

## Massachusetts

<i>Credit Profile</i>		
<i>US\$360. mil GO bnds cons loan of 2011 ser 2011A due 04/01/2029</i>		
Long Term Rating	AA/Positive	New
<i>US\$78.525 mil GO rfdg bnds 2011 ser 2011B due 07/01/2021</i>		
Long Term Rating	AA/Positive	New
<i>Massachusetts GO</i>		
Long Term Rating	AA/Positive	Affirmed
<i>Massachusetts GO VRDBs 1997B</i>		
Long Term Rating	AA/A-1+/Positive	Affirmed
<i>Massachusetts GO VRDBs 2000A</i>		
Long Term Rating	AA/NR/Positive	Affirmed
<i>Massachusetts GO VRDBs 2001B</i>		
Long Term Rating	AA/A-1+/Positive	Affirmed
<i>Massachusetts GO VRDBs 2006A</i>		
Long Term Rating	AA/A-1/Positive	Affirmed
<i>Massachusetts GO VRDBs 2006B</i>		
Long Term Rating	AA/A-1/Positive	Affirmed

### **Rationale**

Standard & Poor's Ratings Services assigned its 'AA' long-term rating, and positive outlook, to Massachusetts' \$78.5 million general obligation (GO) refunding bonds 2011 series B and \$360 million general obligation bonds, consolidated loan of 2011, series A.

At the same time, we affirmed our 'AA' rating on the parity bonds outstanding.

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The outlook on the commonwealth's GO bonds was revised to positive from stable Feb. 11, 2011, reflecting 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 our view of the commonwealth's:

- 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 during the fiscal year, despite reductions during the recession;
- High wealth and income levels; and
- Deep and diverse economy, which has recovered steadily during 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 post-employment benefit (OPEB) liabilities are offsetting considerations to the current rating. While we view the commonwealth's 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 8.3% in January, after peaking at 9.0% through most of 2010. This compares with 5.3% in 2008. The rate remains below the national average, and employment growth was strong relative to other states, with employment growth of 45,600 or 1.45%—one of the more significant growth rates among U.S. states. IHS Global Insight Inc. estimates that the unemployment rate for Massachusetts will continue to decline, falling to about 7% in 2014. Job loss through this recession has been less severe than the 2001 recession and the recession of the early 1990s by what we consider a significant margin. While economic recovery is likely to be slow in our view, Global Insight projects that Massachusetts will lead the region in recovery. We believe 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, the revenue estimate for fiscal 2011 was revised to \$19.8 billion from \$19.1 billion, reflecting better-than-forecast performance of income, sales, and corporate taxes. Tax revenues for the first seven months of the fiscal year were \$1.1 billion, or 10.3% above fiscal 2010 levels and \$28 million above the revised estimate for the current year.

Following the revenue revision on Jan. 26, the governor requested supplemental appropriations totaling \$312 million for health programs and other costs. The commonwealth expects its stabilization fund to be \$769 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 to \$844 million beginning at the start of the year.

The commonwealth recently released its fiscal 2010 audited financial statements. Year-end operating funds ended in a slight, \$100 million. 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).

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 the 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) 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 with a balance of \$310 million as of June 30, 2010.

Based on the analytic factors we evaluate for states, on a scale of '1' (strongest) to '4' (weakest), we have assigned a composite score of '1.8' to Massachusetts.

Please see the full analysis dated Feb. 10, 2011 on RatingsDirect on the Global Credit Portal.

### ***Outlook***

The positive outlook is based on our view of 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 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.

### ***Related Criteria And Research***

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

<i>Ratings Detail (As Of 18-Mar-2011) (cont. 'd)</i>		
<i>Massachusetts GO VRDBs 1998A</i>		
Long Term Rating	AA/A-1+/Stable	Affirmed
<i>Massachusetts GO (wrap of insured) (ASSURED GTY &amp; AMBAC) (SEC MKT)</i>		
Unenhanced Rating	AA(SPUR)/Positive	Affirmed
<i>Massachusetts GO (wrap of insured) (FGIC &amp; BHAC) (SEC MKT)</i>		
Unenhanced Rating	AA(SPUR)/Positive	Affirmed
<i>Massachusetts GO (MBIA) (Assured Gty)</i>		
Unenhanced Rating	AA(SPUR)/Positive	Affirmed
Massachusetts GO		
Unenhanced Rating	AA(SPUR)/Positive	Affirmed
Massachusetts GO		
Unenhanced Rating	AA(SPUR)/Positive	Affirmed
Massachusetts GO		
Unenhanced Rating	AA(SPUR)/Positive	Affirmed

Many issues are enhanced by bond insurance.

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