

RatingsDirect®

Summary:

Massachusetts; General Obligation

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Credit Profile

US\$640.260 mil GO rfdg bnds ser 2013 B due 05/01/2033

Long Term Rating AA+/Stable New

US\$375.0 mil GO bnds cons loan ser 2013 C due 05/01/2033

Long Term Rating AA+/Stable New

US\$100.0 mil GO bnds cons loan (Green Bnds) ser 2013 D due 05/01/2033

Long Term Rating AA+/Stable New

Massachusetts GO

Long Term Rating AA+/Stable Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating, and stable outlook, to Massachusetts' \$375 general obligation (GO) bonds consolidated loan of 2013 series C, \$100 million GO bonds consolidated loan of 2013 series D (green bonds), and \$640 million GO refunding bonds 2013 series B. In addition, Standard & Poor's affirmed its 'AA+' rating, and stable outlook, on Massachusetts' existing parity debt.

Factors supporting the 'AA+' rating include what we view as the commonwealth's:

- Strong budget performance, with timely monitoring of revenues and expenditures and swift action when needed to make adjustments, with a focus on structural solutions to budget balance;
- Ongoing progress in improving financial, debt, and budget management, including formalized policies relating to debt affordability as well as multiyear capital investment and financial planning, which are key improvements from a credit standpoint;
- A healthy budget stabilization fund (BSF) balance, which has been key to managing budget volatility. After significant contributions in 2011 and 2012, the expected used of reserves in the current fiscal year and planned reduction under the governor's proposed budget would diminish flexibility in our opinion;
- High wealth and income levels; and
- Deep and diverse economy, which continues to experience steady economic recovery.

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 Massachusetts' total postretirement liabilities as relatively high, we believe the commonwealth has been actively managing these liabilities with a focus on cost control and reform in recent years.

Bond proceeds will be used to fund authorized capital projects and advance refund certain bonds outstanding for interest cost savings. The commonwealth recently updated its guidelines for current and advance refundings as part of its broader debt management policy. The guidelines include an assessment of present value savings and the forfeited option value of the refunded bonds.

About \$3.8 billion (20%) of the \$18.4 billion in GO debt outstanding is variable rate. All but \$900 million of this amount is hedged. The variable-rate portfolio is actively managed by the commonwealth and is governed by a formal policy. In the past several years, the overall portfolio of variable-rate debt has diversified and put risk has been significantly reduced, in our opinion.

Massachusetts' economy has experienced steady recovery, outpacing national and regional trends by most measures but the pace has been uneven in recent months. Through April 2013 the unemployment rate decreased to 6.4% but has been lower at points over the last year. It remains well below the U.S. rate of 7.5% through April. Employment growth has been strong relative to other states throughout the recovery. In our view, 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. Income growth has also been strong relative to other states with per capita personal income now ranked second in the U.S. behind Connecticut.

Tax revenue performance through April 2013 was relatively strong, in our view, with tax revenues about \$941 million above fiscal 2012 and \$510 million above the revised estimate for fiscal 2013. The positive variance is largely due to personal income tax revenue collections including tax payments with returns and extensions, withholding, and estimate payments. As we have seen in other states, growth was especially strong in April (revenues were \$359 million above April 2012) and likely the result of taxpayer action resulting from uncertainty surrounding the "fiscal cliff" and federal tax policy. There has been a range of adjustments to both revenue and expenditure estimates for fiscal 2013 but based on current estimates, the BSF will be reduced to \$1.27 billion from \$1.65 billion: about 3.6% of total budgeted expenditures and transfers. The governor filed his budget recommendations on Jan. 23. The House of Representatives has approved its version of the budget and the Senate is expected to approve its version of the budget in late May. Differences between the House and Senate version will be reconciled by a legislative conference committee (see the full analysis published March 18, 2013, on RatingsDirect).

Based on the analytic factors we evaluate for states, on a scale of '1.0' (strongest) to '4.0' (weakest), we have assigned a composite score of '1.8' to Massachusetts.

Outlook

The stable outlook reflects our expectation that Massachusetts will continue to proactively manage its budget. Management initiatives to formalize long-term financial planning and manage long-term debt and liabilities should allow for better structural alignment of the budget in the future. However, recent and planned withdrawals of the BSF during a period of economic expansion are a credit negative in our view and are a departure from the commonwealth's past funding practice. We believe a lower BSF diminishes flexibility to manage future budget volatility. Credit direction over the two-year outlook horizon will depend on the pace of economic recovery, the funding level of the BSF, and overall structural budget alignment. Standard & Poor's will continue to monitor federal consolidation efforts and will evaluate their effect on the state's finances and officials' response to these revenue reductions.

Related Criteria And Research

- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- USPF Criteria: Financial Management Assessment, June 27, 2006
- U.S. State And Local Government Credit Conditions Forecast, April 4, 2013

Ratings Detail (As Of May 23, 2013)		
Massachusetts go 1998B		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Massachusetts GO rfdg bnds var rate dem bnds ser C dtd 02/20/2001 due 01/01/2021		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
Massachusetts GO rfdg (Sifma Index Bnds) ser 2013 A due 02/01/2017		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Massachusetts GO VRDBs 2000A		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
Massachusetts GO VRDBs 2000B		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
Massachusetts GO VRDBs 2006A		
<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 (wrap of insured) (FGIC & BHAC) (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

Many issues are enhanced by bond insurance.

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