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MTF Bulletin

April 16, 2025

House Ways & Means Fiscal Year 2026 Budget

The House Ways and Means (HWM) committee released its Fiscal Year (FY) 2026 budget proposal earlier today; a spending plan that totals \$61.5 billion, \$3.7 billion (6.4 percent) more than the FY 2025 General Appropriations Act (GAA) and \$580 million (0.9 percent) less than Governor’s Healey’s budget.

Compared to the administration’s budget recommendation, notable spending increases in the HWM proposal are included for K-12 education, emergency food assistance, and supplemental rate increases for nursing homes. These increases are offset by lower spending levels for a variety of programs, including the Emergency Assistance shelter system and local aid for cities and towns. The HWM proposal does not rely on any tax policy changes to generate revenue or support spending.

Additionally, a number of spending items included in the HWM budget are intended to be supplemented by investments included in the House’s version of the [Innovation and Capital Fund supplemental budget](#) passed last week. That bill includes \$1.26 billion in spending supported by excess surtax revenues collected in FY 2023 and FY 2024, of which \$299 million was used to support ongoing costs for a number of programs historically funded in the operating budget.

Budget Overview

The HWM budget includes \$61.5 billion in total spending, a \$3.7 billion (6.4 percent) increase over the FY 2025 GAA and \$580 million (0.9 percent) less than Governor Healey’s recommendation. After accounting for \$7.8 billion in statutorily required transfers and other off-budget spending, the HWM budget includes \$69.3 billion in total spending commitments.

HWM Budget FY 2026 Spending Overview

	FY 2025 GAA	FY 2026 Governor	FY 2026 HWM	\$ v. FY 2025 GAA	% v. FY 2025 GAA
Line-Item Spending	\$55,779.3	\$59,577.3	\$58,997.6	\$3,218.3	5.8%
Surtax Spending	\$1,300.0	\$1,950.0	\$1,950.0	\$650.0	50.0%
Medical Asst. Trust Fund	\$682.2	\$547.6	\$547.6	-\$134.6	-19.7%
B.H. Outreach, Access, Support	\$20.0	\$0.0	\$0.0	-\$20.0	-100.0%
Total Line-Item Spending	\$57,781.5	\$62,074.9	\$61,495.2	\$3,713.7	6.4%
Pre-Budget Transfers	\$7,297.4	\$7,651.0	\$7,651.0	\$353.6	4.8%
Other Off-Budget	\$200.0	\$0.0	\$200.0	\$0.0	0.0%
Total Spend	\$65,258.9	\$69,725.9	\$69,346.2	\$4,087.3	6.3%

\$ in millions

The HWM budget is supported by \$69.7 billion in total revenues, primarily comprised of the non-surtax consensus revenue figure of \$41.214 billion agreed to by the Healey administration, House, and Senate budget leaders in January. It also relies on \$1.95 billion in revenue generated by the income surtax, consistent with the income surtax spending cap also agreed to as part of the consensus revenue process. HWM does not include any of the tax increase proposals included in the Governor’s budget.

The House’s proposal is supported by \$16.1 billion in reimbursements from the federal government and \$10.3 billion in departmental and lottery revenues, as well as transfers. Lastly, the spending plan relies on approximately \$1.5 billion in revenue-generating initiatives, including \$1.3 billion in one-time resources to support spending in FY 2026.

HWM Budget FY 2026 Revenue Overview

	FY 2025 GAA	FY 2026 Governor	FY 2026 HWM	\$ v. FY 2025 GAA	% v. FY 2025 GAA
Total Tax Revenue	\$41,573.6	\$43,317.1	\$42,981.1	\$1,407.5	3.4%
<i>Consensus Tax Agreement</i>	\$40,202.0	\$41,214.0	\$41,214.0	\$1,012.0	2.5%
<i>Cap Gains Diversion</i>	-\$138.4	-\$232.9	-\$232.9	-\$94.5	68.3%
<i>Tax Settlements</i>	\$50.0	\$50.0	\$50.0	\$0.0	0.0%
<i>Charitable Deduction Cap</i>	\$0.0	\$164.0	\$0.0	\$0.0	0.0%
<i>Tax Initiatives</i>	\$160.0	\$172.0	\$0.0	-\$160.0	-100.0%
<i>4% Income Surtax</i>	\$1,300.0	\$1,950.0	\$1,950.0	\$650.0	50.0%
Federal Revenue	\$14,368.6	\$16,067.8	\$16,074.3	\$1,705.7	11.9%
Dept Revenue & Transfers	\$9,361.5	\$10,020.8	\$10,325.4	\$963.9	10.3%
Trust Funds Used	\$400.0	\$321.5	\$339.0	-\$61.0	-15.3%
Stab. Fund Transfer (cap. gains)	-\$124.5	\$0.0	\$0.0	\$124.5	-100.0%
Total Revenue	\$65,579.2	\$69,727.2	\$69,719.8	\$4,140.6	6.3%

\$ in millions

In FY 2026, the HWM budget assumes that the starting balance of the Stabilization Fund will be \$8.23 billion, after accounting for a transfer of interest earned on the fund in FY 2024 into the new Commonwealth Federal Matching and Debt Reduction Fund. It is expected to grow by a further \$133.1 million, ending the fiscal year with a balance of \$8.36 billion.

FY 2026 Stabilization Fund Estimate

	Governor	House
FY 2025 Beginning Balance	\$8,523.6	\$8,523.6
<i>Planned Deposits & Uses</i>	-\$296.3	-\$296.3
<i>FY 2025 Capital Gains Deposit</i>	\$124.5	\$124.5
<i>FY 2025 Interest Transfer</i>	-\$420.8	-\$420.8
FY 2025 Ending Balance	\$8,227.4	\$8,227.4
<i>FY 2026 Capital Gains Deposit</i>	\$133.1	\$133.1
FY 2026 Ending Balance	\$8,360.5	\$8,360.5

\$ in millions

Historically, the largest deposit into the Stabilization Fund is above-threshold capital gains revenue. Under current statute, capital gains tax collections above a certain threshold (\$1.66 billion in FY 2026) are automatically transferred to the Stabilization Fund and other reserves; and in FY 2026, estimated above threshold capital gains collections total \$666 million. However, the HWM budget includes a proposal originally put forward by the Healey administration to adjust the allocation of above-threshold capital gains revenue and direct a greater share of these resources towards the state’s pension and post-retiree benefit liabilities. In total, the HWM budget is supported by approximately \$2 billion in capital gains revenue.

Proposed Redistribution of Above-Threshold Capital Gains Collections

FY 2026 Capital Gains Estimate		\$2,327	
FY 2026 Capital Gains Threshold		\$1,661	
Above Threshold Collections		\$666	
Standard Distribution		Proposed Distribution	
90% to Stab Fund	\$599	20% to Stab Fund	\$133
5% to Pension Fund	\$33	65% to Pension Fund	\$433
5% to State Retiree Benefits	\$33	15% to State Retiree Benefits	\$100

\$ in millions

MTF Key Question: Does the HWM budget adopt the Governor’s proposal to reallocate a greater share of above-threshold capital gains revenue towards the state’s pension and post-retiree benefit liabilities?

Yes. The HWM budget reflects the Healey administration’s proposal to redirect a larger share of above-threshold capital gains revenue towards the state’s Pension Fund and post-retiree benefit liabilities. At the same time, the House continues to build the balance of the Stabilization Fund; depositing \$133 million of above-threshold capital gains revenue and increasing the balance to \$8.4 billion by the end of FY 2026. While using one-time revenues, like above-threshold capital gains revenue, to fund ongoing costs – like the state’s required Pension Fund transfer – should generally be avoided, given the fiscal constraints facing budget writers in FY 2026, this practice is reasonable.

House Ways & Means FY 2026 Budget – 5 Things to Know

- 1. The HWM budget for FY 2026 spends \$580 million less than the Governor, and spending grows by \$3.7 billion (6.4 percent) over the FY 2025 GAA.** Proposed spending increases by \$1.2 billion (2.1 percent) compared to the Healey administration’s estimated spending level for FY 2025. Notably, spending in the House proposal grows by one percentage point (or more than \$500 million) less over the prior year than the Governor’s budget. In FY 2026, spending growth over the prior fiscal year is primarily driven by non-discretionary program costs related to MassHealth, the Group Insurance

Commission, and state aid for public school districts. In the HWM budget, spending for 49 different non-discretionary programs tracked by MTF grows by \$2.8 billion (7.6 percent).

2. **The HWM budget does not make adjustments to the FY 2026 revenue benchmark.** Spending in the HWM budget is predominantly supported by the \$41.214 billion consensus tax revenue figure agreed to in January by the Healey administration, House, and Senate. Due to recent federal actions, legitimate questions have been raised regarding revenue assumptions and if it is appropriate to amend expectations for FY 2026. As detailed below, we strongly recommend that policymakers view all budget decisions within the context of federal action and economic uncertainty, but hold on adjusting the revenue benchmark until June, as this will provide additional data on state revenue collections, the federal budget and the broader economic picture.
3. **The House’s spending bill does not include any new tax revenue, while relying on \$1.3 billion in one-time revenue generating initiatives to support spending.** To support spending, the HWM budget taps \$1.3 billion in trust fund and other one-time resources. This level of one-timers is essentially equal to the amount used in the Governor’s budget. As MTF has written previously, an increasing reliance on temporary resources to support ongoing spending can create long-term challenges for the structural balance of the budget and should be closely monitored. Compared to the FY 2025 GAA, one-time revenues used to support spending increase by \$305 million in the HWM budget.
4. **Surtax spending in the operating budget is divided between education (\$1.185 billion, 61 percent) and transportation (\$765 million, 39 percent) in the HWM budget.** When this spending is considered alongside the Innovation and Capital Fund supplemental budget passed by the House last week, the division of surtax resources between the education and transportation sectors is essentially equal. Notably surtax spending items in the HWM operating budget proposal include:
 - \$360 million to support the Childcare Stabilization Grant program, known as C3. When this funding is combined with \$115 million made available from the Early Education Care Operational Grant Fund, total funding for the program reaches \$475 million.
 - \$240 million to support Chapter 70 state aid costs in FY 2026 and increase the minimum aid per pupil aid amount to \$150 per student (compared to \$75 in the Governor’s budget).
 - \$190 million for the continuation of the Universal School Meals program.
 - \$765 million for a transfer to the Commonwealth Transportation Fund, which is redirected towards: \$500 million for the MBTA, \$110 million for Regional Transit Authorities, and \$55 million for the Department of Transportation.
5. **The HWM budget is light on new policy proposals.** The HWM budget includes 80 policy sections, compared to 138 in Governor Healey’s budget. Of the HWM sections, 72 are also found in the Governor’s budget. Notable new HWM policies include a temporary freeze on any changes to vocational school admissions policies and a proposal to allow municipalities to convert limited liquor licenses into full liquor licenses.

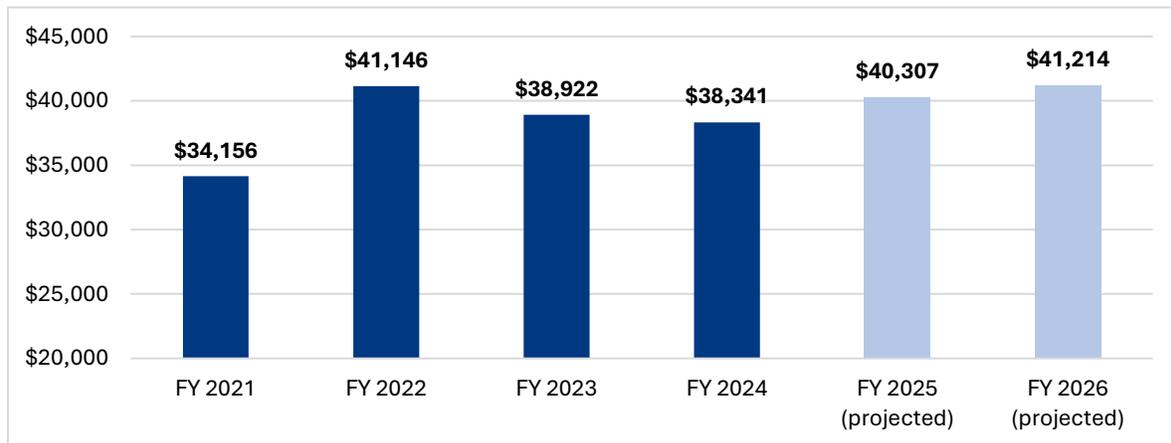
FY 2026 Budget Revenues

The HWM budget relies on \$69.7 billion in total state revenues. To assess the resources used by the House to support spending in FY 2026, this brief organizes them into five categories: (1) baseline tax revenues, (2) income surtax revenues, (3) revenue initiatives, (4) non-tax revenues, and (5) trust fund resources.

Baseline Tax Revenues

The revenue foundation for the HWM budget is the \$41.214 billion consensus tax revenue estimate agreed to in January by the Healey administration, House, and Senate. In FY 2026, non-surtax revenues are expected to grow by \$907 million (2.25 percent) over projected FY 2025 collections of \$40.307 billion.

FY 2021 – FY 2026 Actual & Projected Tax Revenue Projections (non-surtax)



\$ in millions

Adjusting Revenue Expectations for FY 2026

Over the last several months, federal actions have increased economic uncertainty and significantly impacted the relationship between the federal government and the public, non-profit, and private sectors. As a result, questions have been raised regarding the impacts of federal action on the state budget and the broader Massachusetts economy; including if it is appropriate to make adjustments to revenue assumptions for FY 2026.

While MTF continues to urge policymakers to consider all spending and revenue decisions within the context of what is taking place at the federal level, there are several reasons why waiting until June to make any adjustments to the revenue benchmark is advisable.

- **FY 2025 revenue collections remain uncertain.** To date, revenue collections in FY 2025 are ahead of benchmark by \$786 million and growth over FY 2024 exceeds seven percent. The majority of this growth is in the non-withheld income tax category and is likely attributable to capital gains and income surtax collections. Both of these revenue sources are highly correlated to the performance of the stock market and are therefore most likely to see the greatest losses as a result of certain

federal action, like the imposition of tariffs. However, it may take a few months for those losses to be realized and the state will not have a complete sense of how they impact FY 2025 revenue collections until July.

- **Broader economic trends will be better understood over time.** In the days immediately following the Trump administration’s tariff announcement, the stock market plummeted and a surge in the sell-off of government-backed bonds prompted the administration to reverse course. The long-term economic impacts of the tariffs are still unknown, but this cycle of announcement and aftermath may play out with each new federal action. Ultimately, the effects of each action on the broader economy and Massachusetts revenue collections, more specifically, will be challenging to forecast in the short-term.
- **The federal budget process may result in even greater losses to the state budget.** Spending decisions in the Federal Fiscal Year (FFY) 2026 budget could have major effects on the state budget, particularly proposals to make significant cuts to Medicaid. In FY 2026, the state budget will rely on more than \$14 billion in federal reimbursement related to MassHealth spending. A reduction in those revenues would require a budget adjustment and more detailed information on the federal budget will not be available until July.

Across each of the factors described above, a common theme emerges: in a matter of weeks, more relevant information will be available for policymakers than they have at their disposal right now. By monitoring the impacts of federal action now, budget-makers will be in a better position to take decisive action on any revenue or spending adjustments in June, prior to the start of the new fiscal year.

Pre-Budget Transfers

The consensus tax revenue agreement also includes four “pre-budget” transfers to the Workforce Training Trust Fund, the Pension Fund, the MBTA, and the School Building Authority (SBA) totaling \$7.65 billion, not including the deposit of excess capital gains revenue into the Stabilization Fund and other reserves. This represents an increase of \$340 million over the transfers expected in FY 2025, primarily driven by the increase in the state’s transfer to the Pension Fund.

FY 2026 Consensus Tax Revenues for Budget

	FY 2025 GAA	FY 2026 - Governor	FY 2026 – HWM	HWM v. FY 2025
Consensus Tax Revenues	\$40,202	\$41,214	\$41,214	\$1,012
<i>Workforce Training Trust Fund</i>	-\$27	-\$27	-\$27	\$0
<i>School Building Authority</i>	-\$1,312	-\$1,265	-\$1,265	-\$47
<i>MBTA</i>	-\$1,472	-\$1,426	-\$1,426	-\$46
<i>Pension Fund</i>	-\$4,500	-\$4,933	-\$4,933	\$433
<i>Capital Gains Transfer</i>	-\$138	-\$666	-\$666	\$528
Pre-Budget Transfers (excl. Cap. Gains)	-\$7,311	-\$7,651	-\$7,651	\$340
CR Taxes Remaining for Budget	\$32,753	\$32,897	\$32,897	\$144

\$ in millions

After accounting for these pre-budget transfers, as well as the transfer of excess capital gains tax revenue, the HWM budget relies on \$32.9 billion in base tax revenues for state budget spending, the same amount as the Governor’s budget.

Income Surtax Revenue

The HWM budget relies on \$1.95 billion in revenue generated by the 4 percent surtax on income over \$1 million, consistent with the consensus revenue agreement and the Governor’s budget. As statutorily required, these resources are divided between education (\$1.185 billion, 61 percent) and transportation (\$765 million, 39 percent).

Proposed Uses of Income Surtax Revenue in the HWM Budget

	FY 2025 GAA	FY 2026 Governor	FY 2026 HWM	% of Total (HWM)
Education	\$762	\$1,185	\$1,185.0	60.77%
<i>Early Education</i>	\$278	\$373	\$428	21.9%
<i>K-12 Education</i>	\$245	\$475	\$515	26.4%
<i>Higher Education</i>	\$239	\$337	\$242	12.4%
Transportation	\$539	\$765	\$765.0	39.23%
<i>MBTA</i>	\$261	\$500	\$500	25.6%
<i>MassDOT</i>	\$123	\$155	\$155	7.9%
<i>RTAs</i>	\$110	\$110	\$110	5.6%
<i>Local/Pilot Program</i>	\$45	\$0	\$0	0.0%
Total Investments	\$1,300	\$1,950	\$1,950	100%

\$ in millions

Last week, the House passed its version of the Innovation and Capital Fund supplemental budget that appropriated \$1.26 billion in excess surtax revenues collected in FY 2023 and FY 2024. The surtax spending in the HWM budget should be viewed alongside many of those investments. When the two spending bills are assessed together, surtax resources are divided evenly between the education and transportation sectors.

Additional details on the House’s version of the Innovation and Capital Fund Supplemental Budget can be found [here](#).

Income Surtax Spending, HWM Budget & Innovation and Capital Fund Supplemental Budget

	FY 2026 - HWM	Fair Share Supp	Total	% of Total
Education	\$1,185	\$405	\$1,590	50%
<i>Early Education</i>	\$428	\$55	\$483	15%
<i>K-12 Education</i>	\$515	\$327	\$842	26%
<i>Higher Education</i>	\$242	\$23	\$265	8%

(table continued below)

	FY 2026 - HWM	Fair Share Supp	Total	% of Total
Transportation	\$765	\$857	\$1,622	50%
<i>MBTA</i>	\$500	\$793	\$1,293	40%
<i>MassDOT</i>	\$155	\$0	\$155	5%
<i>RTAs</i>	\$110	\$25	\$135	4%
<i>Local/Pilot Program</i>	\$0	\$39	\$39	1%
Total Investments	\$1,950	\$1,262	\$3,212	

\$ in millions

Across the HWM budget and the supplemental spending bill, several spending themes emerge:

- **Addressing the MBTA’s Operating Budget Deficit** – The House adopts several of the key components of Governor Healey’s transportation finance strategy, particularly related to the MBTA. In their FY 2026 budget proposal, the House proposes to increase operating support for the MBTA to \$687 million. In the supplemental budget, the House approved \$790 million in MBTA-related spending, including proposals to replenish deficient reserves and address workforce and safety challenges. When combined, this funding is intended to close the authorities projected operating budget deficits through FY 2028.
- **Offsetting Operating Costs with Surplus Surtax Revenues** – Through the Innovation and Capital Fund supplemental budget, the House was able to provide additional support to several programs historically funded through the operating budget, including the Special Education Circuit Breaker, Regional School Transportation, and a reimbursement rate increase for center-based and family child care early education and care providers. While the availability of surplus surtax revenues makes these investments possible for FY 2026, policymakers should remain aware that these resources are not guaranteed in future fiscal years and these program costs will need to be reabsorbed by the operating budget.
- **Maintaining Key State Commitments** – Surtax spending in the HWM budget and the Innovation and Capital Fund supplemental budget demonstrates the House’s commitment to maintaining several key commitments, including C3 Childcare Stabilization Grants and the continued implementation of the Student Opportunity Act.

MTF Key Question: Does the HWM budget divide income surtax-supported spending evenly between the education and transportation sectors?

Assessed wholistically, surtax spending across the HWM budget proposal for FY 2026 and the Innovation and Capital Fund supplemental budget is evenly divided between the education and transportation sectors. As MTF has highlighted in previous work, achieving a 50/50 division for education and transportation surtax-supported spending should be accomplished through the operating budget and supplemental spending bills. This will ensure that each sector is receiving its fair share of resources, as well as the resources most appropriate to meet their distinct needs.

Revenue Initiatives

To support spending in FY 2026, despite a constrained tax revenue outlook, the HWM budget includes \$1.5 billion in revenue solutions, many of which were originally proposed by Governor Healey.

- **COVID Recovery Recoupment** (\$200 million) – The House’s proposal includes an outside section that allows for up to \$200 million in COVID-era recovery appropriations, which remain unexpended, to revert to the General Fund in FY 2026. This outside section language mirrors the proposal put forward by the Healey administration.
- **Gaming Fund Revenues** (\$100 million) – The House adopts an outside section, also included in the FY 2025 GAA and by Governor Healey, which would redirect approximately \$100 million in gaming tax revenues from off-budget trusts to the General Fund.
- **Other Department & Trust Initiatives** (\$425 million) – The HWM budget assigns approximately \$425 million in revenue to several one-time revenue sources, possibly related to trusts and other departmental initiatives.

The HWM budget does not rely on tax policy changes to generate revenue or support spending in FY 2026.

Revenue Generating Initiatives in the HWM Budget

Initiative	FY 2026 Governor's Budget	FY 2026 HWM Budget
Total Tax Initiatives	\$379.0	\$0.0
<i>Charitable cap</i>	\$164.0	\$0.0
<i>Securities change</i>	\$40.0	\$0.0
<i>Out of State Business</i>	\$35.0	\$0.0
<i>Non-resident Income</i>	\$29.0	\$0.0
<i>Candy sales tax</i>	\$25.0	\$0.0
<i>Pharmacy Tax</i>	\$60.0	\$0.0
<i>Other Tax</i>	\$26.0	\$0.0
Capital Gains Diversion	\$466.2	\$466.2
Trust Funds	\$346.5	\$339.0
COVID Recoupment	\$200.0	\$200.0
Gaming Redirect	\$100.0	\$100.0
Other Initiatives	\$450.0	\$425.0
Total Initiatives	\$1,941.7	\$1,530.2

\$ in millions

MTF Key Question: What level of revenue-generating initiatives is relied upon to support spending in the HWM budget, and does the House proposal reflect any tax policy changes?

The HWM budget does not include any of Governor Healey's tax proposals while relying on approximately \$1.5 billion in other revenue-generating initiatives and one-time solutions to support spending in FY 2026. Nearly all of the proposals reflected in the HWM budget were originally put forward by Governor Healey, including initiatives to divert above-threshold capital gains revenue towards the Pension Fund, recoup \$200 million in COVID-era appropriations that remain unexpended, redirect certain gaming revenues onto the budget, and maximize several other trust funds and departmental initiatives.

Non-Tax Revenues

The HWM budget is supported by \$27.98 billion in revenues related to non-tax sources.

Departmental & Federal Revenue

In addition to revenue generated from taxes and other 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 in the HWM budget include:

- **State Medicaid Reimbursements** (\$14.2 billion) – Massachusetts receives significant reimbursement for spending on the state's Medicaid program, known as MassHealth. In FY 2026, the HWM budget assumes that the state will collect \$14.2 billion in state Medicaid reimbursement, essentially the same as the assumption reflected in the Governor's budget in spite of several spending differences.
- **Gaming** (\$639.1 million) - The HWM budget assumes \$639.1 million in revenue associated with gaming, which is an increase over the administration's assumption. It is not yet clear what is underlying difference in the estimate.
- **Lottery** (\$1.2 billion) – Net profits from the Lottery are assumed to be \$1.2 billion in FY 2026, a \$336 million decrease from the level expected in the FY 2025 GAA. This decrease is primarily due to the fact that iLottery revenues are not dedicated to an off-budget trust, but it also reflects a more conservative estimate of underlying lottery revenues.

Trust Fund Resources

Included in the revenue generating initiatives detailed above, the HWM budget also relies on \$339 million in trust fund resources to support spending in FY 2026.

- *Student Opportunity Act Investment Fund* (\$207 million) – The HWM budget utilizes \$207 million from the SOA Investment Fund to support the costs of Chapter 70 state aid to public school districts in FY 2026. In FY 2026, the beginning balance of the trust fund was estimated to be slightly than \$500 million, leaving nearly \$300 million remaining in the fund heading into the final year of SOA implementation.

- *Early Education and Care Operational Grant Fund (\$115 million)* – To support the costs of the C3 Childcare Stabilization Grant program in FY 2026, the HWM budget uses \$115 million from the EEC Operational Grant Fund. This trust fund was created in the FY 2025 GAA to hold revenues generated from an online lottery, it was also capitalized with \$150 million in excess surtax revenues collected in FY 2024. After accounting for this proposed spending, the balance of the fund would be \$35 million at the end of FY 2026.
- *High-Quality Early Education & Care Affordability Fund (\$17 million)* – The HWM budget proposes using the remaining \$17 million in the EEC Affordability Fund to support the Healthy Families Massachusetts program, administered by the Children’s Trust Fund.

One-Time v. Ongoing Revenue Sources

The FY 2025 budget signed into law by Governor Healey last July relied upon an estimated \$1.16 billion in new one-time and ongoing revenue sources to support spending, of which \$975 million were available for only one fiscal year. In FY 2026, the amount of one-time revenue solutions that the HWM budget uses to balance spending totals \$1.28 billion.

This level of one-timers is \$8 million less than the Governor’s budget, which utilized approximately \$1.3 billion in temporary resources.

FY 2026 v. FY 2025 One-Time Revenue

Proposal	FY 2025 GAA	FY 2026 - Governor	FY 2026 - HWM
Tax Amnesty Program	\$100	\$0	\$0
High-Quality EEC Trust Fund	\$200	\$0	\$17
EEC Operational Grant Fund	\$0	\$115	\$115
Student Opportunity Act Investment Fund	\$200	\$207	\$207
Behavioral Health Trust Fund	\$0	\$0	\$0
COVID Grant Recoupment	\$0	\$200	\$200
Above Threshold Capital Gains	\$375	\$466	\$466
Other One-Timers	\$0	\$200	\$175
Gaming Fund Redistribution	\$100	\$100	\$100
Total One-Time Revenues	\$975	\$1,288	\$1,280

\$ in millions

In every fiscal year, some amount of one-time revenues is used to balance spending; and given the challenges facing budget writers in FY 2026, the level of temporary revenues assumed by the Governor or HWM budget is not unreasonable. However, monitoring trends in the use of one-time resources to support spending is important and limiting the state’s reliance on them is critical for our long-term fiscal health. Between FY 2025 and FY 2026, the amount of one-time revenues used in the state budget is projected to grow by about 33 percent; which means the budget’s structural deficit essentially increases by one-third.

FY 2026 Budget Spending

The HWM budget proposal for FY 2026 includes \$61.5 billion in line-item spending, a \$3.7 billion (6.4 percent) increase over the FY 2025 budget signed into law last July and \$580 million (0.9 percent) less than the bill filed by Governor Healey in January.

Excluding surtax-supported spending and a transfer to the Medical Assistance Trust Fund, spending totals \$58.99 billion, a \$3.2 billion (5.7 percent) increase over the prior year.

A major theme that has emerged in the FY 2026 budget development process is the impact of non-discretionary program cost increases on overall state spending trends. In the HWM budget, spending for non-discretionary items – including those related to MassHealth, the Group Insurance Commission, or Chapter 70 state aid – grows by \$2.8 billion (7.6 percent). Comparatively, spending for discretionary programs increases by \$914.9 million (4.4 percent).

Spending Growth in FY 2026, Discretionary v. Non-Discretionary Programs

Fiscal Year	FY 2025 GAA	FY 2026 - Governor	FY 2026 HWM	\$ HWM v. FY 2025 GAA	% HWM v. FY 2025 GAA
Discretionary	\$20,789.75	\$22,056.85	\$21,704.63	\$914.88	4.4%
Non-Discretionary	\$36,991.72	\$40,018.05	\$39,790.57	\$2,798.84	7.6%
Total Spending	\$57,781.47	\$62,074.90	\$61,495.20	\$3,713.73	6.4%

\$ in millions

MassHealth & Healthcare

MassHealth

The largest category of spending in the state’s operating budget is MassHealth, totaling \$22.43 billion and representing 36.5 percent of all line-item spending in the HWM budget proposal. Compared to spending projections for FY 2025, gross state spending on MassHealth is expected to increase by \$874 million (4.1 percent). Compared to the FY 2025 GAA, MassHealth spending grows by \$2.36 billion (11.8 percent).

FY 2026 MassHealth Spending & Federal Reimbursement in the HWM Budget

	FY 2025 GAA	FY 2025 Est. Spending	FY 2026 - Governor	FY 2026 - HWM
Federal Reimbursement Share	\$12,410	\$13,303	\$14,212	\$14,212
<i>% of Total Spending</i>	61.8%	61.7%	62.9%	63.4%
State Share	\$7,660	\$8,256	\$8,387	\$8,221
Total MassHealth Spending	\$20,070	\$21,559	\$22,599	\$22,433

\$ in millions

The HWM budget reduces MassHealth spending by \$166 million compared to the Governor’s budget. The spending reductions compared to the administration are concentrated in two line-items – MassHealth Fee-for-Service (\$176.6 million reduction) and MassHealth Senior Care (\$19.6 million reduction) – and are offset by a \$30 million increase in nursing home rates compared to the Governor. Even with this significant reduction in spending, MassHealth remains the primary driver of cost increases in the HWM budget, representing 63.6 percent of new budgeted spending compared to the FY 2025 GAA. As MTF has [written](#) about previously, spending increases for MassHealth programs in FY 2026 are a function of several factors: program underfunding in FY 2025, member enrollment and acuity trends, and cost increases related to utilization, labor, and policy changes.

It is not clear from the HWM budget what assumptions underlie the \$196.1 million in reductions to Fee-for-Service and Senior Care. There are several line-item language changes from the HWM FY 2025 budget proposal, though they do not appear to be associated with significant cost savings. HWM did add language to the Senior Care item requiring any pharmacy benefit management services contracted through the program provide information on pricing and revenue related to the contract. No material language changes appear in the Fee-for-Service item compared to the FY 2025 House Ways and Means budget. It does not appear that the House reduces assumed federal revenue in connection with the reductions.

In addition to spending levels, the HWM budget differs from the Governor’s budget on several notable health care policy proposals as well:

Related to MassHealth

- HWM does not include an administration proposal to charge a \$2 fee for every prescription dispensed, and increase MassHealth pharmacy rates. The administration estimated that the fee would generate \$145 million in revenue, offsetting \$165 million in planned rate increases.
- HWM does not include language expanding allowable uses of the Behavioral Health Access & Crisis Trust Fund. The HWM budget would still allow a \$50 million use of resources in that fund.
- HWM does not include an administration policy section allowing MassHealth ambulance rates to decouple from Medicare rates.

Other Health Care Policy Differences

- HWM does not include language increasing the cap on Determination of Need Fees.
- HWM does not include language expanding the state’s universal vaccine program.
- HWM does not include an administration proposal to expand MassHealth’s authority to negotiate rebates on drugs and medical devices.
- HWM does not include the administration’s proposed penalty on pharmaceuticals that exceed cost benchmarks.
- HWM does not include any sections authorizing the closure of the Pappas Rehabilitation Hospital.

In spite of these many differences, the HWM budget does adhere to the Healey administration’s playbook in several ways:

- HWM includes language requiring recommendations to manage Personal Care Attendant (PCA) costs moving forward. While the HWM budget retains language prohibiting PCA policy changes in FY 2026, they include a section requiring a task force created in last year’s budget to put forward cost management recommendations and for EOHHS to develop an implementation plan.
- HWM extends an existing ConnectorCare pilot program that expands subsidy eligibility to higher income individuals through 2026.
- HWM does not prohibit several MassHealth savings initiatives assumed in the administration’s budget related rates and eligibility. In total, MTF estimates that about two-thirds of the administration’s \$339 million in net programmatic savings initiatives would be able to move forward under the HWM budget.

In total, the HWM budget is built on a lower expectation of MassHealth cost growth in FY 2026. The program, which covers more than 2 million residents, has been a major cost driver in FY 2025 and a cost savings strategy is necessary. However, insufficient funding of necessary costs is problematic; in FY 2025, underfunding of MassHealth in the original GAA contributed to the significant growth in expected costs over the course of the year. Effectively reducing MassHealth cost growth eases overall budget pressure, but to avoid underfunding, it will be important to develop a clear plan to achieve projected savings. In the coming weeks, the assumptions underlying HWM funding levels will become more apparent.

MTF Key Question: How does spending for the MassHealth program under the HWM budget compare to other areas of investment, as well as to the Governor’s budget proposal?

The HWM budget is notable for \$166 million less in MassHealth spending than the Governor’s budget, while also providing \$30 million more for nursing home rates, meaning that close to \$200 million in gross MassHealth spending reductions are assumed compared to the Administration. Even with this significant reduction in spending, MassHealth remains the primary driver of cost increases in the HWM budget, representing 63.6 percent of new budgeted spending compared to the FY 2025 GAA.

Municipal Finance

The HWM budget funds Unrestricted General Government Aid (UGGA) at \$1.31 billion, level with the FY 2025 GAA and \$28.8 million (2.2 percent) less than the Governor’s proposal. The increase proposed by the Governor for local aid to cities and towns had reflected the consensus revenue growth rate of 2.2 percent.

PILOT – Payment in Lieu of Taxes for State-Owned Land – is funded in the HWM budget at \$54.5 million, a \$1.5 million (2.9 percent) increase over the prior year.

UGGA and PILOT Funding in the HWM Budget

Program	FY 2024 GAA	FY 2025 GAA	FY 2026 - Governor	FY 2026 - HWM
UGGA	\$1,270.6	\$1,308.7	\$1,337.5	\$1,308.7
<i>\$ Increase v. Prior Year</i>	\$39.4	\$38.1	\$28.8	\$0.0
<i>% Increase v. Prior Year</i>	3.2%	3.0%	2.2%	0.0%
PILOT	\$51.5	\$53.0	\$54.5	\$54.5
<i>\$ Increase v. Prior Year</i>	\$6.5	\$1.5	\$1.5	\$1.5
<i>% Increase v. Prior Year</i>	14.4%	3.0%	2.9%	2.9%

\$ in millions

Other Municipal Investments

In FY 2026, the House proposes funding the *Municipal Regionalization and Efficiencies Reserve* at \$6.9 billion; a \$600K decrease compared to the Governor’s budget. Within the reserve, \$3 million is specifically directed towards the District Local Technical Assistance fund. In the FY 2025 GAA, this reserve was funded at \$19.4 million; however, this funding is often driven by the inclusion of local earmarks.

MTF Key Question: Under the HWM spending proposal, is growth in local aid for cities and towns tied to the consensus revenue growth estimate of 2.2 percent?

No. The HWM budget proposes to level fund Unrestricted General Government Aid (UGGA) to cities and towns in FY 2026 at \$1.31 billion. Conversely, the Governor’s budget proposed to increase UGGA funding to \$1.34 billion, an increase of \$28.8 million (2.2 percent). That increase would have been consistent with the expectations for revenue growth in FY 2026 of 2.2 percent.

Education

Early Education

The House recommends \$1.67 billion in total funding for early education and care programs in FY 2026, an increase of \$126.4 million (8.2 percent) over the FY 2025 GAA. This funding level includes \$1.24 billion in non-surtax spending and \$428 million in surtax-supported investments.

Through a combination of trust fund and income surtax revenue, the HWM budget funds the Commonwealth Cares for Childcare (“C3”) stabilization grant program at \$475 million; level with the Governor’s budget and the FY 2025 GAA. The program is supported by \$360 million in surtax resources and \$115 million from the Early Education and Care Operational Grant Fund. As further detailed below, the HWM budget also includes an outside section policy proposal that increases the amount of operational grant funding that certain for-profit early education providers may receive in a fiscal year.

Early Education & Care Spending in the HWM Budget

Program	FY 2024 GAA	FY 2025 GAA	FY 2026 - Governor	FY 2026 - HWM
Administration	\$59.1	\$80.3	\$54.9	\$60.5
Department of Early Education and Care	\$12.4	\$27.7	\$8.0	\$13.6
Child Care Operational Grants (C3)	\$475.0	\$300.0	\$200.0	\$115.0
Child Care Financial Assistance	\$753.8	\$773.8	\$965.8	\$965.8
<i>DCF and DTA Related Child Care</i>	\$346.6	\$356.6	\$448.2	\$448.2
<i>Income-Eligible Child Care</i>	\$407.2	\$417.2	\$517.6	\$517.6
Program Supports & Expansion	\$47.5	\$46.0	\$46.1	\$38.5
<i>Preschool Partnership Initiative</i>	\$15.0	\$17.5	\$17.7	\$10.0
<i>Grants to Head Start Programs</i>	\$17.5	\$18.5	\$18.5	\$18.5
Child Care Resource & Referral Orgs.	\$20.0	\$20.0	\$20.0	\$20.0
Reimbursement Rate Reserve	\$55.0	\$0.0	\$0.0	\$0.0
Other Early Education	\$41.3	\$44.3	\$41.0	\$41.0
Income Surtax Spending	\$70.5	\$278.0	\$373.0	\$428.0
<i>Child Care Operational Grants (C3)</i>	\$0.0	\$175.0	\$275.0	\$360.0
<i>Income Eligible Waitlist</i>	\$25.0	\$15.0	\$0.0	\$15.0
<i>Child Care Supports</i>	\$0.0	\$0.0	\$98.0	\$53.0
Grand Total	\$1,522.2	\$1,542.4	\$1,700.9	\$1,668.7

\$ in millions

Other notable investments included in the HWM budget for early education include:

- **Early Education and Care Administration** (\$13.6 million) – The HWM budget funds the department’s administrative line-item at \$13.6 million, an increase of \$5.6 million over the Governor’s budget. This increase appears to be primarily driven by the inclusion of a \$7.5 million earmark for the Early Education and Care Educator Scholarship Program.
- **Child Care Financial Assistance** (\$965.8 million) – Base funding for the state’s two CCFA programs is included in the HWM budget \$965.7 million, level with the Governor’s proposal. Income eligible childcare is funded at \$517.6 million and DCF/DTA-related childcare is funded at \$448.2 million. In combination with \$53 million in surtax-supported spending, the HWM budget includes a total of \$1.02 billion for CCFA programs in FY 2026. The Governor proposed total funding for CCFA at \$1.06 billion, which was projected to maintain the current caseload and rate structure for subsidized childcare in FY 2026.
- **Commonwealth Preschool Partnership Initiative** (\$10 million) – Funding for the CPPI program in the HWM budget totals \$10 million, approximately \$7.5 million less than the prior year’s budget and \$7.7 million less than the Governor’s proposal. While the administration also included \$50 million for the CPPI program through their version of the Innovation and Capital Fund supplemental budget, the House does not provide any additional funding for the program.
- **Grants to Head Start** (\$18.5 million) – The HWM budget funds grants to Head Start programs as \$18.5 million, level with the Governor’s budget and the FY 2025 GAA.

Income Surtax Investments

In total, the HWM budget includes \$428 million in surtax spending for early education and care; representing 21.9 percent of all surtax investments in their budget. Surtax revenues are used to sustain existing programs and reduce the waitlist for Income Eligible childcare:

- \$360 million to support level funding of the C3 stabilization grant program at \$475 million, when paired with \$115 million in trust fund resources.
- \$53 million to supplement base funding for CCFA programs in FY 2026.
- \$15 million to reduce the waitlist for Income Eligible childcare, which currently has nearly 32,000 children waiting for assistance.

Through the Innovation and Capital Fund supplemental budget, the House included an additional \$55 million for early education and care; of which, \$20 million is intended to provide a reimbursement rate increase for center-based and family child care providers. Additionally, \$7.5 million is earmarked for the early education and care educator loan forgiveness program and \$8 million is set aside for grants to early education and care providers for the costs of personal childcare. Historically, each of these spending items has been included in the annual operating budget.

K-12 Education

Chapter 70 State Aid

The HWM budget appears to fully fund the fifth year of Student Opportunity Act (SOA) implementation at \$7.36 billion. This represents an increase of \$460.1 million (6.7 percent) over FY 2025.

Compared to the Governor’s budget, the House increases funding for per-pupil minimum aid to \$150; which directs an additional \$39.8 million in state aid to over 200 districts.

The cost of Chapter 70 state aid in the HWM budget is supported through a combination of General Fund (\$6.9 billion), SOA Implementation Fund (\$207 million), Education Fund (\$48.3 million), and income surtax (\$240 million) resources.

Chapter 70 State Aid Funding in the HWM Budget

Program	FY 2023 GAA	FY 2024 GAA	FY 2025 GAA	FY 2026 - Governor	FY 2026 - HWM
Chapter 70 State Aid	\$5,988.5	\$6,584.8	\$6,864.9	\$7,097.2	\$7,122.0
<i>Minimum Aid Supplement</i>	\$9.69	\$7.9	\$37.0	\$0.0	\$0.0
<i>SOA Implementation Support (surtax)</i>	\$0.00	\$0.0	\$0.0	\$225.0	\$0.0
<i>Minimum Aid Supplement</i>	\$0.00	\$0.0	\$1.0	\$0.0	\$240.0
Total State Aid	\$5,998.2	\$6,592.6	\$6,901.9	\$7,322.2	\$7,362.0
<i>\$ Increase v. Prior Year</i>	\$494.9	\$594.4	\$309.3	\$420.2	\$460.1
<i>% Increase v. Prior Year</i>	9.0%	9.9%	4.7%	6.1%	6.7%
SOA Implementation Schedule	Year 2	Year 3	Year 4	Year 5	Year 5

\$ in millions

In FY 2026, funding for Chapter 70 aid is predominantly impacted by four factors:

- **Foundation Inflation Index** – Each year, every rate in the foundation budget formula is increased by an inflation factor. As the Chapter 70 statute dictates, this factor is the lesser of a calculation of state and local government inflation based on Bureau of Economic Analysis data or 4.5 percent. In FY 2026, this calculation results in an inflation rate of 1.93 percent.
- **Foundation Enrollment** - In FY 2026, total foundation enrollment is 905,254. This represents a decrease of 318 students compared to the prior year. While enrollment trends vary significantly district by district, 25 percent of operating districts across the state have seen their enrollments decline by greater than 10 percent since FY 2020.
- **SOA Implementation & Minimum Aid** – Since FY 2022, the state has been incrementally increasing per-pupil spending rates within the foundation budget formula in accordance with a six year phase-in schedule for the SOA and FY 2026 represents the fifth year of that schedule. Additionally, to direct greater year-over-year increases in state aid to all school districts, minimum aid per pupil amounts have been significantly increased over the same time period. In FY 2025, minimum aid was set at \$104 per pupil. The Governor’s budget proposed \$75 for minimum aid in FY 2026, while the HWM increases that to \$150 per pupil.

MTF Key Question: Does the HWM budget continue to support Student Opportunity Act implementation, moving towards full implementation by FY 2027?

Yes. The HWM budget fully funds the fifth year of SOA implementation, including a total of \$7.36 billion for FY 2026. In addition, HWM proposes to increase the minimum aid per pupil amount to \$150. In the Governor’s budget, minimum aid per pupil was funded at \$75 and in the FY 2025 GAA it was set at \$104. To support the costs of Chapter 70 in FY 2026, the HWM budget relies on General Fund (\$6.9 billion), SOA Implementation Fund (\$207 million), Education Fund (\$48.3 million), and income surtax (\$240 million) resources.

Education Reimbursement Programs

The HWM budget includes a total of \$1.02 billion for other major education reimbursement programs in FY 2026, including Charter Tuition Reimbursement, Special Education Circuit Breaker, and Student Transportation Reimbursement. This total includes \$769.5 million in base operating support, plus \$255 million in surtax spending included in the operating budget and the Innovation and Capital Fund supplemental budget.

K-12 Education Reimbursement Programs in the HWM Budget

Program	FY 2026 – Governor*	FY 2026 - HWM	Proposed Surtax Spending (HWM)	Total FY 2026 Funding
SPED Circuit Breaker	\$682.0	\$484.7	\$190.00	\$674.7
Charter Tuition Reimbursement	\$179.1	\$199.0	\$0.00	\$199.0
Regional School Transportation	\$115.9	\$57.1	\$65.00	\$122.1
Non-Resident Vocational Transportation	\$6.2	\$0.0	\$0.00	\$0.0
Homeless Student Transportation	\$28.7	\$28.7	\$0.00	\$28.7
Total Education Reimbursement	\$1,011.9	\$769.5	\$255.00	\$1,024.5

\$ in millions

**Includes total spending proposed by the administration through their FY 2026 operating budget proposal and supplemental surtax spending.*

Notable details regarding the funding levels for these programs include:

- **Charter Tuition Reimbursement** – The HWM budget funds Charter Tuition Reimbursement at \$199 million, level with the FY 2025 GAA and \$20 million higher than the Governor’s budget. The funding level proposed by the administration was estimated to fully fund the program in FY 2026, though fluctuations in enrollment may impact the exact reimbursement percentage throughout the year.
- **Special Education Circuit Breaker** – Through the combination of operating budget (\$484.7 million) and supplemental surtax (\$190 million) funding, the HWM budget funds the Special Education Circuit Breaker program at a total of \$674.7 million in FY 2026. This represents a \$7.3 million decrease compared to the funding level proposed by the administration of \$682 million, and is a \$181.5 million increase over the FY 2025 GAA.
- **Student Transportation Reimbursement** – The HWM budget funds Regional School Transportation at a total of \$122.1 million in FY 2026, through the operating budget and supplemental surtax spending bill. At \$116 million, the Governor’s funding level was projected to provide districts with 95 percent reimbursement. Homeless student transportation is level funded with the FY 2025 GAA and the Governor’s budget at \$28.7 million.

Income Surtax Investments

K-12 education receives a total of \$515 million in surtax investments in the HWM spending plan for FY 2026, comprising 26.4 percent of all surtax investments in their budget. In addition to the \$240 million investment described above used to support Chapter 70 and minimum aid costs in FY 2026, surtax revenues are also used to sustain and bolster existing programs:

- \$190 million for Universal School Meals.
- \$50 million for Regional School Transportation costs in FY 2026. This funding is included in the \$122.1 million funding level described above.
- \$20 million for the Green Schoolworks program, which provides capital grants to public school districts to support the installation or maintenance of clean energy infrastructure.

- \$15 million for Early Literacy, which will support intensive literacy tutoring for students in Kindergarten through third grade. This program was funded at \$25 million in the Governor’s budget.

In the supplemental surtax spending bill passed last week, the House approved an additional \$322.3 million in spending for K-12 education initiatives impacting FY 2026 and future fiscal years. In addition to the Special Education Circuit Breaker and Regional School Transportation funding detailed above, the House bill also included \$50 million for capital grants to expand Career Technical Education programs, \$25 million for High Dosage Early Literacy Tutoring, and \$8.5 million to reduce waitlists for English language services. The supplemental budget also included \$13.8 million for local education projects.

Higher Education

HWM funds the public higher education sector at \$2.1 billion, a \$100.2 million (5.0 percent) increase over the FY 2025 GAA and \$127 million (5.7 percent) less than the Governor. This funding level includes \$1.86 billion in non-surtax spending and \$242 million in surtax-supported investments.

Higher Education Spending by Sector in the HWM Budget

Category	FY 2024 GAA	FY 2025 GAA	FY 2026 - Governor	FY 2026 - HWM
Community Colleges	\$348.8	\$385.5	\$406.3	\$400.6
State Universities	\$338.7	\$374.1	\$395.7	\$385.1
University of Massachusetts	\$692.9	\$770.0	\$857.8	\$848.9
<i>University of Massachusetts</i>	<i>\$687.1</i>	<i>\$764.7</i>	<i>\$854.1</i>	<i>\$835.0</i>
<i>UMass SUCCESS</i>	<i>\$0.0</i>	<i>\$0.0</i>	<i>\$0.0</i>	<i>\$10.0</i>
Scholarship Programs	\$198.4	\$197.0	\$198.6	\$197.9
<i>Community College SUCCESS Fund</i>	<i>\$14.0</i>	<i>\$14.7</i>	<i>\$14.7</i>	<i>\$14.0</i>
<i>Massachusetts State Scholarship Program</i>	<i>\$175.7</i>	<i>\$173.4</i>	<i>\$175.2</i>	<i>\$175.2</i>
Other Higher Education	\$33.9	\$32.7	\$30.2	\$24.1
Income Surtax Spending - Higher Ed	\$229.0	\$239.0	\$337.0	\$242.0
<i>Financial Aid Expansion</i>	<i>\$84.0</i>	<i>\$80.0</i>	<i>\$80.0</i>	<i>\$80.0</i>
<i>MassReconnect</i>	<i>\$20.0</i>	<i>\$24.0</i>	<i>\$24.0</i>	<i>\$24.0</i>
<i>Higher Education Capital Funding</i>	<i>\$50.0</i>	<i>\$0.0</i>	<i>\$125.0</i>	<i>\$0.0</i>
<i>Targeted Scholarships</i>	<i>\$25.0</i>	<i>\$10.0</i>	<i>\$0.0</i>	<i>\$10.0</i>
<i>State University SUCCESS</i>	<i>\$0.0</i>	<i>\$14.0</i>	<i>\$14.0</i>	<i>\$14.0</i>
<i>Free Community College</i>	<i>\$0.0</i>	<i>\$93.5</i>	<i>\$94.0</i>	<i>\$94.0</i>
<i>State University Funding Formula Supplement</i>	<i>\$0.0</i>	<i>\$0.0</i>	<i>\$0.0</i>	<i>\$10.5</i>
<i>Community College Funding Formula</i>	<i>\$0.0</i>	<i>\$0.0</i>	<i>\$0.0</i>	<i>\$9.5</i>
Total Funding	\$1,841.7	\$1,998.3	\$2,225.5	\$2,098.5

\$ in millions

Public Higher Education Campuses

Base funding for State Universities in the HWM budget totals \$373.9 million, an increase of \$7.3 million (2 percent) over the FY 2025 GAA and \$21.6 million (5.4 percent) less than the Governor’s proposal.

Base funding for the Community Colleges in the HWM budget totals \$384.5 million, an increase of \$6.6 million (1.7 percent) over the FY 2025 GAA and \$17.1 million (4.2 percent) less than the Governor’s proposal.

In lieu of increases to campus operating appropriations, the HWM budget includes funding for two formula-based programs that direct additional aid to community college and state university campuses:

- The **Community College Funding Formula** is funded at a total of \$20.9 million through a combination of Education Fund (\$11.4 million) and income surtax (\$9.5 million) resources. This program distributes additional aid to campuses based on a formula developed by the Department of Higher Education (DHE) that takes into account equity, as well as connections between community college campuses, local businesses, and regional workforce investment boards.
- The **State University Funding Formula** is funded at a total of \$21.7 million through a combination of Education Fund (\$11.2 million) and surtax (\$10.5 million) revenues. This funding is distributed to state university campuses according to a performance-based formula developed by the DHE that also incorporates equity.

Scholarship Programs & Addressing Student Costs

The HWM budget includes \$197.9 million for scholarship programs and wrap around student supports, excluding initiatives supported by income surtax revenues. This funding level includes \$175.2 million for the state’s Scholarship Reserve and \$14 million for the Community College SUCCESS program.

Income Surtax Investments

The higher education sector receives \$242 million in income surtax revenues to support spending, representing 12.4 percent of all surtax investments in the HWM budget. This is a notable departure from the Governor’s budget, which directed \$337 million in surtax-spending towards higher education. In addition to the surtax-supported investments described above, the HWM budget includes:

- \$94 million for the continuation of Free Community College.
- \$24 million for the third year of the MassReconnect program, which provides free community college for students over the age of 25.
- \$80 million for financial aid expansion.
- \$14 million for the State University SUCCESS program.

Through the Innovation and Capital Fund supplemental budget, the House dedicated an additional \$22.5 million towards the higher education sector. The bill directs a total of \$20 million towards the University of Massachusetts (\$10 million) and State University and Community College campuses (\$10 million) to support endowment matches. It also includes \$2.5 million for the Tomorrow’s Educators Scholarship program, which encourages graduates of public higher education institutions to work as public school teachers.

MTF Key Question: Does the House adopt the Governor’s proposal to securitize dedicated streams of surtax revenue in support of expanding higher education capital spending capacity?

No. The HWM budget does not adopt the Healey administration’s proposal to dedicate \$125 million in surtax revenue to support a new higher education capital financing strategy. Through the permanent allocation of these resources towards a new reserve account, the administration anticipated the ability to support the issuance of up to \$2.5 billion in new Special Obligation (SO) bonds over ten years to fund higher education capital improvement projects. MTF supports this proposal as a strategic way to enhance the long-term impact of surtax revenues.

Workforce & Career Readiness

MTF monitors workforce and career readiness investments across 44 state programs and 16 state agencies. As described in earlier MTF research, the programs are organized into three categories: individual workforce training programs, sector-based programs, and training opportunities for state-serving populations.

In FY 2026, the HWM budget includes \$519.6 million in total funding for these programs, a \$7.7 million (1.5 percent) decrease over the FY 2025 budget and a \$900K (0.2 percent) increase compared to the Governor.

Workforce Spending by Sector in the HWM Budget

Category	FY 2024 GAA	FY 2025 GAA	FY 2026 - Governor	FY 2026 - HWM
Sector-Based	\$68.8	\$50.6	\$45.7	\$47.3
<i>Career and Technical Education Program</i>	\$3.5	\$3.5	\$3.1	\$3.1
<i>Career Technical Institutes</i>	\$15.4	\$9.6	\$9.0	\$9.0
<i>Massachusetts Manufacturing Extension Partnership</i>	\$2.0	\$1.7	\$0.0	\$2.0
Training Opportunities for State Populations	\$304.6	\$348.8	\$351.7	\$350.2
<i>Community Day and Work Programs</i>	\$243.2	\$288.0	\$287.4	\$287.4
<i>Employment Services Program</i>	\$19.9	\$18.9	\$20.6	\$18.9
Individual Workforce Training	\$126.5	\$128.0	\$121.4	\$122.1
<i>Adult Basic Education</i>	\$60.5	\$59.9	\$58.9	\$58.9
<i>School-to-Career Connecting Activities</i>	\$7.8	\$8.1	\$6.5	\$6.5
<i>Summer Jobs Program for At-Risk Youth</i>	\$16.2	\$15.9	\$15.7	\$15.2
<i>Urban Agenda Economic Development Grants</i>	\$2.5	\$1.0	\$0.0	\$1.0
Total Spending	\$499.8	\$527.3	\$518.7	\$519.6

\$ in millions

Notable workforce programs funded in the HWM budget include:

- **YouthWorks Program** – The summer jobs program for at-risk youth, also known as YouthWorks, is funded at \$15.2 million in the HWM budget, which is \$700K less than the FY 2025 GAA and \$500K less than the Governor’s budget.
- **School-to-Career Connecting Activities (\$6.5 million)** - While funding for this program is level with the Governor’s proposal, it is a \$1.6 million (19.8 percent) decrease compared to the FY 2025 GAA.

HWM also does not include additional funding for the program through the Innovation and Capital supplemental budget, unlike the Governor.

- **Targeted Scholarships (\$10 million)** – Funding for the scholarship program for students enrolled in an in-demand academic program is level with the FY 2025 GAA. While the Governor does not fund this program in her FY 2026 budget, this has been typically funded by HWM in recent years.
- **Employment Services Program (\$18.9 million)** – Funding for several workforce programs for low-income families is level with the FY 2025 GAA but is \$1.7 million (8.3 percent) less than the Governor’s proposal, which included annualized rate increases for program providers.

Transportation

The HWM budget includes \$1.58 billion in total funding for transportation in FY 2026, through a combination of base operating transfers and surtax-supported spending. This represents an increase of \$270.3 million (21 percent) over the FY 2025 GAA and is \$40 million less than the Governor.

When considered alongside the transportation funding included in the Innovation and Capital Fund supplemental budget passed last week by the House, a total of \$2.44 billion in funding is made available. The House has now moved forward with the key components of the Governor’s transportation finance strategy, notably increasing the annual deposit of surtax revenue into the Commonwealth Transportation Fund to \$500 million and providing the resources necessary to stabilize the MBTA’s operating budget over the next several years.

Base Operating Transfers

The House provides \$815.3 million in base funding for the MBTA, MassDOT, and Regional Transit Authorities (RTAs) in FY 2026, a \$44.3 million (5.7 percent) increase over the FY 2025 GAA and \$40 million (4.7 percent) less than the Governor’s recommendation.

Transportation Spending in the HWM Budget

Category	FY 2025 GAA	FY 2026 - Governor	FY 2026 - HWM	HWM v. FY 2025 GAA
Base Transfer to MassDOT	\$478.6	\$562.6	\$522.6	\$44.0
Base Transfer to MBTA	\$186.8	\$187.0	\$187.0	\$0.2
Base Transfer to RTAs	\$94.0	\$94.0	\$94.0	\$0.0
Other Non-Surtax Transportation	\$11.7	\$11.7	\$11.7	\$0.0
Non-Surtax Transportation Funding	\$771.0	\$855.3	\$815.3	\$44.3
Income Surtax Spending (CTF Fund)	\$250.5	\$765.0	\$765.0	\$514.5
<i>Supplemental Transfer to MassDOT</i>	<i>\$60.0</i>	<i>\$55.0</i>	<i>\$55.0</i>	<i>-\$5.0</i>
<i>Supplemental Transfer to MBTA</i>	<i>\$127.5</i>	<i>\$500.0</i>	<i>\$500.0</i>	<i>\$372.5</i>
<i>Supplemental Transfer to RTAs</i>	<i>\$0.0</i>	<i>\$110.0</i>	<i>\$110.0</i>	<i>\$110.0</i>
<i>CTF Debt Service</i>	<i>\$63.0</i>	<i>\$100.0</i>	<i>\$100.0</i>	<i>\$37.0</i>

(table continued below)

Category	FY 2025 GAA	FY 2026 - Governor	FY 2026 - HWM	HWM v. FY 2025 GAA
Other Surtax Spending	\$288.5	\$0.0	\$0.0	-\$288.5
<i>Federal Matching Funds</i>	\$0.0	\$0.0	\$0.0	<i>All income surtax investments for transportation in the HWM budget are reflected in the CTF transfer above.</i>
<i>Highway Bridge Preservation</i>	\$0.0	\$0.0	\$0.0	
<i>MBTA Capital Investments</i>	\$60.0	\$0.0	\$0.0	
<i>MBTA Means Tested Fares</i>	\$20.0	\$0.0	\$0.0	
<i>MBTA Workforce/Safety Reserve</i>	\$36.0	\$0.0	\$0.0	
<i>MBTA Academy</i>	\$10.0	\$0.0	\$0.0	
<i>Regional Transit Funding and Grants</i>	\$110.0	\$0.0	\$0.0	
<i>Roads & Bridges Supplemental Aid</i>	\$45.0	\$0.0	\$0.0	
<i>Water Transportation</i>	\$7.5	\$0.0	\$0.0	
Total Transportation Funding	\$1,310.0	\$1,620.3	\$1,580.3	\$270.3

\$ in millions

Income Surtax Investments

The House dedicates \$765 million in surtax revenue towards transportation, representing 39 percent of all surtax investments in the operating budget.

In FY 2026, the House proposes to direct the entirety of their surtax allotment for transportation to the Commonwealth Transportation Fund (CTF) and increases the permanent transfer of surtax revenues to the CTF from \$250 million to \$500 million on an ongoing basis. They estimate that a \$500 million automatic transfer will allow the state to increase its borrowing capacity by up to \$3.5 billion over the next ten years.

Once surtax revenues are deposited into the CTF, they can be immediately used to increase operating support for the MBTA, MassDOT, and RTAs. It appears that \$100 million in additional funding is held in the CTF for future debt service costs associated with the increased borrowing capacity.

Base operating funding and surtax-supported investments for MassDOT, the MBTA, and RTAs appear as combined appropriations in the HWM budget.

- **MassDOT** – Total operating support for the Department of Transportation in the HWM budget is \$577.2 million, funded through a combination of standard CTF revenues and the surtax. This is a total increase of \$39 million over FY 2025 and \$40 million less than the administration. This funding reduction compared to the Governor’s budget may be related to snow and ice removal.
- **MBTA** – The HWM budget includes \$187 million in base funding for the MBTA, plus an additional \$500 million that flows through the CTF transfer. As discussed in greater detail below, this ongoing increase in state operating support of the MBTA is one tool used to address projected operating budget deficits at the T over the next three years.
- **Regional Transit Authorities** – Regional Transit Authorities (RTAs) receive \$94 million in base operating support in the HWM FY 2026 budget proposal, plus an additional \$110 million. As in the Governor’s budget, outside section language dictates that the \$94 million base transfer shall be

distributed to RTAs according to the distribution schedule agreed to between each RTA and the Department of Transportation.

Stabilizing the MBTA

A major goal of the administration’s transportation finance strategy is to stabilize the MBTA’s operating budget using predictable streams of state support. The investments included in the HWM budget, when paired with the Innovation and Capital Fund supplemental budget, seek to provide that support by:

- Permanent increasing the state’s operating transfer to the MBTA to \$687 million;
- Dedicating \$300 million of surplus surtax revenue towards replenishing MBTA reserves that have been drained to close past budget gaps; and
- Retiring the MBTA’s legacy debt to generate additional savings.

While projected MBTA budget gaps historically fluctuate throughout the year, at the time that the Governor’s budget was filed, the combination of these solves was projected to close 90 percent of the MBTA’s operating deficits over the following three fiscal years, while the authority would be required to close the remaining 10 percent.

MTF Key Question: Does the HWM budget reflect the administration’s transportation finance strategy and the recommendations of the Transportation Finance Task Force?

Yes. The HWM budget includes several key elements of Governor Healey’s larger transportation finance strategy. Most notably, investments in the HWM budget and the Innovation and Capital Fund supplemental spending bill provide the funding necessary to stabilize the MBTA’s operating budget over the next three years. Specifically, the increase in MBTA operating support to \$687 million and the inclusion of \$790 million in supplemental surtax spending for the authority are projected to close 90 percent of their operating budget deficit through FY 2028. The authority would be responsible for closing the remaining 10 percent.

Housing

In FY 2026, the HWM budget includes \$1.15 billion in total funding for housing-related programs, a \$1.5 million (0.1 percent) increase over FY 2025 and \$40.7 million (3.4 percent) less than the Governor’s budget.

Housing Investments in the HWM Budget

Category of Program	FY 2024 GAA	FY 2025 GAA	FY 2026 - Governor	FY 2026 - HWM
Housing Stabilization & Homelessness Prevention	\$517.3	\$543.3	\$552.2	\$498.8
<i>EA Family Shelters & Services</i>	<i>\$325.3</i>	<i>\$326.1</i>	<i>\$325.3</i>	<i>\$275.3</i>
<i>HomeBASE</i>	<i>\$37.1</i>	<i>\$57.3</i>	<i>\$57.3</i>	<i>\$57.3</i>
<i>Homeless Individual Shelters</i>	<i>\$110.8</i>	<i>\$110.8</i>	<i>\$110.8</i>	<i>\$115.8</i>
<i>Sponsor-Based Permanent Supportive Housing</i>	<i>\$8.9</i>	<i>\$8.9</i>	<i>\$10.1</i>	<i>\$11.9</i>

(table continued below)

Category of Program	FY 2024 GAA	FY 2025 GAA	FY 2026 - Governor	FY 2026 - HWM
Housing Financial Assistance	\$405.5	\$452.0	\$491.8	\$501.6
<i>MRVP</i>	\$179.6	\$219.2	\$253.3	\$258.1
<i>RAFT</i>	\$190.0	\$197.4	\$202.5	\$207.5
Counseling & Education Services	\$10.5	\$9.0	\$5.0	\$5.2
Public Housing	\$108.3	\$114.3	\$117.6	\$116.8
Other Housing	\$32.0	\$34.6	\$28.8	\$32.2
Grand Total	\$1,073.6	\$1,153.2	\$1,195.4	\$1,154.7

\$ in millions

Notable housing investments in the HWM budget include:

- **Homeless Individual Shelters** (\$115.8 million) – The HWM budget funds homeless shelters for individuals at \$115.8 million, an increase of \$5 million over the Governor’s budget.
- **Massachusetts Rental Voucher Program** (\$258.1 million) – The MRVP program is funded at \$258.1 million in the HWM budget, an increase of \$38.9 million over the FY 2025 GAA and \$4.8 million higher than the Governor’s budget.
- **Residential Assistance for Needy Families** (\$207.5 million) – The HWM budget increases spending for RAFT over the FY 2025 GAA by \$10 million and over the administration’s budget proposal by \$5 million, for a total funding level of \$207.5 million in FY 2026.
- **Sponsor-Based Permanent Supportive Housing** (\$11.9 million) – Funding for sponsor-based permanent supportive housing is included in the HWM budget at \$11.9 million, an increase of \$3 million over FY 2025 and \$1.8 million over the Governor’s budget.

Emergency Assistance Shelter System

The HWM budget includes a \$275.3 million appropriation for the Emergency Assistance (EA) shelter system in FY 2026, \$50 million less than the FY 2025 GAA and Governor Healey’s proposal of \$325 million. Both levels are less than half of expected EA spending in FY 2025.

According to the most recent biweekly report to the Legislature on the EA program, the full-year costs of the system in FY 2025 are projected to reach \$1 billion. To meet this cost, the Legislature has now approved \$600 million in supplemental funding, most recently through a supplemental budget bill signed into law on February 28th.

Emergency Assistance Funding in FY 2025

FY 2025 EA Program Estimated Spending	\$1,064
<i>FY 2025 GAA Appropriation</i>	\$325
<i>FY 2025 Supplemental Appropriation (incl. in April 2024 Supp)</i>	\$175
<i>FY 2025 Supplemental Appropriation (incl. in February 2025 Supp)</i>	\$425
Total Available Resources	\$925
FY 2026 HWM Budget	\$275

\$ in millions

While the costs of the EA program in FY 2026 are likely to exceed the \$275.3 million operating budget appropriation included by HWM, plans to supplement this funding level have not been indicated. The Legislature approved several policy changes to the program through the recently signed supplemental budget that are intended to limit the capacity and cost of the EA shelter; these include limiting shelter stays to six months, imposing a cap of 4,000 families, and requiring Massachusetts residency to access shelter.

Outside Section Policies

The HWM FY 2026 budget includes 80 outside policy sections, 58 fewer than Governor Healey’s 138 budget proposals and 29 fewer than the 109 sections included in last year’s HWM budget.

Policy Sections in the HWM Budget Compared

	FY 2025 HWM	FY 2025 House Final	FY 2025 Conference	FY 2026 Governor	FY 2026 HWM
Policy Sections	109	195	261	138	80

As noted earlier, the HWM budget does not include any of the 26 tax increase sections put forward by Governor Healey. In addition, the HWM budget does not include 19 administration sections related to the closure of Pappas Rehabilitation Hospital, expansion of the state’s vaccine program, or the authorization of camera traffic enforcement.

While the HWM removes 66 total sections included in Governor Healey’s budget, the Governor’s budget remains the basis for the vast majority of proposals in the HWM budget. In fact, only eight HWM sections are unique to their budget.

HWM Sections v. Governor Sections

Total HWM Sections	Sections Shared with Gov.	Unique Sections
80	72	8

Notable HWM sections include:

Tax and Revenue

Estate Tax Change (Sections 22 & 82) – These sections make changes to the estate tax. One change addresses a technical issue relating to property located outside of Massachusetts and , and related to property and another addresses an issue related to the application of the tax to spouses who are predeceased. This provision, which was also included in the Governor’s budget, is effective for August 1st of 2025.

Gaming Fund Diversion (Section 64) – This section diverts approximately \$100 million in gaming tax revenues, otherwise dedicated to off-budget funds, to the General Fund. The same proposal was included in the Governor’s budget.

Capital Gains Distribution (Section 69) – This section would alter the distribution of above threshold capital gains resources in FY 2026 so that 65 percent (\$432.9 million) would be applied to the state’s pension contribution, 20 percent (\$133.2 million) would go to the Stabilization Fund, and 15 percent (\$99.9 million) would go to the State Retiree Benefits Trust Fund. Without a change, 90 percent would go to the Stabilization Fund and the remaining 10 percent would be split between pension and retiree health benefit obligations. The same proposal was included in the Governor’s budget.

COVID Spending Recoupment (Section 70) – This section would allow up to \$200 million appropriated in two COVID-era recovery bills to be recouped to the General Fund, if the appropriations have not yet been spent. The same proposal was included in the Governor’s budget.

Health Care

Connector Pilot Program (Sections 61 through 63) – These sections would extend an existing ConnectorCare pilot program, which provides coverage to those with income up to 500 percent of the Federal Poverty Level, to the end of 2026. Currently, the pilot is due to sunset after two years, at the end of 2025. The cost of the extension is expected to be borne by resources within the Commonwealth Care Trust Fund. The Governor’s budget also extends the pilot program.

Nursing Facility User Fee (Section 27) – This section would allow the annual nursing home user fee to exceed \$240 million. Under current law, the fee is capped at the lesser of \$240 million or 6 percent of nursing home revenues. The proposal would simply cap the fee at 6 percent. This change is estimated to increase revenue by approximately \$20 million. The same proposal was included in the Governor’s budget.

Senior Care Options Eligibility (Sections 24 through 26) – These sections limit eligibility for the state’s Senior Care Options program to MassHealth members who are also eligible for Medicare and 65 or older. The same proposal was included in the Governor’s budget.

Out of State Telehealth Task Force (Section 66) – This section directs EOHHS to create a nine-member task force to address barriers to provision of telehealth services across state lines. The task force report is due on July 1, 2026.

PCA Cost Growth (Section 67) – This section requires a PCA working group, included in the FY 2025 budget, to continue developing recommendations to improve the long-term cost sustainability of the program and develop cost growth targets to be met in future years. The section requires EOHHS to develop an implementation plan to preserve the PCA program and improve the programs cost sustainability. The section includes detailed reporting requirements for EOHHS in relation to PCA program improvement efforts. The Governor’s section included a section directing EOHHS to develop recommendations to limit PCA cost growth, but the language in the two proposals differs significantly.

Education

Vocational Admissions Policies (Section 65 and 68) – These sections create a 15-member task force to make recommendations related to vocational school admissions policies. The task force’s recommendations, which shall consider data on vocational school attendance and waitlists, as well current admission policy enforcement shall make recommendations by September 15th of 2026. The sections also prohibit DESE from amending current vocational school admissions policies prior to the completion of the task force report or before the end of the 2026-2027 school year.

Transportation

MBTA Advisory Board (Sections 17 & 18, 21 & 22) – These sections would make employees of the MBTA Advisory Board eligible for state pension and health insurance benefits. The same proposal was included in the Governor’s budget.

Other

Residential Broker Fees (Sections 23 & 29) – These sections state that only the party contracting with a real estate broker in a rental transaction can pay the broker’s fee. Similar language was including in the Governor’s budget.

Treasurer Retirement Programs (Sections 14 through 16) – These sections allow the Treasurer to presumptively enroll state employees in a deferred compensation program unless the employees opt out. The same proposal was included in the Governor’s budget.

Attorney General Gaming Cap (Section 10) – This section removes an existing \$3 million annual cap on the amount that the Attorney General can be reimbursed from gaming funds for costs related to enforcement efforts.

Local Option Liquor License (Section 28) – This section creates a local option for municipalities to allow wine and malt beverage licenses to be exchanged for full liquor licenses.

Bottom Line

The HWM Committee has proposed a \$61.5 billion operating budget for FY 2026, a spending level that is \$580 million (0.9 percent) less than the Governor’s budget and \$3.7 billion (6.4 percent) greater than the FY 2025 GAA signed into law last July. Despite reducing spending levels for a number of programs compared to the administration’s recommendation, like MassHealth, Emergency Assistance Shelter and Unrestricted General Government Aid for cities and towns, the HWM budget also includes notable increases for K-12 education, nursing homes, and transportation.

In assessing the House proposal, MTF identifies several major takeaways:

- **The HWM budget does not include any tax policy changes to generate revenue or support spending in FY 2026.** In their proposal for FY 2026, the Healey administration put forward a dozen various tax policy proposals expected to provide approximately \$379 million in new spending support. These proposals varied in size and scope, including a cap on the state’s charitable tax deduction, applying the sales tax to candy, and eliminating the current tax treatment of securities corporations. Despite the state’s constrained revenue outlook in FY 2026, MTF supports the exclusion of these initiatives. As further discussed below, implementing policy changes before we have a clearer sense of the impacts of federal action on Massachusetts could lead to unintended consequences and the worsening of broader economic trends.
- **The HWM budget recommends spending \$580 million less than the Governor’s proposal.** Consistent with their exclusion of any tax policy proposals and their accompanying revenue assumptions, the HWM budget reduces spending compared to the administration’s proposal for FY 2026 by \$580 million. Spending reductions are seen for programs across state government, but notably impact MassHealth, the EA family shelter system, and local aid for cities and towns. While reducing overall spending totals is a prudent decision, particularly in light of future uncertainties, policymakers should be aware that the underfunding of non-discretionary accounts can widen the budget’s structural deficit heading into the new fiscal year.
- **The HWM budget fulfills several key commitments.** Despite facing a major challenge – large non-discretionary program increases versus limited tax revenue growth – the HWM budget reflects several major spending priorities. Notably, the House budget includes key elements of Governor Healey’s larger transportation finance strategy. State operating support of the MBTA is increased to \$687 million, supported by \$500 million in surtax revenue. When paired with the investments in the Innovation and Capital Fund supplemental budget, the HWM proposal fulfills the commitment to close 90 percent of the MBTA’s projected operating budget deficit through FY 2028.

The FY 2026 budget development process is occurring during unprecedented times and budget writers will need to stand ready to adjust revenue and spending assumptions in June when there is greater clarity on revenue collections, the economy, and the federal budget process. Signaling those challenges by reducing spending growth now is a sensible approach for this budget.

Heading into debate at the end of April, it will be important for the House to maintain their commitment to constraining spending growth and producing a final budget that is developed with increasing economic and policy uncertainty in mind. In several areas where the HWM budget recommends lower levels than the administration it will also be important to understand how those reductions will be achieved in the coming year.