

**Summary:**

## Massachusetts; General Obligation; Note

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## Summary:

# Massachusetts; General Obligation; Note

Credit Profile		
US\$425. mil GO RANs ser 2010C dtd 08/26/2010 due 06/23/2011		
<i>Short Term Rating</i>	SP-1+	New
US\$425. mil GO RANs ser 2010B dtd 08/26/2010 due 05/26/2011		
<i>Short Term Rating</i>	SP-1+	New
US\$358. mil GO bnds cons loan (Build America Bnds) ser 2010D due 08/01/2028-2031		
<i>Long Term Rating</i>	AA/Stable	New
US\$350. mil GO RANs ser 2010A dtd 08/26/2010 due 04/28/2011		
<i>Short Term Rating</i>	SP-1+	New

## Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating, and stable outlook, to the commonwealth of Massachusetts' general obligation (GO) bonds consolidated loan of 2010, series D (federally taxable - Build America bonds - direct pay to issuer). Standard & Poor's also affirmed its 'AA' long-term rating on parity debt outstanding.

In addition, Standard & Poor's assigned its 'SP-1+' short-term rating to Massachusetts' revenue anticipation notes (RANs) 2010 series A, B, and C.

The 'AA' GO rating on Massachusetts reflects our view of the commonwealth's:

- Strong and conservative budget management practices, with swift action to restore balance after identifying revenue shortfalls throughout the recession;
- Continued budget stabilization reserve balances despite reductions in the past two years, which in our opinion provide flexibility to manage through the current economic climate;
- High wealth and income levels; and
- Deep and diverse economy that has experienced weakness in the past year in line with national trends.

Standard & Poor's believes the commonwealth's high debt burden and significant unfunded pension and other postemployment benefit (OPEB) liabilities are offsetting considerations to the current rating. While we view the commonwealth's total postretirement liabilities as relatively high, we believe Massachusetts has been actively managing these liabilities.

The short-term rating reflects what we view as:

- The general creditworthiness of Massachusetts ('AA' GO rating); and
- Strong note debt service coverage.

The notes are general obligations of the commonwealth, secured by Massachusetts' full faith and credit pledge.

The notes are being issued to meet cash flow requirements for fiscal 2011. The size of the RAN issuance is in line with the fiscal 2010 RAN borrowing. The commonwealth has done larger RAN issuance in the past two fiscal years

and relied less on its \$1 billion commercial paper program for cash flow purposes. The commonwealth does not use interfund borrowing for cash flow purposes and the balance in their stabilization fund (\$657 million) is not available for cash flow purposes unless authorized by the legislature. The series A, B, and C notes will mature on April 28, May 26, and June 23, 2010, respectively. There will be no revenue withholding in advance of note repayment but the staggered maturity schedule provides for strong coverage in our view--3.8x, 3.0x, and 1.8x, respectively. To meet capital requirements, \$200 million of commercial paper was issued in July. The current cash flow forecast projects repayment from operating cash but is expected to be repaid from proceeds of a planned gas tax bond issue in October, which should improve overall operating cash flow. The current cash flow forecast is from the May 31 2010, statutory cash flow report based on the enacted budget and current revenue forecast. An update to the cash flow forecast will be done in late August as required by statute. This RAN issue represents only 3.9% of total budgeted revenue. On Oct. 15, 2010, the secretary of administration and finance is required by statute to certify fiscal 2010 revenues and make adjustments if necessary.

The Massachusetts economy continues to experience decline but the pace has slowed. The unemployment rate has been above 9.0% in 2010, which compares with 5.3% in 2008. The rate remains below the national average and the pace of employment decline has slowed while the labor force has been stable. To date, job loss through this recession has been less severe than the 2001 recession and the recession of early 1990s by what we consider a significant margin. Economic recovery is likely to be slow in our view, but IHS Global Insight Inc. projects that Massachusetts will lead the region in recovery. We believe the commonwealth's economic fundamentals and key anchors, which are centered on higher education, technology, and health care, should contribute to positive economic growth prospects over time.

In line with most other states, Massachusetts has faced significant budget gaps for fiscals 2009 and 2010 (an \$8 billion cumulative gap) due largely to declining revenues. Revenues were revised four times through fiscal 2009, which significantly lowered the revenue base for fiscal 2010. As required by statute, the Secretary of Administration and Finance announced on Oct. 15, 2009, that it expected a \$600 million revenue deficiency for fiscal 2010. The governor submitted a plan to close the gap that relied heavily on spending reductions and some minor revenue enhancements. In addition to the revenue shortfall, potential spending pressures above budgeted levels in Medicaid and other program areas were identified. In January of this year, revenues were revised upward by \$181 million to \$18.5 billion based on improved year-to-date collections. Based on monthly revenue performance through June 30, the commonwealth forecasts that revenues are about \$67 million above forecast. Total supplemental appropriations for fiscal 2010 totaled \$665.4 million and additional adjustments could occur.

The commonwealth expects its stabilization fund to be \$657 million at year-end fiscal 2010 or about 3.6% of general fund tax revenue. There will be two petitions on the November ballot relating to sales tax. One petition would remove the sales tax on alcoholic beverages and the other would reduce the sales and use tax rates to 3%. If approved by voters, the legislature has the option to amend or repeal the petition.

By most measures, Massachusetts' debt burden remains high compared with that of other states. The commonwealth has about \$17 billion of GO debt. Of this amount, more than 80% is fixed rate and the remaining \$3.3 billion is variable rate and hedged with interest-rate swaps. Massachusetts has a range of other debt obligations outstanding, including those supported by the statewide sales tax, contract assistance debt, and debt subject to annual appropriation. On a budgetary basis, debt service was about 7% of expenditures in fiscal 2009. The capital investment plan through 2014 totals \$17 billion, with \$10.5 billion of bond issuance projected. This plan adheres to annual bond cap (debt service as a percent of budgeted revenue within the 8% limit) that is outlined in

Massachusetts' annual debt affordability analysis.

## Outlook

The stable outlook reflects Standard & Poor's view of the commonwealth's proactive approach to managing budget volatility through the recession. Revenue adjustments have been frequent and gap-closing actions have been swift, successfully restoring balance. While diminished, we believe the budget stabilization fund retains a balance that will continue to provide. These are important credit factors for Massachusetts given its dependence on personal income (and related capital gains) tax revenues, which are volatile during economic cycles.

## Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Short-Term Debt, June 15, 2007

Ratings Detail (As Of August 17, 2010)		
Massachusetts GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Massachusetts GO VRDBs 2000A		
<i>Long Term Rating</i>	AA/NR/Stable	Affirmed
Massachusetts GO VRDBs 2000B C		
<i>Long Term Rating</i>	AA/A-1+/Stable	Affirmed
Massachusetts GO VRDBs 2001B		
<i>Long Term Rating</i>	AA/A-1+/Stable	Affirmed
Massachusetts GO VRDBs 2006A		
<i>Long Term Rating</i>	AA/A-1/Stable	Affirmed
Massachusetts GO VRDBs 2006B		
<i>Long Term Rating</i>	AA/A-1/Stable	Affirmed
Massachusetts GO (wrap of insured) (ASSURED GTY & AMBAC) (SEC MKT)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Massachusetts GO (wrap of insured) (FGIC & BHAC) (SEC MKT)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Massachusetts GO (FGIC)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Massachusetts GO (MBIA) (Assured Gty)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<b>Massachusetts GO</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<b>Massachusetts GO RFD</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<b>Massachusetts GO Rfd</b>		

<b>Ratings Detail (As Of August 17, 2010) (cont.)</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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