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MTF Bulletin

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Governor Healey’s Fiscal Year 2026 Budget

Today, the Healey-Driscoll administration released its Fiscal Year (FY) 2026 budget proposal. The \$62 billion spending plan increases spending over the FY 2025 GAA by \$4.3 billion (7.4 percent) and over the administration’s estimated spending level of \$60.256 billion by \$1.8 billion (2.1 percent). Spending increases are reflected in the healthcare, education, and transportation sectors driven by non-discretionary cost increases and investments supported by the income surtax. To support this level of spending, despite expectations for limited revenue growth, the Governor’s budget utilizes approximately \$1.94 billion in one-time and ongoing revenue generating-initiatives, including twelve tax policy proposals.

Budget Overview

The Governor’s FY 2026 budget proposal recommends \$62.07 billion in total spending, a \$4.29 billion (7.4 percent) increase over the FY 2025 GAA. Non-surtax spending totals \$59.58 billion, a \$3.79 billion (6.8 percent) increase over the prior year and \$1.5 billion (2.6 percent) greater than the administration’s reported estimate for FY 2025 spending. After accounting for \$7.65 billion in statutorily required transfers, the Governor’s budget includes \$69.73 billion in total spending commitments.

Governor Healey’s FY 2026 Spending Overview

	FY 2024 GAA	FY 2025 GAA	FY 2026 Governor	\$ v. FY 2025 GAA	% v. FY 2025 GAA
Line-Item Spending	\$54,558.1	\$55,779.3	\$59,577.3	\$3,798.0	6.8%
Surtax Spending	\$1,000.0	\$1,300.0	\$1,950.0	\$650.0	50.0%
Medical Asst. Trust Fund	\$505.0	\$682.2	\$547.6	-\$134.6	-19.7%
B.H. Outreach, Access, Support	\$0.0	\$20.0	\$0.0	-\$20.0	-100.0%
Total Line-Item Spending	\$56,063.1	\$57,781.5	\$62,074.9	\$4,293.4	7.4%
Pre-Budget Transfers	\$6,898.9	\$7,297.4	\$7,651.0	\$353.6	4.8%
Other Off-Budget	\$0.0	\$200.0	\$0.0	-\$200.0	-100.0%
Total Spend	\$62,962.0	\$65,258.9	\$69,725.9	\$4,467.0	6.8%

\$ in millions

Governor Healey’s budget is supported by \$69.73 billion in total revenues, primarily comprised of the non-surtax consensus revenue figure of \$41.214 billion agreed to by the Healey administration, House, and Senate budget leaders earlier this month. It also relies on \$1.95 billion in revenue generated by the income surtax, consistent with the income surtax spending cap also agreed to as part of the consensus revenue process.

The administration’s proposal is supported by \$16.07 billion in reimbursements from the federal government and \$10.02 billion in departmental and lottery revenues, as well as transfers. Lastly, the spending plan relies on approximately \$1.92 billion in revenue-generating initiatives, which include \$1.29 billion in one-time resources.

Governor Healey’s FY 2026 Revenue Overview

	FY 2024 GAA	FY 2025 GAA	FY 2026 Governor	\$ v. FY 2025 GAA	% v. FY 2025 GAA
Total Tax Revenue	\$40,296.0	\$41,573.6	\$43,317.1	\$1,743.5	4.2%
<i>Consensus Tax Agreement</i>	\$40,410.0	\$40,202.0	\$41,214.0	\$1,012.0	2.5%
<i>Cap Gains Diversion</i>	-\$584.0	-\$138.4	-\$232.9	-\$94.5	68.3%
<i>Tax Settlements</i>	\$50.0	\$50.0	\$50.0	\$0.0	0.0%
<i>Charitable Deduction Cap</i>	\$0.0	\$0.0	\$164.0	\$164.0	0.0%
<i>Tax Initiatives</i>	-\$580.0	\$160.0	\$172.0	\$12.0	7.5%
<i>4% Income Surtax</i>	\$1,000.0	\$1,300.0	\$1,950.0	\$650.0	50.0%
Federal Revenue	\$13,735.3	\$14,368.6	\$16,067.8	\$1,699.2	11.8%
Departmental Revenue & Transfers	\$8,687.1	\$9,361.5	\$10,020.8	\$659.3	7.0%
Trust Funds Used	\$437.0	\$400.0	\$321.5	-\$78.5	-19.6%
Stab. Fund Transfer (Cap Gains)	-\$146.3	-\$124.5	\$0.0	\$124.5	-100.0%
Total Revenue	\$63,009.1	\$65,579.2	\$69,727.2	\$4,148.0	6.3%

\$ in millions

In FY 2026, the Healey administration anticipates that the starting balance of the Stabilization Fund will be \$8.227 billion, after accounting for a transfer of interest earned on the fund in FY 2024 into the new Commonwealth Federal Matching and Debt Reduction Fund.¹ It is expected to grow by a further \$133.1 million, ending the fiscal year with a balance of \$8.361 billion.

FY 2026 Stabilization Fund Estimate

FY 2025 Beginning Balance	\$8,523.6
<i>Planned Deposits & Uses</i>	-\$296.3
<i>FY 2025 Capital Gains Deposit</i>	\$124.5
<i>FY 2024 Interest Transfer</i>	-\$420.8
FY 2025 Ending Balance	\$8,227.4
<i>FY 2026 Capital Gains Deposit</i>	\$133.1
FY 2026 Ending Balance	\$8,360.5

\$ in millions

¹ This fund was created as part of [Chapter 214 of the Acts of 2024](#), *An Act to provide for competitiveness and infrastructure investments in Massachusetts*. The new law permits interest earned on the balance of the Stabilization Fund to support state matching requirements for federal grant programs, as well as debt defeasance strategies.

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

Proposed Redistribution of Above-Threshold Capital Gains Collections

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

\$ in millions

During a challenging budget year, with increasing spending pressures and limited revenue growth, using a larger share of above-threshold capital gains collections to pay for increasing pension and post-retiree benefit costs is a reasonable decision. Under this proposal, the balance of the Stabilization Fund continues to increase while allowing the state to maintain its commitment to the Pension Fund’s triennial payment schedule.

Governor Healey’s FY 2026 Budget – 5 Things to Know

- Spending grows significantly over the FY 2025 GAA, but more moderately compared to estimated spending levels in FY 2025.** Governor Healey’s budget includes \$62.07 billion in total on-budget spending, a \$4.3 billion (7.4 percent) increase over the FY 2025 GAA and \$1.8 billion (2.1 percent) higher than the administration’s estimated level of spending for FY 2025. Excluding surtax-supported spending and a transfer to the Medical Assistance Trust Fund, spending totals \$59.78 billion, an increase of \$3.8 billion (6.8 percent) over the GAA. This rate of spending growth is primarily supported by a consensus tax revenue figure of \$41.214 billion, which assumes 2.25 percent growth over FY 2025.
- The surtax continues to be a major source of new revenue growth in the budget, supporting increased investments in education and transportation.** The FY 2026 budget proposal utilizes \$1.95 billion in new income surtax revenue to support investments across the education and transportation sectors, with \$1.185 billion (61 percent) dedicated to education and \$765 million (39.2 percent) dedicated to transportation. Notable surtax spending items include:
 - \$373 million for early education and care, including \$275 million for the Commonwealth Cares for Children (C3) program. In combination with \$200 million in General Fund and trust fund resources, the program is funded at a total of \$475 million.

- \$225 million to cover a portion of the cost to implement the fifth year of the Student Opportunity Act. In total, Chapter 70 state aid for public schools is funded at \$7.3 billion, a \$420.2 million (6.1 percent) increase over FY 2025.
 - \$125 million for a new higher education capital financing strategy, which will allow the Commonwealth to expand its borrowing capacity for higher education by up to \$2.5 billion over the following ten years.
 - \$765 million in surtax revenue is transferred directly to the Commonwealth Transportation Fund, which allows the state to support increased operating costs at the Department of Transportation, MBTA, and RTAs and expand the state’s borrowing capacity to \$5 billion over the next ten years.
3. **The FY 2026 House 1 proposal relies on an increasing amount of one-time resources to support operating spending, which can create long-term challenges for the structural balance of the budget.** To support new spending, House 1 relies on nearly \$1.3 billion in trust fund and other one-time resources, an increase compared to the \$975 million in one-timers used to balance the FY 2025 GAA. These include:
- \$466.2 million in excess capital gains to offset increases in the state’s pension and post-retiree benefit contributions.
 - \$206.5 million from the Student Opportunity Act Implementation Trust Fund.
 - \$115 million from the Early Education and Care Operational Grant Fund.
 - \$200 million in COVID-era grant recoupments.
4. **New revenue-generating initiatives are tapped to support spending, including a number of tax-related policy changes.** The Healey administration recommends the adoption of twelve tax-related initiatives to support spending in FY 2026, providing approximately \$379 million in new resources. The initiatives include:
- Capping the state’s charitable income tax deduction at \$5K for individuals and \$10K for joint filers (\$164 million).
 - Levying a new tax on pharmaceuticals that exceed cost growth benchmarks (\$60 million)
 - Applying the sales tax to candy purchases (\$25 million).
 - Eliminating the current tax treatment of securities corporations (\$40 million).
5. **Outside section policies touch on a diverse array of policy areas.** Governor Healey includes 138 outside policy sections in her spending proposal, which cover a range of policy areas. In addition to the sections necessary for the implementation of tax changes and revenue-generating proposals, policy riders include:
- Creation of a state and local camera enforcement program for speeding.
 - Extension of an expanded eligibility pilot program for the state’s ConnectorCare health insurance program through 2026.
 - Establishment of a new program to limit costs in the MassHealth Personal Care Attendant program.
 - Increases to the fee for the Department of Public Health Determination of Need program.
 - Limitation on the payment of rental broker fees.
 - Increases to the Department of Energy Resources assessment authority.