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## MTF Bulletin

July 7, 2025

### FY 2026 Budget Veto Summary

On July 4th, Governor Healey signed the Fiscal Year (FY) 2026 budget; sending back \$130.2 million in spending vetoes. Inclusive of the Governor's budget actions, line-item spending in the FY 2026 budget would total \$60.9 billion, a \$3.1 billion (5.4 percent) increase over the FY 2025 General Appropriations Act (GAA).

Governor Healey also returned 4 outside policy sections with amendment. No outside sections were vetoed in full from the FY 2026 Conference budget.

The targeted nature of the administration's veto package reflects the state's unique fiscal position. The House and Senate sent an FY 2026 budget to the Governor's desk that reduced spending by \$1 billion compared to her original recommendation and left at least \$800 million in resources available to protect against a future economic downturn or federal action. However, despite those precautions, there remains sizeable downside risk heading into FY 2026 related to tax revenues, federal policy proposals, and underfunded accounts.

As MTF will detail in a forthcoming brief, the Governor's veto actions were filed alongside a supplemental budget that includes several proposals to enhance the administration's ability to address federal funding or tax revenue shortfalls by reducing mid-year spending, creating contingency reserves, and allowing greater flexibility in line-item appropriations.

#### *FY 2026 Budget Action Summary*

|                     | FY 2021        | FY 2022      | FY 2023      | FY 2024              | FY 2025              | FY 2026        |
|---------------------|----------------|--------------|--------------|----------------------|----------------------|----------------|
| Line-Items Reduced  | 136            | 7            | 4            | 35                   | 59                   | 28             |
| <b>\$ Reduction</b> | <b>\$159.0</b> | <b>\$8.0</b> | <b>\$0.5</b> | <b>\$276 (gross)</b> | <b>\$317 (gross)</b> | <b>\$130.2</b> |
| Sections Vetoes     | 0              | 2            | 0            | 1                    | 0                    | 0              |
| Sections Amended    | 17             | 25           | 41           | 8                    | 3                    | 4              |

*\$ in millions*

This bulletin describes the spending and revenue exposures that contributed to the Governor's budget actions – most notably, the economic uncertainty stemming from federal action and budget pressure added by underfunded programs in the Conference Report. It also summarizes the spending and policy vetoes sent back to the Legislature for consideration.

Veto overrides require a two-thirds majority vote in both chambers. As MTF noted in its summary of the [FY 2026 Conference Committee Report](#), House and Senate lawmakers should wait until revenues are certified in October before taking any further action to allow the state to start the year on the strongest fiscal footing possible.

### **Reviewing the FY 2026 Conference Report**

The revenue foundation for the FY 2026 Conference Report sent to Governor Healey’s desk was \$41.214 billion; the same consensus revenue estimate that the administration, House and Senate agreed to last January. In addition, the Conference Report relies upon \$2.4 billion in revenue generated by the income surtax and \$1.5 billion in one-time resources.

Combined with expected non-tax revenue collections of \$25.7 billion, the FY 2026 Conference Report assumes \$69.59 billion in total resources available to support spending; an increase of \$4 billion over the revenue total reflected in the FY 2025 GAA.

#### *FY 2026 Revenue Overview: Conference Report*

|                                     | <b>FY 2025<br/>GAA</b> | <b>FY 2026<br/>Governor</b> | <b>FY 2026<br/>House</b> | <b>FY 2026<br/>Senate</b> | <b>FY 2026<br/>Conference</b> |
|-------------------------------------|------------------------|-----------------------------|--------------------------|---------------------------|-------------------------------|
| <b>Total Tax Revenue</b>            | <b>\$41,573.6</b>      | <b>\$43,317.1</b>           | <b>\$42,981.1</b>        | <b>\$43,114.0</b>         | <b>\$43,563.8</b>             |
| <i>Consensus Tax Agreement</i>      | <i>\$40,202.0</i>      | <i>\$41,214.0</i>           | <i>\$41,214.0</i>        | <i>\$41,214.0</i>         | <i>\$41,214.0</i>             |
| <i>Cap Gains Diversion</i>          | <i>-\$138.4</i>        | <i>-\$232.9</i>             | <i>-\$232.9</i>          | <i>-\$100.0</i>           | <i>-\$100.0</i>               |
| <i>Tax Settlements</i>              | <i>\$50.0</i>          | <i>\$50.0</i>               | <i>\$50.0</i>            | <i>\$50.0</i>             | <i>\$50.0</i>                 |
| <i>Charitable Deduction Cap</i>     | <i>\$0.0</i>           | <i>\$164.0</i>              | <i>\$0.0</i>             | <i>\$0.0</i>              | <i>\$0.0</i>                  |
| <i>Tax Initiatives</i>              | <i>\$160.0</i>         | <i>\$172.0</i>              | <i>\$0.0</i>             | <i>\$0.0</i>              | <i>\$0.0</i>                  |
| <i>4% Income Surtax</i>             | <i>\$1,300.0</i>       | <i>\$1,950.0</i>            | <i>\$1,950.0</i>         | <i>\$1,950.0</i>          | <i>\$2,399.8</i>              |
| <b>Federal Revenue</b>              | <b>\$14,368.6</b>      | <b>\$16,067.8</b>           | <b>\$16,074.3</b>        | <b>\$15,759.3</b>         | <b>\$15,609.6</b>             |
| <b>Dept Revenue &amp; Transfers</b> | <b>\$9,361.5</b>       | <b>\$10,020.8</b>           | <b>\$10,325.4</b>        | <b>\$10,129.3</b>         | <b>\$10,101.1</b>             |
| Trust Funds Used                    | \$400.0                | \$321.5                     | \$339.0                  | \$325.0                   | \$315.0                       |
| <b>Total Revenue</b>                | <b>\$65,579.2</b>      | <b>\$69,727.2</b>           | <b>\$69,719.8</b>        | <b>\$69,327.5</b>         | <b>\$69,589.5</b>             |

*\$ in millions*

Despite calls to [re-evaluate revenue estimates for FY 2026](#) to protect the structural stability of the state budget, conference committee negotiators instead opted to maintain the existing non-surtax revenue benchmark and increase the surtax spending cap in the operating budget from \$1.95 billion to \$2.4 billion. At \$2.4 billion, the surtax spending cap in the operating budget will now match the total amount of surtax revenues that policymakers expect the state to collect in FY 2026.

However, while the amount of resources available to support spending was notably increased in the Conference Committee Report, the level of spending was reduced significantly. Line-item spending totals \$61.03 billion, approximately \$400 million below the House and Senate budgets and \$1 billion below the Governor’s original budget recommendation.

*FY 2026 Spending Overview: Conference Report*

|                                 | FY 2025<br>GAA    | FY 2026<br>Governor | FY 2026<br>House  | FY 2026<br>Senate | FY 2026<br>Conference |
|---------------------------------|-------------------|---------------------|-------------------|-------------------|-----------------------|
| Line-Item Spending              | \$55,779.3        | \$59,577.3          | \$59,079.5        | \$58,977.7        | \$58,060.9            |
| Surtax Spending                 | \$1,300.0         | \$1,950.0           | \$1,950.0         | \$1,950.0         | \$2,399.8             |
| Medical Asst. Trust Fund        | \$682.2           | \$547.6             | \$547.6           | \$547.6           | \$547.6               |
| B.H. Outreach, Access, Support  | \$20.0            | \$0.0               | \$0.0             | \$31.5            | \$25.4                |
| <b>Total Line-Item Spending</b> | <b>\$57,781.5</b> | <b>\$62,074.9</b>   | <b>\$61,577.1</b> | <b>\$61,506.8</b> | <b>\$61,033.7</b>     |
| Pre-Budget Transfers            | \$7,297.4         | \$7,651.0           | \$7,651.0         | \$7,651.0         | \$7,651.0             |
| Other Off-Budget                | \$200.0           | \$0.0               | \$200.0           | \$75.0            | \$100.0               |
| <b>Total Spend</b>              | <b>\$65,258.9</b> | <b>\$69,725.9</b>   | <b>\$69,428.1</b> | <b>\$69,232.8</b> | <b>\$68,784.7</b>     |

*\$ in millions*

This dynamic, of increased revenue assumptions but lower overall spending, ultimately means that at least \$800 million in non-surtax budgeted revenues were not utilized in the Conference Committee Report. Leaving a budget surplus of this size is unusual and likely an indication that policymakers anticipate revenue challenges in the months ahead that could be related to a faltering economy or reduction in federal support. It also likely reflects an attempt by the Legislature to right-size spending expectations to reduce the size of the Governor's veto actions.

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### **FY 2026 Potential Budget Exposures**

At a high-level, an FY 2026 Conference Committee Report that significantly reduces spending compared to earlier iterations of the budget is a positive indication that lawmakers recognize that the state's fiscal environment has changed over the last six months. But diving deeper into the specific spending and revenue assumptions reveals several potential budget exposures that provide justification for the Healey administration's veto actions.

- **Non-surtax revenue declines remain likely, with current tax revenue trends suggesting a decrease of at least \$600 million.** Based on tax revenue trends to date in FY 2025, it is possible to provide a preliminary update to the original FY 2026 revenue benchmark. Current trend data implies that non-surtax revenues may come in at least \$600 million below the current benchmark of \$41.2 billion, at \$40.6 billion. The FY 2026 Conference Report maintained at least an \$800 million budget surplus, which may provide some protection against a substantial revenue downgrade, depending on the categories of tax revenue collections impacted.
- **Surtax revenue trends are challenging to predict and subject to volatility.** In FY 2026, the House and Senate use the entire surtax revenue assumption of \$2.4 billion to support spending – an increase of \$450 million over the original surtax spending cap of \$1.95 billion. This marks the first time that budget writers have increased the surtax spending cap during the Conference Committee process, and there are several reasons why this decision raises concerns. First, according to the

process established in FY 2024 to collect and spend surtax revenue, the surtax spending cap in the operating budget is purposefully set at a lower level than actual revenue projections to protect against volatility and ensure that resources are available to build reserve balances and support capital spending priorities. Second, while FY 2025 surtax revenues are projected to reach \$3 billion, there is no guarantee that the surtax will meet that level in FY 2026. In fact, because the majority of surtax revenues are collected through non-withheld income taxes which are closely tied to stock market performance, they may experience more pronounced declines if the economy falters.

- **One-time revenue solutions increase the structural imbalance of the budget.** The FY 2026 Conference Report relies on \$1.5 billion in one-time revenue solutions to support spending, essentially matching the Senate budget but exceeding the House and Governor's budgets by approximately \$300 million. One-time resources are not an ongoing source of revenue, and so provide a rough estimate of the structural deficit of the budget. And importantly, this level of one-timers is more than 50 percent higher than the FY 2025 GAA; a trend that must be controlled in future fiscal years.
- **Known deficiencies for MassHealth, transportation, and administrative accounts create potential spending exposures that approach \$1 billion.** The Conference Report reduces spending compared to the Governor's budget by nearly \$1 billion, but an initial analysis by MTF identified up to \$950 million in spending reductions compared to the administration's original recommendations that could create spending exposures later in the year. Example items include MassHealth, transportation, caseload-driven accounts, Emergency Assistance shelter, and administrative accounts.

*MTF Estimated Spending Exposures in FY 2026 Conference Budget*

| Category                           | FY 2026 Governor  | FY 2026 Conference | Conference v. Governor |
|------------------------------------|-------------------|--------------------|------------------------|
| MassHealth                         | \$9,544.7         | \$9,048.5          | -\$496.2               |
| Transportation                     | \$1,304.6         | \$1,043.1          | -\$261.5               |
| Administrative                     | \$2,004.1         | \$1,923.1          | -\$81.0                |
| Caseload                           | \$575.0           | \$508.1            | -\$66.9                |
| Emergency Assistance Shelter       | \$325.3           | \$276.4            | -\$48.9                |
| <b>Total Spending Deficiencies</b> | <b>\$13,753.7</b> | <b>\$12,799.2</b>  | <b>-\$954.5</b>        |

*\$ in millions*

- **Federal actions related to Medicaid create additional exposures for the state budget.** The exact impacts of federal action on Massachusetts will require monitoring throughout the fiscal year; however, proposals included in recently passed legislation could create potential financial exposures for the state budget in FY 2026. Proposed cuts to Medicaid would reduce spending by more than \$800 billion over the next ten years, and in FY 2026 the impact to the Massachusetts state budget could be close to \$100 million.

Putting all of these pieces together, spending and revenue exposures in the FY 2026 Conference Report could quickly exceed \$1.65 billion. While this figure may be partially offset by the budgeted revenues left unspent in the Conference budget, policymakers would still face a budget gap of at least \$800 million.

The Healey administration’s decision to veto \$130.2 million in spending now and seek legislative approval for several new financial management tools to adjust spending and revenue assumptions in the future is a prudent strategy. It improves the state budget’s stability in the short-term, while providing flexibility to respond to unknown factors in the months ahead.

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**Governor Healey’s Budget Actions**

*Spending Vetoes*

Governor Healey vetoed \$130.2 million in spending from the FY 2026 budget, impacting 28 line-items.

The single largest veto cuts \$27.5 million in funding for Group Insurance Premium and Plan Costs, which according to the administration reflects savings associated with a proposal to reduce the costs of covering GLP-1 weight loss pharmaceuticals. In addition, Governor Healey is directing the GIC to adopt a mid-year health insurance plan change for state employees that would eliminate coverage of GLP-1s in all cases except when medically necessary.

According to the filing documents for the Governor’s budget actions, the remaining \$102.6 million vetoes reduce funding for items that exceed the administration’s original recommendation, have access to alternative resources, or are deemed unaffordable in the current fiscal climate.

In the table below, spending vetoes are organized by category.

*FY 2026 Spending Vetoes by Category*

| Category                | Governor's Veto |
|-------------------------|-----------------|
| Economic Development    | \$1.4           |
| Education               | \$22.5          |
| <i>Early Education</i>  | \$1.0           |
| <i>K-12 Education</i>   | \$20.8          |
| <i>Higher Education</i> | \$0.7           |
| Energy and Environment  | \$10.7          |
| Healthcare              | \$61.0          |
| Housing                 | \$5.5           |
| Judiciary               | \$9.3           |
| Other                   | \$2.6           |
| Support Services        | \$0.8           |
| Transportation          | \$14.0          |
| Workforce               | \$2.3           |
| <b>Total</b>            | <b>\$130.2</b>  |

*\$ in millions*

The Governor maintained all surtax-supported spending, which totals \$2.4 billion in the final FY 2026 budget.

Notable spending vetoes include:

- **MassHealth Supplemental Nursing Home Rates (\$25 million veto)** – The administration eliminates \$25 million in funding approved by the Legislature to provide a supplemental increase to nursing home rates. This increase was in addition to the \$102 million in nursing home rate increases originally proposed by the Governor and adopted by the Legislature.
- **Charter Tuition Reimbursement (\$19.9 million veto)** – Funding for Charter Tuition Reimbursement payments to sending districts is reduced by \$20 million, bringing the total funding level to \$179.9 million. This funding level would be consistent with the Governor’s original budget recommendation, but less than the projected full-funding requirement of \$197.4 million. Charter reimbursement payments can often fluctuate throughout the fiscal year, based on student enrollment trends.
- **Operating Transfer to MassDOT (\$14 million veto)** – The administration vetoes \$14 million for an operating transfer to the Department of Transportation, reducing the appropriation from \$572.9 million to \$558.9 million. According to the administration, alternative resources exist to support this level of funding.
- **Transfer to the Mass Clean Energy Center (\$10 million veto)** – The transfer to the MassCEC is reduced by \$10 million, bringing the final transfer to \$10 million. The administration indicates that alternative funding has been identified to support a full transfer of \$20 million to the center.
- **Shelter Workforce Assistance (\$5 million veto)** – The administration reduces funding for two earmarks included within the shelter workforce assistance line-item. Each earmark was originally funded at \$5 million and supported workforce needs at Emergency Assistance and individual shelters. The earmarks have each been reduced by \$2.5 million.
- **EEC Employer Pilot Program (\$1 million veto)** – The administration eliminates funding entirely for a pilot program under the Department of Early Education and Care to incentivize employer investments in child care. This program, originally funded in the FY 2025 budget, continues to have access to funding from prior years, according to the administration.
- **Career Technical Institutes (\$250K veto)** – Funding for Career Technical Institutes is reduced by \$250K, for a final appropriation level of \$9 million.

The Governor largely avoided vetoes to local earmarks; however, the administration announced its intention to delay the payment of approximately \$125 million in local earmarks until later in the fiscal year. Pausing the payment of earmarks for local projects until more information is available regarding FY 2026 revenue trends, federal action, and larger economic trends is a prudent fiscal decision. When pressures are placed on budgeted resources, the focus must be on maintaining programs and services that are core to the work of state government.

### *Policy Vetoes*

Governor Healey approved of the vast majority of the 135 policy sections included in the Conference Report, returning only 4 policy sections with amendments.

- **Secure Choice Retirement Program** (Sections 20, 23, 110) – The Governor proposes to strike three outside sections from the FY 2026 budget related to the development and implementation of a Secure Choice Retirement Program. As approved by the Legislature, these sections would have provided workers without access to employer-supported retirement plans with the option to participate in a state-operated program. Furthermore, the sections would have required certain employers to either participate in the state program or offer an alternative, privately-managed option. The administration proposes to replace these three sections with a new section creating a task force to review and provide recommendations on options to promote and foster financial security in retirement for MA residents. The task force would be chaired by the Treasurer and is directed to post their report and recommendations by July 1, 2026.
- **Vital Records Update** (Section 20) – The FY 2026 budget enacted by the Legislature included four outside sections updating statutory language related to vital records including birth, marriage, and death certificates. The Governor proposes to amend one of these sections (section 29) to clarify that social security numbers will be part of a decedent’s death record, but will be held confidential on death certificates unless otherwise requested by an approved individual.

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### **Next Steps**

Governor Healey sent back \$130.2 million in spending vetoes to the FY 2026 Conference Budget, approving a final budget that includes \$60.9 billion in line-item spending. This represents an increase of \$3.1 billion (5.4 percent) over the FY 2025 GAA.

Despite the challenges facing the Commonwealth in the new fiscal year, this is the lowest level of budget cuts proposed by the Healey administration to an enacted budget since assuming office in 2023. The narrow scope of the Governor’s vetoes is largely a result of the Legislature’s aggressive efforts to reduce spending in FY 2026, ultimately approving a budget that spent nearly \$1 billion less than the administration’s original recommendation and \$400 million less than either spending bill passed in the House or Senate.

#### *FY 2026 Budget Spending, Post-Vetoes*

|                                 | <b>FY 2026<br/>Conference</b> | <b>Budget<br/>Vetoes</b> | <b>Final FY<br/>2026 Budget</b> | <b>\$ v. FY 2025<br/>GAA</b> | <b>% v. FY 2025<br/>GAA</b> |
|---------------------------------|-------------------------------|--------------------------|---------------------------------|------------------------------|-----------------------------|
| Line-Item Spending              | \$58,060.9                    | -\$130.2                 | \$57,930.8                      | \$2,151.5                    | 3.9%                        |
| Surtax Spending                 | \$2,399.8                     |                          | \$2,399.8                       | \$1,099.8                    | 84.6%                       |
| Medical Asst. Trust Fund        | \$547.6                       |                          | \$547.6                         | -\$134.6                     | -19.7%                      |
| BH Outreach, Access, Support    | \$25.4                        |                          | \$25.4                          | \$5.4                        | 27.0%                       |
| <b>Total Line-Item Spending</b> | <b>\$61,033.7</b>             | <b>-\$130.2</b>          | <b>\$60,903.5</b>               | <b>\$3,122.1</b>             | <b>5.40%</b>                |

*\$ in millions*

As policymakers consider responding to the Governor’s budget actions, MTF offers the following recommendations:



- **Monitor FY 2026 revenue collections through October before overriding budget vetoes.** As detailed above, there are significant downside risks for non-surtax revenues in FY 2026 and lawmakers should wait until the administration's certifies FY 2026 revenue collections in October before considering overrides to the Governor's vetoes. Tracking revenue collections trends through the first quarter of the fiscal year before taking action only provides policymakers with additional information on economic trends, allowing them to make more informed spending decisions.
- **Prioritize funding for programs and services that are core to state government.** Alongside it's budget vetoes, the Healey administration announced its intention to delay the payment of approximately \$125 million in local earmarks until later in the fiscal year. The Legislature should work collaboratively with the administration to monitor spending and revenue trends, and funding for core programs and services administered by the state should be prioritized over earmarks.
- **Provide flexibility to the Healey administration to respond quickly to changing economic trends and federal action.** As MTF will review in an upcoming brief, on the same day that the Healey administration signed the FY 2026 budget, she also filed a supplemental budget that includes several proposals to enhance the administration's ability to manage spending and revenue trends throughout the fiscal year. Additionally, the supplemental budget includes a total of \$130 million for a reserve and trust fund transfer that would allow the administration to quickly address funding shortfalls related to revenue losses or federal actions. The administration should be proactive in sharing information with the Legislature regarding any required action and these administrative tools are simple ways to better position the Commonwealth to respond to fast-moving situations.