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MTF Bulletin

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FY 2026 Fiscal Update & Closeout Supplemental Budget

As Fiscal Year (FY) 2027 nears its midway point and policymakers prepare for the FY 2028 budget process, which will kick off in a few months, lawmakers must also contend with closing out FY 2026 now that year-end revenues have been finalized.

The Healey administration filed their plan to close the books on FY 2026 on September 23, a \$2.3 billion¹ bill intended to address program deficiencies, ensure that budgeted funds end the year in balance, and anticipate several new spending needs in FY 2027. This closeout supplemental budget also includes spending and policy proposals aimed at addressing federal impacts to the state budget that will materialize in the coming months.

This brief will dive into FY 2026 tax revenue collections, the resources available to help budget writers end the year in balance, and the specifics of the administration's spending proposal now before the Legislature.

FY 2026 Tax Revenue Collections

Despite expectations that total FY 2026 revenues would fall below FY 2025 actual collections, state tax revenue collections in FY 2026 totaled \$45.5 billion; a \$1.8 billion (4.2 percent) increase over collections in FY 2025 and \$1.9 billion (4.4 percent) ahead of benchmark.

Similar to FY 2025, non-withheld income tax collections drove revenue growth, accounting for 46 percent of all revenue growth and exceeding benchmark by 25 percent. Underlying this strong rate of growth in non-withheld collections are income surtax and capital gains tax collections.

¹ In the total spending figure, MTF includes funding included for FY 2026 deficiencies as well as funding that is intended to support FY 2027 state budget spending.

FY 2026 State Tax Collections v. FY 2025 and Benchmark

	FY 2025 Actuals	FY 2026 Benchmark	FY 2026 Actuals	FY 2025 v. FY 2026	Benchmark v. FY 2026
Withholding	\$19,056	\$19,829	\$20,243	\$1,187	\$414
Non-Withholding	\$7,657	\$6,811	\$8,509	\$852	\$1,698
Sales	\$9,599	\$9,633	\$9,790	\$191	\$157
Corporate/Business	\$4,668	\$4,750	\$4,170	-\$498	-\$580
Other	\$2,725	\$2,591	\$2,830	\$105	\$239
Total	\$43,705	\$43,614	\$45,542	\$1,837	\$1,928

\$ in millions

While non-withheld collections were the biggest contributor to strong revenue performance overall, growth was uneven across other tax categories. Corporate and business tax collections remained a persistent weakness throughout the fiscal year, coming in at 12 percent below benchmark; withheld income taxes performed well compared to FY 2025 (6.2 percent growth), but only exceeded benchmark by about 2 percent.

FY 2026 State Tax Collections v. FY 2025 and Benchmark

	Growth v. FY 2025	Growth v. Benchmark
Withholding	6.2%	2.1%
Non-Withholding	11.1%	24.9%
Sales	2.0%	1.6%
Corporate/Business	-10.7%	-12.2%
Other	3.9%	9.2%
Total	4.2%	4.4%

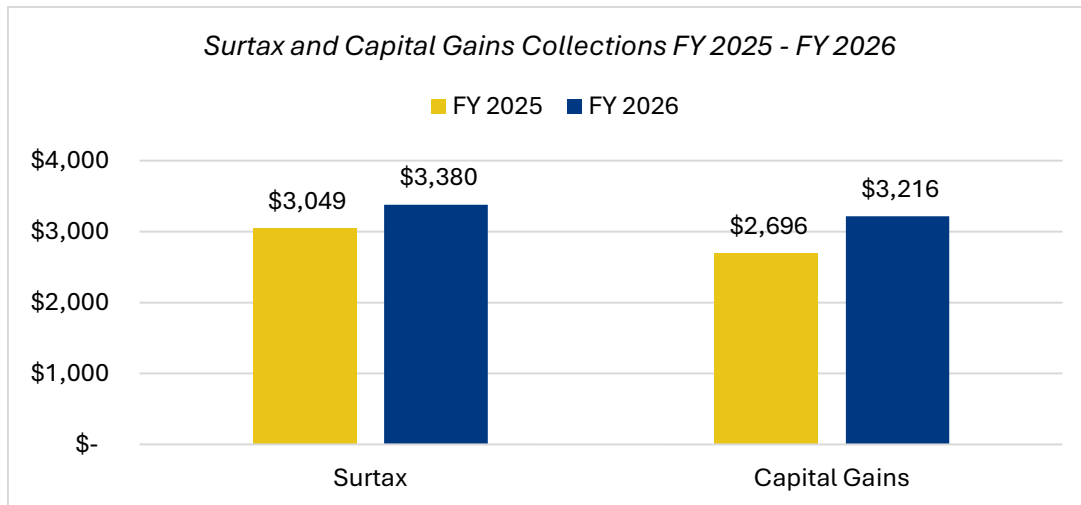
\$ in millions

The continued influence of surtax and capital gains taxes on state revenue growth is central to MTF's analysis of the state's current fiscal picture, and the budget decisions lawmakers will make for closing out FY 2026 and planning for FY 2027 and FY 2028.

Surtax & Capital Gains Revenues

Preliminary estimates indicate that FY 2026 generated \$3.38 billion in surtax revenue and \$3.22 billion in capital gains tax revenue. These collections represent 8 percent growth in surtax collections and 20 percent growth in capital gains compared to FY 2025.

Though surtax and capital gains revenue are included in total FY 2026 collections, both revenue sources above a certain level are statutorily redirected to other funds and are not automatically available to balance the budget.



Since the implementation of the surtax, the state has set a surtax spending cap for each year's operating budget. Absent any approved diversions, "above-cap" surtax revenue collections are divided into two trust funds, the Innovation and Capital Fund and the Surtax Reserve Fund and set aside for future surtax spending. In FY 2026, the surtax operating budget spending cap was set at \$2.4 billion.

Capital gains revenue is also subject to a spending threshold; in FY 2026 the threshold is \$2.33 billion. Above-threshold capital gains collections are statutorily directed to the state's pension fund, the Stabilization Fund, and state retiree benefits.

<i>FY 2026 Surtax Revenue</i>		<i>FY 2026 Capital Gains Revenue</i>	
Estimated Surtax Collections	\$3,380	Estimated Capital Gains Collections	\$3,216
Surtax Spending Cap	\$2,400	Capital Gains Threshold	\$2,327²
Above-Cap Surtax Collections	\$980	Above-Cap Surtax Collections	\$889
85% to Innovation & Capital Fund	\$833	90% to Pension Fund	\$800
15% to Surtax Reserve Fund	\$147	5% to State Retiree Benefits	\$44.5
		5% to Stabilization Fund	\$44.5
\$ in millions		\$ in millions	

Preliminary estimates of surtax revenues have come in \$980 million above the \$2.4 billion spending cap and capital gains collections are estimated to be \$889 million above the capital gains threshold.

Together, more than \$1.8 billion must be deducted from total tax collections available for the budget to account for the above-cap restrictions on the use of surtax and capital gains revenue. In other words, when closing the books on FY 2026, policymakers need to discount almost \$2 billion in surtax

² Includes \$599 million from capital gains that was used to support Pension Fund contributions and offset operating budget costs in FY 2026.

and capital gains revenues from their calculations, leaving a much smaller end-of-year revenue surplus to balance the budget.

Estimating the Budget Balance in FY 2026

Excluding surtax and capital gains revenues provides a more accurate estimate of the revenues available to balance the FY 2026 budget.

Though total revenues have come in \$1.8 billion above FY 2025, total revenues excluding surtax and capital gains are projected to exceed benchmark by only \$59 million.

This estimate is remarkably similar to the FY 2025 closeout process when collections, excluding surtax and capital gains revenues, came in only \$52 million above the FY 2025 benchmark.

FY 2026 Estimated Revenue Surplus

FY 2026 Revenue Benchmark	\$43,614
<i>less surtax spending cap</i>	<i>\$2,400</i>
<i>less capital gains threshold</i>	<i>\$2,327</i>
FY 2026 Adj. Revenue Benchmark	\$38,887
FY 2026 Est. Actual Revenues	\$43,708
<i>less actual surtax collections</i>	<i>\$3,380</i>
<i>less actual capital gains collections</i>	<i>\$3,216</i>
FY 2026 Adj. Revenue Estimate	\$38,946
FY 2026 Adj. Actuals v. Benchmark	\$59

\$ in millions

This revenue picture presents budget writers with a tight margin to close the books on FY 2026 and is based on a preliminary certification of surtax revenues, which could increase at the final calculation. In FY 2024 and FY 2025, final surtax collections certified in December came in \$217 million and \$62 million above preliminary certifications, respectively. If this pattern occurs again in FY 2026, the revenues available to support general spending needs or deficiencies will potentially need to be further reduced, creating a greater challenge for the Healey administration and the Legislature.

In the FY 2026 closeout supplemental budget, Governor Healey proposes a package of revenue and resource proposals to support additional spending needs and balance the FY 2026 budget.

FY 2026 Closeout Supplemental Budget

On September 23rd, the Healey administration filed a \$2.3 billion closeout supplemental budget to address deficiencies that arose throughout the fiscal year, as well as anticipated FY 2027 spending needs. Of the \$2.3 billion gross spending figure, \$1.8 billion (79 percent) is related to MassHealth. The Governor also proposes \$283 million to cover non-MassHealth deficiencies in FY 2026 and about \$208 million in other new spending. After accounting for federal reimbursements for MassHealth costs, net spending in the closeout supplemental budget totals \$1.5 billion.

Spending by Category in the Governor's FY 2026 Closeout Supplemental Budget

	Gross Spending	Revenue Offset	Net Spending
FY 2026 Spending	\$2,085.4	\$771.8	\$1,313.4
FY 2026 MassHealth	\$1,802.1	\$771.8	\$1,030.3
FY 2026 Non-MassHealth	\$283.3	\$0.0	\$283.3
FY 2027 Spending	\$207.8	\$0.0	\$207.8
Total Spending	\$2,293.2	\$771.8	\$1,531.4

\$ in millions

Notable spending items in the bill include:

- **MassHealth** (\$1.8 billion gross/\$1.03 billion net) – The Governor's closeout budget includes \$1.8 billion in gross spending for the state's MassHealth program. This additional funding, which represents an 8.1 percent increase over the GAA spending level, is primarily intended to cover FY 2027 MassHealth costs that policymakers had shifted onto the FY 2026 budget to minimize MassHealth spending growth in FY 2027. The administration also attributes the funding increase to greater utilization for behavioral health services, increased pharmaceutical costs, and a larger concentration of high-needs patients due to individuals who historically require fewer costly services cycling off of coverage as a result of redetermination and federal policy shifts.
- **Sheriffs' Reserve** (\$244 million) – Funding is included in the bill to support FY 2025 and FY 2026 deficiencies at the state's county sheriffs' departments. In the FY 2027 budget, language was passed to establish greater controls on sheriffs' department spending above appropriations to attempt to limit increasing costs.
- **Unemployment Insurance Interest Payment** (\$79 million) – The largest area of new spending in the supplemental budget is related to the state's unemployment insurance (UI) repayment agreement with the US Department of Labor. During the pandemic, the state misappropriated \$2.5 billion in federal UI funds. As part of the [repayment agreement](#), the state agreed to cover the interest costs associated with the repayment from the General Fund. This supplemental budget includes the first of those interest payments.
- **DTA Caseworkers** (\$26.6 million) – The spending bill includes funding to increase the appropriation for DTA caseworkers in FY 2027 and allow for the hiring of 10 new caseworkers. This funding was originally included by the administration in their FY 2027 budget but was ultimately excluded by the House and Senate in the final FY 2027 budget.
- **Massachusetts Office for Victim Assistance (MOVA) Grants** (\$13.8 million) – The supplemental budget dedicates this funding to MOVA to make up for decreases in federal grant amounts. MOVA administers grants to support services for crime victims, witnesses, and survivors.
- **Early Education Rate Reserve** (\$18.5 million) – The Governor includes funding in her supplemental budget to support a one percent reimbursement rate increase in FY 2027 for

early education providers who serve children through Child Care Financial Assistance (CCFA). The final FY 2027 budget did not include funding to increase reimbursement rates beyond current levels.

- **SNAP Error Rate Management** (\$7.3 million) – The Governor proposes allocating \$7.3 million to the Department of Transitional Assistance (DTA) to assist with the management of SNAP error rates through staffing and technology improvements. Changes at the federal level related to SNAP eligibility requirements and state cost-sharing responsibilities will go into effect in FY 2028. To read more about these changes to SNAP, check out [MTF's report on federal impacts](#) and crafting a state response framework.
- **Maternal and Child Health** (\$2.3 million) – The closeout budget includes \$2 million for post-partum home-visiting program and an additional \$250K in funding for maternal mental health services through the Massachusetts Child Psychiatry Access Program (MCPAP).

How the Governor Achieves Balance in FY 2026

As outlined earlier in this brief, absent any adjustments, the estimated revenue surplus that would be available to balance the FY 2026 budget is \$59 million. This estimate excludes assumed above-threshold capital gains and above-cap surtax revenue.

In order to accommodate the roughly \$2.1 billion in FY 2026 spending the Governor includes in her closeout budget, as well as spending that is expected to come out of reconciling an FY 2026 mid-year supplemental budget filed in April, the administration proposes several revenue solutions to offset that spending.

FY 2026 Budget Balance – Closeout Spending & Revenue Solutions³

Mid-Year Supplemental Budget FY 2026 Spending	\$227.3
Closeout Supplemental Budget FY 2026 Spending	\$2,085.4
Estimated Total Revenue Offsets	\$2,370.8
FY 2026 Tax Revenue Surplus (less surtax & capital gains)	\$59.0
Federal MassHealth Reimbursement	\$771.8
Transfer of Above-Threshold Capital Gains	\$636.0
Transfer of Surplus Surtax & Interest Revenue to SOA Trust Fund	\$370.0
Abandoned Property Revenue	\$134.0
Spending Reversions & Departmental Revenues	\$400.0
Estimated Preliminary Consolidated Net Surplus (CNS)	\$58.2⁴

\$ in millions

³ This table assumes rough estimates of non-tax revenue adjustments and spending reversions, it also assumes \$250 million from the SOA Trust Fund will be used in FY 2026, however the use of the trust fund to close the books would be reduced or eliminated if other resources exceed expectations.

⁴ The Governor proposes that any consolidated net surplus (CNS) in FY 2026 will be directed to the new Healthcare Stabilization Fund.

In total, the Governor's closeout budget assumes total revenue available to balance the FY 2026 budget to be \$2.4 billion. Beyond expected federal reimbursement for MassHealth, the primary revenue solutions in the Governor's proposal are:

- **Excess Capital Gains** – The Governor proposes a new distribution for above-threshold capital gains revenues in FY 2026: \$636 million to the General Fund, about \$250 million to a new Healthcare Stabilization Fund, and \$43 million to the state's Stabilization Fund. The use of above-threshold capital gains to support general budgeted spending through the General Fund is the Governor's biggest revenue solution to balance the FY 2026 budget.
- **Surplus Surtax & Interest SOA Investment Fund Transfer** – The bill includes sections directing \$250 million of above-cap surtax revenues from FY 2026 to be deposited into the Student Opportunity Act (SOA) Investment Fund and allowing the administration to adjust the distribution of resources supporting Chapter 70. The Governor also proposes directing interest generated from the Education & Transportation Fund to the SOA Trust Fund, estimated to be about \$120 million. Together, these solutions allow about \$370 million of revenue generated from the surtax to support Chapter 70 costs, allowing other resources to be used to support general spending.
- **Abandoned Property Net Revenue** – The closeout budget includes language requiring all abandoned property net revenue in FY 2026, estimated to be \$134 million, to remain in the General Fund to support operating budget spending. Without this change, 75 percent of abandoned property revenue would be deposited into the Stabilization Fund.

Beyond these revenue solutions intended to help balance FY 2026, the Governor's proposal would direct approximately \$250 million of above-threshold capital gains not used to balance the budget to a proposed new Healthcare Stabilization Fund. According to outside section language, any additional CNS would also be directed to the fund, though preliminary calculations estimate a minimal CNS in FY 2026. It is likely that these resources will be used to support anticipated MassHealth deficiencies in FY 2027, estimated in the range of \$500 million, though language in the bill states that the fund can be used to help the state mitigate anticipated disruptions to the healthcare system.

MTF has written previously on the impacts of Trump administration policy changes on Massachusetts, particularly those included in the One Big Beautiful Bill (OB3) Act that will have direct and indirect impacts on the state budget and the healthcare system through MassHealth and the Health Safety Net (HSN). The language detailing the creation of the Healthcare Stabilization Fund would allow for the fund to be used to help manage some of these impacts as well as help the state address existing MassHealth deficiencies.

Outside Policy Sections

In addition to spending proposals, the administration's closeout supplemental budget included 194 outside policy sections, covering a range of topics. Last year, Healey's FY 2025 closeout proposal included only 77 outside policy sections.

Proposals directly related to balancing the FY 2026 budget have been summarized above. Summaries of additional notable policy proposals are included below.

Budget & Fiscal – The Governor proposes several outside sections that would carry fiscal impacts for FY 2027 and FY 2028:

- **EEC Operational Grant Fund Transfer** – The administration proposes transferring \$50 million of FY 2026 surplus surtax resources to the Early Education and Care (EEC) Operational Grant Fund. The fund is expected to collect revenue brought in by the state’s new online lottery program, estimated to be \$100 million in FY 2027, which is dedicated to support the Commonwealth Cares for Children (C3) operational grant program. This proposed transfer would make this investment less reliant on online lottery meeting expectations in its first year of implementation.
- **Federal OB3 Tax Conformity** – These sections make several technical changes and eliminate tax penalties and interest payments for businesses impacted by state-level action to delay conformity with federal tax law changes in the One Big Beautiful Bill (OB3) Act, provided that taxpayers file adjusted returns or make necessary payments by March 1, 2027.
- **FY 2028 Surtax Threshold** – The Governor proposes to continue using the annual Consensus Revenue process to set the operating budget surtax spending cap in FY 2028. Absent such a change, starting in FY 2028, the cap would be set according to the 10-year rolling rate of growth for income subject to the surtax.

In addition, the Governor also proposes a temporary two-month suspension of the state’s gas tax, which would have implications for fiscal sustainability and infrastructure funding. The gas tax – which is 24 cents per gallon – is statutorily obligated to the Commonwealth Transportation Fund (CTF), which supports transportation-related investments and is used to securitize Special Obligation bonds for transportation infrastructure projects. The administration estimates that a two-month gas tax holiday would reduce revenue collections into the CTF by \$120 million. To reduce the impact of the holiday on transportation investments and current bond holders, the administration plans to redirect \$120 million of surplus surtax revenue to the CTF.

While the price of fuel has placed increasing pressures on residents, the consumer benefit of the suspension is limited and policymakers must also consider the precedent-setting nature of suspending a tax as a result of global economic factors that are impossible to forecast. In addition, demonstrating a willingness to change revenue streams pledged to bondholders could have negative consequences for future special obligation bond offerings.

Other – The closeout budget includes a range of other policy proposals that would not carry a direct fiscal impact:

- **Medical Marijuana for Veterans** – Removes obstacles to veterans obtaining medical marijuana licenses.

- **Foundation Budget Review Commission (FBRC) Membership** – Adds the president of the Massachusetts Teachers Association to the membership of the FBRC.
- **Protections for Vulnerable Young People** – Adds language increasing protections for young people with developmental, intellectual, or other impairments, those in the care of the Department of Youth Services, residing in a group care facility, or who receive services from the Department of Developmental Services.
- **Concert Ticket Re-Sale Prices** – Imposes a cap on the resale price of concert tickets to 110 percent of the face value of the original ticket and limits the costs of service fees and charges for resale at no more than 10 percent of the price of the ticket.

Putting it All Together

The Governor’s spending bill offers a prime example of how closeout supplemental budgets require thinking through the interaction of three fiscal years at the same time. On the one hand, the bill is a standard budget-balancing and bill-paying exercise, centered around addressing actual costs and deficiencies for FY 2026. On the other, the budget also includes proposals that would affect FY 2027 and FY 2028, signaling the administration’s strategy for planning for future challenges, most notably through the creation of the Healthcare Stabilization Fund. The Legislature will now weigh in on issues they see as top of mind as the Commonwealth closes the books on one fiscal year and begins making plans for the next.

With an already tight fiscal picture, the House and Senate face limited options for addressing final deficiencies and ending the year in balance. Administration proposals to redirect capital gains revenue to the operating budget and provide greater flexibility to cover costs with surplus surtax resources are pivotal to their budget balance approach. If those provisions are not advanced, the Legislature will have to find other ways to increase budget resources or reduce spending.

As they craft their proposals for closing the books on FY 2026, policymakers should prioritize maintaining stability and fiscal sustainability while also protecting essential programs. Several trends emerge in the Governor’s closeout budget that speak to notable fiscal questions and challenges going forward:

- **Managing MassHealth costs:** Since FY 2025, budget writers have faced significant cost pressures related to MassHealth. In order to mitigate budget pressures in FY 2027, the state relied on one-time solutions to spread out certain MassHealth costs to FY 2026 and into FY 2028. As we prepare for FY 2028, in addition to planning for federal impacts on the wider healthcare system and the Health Safety Net, managing MassHealth costs will continue to be a central challenge for policymakers.
- **Reliance on capital gains and surtax revenue:** FY 2026 will be another year where excess capital gains and surplus surtax revenue have been heavily relied upon to balance the budget amid otherwise slower revenue performance. However, in the FY 2027 budget, the capital gains threshold was increased to \$2.25 billion, \$467 million higher than it otherwise would have been. This increase will mean that a smaller amount of capital gains revenue will be

available at the end of the fiscal year to fill a potential budget gap. Similarly, the surtax spending cap in the operating budget has continued to increase, leaving an increasingly smaller pool of surplus surtax to support supplemental spending.

These challenges speak to a larger fiscal picture where recent spending trends have outpaced revenue growth in the operating budget – raising important questions for policymakers about how to best utilize state resources to meet the needs and priorities of the Commonwealth.