

Massachusetts; General Obligation; General Obligation Equivalent Security; Joint Criteria

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Table Of Contents

Rationale

Outlook

Fiscal 2011 Budget Proposal

Related Criteria And Research

Massachusetts; General Obligation; General Obligation Equivalent Security; Joint Criteria

Credit Profile		
US\$173.46 mil GO bnds cons loan ser 2010C due 01/01/2014-2015 & 12/01/2015		
<i>Long Term Rating</i>	AA/Stable	New
US\$119.64 mil GO rfdg bnds ser 2010B due 01/01/2014-2015 & 12/1/2015		
<i>Long Term Rating</i>	AA/Stable	New
Massachusetts GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
University of Massachusetts Bldg Auth, Massachusetts		
Massachusetts		
University of Massachusetts Bldg Auth GO (Massachusetts) (Secondary)		
<i>Long Term Rating</i>	AA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating, and stable outlook, to the commonwealth of Massachusetts' series 2010B and series 2010C general obligation (GO) refunding bonds. Standard & Poor's also affirmed its 'AA' long-term rating on parity debt outstanding.

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 despite reductions in the past two years, which in our opinion provide flexibility to manage through the current economic climate;
- High wealth and income levels; and
- Deep and diverse economy that has experienced weakness in the past year in line with national trends.

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 the commonwealth's total postretirement liabilities as relatively high, we believe Massachusetts has been actively managing these liabilities.

This bond issue was authorized by the legislature to complete a current refunding of bonds outstanding to provide budget relief for the fiscal 2011 operating budget. The legislation limited the refunding to \$300 million and limited the amortization of the refunding to six years. Despite the restructuring and debt service costs associated with the refunding bonds, debt amortization remains above average in our view and annual debt service costs are within the commonwealth's affordability guidelines.

The Massachusetts economy continues to experience decline but the pace has slowed. The unemployment rate has been above 9.0% in 2010, which compares with 5.3% in 2008. The rate remains below the national average and

the pace of employment decline has slowed while the labor force has been stable. To date, job loss through this recession has been less severe than the 2001 recession and the recession of early 1990s by what we consider a significant margin. Economic recovery is likely to be slow in our view, but IHS Global Insight Inc. 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.

In line with most other states, Massachusetts has faced significant budget gaps for fiscals 2009 and 2010 (an \$8 billion cumulative gap) due largely to declining revenues. Revenues were revised four times through fiscal 2009, which significantly lowered the revenue base for fiscal 2010. As required by statute, the Secretary of Administration and Finance announced on Oct. 15, 2009, that it expected a \$600 million revenue deficiency for fiscal 2010. The governor submitted a plan to close the gap that relied heavily on spending reductions and some minor revenue enhancements. In addition to the revenue shortfall, potential spending pressures above budgeted levels in Medicaid and other program areas were identified. In January of this year, revenues were revised upward by \$181 million to \$18.5 billion based on improved year-to-date collections. Based on monthly revenue performance through June 30, the commonwealth forecasts that revenues are about \$67 million above forecast. Total supplemental appropriations for fiscal 2010 totaled \$665.4 million and additional adjustments could occur. The commonwealth expects its stabilization fund to be \$657 million at year-end fiscal 2010 or about 3.6% of general fund tax revenue. Cash flow has been stable and an increase in year-end cash balance of about \$55 million is now projected for fiscal 2010. There will be two petitions on the November ballot relating to sales tax. One petition would remove the sales tax on alcoholic beverages and the other would reduce the sales and use tax rates to 3%. If approved by voters, the legislature has the option to amend or repeal the petition.

By most measures, Massachusetts' debt burden remains high compared with that of other states. The commonwealth has about \$17 billion of GO debt. Of this amount, more than 80% is fixed rate and the remaining \$3.3 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 about 7% of expenditures in fiscal 2009. The capital investment plan through 2014 totals \$17 billion, with \$10.5 billion of bond issuance projected. 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.

Outlook

The stable outlook reflects Standard & Poor's view of the commonwealth's proactive approach to managing budget volatility through the recession. Revenue adjustments have been frequent and gap-closing actions have been swift, successfully restoring balance. While diminished, the budget stabilization fund retains a balance that will continue to provide flexibility to manage the current fluid revenue environment. These are important credit factors for Massachusetts given its dependence on personal income (and related capital gains) tax revenues, which are volatile during economic cycles.

Fiscal 2011 Budget Proposal

The commonwealth's fiscal 2011 budget was approved by the legislature and signed by the governor on June 29, 2010. The budget totaled \$27.57 billion and included \$457 million of vetoes. The budget was introduced in January and closed a \$2.75 billion budget gap. Balance was achieved through a mix of minor revenue enhancements, spending reductions, additional use of the budget stabilization reserve and other one-time sources, and a debt restructuring plan. While the budget initially included an expectation of additional federal Medicaid assistance payments, the governor has vetoed \$372 million of appropriations to reflect the uncertainty of the additional FMAP resources, which have not been approved by Congress. Baseline revenue growth is projected to be 3.2%, or \$590 million above fiscal 2010, based on the consensus revenue forecast. While growth is forecast for fiscal 2011, revenues remain far below the \$21.4 billion consensus revenue estimate for fiscal 2009.

There were no broad-based revenue enhancements included in the budget but there were some minor limits proposed on tax exemptions and some departmental revenue increases. Spending in the proposed general fund budget is projected to rise by only 0.2%. Part of the reduction includes debt restructuring that would refinance \$200 million of fiscal 2011 amortizing principal and extend the repayment out over the next six years. While this has not been a budget-balancing strategy for the commonwealth in recent years, it represents a relatively modest portion of the overall debt profile and will be amortized rapidly.

The stabilization fund would have a \$556 million balance at fiscal year-end 2011 or about 3% of net tax revenues. The budget includes a reform measure related to capital gains revenue. This portion of the personal income tax has been volatile for the state over time. To highlight the volatility, capital gains revenue was \$2.2 billion in fiscal 2008 and fell to \$554 million in fiscal 2009, which was more than \$1 billion below estimate. The measure provides that any capital gains revenues in excess of \$1 billion in a given fiscal year would be transferred to the stabilization fund. The proposal outlines that 5% of that excess would be transferred to the State Retiree Benefits Trust Fund and be used to address the liability for its retirees' health insurance and other nonpension retirement benefits. We believe this would contribute to reduced cyclicity in budget performance and allow for a dedicated source of funding for a significant long-term liability.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of July 20, 2010)		
Massachusetts GO VRDBs 2000A <i>Long Term Rating</i>	AA/NR/Stable	Affirmed
Massachusetts GO VRDBs 2000B C <i>Long Term Rating</i>	AA/A-1+/Stable	Affirmed
Massachusetts GO VRDBs 2001B <i>Long Term Rating</i>	AA/A-1+/Stable	Affirmed
Massachusetts GO VRDBs 2006A <i>Long Term Rating</i>	AA/A-1/Stable	Affirmed

Ratings Detail (As Of July 20, 2010) (cont.)		
Massachusetts GO VRDBs 2006B		
<i>Long Term Rating</i>	AA/A-1/Stable	Affirmed
Massachusetts GO (wrap of insured) (ASSURED GTY & AMBAC) (SEC MKT)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Massachusetts GO (FGIC)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Massachusetts GO (MBIA) (Assured Gty)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Massachusetts GO		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Massachusetts GO RFD		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Massachusetts GO Rfd		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts		
Massachusetts Bay Transp Auth (Massachusetts) GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Massachusetts Bay Transp Auth transp sys bnds (Massachusetts)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Massachusetts Bay Transp Auth (Massachusetts)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Massachusetts Dept of Transp, Massachusetts		
Massachusetts		
Massachusetts Dept of Transp (Massachusetts) metro hwy sys rev bnds (subord) VRDO ser 2010A-3		
<i>Long Term Rating</i>	AAA/A-1	Affirmed
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Massachusetts Dept of Transp (Massachusetts) metro hwy sys rev bnds (subord) VRDO ser 2010A-6		
<i>Long Term Rating</i>	AAA/A-1	Affirmed
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Massachusetts Dept of Transp (Massachusetts) GO VRDO 2010A-1		
<i>Long Term Rating</i>	AA/A-1+/Stable	Affirmed
Massachusetts Dept of Transp (Massachusetts) GO VRDO 2010A-2 A-7		
<i>Long Term Rating</i>	AA/A-1+/Stable	Affirmed
Massachusetts Dept of Transp (Massachusetts) GO VRDO 2010A-4&5		
<i>Long Term Rating</i>	AA/A-1+/Stable	Affirmed
Massachusetts Dept of Transp (Massachusetts) GO VRDO 2010B		
<i>Long Term Rating</i>	AA/Stable	Affirmed

Ratings Detail (As Of July 20, 2010) (cont.)

University of Massachusetts Bldg Auth, Massachusetts

Massachusetts

University of Massachusetts Bldg Auth (Massachusetts)

<i>Long Term Rating</i>	AA/Stable	Affirmed
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<i>Unenhanced Rating</i>	NR(SPUR)	
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University of Massachusetts Bldg Auth (Massachusetts) GO

<i>Long Term Rating</i>	AA/Stable	Affirmed
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University of Massachusetts Bldg Auth (Massachusetts) GO

<i>Long Term Rating</i>	AA/A-1/Stable	Affirmed
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University of Massachusetts Bldg Auth (Massachusetts) GO (MBIA) (National)

<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

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