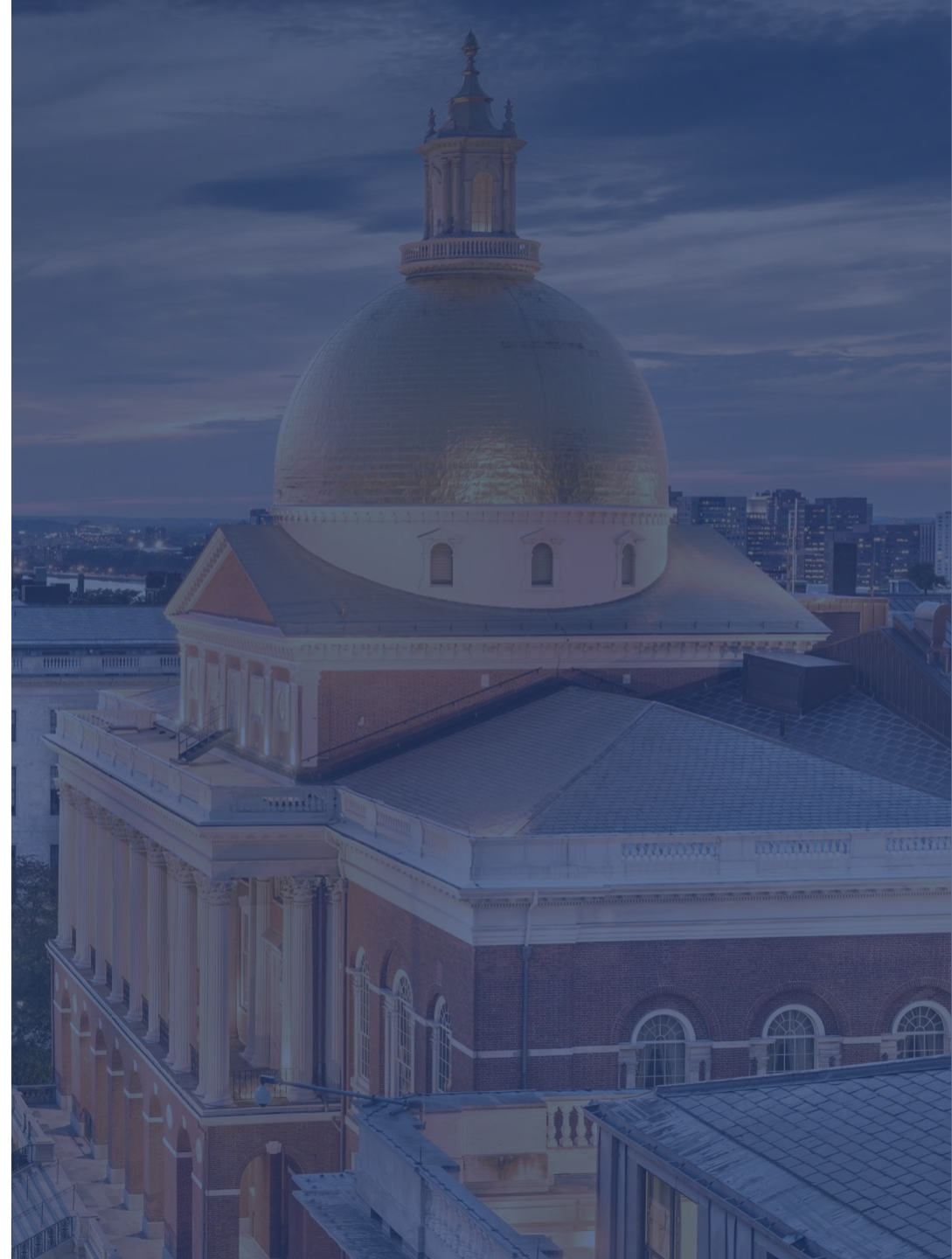




**Massachusetts
Taxpayers Foundation**

The Changing Landscape: Impacts of Federal Action on Massachusetts

Part 1: Overview



Outline

I. Introduction

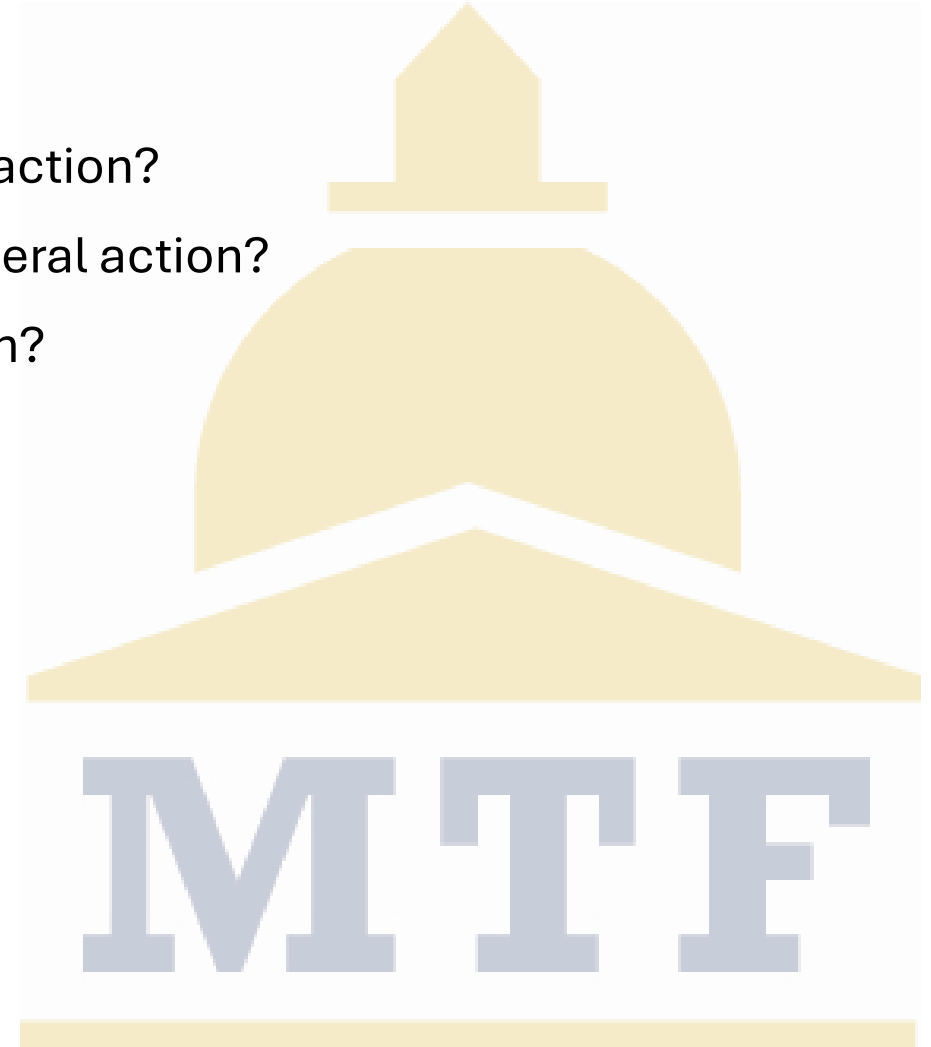
- Why should Massachusetts prepare for federal action?
- How can we assess the potential impacts of federal action?
- What sectors could be affected by federal action?

II. Areas of Potential Impact

- Public Sector
- Private & Non-Profit Sectors
- Broader Economic Impacts

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- Tracking the federal budget process
- Principles for the state federal response



Introduction

With each new presidential administration and Congress, aspects of the federal and state partnership are subject to change, and **significant shifts in federal policy and spending can have profound impacts on the public and private sectors, as well as the overall strength of a state's economy.**

However, while the federal and state partnership may evolve with every new administration, the **early actions of the second Trump presidency have introduced more profound policy and spending proposals that have the potential to drastically impact Massachusetts.**

The purpose of this chartbook, and MTF's follow-up research, is to contextualize the potential impacts of federal action on Massachusetts.

In this introduction, we provide a rubric for how to think about those federal impacts, including the potential forms action could take and the aspects of the Commonwealth's public sector and economy most likely to be affected. Future publications will assess specific areas of possible impact and will provide updates on actual federal actions.

This publication is meant to be iterative and will be updated as information changes and as additional impact sections are added.

Why should Massachusetts prepare for federal action?


While the policies proposed by the Trump administration will have varying impacts – some positive as well as negative – **there are three reasons why, on balance, Massachusetts should be prepared for negative impacts.**

- **Ideological** – The Trump administration has been very active in using executive authority, including the pausing of funding, to make sweeping changes to existing programs or agency operations that relate to immigration, equity, diversity, and gender affirming services (among many others). In addition, members of the administration and Congress are pushing to reduce the size and cost of major federal domestic spending programs.
- **Practical** – Tax reform, which will require significant financial offsets is a top policy priority in 2025. Paying for an extension or expansion of tax reform is likely to negatively impact federal assistance to states and municipalities.
- **Process** – Lack of clarity around the scope of various executive actions, delays while legal challenges are pursued, and economic uncertainties related to tariff, trade, and immigration policy can hinder public, non-profit, and private sector action and investment as decisionmakers await better information.

How can we assess the impacts of federal action?

Federal action that affects Massachusetts may occur in many forms and could originate from any of the three branches of government. But in the context of the Trump administration and new Congress, the following matrix defines the potential impacts of federal action:

Originator of Federal Action



	Trump Administration	Congress
Direct	Example: <i>Reductions in NIH funding to MA organizations</i>	Example: <i>Funding reductions to grants received by MA</i>
Indirect	Example: <i>Increases to tariffs impacting the MA economy</i>	Example: <i>Tax policy changes that affect MA collections or the broader economy</i>

What sectors could be affected by federal action?

Interactions between Federal policy and Massachusetts are countless, but four broad categories of impact can be helpful for organizing analysis:

Public Sector – Federal reimbursements and grants are one of the largest revenue sources for state and local government in MA. In addition, many state programs are affected by federal policy requirements or incentives. Reductions in federal revenue sharing would reduce state and local resources, while policy changes could impact the structure of existing programs.

Private Sector – private employer decisions related to hiring, investment and location are closely linked to the broader economy, while federal tax policy, as well as directives and priorities can also affect directly affect corporate finances and decision-making.

Economic Impacts – Massachusetts exists in a global economy deeply connected to federal actions. Federal policies can contribute to economic growth or recession with direct impacts on the state economy. In addition, the federal government is one of the largest employers in the state with more than 45,000 employees in 2024.

Non-Profit Sector – from research funds, to financial aid, to direct grants, the finances of Massachusetts' non-profit sector, both big and small, is closely intertwined with federal policies and programs.

A photograph of a city skyline at dusk, featuring several tall skyscrapers with illuminated windows. The sky is a pale blue, and the city lights are reflected in the water in the foreground. A dark blue semi-transparent rectangular box is overlaid on the lower half of the image, containing the text in yellow.

Areas of Potential Impact: Public Sector

Federal Impact Rubric: The Public Sector

The application of MTF's federal impact rubric below demonstrates the potential scope of federal action that could impact the public sector in Massachusetts.

A direct impact would be an immediate reduction in the amount of federal funding available to support budgeted spending. An indirect impact could include fluctuations in state tax revenue collections related to the extension of the Tax Cuts and Jobs Act.

	Trump Administration	Congress
Direct	Example: <i>Delays in payment of authorized federal grants</i>	Example: <i>Policy changes to Medicaid</i>
Indirect	Example: <i>Public sector cost increases due to tariffs</i>	Example: <i>State tax collections affected by TCJA extension</i>

Public Sector Impact Overview

What follows is a brief survey of the ways federal policies may directly impact the public sector in Massachusetts. Future publications will examine areas of impact in greater detail, but the charts in this section will demonstrate several key themes:

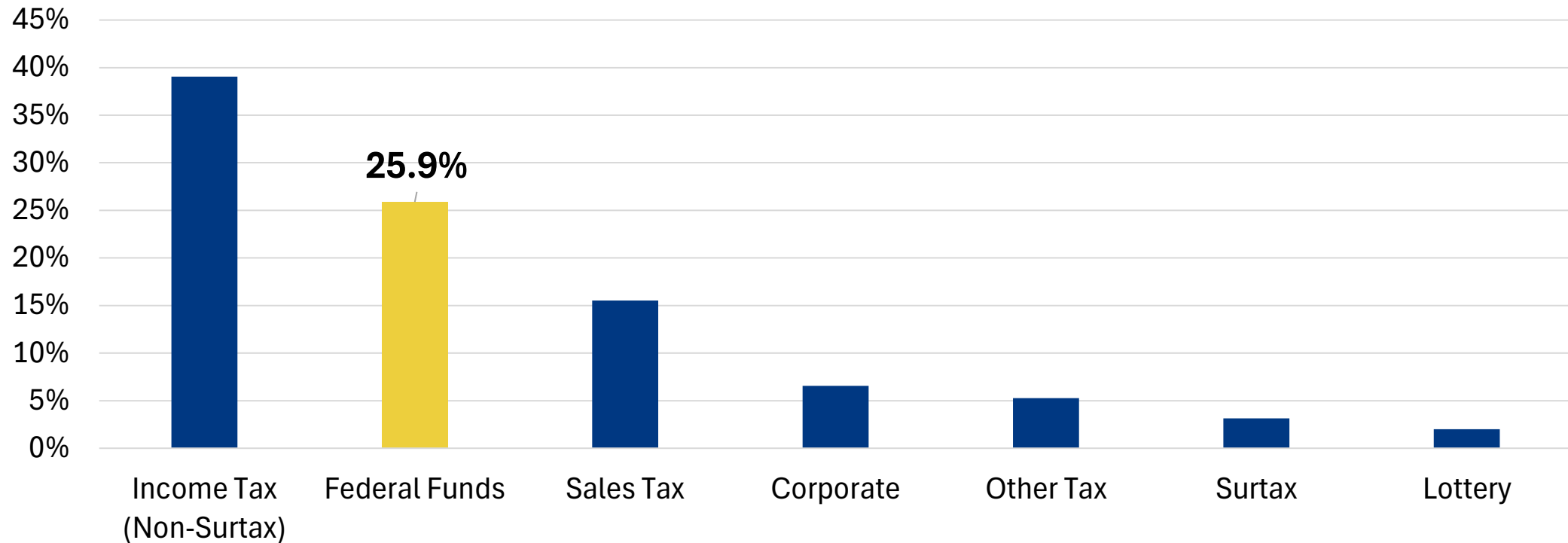
- The **annual state budget is supported by approximately \$16 billion in federal grants** and reimbursements, predominantly related to the MassHealth program.
- **Federal grants not reflected in state budget spending have grown significantly** since the pandemic, totaling over \$5 billion.
- More than **4,000 executive branch state employees are supported by federal funds.**
- Approximately **25% (\$1.5 billion) of state capital spending is supported by federal funding.**

This survey is not exhaustive but intended to be illustrative of federal impacts on the public sector.

Federal Funds Contribute 25% of State Budget Revenue

In the Governor's FY 2026 budget proposal, **federal reimbursements support more than one-quarter of all spending – over \$16 billion in resources**, second to only the income tax in its share of the budget.

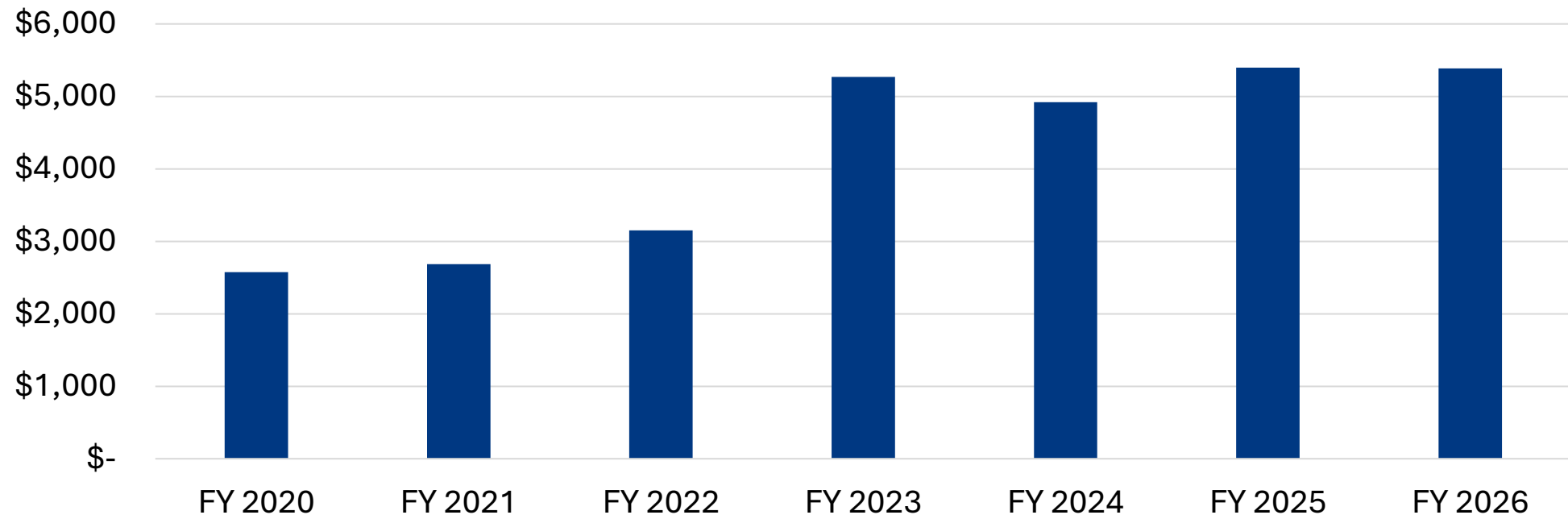
Revenue Sources as Share of FY 2026 Spend



\$5 billion+ in Federal Grants Flow Outside of the State Budget

Section 2D of the annual budget enumerates federal grants, by program, that the state expects to receive in the coming year. These grants do NOT support state spending appropriations but are crucial for the administration and operation of state agencies and departments. **Federal grants have increased significantly since before the pandemic, totaling more than \$5 billion.**

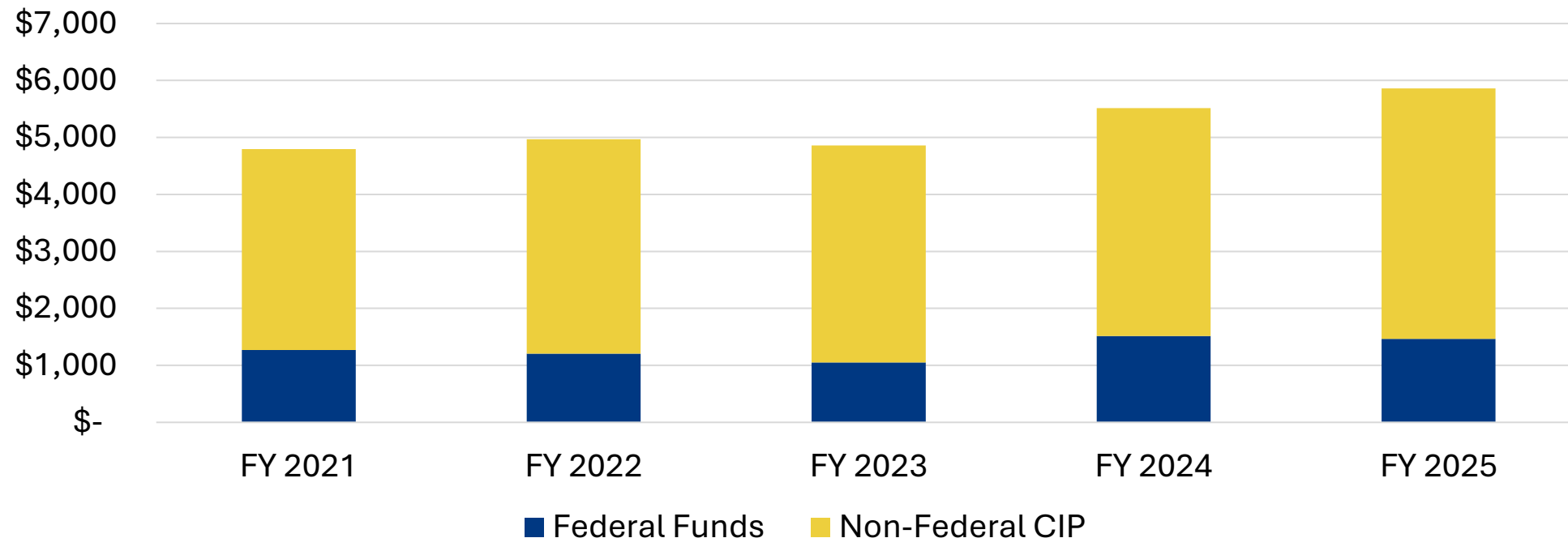
Projected Grants, FY 2020 – FY 2026



Federal Funds Make up 25% of State Capital Spending

Each year, the state releases a Capital Investment Plan (CIP) which guides infrastructure investment in the upcoming fiscal year and puts forward planned investments for a five-year period. The CIP is primarily funded by state debt (57.5 percent in FY 2025), but federal funds provide about a quarter – or **\$1.5 billion** – for all planned state capital investments in FY 2025.

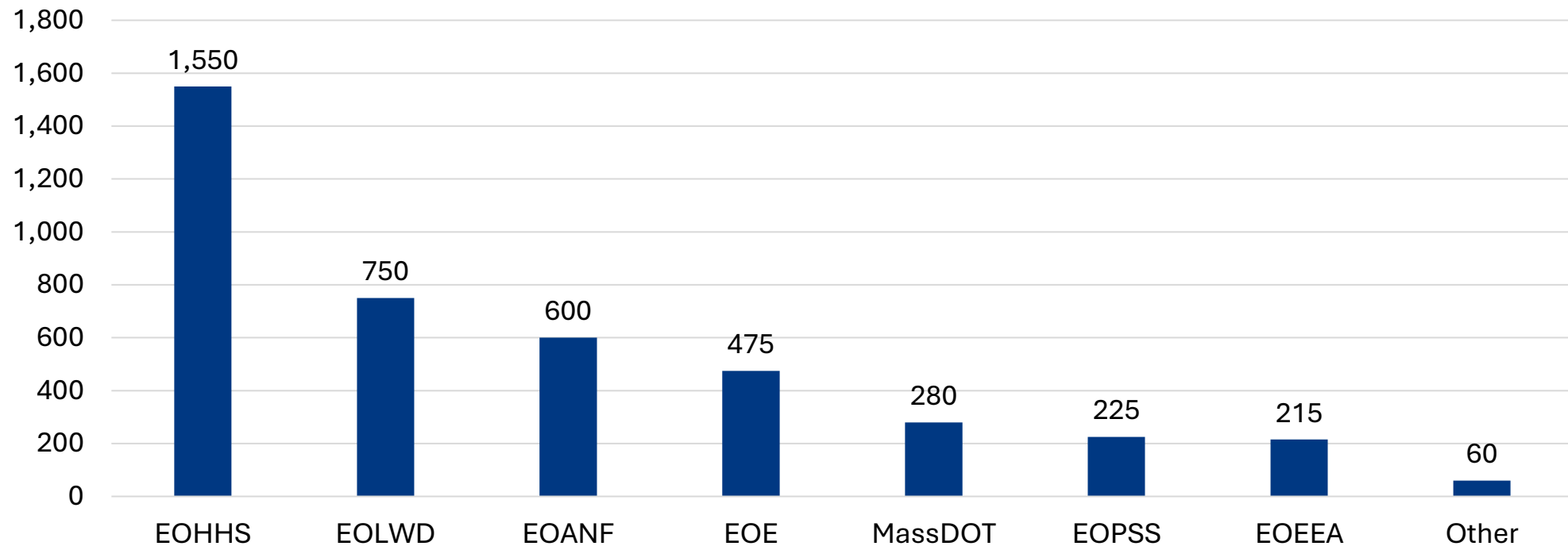
Federal Funds as a Share of CIP Expected Spending



Federal Funds Support than 4K State Workers

According to the state's most recent information statement, there are approximately 46,000 executive branch employees. **Of those, close to 10 percent are supported through federal grants or state trust/capital dollars.**

Federally Supported Employees (Approximate)



Federal Programs Directly Affect Cities, Towns & Schools

Myriad federal grant programs provide resources to municipal budgets too. Largely related to education, public safety, and infrastructure, the several major programs listed below provide **more than \$1.1 billion to communities each year.**

Program	Description	Recent Funding Level
Title I	Grants to school districts based on share of low-income students	\$272.8
IDEA	Special Education Support	\$302.4
School Lunch & School Breakfast	Meal support for income eligible students	\$396.7
Safe & Clean Drinking Water	Federal funds for water infrastructure improvements	\$162.5

A photograph of a city skyline at dusk, featuring several tall skyscrapers with illuminated windows. The sky is a pale blue, and the water in the foreground reflects the city lights. A dark blue semi-transparent rectangular box is overlaid on the lower half of the image, containing the text in yellow.

Areas of Potential Impact: Private & Non-Profit Sectors

Federal Impact Rubric: The Private & Non-Profit Sectors

The application of the federal impact rubric below demonstrates the potential scope of federal action on the non-profit and private sector in Massachusetts.

A direct impact would be the reduction in NIH funding for Massachusetts institutions. An indirect impact could include delays in reaching state climate goals due to the amendment or termination of offshore wind leases.

	Trump Administration	Congress
Direct	Example: <i>Reductions in NIH indirect spending</i>	Example: <i>Tax liability changes due to TCJA extension</i>
Indirect	Example: <i>Reduced labor supply due to immigration policy changes</i>	Example: <i>Changes in demand related to cuts to federal programs</i>

Private & Non-Profit Sector Impacts

What follows is a brief survey of ways federal policies impact Massachusetts outside of the public sector. Future publications will examine areas of impact in greater detail, but the charts in this section will demonstrate:

- **Massachusetts ranks 3rd among all states for total amount of NIH research funding** received from the federal government and is 1st on a per capita basis.
- **Canada, Mexico, and China are Massachusetts' three largest trading partners**, providing more than \$10 billion in imports – highlighting the potential economic fallout of proposed tariffs.
- New and emerging industries in Massachusetts, like **ClimateTech, stand to be disproportionately impacted by federal action**, threatening the state's long-term climate goals.

This survey is not exhaustive but is intended to be illustrative of federal impacts on the public sector.

Proposed NIH Changes Would Affect 70% of NIH Grants in MA

Massachusetts institutions received \$3.5 billion in NIH research funding in 2024, through 5,783 awards. Based on total award amount, Massachusetts ranked third among all states.

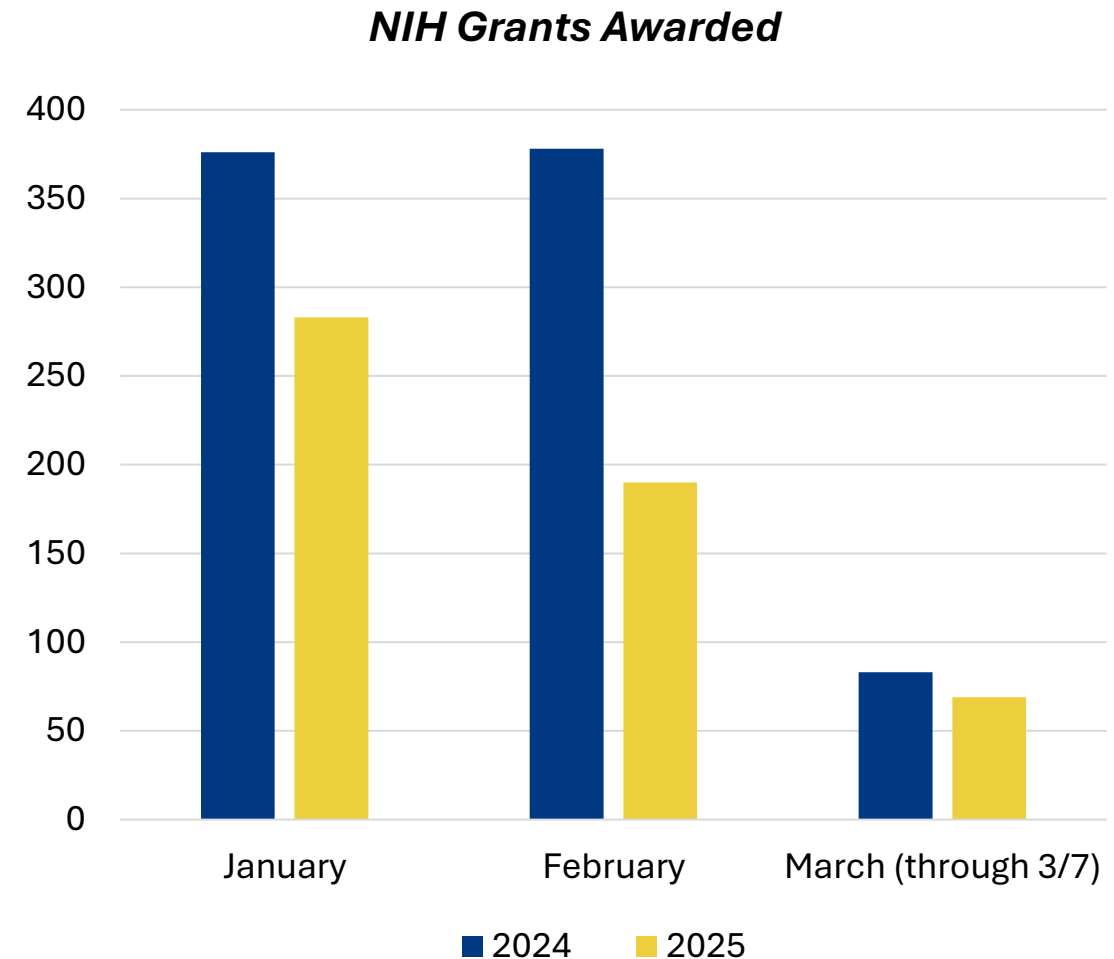
On a per capita basis, Massachusetts would rank first. **In early February, NIH announced that indirect rates for grants would be reduced to 15 percent.** Indirect rates average 24% nationally but vary widely by institution.

NIH Funded 2024 Projects in MA	5,782
Projects with Direct/Indirect Breakdown	5,531
Median Indirect Rate	28%
Median Cut to Indirect	46%
Percent of Projects with Indirect Above 15%	70%

The Pace of NIH Approval Is Down Sharply from 2024

While the Trump Administration's indirect policy change is considered by the courts, the pace of NIH grant award announcements in Massachusetts appears to be down sharply

Between the start of the year and early March, NIH grant awards are down around 30 percent over the prior year's pace. While this year to year difference could be the result of a number of factors, it raises concerns that NIH processes, as well as policies, could negatively affect research in the state.



Tariffs on Canada, Mexico & China Alone Could Cost MA Consumers \$1 Billion

The Trump Administration has aggressively pursued tariffs. Tariff action began with Canada, Mexico, and China, which provide one quarter of all imports to Massachusetts. Those countries' six largest import sectors comprised more than \$10 billion in 2023 – **64 percent of all imports from those countries**. Sectors range from energy, to food, medical equipment. The table below, assumes that half of the proposed tariff would come at a cost to the Massachusetts economy.

Industry	Importer	Value	Half of Tariff
Fuel & Energy	Canada	\$3,690.9	\$184.5
Electric Machinery	Mexico	\$2,686.6	\$335.8
Seafood	Canada	\$1,377.3	\$172.2
Precious Metals	Canada	\$985.1	\$123.1
Optic/Photo/Medical Instruments	Mexico	\$818.2	\$102.3
Electric Machinery	China	\$600.5	\$30.0
Total		\$10,158.6	\$948.0

Trade Partners Impacted by Tariffs Account for 24% of MA Imports

Canada, Mexico and China are responsible for one quarter of all imports into Massachusetts, **with an annual value topping \$20 billion.**

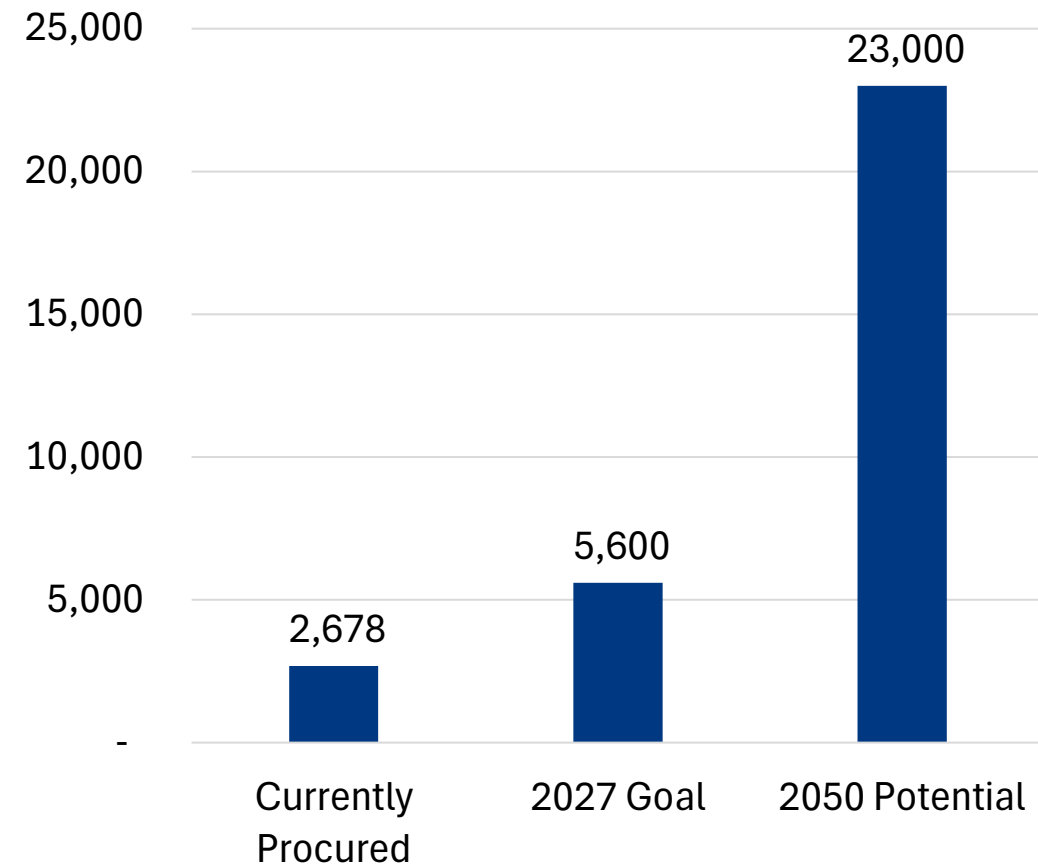
Country	Import Value	Share of Imports
Canada	\$11.6	13.7%
Mexico	\$4.3	5.2%
China	\$4.3	5.2%
Total	\$20.2	24.0%

Federal Wind Energy Policy Changes Will Impact MA

Massachusetts' 2022 Clean Energy & Climate Plan for 2025 cited the need for 23 GW in offshore wind by 2025 to meet emissions goals.

Soon after taking office, the Trump Administration released an Executive Order indefinitely withdrew the Outer Continental Shelf from new or renewed energy leasing and **required the DOI to review all existing energy leases and assess the economic and environmental necessity of terminating or amending existing wind energy leases.**

Offshore Wind in Massachusetts



A photograph of a city skyline at dusk or dawn. The sky is a pale blue-grey. Several skyscrapers are visible, with their windows glowing with warm yellow and orange light. The buildings are reflected in the water in the foreground. A dark blue semi-transparent banner is overlaid across the middle of the image, containing the text.

Areas of Potential Impact: MA's Broader Economy

Broader Economic Impacts

The prior sections highlighted some of the direct and indirect impacts that federal actions will have on the public, non-profit, and private sectors. However, many federal funding or policy decisions will have cross-sectional effects, as well as impacts on Massachusetts broader economy.

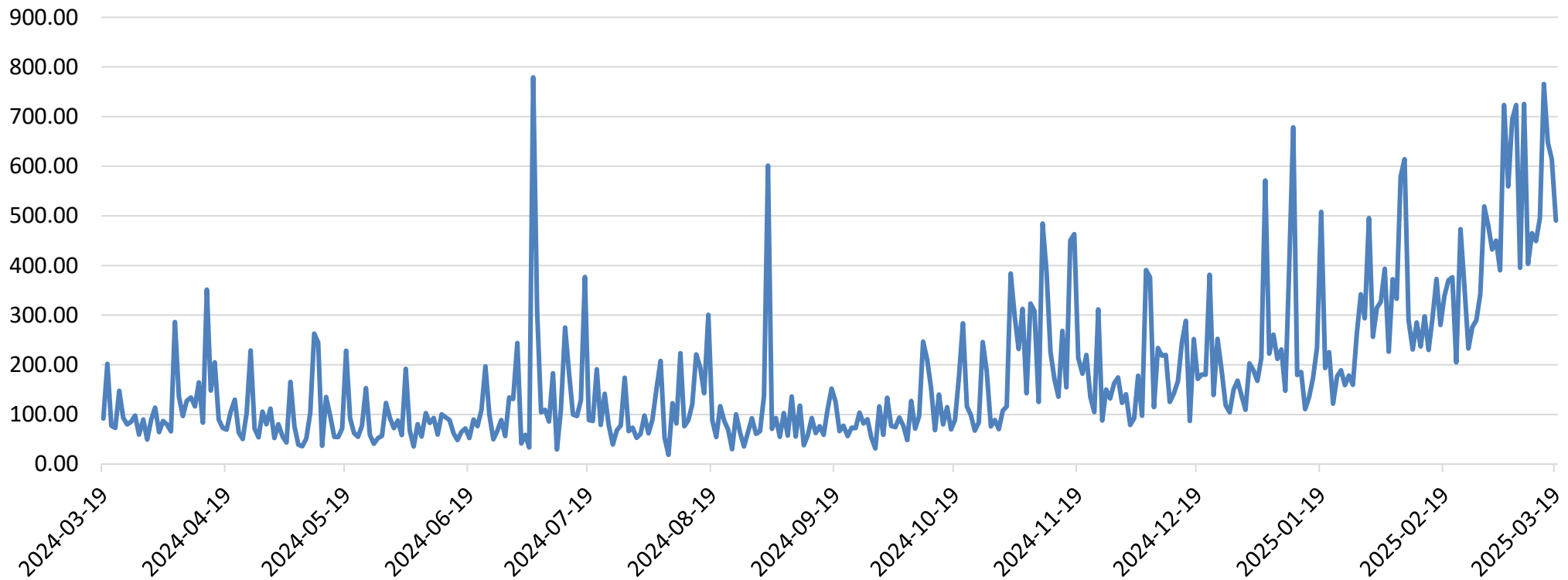
What follows is a brief survey of ways federal policies may impact the broader Massachusetts economy. Future publications will examine areas of impact in greater detail, but the charts in this section will demonstrate:

- **Economic anxiety, as measured by the St. Louis Fed, is on the rise.**
- **Employment in Massachusetts is highly correlated with the national economy**, and any national downturn that result from federal policy decisions will negatively affect the state.
- **International immigration has been a key driver of population and labor force growth over the last two decades.** A spike in immigration over the last two years has brought Massachusetts to its highest working age population in more than 20 years.
- **Recent Moody's projections predict a sharp drop in international immigration in the coming years** as a direct result of President Trump's immigrant policy proposals.

Economic Uncertainty is On the Rise

The St. Louis Fed publishes a daily Economic Policy Uncertainty Index for the US. **The metric has risen steadily over the past year.**

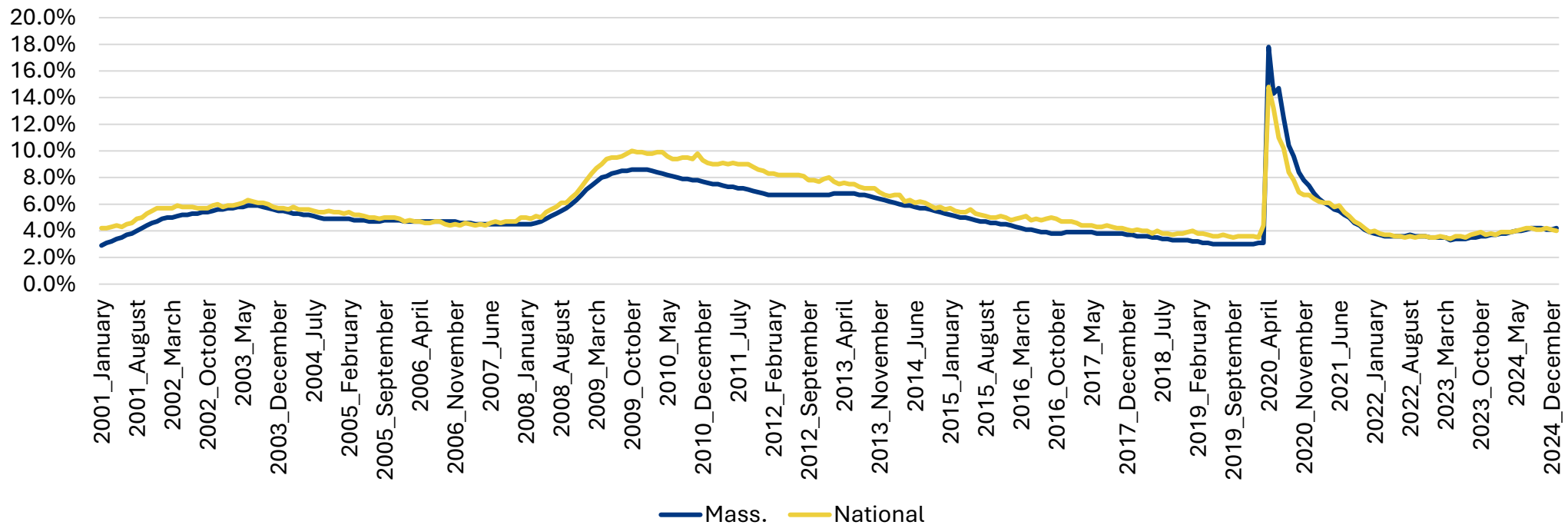
St. Louis Fed Economic Uncertainty Index - March of 2024 to March of 2025



MA & National Employment are Highly Correlated

The Massachusetts economy is inextricably tied to the national economy and while our economic composition differs in notable ways, there are far more similarities than differences. Over the last 25 years, the rate of unemployment in Massachusetts is almost indistinguishable from that of the nation. **As the national economy goes, so goes Massachusetts.**

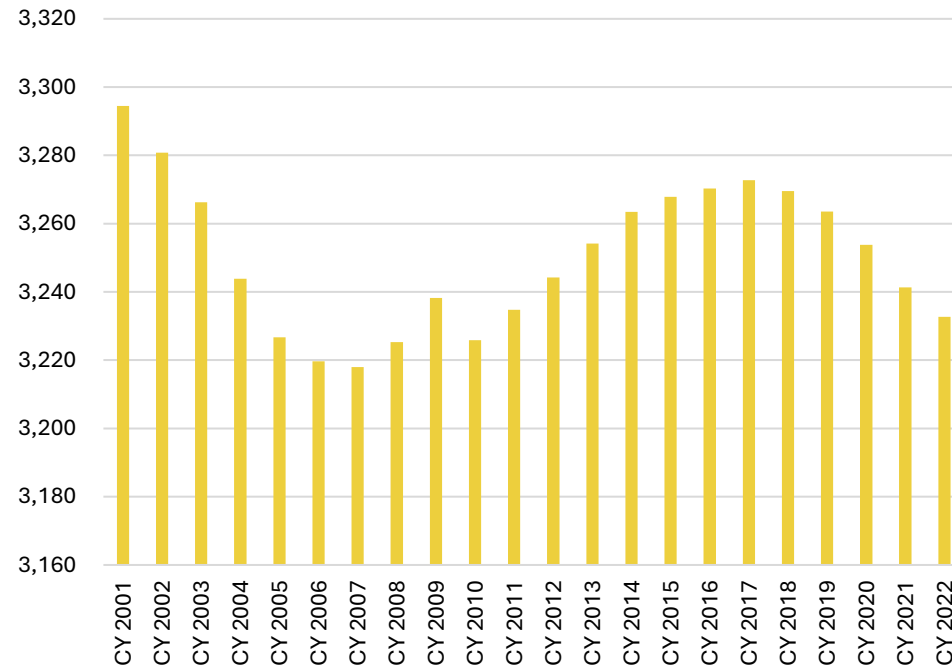
Unemployment Rates, 2001 - 2025



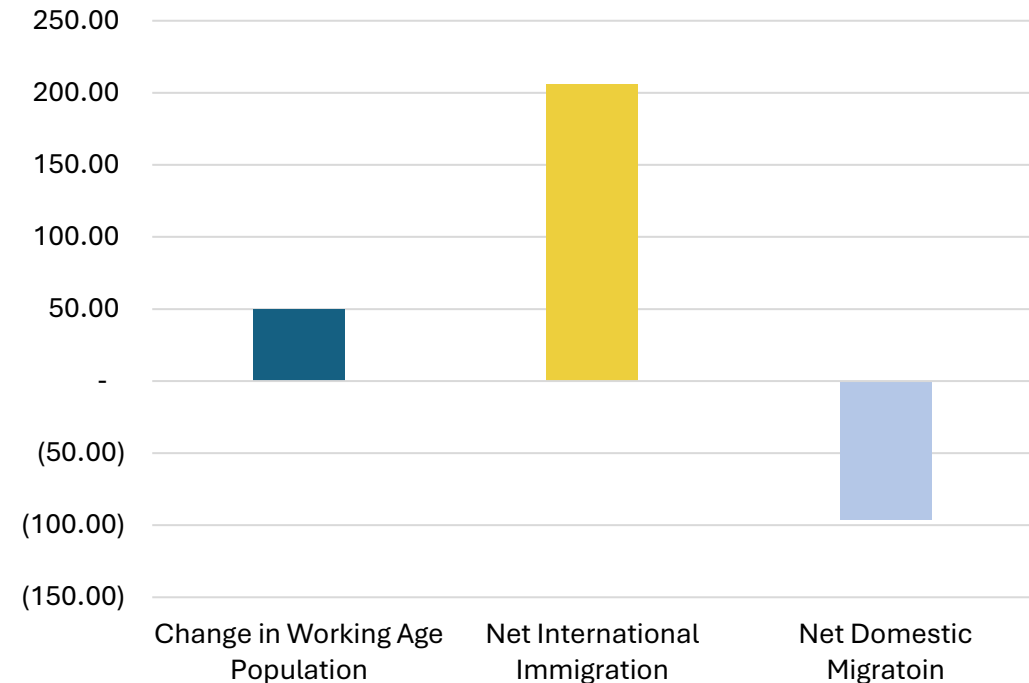
International Immigration is Key to the State's Labor Force

Massachusetts' working age population has declined since 2001. **In that time international immigration has been the primary driver of population growth, mitigating further labor force decline.** Between 2022 and 2024, a surge in international immigration brought the state's working age population close to 2001 levels.

MA 20-54 Population, 2001 to 2022



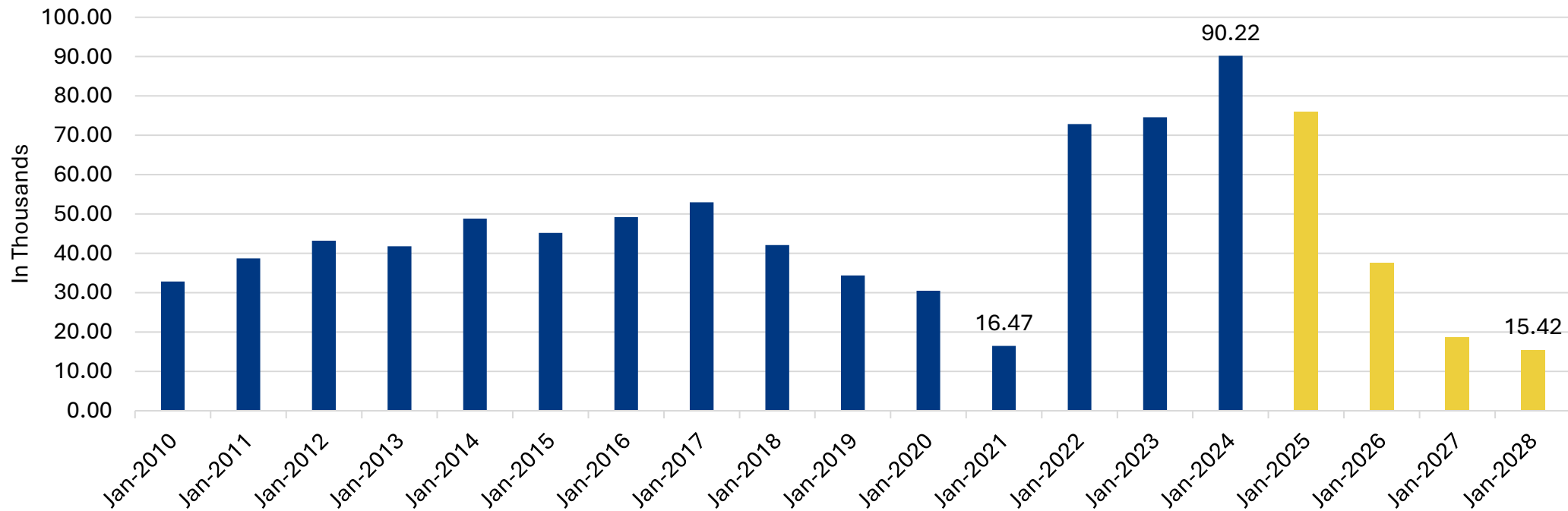
Changes Between 2022 and 2024



Recent Projections Predict a Sharp Drop in MA Immigration

Moody's latest projections now predict **international immigration to MA falling by more than 80 percent over the next four years**

Moody's Analytics International Immigration Forecast through 2028
Updated March 14, 2025





Looking Ahead

4 Things to Watch in the Months Ahead

- **National and state economic trends.** A downturn in the economy would have broad negative impacts on state finances, the non-profit and private sectors, and all communities.
- **Trump Administration actions on research funding and higher education.** Massachusetts' unique strengths – an innovation economy built on research and the higher education sector that supports it have been early targets for federal action. Negative policy changes in these areas have a disproportionate impact on Massachusetts.
- **Congressional action on the FFY 2026 budget.** Spending decisions in Congress' 2026 spending bills could have a major effect on the state budget and state residents. Early proposals appear to assume major cuts in areas like Medicaid.
- **State federal response efforts.** Policymakers are attempting to act in a vacuum of information. Creating a structure to coordinate thoughtful responses to both federal changes and economic realities is critical.

Congressional Budget Timing

In March, the House and Senate passed a continuing resolution to maintain 2025 budget funding through September. Attention now turns to the 2026 budget process:

- **President Trump has still not filed his budget** - Indications are it will be filed in April or even May
- **Both branches must agree on one 2026 budget resolution to move forward with budget reconciliation process** – The initial Senate and House approaches are vastly different, with the House version including significant spending cut targets to offset the cost of extending tax reform. Theoretically the resolution is supposed to be completed by April 15th, but this timeline is often missed.
- **Reconciliation would allow for budget action with a simple Senate majority** – However, budget reconciliation also includes certain rules, including no net budget impact to policy changes after a given time period (usually ten years) and requiring that new spending fit within given policy assumptions.

Principles for the State Federal Response

Leaving the Administration, House, and Senate to independently develop their own federal response strategies is a recipe for incoherent, ineffective, and potentially counterproductive proposals.

To ensure that all branches are working together to navigate a fluid and fast-changing situation, the state must create a structure to:

- **Share information and monitor policy and economic changes**
- **Assess options**
- **Coordinate actions**

MTF recommends that:

- **Each branch deputize a point person for a State Federal Response Team**
- **The team also include a small number of public finance/economic experts**
- **The group would provide a central point of information and coordination to recommend policy responses to changing State/Federal and economic conditions.**