



**Commonwealth of Massachusetts**

**Executive Office for  
Administration and Finance**

# **Stabilization Fund & Long-Term Liability Financing Task Force**

September 25, 2025





# Agenda

- Introductions
- Task Force Background
- Task Force Charges & Considerations
- Review of Capital Gains Policy in Massachusetts
  - Introduction and Impact of Section 5G of Chapter 29
- Analysis of Capital Gains Threshold from Pew
- Proposed Schedule with Topics



# Introductions

## Task Force Members

- Secretary Matthew Gorzkowicz, Chair
- Sue Perez (Treasurer Appointee)
- Thomas Smith-Vaughan (Comptroller Appointee)
- Timothy Rooney (Commissioner of Revenue Appointee)
- Henry Dormitzer (Governor Appointee)
- June Matte (Treasurer Appointee)



# Task Force Background

***Task Force was established in legislation temporarily shifting Stabilization Fund interest for federal match and infrastructure investments***

- In September 2024, Governor Healey signed *An Act to provide for competitiveness and infrastructure investment in Massachusetts*, critical legislation to help the state compete for federal matching resources and create new pay-go capital opportunities
  - The legislation was originally filed in light of significant federal funding opportunities created by the Inflation Reduction Act (IRA), the Bipartisan Infrastructure Law (BIL) and the CHIPS & Science Act (CHIPS)
- The law temporarily diverted new interest earned by the Commonwealth Stabilization Fund to a new matching fund pool, estimated to total \$750 M over several fiscal years
- Given the use of Stabilization Fund interest earnings, the Legislature took the opportunity to require a more comprehensive review of our long-term liabilities, including the statute that primarily contributes to our most critical reserve



# Task Force Charges & Considerations

*Legislation has several key areas of interest related to long-term liabilities and the distribution of capital gains revenues*

- The task force has several major overarching charges for its review and 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
  
- Pursuant to the legislation, task force conversations will primarily revolve around section 5G of Chapter 29 of the General Laws, which utilizes capital gains over a statutory threshold to support the Commonwealth Stabilization Fund and other long-term liabilities



## Task Force Charges & Considerations (continued)

*In addition to charges, the task force is asked to specifically review a number of elements related to financing long-term liabilities*

- The required topics for review will all coalesce around section 5G:
  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
- Based on these requirements, we propose starting our conversation on excess capital gains and then subsequently focusing on our most critical long-term liabilities in future meetings
- In addition, we propose discussing less obvious topics, such as disaster relief financing, given recent actions around the topic



# Capital Gains Policy in Massachusetts



# Capital Gains and Section 5G of Chapter 29

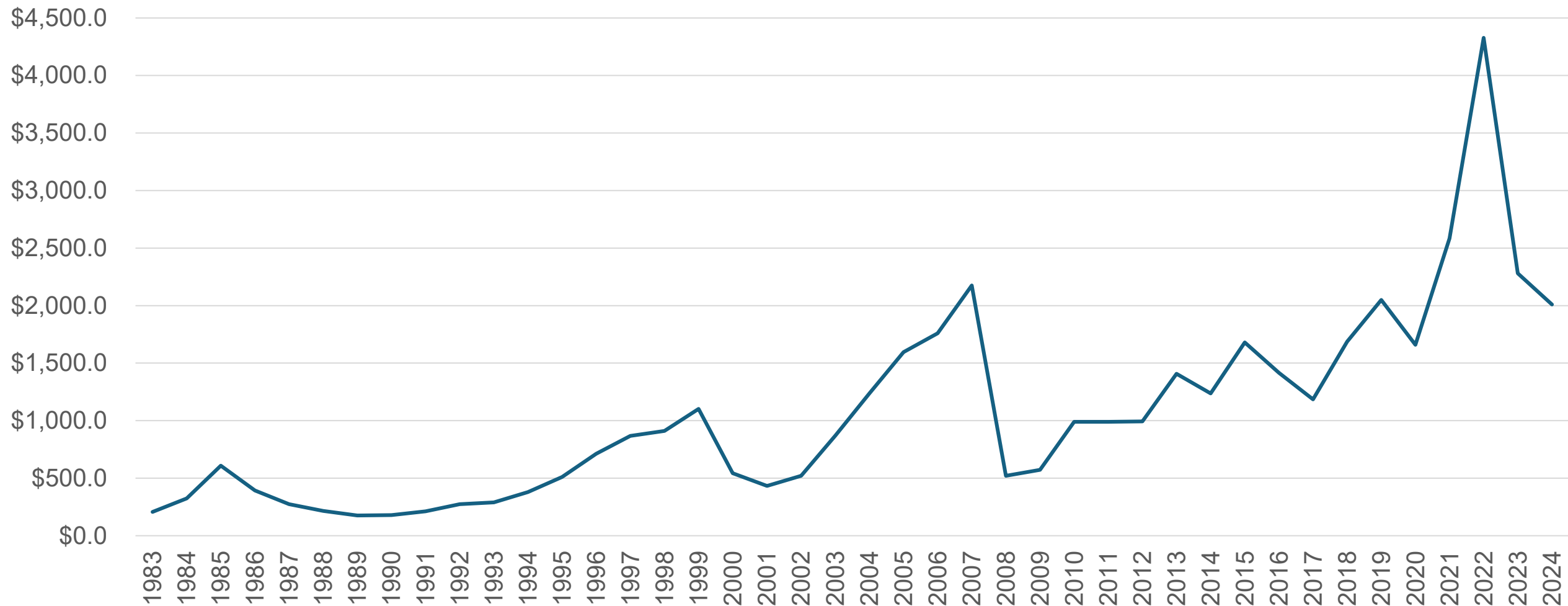
*Due to significant volatility in capital gains, Massachusetts has established policies to stabilize the budget and support long-term liabilities*

- Massachusetts taxes long-term capital gains at 5% and short-term capital gains at 8.5%
  - Given the nature of the tax being applied to increased asset value at the time of sale, capital gains collections have historically been volatile and particularly susceptible to economic downturns
- Therefore, the FY 2011 budget established a policy to effectively cap how much the budget could rely on capital gains collections and use those resources to finance long-term liabilities and reserves
  - This policy was first proposed by Governor Deval Patrick in light of significant declines caused by the Great Recession; after collections nearly doubled between FY 2004 and FY 2008, they declined from \$2.2 B in FY 2008 to \$554 M in FY 2009
- This policy inserted a \$1 B threshold for excess capital gains to be used in the budget
  - Collections above the threshold are transferred to the Commonwealth Stabilization Fund (90% of over threshold collection), Pension Liability Fund (5%) and State Retiree Benefits Trust Fund (5%)
- In addition, beginning in FY 2014, the threshold is adjusted annually to reflect the average annual rate of growth in United States gross domestic product over the preceding 5 years based on the most recently available data published by the Bureau of Economic Analysis in the United States Department of Commerce



# Capital Gains and Section 5G of Chapter 29 (continued)

## Capital Gains Actual Collections (FY 1983 to 2024)





# Pew Analysis of Capital Gains Threshold

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# The Pew Charitable Trusts and State Fiscal Policy

Pew is a non-profit, **nonpartisan organization** that conducts **research and analysis** to **improve public policy and civic life**.

Pew's state fiscal policy project works with states to **reimagine** their approach to **fiscal management**, reaching **beyond** the budget conditions of **today** to plan for the **risks and investment needs of tomorrow**.

The project publishes 50-state research and provides technical assistance to promote the adoption of proven policies and practices designed to help states: **maintain structural balance; prepare for economic downturns; and asses long-term emerging risks**.

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# Pew State Fiscal Policy – Technical Assistance Process

Data driven, nonpartisan, and responsive to policymakers' priorities



## Key elements include:

- Interpretation of legislative intent
- Comparison to leading practices based on 50-state research
- Scenario and stress test analysis
- Policy options and recommendations tailored to state-specific contexts

## 5G Purpose and Assessment

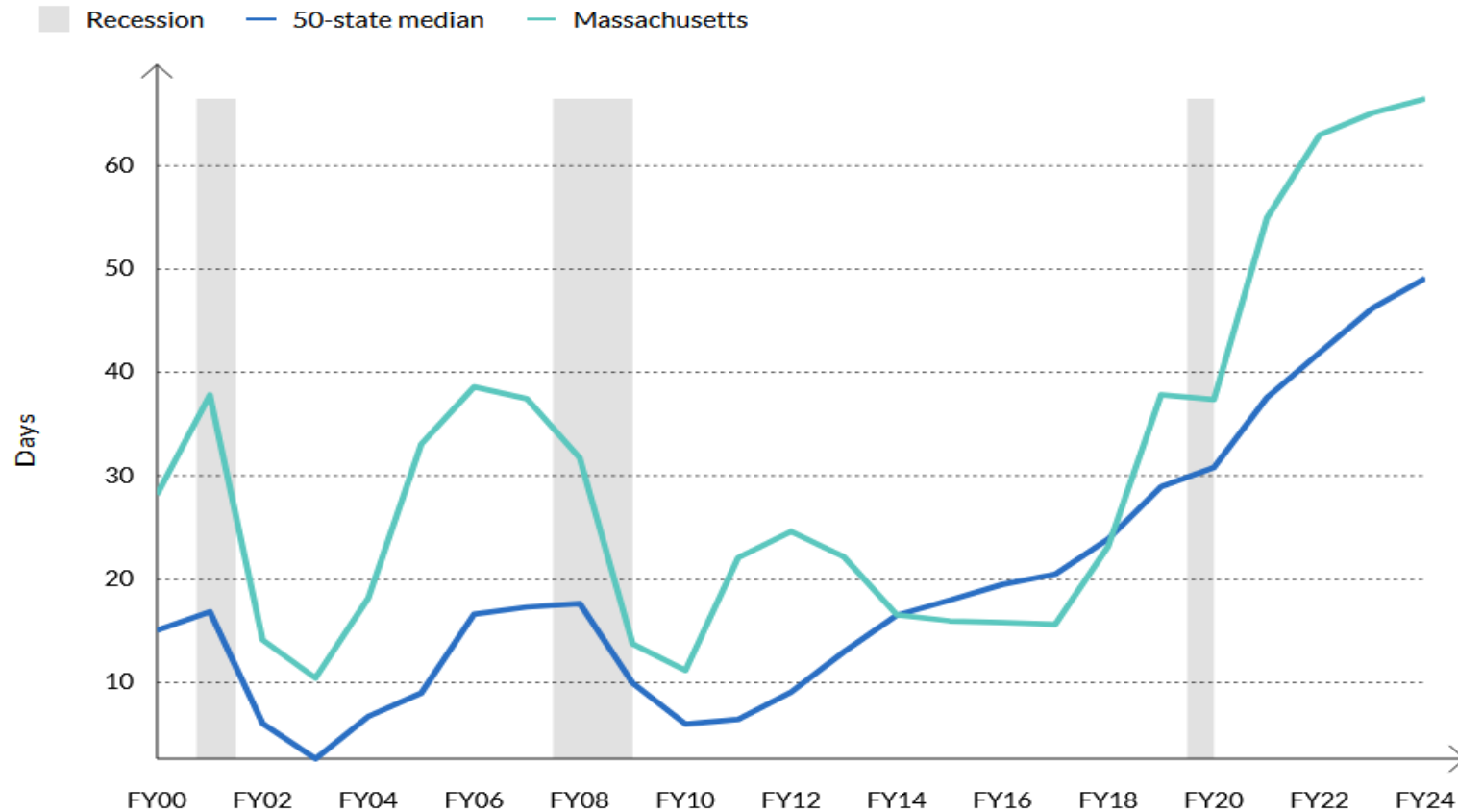
- ❑ 5G was designed to mitigate “structural budget deficits when the state makes spending commitments during strong years that cannot be fully sustained when the economy declines”
- ❑ The initial \$1 billion threshold for “excess” capital gains in 2011 was based on a reasonably conservative estimate of the historical average, adjusted for inflation, of ~\$1.1b to \$1.2b
- ❑ Over 70% of the \$7B increase in the stabilization fund since 2011 can be attributed to 5G.
  - Massachusetts capital gains rule is an example of a “volatility-based” approach to saving temporary revenue surges, that aligns with recommended practices and has credibility with fiscal watchdogs
- ❑ There is also evidence that the threshold has fallen behind economic growth and the intent of the policy by ~\$300M to \$600M

Sources: [“Capital Gains Revenue in the Budget,”](#) Executive Office for Administration and Finance, 2010. [Annual Comprehensive Financial Reports](#), FYs 2010-2024. And analysis by The Pew Charitable Trusts.

# Pew's Preliminary 5G Threshold Analysis

Number of Days Massachusetts Could Run on Reserves Alone, Based on FY2024 Preliminary Actuals

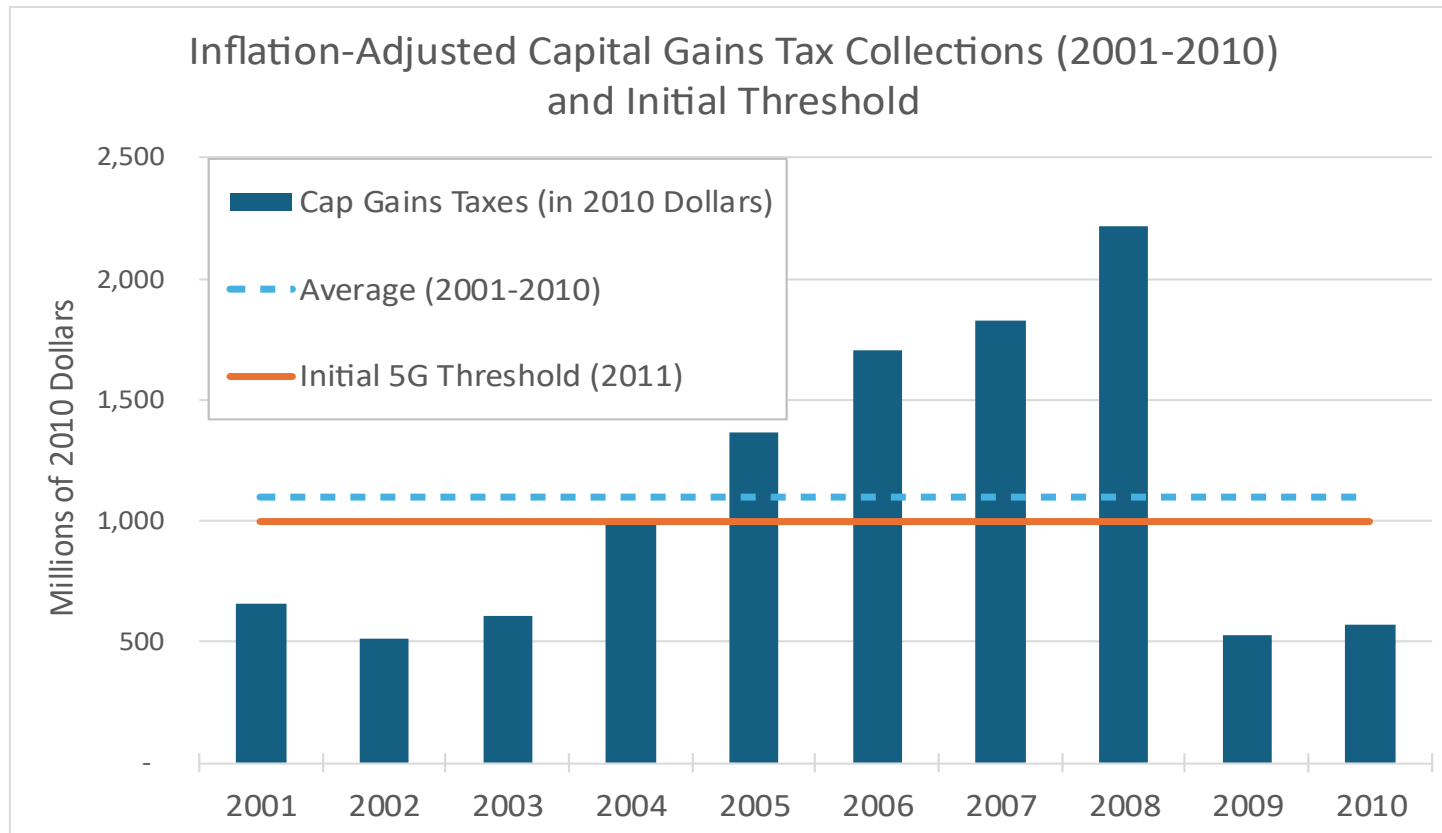
**Key Finding:** Since 2010, deposits under Section 5G have accounted for over 70% of the \$7B+ increase in the stabilization fund, boosting “days in reserve” from 11 in FY 2010 to nearly 67 in FY 2024



Source: Analysis by The Pew Charitable Trusts & [Fiscal 50](#)

# 5G Background and Purpose

**\$1 Billion threshold was reasonably conservative vs. historical average of \$1.1b - \$1.2b**

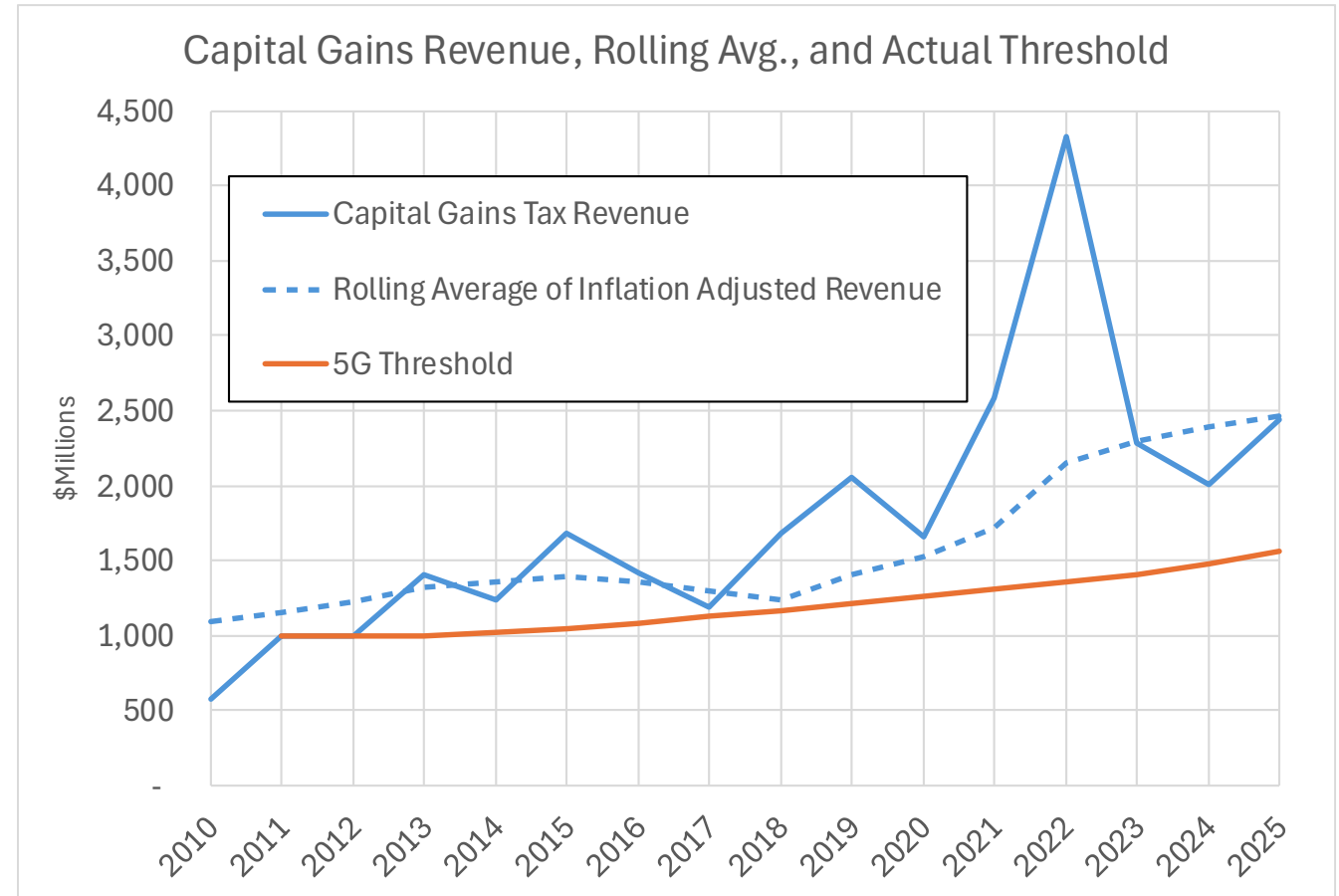


Source: Analysis by The Pew Charitable Trusts

# Pew's Preliminary 5G Threshold Analysis

**Key Finding:** The implicit measure of conservatism built into the threshold has increased by around \$300-\$600M. This is due to three factors:

- Annual adjustment was not implemented until FY14
- Use of 5-year GDP averaging in the formula
- Capital gains growth outpaced GDP since 2011

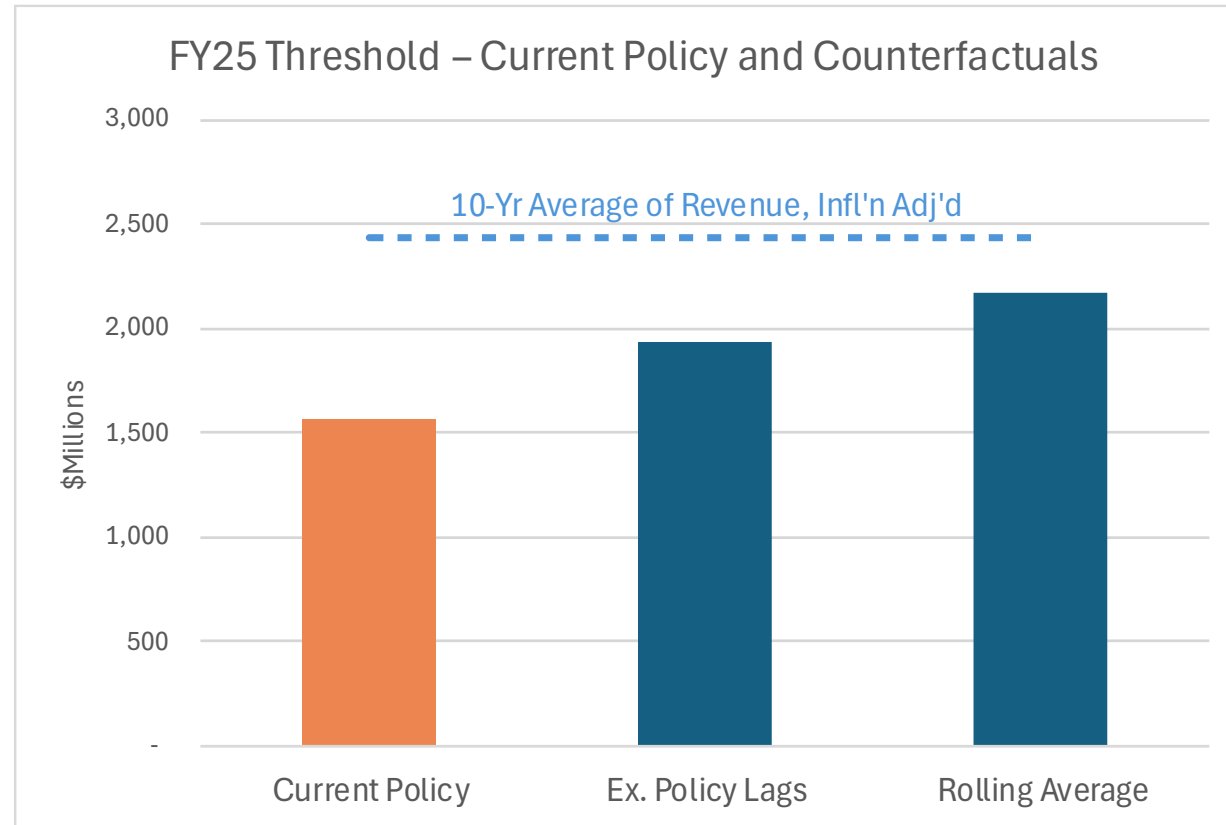


Source: Analysis by The Pew Charitable Trusts

# Pew's Preliminary 5G Threshold Analysis

**Analysis:** Comparing the current threshold to a counterfactual without policy lags, and the more recent 10-year average, can provide insight to consider policy options.

- Excl. Policy Lags: threshold if the annual adjustment had begun in FY12 using annual GDP growth.
- Rolling Average: 10-year average of inflation adjusted revenue, with original 11% conservatism.



Source: Analysis by The Pew Charitable Trusts

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# Preliminary Considerations

## Options for Modifying Section 5G

- ❑ **One-time adjustment to the threshold:** Thereafter, continue adjusting the threshold annually per current law. Consider a periodic review to ensure the threshold continues to match intent.
- ❑ **Anchor the threshold to the rolling average of revenue, adjusted for inflation or nominal GDP growth:** Tying the policy directly to revenue performance makes the threshold dynamic, ensuring it keeps pace with the long-term growth of revenue and accounts for changing economic conditions.
- ❑ **Expand included revenue to include corporate income taxes:** CIT also contributes significantly to overall tax revenue volatility.
- ❑ **Budget stress testing** can inform discussions about the optimal size of the budget stabilization fund and the design of the capital gains threshold .



# Proposed Schedule/Topics



# Proposed Schedule/Topics

- Week of October 13 - Stabilization Fund: mechanisms; history of balance; sizing recommendations; best practices
- Week of November 3 - Pension Liability Fund: unfunded liability; market performance; stress testing; next triennial schedule
- Week of November 17 – OPEB: liability; best practices; other long-term liabilities (i.e., disaster relief funding); ratings agency considerations
- Week of December 1 – discussion on key considerations/recommendations
- Week of December 15 – file report



# 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](https://budget.digital.mass.gov/bb/h1/fy11h1/exec_11/hbudbrief15.htm)