STANDARD & POOR'S

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Summary:

Massachusetts; General Obligation

Primary Credit Analyst:
Robin Prunty, New York (1) 212-438-2081; robin_prunty@standardandpoors.com

Secondary Credit Analyst:
Karl Jacob, New York (1) 212-438-2111; karl_jacob@standardandpoors.com

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Summary:

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Credit Profile		
US$532.105 mil GO rfdg bnds ser 2008A due 06/15/2033		
Long Term Rating	AA/Stable	New
Massachusetts GO		
Long Term Rating	AA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating, and stable outlook, to Massachusetts' general obligation (GO) debt. At the same time, we affirmed the 'AA' long-term rating, and stable outlook, on the parity GO debt outstanding.

The rating reflects our view of the commonwealth's:

- Strong and conservative budget management practices, with swift action to restore balance after identifying a shortfall in tax revenues for the current fiscal year;
- Continued healthy reserve levels despite some planned reductions in the current fiscal year, which in our opinion provide some cushion to manage through the current economic climate;
- High income and wealth levels;
- Deep and diverse economy, with growth slowing sharply in line with national trends.

Standard & Poor's believes the commonwealth's high debt burden and large unfunded pension liability restrain the rating.

Bond proceeds of this issue will refund certain variable-rate debt outstanding.

Massachusetts' financial position through fiscal 2008 was strong in our opinion, with good reserves. The stabilization balance (on a statutory basis) was $2.25 billion in fiscal 2008 (7.1% of budgeted revenues and other sources). This compares favorably with $1.14 billion in fiscal 2004. Contributing to the growth in balances through 2008 was a strong economy and conservative revenue assumptions, with actual revenues exceeding forecasts annually since fiscal 2004. A strong reserve position is important, given Massachusetts' dependence on personal income (and related capital gains) taxes, which have been cyclical over time.

On Oct. 15, the secretary of administration and finance announced a budget deficiency of $1.4 billion (about 5%) for fiscal 2009. Based on revenue trends to date and the current economic forecast showing much weaker economic trends for the commonwealth, Massachusetts expects tax revenues to be $1.1 billion lower than originally forecast. At the same time the shortfall was identified, actions were implemented to close the gap including $1 billion of spending reductions. In addition to the spending measures, the commonwealth will draw an additional $200 million from the stabilization fund, leaving a balance of $1.7 billion that will provide additional flexibility to manage the budget in the future. The pension funding schedule was extended from 2023 to 2025, which will save $100 million. At this time, there have been no reductions to local assistance spending. In our opinion, the commonwealth has

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moved swiftly to restore balance and the early action on the spending cuts should maximize their effectiveness.

By most measures, Massachusetts' debt burden remains high. The commonwealth has about $16 billion of GO debt. Including appropriation, contingent liability, special obligation, and moral obligation debt, total tax-supported debt rises to about $27.1 billion. Debt per capita stands at $4,196 and debt to personal income at 8.5%. The Executive Office for Administration and Finance sets an annual administrative limit on certain types of capital expenditures by state agencies.

The commonwealth's overall debt ratios are among the highest of all states. In addition, Massachusetts has authorized about an additional $11.9 billion in debt over 10 years. While the state adheres to a debt affordability model and an annual bond cap, this still represents a significant increase of authorized unissued debt in our view. Furthermore, recent legislation authorizing the governor the option of using the commonwealth's appropriation pledge to help the Massachusetts Turnpike refinance $800 million of debt related to swaps outstanding, if used, will drive the debt burden even higher. The unfunded pension liability is large ($13.35 billion or 75.2% funded) and will not be fully funded until 2025. Beginning with the fiscal 2008 audit, the commonwealth must report its other postretirement benefit (OPEB) liability. Its accrued OPEB liability as of Jan. 1, 2006, was $13.287 billion assuming no prefunding of the liability. If prefunded, the liability is significantly reduced to $7.56 billion.

Standard & Poor's maintains a "strong" Financial Management Assessment (FMA) score for Massachusetts. A strong FMA indicates that practices are strong, well embedded, and likely sustainable. Many of the commonwealth's management practices related to debt and financial management are embedded in statute. (For further information, see Massachusett's state review published Oct. 3, 2008, on RatingsDirect.)

Outlook

The outlook reflects our view of the commonwealth's solid financial reserve position, an important credit factor for the state given its dependence on personal income (and related capital gains) taxes, which have been volatile during economic cycles. Massachusetts' economy is substantial in Standard & Poor's view, with above-average income levels. However, the economy and revenue base have been cyclical over time, which, along with demonstrated prudent budget management, underscores the importance of maintaining financial reserves.

Ratings Detail (As Of November 17, 2008)		
Massachusetts GO cons ln bnds ser 1989B dtd 04/01/89 due 04/01/2009		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Massachusetts GO cons loan (wrap of insured) (FGIC & BHAC) (SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Massachusetts GO (wrap of insured) (ASSURED GTY & AMBAC) (SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Massachusetts GO (wrap of insured) (ASSURED GTY & MBIA) (SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Massachusetts GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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