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Commonwealth of Massachusetts: Fitch New Issue Report

Tax revenues are diverse but dominated by individual income taxes, which are sensitive to economic conditions, particularly the components related to capital gains. Baseline growth prospects for tax revenues are strong and expected to match national GDP, driven by the commonwealth's underlying diverse economy that includes a significant knowledge-based industry component. Consistent with most states, the natural pace of spending growth is likely to marginally exceed expected revenue growth over time, requiring ongoing cost control. The commonwealth has ample ability to reduce spending through the economic cycle. Long-term liability levels in Massachusetts, while comparatively high for a U.S. state, are a moderate burden on resources. The commonwealth's above average liability position is partly the result of state funding of both capital needs and pensions that are more commonly funded at the local level, primarily for K-12 education. The commonwealth has superior gap-closing capacity supported by conservative budgeting, ongoing fiscal monitoring and a requirement to cut spending in response to revenue gaps. Gap-closing capacity is also supported by a funding mechanism that redirects a portion of economically sensitive capital gains tax receipts into the stabilization fund, which functions as the commonwealth's rainy day fund.

ACCESS REPORT

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