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## *MTF Bulletin*

July 19, 2024

### **FY 2025 Conference Committee Report Summary**

The House and Senate are set to enact a Fiscal Year (FY) 2025 budget, totaling \$58.1 billion in line-item spending.<sup>1</sup> It includes \$27.5 million more in spending than the House and \$16.5 million more than the Senate budget; and total spending exceeds the FY 2024 General Appropriations Act (GAA) by \$2 billion, or 3.6 percent.

While each year the Conference Committee is faced with reconciling countless spending, policy, and technical differences between the House and Senate proposals; this year, the process was made more challenging by an uncertain fiscal picture for FY 2024, a more constrained revenue outlook in FY 2025, and divergent priorities for how to spend \$1.3 billion in surtax resources for education and transportation initiatives.

The Conference Committee report was filed on July 18<sup>th</sup>, roughly two weeks after the start of the new fiscal year. Once enacted, the budget moves to the Governor's desk, where she has ten days to sign the budget, veto specific line-items or sections, or return certain provisions with amendments. The legislature must act on any budget vetoes by July 31<sup>st</sup>.

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### **FY 2025 Conference Report – Top 3 Things to Know**

- 1. The Conference Committee Report does not adjust the consensus tax revenue figure for FY 2025 or increase the \$1.3 billion cap on surtax spending.** Heading into conference negotiations, one of the major challenges facing budget writers was uncertainty regarding FY 2024 revenue collections and what they mean for FY 2025. Through March, FY 2024 revenues were running \$4 million behind the prior year's pace; but buoyed by a strong April, revenue collections through May surged to \$1.3 billion ahead of FY 2023. A significant portion of these excess collections are attributable to the four percent surtax on income over \$1 million, which appears on track to generate close to \$2 billion in FY 2024. Reconciling these two realities, volatile revenue trends and strong surtax collections, and how they would impact FY 2025 was one of the first decisions facing conference negotiators. Ultimately, [as MTF recommended](#), the conference report does not amend the FY 2025 consensus revenue estimate or increase the \$1.3 billion surtax spending cap.
- 2. The FY 2025 Final Budget relies on \$1.2 billion in one-time and ongoing revenue-generating initiatives.** The House and Senate budgets both relied on more than \$1 billion in one-time and ongoing

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<sup>1</sup> MTF includes in its total line-item spending the \$63 million deposit into the Commonwealth Transportation Trust Fund. After adjusting for that funding, total line-item spending in the Conference Budget equals \$58.03 billion, a \$1.97 billion (3.5 percent) increase over FY 2024.

revenue-generating proposals to support spending in FY 2025. While both spending plans used the same basic framework, there were several differences that needed to be negotiated by the Conference Committee. The final budget adopts an all-inclusive approach to revenue proposals for FY 2025, including the creation of an online lottery, the use of debit cards for lottery sales, and the utilization of \$400 million in trust fund resources and \$375 million in above-threshold capital gains collections.

3. **The Conference Report maintains key priorities from the House and Senate budgets related to the MBTA, Free Community College, and Early Education.** The conference budget retains funding for key priorities identified in the House and Senate budgets. On the spending side, support for the MBTA split the difference between the House and the Senate, with a total of \$447 million in funding dedicated towards MBTA workforce, capital, and safety needs. Similarly, the Senate’s proposal for a free community college system continues to be supported by a surtax investment of \$117.5 million; including a \$24 million investment in MassReconnect. On the policy side, the bill includes a number of provisions related to early education workforce, childcare financial assistance, and the codification of the Department of Early Education & Care’s operational grant program.

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## **FY 2025 Budget Resources**

### *Baseline Tax Revenues*

The revenue foundation for the FY 2025 budget is the same \$40.2 billion consensus revenue figure agreed to by the Healey administration, House, and Senate back in January (excluding surtax revenues). Despite uncertainties surrounding revenue collection trends in FY 2024, Conference Committee negotiators did not adjust the FY 2025 estimate.

Revenue collection trends in FY 2024 have fluctuated significantly, leading to uncertainty regarding FY 2025 resources. Through March, year-to-date revenue collections were running \$4 million behind FY 2023, representing essentially zero percent growth. Then, revenue collections in the month of April alone exceeded the prior year by \$1.5 billion (32 percent); increasing the year-to-date growth percentage to 4.8 percent.

While collections in May fell short of expectations by approximately \$200 million and June remains outstanding, maintaining the consensus revenue figure for FY 2025 is reasonable given its relatively modest growth assumption of 3.5 percent over expected FY 2024 revenue collections of \$38.8 billion.<sup>2</sup>

### *Income Surtax Revenue*

The Conference Committee report also maintains the surtax spending cap for FY 2025 of \$1.3 billion. This, again, is consistent with the administration, House, and Senate budget proposals; and ensures that a sustainable level of surtax-spending is incorporated into the state’s operating budget for education and transportation priorities.

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<sup>2</sup> The revenue benchmark for FY 2024, excluding surtax revenue, was adjusted to \$39.4 in January. After accounting for the fiscal impacts of tax relief, actual revenue collections of \$38.8 billion are expected in FY 2024.

Heading into Conference, budget negotiators faced questions related to increasing the surtax spending cap due to the strength of income surtax collections in FY 2024. Through April, surtax revenues were estimated to be \$1.8 billion and are projected to reach \$2 billion by the end of the fiscal year. But despite these estimates, it's important to differentiate between the surtax spending cap established in the budget and actual or projected surtax revenue collections.

The spending cap for surtax resources is purposefully less than actual or projected collections to ensure that the level of surtax spending in the operating budget is sustainable over the long-term. Furthermore, in the FY 2024 GAA, lawmakers established a process to collect and appropriate above-cap surtax revenues. Surtax revenues in excess of the spending cap are diverted to an Education and Transportation Reserve Fund (15 percent) and an Education and Transportation Innovation and Capital Fund (85 percent).

Based on current projections, up to \$850 million may be deposited into the Innovation and Capital Fund from FY 2024. These resources will remain available for policymakers to appropriate in support of critical one-time and capital investments for education and transportation.

*One-Time & Ongoing Revenue Initiatives*

The Conference Report is supported by \$1.2 billion in one-time and ongoing revenue generating initiatives.

As recommended by MTF, the final budget reflects an all-inclusive approach to the revenue proposals put forward by the House and Senate. Additionally, when appropriate, conference negotiators maximized the impact of certain revenue-generating initiatives, like online lottery and the tax amnesty program.

In the table below, the revenue assumptions in the conference report are compared to the Governor, House, and Senate budgets.

*FY 2025 Conference: One-Time and Ongoing Revenue Initiatives*

Proposal	One-Time v. Ongoing	FY 2025 - Governor	FY 2025 - House	FY 2025 - Senate	FY 2025 - Conference
Online Lottery	Ongoing	\$75	\$100	\$0	\$100
Tax Fairness & Modernization	Ongoing	\$60	\$60	\$60	\$60
Debit Card Lottery	Ongoing	\$0	\$0	\$25	\$25
<b>Gaming Fund Redistribution</b>	<b>Ongoing</b>	<b>\$0</b>	<b>\$0</b>	<b>\$100</b>	<b>\$0</b>
<b>Subtotal Ongoing</b>		<b>\$135</b>	<b>\$160</b>	<b>\$185</b>	<b>\$185</b>
Tax Amnesty Program	One-Time	\$75	\$75	\$100	\$100
High-Quality EEC Trust Fund	One-Time	\$265	\$200	\$265	\$200
SOA Investment Fund	One-Time	\$300	\$300	\$225	\$200
Above Threshold Capital Gains	One-Time	\$375	\$375	\$375	\$375
<b>Gaming Fund Redistribution</b>	<b>One-Time</b>	<b>\$100</b>	<b>\$80</b>	<b>\$0</b>	<b>\$100</b>
<b>Subtotal One-Time</b>		<b>\$1,115</b>	<b>\$1,030</b>	<b>\$965</b>	<b>\$975</b>
<b>Total Revenue Initiatives</b>		<b>\$1,250</b>	<b>\$1,190</b>	<b>\$1,150</b>	<b>\$1,160</b>

*\$ in millions*

To put forward a balanced spending plan, budget writers rely on fewer trust fund resources than compared to the House and Senate budgets.

- **High-Quality EEC Trust Fund** (\$200 million) – The conference report utilizes \$200 million from the EEC Trust Fund to support the costs of the Childcare Operational Grant program, known as C3. This matches the level of trust fund resources used in the House budget, and preserves \$65 million in the fund for use in future years.
- **Student Opportunity Act Investment Fund** (\$200 million) – To support the fourth year of Student Opportunity Act implementation and the costs of Chapter 70 state aid for public schools in FY 2025, the conference budget relies on \$200 million from the SOA Trust Fund. The fund was originally capitalized with \$500 million in surplus tax revenue collections, and this appropriation would leave \$300 million remaining in the fund.

The FY 2025 conference report does not appear to use a planned savings estimate, known as reversions, to balance the budget. Reversions are appropriations that go unspent during a fiscal year and get returned to the General Fund. Reversions in a typical year may exceed \$200 million, but budgeting on these savings can reduce fiscal flexibility to offset unknown spending needs or other revenue losses later in the year.

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## **FY 2025 Budget Spending**

### *Line-Item Spending*

The FY 2025 budget includes \$58.1 billion in total spending, including \$1.3 billion in surtax investments and \$682.2 million for a transfer to the Medical Assistance Trust Fund. This total represents a \$2 billion (3.6 percent) increase over the FY 2024 GAA, a \$25.7 million increase over the House, and a \$16.5 million increase over the Senate. The FY 2025 conference budget includes \$36.1 million less in spending than the original proposal put forward by Governor Healey.

### *FY 2025 Conference Budget Line-Item Spending*

	<b>FY 2024 GAA</b>	<b>FY 2025 Governor</b>	<b>FY 2025 House</b>	<b>FY 2025 Senate</b>	<b>FY 2025 Conference</b>
Line-Item Spending	\$54,558.1	\$56,152.2	\$56,090.4	\$56,079.6	\$56,096.1
Surtax Spending	\$1,000.0	\$1,300.0	\$1,300.0	\$1,300.0	\$1,300.0
Medical Asst. Trust Fund	\$505.0	\$682.2	\$682.2	\$682.2	\$682.2
B.H. Outreach, Access, Support	\$0.0	\$0.0	\$0.0	\$20.0	\$20.0
<b>Total Line-Item Spending</b>	<b>\$56,063.1</b>	<b>\$58,134.4</b>	<b>\$58,072.6</b>	<b>\$58,081.8</b>	<b>\$58,098.3</b>
<b><i>V. Conference Report</i></b>	<b>\$2,035.2</b>	<b>-\$36.1</b>	<b>\$25.7</b>	<b>\$16.5</b>	

*\$ in millions*

Between the House and Senate budget proposals, over 95 percent of spending was for shared items. However, budget negotiators were still faced with reconciling nearly \$1.4 billion in unique spending priorities. The largest portion of unique spending was related to earmarks, which

accounted for approximately \$341 million in individual investment according to MTF’s analysis. The conference budget includes more than 1,350 programmatic and local earmarks, which is consistent with the number of earmarks that MTF had previously estimated were included in the House and Senate budgets.

Due to the more constrained revenue picture facing budget writers, the FY 2025 conference budget does not include the higher funding levels proposed for all accounts. Notable non-surtax funding levels included in the conference budget include:

- \$20.3 billion for **MassHealth programs**, a \$70 million decrease compared to the Senate budget and \$113 million less than the House. Despite this lower funding level however, which may be related updated caseload estimates, federal revenues associated with MassHealth spending appear to increase by \$39 million.
- \$6.9 billion for **Chapter 70 state aid for public schools**, a \$2.5 million decrease from the Senate budget and consistent with minimum aid at \$104 per pupil.
- \$20 million for the transfer to the **Massachusetts Clean Energy Center**, a \$10 million reduction compared to the \$30 million transfer proposed by the House.
- \$15 million for the **Food Security Infrastructure Grant Program**, originally included at \$25.3 million in the House budget.
- \$345.7 million for **Inpatient Facilities and Community-Based Mental Health**, a \$39.5 million reduction compared to the Senate budget level of \$385.3 million.
- \$14.8 million for the **Community College SUCCESS Fund**, a reduction of \$3.5 million compared to the Senate budget funding level of \$18.3 million.

*Surtax Spending*

The FY 2025 conference budget includes \$1.3 billion in spending supported by the income surtax. Investments are divided between education (\$761.5 million, 58.6 percent) and transportation (\$538.5 million, 41.4 percent).

*FY 2025 Income Surtax Revenue Investments*

	<b>FY 2025 Governor</b>	<b>FY 2025 House</b>	<b>FY 2025 Senate</b>	<b>FY 2025 Conference</b>	<b>% of Total (Conference)</b>
<b>Education</b>	<b>\$750</b>	<b>\$695</b>	<b>\$735</b>	<b>\$762</b>	<b>58.6%</b>
<i>Early Education</i>	\$311	\$270	\$310	\$278	21.4%
<i>K-12 Education</i>	\$210	\$267	\$193	\$245	18.8%
<i>Higher Education</i>	\$229	\$158	\$233	\$239	18.4%
<b>Transportation</b>	<b>\$550</b>	<b>\$605</b>	<b>\$565</b>	<b>\$539</b>	<b>41.4%</b>
<i>MBTA</i>	\$172	\$362	\$182	\$261	20.0%
<i>MassDOT</i>	\$179	\$123	\$123	\$123	9.5%
<i>RTAs</i>	\$75	\$90	\$120	\$110	8.5%
<i>Local/Pilot Program</i>	\$124	\$30	\$140	\$45	3.5%
<b>Total Investments</b>	<b>\$1,300</b>	<b>\$1,300</b>	<b>\$1,300</b>	<b>\$1,300</b>	

*\$ in millions*

In total, the House and Senate proposed \$1.7 billion in surtax-supported spending for FY 2025. To live within the \$1.3 billion spending cap, approximately \$400 million in spending had to be cut or supported by other resources. This decision, to reduce proposed surtax-spending levels, was made more challenging in FY 2025 because each branch had identified unique investments as key priorities, like free community college and increased MBTA support.

Ultimately, to maintain adherence to the spending cap, the conference budget reflects targeted reductions to a number of notable surtax-supported initiatives.

- *MBTA Supports* – The House budget originally included \$200 million in surtax spending for a variety of MBTA-related initiatives, including the MBTA Academy, MBTA Capital Investments, an MBTA Safety/Workforce Reserve, and a Means-Tested Fares program. The Conference budget reduces these priorities by a total of \$74 million; with the largest reductions for the MBTA Academy (funded at \$10 million) and the MBTA Safety/Workforce Reserve (funded at \$10 million).
- *Higher Education Capital Funding* – The House budget proposed \$10 million for higher education capital funding needs, which was ultimately excluded from the conference budget.
- *Roads & Bridges Supplemental Aid* – The conference budget funds supplemental aid for roads and bridges at \$45 million, an \$80 million reduction from the Senate final funding level of \$145 million.
- *Income-Eligible Expansion* – The Senate budget included \$80 million to support an expansion of the initial eligibility threshold for the income-eligible childcare program, up to 85 percent of the State Median Income (SMI). The conference budget includes \$18 million for this expansion, a decrease of \$62 million.

#### *Underfunded Accounts*

In addition to reconciling unique spending priorities across the House and Senate budgets, conference negotiators also had to consider addressing the underfunding of several key accounts for FY 2025. For example, across just eight accounts related to transportation, public health, mental health, and public safety, the Legislature had reduced funding compared to the Governor's budget by \$98 million.

The FY 2025 conference budget does not appear to increase the funding levels for these programs. Across the same eight accounts referenced above, the conference report is lower than the Governor's budget by over \$100 million. By not addressing some of these larger spending exposures, the administration's ability to maintain a balanced budget throughout the fiscal year becomes more challenging and the likelihood of spending vetoes increases.

#### *Stabilization Fund Balance*

The conference budget reflects a \$124.5 million deposit into the Stabilization Fund of excess capital gains collections for FY 2025, bringing the projected balance of the fund to \$9.08 billion.

*FY 2025 Stabilization Fund Estimate*

	<b>Governor</b>	<b>House</b>	<b>Senate</b>	<b>Conference</b>
<b>FY 2024 Beginning Balance</b>	<b>\$8,061.3</b>	<b>\$8,061.3</b>	<b>\$8,061.3</b>	<b>\$8,061.3</b>
<i>Planned Deposits</i>	\$895.0	\$895.0	\$895.0	\$895.0
<b>FY 2024 Ending Balance</b>	<b>\$8,956.3</b>	<b>\$8,956.3</b>	<b>\$8,956.3</b>	<b>\$8,956.3</b>
<i>FY 2025 Capital Gains Deposit</i>	\$96.8	\$96.8	\$124.5	\$124.5
<i>FY 2024 Other Deposits</i>	\$0.0	\$0.0	\$0.0	\$0.0
<i>FY 2025 Withdrawal</i>	\$0.0	\$0.0	\$0.0	\$0.0
<b>FY 2025 Ending Balance</b>	<b>\$9,053.1</b>	<b>\$9,053.1</b>	<b>\$9,080.8</b>	<b>\$9,080.8</b>

*\$ in millions*

In FY 2025, the deposit into the Stabilization Fund reflects the conference budget’s approach on two proposals:

- **Excess Capital Gains Revenue in Support of Operating Spending.** The FY 2025 budget relies on \$375 million in above-threshold capital gains revenue to support operating budget spending, consistent with the Governor, House, and Senate. As with each prior budget proposal, the conference report directs the Secretary of Administration and Finance to use these resources only if they are determined necessary for balancing the budget in FY 2025.
- **Distribution of Excess Capital Gains Revenue.** Unlike the Governor and House budgets, but similarly to the Senate, the conference budget does not amend the distribution of excess capital gains revenue after accounting for the \$375 million transfer to the operating budget in FY 2025. Instead, it maintains the standard distribution of excess capital gains revenue as: 90 percent to the Stabilization Fund, 5 percent to the Pension Fund, and 5 percent towards other State-Retiree benefits.

Through an outside section, the conference report also creates a new Disaster Relief and Resiliency Trust Fund. Under the Governor’s proposal, this trust fund would have been capitalized using \$14 million in excess capital gains collections. In the conference budget, the Comptroller is directed to transfer \$14 million from the FY 2025 consolidated net surplus into the fund, as proposed by the House.

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### **FY 2025 Policy Sections**

The conference report includes 261 outside sections, by far the largest number since at least FY 2020.

*Conference Report Policy Sections, FY 2020 – FY 2025*

	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025 Conference</b>
Total Sections	108	113	146	194	112	261

Of the 230 unique House and Senate sections, 52 were ultimately held in conference, while some form of the remaining 178 made it in the final bill. In addition, the budget added several compromise sections related to the early education childcare operational grant program governing how the program will operate in FY 2025 and making data collection and reporting requirements of the Department of Early Education and Care.

*FY 2025 Conference Budget, Resolution of Notable Policy Sections*

Topic Area	Policy	House	Senate	Conf.	Description
Revenue Related	Online Lottery	✓	✗	✓	The Conference report adopts House language to legalize app-based lottery. The Conference language raises the minimum age to play to 21 and adds additional restrictions on advertising and requires data sharing with the Department of Public Health.
	Debit Card Lottery	✗	✓	✓	The Conference report includes a Senate provision allowing debit card sales of lottery tickets.
	Conservation Land Tax Credit	✓	✗	✗	The Conference report does not include a House proposal to increase the cap on the Conservation Land Tax Credit.
	One-time Gaming Distribution	✓	✗	✓	The Conference report adopts the House's one-time redistribution of gaming funds.
Education Policy	C3 Codification & Distribution	✓	✓	<b>Compromise</b>	The Conference report codifies the C3 program with language that takes elements from the House and Senate proposals. The final language maintains a House requirement that at least 50.5 percent of funds go to providers serving CCFA eligible or low-income children, but does not include other House proposed required distributions.
	Employer Sponsored CC Study	✗	✓	✓	The Conference report includes Senate language requiring EOWLD to assess ways to expand employer practices for supporting childcare.
	MSBA Study	✗	✓	✗	The Conference report does not include a Senate study on the School Building Authority.
	Local Education Contribution Study	✗	✓	✗	The Conference report does not include a Senate study on local contributions to the K-12 school funding system.
	Free Community College	✗	✓	✓	The Conference report adopts the Senate proposal for free community college for eligible students. The final language removes several criteria for eligibility, including the requirement to live in the Commonwealth for a year.



Topic Area	Policy	House	Senate	Conf.	Description
Other Notable Policy	Health Care Insurer "Services Rendered" Assessment	✗	✓	✓	The House and Senate differed in terms of whether the assessment would be made on a per-member, per-month basis (House) or a "services rendered" basis (Senate). The Conference report includes the Senate's "services rendered" language.
	MassHealth Expanded Rebates	✗	✓	✗	The Conference report does not adopt a Senate proposal to expand MassHealth's authority to negotiate drug and medical device rebates.
	MSP and CHIP Copays	✓	✗	✓	The Conference report adopts several House sections eliminating co-pays and premiums for the Medical Security Plan and CHIP programs. The Conference language also eliminates MSP prescription copays.
	Gender Identity on State IDs	✗	✓	✓	The Conference report includes Senate language allowing non-binary gender on state IDs and for changing of prior gender selections.
	DA Salary Increases	✓	✗	✓	The Conference report increases District Attorney Salaries from \$191K to \$223,442.
	Clean Energy Center Board Change	✓	✗	✓	The Conference report includes House language eliminating a Board position for the ED of the Massachusetts Workforce Alliance and replacing it with a Gubernatorial appointment of someone with knowledge of workforce development.
	Home Equity Theft	✗	✓	✓	The Conference report includes Senate language related to process governing the foreclosure of homes due to unpaid property taxes and the disposition of equity.

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## Next Steps

At \$58.1 billion, the FY 2025 conference report increases spending over the FY 2024 GAA by \$2 billion. Despite facing a more constrained revenue picture, the compromise spending plan includes several key priorities of the House and Senate, and continues to build the balance of the Stabilization Fund. Additionally, the conference budget adheres to many of MTF's recommendations. The conference budget:

- Reflects a more restrained rate of spending growth at 3.6 percent;
- Maximizes the impact of several revenue-generating initiatives;
- Maintains the surtax spending cap of \$1.3 billion; and
- Does not adjust the consensus revenue estimate of \$40.2 billion.

Additionally, the FY 2025 budget includes several notable policy proposals; including legalization of online lottery, creation of a free community college program, and codification of operational grants for childcare providers.

Governor Healey has until June 29<sup>th</sup> to sign the budget, veto certain line-items or sections, or propose amendments to specific provisions. Spending vetoes typically occur when an administration determines that the spending levels in the conference report are unsupportable or revenue assumptions are unrealistic. When an outside policy section is returned with an amendment, the Legislature must decide whether to reject, amend, or adopt the Governor’s proposal in the form of a new bill. The Governor retains the ability to veto amendments once they are returned to her desk.

In FY 2024, the Governor sent back \$276 million in gross spending vetoes (\$205 million net). Eight outside policy sections were amended, and one policy section was vetoed in its entirety.

*FY 2024 Budget Action Summary*

	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>
Line-Items Reduced	0	136	7	4	35
\$ Reduction	\$0	\$159	\$8	\$0.48	\$276 (gross) / \$205 (net)
Sections Vetoes	0	0	2	0	1
Sections Amended	9	17	25	41	8

*\$ in millions*

Last year, the Governor’s spending vetoes eliminated the budget’s use of \$205 million in one-time resources from the Transitional Escrow Fund, which improved the budget’s structural balance and the state’s ability to withstand unexpected downturns. This decision turned out to be prudent, particularly given the state’s reliance on the Transitional Escrow Fund to support costs related to the Emergency Assistance shelter system and the unpredictability of revenue collections in FY 2024. Given continued revenue uncertainty, it is likely that the administration will once again use veto reductions to reduce fiscal exposures heading into the new fiscal year.