FY2026 H.1 BUDGET BRIEF

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Fiscal Overview

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Introduction

The Healey-Driscoll Administration's House 1 recommendation represents a balanced budget that prioritizes affordability, competitiveness and equity for our Commonwealth. The administration continues to focus on being good fiscal stewards for Massachusetts residents, as well as making key investments to move Massachusetts forward.

As the state continues to grapple with the post-pandemic stresses on our safety net systems and elevated costs driven by inflation across all sectors, this budget recommendation ensures that each dollar is spent efficiently and effectively. House 1 focuses on maintaining and preserving our most critical programs and services in a fiscally responsible, sustainable manner, while continuing to be a leader amongst our peers.

Bottom Line

The Governor's budget recommendation totals $59.577 billion, excluding spending tied to the 4 percent income surtax and the Medical Assistance Trust Fund. This represents an increase of $1.489 billion, or 2.6 percent, over current FY25 estimated.

In addition, House 1 includes $1.95 billion in income surtax spending for education and transportation. These resources support transformative recommended investments that will allow us to expand access to early education and care, provide affordable higher education opportunities, maintain our commitment to the Student Opportunity Act, and provide safe and reliable transportation across the state.

$ in millions	FY25 Est. Spend	FY26 House 1	$ vs. FY25 Est. Spend	% vs. FY25 Est. Spend
Line Item Spending	$58,089	**$59,577**	$1,489	2.6%
Medical Assistance Trust Fund (MATF)	$838	**$548**	-$290	-34.6%
Surtax	$1,330	**$1,950**	$620	46.7%
Total	**$60,256**	**$62,075**	**$1,819**	**3.0%**

Since signing the FY25 GAA, the state has seen significant cost growth in some of our core programs, including more than $1 billion in gross MassHealth growth driven by increased caseloads and higher enrollee acuity following the pandemic, as well as enhanced caseload demands for core safety net programs like home care and early education services.

House 1 contends with the annualization of these increased cost pressures through targeted, thoughtful savings and revenue initiatives. This balanced blueprint ensures that our residents remain supported while keeping the state on a sustainable fiscal track.

Tax Revenue

House 1 relies on the FY26 consensus tax revenue agreement of $43.614 billion, including $2.4 billion in 4 percent income surtax collections. Total non-surtax revenue growth represents 2.2 percent, or $907 million, over FY25 benchmarks.

$ in millions	FY25 Benchmark	FY26 House 1	$ vs. FY25 Benchmark	% vs. FY25 Benchmark
Baseline Tax Revenue	$40,307	$41,214	$907	2.2%
4% Income Surtax Revenue	$1,300	$2,400	$1,100	
Total Tax Revenue	**$41,607**	**$43,614**	**$2,007**	

Surtax

In alignment with the FY26 consensus tax revenue agreement, House 1 assumes $2.4 billion in total income surtax collections. Of this total, the agreement includes a spending cap of $1.95 billion, which is $650 million more than was available in FY25. This spending cap will allow us to program surtax-supported spending in a sustainable manner. The $550 million in estimated collections over the spending cap will be made available for one-time education and transportation needs through the Innovation and Capital Fund, as well as to the Reserve Fund to backstop any future volatility in surtax collections.

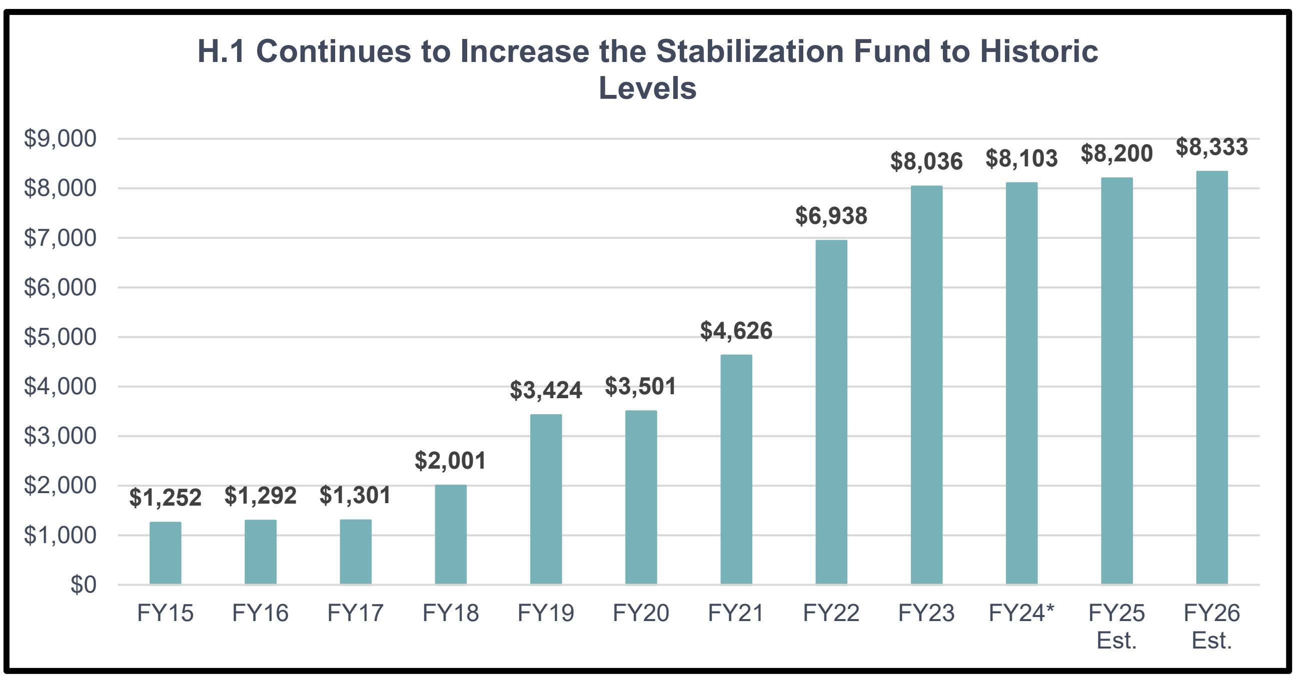
$ in millions	FY26 House 1
Total Surtax Revenue	**$2,400**
Spending Cap (Amount Available for Budget)	$1,950
Innovation and Capital Fund (85% of est. excess collections)	$383
Reserve Fund (15% of est. excess collections)	$68

Pre-Budget Commitments

The Governor's budget maintains statutory pre-budget tax revenue transfers, totaling $8.317 billion. This includes $4.933 billion for our annual pension transfer, which represents a $433 million (9.6 percent) increase over FY25. House 1 also transfers a combined $2.692 billion in sales tax revenues to the MBTA and the Massachusetts School Building Authority, as well as $27 million for the Workforce Training Trust Fund.

$ in millions	**FY26 H.1**
Total Taxes (excluding Surtax)	**$41,214**
Pension Fund Transfer	$4,933
MBTA - Sales Tax Transfer	$1,426
MA School Building Authority - Sales Tax Transfer	$1,265
Excess Capital Gains for Stabilization Fund, Pension and State Retiree Benefits	$666
Workforce Training Trust Fund	$27
Total Pre-Budget Transfers	**-$8,317**
Taxes Available for Budget	**$32,897**

In addition, House 1 provides $666 million for some of our largest long-term liabilities through our capital gains tax collections. This includes an estimated $133 million deposit into the Stabilization Fund, bringing it to an historic high of $8.717 billion by the end of FY26.

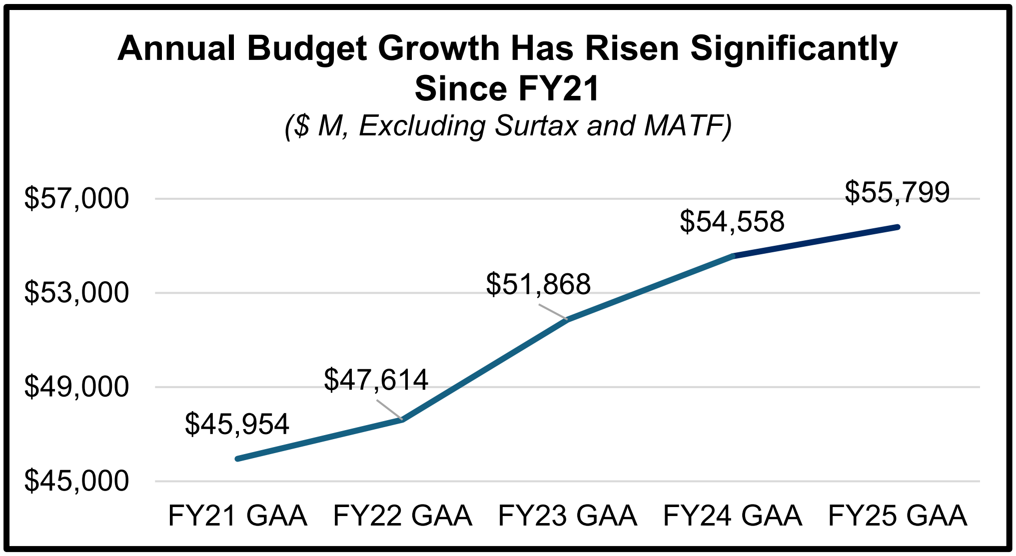


**FY24 Stabilization Fund balance adjusted for the enactment of federal matching fund legislation, which redirects fund interest to support state match for federal grants*

After accounting for these transfers, non-surtax revenues available for the budget total $32.897 billion, an increase of $414 million over the current FY25 benchmark.

Fiscal Pressures

Excluding new surtax spending and transfer to the Medical Assistance Trust Fund, the General Appropriations Act (GAA) grew by nearly $10 billion, or more than 21 percent, between FY21 and FY25. This spending growth reflects the increased demand for state services and programming supporting our most vulnerable populations during and after the pandemic.



Today, the state continues to experience exacerbated demands on those key services – health care, high-quality early education and care, and housing stabilization, just to name a few. The FY26 House 1 recommendation continues to support many of the programs that our residents rely on to educate their children, find meaningful employment, reach their destinations safely and reliably, and secure stable, affordable housing.

At the same time, our tax revenue estimates, while projecting modest growth at 2.2 percent, cannot keep up with these demands on state services. FY21 and FY22 saw cumulative tax revenue growth of 35.7 percent, as the economy benefited from federal pandemic stimulus. In contrast, total tax collections between FY23 and FY24 decreased by 6.83 percent. The precipitous decrease in tax revenue collections in FY23 came at the end of the fiscal year, which compounded the impacts of those losses as we moved into FY24 and experienced further erosion.

This mismatch between spending and revenue growth has required us to examine the budget to create meaningful savings, so that our most critical services can be maintained sustainably. Overperforming tax revenues from FY21 to FY22 allowed the state to support additional programming; however, as tax revenues have leveled out, the administration has needed to be thoughtful and deliberate in how to deploy more limited resources.

Balancing the Budget

FY26 Strategy

Given the challenges laid out above, the House 1 proposal relies on a thoughtful combination of spending reductions and resources to produce a balanced, responsible budget. This recommendation proposes new policies to create permanent revenues for future fiscal years, while also taking advantage of available one-time resources to maintain the programming our residents rely on. Some of House 1's most notable solve proposals include:

Resource	Amount *($ in millions)*	Description
Excess Capital Gains for Long-Term Liabilities	$533	The House 1 recommendation adjusts our distribution of excess capital gains to use more of these resources for our pension ($433 million) and post-retiree benefit liabilities ($100 million). This shift in resources allows us to reduce other state resources for these purposes to provide relief on the operating budget. This shift still allows us to meet our full commitment to our triennial pension schedule. Even with these shifts, House 1 still makes an estimated transfer of $133 million to the Stabilization Fund.
Ch. 102 and 268 Program Reductions	$200	House 1 grants the Secretary of Administration and Finance the authority to reduce certain programs from chapter 102 of the acts of 2021 and chapter 268 of the acts of 2022. These programs used 1-time surpluses to support new programs across state government. Given budget pressures, the Administration proposes to reduce or eliminate programs that have not been spending down their appropriations or have remaining balances after completing the designed programs.
Charitable Deduction Cap	$164	The Governor's budget proposal allows the charitable donation deduction, first implemented in tax year 2023; however, to structure it like several other deductions, the budget proposes caps on the deduction ($10,000 for joint filers and $5,000 for individual filers). The inclusion of a cap will situate the charitable donation deduction in alignment with other tax benefits, including the commuter and rent deductions that working families rely on.

Tax Fairness and Modernization Policies	$145	Like the FY25 budget, House 1 proposes several tax fairness and modernization initiatives focused on closing loopholes and ensuring that Massachusetts businesses and residents remain competitive.
Penalty for Excessive Drug Pricing	$60	The administration is focused on making life more affordability for Massachusetts residents. House 1 proposes an excessive price penalty on drug manufacturers when the price of a drug exceeds inflation. This will result in real savings in people's pockets without jeopardizing their ability to purchase life savings medication.
Elimination of Sales Tax Exemption on Candy	$25	Currently, candy is exempt from the sales tax. House 1 proposes to remove this exemption. It is critical that our tax policy decisions align with our general policy opinions. In this case, incentivizing the purchase of candy does not align with our public health goals, especially for our youth.
Subjecting Synthetic Nicotine to Tobacco Excise	$2	Aligns synthetic nicotine product taxation with other similar products.

While House 1's recurring solves contribute to a structurally balanced budget in future fiscal years, the FY26 budget recommendation also relies on one-time resources that must be managed carefully. For example, the Governor's budget draws from the Student Opportunity Act Investment Fund and the Early Education and Care Operational Grant Fund to support Chapter 70 aid to schools and the Commonwealth Care for Children (C3) Grant Program, respectively.

The administration is deploying these resources mindfully to ensure that the state does not move towards an unavoidable fiscal cliff and continues to actively work on permanent solutions to stabilizing these priority programs. The administration has also continued to build these reserves in partnership with the legislature to ensure that we can provide these vital supports to our school districts and child care providers.

Reserve	**Amount Used in House 1 *($ in millions)***	**Remaining Balance after House 1* *($ in millions)***	**Use in House 1**
Student Opportunity Act Investment Fund	$207	$279	Ch. 70 for the implementation of the Student Opportunity Act

Early Education and Care Operational Grant Fund	$115	$135	C3 Grants to support child care providers

**Remaining fund balances based on estimates as of House 1 filing, including proposed transfer from the administration's Fair Share supplemental budget to the Early Education and Care Operational Grant Fund, as well as transfer of FY24 excess surtax to the Education and Transportation Fund from the Student Opportunity Act Investment Fund*

In addition, the Governor's recommendation relies on savings initiatives that mitigate direct cuts to services, while helping to curb spending growth. Based on the annualization of our prior commitments, including rates, formula-driven obligations and the impacts of inflation, the costs to provide level services over FY25 estimated spending would have grown by more than double the rate of inflation. The Governor's recommendation includes more than $2.5 billion in gross savings to right-size the budget and bring that rate of growth under the current rate of inflation compared to FY25 estimated spending. These savings initiatives focus on:

- Promoting a more efficient and sustainable government
- Consolidating programs and services to more effectively serve residents
- Maximizing our federal and off-budget resources to get the most value for taxpayers

For example, the House 1 budget realizes savings from consolidation of hospital services under the Department of Public Health. The transfer of pediatric services from the Pappas Rehabilitation Hospital for Children to Western Massachusetts Hospital Campus in Westfield will both improve the delivery of care, as well as create efficiency savings.

In another instance, the House 1 budget moves funding for the Food Security Infrastructure Grant Program to the capital budget, which is a more appropriate funding source for the program. This will provide space on the budget to maintain food security operating supports, such as the Massachusetts Emergency Food Assistance Program.

While MassHealth continues to see elevated growth due to higher caseload and higher acuity in its members, the House 1 recommendation proposes savings via service rates – in some cases holding rates flat and in others making targeted reductions. These savings are necessary to proactively control MassHealth's growth at a time when the need for state-supported coverage remains well-above our pre-pandemic levels.

Future Sustainability

Looking beyond FY26, these current fiscal challenges are expected to continue. House 1 proposes a blueprint reliant on meaningful savings measures, recurring revenues, and one-time resources to put the state on a path towards long-terms sustainability.

This budget proposal, in tandem with recently enacted legislation, aims to make Massachusetts more affordable for families and increase our competitiveness in order to grow our economy. These efforts should help to ensure that we can preserve the key services that our residents rely on year in and year out and continue to make Massachusetts the best place to work and grow your family.