FITCH RATES MASSACHUSETTS' $1.2B GO RANS 'F1+'

Fitch Ratings-New York-17 August 2010: Fitch Ratings assigns an 'F1+' rating to the following Commonwealth of Massachusetts general obligation (GO) revenue anticipation notes (RANs):

--$350 million 2010 series A RANs due April 28, 2011;
--$425 million 2010 series B RANs due May 26, 2011;
--$425 million 2010 series C RANs due June 23, 2011.

The notes are scheduled to sell through competitive bid on Aug. 18, 2010.

RATING RATIONALE:

--The notes are a general obligation of the Commonwealth. Projected receipts provide strong coverage of note repayment and the remaining balance in the stabilization fund provides additional cushion.
--Massachusetts has a fundamentally strong and wealthy economy, although population growth is slow.
--The commonwealth has benefited from conservative budgeting and sound financial practices over time. Although significantly reduced in the downturn, reserves remain to provide a hedge against the commonwealth's somewhat volatile revenue stream.
--Overall debt levels are high.

KEY RATING DRIVER:

Significant changes in Massachusetts's underlying credit characteristics and/or fiscal 2011 cash flow projections.

SECURITY:

The notes are general obligations of the commonwealth to which its full faith and credit is pledged.

CREDIT SUMMARY:

The Commonwealth, which makes large quarterly local aid payments (about $1.2 billion per quarter in fiscal 2011), is a regular annual issuer of RANs. The size of the $1.2 billion fiscal 2011 RANs sale matches that of the fiscal 2010 borrowing. Massachusetts also has an $800 million commercial paper program and, as in fiscal 2010, this year the Commonwealth plans to do all of its expected cash flow borrowing through RANs, reserving the more flexible commercial paper capacity for unplanned needs. Both commercial paper and RANs must be repaid by the June 30 end of the fiscal year.

The $1.2 billion in RANs being issued represent a moderate 2.7% of projected fiscal 2011 cash receipts, adjusting the official cashflow forecast from late May 2010 for the actual fiscal 2011 beginning balance and RAN issuance amount as well as the expected repayment of outstanding commercial paper with bond proceeds rather than cash. Coverage is strong at 4.1 times (x) for the series A maturity in April, 3.3x for the series B maturity in May and 2.4x for the series C maturity in June. The current official cashflow forecast projects a fiscal 2011 non-segregated operating cash ending balance of $359 million, which rises to $593 million with the adjustments. The balance in the Commonwealth's stabilization fund (currently projected at $556 million at the end of fiscal 2011) provides a further cushion against revenue underperformance. The current forecast does not include the estimated $463 million in additional revenue expected in fiscal 2011 following last week's extension of federal stimulus funds related to the Medicaid program (FMAP).

The notes being sold are the only RANs planned for fiscal 2011. The next cashflow forecast is scheduled for late August 2010.

Massachusetts' 'AA+' long-term GO bond rating reflects considerable economic resources and a record of prudent financial management. Credit strengths are tempered by a very heavy debt burden; net tax-supported debt equals about 9% of personal income and Fitch expects that debt levels will remain high. The Rating Outlook is Stable due to Fitch's expectation that the Commonwealth will continue to act to ensure budget balance and maintain an adequate budgeted reserve position. For more information, see Fitch Research 'Fitch Rates Massachusetts' $358MM GO Bonds 'AA+'; Outlook Stable' dated Aug. 16, 2010.

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Additional information is available at 'www.fitchratings.com'

Related Research:

--'Tax-Supported Rating Criteria', dated Aug. 13, 2010.
--'U.S. State Government Tax-Supported Rating Criteria', dated Dec. 28, 2009.
--'Rating Municipal Short-Term Debt', dated Oct. 18, 2007.

For information on Build America Bonds, visit www.fitchratings.com/BABs.

Related Research:
Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=548605
U.S. State Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=493048
Rating Municipal Short-Term Debt
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