

FITCH RATES MASSACHUSETTS GO BONDS 'AA+'; OUTLOOK STABLE

Fitch Ratings-New York-09 November 2016: Fitch Ratings has assigned 'AA+' long-term ratings to \$788 million in Commonwealth of Massachusetts general obligation (GO) bonds, consisting of:

- \$100,000,000 GO bonds, consolidated loan of 2016, series H;
- \$500,000,000 GO bonds, consolidated loan of 2016, series I;
- \$100,000,000 GO refunding bonds (SIFMA index bonds), 2017 series A;
- \$88,490,000 GO refunding bonds (SIFMA index bonds), 2017 series B.

The GO bonds will be offered by competitive sale, with the series 2016 new money GO bonds scheduled to sell on November 30 and the series 2017 refunding GO bonds scheduled to sell on December 20, 2016.

The Rating Outlook on the long-term bonds is Stable.

SECURITY

The bonds are general obligations of the Commonwealth, to which its full faith and credit are pledged. A statutory state tax revenue growth limit does not exclude principal and interest on debt obligations from the limit.

KEY RATING DRIVERS

Massachusetts' 'AA+' Issuer-Default Rating (IDR) reflects its considerable economic resources, strong budget controls and a record of careful financial management. The Commonwealth carries a long-term liability burden that is well above average for a U.S. state but remains a moderate burden on resources. The Stable Outlook reflects the expectation that the Commonwealth will continue to act as needed to ensure budget balance and maintain an adequate budgeted reserve position.

Economic Resource Base

The Commonwealth has a broad and diverse economy. Employment growth is solid, education levels are high, and population growth has approximated that of the U.S. this decade. The Commonwealth's economic fundamentals include significant strength in the health care, technology and education sectors, leaving it well positioned for solid gains going forward. Measured by per capita personal income, Massachusetts is the second wealthiest state in the nation.

Revenue Framework: 'aaa' factor assessment

Tax revenues, while diverse, are dominated by personal income taxes (PIT), which are sensitive to economic conditions, particularly those related to capital gains. Baseline growth prospects for taxes are strong, driven by the Commonwealth's solid economic fundamentals.

Expenditure Framework: 'aaa' factor assessment

Consistent with most states, the natural pace of spending growth is expected to marginally exceed expected revenue growth over time, requiring ongoing cost control. The Commonwealth has ample ability to reduce spending throughout the economic cycle.

Long-Term Liability Burden: 'aa' factor assessment

Liability levels in Massachusetts, while high for a U.S. state, are a moderate burden on resources. The Commonwealth's above average liability position is partly the result of state funding for needs that are more commonly funded at the local level.

Operating Performance: 'aaa' factor assessment

The Commonwealth has exceptional fiscal resilience, with strong gap-closing capacity stemming from a practice of building solid reserve balances and making revenue and spending changes as needed in response to changing circumstances. Conservative budgeting, ongoing economic and revenue monitoring, and mechanisms to protect the general fund from economically sensitive PIT and judgment and settlement receipts support the Commonwealth's fiscal flexibility.

RATING SENSITIVITIES

The rating is sensitive to shifts in fundamental credit characteristics including Massachusetts' consistent commitment to strong financial management practices.

CREDIT PROFILE

Massachusetts' 'AA+' IDR reflects its solid credit attributes. The Commonwealth's dynamic, service-oriented economy, anchored by numerous institutions of higher education and health care, has solid growth prospects despite remaining sensitive to national trends. Net tax-supported debt and pension liabilities are high for a state but represent only a moderate burden on resources. High debt levels are partly explained by the Commonwealth's role in funding local capital needs. Sources of fiscal flexibility include the stabilization fund, for which the fiscal 2017 year-end balance is forecast to be \$1.3 billion. Moreover, in the event of a mid-year forecast deficiency, the governor is required to reduce allotments or identify other balancing measures. Operating performance is enhanced further by mechanisms to cap the impact of volatile capital gains-related PIT receipts and judgment and settlement payments on the general fund.

In fiscal 2017, similar to fiscal 2016, actual revenue collections have slightly underperformed earlier forecast targets. The January 2016 consensus revenue forecast originally assumed nearly \$26.9 billion in revenues in fiscal 2017, although slow collections late in fiscal 2016 and weaker than expected sales tax growth in early fiscal 2017 have resulted in fiscal 2017 forecast revenues being lowered to \$26.1 billion. Year-to-date through October 2016, fiscal 2017 tax collections were 1% above benchmark and 4.7% above the prior year level. The Commonwealth's next consensus revenue forecast will be released in January 2017.

For additional information on the Commonwealth of Massachusetts, please see Fitch's rating action commentary, "Fitch Rates Massachusetts GO RANs 'AA+/f1+', GO Bonds 'AA+'; Outlook Stable", dated Aug. 16, 2016, at www.fitchratings.com.

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Date of Relevant Rating Committee: Aug. 15, 2016

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in the applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

Applicable Criteria

Rating U.S. Public Finance Short-Term Debt (pub. 17 Nov 2015)

<https://www.fitchratings.com/site/re/873508>

U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)

<https://www.fitchratings.com/site/re/879478>

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