

Rating Action: Moody's Assigns Aa1 to Massachusetts' \$710M GO Bonds 2018 Series B, C & D; outlook stable

Global Credit Research - 30 Mar 2018

New York, March 30, 2018 -- Moody's Investors Service has assigned a Aa1 to Massachusetts' \$210 million General Obligation Refunding Bonds 2018 Series B, \$250 million General Obligation Bonds Consolidated Loan of 2018 Series C, and \$250 million General Obligation Bonds Consolidated Loan of 2018 Series D. The outlook is stable.

RATINGS RATIONALE

Massachusetts' Aa1 rating reflects the state's growing economy, anchored by healthcare and technology sectors. The state closely monitors expenditures and revenues; in recent years these acts, combined with ample executive authority to make mid-year cuts, have resulted in balanced budgets and adequate liquidity. Debt and pension liabilities are among the highest in the nation, though these figures include borrowing and benefits for local governments.

RATING OUTLOOK

The stable outlook reflects our expectation that the commonwealth will continue its trend of strong financial management, taking proactive measures to close budget gaps as they emerge. Reliance on one-time budget solutions or decreased liquidity would be indications of deviating from these practices.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Continued rebuilding of reserves and establishment of stronger constraints on their use
- Established trend of structural budget balance
- Reduced debt ratios relative to Moody's 50-state median

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Protracted structural budget imbalance
- Reserves or liquidity that falls below adequate levels
- Increased leveraging of the commonwealth's resources to pay debt service or further erosion in pension funding ratios

LEGAL SECURITY

The bonds are general obligations of the Commonwealth of Massachusetts, which has pledged its full faith and credit for the payment of principal and interest when due. We note, however, that state law limits annual tax revenue growth and does not exempt debt service payments from this limitation.

USE OF PROCEEDS

New money bond proceeds will be used to fund capital projects across the state as identified in its fiscal 2018 capital investment plan. Proceeds from the 2018 Series B bonds will be used to refund the commonwealth's outstanding General Obligation Bonds, Consolidated Loans Series 2000D, 2000E, 2000F and 2000G bonds into fixed rate. As a result of the refunding, the commonwealth projects it will pay a lower rate of interest with the new fixed rate bonds than the current rate given that all of the auction rate securities are currently in fail mode. The remaining non-refunded maturities will remain variable rate as the current rate is more favorable.

PROFILE

The Commonwealth of Massachusetts is the 15th largest state by population, boasting an estimated 6.8 million

residents in 2016. Its gross domestic product, reaching \$505.8 billion, ranks 11th among the states. Per capita income was 131.4% of the national average in 2016, the 2nd highest.

METHODOLOGY

The principal methodology used in these ratings was US States Rating Methodology published in April 2013. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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