Research Update:

Massachusetts Series E-H GO Consolidated Loan Of 2026 Bonds, Series C GO Refunding Bonds Assigned 'AA+' Rating

August 20, 2026

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Overview

- S&P Global Ratings assigned its 'AA+' long-term rating to the Commonwealth of Massachusetts' approximately $750 million series E, F, G, and H 2026 general obligation (GO) bonds consolidated loans and 2026 series C GO refunding bonds.
- At the same time, we affirmed our 'AA+' long-term rating on Massachusetts' GO bonds outstanding as well as 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 and 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 GO bonds will finance or reimburse the costs of capital expenditure included in the commonwealth's capital investment plan. The series C refunding bonds proceeds will be used to refund the commonwealth's outstanding debt.

Credit highlights

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The ratings reflect our view of the commonwealth's strong economic metrics, with very high per capita income levels compared with the nation, partially because 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 the commonwealth's financial results, given its volatile revenue sources including capital gains tax, 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.

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 high income levels support revenue growth and strong finances. Strong tax growth will likely 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 the past three fiscal years in an extremely strong financial position, with the highest reserves in its history. The BSF totaled $8.1 billion, or 11% of operating revenue and other sources, as of fiscal year-end June 30, 2025. Given that certain statutory conditions were met in fiscal 2024, approximately $421 million in interest earnings from the BSF were transferred during fiscal 2025 to the commonwealth federal matching and debt reduction fund. The timing of the transfer is the reason that the BSF's balance declined in fiscal 2025. Fiscal 2026 is estimated to end with balances that we still consider strong, with $8.14 billion, or 12% of budgeted operating revenue and other sources in the BSF.

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 compared with 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 above the threshold to fund its BSF and pensions partly offsets the risk to funding its operations. Increases in Medicaid expenditures also introduce potential budgetary pressure with the expiration of higher Medicaid reimbursement rates that the federal government implemented during the COVID-19 pandemic. Other long-term pressures are Massachusetts' relatively high debt and moderately high pension and OPEB liabilities, which could increase outside our two-year outlook horizon.

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, states are exploring solutions to reduce Medicaid spending, shift legacy programs, and offset higher costs. Estimates from the Massachusetts' Department of Revenue project $664 million in lost tax revenue in 2026. 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. Active management, forecasting, and long-term planning will be important for states to navigate these changes, without weakening state credit quality. As of July 2026, the commonwealth has identified approximately $3.7 billion in cuts to projects and programs in Massachusetts that were

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expected to be funded by the federal government during the next three fiscal years. For more information, see our report "Under The Knife: U.S. States Prepare For Federal Medicaid Cuts As H.R. 1 Leaves Less Operating Room," May 18, 2026.

The commonwealth also faces difficulties in the long term, as its very strong revenue performance from previous fiscal years transitions to more subdued revenue estimates. Potential national recessionary pressures, when combined with Massachusetts' long-term liabilities (which are 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 Massachusetts' real gross state product (GSP) growth will lag that of the national rate by 20 basis points in 2026 and 30 basis points in 2027.

Massachusetts' fiscal 2027 budget, approved in July 2026, provided approximately $63.4 billion in authorized spending, which is about 3.9% above revised fiscal 2026 spending, excluding spending of income surtax revenue and projected transfers to Medical Assistance Trust Fund. The budget is based on a consensus revenue estimate of $45.3 billion, which reflects the consensus tax revenue estimate of $44.9 billion (including $2.7 billion in estimated income surtax revenue), and the $421 million incremental net revenue impact of tax initiatives. The budget includes conformity to certain tax changes made in HR1. The budget also supports transportation networks across the state, stabilizes MBTA finances, and supports free fares for regional transit without imposing new taxes. After incorporating recent actions to provide some resources to respond to economic uncertainties and flexibility to respond to federal policies, expenditures and uses are projected to exceed revenue by about $943 million, or 1.3% of expenditures, before adjusting for nonrecurring appropriations. We expect the commonwealth will continue to find solutions, including program savings and hiring controls, to address budget pressures that might arise and to develop a sustainable approach for budget resilience in future years. To the extent that the commonwealth relies on non-recurring resources to manage its budget gaps in the current and future years, this could introduce additional pressure to future budget deliberations. The commonwealth projects its BSF balance for fiscal 2027 at about $8.2 billion.

Massachusetts' fiscal 2026 budget provided approximately $58 billion in authorized spending, excluding spending of income surtax revenue and projected transfers to the Medical Assistance Trust Fund. The budget is based on a consensus revenue estimate of $43.67 billion, comprising a baseline estimate of $41.2 billion and a $2.4 billion in estimated revenue from the 4% surtax on personal income above the surtax threshold. The governor also filed a supplemental budget for fiscal 2026 that appropriates $100 million to a flexible pool of resources to enable the commonwealth to respond quickly to changing economic conditions and federal policy changes that might arise during 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 falling substantially below benchmarks or other significant negative effects, as well as providing authority to enable line-item transfers to create flexibility as the commonwealth navigates economic and federal policy uncertainty. In June 2026, the governor signed a supplemental budget that included $1.4 billion in spending from 2026 income surtax revenue for transportation and educational investments. After incorporating those recent actions to provide the commonwealth with resources to respond to economic uncertainties and the flexibility to respond to federal policies, its expenditure and uses are projected to exceed revenue by about $2.1 billion, or 3% of expenditures before adjusting for nonrecurring appropriations.

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Our latest U.S. economic outlook slightly raised real GDP growth forecasts for calendar years 2026 and 2027, but recent growth could be tempered by the escalation of geopolitical conflict. (For more information, see "Economic Outlook U.S. Q3 2026: Resilient To Layered Supply Shocks," June 24, 2026.) We forecast 2.1% growth this year, decreases to 1.9% growth in 2027 and 2028, and for growth to recover to 2.1% in 2029, with potential growth assumed at 2.1%. This implies the U.S. economy will experience a modest 2027-2028 dip, reflecting the One Big Beautiful Bill Act's fading growth-positive effect and the lagged effect of higher-for-longer rates before growth converges back to potential. Labor conditions have softened but remain broadly consistent with trend growth, in our view.

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

- Deep and diverse economy and income levels that are among the highest in the nation, with per capita incomes at about 128% of the national level in 2025;
- 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.

For more information, see "Massachusetts Series 2026B And D GO Bonds Rated 'AA+'; Outlook Stable," May 28, 2026.

Outlook

The stable outlook reflects our view of Massachusetts' underlying economy and very strong reserves, despite the commonwealth's economically sensitive revenue.

Downside scenario

We could lower our rating if we believe Massachusetts will fail to make the 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 from falling significantly behind its required pension funding contributions.

Upside scenario

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

Climate And Other Evolving Factors

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We believe Massachusetts' 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, exposes the commonwealth 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 and has historically maintained a stable management and policy framework to respond to developing risks.

Ratings List	
New Issue Ratings	
US$128.365 mil GO rfdg bnds 2026 ser C due 12/01/2038	
Long Term Rating	AA+/Stable
US$180.000 mil GO bnds cons loan of 2026 ser F due 8/1/2044	
Long Term Rating	AA+/Stable
US$200.000 mil GO bnds cons loan of 2026 ser E due 08/01/2038	
Long Term Rating	AA+/Stable
US$300.000 mil GO bnds cons loan of 2026 ser G due 8/1/2053	
Long Term Rating	AA+/Stable
US$70.000 mil GO bnds cons loan of 2026 ser H due 8/1/2034	
Long Term Rating	AA+/Stable
Ratings Affirmed	
Multiple Revenue Stream	
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
Strong Link Massachusetts Bay Transp Auth, MA Sales Tax 1st Lien and Unlimited Tax General Obligation	AA+/Stable
States	
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.

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