



Commonwealth of Massachusetts
Executive Office for
Administration and Finance

Fiscal Year 2027 **Budget Overview**





Fiscal Overview



Context of the Current Fiscal Picture

Massachusetts –like many states– is **facing significant fiscal headwinds** caused by a convergence of factors:

- 1. Tax Revenue:** As we heard at our September 30th economic roundtable and consensus revenue hearing in December, the state's economic outlook remains marked by **considerable uncertainty**
 - While economists are not forecasting a recession, testimony consistently focused on a continued economic slowdown
 - Through December, we are essentially at benchmark – another indicator that the robust surpluses from a few years ago are no longer likely
- 2. Federal Actions:** Tracking about **\$1.3 B** in federal budget impacts in FY26, including **\$664 M from OB3** tax provisions – putting increased pressure on our operating budget and our entire health care and food security systems
- 3. Cost Pressures:** Continue to see **the cost of running government go up** across the board
 - Most notably, our health care expenditures – in our MassHealth and state employee health insurance program – continue to rise at 3X the rate of tax revenue growth
 - We also continue to experience extraordinary growth in some of our prior commitments such as the Student Opportunity Act, affordable higher education and access to behavioral health services

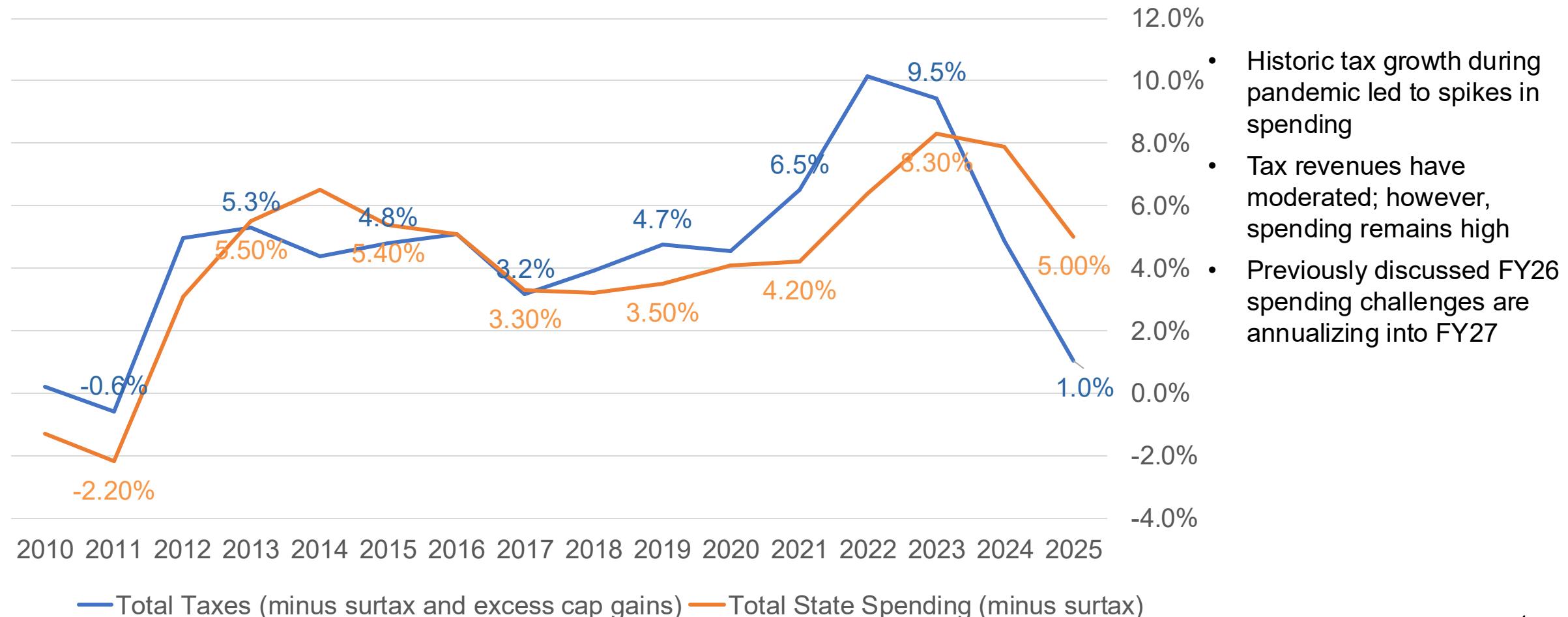
Unlike the federal government, **Massachusetts must balance its budget** each year. With finite state resources, we must make hard choices about where to focus our support

Current budget challenges driven by fundamental mismatch between spending and tax revenue



Even with efforts to constrain spending growth, costs have outpaced a softening tax revenue base

3-Year Rolling Average: Taxes vs. Spending





Tax Revenues

House 2 relies on tax revenue agreement with Legislature, which called for modest 2.4% growth

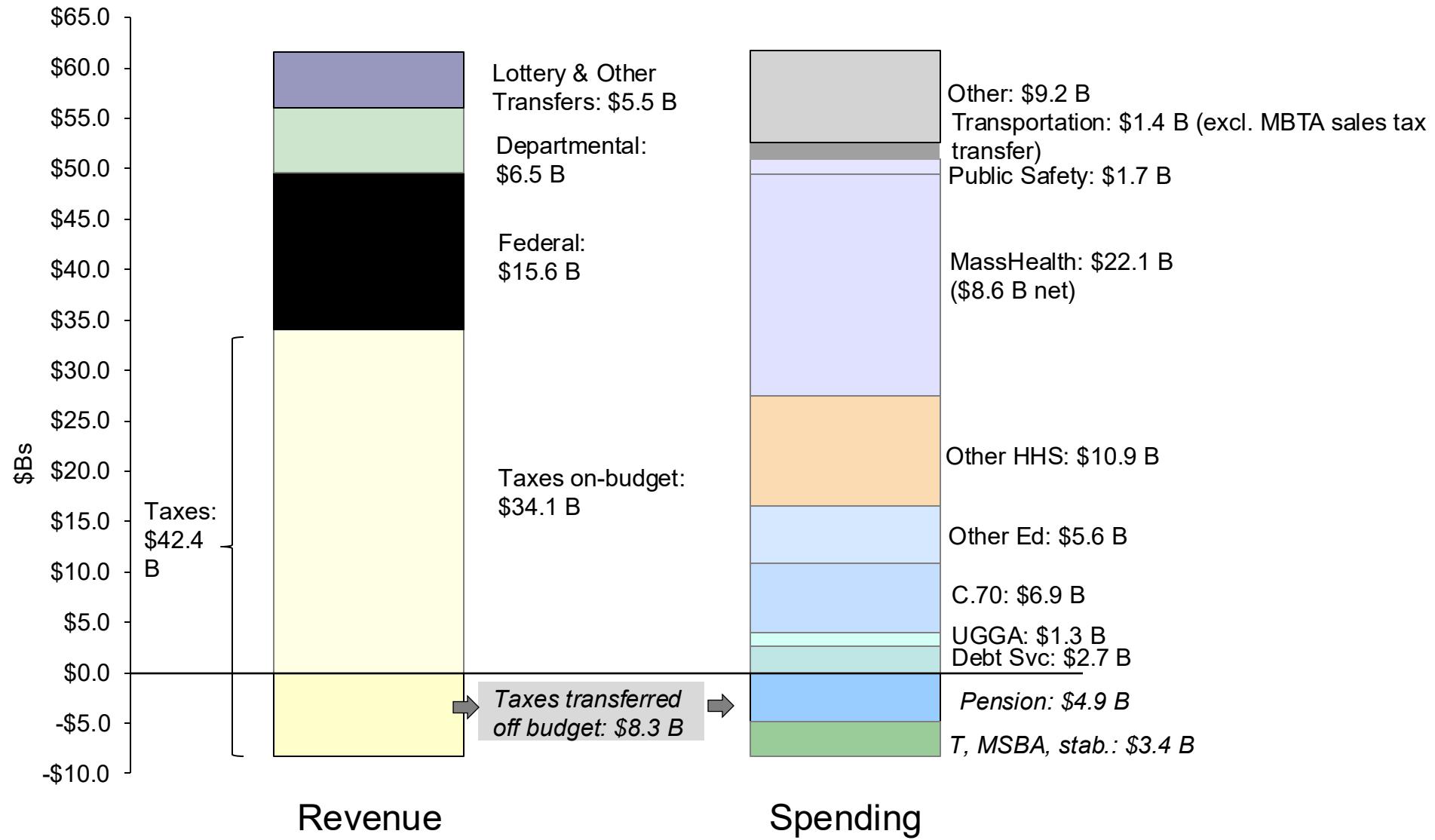
\$ in millions	FY26 Benchmark	FY27 House 2	\$ vs. FY26 Benchmark	% vs. FY26 Benchmark
Baseline Tax Revenue	\$41,214	\$42,200	\$986	2.4%
4% Income Surtax Revenue	\$2,400	\$2,700	\$300	
Total Tax Revenue	\$43,614	\$44,900	\$1,286	

\$ in millions	FY27 H.2
Total Taxes (excluding Surtax)	\$42,200
Pension 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, Pension and State Retiree Benefits	\$256
Workforce Training Trust Fund	\$27
Total Pre-Budget Transfers	-\$8,142
Taxes Available for Budget	\$34,058

- Modest baseline tax revenue growth assumptions in line with economic forecasts, resulting in **\$42.200 B**
- Surtax assumptions of **\$2.7 B** consistent with FY25 actuals and expected FY26 performance
- After pre-budget transfers, **\$34.058 B** available for spending, representing **\$1.161 B** more than FY26
- Limited tax revenue growth required spending controls and thoughtful revenue initiatives



FY26 GAA Spending and Revenue At a Glance





FY27 H.2 Local Aid

H.2 focuses on maintaining and preserving our most critical programs and services in a fiscally responsible, sustainable manner



Local Aid: Partnering with our Cities and Towns

Increases local aid to cities and towns by \$439 M (4.4%) compared to FY26 GAA

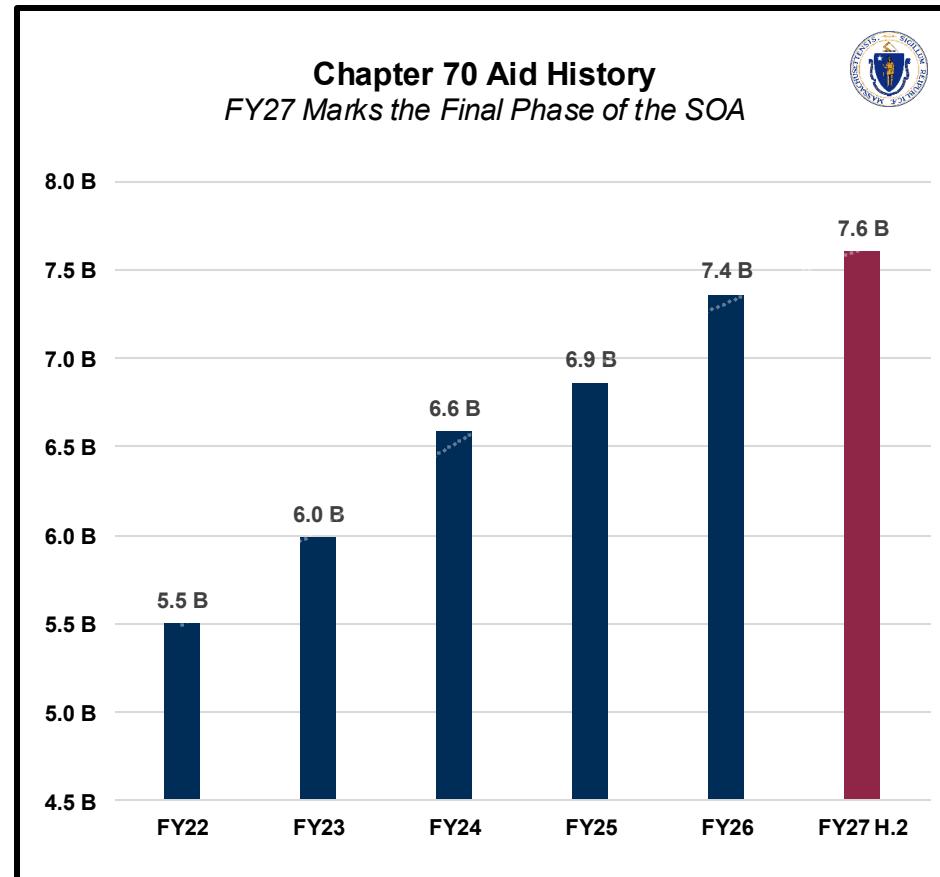
- Full funding of the Student Opportunity Act
- 2.5% increase to Unrestricted General Government Aid (UGGA), an increase of \$33 M over FY26
- Increases school transportation reimbursement (\$21.8 M, 17%)
- Increases rural school aid (\$20 M)
- Full funding of Special Education Circuit Breaker through H.2 and Fair Share Supplemental Budget
- Increases payments in lieu of taxes (PILOT) for state-owned land by \$851 K (2%) to hold all municipalities harmless

Local Aid (\$ in millions)	FY25	FY26	FY27 H.2	FY27 H.2 vs. FY26
Chapter 70 Payments to Cities and Towns	6,901.9	7,361.9	7,603.6	241.8
Special Education Circuit Breaker*	551.2	675.2	802.7	127.5
Charter School Reimbursements	199.0	199.0	200.4	1.4
Transportation of Pupils	128.1	132.4	154.3	21.9
Smart Growth	0.8	1.2	2.3	1.1
Rural School Aid	16.0	12.0	20.0	8.0
Subtotal: Education	7,797.0	8,381.7	8,783.4	401.7
Unrestricted General Government Aid	1,308.7	1,323.1	1,356.1	33.0
Veterans' Benefits	68.2	81.8	85.0	3.2
Payments in Lieu of Taxes on State Owned Land	53.0	54.5	55.4	0.9
Tax Abatements: Veterans, Widows, Blind Persons, Elderly	24.0	39.0	43.1	4.1
Public Libraries Local Aid	20.0	20.0	20.4	0.4
Regional Libraries Local Aid	19.0	19.0	19.4	0.4
Municipal Regionalization Reserve	18.5	12.6	7.5	-5.1
Subtotal: General Government	1,511.5	1,550.1	1,586.9	36.9
Total	9,308.4	9,931.7	10,370.3	438.6



Student Opportunity Act: Fulfilling Our Commitments

The Administration fully implements the fifth year of the Student Opportunity Act



- House 2 proposes \$7.6 B in Chapter 70 aid to school districts, an increase of \$241.8 M over FY26
 - Includes \$75 minimum aid per pupil to ensure all districts receive increased supports
 - \$550.6 M made available from Fair Share; \$400 M from SOA Investment Fund
- Special Education Circuit Breaker fully funded at \$802.7 M, an increase of \$127.5 M over FY25
 - \$150 M made available for reimbursement in FY27 via the companion Fair Share supplemental budget
 - Fully phases in of out-of-district transportation cost reimbursement provided for in the Student Opportunity Act



School Transportation Reimbursements

House 2 includes \$154.3 M for school transportation reimbursements, in light of increased cost pressures

- Regional School Transportation reimbursements funded at **87%** of estimated costs
- Non-Resident Vocation Transportation **fully funded** based on estimated costs
- Homeless Student Transportation funded at **\$35.2 M** in House 2
- House 2 leverages additional Fair Share resources to support higher reimbursements for our communities:

Program	FY26 Spending	FY27 Est. Full Funding	Proposal on Fair Share	Proposal on General Fund	Total H.2 Spend	Est. % Reimb.	Diff. from FY26
Regional School Transpo.	\$106.3	\$129.1	\$55.2	\$57.1	\$112.3	87%	\$6.0
Non-Resident Vocational Transpo.	\$5.6	\$6.8	\$6.8	\$0.0	\$6.8	100%	\$1.2
Homeless Student Transpo. (McKinney-Vento)	\$28.7	\$62.8	\$0.0	\$35.2	\$35.2	56%	\$6.5
Total	\$140.6	\$198.7	\$62.0	\$92.3	\$154.3		\$13.8



The Work Ahead



FY27 and Beyond

The administration has multiple ongoing efforts to continue addressing fiscal pressures and support local municipalities

- **Municipal Empowerment Act 2.0** includes additional tools for municipalities – to balance budgets, to deliver critical services, and to effectively serve residents.
- **Mass Ready Act** which includes capital authorizations that support municipal infrastructure infrastructure, PFAS mitigation, dam safety and more.
- **Chapter 90 Bond Bill** that seeks to sustain the 50% increase in funding, and corresponding formula change, passed successfully last year.
- **Health Care Affordability Group** charged with advancing proposals to reduce health care costs, including in the GIC.
- **Commission on Payments in Lieu of Taxes (PILOT) for State-Owned Land** charged with advising the Governor on potential reforms to the PILOT program.
- **Chapter 70 Review** of how the formula calculates local school districts' required contribution to their own education budgets.
- **School Bus Procurement Studies** underway by the Inspector General's Office and the Department of Elementary and Secondary Education to understand opportunities to increase competition and reduce local costs.