PUBLIC FINANCE

STANDARD & POOR'S

Massachusetts

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RatingsDirect
Publication Date
April 30, 2010

Credit Profile		
US$400. mil GO bnds cons loan (Build America Bnds) ser 2010A due 05/01/2029		
Long Term Rating	AA/Stable	New
Massachusetts GO		
Long Term Rating	AA/Stable	Affirmed
Massachusetts GO cons loan (wrap of insured) (FGIC & BHAC) (SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating, and stable outlook, to the commonwealth of Massachusetts' $400 million general obligation (GO) bonds consolidated loan of 2010, series A (federally taxable - Build America bonds - direct pay to issuer).

We also affirmed the 'AA' rating on parity debt outstanding.

The 'AA' general obligation (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 planned reductions in the current fiscal year, 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. (See state review published March 10, 2010, on RatingsDirect on the Global Credit Portal.)

The Massachusetts economy continues to experience decline but the pace has slowed. The unemployment rate has been above 9% in 2010, which compared 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. This trend appeared to be holding through March. The filing deadline for income tax returns was extended to May 11, 2010, from April 15, 2010, due to weather events so tax receipts are expected to be lower than forecast for April. There continue to be spending deficiencies, which are projected to be $426 million if not contained. Additional unbudgeted federal reimbursements of $130 million ($80 million attributable to fiscal 2010) will partially offset the additional cost exposures. The commonwealth expects its stabilization fund to be $687 million at year-end fiscal 2010.

In conjunction with the fiscal 2010 budget and sales tax increase, the commonwealth addressed statewide transportation funding issues with $275 million of the sales tax increase dedicated to transportation. These resources were partially aimed at improving the credit profile of the Massachusetts Turnpike Authority (MTA), which faced significant termination costs associated with swap agreements outstanding (see article on the MTA published March 19, 2010, on RatingsDirect). About $928 million of the MTA's subordinated debt is now supported by contract assistance payments of the commonwealth.

By most measures, Massachusetts' debt burden remains high compared with that of other states. The commonwealth has about $16.8 billion of GO debt. Of this amount, about 80% is fixed rate and the remaining $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 (CIP) 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, the budget stabilization fund retains a balance that will continue to provide flexibility to manage the current fluid revenue environment. 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

Ratings Detail (As Of 30-Apr-2010)		
Massachusetts GO (wrap of insured) (ASSURED GTY & AMBAC) (SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Massachusetts GO (FGIC)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Massachusetts GO (MBIA) (Assured Gty)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Massachusetts GO (MBIA) (National)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Massachusetts GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Massachusetts GO RFD		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Massachusetts GO Rfd		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
University of Massachusetts Bldg Auth, Massachusetts		
Massachusetts		
University of Massachusetts Bldg Auth (Massachusetts)		
Long Term Rating	AA/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	
University of Massachusetts Bldg Auth (Massachusetts) GO (MBIA) (National)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.