nuveen
A TIAA Company

May 2025

Massachusetts: Strong fundamentals compensate for elevated debt levels

Leah Hurley
Municipal Research Analyst

Massachusetts is a prominent issuer of municipal bond debt. The commonwealth boasts strong socioeconomic indicators – ranking first in per capita income – and has a history of taking a balanced approach to budget pressure. However, Massachusetts also carries a high debt burden, which may reduce financial flexibility in the future. Overall, taking full advantage of the investment universe within Massachusetts requires the ability to research and source opportunities in higher education, health care and local governments.

BY THE NUMBERS

- $28.1 billion: Volume of general obligation bonds outstanding
- 7th: Bond issuance ranking
- 1st: Per capita income rank of all states
- AA+: Credit ratings from three major rating agencies

MASSACHUSETTS IS A PROMINENT PLAYER

The Commonwealth of Massachusetts provides significant supply to the municipal market. Issuance of new municipal debt in Massachusetts, including state and local issues, totaled $14.3 billion in 2024, according to The Bond Buyer, up 65% compared to 2023. Municipal bond issuance in Massachusetts was the seventh highest in the nation.

The commonwealth itself issues most of its debt under its general obligation (GO) pledge, with $28.1 billion in GO debt outstanding as of September 2024. Massachusetts also issues special obligation debt, including debt secured by revenues in the Commonwealth Transportation Fund from taxes and fees related to motor vehicles.

Other tax-supported debt includes sales tax-backed bonds issued for the Massachusetts Bay Transportation Authority and the Massachusetts School Building Authority. Dedicated sales taxes have historically provided strong coverage relative to annual debt service due. Most recently, revenues covered debt service by over 3.0 times for both MBTA and MSBA.

Massachusetts maintains strong credit ratings, with general obligation debt rated Aa1 by Moody's, AA+ by S&P and AA+ by Fitch.

THE ECONOMY IS DIVERSE WITH A WEALTHY TAX BASE

With an estimated population of 7.1 million in 2024, Massachusetts is the most populous state in New England. The commonwealth has 14 counties, 50 cities and 301 towns. Boston is the state capital and the largest city in Massachusetts. Approximately 70% of Massachusetts' population lives in the greater Boston metropolitan area.

Massachusetts' $616 billion economy is led by health care, education, financial services and technology. Massachusetts benefits from the presence of many colleges and universities that provide employment stability and a source of well-educated workers for its service industries. Among the 50 states, Massachusetts has the highest percentage of population over 25 with a bachelor's degree at 47%. This compares with the national average of 35%.

Socioeconomic indicators are strong, with the highest per capita income of all states at 130% of the U.S. average and a poverty rate of 10.4% compared to the national rate of 11.1%. Massachusetts' unemployment rate is in line with the U.S. at 4.1% as of December 2024.

SOUND FINANCIAL POLICIES BOLSTER THE CREDIT PROFILE

Under Massachusetts law, the commonwealth's budget must be balanced for each fiscal year. The comptroller publishes quarterly revenue forecasts. If revenues don't meet expenditures, the governor has 15 days to address the shortfall.

Massachusetts has a history of taking a balanced approach to budgetary pressure, relying on a combination of expenditure reductions, tax increases and draws on reserve funds, most notably the Stabilization Fund. The commonwealth has prudently grown the Stabilization Fund (commonly known as the rainy day fund) since fiscal year (FY) 2019.

Though the pandemic resulted in some economic disruption, Massachusetts took steps to address the financial impact. As a result, the commonwealth ran General Fund surpluses in FY20 through FY23. The commonwealth's General Fund posted a $683.2 million surplus in FY23, equal to 1.2% of General Fund revenues. Although tax revenues came in approximately $3.2 billion, or 9.1%, below budget, expenses were also $3.4 billion below budget.

The total General Fund balance is healthy at 25.8% of General Fund revenues. In FY23, the Stabilization Fund increased by $1.1 billion, bringing the balance to $8.0 billion (14.2% of General Fund revenues). Preliminary results for FY24 indicate the year ended in a balanced position and show the Stabilization Fund reaching a historic high of $8.4 billion.

In 2022, Massachusetts voters approved a measure to apply an additional 4% surtax on incomes over $1 million (adjusted annually for inflation) to support education and transportation initiatives. Preliminary estimates show the commonwealth collected approximately $2.2 billion from the surtax in FY24, far exceeding initial estimates of $1 billion.

The commonwealth's FY25 budget is $57.78 billion, or 3.1% above the FY24 budget, and includes $1.3 billion in surtax revenues. The largest share of the budget is for health and human services (53%), followed by education (20%). Key provisions include authorizing online lottery sales, free community college for certain residents and free regional transportation. Year-to-date FY25 results through January show total tax collections up 8.9% over FY24 and up 2.5% compared to the state's monthly revenue benchmark.

The governor's FY26 budget recommendation totals $61.5 billion and focuses on stabilizing the Massachusetts Bay Transportation Authority (MBTA) and infrastructure investments, with no anticipated draws on the Stabilization Fund.

ELEVATED LIABILITIES POSE A HEADWIND

Massachusetts' debt burden is high by any number of measures, which may reduce the commonwealth's financial flexibility in the future. According to Moody's, Massachusetts had the third highest amount of tax-supported debt outstanding in the nation in 2023. On a per capita basis, it ranks second at $6,930 (compared to the Moody's median of $1,189). Massachusetts' debt levels also rank third highest as a percentage of personal income (Massachusetts: 7.6%, Moody's median: 2.0%) and the third highest as a percentage of state GDP (Massachusetts: 6.6%, Moody's median: 1.8%).

The commonwealth's comparatively high debt burden is partially explained by its issuance of bonds that in other states would be financed locally (e.g., the Massachusetts School Building Authority). Despite elevated leverage, principal and interest costs remain manageable when compared to expenditures. Debt service represented a reasonable 4.9% of total governmental funds expenditures in FY23.

The combined funded ratio of the commonwealth's pension plans is relatively low at just 63.5% in 2023. The unfunded liability is large at $42.4 billion and exceeds the amount of the commonwealth's general obligation debt ($28.1 billion). Various pension reforms were adopted in 2011, including raising the retirement age from 65 to 67 and extending the commonwealth's pension funding schedule from 2025 to 2040. In 2015, the commonwealth agreed to shorten the pension funding schedule by four years, from 2040 to 2036. Favorably, the proposed FY26 budget continues to work toward fully funding the pension obligation by 2036.

BOSTON'S CREDIT PROFILE REMAINS SOLID

Boston, the largest city and the state capital, maintains a AAA rating from both Moody's and S&P based on its healthy and diverse economic base and strong finances. The city has a favorable socioeconomic profile with per capita income (PCI) at 139% of the U.S.

The city's poverty rate is slightly elevated at 16.9% compared to the national average of 11.1%. However, this difference is partially due to the large student population, and numerous higher education institutions are an important part of the economy.

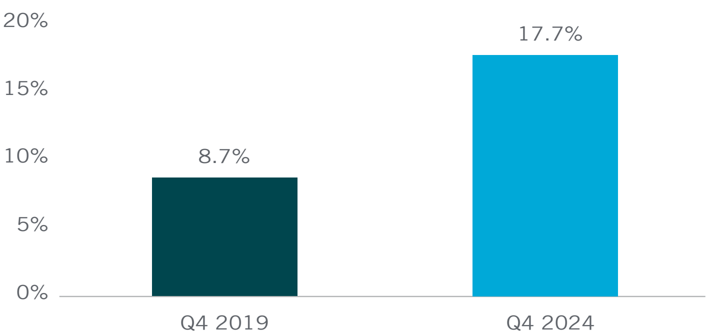
Like many cities, Boston relies on property taxes for operations, and these revenues typically comprise between 65% and 70% of General Fund operating revenues. Boston stands out from peer cities because it has one of the highest dependencies on commercial real estate property tax revenue, rather than residential properties that are less vulnerable to economic volatility.

Property taxes from commercial properties comprise roughly a third of total city revenue, making the city comparatively more sensitive to reductions in commercial real estate valuations.

Boston Mayor Wu has proposed to temporarily shift a portion of the current levy to commercial property and away from residential property. The objective is to prevent residential homeowners from seeing additional significant spikes in their owed taxes. Shifting the tax levy requires approval from the state legislature and governor, and previous attempts to do so have failed.

Boston's total commercial assessed value grew by 4% in 2024, although the increase was primarily driven by new laboratory space. Office vacancy rates remain elevated compared to pre-pandemic levels, at 17.7% in Q4 2024.

Figure 1: Boston office vacancy rates remain elevated



Data source: Moody's Analytics, 31 Dec 2024

The city's resilient tax base has enabled Boston to post an annual General Fund surplus over the last decade, with just one exception in FY21. As a result, the city's financial reserves are considered strong. At the end of FY24, the unassigned General Fund balance stood at $1.3 billion, equivalent to a robust 28.4% of General Fund revenues. The city's direct debt burden is low at just 0.8% of assessed value, and the city has continued to chip away at its underfunded pension system, which is only about 70% funded.

Boston's FY25 budget increases expenditures by 8% over the prior year, driven by investments in education, planning initiatives, inflationary increases, and pensions and debt service payments.

MASSACHUSETTS OFFERS INVESTMENT OPPORTUNITIES

According to the S&P Massachusetts Municipal Bond Index, Massachusetts state GO bonds make up 33% of the in-state investment universe, while statewide dedicated tax bonds comprise 10% of the index. Essential service revenue sectors such as transportation and water/sewer make up 11% of the index. But these sectors are also heavily concentrated in large state-run authorities like Massachusetts Port Authority and Massachusetts Water Resources Authority.

Building a well-diversified Massachusetts portfolio that can capitalize on market opportunities within an investor's risk tolerance requires an ability to research and source opportunities within higher education, health care and local governments. Massachusetts' town government structure can result in frequent competitive deal sizes of less than $50 million that can offer more yield due to their size. The presence of many premier education and health care institutions can also provide diversification benefits and yield opportunities.

For more information, visit us at nuveen.com.

nuveen
A TIAA Company

4421349 WF2474800