

RatingsDirect®

Summary:

**Massachusetts; Appropriations; CP;
General Obligation; General
Obligation Equivalent Security; Sales
Tax**

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Credit Profile

US\$650.0 mil GO bonds consolidated loans of 2024 ser B due 05/01/2054

Long Term Rating AA+/Stable New

US\$55.0 mil GO rfdg bonds of 2024 ser C due 09/01/2033

Long Term Rating AA+/Stable New

Massachusetts GO

Long Term Rating AA+/Stable Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to the Commonwealth of Massachusetts' general obligation (GO) bonds consolidated loan of 2024, series B, as well as the commonwealth's GO refunding bonds of 2024, series C.
- At the same time, S&P Global Ratings affirmed its 'AA+' rating on the commonwealth's GO debt outstanding as well as on various other bonds secured by annual appropriations from the commonwealth.
- We have 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 have affirmed our 'AA+' long-term ratings on the Massachusetts Bay Transportation Authority (MBTA)'s sales tax bonds outstanding, along with 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, and our 'AA+' rating on a U.S. Department of Transportation third-lien Railroad Rehabilitation & Improvement Financing (RRIF) loan agreement for the authority's commuter rail safety and resiliency program.
- The outlook on all ratings is stable.

Security

Massachusetts' full faith and credit are pledged to the GO bonds. Proceeds from the 2024 consolidated bonds will fund various capital expenditures authorized in the capital investment plan (CIP). Proceeds from the GO refunding bonds will refund a portion of the commonwealth's GO debt outstanding.

Credit overview

Our rating on Massachusetts reflects its strong economic metrics, with very high per capita income levels compared to the nation, partly the result of the strong presence of high-technology companies in the Boston metropolitan statistical area (MSA). The rating further reflects some historical cyclicity in financial results due to volatile revenue sources,

although recent strong growth in tax collections and federal aid have led to large operating surpluses and reserves, as well as high debt, pension, and other postemployment benefit (OPEB) liabilities, with a history of funding less than full annual actuarial recommendations to its pension and OPEB funds.

Strong revenue growth, combined with extra federal aid and strong budgetary management practices, helped the commonwealth end its last two fiscal years in an extremely strong financial position, with the highest level of reserves in its history. At fiscal year-end June 30, 2022, the budget stabilization fund (BSF) stood at \$6.9 billion, or a strong 12.4% of operating expenditures and other uses on a budgetary basis of accounting (excluding interfund transfers). The trend of adding to its reserves continued in fiscal 2023, with the year ending with a BSF balance of \$8.04 billion, or a strong 13.3% of budgeted operating expenditures and other uses. The state projects another deposit into the BSF, to end fiscal 2024 at about \$8.9 billion. The commonwealth's most recent preliminary revenue collections summary shows state tax revenue about 2.7% higher than revised benchmarked expectations for the fiscal year, based on year-to-date collections for April. The most recent tax revenue estimates revised in January 2024 show a \$1 billion decline in revenue compared with the previous forecast. The governor consequently announced a \$375 million reduction in spending allotments for fiscal 2024 and identified additional nontax revenue worth \$625 million, including higher-than-projected interest collections and departmental revenue.

Nevertheless, the commonwealth still faces headwinds as very strong revenue performance in previous fiscal years transitions to more subdued revenue estimates across states. Although national recessionary pressures have waned to a more tepid slowdown in growth, when combined with the commonwealth's long-term liabilities that remain among the highest in the nation, and with persistent underfunding of its pensions, this could lead to budgetary pressures as revenue growth softens and tests the commonwealth's commitment to strong BSF levels in the long term. S&P Global Market Intelligence forecasts that real gross state product (GSP) will experience slower growth than the nation overall through 2027, at 7.1%, compared with the nation's real GDP growth of 7.4%.

S&P Global Ratings' baseline forecast continues to project a growth slowdown, partly reflecting real interest rates remaining comparatively higher for the year, leading to higher costs of capital for businesses, resulting in slower hiring and capital expenditures. Additionally, while consumer spending has proven resilient, it is expected to moderate and align with real income growth. The U.S. economy is expected to experience a steady U.S. real GDP growth of 2.5% in 2024, based on a sturdy labor market, while still expecting the economy will transition to slightly below potential growth in the next couple of years, including U.S. real GDP growth of 1.5% in 2025 and 1.7% in 2026. (For more information, see "Economic Outlook U.S. Q2 2024: Heading For An Encore," published March 26, 2024, on RatingsDirect.) Overall, we expect inflation will remain above the Federal Reserve's 2% growth target through much of 2024, primarily due to persistently high service price inflation.

The state's enacted 2024 budget reflects a 3.2% increase in tax revenue (excluding new surtax revenue), based on the previously announced revenue estimate of \$40.4 billion. The budget also includes about \$1 billion in surtax revenue, which is proposed to be segregated for education and transportation programs outside of the general funds. The surtax revenue is derived from a new 4% tax, approved by voters in 2022, on tax residents' earnings above \$1 million. The budget sets aside \$580 million for various tax relief initiatives, which were subsequently approved with an estimated revenue impact of \$519 million, including new family and child tax credits, real estate tax relief and other tax

initiatives. The budget provides for a total of \$56 billion in authorized spending, including projected transfers to the Medical Assistance Trust Fund. This represents an increase of 5.1% above the fiscal 2023 budget, including new investments supported by the surtax revenue. Following revised tax revenue estimates in January 2024, the governor has approved two supplemental appropriations since enactment including \$311 million in appropriations for its emergency shelter program and associated services. Total budgeted expenditure and uses is expected exceed revenue by about \$1.9 billion, or 2.9% of budget expenditures before adjusting for nonrecurring appropriations. However, the deficits are being funded using prior-year surplus revenue and federal appropriations that were previously set aside. The 2024 proposed budget does not anticipate any tax rebates paid for fiscal 2023, as fiscal 2023 revenue did not exceed the allowable limit as defined by Chapter 62F Massachusetts General Laws.

Massachusetts's governor submitted its fiscal 2025 budget proposal, with gross spending of \$56.2 billion and a BSF balance of about \$9.1 billion in fiscal 2025. The budget is based on a consensus revenue estimate of \$40.2 billion, excluding surtax revenue. The governor's budget proposal yields a structural budget deficit of \$404 million (or less than 1%) of proposed appropriations.

We believe that 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 supporting the commonwealth's revenue growth and strong finances. Strong tax growth is expected to boost the commonwealth's BSF balance, which receives both excess general fund revenue as well as capital gains tax above an annual benchmark, along with certain other lesser revenue sources. Despite the commonwealth's strong finances and economy, financial risks remain. We believe Massachusetts has an above-average dependence on cyclical capital gains tax revenue, which benefits from a strong stock market but could significantly recede in a national economic contraction, thereby pressuring the state's commitment to its financial goals. The state has also had large recent increases in Medicaid enrollment, a potential budgetary concern with the expiration of higher Medicaid reimbursements rates implemented by the federal government during the pandemic. Other long-term pressures for the commonwealth include its high debt levels and moderately high OPEBs, exacerbated by persistent underfunding of its annual actuarial pension contribution, which we believe could significantly increase liabilities. At fiscal year-end 2022, the last audited fiscal year, we calculate the commonwealth had net total tax-backed debt per capita of \$5,954 and 7% of personal income, including tax-supported revenue debt.

Massachusetts has underfunded its actuarially required annual pension contribution over the years. Pension contributions are statutorily determined based on a funding schedule set every three years, and the state has made contributions in accordance with its schedule set in 2023. The latest schedule targets a fully funded retirement system by 2036 by increasing annual contributions by 9.63% per year through 2028, a steep increase that we believe defers current pension pressure to future years. Contribution increases are scheduled at a slower rate of 4% afterward through 2036. The commonwealth has contributed less than its actuarial annually recommended contribution since 2011, funding an estimated 95% (including supplemental contributions) of its annual actuarial recommendation in fiscal 2023, which has contributed to what we consider a relatively low combined three-year average pension-funded ratio, on a Governmental Accounting Standards Board (GASB) basis, of 63%. At fiscal year-end 2022, the commonwealth's net pension liability (NPL) on a GASB basis was a high \$5,909 per capita, or 7% of state personal income. Net OPEB liability on a GASB basis at fiscal year-end 2022 was also high, at \$1,912 per capita, although the

state has made efforts in recent years to prefund a portion of OPEBs through a trust fund.

Factors supporting the 'AA+' GO rating include what we view as Massachusetts':

- Deep and diverse economy;
- High income levels, with per capita income at 128% of the nation in 2023;
- History of timely monitoring of revenue and expenditures, and swift action when needed to make adjustments;
- Strong financial, debt, and budget management policies, including annualized formal debt affordability statements and multiyear capital investment planning;
- Strong BSF balance, equal to about 12.8% of expenditures and other uses on a budgetary basis at fiscal year-end 2023; and
- High debt, pension, and OPEB liabilities.

Based on the analytic factors we evaluate for states, on a scale of '1.0' (strongest) to '4.0' (weakest), we have assigned a composite score of '1.8' to Massachusetts. (For more information, see our full analysis on Massachusetts, published Oct. 6, 2023.)

Environmental, social, and governance

We consider Massachusetts' 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 MSA 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, we also note that the commonwealth has been addressing environmental risks since 2004 through its Climate Protection Plan, and has historically maintained a stable management and policy framework to respond to developing risks. We view social and governance risks as neutral in our credit rating analysis.

Outlook

The stable outlook reflects our view that Massachusetts' underlying economy and currently very strong reserves support its rating, despite its economically sensitive revenue and the potential for a nationwide economic slowdown.

Downside scenario

We could lower our rating if we believe Massachusetts will fail to make necessary 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.

Upside scenario

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

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of May 21, 2024)		
Massachusetts GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Massachusetts GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Massachusetts GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Massachusetts GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
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<i>Long Term Rating</i>	AA+/Stable	Affirmed
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<i>Long Term Rating</i>	AA+/Stable	Affirmed
Massachusetts GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Massachusetts GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Massachusetts GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Massachusetts GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Massachusetts GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

Ratings Detail (As Of May 21, 2024) (cont.)		
Massachusetts GO (AGM)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Massachusetts GO (AMBAC)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Massachusetts GO (BAM)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Massachusetts GO (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Massachusetts GO (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Massachusetts GO (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Massachusetts GO (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Massachusetts GO (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Massachusetts GO (FGIC)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Massachusetts GO (MBIA) (National)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Massachusetts GO (SYNCORA GTY)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Boston Housing Authority, Massachusetts		
Massachusetts		
Boston Hsg Auth (Massachusetts) APPROP		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts		
Massachusetts Bay Transp Auth (Massachusetts) GOEQUIV		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
Massachusetts Bay Transp Auth (Massachusetts) GOEQUIV		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
Massachusetts Department of Transportation, Massachusetts		
Massachusetts		
Massachusetts Dept of Transp (Massachusetts) GO		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
Massachusetts Dept of Transp (Massachusetts) GO		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
Massachusetts Dept of Transp (Massachusetts) GO		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed

Ratings Detail (As Of May 21, 2024) (cont.)

Massachusetts Development Finance Agency, Massachusetts		
Massachusetts		
Massachusetts Dev Fin Agy (Massachusetts) GO		
Long Term Rating	AA+/Stable	Affirmed
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts		
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts Bay Transp Auth sales tax		
Long Term Rating	AA+/Stable	Affirmed
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts		
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts Bay Transp Auth sales tax		
Long Term Rating	AA+/Stable	Affirmed
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts		
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts Bay Transp Auth sales tax		
Long Term Rating	AA+/Stable	Affirmed
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts		
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts Bay Transp Auth CP		
Short Term Rating	A-1+	Affirmed
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts		
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts Bay Transp Auth CP		
Short Term Rating	A-1+	Affirmed
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts		
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts Bay Transp Auth CP		
Short Term Rating	A-1+	Affirmed
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts		
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts Bay Transp Auth CP		
Short Term Rating	A-1+	Affirmed
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts		
Massachusetts Bay Transportation Authority, Massachusetts		

Ratings Detail (As Of May 21, 2024) (cont.)		
Massachusetts Bay Transp Auth CP		
Short Term Rating	A-1+	Affirmed
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts		
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts Bay Transp Auth CP		
Short Term Rating	A-1+	Affirmed
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts		
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts Bay Transp Auth (Massachusetts) sales tax		
Long Term Rating	AA+/Stable	Affirmed
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts		
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts Bay Transp Auth (Massachusetts) sales tax		
Long Term Rating	AA+/Stable	Affirmed
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts		
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts Bay Transp Auth (Massachusetts) sales tax		
Long Term Rating	AA+/Stable	Affirmed
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts		
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts Bay Transp Auth (Massachusetts) sales tax		
Long Term Rating	AA+/Stable	Affirmed
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts		
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts Bay Transp Auth (Massachusetts) sales tax		
Long Term Rating	AA+/Stable	Affirmed
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts		
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts Bay Transp Auth (Massachusetts) sales tax		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts		
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts Bay Transp Auth (Massachusetts) sales tax		
Long Term Rating	AA+/Stable	Affirmed

Ratings Detail (As Of May 21, 2024) (cont.)

Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts		
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts Bay Transp Auth (Massachusetts) sales tax		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts		
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts Bay Transp Auth (Massachusetts) sales tax (AGM) (MBIA)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts		
Massachusetts Bay Transportation Authority, Massachusetts		
Massachusetts Bay Transp Auth (Massachusetts) sales tax (MBIA) (National)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Massachusetts Department of Transportation, Massachusetts		
Massachusetts		
Metropolitan Highway System, Massachusetts		
Massachusetts Dept of Transp (Massachusetts) GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Massachusetts Department of Transportation, Massachusetts		
Massachusetts		
Metropolitan Highway System, Massachusetts		
Massachusetts Dept of Transp (Metropolitan Hwy Sys) GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Massachusetts Department of Transportation, Massachusetts		
Massachusetts		
Metropolitan Highway System, Massachusetts		
Massachusetts Dept of Transp (Metropolitan Hwy Sys) GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Massachusetts Department of Transportation, Massachusetts		
Massachusetts		
Metropolitan Highway System, Massachusetts		
Massachusetts Dept of Transp (Metropolitan Hwy Sys) GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

Many issues are enhanced by bond insurance.

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