

Research Update:

Commonwealth Of Massachusetts Series 2026A Dedicated Transportation Revenue Bonds Assigned 'AAA' Rating

October 7, 2026

Overview

- S&P Global Ratings assigned its 'AAA' rating to the Commonwealth of Massachusetts' estimated \$583 million 2026 series A dedicated transportation revenue (DTR) bonds.
- The outlook is stable.

Rationale

Security

The DTR bonds are secured solely from sources specified in the DTR trust agreement, which consist of dedicated transportation income surtax revenue amount (DTISRA) as well as motor fuel and gasoline taxes and motor vehicle registration fees levied statewide, subject to the prior pledge granted to the Commonwealth Transportation Fund (CTF) bonds.

As of the 2026 bond issuance, DTISRA is limited to \$550 million per fiscal year, derived from a 4% surtax on personal taxable income exceeding a \$1 million threshold (adjusted annually for inflation after 2023). This surtax applies to both short-term and long-term capital gains, provided the taxpayer's Massachusetts taxable income exceeds the threshold. The DTISRA is not available to pay the outstanding CTF bonds.

The commonwealth's motor fuels tax receipts are derived from the excise imposed on fuel (other than aviation fuel) and various fees related to the use and operation of moving vehicles imposed by the Massachusetts general laws subject to the prior pledge granted under the CTF trust agreement. Motor fuels tax receipts and registry fees are first applied in accordance with the CTF trust agreement to pay debt service on CTF bonds. After such payments, remaining amounts will be available to pay debt service on the DTR bonds.

Bond proceeds will be used to fund costs of transportation projects for the commonwealth and to refund some of the outstanding CTF bonds.

Credit highlights

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We rate the bonds based on our "[Priority-Lien Tax Revenue Debt](#)," criteria (Oct. 22, 2018), which accounts for the strength and stability of the pledged revenues as well as the general credit quality of the obligor where taxes are distributed and/or collected--in this case, the commonwealth. We consider the linkage between the priority-lien pledge and the commonwealth to be close; therefore, the rating on the CTF bonds is constrained by the GO rating.

Debt service coverage (DSC) on a pro forma basis is extremely strong for the pledged DTR revenues. In fiscal 2027, projected DTISRA motor fuels tax receipt and motor vehicle registration fees of \$1.87 billion are expected to provide coverage of 5.9x. This strength is supported by the diverse economic activities driving the DTR pledged funds. Specifically, motor vehicle fuel taxes and registry fees are deposited monthly into the CTF to service prior-lien CTF bonds before becoming available to pay debt service on the DTR bonds. Income surtax revenues are certified and deposited from the general fund four times annually; we expect the \$550 million DTISRA annual cap to be reached within the first two certifications rather than being prorated throughout the year. Notably, these transfers are defined by statute and are not subject to appropriation once certified.

Income surtax revenues are applied in a statutory priority order, with DTISRA funding following deposits into the commonwealth's higher education fund per the commonwealth's statute. While the higher education fund has not yet been statutorily established, management indicates that annual deposits prior to DTISRA are not currently expected to exceed \$150 million. Our rating incorporates the assumption that these prior statutory deposits will not increase to levels that would significantly diminish available DTR pledged funds to fund the DTISRA. Total income surtax revenues for fiscal 2026 are estimated at \$3.38 billion, which provides over 6x the annual DTISRA.

Key credit considerations include our view of:

- Very strong and diverse economy of 7.2 million people generating pledged revenues;
- Low revenue volatility, with a diverse mix of revenues lending additional stability;
- Very strong DSC and liquidity, with 5.9x coverage of pro forma maximum annual debt service (MADS) following the series 2026 bonds, based on unaudited fiscal 2026 pledged revenue;
- Very strong bond covenants, including a very strong additional bonds test (ABT) requiring 2.5x coverage of MADS by historical pledged revenues and a covenant not to allow changes in the rate of motor fuels tax or registry fees unless pledged revenues equal at least 2.5x aggregate MADS on the CTF bonds and DTR bonds; and
- Our establishment of a one-notch upward limitation on the ratings from that of the GO rating on Massachusetts.

Rating above the sovereign

The DTR bonds are eligible to be rated above the sovereign because we believe the commonwealth can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "[Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions](#)," Nov. 19, 2013, U.S. states are considered to have moderate sensitivity to country risk. Commonwealth-derived revenue is the sole source of security on the bonds, and the institutional framework in the U.S. is predictable, with significant state autonomy and flexibility.

Outlook

The stable outlook reflects our outlook on the commonwealth and our view that Massachusetts' underlying economy and currently very strong reserves could support our rating, despite its economically sensitive revenues and potential nationwide contraction. We also believe that Massachusetts' substantial and diverse economy will support stable pledged revenues over time.

Downside scenario

We could lower the rating if we lower our GO rating on Massachusetts. Should there be very significant deterioration in DTR bond DSC either through bonding to the ABT or a decline in revenues, we could also lower our rating on the DTR bonds. While the commonwealth's capital program could require substantial new capital funding, we feel that the very strong current DSC and very strong ABT should provide strong protection against future debt dilution.

We could also lower our rating on Massachusetts if we believe it will fail to make budget adjustments to maintain structural balance or maintain strong reserves if its revenue weakens. Other factors that could lead to a downgrade include significant increases in debt or other fixed costs, or a significant decline in pension-funded levels due to the commonwealth falling significantly behind required pension funding contribution levels.

Credit Opinion

Economic fundamentals: Very strong

We view Massachusetts' economic fundamentals as very strong. We believe its economy, anchored by a Boston metropolitan area that includes many higher education institutions and associated technology companies, represents an important credit strength.

We believe that the Massachusetts' economy, with a substantial high-technology sector presence in the Boston MSA, has been a bright spot, with a substantial proportion of highly skilled workers with strong income levels. Per capita income, currently at 127% of the national rate, has increased slightly faster than that of the nation and is the second-highest in the nation, spurred by growth in the high-paying professional, scientific, and technical services sector, which suffered less in the recent recession than lower-paying, service sector jobs. S&P Global Market Intelligence forecasts continued employment growth slightly slower than that of the nation in 2027 at 0.3% compared to its forecast of 0.4% for the U.S.

The U.S. Census Bureau population estimate for Massachusetts in 2025 is slightly over seven million. S&P Global Ratings' 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, followed by deceleration to 1.9% in 2027. The U.S. economy will experience a modest 2027-2028 dip, reflecting 2025's tax and spending bill's fading growth-positive effect and the lagged effect of higher-for-longer rates before growth converges back. Labor conditions have softened but remain broadly consistent with trend growth, in our view.

Revenue volatility: Low

Our macro volatility assessment begins with an assessment of the historical volatility of economic activity being taxed, and includes an analysis of societal, demographic, political, and other factors that could affect these activities. Based on the variance of national economic

activity that we believe most closely represents the taxing base over multiple economic cycles, it is used to inform our opinion on expectations of future volatility.

We view the pledged revenues as having low volatility based on historical trends, despite recent declines in motor fuels tax receipts and motor vehicle registry fees, which have stabilized. Since the legislation establishing the income surtax was adopted in 2023, annual collections have consistently exceeded projections. Over the last three full calendar years, revenue collections grew by an average of 13%, driven by favorable economic conditions and strong investment market performance.

Motor fuels tax receipts and motor vehicle registry fees is accounted for 70% of total pledged funds in unaudited fiscal 2026, comprising Chapter 64A, 64E, and 64F receipts. The fuel tax rate was increased from 21 cents to 24 cents in 2013. CTF revenues have remained stable over the last three years, and we believe the commonwealth has demonstrated a history of increasing both gas taxes and registration fees to support its transportation capital program.

Coverage and liquidity: Very strong

Unaudited 2026 pledged revenue of \$1.87 billion covers pro forma MADS of \$317.5 million in 2035, after this issuance, by what we consider an extremely strong 5.9x.

We view the very strong 2.5x ABT and the need to use surplus CTF funds for transportation operations as providing significant protection against DSC dilution from future debt issuances. However, we believe the potential remains for the DTR to become a regular funding for the commonwealth’s very significant capital investment plans.

The DTR trust agreement establishes a surtax reserve fund (SRF), which is required to be funded in an amount at least equal to the SRF requirement, which is the greater of 10% of MADS on all outstanding DTR bonds and 10% of the DTISRA. The trustee is required to draw from the SRF in any month that the pledged DTR funds are inadequate to pay debt service. The SRF can only be funded with income surtax revenues received as part of the DTISRA.

Linkage to commonwealth general creditworthiness

Because the commonwealth collects the pledged revenues, we view the rating on the DTR revenue bonds as linked to Massachusetts' creditworthiness. Although the commonwealth constitution pledged revenues to transportation-related purposes, these can be purposes other than specifically the repayment of debt. In our establishment of a one-notch upward limitation on the transportation revenue bond rating compared with the state GO rating, we included in our analysis our view that the state provides critical public services. While we consider statutory and bond covenant restrictions on the use of DTR revenues as providing some uplift, in our view the collection and distribution of pledged revenues by the commonwealth exposes the revenues to operating risk if there should be a distress situation. For this reason, under our priority-lien criteria, we consider the linkage between the priority-lien pledge and the commonwealth close.

Massachusetts Dedicated Transportation Revenue (DTR) bonds--key credit metrics

Economic Data

Economy	Very Strong
Pledged revenue taxing base	Massachusetts
EBI level per capita % of U.S. (taxing base)	127

Massachusetts Dedicated Transportation Revenue (DTR) bonds--key credit metrics

Economic Data

Economy	Very Strong
Population (taxing base)	7,151,011
Broad and Diverse MSA	Yes
Financial data	
Revenue volatility	Low
Coverage and liquidity	Very Strong
Baseline coverage assessment	ABT
MADS coverage (x)	5.90
MADS year	2035
Annual debt service coverage (x)	N/A
Pledged revenue 2-year CAGR (%)	N/A
Bond provisions	
ABT (x)	2.50
ABT type	MADS
ABT period	Historical
DSRF type	Yes
Obligor relationship	
Obligor linkage	Close
PL rating limit (number of notches above OC)	1

Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. MSA--Metropolitan statistical area. MADS--Maximum annual debt service. 2-year CAGR--2 periods of compound annual growth rate change over 3 years. ABT--Additional bonds test. DSRF--Debt service reserve fund. PL--Priority lien. OC--Obligor creditworthiness. N/A--Not available.

Ratings List**New Issue Ratings**

US\$583.890 mil dedicated transp rev bnds ser 2026A due 06/01/2046

New Rating**States**

Massachusetts, MA Gas and Income Tax with Motor Vehicle Registration Fees AAA/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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Commonwealth Of Massachusetts Series 2026A Dedicated Transportation Revenue Bonds Assigned 'AAA' Rating

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