MOODY'S
INVESTORS SERVICE

7 World Trade Center
250 Greenwich Street
New York, NY 10007
www.moodys.com

March 18, 2011

Mr. Colin MacNaught
Assistant Treasurer
Massachusetts (Commonwealth of)
Office of Treasurer Steven Grossman
One Ashburton Place
12th Floor
Boston, MA 02108

Dear Mr. MacNaught,

We wish to inform you that on March 18, 2011, Moody's Investors Service assigned a rating of Aa1 to the Commonwealth of Massachusetts' General Obligation Refunding Bonds, 2011 Series B and the General Obligation Bonds, Consolidated Loan of 2011, Series A.

In order for us to maintain the currency of our ratings, we request that you provide ongoing disclosure, including annual financial and statistical information.

Moody's will monitor this rating and reserves the right, at its sole discretion, to revise or withdraw this rating at any time in the future.

The rating, as well as any revisions or withdrawals thereof, will be publicly disseminated by Moody's through normal print and electronic media and in response to verbal requests to Moody's ratings desk.

Should you have any questions regarding the above, please do not hesitate to contact me at 212-553-7121.

Sincerely,

Nicholas Samuels
Vice President / Senior Analyst

MOODY'S
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aa1 RATINGS TO $438 MILLION OF MASSACHUSETTS GENERAL OBLIGATION REFUNDING AND NEW MONEY BONDS

Global Credit Research - 18 Mar 2011

$17.8 BILLION OF G.O. DEBT OUTSTANDING OUTLOOK IS STABLE

State
MA

Moody's Rating

ISSUE		RATING
General Obligation Refunding Bonds, 2011 Series B		Aa1
Sale Amount	$78,585,000	
Expected Sale Date	03/22/11	
Rating Description	General Obligation	
General Obligation Bonds, Consolidated Loan of 2011 Series A		Aa1
Sale Amount	$360,000,000	
Expected Sale Date	03/22/11	
Rating Description	General Obligation	

Opinion

NEW YORK, Mar 18, 2011 -- Moody's Investors Service has assigned Aa1 ratings to the Commonwealth of Massachusetts' $78.5 million General Obligation Refunding Bonds, 2011 Series B and its $360 million General Obligation Bonds, Consolidated Loan of 2011, Series A. The bonds are scheduled to price on March 22. Proceeds of the Series B refunding series will be used to refund a series of certificates of participation issued in 1999 with expected 13% present value savings, without extending final maturities. Proceeds of the new money bonds will be used to finance various capital projects.

SUMMARY RATING RATIONALE

The ratings reflect the commonwealth's demonstrated willingness to cut spending and raise revenues to close budget gaps, a large education and health care sector that generates high wages and that has helped to mitigate job losses in the current downturn, and debt levels that are among the highest in the nation. The outlook is stable.

Credit Strengths:

-- Effective financial management during economic downturns, particularly a willingness to promptly identify and close budget gaps through both new revenues and expenditure reductions

-- Budget reserves that still provide an adequate cushion, although a reduced one, and a statutory mechanism to replenish them going forward

-- High wealth and high levels of educational attainment

-- The presence of large, highly-rated higher education and health care institutions in the Boston area has lent a degree of economic stability and have mitigated some job losses during recessions

Credit Challenges:

-- Managing expenditure pressures, especially from health care and social services, in a lower revenue environment, although collections have begun to improve

-- High unemployment persists, although at lower levels than the nation and employment has begun to grow slowly

-- Low pension funding levels, and debt ratios that are among the highest in the nation

DETAILED CREDIT DISCUSSION

FISCAL 2011 RECENT DEVELOPMENTS

Through February (eight months of the fiscal year), Massachusetts' fiscal 2011 tax revenue collections are 8.8% greater (approximately $1 billion) than the same period in fiscal 2010, well ahead of the original budget forecast of 2.9% annual growth, and the revised forecast of 6.7% growth, demonstrating continued resilience in the Massachusetts economy. Income tax collections have been particularly strong, increasing 10.5% compared to the same period in the prior year. Employment has been increasing slowly and is reflected in stronger withholding collections, which are up 6.4%. Estimated income tax payments, reflecting the state's high wealth levels, are up 24.8%, and although the pace of personal income tax refunds has increased, they are still 9.8% lower than in fiscal 2010. Sales tax growth of 9.6% in part reflects economic improvement but also last year's increase in the tax rate from 5.0% to 6.25%.

While the enacted $27.6 billion fiscal 2011 general fund budget included a $100 million draw on the commonwealth's Budget Stabilization Fund and the use of $95 million carried forward from fiscal 2010, amid higher revenue collections and the extension of federal stimulus funds, legislation enacted in October eliminated both. Based on its current balance and the current tax revenue forecast, the stabilization fund equals 3.9% of fiscal 2011 tax revenue. Recently-released fiscal 2010 GAAP-basis results shows the commonwealth continues to maintain healthy fund balances overall, with an available operating fund balance of nearly $1.9 billion, or 9.3% of operating revenue.

FISCAL 2012 BUDGET PROPOSAL

The recently-proposed fiscal 2012 budget reflects a 1.8% spending decrease compared to fiscal 2011. The recommended budget solves for the loss of $1.5 billion of federal stimulus funds, a $700 million structural shortfall from use of one-time resources in prior years, and $500 million of revenues lower than the long-term trend. Spending reductions are broad-based and affect nearly every spending category, including some reductions in local aid. In addition to expenditure cuts, the proposal includes the use of $385 million of one-time resources, a notable reduction from $1.8 billion in fiscal 2011 and a demonstration of the commonwealth's efforts to bring the budget into structural balance. Most of that $385 million reflects a $200 million transfer from the stabilization fund. After the transfer, the stabilization fund balance would total $569 million, or 2.8% of forecast fiscal 2012 tax revenue. That cushion is narrow but we expect the commonwealth to begin to rebuild its balance soon: the fund receives a statutorily-required transfer of 0.5% of annual tax revenue (although that was suspended for fiscal 2011), and based on legislation enacted last year, any capital gains collections greater than $1 billion. However, while a recently announced pension reform will provide the commonwealth with long-term savings, the 15-year extension of the schedule to eliminate its unfunded liability provides $800 million in savings in fiscal 2012, also a non-recurring action to provide budgetary relief.

Fiscal 2012 tax revenue is expected to increase by 5.3% compared to fiscal 2011, with 6.0% growth in personal income taxes, 4.6% growth in sales taxes and 5.9% growth in corporate taxes.

BUDGET INCLUDES PENSION REFORM PROPOSAL

A pension reform proposal included in the budget recommendation will provide long-term benefits to the state, if enacted. Based on an updated actuarial valuation released on October 1, Massachusetts' pension funded ratio had improved to 67.5% from 62.7% in 2009, although that is still relatively low. Among its changes, the plan extends the funding schedule from 2025 to 2040, which reduces the fiscal 2012 contribution from $2.2 billion to $1.4 billion (although that is still larger than then fiscal 2011 amount). It also increases the retirement age to 67 for most state employees; eliminates early retirement subsidies; increases the period for calculating retirement from an average of three years to five years; and eliminates double-dipping. The proposal also would prohibit the commonwealth from making less than the annual payment required by the new schedule if investment returns exceed expectations; greater-than-expected gains would be used to shorten the schedule. The proposal also dedicates future tobacco settlement monies to the commonwealth's other post-employment benefits (OPEB) trust fund, starting in phases in fiscal 2013. The combined ratio of Massachusetts' pension and OPEB actuarially required contributions (ARC) to revenue is 16%, slightly higher than average. Left unchecked, those costs could limit the commonwealth's fiscal flexibility going forward, but the new plan should help to mitigate them.

EMPLOYMENT CONTINUES SLOW IMPROVEMENT; HIGH WEALTH AND EDUCATIONAL LEVELS CHARACTERIZE THE STATE

Jobs in Massachusetts have begun to recover, and had been at a pace slightly greater than the nation although that has growth slowed in January. January 2011 nonfarm employment increased by 0.6% compared to the prior year, the ninth monthly consecutive gain; by comparison, U.S. jobs growth was 0.8%. Similarly, Massachusetts' January unemployment rate was 8.3% compared to the national rate of 9.0%

The commonwealth continues to be aided by its large education and health sector, which makes up more than 20% of employment. The state also has a large financial activities sector, with a significant mutual fund presence. The state is characterized by high wealth and education levels but with slow population and job growth over the longer run. Per capita personal income in 2009 was $49,875, ranking third among the states. According to the Census Bureau, the commonwealth had the highest percentage of residents with bachelor's degrees of any state in 2008, which has helped to attract and develop significant high tech and defense contracting sectors. Despite the highly educated population, however, during the last two recessions Massachusetts lost more jobs than the nation and gained fewer during the expansions that followed. Among the commonwealth's economic challenges are high business and housing costs and slow population growth with negative migration trends. Indeed, high costs have pushed some suburban Boston growth into more affordable New Hampshire.

HEAVY TAX-SUPPORTED DEBT LOAD

The commonwealth has a high debt burden, with $17.8 billion in outstanding general obligation bonds and $29 billion in total net tax-supported debt. Based on Moody's 2010 state debt medians, the state's debt levels ranked second-highest among the 50 states on both a per-capita basis and as a percentage of personal income, respectively, and is the highest as a percentage of state gross domestic product. Total net tax-supported debt amounted to 9.2% of total personal income in 2009 compared to the 50-state median of 2.5%.

CLOSELY MANAGED VARIABLE RATE DEBT AND SWAPS PORTFOLIO

Approximately 20% of the commonwealth's general obligation debt is variable rate, largely swapped to fixed rates through cost-of-funds swaps, eliminating basis risk. It has reduced its exposure to external liquidity facility risk through the issuance of SIFMA index bonds, although the need to roll or take out maturities of those bonds creates some market access and liquidity risks. The commonwealth's variable rate and derivatives portfolio is closely managed and its liquidity facilities and swap agreements contain provisions favorable to the commonwealth and offset its relatively low available cash balances. Liquidity facilities contain a mix of three- and five-year term-out provisions that, considering the strength of Massachusetts' market access should provide ample time to refinance if necessary. Swap counterparties are well-diversified and do not reflect collateral posting requirements on the part of the commonwealth. As of January 31, the mark-to-market value of Massachusetts' swaps was -$356 million. The commonwealth also maintains a $400 million commercial paper program.

For cash flow purposes, the commonwealth issued $1.2 billion of revenue anticipation notes (RANs) in September 2010 that have staggered maturity dates in April, May and June of 2011.

Outlook

The outlook for Massachusetts is stable, reflecting improving revenues and efforts to regain structural budget balance. The outlook also reflects our expectation that the commonwealth will continue to take proactive measures to close budget gaps if they emerge, and that Massachusetts will again rebuild reserves as the economy recovers. Going forward, heavy reliance on one-time budget solutions, tighter cash margins, unexpectedly severe economic deterioration, or a large increase in tax-supported debt would pose credit concerns.

What would make the rating change - UP

-- Rapid rebuilding of reserves and establishment of stronger constraints on their use

-- Established trend of structural budget balance

-- Reduced debt ratios relative to Moody's 50-state median

What would make the rating change - DOWN

-- Protracted structural budget imbalance driven by deeper and/or prolonged economic downturn

-- Depletion of Budget Stabilization Fund

-- Increased leveraging of the commonwealth's resources to pay debt service

-- Narrowed cash flow that strains the commonwealth's liquidity

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Moody's State Rating Methodology published in November 2004.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, public information, and confidential and proprietary Moody's Analytics information.

Moody's Investors Service considers the quality of information available on the credit satisfactory for the purposes of assigning a credit rating.

Moody's adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see ratings tab on the issuer/entity page on Moodys.com for the last rating action and the rating history.

The date on which some Credit Ratings were first released goes back to a time before Moody's Investors Service's Credit Ratings were fully digitized and accurate data may not be available. Consequently, Moody's Investors Service provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

Analysts

Nicholas Samuels
Analyst
Public Finance Group
Moody's Investors Service

Nicole Johnson
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service
250 Greenwich Street
New York, NY 10007
USA

MOODY'S
INVESTORS SERVICE

© 2011 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ARE MOODY'S INVESTORS SERVICE, INC.'S ("MIS") CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT

NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.

Notwithstanding the foregoing, credit ratings assigned on and after October 1, 2010 by Moody's Japan K.K. ("MJKK") are MJKK's current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. In such a case, "MS" in the foregoing statements shall be deemed to be replaced with "MJKK". MJKK is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO.

This credit rating is an opinion as to the creditworthiness or a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.