



333 Washington Street | Suite 853 | Boston, MA 02108 | 617.720.1000
www.masstaxpayers.com

MTF Bulletin

February 19, 2025

Fiscal Year 2026 Budget: A Closer Look

Surtax Spending in the Governor’s Budget & Supplemental Surtax Spending

On January 22nd, the Healey-Driscoll administration filed its budget proposal for Fiscal Year (FY) 2026. The \$62.07 billion spending 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 of \$60.26 billion by \$1.8 billion (2.1 percent).

For the third year in a row, spending in the state’s operating budget will be supported by revenues collected from the income surtax – an additional four percent tax on annual incomes over \$1 million – which are constitutionally obligated towards education and transportation investments. In FY 2026, the amount of surtax-supported spending included in the operating budget is \$1.95 billion.

On the same day that the administration filed its FY 2026 budget, they also filed a supplemental budget bill appropriating \$1.32 billion in surplus surtax revenues collected in FY 2023 and FY 2024 and currently held in the Education and Transportation Innovation and Capital Fund. While the Governor recommends making the funding included in this spending bill available through FY 2028, many of the investments are intended to supplement or complement funding levels reflected in her FY 2026 operating budget proposal.

Across the two spending bills, there is a total of \$3.27 billion in surtax-supported investments. This funding is distributed equally across the education (\$1.65 billion, 50.4 percent) and transportation (\$1.62 billion, 49.6 percent) sectors.

Income Surtax Investments in the Governor’s Budget & Supplemental Surtax Bill

	FY 2026 Governor	Surplus Surtax	Total Funding	% of Spending
Education	\$1,185	\$463	\$1,648	50.4%
Transportation	\$765	\$858	\$1,623	49.6%
Total Investments	\$1,950	\$1,320	\$3,270	

\$ in millions

To assess the Governor’s proposals to spend income surtax revenue through the operating budget and the supplemental spending bill, this brief will first provide background on the process established to track, collect, and spend surtax revenues. It will then briefly review the specific investments supported by the surtax across the two proposals, and offer an update on total surtax spending appropriated and put forward

to date. It will conclude with key considerations for the House and Senate as the FY 2026 operating budget and supplemental spending bill now move to the Legislature.

The Income Surtax Process

In November 2022, Massachusetts voters approved a ballot measure that instituted a new four percent income surtax on individuals whose income is over \$1 million. The surtax, which can only be spent on investments in education and transportation, went into effect in January 2023; and during the 2023 – 2024 legislative session, policymakers created a process to collect, track, and spend these new resources.

As part of the FY 2024 state budget, the administration and Legislature developed and approved a multi-step process for surtax revenues:

1. **Surtax revenue collections will be certified by the Department of Revenue and the State Comptroller.** Quarterly, revenue collections related to the income surtax are certified by the Department of Revenue (DOR). Annual income surtax collections are certified by DOR and the State Comptroller, deducted from total tax collections, and transferred to a new Education and Transportation Trust Fund.
2. **The amount of surtax-supported spending in the operating budget will be capped at a level lower than actual surtax revenue projections.** Surtax revenue collections up to a specific threshold, known as the “surtax spending cap,” are appropriated and spent on education and transportation-related initiatives in the annual operating budget.
3. **Revenues collected above the surtax spending cap will be divided between two new reserves.** Surtax revenues collected in excess of the surtax spending cap are transferred from the Education and Transportation Trust Fund to two other trust funds: 85 percent to the Education and Transportation Reserve Fund, and 15 percent to the Education and Transportation Reserve Fund.

Income Surtax Collections & the Surtax Spending Cap

In FY 2023 and FY 2024, estimating the amount of revenue that would be generated by the income surtax was extremely challenging. A lack of relevant data, coupled with the unknown impacts of the new law on taxpayer behavior, created significant uncertainties for revenue projections.

To guard against those uncertainties, while still beginning to account for surtax revenue as part of the operating budget, lawmakers created the surtax spending cap. The spending cap, which is purposefully set at a lower level than anticipated surtax revenue collections, aims to accomplish three goals: 1) it guards against overestimating surtax collections in any given year; 2) it ensures the sustainability of surtax-supported spending in the budget; and 3) it creates a clear process for using above-cap surtax collections to build reserve balances and support capital or one-time costs.

For FY 2024 through FY 2026, the surtax spending cap was set as part of the consensus revenue agreement between the administration, House, and Senate. In FY 2027 and beyond, the cap will be automatically increased by the ten-year growth rate of income subject to the surtax.

In the table below, actual and projected surtax revenue collections for FY 2023 through FY 2026 are compared to the surtax spending caps established for each operating budget.

Income Surtax Collections & Surtax Spending Caps, FY 2023 – FY 2026

	FY 2023	FY 2024	FY 2025	FY 2026
Total Surtax Collections (actual & projected)	\$242	\$2,460	\$2,400	\$2,400
Surtax Spending Cap in the Operating Budget	\$0	\$1,000	\$1,300	\$1,950
Above-Cap Surtax Collections	\$242	\$1,460	\$1,100	\$450

\$ in millions

The surtax spending caps for FY 2024 and FY 2025 were set before any data on surtax revenue trends was available and they reflect policymakers’ responsible approach to introducing a new revenue source onto the operating budget. Ultimately, surtax revenue collections in FY 2024 were certified by DOR at \$2.46 billion, and budget writers now anticipate a similar level of collections in FY 2025 and FY 2026.

As a result of this new information, the spending cap for the FY 2026 budget was increased to \$1.95 billion, a \$650 million (50 percent) jump over the prior year.

Moving forward, understanding the dynamic between total surtax revenue projections and the surtax spending cap will be imperative for policymakers to make strategic decisions regarding how to appropriate above-cap surtax revenues.

As demonstrated in the table above, the thoughtful approach to setting the spending cap in FY 2024 has resulted in nearly \$1.5 billion above-cap surtax revenue that can now be appropriated for additional education and transportation investments. However, that amount of surplus surtax revenue is not guaranteed in future years. For example, in FY 2026, if total surtax revenue collections are \$2.4 billion, the above-cap surtax amount will fall to only \$450 million.

Above-Cap Income Surtax Collections

As explained above, surtax collections in excess of the surtax spending cap are referred to as “above-cap” surtax revenues and transferred to two trust funds:

1. **The Education and Transportation Innovation & Capital Fund** – 85 percent of revenue collections above the spending cap are sent to the Innovation and Capital Fund and according to statutory language the fund shall be used to support one-time and capital-related investments for education and transportation.
2. **The Education and Transportation Reserve Fund** – 15 percent of revenue collections above the spending cap are diverted to the Reserve Fund; the balance of which cannot exceed 33 percent of the annual spending cap. The Reserve Fund serves as a mini-Stabilization Fund for surtax investments.

To date, \$1.55 billion in above-cap surtax revenues from FY 2023 and FY 2024 have been transferred to these two reserves, including \$1.32 billion to the Innovation & Capital Fund, and \$233 million to the Reserve Fund.

In FY 2024, as part of the closeout supplemental budget, policymakers agreed to divert \$150 million in above-cap surtax revenue collections to a newly-created Early Education and Care Operational Grant Fund. This fund was initially intended to collect revenues associated with an online lottery and support the Childcare Operational Grant Program known as “C3.” Due to delays in the implementation of the online lottery, above-cap surtax revenues were deposited into the fund.

Above Cap Income Surtax Collections & Distribution

	FY 2023	FY 2024
Total Collections	\$242	\$2,460
Surtax Spending Cap	\$0	\$1,000
Above Cap Surtax Collections	\$242	\$1,460
Distribution of Above Cap Surtax		
EEC Operational Grant Fund	\$0	\$150
85% to the Innovation & Capital Fund	\$206	\$1,114
15% to Surtax Reserve Fund	\$36	\$197
Innovation & Capital Fund Balance	\$1,319	
Surtax Reserve Fund Balance	\$233	

\$ in millions

This year, the administration and the Legislature will have their first opportunity to allocate the funding currently held in the Innovation and Capital Fund. On the same day that she filed her FY 2026 budget proposal, Governor Healey also filed a supplemental spending bill appropriating the entirety of the \$1.32 billion for education and transportation priorities.

For additional information on surtax spending in the FY 2024 GAA, please see MTF’s report on the [FY 2024 Conference Budget](#).

For additional information on surtax spending in the FY 2025 GAA, please see MTF’s report on the [FY 2025 Conference Budget](#).

Surtax Spending in the Governor’s FY 2026 Budget

Governor Healey’s budget relies on \$1.95 billion in revenue generated by the income surtax; consistent with the income surtax spending cap agreed to by the administration, House, and Senate during the consensus revenue process. This figure represents a \$650 million (50 percent) increase over the \$1.3 billion spending cap reflected in the FY 2025 GAA.

Education receives approximately 60 percent (\$1.185 billion) of the surtax spending cap in the Governor’s budget proposal, while transportation receives 40 percent (\$765 million). This division of resources is consistent with the FY 2025 GAA, but it represents a departure from FY 2024 when surtax spending was nearly equal across the two sectors.

Education v. Transportation Surtax Spending

Fiscal Year	Education	Transportation
FY 2024 GAA	52%	48%
FY 2025 GAA	59%	41%
FY 2026 - Governor	61%	39%

\$ in millions

In FY 2026, surtax spending in the Governor’s budget can generally be organized into two categories: investments to maintain or expand existing programs and proposals to maximize the impact of the surtax through innovative borrowing strategies.

Maintaining & Expanding Existing Programs

Of the \$1.95 billion in surtax spending included in the Governor’s budget proposal, \$1.06 billion is dedicated towards maintaining or expanding existing programs, many of which were originally created using surtax revenue in FY 2024 or FY 2025.

Recent new initiatives, including Universal School Meals, Free Community College, MassReconnect, and Childcare Operational Grants continue to be fully or partially funded using the surtax.

In addition, the administration proposes using \$373 million in surtax revenue to support the current rate structure and capacity levels for the state’s Child Care Financial Assistance (CCFA) programs, the continued implementation of the Student Opportunity Act (SOA), and increased reimbursement rates for several student transportation programs.

Additional details on each of these investments is included in MTF’s complete report on [Governor Healey’s FY 2026 Budget](#).

Maximizing the State’s Borrowing Capacity

The administration’s budget includes two initiatives to securitize dedicated streams of surtax revenue and allow the state to increase its borrowing capacity for transportation and higher education capital needs.

Surtax Dedication to the Commonwealth Transportation Fund

Last year, lawmakers approved a proposal to annually and automatically dedicate \$250 million in surtax revenue to the Commonwealth Transportation Fund (CTF). The creation of this automatic transfer mechanism allowed the state to increase the borrowing capacity of the CTF by up to \$1.1 billion by expanding its ongoing revenue base. It also immediately provided additional operating resources for transportation, because once the revenues were transferred to the CTF, they could then be appropriated for MassDOT, the MBTA, or other transportation-related programs.

In FY 2026, the administration expands on this strategy as part of a larger transportation finance plan announced leading up to the release of the budget. The administration increases transportation funding certainty and expands the state’s borrowing capacity for capital spending by increasing the annual transfer to the CTF to \$765 million, representing the entire portion of the surtax spending cap dedicated to

Surtax Spending for Existing Programs in Governor Healey’s Budget Proposal

Program	FY 2026 - Governor
Early Education	
Child Care Operational Grants (C3)	\$275
<i>Child Care Supports</i>	\$98
K-12 Education	
School Meals	\$170
Early Literacy	\$25
Mental Health Supports and Wraparounds	\$5
<i>Student Opportunity Act Expansion</i>	\$225
<i>School Transportation Reimbursements</i>	\$50
Higher Education	
Free Community College	\$94
Financial Aid Expansion	\$80
MassReconnect	\$24
State University SUCCESS	\$14
Total Spending	\$1,060

\$ in millions

transportation in the Governor’s budget. The administration anticipates that this increase will allow them to access at least \$5 billion in additional borrowing capacity over the next ten years.

Once the funds are transferred to the CTF, they are appropriated as follows:

- \$500 million to the MBTA to stabilize operations, support workforce development efforts, maintain low-income fares, and sustain ferry transportation. This increase is part of the administration’s proposal to eliminate the MBTA’s structural budget deficit for the next three years.
- \$110 million for RTAs, with specific investments in transit improvements (\$66 million), fare-free service (\$30 million), and a community transfer grant program (\$4 million).
- \$55 million for MassDOT operations, including workforce investments and capital project delivery improvements.
- \$100 million held in the fund to support future debt service costs.

To ensure that the state can cover the out-year costs of new bonds backed by the CTF, \$100 million is withheld in the fund to account for future debt service payments. Dedicating these funds in the CTF is crucial to the long-term sustainability of this transportation-financing strategy, and should be maintained by the Legislature if they adopt the Governor’s proposal.

Surtax Dedication to Higher Education Capital Financing

Building on the model of the CTF transfer, the administration dedicates \$125 million in surtax revenue to support a new higher education capital financing strategy. Through the permanent allocation of these resources towards a new reserve account, the administration anticipates the ability to support the issuance of up to \$2.5 billion in Special Obligation (SO) bonds over ten years to fund higher education capital improvement projects.

The guaranteed dedication of surtax revenues towards the new reserve provides the state with the debt coverage necessary to issue the SO bonds, while the \$125 million is available to support future debt service costs and other debt defeasance strategies.

The administration originally recommended using \$125 million of surtax revenue to support higher education capital projects in FY 2025, but the Legislature did not adopt their proposal.

Summarizing Surtax Spending in the Governor’s Budget

In FY 2026, the Healey administration directs \$1.95 billion in surtax revenue through the operating budget towards programs and priorities that build on the state’s existing commitments and aim to expand the overall impact of this new revenue stream.

Surtax Spending in the Governor's Budget	
Existing Program Investments	\$1,060
Surtax Transfer to the CTF	\$765
Surtax Transfer for Higher Ed	\$125
Total Surtax Spending	\$1,950

\$ in millions

During the first two fiscal years in which surtax revenues were available for appropriation (FY 2024 and FY 2025), policymakers used them to introduce and maintain large new programs – like Universal School Meals, Childcare Stabilization Grants, and Free Community College. Moving into future fiscal years, a large share of the surtax spending cap will be required to sustain these initiatives, leaving fewer resources available for entirely new programs.

Therefore, proposals that utilize surtax revenues to support increased capital spending – like those put forward by the Governor for transportation and higher education – offer creative ways to maximize the impact of a limited revenue source.

Supplemental Surtax Spending from the Innovation & Capital Fund

On the same day that Governor Healey filed her administration’s proposal for the FY 2026 operating budget, she also filed a supplemental spending bill appropriating the \$1.32 billion currently held in the Education and Transportation Innovation and Capital Fund (the “fair share supplemental budget”).

In the Governor’s supplemental spending bill, education receives 35 percent (\$462.5 million) of the available resources and transportation receives 65 percent (\$857.5 million). However, as emphasized by the administration, when this funding is considered alongside their FY 2026 budget recommendation, total surtax spending is divided equally between the two sectors.

Income Surtax Investments in the Governor’s Budget & Supplemental Surtax Bill

	FY 2026 Governor	Surplus Surtax	Total Funding	% of Spending
Education	\$1,185	\$463	\$1,648	50.4%
Transportation	\$765	\$858	\$1,623	49.6%
Total Investments	\$1,950	\$1,320	\$3,270	

\$ in millions

As discussed above, the Innovation and Capital Fund is intended to support one-time and capital-related expenditures. While approximately two-thirds of the spending in the Governor’s fair share supplemental budget supports one-time initiatives, the remaining items would cover ongoing operating costs for several state programs.

Limiting the amount of these resources dedicated to operating costs is important, because above-cap surtax collections are not guaranteed in future fiscal years. Using essentially one-time revenues to support ongoing costs creates long-term challenges for the structural balance of the state budget as a whole, and near-term challenges for the programs that will face funding cliffs when these resources are no longer available.

Supplemental Surtax Proposals for Education

The fair share supplemental budget includes \$462.5 million in additional spending for the education sector, with investments primarily targeting early education and K-12 education. Approximately \$362.5 million in spending is dedicated to operating investments, while \$100 million is for one-time initiatives.

Fair Share Supplemental Spending for Education

Operating v One-Time?	Program	Funding Level
Executive Office of Education		
Operating	Reimagining High School	\$32.5
One-Time	Career Technical Education Capital Grants	\$75.0
Early Education & Care		
Operating	Child Care Supports	\$100.0
Operating	CPPI Reserve	\$50.0
K-12 Education		
Operating	ABE & ESOL Waitlist Remediation	\$30.0
One-Time	High Dosage Early Literacy Tutoring	\$25.0
Operating	SPED Circuit Breaker Reserve	\$150.0
Total Spending		\$462.5

\$ in millions

Of the education-related spending listed above, several items have been explicitly highlighted by the administration as supplementing funding levels included in their budget proposal for FY 2026, including the Special Education Circuit Breaker Reserve. This \$150 million investment is combined with \$532 million included in the Governor’s budget, making \$682 million available for the program in total. The administration projects that this funding level will fully fund the reimbursement formula, including the component related to out-of-district transportation costs.

Additional details on these investments can be found in MTF’s report on [Governor Healey’s FY 2026 Budget](#), and will be included in follow up briefs on specific early education and K-12 investments.

Supplemental Surtax Proposals for Transportation

The Governor’s supplemental budget includes \$857.5 million in additional spending for transportation, which comprises another pillar of the administration’s transportation finance plan. The majority of the investment (\$780 million) is focused on the MBTA. Approximately \$67 million is dedicated to operating expenses and \$790.5 million is for one-time initiatives.

Fair Share Supplemental Spending for Transportation

Operating v One-Time?	Program	Funding Level
MassDOT		
One-Time	Winter Resilience	\$25.0
One-Time	Micro-transit Initiatives	\$10.0
One-Time	Workforce & Capital Project Delivery	\$17.5

(table continued below)

Operating v One-Time?	Program	Funding Level
MBTA		
Operating	Low-Income Fare Relief	\$67.0
One-Time	MBTA Workforce / Safety Reserve	\$400.0
One-Time	MBTA Reserve Replenishment	\$300.0
One-Time	Revenue & Traffic Mitigation	\$13.0
RTAs		
One-Time	RTA Workforce Supports	\$25.0
Total Spending		\$857.5

\$ in millions

Notably, the administration recommends using \$300 million to replenish several MBTA reserves which were previously depleted to cover operating costs. The administration anticipates that this funding, in combination with the increased operating support for the MBTA made possible by the permanent CTF transfer described above, will enable the MBTA to close operating deficits between FY 2026 and FY 2028 by providing 90 percent of the shortfall with state resources and requiring the authority to close the remaining 10 percent.

In a follow-up brief that dives into transportation-related spending in the Governor’s budget proposal, additional details will be provided on the specific investments listed above.

Putting it All Together

Since FY 2024, the total amount of actual and proposed surtax spending across the operating budget and the Governor’s fair share supplemental budget totals \$5.57 billion. Of that, approximately 53 percent (\$2.9 billion) has been dedicated towards education and 47 percent (\$2.6 billion) towards transportation.

Actual & Proposed Surtax Spending to Date

	FY 2024 GAA	FY 2025 GAA	FY 2026 - Governor	Fair Share Supp	Total	% of Total
Education	\$524	\$762	\$1,185	\$463	\$2,933	53%
<i>Early Education</i>	\$71	\$278	\$373	\$150	\$872	16%
<i>K-12 Education</i>	\$224	\$245	\$475	\$313	\$1,257	23%
<i>Higher Education</i>	\$229	\$239	\$337	\$0	\$805	14%
Transportation	\$477	\$539	\$765	\$858	\$2,638	47%
<i>MBTA</i>	\$206	\$261	\$500	\$780	\$1,746	31%
<i>MassDOT</i>	\$75	\$123	\$155	\$53	\$406	7%
<i>RTAs</i>	\$90	\$110	\$110	\$25	\$335	6%
<i>Local/Pilot Program</i>	\$106	\$45	\$0	\$0	\$151	3%
Total Investments	\$1,000	\$1,300	\$1,950	\$1,321	\$5,571	

\$ in millions

During the first two fiscal years that surtax revenues have been available to support spending in the operating budget, policymakers have used them to create large new programs, maintain and expand existing state

commitments, and pursue strategies to address one-time costs and infrastructure needs. This includes programs like Universal School Meals, Free Community College, and Childcare Stabilization Grants; as well as investments to build and develop the MBTA's workforce, address MBTA capital needs, and supplement Chapter 90 transportation aid allotments for cities and towns.

In FY 2026 and future fiscal years, maintaining these ongoing programs will require a large share of the surtax spending cap, leaving a limited amount of revenue available to support entirely new programs. Because of this, proposals that maximize the impact of a dedicated stream of surtax revenue should be prioritized. As discussed above, the Governor's dedication of \$765 million to the Commonwealth Transportation Fund and \$125 million towards higher education capital needs would allow the state to access up to \$7.5 billion in expanding bonding capacity over the next ten years.

Additionally, FY 2026 represents the first opportunity lawmakers have to deploy \$1.32 billion in supplemental surtax resources currently held in the Innovation and Capital Fund. While this funding may be used to complement priorities and programs funded through the operating budget, the Innovation and Capital Fund was specifically created to support one-time and capital-related costs. This distinction between the types of surtax-supported spending in the operating budget and through supplemental spending bills is important for two primary reasons:

- 1) The level of above-cap surtax collections deposited into the Innovation and Capital Fund in future years is not guaranteed. Long-term surtax collection trends remain unknown and could be highly volatile. Using them to support ongoing operating expenses may create long-term structural budget challenges and near-term funding cliffs for programs supported by this revenue.
- 2) The education and transportation sectors have unique needs, and to ultimately achieve an even distribution of overall surtax investments between them, maintaining a unique avenue for one-time and capital-related spending is critical. As surtax-supported spending for education increasingly requires a larger share of the surtax-spending cap in the operating budget, the Innovation and Capital Fund provides a clear opportunity to make key investments in transportation.

Key Questions for the House and Senate

The use of surtax resources in the operating budget and the appropriation of supplemental surtax resources from the Innovation and Capital Fund will be major areas of focus as the budget development process now moves to the Legislature. As the House and Senate consider their own courses of action, MTF raises the following questions and offers several recommendations:

- ***Will the Legislature take action on the fair share supplemental budget on the same timeline as the FY 2026 budget?***

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 spending proposals in both bills that reflect the Governor's transportation finance plan and a combined funding level 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 its unlikely. That does not preclude House and Senate lawmakers from considering surtax-supported investments across the two bills wholistically or emphasizing the complementary nature of certain funding levels, but it may make it more challenging to convey those intentions to the public.

- **Will the House and Senate limit the use of above-cap surtax revenues in the Innovation and Capital Fund to one-time and capital-related initiatives?**

As described earlier in the brief, the Education and Transportation Innovation and Capital Fund was created to collect 85 percent of above-cap surtax revenues and support one-time and capital-related costs for education and transportation. This distinction between above-cap surtax revenues and the surtax spending included in the operating budget is important because the education and transportation sectors have unique needs. To ultimately achieve an even distribution of overall surtax investments between them, maintaining a specific avenue for one-time and capital-related spending is critical. Additionally, the same level of above-cap surtax revenues is not guaranteed in future fiscal years and could fluctuate significantly. Using them to support ongoing operating costs can create long-term challenges for the structural balance of the budget and near-term challenges for programs that may face funding cliffs if these resources go away. In the fair share supplemental budget filed by Governor Healey, approximately one-third of proposed spending would support operating costs for several programs. As the House and Senate develop their own supplemental spending proposals, they should aim to reduce the level of spending dedicated to ongoing expenses.

- **How will the Healey administration’s “Surtax First” Transportation Finance Plan fare in the House and Senate?**

On January 14th, Governor Healey unveiled her administration’s plan to invest \$8 billion into the state’s transportation system over the following ten years. The plan, which was guided by the recommendations of the Transportation Finance Task Force, focused on eliminating transportation structural deficits – most notably at the MBTA – over the next three years, while also expanding capital spending by \$6.2 billion over the next decade. The core elements of the plan are reflected in the administration’s FY 2026 budget proposal and fair share supplemental budget, including:

- The even distribution of surtax resources between the education and transportation sectors.
- \$765 million in surtax resources dedicated to transportation through the operating budget, the entirety of which would be transferred into the Commonwealth Transportation Fund. The administration proposes making this transfer permanent, opening up \$5 billion in surtax-supported expanded bonding capacity for transportation capital spending over the next ten years and increasing the resources immediately available for transportation operating costs.
- \$857 million allocated for transportation in the fair share supplemental budget, including a \$780 million dedication to the MBTA, \$52 million for MassDOT, and \$25 million for Regional Transit Authorities (RTAs).

The Administration projects that the combination of \$687 million in annual operating support for the MBTA made possible by the CTF transfer and a \$300 million investment to restore MBTA reserves included

in the supplemental budget, will meet 90 percent of the MBTA's budget gaps over the next three fiscal years. The MBTA will be responsible for solving 10 percent of the budget gap in each of the next three years.

The Legislature will now have an opportunity to respond to the administration's transportation finance proposal and allocate surtax revenues in accordance with their own priorities. MTF's past research has highlighted the need to provide budget certainty for transit agencies for multiple years and the importance of using surtax resources thoughtfully to expand infrastructure investment. Both these elements are cornerstones of the administration's proposal.

- ***Will the Legislature adopt the administration's proposals to maximize the use of income surtax revenues through innovative borrowing strategies for transportation and higher education?***

The Healey administration puts forward two proposals to securitize dedicated streams of surtax revenue in support of enhanced capital spending for transportation and higher education. Each proposal represents a creative use of a limited resource, which will also allow for better long-term planning and critical capital investments. While policymakers may want to increase reporting requirements or place guardrails around how these funds may be used operationally, the administration's proposals are smart ways to maximize the impact of the surtax in the operating budget.