STANDARD & POOR'S
RATINGS SERVICES

RatingsDirect®

Summary:

Massachusetts; General Obligation

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Summary:

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Credit Profile		
US$230.54 mil GO rfdg bnds (Sifma Index Bnds) ser 2012 B due 02/01/2017		
Long Term Rating	AA+/Stable	New
US$150.0 mil GO bnds cons loan ser 2012 D due 01/01/2017		
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' $230.54 million series 2012B general obligation (GO) refunding bonds (Securities Industry And Financial Markets Association [SIFMA] index bonds) and $150 million series 2012D GO bonds consolidated loan.

In addition, Standard & Poor's affirmed its 'AA+' rating, and stable outlook, on the 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.
- Commitment to increasing budget stabilization fund (BSF) balances, which provide flexibility to manage budget volatility;
- High wealth and income levels; and
- Deep and diverse economy, that 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.

The series 2012 refunding bonds will be issued as SIFMA bonds. The SIFMA bonds have a floating-rate coupon, and will bear interest at the SIFMA rate plus or minus a certain spread determined weekly. There is no put risk and there will be staggered fixed maturities over three years with the final maturity in 2017 based on the current plan of finance. There is an existing swap in place that is tied to SIFMA so it will be a matched hedge and, therefore, basis risk will be eliminated. The commonwealth has authorized the series 2012D bonds to be issued as SIFMA index bonds, LIBOR index bonds, or fixed rate bonds. We understand that the decision will be made at the time of pricing.

The commonwealth has formalized a policy and an administrative process that outlines the rollover risk for variable-rate debt and articulates how the bond program will be managed.

Refinancing options would include the following: the issuance of new SIFMA index bonds, or variable- or fixed-rate debt; use of a portion of the commercial paper program; or use of cash or other resources. The commonwealth's goal is to maintain the amortization schedule of the original series 2005 bond issue. The bonds will be subject to redemption by Massachusetts six months before the maturity date.

About $3.5 billion (19%) of the $18.6 billion in GO debt outstanding is variable rate. All but $626 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. The unemployment rate has increased slightly to 6.5% after falling to 6.0% in June but remains well below the U.S. rate of 7.8%. 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.

Economic recovery has translated to positive financial performance in the past two fiscal years. There has been a policy focus on increasing the BSF and improving structural budget alignment, which enhances overall financial flexibility in our view. The BSF is projected to be slightly lower at fiscal year-end 2013 but the $1.3 billion projected balance is 3.7% of budgeted revenues and almost doubled since fiscal 2010 ($700 million balance). The formal schedule for budget revisions and track record of timely adjustments has also contributed to overall budget stability over time. On Oct. 15, 2012, the secretary for administration and finance (A&F) certified the current forecast of revenues and expenditures despite some revenue weakness through the first quarter. Revenues weakened further in October with a decline of $162 million relative to forecast. Overall revenues are now $256 million below forecast through that month. Although there has been no official change to revenue forecast, A&F announced spending and hiring controls, and contingency plans are under way in the event of a downward revenue adjustment.

Debt And Liability Update

By most measures, Massachusetts' debt burden remains high compared with that of other states. The commonwealth has about $18.6 billion of GO debt outstanding. Massachusetts has a range of other debt obligations outstanding, including those issued by state authorities and supported by the statewide sales tax, and contract assistance debt. On a budgetary basis, debt service was an affordable 6.7% of expenditures in fiscal 2012. The capital investment plan through 2017 is lower than the previous plan but remains sizable at $16.7 billion. Transportation represents nearly half of program requirements. Planned debt issuance of about $2 billion annually remains within the parameters of the debt affordability policy and bond cap; debt service is below 8% of budgeted revenues. While a debt affordability analysis had been done within A&F, legislation was introduced in 2012 that created a capital and debt affordability committee. The committee includes seven voting members and eight nonvoting members from the legislature, and is charged with formally reviewing the capital investment plan and providing an estimate of debt authorization for the year. This is similar to the current process but is now formalized.

The most recent actuarial valuation of the combined pension indicates weaker funded ratios through Jan. 1, 2012. The aggregate funded ratio declined to 65.1% from 71.1% on Jan. 1, 2011. The unfunded actuarial liability increased to $23.6 billion from $18.6 billion in 2011. The commonwealth attributes the lower funded ratio to recognition of prior-year investment losses and certain adjustments to actuarial assumptions including mortality rates and cost-of-living increases. The funded ratio remains below the average funded ratio for other U.S. states. Massachusetts attributes the decline to prior-year investment performance. The 2012 pension reports included a recommendation to lower the investment return assumption to 8.00% from 8.25% based on an experience study being conducted by the Public Employee Retirement Administration Commission. While this would likely contribute to a higher level of recorded liabilities, we expect that recent reform efforts could lower liabilities over time. Massachusetts also has a $16.3 billion unfunded actuarial accrued OPEB liability, which we consider sizable. The commonwealth established a trust fund to begin to accumulate assets toward the liability and is dedicating tobacco settlement revenues to the trust fund (to be phased in over 10 years) to provide a permanent funding source, which we consider a credit positive. The trust had assets of $360.5 million as of Jan. 1, 2012. (For further information, see the full analysis published on Sept. 21, 2012, on RatingsDirect on the Global Credit Portal.)

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. We do not except to change the rating in the two-year outlook period. While budget resources remain constrained, recent management initiatives to formalize long-term financial planning and manage long-term debt and liabilities should improve structural budget performance over time. The BSF also provides flexibility to manage future fiscal challenges, in our view. Standard & Poor's will continue to monitor the federal fiscal consolidation efforts stemming from the Budget Control Act of 2011 and, once these are identified, will evaluate their effect on the state's finances and officials' response to any funding or policy changes.

Temporary Number: Robin Prunty (914-582-7470)

Related Criteria And Research

- U.S. State And Local Government Credit Conditions Forecast, Oct. 9, 2012
- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- USPF Criteria: Financial Management Assessment, June 27, 2006

Ratings Detail (As Of December 3, 2012)

Ratings Detail (As Of December 3, 2012) (cont.)		
Massachusetts go 1998B		
Long Term Rating	AA+/Stable	Affirmed
Massachusetts GO rfdg bnds var rate dem bnds ser C dtd 02/20/2001 due 01/01/2021		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Massachusetts GO VRDBs 1997B		
Long Term Rating	AA+/A-1/Stable	Affirmed
Massachusetts GO VRDBs 2000A		
Long Term Rating	AA+/A-1/Stable	Affirmed
Massachusetts GO VRDBs 2000B		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Massachusetts GO VRDBs 2006A		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Massachusetts GO VRDBs 2006B		
Long Term Rating	AA+/A-1/Stable	Affirmed
Massachusetts GO (wrap of insured) (ASSURED GTY & AMBAC) (SEC MKT)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Massachusetts GO (wrap of insured) (FGIC & BHAC) (SEC MKT)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Massachusetts GO (FGIC)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Massachusetts GO (MBIA) (Assured Gty)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Massachusetts GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Massachusetts GO Rfd		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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