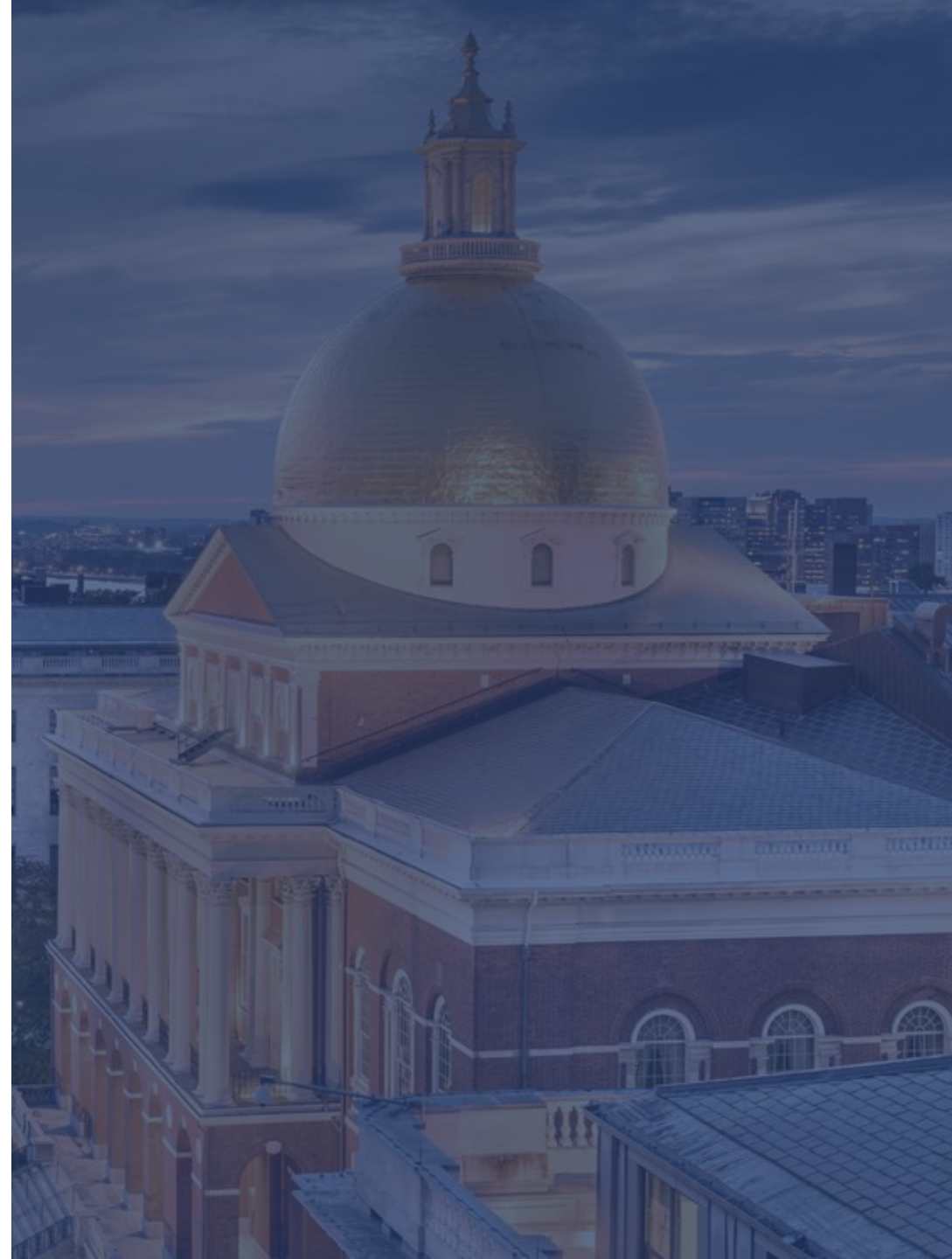




Connect 351— Fiscal Outlook Workshop

January 23, 2026

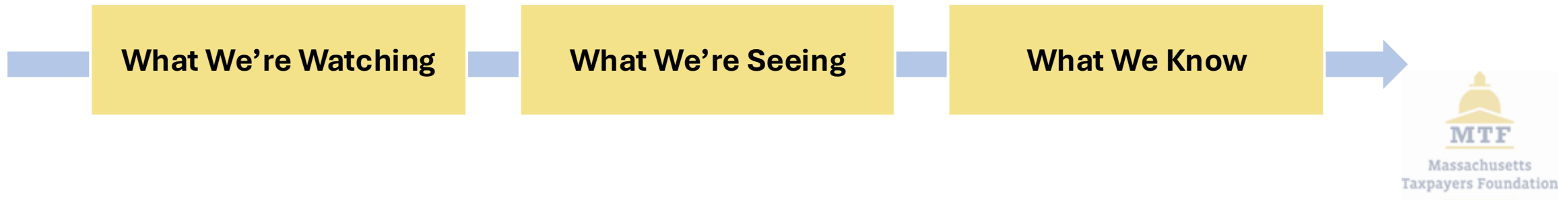


About MTF

The Massachusetts Taxpayers Foundation is a non-profit, non-partisan public policy research organization dedicated to providing accurate and unbiased research. We aim to offer balance recommendations to enhance sustainable and equitable economic growth in Massachusetts.

In FY 2026 and FY 2027, Massachusetts will face new and unique challenges related to economic uncertainties, the shifting state and federal partnership, as well as the structural stability of the state budget.

To develop recommendations for state-level policy action, MTF organizes a range of state and federal-level factors into a simple framework that allows for clear decision-making:



Economic Outlook for the Massachusetts Economy

To assess the economic outlook for Massachusetts in FY 2026 and FY 2027, MTF is focused on three primary factors: national-level economic trends, federal funding and policy action, and the underlying structure and stability of the state budget.

The slides that follow provide additional detail on each of those factors, ending with the identification of key decision points for policymakers.

- **What We're Watching** – National Economic Trends & Federal Actions
- **What We're Seeing** – State-Level Revenue Trends
- **What We Know** – State Revenue & Spending Pressures
- **Key Takeaways** in FY 2026 & FY 2027

What We're Watching – National Economic Trends

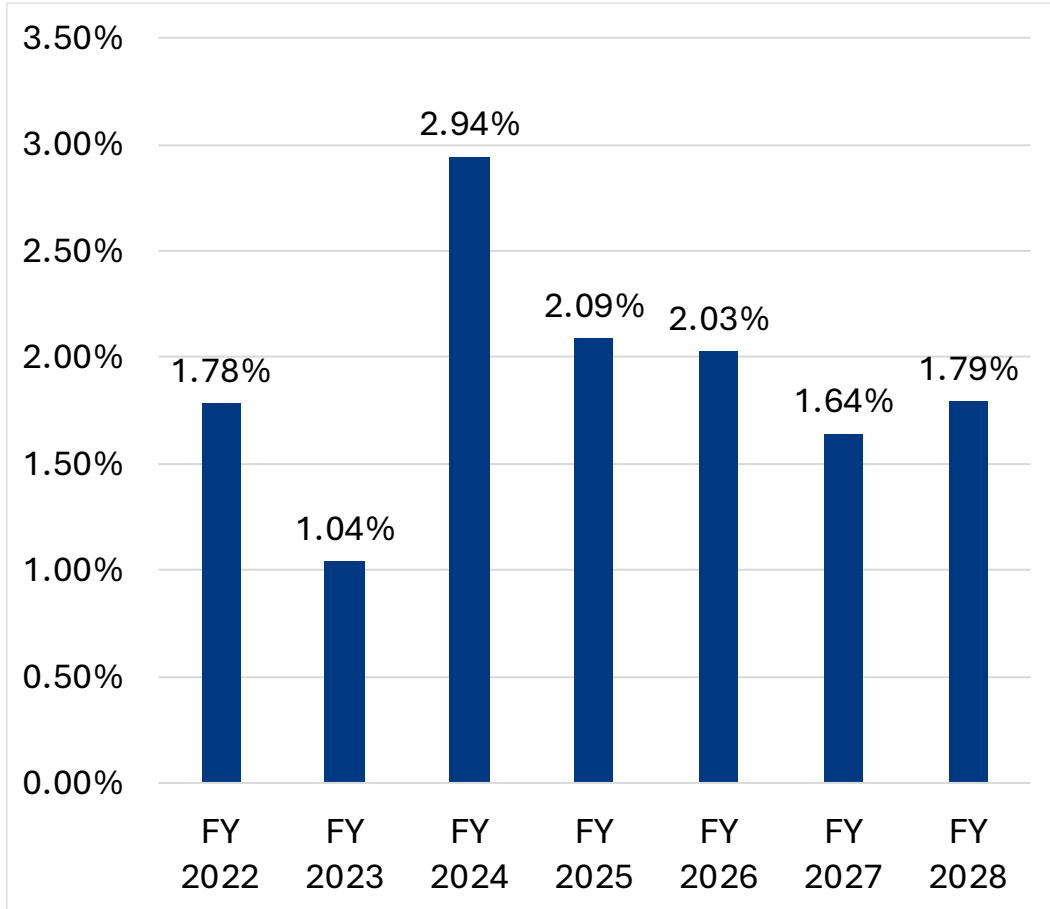
National Economic Trends

- Moody's Analytics most recent forecast of several key metrics that impact income and sales tax revenues indicate a **decelerating economic** at risk of recession due to **weak employment growth** and a **slowdown in real personal income and personal consumption of durable goods through FY 2027**.
- In October, Mark Zandi updated his earlier warning that the states that represent nearly 1/3rd of the U.S. gross domestic product (GDP) are currently either in or at high risk of entering a recession.¹
 - Massachusetts represents 2.73% of U.S. GDP and is **currently as high risk of entering a recession**.
- **Gross State Product (GSP):** Productivity growth remains positive but projected to fall from 2.9% in FY 2024 to 1.6% in FY 2027 – the second lowest figure since FY 2022.
- **State Employment Growth:** Healthy growth was previously fueled by international immigration, but growth precipitously drops to 0.11% in FY 2026 and to 0.02% in FY 2027.

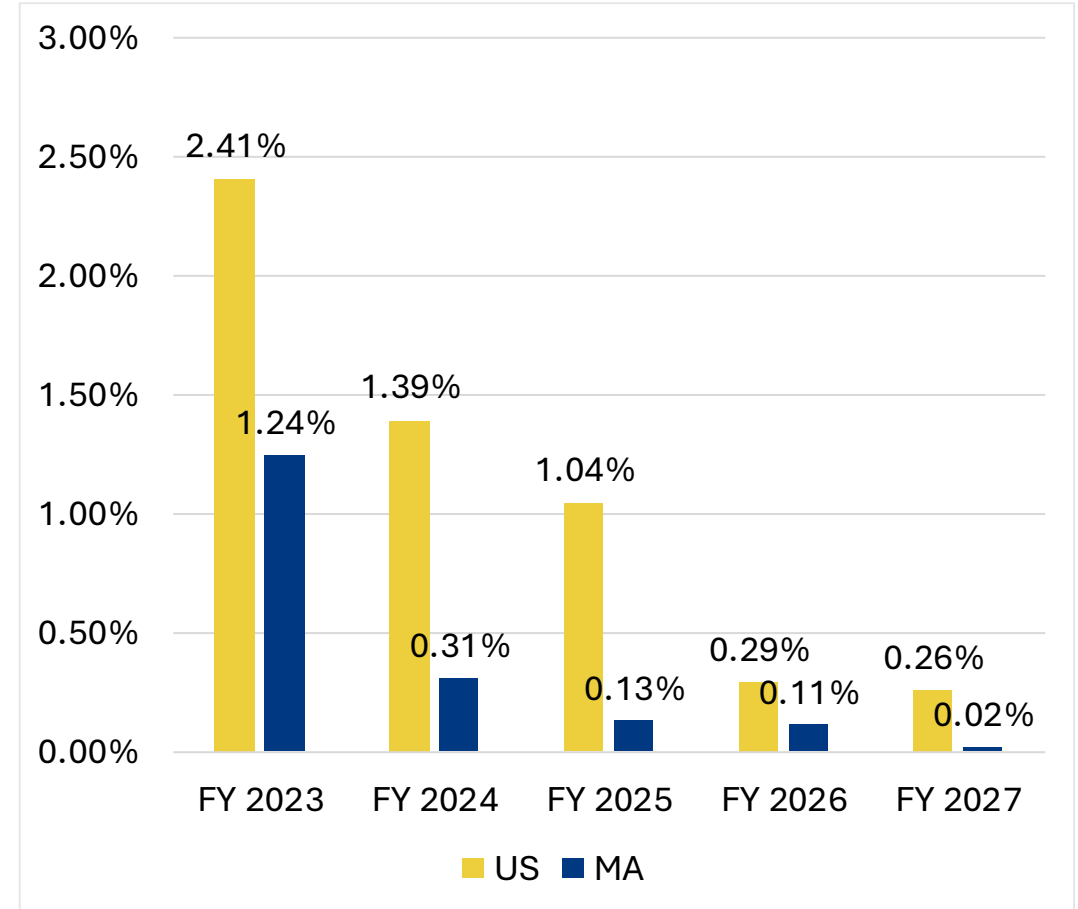
¹. [Mark Zandi, October 22, 2025](#)

What We're Watching – National Economic Trends

MA Gross State Product, FY22 – FY28



YOY Employment Growth, FY23 FY27, U.S. v. MA



What We're Watching – Federal Action

Federal Policy & Funding Actions

- Interactions between federal policy and MA are countless, but can be organized into 4 broad categories:
 - **Public Sector** – Federal reimbursement revenue & grants.
 - **Private Sector** – Hiring, investments & location decisions.
 - **Non-Profit Sector** – Research grants & financial aid.
 - **Economic Impacts** – Economic anxiety, employment & labor force statistics, international immigration, H1-B Visas.
- The policies proposed by the Trump administration will have varying impacts, but **there are ideological, practical, and process reasons why Massachusetts has already seen and should prepare for negative impacts.**
- Federal actions related to **Immigration, NIH funding, Medicaid, and tax policy** have already had negative fiscal impacts for the Commonwealth.

What We're Watching – Federal Action

International Immigration to MA, 2021 - 2026

	International Immigration to MA
2021 Q2	160.64
2022 Q2	523.64
2023 Q2	614.75
2024 Q2	743.68
2025 Q2	389.44
2026 Q2	154.00
<i>Projections in italics</i>	

International immigration led historic gains in the state's labor force in 2024 but have plummeted in 2025 and 2026.

OB3 Health Care Policy Impacts on MA

Year	FFY 2025	FFY 2026	FFY 2025 - 2029	FFY 2025 - 2034
US Impact	-\$782	-\$25,329	-286,158	-1,149,446
<i>Prorated MA Impact</i>	-\$16	-\$532	-6,009	-24,138

\$ in millions

- Federal health policy changes will result in major challenges for our health care system and state finances.
- The 5-year loss in federal support is \$6B.
- The 10-year loss in federal support is \$24B.
- In total, the policy changes could reduce MassHealth & Connector caseload by 255K.

What We're Seeing – State-Level Revenue Trends (FY 2026)

To meet the FY 2026 non-surtax revenue benchmark of \$41.214 billion, tax collections must outperform last year by 1.2% through June. Through December, tax collections are 1.9% ahead of last fiscal year—but that includes surtax revenue, which must be discounted.

FY 2026 Estimated & Required Rates of Non-Surtax Revenue Growth

FY 2025 Revenue Benchmark	FY 2026 Revenue Benchmark	FY26 v. FY25 Estimated Growth
\$40,307	\$41,214	2.25%
FY 2025 Revenue Actuals	FY 2026 Revenue Benchmark	FY26 v. FY25 Required Growth
\$40,718	\$41,214	1.2%
Rate of Growth through December w/ Surtax		1.9%

Compared to the YTD benchmark, revenues are only 0.1% ahead of expectations—but policymakers did not adjust current expectations as part of the FY 2027 consensus revenue agreement.

What We're Seeing – State-Level Revenue Trends (FY 2027)

On January 14th, the administration, House, and Senate announced a CR agreement for FY 2027.

- Non-surtax revenue collections of \$42.2 billion, 2.4% growth over FY 2026 (~\$1 billion increase).
- Surtax revenue collections of \$2.7 billion, a \$300 million increase over FY 2026.

FY 2027 Consensus Revenue Agreement

	FY 2026 Benchmark	FY 2027 CR Agreement	\$ Increase over FY 2026	% Increase over FY 2026
Non-Surtax Revenue	\$41,214	\$42,200	\$986	2.4%
Surtax Spending Cap	\$2,400	\$2,700	\$300	12.5%
Revenues Available for Budgeted Spending	\$43,614	\$44,900	\$1,286	2.9%

After accounting for increased transfers to the state's Pension Fund, MBTA, MSBA, and other reserves, budget writers in FY 2027 will have access to \$1.3 billion in new revenue to support spending—despite significant cost pressures and concerns over lost federal funding.

What We Know – State Budget Spending Pressures

FY 2026 State Budget

- **\$60.9B spending plan***, a \$3.1B (5.4%) increase over FY 2025 GAA.
- At least **\$800M in budgeted revenues remained unspent**, due to the maintenance of the original FY 2026 revenue benchmark.
- The **surtax spending cap was increased to \$2.4B**, level with total surtax projections for FY 2026.
- **One-time revenue sources total at least \$1.5 billion**, increasing the structural deficit of the state budget.
- **Known spending deficiencies exceed \$1B.**
- **Known revenues exposures from federal tax policy changes.**

FY 2027 State Budget

Making several basic assumptions for revenue growth and known spending pressures – like MassHealth & Chapter 70 – its possible to quickly estimate an initial budget gap +\$3B.

Revenue	Base	Growth	FY 2027
Non-Surtax Revenues	\$41,214	2.4%	\$42,200
Surtax Revenue	\$2,400	12.5%	\$2,700
Medicaid	\$13,772	6.0%	\$14,598
Other Ongoing Revenues	\$10,400	3.0%	\$10,712
One-Time Solutions	\$1,531	0%	\$0
Total revenue	\$69,317		\$70,210
Spending	Base	Growth	FY 2027
Pre-Budget Transfers	\$8,317	3.5%	\$8,611
GAA Base	\$31,543	3.5%	\$32,647
Medicaid	\$22,128	6.0%	\$23,456
Chapter 70	\$7,362	6.8%	\$7,862
Supp Needs	\$1,000	0.0%	\$1,000
Total	\$70,350		\$73,576
Initial Gap			\$3,365

Putting it All Together

High Uncertainty Larger Economic Trends & Federal Actions	Moderate Insight State-Level Economic Indicators	Clear Challenges Internal & External State Budget Exposures
<ul style="list-style-type: none">• Risk of national or multi-state recession.<ul style="list-style-type: none">• MA projected to be at high risk of entering a recession.• Federal funding & policy actions impacting public & private sector, non-profits, and the larger economy.	<ul style="list-style-type: none">• Gross State Product and State Employment Growth projected to drop precipitously into FY 2027.• FY 2026 revenue trends show losses in Sales & Corporate but still projected to meet benchmark.• FY 2027 non-surtax revenues expected to grow by 2.4%.	<ul style="list-style-type: none">• Short-term: +\$1B in FY 2026 state budget exposures, new and existing spending pressures heading into FY 2027, initial budget gap of +\$3B to solve.• Long-term: Medicaid funding and coverage losses, pressure to backfill other federal losses and use reserve funds.

Despite this ranging degree of certainty, **policymakers can make decisions throughout FY 2026 and the FY 2027 budget development process that put the state in a stronger place to react, respond, and recover from fiscal or policy changes.**

Key Takeaways for FY 2026 & FY 2027

- **Federal actions—including health care enrollment, tax policy impacts, and other losses—will directly affect FY 2026 and the FY 2027 budget development process.**
 - Policymakers are now considering a state-level response to OB3 tax policy changes. Short-term revenue goals must be weighed against long-term economic development priorities.
 - A plan to minimize health care coverage loss and manage health care/financial implications of federal policies is necessary.
- **Pressures on the state to respond to federal cuts with state resources can lead to unsustainable choices.**
 - Calls to use the Stabilization Fund to mitigate federal funding losses or backfill delayed funds have grown.
 - One-off revenue proposals are gaining more public attention.
 - The use of reserve funds must be focused on offsetting one-time shocks, not long-term losses.
- **The state economy and tax collections continue to grow, but state budget spending pressures and the potential for a downturn pose the most immediate threat.**
 - Irrespective of federal policies, state spending growth trends are unsustainable.
 - Increased reliance on one-time resources worsen the state's underlying budget risk.
 - Opportunities to manage spending throughout FY 2026 & FY 2027 must be maximized.

What Does This Mean for Local Cities & Towns?

The big picture takeaways stemming from federal and state policy action will have direct and indirect impacts on local cities and towns across the Commonwealth.

- Ongoing state budget pressures—primarily related to the misalignment between sustainable revenue growth and increasing spending—result in **fewer resources available to support discretionary programs**.
- The state's ability to make **significant new investments will be limited in FY 2027**.
- Fortunately, the **Administration and Legislature have demonstrated a commitment to fulfilling the funding requirements of existing programs**—including Chapter 70 state aid and the implementation of the Student Opportunity Act.
- Additionally, the income surtax has provided billions of dollars in new revenue to support new education and transportation initiatives. However, **as a greater amount of surtax revenue is incorporated into the operating budget, fewer resources are deposited into the Education and Transportation Innovation & Capital Fund**—a source of support for infrastructure or capital-related grants to municipalities.

A photograph of a city skyline at dusk, featuring several tall skyscrapers with illuminated windows. The sky is a pale blue, and the city lights are reflected in the water in the foreground. A semi-transparent blue rectangular overlay covers the lower half of the image, and the word "Appendix" is written in a bold, yellow, sans-serif font across the center of this overlay.

Appendix

What We're Seeing – State-Level Revenue Trends (FY 2026)

Revenue Growth Trends, First v. Second Half of Fiscal Year

