

## Research Update:

# Massachusetts Series I 2026 GO And Series D 2026 Refunding Bonds Assigned 'AA+' Rating

October 26, 2026

## Overview

- S&P Global Ratings assigned its 'AA+' long-term rating to the Commonwealth of [Massachusetts](#)' series I 2026 general obligation (GO) bonds consolidated loans and 2026 series D GO refunding bonds.
- The outlook 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 D refunding bonds proceeds will be used to refund the commonwealth's debt outstanding.

### Credit highlights

The rating reflects our view of the commonwealth's strong economic metrics, with very high per capita income compared with that of the nation, partly because of the strong presence of high-tech companies in the Boston metropolitan statistical area. The rating further reflects our view of some historical cyclicity 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 metropolitan statistical area, has been a bright spot: A substantial proportion of highly skilled workers with high incomes 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

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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 was 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 ended with estimated 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 of and implementation period for potential federal changes are critical to making timely budget adjustments, but we believe states generally possess good autonomy to implement such changes, 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 identified approximately \$3.7 billion in cuts to projects and programs that the federal government was expected to fund 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 the growth of Massachusetts' real gross state product will lag that of GDP 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 H.R. 1. The budget also supports transportation networks across the state, stabilizes Massachusetts Bay Transportation Authority finances, and supports free fares for regional transit without imposing new taxes. After incorporation of 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 adjustment 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 nonrecurring resources to manage budget gaps, budget deliberations could come under additional pressure in the future. Year-to-date collections as of October 2026 were 1.3% higher than projected. The commonwealth projects its BSF balance for fiscal 2027 at about \$8.2 billion.

In S&P Global Ratings Economics' view, the U.S. economic outlook forecast reflects a modest increase in baseline real GDP growth to 2.2% in 2026 (compared with 2.1% in 2025) before a slowdown to 1.8% in 2027 and 1.9% in 2028. For more information, see "[Economic Outlook U.S. Q4 2026: Solid Growth This Year Before A Slip below Potential In 2027](#)," Sept. 23, 2026. Stabilization of energy markets and supply chains will drag on consumer and business sentiment through 2027, especially amid above-target inflation for both producers and consumers. S&P Global Ratings Economics anticipates two additional 25-basis-point rate hikes by the U.S. Federal Reserve Bank in 2026.

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

- Deep and diverse economy and income levels that are among the highest in the nation, with per capita income 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 [our report on Massachusetts](#), 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 the rating if revenue weakens and we come to believe that Massachusetts will fail to make the budget adjustments it deems necessary to maintain structural balance or strong reserves. We could also take negative rating action if debt or other fixed costs substantially grow

or if pension funding declines significantly as a result of the commonwealth's falling behind in required contributions.

Upside scenario

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

Ratings List

| New Issue Ratings                                              |            |
|----------------------------------------------------------------|------------|
| US\$120.555 mil GO rfdg bnds 2026 ser D due 11/1/2035          |            |
| Long Term Rating                                               | AA+/Stable |
| US\$750.000 mil GO bnds cons loan of 2026 ser I due 11/01/2044 |            |
| Long Term Rating                                               | AA+/Stable |

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