

FITCH RATES MASSACHUSETTS' \$1.2B GO RANS 'F1+'

Fitch Ratings-New York-21 September 2012: Fitch Ratings assigns an 'F1+' rating to the following Commonwealth of Massachusetts general obligation (GO) revenue anticipation notes (RANs):

- \$600 million 2012 series A RANs due April 25, 2013;
- \$600 million 2012 series B RANs due May 23, 2013.

The notes are scheduled to sell through competitive bid on Sept. 27, 2012.

KEY RATING DRIVERS

--GO PLEDGE OF COMMONWEALTH: The notes are a general obligation of the Commonwealth (long-term rating of 'AA+' with a Stable Outlook).

--STRONG COVERAGE BY PROJECTED CASHFLOWS: Projected receipts provide strong coverage of note repayment and the balance in the stabilization fund provides substantial additional cushion.

--GENERAL COMMONWEALTH CREDIT FACTORS: Massachusetts has a broad and diverse economy with the second highest personal income per capita in the nation. The Commonwealth's financial management has shown a commitment to conservative budgeting and sound financial practices over time. Debt levels are high for a U.S. state government, and the combined burden of debt and pensions is also well above the median for U.S. states rated by Fitch.

SECURITY

The notes are general obligations of the Commonwealth to which its full faith and credit is pledged.

CREDIT PROFILE

The Commonwealth, which makes large quarterly local aid payments, is a regular annual issuer of RANs. The size of the \$1.2 billion fiscal 2013 RANs sale matches those of the prior three fiscal years; however, the Commonwealth's overall financial position is significantly improved after steep revenue declines in the recession. Recent legislation to move to monthly local aid payments starting in fiscal 2014 should reduce the need for cashflow borrowing in future years.

The \$1.2 billion in RANs being issued represent a moderate 2.4% of projected fiscal 2013 cash receipts. Coverage is very strong at 5 times (x) for the series A maturity in April and 4x for the series B maturity in May. The current official cashflow forecast projects a fiscal 2013 non-segregated operating cash ending balance of \$2.1 billion.

The Commonwealth's stabilization fund is a segregated fund. Strong revenue performance in fiscal 2011 allowed for an increase in the fund balance to \$1.4 billion, up from \$670 million at the end of fiscal 2010. The reported balance grew further to \$1.5 billion in fiscal 2012, which ended on June 30, despite more modest revenue growth. Although a draw on the fund is included in the budget for the current fiscal 2013, reserve funding is expected to remain solid at \$1.3 billion and a mechanism that requires the automatic deposit of one-time judgments and settlement payments could add to the balance. Fitch notes that the stabilization fund can be drawn on with appropriation fairly expeditiously as needed and, as such, provides substantial additional cushion.

The notes being sold are the only RANs planned for fiscal 2013. The next cashflow forecast is scheduled for late November 2012.

For more information on the Commonwealth's general credit, see Fitch's release 'Fitch Rates Massachusetts' \$400MM GO Bonds 'AA+'; Outlook Stable' dated Sept. 21, 2012.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:

- 'Tax-Supported Rating Criteria', dated Aug. 14, 2012;
- 'U.S. State Government Tax-Supported Rating Criteria', dated Aug. 14, 2012.
- 'Rating U.S. Municipal Short-Term Debt', dated Dec. 8, 2011.

Applicable Criteria and Related Research:

Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015
U.S. State Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686033
Rating U.S. Municipal Short-Term Debt
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=659234

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