Research Update:

Massachusetts Series 2025E/F GO Bonds Consolidated Loans Assigned 'AA+' Rating

July 31, 2025

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Overview

- S&P Global Ratings assigned its 'AA+' long-term rating to the Commonwealth of Massachusetts' approximately $750 million of 2025 general obligation (GO) bonds consolidated loans, series E and series F.
- At the same time, we affirmed our 'AA+' long-term rating on Massachusetts' outstanding GO bonds as well as on various other 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 ratings on the Massachusetts Bay Transportation Authority's (MBTA) 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 (CP) program, and our 'AA+' rating on a U.S. Department of Transportation third-lien Railroad Rehabilitation & Improvement Financing (RRIF) 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 are pledged to the GO bonds and the full faith and credit of the commonwealth are pledged to payment of the bonds.

The proceeds for the 2025E and 2025F bonds will finance or reimburse the costs of various capital expenditures included in the commonwealth's capital investment plan.

Credit highlights

Our rating on Massachusetts reflects its strong economic metrics, with very high per capita income levels compared with the nation, partly due to the strong presence of high-technology (high-tech) companies in the Boston metropolitan statistical area (MSA). The rating further reflects some historical cyclicality 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. It also reflects 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, 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 budget stabilization fund (BSF) balance, which statutorily receives both excess general fund revenue as well as capital gains tax above an annual benchmark, along with certain other lesser revenue sources. Strong revenue growth combined with extra federal aid and strong budgetary management practices helped the commonwealth end its past three fiscal years in an extremely strong financial position, with the highest level of reserves in its history. The BSF was $8.5 billion, or 12.8% of operating revenue and other sources as of fiscal year-end June 30, 2024. Fiscal 2025 is projected to end with balances that we still consider strong, with a BSF of $8.2 billion, or a strong 12.3% of budgeted operating revenue and other sources.

Despite the commonwealth's historically strong finances and economy, financial risks remain, which could be exacerbated by recent federal policy and economic uncertainty. We believe Massachusetts has an above-average dependence on cyclical capital gains tax revenue (3.2% of general fund revenues in fiscal 2024) relative to that of other states. This tax revenue benefits from a strong stock market but could significantly recede during a national economic contraction. However, the commonwealth's process of diverting capital gains tax above the threshold to fund its BSF and pension offset its funding ongoing operations. Increases in Medicaid expenditures is also a potential budgetary concern with the expiration of higher Medicaid reimbursements rates implemented by the federal government during the COVID-19 pandemic. Other long-term pressures include Massachusetts' high debt levels and moderately high pension and OPEB liabilities, compared with those of similarly rated states, which could increase over time. At fiscal year-end 2024, the last audited fiscal year, we calculate the commonwealth had net total tax-backed debt per capita of $6,113 and 7% of personal income, including tax-supported revenue debt.

The commonwealth also faces headwinds in the long term, as very strong revenue performance in previous fiscal years transitions to more subdued revenue estimates across states. Potential national recessionary pressures, when combined with the commonwealth's long-term liabilities, among the highest in the nation, and with a history of underfunding of its 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 real gross state product (GSP) will experience slower growth than the nation overall through 2028, at 5.1%, compared with the nation's real GDP growth of about 7.2%.

The shifting policy mix is altering the U.S. economic outlook, with our assumptions reflected in a likely downshift in GDP growth in 2025, based on S&P Global Economics' "Economic Outlook U.S. Q3 2025: Policy Uncertainty Limits Growth," June 24, 2025. We forecast that the annual average U.S. real GDP growth rate will slow to 1.7% in 2025 and 1.6% in 2026; although still positive, this is a deceleration from the 2.8% growth seen in 2024. We expect weaker near-term growth to further soften the labor market in the next 12 months, and although our base-case scenario projects that the U.S. will avoid a recession in the near term, we still believe there is elevated downturn risk at 30%-35% in our subjective assessment because of uncertainty around trade, deregulation, fiscal policy, geopolitics, and immigration. This could erode purchasing power and elevate business and private investment uncertainty and will likely further weaken U.S. growth. Based on S&P Global Market Intelligence's economic forecast for the commonwealth, we anticipate economic output and employment will be muted for the balance of the year, with the potential to soften in 2026 below the national level; we will monitor if this could dampen the commonwealth's revenue growth.

The Federal Reconciliation Act signed into law in July 2025 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 Medicaid is the largest expenditure (inclusive of state and federal funding) in states' budgets, higher costs could be partially offset by a decline in direct Medicaid spending by states through 2034. Initial estimates from the Massachusetts Taxpayers Foundation project a budget impact for Massachusetts of about $800 million for the next ten years. The magnitude and implementation period of potential federal changes are critical to ability to make 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. For more information, see our report "The Tax Bill Comes Due: Near-Term Risks Are Low, Long-Term Pressures Rising For U.S. Public Finance Entities," July 7, 2025 on Ratings Direct.

Fiscal 2024 results show that expenditure and uses exceeded revenue by about $334 million, or 0.5% of expenditures before adjusting for nonrecurring appropriations, and were funded using previous-year surplus revenue and federal appropriations that were already set aside. The commonwealth does not anticipate any tax rebates paid for fiscal 2024, as revenue did not exceed the allowable limit as defined by Chapter 62F Massachusetts General Laws based on the fiscal 2024 revenue results.

The governor approved a supplemental appropriation budget in February for fiscal 2025, allocating an additional $425 million to support the emergency shelter program and associated services, including more aid to school districts affected by increased enrollment and communities hosting unhoused families and family shelter sites. The enacted legislation also included changes to the commonwealth's right to shelter law, to ensure long-term sustainability of its shelter system. Estimated expenditure and uses exceed revenue by about $1.9 billion, or 3% of expenditures before adjusting for nonrecurring appropriations. The deficits are being funded using previous-year surplus revenue and federal appropriations that were already set aside.

The commonwealth's fiscal 2026 budget, approved in July 2025, provides for approximately $58 billion in authorized spending, which is about 0.4% lower than revised fiscal 2025 spending, excluding spending of income surtax revenue and projected transfers to the Medical Assistance Trust Fund. The 2026 budget also provides for $2.3 billion in spending from income surtax revenue, allocated to investments in transportation, including $500 million to stabilize MBTA operations, and $1.7 billion to investments in education (including early education), universal school meals, kindergarten-through-12th grade programs, and higher education. The budget is based on a consensus revenue estimate of $43.2 billion, composed of a baseline consensus revenue estimate of $41.2 billion and a $2.4 billion estimate of revenue from the 4% surtax on personal income above the surtax threshold, yielding a structural budget balance after adjusting for nonrecurring uses from previously appropriated funds.

The Governor also filed a supplemental budget for fiscal year 2026 after adoption that appropriates $100 million to provide a flexible pool of resources to quickly respond to changing economic conditions and federal policy changes that may arise over the course of 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 revenues substantially below benchmarks or other significant negative impacts, as well as providing authority for line-item transfers in order to create flexibility as the Commonwealth navigates economic and federal policy uncertainty. The commonwealth projects ending BSF balances for fiscal 2026 at about $8.32 billion.

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

- Deep and diverse economy and income levels among the highest in the nation, with per capita income at 130% of the nation in 2024;
- 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 autonomy of raising revenue;
- 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 12.8% of expenditures, positioning Massachusetts well to manage future fiscal pressures; and
- High debt, pension, and OPEB liabilities that could escalate future costs.

For more information on the commonwealth, please refer to our most recent full analysis on Massachusetts, May 29, 2025, on RatingsDirect.

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, the commonwealth has been addressing environmental risks since 2004 through its Clean Energy Climate Plan, which is regularly updated to meet the needs of the commonwealth, 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 obligations while demonstrating continued commitment to strong budgetary policies and pension funding discipline, especially during periods of economic contraction, we could raise our rating.

Ratings List		
New Issue Ratings		
US$325.0 mil GO bnds cons loan of 2025 ser E due 08/01/2047		
Long Term Rating	AA+/Stable	
US$425.0 mil GO bnds cons loan of 2025 ser F due 08/01/2055		
Long Term Rating	AA+/Stable	
Upgraded;Outlook Action		
	To	**From**
States		
Massachusetts, MA Special Obligation Dedicated Tax Revenues	A-/Stable	BBB+/Negative
Ratings Affirmed		
Pooled		
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	
Massachusetts MA, Commercial Paper Program 2nd Lien	A-1+	
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 Equivalent	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.