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## State Strategies for Federal Funding Opportunities

On October 19<sup>th</sup>, the Healey administration announced its plan to pursue the federal funding opportunities available through the Infrastructure Investments and Jobs Act (IIJA), Inflation Reduction Act (IRA), and Creating Helpful Incentives to Produce Semiconductors Act (CHIPS). The proposal would establish a new trust fund – capitalized through interest earnings on the Stabilization Fund – that can be leveraged to draw down on federal funding opportunities, fund PAYGO capital projects, and support debt management strategies.

The administration’s plan reflects many of the recommendations included in a recently released report from the Massachusetts Taxpayers Foundation (MTF), [\*Capitalizing on Federal Funding Opportunities\*](#). According to the report, Massachusetts could access up to \$17 billion in federal funding, but to do so must commit nearly \$3 billion in state matching resources. While a significant portion of these resources have been identified through recent bond bills and direct appropriations, an estimated \$800 million need remains to meet state match requirements for federal programs.

As policymakers consider future action on the proposal, this brief highlights additional considerations to ensure that Massachusetts does not miss out on this unprecedented opportunity.

### Recapping the Opportunity for Massachusetts

#### **Capitalizing on Federal Funding Opportunities**

The infusion of federal funds that will be available through the IIJA, IRA, and CHIPS Act offers Massachusetts a unique opportunity to address aging infrastructure, make progress towards meeting our clean energy and climate goals, and maintain our status as a hub of innovation and research.

In the [report](#), MTF estimated that Massachusetts has an opportunity to access up to \$17 billion in federal funding; but to do so must identify approximately \$3 billion in state matching funds.

#### *MTF Estimated State Match Requirements for IIJA, IRA, and CHIPS*

<i>Federal Legislation</i>	<i>Estimated Massachusetts Share</i>	<i>Potential State Match Requirement</i>
Infrastructure, Investment & Jobs Act (IIJA)	\$14.01	\$2.48
Inflation Reduction Act (IRA)	\$1.83	\$0.10
CHIPS & Science Act (CHIPS)	\$1.14	\$0.09
<b>Total</b>	<b>\$16.98</b>	<b>\$2.67</b>

*\$ in billions*



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While a large portion of the potential state match requirement has been met through capital authorizations and direct appropriations (approximately \$1.9 billion), an estimated \$800 million match need remains. To meet that need, MTF identified an array of both operating and non-operating resources that could be quickly deployed; including \$1.1 billion in revenue that could be tapped without undermining support for the state’s operating budget.

*Potential Operating Resources for State Matching Funds*

<i>Source</i>	<i>Est. Funds Available</i>	<i>State Matching Allocation</i>	<i>% of Funds Available</i>
Transitional Escrow Fund	\$1,248	\$450	36%
FY 2024 Income Surtax Revenues Above Cap	\$515	\$257	50%
FY 2024 Above Threshold Capital Gains	\$525	\$263	50%
FY 2024 Stabilization Fund Interest	\$180	\$90	50%
<b>Total</b>	<b>\$2,468</b>	<b>\$1,060</b>	<b>43%</b>

*\$ in millions*

Lastly, the report acknowledged that as important as it is to identify the resources that can be used to meet state matching requirements; it is equally important to create a process to set aside and spend those resources that is clear, transparent, and responsive to the fast moving federal government. MTF recommended that the state create a new trust fund to collect resources dedicated to meeting state match requirements and that oversight measures are put in place to track how the funds are being leveraged and spent.

**Assessing Governor Healey’s Proposal**

The following sections of this brief highlight specific recommendations related to the Healey administration’s plan.

**Structure Recommendations**

*Trust Fund for State Matching Resources*

MTF supports the administration’s proposal to create a new trust fund with the express purpose of supporting state matching requirements. As described in MTF’s report, the benefits of creating a straightforward structure to collect and spend state matching resources are many; including:

**Transparency** – The creation of one trust fund for state matching resources allows policymakers and the public to more easily track the funds that are available to pursue federal funding opportunities and how they are being spent. With one trust fund, reporting requirements and oversight measures can be streamlined; ensuring that legislative, administrative, and agency staff are not overburdened.

**Flexibility** – The variable timelines across the IJA, IRA, and CHIPS Act, paired with the continuous cycle of new grant opportunities, create challenges when it comes to planning for and securing state matching dollars. Allowing administrative or agency officials to access matching resources outside of the typical appropriations process –



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through expenditures from the trust fund – can ensure that Massachusetts does not miss out on federal funding opportunities due to delays in process.

**Encouragement** – The establishment of a trust fund to collect and spend state matching resources may encourage more eligible recipients to apply for federal funding and improve the competitiveness of those applications by serving as a strong signal of the state’s commitment to contribute funding towards a project. Currently, eligible recipients of federal funding – including many municipalities – may be dissuaded from pursuing certain opportunities if they cannot point to a specific source of matching resources. The administration’s commitment of \$50 million specifically for local and regional government-led projects is a strong incentive for municipalities to apply for federal funding.

#### *MTF Recommendations*

- Adopt the administration’s proposal to create a new trust fund to collect revenues dedicated to state matching requirements for federal grants programs in the IJJA, IRA, and CHIPS Act.
- Allow trust fund resources to be accessed outside of the regular appropriations process to ensure that Massachusetts does not miss out on federal funding opportunities due to delays in process.
- Maintain the administration’s commitment of at least \$50 million for local and regional-government led projects.

#### **Resource Recommendations**

In MTF’s report, it was noted that the federal grant programs under the IJJA, IRA, and CHIPS Act differ greatly in size and scope; underscoring the need to identify different types of state matching resources. The administration’s plan relies on one source of revenue to capitalize the new trust fund: interest earnings on the state’s Stabilization Fund.

The administration anticipates at least \$250 million in interest earnings to be deposited into the new trust fund each year, with the fund balance reaching approximately \$750 million by Fiscal Year (FY) 2026. Resources in the trust fund will be available to support federal grant matching requirements, PAYGO capital, and other debt management strategies. Expenditures from the fund will be suspended if the following two conditions are not met:

1. The balance of the Stabilization Fund grows over the prior year’s balance; and
2. The balance of the Stabilization Fund exceeds 10 percent of budgeted revenues.

Tapping just one source of revenue for the trust fund makes the plan easy to understand and execute, but it can create challenges if the larger economic environment suddenly limits the availability of these resources. For example, a sharp downturn in state tax revenue collections may necessitate the use of Stabilization Fund resources to support state spending, thereby suspending the state’s ability to pursue federal grant opportunities.

Additionally, the administration’s proposal does not address opportunities to pursue state matching resources through non-operating resources. MTF’s report noted that in the past, new capital finance programs have been put in place to take advantage of new federal funds or revenue streams. These programs have operated outside of the state’s bond cap, allowing for borrowing that does not jeopardize the state’s existing capital investment plan. While these types of programs are not contemplated in the administration’s proposal, MTF encourages policymakers to



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remain open to these types of opportunities in the future. Successful program examples include the Accelerated Bridge Program, the Infrastructure Investment Incentive Program, and the Clean Energy Investment Program.

#### *MTF Recommendations*

- Identify additional sources of revenue to bolster the balance of the trust fund; protecting the fund and the state’s ability to compete for federal grant programs from financial downturns.
- Pursue new opportunities to expand the state’s capital investment capacity through new programs that can operate in addition to the state’s regular Capital Investment Plan.

#### **Usage Recommendations**

In addition to state matching requirements, the administration’s proposal permits trust fund resources to be used for PAYGO capital projects and other debt management strategies. At the conclusion of the federal grant opportunities (December 1, 2026), the trust fund will become a permanent mechanism by which to continue funding these priorities.

MTF supports the pursuit of state savings through new capital financing strategies and a reduced reliance on borrowing. However, because the trust fund may be used for multiple purposes, regular reporting requirements will be increasingly important to track how resources are being spent. Additionally, creating a statutory deadline for the use of trust fund resources to meet state matching requirements could potentially pose challenges if the federal government lengthens the timeline for certain programs.

#### *MTF Recommendations*

- Require quarterly reporting from the Executive Office for Administration and Finance to track the division of resources between state match requirements, PAYGO capital, and debt management strategies.
- Remove the hard deadline related to the use of trust fund resources for state matching requirements. Bill language specifies that trust fund resources can only be used to support state match requirements for federal programs in the IIJA, IRA, and the CHIPS Act. Because the opportunities presented by these bills will be phased out organically, so too will the timeline to use the trust fund to meet state matches.

#### **Conclusion**

The Healey administration’s plan to identify, pursue, and receive federal funds through the IIJA, IRA, and CHIPS Act is effective and easily understood. Paired with the work of the Federal Funds and Infrastructure Office (FFIO), formally created through an Executive Order, this legislation will ensure that Massachusetts has the resources necessary to capitalize on this unprecedented opportunity and compete with other states. Additionally, the FFIO will provide eligible applicants and agencies the information and support they require to access federal funding opportunities, maximizing the state’s potential for success.

As MTF noted in our earlier report, time is of the essence in putting in place a strategy to generate state matching resources. The Governor’s bill, with the recommendations noted above, will provide significant, predictable, and flexible resources to pursue federal funds. The next step is for the Legislature to take action on this bill.