proposal and the 2026 Innovation and Capital Fund supplemental budget, 54 percent of surtax spending is for education and 46 percent for transportation.

Income Surtax Investments in the Governor’s Budget & Supplemental Surtax Bill

	FY 2027 Governor	Innovation and Capital Fund (2026)	Total Funding	% of Spending
Education	\$1,725	\$358	\$2,083	54%
Transportation	\$975	\$785	\$1,760	46%
Total Investments	\$2,700	\$1,153	\$3,853	

\$ in millions

As the Legislature considers taking action on their own versions of each spending bill, it should remain a shared goal to move toward an even distribution and maintain—at least—the administration’s distribution of these resources. Given the operating budget’s reliance on the surtax to support large education-related appropriations, this will require the Innovation and Capital Fund supplemental budget to again favor transportation.

On March 18th, the House adopted its version of the Innovation and Capital Fund supplemental budget. Their proposal largely reflects the administration’s transportation funding framework, including \$740 million in funding for the MBTA. If their FY 2027 operating budget also adopts the Governor’s recommended funding level for transportation, they will succeed in moving closer towards an even divide of surtax revenues.

- ***Will the Legislature adopt the Healey administration’s funding proposal for the MBTA to provide multiple years of relative budget stability for the authority?***

As MTF’s analysis demonstrates, the Healey administration’s recommended investments for the MBTA through the operating budget and the Innovation and Capital Fund supplemental would likely close projected budget gaps at the authority through FY 2028. Providing the MBTA with multiple fiscal years of budget stability and predictability is a goal that should be shared by the Legislature for a clear reason: a stable and financially solvent authority will provide safer, faster, and more reliable public transportation to millions of people who rely on the MBTA to get to work, school, or back home. A well-functioning high-speed rail system is a competitive asset for Massachusetts.

As in FY 2026, it appears that the House shares this goal with the administration; their supplemental spending proposal largely adopts the Governor’s approach on the MBTA, including both additional operating support and reserve deposits. If their FY 2027 operating budget maintains at least \$470 million in support for the MBTA, they would also provide the authority with multiple years of budget stability.

Looking past FY 2028, when supplemental surtax resources may be more limited, policymakers and the authority will need to work collaboratively to monitor and address projected budget gaps. As MTF highlights in its budget deep dive focused on surtax spending, the amount of surtax revenue available in the Innovation and Capital Fund will be diminished, as more surtax revenues are absorbed by the operating budget.

- ***Will the House and Senate agree to increase the automatic transfer of surtax revenues into the Commonwealth Transportation Fund to \$975 million, as proposed by the Governor?***

In FY 2027, Governor Healey proposes to increase the automatic deposit of surtax revenues into the Commonwealth Transportation Fund from \$550 million to \$975 million. The benefits of this increase are two-fold: first, it continues to maximize the impact of the surtax for transportation by guaranteeing at least \$975 million for the sector each year; and second, the automatic deposit mechanism allows the Commonwealth to increase its borrowing capacity for transportation-related capital spending by at least \$5 billion over the next ten years.

In prior fiscal years, the Legislature has demonstrated a willingness to adopt the administration's recommendation to increase the amount of surtax revenue dedicated to the CTF; first adopting a \$250 million annual transfer in FY 2025, and then increasing the deposit from \$250 million to \$550 million in the FY 2026 GAA.

However, the adoption of a similar proposal in the past does not guarantee its success in the future. As the future of surtax revenue collections remains uncertain and a greater share of them are necessary to support large operating budget programs, it's possible that policymakers may want to maintain some flexibility for how to divide available resources in subsequent fiscal years. Additionally, the administration's planned capital spending may still be achievable with an annual CTF deposit of just \$550 million.