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## MTF Bulletin

April 10, 2025

### Summary of House Bill 4005: Innovation & Capital Fund Supplemental Budget

On April 9<sup>th</sup>, the House of Representatives passed House Bill 4005, *An Act making appropriations for the fiscal year 2025 to provide for supplementing certain existing appropriations and for certain other activities and projects*. The \$1.32 billion spending bill is the House version of the Innovation and Capital Fund supplemental budget, and includes \$1.26 billion in spending supported by surplus surtax revenues collected in Fiscal Year (FY) 2023 and FY 2024 and currently held in the Education and Transportation Innovation and Capital Fund.<sup>1</sup> An additional \$58 million appropriation is also included in the bill to increase funding for the Special Education Circuit Breaker program in FY 2025, supported by the Student Opportunity Act Trust Fund.

Like the Healey administration, the House proposes that several surtax spending items in the supplemental budget be made available through FY 2028, but many of the investments are intended to supplement or complement funding levels reflected in the FY 2026 budget. There are also a number of items in the House bill that provide supplemental funding for the current fiscal year, FY 2025.

In the House's version of the supplemental budget, education receives 32 percent (\$405.2 million) of the available resources and transportation receives 68 percent (\$856.9 million). This division of surplus surtax resources across the two sectors is essentially equal to the Governor's Proposal.

#### *Surtax Investments in the Innovation & Capital Fund Supplemental Budget*

| Category       | Amount                 | % of Total | Amount                 | % of Total |
|----------------|------------------------|------------|------------------------|------------|
| Education      | \$462,500,000          | 35%        | \$405,240,000          | 32%        |
| Transportation | \$857,500,000          | 65%        | \$856,930,000          | 68%        |
| <b>Total</b>   | <b>\$1,320,000,000</b> |            | <b>\$1,262,170,000</b> |            |

At a Joint Ways and Means Hearing held last week on the bill, MTF provided testimony that highlighted three principles for the use of surplus surtax resources: 1) achieve an even distribution of revenues between education and transportation using operating budget and supplemental surtax resources; 2) use supplemental surtax spending for one-time or temporary costs; and 3) use supplemental surtax revenue to support innovative strategies that save the state long-term costs or promote efficiencies.

<sup>1</sup> Total spending in the House's Innovation and Capital Fund supplemental budget is \$1.32 billion, which includes a \$58 million supplemental appropriations for the Special Education Circuit Breaker account supported by the Student Opportunity Act Trust Fund. Spending supported by the surplus surtax revenues totals \$1.26 billion.

In the sections that follow, this brief analyzes the House’s bill in relation to those principles and provides additional details on the specific spending items for education and transportation. Finally, the brief ends with a look ahead at how this bill will inform the FY 2026 budget development process.

**MTF’s Principles for the Innovation & Capital Fund**

The Innovation and Capital Fund supplemental budget is a unique opportunity for the state to make meaningful investments in capital needs, explore innovative solutions to policy problems, and establish a precedent for how this fund can be used sustainably to complement other state investments.

To accomplish these goals, MTF recommended that policymakers adhere to three principles. Below, the House’s bill is analyzed in relation to those principles.

- 1. **Achieve an even distribution of revenues between education and transportation using operating budget and supplemental surtax resources.**

*Principle 1: Governor v. House Proposal*

|                                  | Governor       |              | House               |              |
|----------------------------------|----------------|--------------|---------------------|--------------|
|                                  | FY 2026 Budget | Supp. Budget | FY 2026 Budget      | Supp. Budget |
| Education                        | \$1,185        | \$463        | --                  | \$405        |
| Transportation                   | \$765          | \$858        | --                  | \$857        |
| Total                            | \$1,950        | \$1,320      | \$1,950             | \$1,262      |
| <b>Total % to Education</b>      | <b>50%</b>     |              | <b>50% possible</b> |              |
| <b>Total % to Transportation</b> | <b>50%</b>     |              | <b>50% possible</b> |              |

*\$ in millions*

The Healey administration filed their Innovation and Capital Fund supplemental budget on the same day as their FY 2026 budget proposal. This allowed the administration to highlight the complementary nature of many spending items, and clearly present the even distribution of resources between the education and transportation sectors.

The House’s version of the supplemental budget comes one week prior to the release of their FY 2026 proposal. While an exact breakdown of surtax spending is therefore not available, it is clear that the House followed the Governor’s lead in dedicating a greater share of Innovation and Capital Fund resources towards transportation. If their FY 2026 budget, similarly to the FY 2024 and FY 2025, directs more surtax spending in the operating budget towards education; the goal of reaching a 50/50 split remains achievable.

Using a wholistic view of surtax spending to measure investments across the two sectors can ensure that each area receives its fair share of resources, as well as the resources that best meet their distinct needs.

**2. Use supplemental surtax spending for one-time or temporary costs.**

*Principle 2: Governor v. House Proposal*

| Type of Spending             | Governor       |             | House          |             |
|------------------------------|----------------|-------------|----------------|-------------|
|                              | \$ Amount      | % of Total  | \$ Amount      | % of Total  |
| Ongoing                      | \$429.5        | 33%         | \$299          | 24%         |
| One-Time                     | \$890.5        | 67%         | \$963          | 76%         |
| <b>Total Surtax Spending</b> | <b>\$1,320</b> | <b>100%</b> | <b>\$1,262</b> | <b>100%</b> |

*\$ in millions*

As MTF emphasized through its written testimony, surplus surtax revenues held in the Innovation and Capital Fund are specifically intended to support one-time and capital-related costs. This distinction is important because the level of surplus surtax collections in a given year cannot be reliably predicted and maintaining a unique avenue for one-time and capital-related spending can ultimately ensure that resources are split evenly between education and transportation.

In the House bill, spending items to support ongoing operating costs total approximately \$299 million or 24 percent of supplemental spending; one-time costs make up \$963.3 million (76 percent) of spending. The majority of the spending for operating expenses in the House’s proposal is for education-related items, including Universal School Meals, the Special Education Circuit Breaker program, a reimbursement rate increase for early education and care providers, and Regional School Transportation. Policymakers should remain mindful that these costs will need to be annualized into future fiscal years.

**3. Use supplemental surtax revenue to support innovative strategies that save the state long-term costs or promote cost efficiencies.**

The fact that the amount of surplus surtax revenues available in future fiscal years will be challenging to predict – and likely decrease – underscores the importance of limiting supplemental spending to one-time or capital-related costs. But it also highlights the unique opportunity that policymakers have to use these resources to identify innovative strategies that support long-term cost savings and efficiencies.

MTF has previously noted that out-of-district transportation special education costs are increasing at a rate that is unsustainable for the state budget and local municipalities. Therefore, the state could use a small portion of surplus surtax resources to identify and support strategies that improve program efficiencies and rein in spending growth.

The Innovation and Capital Fund supplemental budget passed by the House includes \$250,000 for the Office of the Inspector General to conduct a general review of student transportation services and provide recommendations to reduce costs and maximize district purchasing power. Proactively

seeking recommendations to reduce costs in future fiscal years is a responsible and forward-looking initiative. In the near-term, it could be bolstered by one-time implementation and capital grants to school districts to pilot or expand innovative solutions for providing student transportation more cost effectively, or by partnering with education policy researchers to assess viable options for improvement.

### Supplemental Funding for Education

The House’s supplemental budget includes \$405.2 million in spending for the education sector, not including a \$58 million supplemental appropriation for the Special Education Circuit Breaker program supported by the Student Opportunity Act (SOA) Trust Fund.

#### *Innovation & Capital Fund Education Spending*

| Operating v. One-Time                | Account Title                             | House Final Spend |
|--------------------------------------|---|-------------------|
| <b>Executive Office of Education</b> |   |                   |
| One-Time                             | Career Technical Education Capital Grants | \$50.0            |
| <b>Early Education &amp; Care</b>    |   |                   |
| Operating                            | Child Care Supports                       | \$55.5            |
| <b>K-12 Education</b>                |   |                   |
| Operating                            | ABE & ESOL Waitlist Remediation           | \$8.5             |
| One-Time                             | High Dosage Early Literacy Tutoring       | \$25.0            |
| Operating                            | SPED Circuit Breaker Reserve              | \$190.0           |
| One-Time                             | Local Education Projects                  | \$13.8            |
| Operating                            | Regional School Transportation            | \$15.0            |
| Operating                            | Universal School Meals                    | \$10.0            |
| One-Time                             | Green Schoolworks                         | \$10.0            |
| <b>Higher Education</b>              |   |                   |
| One-Time                             | DHE Endowment Match                       | \$10.0            |
| One-Time                             | Tomorrow's Educator Scholarships          | \$2.5             |
| One-Time                             | UMass Endowment Match                     | \$10.0            |
| <b>Other</b>                         |   |                   |
| One-Time                             | Boston Holocaust Museum                   | \$5.0             |

*\$ in millions*

The majority of education-related spending in the House’s bill is directed towards programs also included in the Governor’s proposal, including additional funding for Special Education Circuit Breaker costs in FY 2026, Career Technical Education Capital Grants, and High-Dosage Early Literacy Tutoring.

Notable education initiatives in the House bill include:

- **Special Education Circuit Breaker** (\$58 million for FY 2025, \$190 million for FY 2026) – Using remaining resources in the SOA trust fund, the House provides a supplemental appropriation for

circuit breaker in FY 2025.<sup>2</sup> This funding is likely intended to increase the reimbursement that districts are eligible to receive for out-of-district transportation costs. According to the Department of Elementary and Secondary Education (DESE) the current FY 2025 funding level is consistent with a 44 percent reimbursement rate. In addition, the House uses \$190 million in surplus surtax resources to support circuit breaker costs in FY 2026, a \$40 million increase over what was included in the administration's bill. Governor Healey combined a \$532 million operating budget appropriation with \$150 million in surplus surtax resources to fully fund the circuit breaker program in FY 2026. Given the higher funding level in the supplemental budget included by the House, it is possible that a lower appropriation will be seen in their FY 2026 proposal.

- **Child Care Supports & Provider Rate Increase** (\$40 million) – The House bill includes \$40 million to support workforce, affordability, and quality improvements to the early education and care sector. Included in this appropriation is a \$20 million center-based and family child care provide reimbursement rate increase for FY 2026. This proposed rate increase was not included in the Governor's supplemental budget proposal or FY 2026 budget recommendation. Reimbursement rate increases for child care providers are ongoing costs, which if adopted, will need to be annualized in FY 2027.
- **Higher Education Endowment Match Reserves** (\$10 million for UMass, \$10 million for State Universities and Community Colleges) – Uniquely, the House's version of the Innovation and Capital Fund supplemental budget includes a total of \$20 million for higher education endowment match reserves, including \$10 million for the University of Massachusetts and \$10 million for State Universities and Community Colleges. This funding is intended to be used in FY 2025.
- **Regional School Transportation** (\$15 million) – The House final bill includes a \$15 million appropriation for Regional School Transportation, intended to support additional reimbursements for districts in FY 2026. The total proposed funding level for this program will not be known until the HWM budget is released next week. The administration recommended a total funding level of \$116 million for Regional School Transportation, anticipated to provide districts with 95 percent reimbursement.
- **Local Education Projects** (\$13.7 million) – During House debate, members adopted 84 amendments related to local education projects, totaling \$13.7 billion in additional spending.

### **Supplemental Funding for Transportation**

The House's bill includes \$856.9 million in spending for transportation, including \$20 million for operating expenses and \$836.9 million for one-time initiatives.

The House proposal uses surplus surtax resources to make substantial investments in the MBTA, which account for 62 percent of all surtax spending in the bill. Notably, several elements of the Governor's transportation finance strategy – a cornerstone of which is to stabilize the MBTA's operating budget over the next three years – are reflected in the House bill. In FY 2026, the administration put forward nearly \$1.5 billion

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<sup>2</sup> In January, the balance of the SOA trust fund heading into FY 2026 was projected to be \$726.5 million. With the House's inclusion of this \$58 million appropriation for the circuit breaker program, the balance of the fund would drop to \$668.5 million for the start of the new fiscal year.

in MBTA investments, of which \$780 million was reflected in their supplemental spending proposal. The House’s bill includes more than \$790 million in MBTA related spending.

*Innovation & Capital Fund Transportation Spending*

| Operating v One-Time?                | Account Title                   | House Final Spend |
|--------------------------------------|---------------------------------|-------------------|
| <b>MBTA</b>                          |                                 |                   |
| One-Time                             | MBTA Physical Infrastructure    | \$60.0            |
| Operating                            | Low-Income Fare Relief          | \$20.0            |
| One-Time                             | MBTA Workforce / Safety Reserve | \$400.0           |
| One-Time                             | MBTA Reserve Replenishment      | \$300.0           |
| One-Time                             | Revenue & Traffic Mitigation    | \$13.0            |
| <b>Regional Transit Authorities</b>  |                                 |                   |
| One-Time                             | RTA Workforce Supports          | \$25.0            |
| <b>Local Transportation Projects</b> |                                 |                   |
| One-Time                             | Local Road Repair Pilot Program | \$10.0            |
| One-Time                             | Local Transportation Projects   | \$28.9            |

*\$ in millions*

Notable transportation investments in the House bill include:

- **MBTA Workforce & Safety Reserve** (\$400 million) – The House bill includes a \$400 million reserve to support hiring and safety initiatives to ensure compliance with Federal Transit Authority (FTA) guidance. This funding was also included by the administration.
- **MBTA Reserve Replenishment** (\$300 million) – To replenish MBTA reserve balances that have been used to close past budget gaps, the House includes \$300 million. This funding, in combination with increased operating support provided through the FY 2026 budget, has been projected by the Healey administration to close 90 percent of the MBTA’s operating deficits over the following three fiscal years. The authority would be required to close the remaining 10 percent.
- **MBTA Physical Infrastructure** (\$60 million) – The House proposal includes a new \$60 million investment in MBTA physical infrastructure, but excludes the Governor’s proposal to dedicate \$25 million towards winter resilience improvements. While the administration’s recommended winter resilience program would dedicate additional assistance to all cities and towns across the state, the House’s infrastructure investment is strictly for the MBTA.
- **Local Road Repair Pilot Program** (\$10 million) – To provide grants to local municipalities for repair, maintenance, and improvements to unpaved roads, the House dedicates \$10 million to a new local road repair pilot program. The Department of Transportation is directed to develop a methodology to distribute the grants, which may be used for drainage work, signage repair or replacement, and the maintenance of equipment.
- **Local Transportation Programs** (\$28.9 million) – Through the adoption of 36 amendments, the House included \$28.9 million in its final bill for local transportation projects.

## **Next Steps**

In the coming weeks, the House and Senate will release their respective budget proposals for FY 2026. At the same time, the Senate may soon act on its version of the Innovation and Capital Fund supplemental budget. Both of these spending bills will be finalized within the context of significant shifts in the state and federal partnership.

Given the high degree of uncertainty that federal actions will have on the state budget and Massachusetts' broader economy, policymakers must ensure that all state spending decisions are made with an eye towards fiscal sustainability and the maintenance of key commitments. In the Innovation and Capital Fund supplemental budget, that means limiting the use of excess surtax revenues for ongoing operating expenses; and in the FY 2026 budget, that means limiting spending growth related to discretionary programs.

The House's adoption of several key elements from Governor Healey's transportation finance plan, particularly those related to stabilizing the MBTA's operating budget, will improve the state's ability to respond to unanticipated changes in federal transportation funding. MTF strongly urges the Senate to adopt these provisions as well, while acknowledging that funding for Regional Transit Authorities and micro-transit grants can improve the regional distribution of surtax revenues.