

FY2027 H.2 BUDGET BRIEF

Maura T. Healey, Governor | Kimberley Driscoll, Lt. Governor

Fiscal Overview

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Facing unprecedented pressures from federal uncertainty, moderating tax revenue growth and extraordinary cost growth, the Healey-Driscoll Administration's Fiscal Year 2027 (FY27) House 2 proposal represents a balanced and thoughtful blueprint. Despite the numerous challenges creating fiscal uncertainty, House 2 prioritizes the administration's top goals of affordability, competitiveness, and equity.

At a time when the federal government has made devastating budget cuts in areas like health care and food security, the governor's budget proposal protects our most vulnerable, ensures sustainable growth, and makes key investments to retain our standing as a national leader in so many important sectors.

Bottom Line

The Governor's House 2 proposal total \$60.114 billion, excluding spending tied to the voter-approved 4 percent Fair Share income surtax and the Medical Assistance Trust Fund. This represents an increase of \$2.015 billion, or 3.5 percent, over the FY26 General Appropriation Act, and \$676 million, or 1.1 percent, over current FY26 estimated spending. Despite extraordinary spending pressures across most sectors, the governor's budget maintains sustainable spending growth – limiting growth over FY26 estimated spending to less than half of the rate of inflation (2.7 percent as of December 2025).

Additionally, House 2 includes \$2.7 billion in education and transportation investments made possible by the income surtax. This resource continues to allow the Commonwealth to make historic investments in transportation and education. Whether stabilizing the Massachusetts Bay Transportation Authority, providing universal access to pre-kindergarten in our Gateway Cities, or fulfilling our commitment to the *Student Opportunity Act*, the surtax has moved Massachusetts forward in a transformative way.

	FY26 GAA	FY26 Est.	FY27 H.2	\$ vs. FY26 Est.	% vs. FY26 Est.	\$ vs. FY 26 GAA	% vs. FY26 GAA
Line Item Spending	\$58,098	\$59,438	\$60,114	\$676	1.1%	\$2,015	3.5%
Medical Assistance Trust Fund	\$548	\$856	\$548	-\$308	-36.0%	\$0	0.1%
Surtax	\$2,400	\$2,400	\$2,700	\$300	12.5%	\$300	12.5%
Total	\$61,046	\$62,694	\$63,362	\$668	1.1%	\$2,316	3.8%

Over the last few fiscal years, states across the nation have grappled with unprecedented cost growth across all aspects of the health care system. Massachusetts has seen double digit growth in MassHealth, state employee health insurance, and most human service programs. House 2 manages to align spending with available revenues and proposes creative solutions to help support core services for Massachusetts residents.

Tax Revenue

House 2 is supported by the FY27 consensus tax revenue agreement of \$44.9 billion, including \$2.7 billion from the 4 percent income surtax. Total non-surtax tax revenue growth represents 2.4 percent, or \$986 million, over the current FY26 benchmark. Surtax revenue growth represents 12.5 percent, \$300 million, over current FY26 estimates.

	FY26 Benchmark	FY27 Consensus Revenue	% Change
Baseline Tax Revenue	\$41,214	\$42,200	2.4%
4% Income Surtax Revenue	\$2,400	\$2,700	12.5%
Total Tax Revenue	\$43,614	\$44,900	2.9%

The House 2 budget reflects the phased-in implementation of certain tax provisions adjusted by the federal *One Big Beautiful Bill Act* passed in July. The state automatically conforms with certain corporate and business provisions changed by the federal legislation. In separate legislation filed earlier in January, the governor recommended phasing in several provisions to ensure that the state can afford them sustainably without risking cuts to key spending programs. The impact of phasing in these provisions totals \$108 million in additional revenue in FY27.

Additionally, the governor's budget recommendation reflects the proposed expansion of the pass-through entity excise tax, which is expected to generate \$296 million in FY27 tax revenue, while helping certain taxpayers maximize their federal tax benefits.

Pre-Budget Commitments

The governor's budget recommendation includes \$8.142 billion in statutory pre-budget tax transfers. Notably, this includes \$5.131 billion for the annual pension transfer, representing 4 percent growth for the first year of the latest triennial schedule. The attainment of a pension funding schedule that increases 4 percent per year is considered sustainable by actuarial professionals and represents a breakthrough achievement in the Commonwealth's pension funding policies. This new schedule keeps the state on track to pay down its liability ahead of the FY40 statutory deadline and marks an extension of a disciplined and consistent fiscal policy that has bridged several successive triennial schedules, demonstrating strong commitment and collaboration between the administration and legislature.

House 2 also transfers a combined \$2.73 billion in sales tax revenue to the Massachusetts Bay Transportation Authority and the Massachusetts School Building Authority, as well as \$27 million for the Workforce Training Fund.

\$ in millions	FY27 House 2
Total Taxes (excluding Surtax)	\$42,200
Pension Liability Fund Transfer	\$5,131
MBTA - Sales Tax Transfer	\$1,444
MA School Building Authority - Sales Tax Transfer	\$1,284
Excess Capital Gains for Stabilization Fund, State Retiree Benefits Trust Fund and Disaster Relief & Resiliency Fund	\$256
Workforce Training Trust Fund	\$27
Total Pre-Budget Transfers	\$8,142
Taxes Available for Budget (excluding Surtax)	\$34,058

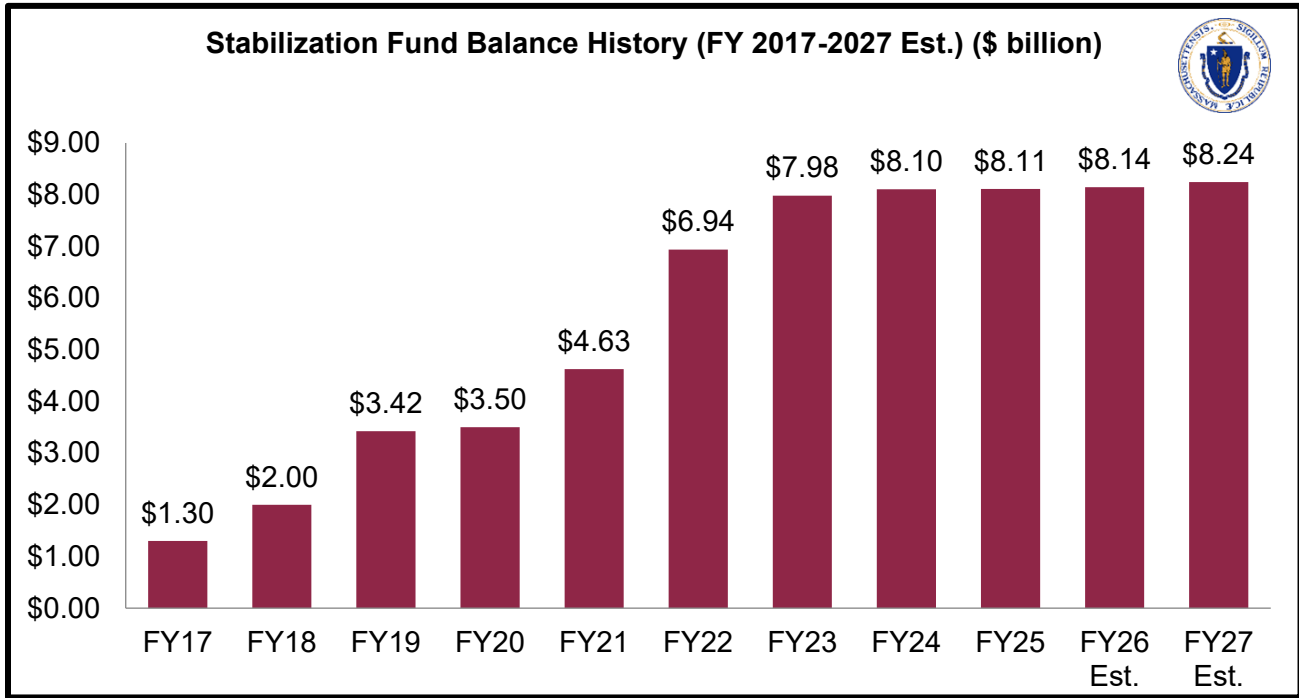
House 2 includes recent recommendations from the Stabilization Fund and Long-Term Liability Financing Task Force. This group, consisting of state fiscal policy experts, reviewed the Commonwealth's policies around building reserves and financing long-term non-discretionary commitments.

A recommendation from the group was to consider a one-time prospective adjustment to the threshold establishing the amount in capital gains tax collections available for spending. Capital gains collections over the threshold, first established in 2011, is then dispensed to the Stabilization Fund, pension liability, and state retiree benefits. Based on this review, the Task Force estimated that the threshold has fallen behind actual revenue and economic growth, suggesting that it could be increased by \$300 to \$600 million on a one-time basis. Therefore, House 2 recommends an adjustment in the threshold to \$2.25 billion, representing approximately \$470 million over the original FY27 estimate.

After this adjustment, the House 2 proposal still provides \$100 million for the Stabilization Fund, \$136 million for post-retiree benefits, and \$20 million for the Disaster Relief and Resiliency Fund to help the state prepare for unforeseen natural disasters.

\$ in millions Long-Term Liability	FY27 H.2
Stabilization Fund	\$100
State Retiree Benefits Trust Fund	\$136
Disaster Relief & Resiliency Fund	\$20
Total Pre-Budget Transfers	\$256

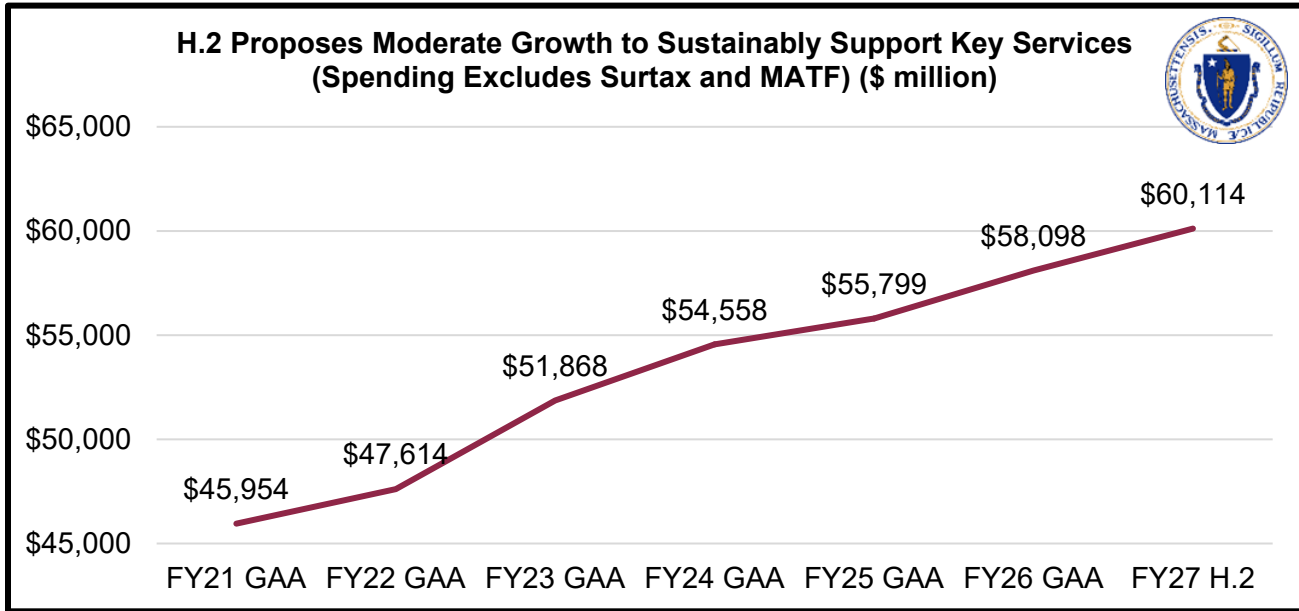
With this additional \$100 million investment, the Stabilization Fund is estimated to grow to a historic \$8.24 billion by the close of FY27.



Fiscal Pressures

The state has continued to face significant spending pressures in the aftermath of the pandemic with the impacts of inflation rippling through all state programs. Most notably, health care costs across all facets of the system have seen double digit growth – as made evident by FY25 supplemental funding levels of \$2 billion gross for MassHealth and \$240 million for the Group Insurance Commission for premium and plan costs. In addition, the state continues to experience considerable growth across other key sectors, including subsidized early education and care, K-12 education, and housing stabilization.

The administration, in partnership with legislative leaders, has managed to keep spending growth sustainable.



The FY27 House 2 recommendation reflects the administration's efforts to ensure the budget grows sustainably and responsibly, while also protecting those programs that serve our most vulnerable populations and help Massachusetts continue to lead the way.

Balancing the Budget

To balance the budget, the administration is putting forward a thoughtful package of solves. House 2 prioritizes lowering the state's reliance on one-timers to ensure that the budget remains sustainable in the long term. Some of the more notable solve proposals include:

Resource	Amount (\$ in millions)	Description
Federal Tax Conformity Phase-in	\$108	Consistent with recently filed legislation, House 2 assumes a phase- approach for some of the costliest provisions from the federal One Big Beautiful Bill Act. House 2 assumes the implementation of the Research & Experimental expenditure provision and otherwise assumes the four other most expensive provisions are made effective in Tax Year 2027. This phased-in approach provides temporary relief for the FY27 budget.
Pass-Through Entity Excise Expansion	\$296	The pass-through entity excise tax was implemented in response to the State and Local Tax Deduction becoming capped at \$10 K in the 2017 Tax Cuts and Jobs Act. The state excise provision allows certain taxpayers to mitigate their federal tax liability by paying state taxes through their businesses. House 2 reflects recently filed legislation expanding the allowable amount of income for this provision to

		encompass the surtax (without impacting actual surtax collections). The excise was first implemented before the surtax was enacted, so this measure aligns the excise with our current revenue system while providing a benefit to taxpayers and the state budget.
Debt Service Prepayment	\$185	In 2024, the Commonwealth Federal Match and Debt Reduction Fund was created to support debt defeasance and provide state matching funds for federal programs. The administration has successfully used the fund to pre-pay debt service obligations and recommends continued pre-payments to mitigate costs. These efforts save dollars for taxpayers and simultaneously provide relief for the operating budget.
Student Opportunity Act Investment Fund	\$568	House 2 fully funds the final year of the Student Opportunity Act. This includes \$7.6 billion for <u>Chapter 70</u> and \$803 million for special education costs. House 2 proposes drawing down from the Student Opportunity Act Investment Fund, created and funded to help implement this landmark education financing legislation.
High-Quality Early Education & Care Fund Early Education & Care Operational Grant Fund	\$259	House 2 provides historic levels of funding for the state's early education and care system, including \$1.22 billion for subsidized care and \$475 million for provider operational grants. In the Governor's budget recommendation, these programs are supported in part by dedicated reserves capitalized by surplus surtax collections and the revenues generated from online lottery.
Efficiencies & Effectiveness Initiative	\$100	House 2 proposes a statewide efficiencies and effectiveness initiative through the Executive Office for Administration and Finance. This initiative would analyze operations and programming across state agencies to identify areas where the state can reduce inefficiencies and save taxpayer dollars. The Executive Office would have the ability to recoup identified savings to reduce spending and support balancing the budget.

Fiscal Responsibility

In addition to recommendations related to the capital gains threshold, the Stabilization Fund and Long-Term Liability Financing Task Force recommended that the state implements more long-term fiscal planning exercises. To this end, the House 2 recommendation includes several meaningful measures to support good fiscal responsibility and strengthen our long-term fiscal stability. Key recommendations reflected in House 2 include:

- Mandating that the Stabilization Fund and Long-Term Liability Financing Task Force meet in perpetuity on a 5-year cycle to ensure recurring review of our fiscal policies
- Requiring an annual multi-year budget forecast and stress test to identify areas of risk, make sustainable budget decisions, and ensure the adequacy of the Commonwealth Stabilization Fund

These policy provisions represent the administration's commitment to our long-term fiscal health. By making these policies permanent, we are demonstrating our attention to good fiscal policies to credit rating agencies and our dedication to being good fiscal stewards for the taxpayers.

These measures, paired with the sustainable growth and thoughtful resources proposed in House 2, will help put Massachusetts on a sustainable fiscal glide path for the years ahead, regardless of growing cost pressures and challenges arising at the federal level.