STANDARD & POOR'S

PUBLIC FINANCE

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Massachusetts

Credit Profile		
US$325. mil BANs 2008 ser A dtd 12/17/2008 due 03/05/2009		
Short Term Rating	SP-1+	New
Massachusetts GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' short-term rating to Massachusetts' bond anticipation notes (BANs) 2008 series A.

At the same time, we affirmed our 'AA' long-term rating, with a stable outlook, on the general obligation (GO) bonds outstanding.

The BANs are GO obligations of the state of Massachusetts and are secured by the full faith and credit of commonwealth. The notes will fund capital various capital requirements and also refund certain variable-rate bonds outstanding. The notes mature on March 5, 2009, and the commonwealth expects to issue long-term bonds at that time.

The ratings reflect 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.

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, 2008, 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. Also, $321 million in additional spending has been identified for a total shortfall of $1.4 billion. 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 more flexibility to manage the budget in the future. The pension funding schedule was extended to 2025 from 2023, which will save $100 million. At this time, there have been no reductions to local assistance spending. In our opinion, the commonwealth has moved swiftly to restore balance and the early action on the spending cuts should maximize their effectiveness. November revenue collections showed additional weakness for a potential additional budget exposure of $80 million-$125 million. The commonwealth's cash flow forecast was recently updated. In addition to $750 million of revenue anticipation notes outstanding, there is $1 billion of commercial paper outstanding, which is the maximum amount that can be issued. The cash flow assumes $1.9 billion bonding for capita in fiscal 2009; $500 million has been issued so far. After this BAN issue, more than a $1 billion of additional bonding will be required.

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 Massachusetts' state review published Oct. 3, 2008, on RatingsDirect.)

Outlook

The outlook on the note outlook is not meaningful. The long-term outlook on Massachusetts 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.