

FITCH RATES MASSACHUSETTS \$325MM GO BONDS 'F1+'

Fitch Ratings-New York-08 December 2008: Fitch Ratings assigns a rating of 'F1+' to the Commonwealth of Massachusetts' \$325 million general obligation (GO) bond anticipation notes (BANs), 2008 series A. The bonds, which mature March 5, 2009, are scheduled to sell through negotiation the week of Dec. 8. Proceeds will be used for new money and refunding purposes. In addition, Fitch affirms the 'AA' rating and Stable Rating Outlook on about \$16 billion outstanding Commonwealth GO bonds. The Rating Outlook is Stable.

The 'F1+' short-term rating reflects the Commonwealth's general credit characteristics. The Commonwealth expects to issue long-term GO bonds or renewal notes to pay the BANs.

The 'AA' long-term rating reflects the Commonwealth's considerable economic resources and record of prudent financial management. Even after a significant draw in the current fiscal year, reserve levels remain solid, providing a hedge against the Commonwealth's economically sensitive tax base. Credit strengths are tempered by a very heavy debt burden. Net tax-supported debt of about \$30 billion equals 9.3% of personal income.

Like most states, the Commonwealth is currently experiencing a decline in the pace of economic and revenue growth. On Oct. 15, a \$1.4 billion fiscal 2009 shortfall was projected, largely due to a \$1.1 billion reduction in estimated tax revenues for the year. The revision reflected a particularly steep drop-off in the estimate for capital gains tax revenues. This shortfall is being addressed primarily through spending cuts, as well as an additional \$200 million stabilization fund draw down (to \$1.6 billion) and extension of the pension funding schedule. Through November, revenues are slightly below October estimates, with income taxes up 2% (baseline) compared to the prior year, sales and use taxes down 3.7%, and corporate and business taxes down 22.4%.

Massachusetts has a fundamentally strong and wealthy economy, with the third highest personal income per capita in the nation (127% of the U.S.). Nonfarm employment is still below peak levels and economic recovery had lagged the U.S.; however, as the nation's employment has dropped the Commonwealth has continued to add jobs, albeit at a slow pace. Commonwealth employment rose 0.1% in October 2008, year-over-year, compared to a loss of 0.8% for the U.S. Massachusetts's unemployment levels are below the nation's, with the Commonwealth rate at 5.5% in October, 85% of the U.S. rate.

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