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Summary:
Massachusetts; General Obligation

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Credit Profile		
US$400.0 mil GO RANs ser 2014C due 06/25/2015		
Short Term Rating	SP-1+	New
US$400.0 mil GO RANs ser 2014B due 05/28/2015		
Short Term Rating	SP-1+	New
US$400.0 mil GO RANs ser 2014A due 04/23/2015		
Short Term Rating	SP-1+	New

Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' short-term rating to the commonwealth of Massachusetts' $1.2 billion of general obligation (GO) revenue anticipation notes (RANs), 2014 series A, B, and C.

The short-term rating reflects what we view as the general creditworthiness of Massachusetts ('AA+' GO rating) and strong note debt service coverage at maturity.

The notes are general obligations of the commonwealth, secured by Massachusetts' full faith and credit pledge, and are being issued to meet cash flow requirements for fiscal 2015.

Massachusetts does not use interfund borrowing for cash flow purposes and the sizable balance in its budget stabilization fund (BSF) is not available for general fund cash flow requirements unless authorized by the legislature. The commonwealth estimates its available nonsegregated general fund cash balance for fiscal year-end June 30, 2014, at $1.34 billion. The most recent cash flow projection by the state projects a higher fiscal year-end 2015 general fund cash balance of $2.23 billion. Massachusetts bases its cash flow projection on the enacted fiscal 2015 budget and supplemental appropriations, with actual spending and revenue through July 2014. In our view, revenues have experienced strong recovery in the past several years, contributing to healthy budgetary results and an improved BSF. While this is positive from a credit standpoint, the legal prohibition to use the BSF for cash flow contributes to cash flow imbalance throughout the year despite this ongoing revenue improvement, leading the commonwealth to issue cash flow notes. Massachusetts is sizing its note issuance to meet a minimum cash balance of about $500 million at each month end. The BSF balance at fiscal year-end 2014 is estimated at $1.25 billion, down $309 million from fiscal 2013, but a lower reduction than originally budgeted. The state projects the BSF will total $1.22 billion at fiscal year-end 2015.

The series A, B, and C notes will mature on April 23, May 28, and June 25 of 2015, respectively. There will be no revenue withholding in advance of note repayment, but the staggered maturity schedule provides for strong coverage in our view at 5.6x, 4.6x, and 6.5x, respectively, by month-end cash available based on Massachusetts' projected cash flow. Cash management is the responsibility of the state treasurer and in our view the commonwealth has robust cash forecasting processes, with detailed reporting and monitoring. The cash forecast is revised regularly to incorporate actual performance and the next revision is scheduled for Nov. 30, 2014. We believe that Massachusetts' current forecast of revenues is reasonable and aligned with current economic performance. Preliminary fiscal 2014 operating funds tax revenues totaled approximately $23.4 billion, or 5.6% above fiscal 2013 and $169 million above forecast. Fiscal 2015 tax collections through August were approximately $3.2 billion, an increase of $99 million, or 3.2% over the same period in fiscal 2014 and $66 million above forecast.

For more information on Massachusetts' long-term credit quality, please refer to the most recent state GO rating rationale, published Sept. 12, 2014, on RatingsDirect.

Outlook

N.M.

Related Criteria And Research

Related Criteria

- USPF Criteria: Short-Term Debt, June 15, 2007
- U.S. State And Local Government Credit Conditions Forecast, July 8, 2014

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