Massachusetts
Taxpayers Foundation

MTF LEGISLATIVE SESSION PREVIEW

2025-2026

CAPITAL SPENDING & INFRASTRUCTURE

Each year, Massachusetts produces a Capital Investment Plan (CIP) to enumerate the state's planned investments in its physical infrastructure. This spending plan is in addition to the annual operating budget, which supports the ongoing functions of state departments, services, and programs. The CIP is primarily funded via the sale of bonds, which are repaid through debt service payments over the useful life of the project. While the State Legislature does not play a direct role in the development of the CIP, it does play a crucial role in authorizing the state's sale of bonds for specific infrastructure uses through the passage of "bond bills."

During the 2025 – 2026 legislative session, the Healey administration and Legislature will take up several major bond bills that will shape the future of capital spending and inform the Capital Investment Plan. They will also face legitimate limitations on borrowing and uncertainties surrounding federal infrastructure funding; two factors that will force difficult decisions on what capital investments are possible.

To prepare for the session ahead, this preview reviews the major policy actions that took place during the 2023 – 2024 legislative session related to capital and infrastructure spending, including the release of the Fiscal Year (FY) 2025 Capital Investment Plan, the passage of critical Federal Funds legislation, and the approval of several major bond bills related to housing and economic development. It also poses several key questions for policymakers to consider in the new session.

Background & Policy Context

Capital Investment Plan & Bond Bill Development Processes

While the CIP does not require legislative approval, its development generally conforms to the fiscal year schedule. The administration's CIP must be released by July 1st of each year, and it details the capital investments planned for the following five fiscal years.

Bond bills must be filed by the Governor and move through the traditional legislative process. Because all borrowing by the state must be approved by a two-thirds majority vote in both chambers, bond bills must be acted upon during Formal Sessions in which roll call votes can be recorded. The terms of the bond bill – including how long the bond issuance remains valid, and the date by which the bonds must be payable – are then enacted through separate legislation.

Additional details regarding the development processes for the Capital Investment Plan (CIP) and bond bills are included in MTF's Capital Investment Plan Process 101 Primer.

The FY 2025 Capital Investment Plan

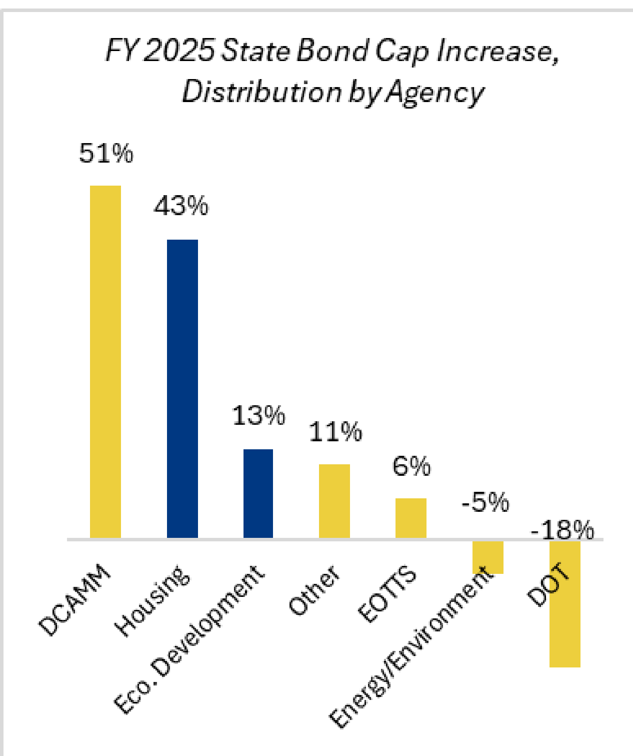
The Healey-Driscoll administration released its Capital Investment Plan (CIP) for FY 2025 – FY 2029 on June 13, 2024. Over five years, the CIP calls for more than $29.2 billion in capital investment; with $5.8 billion in capital spending planned for FY 2025. The CIP is supported by a combination of state-backed bonds, federal funds, and other revenues; but the largest source of funding for the plan comes from General Obligation (GO) bonds, also known as the state bond cap.

General Obligation bonds are secured by the full faith and credit of the Commonwealth, and they are repaid by the state's General Fund via debt service payments.

FY 2025-FY 2029 CIP by Source

Funding Source	FY 2025	FY 2025 – 2029
State Bond Cap	$3,117	$15,586
Non-Bond Cap	$408	$2,185
Operating Funds	$434	$1,467
Federal Funds	$1,467	$8,455
Other Funds	$434	$1,582
Total	**$5,860**	**$29,275**

$ in millions

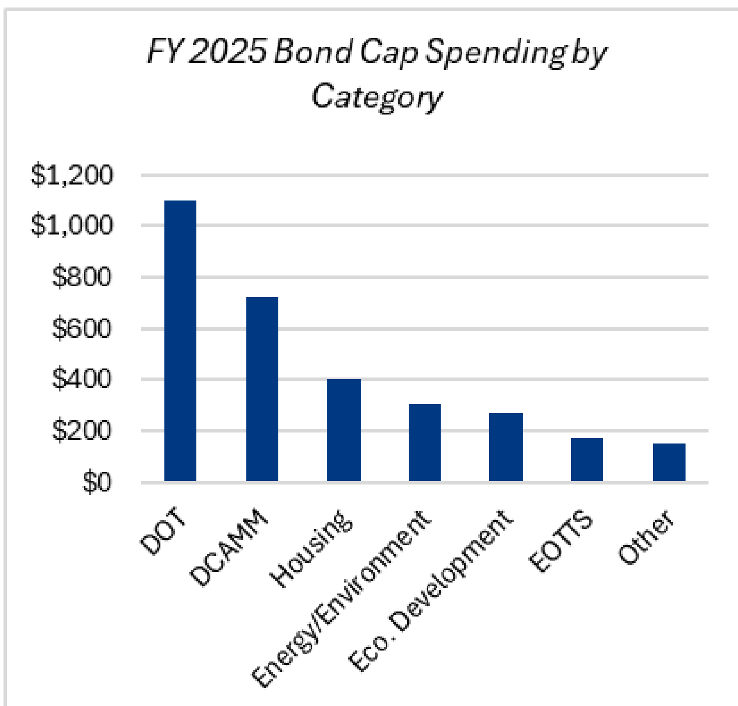


While GO bonds are one of the most flexible tools available to support capital spending, their use is also constrained by specific debt affordability policies to ensure that the state does not become overly reliant on borrowing.

In FY 2025, the CIP reflected a $212 million increase to the state's bond cap (from $2.9 billion to $3.1 billion); per the recommendation of the Debt Affordability Committee (DAC). The DAC was established by legislation in 2012 to regularly evaluate the amount and condition of the state's tax-supported debt. By December 15th of each year, they issue a recommendation to the Governor on the amount of new bond cap spending that may be authorized for the next year. In FY 2025, the bond cap increase of $212 million is comprised of a $125 million standard increase, plus a one-time adjustment of $87.2 million to account for increased construction costs related to high-inflation.

Because the state bond cap represents the largest and most flexible source of funding for capital investment, it is often broken down and evaluated by policy-area. This analysis allows policymakers to assess which aspects of the state's physical infrastructure receive the largest amount of investment, and how new capital spending is being distributed across agencies. For example, between FY 2024 and FY 2025, the largest share of the state bond cap increase was directed towards capital asset management (DCAMM), housing, and economic development.

Seeing a large portion of new capital spending targeted towards housing and economic development in FY 2025 is not surprising, given that two of the largest bond bills filed by the Governor and considered by the Legislature last session were in these areas. It's also important to note that the decrease in state bond cap spending for transportation does not necessarily indicate a lack of investment in that area. In FY 2025 and beyond, there will be alternative resources available to support transportation capital investments, including surtax revenues set aside in the Education and Transportation Innovation and Capital Fund and a dedicated annual transfer of $250 million in surtax revenues to the Commonwealth Transportation Fund, which is estimated to increase the fund's borrowing capacity by at least an additional $1 billion over the course of five years.



However, while the distribution of new state bond cap spending – as shown in the chart above – illustrates the emerging capital spending priorities of the administration; it does not provide a complete picture of state capital investment. For example, despite seeing its share of the state bond cap decrease in the FY 2025 CIP, transportation continues to make up the largest portion of overall state capital spending. Similarly, while housing and economic development are clear areas of focus for the Healey administration, they make up approximately 13 percent and 8.6 percent of CIP spending in FY 2025, respectively. Looking ahead to the new legislative session, further shifts in the distribution of new state bond cap spending could reflect multiple factors, including the prioritization of new areas for investment, the availability of other resources for capital projects, and the potential reduction in federal infrastructure funding under the Trump administration.

Ultimately, while the Capital Investment Plan is the primary resource available to understand the state's infrastructure investment strategy, it provides less clarity on actual spending plans compared to the operating budget. Because the operating budget is a piece of legislation, the administration – barring mid-year spending cuts or other unique circumstances – is required to pay out spending items that are signed into law. In contrast, the CIP is developed and implemented almost entirely independently by the Governor's administration, and they are granted wide discretion over actual capital spending amounts to ensure that the state adheres to several administrative and statutory debt affordability policies.

Limitations on State Borrowing

The size and scope of state's Capital Investment Plan, as well as actual capital spending levels, are primarily controlled by three administrative and statutory debt affordability policies.

1. *Statutory Debt Limit* – Since the 1990s, state finance law has limited the amount of outstanding direct debt that the state may carry on its books. The statutory debt limit is calculated and established each year by the State Treasurer, and it is statutorily permitted to grow by 5 percent each year. Several types of debt are excluded from the statutory debt limit, including borrowing that is repaid using dedicated revenue streams like Special Obligation (SO) bonds for the Accelerated Bridge Program and Federal Grant Anticipation notes. In FY 2024, the limit was set at $30.6 billion.

2. *Debt Service as a Percent of Budgeted Revenues* – Beginning in 2008, the Executive Office for Administration and Finance established an administrative policy that limits borrowing to a level designed to keep debt service payments at 8 percent or less of budgeted revenues. Budgeted revenues include all taxes and other revenue available to support operating expenses, and certain types of debt are excluded from this calculation as well, like debt issued by the MBTA or School Building Authority.

3. *State Bond Cap Growth* – Also established in 2008, this policy limits annual growth in the state's bond cap to no more than $125 million each year; excluding one-time adjustments and carry-forward bond cap capacity from prior years. As discussed above, the bond cap only applies to General Obligation bonds, which are repaid using revenues from the state's General Fund.

While each of these policies serves a unique purpose, their shared goal is to ensure that the Commonwealth does not become overly reliant on borrowing or have to dedicate larger shares of its operating budget towards debt service payments.

It is the responsibility of the Capital Debt Affordability Committee (DAC) to regularly evaluate the state's position in relation to these policies, as well as the amount and condition of the state's tax- supported debt.

Understanding how these policies impact the relationship between bond bills and the Capital Investment Plan is critical when comparing authorized borrowing to actual capital spending. For example, the 2018 Housing Bond Bill authorized $1.8 billion in capital spending, a record level of investment at the time. However, between FY 2019 and FY 2023, the actual amount of housing spending included in the CIP was approximately $1.2 billion, or two-thirds the authorized level. There are multiple factors that contribute to the gap between authorizations and actual spending, but the state's debt affordability policies play a major role.

For additional details on this dynamic, and on state capital spending related to housing, see MTF's Summary of the Affordable Homes Act.

Federal Infrastructure Investments

During the Biden administration, the federal government made unprecedented investments in transportation, climate resiliency, and emerging economic sector infrastructure through three pieces of legislation: the Infrastructure Investment and Jobs Act (IIJA), the Inflation Reduction Act (IRA), and the Creating Helpful Incentives to Produce Semiconductors Act (CHIPS). Combined, these three bills included over $2 trillion in spending, nearly half of which was to be made available to states through competitive grant programs and formula allocations over the following five to ten years.

MTF Estimated Federal Funding Opportunity for MA

Federal Legislation	*Estimated Massachusetts Share*	*Potential State Match Requirement*
IIJA	$14.0	$2.5
IRA	$1.8	$0.1
CHIPS	$1.1	$0.1
Total	**$17.0**	**$2.7**

$ in millions

In September 2023, MTF published a report – Capitalizing on Federal Funding Opportunities – which estimated that Massachusetts had an opportunity to access up to $17 billion in federal funding through these three bills, but to do so needed to identify approximately $3 billion in state matching funds.

Shortly after the report's release, the Healey administration announced its plan to pursue federal infrastructure funding, namely through creating a new trust fund – capitalized through interest earnings on the Stabilization Fund – that could be leveraged to draw down on federal funding opportunities, fund pay-as-you-go (PAYGO) capital projects, and support debt management strategies.

Additional details on the legislative process related to this bill are included in the Key Policy Actions section below, but the bill signed into law by the Governor established a new trust fund, capitalized with up to $750 million in interest earned on the Stabilization Fund. In addition to serving as a flexible pool of funds to maximize Massachusetts' success in securing federal infrastructure dollars, the trust also provides funding for technical assistance to local governments applying for federal grants and other financial assistance related to federal programs.

While the future of billions of dollars in federal infrastructure investments remains uncertain under the Trump administration, the framework established by this legislation to deploy a unique cache of resources to maximize capital infrastructure investment is critical to maintain. Interest earnings on the Stabilization Fund have increased exponentially in recent years, as the balance of the fund has grown towards $9 billion. Utilizing a large share of these resources to strategically invest in the state's infrastructure is a smart financial decision, which provides benefits to the state in both the short and long-term.

Key Actions in the 2023-2024 Legislative Session

2024 Housing Bond Bill (Affordable Homes Act) – On August 6, 2024, Governor Healey signed into law the state's newest five-year housing bond bill, known as the Affordable Homes Act (AHA). The bill authorizes more than $5 billion in capital spending over the next five years, and includes a wide array of policy initiatives to support housing production, preservation, and affordability. Investments in the bill include $2.2 billion for public housing, $1.1 billion dedicated to housing production, $945 million for a new HousingWorks program, and $916 million targeted at vulnerable populations and other programs. Major policy provisions include a new office conversation tax credit, updates to zoning appeal standards, and accessory dwelling units by right. The size and scope of the AHA is impressive; it is more than $3 billion larger than the state's 2018 housing bond bill, which totaled $1.8 billion. However, it's important to note that actual housing-related spending may fall short of the $5 billion authorization level. As MTF described in its summary of the AHA, the state's debt affordability policies and other demands on state capital spending may limit the state's ability to fully meet the goals of the legislation.

2024 Economic Development Bond Bill (MassLEADS) – In November 2024, Governor Healey signed a $3.96 billion biennial economic development bill, which the House and Senate passed in special legislative sessions. The bill, which included 35 separate capital authorizations and 329 different policy sections, was notable for reauthorizing the state's life sciences initiative for a further ten years and providing $400 million in authorized capital spending for a new ClimateTech initiative to be housed at the state's Clean Energy Center. Policy sections in the final bill included a process to allow for the development of a soccer stadium in Everett, the merging of the Mass. Growth Capital Corporation and MassDevelopment, reforms to the state's civil service process, and the creation of new tax credits for live theater productions, data centers, and employment of interns.

Passage of Federal Funds Legislation – In October 2023, the Healey administration released its plan to pursue federal funding opportunities through the IIJA, IRA, and CHIPS Act. The proposal created a new trust – capitalized by interest earned on the Stabilization Fund – which would be leveraged to draw down on federal funds, fund PAYGO capital projects, and support debt management strategies. While the Senate and House passed their own versions of the bill in January and February, respectively, a compromise bill was not sent to the Governor's desk until September 2024. The bill that was signed into law looked very similar to the Governor's original proposal, ultimately dedicating up to $750 million in Stabilization Fund interest earnings to a new Commonwealth Federal Matching and Debt Reduction Fund. As discussed earlier in the brief, while the future of federal funding opportunities approved under the Biden administration is now uncertain, policymakers in Massachusetts should maintain the structure established by this legislation. This bill utilizes a unique resource in an innovative way that will benefit the short and long-term capital spending priorities of the state.

Surtax Deposit into the Commonwealth Transportation Fund – In the FY 2025 General Appropriations Act (GAA), lawmakers approved a proposal to annually transfer $250 million in income surtax revenue to the Commonwealth Transportation Fund. This automatic deposit, originally put forward by Governor Healey, aims to achieve two goals: 1) it allows the state to increase its borrowing capacity by more than $1 billion for transportation-related capital projects by expanding the ongoing revenue base of the CTF; and 2) it immediately increases the resources available to support MassDOT, the MBTA, and other transportation-related initiatives. In FY 2025, after the $250 million is deposited into the CTF, $127 million is directed towards MBTA operations, $60 million is targeted to MassDOT, and $63 million is withheld in the fund for future debt service obligations. Like the federal funds legislation, this proposal was an innovative way to maximize the impact of a new revenue source; allowing the state to make legitimate progress on its capital spending priorities despite some of the limitations on state borrowing.

Key Policy Questions for the 2025-2026 Legislative Session

What areas of infrastructure investment will the administration and Legislature prioritize in the new legislative session?

During the 2023 – 2024 legislative session, three bond bills related to information technology, housing, and economic development were filed by the Governor and approved by the Legislature. Because bond bills typically authorize borrowing for a period of five years, it is likely that these topic areas will not be policymakers' primary area of attention for capital spending during the new session. Instead, bond bills focused on energy and environment, transportation, and general government infrastructure investments may rise to the top.

The state's last Environmental Bond Bill (EBB) was enacted in 2018 and it authorized $2.4 billion in state borrowing over a period of five years for a variety of climate, transportation, and environmental infrastructure programs. Many of these authorizations will soon expire, and it is very likely that a new environmental bond bill will advance this session. Similarly, the last general government and transportation-focused bond bills were signed into law in 2022.

As noted in MTF's Legislative Session Preview: Transportation, extreme weather events are now the norm, including stronger storms, increased precipitation, rising sea levels, flooding, and wildfires. According to the National Oceanic and Atmospheric Administration (NOAA), there were 28 weather-related disaster events that exceeded $1 billion in 2023. Massachusetts is not immune to these challenges, and as policymakers consider the impact of harsh weather and natural disasters on the state's physical infrastructure, an EBB provides an opportunity for the state to develop a coordinated plan that maximizes state and local resources to improve our climate resiliency.

How can policymakers utilize surplus surtax collections to support the state's infrastructure needs?

Early in the new legislative session, a supplemental budget appropriating more than $1 billion of surtax resources currently held in the Education and Transportation Innovation and Capital Fund is likely to be considered. This fund was created for the explicit purpose of supporting one-time and capital-related expenses, and policymakers should prioritize using these revenues to move closer towards the goal of dividing all surtax revenue evenly between the education and transportation sectors.

In the operating budget, a larger share of surtax revenue has gone towards education (59 percent in the FY 2025 GAA), with transportation receiving approximately 41 percent of the total investment in FY 2025. As lawmakers consider how to most effectively deploy excess surtax revenues, MTF recommends dedicating at least 50 percent towards transportation and using them to make meaningful progress on the state's transportation capital plan. The CIP released by MassDOT in July includes over $16.7 billion in planned transportation investments between FY 2025 and FY 2029, including significant funds for large scale projects like the Cape Cod Bridges, the I-90 Allston Multimodal project, and West-East Rail. As previously reported, funds from the Innovation and Capital Fund can also be a crucial tool in helping to address the state's immediate transportation infrastructure needs, like the FY 2026 MBTA budget shortfall, which is estimated to be $700 million.

How can Massachusetts prepare for the uncertainties that exist around federal funds under the Trump administration?

As discussed above, over the last three years, the Biden administration made unprecedented investments in transportation, climate resiliency, and emerging economic sector infrastructure. While initial estimates projected that Massachusetts could receive up to $17 billion in federal funds through the Infrastructure Investment and Jobs Act (IIJA), the Inflation Reduction Act (IRA), and the Creating Helpful Incentives to Produce Semiconductors Act (CHIPS); the future of each of these bills is highly uncertain under the Trump administration. It will be extremely challenging to predict what may happen to planned federal grant awards; however, it is imperative for state leaders to move quickly to deploy the federal funds that have already been received and a plan should be developed to ensure that major infrastructure projects can move forward, despite delays or the repeal of federal funds.

What improvements could be made to the bond bill process to ensure that the state does not miss out on key opportunities to bolster its economic competitiveness?

Last session, Governor Healey filed her administration's economic development bond bill, *An Act relative to strengthening Massachusetts' economic leadership* (known as MassLeads) on March 1, 2024. By July, both the House and Senate had unanimously passed their own versions of the bill, but in the final days of the legislative session a compromise failed to reach the Governor's desk. As MTF wrote at the time, there were three key reasons why timely passage of an economic development bill was essential:

1. It sent an important message that policymakers take seriously the state's status as a leader in the life sciences and climatetech sectors.

2. The borrowing authorizations were affordable and critical to the FY 2025 Capital Investment Plan.

3. The bill bolstered Massachusetts' ability to compete for a better economic future.

Ultimately, lawmakers enacted a compromise bill on November 14, 2024. While the eventual passage of the bill is a success – it included nearly $4 million in bond authorizations – key lessons were learned regarding how to prevent unnecessary delays during future deliberations. For example, taking action on bond bills earlier in the session, limiting the number and scope of outside policy sections, and prioritizing the reauthorization of key programs that are set to expire could encourage bills to move more quickly through the legislative process. The recent past indicates that it is possible; for example, economic development bills in 2014 and 2016 were enacted by the Legislature and sent to the Governor's desk by August 1st.

Related Research from the Massachusetts Taxpayers Foundation

Housing Bond Bill

- MTF Summary of Governor Healey's Affordable Homes Act
- Affordable Homes Act Conference Preview

Economic Development Bill

- MTF Summary of Mass Leads Act
- Mass Leads Act Conference Preview
- Economic Development Legislation: Reasons to Act