

Rating Action: Moody's assigns Aa1 to \$250M of Massachusetts GO bonds; outlook stable

Global Credit Research - 14 Mar 2014

\$60 million offered in first sales of MassDirect Notes rolling offering program

New York, March 14, 2014 --

Moody's Rating

Issue: General Obligation Bonds Consolidated Loan of 2014 (MassDirect Notes), Series 1; Rating: Aa1; Sale Amount: \$250,000,000; Expected Sale Date: 03-17-2014; Rating Description: General Obligation

Opinion

Moody's Investors Service has assigned a Aa1 rating to up to \$250 million of the Commonwealth of Massachusetts General Obligation Consolidated Loan of 2014 (MassDirect Notes). The commonwealth plans to offer GO bonds through the MassDirect Notes program on a rolling monthly basis with bond sales every day for one or two weeks of every month. The bonds will be primarily for retail investors, offered in limited maturities, and sold through an electronic trading platform. The first sales of the rolling program, \$30 million for Series 1 and \$30 million for Series 2, will be offered the weeks of March 17 and March 24, respectively. Proceeds of the bonds will be used for various capital expenditures.

SUMMARY RATING RATIONALE

The Aa1 rating reflects Massachusetts' strong financial management practices and its demonstrated willingness to balance its budget when necessary through spending cuts, revenue increases and use of reserves; a large education and health care sector that generates high wages and helps to bolster employment; debt levels that are among the highest in the nation; and large unfunded pension liabilities. The outlook is stable.

STRENGTHS

- Strong financial management practices, particularly a willingness to promptly identify and close budget gaps through expenditure reductions, revenue increases and overall prudent use of reserves
- Budget reserves that provide an adequate cushion to another downturn and the commonwealth's commitment to maintain them at healthy levels
- An economic base characterized by high wealth and high levels of educational attainment that has provided a degree of stability to the commonwealth's employment situation

CHALLENGES

- Debt ratios that are among the nation's highest and large unfunded pension liabilities based on Moody's adjusted figures
- Large health care and other social services costs that drive the budget and ongoing spending pressure related to the statewide transportation system
- Managing the challenges from federal downsizing during the next several years, which could have a heavy impact on the commonwealth's important healthcare and research sectors

OUTLOOK

The outlook for Massachusetts is stable, reflecting its good reserve levels and efforts to regain structural budget balance. The outlook also reflects our expectation that the commonwealth will continue to take proactive measures to close budget gaps if they emerge and continue its trend of strong financial management. Going forward, reliance on one-time budget solutions, tighter cash margins, unexpectedly severe economic deterioration, or a large

increase in tax-supported debt could pressure the rating at its current level.

WHAT COULD MAKE THE RATING GO UP

- Continued rebuilding of reserves and establishment of stronger constraints on their use
- Established trend of structural budget balance
- Reduced debt ratios relative to Moody's 50-state median

WHAT COULD MAKE THE RATING GO DOWN

- Protracted structural budget imbalance driven by deeper and/or prolonged economic downturn
- Depletion of Budget Stabilization Fund to inadequate levels
- Increased leveraging of the commonwealth's resources to pay debt service or further erosion in pension funding ratios
- Narrowed cash flow that strains the commonwealth's liquidity

The principal methodology used in this rating was US States Rating Methodology published in April 2013. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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