Research Update:

Boston, MA Series 2026A GO Bonds And Series 2026B GO Refunding Bonds Assigned 'AAA' Rating

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Overview

- S&P Global Ratings assigned its 'AAA' long-term rating to the city of Boston, Massachusetts' approximately $380 million series 2026A general obligation (GO) bonds and approximately $229.25 million series 2026B GO refunding bonds.
- At the same time, we affirmed our 'AAA' long-term rating on the city's GO bonds outstanding.
- 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 2026A bond proceeds will fund various capital improvements for both the city and school department,; proceeds from series 2026B will refund various GO debt issues.

Credit highlights

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 and slowing overall revenue growth, while costs, including for health insurance and retirement benefits, continue to grow. The city has taken steps to mitigate cost growth; however, it is expected that the city will have a budget shortfall in the current fiscal year; given its recent operating margins, very high reserves, and above-average household effective buying incomes, we believe the city has flexibility to absorb this pressure without multi-year budget stress. 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 recognize that the city is likely to issue additional debt over the next several years, but we expect costs to remain manageable.

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 income metrics that are higher than national levels at the county and city level . While the city’s development pipeline has slowed, residential development has continued and economic activity remains strong.
- Stable operating performance that has been sustained over multiple administrations and different economic environments, with 16 years of surplus results on a GAAP basis in the last 20 years. We expect management will adapt to current challenges and produce surplus results; its track record also has allowed it to accumulate reserves that have grown by over $1 billion in the last decade and total over 35% of revenue, providing substantial flexibility as budget pressure increases.
- 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 more favorable when measured against revenue, which, in our view, mitigates potential pressure, coupled with large pension and other postemployment benefit (OPEB) liabilities that 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," 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 along 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 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 added staff for this purpose and increased the use of city-generated revenue to support these initiatives, though it is also engaged with the Army Corps of Engineers and have pursued federal and state grants to support resiliency efforts.

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 2025, local property taxes generated 67% of audited general fund revenue on a GAAP basis, demonstrating a lack of dependence on federal government revenue. (See "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," 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 to produce stabilized operations while making continued investments in infrastructure and addressing unfunded retirement liabilities.

Downside scenario

We could lower the rating if financial performance deteriorates on a sustained basis, 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 country as measured by incomes and economic output. As the economic center of a vast metropolitan area extending from New Hampshire to southeastern Massachusetts, Boston leverages 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 workforce and have remained stable through changes in federal funding.

Boston's commercial and retail properties continue to rebound from the elevated vacancy rates seen during the COVID-19 pandemic, and these metrics compare favorably to those of similar large metro areas in the U.S. The city's development pipeline remains robust, with permitted and approved development continuing through the first quarter of this year. The city realized $78 million of new growth in fiscal 2026 and has conservatively budgeted for $40 million in the upcoming year. We note that new commercial growth has slowed as existing lab and office space is absorbed by the market. The city has experienced declining office building values, which have not affected the city's revenue collections due to the structure of its tax collections, but have resulted in a shift of the tax burden to residential taxpayers due to limitations of 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, and has developed a pipeline of projects under this program totaling 1.47 million square feet and over 1,700 units. While growth has slowed, we expect the city to continue to generate tax revenue growth.

Financial performance, reserves, and liquidity

Boston has a track record of producing surplus operating results and building reserves. We expect its financial performance to remain stable over the long term, with reserves remaining a significant credit strength. The city has a high reliance on property taxes, providing revenue predictability and stability. Available fund balance remains 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 for a housing accelerator fund, contributing to a lower fund balance in that year.

In 2025, the city produced excess revenue of $17 million due to higher-than-expected interest on investments and excise revenue, along with captured expense savings of $5 million driven by savings in various areas despite $71 million of allowed deficit spending in public safety overtime, legal judgement and settlement payments, and snow and winter weather costs. The city is experiencing budget pressure in fiscal 2026 and, as of the publication of this report, is projecting a $48.4 million budget shortfall for city operations and a $28 million shortfall in the school budget. The city reports revenues of $13 million over budget, offset by cost pressures attributed to higher-than-budgeted costs for snow and winter management, public safety overtime, health insurance, school transportation, and special education costs. The city has implemented expense controls across the budget, including delayed hiring and lower discretionary expenses, which has improved expected results from prior projections, but expects to appropriate free cash to make up the shortfall at year end.

The city is developing a fiscal 2027 budget that represents a 2.1% increase over the prior year and includes reduced appropriations in several departments and changes to discretionary expenditures, reflecting the city's active management of the budget. Despite these challenges, we expect reserves to remain elevated relative to those of peers and to provide ample flexibility through uncertainty over the outlook period. The city is taking steps to manage property tax revenues that are growing more slowly than in prior years while at the same time managing increasing costs, especially due to health benefits and retirement obligations, by adjusting discretionary expenditures.

Management

Boston adheres to well-established policies and practices, including comprehensive 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; this is reflected in cost-control measures initiated in the current fiscal year. The city's Office of Budget Management prepares monthly variance reports to forecast departmental year-end positions using 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 expenditure and revenue assumptions. The city successfully manages discretionary spending and maintains tight control over employee headcount, as evidenced by position reductions in recent budgets. 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. 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, the city 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, along with 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 borrow 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, they are 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 set 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, in our view, to lead to pension cost growth that outpaces budgetary growth over the next few years, consequently accounting for a larger proportion of total expenditures. Also, while the city is prefunding its OPEB obligation and working to constrain liability growth through changes to future retiree benefits and works 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 89.4% funded with a $1 billion proportionate share of the net pension liability (NPL) for the city's share of the plan. 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 wherein 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 $2.4 billion. BRS has a system-funded ratio of 76%, including both components. While the city reports a funded ratio for its proportionate share of assets and liabilities of 89%, we note that there is no segregation of assets within the plan itself. The city's portion of BRS has a discount rate of 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 $2.75 billion. The trust is 31% funded; the OPEB carrying charge reflects the $40 million it contributed above the pay-as-you-go cost of $150 million. It annually 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 that 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

Boston, Massachusetts--Credit summary

Reserves and liquidity	1
Management	1.00
Debt and liabilities	3.50

Boston, Massachusetts--Key credit metrics

	Most recent	2025	2024	2023
Economy				
Real GCP per capita % of U.S.	--	--	283	287
County PCPI % of U.S.	--	--	149	151
Market value ($000s)	--	226,374,894	220,853,171	212,217,474
Market value per capita ($)	--	347,814	339,330	322,419
Top 10 taxpayers % of taxable value	--	10.0	9.5	9.7
County unemployment rate (%)	--	4.3	3.9	3.4
Local median household EBI % of U.S.	--	--	109	118
Local per capita EBI % of U.S.	--	--	130	139
Local population	--	--	650,850	658,204
Financial performance				
Operating fund revenues ($000s)	--	4,924,860	4,732,250	4,441,325
Operating fund expenditures ($000s)	--	5,034,874	4,459,364	4,159,192
Net transfers and other adjustments ($000s)	--	62,505	(47,565)	9,555
Operating result ($000s)	--	(47,509)	225,321	291,688
Operating result % of revenues	--	(1.0)	4.8	6.6
Operating result three-year average %	--	3.5	4.6	2.5
Reserves and liquidity				
Available reserves % of operating revenues	--	36.2	38.7	36.2
Available reserves ($000s)	--	1,784,768	1,832,277	1,606,956
Debt and liabilities				
Debt service cost % of revenues	--	4.7	4.3	3.9
Net direct debt per capita ($)	4,054	3,457	2,897	2,728
Net direct debt ($000s)	2,638,521	2,249,906	1,885,603	1,795,627
Direct debt 10-year amortization (%)	62	68	77	--
Pension and OPEB cost % of revenues	--	10.0	10.0	10.0
NPLs per capita ($)	--	1,664	2,130	2,682
Combined NPLs ($000s)	--	1,083,036	1,386,000	1,765,000

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. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. 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

Ratings List	
US$229,250,000 Boston, Massachusetts, General Obligation Refunding Bonds , Series 2026 B, dated: Date of Delivery, due: June 1, 2044	
Long Term Rating	AAA/Stable
US$380,005,000 City of Boston, Massachusetts, General Obligation Bonds, Series 2026 A, dated: Date of Delivery, due: June 1, 2046	
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.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.