

Research Update:

Massachusetts \$1.08 Billion GO Bonds And Refunding Bonds Assigned 'AA+' Rating

April 6, 2026

Overview

- S&P Global Ratings assigned its 'AA+' long-term rating to the Commonwealth of [Massachusetts](#) combined approximately \$1.08 billion of 2026 general obligation (GO) bonds consolidated loans, series A, series B, and series C, and GO refunding bonds series A .
- The outlook is stable.

Rationale

Security

Massachusetts' full faith and credit secures the GO bonds.

The proceeds of the consolidated loan series bonds will finance or reimburse the costs of various capital expenditures included in the commonwealth's capital investment plan. The 2026 series A refunding bond proceeds will refund certain GO bonds outstanding of the commonwealth.

Credit highlights

The rating reflects our view of Massachusetts' strong economic metrics, with very high per capita income compared with the nation, partly as a result of the highly skilled and educated workforce. The rating further reflects our view of some historical cyclicity in financial results given volatile revenue sources, although recent strong growth in tax collections and federal aid has 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.

We believe that Massachusetts' diverse economy with strong income levels and employment base will continue to support the commonwealth's revenue base and strong finances. Continued 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 above an annual benchmark, along with certain other, lesser revenue 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 was \$8.5 billion, or 12.8% of operating revenue and other

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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 \$8.11 billion, or a strong 12% of budgeted operating revenue and other sources. Given that certain statutory conditions were met, interest earnings from the BSF were transferred in fiscal 2025 to the commonwealth federal matching and debt reduction fund totaling approximately \$421 million to the credit of fiscal 2024. The timing of the transfer is the reason that the BSF's balance declined in fiscal 2025. Projections for fiscal 2026 reflect the BSF totaling \$8.1 billion.

Despite the commonwealth's historically strong finances and economy, financial risks remain, which federal policy and economic uncertainty could exacerbate. We believe Massachusetts has an above-average dependence on cyclical capital gains tax revenue relative to that of other states, and that this, while beneficial in strong stock market periods, could significantly recede during market corrections and periods of economic contraction. However, the commonwealth's process of diverting capital gains tax revenue above the threshold to fund its BSF and pension offset its funding ongoing operations. Other long-term pressures include Massachusetts' relatively high debt and moderately high pension and OPEB liabilities, which could increase over time. For fiscal 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. Initial estimates from the Massachusetts department of revenue project losses in tax revenue of \$664 million in 2026. In January, the governor filed legislation that, if enacted, would delay the implementation of the tax change, mitigating the impact by an estimated \$182 million in fiscal 2026. The magnitude and implementation period of potential federal changes are critical to making timely budget adjustments, but we believe that states generally possess good autonomy to implement changes to their Medicaid programs, and that this 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 previous fiscal years' very strong revenue performance 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. S&P Global Market Intelligence forecasts that real gross state product growth will lag that of national level output growth rate in calendar 2026 by 15 basis points and 21 basis points in both 2027 and 2028.

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 Massachusetts Bay Transportation Authority 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 \$43.67

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billion, composed of a baseline 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 provide the executive authority for line-item transfers to create flexibility as the commonwealth navigates economic and federal policy uncertainty. After incorporation of 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. The commonwealth projects an ending BSF balance for fiscal 2026 of about \$8.3 billion.

The governor's proposed fiscal 2027 budget totaling \$60.1 billion (excluding medical assistance trust fund and surtax) is roughly 1.1% higher than estimated fiscal year-end 2026 spending. The proposal is built on a consensus baseline revenue estimate of \$42.2 billion and \$2.7 billion in surtax revenue, collectively 2.9% more than the fiscal 2026 benchmark. We expect that the commonwealth will continue to find solutions, including program savings and hiring controls, to address budget pressures that may arise and develop a sustainable approach for budget resilience in future years.

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

- Deep and diverse economy and income levels among the highest in the nation, with per capita incomes averaging approximately 129% of the national level since 2021;
- 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% of revenue, positioning Massachusetts well to manage future fiscal pressures; and
- High debt, pension, and OPEB liabilities that could escalate future costs.

Environmental, social, and governance

We consider 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 metropolitan statistical area 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

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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, offset by 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 the budget adjustments it deems necessary to maintain structural balance or strong reserves if its 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-funded levels as a result of the commonwealth's falling significantly behind required pension funding contribution levels.

Upside scenario

If Massachusetts significantly reduces its pension and debt obligation while demonstrating commitment to strong budgetary policies and pension funding discipline, especially during periods of economic contraction, we could raise the rating.

Ratings List

New Issue Ratings

US\$185.000 mil GO bnds consolidated loan of 2026 ser A due 2/1/2038

Long Term Rating AA+/Stable

US\$255.0 mil GO bnds consolidated loan of 2026 ser B due 02/01/2048

Long Term Rating AA+/Stable

US\$284.7 mil GO rfdg bnds ser 2026A due 07/01/2033

Long Term Rating AA+/Stable

US\$360.0 mil GO bnds consolidated loan of 2026 ser C due 02/01/2056

Long Term Rating AA+/Stable

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at <https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria> for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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