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Summary:

Massachusetts; General Obligation

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Summary:

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Credit Profile		
US$350.0 mil GO bnds cons loan of 2012 ser B due 06/01/2042		
Long Term Rating	AA+/Stable	New
Massachusetts GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+ rating to Massachusetts' $350 million GO bonds, consolidated loan of 2012. In addition, we affirmed the rating on existing parity debt. The outlook is stable. We understand that bond proceeds of this issue will fund various capital projects.

We raised the commonwealth's rating raised in September of 2011, reflecting its ongoing progress in improving financial, debt, and budget management practices while implementing cost-control and reform measures associated with its long term liabilities. The upgrade also reflected the commonwealth's commitment to its stabilization fund. Formalized policies relating to debt affordability, capital investment planning, financial planning, and enhanced funding of the stabilization fund are key improvements from a credit standpoint.

Other factors supporting the 'AA+' rating, in our view, are the commonwealth's:

- Relatively strong budget performance through the recent recession, with swift action to restore balance after identifying revenue shortfalls and a focus on structural solutions to budget balance;
- Commitment to maintaining budget stabilization fund (BSF) balances, which provide flexibility to manage any budget volatility;
- High wealth and income levels; and
- Deep and diverse economy, which has recovered steadily after weakness through the recent recession.

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 its total postretirement liabilities as relatively high, we believe Massachusetts has been actively managing these liabilities.

After declining through the recession, Massachusetts' economy has experienced steady recovery. Unemployment rates fell to 6.5% in March according to the Bureau of Labor Statistics, after peaking at 9.0% through most of 2010. The Commonwealth estimates that the rate fell to 6.3% in April with 2,500 jobs added. The rate remains below the national average of 8.1%, and employment growth has been strong relative to other states throughout the recovery. In our view, 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.

Revenue recovery for the state has also been fairly strong. Fiscal year 2011 tax receipts were 10.6% above fiscal year 2010's and well above forecast. Fiscal year 2012's receipts to date are currently 2% above fiscal 2011 but are $180.4 million below the current-year forecast. Revenue recovery has contributed to improved budgetary performance and liquidity in our opinion. The commonwealth ended fiscal year 2011 with a $997.8 million surplus on a budgetary basis, due largely to stronger-than-forecasted revenue performance. Tax revenue for fiscal year 2011 was $20.5 billion, or $723 million above the Jan. 18, 2011, estimate. With the year end surplus, a deposit of $350 million was made to the stabilization fund and a supplemental appropriation of $132.1 million was made for infrastructure and funding to local governments and natural disaster-related costs. The stabilization fund at June 30, 2011 was $1.4 billion, compared with $670 million in fiscal 2010. In addition to the deposit, the state reversed a planned drawdown in fiscal year 2011, and it authorized a deposit of 0.5% of fiscal year 2011 tax collections in that fiscal year.

The state projects that the budget stabilization fund will increase to about $1.5 billion at fiscal year-end 2012. The planned use of $200 million will not occur, and one-time settlements of $185 million to $195 million will be deposited to the BSF. In the most recent update to the current fiscal year, done in March, the Department of Administration and Finance projects that general fund operations will be balanced with a slightly reduced revenue forecast ($200 million) offset by lower-than-forecasted spending.

The governor released his budget recommendations in January. The budget closed an estimated gap of $1.4 billion through spending reductions, revenue adjustments we view as minor, and about $541 million of one time resources. This includes a proposed $400 million use of the BSF. Total spending is recommended at $32.3 billion or 2.98% above estimated spending for fiscal year 2012. The State House and Senate have both released their budget proposals, with the house version including a slightly higher level of spending and the senate version including a lower level of spending than the governor's budget recommendations. The consensus revenue estimate underlying all three proposals projects tax revenue of $21.95 billion, which represents 4.5% growth compared with the revised fiscal year 2012 estimate of $21.01 billion. Capital gains are estimated to be $1.1 billion, so $100 million will go to the BSF. None of the proposals include broad-based revenue measures.

By most measures, Massachusetts' debt burden remains high compared with that of other states. The commonwealth has about $18.5 billion of GO debt outstanding. 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 an affordable 6.7% of expenditures in fiscal 2012. The capital investment plan and debt affordability analysis through 2016 shows annual debt issuance ranging from $1.9 billion in fiscal 2012 up to $2.25 billion in fiscal 2016. This plan adheres to the annual bond cap (debt service as a percent of budgeted revenue within the 8% limit) that is outlined in Massachusetts' annual debt affordability analysis. The capital investment plan totals $17.2 billion.

The most recent actuarial valuation of the combined pension indicates improved funded ratios through Jan. 1, 2011. The funded ratio improved to 71.1% from 67% on Jan. 1, 2010. The unfunded actuarial liability is $18.6 billion, down from $20 billion in 2010. The improved funded ratio was due largely to higher assets reflecting investment performance. The funded ratio remains slightly below average relative to funded ratios for other U.S. states, but we anticipate that recent reform efforts implemented and under consideration currently could lower liabilities. Massachusetts also has a $16.6 billion unfunded actuarial OPEB liability, which we consider sizeable. The commonwealth has established a trust fund to begin to accumulate assets toward the liability, which had a balance of $350 million as of June 30, 2011. The 2012 enacted budget provides that 10% of all tobacco settlement payments to the state be dedicated to the trust fund, with an additional 10% added each year until the deposit reaches 100% of the payments. This is expected to provide a recurring source of revenue to the trust.

Based on the analytic factors we evaluate for states, on a scale of '1.0' (strongest) to '4.0' (weakest), we have assigned a composite score of '1.8' to Massachusetts.

For more information, see the full analysis published Sept. 20, 2011 on RatingsDirect.

Outlook

The stable outlook reflects our expectation that Massachusetts will continue to proactively manage its budget. We do not anticipate changing the rating during the two year outlook period. While budget resources remain constrained, recent management initiatives to formalize long term financial planning and manage long term debt and liabilities should improve structural budget performance over time. The BSF also provides flexibility to manage future budget challenges in our view. Standard & Poor's will continue to monitor the federal fiscal consolidation efforts stemming from the Budget Control Act of 2011 and, once these are identified, will evaluate their effect on the state's finances and officials' response to any funding or policy changes.

Related Criteria And Research

USPF Criteria: State Ratings Methodology, Jan. 3, 2011

Ratings Detail (As Of May 18, 2012)		
Massachusetts GO rfdg bnds var rate dem bnds ser C dtd 02/20/2001 due 01/01/2021		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Massachusetts GO VRDBs 1997B		
Long Term Rating	AA+/A-1/Stable	Affirmed
Massachusetts GO VRDBs 2000A		
Long Term Rating	AA+/A-1/Stable	Affirmed
Massachusetts GO VRDBs 2000B		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Massachusetts GO VRDBs 2006A		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Massachusetts GO VRDBs 2006B		
Long Term Rating	AA+/A-1/Stable	Affirmed
Massachusetts GO (wrap of insured) (ASSURED GTY & AMBAC) (SEC MKT)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Massachusetts GO (wrap of insured) (FGIC & BHAC) (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		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Ratings Detail (As Of May 18, 2012) **(cont.)**		
Massachusetts GO Rfd		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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