

Research Update:

Boston, MA 2025A GO Bonds Assigned 'AAA' Rating

May 13, 2025

Overview

- S&P Global Ratings assigned its 'AAA' long-term rating to the City of Boston, Mass.' approximately \$461 million series 2025A general obligation (GO) bonds.
- At the same time, we affirmed our 'AAA' long-term rating on the city's GO bonds outstanding.
- The ratings are based on the application of our criteria, "Methodology For Rating U.S. Governments," published Sept. 9, 2024, on RatingsDirect.
- The outlook is stable.

Rationale

Security

The bonds are GOs of the city, subject to the limitations of Proposition 2-1/2, but additionally as provided in Boston's Bond Procedure Act (Chapter 643 of the Acts of 1983 of the Commonwealth of Massachusetts), the city is required to levy property taxes, without limit and in excess of Proposition 2-1/2 limits for debt service to the extent that it is not otherwise provided for in the tax levy or from other sources.

We understand that the series 2025A bond proceeds will fund various capital improvements for both the city and school department.

Credit highlights

Boston is the largest city in New England and serves as the center of the regional economy. Its economy ranks among the strongest in the country, with an expanding tax base based on growth in the knowledge economy across financial, technology, and related sectors. We believe that the city's comprehensive budget framework, combined with proactive management, will enable it to maintain structural balance in the near term, despite significant policy uncertainty affecting our macroeconomic forecasts (see "U.S. Economic Outlook Update: Higher Tariffs and Policy Uncertainty to Weaken Growth," published May 1, 2025, on RatingsDirect). The city's financial performance has been robust for many years, although management is currently addressing near-term risks, including a decline in commercial real estate values that could shift

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the tax burden onto residential taxpayers. The city is actively exploring strategies to manage this impact. Given its recent operating margins, very high reserves and its above-average household effective buying incomes, we believe the city has flexibility to manage without financial distress. We recognize that the city is likely to issue additional debt over the next several years, but we expect costs to remain manageable. We do not anticipate revising the rating during the outlook period.

The rating reflects our view of the city's:

- Position as an anchor of a robust regional economy, as evidenced by elevated economic output as measured by gross county product (GCP) and localized income metrics that are higher than national levels at the county and city level;
- Stable operating performance that has been sustained over multiple administrations and different economic environments with 17 years of surplus results on a GAAP basis in the last 20; we expect current management will enable the city to adapt to current challenges and produce surplus; its track record also has allowed it to accumulate reserves that have grown by over \$1 billion in the last decade and total over 30% of revenue, providing substantial flexibility;
- Forward looking and proactive management with well-embedded policies and practices for budget and financial planning as well as for challenges including affordable housing and environmental risks; and
- Low debt service carrying charges and elevated direct debt per capita, although the city's debt is comparatively more favorable when measured against revenue, which, in our view, mitigates potential pressure, coupled with large pension and other postemployment benefit (OPEB) liabilities which the city is working to pre-fund.
- Massachusetts municipalities have a predictable operating framework with some statutory flexibility to raise local-source revenue for operations, despite commonwealth limits on property tax levy growth. For more information on our institutional framework assessment for Massachusetts municipalities, see "Institutional Framework Assessment: Massachusetts Local Governments," published Sept. 9, 2024.

Environmental, social, and governance

We have analyzed environmental, social, and governance factors relative to Boston's economy, management, financial measures, and debt and liability profile; we view them all as neutral in our credit analysis. The city is directly on the Atlantic Ocean, with significant portions of its tax base in areas prone to flooding or projected to be exposed in the coming years. Management readily acknowledges these risks and is working to mitigate both long- and short-term pressures from changing climate and weather patterns. The city is engaged in extensive planning regarding these risks and has increased the use of city-generated revenue to support these initiatives, though they are also engaged with the Army Corps of Engineers and have pursued federal and state grants.

Rating above the sovereign

We rate Boston higher than the sovereign because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario based on its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. In 2024, local property taxes generated 71% of audited general fund revenue, demonstrating a lack of dependence on federal government

revenue. (See "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013.)

Outlook

We do not anticipate changing the rating within the outlook period as we expect the city to maintain its proactive budgeting stance and produce balanced operations, while making continued investments in infrastructure and addressing unfunded retirement liabilities.

Downside scenario

We could lower the rating if financial performance deteriorates due to disruption in local or federal revenue, leading to a material draw on reserves, or if rising fixed costs from debt and retirement liabilities pressure the operating budget.

Credit Opinion

Economy

Boston, in Suffolk County, has one of the strongest economies in the county as measured by incomes and economic output. As the economic center of a vast metropolitan area extending from New Hampshire to southeastern Massachusetts, Boston leveraged its reputation as a hub for technology and life sciences to achieve economic growth. This is bolstered by the significant presence of higher education institutions and a well-educated workforce. The Boston region hosts over 30 universities, including Harvard University, the Massachusetts Institute of Technology, Tufts University, Boston College, Boston University, and Northeastern University, which collectively sustain a highly skilled and educated work force. The city is actively monitoring the effects of changes in federal funding to companies and universities there, and we will monitor the effects on unemployment and economic activity associated with these industries and institutions for potential credit impacts. (For more information, see "U.S. Brief: Colleges And Universities Face Federal Research Funding Cuts That Could Create Financial Pressure," published April 21, 2025.)

Boston's commercial and retail properties continue to rebound from elevated vacancy rates seen during the pandemic and these metrics now compare favorably to similar large metro areas in the U.S. The development pipeline remains robust, with permitted and approved development continuing into the first quarter of the year. The city realized \$90 million of new growth in fiscal 2025 and has conservatively budgeted for \$60 million in the upcoming year. It is working to address the effects of declining office building values, which are not expected to affect the city's revenue collections due to the structure of its tax collections, but may result in a shift of the tax burden to residential taxpayers due to the city's dual tax rate. Management has initiated a program to convert class b and class c office space downtown into residential properties, which is expected to support downtown foot traffic, improve housing supply, and stabilize property values and vacancy rates; these office conversions face several challenges; the success of this program, however, will be felt over an extended time horizon.

Financial Performance, Reserves, and Liquidity

Boston has a lengthy track record of delivering surplus operating results and building reserves over many years. We expect its financial performance to remain stable, with reserves remaining a significant credit strength. The city's core revenue and expenditures remain balanced with a high reliance on property taxes (about 71% of audited 2024 general fund revenue) providing revenue predictability and stability. In 2024, it produced a surplus supported by revenue collections that exceeded the budget by \$177 million, offsetting higher-than-expected costs, particularly in public safety overtime. The city expects surplus results in 2025 as well, with investment income and excise taxes outperforming the budget and again offsetting higher-than-expected public safety expenditures. These results have improved available fund balance to over 35% of revenue, exceeding the policy target of unassigned fund balance equal to at least 15% of expenditures for several years. The city made a one-time \$110 million fund balance appropriation in fiscal 2025 to fund a Housing Accelerator Fund. We expect reserves to remain elevated relative to peers and provide ample flexibility through uncertainty over the outlook period.

The city is developing a fiscal 2026 budget that represents a 2% increase over the prior year, considering the currently unpredictable federal funding environment, while relying on the stability of property tax collections. Management has also eliminated the equivalent of 500 vacant positions, many of which have gone unfilled for an extended period. The city is petitioning the state legislature for additional tax classification flexibility in the commercial and residential dual tax rate. However, the outcome of this petition will not affect the city's tax revenue and the effort is focused on affordability for homeowners.

While the city's economy may face challenges from reduced or revoked federal funding, the overall operating budget remains fairly insulated, with just over \$300 million in recurring expenditures for fiscal 2024. The city is monitoring the effects of federal policies and is actively working to manage costs and reallocate resources as necessary. This includes closely monitoring construction bids and estimates in light of fluctuating tariff policies and incorporating contingencies in preparation for potential funding cuts. We believe the city's revenue profile and fiscal management approach will mitigate the effects of changes to federal funding and the broader macroeconomic environment.

Management

Boston adheres to well-established policies and practices, including comprehensive high-level planning documents that guide both multiyear planning and current-year investments and we believe support its financial performance. Active management of discretionary spending and ongoing monitoring ensure adherence to the adopted budget. The city's Office of Budget Management prepares monthly variance reports to forecast departmental year-end positions using actual year-to-date data. The mayor, with city council approval, can make regular supplemental appropriations and budget adjustments, with certain adjustments permissible without council approval.

The annually updated three-year financial model and five-year capital improvement program outline immediate fiscal challenges while determining and prioritizing immediate capital needs. Management uses historical trend analysis to develop line-item and departmental expenditure and revenue assumptions. The city successfully manages discretionary spending and maintains tight control over employee headcount, as evidenced by position reductions in the fiscal 2026 budget. The city's long-term planning documents, particularly its "Housing a Changing City"

(housing challenges), "Go Boston 2030" (transportation), "Imagine Boston 2030" (quality-of-life), and "Climate Action Plan" (environmental) provide long-term roadmaps for investment to tackle major issues that could impede economic growth or safety. While these plans are periodically revised, additional studies such as "Climate Ready Boston" and "Resilient Boston Harbor" provide detailed blueprints for addressing specific environmental risks.

Local and commonwealth guidelines govern city investments, with a dedicated treasury staff regularly reporting on holdings and investment performance and the policy limits investment types and administrative procedures. Currently, it invests in the state-run Massachusetts Municipal Depository Trust (MMDT), bank deposits, and other short-term debt securities that we do not view as risky. The city has formal debt management policies beyond debt limits prescribed by commonwealth statute that include informal targets for debt service-to-budget limits and net present value savings thresholds for refunding transactions. The policy stipulates that Boston maintain annual debt service at or below 7% of the operating budget and to maintain rapid amortization; the city currently exceeds the policy. Its reserve policy maintains an unassigned fund balance greater than 15% of expenditures. Its required floors for its general fund reserves (except for the school department) include a segregated reserve fund equal to 2.5% of the preceding year's appropriation for city departments.

Debt and Liabilities

We anticipate the city will add debt over the next few years as it works to address school, housing, infrastructure, and other needs as laid out in the capital plan. While the city's debt liabilities are elevated on a per capita basis, it is more favorable as a percentage of revenue. Current costs are expected to remain manageable as the city adheres to debt management policies that restrict debt service relative to the operating budget and sets amortization requirements, limiting pressure from outstanding debt.

In our opinion, a credit weakness is Boston's large pension and OPEB obligations. While the pension plan continues to revise its assumptions, the adopted funding schedule is likely to lead to pension cost growth that outpaces budgetary growth over the next few years, consequently accounting for a larger proportion of total expenditures. Additionally, while the city is prefunding its OPEB obligation and working to constrain liability growth through changes to future retiree benefits and work with unions through the Public Employee Committee, we expect OPEB costs will also continue to grow.

The city participates in the Boston Retirement System (BRS) which is 72% funded and a \$1.39 billion proportionate share of the net pension liability (NPL). BRS is a cost-sharing, multiple-employer defined-benefit pension system that covers the city's employees, including teachers. The teachers' portion of BRS has a special funding situation where the state recognizes the full liability and is responsible for funding the employer portion for teacher pension costs. The state's portion of the NPL is approximately \$2.6 billion. BRS has a system-funded ratio of 69%, including both components. While the city reports a funded ratio for its proportionate share of assets and liabilities of 72%, we note that there is no segregation of assets within the plan itself. The city's portion of BRS recently lowered rate to 6.9%, which is above our 6.0% guideline that we believe is likely to mitigate cost volatility in municipal pension plans. The state requires all pension systems to achieve full funding status no later than fiscal 2040; Boston's adopted funding schedule aims to fully fund the city's share of the pension liability in 2028.

The city also offers OPEBs to participating retirees and eligible beneficiaries. The city's net OPEB liability is about \$2.6 billion. The trust is 30% funded; the OPEB carrying charge reflects the \$40 million it contributed above the pay-as-you-go cost of \$150 million. It annually

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contributes \$40 million to the OPEB trust and once the pension is fully funded, management expects to divert a portion of those funds to further address its unfunded OPEB liability. We believe Boston is among the few municipalities which may make material OPEB funding progress in the interim. Although costs will continue to rise over the next several years, we expect the city will continue funding these obligations through the annual budget.

Boston, Massachusetts--Credit summary

| | |
|-------------------------------------|----------|
| Institutional framework (IF) | 2 |
| Individual credit profile (ICP) | 1.70 |
| Economy | 1.0 |
| Financial performance | 2 |
| Reserves and liquidity | 1 |
| Management | 1.00 |
| Debt and liabilities | 3.50 |

Boston, Massachusetts--Key credit metrics

| | Most recent | 2024 | 2023 | 2022 |
|--|-------------|-------------|-------------|-------------|
| Economy | | | | |
| Real GCP per capita % of U.S. | -- | - | 293 | 297 |
| County PCPI % of U.S. | -- | - | 153 | 153 |
| Market value (\$000s) | -- | 220,853,171 | 212,217,474 | 197,826,916 |
| Market value per capita (\$) | -- | 335,539 | 322,419 | 279,214 |
| Top 10 taxpayers % of taxable value | -- | 9.5 | 9.7 | 9.8 |
| County unemployment rate (%) | -- | 3.9 | 3.4 | 3.6 |
| Local median household EBI % of U.S. | -- | - | 118 | 118 |
| Local per capita EBI % of U.S. | -- | - | 139 | 138 |
| Local population | -- | - | 658,204 | 708,514 |
| Financial performance | | | | |
| Operating fund revenues (\$000s) | -- | 4,732,250 | 4,441,325 | 4,047,399 |
| Operating fund expenditures (\$000s) | -- | 4,459,364 | 4,159,192 | 3,977,082 |
| Net transfers and other adjustments (\$000s) | -- | (47,565) | 9,555 | 33,789 |
| Operating result (\$000s) | -- | 225,321 | 291,688 | 104,106 |
| Operating result % of revenues | -- | 4.8 | 6.6 | 2.6 |
| Operating result three-year average % | -- | 4.6 | 2.5 | 1.1 |

Boston, Massachusetts--Key credit metrics

| | Most recent | 2024 | 2023 | 2022 |
|--|-------------|-----------|-----------|-----------|
| Economy | | | | |
| Reserves and liquidity | | | | |
| Available reserves % of operating revenues | -- | 38.7 | 36.2 | 32.5 |
| Available reserves (\$000s) | -- | 1,832,277 | 1,606,956 | 1,315,268 |
| Debt and liabilities | | | | |
| Debt service cost % of revenues | -- | 4.3 | 3.9 | 4.0 |
| Net direct debt per capita (\$) | 3,625 | 2,865 | 2,728 | 2,214 |
| Net direct debt (\$000s) | 2,385,761 | 1,885,603 | 1,795,627 | 1,568,506 |
| Direct debt 10-year amortization (%) | 70 | 77 | -- | - |
| Pension and OPEB cost % of revenues | -- | 10.0 | 10.0 | 10.0 |
| NPLs per capita (\$) | -- | 2,106 | 2,682 | 1,409 |
| Combined NPLs (\$000s) | -- | 1,386,000 | 1,765,000 | 998,000 |

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings List

New Issue Ratings

US\$461.0 mil GO bonds ser 2025A due 11/01/2045

Long Term Rating AAA/Stable

Ratings Affirmed

Local Government

Boston, MA Limited Tax General Operating Pledge 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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