

RatingsDirect®

Summary:

Massachusetts; Note

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Rationale

Summary:

Massachusetts; Note

Credit Profile

US\$500.0 mil GO rev antic nts ser 2016C dtd 08/30/2016 due 06/26/2017		
<i>Short Term Rating</i>	SP-1+	New
US\$500.0 mil GO rev antic nts ser 2016B dtd 08/30/2016 due 05/22/2017		
<i>Short Term Rating</i>	SP-1+	New
US\$500.0 mil GO rev antic nts ser 2016A dtd 08/30/2016 due 04/24/2017		
<i>Short Term Rating</i>	SP-1+	New

Rationale

S&P Global Ratings assigned its 'SP-1+' short-term rating to the Commonwealth of Massachusetts' \$1.5 billion of general obligation (GO) revenue anticipation notes (RANs), 2016 series A, B, and C.

The short-term rating reflects what we view as the general creditworthiness of Massachusetts ('AA+' GO rating) and strong note debt service coverage at maturity.

The notes are general obligations of the commonwealth, secured by Massachusetts' full faith and credit pledge, and are being issued to meet cash flow requirements for fiscal 2017.

Massachusetts does not use interfund borrowing for cash flow purposes and the sizable balance in its budget stabilization fund (BSF) is not available for general fund cash flow requirements unless authorized by the legislature. As a result, the state typically sells RANs annually. Since fiscal 2014, the state's year-end general fund cash balances have been rising. The commonwealth estimates its available non-segregated general fund cash balance increased to \$2.14 billion at fiscal year-end 2015 (June 30), from \$1.34 billion at fiscal year-end 2014. The state projects its available general fund cash balance will increase further to \$2.56 billion at fiscal year-end 2016. Massachusetts bases its cash flow projection on the enacted fiscal 2017 budget (including subsequent overrides of the governor's vetoes) and supplemental appropriations, with actual spending and revenue through July 2016. In our view, revenues have recovered strongly in the past several years, although budgeted state use of the BSF has contributed to a draw down in the fund to a still-strong \$1.25 billion at fiscal year-end 2015 from a peak of \$1.65 billion at fiscal year-end 2012. Massachusetts projects a slight increase to the BSF at fiscal year-end 2016 of \$1.29 billion, with the fund being flat at fiscal year-end 2017. The prohibition against borrowing from the BSF for cash purposes contributes to a general fund cash flow imbalance throughout the year, leading the commonwealth to issue cash flow notes. Massachusetts is increasing its note issuance to \$1.50 billion, or 5.7% of pledged revenues, with a projected minimum monthly cash balance of \$1.72 billion in February 2017, substantially higher than fiscal 2016's actual \$862 million month-end minimum in February 2016.

The series A, B, and C notes will mature on April 24, May 22, and June 26, 2017, respectively. There will be no revenue withholding in advance of note repayment, but the staggered maturity schedule provides for strong coverage

in our view at 5.6x, 5.0x, and 5.6x for those dates, respectively, by month-end cash available based on Massachusetts' projected cash flow. We calculate Massachusetts' fiscal 2016 cash flow notes had actual cash coverage of 6.1x, 6.6x, and 6.6x in April, May, and June, respectively, about the same as projected coverage at the time of the fiscal 2016 RAN sale of 5.6x, 4.6x, and 7.4x, respectively. Cash management is the responsibility of the state treasurer, and we believe the commonwealth has robust cash forecasting processes, with detailed reporting and monitoring. The state revises its cash forecast regularly to incorporate actual performance and the next revision is scheduled for Aug. 30, 2016.

We believe that Massachusetts' forecast of revenues is reasonable and aligned with current economic performance. The state's enacted fiscal 2017 budget assumes tax revenue growth of 3.8% over the current revised fiscal 2016 actual results. Fiscal 2017 tax collections for the first month of fiscal 2017 through July were \$1.7 billion, up of \$36 million, or 2.1%, over the same period in fiscal 2015, and \$7 million above forecast.

(For more information on Massachusetts' long-term credit quality, see the most recent state GO rating rationale, published Aug. 22, 2016, on RatingsDirect.)

Ratings Detail (As Of August 22, 2016)		
Massachusetts GO rev antic nts ser 2016A dtd 08/30/2016 due 04/24/2017		
<i>Short Term Rating</i>	SP-1+	Affirmed
Massachusetts GO rev antic nts ser 2016B dtd 08/30/2016 due 05/22/2017		
<i>Short Term Rating</i>	SP-1+	Affirmed
Massachusetts GO rev antic nts ser 2016C dtd 08/30/2016 due 06/26/2017		
<i>Short Term Rating</i>	SP-1+	Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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