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MTF Bulletin

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Governor Healey’s Fiscal Year 2025 Budget in Brief

Earlier today, the Healey-Driscoll administration released its Fiscal Year (FY) 2025 budget proposal. The \$58.13 billion spending plan includes critical investments in childcare, education, and transportation; and \$1.3 billion in spending supported by income surtax revenues. The Governor’s budget increases funding over the FY 2024 General Appropriations Act (GAA) by \$2.1 billion (3.7 percent); a rate of growth that reflects the modest revenue expectations for the upcoming fiscal year.

The Governor’s budget comes three weeks after the Healey administration announced a \$1 billion tax [revenue shortfall](#) for FY 2024, which they propose to solve for using a combination of unanticipated non-tax revenues (\$625 million) and mid-year spending cuts (\$375 million net).

To support new and expanded spending in FY 2025, despite the significant slowdown in recent tax revenue collections, the Governor’s budget proposal relies on \$1.25 billion in new revenue-generating initiatives and one-time resources.

Budget Overview

The Governor’s FY 2025 budget proposal recommends \$58.13 billion in total on-budget spending, a \$2.1 billion (3.7 percent) increase over the FY 2024 GAA signed into law last July. After accounting for \$7.3 billion in statutorily required transfers and other off-budget spending reserved for collective bargaining agreements, the Governor’s budget includes \$65.63 billion in total spending obligations.

Governor Healey’s FY 2025 Spending Overview

	FY 2023 GAA	FY 2024 GAA	FY 2025 Governor	\$ vs. FY 2024 GAA	% vs. FY 2024 GAA
Line-Item Spending	\$51,868.7	\$54,558.1	\$56,152.2	\$1,594.1	2.9%
Surtax Spending	\$0.0	\$1,000.0	\$1,300.0	\$300.0	30.0%
Medical Asst. Trust Fund	\$575.9	\$505.0	\$682.2	\$177.2	35.1%
Total Line-Item Spending	\$52,444.6	\$56,063.1	\$58,134.4	\$2,071.3	3.7%
Pre-Budget Transfers	\$6,334.9	\$6,898.9	\$7,297.0	\$398.1	5.8%
Other Off-Budget	\$840.0	\$0.0	\$200.0	\$0.0	0.0%
Total Spend	\$59,619.5	\$62,962.0	\$65,631.4	\$2,669.4	4.2%

\$ in millions

Governor Healey’s budget is supported by \$65.67 billion in total state revenues, predominantly comprised of the \$40.2 billion consensus revenue figure agreed to by the Healey administration, House, and Senate budget leaders earlier this month. The proposal also relies on \$1.3 billion in revenue generated by the new income surtax, consistent with the income surtax spending cap also agreed to as part of the consensus revenue process.

The administration’s budget is supported by \$14.3 billion in reimbursements from the federal government and \$9.3 billion in departmental and lottery revenues, as well as transfers. Lastly, the spending plan relies on approximately \$1.25 billion in revenue-generating initiatives and one-time resources.

Governor Healey’s FY 2025 Revenue Overview

	FY 2023 GAA	FY 2024 GAA	FY 2025 Governor	\$ vs. FY 2024 GAA	% v. FY 2024 GAA
Total Tax Revenue	\$38,886.0	\$40,296.0	\$41,548.7	\$1,252.7	3.1%
<i>Consensus Tax Agreement</i>	\$39,617.0	\$40,410.0	\$40,202.0	-\$208.0	-0.5%
<i>Cap Gains Diversion</i>	-\$873.0	-\$584.0	-\$138.4	\$445.7	-76.3%
<i>Tax Settlements</i>	\$100.0	\$50.0	\$50.0	\$0.0	0.0%
<i>Tax Initiatives</i>	\$42.0	-\$580.0	\$135.0	\$715.0	-123.3%
<i>4% Income Surtax</i>	\$0.0	\$1,000.0	\$1,300.0	\$300.0	30.0%
Federal Revenue	\$14,062.9	\$13,735.3	\$14,301.5	\$566.2	4.1%
Departmental Revenue & Transfers	\$8,341.7	\$8,687.1	\$9,252.2	\$565.1	6.5%
Trust Funds Used	\$0.0	\$437.0	\$565.0	\$128.0	29.3%
Additional Stabilization Fund Transfer	-\$595.1	-\$146.3	\$0.0		
Total Revenue	\$60,695.6	\$63,009.1	\$65,667.4	\$2,383.9	3.8%

\$ in millions

In FY 2025, the Healey administration projects that the starting balance of the Stabilization Fund will be \$8.96 billion and that it will grow by a further \$96.8 million, ending the fiscal year with a balance of \$9.05 billion.

FY 2025 Stabilization Fund Estimate

FY 2024 Beginning Balance	\$8,061.3
<i>Planned Deposits</i>	\$895.0
FY 2024 Ending Balance	\$8,956.3
<i>FY 2025 Capital Gains Deposit</i>	\$96.8
FY 2025 Ending Balance	\$9,053.1

\$ in millions

Historically, the largest deposit of revenue into the state’s Stabilization Fund is above-threshold capital gains revenue. Under current statute, capital gains tax collections above a certain threshold (\$1.56 billion in FY 2025) are automatically transferred to the Stabilization Fund and other reserves; and in FY 2025, estimated above-threshold capital gains collections total \$513 million. However, the Governor’s budget includes a proposal re-distributing above-threshold capital gains revenue towards the operating budget and other uses:

- \$375 million will be retained in the General Fund and available to support general budget spending.
- 70 percent of the remaining balance (\$97 million) will be deposited into the Stabilization Fund.
- 30 percent of the remaining balance (\$42 million) will be distributed equally to the Pension Fund, other employment benefits, and a new Disaster and Resiliency Trust Fund.

The one-time diversion of \$375 million in above-threshold capital gains revenue to the budget would only be in effect for FY 2025, while the redistribution of above-threshold capital gains to the Stabilization Fund, Pension Fund, and new Disaster and Resiliency Trust fund would be a permanent adjustment.

Given the historically high balance of the Stabilization Fund, temporarily diverting a greater share of above-threshold capital gains revenue collections towards the operating budget in a time of fiscal transition is defensible. However, policymakers should remain aware that deterring from past practice and limiting deposits into the Stabilization Fund carries risk. For example, in 2017 the state’s bond-rating was downgraded for the first time in 30 years after multiple successive budgets suspended or reduced automatic deposits into the Stabilization Fund.

Governor Healey’s Budget – 5 Things to Know

1. Governor Healey’s budget includes \$58.13 billion in total on-budget spending, a \$2.1 billion (3.7 percent) increase over the FY 2024 GAA. Excluding surtax-supported spending and a transfer to the Medical Assistance Trust Fund, spending equals \$56.15 billion, an increase of \$1.6 billion (2.9 percent). This rate of spending growth is supported by a consensus tax revenue estimate of \$40.2 billion; which assumes 2 percent growth in tax revenue collections over the FY 2024 benchmark and 3.5 percent growth over expected FY 2024 revenues after adjusting for the fiscal impacts of tax relief.
2. The FY 2025 budget proposal utilizes \$1.3 billion in new income surtax revenue to support investments across the education and transportation sectors. Notable surtax spending areas include:
 - \$311 million for early education and care, including \$150 million to support the full-year costs of the C3 Childcare Operational Grants program.
 - \$250 million for a transfer to the Commonwealth Transportation Fund to fund additional operational supports at the Department of Transportation and the MBTA. The Governor’s budget also includes an outside policy section making this an automatic annual investment, unlocking additional bonding capacity for transportation projects.
 - \$170 million to fully fund the Universal School Meals program.
 - \$125 million to support capital investments at public higher education institutions.
3. To support new and expanded spending initiatives in FY 2025, the Healey administration relies on \$940 million in trust fund and other one-time resources; including:
 - \$300 million from the Student Opportunity Act Investment Fund,
 - \$265 million from the High-Quality Early Education and Care Trust Fund, and
 - \$375 million in above-threshold capital gains.
4. The Healey administration recommends the adoption of four revenue-generating initiatives in FY 2025, totaling \$310 million. The initiatives include:
 - a. \$75 million from the adoption of a tax amnesty program;
 - b. \$75 million through the authorization of an online lottery;
 - c. \$60 million generated by tax fairness and modernization initiatives; and
 - d. \$100 million by bringing additional gaming revenues onto the state budget.
5. In the second year of her administration, Governor Healey includes 112 outside policy sections in her spending proposal; a notable increase from the 29 included in her first budget submission. This increase in sections reflects a more ambitious policy agenda for the administration, with substantial changes proposed to state assessments on insurers and hospitals.