

# RatingsDirect®

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## Summary:

# Massachusetts; General Obligation

### **Primary Credit Analyst:**

David G Hitchcock, New York (1) 212-438-2022; david.hitchcock@standardandpoors.com

### **Secondary Contact:**

Robin L Prunty, New York (1) 212-438-2081; robin.prunty@standardandpoors.com

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### Credit Profile

US\$400.0 mil GO RANs ser 2015 C dtd 09/29/2015 due 06/22/2016		
<i>Short Term Rating</i>	SP-1+	New
US\$400.0 mil GO RANs ser 2015 B dtd 09/29/2015 due 05/26/2016		
<i>Short Term Rating</i>	SP-1+	New
US\$400.0 mil GO RANs ser 2015 A dtd 09/29/2015 due 04/27/2016		
<i>Short Term Rating</i>	SP-1+	New

## Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' short-term rating to the commonwealth of Massachusetts' \$1.2 billion of general obligation (GO) revenue anticipation notes (RANs), 2015 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 2016.

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 on an annual basis. Since fiscal 2014, the state's year-end general fund cash balances have been rising. The commonwealth estimates its available nonsegregated general fund cash balance increased to \$2.141 billion at fiscal year-end June 30, 2015, from \$1.341 billion at fiscal year-end June 30, 2014. The state projects its available general fund cash balance will increase further to \$2.563 billion at fiscal year-end 2016. Massachusetts bases its cash flow projection on the enacted fiscal 2016 budget (including subsequent overrides of the governor's vetoes) and supplemental appropriations, with actual spending and revenue through July 2015. In our view, revenues have experienced strong recovery in the past several years, although budgeted state use of the BSF has contributed to a draw down in the BSF from a peak of \$1.65 billion at fiscal year-end 2012 to a still strong \$1.18 billion at fiscal year-end 2015. The state projects an almost unchanged BSF at fiscal year-end 2016 of \$1.18 billion. Although the healthy balance in the BSF is positive from a credit standpoint, the legal prohibition against using the BSF for cash borrowing purposes contributes to a general fund cash flow imbalance throughout the year, leading the commonwealth to issue cash flow notes. Massachusetts is sizing its note issuance the same as last year, with a projected minimum monthly cash balance of \$444 million in February 2016, similar to last fiscal year's actual \$414 million month-end minimum in February 2015.

The series A, B, and C notes will mature on April 27, May 25, and June 22 of 2016, 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 5.5x, 4.6x, and 7.4x for those dates, respectively, by month-end cash available based on Massachusetts' projected cash flow. We calculate Massachusetts' fiscal 2015 cash flow notes had actual cash coverage of 5.6x, 5.2x, and 6.3x in April, May, and June, respectively, about the same as projected coverage at the time of the fiscal 2015 RAN sale of 5.6x, 4.6x, and 6.5x, respectively. Cash management is the responsibility of the state treasurer, and in our view the commonwealth has robust cash forecasting processes, with detailed reporting and monitoring. The cash forecast is revised regularly to incorporate actual performance and the next revision is scheduled for Nov. 30, 2015.

We believe that Massachusetts' current forecast of revenues is reasonable and aligned with current economic performance. Preliminary fiscal 2015 operating funds tax revenues on a budgetary basis of accounting totaled approximately \$24.93 billion, or 6.7% above fiscal 2014, and \$391 million above forecast, excluding \$214.7 million in one-time tax-related settlements and judgments. The state's enacted fiscal 2016 budget assumes tax revenue growth of 4.8% over the current revised fiscal 2015 estimate, and includes a reduction in the state income tax rate to 5.15% from 5.10%. Fiscal 2016 tax collections for the first two months of fiscal 2016 through August were \$3.4 billion, an increase of \$176.8 million, or 5.5% over the same period in fiscal 2015, and \$39 million above forecast.

(For more information on Massachusetts' long-term credit quality, please refer to the most recent state GO rating rationale, published April 16, 2015, on RatingsDirect.)

## **Related Criteria And Research**

### **Related Criteria**

- USPF Criteria: Short-Term Debt, June 15, 2007
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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