

FITCH RATES MASSACHUSETTS GO BONDS 'AA+'; OUTLOOK STABLE

Fitch Ratings-New York-02 June 2017: Fitch Ratings has assigned a 'AA+' long-term rating to \$717 million in Commonwealth of Massachusetts general obligation (GO) bonds, consisting of:

- \$100,000,000 GO bonds, consolidated loan of 2017, series C;
- \$400,000,000 GO bonds, consolidated loan of 2017, series D;
- \$216,660,000 GO refunding bonds, 2017 series D.

The par amount for the GO refunding bonds is subject to change pending final sale. The bonds will be offered by competitive sale on or about June 21, 2017.

The Rating Outlook on the long-term bonds is Stable.

SECURITY

The bonds are general obligations of the commonwealth, to which its full faith and credit are pledged. A statutory state tax revenue growth limit does not exclude principal and interest on debt obligations from the limit

KEY RATING DRIVERS

Massachusetts' 'AA+' Issuer-Default Rating (IDR) reflects its considerable economic resources, strong budget controls and a record of careful financial management. The commonwealth carries a long-term liability burden that is well above average for a U.S. state but remains a moderate burden on resources. The Stable Outlook reflects the expectation that the commonwealth will continue to act as needed to ensure budget balance and maintain an adequate budgeted reserve position.

Economic Resource Base

The commonwealth has a broad and diverse economy. Employment growth is solid, education levels are high, and population growth has approximated that of the U.S. this decade. Economic fundamentals include significant strength in the health care, technology and education sectors, leaving it well positioned for solid gains going forward. Measured by per capita personal income, Massachusetts is the second wealthiest state in the nation.

Revenue Framework: 'aaa' factor assessment

Tax revenues, while diverse, are dominated by personal income taxes (PIT), which are sensitive to economic conditions, particularly those related to capital gains. Baseline growth prospects for taxes are strong, driven by the commonwealth's solid economic fundamentals.

Expenditure Framework: 'aaa' factor assessment

Consistent with most states, the natural pace of spending growth is expected to marginally exceed expected revenue growth over time, requiring ongoing cost control. The Commonwealth has ample ability to reduce spending throughout the economic cycle.

Long-Term Liability Burden: 'aa' factor assessment

Liability levels in Massachusetts, while high for a U.S. state, are a moderate burden on resources. The Commonwealth's above-average liability position is partly the result of state funding for needs that are more commonly funded at the local level.

Operating Performance: 'aaa' factor assessment

The Commonwealth has exceptional fiscal resilience, with strong gap-closing capacity stemming from a practice of building solid reserve balances and making revenue and spending changes as needed in response to changing circumstances. Conservative budgeting, ongoing economic and revenue monitoring, and mechanisms to protect the general fund from economically sensitive PIT and judgment and settlement receipts, support the Commonwealth's fiscal flexibility.

RATING SENSITIVITIES

The rating is sensitive to shifts in fundamental credit characteristics including Massachusetts' consistent commitment to strong financial management practices.

CREDIT PROFILE

Massachusetts' 'AA+' IDR reflects its solid credit attributes. The Commonwealth's dynamic, service-oriented economy, anchored by numerous institutions of higher education and health care, has solid growth prospects despite remaining sensitive to national trends. Net tax-supported debt and pension liabilities are high for a state but represent only a moderate burden on resources; high debt levels are partly explained by the Commonwealth's role in funding local capital needs. Sources of fiscal flexibility include the stabilization fund, for which the fiscal 2017 year-end balance is forecast to be \$1.3 billion. Moreover, in the event of a mid-year forecast deficiency, the governor is required to reduce allotments or identify other balancing measures. Operating performance is enhanced further by mechanisms to cap the impact of volatile capital gains-related PIT receipts and judgment and settlement payments on the general fund.

RECENT OPERATING PERFORMANCE

In fiscal 2017, actual revenue collections have underperformed earlier forecast targets, despite growing relative to fiscal 2016. The January 2016 consensus revenue forecast originally projected nearly \$26.9 billion in revenues in fiscal 2017, although slow collections late in fiscal 2016 and weaker than expected sales tax growth in early fiscal 2017 resulted in a lowering of fiscal 2017 forecast revenues to \$26.1 billion, as of October 2016. In response, the Commonwealth has undertaken several balancing actions including voluntary separations, balance transfers, and implementation of \$95 million in Section 9C reductions. Year-to-date through April 2017, fiscal 2017 tax collections are 2.2% below benchmark and 1.1% above the prior year level. Consistent with the experience of most states with personal income taxes, the performance of April 2017 collections in Massachusetts was driven largely by the non-withholding components of the PIT as well as by softness in the sales tax. The Commonwealth currently expects fiscal 2017 tax collections to fall \$375 million-\$575 million below the October 2016 projection.

Fiscal 2018 revenues as of the January 2017 consensus revenue forecast are expected to rise 3.9% over the fiscal 2017 level, to nearly \$27.1 billion. The forecast and the governor's executive budget assume that a 0.05% PIT rate cut will be triggered as of Jan. 1, 2018; the reduction is part of a phased-in, multi-year rate reduction that will gradually bring the PIT rate to 5%, from 5.3% (the current rate is 5.1%). The governor's executive budget recommended total budgeted expenditures of \$40.5 billion, 4.3% higher than currently expected fiscal 2017 expenditures, excluding Medicaid trust fund and other transfers. Under a proposed modification for capital gains deposits to the stabilization fund, half of the amount over the projected statutory threshold would be transferred on a pre-budget basis, rather than at year-end, with half of above-budget tax collections transferred at fiscal year-end. Based on the proposal, \$52 million would be deposited at the start of fiscal 2018.

This performance is also expected to affect the budget for fiscal 2018, with the final enacted budget likely to assume a lower revenue target. The legislature continues to deliberate on the fiscal 2018 budget, with separate legislative budgets to be reconciled during June.

For additional information on the Commonwealth of Massachusetts, please see Fitch's rating action commentary, "Fitch Rates Massachusetts GO Bonds 'AA+'; Outlook Stable", dated March 14, 2017, at www.fitchratings.com.

Contact:

Primary Analyst
Douglas Offerman
Senior Director
+1-212-908-0889
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Secondary Analyst
Laura Porter
Managing Director
+1-212-908-0575

Committee Chairperson
Marcy Block
Senior Director
+1-212-908-0239

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Date of Relevant Rating Committee: Aug. 15, 2016

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools

Additional information is available on www.fitchratings.com

Applicable Criteria

Rating U.S. Public Finance Short-Term Debt -- Effective Nov. 17, 2015 - Feb. 8, 2017 (pub. 17 Nov 2015)

<https://www.fitchratings.com/site/re/873508>

U.S. Tax-Supported Rating Criteria — Effective April 18, 2016 to May 31, 2017 (pub. 18 Apr 2016)

<https://www.fitchratings.com/site/re/879478>

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2017 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it

in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001