

## MTF Bulletin

January 24, 2024

### Governor Healey’s Fiscal Year 2025 Budget

Earlier today, the Healey-Driscoll administration released its Fiscal Year (FY) 2025 budget proposal. The \$58.13 billion spending plan includes critical investments in childcare, education, and transportation; and \$1.3 billion in spending supported by income surtax revenues. The Governor’s budget increases funding over the FY 2024 General Appropriations Act (GAA) by \$2.1 billion (3.7 percent); a rate of growth that reflects the modest revenue expectations for the upcoming fiscal year.

The Governor’s budget comes three weeks after the Healey administration announced a \$1 billion tax [revenue shortfall](#) for FY 2024, which they propose to solve for using a combination of unanticipated non-tax revenues (\$625 million) and mid-year spending cuts (\$375 million net).

To support new and expanded spending in FY 2025, despite the significant slowdown in recent tax revenue collections, the Governor’s budget proposal relies on \$1.25 billion in new revenue-generating initiatives and one-time resources.

#### Budget Overview

The Governor’s FY 2025 budget proposal recommends \$58.13 billion in total on-budget spending, a \$2.1 billion (3.7 percent) increase over the FY 2024 GAA signed into law last July. After accounting for \$7.3 billion in statutorily required transfers and other off-budget spending reserved for collective bargaining agreements, the Governor’s budget includes \$65.63 billion in total spending obligations.

#### *Governor Healey’s FY 2025 Spending Overview*

	FY 2023 GAA	FY 2024 GAA	FY 2025 Governor	\$ vs. FY 2024 GAA	% vs. FY 2024 GAA
Line-Item Spending	\$51,868.7	\$54,558.1	\$56,152.2	\$1,594.1	2.9%
Surtax Spending	\$0.0	\$1,000.0	\$1,300.0	\$300.0	30.0%
Medical Asst. Trust Fund	\$575.9	\$505.0	\$682.2	\$177.2	35.1%
<b>Total Line-Item Spending</b>	<b>\$52,444.6</b>	<b>\$56,063.1</b>	<b>\$58,134.4</b>	<b>\$2,071.3</b>	<b>3.7%</b>
Pre-Budget Transfers	\$6,334.9	\$6,898.9	\$7,297.0	\$398.1	5.8%
Other Off-Budget	\$840.0	\$0.0	\$200.0	\$0.0	0.0%
<b>Total Spend</b>	<b>\$59,619.5</b>	<b>\$62,962.0</b>	<b>\$65,631.4</b>	<b>\$2,669.4</b>	<b>4.2%</b>

*\$ in millions*

Governor Healey’s budget is supported by \$65.67 billion in total state revenues, predominantly comprised of the \$40.2 billion consensus revenue figure agreed to by the Healey administration, House, and Senate budget leaders earlier this month. The proposal also relies on \$1.3 billion in revenue generated by the new

income surtax, consistent with the income surtax spending cap also agreed to as part of the consensus revenue process.

The administration’s budget is supported by \$14.3 billion in reimbursements from the federal government and \$9.3 billion in departmental and lottery revenues, as well as transfers. Lastly, the spending plan relies on approximately \$1.25 billion in revenue-generating initiatives and one-time resources.

*Governor Healey’s FY 2025 Revenue Overview*

	<b>FY 2023 GAA</b>	<b>FY 2024 GAA</b>	<b>FY 2025 Governor</b>	<b>\$ vs. FY 2024 GAA</b>	<b>% v. FY 2024 GAA</b>
<b>Total Tax Revenue</b>	\$38,886.0	\$40,296.0	\$41,548.7	\$1,252.7	3.1%
<i>Consensus Tax Agreement</i>	\$39,617.0	\$40,410.0	\$40,202.0	-\$208.0	-0.5%
<i>Cap Gains Diversion</i>	-\$873.0	-\$584.0	-\$138.4	\$445.7	-76.3%
<i>Tax Settlements</i>	\$100.0	\$50.0	\$50.0	\$0.0	0.0%
<i>Tax Initiatives</i>	\$42.0	-\$580.0	\$135.0	\$715.0	-123.3%
<i>4% Income Surtax</i>	\$0.0	\$1,000.0	\$1,300.0	\$300.0	30.0%
<b>Federal Revenue</b>	\$14,062.9	\$13,735.3	\$14,301.5	\$566.2	4.1%
<b>Departmental Revenue &amp; Transfers</b>	\$8,341.7	\$8,687.1	\$9,252.2	\$565.1	6.5%
<b>Trust Funds Used</b>	\$0.0	\$437.0	\$565.0	\$128.0	29.3%
<b>Additional Stabilization Fund Transfer</b>	-\$595.1	-\$146.3	\$0.0		
<b>Total Revenue</b>	<b>\$60,695.6</b>	<b>\$63,009.1</b>	<b>\$65,667.4</b>	<b>\$2,383.9</b>	<b>3.8%</b>

*\$ in millions*

In FY 2025, the Healey administration projects that the starting balance of the Stabilization Fund will be \$8.96 billion and that it will grow by a further \$96.8 million, ending the fiscal year with a balance of \$9.05 billion.

*FY 2025 Stabilization Fund Estimate*

<b>FY 2024 Beginning Balance</b>	<b>\$8,061.3</b>
<i>Planned Deposits</i>	\$895.0
<b>FY 2024 Ending Balance</b>	<b>\$8,956.3</b>
<i>FY 2025 Capital Gains Deposit</i>	\$96.8
<b>FY 2025 Ending Balance</b>	<b>\$9,053.1</b>

*\$ in millions*

Historically, the largest deposit of revenue into the state’s Stabilization Fund is above-threshold capital gains revenue. Under current statute, capital gains tax collections above a certain threshold (\$1.56 billion in FY 2025) are automatically transferred to the Stabilization Fund and other reserves; and in FY 2025, estimated above-threshold capital gains collections total \$513 million. However, the Governor’s budget includes a proposal re-distributing above-threshold capital gains revenue towards the operating budget and other uses:

- \$375 million will be retained in the General Fund and available to support general budget spending.
- 70 percent of the remaining balance (\$97 million) will be deposited into the Stabilization Fund.

- 30 percent of the remaining balance (\$42 million) will be distributed equally to the Pension Fund, other employment benefits, and a new Disaster and Resiliency Trust Fund.

The one-time diversion of \$375 million in above-threshold capital gains revenue to the budget would only be in effect for FY 2025, while the redistribution of above-threshold capital gains to the Stabilization Fund, Pension Fund, and new Disaster and Resiliency Trust fund would be a permanent adjustment.

Given the historically high balance of the Stabilization Fund, temporarily diverting a greater share of above-threshold capital gains revenue collections towards the operating budget in a time of fiscal transition is defensible. However, policymakers should remain aware that deterring from past practice and limiting deposits into the Stabilization Fund carries risk. For example, in 2017 the state’s bond-rating was downgraded for the first time in 30 years after multiple successive budgets suspended or reduced automatic deposits into the Stabilization Fund.

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### **Governor Healey’s Budget – 5 Things to Know**

1. Governor Healey’s budget includes \$58.13 billion in total on-budget spending, a \$2.1 billion (3.7 percent) increase over the FY 2024 GAA. Excluding surtax-supported spending and a transfer to the Medical Assistance Trust Fund, spending equals \$56.15 billion, an increase of \$1.6 billion (2.9 percent). This rate of spending growth is supported by a consensus tax revenue estimate of \$40.2 billion; which assumes 2 percent growth in tax revenue collections over the FY 2024 benchmark and 3.5 percent growth over expected FY 2024 revenues after adjusting for the fiscal impacts of tax relief.
2. The FY 2025 budget proposal utilizes \$1.3 billion in new income surtax revenue to support investments across the education and transportation sectors. Notable surtax spending areas include:
  - \$311 million for early education and care, including \$150 million to support the full-year costs of the C3 Childcare Operational Grants program.
  - \$250 million for a transfer to the Commonwealth Transportation Fund to fund additional operational supports at the Department of Transportation and the MBTA. The Governor’s budget also includes an outside policy section making this an automatic annual investment, unlocking additional bonding capacity for transportation projects.
  - \$170 million to fully fund the Universal School Meals program.
  - \$125 million to support capital investments at public higher education institutions.
3. To support new and expanded spending initiatives in FY 2025, the Healey administration relies on \$940 million in trust fund and other one-time resources; including:
  - \$300 million from the Student Opportunity Act Investment Fund,
  - \$265 million from the High-Quality Early Education and Care Trust Fund, and
  - \$375 million in above-threshold capital gains.
4. The Healey administration recommends the adoption of four revenue-generating initiatives in FY 2025, totaling \$310 million. The initiatives include:
  - a. \$75 million from the adoption of a tax amnesty program;

- b. \$75 million through the authorization of an online lottery;
  - c. \$60 million generated by tax fairness and modernization initiatives; and
  - d. \$100 million by bringing additional gaming revenues onto the state budget.
5. In the second year of her administration, Governor Healey includes 112 outside policy sections in her spending proposal; a notable increase from the 29 included in her first budget submission. This increase in sections reflects a more ambitious policy agenda for the administration, with substantial changes proposed to state assessments on insurers and hospitals.

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### **FY 2025 Budget Resources**

Governor Healey’s budget proposal relies on \$65.67 billion in total state revenue. To assess the resources utilized by the Healey administration to support spending in FY 2025, this brief organizes them into five categories: (1) baseline tax revenues, (2) income surtax revenue, (3) revenue initiatives, (4) non-tax revenues, and (5) trust fund resources.

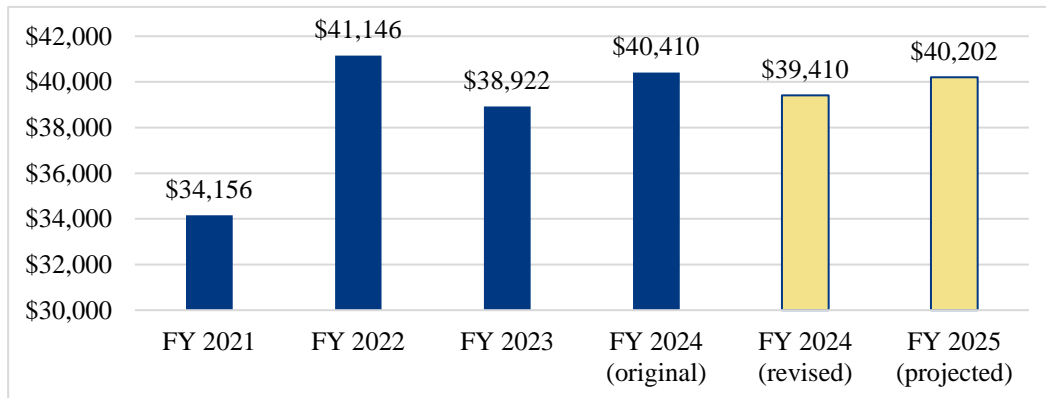
#### **Baseline Tax Revenues**

The revenue foundation for the Healey administration’s FY 2025 budget is the \$40.20 billion consensus tax revenue estimate established earlier this month. In FY 2025, tax revenues are expected to grow by \$792 million (2 percent) over projected FY 2024 collections of \$39.41 billion.

However, the FY 2024 revised benchmark has not yet been adjusted to account for the \$577 million cost of tax relief legislation signed into law last September. While the tax package was fully paid for in the FY 2024 GAA, the revenue benchmark was not adjusted to reflect its fiscal impact. After that adjustment is applied, FY 2024 tax collections are anticipated to total \$38.833 billion. Compared to this figure, the FY 2025 consensus tax revenue estimate equals \$1.369 billion (3.5 percent) growth.

While budget writers anticipate revenue collections to increase compared to FY 2024, it is critical to point out that the FY 2025 consensus revenue figure represents essentially flat growth compared to the revenue estimate that was used to build the FY 2024 GAA.

*Tax Revenue Collections & Benchmarks, FY 2022 – FY 2025*



*\$ in millions*

The consensus tax revenue estimate also includes four “pre-budget transfers” to the Workforce Training Trust Fund, the Pension Fund, the MBTA, and the School Building Authority (SBA). In FY 2025, the pre-budget transfers total \$7.3 billion, not including the deposit of excess capital gains tax revenue into the Stabilization Fund. This represents a \$399 million increase over the transfers included in the FY 2024 GAA, driven by an increase in the state’s pension obligation.

*FY 2025 Consensus Tax Revenues for Budget*

	<b>FY 2024 GAA</b>	<b>FY 2025 - Governor</b>	<b>Governor v. FY 2024</b>
<b>Consensus Tax Revenues</b>	<b>\$40,410</b>	<b>\$40,202</b>	<b>-\$208</b>
<i>Workforce Training Trust Fund</i>	-\$27	-\$27	\$0
<i>School Building Authority</i>	-\$1,304	-\$1,305	-\$2
<i>MBTA</i>	-\$1,464	-\$1,465	-\$2
<i>Pension Fund</i>	-\$4,105	-\$4,500	-\$395
<i>Capital Gains Transfer</i>	-\$583	-\$138	\$445
<b>Pre-Budget Transfers (excl. cap gains)</b>	<b>-\$6,899</b>	<b>-\$7,297</b>	<b>-\$399</b>
<b>CR Taxes Remaining for Budget</b>	<b>\$32,928</b>	<b>\$32,766</b>	<b>-\$162</b>

*\$ in millions*

After taking into account pre-budget transfers and the proposed transfer of capital gains revenue to the Stabilization Fund and other reserves, \$32.77 billion in consensus tax revenues remain for state budget appropriations, \$162 million less than the amount available in last year’s budget. For additional details on revenue expectations in FY 2024 and FY 2025, read MTF’s [recent brief](#) on the FY 2025 consensus tax revenue agreement.

**Income Surtax Revenue**

Governor Healey’s budget relies on \$1.3 billion in revenue generated by the 4 percent surtax on income over \$1 million. This figure is consistent with the income surtax spending cap agreed to by the administration, House, and Senate during the consensus revenue process; though slightly less than total projected income surtax revenue collections for the fiscal year.

*Governor Healey’s Proposed Uses of Income Surtax Revenue*

<b>Spending Category</b>	<b>FY 2024 Budget</b>	<b>FY 2025 - Governor</b>	<b>% of Total Surtax</b>
<b>Education</b>	<b>\$524</b>	<b>\$750</b>	<b>58%</b>
<i>Early Education</i>	\$71	\$311	24%
<i>K-12 Education</i>	\$224	\$210	16%
<i>Higher Education</i>	\$229	\$229	18%
<b>Transportation</b>	<b>\$477</b>	<b>\$550</b>	<b>42%</b>
<i>MBTA</i>	\$206	\$45	3%
<i>MassDOT</i>	\$75	\$306	24%
<i>RTAs</i>	\$90	\$75	6%
<i>Local/Pilot Program</i>	\$106	\$124	10%
<b>Total Investments</b>	<b>\$1,000</b>	<b>\$1,300</b>	<b>100%</b>

*\$ in millions*

In December, the Department of Revenue (DOR) projected that the state would collect between \$1.78 billion and \$2.13 billion in surtax revenues in FY 2025. However, while definitive data on income surtax revenue collections remains difficult to track, MTF supports this more conservative approach to setting the spending cap. The cap on surtax-supported spending is not intended to project actual surtax revenue collections. Instead, the cap allows the state to sustainability incorporate surtax-supported investments into the operating budget and build up a reserve of surtax revenue to protect against future volatility.

#### *Income Surtax Structure*

The FY 2024 budget established a process to collect, track, and spend income surtax revenues; including the diversion of surtax revenues above the spending cap to two separate trust funds.

- **Education and Transportation Reserve Fund** – 15 percent of revenue collections above the annual surtax spending limit are diverted to the Education and Transportation Reserve Fund; the balance of which cannot exceed 33 percent of the annual spending limit. In FY 2025, with estimated surtax revenue collections between \$1.8 billion and \$2.1 billion; as much as \$98 million may be diverted to the reserve fund.
- **Education and Transportation Innovation and Capital Fund** – 85 percent of revenue collections above the annual spending limit are sent to the Education and Transportation Innovation and Capital Fund. In FY 2025, an estimated \$554 million may be sent to this fund for future one-time education and transportation investments.

In December 2023, DOR certified the collection of \$242 million in surtax revenue in FY 2023. Under statute, this funding was transferred from the General Fund to the Education and Transportation Trust Fund.

#### **Revenue Initiatives**

To bolster the resources available to support spending in FY 2025, Governor Healey proposes four one-time and ongoing revenue initiatives that are expected to increase tax and other collections by \$310 million.

- **Tax Amnesty Program** (\$75 million) – To encourage Massachusetts residents to voluntarily pay their outstanding tax liabilities, the Healey administration is proposing a new tax amnesty program. The Department of Revenue is given the authority to determine the scope of the program, however outside policy section language dictates that it will run for a period of 60-days and apply to returns due within the last four years. This is the first time in nine years that a tax amnesty program has been proposed in Massachusetts; the last amnesty program took place in FY 2016 and generated \$136.8 million in revenue from 9,550 taxpayers.
- **Online Lottery** (\$75 million) – The Governor’s budget authorizes the creation of an online lottery, which they anticipate will generate \$75 million in additional ongoing revenue. The proposal put forward by the Healey administration largely mirrors the plan supported by the House last year; however, the House had previously assumed \$200 million in new ongoing revenue.
- **Tax Fairness & Modernization** (\$60 million) – Through the adoption of two recommendations of the Tax Expenditure Review Commission and tax enforcement initiatives at DOR, the Healey administration increases revenue expectations by \$60 million. Included are policy changes to eliminate the sales tax exemption for the publications of non-profit entities, repeal the income deduction of interest and dividends earned on savings accounts, and other modernizations.

- **Gaming Fund Revenues** (\$100 million) – To streamline the collection of revenues related to casino gaming in FY 2025 and increase the amount of revenue available to support budget spending, the Governor’s budget includes a proposal to temporarily redistribute Category 1 gaming revenues. The result of this redistribution is approximately \$100 million in one-time revenue for the state.

## **Non-Tax Revenues**

The Healey administration’s budget includes \$24.5 billion in budgeted revenue related to non-tax revenue.

### *Departmental & Federal Revenue*

In addition to revenue generated from taxes and revenue initiatives, the state budget also relies upon hundreds of individual revenue sources related to federal grants and departmental operations. The most notable non-tax revenue sources included in Governor Healey’s FY 2025 budget include:

- **State Medicaid Reimbursements** (\$12.4 billion) – Massachusetts receives significant federal reimbursement for spending on the state’s Medicaid program, known as MassHealth. Between 2020 and 2023, the state benefitted from an increase in its federal match rate for MassHealth payments, which generated approximately \$250 million in additional revenue each quarter. The enhanced reimbursement rate was the result of a pandemic-era federal policy change, but it was phased out over the course of calendar year 2023 and in January 2024 reverted to its pre-pandemic level of 50 percent for the majority of state spending. In FY 2025, the state will receive approximately \$12.4 billion in state Medicaid reimbursement, a \$348 million increase compared to FY 2024. Based on this, the federal share for MassHealth spending in FY 2025 is estimated to be 61 percent.
- **Gaming** (\$379.5 million) – Non-tax gaming revenues are expected to total \$379.5 million in FY 2025, an increase of \$139.2 million over FY 2024. Reflected in the administration’s revenue estimate is a \$100 million increase in budgeted gaming revenue due to a proposed adjustment in how gaming funds are distributed, described above. Excluding those one-time revenues, baseline gaming revenue is estimated to increase by \$39.5 million over FY 2024. Through November, non-tax gaming revenue collections are only running \$1.7 million ahead of FY 2023 collections.
- **Marijuana** (\$21.5 million) – In FY 2025, the Healey administration assumes that marijuana licensing and fee revenue will decrease by \$7.2 million in FY 2025, for a total of \$21.5 million. As the initial wave of new marijuana retailers and dispensaries subsides, decreases in marijuana licensing and fee revenue were anticipated.
- **Lottery** (\$1.5 billion) – Net profits from the Lottery are assumed to be \$1.5 billion in FY 2025, a \$311 million increase over FY 2024. Of this total, \$75 million is related to the Governor’s proposal to authorize an online lottery and \$25 million is associated with an increase in the agency’s advertising budget. Based on actual collection trends, the assumption that baseline revenues will grow by more than \$200 million appears overly optimistic. Through November, net profits from the Lottery are down \$13.3 million (2.6 percent) compared to the same period in FY 2023.

## Trust Fund Resources

In addition to the one-time transfer of above-threshold capital gains revenue to support new and expanded spending initiatives in FY 2025, the Healey administration’s budget proposal also relies on \$565 million in trust fund resources to support spending.

- *Student Opportunity Act Investment Fund* (\$300 million) – To support the fourth year of Student Opportunity Act implementation and the costs of Chapter 70 state aid, the Healey administration uses \$300 million previously set aside in the SOA Investment Fund. The fund was originally capitalized with surplus tax revenues in FY 2022 and FY 2023, and had a beginning balance of \$500 million.
- *High-Quality Early Education & Care Affordability Fund* (\$265 million) – To fully fund the C3 Childcare Operational Grants program in FY 2024, the Governor’s budget relies upon \$265 million from the EEC Affordability Fund. If this investment is approved by the Legislature, the resources in the fund would be depleted.

The FY 2024 Conference Budget approved by the Legislature originally included \$622 million in one-time revenues to support spending; however, that figure decreased to \$417 million after the Governor vetoed the use of \$205 million from the Transitional Escrow Fund.

After taking into account the administration’s revenue initiatives, non-tax revenue, and the use of one-time resources to support spending, the Governor’s budget proposal utilizes \$59.52 billion in total revenue to support the state’s operating budget.

### *FY 2025 Governor’s Budget Revenue Summary*

<b>CR Taxes Remaining for Budget</b>	<b>\$32,766</b>
<b>Income Surtax Revenues</b>	<b>\$1,300</b>
<b>Revenue Initiatives</b>	<b>\$310</b>
<i>Tax Amnesty Program</i>	\$75
<i>Online Lottery</i>	\$75
<i>Tax Fairness &amp; Modernization</i>	\$60
<i>Gaming Fund Consolidation</i>	\$100
<b>Non-Tax Revenues</b>	<b>\$24,526</b>
<i>Departmental Revenue</i>	\$10,224
<i>Federal Reimbursements</i>	\$14,302
<b>One-Time Resources</b>	<b>\$565</b>
<i>High-Quality Early Education &amp; Care Fund</i>	\$265
<i>Student Opportunity Act Investment Fund</i>	\$300
Settlements and Judgements	\$50
<b>Revenues Available for Budget</b>	<b>\$59,517</b>

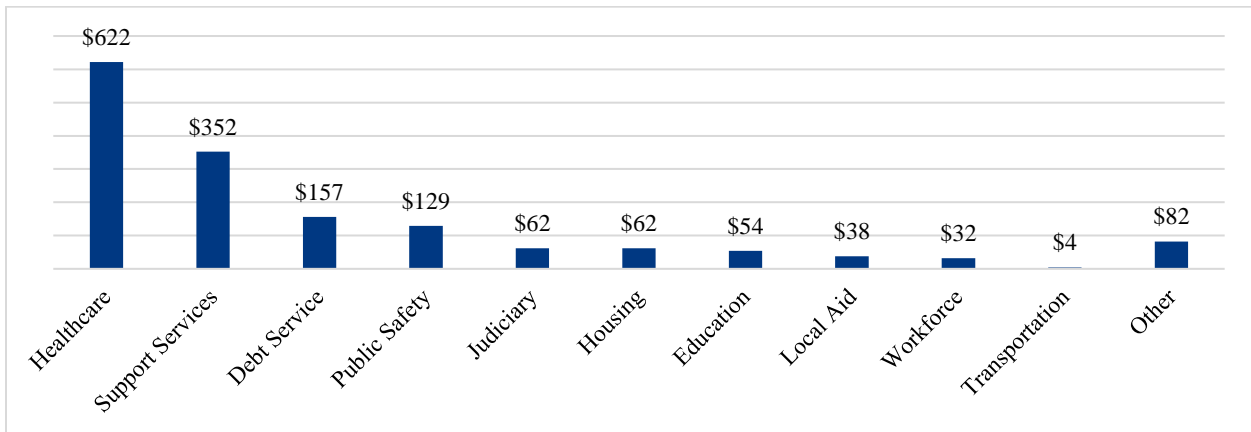
*\$ in millions*



## FY 2025 Budget Spending

Governor Healey’s FY 2025 budget proposal includes \$58.13 billion in line-item spending, a \$2.1 billion (3.7 percent) increase over the FY 2024 budget signed last July. Excluding surtax-supported spending and the transfer to the Medical Assistance Trust Fund, spending totals \$56.15 billion, a \$1.6 billion (2.9% increase) over the prior year. While this moderate increase in spending reflects the state’s constrained revenue picture, assessing spending trends by category demonstrates that new investments are concentrated in a few areas of the budget. For example, increases for healthcare and support services comprise nearly two-thirds of all new spending.

*FY 2025 Spending by Category vs. FY 2024 GAA (excluding surtax spending)*



*\$ in millions*

Excluding spending for education and transportation supported by the income surtax, the categories that saw the largest increases in the Governor’s budget compared to the FY 2024 GAA were healthcare, support services, and public safety. In the healthcare space, increases associated with the MassHealth program drive spending; while in the support services category, funding for congregate care services through the Department of Children and Families and Transitional Aid to Families with Dependent Children (TAFDC) increases substantially over FY 2024. In public safety, increases are directed towards the Department of State Police and facility operations at the Department of Correction.

### **MassHealth & Healthcare**

#### *MassHealth*

The largest category of spending within the Healey-Driscoll administration’s FY 2025 budget proposal is MassHealth, totaling \$20.3 billion and representing 35 percent of total line-item spending. Compared to the spending projections for FY 2024, gross state spending on MassHealth is expected to increase by \$770 million (3.9 percent), while the net cost of the program will increase by approximately \$279 million (3.6 percent).

*FY 2025 MassHealth Spending and Federal Reimbursement*

	FY 2023 GAA	FY 2023 Final	FY 2024 GAA	FY 2024 Current	FY 2025 - Governor
Federal Reimbursement Share	\$11,556	\$13,672	\$12,014	\$11,872	\$12,363
<i>% of Total Spending</i>	<i>59.3%</i>	<i>63.3%</i>	<i>60.6%</i>	<i>60.7%</i>	<i>60.8%</i>
State Share	\$7,923	\$7,925	\$7,803	\$7,681	\$7,960
<b>Total MassHealth Spending</b>	<b>\$19,480</b>	<b>\$21,597</b>	<b>\$19,817</b>	<b>\$19,553</b>	<b>\$20,322</b>

*\$ in millions*

In FY 2025, the MassHealth program faces two major challenges related to the end of enhanced federal reimbursement and non-discretionary spending increases.

- **The end of enhanced Federal reimbursement.** Between 2020 and 2023, Massachusetts benefitted from a 6.2 percentage point increase in the federal match rate for MassHealth payments, resulting in approximately \$2 billion in enhanced federal revenue over that period. Beginning in April 2023, the federal government began to roll back the enhanced match rate, with reimbursement rates returning to pre-pandemic levels at the end of December 2023. As a result, FY 2025 will represent the first full fiscal year in which the state receives no additional federal support for state Medicaid spending. The end of enhanced federal reimbursement is estimated to cost the budget \$820 million in lost revenue in FY 2025.
- **Non-Discretionary Spending Increases.** Driven by increases in Medicare premiums, non-discretionary MassHealth spending is expected to increase by a net of \$120 million.

Prior to the implementation of any cost savings initiatives, these two factors would increase net MassHealth spending by approximately \$940 million. To restrain net spending growth to only \$279 million, the Healey administration relies on a series of solutions, including the annualization of 9C spending reductions, administrative efforts to strengthen program integrity, and revenue and budget savings generated by reforms to healthcare assessments.

These solutions are offset, in part, by new spending to maintain recent rate increases for primary care services, increase rates for nurses who provide care to patients with complex medical needs, and encourage more eligible individuals to enroll in the Medicare Savings Program.

*MTF Summary of MassHealth Cost Savings Initiatives & New Spending in FY 2025*

<b>FY 2025 MassHealth Spending Assumptions</b>	
Projected Net Spending Growth in FY 2025	\$940
Actual Net Spending Growth in FY 2025	\$279
<b>Difference</b>	<b>\$661</b>
<b>Savings Initiatives &amp; New Investments</b>	
Assessment Savings & Revenue	(\$150)
Annualization of 9C Cuts	(\$125)
Program Integrity	(\$75)
PCA Program Changes	(\$57)
Other Savings	(\$400)
Primary Care & Behavioral Health Rates	\$60.0
Rate Increases for Medically Complex Care	\$70.0
Coverage for Justice-Involved Individuals	\$10.0
Wheelchair Repair Rates	\$5.0
Co-Pays for the Children's Medical Security Plan	\$0.6
Medicare Savings Program Campaign	\$0.3
<b>Total</b>	<b>(\$661.1)</b>

*\$ in millions*

Additionally, MassHealth remains in the midst of a redetermination effort that will have major impacts on total program enrollment and state budget costs. The Governor’s budget reflects some level of savings from program integrity initiatives; however, there does not appear to be significant savings related to enrollment.

*Healthcare Assessment Changes*

The Governor’s budget proposes major changes to how we assess insurers and amends the hospital assessment system in response to the state’s recently negotiated Medicaid waiver. In both cases, the assessments are increased substantially; however, so is the amount of money reinvested in the healthcare system in the form of rates paid to MCOs and payments made to hospitals. As a result of federal reimbursement eligibility, the new assessment reforms are expected to generate \$150 million in a combination of new revenue and foregone budget spending.

The assessment changes proposed in the budget fall into three categories:

*Managed Care Assessment (sections 4, 5, 16, 17, 55, 63 through 66, 68, 69, 71, 72, 83, and 101 through 104, 111, 113, and 114)* – These sections change the way in which insurance payors are assessed to support a variety of health care related costs. Currently, payors pay separate assessments, while under the new proposal, the assessments would be combined and increased by \$246 million, to be repaid to Medicaid MCOs in the form of increased rates. The sections:

- Create a single “MCO services assessment amount” which is equal to the sum of \$246 million, and the MCO share of the cost of operation of CHIA, HPC, the Health Safety Net, the Vaccine Purchase Trust Fund, MCPAP, and the Behavioral Health Access and Crisis Intervention Trust Fund.
- Establishes a new payor assessment, beginning in 2025. The assessment:
  - Shall be equal (annually) to the total defined assessment amount

- Shall be assessed on a per member per month basis
- Shall vary depending on whether or not the payor is a Medicaid MCO and, if a Medicaid MCO, if their enrollment meets a standard to be set by EOHHS
- Direct the combined MCO assessment amount into the Health Safety Net Trust Fund
- Eliminate existing, standalone, MCO surcharges that support entities and initiatives now funded through the MCO services assessment amount
- Give EOHHS the authority to propose alterations to the assessment or maintain the current assessment if appropriate federal approvals for the new assessment are not received.

*Hospital Assessment (sections 23, 62, 67 through 70, 84, 95 through 98, 110, 111, and 113)* – These sections amend the hospital assessment/incentive payment system put in place in 2022, as part of the state’s recently negotiated Medicaid waiver. The changes increase total hospital assessments by \$347 million and generate additional reimbursements, allowing for more than \$500 million in additional hospital payments and resulting in approximately \$75 million in FY 2025 budget savings. The changes:

- Increase the annual “Total Hospital Assessment Amount” by \$347 million from \$880 million to \$1.227 billion
  - This assessment is deposited into the Health Safety Net Trust Fund
- Amend the acute hospital assessment formula, established in 2022, by:
  - Creating a differential assessment for “Group 1” and “Group 2” safety net hospitals. The assessment rate for outpatient hospitals would be higher for both groups, but the Group 2 rate would be higher than Group 1.
  - Increasing the rate for non-acute hospitals for both in-patient and outpatient services.
- Increase annual payments from the Health Safety Net Trust Fund to the:
  - Safety Net Provider Trust Fund from \$62.5 million to \$149.3 million
  - Hospital Performance Incentive & Performance Trust Fund from \$532 million to \$791.9 million
- Give EOHHS the authority to propose alterations to the assessment or maintain the current assessment if appropriate federal approvals for the new assessment are not received.

*Health Care Trust Spending (section 31)* – this section creates two new health care trust funds related to a larger change in the assessment of payors and hospitals:

- The Health Agency Dedicated Trust Fund (HADTF) will receive a share of MCO assessment revenue to be used to support the budgets of the Center for Health Information and Analytics (CHIA) and the Massachusetts Child Psychiatry Access Project (MCPAP).
- The Managed Care Organization Services Reinvestment Trust Fund (MCOSTF) will receive \$246 million annually from MCO assessments, as well as federal reimbursements related to expenditures from the fund. Each year about \$246 million from the fund will go directly to MCOs. In FY 2025, \$57 million from the fund will be dedicated to the General Fund and that transfer will double to \$114 million in future years.

## Municipal Finance

The Governor’s budget funds Unrestricted General Government Aid (UGGA) at \$1.31 billion, a \$38.1 million (3 percent) increase over FY 2024. The increase proposed by Governor Healey for local aid to cities and towns is notable, because it marks the second year in a row that she departs from the practice established in 2015 of tying UGGA growth to the consensus tax revenue growth rate. In FY 2025, administration and legislative budget writers assume that tax revenues will grow by 2 percent over the revised FY 2024 benchmark of \$39.41 billion.

Simultaneous with her budget bill, Governor Healey has proposed the Municipal Empowerment Act; a substantial package of municipal finance and operational reforms. Included in the legislation are multiple local tax options related to hotels, meals, rentals, and motor vehicles; as well as proposals to update procurement laws, maintain certain COVID-era policies, and strengthen the pipeline of municipal employees.

PILOT – Payment in Lieu of Taxes for State-Owned Land – is included in Governor Healey’s spending bill at \$51.8 million, a \$300K (0.7 percent) increase over the prior year.

*UGGA and PILOT Funding in FY 2025*

Program	FY 2022 GAA	FY 2023 GAA	FY 2024 GAA	FY 2025 - Governor
<b>UGGA</b>	\$1,168.1	\$1,231.2	\$1,270.6	\$1,308.7
<i>\$ Increase v. Prior Year</i>	<i>\$39.7</i>	<i>\$63.1</i>	<i>\$39.4</i>	<i>\$38.1</i>
<i>% Increase v. Prior Year</i>	<i>3.5%</i>	<i>5.4%</i>	<i>3.2%</i>	<i>3.0%</i>
<b>PILOT</b>	\$35.0	\$45.0	\$51.5	\$51.8
<i>\$ Increase v. Prior Year</i>	<i>\$4.0</i>	<i>\$10.0</i>	<i>\$6.5</i>	<i>\$0.3</i>
<i>% Increase v. Prior Year</i>	<i>13.0%</i>	<i>28.6%</i>	<i>14.4%</i>	<i>0.7%</i>

*\$ in millions*

The administration’s budget proposal also includes \$17 million for the **Municipal Regionalization and Efficiencies Incentive Reserve**. After removing funds for local earmarks, Governor Healey increases funding for this reserve account by \$3.8 million over the FY 2024 GAA. This funding level includes earmarks for specific programs, including \$6 million for the Community Compact program, \$5 million for public safety and emergency staffing, \$3 million for the District Local Technical Assistance Fund, and \$500K for a new Municipal-High Demand Position Training Program.

## Education

### Early Education

Governor Healey recommends \$1.58 billion in total funding for early education and care programs in FY 2025, an increase of \$55.9 million (3.7 percent) over the FY 2024 budget. Over the last three years, funding for EEC has increased substantially as pandemic-era grant programs have been incorporated into the operating budget and income surtax revenue has supported increased provider rates and other initiatives. Between FY 2020 and FY 2025, funding for the Department of Early Education and Care has increased by \$858 million (119 percent).

As previewed last week, in FY 2025 the Governor fully funds the C3 Childcare Operational Grants program at \$475 million through a combination of General Fund (\$60 million), income surtax (\$150 million), and trust fund (\$265 million) resources. The Governor’s budget also streamlines reporting requirements for the program, requesting that the department collect data from participating providers regarding the number of enrolled children, the number of employed educators, and how resources are being used to support the recruitment and retainment of employees.

*FY 2025 Early Education and Care Spending*

<b>Program</b>	<b>FY 2023 GAA</b>	<b>FY 2024 GAA</b>	<b>FY 2025 - Governor</b>	<b>\$ vs. GAA</b>
<b>Administration</b>	<b>\$56.8</b>	<b>\$59.1</b>	<b>\$59.8</b>	<b>\$0.7</b>
<b>Child Care Operational Grants (C3)</b>	<b>\$250.0</b>	<b>\$475.0</b>	<b>\$325.0</b>	<b>-\$150.0</b>
<b>Child Care Financial Assistance</b>	<b>\$693.7</b>	<b>\$753.8</b>	<b>\$773.8</b>	<b>\$20.0</b>
<i>DCF and DTA Related Child Care</i>	<i>\$325.5</i>	<i>\$346.6</i>	<i>\$356.6</i>	<i>\$10.0</i>
<i>Income-Eligible Child Care</i>	<i>\$368.1</i>	<i>\$407.2</i>	<i>\$417.2</i>	<i>\$10.0</i>
<b>Program Supports &amp; Expansion</b>	<b>\$45.0</b>	<b>\$47.5</b>	<b>\$47.7</b>	<b>\$0.2</b>
<i>Preschool Partnership Initiative</i>	<i>\$15.0</i>	<i>\$15.0</i>	<i>\$17.7</i>	<i>\$2.7</i>
<i>Grants to Head Start Programs</i>	<i>\$16.5</i>	<i>\$17.5</i>	<i>\$15.0</i>	<i>-\$2.5</i>
<b>Child Care Resource &amp; Referral Orgs.</b>	<b>\$15.0</b>	<b>\$20.0</b>	<b>\$20.0</b>	<b>\$0.0</b>
<b>Reimbursement Rate Reserve</b>	<b>\$60.0</b>	<b>\$55.0</b>	<b>\$0.0</b>	<b>-\$55.0</b>
<b>Other Early Education</b>	<b>\$63.3</b>	<b>\$41.3</b>	<b>\$40.8</b>	<b>-\$0.5</b>
<b>Income Surtax Spending</b>	<b>\$0.0</b>	<b>\$70.5</b>	<b>\$311.0</b>	<b>\$240.5</b>
<i>Child Care Operational Grants (C3)</i>	<i>\$0.0</i>	<i>\$0.0</i>	<i>\$150.0</i>	<i>\$150.0</i>
<i>Child Care Provider Capital Grants</i>	<i>\$0.0</i>	<i>\$15.0</i>	<i>\$0.0</i>	<i>-\$15.0</i>
<i>Preschool Partnership Initiative</i>	<i>\$0.0</i>	<i>\$5.5</i>	<i>\$21.0</i>	<i>\$15.5</i>
<i>Income Eligible Waitlist</i>	<i>\$0.0</i>	<i>\$25.0</i>	<i>\$0.0</i>	<i>-\$25.0</i>
<i>EEC Provider Rates</i>	<i>\$0.0</i>	<i>\$25.0</i>	<i>\$65.0</i>	<i>\$40.0</i>
<i>Childcare Affordability</i>	<i>\$0.0</i>	<i>\$0.0</i>	<i>\$75.0</i>	<i>\$75.0</i>
<b>Grand Total</b>	<b>\$1,183.7</b>	<b>\$1,522.2</b>	<b>\$1,578.0</b>	<b>\$55.9</b>

*\$ in millions*

Other notable investments included in the Governor’s budget for early education include:

- **Child Care Financial Assistance** (\$773.8 million) – Governor Healey increases funding for Income-Eligible and DTA/DCF related childcare by \$20 million in FY 2025, for a total of \$773.8 million. Funding for the financial assistance line-items reflects \$20 million in annualized rate increases from FY 2024. In combination with \$45 million of income surtax spending dedicated to provider rates, the entirety of the \$65 million rate increase approved for FY 2024 appears to be annualized in the Governor’s budget. Funding for subsidized childcare is also supplemented by a \$75 million surtax investment to increase the eligibility threshold for Income-Eligible childcare, detailed below.
- **Commonwealth Preschool Partnership Initiative** (\$17.7 million) – To expand access to free and discounted pre-school for 4-year-old children in Massachusetts, Governor Healey funds the CPPI program with \$17.6 million in General Fund resources and \$21 million in income surtax revenue,

for a total of \$38.7 million in FY 2025. CPPI currently operates in 21 school districts across the state, and this combined investment is intended to expand the program into the remaining 14 Gateway Cities by the end of 2026.

- **Grants to Head Start** (\$15 million) – In FY 2025, the administration dedicates \$15 million towards Head Start programs in Massachusetts, a \$2.5 million decrease compared to FY 2024. This funding provides support for state matching requirements that are necessary to unlock federal funds.

*Income Surtax Investments*

In total, \$311 million in spending supported by the income surtax is directed towards early education and care; representing 24 percent of all surtax investments included in the Governor’s budget proposal. Surtax revenues for childcare are used to supplement existing state programs, including:

- \$150 million to support the full-year costs of the C3 Childcare Operational Grants program.
- \$75 million to increase the eligibility threshold for Income-Eligible childcare from 50 percent to 85 percent of the State Median Income (SMI); allowing up to 4,000 more families to receive state support for childcare costs.
- \$21 million for the expansion of the Commonwealth Preschool Partnership Initiative into all Gateway Cities by the end of 2026.
- \$65 million for provider rate increases, \$45 million of which will go towards the annualization of rates approved in FY 2024, and \$20 million will support new rate increases in FY 2025.

**K-12 Education**

*Chapter 70 State Aid*

In FY 2025, Governor Healey fully funds the fourth-year of Student Opportunity Act (SOA) implementation at \$6.86 billion. This represents an increase of \$263 million (4 percent) over FY 2024.

The cost of Chapter 70 state aid is supported through a combination of General Fund (\$6.5 billion) and Education Fund (\$49 million) revenues, as well as resources previously set aside in the Student Opportunity Act Investment Fund (\$300 million).

*FY 2025 Chapter 70 Aid Funding*

<b>Program</b>	<b>FY 2022 GAA</b>	<b>FY 2023 GAA</b>	<b>FY 2024 GAA</b>	<b>FY 2025 - Governor</b>
<b>Chapter 70 State Aid</b>	\$5,503.3	\$5,988.5	\$6,584.8	\$6,856.03
<i>Minimum Aid Supplement</i>	\$0.00	\$9.69	\$7.86	\$0.00
<b>Total State Aid</b>	<b>\$5,503.3</b>	<b>\$5,998.2</b>	<b>\$6,592.6</b>	<b>\$6,856.0</b>
<i>\$ Increase v. Prior Year</i>	\$220.9	\$494.9	\$594.4	\$263.4
<i>% Increase v. Prior Year</i>	4.2%	9.0%	9.9%	4.0%
<b>SOA Implementation Schedule</b>	Year 1	Year 2	Year 3	Year 4

*\$ in millions*

The Governor’s proposed funding level for Chapter 70 aid in FY 2025 keeps the state on track to fully fund the SOA by FY 2027. However, a few key factors influencing the foundation budget formula in FY 2025 result in a smaller year-over-year increase in state aid compared to FY 2023 and FY 2024.

- **Foundation inflation index is set at 1.4 percent.** In FY 2025, all foundation budget rates are increased by an inflation rate of 1.4 percent. Based on data from the Bureau of Economic Analysis, this rate is consistent with actual state and local government inflation. In FY 2024, the foundation inflation index was capped at 4.5 percent consistent with state statute, despite actual inflation exceeding 9 percent at the time.
- **Statewide foundation enrollment increases by 225 to 905,331.** Between FY 2020 and FY 2023, statewide foundation enrollment decreased by over 35,000 students. In FY 2024, enrollment rebounded slightly, increasing by 1,488 students. Enrollment is essentially flat in FY 2025, with foundation enrollment growing by only 225. While increasing student enrollment numbers bolster districts’ Chapter 70 aid, the overall decline in enrollment experienced since FY 2020 continues to depress state aid growth.

Despite the more limited increase in Chapter 70 aid as a result of inflation and enrollment trends, it is important to note that the administration’s budget proposal is entirely consistent with a 1/6<sup>th</sup> phase in of the foundation budget rate changes required under the SOA.

*Education Reimbursement Programs*

The Healey-Driscoll administration recommends a total of \$820.3 million for other major education reimbursement programs in FY 2025, including Charter Tuition Reimbursement, Special Education Circuit Breaker, and Student Transportation Reimbursement. This funding level represents a \$38.1 million (4.4 percent) decrease compared to the FY 2024 budget.

*FY 2025 K-12 Education Reimbursement Programs*

Program	FY 2023 GAA	FY 2024 GAA	FY 2025 - Governor	Governor v. FY 2024 GAA
SPED Circuit Breaker	\$441.0	\$499.0	\$492.2	-\$6.7
Charter Tuition Reimbursement	\$243.8	\$232.7	\$199.0	-\$33.7
Regional School Transportation	\$82.2	\$97.1	\$99.5	\$2.4
Non-Resident Vocational Transportation	\$0.3	\$1.0	\$1.0	\$0.0
Homeless Student Transportation	\$23.0	\$28.7	\$28.7	\$0.0
<b>Total Education Reimbursement</b>	<b>\$790.2</b>	<b>\$858.4</b>	<b>\$820.3</b>	<b>-\$38.1</b>

*\$ in millions*

Notable details regarding the funding levels for these programs include:

- **Charter Tuition Reimbursement** – This proposed funding level is projected to fully reimburse districts’ charter tuition claims in FY 2025. Due to declines in new charter school enrollment, the cost to reimburse districts at 100 percent is expected to decrease compared to FY 2024.
- **Special Education Circuit Breaker** – In combination with a \$75 million appropriation included in the FY 2023 closeout supplemental budget, the administration estimates that this funding level will fully reimburse districts for eligible special education instructional and out-of-district transportation costs.
- **Student Transportation Reimbursement** – The Governor’s budget funds Regional School Transportation at a level assumed to equal 80 percent reimbursement and Homeless Student



Transportation at 93 percent reimbursement. Non-Resident Vocational School Transportation is level-funded with the FY 2024 GAA at \$1 million.

*Income Surtax Investments*

K-12 education spending is bolstered by \$210 million in income surtax investments, comprising 16 percent of all surtax investments included in the Governor’s budget. These investments include:

- \$170 million for the full-year costs of Universal School Meals.
- \$30 million for the first year costs of a new early literacy initiative, “Literacy Launch,” which will support the adoption of evidence-based practices and high-quality literacy education materials in districts across the state.
- \$5 million for the continued expansion of Early College and Innovation Pathways programs.
- \$5 million for a new Mental Health Systems and Wraparound Supports program, which will fund the development of a statewide framework for mental and behavioral health.

**Higher Education**

Governor Healey funds the public higher education sector at \$1.95 billion, a \$138.7 million (7.7 percent) increase over FY 2024. Campus operating appropriations for the Community Colleges, State Universities, and the University of Massachusetts are increased across the board by approximately 11 percent; and investments in student support services and scholarship programs appear to be level-funded after backing out the costs of legislative earmarks from FY 2024.

*FY 2025 Higher Education Spending by Sector*

<b>Category</b>	<b>FY 2023 GAA</b>	<b>FY 2024 GAA</b>	<b>FY 2025 - Governor</b>	<b>\$ vs. GAA</b>
<b>Community Colleges</b>	<b>\$338.1</b>	<b>\$348.8</b>	<b>\$384.2</b>	<b>\$35.4</b>
<b>State Universities</b>	<b>\$327.7</b>	<b>\$338.7</b>	<b>\$369.4</b>	<b>\$30.8</b>
<b>University of Massachusetts</b>	<b>\$674.5</b>	<b>\$692.9</b>	<b>\$765.9</b>	<b>\$73.0</b>
<b>Scholarship Programs</b>	<b>\$197.9</b>	<b>\$198.4</b>	<b>\$198.0</b>	<b>-\$0.5</b>
<i>Community College SUCCESS Fund</i>	<i>\$14.0</i>	<i>\$14.0</i>	<i>\$14.0</i>	<i>\$0.0</i>
<i>Massachusetts State Scholarship Program</i>	<i>\$175.2</i>	<i>\$175.7</i>	<i>\$175.2</i>	<i>-\$0.5</i>
<b>Income Surtax Spending - Higher Ed</b>	<b>\$0.0</b>	<b>\$229.0</b>	<b>\$229.0</b>	<b>\$0.0</b>
<i>Financial Aid Expansion</i>	<i>\$0.0</i>	<i>\$84.0</i>	<i>\$80.0</i>	<i>-\$4.0</i>
<i>MassReconnect</i>	<i>\$0.0</i>	<i>\$20.0</i>	<i>\$24.0</i>	<i>\$4.0</i>
<i>Higher Education Capital Funding</i>	<i>\$0.0</i>	<i>\$50.0</i>	<i>\$125.0</i>	<i>\$75.0</i>
<i>Targeted Scholarships</i>	<i>\$0.0</i>	<i>\$25.0</i>	<i>\$0.0</i>	<i>-\$25.0</i>
<i>DHE Endowment Match</i>	<i>\$0.0</i>	<i>\$10.0</i>	<i>\$0.0</i>	<i>-\$10.0</i>
<i>UMass Endowment Match</i>	<i>\$0.0</i>	<i>\$10.0</i>	<i>\$0.0</i>	<i>-\$10.0</i>
<i>Free Community College Implementation</i>	<i>\$0.0</i>	<i>\$12.0</i>	<i>\$0.0</i>	<i>-\$12.0</i>
<i>Nursing Programs Free Community College</i>	<i>\$0.0</i>	<i>\$18.0</i>	<i>\$0.0</i>	<i>-\$18.0</i>
<b>Total Spending</b>	<b>\$1,538.2</b>	<b>\$1,807.8</b>	<b>\$1,946.5</b>	<b>\$138.7</b>

*\$ in millions*

### *Public Higher Education Campuses*

Increases to campus operating appropriations for state universities average 11.2 percent, while increases for community college campuses average 11.8 percent. The differences in funding growth across higher education campuses are not fully apparent; however, they are often related to the timing of collective bargaining agreements. Funding for the University of Massachusetts' primary account is also increased by 11 percent; for a total of \$760.6 million in funding in FY 2025.

### *Scholarship Programs & Addressing Student Costs*

In FY 2025, funding for scholarship programs and wraparound student supports is essentially level funded with the FY 2024 GAA at \$198 million, excluding investments in financial aid and higher-education access supported by the income surtax. The state's Scholarship Reserve is funded at \$175.2 million, a \$460K decrease compared to FY 2024, and the Community College SUCCESS program is level funded at \$14 million.

### *Income Surtax Investments*

Funding for higher education in Governor Healey's budget proposal is supported by \$229 million in income surtax revenue in FY 2025, representing 18 percent of all surtax investments in her budget proposal. In FY 2025, surtax spending for higher education reflects many of the same priorities included in the FY 2024 GAA.

- \$125 million for higher education capital financing. Resources in this reserve may support capital projects at public higher education campuses, as well as debt management and reduction strategies. Line-item language directs the Secretary of Administration and Finance to convene a working group to develop a comprehensive financing plan for the public higher education system. The group will offer recommendations for a new 10-year capital bond bill that may invest up to \$2.5 billion. The budget also proposes a permanent dedication of at least \$125 million of surtax revenue for higher education.
- \$80 million to sustain the expansion of the MASSGrant Plus program, which began in FY 2024. MASSGrant Plus covers the costs of tuition, fees, books and supplies for Pell-eligible students and reduces out-of-pocket expenses for middle-income students.
- \$24 million for the second-year of the MassReconnect program.

## **Workforce & Career Readiness**

MTF tracks workforce and career readiness spending across 43 state programs and 16 state agencies. As detailed in a [series of reports](#) released over the last six months, the programs are organized into three categories: individual workforce training programs, sector-based programs, and training opportunities for state-serving populations.

In FY 2025, Governor Healey proposes \$532.1 million in total funding for these programs, a \$32.3 million (6.5 percent) increase over the FY 2024 state budget.

*FY 2025 Workforce Spending by Sector in FY 2025*

Category	FY 2023 GAA	FY 2024 GAA	FY 2025 - Governor	\$ vs. GAA
<b>Sector-Based</b>	<b>\$78.5</b>	<b>\$68.8</b>	<b>\$57.4</b>	<b>-\$11.3</b>
<i>Career and Technical Education Program</i>	\$3.5	\$3.5	\$2.5	-\$1.0
<i>Career Technical Institutes</i>	\$20.4	\$15.4	\$10.4	-\$5.0
<i>Massachusetts Service Alliance</i>	\$2.2	\$2.3	\$1.2	-\$1.1
<i>STEM Starter Academy</i>	\$4.8	\$4.8	\$3.6	-\$1.1
<b>Training Opportunities for State Populations</b>	<b>\$335.3</b>	<b>\$304.6</b>	<b>\$348.0</b>	<b>\$43.4</b>
<i>Community Day and Work Programs</i>	\$278.6	\$243.2	\$288.0	\$44.9
<b>Individual Workforce Training</b>	<b>\$139.3</b>	<b>\$126.5</b>	<b>\$126.7</b>	<b>\$0.2</b>
<b>Total Spending</b>	<b>\$553.2</b>	<b>\$499.8</b>	<b>\$532.1</b>	<b>\$32.3</b>

*\$ in millions*

As has been the case in recent years, the category of program that receives the largest increase in funding over FY 2024 is Training Opportunities for State Populations, predominantly driven by a \$44.9 million increase for Community Day and Work Programs. This funding maintains rate increase approved in FY 2024 and supports current caseload projections.

Funding for Sector-Based workforce training programs decreases by a total of \$11.3 million in FY 2025, driven by spending reductions for Career and Technical Education Programs (funded at \$2.5 million), Career Technical Institutes (funded at \$10.4 million), the Massachusetts Service Alliance (funded at \$1.2 million), and STEM Starter Academies (funded at \$3.6 million).

While funding for Individual Workforce Training programs is largely level with FY 2024, funding for MassHire Career Centers is increased by \$4 million (49 percent). Notably, funding for career centers remains \$5 million less than the FY 2023 level of \$15 million. The Governor’s budget also includes funding for the Entrepreneur in Residence Program for the first time since FY 2021. This program encourages higher-education institutions to employ international graduate students in high-demand fields who may otherwise leave the state after completing their degree program.

When assessing spending reductions across workforce programs, it’s important to note that significant resources appropriated through two state COVID Response and Economic Development bills<sup>1</sup> remain. According to budget materials published by the administration, approximately \$84 million in supplemental workforce funding remains available, and can be used to enhance state investments through 2026.

## **Transportation**

The Healey-Driscoll administration provides \$820.7 million in base-funding for the MBTA, MassDOT, and Regional Transit Authorities (RTAs) in FY 2025, a \$4.1 million (0.5 percent) increase over FY 2024. This investment is supplemented by \$550 million in surtax spending, \$250 million of which is transferred directly to the Commonwealth Transportation Fund (CTF) and then used in support of MassDOT, the MBTA, and debt service.

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<sup>1</sup> Chapter 102 of the Acts of 2021 (COVID Response and Economic Development bill #1) and Chapter 268 of the Acts of 2022 (COVID Response and Economic Development bill #2).

*FY 2025 Transportation Spending*

Category	FY 2023 GAA	FY 2024 GAA	FY 2025 - Governor	\$ vs. GAA
Transfer to MassDOT	\$457.1	\$523.9	\$528.0	\$4.1
Transfer to MBTA	\$187.1	\$187.0	\$187.0	\$0.0
Transfer to RTAs	\$96.5	\$94.0	\$94.0	\$0.0
Other Transportation	\$277.9	\$11.7	\$11.7	\$0.0
<b>Income Surtax Spending (CTF Fund)</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$250.0</b>	<b>\$250.0</b>
<i>Supplemental Transfer to MassDOT</i>	\$0.0	\$0.0	\$60.0	\$60.0
<i>Supplemental Transfer to MBTA</i>	\$0.0	\$0.0	\$127.0	\$127.0
<i>CTF Debt Service</i>	\$0.0	\$0.0	\$63.0	\$63.0
<b>Income Surtax Spending</b>	<b>\$0.0</b>	<b>\$476.5</b>	<b>\$300.0</b>	<b>-\$176.5</b>
<i>Federal Matching Funds</i>	\$0.0	\$25.0	\$0.0	-\$25.0
<i>Highway Bridge Preservation</i>	\$0.0	\$50.0	\$0.0	-\$50.0
<i>MBTA Capital Investments</i>	\$0.0	\$180.8	\$0.0	-\$180.8
<i>MBTA Means Tested Fares</i>	\$0.0	\$5.0	\$45.0	\$40.0
<i>MBTA Workforce/Safety Reserve</i>	\$0.0	\$20.0	\$0.0	-\$20.0
<i>Regional Transit Funding and Grants</i>	\$0.0	\$90.0	\$75.0	-\$15.0
<i>Roads &amp; Bridges Supplemental Aid</i>	\$0.0	\$100.0	\$124.0	\$24.0
<i>Water Transportation</i>	\$0.0	\$5.7	\$0.0	-\$5.7
<i>MassDOT Safety, Service, and Sustainability</i>	\$0.0	\$0.0	\$56.0	\$56.0
<b>Total Spending</b>	<b>\$1,018.5</b>	<b>\$1,293.1</b>	<b>\$1,370.7</b>	<b>\$77.6</b>

*\$ in millions*

*MBTA*

In FY 2025, the Governor’s budget maintains the \$187 million base transfer to the MBTA. While this appears level with the FY 2024 GAA, the MBTA also benefits from an additional \$127 million in operational funding that flows through the CTF and is supported by surtax revenue. In total, operating support for the MBTA equals \$314 million in the Governor’s spending proposal.

*MassDOT*

The Healey administration directs \$528 million in base operating funding towards MassDOT in FY 2025, a \$4.1 million (0.8 percent) increase over FY 2024. Similarly to the MBTA, this funding is supplemented by \$60 million in surtax spending that flows through the CTF. Combined, MassDOT receives \$588 million in operational support in the Governor’s budget.

*Regional Transit Authorities*

Regional Transit Authorities receive \$94 million in base operating support in Governor Healey’s FY 2025 budget, and an additional \$75 million through income surtax investments. In total, \$169 million in FY 2025 will be distributed to RTA’s; including \$15 million for grants for fare equity programs administered by RTA’s.

*Income Surtax Investments*

In total, Governor Healey dedicates \$550 million in income surtax revenue towards transportation, representing 42 percent of all surtax investment in FY 2025. As mentioned above, \$250 million of this spending is transferred directly to the CTF.

Through an outside policy section, the Healey administration proposes making the \$250 million pre-budget transfer to the CTF permanent. According to the administration, the creation of an automatic deposit into the fund will achieve two goals: 1) it will allow the state to increase its borrowing capacity by up to \$1.1 billion for capital projects by expanding the ongoing revenue base of the CTF, and 2) it will immediately increase the resources available to support MassDOT, the MBTA, and other transportation-related initiatives. In FY 2025, the additional \$250 million investment is directed towards MBTA operations (\$127 million), MassDOT operations (\$60 million), and debt service (\$63 million).

Other surtax investments in transportation include:

- \$124 million for supplemental Chapter 90 payments and rural road aid.
- \$56 million for service, safety, and sustainability at MassDOT.
- \$45 million for the MBTA’s fare equity program.
- \$75 million for Regional Transit funding, grants, and fare equity.

**Housing**

The vast majority of the state’s investment in housing production and preservation is supported by the Capital Investment Plan (CIP), and you can learn about the administration’s ambitious housing bond bill in [MTF’s analysis](#). However, the annual operating budget also includes funding for a variety of housing stabilization, homelessness prevention, and housing financial assistance programs. In FY 2025, Governor Healey funds these programs at \$1.14 billion, a \$61.9 million (5.8 percent) increase over the FY 2024 budget.

*FY 2025 Housing Investments*

Category of Program	FY 2023 GAA	FY 2024 GAA	FY 2025 - Governor	\$ vs. GAA
<b>Housing Stabilization &amp; Homelessness Prevention</b>	<b>\$421.6</b>	<b>\$517.3</b>	<b>\$542.1</b>	<b>\$24.8</b>
<i>Emergency Assistance Family Shelters</i>	\$219.4	\$325.3	\$325.3	\$0.0
<i>HomeBASE</i>	\$59.4	\$37.1	\$57.3	\$20.3
<b>Housing Financial Assistance</b>	<b>\$333.0</b>	<b>\$405.5</b>	<b>\$449.3</b>	<b>\$43.8</b>
<i>Massachusetts Rental Voucher Program</i>	\$154.3	\$179.6	\$219.0	\$39.4
<i>Residential Assistance for Families in Transition</i>	\$150.0	\$190.0	\$197.4	\$7.4
<b>Counseling &amp; Education Services</b>	<b>\$9.7</b>	<b>\$10.5</b>	<b>\$8.8</b>	<b>-\$1.7</b>
<b>Public Housing</b>	<b>\$93.0</b>	<b>\$108.3</b>	<b>\$113.3</b>	<b>\$4.9</b>
<b>Other Housing</b>	<b>\$27.2</b>	<b>\$32.0</b>	<b>\$22.0</b>	<b>-\$10.0</b>
<b>Grand Total</b>	<b>\$884.5</b>	<b>\$1,073.6</b>	<b>\$1,135.5</b>	<b>\$61.9</b>

*\$ in millions*

Notable housing investments in Governor Healey’s FY 2025 budget proposal include:

- **Massachusetts Rental Voucher Program** (\$219 million) – Funding for the MRVP program is increased by \$39.4 million (22 percent) over the FY 2024 GAA. This investment is expected to support the continuation of over 750 new MRVP vouchers released last year, and will drive the total number of rental vouchers leased by beneficiaries to over 10,000 by the end of FY 2025.
- **Residential Assistance for Needy Families** (\$197.4 million) – Investment in the RAFT program increases by \$7.4 million (3.9 percent) over FY 2024. The Governor’s budget maintains a benefit level of up to \$7,000 per household over a period of 12-months.
- **HomeBASE** (\$57.3 million) – Funding for HomeBASE grows by \$20.3 million over FY 2024, a 55 percent increase. At this funding level, eligible families may access up to \$45K over a period of 36 months to support rehousing costs. In response to the increased number of families entering the shelter system, the Executive Office of Housing and Livable Communities has been working to more quickly transition families to more stable, permanent housing.

*Emergency Assistance Shelter System*

The Governor’s budget proposal includes a \$325 million appropriation for the Emergency Assistance (EA) Shelter System in FY 2025. According to the most recent biweekly report required by the Legislature on the EA program, estimated spending in FY 2025 is projected to reach \$915 million. To help meet the full-year costs of the program, the administration plans to supplement the budget appropriation with approximately \$480 million in Transitional Escrow Fund resources through separate legislation.

*Estimate Emergency Assistance Shelter System Spending in FY 2025*

<b>FY 2025 EA Program Estimated Spending</b>	<b>\$915</b>
<i>FY 2025 Governor's Budget Appropriation</i>	\$325
<i>Available Transitional Escrow Fund Resources</i>	\$480
<b>Total Available Resources</b>	<b>\$805</b>
<b>FY 2025 Projected Deficiency</b>	<b>(\$110)</b>

*\$ in millions*

With FY 2025 estimated spending totaling \$915 million, the approximate monthly spend rate for the program is \$76 million. If available resources in FY 2025 equal \$805 million, the program would be able to sustain its current spend rate for roughly 10.5 months.

Furthermore, the Governor’s budget includes new language in the EA program line-item that directs the Executive Office of Housing and Livable Communities to conduct a study regarding the inclusion of emergency shelter providers in the Chapter 257 rate-setting process.

**Energy & Environment**

The Healey administration’s FY 2025 budget funds the Executive Office of Energy and Environmental Affairs and its departments at \$572.2 million, an increase of \$14.2 million (2.9 percent) over FY 2024. For the second year in a row, funding for energy and environment comprises greater than 1 percent of the operating budget, excluding surtax spending.

*FY 2025 Climate, Energy, and Investment Funding*

Department	FY 2023 GAA	FY 2024 GAA	FY 2025 - Governor	\$ vs. GAA
Executive Office of Energy & Environ. Affairs	\$118.9	\$194.4	\$173.1	-\$21.3
Dept. of Agricultural Resources	\$43.7	\$52.2	\$74.8	\$22.6
Dept. of Conservation and Recreation	\$134.0	\$157.3	\$159.1	\$1.8
Dept. of Energy Resources	\$5.3	\$5.5	\$7.0	\$1.5
Dept. of Environmental Protection	\$77.2	\$84.4	\$86.7	\$2.3
Dept. of Fish and Game	\$38.3	\$41.2	\$45.1	\$3.9
Dept. of Public Utilities	\$21.1	\$23.1	\$26.4	\$3.3
<b>Total Spending</b>	<b>\$438.6</b>	<b>\$557.9</b>	<b>\$572.2</b>	<b>\$14.2</b>

*\$ in millions*

Notable investments across the secretariat include:

- **Food Security Infrastructure Grants** (\$25 million) – The Governor’s budget maintains funding for the Food Security Infrastructure Grants program at \$25 million in FY 2025, ensuring that this program continues to receive operating budget support.
- **Transfer to the Massachusetts Clean Energy Center** (\$30 million) – In FY 2025, the Governor directs \$30 million to the Clean Energy Center for the Clean Energy Investment Fund; which supports initiatives to reduce emissions as required by the 2050 Clean Energy and Climate Plan. The FY 2024 GAA also included a \$30 million transfer to MassCEC; however, budget language directed \$15 million to the Massachusetts Offshore Wind Industry Investment Fund and \$15 million to the Clean Energy Investment Fund.

### **FY 2025 Outside Policy Sections**

The Healey-Driscoll administration’s FY 2025 budget proposal includes 112 outside policy sections, 83 more than what was proposed in the administration’s inaugural budget proposal.

*Policy Sections Compared*

	FY 2023 - Governor	FY 2024 - Governor	FY 2024 Conference	FY 2025 - Governor
Policy Sections	95	29	112	112

The increase in sections proposed compared to the FY 2024 Healey-Driscoll budget reflects a much more ambitious approach to policy in this year’s budget. Almost one-third of the sections in the administration’s budget relate to changes to state assessments on insurers and hospitals, but there are also proposals related to the lottery, tax and income surtax, and a variety of other policy areas.

Notable policy proposals include:

### ***Tax Policy***

*Internal Revenue Code Conformity (section 43)* – this section aligns state personal income tax law with the Internal Revenue Code in effect as of January 1, 2024. Under current law, the state conforms to the IRC as of January 2022.

*Interest on Savings in Massachusetts Banks (sections 44 & 108)* – this section would repeal the income deduction of interest and dividends earned from savings accounts. In FY 2024, this deduction was valued at \$4.5 million. This section is effective as of January 1, 2024.

*Title V Septic Credit Clarification (section 45)* – this section amends the state’s septic tank tax credit, recently increased in 2023 tax relief legislation. It clarifies that upgrades and connections to sewer systems are eligible for the credit. The section also clarifies the state regulations that must be adhered to in order to be eligible.

*Joint Filer Requirement (section 46)* – this section undoes the recent requirement that married couples file in the same form at both the state and local level for couples with income under \$8,000. This change is proposed because the recent provision, without exemption, would have had negative tax consequences for low-income filers.

*Tax Exempt Organization Publication Taxation (sections 48 & 109)* – this section eliminates the sales tax exemption for publications of non-profit entities. In FY 2024, this exemption was valued at \$23 million. This section is effective 60 days after the effective date of the act.

*Tax Amnesty (section 91)* – this section establishes a 60-day tax amnesty program, applying to returns due before the end of 2024 and with a potential lookback period of four years. The provisions of the program are to be established by DOR but may apply to returns not filed, not filed in a timely manner, or in which the full amount of an estimated payment was not remitted. Taxpayers who utilize the program would be prohibited from utilizing another tax amnesty program for 10 years.

### ***Surtax Policy***

*Dedication of Surtax Revenues (sections 24 through 29)* – these sections dedicate \$375 million in surtax revenue annually to education (\$125 million) and transportation (\$250 million) uses. The dedicated transportation amount will go directly to the Commonwealth Transportation Fund without appropriation and can be pledged in support of special revenue bonds. The dedicated education surtax amount is not pledged to a specific use, and those resources will still be deposited into the Education and Transportation Trust Fund. Within separate line-item language, the budget proposes a higher education finance working group to assess the feasibility of dedicating a share of surtax resources for higher education capital needs.

*Surtax Spending Reductions (section 30)* – this section would allow mid-year budget reductions of surtax spending in all cases when the Administration certifies that budgeted revenues are insufficient to meet expenditures. Under the language included in the FY 2024 budget, surtax spending could only be cut mid-year if surtax revenues are projected to fall short of the threshold established for the year.

### ***Health Care Policy***

Discussion of policy changes proposed to the Managed Care Assessment, the Hospital Assessment, and Health Care Trust Spending can be found in the **MassHealth & Healthcare** spending section of this brief.



*Pharmacist Administration of Therapies (section 53)* – this section authorizes pharmacists to administer injections of testosterone for gender-affirming care and prescriptions to treat sexually transmitted diseases.

*Prescriptions for Controlled Substances (section 54)* – this section expands the number of scheduled drugs that can be prescribed for 90 days to include opioid treatment medications, non-opioid substances, and implantable infusion devices.

*MassHealth Copays (sections 59 & 61)* – these sections eliminate co-pay and cost-sharing requirements for the state’s Children’s Medical Security Plan and the Children’s Health Insurance Plan programs.

*Expanded Drug Rebate Negotiations (section 60)* – this section authorizes EOHHS to negotiate supplemental rebates for medical devices, drugs, and other medical products not currently subject to the drug rebate program. This language is identical to a provision proposed in the administration’s FY 2024 budget.

*MassHealth Standing Order (section 73)* – this section authorizes a standing order for physicians to prescribe prenatal vitamins and oral contraceptives for MassHealth and Health Safety Net clients.

### ***Lottery***

*Online Lottery (sections 7 through 9)* – these sections authorize the Lottery Commission to offer online and app-based games. The administration’s language is very similar to the House online lottery proposal from 2023, though it eliminates the establishment of a Lottery Advisory Board, with representatives from owners of convenience stores and other lottery retailers, to advise the Lottery on the implementation of online and app-based games.

*Lottery Modernization (sections 10 through 14)* – these sections make several changes to the Lottery’s statute, related to public duties of the Lottery Director, restrictions on public employers serving as Lottery agents, and the purchase of tickets for program integrity purposes.

### ***Revenue***

*Excess Capital Gains (section 86)* – this section allows ANF to use up to \$375 million in FY 2025 excess capital gains collections to support General Fund spending. Without this section, these revenues would be dedicated to the Stabilization Fund. In FY 2025, capital gains revenues are projected to exceed the threshold by \$513 million.

*Disaster Relief & Resiliency Fund (sections 31, 32 & 87)* – these sections create a Disaster Relief & Resiliency Fund to be capitalized annually with 10 percent of above threshold capital gains revenues (projected at \$13.8 million in FY 2025). The fund will be expended by ANF, in consultation with the Massachusetts Emergency Management Agency, for disaster relief and damage remediation. Currently, state relief for natural disasters is provided through supplemental budget appropriations.

*Gaming Fund Distribution (section 88)* – this section adjusts the distribution of Category 1 gaming revenue in FY 2025 to increase the amount available for the budget by approximately \$100 million.

### ***Transportation***

*Regional Transit Authority Funding Formula (section 92)* – this section defines the distribution of the \$169 million appropriated for RTAs. Of the total, \$150 million is to be considered base operating assistance and \$94 million will be distributed in the same manner as in FY 2024.

### ***Paid Family & Medical Leave***

*PFML Administrative Costs (section 78)* – this section caps administrative costs for the Department of Family and Medical Leave at 5 percent of the fund balance at the end of the prior year, but prohibits the amount available for administration from decreasing by more than 5 percent in a year. Currently, administrative costs are set at 5 percent of deposits in a given year.

### ***Other***

*Gender Identity (sections 40 through 42)* – these sections allow married couples to amend gender identity on a marriage certificate and allows individuals to change their sex listed on birth records and government documents, and select “X” if that conforms best with their gender identity.

*MCI Concord (sections 74 & 107)* – these sections effectuate the closure of MCI Concord and allow DCAMM to lease MCI Concord property for a term of up to 99 years. The section defines the process by which DCAMM should dispose of the land including through a sales-partnership agreement with the hosting municipality.

*Bail fees (section 82)* – this section transfers the responsibility to pay the bail fee currently paid for by arrested individuals to the Trial Court, and allows for bail to be set after-hours by remote or electronic hearings.

*Clean Energy Center (section 22)* – this section amends the board composition of the Clean Energy Center, replacing a mandated position for the Massachusetts Workforce Alliance with a gubernatorial appointment with knowledge of workforce development in the clean energy sector.

*Tuition Equity Clarification (section 18)* – this section amends the tuition equity law included in the FY 2024 budget to clarify its application to public institutions of higher education and to give the Board of Higher Education authority to develop regulations for implementation.

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## **Bottom Line**

Governor Healey has proposed a \$58.13 billion spending plan for FY 2025, starting this year’s budget process in earnest by increasing total state investment by \$2.1 billion over FY 2024. Her budget proposal reflects \$1.3 billion in surtax-supported spending, and includes notable funding increases for childcare, transportation, and healthcare. However, despite these new investments, the Healey administration’s budget proposal appropriately limits spending growth to only 3.7 percent, consistent with expected revenue growth of 3.5 percent.

To support new or expanded spending, the Governor deploys income surtax revenue, recommends the adoption of multiple revenue-generating initiatives, and taps into state surplus resources previously set aside in trust funds. While policymakers should minimize the use of one-time resources to support ongoing spending obligations, the Healey administration deserves credit for building an FY 2025 budget using an essentially flat revenue assumption that continues to build the balance of the Stabilization Fund, covers increasing state spending obligations, and make targeted investments in critical programs. Additionally, while the Governor's budget includes some spending reductions compared to the FY 2024 GAA, they are largely constrained to accounts that continue to have access to federal funds or supplemental state appropriations.

In her second budget proposal, Governor Healey has included an ambitious slate of policy proposals; notably increasing the number of outside policy sections proposed from 29 to 112. Several major policy initiatives related to healthcare assessments, the use of surtax revenue to support increased bonding capacity, and a slate of tax modernization initiatives will require further analysis.

As the budget process now moves to the House and Senate, a few key themes from the Governor's spending plan should be maintained:

- Spending growth should remain consistent with the expected rate of revenue growth.
- The use of one-time revenue sources to support budget spending should be limited to no more than the level proposed in the Governor's budget; however, the consequences of diverting planned deposits into the Stabilization Fund should be considered carefully.
- The expenditure of remaining federal funds and supplemental state appropriations should be prioritized and the impact of recent program expansions should be assessed before increasing state support for certain programs.
- The state should continue to invest in critically important programs, like C3 Childcare Stabilization Grants, while also living up to its obligations to fully fund Student Opportunity Act implementation and pension liability.