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INVESTORS SERVICE

Rating Action: Moody's assigns Aa1 to Massachusetts' GO Bonds Consolidated Loan of 2019 Series A & B and GO Ref. Bonds 2019 Ser A; outlook stable

18 Dec 2018

New York, December 18, 2018 -- Moody's Investors Service has assigned a Aa1 to Massachusetts' \$550 million General Obligation Bonds Consolidated Loan of 2019 Series A, \$50 million General Obligation Bonds Consolidated Loan of 2019 Series B (Federally Taxable), and \$325.9 million General Obligation Refunding Bonds, 2019 Series A. The outlook is stable.

RATINGS RATIONALE

Massachusetts' Aa1 rating reflects the state's continually growing economy, anchored by education, healthcare and technology sectors. The strong economy combined with close monitoring of expenditures and revenues and ample executive authority to make mid-year cuts, have resulted in balanced budgets. Strong year-over-year tax revenue growth, along with prudent planning, have afforded the commonwealth the opportunity to build up reserves. Debt and pension liabilities are among the highest in the nation, though these figures include borrowing and benefits for local governments.

RATING OUTLOOK

The stable outlook reflects our expectation that the commonwealth will continue its trend of strong financial management, taking proactive measures to close budget gaps as they emerge. Reliance on one-time budget solutions or decreased liquidity would be indications of deviating from these practices.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Continued rebuilding of reserves and establishment of stronger constraints on their use
- Established trend of structural budget balance
- Moderated debt and pension burdens, especially relative to peers

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Protracted structural budget imbalance
- Reserves or liquidity that fall below adequate levels
- Growth in leverage relative to state GDP or rising fixed costs relative to state revenue

LEGAL SECURITY

The bonds are general obligations of the Commonwealth of Massachusetts, which has pledged its full faith and credit for the payment of principal and interest when due. We note, however, that state law limits annual tax revenue growth and does not exempt debt service payments from this limitation.

USE OF PROCEEDS

New money bond proceeds will be used to fund capital projects across the state as identified in its fiscal 2019 capital investment plan. Proceeds from the 2019 Series A refunding bonds will be used to refund outstanding General Obligation Refunding Bonds 2017 Series A and 2015 Series C, and General Obligation Bonds Consolidated Loan of 206 Series B for expected net present value savings to be taken through the life of the bonds.

PROFILE

The Commonwealth of Massachusetts is the 15th largest state by population, boasting an estimated 6.9 million residents in 2017. Its 2017 gross domestic product, reaching \$543.0 billion, ranks 10th among the states. Per

capita income was 131.0% of the national average in 2017, the 2nd highest.

METHODOLOGY

The principal methodology used in these ratings was US States and Territories published in April 2018. Please see the Rating Methodologies page on www.moody's.com for a copy of this methodology.

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