



Commonwealth of Massachusetts

**Executive Office for
Administration and Finance**

Stabilization Fund & Long-Term Liability Financing Task Force

December 5, 2025





Agenda

- Roll Call
- 11/17 Meeting Recap
- Other Liabilities
 - Disaster Relief & Resiliency Financing
- Credit Rating Considerations
- Initial Recommendations Discussion
- Next Steps/Recommendation Process



11/17 Meeting Recap

Key Takeaways: Stabilization Fund

1. Regular stress testing allows state to create appropriate targets for Stabilization Fund balances – should include an understanding of priorities to preserve in case of economic downturn
2. States should also establish a broader toolkit to pair with their use of reserves
3. Prior recession case studies show that the Stabilization Fund has been primary tool deployed as a bridge to more sustainable solves for multi-year recovery

Key Takeaways: Pension

1. More aggressive pension financing schedules have put Massachusetts in a much stronger position as the next triennial schedule is developed
2. Similar to general budget stress testing, pension fund stress testing is recommended to more regularly track risks and ensure sustainable decision making
3. Implementing a layered amortization method represents an opportunity for the state to evolve its pension funding approach



Disaster Relief & Resiliency



Disaster Relief & Resiliency Challenge

Impacts of climate change have resulted in at least \$10 B in public-private damages since 1980 in MA

\$1 B+ Disasters Impacting MA from 1980-2024 (\$ CPI Adjusted)					
Disaster Type	Events	Events/Year	Percent Frequency	Total Costs	Percent of Total Costs
Winter Storm	15	0.3	33.3%	\$5.0B-\$10.0B	46.5%
Tropical Cyclone	9	0.2	20.0%	\$2.0B-\$5.0B	33.1%
Flooding	4	0.1	8.9%	\$1.0B-\$2.0B	11.8%
Severe Storm	15	0.3	33.3%	\$500M-\$1.0B	7.9%
Freeze	1	0.0	2.2%	\$5M-\$100M	0.5%
Drought	1	0.0	2.2%	\$5M-\$100M	0.2%
Wildfire	0	0.0	0.0%	\$0	0.0%
All Disasters	45	1	100.0%	\$10.0B-\$20.0B	100.0%

Source: National Centers for Environmental Information (NCEI)



Disaster Relief & Resiliency Challenge

Events per year have more than doubled compared to the 2010's – with significant increases across most disaster categories

Time Period	Billion-Dollar Disasters	Events/Year	Cost	Percent of Total Cost
1980s (1980-1989)	5	0.5	\$250M-\$500M	2.60%
1990s (1990-1999)	13	1.3	\$5.0B-\$10.0B	48.20%
2000s (2000-2009)	1	0.1	\$100M-\$250M	1.20%
2010s (2010-2019)	12	1.2	\$2.0B-\$5.0B	30.80%
2020-2024	14	2.8	\$1.0B-\$2.0B	17.20%

Source: National Centers for Environmental Information

- NCEI tracks disaster events across several major categories, such as winter storms, freezing, flooding, drought, etc.
- Across the categories reviewed, Massachusetts saw the number of \$1 B events per year grow by at least 50% in the first half of the 2020's compared to the 2010's for the following:
 - Severe Storm: 1.2 events from 0.3
 - Tropical Cyclones: 0.8 events from 0.2
 - Flooding: 0.4 events from 0.1



Disaster Relief & Resiliency Recent Policies in MA

In response to recent natural disasters, the Healey-Driscoll Administration created the Disaster Relief and Resiliency Fund

Disaster Relief & Resiliency Fund

- In the FY25 H.2 recommendation, the Administration established a Disaster Relief & Resiliency Fund to provide financial relief against the effect of natural disasters
 - The Administration proposed dedicating 10% of excess capital gains to create a permanent funding mechanism
- The fund was ultimately included in the FY25 GAA; however, no permanent funding mechanism was put in place; in FY25, \$14 M from the consolidated net surplus will be transferred by statute

Additional Considerations

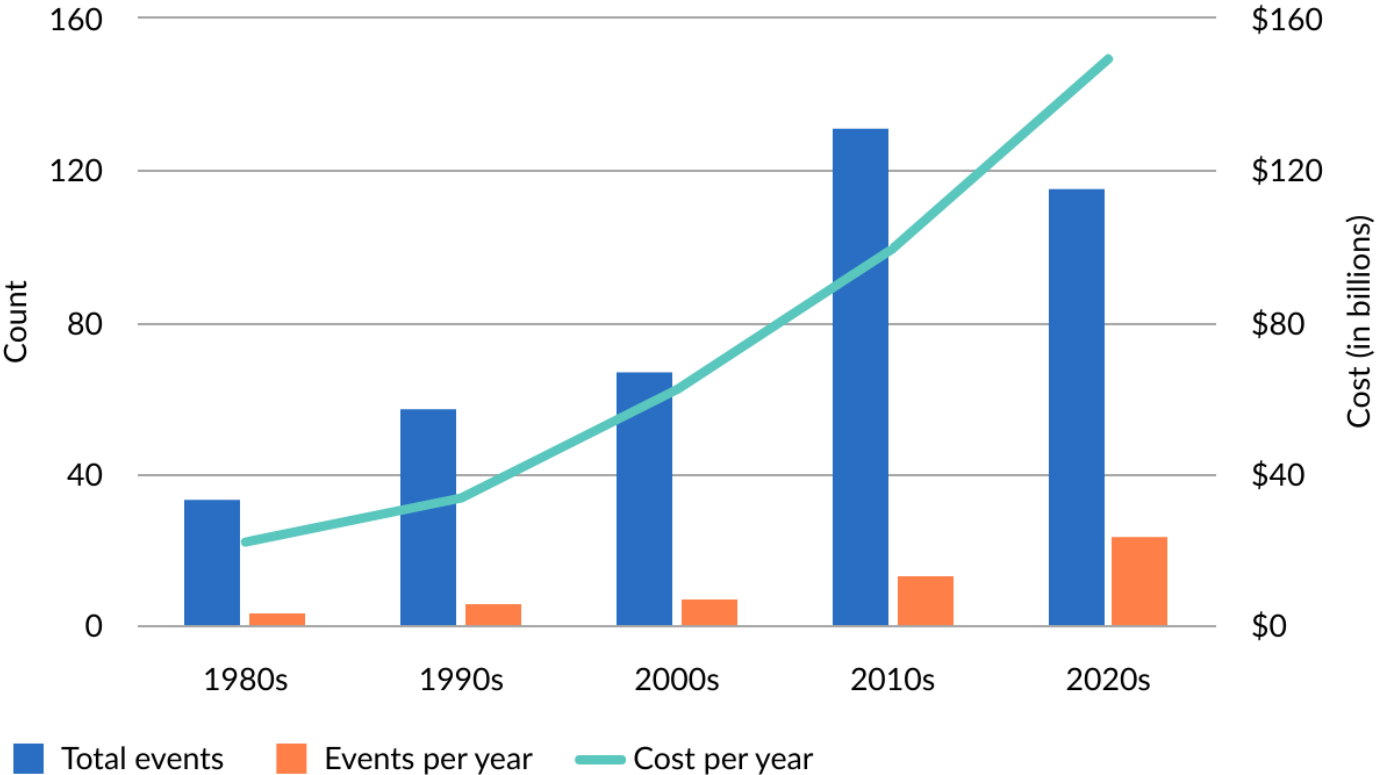
- Given the long-term liability associated with climate change, a permanent funding mechanism consistent with the treatment of the Stabilization Fund and pension liability may be warranted
 - Expanding our excess capital gains policy to disaster-related supports could be a meaningful measure to build the reserve during times of economic growth
- Additionally, a preemptive resiliency component to the Disaster Relief & Resiliency Fund would be prudent, given the meaningful return on investment for costs avoided in the future
 - Options include allowing a portion of the fund's balance to support resiliency planning and mitigation projects



Pew Analysis

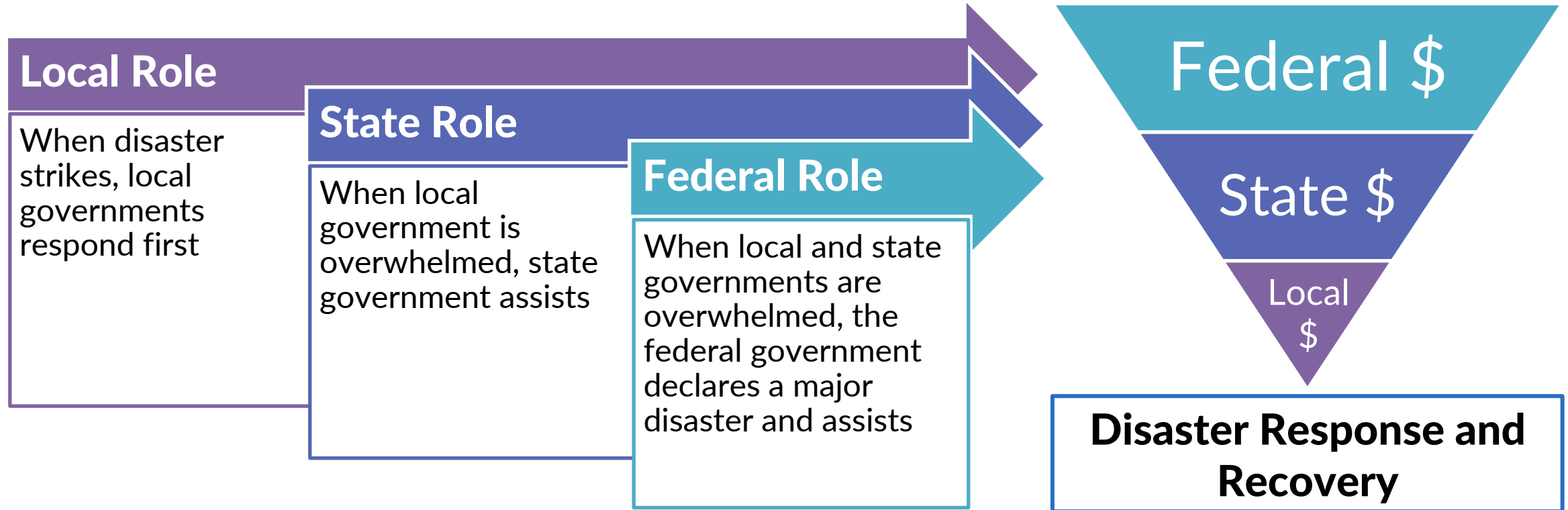
Disasters are more frequent, severe, and expensive than ever

Total and annual average billion-dollar events by decade overlaid with cost trend, 1980-2024



Source: National Centers for Environmental Information, Billion-Dollar Weather and Climate Disasters
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Beyond FEMA: Disaster assistance is an intergovernmental responsibility



Policy Considerations

Manage fiscal risks of disasters proactively, both acute and long-term:

- ✓ Define fiscal commitments in advance
- ✓ Consider implications of federal reimbursement timelines
- ✓ Estimate costs of these commitments
- ✓ Proactively fund those estimates

Mitigate risks and improve disaster resilience:

- ✓ Provide regular funding for mitigation and resilience
- ✓ Incorporate planning considerations
- ✓ Minimize barriers to funding for communities with less administrative capacity

Potential Disaster Spending Needs

Disasters that fall short of federal disaster declaration threshold

- ✓ Current statewide threshold for MA to receive federal aid is approximately \$13.2 million

Matching funds and upfront costs for federally declared disasters

- ✓ Federal public assistance to MA totaled \$774 .7 million between 2003 and 2025
- ✓ 25% match is \$258.2 million

Other considerations

- ✓ Providing bridge loans for locals waiting for federal reimbursements
- ✓ Replacing lost local tax revenue post disaster
- ✓ Providing individual assistance in addition to public assistance for smaller disasters
- ✓ Planning for shifting federal policy

Federal Disaster Aid History

Total federal public assistance aid 2003 to 2025 (in 2024 dollars)

- ✓ 774.7 million total over 22 years
- ✓ Average of \$33.7 million per year (plus 11.2 million in match requirements)

Largest single year of federal PA assistance (in 2024 dollars)

- ✓ \$281.1 million in 2011 (plus 93.7 million in match requirements)
 - ✓ Hurricane Irene, June tornados, January Nor'easter, Halloween Nor'easter

Highest one-time event PA (in 2024 dollars)

- ✓ 114.4 million in 2015 for Snowmageddon (plus 38.1 million in match requirements)

Mitigation Funding Policy Considerations

Mitigation Budgeting Principles

- ✓ Recovery funding can support rebuilding with resilience
- ✓ Regular pre-disaster mitigation funding is key to more effective use of funds
- ✓ Ensure funding is aligned with risk-based planning
 - ✓ MA has significant previous investments in planning
 - ✓ ResilientMass Plan – provided statewide resilience assessment and planning
 - ✓ Municipal Vulnerability Preparedness Program – provided funding for local level vulnerability assessments and resilience plan implementation.

Mitigation Funding Policy Considerations

State examples of mitigation set-asides

- ✓ Montana wildfire suppression fund – if the balance exceeds 3% of total general fund appropriations at the end of a budget cycle, a percentage of the fund (approximately \$30 million) may be used for preparedness and mitigation activities
- ✓ Utah wildfire fund – allows for the greater of \$10 million or \$3 million + 10% of unspent deposits in the fund to be used for fire prevention costs.

Funding Considerations Summary

Possible Spending Needs	10-year Estimate
Commonwealth-provided PA for one non-federal disaster per year	\$132 million
Matching funds for federal disaster based on historical average	\$112 million
Potential mitigation set-aside at 10%	\$25 million to \$50 million
Adjustments for upward trends, inflation, federal policy shifts, and other commonwealth disaster spending commitments	?

Potential Revenue Source	10-year Estimate
10% of excess capital gains	\$250 million to \$500 million

Acute spending needs	Highest 1-year historical need
Cash flow management	\$281.1 million



Credit Rating Considerations



Historic Long-Term Liability Impacts on Credit Rating

Policies related to excess capital gains and the Stabilization Fund have played a critical role in credit rating upgrades and downgrades

- Commitment to our Stabilization Fund and other long-term liabilities have been vitally important and detrimental to our credit rating
 - In 2012, S&P upgraded Massachusetts from 'AA' to 'AA+' due in large part to the establishment of its excess capital gains policy (section 5G of Chapter 29)
 - *"We raised the commonwealth's rating in September of 2011, reflecting its ongoing progress in improving financial, debt, and budget management practices while implementing cost-control and reform measures associated with its long term liabilities. The upgrade also reflected the commonwealth's commitment to its stabilization fund..."*
 - In 2017, S&P downgraded MA bonds back to 'AA' due to continuously circumventing the Section 5G policy and therefore not building the Stabilization Fund
 - *"The downgrade reflects what we view as the commonwealth's failure to follow through on rebuilding its reserves as stipulated through its own fiscal policies aimed at mitigating the state's propensity for revenue volatility."*
 - In 2023, S&P upgraded the state's status back to 'AA+', citing good fiscal management and attention to reserves
 - *"The upgrade reflects our view that the Commonwealth's commitment to strengthen its budget management practices supported by the state's improved reserves and strong economy will be sustained through near-term recessionary pressures."*



Statutory Fiscal Discipline

Consensus Revenue Forecasting

- The Administration and Legislature must publicly collaborate on tax forecasting, with expert input (M.G.L. c. 29, s. 5B)
- The Commonwealth uses internal resources and outside economic forecasting firms to develop the consensus revenue forecast

Balanced Budget Requirement

- The Budget must be balanced at filing and enactment, and at the signing of any appropriation act (M.G.L. c. 29, s. 6E)
- The Legislature and the Governor approve a balanced budget each fiscal year
- The Administration must flag and address material revenue shortfalls within days of discovery (M.G.L. c. 29, s. 9C)

Statutory Buffers to Revenue Volatility

- Capital gains tax revenues collected that exceed a specific threshold are transferred – 90% to BSF, 5% to OPEB and 5% to Pension Liability
- The Legislature must expressly intervene if there is a need to redirect funds away from reserves (M.G.L. c. 29, s. 5G)

Cash Management

- Cash flow projections are prepared and submitted quarterly to the Legislature



Institutionalized Practices

Consistent and Disciplined Budgeting Approach

- Standardized approach to budgeting for essential and predictable costs
- Demonstrated commitment to strengthen pension and OPEB by consistently increasing funding

Created a Structural Surplus

- Aligned spending and revenue growth and eliminated reliance on non-recurring revenue sources
- Buffered the budget from volatility of capital gains and used surplus funds to strategically address high priorities like childcare, K-12 education, pension, and tax relief, while maintaining structural balance

Prudent Capital Management

- Maintains statutory debt limit on debt issuance: for direct debt, the annual limit increases each year to 105% of the prior year's limit
- Established debt affordability policy sets limit on annual debt service of 8% of budgeted revenues
- Debt Affordability Committee provides an estimate of total amount of new Commonwealth debt that can be prudently issued for the next fiscal year
- Maintains a rolling 5-year Capital Improvement Plan (includes annual capital budget)
- Track record of risk mitigation and actively managing the debt portfolio through various economic cycles



Rating Agencies Comments – November 2025

S&P – *“Potential national recessionary pressures, when combined with the commonwealth’s long-term liabilities (among the highest in the nation) and history of underfunding pensions, could lead to budgetary pressures as revenue growth softens and tests the commonwealth’s commitment to strong BSF levels.”*

“We expect the commonwealth will continue to find solutions, including program savings and hiring controls, to address budget pressures through 2026 and develop a sustainable approach for budget resilience in future years.”

Moody’s – *“As in other states, unfolding federal policy changes may impose economic or fiscal pressure, for example, by reduction federal support for Medicaid. . . The Commonwealth Stabilization Fund balance remained robust at \$8.2 billion as of June 30, 2025, which should provide buffer against income tax revenue fluctuations resulting from economic or financial market downturns. Massachusetts’ governance framework is strong, including sound financial and budgetary management practices that serve it well during recessions.”*

Fitch – *“The commonwealth has superior gap-closing capacity, supported by conservative budgeting, ongoing fiscal monitoring, and a requirement to cut spending in response to emerging revenue gaps. Gap-closing capacity is also supported by a funding mechanism that redirects a portion of economically sensitive capital gains tax receipts into the stabilization fund. . . .”*

“As with most states, current services spending is expected to be in line with or marginally above expected revenue growth, primarily driven by social services, especially Medicaid. The fiscal challenge of Medicaid is common to all US states. Based on Congressional Budget Office estimates, Fitch projects that the enacted reconciliation bill H.R. 1, would reduce federal Medicaid aid to states by approximately 3% in federal fiscal year (FFY) 2026 (beginning October 1, 2025), rising to 18% by FFY 2034, Fitch considers these levels within the capacity of most states to manage primarily with spending reductions, likely within their own Medicaid spending, and possibly with revenue increases.”



Rating Agencies Comments – November 2025

Factors that could lead to upgrade

S&P

- If Massachusetts significantly reduces its pension and debt obligations while demonstrating commitment to strong budgetary policies and pension funding discipline, especially during periods of economic contraction.

Moody's

- Leverage that moderates in relation to the sector median, reducing the gap by approximately one-third. [*state median – 90.9% MA – 227.7%*]
- Fiscal sustainability measures that signal long-term capacity to maintain a Stabilization Fund balance equal to at least 15% of revenue.

Fitch

- Continued efforts to maintain structural balance during periods of economic growth, particularly in light of elevated carrying costs given ongoing pension funding demands and capital plans, and/or preservation of reserves at or near current levels, could lead to improvements in Fitch's assessment of budget management.
- A sustained reduction in the long-term liability burden closer to or below 10% of personal income, accompanied by a reduction of carrying costs. [*currently at 15.2%*]

Factors that could lead to downgrade

S&P

- We could lower our rating if we come to believe that Massachusetts will fail to make budget adjustments as it deems necessary to maintain structural balance or strong reserves if revenue weakens.
- Other factors that could lead to a negative rating action include significant increases in debt or other fixed costs, or a significant decline in pension funding as a result of falling behind required pension funding contributions.

Moody's

- Protracted structural budget imbalance leading to repeated draws on financial reserves or other nonrecurring measures.
- Leverage that grows to more than 300% of revenue, combined with underperforming revenue and economic growth trends

Fitch

- A slowing of economic growth that signals the commonwealth's revenue growth prospects will trail national economic growth, closer to the long-term inflation rate.
- Rapid growth in spending demands, particularly for fixed costs such as pension liabilities, that weaken Massachusetts' expenditure flexibility and historically strong operating performance.
- An increase in long-term liabilities, resulting in a liability burden that consistently exceeds 20% of personal income.



Initial Recommendations



Initial Recommendations: Legislative Mandate

The original legislative mandate contemplated a number of charges and considerations for the task force – each has been directly or tangentially covered throughout our discussions

Task Force Considerations to Review:

1. The statutory threshold for excess capital gains collections established in said section 5G of said chapter 29 in consideration of historical and estimated future capital gains collections;
2. The disbursement percentages required under said section 5G of said chapter 29 (with consideration of the relative sizes or funding levels of the Commonwealth Stabilization Fund, the State Retiree Benefits Trust Fund, the Commonwealth's Pension Liability Fund, and other long-term financial liabilities);
3. Best practices related to the funding of long-term financial liabilities among states;
4. Best practices related to the funding and size of stabilization funds among states;
5. The impacts of relevant fiscal policies on the commonwealth's credit ratings;
6. Any other relevant fiscal factors to ensure the most prudent use of state revenues.

Task Force Charges for Recommendations:

1. The appropriate long-term level of funding for the Commonwealth Stabilization Fund established in section 2H of chapter 29 of the General Laws;
2. The appropriate level and means of funding for long-term financial liabilities of the commonwealth;
3. Amendments to the mechanisms that provide funding for the Commonwealth Stabilization Fund and other long-term financial liabilities, including the provisions of section 5G of said chapter 29.



Considerations

1. The statutory threshold for excess capital gains collections established in said section 5G of said chapter 29 in consideration of historical and estimated future capital gains collections

Findings:

- The threshold established and updated pursuant to Section 5G has successfully helped the Commonwealth build its Stabilization Fund
 - Evident by the fact that excess capital gains has accounted for more than 70% of increase since policy implementation
- Preliminary analysis conducted by Pew indicates that the threshold has fallen behind actual economic and revenue growth by **\$300-\$600 M** – indicating that an upward adjustment may be warranted
 - Anchoring the threshold to the rolling average of revenue may help it keep better pace with long-term revenue growth and economic trends

2. The disbursement percentages required under said section 5G of said chapter 29

Findings:

- Current policy splits 90% of excess capital gains to the Stabilization Fund, 5% to the Pension Liability Fund, and 5% to the State Retiree Benefits Trust Fund
- This split has generally been effective in that it is the primary resource building the Stabilization Fund – again, representing more than 70% of the fund's growth
 - Meanwhile, the Pension Liability Fund receives ~\$5 B in annual transfers, while the State Retiree Benefits Trust Fund receives an annual appropriation of ~\$500 M – 5G transfers only provide marginal supplements



Considerations

3. Best practices related to the funding of long-term financial liabilities among states

Findings:

- General: regular budget stress testing helps states evaluate vulnerabilities
- Pension: fund stress testing and layered amortization for future losses have been implemented by states to strengthen financing policies

4. Best practices related to the funding and size of stabilization funds among states

Findings:

- States vary on financing mechanisms (e.g., year-end surpluses, special revenues, combination) – MA is strong in this regard by using a combination of resources
 - Section 5G is a proven example of a “volatility-based” deposit rule
- Several main standards have been used by states to evaluate reserve fund adequacy (e.g., percentage of operating revenues or spending, number of days reserves can sustain operating expenditures)
- Stress testing has been adopted by states to help determine the appropriate fund size
- Broad range of regulation around fund withdrawal policies – value in states with better definitions of appropriate use of fund



Considerations

5. The impacts of relevant fiscal policies on the commonwealth's credit ratings

Findings:

- Long-term liability strategies and dedication to reserve have been a key factor in all recent credit rating adjustments
- Current Stabilization Fund balance puts MA in strong position; however, important to continue to follow best practices on policies around excess capital gains and Stabilization Fund uses

6. Any other relevant fiscal factors to ensure the most prudent use of state revenues

Findings:

- Climate change remains an existential crisis for states – with increasing annual natural disasters costing public and private entities more than \$1 B
- MA has taken first steps in financing disaster relief and resiliency efforts; however, a more permanent funding mechanism would be prudent



Initial Recommendations

1. The appropriate long-term level of funding for the Commonwealth Stabilization Fund established in section 2H of chapter 29 of the General Laws

- **Takeaways**

- MA performs well against current “best metrics” for Stabilization Fund
 - Center on Budget and Policy Priorities recommendation: **15%** of General Fund expenditures
 - Government Finance Officers Association recommendation: **60 days** of General Fund operations (totaling **~16.7%** of annual operating expenditures)
 - FY24 Stats: **16.5%** of General Fund expenditures (vs. a 50-state median of 13% and a 12% median for 15 comparable states)

- **Recommendations**

- Multi-year budget forecasting and stress-testing should be implemented to understand the needs of the Stabilization Fund
 - Include regularly refreshed toolkit for economic downturns to help inform appropriate Stabilization Fund level
- Formally establish a periodic reconvening of task force to update understanding of best practices and metrics on Stabilization Fund balance



Initial Recommendations

2. The appropriate level and means of funding for long-term financial liabilities of the commonwealth

- **Takeaways**

- Current 5G distribution across long-term liabilities remains reasonable, as it is the primary resource for Stabilization Fund and provides supplemental resources for pension and OPEB liabilities
- Recent pension funding strategy has been successful and positioned us well going into next triennial schedule development ahead of statutory amortization deadline
 - Pension contribution levels for Commonwealth plans, after a decade of ~10% annual increases, now achieve positive amortization of past unfunded liabilities, meeting a key benchmark of minimum contribution adequacy

- **Recommendations**

- Establish a regular multi-year budget forecast, including previously discussed stress testing, as a means of identifying adjustments to long-term liability financing policies on a more regular basis
- Adopt pension risk reporting and stress testing as a routine practice, to help budget decision-makers better plan for economic downturns and assess the sufficiency of annual appropriation to pay down pension debt
- Consider adoption of a layered amortization schedule to future pension gains and losses, while maintaining the current 2040 funding target for existing unfunded liabilities, to meet funding goals while keeping costs predictable



Initial Recommendations

3. Amendments to the mechanisms that provide funding for the Commonwealth Stabilization Fund and other long-term financial liabilities, including the provisions of section 5G of said chapter 29

- **Takeaways**

- Analyst conducted by Pew indicates that the 5G capital gains threshold has fallen behind actual economic and revenue growth – indicating that a **\$300-\$600 M** upward adjustment may be warranted
 - Anchoring the threshold to the rolling average of revenue may help it keep better pace with economic activity
- Stabilization Fund withdrawal best practices could be strengthened to better support sustainability of the fund
- Disaster relief and resiliency financing will continue to be a growing liability in the future; providing a more regular financing mechanism could be impactful in preparing for those risks

- **Recommendations**

- Adjust the 5G capital gains threshold by **\$300-600 M** to account for evidence that it has fallen behind actual economic and revenue growth
- Establish best practices more formally for Stabilization Fund withdrawal policies
- Reconsider inclusion of Disaster Relief & Resiliency Fund in 5G excess capital gains distribution, as well as preemptive resiliency component of allowable fund use



Next Steps



Appendix



Relevant Resources

- Task Force Enabling Statute (Section 5) – An Act to Provide for Competitiveness and Infrastructure Investments): <https://malegislature.gov/Laws/SessionLaws/Acts/2024/Chapter214>
- Capital Gains Threshold and Excess Capital Gains Transfer (Section 5G of Chapter 29 of the General Laws): <https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIII/Chapter29/Section5G>
- Initial FY 2011 Capital Gains Threshold Policy Brief: https://budget.digital.mass.gov/bb/h1/fy11h1/exec_11/hbudbrief15.htm
- PERAC Commonwealth Valuation Reports: <https://www.mass.gov/lists/commonwealth-valuation-reports>
- National Centers for Environmental Information: <https://www.ncei.noaa.gov/access/billions/summary-stats>