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# MTF Bulletin

March 5, 2026

## Fiscal Year 2027 Budget: A Closer Look

### Understanding the FY 2027 Budget Gap and Proposed Solutions

On January 28<sup>th</sup>, the Healey-Driscoll administration filed its budget proposal for Fiscal Year (FY) 2027. The \$63.36 billion plan increases spending over the FY 2026 General Appropriations Act (GAA) by \$2.3 billion (3.8 percent) and over the administration’s estimated spending level for FY 2026 by \$668 million (1.1 percent).

#### Spending in the FY 2027 Governor’s Budget

	FY 2026 GAA	FY 2026 Est. Spending	Governor's Budget	% v. FY 2026 GAA	% v. FY 2026 Est. Spend
Line-Item Spending	\$58,073.0	\$59,412.6	\$60,113.7	3.5%	1.2%
Surtax Spending	\$2,400.0	\$2,400.0	\$2,700.0	12.5%	12.5%
Medical Asst. Trust Fund	\$547.6	\$856.0	\$548.0	0.1%	-36.0%
B.H. Outreach, Access, Support	\$25.4	\$25.4	\$0.0	--	-100.0%
<b>Total Line-Item Spending</b>	<b>\$61,046.0</b>	<b>\$62,694.0</b>	<b>\$63,361.7</b>	<b>3.8%</b>	<b>1.1%</b>

*\$ in millions*

On the same day that the budget was filed, MTF published its [comprehensive analysis](#) of the Governor’s spending plan. Over the next several weeks, that report will be supplemented by a series of **FY 2027 Budget “Deep Dive” Briefs**. Each report will delve deeper into specific aspects of the Governor’s budget, including funding and policy proposals related to the surtax, healthcare, education, workforce and transportation.

To set the stage for those briefs, this initial report focuses on the state’s larger fiscal picture. Specifically, it explains how several factors—including recent trends in state tax revenue collections, non-discretionary spending pressures, and an increased reliance on one-time revenues to balance the budget—have contributed to a sizeable FY 2027 budget gap, estimated by MTF to exceed \$3.5 billion.

Through a combination of spending and revenue solutions, the Healey administration addresses a budget gap similar in size to MTF’s projection. Regardless of the exact budget gap that must be addressed, the House and Senate must decide whether or not to adopt the administration’s framework of solutions. Ultimately, how policymakers choose to address the budget gap will impact the resources available to support spending in FY 2027 and the sustainability of the state budget in future fiscal years.

To provide greater context for the decision points now before the Legislature, this brief aims to accomplish three things:

- Summarize the recent state fiscal trends that contribute to the budget gap;
- Describe the revenue and spending solutions recommended by Governor Healey; and
- Highlight the key questions facing the House and Senate as the budget process moves to the Legislature.

### Understanding the FY 2027 Budget Gap

A budget gap is created when spending needs exceed available and sustainable resources. In any fiscal year, it is not uncommon for state budget writers to identify a gap at the beginning of the budget development process when the costs to maintain existing programs and services are projected to grow faster than expected revenue collections. Typically, the gap is closed through a combination of revenue and spending solutions, which can be ongoing (i.e. new revenue-generating initiatives or programmatic changes which affect spending) or one-time (i.e. trust fund resources or delaying spending into a future year).

The budget gap faced by policymakers in FY 2027 is larger than recent years, estimated by MTF to exceed \$3.5 billion. Primarily, this is the result of a continued divergence between ongoing revenue growth and increasing spending pressures. However, an increased reliance on temporary solutions to balance the budget in past fiscal years has also contributed to the size of the budget gap.

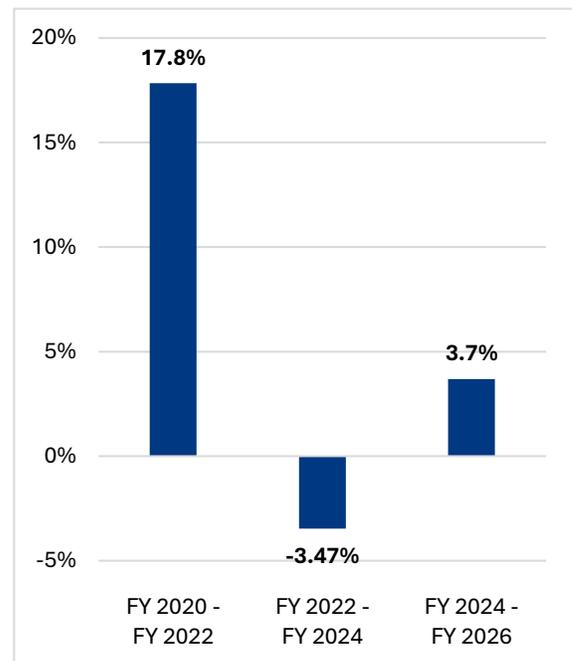
#### Recent State Revenue Trends

Over the last five years, the Commonwealth has been navigating a volatile revenue landscape. During and immediately following the pandemic (FY 2020 to FY 2022), state tax revenue collections grew dramatically—at an average annual rate of 17.8 percent. Fueled by strong stock market performance and pandemic-recovery spending, the state generated large tax revenue surpluses during these years.

Between FY 2022 and FY 2024, this trend shifted, with non-surtax revenue collections actually decreasing by an average annual rate of 3.5 percent.

In more recent years, tax revenue trends have stabilized; average annual non-surtax growth between FY 2024 and FY 2026 is projected to be 3.7 percent, more consistent with both historic revenue growth patterns and future projections of state economic activity.<sup>1</sup>

Average Annual Rates of Revenue Growth, FY 2020 – FY 2026



<sup>1</sup> As part of the FY 2027 Consensus Revenue Agreement and required by statute, administration and legislative budget leaders determined the potential gross state product (PGSP) for calendar year 2026 to be 3.6 percent. The PGSP is a measure of economic output and reflects long-term trends in the economy.

While this moderation in tax revenue collections and projections after two years of decline is a positive development, the preceding years of volatility produced two outcomes that contribute to the state budget challenges faced today:

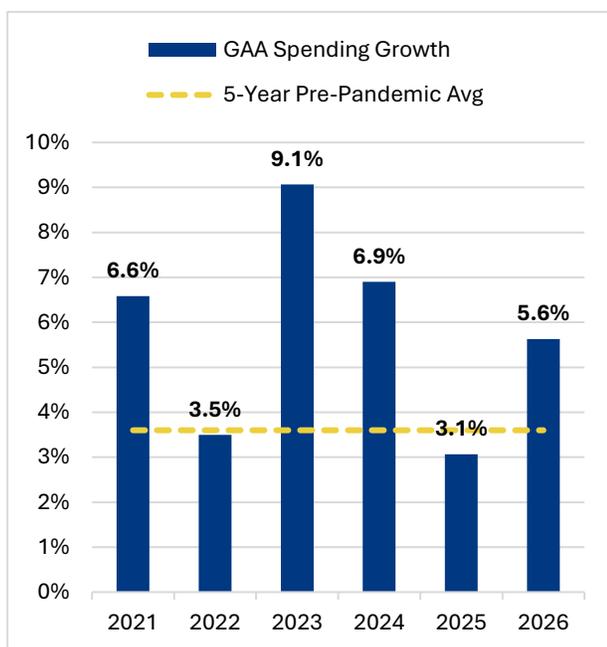
- High revenue growth years supported significant increases in state spending.** Nominally, the amount of tax revenue collected by the state in FY 2022 was \$11 billion greater than collections in FY 2020. This sudden increase in state revenues permitted a corresponding increase in state spending. As further detailed in the section below, while much of the spending growth during this time was non-discretionary or related to pandemic-response efforts, it nonetheless grew the size of the operating budget substantially.
- Low revenue growth years required an increased reliance on temporary solutions to balance the budget.** By the time the state budget was beginning to grow in response to several years of high revenue growth, trends were already beginning to turn. Between FY 2022 and FY 2024, non-surtax revenue collections decreased by \$2.8 billion (6.8 percent). As a result, state budget writers assumed lower rates of revenue growth when building their budgets in FY 2025 and FY 2026. With cost pressures remaining elevated and tax revenue collections slowing down, state budget writers began relying on a greater amount of one-time solutions to balance the budget.

### Recent State Spending Trends

As referenced above, abnormally high revenue growth between FY 2020 and FY 2022 supported a significant increase in state budget spending. In the FY 2023 GAA and FY 2024 GAA, spending grew over the prior year’s budget as signed into law by 9.1 percent and 6.9 percent, respectively. In the five years prior to the pandemic

(FY 2016 to FY 2020), the average annual rate of growth in state budget spending was 3.6 percent.

Average Rates of GAA Spending Growth, FY 2021 – FY 2026



The administration and Legislature actively reduced spending growth in the FY 2025 GAA to 3.1 percent; however, that growth was still on top of a budget base that began to grow significantly in FY 2021.

While increased state revenue collections made this level of spending growth possible, other factors also drove spending increases.

Over the last several years, increases in state budget spending can be attributed to several major cost-drivers:

**Healthcare** – MassHealth and state employee health insurance through the Group Insurance Commission have been two of the largest cost drivers in the state budget over the last five years. A combination of factors, including major enrollment

changes related the pandemic, increased member acuity, and the rising costs of care are all contributors to MassHealth cost growth. Simply put, in recent years a larger number of MassHealth members have a greater need for more expensive healthcare services, increasing the overall cost of the program. At the GIC, spending has similarly been impacted by increased benefit costs, particularly related to pharmaceuticals.

**Education** – Spending across the education sector has grown substantially in recent years, with acute increases related to Chapter 70 state aid for public school districts and early education financial assistance for providers and families. In both cases, cost growth has been the direct result of statutory changes or policy initiatives implemented by the administration or Legislature. For example, the Student Opportunity Act was signed into law in 2019 and the state began funding a six-year implementation schedule in FY 2022. Since then, Chapter 70 has increased by \$2.3 billion, the largest increase for a single program in the state budget.

**Support Services** – The “support services” category includes programs administered by the Department of Developmental Services, the Department of Transitional Assistance, the Department of Children and Families, and other related agencies. In recent years, funding increases for these programs have been largely driven by rate increases for human service workers, increased demand for residential services, as well as a range of family financial assistance and stabilization programs.

**Debt Service** – Typically, the state sells bonds to pay for capital projects which are then repaid over the life of the project via debt service payments included in the annual operating budget. It is not uncommon for debt service costs to fluctuate over time and timely payment of these obligations is necessary to ensuring the credit-worthiness of the state.

State budget spending growth in recent years is also the result of discretionary program investments or initiatives, but comparatively, those have not been the primary source of budgetary cost pressures.

*Increased Reliance on One-Time and Volatile Revenues*

As state tax revenues stagnated and spending pressures grew, budget writers began to rely on an increasing amount of one-time solutions to balance the budget. By definition, these resources do not recur and so must be replaced in subsequent fiscal years. At the beginning of the budget development process, a budget gap is estimated by not only comparing spending and revenue expectations, but also subtracting one-time solutions used in the prior year.

In FY 2025, budget writers tapped \$975 million in one-time resources to balance the budget. In the FY 2026 GAA, the amount of one-timers grew to \$1.5 billion. While this figure represented approximately two percent of total resources used to support spending, it was also a 57 percent increase in the amount of one-time revenues compared to FY 2025.

*One-Time Resources in FY 2025 & FY 2026*

Proposal	FY 2025 GAA	FY 2026 GAA
Tax Amnesty Program	\$100	\$0
High-Quality EEC Trust Fund	\$200	\$0
EEC Operational Grant Fund	\$0	\$115
SOA Investment Fund	\$200	\$200
Behavioral Health Trust Fund	\$0	\$0
COVID Grant Recoupment	\$0	\$350
Above Threshold Capital Gains	\$375	\$566
Other One-Timers	\$0	\$200
Gaming Fund Redistribution	\$100	\$100
<b>Subtotal One-Time</b>	<b>\$975</b>	<b>\$1,531</b>

*\$ in millions*

### Estimating the FY 2027 Budget Gap

In preparation for the FY 2027 budget development process, MTF developed a budget gap estimate that reflects the trends detailed above and several other spending and revenue assumptions.

On the revenue side, this build-up includes the FY 2027 consensus revenue agreement, which assumes 2.4 percent growth in non-surtax revenues and a 12.5 percent increase in the amount of surtax revenue available to support budgeted spending. It then estimates an increase in federal reimbursements related to MassHealth consistent with maintenance spending increases and assumes a three percent increase in other ongoing departmental and federal revenues. Lastly, it removes the \$1.5 billion in one-time solutions used in FY 2026 from the resources available in FY 2027.

Estimated spending includes known or estimated increases related to pre-budget transfers, MassHealth maintenance, and Chapter 70 state aid. MTF also assumes a 3.5 percent increase in all other state budget spending and \$1 billion in FY 2026 supplemental spending that will need to be annualized into FY 2027.

While this budget gap build-up is intentionally broad, it provides a helpful starting point for understanding the scale of the challenge facing budget writers and the solutions proposed by the Healey administration.

*MTF Estimate of FY 2027 Budget Gap<sup>2</sup>*

Revenue	FY 2026 Base	Est. Growth	FY 2027
Non-Surtax Revenues	\$41,214	2.4%	\$42,200
Surtax Revenue	\$2,400	12.5%	\$2,700
Medicaid Reimbursement	\$13,772	14.3%	\$15,741
Other Ongoing Revenues	\$10,400	3.0%	\$10,712
One-Time Solutions	\$1,531	0.0%	\$0
<b>Total revenue</b>	<b>\$69,317</b>		<b>\$71,353</b>
Spending	FY 2026 Base	Est. Growth	FY 2027
Pre-Budget Transfers	\$8,317	3.5%	\$8,611
GAA Base	\$31,543	3.5%	\$32,647
Medicaid	\$22,128	14.3%	\$25,292
Chapter 70	\$7,362	3.3%	\$7,604
Est. Supplemental Spending	\$1,000	0.0%	\$1,000
<b>Total Spending</b>	<b>\$70,350</b>		<b>\$75,154</b>
<b>Initial Gap</b>			<b>(\$3,801)</b>

*\$ in millions*

<sup>2</sup> MTF's original budget gap estimate for FY 2027, as included in the report on the Governor's budget, was \$3.4 billion. That analysis has been updated to reflect new information on maintenance spending needs for MassHealth and actual spending growth for Chapter 70 state aid.

## Closing the Budget Gap in the Governor’s Budget

The Governor’s proposal for FY 2027 appears to address a budget gap similar in size to the MTF estimate. Through a combination of revenue and spending-side solutions, they successfully produce a balanced budget that is largely focused on fulfilling state commitments and maintaining prior year investments.

Their gap closing solutions are further detailed below, but at a high-level there are several key themes:

- **Ongoing Revenue Adjustments** – A number of the solutions recommended by the Healey administration impact ongoing state revenue collections. These include proposals to increase the amount of capital gains revenue available for budgeted spending, moderate the revenue impacts of federal tax policy changes, and expand the Pass-Through Entity excise to include surtax income.
- **Ongoing Spending Proposals** – To manage spending growth in FY 2027 and future fiscal years, the administration announced a new triennial funding schedule that caps the increase in the state’s annual Pension Fund transfer at four percent for the next three years.
- **One-Time Solutions** – To fund the final year of Student Opportunity Act implementation, support the Childcare Operational Grant Program (“C3”), and fully fund the Special Education Circuit Breaker program, the Governor’s budget relies on \$827 million in education-related trust funds and \$150 million in supplemental surtax revenue. In several areas of the budget—notably debt service and MassHealth—the administration also deploys new strategies to limit cost growth in FY 2027. These strategies include pre-payments, coverage limitations, and new working groups to identify savings and efficiencies.

### *Revenue Solutions*

MTF estimates the administration’s revenue-side solutions to total \$2.7 billion, closing approximately 70 percent of the projected budget gap. Of that amount, \$1.4 billion in revenues appear to be one-time in nature; a decrease compared to the level of temporary solutions used in FY 2026.

Three of the largest revenue solutions, aside from the use of education-related trust funds, are related to proposals that will require legislative approval:

**Capital Gains Threshold Adjustment** (*\$467 million*) – Consistent with the recommendations of the Stabilization Fund and Long-Term Liability Financing Task Force, the administration adjusts the capital gains threshold in FY 2027 to \$2.25 billion, \$467 million higher than what the threshold would otherwise be under existing statute. According to the task force report, a threshold adjustment between \$300 to \$600 million is warranted based on actual economic and revenue growth since the threshold’s establishment in FY 2011, and a permanent increase in the amount of capital gains revenues available to support budgeted spending is more sustainable than the repeat usage of above-threshold capital gains collections to balance the budget. The intent of the threshold is to limit the operating budget’s reliance on a revenue source most likely to be impacted by economic downturns and stock market volatility.

**Delayed Conformity with OB3 Tax Policy Provisions** (\$108 million) – The Governor’s budget reflects a \$108 million revenue assumption in FY 2027 related to the tax conformity legislation filed by her administration in January. The bill proposes to delay conformity for the five provisions in OB3 estimated by the Department of Revenue to have the largest state revenue impact. The domestic research and experimental expenditure deduction change is delayed until tax year 2026, while the remaining four provisions are delayed until tax year 2027.

**Expanded Pass-Through Entity Excise** (\$296 million) – The administration’s tax conformity bill also includes a proposal to expand the PTE excise to include surtax revenues, which carries a \$296 million revenue assumption in FY 2027. If adopted, PTEs would elect to pay an additional four percent excise on taxable income that exceeds the surtax threshold and qualified members would then receive a 90 percent credit for their share of the paid excise.

As the House and Senate begin building their own budgets, updating the capital gains threshold based on more recent trends and managing OB3 revenue impacts is sensible. And as MTF wrote in a recent report on [tax conformity](#), while efforts to smooth revenue impacts may be warranted, it is critical that policy reforms do not sacrifice tax competitiveness.

*Spending Solutions*

The spending-side solutions in the Governor’s budget are estimated to total \$1.4 billion and are largely related to controlling MassHealth cost growth and pre-paying certain debt service obligations.

**MassHealth Cost Control** – In FY 2027, the cost to maintain MassHealth services and benefits was originally projected to increase by more than 14 percent. Through a combination of administrative and programmatic cost-savings measures, as well as significant cash-management strategies to reduce fiscal impacts in FY 2027, the administration reduced budgeted MassHealth spending growth to less than three percent. In the coming weeks MTF will publish a detailed analysis on MassHealth in the Governor’s budget.

**Debt Service Pre-Payment** – In 2024, the Commonwealth Federal Match and Debt Reduction Fund was established to maximize federal grant funding opportunities and support debt management strategies. The fund is capitalized through interest earned on the Stabilization Fund and in recent years has been used to pre-pay certain debt service costs. In FY 2027, the administration proposes using \$185 million from the fund to cover a portion of the debt service cost.

*Revenue Solutions in the Governor’s Budget*

Proposal	Revenue Assumption
Pension Fund Schedule Adjustment	\$277.0
Capital Gains Threshold Adjustment	\$467.0
Capital Gains OPEB Dedication	\$100.0
OB3 Delayed Conformity	\$108.0
Expanded Pass-Through Entity Excise	\$296.0
Education-Related Trust Funds	\$826.8
Surplus Surtax Revenue	\$150.0
Efficiencies & Effectiveness Initiative	\$100.0
Other Departmental & Trust Initiatives	\$341.5
<b>Total Revenue Solutions</b>	<b>\$2,666.3</b>
<b>Est. One-Time Solutions</b>	<b>\$1,451.3</b>

*\$ in millions*

### Putting it All Together

Through a combination of revenue and spending solutions, the Healey administration appears to close a budget gap similar in size to MTF’s initial estimate of \$3.8 billion. As the budget process now moves to the Legislature, House and Senate leaders must decide if they will adopt the same gap-closing framework as the administration or introduce new initiatives.

*FY 2027 Estimated Budget Gap and Proposed Solutions*

FY 2027 Budget Gap Estimate & Proposed Solutions	
MTF Budget Gap Estimate for FY 2027	\$3,801.0
Proposed Solutions in Governor's Budget	\$4,095.3
<i>Proposed Revenue Solutions</i>	\$2,666.3
<i>Proposed Spending Solutions</i>	\$1,429.0
<b>Remaining Gap</b>	<b>\$0</b>

*\$ in millions*

### Key Questions for the House and Senate

MTF raises the following questions and offers several recommendations for policymakers to consider as they work to craft a balanced budget for FY 2027:

- ***Will the Legislature adopt the same framework of revenue and spending solutions as the Healey administration to close the FY 2027 budget gap?***

*The Healey administration successfully closes a budget gap estimated to exceed \$3.5 billion through a combination of revenue (\$2.7 billion) and spending-side (\$1.4 billion) solutions. While the level of one-time resources used to balance the budget remains elevated, the administration also identifies solutions that improve the long-term sustainability of the budget, including reducing the rate of pension fund increases while staying within the statutory schedule and pre-paying certain debt service obligations. But there is no guarantee that the Legislature will adopt the same framework of solutions and there are two in particular that may generate greater discussion: 1) revenue assumptions associated with tax conformity changes, and 2) the adjustment to the capital gains threshold.*

*The Governor’s budget reflects a \$404 million revenue assumption related to the tax conformity bill currently under consideration by the Legislature. Given current fiscal pressures, it is likely that the House and Senate will take action on conformity and pass-through entity proposals in conjunction with their FY 2027 budget proposals.*

*Over the last several years, policymakers have prioritized building the balance of the Stabilization Fund, primarily through consistent deposits of above-threshold capital gains deposits. While the House and Senate may agree with the administration’s proposal to increase the capital gains threshold to provide long-term relief to the operating budget, they could choose do so by a lesser amount. A smaller adjustment to the threshold would maintain a higher annual deposit into the Stabilization Fund, which policymakers may prioritize to protect against future economic uncertainty.*

- **Will the House and Senate reduce spending in the FY 2027 budget, below the recommendation filed by the Governor?**

*The Governor's budget includes \$63.36 billion in total line-item spending, an increase of \$2.3 billion (3.8 percent) over the FY 2026 GAA and \$668 million (1.1 percent) more than the administration's estimated spending level for the current fiscal year. In FY 2027, the Governor's spending plan is clearly focused on closing a sizeable budget gap and maintaining existing state commitments. There are few areas across the budget that include large discretionary increases. For that reason, it may be challenging for the House and Senate to approve a budget that significantly reduces spending compared to the Governor's original proposal. As policymakers consider an appropriate level of spending growth in FY 2027, MTF recommends prioritizing existing state commitments and providing the administration with the policy tools necessary manage cost pressures. Specifically, this means maintaining proposed spending levels for early education, Chapter 70 state aid, and the Special Education Circuit Breaker program; and allowing the administration the flexibilities required to limit MassHealth spending growth.*

- **Will the House and Senate take steps to address long-term cost pressures on the state budget, specifically related to healthcare?**

*While the administration's budget reduces the rate of growth for MassHealth appropriations in FY 2027, many of the strategies used to keep growth down are temporary. The House and Senate could send a strong message on health care cost affordability by adopting the administration's proposals to identify long-term savings for high cost areas related to long-term care and by providing MassHealth with expanded tools to make program changes to manage within existing appropriations. Similarly, efforts to manage the GIC budget should be encouraged. If solutions to mitigate spending growth are not adopted, the availability of state resources to support spending above manageable levels will be limited.*