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# MTF Bulletin

March 1, 2023

## Governor Healey’s Fiscal Year 2024 Budget

The Healey-Driscoll administration has released its inaugural budget, 8 weeks after being sworn into office. The \$54.8 billion spending plan builds in ongoing tax relief, while making major new investments in several critical areas, and continues to build long-term reserves. It includes \$1 billion in spending supported by income surtax revenues. While the filing of the Governor’s budget represents only the beginning of the state budget development process, it plays an important role in shaping the conversations and deliberations to occur between the House and Senate over the coming months.

Following two years of surging tax collections and the passage of the largest tax increase in two decades, Fiscal Year (FY) 2024 presents policy makers with unique opportunities to provide meaningful tax relief to Massachusetts families and businesses and deploy new resources in support of education and transportation.

In companion legislation filed with the budget, Governor Healey has proposed \$987 million in tax policy reforms; which have an FY 2024 budget impact of \$742 million. It shares key elements with House and Senate tax bills from 2022 and follows through on the Governor’s campaign promise to more than double the child and dependent tax credit. The content and framing of the plan is also consistent with the income and estate tax proposals recommended by MTF earlier this month.

### Budget Overview

The Governor’s FY 2024 budget proposal recommends \$62.5 billion in total spending, a \$2.9 billion (4.8 percent) increase over FY 2023. After accounting for \$6.9 million in statutorily required transfers and off-budget spending, \$54.8 billion remains for line-item appropriations.

*Governor Healey’s FY 2024 Spending Overview*

	FY 2022 GAA	FY 2023 GAA	FY 2024 Governor	\$ vs. FY 2023 GAA	% vs. FY 2023 GAA
Line-Item Spending	\$47,613.83	\$51,868.71	\$54,777.25	\$2,908.54	5.6%
Medical Asst. Trust Fund	\$471.36	\$575.90	\$505.00	-\$70.90	-12.3%
Pre-Budget Transfers	\$5,751.50	\$6,334.90	\$6,898.90	\$564.00	8.9%
Other Off-Budget Spending	\$600.00	\$840.00	\$0.00	-\$840.00	-100.0%
Assumed Reversions & Supplemental	\$0.00	\$0.00	\$315.00	\$315.00	
<b>Total Spend</b>	<b>\$54,436.68</b>	<b>\$59,619.51</b>	<b>\$62,496.15</b>	<b>\$2,876.64</b>	<b>4.8%</b>

*\$ in millions*

Governor Healey’s budget is supported by \$62.7 billion in total state revenues, predominantly comprised of the \$40.4 billion consensus revenue estimate agreed to by the Healey administration and House and Senate budget leaders in January.

Governor Healey’s proposal also relies upon \$1 billion in revenue generated by the new income surtax, not included in the \$40.4 billion tax figure. As part of the FY 2024 consensus revenue agreement, the administration and House and Senate budget leaders agreed to a \$1 billion cap on the use of income surtax revenue to support recurring costs in the FY 2024 budget. Instituting a cap on the use of income surtax revenue is consistent with the recommendations MTF provided during the Consensus Revenue Hearing. Lastly, the administration’s budget is supported by \$13.7 billion in reimbursements from the federal government and \$9.1 billion in departmental and lottery revenues, as well as transfers.

*Governor Healey’s FY 2024 Revenue Overview*

	<b>FY 2022 GAA</b>	<b>FY 2023 GAA</b>	<b>FY 2024 Governor</b>	<b>\$ vs. FY 2023 GAA</b>	<b>% v. FY 2023 GAA</b>
<b>Total Tax Revenue</b>	\$34,556.70	\$39,759.00	\$40,601.90	\$842.90	2.1%
<i>Consensus Tax Agreement</i>	\$34,350.00	\$39,617.00	\$40,410.40	\$793.40	2.0%
<i>Tax Settlements</i>	\$50.00	\$100.00	\$50.00	-\$50.00	-50.0%
<i>Tax Initiatives</i>	\$156.70	\$42.00	-\$858.50	-\$900.50	
<i>4% Income Surtax</i>	\$0.00	\$0.00	\$1,000.00	\$1,000.00	
<b>Federal Revenue</b>	\$14,117.80	\$14,062.94	\$13,661.85	-\$401.09	-2.9%
<b>Departmental Revenue &amp; Transfers</b>	\$8,405.63	\$8,936.86	\$9,063.65	\$969.87	1.4%
<b>Stabilization Fund Transfer</b>	-\$1,170.83	-\$1,468.11	-\$625.04	\$843.07	-57.4%
<b>Total Revenue</b>	<b>\$55,909.30</b>	<b>\$61,290.68</b>	<b>\$62,702.36</b>	<b>\$2,254.75</b>	<b>2.3%</b>

*\$ in millions*

Governor Healey’s FY 2024 budget proposal assumes that the state’s Stabilization Fund will enter FY 2024 with a balance of \$8.5 billion and grow by a further \$625 million, ending the fiscal year with a balance of \$9.1 billion.

*FY 2024 Stabilization Fund Estimates*

<b>FY 2023 Beginning Balance</b>	<b>\$6,937.50</b>
<i>Planned Deposits</i>	\$1,580.20
<b>FY 2023 Ending Balance</b>	<b>\$8,517.70</b>
<i>FY 2024 Capital Gains Deposit</i>	\$420.00
<i>FY 2024 Other Deposits</i>	\$205.04
<i>FY 2024 Withdrawal</i>	\$0.00
<b>FY 2024 Ending Balance</b>	<b>\$9,142.74</b>

*\$ in millions*

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## Governor Healey's Budget – 5 Things to Know

1. Governor Healey's budget reflects the **\$987 million tax reform package** proposed in companion legislation, which has an FY 2024 cost of \$859 million and a net cost to the budget of **\$742 million**. While much of the administration's tax relief initiatives follow the same framework as the reforms debated last session; Governor Healey's tax policy proposals go further to target high costs for working families and older adults, while addressing other taxes out of line with the rest of the nation.
2. The FY 2024 budget proposal utilizes **\$1 billion in new income surtax revenue** to support recurring investments in education and transportation. Through outside policy sections, Governor Healey creates a new trust fund to collect surtax revenue and establishes a transitional funding structure to clearly articulate how the funds will be collected, tracked, and spent from FY 2023 through FY 2025.
3. Governor Healey uses surtax revenue to provide major **increases in funding for child care, education, and transportation**. Surtax investments are in addition to full funding of the Student Opportunity Act, which is supported using general fund resources. Notable surtax spending areas include:
  - \$181 million for capital investments at the MBTA;
  - \$152 million to provide increased financial aid through expansion of the MASSGrant Plus program and tuition certainty for public higher education;
  - \$140 million to fully fund C3 stabilization grants and invest in the early childcare system;
  - \$50 million to provide immediate matching funds for state and local transportation projects seeking federal support.
4. **Workforce stands out as a major funding priority** in the administration's budget, with the launch of a new program (MassReconnect) to connect adults 25 years and older with no-cost community college, new investments for clean energy job training, and an expansion of the successful Early College and Innovation Pathways model.
5. The Healey Administration expects **MassHealth spending to drop significantly in FY 2024**, reflecting an expected 400,000 member drop in MassHealth enrollment related to the end of the federal Public Health Emergency and the sun-setting of its related policies.

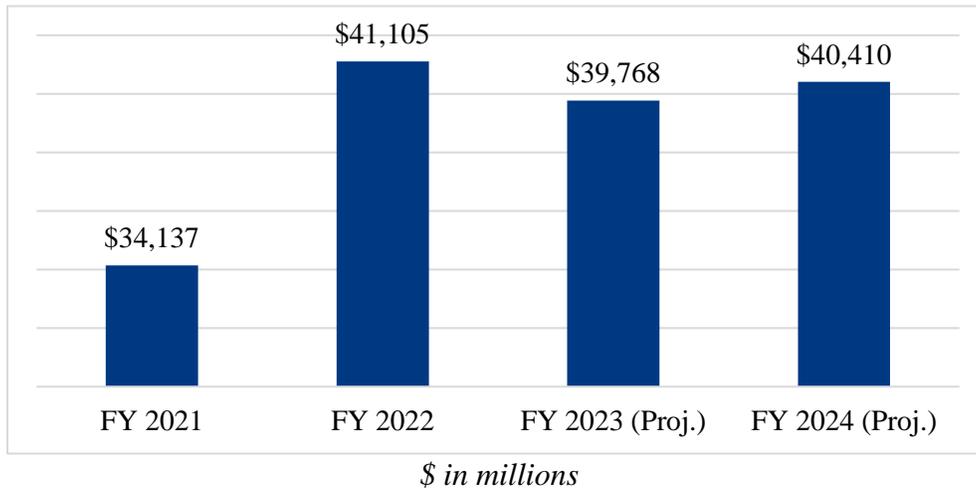
## FY 2024 Budget Resources

Governor Healey’s budget relies on \$62.7 billion in total state revenues. To assess the resources the Healey administration utilizes to support state spending in FY 2024, this brief organizes them into four categories: (1) baseline tax revenues, (2) income surtax revenue, (3) tax policy reforms, and (4) non-tax revenues.

### **Baseline Tax Revenues**

The revenue foundation for the Healey administration’s FY 2024 budget is the \$40.4 billion consensus tax revenue estimate established at the end of January. In FY 2024, tax revenues are expected to increase by \$642 million (1.6 percent) over projected FY 2023 collections of \$39.8 billion. While this represents a much slower growth rate than the state has experienced over the prior two fiscal years, it is important to note that revenue collections are anticipated to remain at elevated levels, providing budget writers with more than \$6 billion in ongoing new revenue since FY 2021.

*Tax Revenue Benchmarks, FY 2021 – FY 2024*



The consensus tax revenue estimate also includes four “pre-budget transfers” to the Workforce Training Trust Fund, the Pension Fund, the MBTA, and the School Building Authority (SBA). In FY 2024, the pre-budget transfers total \$6.9 billion, not including the deposit of excess capital gains tax revenue into the Stabilization Fund. This represents a \$564 million increase over the pre-budget transfers in the FY 2023 GAA. After taking into account pre-budget transfers and statutorily required transfer of capital gains revenue to the Stabilization Fund, \$32.9 billion in consensus tax revenues remain for state budget operating appropriations.

*FY 2024 Consensus Tax Revenues for Budget*

Consensus Tax Revenues	\$40,410
<i>Workforce Training Trust Fund</i>	-\$27
<i>School Building Authority</i>	-\$1,304
<i>MBTA</i>	-\$1,464
<i>Pension Fund</i>	-\$4,105
<i>Capital Gains Transfer</i>	-\$583
<b>CR Taxes Remaining for Budget</b>	<b>\$32,928</b>

**Income Surtax Revenue**

Governor Healey’s budget relies on \$1 billion in revenue generated by the new income surtax. The 4 percent surtax on income above \$1 million went into effect on January 1, 2023. The Department of Revenue estimates that in FY 2024 revenue related to the surtax will come in between \$1.4 and \$1.8 billion. To guard against the unpredictable and highly volatile nature of the revenue, especially in the early years of implementation, state budget writers agreed to cap the use of income surtax revenue on recurring costs in the FY 2024 budget at \$1 billion.

As constitutionally required, Governor Healey’s budget utilizes income surtax revenue for investments in public education and transportation.

*Proposed Uses of Income Surtax Revenue*

	Operating Investments	One-Time Investments	\$ Total	% of Total
<b>Education</b>	<b>\$370.00</b>	<b>\$140.00</b>	<b>\$510.00</b>	<b>51.0%</b>
<i>Early Education</i>	\$140.00	\$0.00	\$140.00	14.0%
<i>K-12 Education</i>	\$10.00	\$0.00	\$10.00	1.0%
<i>Higher Education</i>	\$220.00	\$140.00	\$360.00	36.0%
<b>Transportation</b>	<b>\$39.00</b>	<b>\$451.00</b>	<b>\$490.00</b>	<b>49.0%</b>
<i>MBTA</i>	\$0.00	\$186.00	\$186.00	18.6%
<i>MassDOT</i>	\$14.00	\$250.00	\$264.00	26.4%
<i>RTAs</i>	\$25.00	\$0.00	\$25.00	2.5%
<i>Local/Pilot Program</i>	\$0.00	\$15.00	\$15.00	1.5%
<b>Total Investments</b>	<b>\$409.00</b>	<b>\$591.00</b>	<b>\$1,000.00</b>	<b>100.0%</b>

*\$ in millions*

*Education and Transportation Fund*

The Healey administration proposes the creation of a new trust fund – the Education and Transportation Trust Fund – to collect income surtax revenues, and establishes procedures to regularly track, spend, and report on revenue collections from FY 2023 through FY 2025. By FY 2026, a permanent process will be established for the continued collection and use of income surtax revenue.

- **FY 2023** – All income surtax revenues will be collected and deposited into the Education and Transportation Fund.
- **FY 2024** – As agreed to during the consensus revenue process, no more than \$1 billion in revenue will be incorporated into the state budget to support recurring costs. Any amount of revenue above \$1 billion may be used to support one-time costs or capital expenditures.
- **FY 2025** – The spending cap for recurring costs will be increased by 3 percent, to \$1,030 billion. Any amount of funding above the cap may again be used to support one-time costs or capital expenditures; however, the balance of the fund must remain at one-third of the recurring expenses (\$343 million in FY 2025).

Deposits of surtax revenue will be made into the fund quarterly, based on estimated tax payments certified by the Department of Revenue. The balance of the fund will be certified annually by the State Comptroller, no later than December 15.

Under the Governor’s proposal, revenues deposited into the fund will not be included in the calculation of excess state tax revenue under Chapter 62F of the Massachusetts General Laws. There is no clear rationale for this proposal. All other taxes, including taxes constitutionally designated towards specific uses like the gas tax, are included in the current calculation; and tax rate increases have not been held aside from the formula previously. Governor Healey also proposes exempting surtax revenue from the state law requiring that any capital gains revenue above a certain threshold be automatically deposited into the Rainy Day Fund and other reserves.

The spending supported by income surtax revenues in Governor Healey’s budget is included in a new budget section – Section 2F – and identified by line-item language, which explicitly states whether an item is for an ongoing or one-time use.

### **Tax Reform Initiatives**

Governor Healey’s FY 2024 budget proposal reflects approximately \$859 million (\$742 million net) in tax reductions proposed in companion legislation. As MTF has [reported](#), Massachusetts is currently in a unique position where tax relief is not just affordable, but critical to improving the Commonwealth’s position as a place that retains and attracts people and investment. The tax reform package proposed by the Healey administration reflects many of the [recommendations](#) put forward by MTF to reduce key costs for working families, while limiting incentives for taxpayer relocation.

*Governor Healey’s Tax Reform Proposals, FY 2024 Cost*

	Governor Baker Proposal	House Proposal	Senate Proposal	Governor Healey Proposal	MTF Proposal
<b>Total Tax Initiatives</b>	<b>-\$741.00</b>	<b>-\$524.00</b>	<b>-\$502.00</b>	<b>-\$858.50</b>	<b>-\$1,287.00</b>
<b>Net to Budget Cost</b>	<b>-\$624.00</b>	<b>-\$524.00</b>	<b>-\$502.00</b>	<b>-\$741.50</b>	<b>-\$1,170.00</b>
<i>Child &amp; Dependent Credit</i>	-\$167.00	-\$130.00	-\$130.00	-\$458.00	-\$458.00
<i>Estate tax</i>	-\$231.00	-\$207.00	-\$185.00	-\$167.00	-\$450.00
<i>Short-term capital gains</i>	-\$117.00	\$0.00	\$0.00	-\$117.00	-\$117.00
<i>Rent deduction</i>	-\$77.00	-\$35.00	-\$35.00	-\$40.00	-\$77.00
<i>Senior circuit breaker</i>	-\$60.00	-\$60.00	-\$60.00	-\$60.00	-\$60.00
<i>No tax status</i>	-\$89.00	\$0.00	\$0.00	\$0.00	\$0.00
<i>Earned Income Tax Credit</i>	\$0.00	-\$92.00	-\$92.00	\$0.00	\$0.00
<i>Sting Taxes</i>	\$0.00	\$0.00	\$0.00	\$0.00	-\$125.00
<i>Other Tax Reforms</i>	\$0.00	\$0.00	\$0.00	-\$16.50	\$0.00

*\$ in millions*

The Governor’s proposal also follows a similar framework to the tax relief package that achieved legislative consensus last session. It includes:

- **Child & Dependent Tax Credit** (-\$458 million) – An increase to the Child and Dependent Tax Credit (CDTC) to \$600 per dependent and the removal of the dependent cap. At this proposed level, the state CDTC credit is equal to approximately 30 percent of the federal credit, providing a direct economic benefit to more than 700,000 tax filers in Massachusetts who care for more than 1 million children and dependents. Currently, families can receive a credit of between \$180 and \$240 per eligible dependent, with a maximum of two dependents per family.
- **Estate Tax** (-\$167 million) – An effective increase in the estate tax threshold from \$1 million to \$3 million, as well as the elimination of the cliff effect by providing all impacted taxpayers with a non-refundable \$182,000 tax credit. This reform eliminates taxes on estates up to \$3 million, and provides \$182,000 in tax relief for estates above that amount. The administration estimates that the annualized value of this reform will be around \$275 million; however, the first year cost will be much less at \$167 million.
- **Short-Term Capital Gains** (-\$117 million, \$0 net cost) – A reduction to the short-term capital gains tax rate from 12 to 5 percent, providing tax parity with all other income tax rates in Massachusetts. The fiscal impact of this reform will vary annually, based on trends in the larger economy. But notably, the budget impact of reducing the short-term capital gains rate will be zero. Capital gains collections above \$1.48 billion in FY 2024 will be automatically deposited into the Stabilization Fund and other reserves, and actual collections are far in excess of this level. Therefore, any reduction to the short-term rate results in smaller reserve deposits and not less revenue available for the budget.
- **Rental Deduction** (-\$40 million) – An increase in the maximum rental deduction from \$3,000 to \$4,000. Taxpayers in Massachusetts are able to claim a deduction on 50 percent of rent costs, up

to the maximum deduction. While this increase will provide targeted relief for households facing rising costs, MTF recommended increasing the maximum deduction to \$5,000 and also indexing the deduction cap to inflation to ensure it increases commensurate with housing costs.

- **Senior Circuit Breaker** (-\$60 million) – A doubling of the Senior Circuit Breaker base tax credit; which will provide income-eligible seniors facing high property tax and housing costs with a refundable tax credit. The base credit was equal to \$1,200 in 2022, and is increased by inflation each year. In tax year 2023, eligible older adults would receive a credit of approximately \$2,400 under Governor Healey’s plan.

Governor Healey’s proposal does not include any adjustment to the state’s Earned Income Tax Credit (EITC), which both the House and Senate proposed increasing from 30 to 40 percent of the federal amount in 2022. Her tax relief package also does not address ‘Sting Tax’ costs, which MTF has noted impose additional cost burdens on Massachusetts businesses – particularly small businesses – and risk incentivizing disinvestment in the state’s economy. MTF has also highlighted the need to look more broadly at tax and other economic cost drivers in Massachusetts.

In addition to the reforms detailed above, the administration’s FY 2024 budget reflects ten other changes to the state’s tax structure, with a fiscal impact of \$16.5 million in the first year of implementation. The most prominent of these changes is an increase to the annual cap on tax credits provided through the Housing Development Incentive Program (HDIP). The current cap is \$10 million and the Healey administration proposes a one-time increase to \$50 million in FY 2024, and an increase to \$30 million thereafter. The House and Senate supported similar proposals last year. Other tax changes include:

- Expanding the state’s apprenticeship tax credit;
- Exempting employer student loan assistance from state taxable income;
- Expanding commuter tax benefits to regional transit and bike commuter expenses;
- Extending the state’s brownfields tax credit;
- Doubling tax abatements for lead paint remediation and tax credits for septic replacements and repairs;
- Creating a new live theater tax credit, similar to a proposal adopted by the House last year;
- Increasing the cap on the state’s dairy tax credit; and
- Updating alcohol thresholds for taxation of ciders and still wines, similar to a proposal adopted by the Senate last year.

After taking into account the administration’s tax relief package and its impact on state budget spending in FY 2024, the administration’s budget proposal utilizes \$33.2 billion in total tax revenue to support operational spending.

*FY 2024 Tax Revenue Summary*

<b>Consensus Tax Revenues</b>	<b>\$40,410</b>
<i>Workforce Training Trust Fund</i>	-\$27
<i>School Building Authority</i>	-\$1,304
<i>MBTA</i>	-\$1,464
<i>Pension Fund</i>	-\$4,105
<i>Capital Gains Transfer</i>	-\$583
<b>CR Taxes Remaining for Budget</b>	<b>\$32,928</b>
<b>Income Surtax Revenues</b>	<b>\$1,000</b>
<i>Education Investments</i>	\$510
<i>Transportation Investments</i>	\$490
<b>Tax Policy Reforms</b>	<b>-\$742</b>
<i>Child &amp; Dependent Credit</i>	-\$458
<i>Estate tax</i>	-\$167
<i>Short-term capital gains</i>	\$0
<i>Rent deduction</i>	-\$40
<i>Senior circuit breaker</i>	-\$60
<i>Other Tax Reforms</i>	-\$17
Settlements and Judgements	\$50
<b>Tax Revenues for Budget</b>	<b>\$33,236</b>

*\$ in millions*

### **Non-Tax Revenues**

The Healey administration’s budget includes **\$23.7 billion** in budgeted revenue related to non-tax revenue proposals.

#### *Departmental & Federal Revenue*

In addition to revenue generated from taxes and new tax policy reforms, the state budget also relies upon hundreds of individual revenue sources related to federal grants and departmental operations. The most notable non-tax revenue sources included in Governor Healey’s FY 2024 budget include:

- **State Medicaid Reimbursements** (\$11 billion) – Massachusetts receives significant federal reimbursement for spending on the state’s Medicaid program, known as MassHealth. Since early in 2020, the Commonwealth has benefitted from a 6.2 percentage point increase in the federal match rate for MassHealth payments, which had resulted in approximately \$250 million in additional revenue each quarter. The federal Consolidated Appropriations Act, 2023 (CAA), passed by Congress at the end of 2022, instituted a phase-down schedule for enhanced federal Medicaid reimbursement that will incrementally lower federal reimbursement related to MassHealth throughout calendar year 2023. In FY 2024, the Healey administration is assuming a loss of \$588 million in federal reimbursement for MassHealth spending. Based on this, the federal

reimbursement share for MassHealth spending in FY 2024 is estimated to be 54 percent, a decrease of 4 percentage points compared to the FY 2023 share of 58 percent.

- **Gaming** (\$240 million) – Non-tax gaming revenues in support of budget appropriations total \$240 million in FY 2024, an increase of \$58.9 million over FY 2023. Through December, total gaming tax revenues equal \$176.9 million, putting the state on pace to exceed the FY 2022 gaming tax revenue total of \$300.1 million. The increase in gaming tax revenue collections to-date can be attributed to a post-pandemic rebound in gaming activity, as well as the introduction of tax revenue related to sports wagering. The Administration budget appears to assume \$311.3 million in gaming tax revenue in FY 2024.
- **Marijuana** (\$29 million) – In FY 2024, the administration assumes that marijuana licensing and fee revenue will decline by \$1.9 million in comparison to the FY 2023 GAA, for a total collection of \$29 million. In FY 2022, the state collected \$27.2 million in marijuana licensing and fee revenue and over the first six months of FY 2023 the state has collected \$12.3 million. The slight decrease in marijuana licensing revenue in FY 2023 and FY 2024 is to be expected, as the initial wave of new retailers and dispensaries subsides. Notably, these figures do not include marijuana excise and sales tax revenues. In FY 2024, the Healey administration is assuming \$167.3 million in revenue generated by the marijuana excise tax, a \$2 million increase over FY 2023. In FY 2022, the state collected \$156.7 million in revenue from the marijuana excise and the FY 2023 budget assumes collections of \$165.3 million. Over the first six months of FY 2023, over \$90 million in revenue has been generated by the marijuana excise, putting the state on pace to exceed the FY 2023 budget assumption.
- **Lottery** (\$1.2 billion) – The Healey administration assumes that net profits from the Lottery will be \$1.2 billion in FY 2024, level with FY 2023. Based on actual collection trends this projection appears conservative; however during testimony given at the Consensus Revenue Hearing in January, the State Treasurer noted that revenues in FY 2023 were bolstered by large jackpots which is not a sustainable source of ongoing revenue.

### **One-Time vs. Ongoing Revenues**

The Healey administration’s FY 2024 budget proposal limits the use of one-time revenue sources to a draw of \$155 million from the High-Quality Early Education & Care Affordability Fund, which was capitalized with surplus FY 2023 revenue in last year’s budget. The limited use of one-time resources is made possible by surging base tax revenue projections, as well as the additional revenue generated by the income surtax.

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### **FY 2024 Budget Spending**

Governor Healey’s FY 2024 budget proposal increases line-item spending by **\$2.9 billion** (5.6 percent) over the FY 2023 budget, for a total of \$54.8 billion. This figure reflects spending supported by income surtax revenues, and when the surtax is excluded, line-item spending increases by 3.7 percent over the FY 2023 budget.

*FY 2024 Line-Item Spending vs. FY 2023 GAA (all spending)*

Category	FY 2023 GAA	FY 2024 Governor (all spending)	\$ Change vs. FY 2023	% Change vs. FY 2023
Health Care	\$24,922.48	\$25,436.81	\$514.34	2.06%
Local Aid & Education	\$11,156.17	\$12,401.40	\$1,245.23	11.16%
Workforce	\$214.24	\$185.74	-\$28.49	-13.30%
Transportation	\$1,018.53	\$1,314.36	\$295.83	29.04%
Housing	\$884.49	\$991.92	\$107.43	12.15%
Climate, Energy & Environment	\$438.56	\$543.56	\$105.00	23.94%
Other Spending	\$13,234.24	\$13,903.44	\$669.20	5.06%
<b>Total Funding</b>	<b>\$51,868.71</b>	<b>\$54,777.25</b>	<b>\$2,908.54</b>	<b>5.61%</b>

*FY 2024 Line-Item Spend vs. FY 2023 GAA (excl. surtax spending)*

Category	FY 2023 GAA	FY 2024 Governor (excl. surtax)	\$ Change vs. FY 2023	% Change v. FY 2023
Health Care	\$24,922.48	\$25,436.81	\$514.34	2.06%
Local Aid & Education	\$11,156.17	\$11,891.40	\$735.23	6.59%
Workforce	\$214.24	\$185.74	-\$28.49	-13.30%
Transportation	\$1,018.53	\$824.36	-\$194.17	-19.06%
Housing	\$884.49	\$991.92	\$107.43	12.15%
Climate, Energy & Environment	\$438.56	\$543.56	\$105.00	23.94%
Other Spending	\$13,234.24	\$13,903.44	\$669.20	5.06%
<b>Total Funding</b>	<b>\$51,868.71</b>	<b>\$53,777.25</b>	<b>\$1,908.54</b>	<b>3.68%</b>

*\$ in millions*

## MassHealth

The largest category of spending within the Healey-Driscoll administration’s FY 2024 budget proposal is MassHealth, totaling **\$20.2 billion** and representing **37 percent** of total line-item spending. Proposed spending on MassHealth in FY 2024 is significant and the administration anticipates gross MassHealth costs to increase by \$356 million (1.8 percent) compared to the original FY 2023 budget. However, net of federal revenues, the state share of MassHealth costs is anticipated to increase by \$944 million (11.4 percent). This increase in the net cost is due to the end of enhanced federal Medicaid reimbursements at the end of calendar year 2023.

*MassHealth Spending and Federal Reimbursement*

	<b>FY 2022 GAA</b>	<b>FY 2023 GAA</b>	<b>FY 2024 Governor</b>	<b>\$ v. GAA</b>	<b>% v. GAA</b>
Federal Reimbursement Share	\$11,573	\$11,556	\$10,968	-\$588.5	-5.1%
<i>% of Total Spending</i>	<i>60.0%</i>	<i>58.3%</i>	<i>54.3%</i>	--	--
State Share	\$7,727	\$8,273	\$9,217	\$944	11.4%
<b>Total MassHealth Spending</b>	<b>\$19,300</b>	<b>\$19,829</b>	<b>\$20,185</b>	<b>\$356</b>	<b>1.8%</b>

Note: MTF MassHealth spending totals include several accounts that are not included in the administration’s funding summary, notably a retained revenue account and the Community Choices program funded under the Department of Elder Affairs.

Based on data provided by the Administration, total MassHealth costs in FY 2024 are expected to decline significantly compared to actual FY 2023 final spending. FY 2023 MassHealth costs will likely far exceed the original budget estimate of \$19.8 billion, as the requirement to maintain MassHealth enrollment has extended past the data used to build the FY 2023 budget. MTF will update this analysis as more information on actual MassHealth spending in FY 2023 becomes available.

*Expiration of the Federal Public Health Emergency*

Governor Healey’s FY 2024 budget proposal for MassHealth reflects the end of the federal Public Health Emergency (PHE) and the phasing out of several of its related policies. As noted above, since early in 2020, Massachusetts has benefitted from a 6.2 percentage point increase in the federal match rate for state Medicaid payments, which generated approximately \$250 million in additional revenue each quarter. In exchange for the enhanced federal revenue, the state also committed to a continuous coverage requirement. This prevented MassHealth from undergoing its routine redetermination process and resulted in a ballooning of MassHealth enrollment between 2020 and 2023; climbing from 1.75 million prior to the pandemic to 2.34 million at the end of 2022 (Appendix, Table 1).

The federal Consolidated Appropriations Act, 2023 (CAA), passed by Congress at the end of 2022, decoupled the declaration of the federal PHE from the enhanced federal match rate and the continuous coverage requirement. Under the federal law, Massachusetts will be able to begin redetermining who is eligible for Medicaid in April of 2023. Additionally, the CAA created a schedule to gradually phase-out the enhanced federal match rate over the course of calendar year 2023, with an expiration date of January 1, 2024 (Appendix, Table 2).

Consistent with these changes in federal policy, it appears that Governor Healey’s FY 2024 budget proposal reflects the loss of approximately \$588.5 million in federal reimbursement for MassHealth spending. It also reflects a gradual decline in MassHealth enrollment over the course of FY 2024, related to the redetermination process. The administration anticipates that it will take 12 months to redetermine approximately 400,000 individuals who otherwise would have been dis-enrolled during the federal PHE.

*MassHealth Spending Initiatives*

To assist individuals in transitioning to employer-supported insurance or the Health Connector during the redetermination period and to improve access to care for low- and middle-income older adults, Governor

Healey’s FY 2024 budget funds a number of MassHealth-related spending initiatives, including an expansion of the Medicare Savings Program through the elimination of the asset test and the inclusion of \$5.1 million at the Executive Office of Health and Human Services to assist with outreach and communication to MassHealth members.

## Municipal Finance

In her first budget proposal, Governor Healey includes **\$1.25 billion** for Unrestricted General Government Aid (UGGA), a **\$24.6 million** (2.0 percent) increase over FY 2023.

Unrestricted general government aid is the largest source of direct aid to cities and towns across the Commonwealth funded through the state budget. During the Baker administration, funding for UGGA was consistently increased by the consensus revenue growth percentage. In the FY 2023 budget, UGGA growth was decoupled from the 2.7 percent consensus tax revenue growth estimate and increased by 5.4 percent. While tying local aid to consensus tax revenue growth aimed to improve the predictability of state aid, in recent years actual state tax revenue collections substantially outpaced consensus tax revenue estimates and municipalities have lobbied for that revenue to be shared more equitably with local cities and towns. For example, in FY 2022 funding for UGGA was increased by the same percentage growth rate as the consensus revenue estimate, 3.5 percent; however, actual revenue collections in FY 2022 grew by 20.5 percent over FY 2021.

For FY 2024, the Healey administration again decouples the appropriation increase from the consensus revenue growth estimate of 1.6 percent. The 2 percent proposed increase for UGGA is not tied to any specific revenue growth figure, but does appear consistent with prior year increases in aid.

Governor Healey also funds PILOT – payments in lieu of taxes for state-owned land – at **\$51.5 million**, a **\$6.5 million** (14.4 percent) increase over FY 2023.

*UGGA and PILOT Funding in FY 2024*

Program	FY 2021 GAA	FY 2022 GAA	FY 2023 GAA	FY 2024 Governor
<b>UGGA</b>	\$1,128.39	\$1,168.12	\$1,231.20	\$1,255.82
<i>\$ Increase v. Prior Year</i>	-\$0.2	\$39.7	\$63.1	\$24.6
<i>% Increase v. Prior Year</i>	0.0%	3.5%	5.4%	2.0%
<b>PILOT</b>	\$30.98	\$35.00	\$45.00	\$51.47
<i>\$ Increase v. Prior Year</i>	\$1.0	\$4.0	\$10.0	\$6.5
<i>% Increase v. Prior Year</i>	3.3%	13.0%	28.6%	14.4%

*\$ in millions*

### *Other Notable Investments in Municipalities*

Governor Healey funds the Municipal Regionalization and Efficiencies Incentive Reserve at **\$20.5 million**, an increase of \$1.7 million over FY 2023 after accounting for local earmark funding. The reserve funds are earmarked for specific programs; including:

- **\$8 million** for the Community Compact program, which delivers grants to cities and towns across the Commonwealth to implement improvements to local government operations, efficiencies, and finances.
- **\$5 million** for Public Safety and Emergency Staffing Grants, to be awarded to communities with populations of greater than 60,000 to improve the fiscal stability of police departments.
- **\$3 million** for the District Local Technical Assistance Fund, level with FY 2023.
- **\$2 million** for an Efficiency and Regionalization Competitive Grant Program; which offers local governments the opportunity to implement regionalization and efficiency initiatives.
- **\$2 million** for Regional Planning Agencies, allowing municipalities to identify, apply for, and manage federal funding opportunities.
- **\$500K** for the continuation of the Local Finance Commonwealth Fellowship Program to provide up to 30 community college students with work experiences in municipal finance.

The Governor also proposes **\$12.3 million** for the **Shannon Community Safety grant program**, level funded with FY 2023. ‘Shannon grants’ provide municipalities with increased resources to address gang and youth violence through targeted outreach, education, and employment programs.

Lastly, Governor Healey increases local aid for libraries by a total of \$4.5 million over FY 2023; including **\$17.6 million** in local aid for public libraries, **\$15.9 million** for regional libraries, and **\$6.2 million** for library technology and automated resource-sharing.

## **Education**

### **Early Education**

Governor Healey’s FY 2024 budget proposal provides approximately **\$1.5 billion** in funding for early education and care programs, an increase of about **\$200 million** over the final FY 2023 budget. This increase follows an historic FY 2023 budget which pushed EEC investments past the \$1 billion mark for the first time since its creation.

A majority of the FY 2024 increase comes from funding the C3 stabilization grant program for the full fiscal year at \$475 million. To reach this investment, the administration proposes using a mix of surtax revenues (\$100M), funds from the High Quality and Affordability Trust Fund (\$150M), and the General Fund (\$225M). Stabilization grants funded with surtax revenues must be provided to child care programs whose enrollment consists of at least 50% of children with a state subsidy.

*Early Education and Care Spending in FY 2024*

Program	FY 2022 GAA	FY 2023 GAA	FY 2024 Governor	\$ vs. FY 2023 GAA
Administration	\$51.94	\$57.07	\$58.62	\$1.55
Child Care Stabilization Grants (C3)	\$0.00	\$250.00	\$375.00	\$125.00
Reimbursement Rate Increase	\$20.00	\$60.00	\$20.00	-\$40.00
Child Care Resource and Referral	\$12.00	\$15.00	\$20.00	\$5.00
Higher Education	\$5.00	\$10.00	\$10.00	\$0.00
EEC Strategic Planning & Investment	\$0.00	\$0.00	\$5.00	\$5.00
Other Early Education	\$32.97	\$51.28	\$27.75	-\$23.53
<b>Subsidized Child Care</b>	<b>\$657.63</b>	<b>\$693.65</b>	<b>\$773.65</b>	<b>\$80.00</b>
<i>DCF and DTA Related Child Care</i>	\$358.93	\$325.54	\$355.66	\$30.12
<i>Income-Eligible Child Care</i>	\$298.70	\$368.11	\$417.99	\$49.88
<b>Program Supports &amp; Expansion</b>	<b>\$28.00</b>	<b>\$35.00</b>	<b>\$35.00</b>	<b>\$0.00</b>
<i>Commonwealth Preschool Partnership Initiative</i>	\$10.00	\$15.00	\$15.00	\$0.00
<i>Early Childhood Mental Health Consultation Services</i>	\$3.00	\$3.50	\$5.00	\$1.50
<i>Grants to Head Start Programs</i>	\$15.00	\$16.50	\$15.00	-\$1.50
<b>Income Surtax Spending</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$140.00</b>	<b>\$140.00</b>
<i>Childcare Grants to Providers</i>	\$0.00	\$0.00	\$100.00	\$100.00
<i>Income Eligible Waitlist</i>	\$0.00	\$0.00	\$25.00	\$25.00
<i>CPPI Pre-K Initiative</i>	\$0.00	\$0.00	\$15.00	\$15.00
<b>Total</b>	<b>\$819.08</b>	<b>\$1,183.70</b>	<b>\$1,476.71</b>	<b>\$293.01</b>

*\$ in millions*

Other notable investments in Governor Healey’s FY 2024 budget for early education include:

- Subsidy Programs (\$774M) – the Governor’s budget includes an additional \$80 million, compared to FY 2023, for income eligible child care and DTA/DCF related child care. This increase likely reflects the annualization of reimbursement rate increases from the previous fiscal year.
- Commonwealth Partnership for Preschool Initiative (\$30M) – a \$15 million increase, the Governor’s proposal doubles the FY 2023 investment in CPPI which supports planning and implementation activities to expand preschool. This increase is funded using surtax revenues.
- Strategic Planning and Investment (\$5M) – the Governor includes \$5 million for a new line item which directs the Commissioner of the EEC, in consultation with the Secretaries of Administration and Finance, Education, and Health and Human Services, to conduct an analysis and make recommendations to streamline and improve funding mechanisms for subsidized child care. This builds on previous investments from FY 2023 dedicated towards research, planning, and policy and program improvements. Resources for this new line item come from the High Quality and Affordability Trust Fund.
- Waitlist Remediation (\$25M) – the Governor’s proposal dedicates \$25 million for income eligible waitlist remediation which administration officials anticipate will expand access to 2,200 new families. These remediation efforts are funded using surtax revenues.

- Child Care Resource and Referral Agencies (\$20M) – the Governor’s budget includes a \$5 million increase for Child Care Resource and Referral Agencies (CCRRs).

Outside of the FY 2024 budget process, House Ways and Means recently included \$68 million for C3 operational grants in an FY 2023 supplemental budget that was first filed by the Governor last month. This funding fills a roughly two month budget shortfall, ensuring that the program is able to administer grants for the remainder of the fiscal year.

**K-12 Education**

*Chapter 70 State Aid*

Governor Healey’s FY 2024 budget proposal increases funding for Chapter 70 state aid by **\$586 million** (9.8 percent) over FY 2023, for a total funding level of **\$6.6 billion**. This is the largest year over year increase in the history of the state’s funding formula. The \$494.9 million increase in the FY 2023 budget was the previous record. Governor Healey does not use any surtax revenues to support this K-12 formula increase.

This historic level of investment funds the third year of Student Opportunity Act (SOA) implementation, and appears to keep the state on track for full funding by FY 2027. The Student Opportunity Act was signed into law in 2019, overhauling the calculation of the Foundation Budget to more accurately reflect educational costs. Through significant increases to cost assumptions for low-income students and updated spending estimates for employee health insurance, English learner students, and mental health services, the SOA will increase funding for K-12 public education in the Commonwealth by billions of dollars.

*Chapter 70 Funding in FY 2024*

<b>Program</b>	<b>FY 2021 GAA</b>	<b>FY 2022 GAA</b>	<b>FY 2023 GAA</b>	<b>FY 2024 Governor</b>
<b>Chapter 70 State Aid</b>	\$5,282.40	\$5,503.27	\$5,988.52	\$6,584.60
<i>Minimum Aid Supplement</i>	\$0.00	\$0.00	\$9.69	\$0.00
<b>Total State Aid</b>	\$5,282.40	\$5,503.27	\$5,998.21	\$6,584.60
<i>\$ Increase v. Prior Year</i>	<i>\$106.41</i>	<i>\$220.87</i>	<i>\$494.94</i>	<i>\$586.39</i>
<i>% Increase v. Prior Year</i>	<i>2.1%</i>	<i>4.2%</i>	<i>9.0%</i>	<i>9.8%</i>
<b>SOA Implementation Schedule</b>	Base Year	Year 1	Year 2	Year 3

*\$ in millions*

Notable elements of Governor Healey’s Chapter 70 aid proposal:

- Foundation budget rates are increased by an inflation rate of 4.5 percent. Section 2 of Chapter 70 of the Massachusetts General Laws, defines the foundation inflation index as the lesser of a calculation of state and local government inflation or 4.5 percent. This year, actual state and local government inflation is 9.3 percent (Appendix, Table 3).

- Statewide foundation enrollment has increased by 1,488 students to 905,239. Between Fiscal Years 2020 and 2023, statewide foundation enrollment had decreased by over 35,000 students. Contrary to initial expectations, enrollment trends did not rebound as pandemic restrictions eased and students returned to in-person learning. FY 2024 is the first year post-pandemic that enrollment has increased; however, enrollment shifts are uneven in districts across the state. For example, Boston continues to experience substantial decreases in foundation enrollment, losing 601 students in FY 2024. Sustained loss of students has serious implications for districts' Chapter 70 state aid amounts, which are primarily driven by student enrollment (Appendix, Table 4).
- Minimum aid is set at \$30 per pupil. In the Chapter 70 state aid formula, a district is guaranteed to receive an increase in state aid at least equal to their foundation enrollment multiplied by the minimum aid per pupil amount. In Governor Healey's FY 2024 budget proposal, 120 districts are receiving minimum aid, a decrease of 22 compared to the 142 minimum aid districts in FY 2023.
- Required local contributions increase by \$399.6 million over FY 2023 under Governor Healey's Chapter 70 aid proposal. As districts' foundation budgets grow substantially under the SOA, so too do the required local contributions of municipalities. Since FY 2021, the base year of SOA implementation, required local contributions have increased by \$861 million. To provide relief to districts facing disproportionate increases in their required local contributions, Governor Healey also funds a \$10 million reserve account to provide supplemental aid, though a distribution methodology is not established.

Halfway through implementation of the Student Opportunity Act, the statewide foundation budget has increased by over \$2.3 billion. As intended, the largest increases in foundation budgets and state aid have been targeted towards the highest-needs districts across the state. At the same time, many of those districts have access to \$1.5 billion in federal ESSER funds that remain unclaimed. Balancing the expenditure of federal funds before they expire with increasing net school spending requirements will be a challenge for districts throughout FY 2024 (Appendix, Table 5).

#### *Education Reimbursement Programs*

The Healey-Driscoll administration recommends a total of **\$878.6 million** for other major education reimbursement programs, including Charter Tuition Reimbursement, Special Education Circuit Breaker, and Student Transportation Reimbursement. This represents an **\$88 million** (11 percent) increase over the FY 2023 budget.

*K-12 Education Reimbursement Programs in FY 2024*

Program	FY 2022 GAA	FY 2023 GAA	FY 2023 Reimb. %	FY 2024 Governor	FY 2024 Reimb %
SPED Circuit Breaker	\$373.3	\$441.0	75%	\$503.8	75%
Charter Tuition Reimbursement	\$154.6	\$243.8	100%	\$243.8	100%
Regional School Transportation	\$82.2	\$82.2	85%	\$97.1	90%
Non-Resident Vocational Transportation	\$0.3	\$0.3	6%	\$5.2	90%
Homeless Student Transportation	\$14.4	\$23.0	100%	\$28.7	100%
<b>Total Education Reimbursement</b>	<b>\$624.8</b>	<b>\$790.2</b>		<b>\$878.6</b>	

*\$ in millions*

The funding levels for charter school reimbursement and special education are related to increased foundation budget costs, as well as commitments made in the Student Opportunity Act (SOA). The SOA committed to fully-funding charter tuition reimbursements for sending school districts by FY 2023. The FY 2023 budget fulfilled this obligation, and Governor Healey’s FY 2024 budget proposal adheres to this commitment as well. The SOA also expanded the Special Education Circuit Breaker program to reimburse districts for eligible out-of-district transportation costs, and committed to fully funding these reimbursements by FY 2024. Governor Healey’s budget fully funds required out-of-district transportation costs for districts.

It is important to note that the Special Education Circuit Breaker program reimburses districts for eligible special education costs incurred during the *prior* fiscal year; meaning that the FY 2024 appropriation for the circuit breaker program is reimbursing districts for FY 2023 claims. Many districts across the state anticipate large increases in special education costs in FY 2024 due to inflation and workforce related cost increases at private special education schools. While special education costs incurred by districts in FY 2024 will be eligible for reimbursement through the circuit breaker program in FY 2025, Governor Healey is also proposing a four-fold increase in the funding available for extraordinary relief payments. Funded at \$20 million, extraordinary relief payments provide additional aid to districts experiencing large increases related to special education costs during the current year.

*Student Nutrition Programs*

Governor Healey does not include funding for the continuation of the Universal School Meals pilot program in her FY 2024 budget proposal. However, in a previously filed supplemental budget, she included \$65 million to fund the program through the remainder of FY 2023. In her budget filing materials, she also indicates her intent to fund another year of universal school meals program through a forthcoming supplemental budget using state surplus dollars.

*Rural School Aid*

The administration includes **\$7.5 million** for Rural School Aid in FY 2024, a **\$2 million** (36 percent) increase over FY 2023. In FY 2023, 65 school districts benefitted from the Rural School Aid program, and aid was allocated in accordance with a three-tiered prioritization scale based on student density: (1)

districts that serve no more than 11 students per square mile, (2) districts that serve between 11 and 21 students per square mile, and (3) districts that serve between 21 and 35 students per square mile.

**Higher Education**

Governor Healey funds the public higher education sector at **\$1.9 billion**, including **\$1.4 billion** in direct support for the University of Massachusetts, State Universities, and Community Colleges, a **\$36.3 million** (3 percent) increase over campus funding in the FY 2023 budget. Governor Healey also utilizes **\$360 million** in income surtax revenue to support recurring and one-time investments in higher education, which represents the largest share of income surtax spending.

Surtax spending on higher education is divided between \$220 million in operating investments and \$140 million in one-time (largely capital) investments. Specific surtax investments are described below the chart.

*Higher Education Spending by Sector in FY 2024*

Category	FY 2022 GAA	FY 2023 GAA	FY 2024 Governor	\$ vs. GAA
Community Colleges	\$322.81	\$338.06	\$347.82	\$9.77
State Universities	\$298.42	\$327.75	\$337.42	\$9.67
University of Massachusetts	\$577.81	\$672.98	\$689.90	\$16.92
Scholarship Programs	\$151.78	\$199.93	\$201.93	\$2.00
Other Higher Education	\$37.01	\$73.53	\$46.31	-\$27.22
<b>Income Surtax Spending</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$360.00</b>	<b>\$360.00</b>
<i>Financial Aid Expansion</i>	<i>\$0.00</i>	<i>\$0.00</i>	<i>\$93.00</i>	<i>\$93.00</i>
<i>Student Support Services</i>	<i>\$0.00</i>	<i>\$0.00</i>	<i>\$30.00</i>	<i>\$30.00</i>
<i>MassReconnect</i>	<i>\$0.00</i>	<i>\$0.00</i>	<i>\$20.00</i>	<i>\$20.00</i>
<i>Higher Ed Fee Stabilization</i>	<i>\$0.00</i>	<i>\$0.00</i>	<i>\$59.00</i>	<i>\$59.00</i>
<i>State Universities Student Services &amp; Equity Initiatives</i>	<i>\$0.00</i>	<i>\$0.00</i>	<i>\$8.00</i>	<i>\$8.00</i>
<i>UMass Diversity, Equity, and Inclusion Initiatives</i>	<i>\$0.00</i>	<i>\$0.00</i>	<i>\$10.00</i>	<i>\$10.00</i>
<i>Higher Education Capital Funding</i>	<i>\$0.00</i>	<i>\$0.00</i>	<i>\$140.00</i>	<i>\$140.00</i>
<b>Total Funding</b>	<b>\$1,387.83</b>	<b>\$1,612.25</b>	<b>\$1,983.38</b>	<b>\$371.13</b>

*\$ in millions*

*Public Higher Education Campuses*

Increases to campus operating appropriations for state universities range from 1.8 – 3.1 percent, while increases for community college campuses range from 2.2 – 3.8 percent. The differences in funding growth across higher education campuses are not fully apparent; however, they are often related to the staggered ratification of collective bargaining agreements.

In FY 2024 Governor Healey utilizes \$48 million in income surtax revenues to expand student support services across public higher education campuses. This includes \$30 million to provide students with workforce development opportunities, internship incentives, and health care services to improve retention and degree attainment; and \$18 million for diversity, equity, and inclusion initiatives at state universities and the University of Massachusetts.

Governor Healey also dedicates \$140 million in surtax revenue for one-time use to address the backlog of deferred maintenance projects on public higher education campuses.

#### *Scholarship Programs and Addressing Student Costs*

Inclusive of income surtax spending, Governor Healey funds the Massachusetts State Scholarship program at \$268 million, including \$175 million supported by general fund dollars and \$93 million by income surtax revenue. The \$93 million investment supports the expansion of the MASSGrant Plus program, which covers the cost of mandatory tuition and fees for in-state undergraduate students at public higher education institutions.

Governor Healey also dedicates \$20 million in income surtax revenue towards the MassReconnect program, which will fund free community college certificates and degrees to residents of Massachusetts who are 25 years of age and older and have not earned a college credential. The MassReconnect program is unique in its intention to cover all costs associated with earning a degree, including graduation fees, course materials, and textbooks.

Lastly, Governor Healey proposes the use of \$59 million in income surtax revenue to support public higher education campuses in the development of innovative strategies to improve the cost and predictability of tuition and fee prices for students and families.

The reduction in funding for “Other Higher Education” programs of \$27 million is predominantly related to the elimination in funding for the Endowment Incentive Program, which was funded in the FY 2023 budget at \$20 million. The Endowment Incentive Program has historically been funded through supplemental budgets and has been a legislative priority.

## **Workforce & Career Readiness**

Efforts to bolster the Commonwealth’s workforce are funded across an array of executive-level agencies and state departments, including the Executive Office of Housing & Economic Development, the Executive Office of Labor and Workforce Development, the Department of Elementary and Secondary Education, the Department of Higher Education, and various public higher education campuses.

MTF tracks investments in workforce and career readiness across 40 state programs and 6 state agencies. Across these programs, Governor Healey proposes **\$185.7 million** in FY 2024, a **\$28.5 million** (13.3 percent) decrease over FY 2023 budget. But this comparison is misleading.

In a number of instances, it may appear that the Governor’s budget reduces the appropriation from the FY 2023 signed budget. However, this reduction does not necessarily reflect a cut to the program, as significant federal and state resources have been devoted to these workforce programs through COVID recovery legislation. Examples of these programs include YouthWorks Summer Jobs, the transfer to the Workforce Competitiveness Trust Fund, and Career Technical Institutes. The Governor’s budget funds

several other workforce investments throughout the budget, and they are highlighted elsewhere in this brief.

*Workforce Spending by Sector in FY 2024*

<b>Program</b>	<b>FY 2022 GAA</b>	<b>FY 2023 GAA</b>	<b>FY 2024 Governor</b>	<b>\$ vs. FY 2023 GAA</b>
<b>Economic Development</b>	<b>\$24.48</b>	<b>\$31.40</b>	<b>\$24.18</b>	<b>-\$7.23</b>
<i>Career Technical Institutes</i>	<i>\$15.38</i>	<i>\$20.40</i>	<i>\$15.38</i>	<i>-\$5.03</i>
Higher Education	\$1.45	\$1.45	\$1.45	\$0.00
<b>Labor and Workforce</b>	<b>\$76.92</b>	<b>\$92.13</b>	<b>\$68.46</b>	<b>-\$23.66</b>
<i>MassHire Career Centers</i>	<i>\$9.50</i>	<i>\$15.00</i>	<i>\$5.96</i>	<i>-\$9.04</i>
<i>Registered Apprenticeship Expansion</i>	<i>\$1.00</i>	<i>\$1.00</i>	<i>\$4.98</i>	<i>\$3.98</i>
<i>YouthWorks-Summer Jobs Program for At-Risk Youth</i>	<i>\$24.00</i>	<i>\$28.48</i>	<i>\$16.24</i>	<i>-\$12.24</i>
<i>Transfer to Workforce Competitiveness Trust Fund</i>	<i>\$17.00</i>	<i>\$17.00</i>	<i>\$10.00</i>	<i>-\$7.00</i>
Veterans	\$0.25	\$0.28	\$0.28	\$0.00
Health & Human Services	\$0.35	\$2.00	\$1.00	-\$1.00
<b>K-12 Education</b>	<b>\$65.60</b>	<b>\$86.98</b>	<b>\$90.38</b>	<b>\$3.40</b>
<i>Adult Basic Education</i>	<i>\$50.00</i>	<i>\$60.00</i>	<i>\$60.00</i>	<i>\$0.00</i>
<i>Early College Programs</i>	<i>\$5.00</i>	<i>\$10.00</i>	<i>\$13.00</i>	<i>\$3.00</i>
<b>Total Spending</b>	<b>\$169.05</b>	<b>\$214.24</b>	<b>\$185.74</b>	<b>-\$28.49</b>

*\$ in millions*

Notable workforce investments in Governor Healey’s FY 2024 budget include:

- Registered Apprenticeships (4.98M) – Funding for these programs is increased by \$3.98 over the FY 2023 budget, and is estimated to fund 684 apprenticeships and prioritize those in the manufacturing, health care, and IT fields in FY 2024.
- Early College and Dual Enrollment (\$13M) – Early College and Dual Enrollment programs are increased by \$3 million over the FY 2023 budget. This funding level does not reflect additional resources made available for Early College programs through the state’s scholarship reserve.

**Transportation**

The MBTA, MassDOT and Regional Transit Authorities (RTAs) receive **\$812 million** in Governor Healey’s FY 2024 budget proposal, a **\$72 million** (10 percent) increase over FY 2023. This spending total does not include surtax transportation investments or the \$1.5 billion transfer to the MBTA of dedicated sales tax collections.

Of the funding dedicated towards transportation in the Governor’s budget, **\$490 million** is supported by new income surtax revenue.

*Transportation Spending in FY 2024*

Category of Spending	FY 2022 GAA	FY 2023 GAA	FY 2024 Governor	\$ vs. GAA
Transfer to RTAs	\$94.00	\$96.50	\$96.82	\$0.32
Transfer to MassDOT	\$403.05	\$457.11	\$528.87	\$71.75
Transfer to MBTA	\$127.15	\$187.05	\$187.00	-\$0.05
Other Transportation	\$11.27	\$277.87	\$11.67	-\$266.19
<b>Income Surtax Spending</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$490.00</b>	<b>\$490.00</b>
<i>Municipal Partnership Programs</i>	\$0.00	\$0.00	\$100.00	\$100.00
<i>Federal Matching Funds</i>	\$0.00	\$0.00	\$50.00	\$50.00
<i>Highway Bridge Preservation</i>	\$0.00	\$0.00	\$100.00	\$100.00
<i>Roadside Maintenance and Beautification</i>	\$0.00	\$0.00	\$14.00	\$14.00
<i>MBTA Capital Investments</i>	\$0.00	\$0.00	\$181.00	\$181.00
<i>MBTA Means Tested Fares</i>	\$0.00	\$0.00	\$5.00	\$5.00
<i>Regional Transit Funding and Grants</i>	\$0.00	\$0.00	\$25.00	\$25.00
<i>Palmer and Pittsfield Rail Projects</i>	\$0.00	\$0.00	\$12.50	\$12.50
<i>Water Transportation</i>	\$0.00	\$0.00	\$2.50	\$2.50
<b>Total</b>	<b>\$635.46</b>	<b>\$1,018.53</b>	<b>\$1,314.36</b>	<b>\$295.83</b>

*MassDOT*

Governor Healey’s FY 2024 budget proposal funds the Massachusetts Department of Transportation at \$528.9 million, a \$71.8 million (16 percent) increase over FY 2023. Based on the administration’s estimates, this includes a \$13.4 million investment in salary increases for civil engineers to improve the department’s ability to compete for federal funds made available through the Bipartisan Infrastructure Law, as well as \$28 million for the implementation of the Work and Family Mobility Act beginning this summer.

In FY 2024, Governor Healey proposes the use of \$279 million in income surtax revenues for transportation-related programs under MassDOT. Most notably, this includes:

- \$100 million for a municipal partnership grant program to assist cities and towns with the design and development costs of transportation-related projects;
- \$100 million for the construction, preservation, and repair of highway bridges; and
- \$50 million for matching funds for state or municipal transportation projects eligible for federal grants.

*MBTA*

As MTF has [reported extensively](#), the MBTA is in crisis. As the Healey administration and Legislature grapple with fixes, they do so under the watchful eye of federal regulators who have flagged persistent governance, safety, financial, and workforce issues. In FY 2023, state policymakers attempted to address some of the MBTA’s most pressing concerns; authorizing \$400 million in state supported bonds to keep

capital spending at \$2 billion in FY 2025 and FY 2026 and appropriating \$378 million in one-time supplemental state funding to address the FTA’s immediate safety, workforce, and quality assurance directives.

The MBTA will continue to have access to the majority of this funding throughout FY 2024 to address the directives of the FTA, and Governor Healey’s FY 2024 budget proposal dedicates an additional \$186 million in income surtax revenues to support infrastructure and service improvements and initiatives, including:

- \$181 million for one-time capital improvements for the MBTA’s physical infrastructure; and
- \$5 million for one-time expenses to assess the feasibility of implementing a means-tested fare program at the MBTA.

Governor Healey’s budget also includes a moderate increase to the funding available for oversight of the MBTA by the Department of Public Utilities. The Transportation Oversight Division under the department is funded at \$633,000, an increase of \$277,000 over FY 2023. While it is not clear how exactly these funds will be used, they may support the hiring of additional staff.

Additionally, materials filed with the Governor’s budget indicate the administration’s intention to recommend new funding for hiring and training supports at the MBTA, to support the Authority’s hiring goals.

### *Regional Transit Authorities*

Regional Transit Authorities are funded at \$96.8 million in Governor Healey’s FY 2024 budget, a \$320,000 increased over FY 2023. Of this total, \$94 million will be distributed to the RTAs as base aid, and \$2.8 million will be distributed via the same formula methodology as FY 2023, based on transit ridership, population, and service coverage area. RTAs are also supported in Governor Healey’s FY 2024 budget by \$25 million in income surtax revenues, which provide \$6 million in additional operating funds for RTAs and \$19 million in expanded grant opportunities.

## **Housing**

The state’s annual operating budget includes funding for a variety of housing stabilization, homelessness prevention, and housing financial assistance programs. Governor Healey funds these programs at **\$991.2 million** in FY 2024, a **\$107.4 million (12 percent)** increase over the FY 2023 budget.

*Housing Investments in FY 2024*

<b>Program</b>	<b>FY 2022 GAA</b>	<b>FY 2023 GAA</b>	<b>FY 2024 Governor</b>	<b>\$ vs. FY 2023 GAA</b>
Counseling & Education Services	\$8.20	\$9.70	\$8.77	-\$0.93
<b>Housing Financial Assistance</b>	<b>\$175.72</b>	<b>\$333.03</b>	<b>\$359.01</b>	<b>\$25.97</b>
<i>Accessible Affordable Housing Grants</i>	\$2.50	\$2.50	\$0.00	-\$2.50
<i>Massachusetts Rental Voucher Program</i>	\$129.98	\$154.30	\$168.25	\$13.95
<i>Residential Assistance for Families in Transition</i>	\$22.00	\$150.00	\$162.60	\$12.60
<b>Housing Stabilization &amp; Homelessness Prevention</b>	<b>\$300.96</b>	<b>\$421.56</b>	<b>\$513.54</b>	<b>\$91.98</b>
<i>Emergency Assistance Family Shelters and Services</i>	\$196.96	\$219.44	\$324.05	\$104.61
<i>Home and Healthy for Good Program</i>	\$3.89	\$6.39	\$4.16	-\$2.23
<i>HomeBASE</i>	\$25.97	\$59.41	\$42.07	-\$17.34
<i>Homeless Individual Shelters</i>	\$57.86	\$110.00	\$110.75	\$0.75
<i>Operation of Homeless Programs</i>	\$6.23	\$7.17	\$12.61	\$5.44
Public Housing	\$86.00	\$93.00	\$94.20	\$1.20
<b>Other Housing</b>	<b>\$13.08</b>	<b>\$27.20</b>	<b>\$16.41</b>	<b>-\$10.79</b>
<i>Local Housing Programs Earmarks</i>	\$2.72	\$3.56	\$0.00	-\$3.56
<i>Shelter Workforce Assistance</i>	\$0.00	\$10.00	\$0.00	-\$10.00
<b>Grand Total</b>	<b>\$583.96</b>	<b>\$884.49</b>	<b>\$991.92</b>	<b>\$107.43</b>

*\$ in millions*

Notable housing investments in Governor Healey’s FY 2024 budget include:

- Massachusetts Rental Voucher Program (\$168.25M) - Funding for MRVP is increased by \$13.9 million over the FY2023 budget and is anticipated to create 750 new mobile and project-based vouchers. The proposal also establishes the Small Area Fair Market Rents rate as a standard payment rate, which would allow a voucher’s value to be based on a neighborhood and have additional value in high rent areas.
- Residential Assistance for Families in Transition (\$162.6M) – Funding for RAFT is increased by \$12.6 million over the FY 2023 budget, but the benefit amount has been reduced from \$10K over a 12 month period to \$7K in a 24 month period. RAFT provides funds for eligible households who are at risk of losing their current housing and/or to prevent utilities from being shut off.
- Emergency Assistance Family and Shelter Services (\$324.05M) - Funding increases by \$104.6 million over the FY 2023 budget. This funding goes towards shelters and services for eligible homeless families and the administration expects to maintain 4,755 units, a 31% increase over FY 2023 capacity.
- HomeBASE (\$42.07M) – Funding is decreased by \$17.34 million over the FY 2023 budget. The proposal doubles the amount of time from 12 months to 24 months that a family can still be eligible for benefits if their income exceeds eligibility thresholds. Also, a new pilot program provides

agencies with \$10M if they determine a family has a greater need than \$20K in assistance over a 24 month period.

- Individual Homeless Shelter (\$110.75M) funding increases by \$752,398 over the FY 2023 budget and the administration anticipates to maintain over 2,600 individual shelter beds.

In concurrence with the filing of her FY 2024 budget proposal, Governor Healey also filed an Article 87 reorganization plan to establish the new Executive Office of Housing and Livable Communities. The creation of a new executive office is intended to focus the state’s efforts on the creation of affordable housing, the promotion of housing stability, and the maintenance of the state shelter system.

## Climate, Energy & Environment

The Healey administration’s FY 2024 budget increases funding for the Executive Office of Energy and Environmental Affairs and its departments by \$105 million over FY 2023, for a total of **\$543.6 million**.

Under the Executive Office of Energy and Environmental Affairs, funded at \$197.7 million, is a \$35 million transfer to the Massachusetts Clean Energy Center to support the development of workforce training programs, as well as clean home and transportation technology. There is also a new \$25 million investment to make permanent the food security infrastructure grants, which had been previously funding through supplemental budgets. The budget also includes \$500K to support the new office of the Climate Chief within the Governor’s Office, as well as \$8.8 million to support the executive office in implementing environmental justice strategies and the creation of a new Office of Environmental Justice.

*Climate, Energy & Environment Funding in FY 2024*

Department	FY 2022 GAA	FY 2023 GAA	FY 2024 Governor	\$ vs. GAA
Executive Office of Energy and Environmental Affairs	\$107.80	\$118.90	\$197.77	\$78.87
Dept. of Agricultural Resources	\$41.80	\$43.71	\$43.82	\$0.11
Dept. of Conservation and Recreation	\$112.26	\$134.03	\$149.95	\$15.92
Dept. of Energy Resources	\$4.67	\$5.35	\$7.04	\$1.70
Dept. of Environmental Protection	\$63.69	\$77.23	\$83.59	\$6.36
Dept. of Fish and Game	\$35.36	\$38.27	\$38.56	\$0.28
Dept. of Public Utilities	\$20.94	\$21.07	\$22.84	\$1.76
<b>Grand Total</b>	<b>\$386.52</b>	<b>\$438.56</b>	<b>\$543.56</b>	<b>\$105.00</b>

*\$ in millions*

## Other Notable Spending

### *New Line Items*

Governor Healey’s FY 2024 budget proposal spends \$1.15 billion to fund 44 new line items and initiatives; 20 of which are found in the newly added Section 2F and appropriate the \$1 billion in income surtax revenues. Other notable new items:

- \$750K to fund a new Veterans Advocate Office;

- \$2M to support administration oversight and coordination of federal funds;
- \$2M to fund the Innovation Voucher Program, which supports innovative startup businesses using facilities at UMass;
- \$1.5 million of the School of Reentry, at the Executive Office of Public Safety and Security.
- \$1 million for Real Estate Technical Assistance, for the Massachusetts Development Finance Agency to provide consulting services to municipalities and other entities.

Governor Healey also includes several items previously funded, or proposed, that were not included in the FY 2023 budget, including a \$10 million appropriation for the Massachusetts Life Sciences Center and \$2 million for the Project Safe Neighborhood Initiative.

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### **FY 2024 Policy Sections**

The Healey-Driscoll administration’s FY 2024 budget proposal includes 29 policy sections.

This number of policy sections is significantly down from the 94 sections Governor Baker proposed in his final budget, but consistent with the number of outside sections proposed by Governor Baker and Governor Patrick in their first budgets.

#### *Policy Sections in First Governor Budgets*

	<b>Governor Romney</b>	<b>Governor Patrick</b>	<b>Governor Baker</b>	<b>Governor Healey</b>
Policy sections	325	39	44	29

Eleven of the Governor’s 29 policy sections relate to the surtax in some form. Eight sections govern the use and certification of surtax revenues, while three incorporate the surtax into the state’s income tax law. Other outside sections deal with health care, corrections and transportation policy. Notable policy sections proposed by Governor Healey include:

#### *Use of Surtax Revenue*

- Surtax trust (Sections 5, 6 & 29) - Create the Education and Transportation Trust Fund and exempt that fund from the calculation of the allowable tax revenue under MGL 62F and the automatic transfer of capital gains revenue to the Stabilization Fund and other reserves. In addition, this section:
  - Requires that all spending from the trust fund be designated as either recurring or one-time when the appropriation is made. One time investments must be completed within five years of the original appropriation.
  - Requires the Comptroller to annually certify the level of expenditures from the fund that are one-time and recurring and categorize spending by education and transportation uses. The certification will also include amounts appropriated but not yet spent, and the end of year balance of the fund.

- Limits recurring expenditures from the fund to \$1 billion in FY 2024 and \$1.03 billion in FY 2025. For FY 2026 and beyond, the spending limit will be established in law based and guided by the amount of revenue that can be reliably and in future years that amount will be adjusted based on a 10 year rolling average of income subject to the surtax.
- Applies spending from the Trust Fund to 9C.
- Surtax certification (Section 7) – Requires the Department of Revenue to certify surtax collections on a quarterly basis, in February, May, July and October. Following each certification, the Comptroller shall transfer the appropriate surtax amount to the Education and Transportation Trust Fund. DOR shall provide to the Comptroller a preliminary certification for surtax revenues collected in the prior fiscal year by December 15<sup>th</sup>.
- Surtax spending in the budget (Section 8) – Creates a section 2F of the budget which will govern all expenditures from the Education and Transportation Trust Fund.

### ***Surtax Implementation***

- Incorporating surtax into DOR law (Sections 10, 11 & 31)
  - Incorporates the surtax into the law governing the income tax (MGL 62). The language states that the tax shall apply to Part A, B and C of taxable income and that losses in one part of income cannot be used to reduce income from another part. The surtax threshold is to be adjusted annually.
  - Incorporates the surtax into the law governing taxation of income earned in Massachusetts by non-residents.

### ***Health care***

- MassHealth Drug Rebates (Section 12) – Allows the Executive Office of Health and Human Services to negotiate supplemental rebates on non-drug products and drugs not covered by existing supplemental rebate law. This section has previously been proposed by Governor Baker.
- Medicare Asset Test Elimination (Sections 13 and 14) – Eliminates asset limit tests when determining eligibility for the state’s Medicare Savings Program.
- Nursing Home Base Rate Year (Section 26) – Establishes the base year for nursing home rates as 2019 (the same base year as used in FY 2023).

### ***Other***

- Department of Corrections Calls (Section 17) – Requires DOC to provide incarcerated individuals free phone calls for up to 1,000 minutes per month. Last year, the Conference Committee budget included sections intended to provide free calls to inmates at the DOC and Houses of Corrections. That section was returned with amendment, but never went into effect. This proposal is limited to the DOC.
- MBTA Capital Budget Dates (Section 18) – Extends the deadline for the annual MBTA capital budget submission. Currently the MBTA must submit the final plan to the MBTA Advisory Board by January 15<sup>th</sup>; this proposal would extend that deadline to May 15<sup>th</sup>. Governor Baker proposed similar language last year.

## Bottom Line

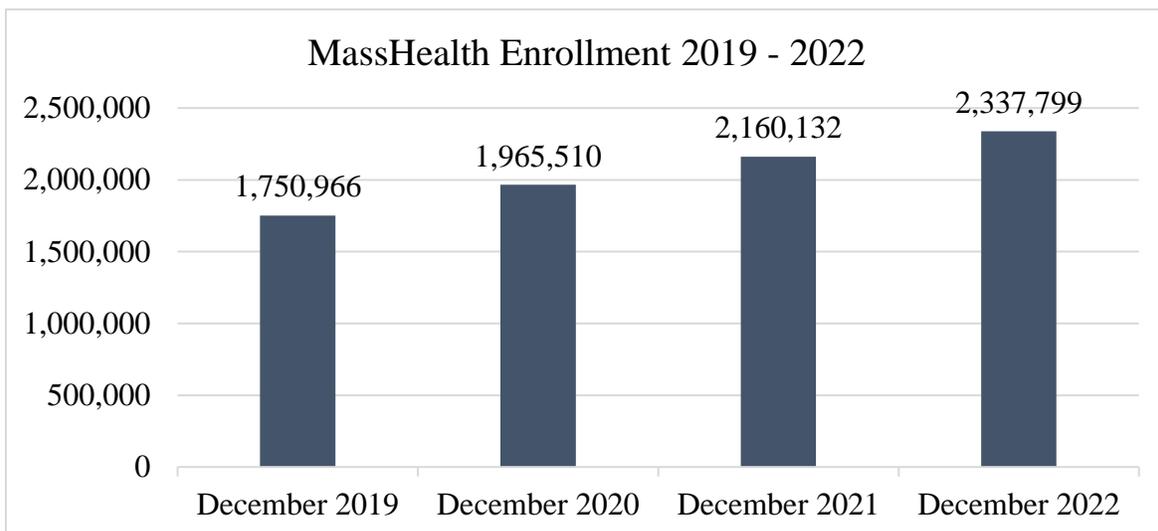
The Healey-Driscoll administration has kicked off a 4-month process to finalize the FY 2024 state spending plan with a proposal that combines major tax relief with large investments in childcare, higher education, workforce, and transportation. In addition to spending and revenue choices, the Governor’s budget also puts forward a transparent approach to collecting and using surtax revenues that is designed to mitigate the budget risk of this volatile revenue source. These things are done while maintaining a structurally balanced budget that continues to build reserves.

The combination of ongoing tax cuts, spending investments, and increasing reserves is possible because of the unprecedented revenue growth the state has experienced since the end of 2020 and because of smart fiscal decisions made by budget-makers over the last two years. However, each of these fiscal strategies is also critical to address mounting challenges to the state’s economic prosperity. Residents are leaving Massachusetts at an increasing rate, either because they cannot afford to stay or because other areas of the country are more alluring. Both tax and spending policy must work together to address these twin challenges. At the same time, the shakiness of the global economy requires continued focus on building reserves and reducing future budget risk.

This Healey-Driscoll spending plan offers much for the House and Senate to consider and the budgets that emerge from each branch will differ in many important ways from this proposal. However, the core themes of this budget are critical to maintain: tax relief designed to ease out-migration pressures, sustainable investments in critical areas like child care, workforce and transportation, and a transparent and forward-looking approach to managing surtax revenues and building reserves.

## Appendix

**Table 1. MassHealth – Enrollment**



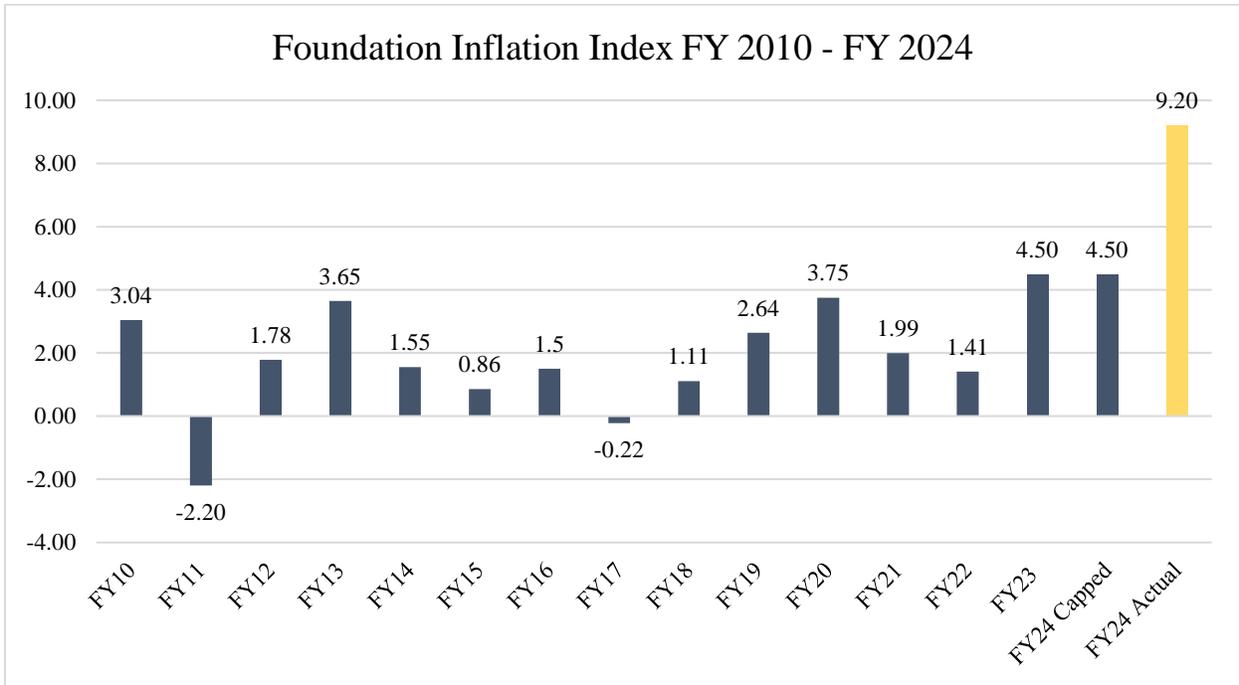
Source: Executive Office of Health & Human Services

**Table 2. MassHealth – Schedule of Enhanced Federal Reimbursement**

Beginning Date	Ending Date	FMAP Enhancement
Beginning of the Public Health Emergency (PHE)	March 31, 2023	6.2 percentage points
April 1, 2023	June 30, 2023	5.0 percentage points
July 1, 2023	September 30, 2023	2.5 percentage points
October 1, 2023	December 31, 2023	1.5 percentage points
January 1, 2024	N/A	Enhanced reimbursement expires

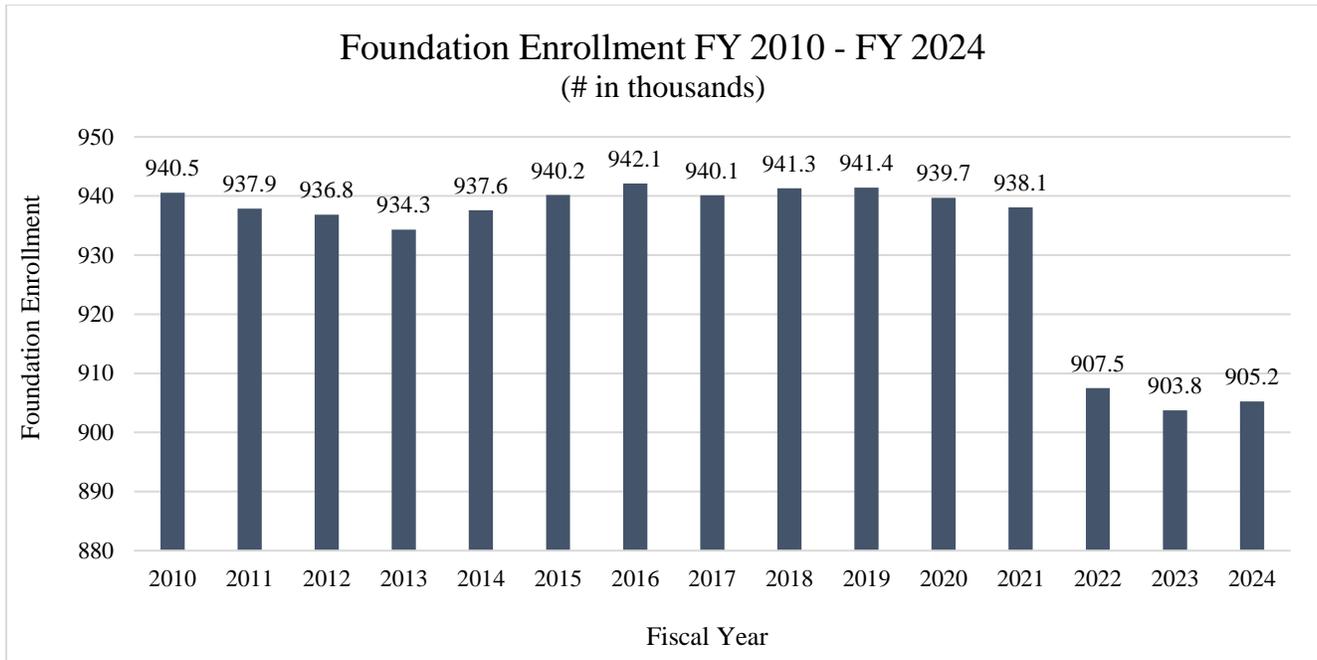
Source: National Conference for State Legislatures

**Table 3. K-12 Education – Foundation Inflation Index Trends**



Source: Department of Elementary & Secondary Education

**Table 4. K-12 Education – Foundation Enrollment**



Source: Department of Elementary & Secondary Education

**Table 5. K-12 Education – Federal ESSER Funding**

	ESSER Award	ESSER Claimed	ESSER Remaining
ESSER 1	\$194.4	\$194.4	\$0.0
ESSER 2	\$739.0	\$479.3	\$259.6
ESSER 3	\$1,658.6	\$341.2	\$1,317.4
<b>Total</b>	<b>\$2,592.0</b>	<b>\$1,014.9</b>	<b>\$1,577.1</b>

Source: Executive Office for Administration and Finance