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MTF Bulletin

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Fiscal Year 2026 Budget: A Closer Look

Local Aid & K-12 Education Funding in the Governor's Budget

On January 22nd, the Healey-Driscoll administration filed its budget proposal for Fiscal Year (FY) 2026. The \$62.07 billion plan increases spending over the FY 2025 General Appropriations Act (GAA) by \$4.3 billion (7.4 percent) and over the administration's estimated spending level for FY 2025 of \$60.26 billion by \$1.8 billion (2.1 percent).

In total, Governor Healey's budget includes \$9.5 billion for Unrestricted General Government Aid (UGGA), Chapter 70 state aid for public schools, and other major K-12 education programs. This includes funding for these programs supported by the income surtax and it represents 15.3 percent of all spending in the administration's proposal for FY 2026. Funding for local aid and K-12 education is the second largest category of investments in the state budget, only behind spending on MassHealth.

Summary of Local Aid & K-12 Education Investments in the Governor's Budget

Program	FY 2025 GAA	FY 2026 - Governor
Unrestricted General Government Aid	\$1,308.7	\$1,337.5
Chapter 70 State Aid	\$6,901.9	\$7,322.2
Education Reimbursement Programs	\$821.3	\$861.9
Total Spending	\$9,031.9	\$9,521.5
% of Total Budget Spending	15.6%	15.3%

\$ in millions

To provide a more in depth analysis of the Governor's proposals for local aid and K-12 education funding, and place those investments in greater context, this brief will evaluate the programs' recent funding histories and describe the major factors impacting spending trends in FY 2026.

Furthermore, to account for the complete picture of the funding proposed for FY 2026, this brief will also detail spending included for K-12 education in Governor Healey's "fair share supplemental budget," which was filed on the same day as House 1. The spending bill appropriates \$1.32 billion in surtax resources currently held in the Education and Transportation Innovation and Capital Fund. Of this total, \$312.5 million is dedicated towards the K-12 education sector. This brief provides additional information on those investments, including how they complement several programs in the operating budget.

For a complete review of surtax-spending in the Governor’s FY 2026 budget proposal and the fair share supplemental spending bill, check out [MTF’s Budget Deep Dive on Surtax Spending](#).

Local Aid for Cities and Towns

Unrestricted General Government Aid (UGGA) is the largest source of discretionary aid to cities and towns across the Commonwealth funded through the state budget. For at least twenty years, increases in local aid have been made proportionately, so that each municipality receives the same percentage change to their local aid amount.¹ In FY 2026, Governor Healey funds UGGA at \$1.34 billion, a \$28.8 million (2.2 percent) increase over the prior year.

Recent Funding History of UGGA in the State Budget

Program	FY 2022 GAA	FY 2023 GAA	FY 2024 GAA	FY 2025 GAA	FY 2026 - Governor
UGGA	\$1,168.1	\$1,231.2	\$1,270.6	\$1,308.7	\$1,337.5
<i>\$ Increase v. Prior Year</i>	\$39.5	\$63.1	\$39.4	\$38.1	\$28.8
<i>% Increase v. Prior Year</i>	3.5%	5.4%	3.2%	3.0%	2.2%

\$ in millions

The increase proposed by Governor Healey for local aid to cities and towns reflects the expectations of budget writers that non-surtax revenues will increase by 2.2 percent in FY 2026. During the Baker administration, UGGA was consistently increased by the same percentage growth rate reflected in the consensus tax revenue agreement. This practice was intended to ensure that state revenue growth was predictably shared with local municipalities.

At 2.2 percent growth, the recommended funding increase for UGGA falls short of the 3.5 percent projected growth rate for other non-MassHealth spending in the budget supported by non-surtax revenues.

Spending Growth in the Governor’s Budget (excluding surtax spending & MATF transfer)

	FY 2025 GAA	FY 2026 - Governor	\$ Increase	% Increase
Total Line-Item Spending	\$55,799.3	\$59,577.3	\$3,778.0	6.8%
<i>MassHealth Spending</i>	\$20,070.4	\$22,599.2	\$2,528.8	12.6%
<i>All Other Line-Items</i>	\$35,728.9	\$36,978.1	\$1,249.2	3.5%

\$ in millions

¹ UGGA was created in FY 2010 through the combination of Lottery Aid and Additional Assistance. While each of those programs originally distributed aid to municipalities via formula, since their combination, aid amounts have been unilaterally increased or decreased across the board.

Other Municipal Investments

In addition to funding for UGGA, the Governor’s FY 2026 budget proposal includes funding for a number of other programs that provide critical support for cities and towns. Other notable investments for municipalities include:

- **Payment-in-lieu-of-Taxes for State Owned Land (PILOT)** – PILOT is funded by the Governor as \$54.5 million, a \$1.5 million (2.9 percent) increase over the prior year. The entirety of this increase is allocated for one-time additional reimbursements to ensure that no city or town receives less in PILOT reimbursements in FY 2026 than they received in FY 2025.
- **Municipal Regionalization and Efficiencies Reserve** – The administration funds this reserve at \$7.5 million, with the entirety of the appropriation earmarked for specific programs, including: \$3 million for the District Local Technical Assistance Fund; \$2 million to support the Community Compact Program; \$2 million for a competitive grant program for public safety and emergency staffing; and \$500K for the Local Finance Commonwealth Fellowship program to provide training in municipal finance for community college students.
- **Local Roads & Bridges Funding** – The Governor’s budget reflects her proposal to drastically increase funding for the state’s transportation systems, including an expansion of the Chapter 90 aid program for local roads and bridges. Through a permanent dedication of \$765 million in surtax revenue to the Commonwealth Transportation Fund (CTF), the state will be able to increase its bonding capacity for transportation by up to \$5 billion over the next ten years. Using this increased capacity, the administration has proposed expanding the Chapter 90 aid program by \$100 million per year, increasing the total program to \$1.5 billion over the next five years.

State Aid for K-12 Public Schools

State aid for public schools in Massachusetts is governed by Chapter 70 of the Massachusetts General Laws, and is calculated according to an enrollment-based “foundation budget formula.” The formula determines the state and local education spending that is required to provide all students with an equitable public education. The state aid component of this formula is often referred to as “Chapter 70 state aid.”

For a detailed description of public school financing in Massachusetts and the major factors impacting recent trends in Chapter 70 state aid, check out [MTF’s Legislative Session Preview: K-12 Education](#).

In FY 2026, Governor Healey fully funds the fifth-year of Student Opportunity Act (SOA) implementation, with total funding for Chapter 70 reaching \$7.32 billion. This represents a \$420.2 million (6.1 percent) increase over the prior year. The state remains on track to complete SOA implementation by FY 2027.

Recent Funding History of Chapter 70 Aid in the State Budget

Program	FY 2022 GAA	FY 2023 GAA	FY 2024 GAA	FY 2025 GAA	FY 2026 - Governor
Chapter 70 State Aid	\$5,503.3	\$5,988.5	\$6,584.8	\$6,864.9	\$7,097.2
<i>Minimum Aid Supplement</i>	\$0.00	\$9.69	\$7.9	\$37.0	\$0.0
<i>SOA Implementation Support</i>	\$0.00	\$0.00	\$0.0	\$0.0	\$225.0
Total State Aid	\$5,503.3	\$5,998.2	\$6,592.6	\$6,901.9	\$7,322.2
<i>\$ Increase v. Prior Year</i>	\$219.6	\$494.9	\$594.4	\$309.3	\$420.2
<i>% Increase v. Prior Year</i>	4.2%	9.0%	9.9%	4.7%	6.1%
SOA Implementation Schedule	Year 1	Year 2	Year 3	Year 4	Year 5

\$ in millions

In FY 2026, the cost of Chapter 70 in the Governor’s budget is supported through a combination of General Fund (\$6.8 billion), SOA Implementation Fund (\$206.5 million), Education Fund (\$44.7 million), and income surtax (\$225 million) resources.

The SOA Implementation Fund was created in FY 2022 and capitalized using budget surplus resources from FY 2022 and FY 2023. The FY 2025 GAA was the first budget to utilize resources in the trust fund to support the costs of Chapter 70 aid, and heading into FY 2026 the projected balance of the fund is \$726.5 million. If the Legislature agrees with the administration’s proposal to use \$206.5 million from the fund in FY 2026, then heading into the final year of SOA implementation policymakers will have access to the remaining \$520 million in trust fund resources.

SOA Implementation Trust Fund Balance

FY 2024 Starting Balance	\$500.0
FY 2024 CNS Deposit	\$426.5
FY 2025 Starting Balance	\$926.5
FY 2025 GAA Spending	-\$200.0
FY 2026 Starting Balance	\$726.5
FY 2026 Gov. Spending	-\$206.5
Remaining Balance	\$520.0

\$ in millions

Given that average annual increases in Chapter 70 aid have been approximately \$405 million each year, maintaining this balance in the fund heading into FY 2027 is prudent to ensure that the state remains on track to fully implement the law on schedule.

FY 2026 is also the second year in a row that income surtax revenues could potentially be used to support the costs of the Chapter 70 program. In the FY 2025 GAA, policymakers directed \$37 million from the surtax towards the costs of increasing minimum per pupil aid to \$104 per student. In the Governor’s budget proposal, the administration recommends using \$225 million from the surtax to more broadly support the continued implementation of the SOA.

In FY 2026, three major factors impact year-over-year increases in Chapter 70 state aid: inflation, enrollment, and the continued implementation of the Student Opportunity Act.

Foundation Inflation Index

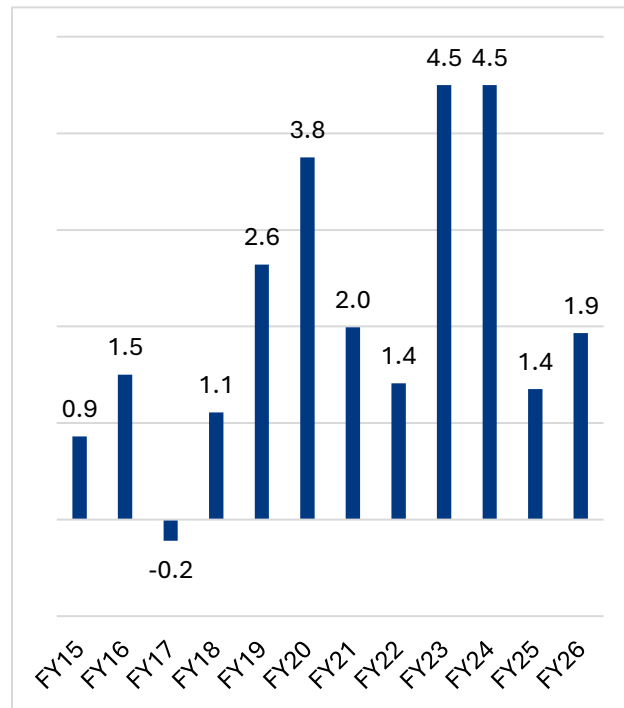
Each year, the per-pupil rates within the foundation budget formula are increased by an inflation factor. As the Chapter 70 statute dictates, this factor – known as the foundation inflation index – is the lesser of a calculation of state and local government inflation based on Bureau of Economic Analysis data or 4.5 percent. In FY 2026, this calculation results in an inflation rate of 1.93 percent.

Between FY 2015 and FY 2025, the average inflation factor applied to the foundation budget formula has been 2.1 percent.

In FY 2023 and FY 2024, the foundation inflation index was capped at the statutorily required 4.5 percent, despite actual state and local government inflation reaching 7 and 8 percent at the time. Even with the cap on the foundation inflation index, Chapter 70 state aid increased by record levels in both years.

Within the foundation budget formula, a unique inflation factor is applied to the per-pupil rates for employee benefits and fixed changes. This rate is calculated according to the three-year average premium increases for Group Insurance Commission plans and in FY 2026 is calculated to be 6.13%. The purpose of this unique factor is to account for healthcare cost increases rising at faster rates than other cost categories accounted for within the foundation budget.

Foundation Budget Inflation Rate Trends



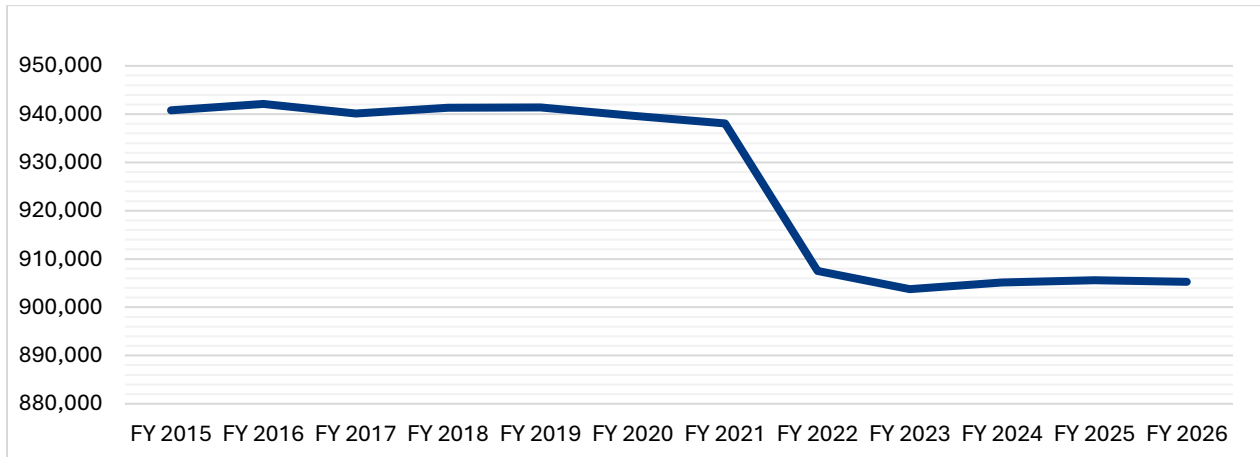
Foundation Enrollment Trends

Fundamentally, the foundation budget formula is an enrollment-based calculation. It determines the amount of state and local education spending that is necessary to provide all students with an adequate education, based on the number of students being educated in a district and their unique demographic characteristics.

In FY 2026, total foundation enrollment is 905,254; a decrease of 318 students compared to the prior year. Despite statewide foundation enrollment trends appearing relatively flat since FY 2022, they remain significantly below pre-pandemic levels. Between FY 2020 and FY 2023, statewide enrollment decreased by over 30,000 students.

While enrollment trends vary significantly district by district, 25 percent of operating districts across the state have seen their enrollments decline by greater than 10 percent since FY 2020.

Foundation Enrollment Trends



Student Opportunity Act Implementation

The primary goal of the SOA was to significantly increase the amount of state aid being directed towards the districts serving the highest-need students across the state; namely those districts educating high percentages of English learners and low-income students. Across the districts that have seen the greatest benefits from the SOA, they are educating 64 percent of low-income students in the state and 76 percent of English Learners.

Governor Healey’s budget proposal for FY 2026 fully funds the fifth year of Student Opportunity Act implementation. Over the course of SOA implementation to date (FY 2021 – FY 2026), statewide Chapter 70 aid has increased by \$2.04 billion (39 percent).

Notably, more than 75 percent of this overall increase in Chapter 70 aid (\$1.56 billion) has been directed towards 56 school districts across the state. The remaining 263 districts have seen their Chapter 70 aid increase collectively by \$481 million. While this distribution of aid may appear unbalanced, it is important to remember that it’s largely intentional and consistent with the SOA’s stated goals.

Minimum Aid

Through the minimum aid component of the foundation budget formula, a district is guaranteed to receive an increase to their Chapter 70 state aid at least equal to their foundation enrollment multiplied by a per-pupil amount. In FY 2026, Governor Healey recommends setting the per-pupil minimum aid amount to \$75 and across the state 233 districts are projected to benefit.

At \$75 per pupil, this is the highest level of minimum aid recommended by a Governor in at least seven years. More recently, it has been typical for the Legislature to increase the minimum aid

amount to a higher level. For example, in FY 2025 the Governor originally proposed minimum aid at \$30 and it was increased to \$104 per pupil by the House and Senate.

K-12 Education Reimbursement Programs

In addition to Chapter 70 state aid, the state budget includes funding for five other major education reimbursement programs related to special education, charter schools, and student transportation. Across Governor Healey’s FY 2026 budget proposal and the fair share supplemental budget, \$1 billion in spending is directed towards these programs for FY 2026.

Summary of Major Education Reimbursement Program Funding

Program	FY 2025 GAA	FY 2026 - Governor	Proposed Surtax Spending	FY 2026 Total
SPED Circuit Breaker Tuition and Transportation Reimbursement	\$493.2	\$532.0	\$150.0	\$682.0
Charter Tuition Reimbursement	\$199.0	\$179.1	\$0.0	\$179.1
Regional School Transportation	\$99.5	\$72.1	\$43.8	\$115.9
Non-Resident Voc. Transportation	\$1.0	\$0.0	\$6.2	\$6.2
Homeless Student Transportation	\$28.7	\$28.7	\$0.0	\$28.7
Total Education Reimbursement	\$821.3	\$811.9	\$200.00	\$1,011.9

\$ in millions

Compared to FY 2025, funding for these programs would increase by \$190.6 million (23 percent) under the Governor’s two spending bill proposals. Almost the entirety of that increase is driven by the Special Education Circuit Breaker program, while targeted increases for Regional School Transportation and Non-Resident Vocational School Transportation are offset by a projected decrease in the cost to fully fund the Charter Tuition Reimbursement program.

Special Education Circuit Breaker

The Special Education Circuit Breaker program reimburses school districts for the costs associated with providing students with out-of-district special education services. While the program historically reimbursed districts for instructional costs associated with special education services, under the SOA, out-of-district transportation claims also became eligible for reimbursement. Like other reforms included in the SOA, this policy change was implemented according to a multi-year schedule. After the completion of the phase-in schedule, school districts are eligible to receive reimbursement for allowable instructional and out-of-district transportation costs; and the maximum amount of reimbursement is 75 percent of all costs above a specific per-student threshold. That threshold is calculated according to statute, and in FY 2026 is estimated to be \$53,431 per student.²

² The per-student claims threshold in FY 2025 is \$52,419. According to Section 5A of Chapter 71B of the MGL, the threshold is adjusted each year by the foundation inflation index calculated for the Chapter 70 state aid program. In FY 2026, the foundation inflation index is 1.94 percent.

In the Governor’s operating budget proposal for FY 2026, the Circuit Breaker program is funded at \$532 million. In combination with a \$150 million appropriation in the fair share supplemental budget, the total funding level recommended for the program by the administration is \$682 million.

At \$682 million, districts are anticipated to be fully reimbursed at 75 percent for all eligible instructional and out-of-district transportation costs. This represents a significant increase over FY 2025; available funding for the circuit breaker program this fiscal year is anticipated to reimburse instructional costs at 75 percent and out-of-district transportation costs at 44 percent.

Projected Special Education Circuit Breaker Spending & Reimbursement

	Estimated Spending	Instructional Reimb.	Transportation Reimb.
FY 2025 Reimbursement	\$519.5	75%	44%
FY 2026 Proposed Reimbursement	\$682.0	75%	75%

\$ in millions

The Governor’s commitment to fully funding the Circuit Breaker program in FY 2026 underscores the importance of this program to school districts across the state. However, policymakers should be aware that using above-cap surtax revenues to fund ongoing operating costs could create long-term challenges for the structural balance of the operating budget and short-term funding cliffs for the programs supported by these resources.

As further detailed in [MTF’s Budget Deep Dive on Surtax Spending](#), the surtax revenues appropriated through the fair share supplemental budget and currently held in the Education and Transportation Innovation and Capital Fund are not guaranteed in future fiscal years. While more than \$1.3 billion is available to support additional education and transportation investments this year, the amount of above-cap surtax revenues is projected to be only \$450 million in FY 2026.

Charter Tuition Reimbursement

In FY 2026, the Governor’s budget proposal funds the Charter Tuition Reimbursement program at \$179.1 million; a \$19.9 million (10 percent) decrease in funding compared to the FY 2025 GAA. This funding level is projected to reimburse districts at 93 percent and it is based on estimated charter school enrollment for the upcoming school year.

The Charter Tuition Reimbursement program compensates districts for year-over-year increases in their charter tuition payments. In the first-year of a tuition payment increase, a district is reimbursed for 100 percent of the cost. In the second and third-years following the tuition increase, a district is reimbursed for 60 percent and then 40 percent of the original increase.

As part of the SOA, policymakers agreed to achieve full funding of the Charter Tuition Reimbursement program by FY 2023. While the state has been successful in achieving that goal and maintaining 100 percent reimbursement for districts over the last three fiscal years, in FY 2026 the Governor’s proposed funding level falls slightly short based on DESE’s current enrollment estimates. However,

in recent years, actual charter enrollment has varied compared to initial estimates, meaning that the proposed funding level may be sufficient to fully fund the program.

Student Transportation Reimbursement

The Governor proposes \$150.8 million in funding for several student transportation reimbursement programs; including \$100.8 million in General Fund-supported spending and \$50 million in surtax-supported investments. This represents a \$21.7 million (17 percent) increase over the FY 2025 GAA.

- **Regional School Transportation** (\$115.9 million in total funding) – Projected to provide districts with 95 percent reimbursement for regional school transportation costs.
- **Non-Resident Vocational School Transportation** (\$6.2 million in total funding) – Anticipated to reimburse districts for 100 percent of the costs of non-resident vocational school transportation.
- **Homeless Student Transportation** (\$28.7 million in total funding) – Level funded with the FY 2025 GAA.

Surtax Spending for K-12 Education in the Governor’s Budget & Fair Share Supplemental Budget

Across the Governor’s operating budget proposal for FY 2026 and the fair share supplemental budget, the administration directs a total of \$788 million in surtax revenue towards the K-12 education sector. In addition to the surtax-spending detailed above related to SOA implementation, the Special Education Circuit Breaker program, and Student Transportation Reimbursement, the Governor also recommends using surtax revenues to support programs like Universal School Meals, Capital Grants for Career Technical Education, and Early College and Innovation Pathways expansion.

Surtax-Supported Spending in the Governor’s Budget & Fair Share Supplemental Budget

Program	FY 2025 GAA	FY 2026 - Governor
Surtax Spending in the Governor's Budget	\$244.50	\$475.00
<i>Early College & Innovation Pathways</i>	\$2.50	\$0.00
<i>Universal School Meals</i>	\$170.00	\$170.00
<i>Green Schoolworks</i>	\$10.00	\$0.00
<i>Mental Health Supports & Wraparounds</i>	\$5.00	\$5.00
<i>Early Literacy</i>	\$20.00	\$25.00
<i>Minimum Per Pupil Aid</i>	\$37.00	\$0.00
<i>SOA Expansion</i>	\$0.00	\$225.00
<i>School Transportation Reimbursement</i>	\$0.00	\$50.00

(table continued below)

Program	FY 2025 GAA	FY 2026 - Governor
Fair Share Supplemental Budget		\$312.50
<i>Special Ed. Circuit Breaker</i>	--	\$150.00
<i>Career Tech. Capital Grants</i>	--	\$75.00
<i>Reimagining High School</i>	--	\$32.50
<i>ABE and ESOL Waitlist Remediation</i>	--	\$30.00
<i>Literacy Tutoring</i>	--	\$25.00
Total Surtax Spending		\$787.50

\$ in millions

Additional details on the specific surtax-supported investments proposed by the administration for K-12 education can be found in MTF’s complete report on [Governor Healey’s FY 2026 Budget](#).

Key Questions for the House and Senate

As the House and Senate now begin their own budget development processes and consider action on the fair share supplemental budget, they must answer several important questions related to local aid and K-12 education funding:

- ***Will the Legislature increase funding for local aid to cities and towns above the Governor’s proposal and above the consensus revenue growth estimate of 2.2 percent?***

As the House and Senate begin their own budget development processes and consider the unique programs and initiatives they would like to support, ultimately they face the same major challenge confronted by the Healey administration: managing billions of dollars in non-discretionary and other spending increases within very limited tax revenue growth. This dynamic will limit the Legislature’s ability to provide funding increases for many programs and the focus is likely to be on maintaining recent expansions for state programs and services. Funding for Unrestricted General Government Aid (UGGA) is a critical source of support for cities and towns across the Commonwealth and in recent years the average annual increase for the program has been 3.5 percent.

- ***Will the Legislature adopt the Governor’s approach towards funding Student Opportunity Act implementation in FY 2026?***

Over the last four years, the administration and Legislature have consistently adhered to the six-year implementation schedule of the SOA; incrementally increasing the foundation budget per-pupil rates towards the goal rates as outlined in the law. In FY 2026, maintaining this commitment – as the Governor proposed in her budget – should remain a priority for the House and Senate. While current fiscal constraints may make this challenging, lawmakers continue to have access to funds currently held in the SOA Implementation Trust Fund to help support the costs of Chapter 70 state aid. Utilizing a portion of these resources in FY 2026, while maintaining a balance in the fund to support the final year of implementation in FY 2027, will enable the state to fulfill its 2019 promise of K-12 education finance reform.

- **Will the Legislature act on the Fair Share Supplemental Budget on the same timeline as the FY 2026 budget, and how could that impact funding for K-12 education?**

The Healey administration filed its FY 2026 budget proposal and the fair share supplemental budget on the same day, allowing them to highlight two clear priorities: 1) the even distribution of surtax resources between the education and transportation sectors; and 2) the complementary funding levels included across the two bills, including a spending proposal for the Special Education Circuit Breaker program that the administration anticipates will fully fund the reimbursement program. As each proposal now moves to the Legislature for consideration, there is no requirement that the fair share supplemental budget be acted upon according to the same timeline as the FY 2026 budget; and in fact, the specific steps and demands of the legislative and budget processes would suggest that it's unlikely. That does not preclude House and Senate lawmakers from considering surtax-supported investments across the two bills holistically or emphasizing the complementary nature of certain funding levels, but it may make it more challenging to convey those intentions to the public.