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MTF Bulletin

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FY 2025 Closeout Supplemental Budget & Fiscal Update

State budget officials and policymakers have reached the point during the calendar year when it is necessary to balance the demands of three fiscal years at one time. The Healey administration’s closeout supplemental budget proposal for Fiscal Year (FY) 2025 was filed on August 14 and awaits legislative action, the first quarterly certification of tax revenue collections in FY 2026 takes place on October 15, and budget writers in the administration and Legislature are actively preparing for FY 2027.

On top of this, stakeholders from the public, private, and non-profit sectors are actively monitoring the impacts of federal action on Massachusetts and the broader economy. Significant changes to the state/federal partnership will impact not only state budget decisions, but will also require new strategies to ensure that the state can assess and respond to new and emerging risks.

To put all of these factors in context and connect the state’s current fiscal position to the key decision points facing policymakers, MTF is publishing two fiscal updates. This first brief provides a review of FY 2025 tax revenue collections, the current budget balance estimate, and the administration’s closeout supplemental budget proposal. It also offers MTF’s recommendation for swift action that prioritizes setting aside surplus resources now to prepare for future federal action or an economic downturn.

In a follow-up report, MTF will expand on this analysis to offer an update on FY 2026 and the fiscal exposures and opportunities available to policymakers in the months ahead.

FY 2025 Tax Revenue Collections

State tax revenue collections in FY 2025 totaled \$43.708 billion; a \$2.9 billion (7.1 percent) increase over collections in FY 2024 and \$2.1 billion (5.1 percent) ahead of benchmark.

FY 2025 State Tax Collections v. FY 2024 and Benchmark

	FY 2024 Actuals	FY 2025 Benchmark	FY 2025 Actuals	FY 2024 v. FY 2025	FY 2025 YTD v. BM
Withholding	\$17,967	\$18,729	\$19,058	\$1,091	\$329
Non-Withholding	\$6,150	\$5,558	\$7,653	\$1,503	\$2,095
Sales	\$9,323	\$9,829	\$9,613	\$290	-\$216
Corp./Business	\$4,833	\$5,017	\$4,662	-\$171	-\$355
Other	\$2,528	\$2,474	\$2,722	\$194	\$248
Total	\$40,801	\$41,607	\$43,708	\$2,907	\$2,101

\$ in millions

Non-withheld income taxes had an outsize impact on revenue trends in FY 2025, with collections in that category exceeding benchmark by 37.7 percent – accounting for nearly all above benchmark performance. That strong rate of growth was offset by underperformance in sales and corporate tax collections, which came in below benchmark by 2.2 percent and 7.1 percent, respectively. Withheld income taxes, historically the largest and most stable component of state revenues, totaled \$19 billion; a \$1 billion (6.1 percent) increase over the prior year and \$329 million (1.8 percent) above benchmark.

Surtax & Capital Gains Revenues

In FY 2025, growth in non-withheld income tax collections is predominantly impacted by the surtax and capital gains; two categories of revenue where collections above a certain level are unavailable to support general budgeted spending. Because these resources are not automatically available to balance the budget, it is important to assess them separate from all other collections.

Surtax revenues totaled \$3 billion in FY 2025, exceeding the \$1.3 billion surtax spending cap reflected in revenue benchmarks by \$1.7 billion and increasing over FY 2024 by \$527 million (21 percent).

Absent any approved diversions, “above-cap” surtax revenue collections in FY 2025 would be divided between two trust funds: 85 percent (\$1.4 billion) to the Innovation and Capital Fund and 15 percent (\$243 million) to the Surtax Reserve Fund.

FY 2025 Surtax Revenue Collections

FY 2025 Surtax Revenue Estimate	\$2,987
Surtax Spending Cap	\$1,300
Above Cap Surtax Collections	\$1,687
85% to Innovation & Capital Fund	\$1,434
15% to Surtax Reserve Fund	\$253

\$ in millions

FY 2025 Capital Gains Collections

FY 2025 Capital Gains Estimate	\$2,439
FY 2025 Capital Gains Threshold	\$1,564
Above Cap Capital Gains	(\$875)
<i>Diversion to General Fund</i>	\$375
<i>Diversion to Fed. Response Fund</i>	\$375
<i>Diversion to Stab Fund</i>	\$125

\$ in millions

Capital gains collections in FY 2025 totaled \$2.4 billion, \$875 million above the revenue threshold that is available to support the budget.

Under the FY 2025 state budget, \$375 million of these “above-threshold” collections are available to balance the budget. The Healey administration has also proposed diverting a portion of these resources to a new state federal response strategy, further detailed below. If that proposal is not adopted by the Legislature, these funds are deposited into the Stabilization Fund and other reserves.

Estimating the Budget Balance in FY 2025

Despite ending the year \$2.1 billion ahead of benchmark, due to the impact of surtax and capital gains collections, the estimated end-of-year revenue surplus is much smaller. Comparing FY 2025 actual

collections to the fiscal year benchmark, less surtax and capital gains revenues, results in an initial surplus estimate of only \$52 million.

FY 2025 Preliminary Revenue Surplus Estimate

FY 2025 Revenue Benchmark	\$41,607
<i>less surtax spending cap</i>	<i>(\$1,300)</i>
<i>less capital gains projection</i>	<i>(\$2,077)</i>
FY 2025 Adj. Revenue Benchmark	\$38,230
FY 2025 Actual Revenues	\$43,708
<i>less surtax collections</i>	<i>(\$2,987)</i>
<i>less capital gains collections</i>	<i>(\$2,439)</i>
FY 2025 Adj. Actual Revenues	\$38,282
Adj. Actuals v. Benchmark	\$52

\$ in millions

It’s important to emphasize that this estimate does not account for spending included in Governor Healey’s closeout supplemental budget, and it is based on the preliminary certification of surtax revenues. However, it demonstrates the tight margins that state budget writers must manage.

The disconnect between tax collections above benchmark and tax collections available to balance the budget demonstrates a unique challenge that has emerged for policymakers in recent years: how to ensure a balance budget for the fiscal year before the final

certification of surtax revenues is available from the Department of Revenue (DOR) on December 15th.

In FY 2024, final surtax collections were certified at \$2.46 billion, approximately \$260 million greater than the initial certification of \$2.2 billion. A potential increase of \$200 million in surtax revenue collections has serious consequences for the balance of the budget, potentially reducing the revenues available to support general spending needs or deficiencies by hundreds of millions of dollars.

As the next section of this brief will describe, to address this challenge in FY 2025 the Healey administration has proposed using the preliminary certification of surtax revenues as of July 20 to close the books on the fiscal year. This would allow the administration and Legislature to take timely action on the supplemental budget, but still ensure that surtax revenues are being used in accordance with the constitutional language.

FY 2025 Closeout Supplemental Budget

On August 14th, Governor Healey filed the FY 2025 closeout supplemental budget. The \$2.4 billion spending bill addresses program deficiencies that arose throughout the fiscal year, as well as anticipated spending needs in FY 2026 based on current trends. Of the \$2.4 billion spending total, \$2 billion (83 percent) is related to MassHealth. More than 70 percent of those costs will be offset by federal revenues, bringing the net cost of the closeout budget to \$947 million.

Governor Healey’s FY 2025 Closeout Supplemental Budget Spending by Category

Category	Gross Spending	Revenue Offset	Net Spending
Deficiency Spending	\$382.3	\$0.0	\$382.3
MassHealth Spending	\$2,046.2	\$1,506.5	\$539.7
New Spending	\$25.0	\$0.0	\$25.0
Total Spending	\$2,453.5	\$1,506.5	\$947.0

\$ in millions

Deficiencies unrelated to MassHealth total \$382 million and new spending initiatives comprise \$25 million. Additional details on the most notable spending items in the bill are included below:

- **MassHealth** (\$2 billion gross) – The Governor’s spending bill includes \$2 billion in gross spending for MassHealth. The primary drivers of this increase are caseload and utilization, with greater numbers of MassHealth members and a growing proportion of high acuity cases compared to before the pandemic. MassHealth is also contending with a larger share of members accessing long-term care and other expensive services. Additionally, mid-year rate adjustments for Managed Care Organizations (MCOs) and Accountable Care Organizations (ACOs), underfunding in the FY 2025 General Appropriations Act (GAA), and approximately \$374 million in payments related to Steward Hospitals contribute to this large deficiency. Offsetting federal revenues of \$1.5 billion bring the net cost of this spending to \$540 million.
- **Sheriffs’ Reserve** (\$162.6 million) – The closeout supplemental budget includes \$162 million in deficiency spending for the 14 county sheriffs’ departments across the state. While the sheriffs have historically required supplemental appropriations at the end of the fiscal year, this level of increased spending is notable and related to payroll, hiring, and collective bargaining agreement costs. In the FY 2024 closeout supplemental budget, the projected need was \$46 million.
- **Housing Preservation & Stabilization Trust Fund** (\$75 million) – The Governor’s bill includes \$75 million for a transfer to the Housing Preservation & Stabilization Trust Fund to address a projected deficiency for the HomeBASE program in FY 2026. Based on current utilization trends, without this additional investment the administration anticipates that the program would stop serving new families in October, the program would need to offer one year of benefits, instead of two, and the benefit amount would drop from \$15K to \$10K.
- **Snow & Ice Removal** (\$61.7 million) – The administration requests \$61.7 million to cover the cost of snow and ice removal in FY 2025. Total snow and ice removal costs reached \$106 million last fiscal year, but the FY 2025 GAA included only \$45 million for these expenses.
- **Public Health Hospitals** (\$18.5 million) – The closeout supplemental budget includes \$18.5 million to a deficiency identified at mid-year related to temporary staffing costs. The administration initially identified a need of \$34 million, but reduced the cost through fiscal management tools.
- **World Cup Reserve** (\$20 million) – The administration requests \$20 million for a reserve to support costs associated with seven 2026 World Cup matches scheduled to be held at Gillette Stadium.
- **Reproductive Health Care Supports** (\$5 million) – The Governor’s bill includes \$5 million for health care providers that are anticipated to lose federal reimbursement for costs historically covered by Medicaid.

Outside Policy Sections

The Healey administration’s closeout supplemental budget includes 76 outside policy sections. Of particular importance are several sections related to the disposition of surtax and capital gains revenues in FY 2025, as well as seven sections to amend the state’s current MCO assessment model to conform with recent federal policy changes. Notable policy proposals include:

Budget & Fiscal – The supplemental budget includes eight outside sections to effectuate the administration’s strategy for balancing the FY 2025 budget, prepare for the state’s federal response efforts, and build reserve balances.

- *Economic Resiliency & Federal Response Fund (Section 16)* – Establishes the Economic Resiliency & Federal Response Fund; a flexible reserve account, subject to appropriation, that the Administration proposes to set aside FY 2025 surplus and other resources to address the economic or budgetary impacts of federal policy actions.
- *Surtax Spending Threshold (Section 50)* – Suspends a section of law that would require the FY 2027 surtax spending cap to be adjusted based on the 10-year rolling growth rate of income subject to the surtax. Instead, the surtax spending cap for the next fiscal year would be established as part of the consensus revenue process.
- *Debt Service Reversions (Section 51)* – Directs spending reversions related to debt service payments to the General Fund. Under the FY 2025 GAA, these reversions would otherwise be deposited into the State Retiree Benefits Trust Fund.
- *Disposition of Above-Threshold Capital Gains (Section 69)* – Amends the disposition of above-threshold capital gains revenues in FY 2025. Under this proposed distribution, approximately \$375 million would be withheld in the General Fund for budget balance purposes, \$375 million would be diverted into the new Economic Resiliency and Federal Response Fund, and \$125 million would be deposited into the Stabilization Fund.
- *Surtax Revenue Transfer to SOA Fund (Section 70)* – Directs \$150 million in surtax revenue collections from FY 2025 into the Student Opportunity Act Investment Fund. At the beginning of FY 2026, the balance of this fund was approximately \$286 million. This additional deposit would increase its balance to \$436 million.
- *Surtax Collection Certification (Section 71)* – Allows the Secretary for Administration and Finance and the Comptroller to reconcile final spending and revenue for FY 2025 using the preliminary certification of surtax revenue collections as of July 20. Similarly to the state’s treatment of capital gains revenue, this allows the administration and Legislature to “close the books” on the fiscal year prior to the final certification of surtax revenues on December 15th.
- *Disposition of Consolidated Net Surplus (Section 72)* – Directs the FY 2025 Consolidated Net Surplus (CNS) to the newly created Economic Resiliency and Federal Response Fund. Based on the administration’s closeout supplemental budget proposal, the FY 2025 CNS was projected to be approximately \$75 million.
- *FY 2026 Tobacco Settlement Transfer (Section 73)* – Transfers \$200 million from the Economic Resiliency and Federal Response Fund to the General Fund to address timing discrepancies related to the use of \$200 million from the master tobacco settlement which was assumed as an FY 2026 budget resource in the recently signed GAA.

Health Care – The administration’s spending bill includes seven outside policy sections to prepare for the impacts of federal policy changes related to Medicaid. All seven sections pertain to the state’s assessment model for Managed Care Organizations (MCOs).

- *MCO Assessment Model Compliance (Sections 15, 24, 25, 26, 27, 64, and 78)* – Upon the effective date of certain federal Medicaid policy changes these sections amend the state’s MCO assessment structure to ensure a uniform MCO tax rate for both Medicaid and non-Medicaid units of cost. Historically, states have used differentiated rate structures to increase rates for entities more likely to benefit from enhanced Medicaid payments, thereby mitigating tax impacts on entities less likely to receive a Medicaid benefit. Eliminating these differentiated rates is referred to as the “uniformity provision” in the federal act. For additional information on federal policy changes related to Medicaid, read MTF’s brief on the [Impacts of Federal Reconciliation on the Massachusetts Health Care System](#).

Other – The closeout supplemental budget includes a range of other policy proposals related to transportation, the 2026 state primary election, and the procurement of offshore wind projects.

- *MBTA Board (Sections 38, 39 & 40)* – Updates language related to the composition of the MBTA board, specifically related to the political party officials of members, as well as the establishment and appointment of subcommittee members, the appointment of subcommittee chairs, and the process by which to fill subcommittee vacancies. Section 40 also clarifies that the board shall meet no less than ten times per year, as opposed to the current requirement of 12 meetings per year.
- *2026 State Primary Election (Sections 57 – 63, 75 & 76)* – Establishes that the 2026 state primary election will take place on September 1, 2026; clarifies the processes by which candidates accept nominations, withdraw nominations, fill vacancies, or request recounts for the 2026 primary.
- *Offshore Wind Procurement (Sections 45 & 46)* – Delays a requirement that offshore wind power be procured in 2027 to 2029, and removes a requirement that procurements be completed every 24 months.

Putting it All Together

In many ways, the FY 2025 closeout supplemental budget is a standard “bill paying” exercise, focused on addressing costs accrued during the last fiscal year and anticipated deficiencies in FY 2026. It also includes a number of outside policy sections that effectuate the administration’s strategy to end FY 2025 in balance.

But the spending bill is also unique for its creation of the Economic Resiliency and Federal Response Fund. This is one of the first proposals from the administration related to setting aside resources now, to address potential federal funding losses or revenue shortfalls in the future.

The administration proposes to capitalize the new fund with a combination of above-threshold capital gains and surplus tax revenues. After accounting for a \$200 million transfer to the General Fund, related to the use of tobacco settlement revenues to balance the budget in FY 2026, the estimated balance of the new fund is \$250 million.

Estimated Balance of Economic Resiliency and Federal Response Fund

Funding Source	Amount
FY 2025 CNS	\$75
Capital Gains Deposit	\$375
Tobacco Settlement GF Transfer	(\$200)
Estimated Balance	\$250

\$ in millions

While the total impact of federal funding and policy actions on Massachusetts remains unknown, taking steps now to repurpose available revenues and create a flexible pool of resources is a strategic decision. However, the final balance of the fund will depend on the amount of spending approved in the closeout spending bill. For this reason, the Legislature should aim to keep spending in the closeout supplemental budget to no more than the \$2.4 billion (\$947 million net) filed by the administration.

In combination with close monitoring of FY 2026 revenue trends, timely action on a fiscally disciplined closeout budget will put the state in a stronger position to react, respond, and recover from sudden funding or policy changes.