CREDIT OPINION
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Massachusetts (Commonwealth of)

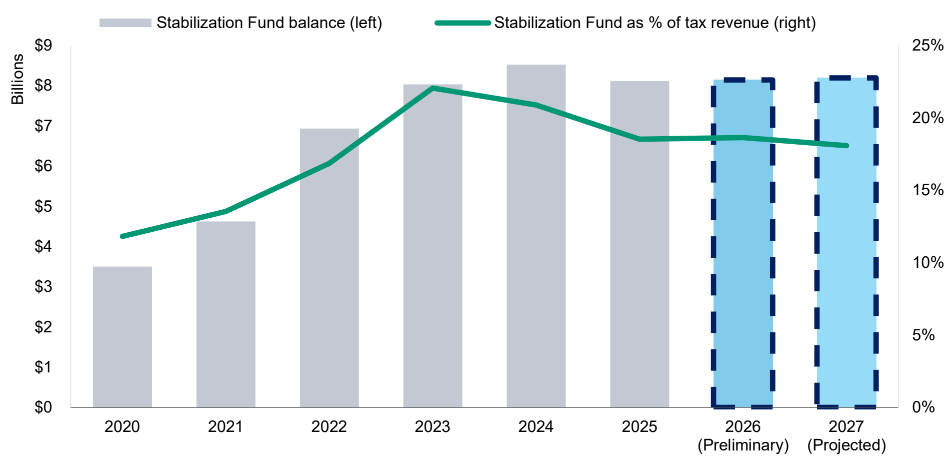
Update to credit analysis

Summary

The Commonwealth of Massachusetts's (Aa1 stable) credit is supported by a robust economic base, with high income and education levels, which helps meet the demands of comparatively heavy long-term liabilities. Pension contribution needs will add to coming years' spending pressure. As in other states, unfolding federal policy changes may impose economic or fiscal pressure, for example, by reducing federal support for Medicaid, the federal-state cost sharing health insurance plan for low-income and disabled people.

The Commonwealth Stabilization Fund's balance remained robust, at $8.14 billion[1] as of June 30, 2026, which will provide a substantial 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. The state's general obligation (GO) bonds, supported by a pledge of the state's full faith and credit, are rated at the same level as the issuer rating.

Exhibit 1
Massachusetts projects its Stabilization Fund will remain near a record level through the coming fiscal year



Stabilization Fund balance as shown as a share of the year's total tax revenue, before transfers to the Massachusetts Bay Transportation Authority and Massachusetts School Building Authority.
Source: Commonwealth of Massachusetts information statements, and Fiscal year 2026 Projected Financial Statement.

Credit strengths

» Large economy focused on technology, healthcare, education and related sectors that pay above-average wages

» Reserve fund balance at or near record levels that provides a substantial buffer against economic downturns

» Strong financial management and a practice of quickly closing budget gaps through spending cuts, revenue increases and use of reserves if necessary

Credit challenges

» Combined debt and pension liabilities that are among the highest in the state sector relative to revenue, resulting in elevated fixed costs that limit fiscal flexibility

» Demographic profile weakened by negative domestic migration and aging population, offset by strong immigration trends

» Exposure to rising costs for pension funding and government programs such as Medicaid

Rating outlook

Massachusetts' stable outlook is supported by strong financial management and the state's financial reserves, which will accommodate moderating revenue growth even if spending pressures intensify and will help fill budget gaps that could emerge in an unexpected economic downturn.

Factors that could lead to an upgrade

» Leverage that moderates in relation to the sector median, reducing the gap by approximately one-third

» Fiscal sustainability measures that signal long-term capacity to maintain a Stabilization Fund balance equal to at least 15% of revenue

Factors that could lead to a downgrade

» 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

Key indicators

Exhibit 2

	2021	2022	2023	2024	2025	State Medians (2025)
Economy						
Nominal GDP ($billions)	650.3	696.3	737.9	778.5	820.1	342.9
Real GDP, annual growth	6.6%	1.7%	1.2%	2.3%	2.4%	1.9%
RPP-adjusted per capita income as % of US	121.9%	117.7%	119.2%	120.8%	120.5%	98.2%
Nonfarm employment, annual growth	3.9%	4.0%	1.2%	0.3%	-0.5%	0.3%
Financial performance						
Available balance as % of own-source revenue	24.2%	30.1%	31.4%	35.3%	31.5%	38.9%
Net unrestricted cash as % of own-source revenue	34.7%	40.4%	34.0%	35.0%	31.2%	70.9%
Leverage						
Total long-term liabilities as % of own-source revenue	377.6%	303.7%	247.4%	227.7%	207.8%	89.9%
Adjusted fixed costs as % of own-source revenue	16.5%	13.1%	13.6%	13.1%	12.4%	4.9%

Source: Commonwealth of Massachusetts audited statements, US Bureau of Economic Analysis, US Bureau of Labor Statistics, and Moody's Ratings

Profile

The Commonwealth of Massachusetts is the 17th-largest state by population, with an estimated 7.15 million residents as of 2025, according to the US Census Bureau. Its gross domestic product, at $820.1 billion in 2025, ranks 12th among the states, according to the US Bureau of Economic Analysis.

Detailed credit considerations

Economy

Massachusetts' large, high-income economy remains a core credit strength, although weak labor-force expansion and demographic constraints will limit growth. Even so, strong technology, healthcare, education and research-related sectors will generate above-average wages and reinforce long-run tax capacity over time.

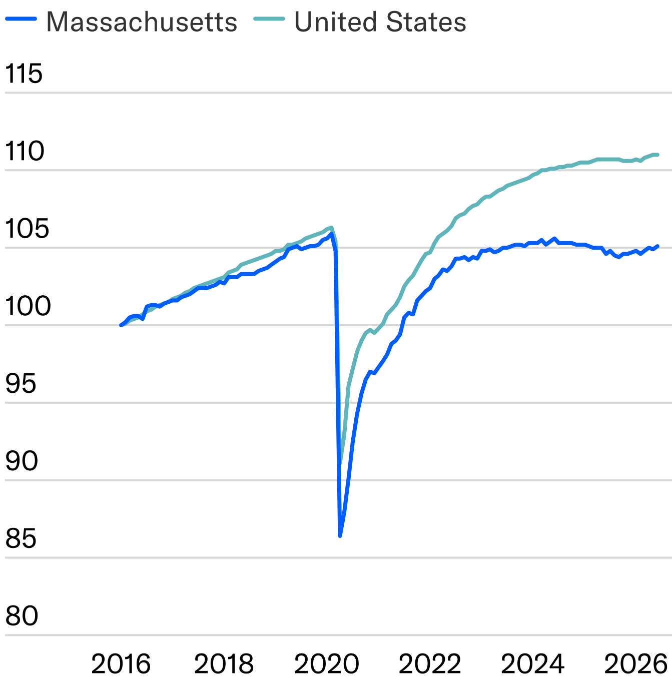
Real GDP increased 2.4% in 2025, exceeding the 1.9% state median, while the five-year growth rate remained about 0.5 percentage points below the US rate. Cost-adjusted per capita income equaled 120.5% of the US level as of 2025, indicating substantial resident capacity to support the state's revenue base.

Labor market performance is somewhat weaker. Average nonfarm payrolls contracted 0.5% in 2025, compared with continued US expansion, extending Massachusetts' underperformance since the late 2010s. The latest monthly series runs through June 2026 and indicates that the commonwealth has not closed its cumulative employment-growth gap with the nation.

The divergence will constrain broad-based income and consumption growth even if highly compensated industries continue to support aggregate earnings and tax collections. Federal constraints on research funding and higher-education finances also pose an outsized risk because these institutions anchor several of the state's established high-wage industries.

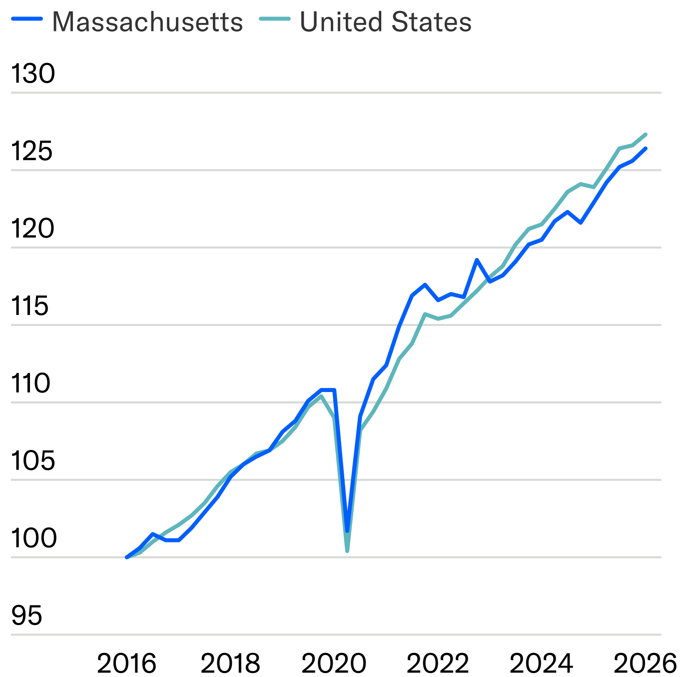
Demographics will remain the principal long-run constraint. Population increased to approximately 7.15 million in 2025 from 6.99 million in 2020, but growth depends heavily on international migration to offset persistent domestic outmigration and limited natural increase. The prime working-age population peaked more than two decades ago, and the state's median age exceeds the US level. High housing and living costs will continue to impede resident retention, while tighter immigration would further restrict labor supply. Strong educational attainment partly offsets these weaknesses by sustaining productivity and earnings, but it is unlikely to eliminate the employment-growth gap.

Exhibit 3
Massachusetts employment growth has lagged the US



Source: US Bureau of Labor Statistics and Moody's Ratings

Exhibit 4
Massachusetts GDP is keeping pace with US, after outperforming in initial post-pandemic years



Source: US Bureau of Economic Analysis and Moody's Ratings

Financial performance

Massachusetts entered fiscal 2027 with strong revenue growth and financial reserves, but relying on substantial non-recurring measures in the budget for the year ending June 30, 2027. The enacted budget included no tax or fee increases and provided for spending of $63.4 billion, a 3.9% annual increase excluding spending afforded by the state's 4% tax on incomes exceeding $1 million (adjusted annually for inflation[2]) under the state's Fair Share Act Amendment. The spending growth is slower than the preceding four years' roughly 6% pace, and compares with expected baseline revenue growth of 2.4%, excluding the surtax revenue.

The plan closed an estimated $3.5 billion structural gap through a combination of recurring and nonrecurring measures, including use of trust balances, other fund transfers and redirection of gaming revenue. Raising the threshold of capital gains tax revenue available for operations provided about $470 million, expansion of the pass-through entity tax added an estimated $296 million and delayed federal tax conformity supplied about $108 million. The nonrecurring actions – estimated at $1.9 billion by the Massachusetts Taxpayers Foundation[3] – will tend to weaken prospects for structural revenue and spending balance beyond the current year.

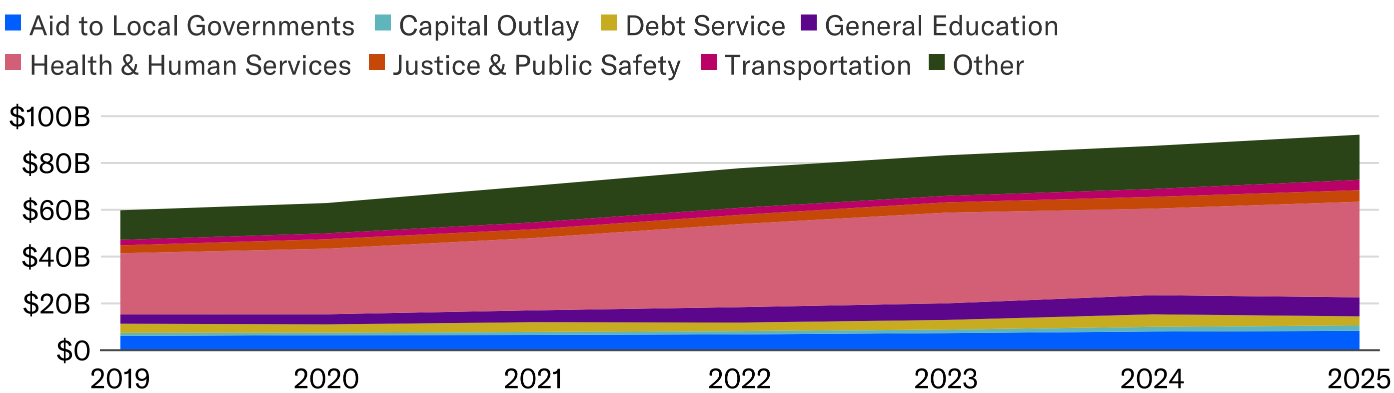
Given an increasing reliance on high-income taxpayers, Massachusetts will face growing risk from a stock-market decline. The Fair Share Act surtax has generated collections that so far have consistently exceeded expectations. Fair Share Act revenue in fiscal 2026 totaled $3.38 billion, 41% above the $2.4 billion budget assumption. The fiscal 2027 budget assumes $2.7 billion of revenue that can be allocated to transportation ($970 million) and education ($1.73 billion).

Expenditure demands likely will climb even if Fair Share and other revenue growth loses momentum. Pension contributions will rise to $5.13 billion in fiscal 2027 and about $5.8 billion by fiscal 2030. The state's healthcare expenditures, both for public sector employees and retirees and for Medicaid participants, could drive faster cost growth as the federal government moves to cut outlays for public health under the reconciliation law (known as HR 1 or OB3) enacted in 2025. These conditions also will make regaining structural balance harder without new taxes or increases to existing levies.

A ballot measure that would greatly increase the frequency of taxpayer rebates – under existing legislation known as Chapter 62F – is another source of fiscal risk. The law, passed four decades ago in an effort to limit growth in the state's annual tax collections, has only been triggered in two fiscal years. It would make key changes to the law's trigger requirements: requiring inclusion of Fair Share Act tax collections in the total collected and changing how the state calculates each year's allowable tax collections. Another proposed ballot measure, which would have cut the state's base income tax rate to 4% from 5%, was blocked from appearing on the ballot after the Supreme Judicial Court ruled the proposed summary misstated the measure's effect on capital gains

Available fund balance declined to $19.6 billion, or 31.5% of own-source revenue, in fiscal 2025 from 35.3% in fiscal 2024, below the approximately 39% 2025 state median but still strong. Net unrestricted cash likewise declined to $19.4 billion, or 31.2% of own-source revenue, from 35.0%. A budgeted deposit to the Commonwealth Stabilization Fund this fiscal year signals continued reserve preservation, although future fiscal strength will depend more on recurring budget corrections than further revenue overperformance.

Exhibit 5
Health and human services spending continues to drive expenditure growth



Source: Commonwealth of Massachusetts Audited Statements and Moody's Ratings

Liquidity
The Commonwealth Stabilization Fund held about $8.14 billion as of June 30, 2026, down 4% from the peak $8.5 billion two years earlier. The balance decline resulted from 2024 legislation[4] that permits of the fund's interest earnings to be transferred to the Commonwealth Federal Matching and Debt Reduction Fund, which supports state match contributions for federal grant funded projects. The year included a double transfer to the federal matching fund, covering both fiscal 2024 and 2025.

The stabilization fund will receive an estimated $51.2 million of deposits from capital gains tax this fiscal year, pursuant to the budget. Most of the revenue from this source, which reflects capital gains tax collections over a certain threshold (currently $2.25 billion, excluding revenue collected using the state's 4% surtax on high income taxpayers) has been reallocated to other uses in recent years, including to retirement benefit obligations, although previously the stabilization fund received 90%.

Governmental unrestricted cash and investments totaled $19.4 billion in fiscal 2025 according to the most recent published audited financial statements. These strong cash balances have curtailed the need for external cash-flow borrowing since fiscal 2021. While the commonwealth does not rely on short-term borrowing currently, the state treasurer is authorized to issue revenue anticipation notes (RANs) if the need arises. Massachusetts also has not drawn on any of the $1 billion line of credit that it has established for cash flow needs through May 1, 2029.

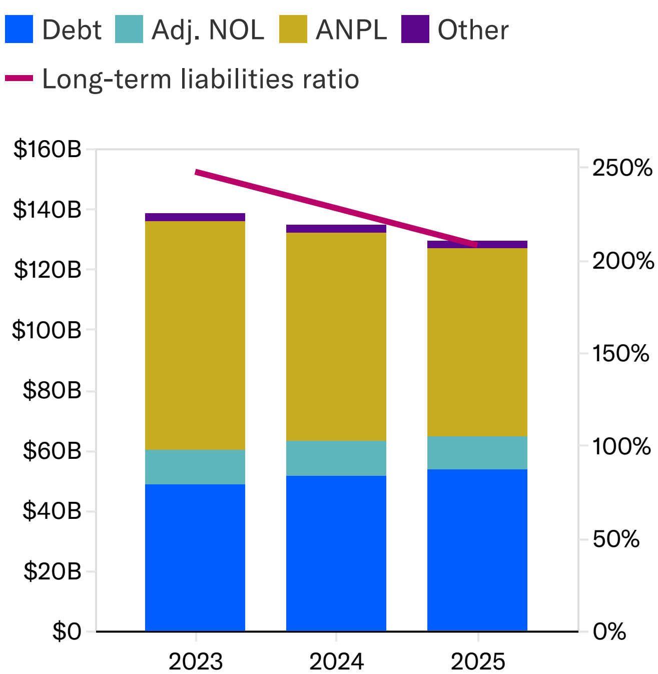
Leverage
Massachusetts' total leverage from debt, pensions, other post-employment benefits (OPEB) and other long-term liabilities is high and annual fixed costs are well above average.

Total long-term liabilities equaled 207.8% of own-source revenue in fiscal 2025, the fifth-highest ratio among states and well above the 92% sector median[5]. The ratio declined from 227.7% in fiscal 2024 and 247.4% in fiscal 2023, primarily because of higher market discount rates, investment performance and revenue growth that drove down the state's net pension liabilities relative to revenue.

Adjusted fixed costs equal to 12.4% of own-source revenue in fiscal 2025 were more than double the 5% state median. Even so, the latest year capped a decline of 5 percentage points in the state's fixed cost ratio over five years (from 17.4% in fiscal 2020).

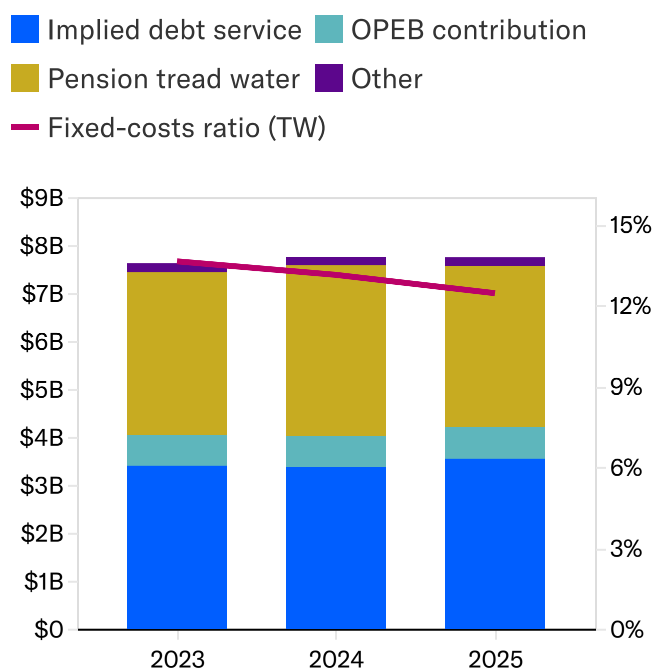
High leverage stems from the commonwealth's practice of borrowing for transportation and education entities and assuming full responsibility for teacher pensions. Net tax-supported debt totaled $53.6 billion as of fiscal 2025 (Exhibit 8), or about 86% of own-source revenue, the second-highest ratio among states.

Exhibit 6
Liability ratios continue to improve but remain elevated compared with other states



Source: State audited financial statements and Moody's Ratings

Exhibit 7
Fixed costs have decreased, consistent with sectorwide trends



Source: State audited financial statements and Moody's Ratings

Legal security
The commonwealth pledges its full faith and credit to general obligation bonds and certain contract-assistance and transportation obligations. As shown below, the state's obligations included in net tax-supported debt also encompass several revenue bond types, primarily issued for education and transportation infrastructure purposes.

Massachusetts School Building Authority bonds are secured by a dedicated statewide sales tax; Commonwealth Transportation Fund bonds by gasoline taxes and registry fees; grant anticipation notes by federal highway reimbursements and a subordinate lien on transportation revenue; convention center bonds by hotel occupancy taxes, rental-car surcharges and other dedicated receipts; and Massachusetts Bay Transportation Authority bonds by dedicated statewide sales taxes or assessments. These pledges provide narrower security than the commonwealth's broad full-faith-and-credit commitment.

Exhibit 8
Net tax-supported debt as June 30, 2025

Security	Fiscal 2025 outstanding (000s)	Pledge	Rating
GO and GO related			
GO	$32,930,738	Commonwealth full faith and credit	Aa1
Contract Assistance	$3,293,817	Commonwealth full faith and credit	Aa1
Capital Leases	$890,134		N/A
Revenue			
MSBA sales tax (senior and subordinate)	$5,521,739	Dedicated statewide sales tax	Aa1/Aa2
Commonwealth Transportation Fund	$4,558,291	Gas taxes and registry fees	Aa1
GANs	$186,134	Federal highway funds and sub- lien on gas taxes and registry fees	Aa2
Convention Center	$366,620	Hotel occupancy tax; rental car surcharge; sales tax and sightseeing surcharge	Aa3
MBTA sales tax (senior and sub)	$5,333,247	Dedicated statewide sales tax revenue with suborddinate lien on service area assessments	Aa2/Aa3
MBTA assessment bonds	$509,685	Service area assessments with subordinate lien on sales tax revenue	Aa1
Total net tax-supported debt	$53,590,405		

MBTA sales tax bonds include outstanding commercial paper.
Sources: Massachusetts ACFR, MSBA and MBTA ACFRs, Moody's Ratings.

The commonwealth operates three intercept programs: the Massachusetts Qualified Bond Program, the Massachusetts State College Building Authority Community College Intercept Program and the Massachusetts State College Building Authority State University Intercept Program. All three are rated Aa2, a notch below the state issuer rating, because of the strong position that the financed projects occupy in the hierarchy of state debt and spending priorities, as well as the solid mechanics by which available funds would be intercepted for payment, if necessary.

The Massachusetts Qualified Bond Program is administered by the commonwealth to help cities, towns and regional school districts benefit from the state's credit quality. Participation in the program requires approval from the state's Municipal Finance Oversight Board, which includes the State Treasurer, the State Auditor, the Attorney General and the Director of Accounts. Bonds supported by the program must mature between 10 and 30 years from issuance. The State College Building Authority's programs' ratings incorporate the importance of higher education funding to the state and a legal commitment to intercept funds appropriated to universities and community colleges if needed to cover debt service.

Debt structure

Bonded debt was the only portion of liabilities that increased in the most recent year, and this debt will keep growing, as Massachusetts finances planned capital investment.

The commonwealth’s debt affordability projections indicate that direct debt was about 92% of the statutory limit in 2026 and will approach 99% during the 2030s under current assumptions, leaving progressively less borrowing capacity.

Continued infrastructure issuance will therefore limit the pace of debt reduction even as principal amortization and revenue growth help contain the debt ratio. Pension contributions will also rise under the statutory schedule, to $5.34 billion in fiscal 2028 from $5.13 billion in fiscal 2027 and to $5.55 billion in fiscal 2029, keeping fixed costs above most states.

Debt-related derivatives

The Massachusetts Department of Transportation, a component unit of the commonwealth, is engaged in several interest-rate swaps. Under the agreements, the department pays a fixed rate and receives a variable rate. The agreements had an aggregate fair value of negative $5.9 million as of June 30, 2025.

Pensions and OPEB

Massachusetts assumes responsibility for K-12 teacher pensions as well as state employee benefits, contributing to an adjusted net pension liability (ANPL) of $62.3 billion or 100% of own-source revenue, as of fiscal 2025, compared with the 38% state median[6]. The adjusted net OPEB liability (ANOL) was $10.97 billion, or 17.6% of own-source revenue, compared with the sector median (about 6.6%[7]).

Pension contributions have exceeded the tread-water amount in fiscal 2024 through fiscal 2026, reversing the earlier pattern of contributions below the amount needed to prevent reported liabilities from growing if actuarial assumptions are met.

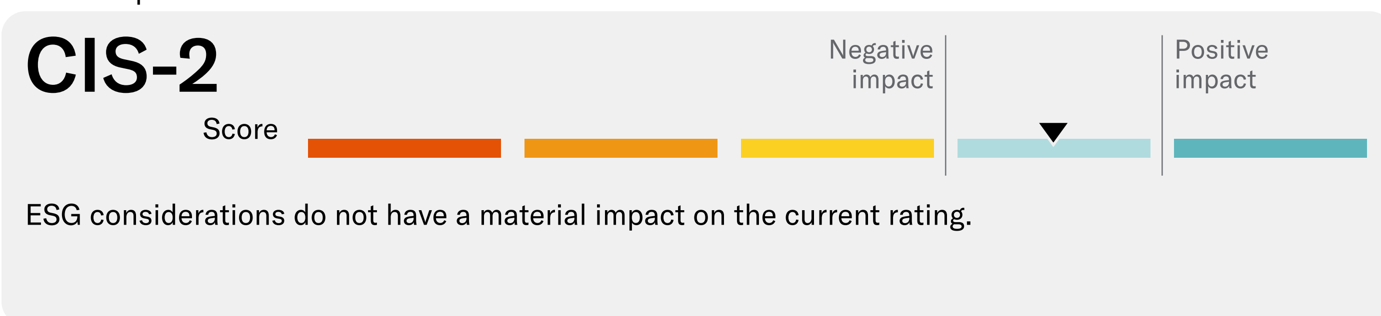
Increased contributions, favorable investment performance and higher market discount rates reduced the ANPL by about 37% from fiscal 2023 through fiscal 2025. Adjusted net OPEB liabilities fell 23% in the same period. The scheduled rise in contributions will support funding progress, but pensions will remain a large fixed cost and a central constraint on budget flexibility.

ESG considerations

Massachusetts (Commonwealth of)'s ESG credit impact score is CIS-2

Exhibit 9

ESG credit impact score

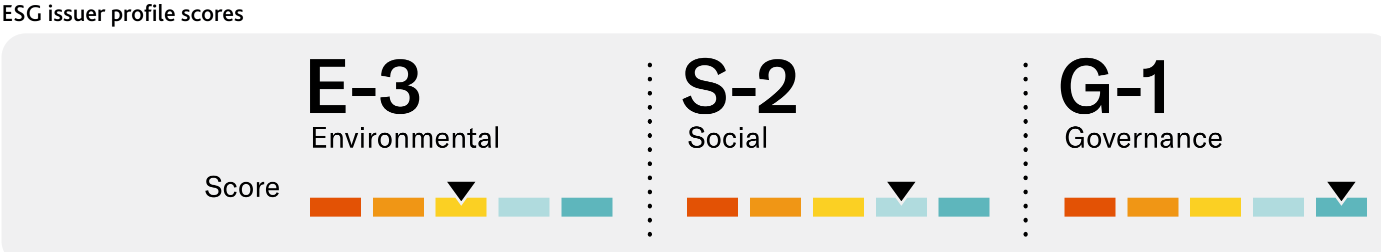


Source: Moody's Ratings

Massachusetts' ESG Credit Impact Score reflects moderately negative exposure to climate risks, neutral-to-low exposure to social risks and a positive governance profile.

Exhibit 10

ESG issuer profile scores



Source: Moody's Ratings

Environmental

Massachusetts' environmental issuer profile score factors in exposure to physical climate risks, particularly hurricanes and resulting flooding. Other environmental risks have a neutral to low impact on Massachusetts' credit profile. The commonwealth is far along in transitioning its energy generation to renewable sources, and its economy relies largely on industries that are neither carbon-intensive nor dependent on the commonwealth's natural capital. Hurricane risk affects 95% of state GDP, and about half of state GDP is vulnerable to flooding. The vast majority of the commonwealth's economic activity is concentrated along its coastline, particularly in the city of Boston (Aaa stable), which drives up vulnerability to physical climate risks.

Social

Massachusetts' issuer profile score incorporates a highly educated workforce, high income levels, and labor force participation significantly higher than the nation, offset by weak demographic metrics that include lagging population growth. The state's population is somewhat older (median age is 40.3 years, compared with the US median of 39.2 years). The state's prime working-age population, defined as people 25 to 54 years old, peaked in 2001, although the percentage of residents in this age range is slightly better than the nation's (39% compared with 38%).

Governance

Massachusetts' governance practices are generally very strong, including consensus revenue estimates required by law and publishing multiyear debt affordability plans. The governor, under Sect. 9C of Chapter 29 of the Massachusetts General Laws requires the governor to act to restore balance in response to revenue shortfalls. This gives the administration the authority to impose mid-year spending cuts for executive branch agencies without legislative approval, to draw on reserves or to request additional revenue or broader spending reductions from the legislature. The state has a well institutionalized process for monitoring its finances throughout the fiscal year. It also has five-year capital plan that it updates annually. The state under 2024 legislation created a Stabilization Fund & Long-Term Liability Financing Task Force, which has made recommendations such as using fiscal stress tests to determine optimal reserve fund levels. Two recurring sources of governance risk are delayed budget adoption and an active referendum process that can have ongoing financial management consequences. Budget adoption delays, though historically common, are easily managed through interim budgets that ensure continued operations and debt service payment. As in other states with active initiative petition processes, ballot measures can have more lasting effects.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US States and Territories methodology includes a scorecard, which summarizes the rating factors generally most important to state and territory credit profiles. Because the scorecard is a summary and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 11

US States and Territories scorecard

Commonwealth of Massachusetts

	Measure	Weight	Score
Economy			
Resident Income (PCI Adjusted for RPP / US PCI)	120.5%	15%	Aaa
Economic Growth (5-year CAGR real GDP - 5-year CAGR US real GDP)	-0.5%	15%	Aa
Financial performance			
Financial performance	Aaa	20%	Aaa
Governance/Institutional Framework			
Governance/Institutional Framework	Aaa	20%	Aaa
Leverage			
Long-term liabilities ratio (adjusted long-term liabilities / own-source revenue)	207.8%	20%	A
Fixed-costs ratio (adjusted fixed costs / own-source revenue)	12.4%	10%	Aa
Notching factors			
Very limited and concentrated economy			
Scorecard-Indicated Outcome			Aaa
Assigned rating			Aa1

Source: US Bureau of Economic Analysis, State ACFRs and Moody's Ratings

Endnotes

1 Preliminary basis.

2 The current threshold is $1.1 million; incomes below that level only subject to the state's base 5% income tax, according to the state's Department of Revenue.

3 MTF Bulletin: FY 2027 Conference Committee Report Summary, July 1, 2026.

4 An Act to Provide for Competitiveness and Infrastructure in Massachusetts (Chapter 214)

5 Median reflects data from states for which audited financial reports from the 2025 cycle are available

6 The 2025 ANPL median incorporates data from states that have published 2025 audited financials

7 The 2025 ANOL median figure incorporates data from states that have published 2025 audited financials

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