

Summary:

Massachusetts; General Obligation

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Credit Profile		
US\$485. mil GO bnds cons loan of 2011 ser B due 08/01/2025		
<i>Long Term Rating</i>	AA/Positive	New
US\$5. mil GO bnds cons loan of 2011 (Build Massachusetts Bnds) ser C due 02/01/2014		
<i>Long Term Rating</i>	AA/Positive	New
Massachusetts GO		
<i>Long Term Rating</i>	AA/Positive	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating, and positive outlook, to Massachusetts' \$490 million general obligation (GO) bonds, consolidated loan of 2011, including its \$485 million GO bonds, consolidated loan of 2011, series B, and \$5 million series C (Build Massachusetts bonds). At the same time, Standard & Poor's affirmed its 'AA' rating on the parity bonds outstanding.

The outlook on the commonwealth's GO bonds was revised to positive from stable on Feb. 10, 2011, reflecting Massachusetts' ongoing progress in improving financial, debt, and budget management practices, while at the same time implementing cost-control and reform measures associated with its long-term liabilities.

The 'AA' GO rating on Massachusetts reflects what we view as its:

- Strong and conservative budget management practices, with swift action to restore balance after identifying revenue shortfalls throughout the recession;
- Continued budget stabilization reserve balances, which provide flexibility to manage any budget volatility in the fiscal year, despite reductions during the recession;
- High wealth and income levels; and
- Deep and diverse economy, which has recovered steadily in the past several months 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 is showing signs of steady recovery. Unemployment rates fell to 8% in March according to the Bureau of Labor Statistics, after peaking at 9% through most of 2010; this compares favorably with the 5.3% rate in 2008. The rate remains below the national average of 8.8%, and employment growth was strong relative to other states, with employment growth of 34,100 or 1.1% over March 2010. IHS Global Insight Inc. estimates that Massachusetts' unemployment rate will continue to decline, falling to about 7% in 2014. Job loss through this recession has been less severe than in the 2001 recession and the recession of the early 1990s by what we consider a significant margin. While we believe economic recovery is likely to be slow, Global Insight projects that Massachusetts will lead the region in 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.

After a period of steady downward revisions to the revenue forecast through the recession, recent revenue performance has been positive. On Jan. 18, 2011, the commonwealth revised its revenue estimate for fiscal 2011 to \$19.8 billion from \$19.1 billion, reflecting better-than-forecasted performance of income, sales, and corporate taxes. Tax revenues through April were \$1.9 billion, or 12.9% above fiscal 2010 levels, and \$732 million above the revised estimate for the current year. April tax performance was very strong in our view, with revenues \$757.9 million (43.4%) above fiscal 2010. Positive variances were recorded for all major tax sources but income tax accounted for most of the increase over fiscal 2010.

On April 11, 2011, the governor approved supplemental appropriations totaling \$325 million for health programs, snow and ice removal, and other costs. The governor requested an additional supplemental appropriation of \$60.5 million on May 4. The commonwealth expects its stabilization fund to be \$770 million at fiscal year-end 2011 after reversing the planned drawdown for the current year. Cash flow has been stable and the year-end cash balance is projected to be \$1.8 billion compared with \$844 million beginning at the start of the year.

Massachusetts recently released its fiscal 2010 audited financial statements. Year-end operating funds ended in a slight, \$100 million surplus. The total and unreserved fund balance was \$1.8 billion. On a budgetary basis, the ending fund balance was \$903 million; the budget stabilization fund was \$669.8 million (2.1% of expenditures).

The governor's proposed budget for fiscal 2012 was released on Jan. 26, 2011 (for details on the proposed budget see the Massachusetts full analysis published Feb. 10, 2011, on RatingsDirect on the Global Credit Portal). The house approved its version of the budget on April 28 and the Senate released its version on May 18. The budget will be reconciled through legislative conference committee. All three budget plans for fiscal 2012 rely heavily on expenditure reductions to close the fiscal 2012 budget gap, estimated to be about \$1.9 billion.

By most measures, Massachusetts' debt burden remains high compared with that of other states. The commonwealth has about \$17.9 billion of GO debt outstanding. Of this amount, more than 80% is fixed rate, and the remaining \$3 billion is variable rate and hedged with interest-rate swaps. 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 6.2% of expenditures in fiscal 2010. The capital investment plan through 2015 totals \$18 billion, with \$9.5 billion of bond issuance projected. This represents about \$1 billion less than the previous year's bond authorization. This plan adheres to 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 most recent actuarial valuation of the combined pension indicates improved funded ratios through Jan. 1, 2010. The funded ratio improved to 67% from 62% on Jan. 1, 2009. The unfunded actuarial liability is \$20 billion, down from \$22 billion in 2009. The improved funded ratio was due largely to higher assets reflecting investment performance. The funded ratio remains below average relative to funded ratios for other U.S. states. There is also what we consider a sizable amount (\$15 billion) of unfunded actuarial OPEB liability (in addition to pay-as-you-go costs). The commonwealth has established a trust fund to begin to accumulate assets toward the liability, which had a balance of \$310 million as of June 30, 2010.

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.

Outlook

The positive outlook is based on what we view as the commonwealth's ongoing progress of improving financial, debt, and budget management practices, while at the same time implementing cost-control and reform measures associated with its long-term liabilities. Continued progress in these areas coupled with stable budgetary performance could warrant an upgrade as outlined by our indicative credit level. In our view, Massachusetts has proactively managed budget volatility through the recent recession. Economic recovery has been steady, which should ease transition to a post-stimulus budget environment. While diminished, the budget stabilization fund still provides flexibility to manage future budget challenges and recent actions to increase the balance are positive from a credit standpoint.

Related Criteria And Research

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

Ratings Detail (As Of May 19, 2011)		
Massachusetts GO VRDBs 1997B		
<i>Long Term Rating</i>	AA/A-1+/Positive	Affirmed
Massachusetts GO VRDBs 1998A		
<i>Long Term Rating</i>	AA/A-1+/Positive	Affirmed
Massachusetts GO VRDBs 2000A		
<i>Long Term Rating</i>	AA/NR/Positive	Affirmed
Massachusetts GO VRDBs 2000B C		
<i>Long Term Rating</i>	AA/A-1+/Positive	Affirmed
Massachusetts GO VRDBs 2001B		
<i>Long Term Rating</i>	AA/A-1+/Positive	Affirmed
Massachusetts GO VRDBs 2006A		
<i>Long Term Rating</i>	AA/A-1/Positive	Affirmed
Massachusetts GO VRDBs 2006B		
<i>Long Term Rating</i>	AA/A-1/Positive	Affirmed
Massachusetts GO (wrap of insured) (ASSURED GTY & AMBAC) (SEC MKT)		
<i>Unenhanced Rating</i>	AA(SPUR)/Positive	Affirmed
Massachusetts GO (wrap of insured) (FGIC & BHAC) (SEC MKT)		
<i>Unenhanced Rating</i>	AA(SPUR)/Positive	Affirmed
Massachusetts GO (MBIA) (Assured Gty)		
<i>Unenhanced Rating</i>	AA(SPUR)/Positive	Affirmed
Massachusetts GO		
<i>Unenhanced Rating</i>	AA(SPUR)/Positive	Affirmed
Massachusetts GO Rfd		

Ratings Detail (As Of May 19, 2011) (cont.)		
<i>Unenhanced Rating</i>	AA(SPUR)/Positive	Affirmed
Many issues are enhanced by bond insurance.		

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