Research Update:

Massachusetts' $1 Billion 2025 GO Debt Assigned 'AA+' Rating

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Overview

- S&P Global Ratings assigned its 'AA+' long-term rating to the Commonwealth of Massachusetts' $1 billion 2025 general obligation (GO) bonds consolidated loans, series G, and GO refunding bonds, series B.
- At the same time, we affirmed our 'AA+' long-term rating on Massachusetts' GO bonds outstanding as well as on various other bonds secured by annual appropriations from the commonwealth.
- We also affirmed our 'A+' long-term rating on the Boston Housing Authority's series 2003 housing project bonds (West Broadway Homes IV project), supported by a commonwealth annually appropriated state-operating subsidy, subject to the terms of a trust agreement.
- Finally, we affirmed our 'AA+' long-term rating on the Massachusetts Bay Transportation Authority's (MBTA) sales tax bonds outstanding, our 'AA+/A-1' dual rating on the MBTA's variable-rate demand purchase debt, our 'A-1+' short-term rating on the authority's commercial paper (CP) program, and our 'AA+' long-term rating on a U.S. Department of Transportation third-lien Railroad Rehabilitation & Improvement Financing loan agreement for the MBTA's commuter rail safety and resiliency program.
- The outlook, where applicable, is stable.

Rationale

Security

Massachusetts' full faith and credit secures the GO bonds .

The proceeds for the 2025G bonds will finance or reimburse the costs of various capital expenditures included in the commonwealth's capital investment plan. The series B refunding bonds proceeds will be used to refund the commonwealth's previously issued bonds.

Credit highlights

The ratings reflect our view of the commonwealth's strong economic metrics with very high per capita income levels compared with the nation, partly as a result of the strong presence of high-tech companies in the Boston metropolitan statistical area (MSA). The rating further reflects our view of some historical cyclicality in financial results given volatile revenue sources, although recent strong growth in tax collections and federal aid have led to large operating surpluses and reserves. It also reflects our view of the commonwealth's high debt, pension, and other postemployment benefits (OPEB) liabilities, with a history of funding less than full annual actuarial recommendations to its pension and OPEB funds. Finally, the rating reflects our expectation that Massachusetts will continue to manage its budget through multifaceted actions as it encounters evolving economic, fiscal, and federal policy developments.

We believe that Massachusetts' economy, with a substantial high-tech presence in the Boston MSA, has been a bright spot: A substantial proportion of highly skilled workers with strong income levels support revenue growth and strong finances. Strong tax growth is expected to boost the commonwealth's budget stabilization fund (BSF) balance, which statutorily receives both excess general fund revenue as well as capital gains tax revenue above an annual benchmark, along with revenue from certain other lesser sources. Strong revenue growth combined with extra federal aid and strong budgetary management practices helped the commonwealth end its past three fiscal years in an extremely strong financial position, with the highest reserves in its history. The BSF totaled $8.5 billion, or 12.8% of operating revenue and other sources as of fiscal year-end June 30, 2024. Fiscal 2025 is projected to end with balances that we still consider strong, with a BSF of $8.2 billion, as a result of timing of transfers, or a strong 12.3% of budgeted operating revenue and other sources.

Despite the commonwealth's historically strong finances and economy, financial risks remain, which recent federal policy and economic uncertainty could exacerbate. We believe Massachusetts has an above-average dependence on cyclical capital gains tax revenue (3.2% of general fund revenue in fiscal 2024). This tax revenue benefits from a strong stock market but could significantly recede during a national economic contraction. However, the commonwealth's process of diverting capital gains tax above the threshold to fund its BSF and pension offset its funding ongoing operations. Increases in Medicaid expenditures are also a potential budgetary concern with the expiration of higher Medicaid reimbursement rates that the federal government implemented during the COVID-19 pandemic. Other long-term pressures include Massachusetts' relatively high debt and moderately high pension and OPEB liabilities, which could increase over time. At fiscal year-end 2024, the latest audited fiscal year, we calculate the commonwealth had net total tax-backed debt per capita of $6,113 and 7% of personal income, including tax-supported revenue debt.

Massachusetts, along with other states, is working to comply with the federal Reconciliation Act, signed into law in July 2025, which extends state and local tax deductions and introduces changes to Medicaid that could lower Medicaid rolls and reduce federal or other resources available to fund state programs. Given that Medicaid is the largest expenditure (inclusive of state and federal funding) in states' budgets, a decline in direct Medicaid spending by states through 2034 could partly offset higher costs. Estimates from the Massachusetts' department of revenue project losses in tax revenue of $650 million in 2026 and $1.3 billion in the next three years, absent legislative action. The magnitude and implementation period of potential federal changes are critical to making timely budget adjustments, but we believe states generally possess good autonomy to implement changes to their Medicaid programs, which could help them manage a shift in expenditures. For more information, see our report "The Tax Bill Comes

Due: Near-Term Risks Are Low, Long-Term Pressures Rising For U.S. Public Finance Entities," July 7, 2025.

The commonwealth also faces difficulties in the long term, as very strong revenue performance in previous fiscal years transitions to more subdued revenue estimates across states. 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. S&P Global Market Intelligence forecasts that real gross state product growth will lag that of GDP overall through 2028, at 5.1% compared with about 7.2%.

Fiscal 2025 estimates show that expenditure and uses exceeded revenue by about $2.7 billion, or 3.9% of expenditures before adjustment for nonrecurring appropriations, and were funded using prior-year surplus revenue and federal appropriations that were already set aside. The commonwealth anticipates no tax rebates paid for fiscal 2025, as revenue did not exceed the allowable limit as defined by Chapter 62F Massachusetts General Laws based on the fiscal 2025 revenue results.

The commonwealth's fiscal 2026 budget, approved in July 2025, provided for approximately $58 billion in authorized spending, which is about 0.4% lower than revised fiscal 2025 spending, excluding spending of income surtax revenue and projected transfers to the Medical Assistance Trust Fund. The 2026 budget also provides for $2.3 billion in spending from income surtax revenue, allocated to investments in transportation, including $500 million to stabilize MBTA operations and $1.7 billion in investments in education (including early education), universal school meals, kindergarten-through-12th-grade programs, and higher education. The budget is based on a consensus revenue estimate of $43.6 billion, composed of a baseline consensus revenue estimate of $41.2 billion and a $2.4 billion estimate of revenue from the 4% surtax on personal income above the surtax threshold.

The governor also filed a supplemental budget for fiscal 2026 after adoption that appropriates $100 million to provide a flexible pool of resources to quickly respond to changing economic conditions and federal policy changes that may arise over the course of the year. The supplemental budget also provides for a $30 million transfer to the Housing Preservation and Stabilization Trust Fund and includes provisions that would expand the governor’s budget reduction authority under Section 9C of Chapter 29 of the General Laws to permit reductions beyond the executive branch in the event of revenue substantially below benchmarks or other significant negative effects, as well as providing authority for line-item transfers to create flexibility as the commonwealth navigates economic and federal policy uncertainty. After incorporating recent actions to provide some resources to respond to economic uncertainties and flexibility to respond to federal policies, expenditure and uses are projected to exceed revenue by about $1.3 billion, or 1.8% of expenditures before adjustment for nonrecurring appropriations. We expect that 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. The commonwealth projects ending BSF balances for fiscal 2026 at about $8.32 billion.

The shifting federal policy mix is altering the U.S. economic outlook, with our assumptions reflected in a deceleration in GDP growth in 2025 relative to 2024, based on S&P Global Economics' "Economic Outlook U.S. Q4 2025: Below-Trend Growth Persists Amid A Swirl Of Policy Shifts," Sept. 23, 2025. We forecast that the annual average U.S. real GDP growth rate will slow to 1.9% in 2025 and 1.6% in 2026; although still positive, this is a deceleration from the 2.8% growth in 2024. We expect weaker near-term growth to further soften the labor market in the next 12 months, and although our base-case scenario projects that the U.S. will avoid a recession in the near term, we still see elevated downturn risk in our subjective assessment because of uncertainty around trade, deregulation, fiscal policy, geopolitics, and immigration. This could erode purchasing power and elevate business and private investment uncertainty and will likely further weaken U.S. growth. Based on S&P Global Market Intelligence's economic forecast for the commonwealth, we anticipate that economic output and employment will be muted for the balance of the year, with the potential to soften in 2026 below the national level. Estimates show that the state's economic growth of 1.6 % in 2026 will be lower than the national level, while employment growth is projected also be slower than that of the nation but stronger than recent trends; we will evaluate if these could dampen revenue growth.

The 'AA+' GO rating reflects our view of Massachusetts':

- Deep and diverse economy and income levels among the highest in the nation, with per capita income at 128% of the nation in 2024;
- History of timely monitoring of revenue and expenditures, and swift action when needed to make adjustments;
- Well-balanced institutional framework that supports predictability, structural balance, and revenue raising autonomy;
- Strong financial, debt, and budget management policies, including annualized formal debt affordability statements and multiyear capital investment planning;
- Steady financial performance and historically high BSF reserves equal to about 12.8% of expenditures, positioning Massachusetts well to manage future fiscal pressures; and
- High debt, pension, and OPEB liabilities that could escalate future costs.

For more information on the commonwealth, see our report on Massachusetts, May 29, 2025.

Environmental, social, and governance

We consider Massachusetts' physical risks moderately negative in our credit rating analysis because of the commonwealth's coastal exposure to rising sea levels, with about two-thirds of its population in the Boston MSA and substantial property value in the combined Boston and Cape Cod area, exposing the state to significant economic disruption following a high-impact event. However, the commonwealth has been addressing environmental risks since 2004 through its Clean Energy Climate Plan, which is regularly updated to meet the needs of the commonwealth, and has historically maintained a stable management and policy framework to respond to developing risks. We view social and governance risks as neutral in our credit rating analysis.

Outlook

The stable outlook reflects our view of Massachusetts' underlying economy and very strong reserves, despite its economically sensitive revenue and the potential for a nationwide economic slowdown.

Downside scenario

We could lower our rating if we come to believe that Massachusetts will fail to make budget adjustments 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 significantly behind required pension funding contributions.

Upside scenario

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, we could raise our rating.

Massachusetts--credit summary

Institutional framework (IF)	1
Individual credit profile (ICP)	2.17
Economy	1.0
Financial performance	2
Reserves and liquidity	1
Management	1.35
Debt and liabilities	5.50

Massachusetts--key credit metrics

	2025*	2024	2023	2022
Economy				
State population (000s)	7,175	7,143	7,075	7,027
Real GSP per capita ($)		88,033	86,893	86,443
Real GSP per capita as % of U.S.		129	130	132
State PCPI ($)		93,522	89,837	85,381
State PCPI as % of U.S.		128	128	129
State unemployment rate (%)		4.0	3.5	3.6
Financial performance - S&P Global Ratings adjusted				
Operating fund revenue (mil. $)	68,007	66,462	62,970	70,314
Operating fund expenditures (mil. $)	70,664	66,796	61,459	64,213
Operating result (mil. $)	(3,672)	(334)	1,511	6,101
Operating result as % of revenue	(3.9)	(0.5)	2.4	8.7
Reserves and liquidity - S&P Global Ratings adjusted				
Available reserves (mil. $)	8,227	8,524	8,036	6,938
Available reserves as % of operating revenue	12.1	12.8	12.8	9.9
Debt and liabilities				
Net direct debt cost as % of revenue	--	6.2	4.9	4.5
Pension and OPEB cost as % of revenue	--	5.5	5.3	5.3
Total current cost % of total government revenue	--	11.7	10.2	9.8
Net direct debt (mil. $)	--	43,662	41,103	41,570
Net direct debt per capita ($)	--	6,113	5,809	5,915
Direct debt 10-year amortization (%)	--	40	43	43
Combined NPLs (mil. $)	--	41,164	42,771	41,257
NPLs per capita ($)	--	5,763	6,045	5,871

Massachusetts--key credit metrics

	2025*	2024	2023	2022
Combined pension plan funded ratio (%)	--	66.7	63.9	64.3

*Estimated. Financial data may reflect analytical adjustments and is sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. EBI--Effective buying income. GCP--Gross county product. OPEB--Other postemployment benefits. NPL--Net pension liability. PCPI--Per capita personal income.

Ratings List	
New Issue Ratings	
US$350.0 mil GO rfdg bnds 2025 ser B due 12/01/2046	
Long Term Rating	AA+/Stable
US$750.0 mil GO bnds cons loan of 2025 ser G due 12/01/2055	
Long Term Rating	AA+/Stable
Ratings Affirmed	
Pooled	
Massachusetts Bay Transp Auth, MA Sales Tax 1st Lien and Special Assessments 2nd Lien	A-1+
Massachusetts Bay Transp Auth, MA Sales Tax and GO	AA+/Stable
Massachusetts Bay Transp Auth, MA Unlimited Tax General Obligation and Massachusetts TIFIA/RRIF Sales Tax 3rd Lien	AA+/Stable
Massachusetts MA, Commercial Paper Program 2nd Lien	A-1+
Strong Link Massachusetts Bay Transp Auth, MA Sales Tax 1st Lien and Unlimited Tax General Obligation	AA+/Stable
States	
Massachusetts Sch Bldg Auth, MA Sales Tax 2nd Lien	AA/Stable
Massachusetts, MA Appropriation Contract	A+/Stable
Massachusetts, MA General Obligation	AA+/Stable
Massachusetts, MA General Obligation and Metro Hwy Sys, MA Toll Facility Revenues 2nd Lien	AA+/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.