

RatingsDirect®

Summary:

Massachusetts; Note

Primary Credit Analyst:

David G Hitchcock, New York (1) 212-438-2022; david.hitchcock@spglobal.com

Secondary Contact:

Timothy W Little, Chicago + 1 (212) 438 7999; timothy.little@spglobal.com

Table Of Contents

Rationale

Summary:

Massachusetts; Note

Credit Profile

US\$500.0 mil GO RANs 2018 ser C due 06/20/2019		
<i>Short Term Rating</i>	SP-1+	New
US\$500.0 mil GO RANs 2018 ser B due 05/23/2019		
<i>Short Term Rating</i>	SP-1+	New
US\$500.0 mil GO RANs 2018 ser A due 04/25/2019		
<i>Short Term Rating</i>	SP-1+	New

Rationale

S&P Global Ratings assigned its 'SP-1+' short-term rating to the Commonwealth of Massachusetts' \$1.5 billion of general obligation (GO) revenue anticipation notes (RANs), 2018 series A, B, and C.

The short-term rating reflects what we view as the general creditworthiness of Massachusetts ('AA' GO rating) and strong note debt service cash coverage at maturity.

The notes are general obligations of the commonwealth, secured by Massachusetts' full faith and credit pledge, and are being issued to meet cash flow requirements for fiscal 2019.

Massachusetts does not use interfund borrowing for cash flow purposes and the sizable balance in its budget stabilization fund (BSF) is not available for general fund cash flow requirements unless authorized by the legislature. As a result, the state typically sells RANs annually. The commonwealth estimates its available nonsegregated general fund cash balance increased to \$3.608 billion at fiscal year-end 2018 (June 30), from \$2.058 billion at fiscal year-end 2017, based on actual cash collections through June 2018. Its cash flow projection for fiscal 2019, based on the enacted state budget, forecasts its fiscal year-end 2019 nonsegregated cash position will drop to a still-sizable \$2.081 billion.

Massachusetts bases its cash flow projection on the enacted fiscal 2019 budget (including the governor's vetoes and overrides by the legislature). In our view, revenues have recovered strongly since fiscal 2014, when the state last budgeted a drawdown in its BSF. In fiscal 2018, the state budgeted for near breakeven financial results in its operating funds. However, strong personal income tax growth, due in part to the acceleration of capital gains tax as a result of changes in the federal tax code, resulted in an estimated \$832 million operating surplus, or 1.9% of operating expenditures and other uses. As a result, the state estimates a net increase in its BSF attributable to fiscal 2018 of \$493 million, to \$1.8 billion, or 4.1% of estimated operating expenditures and other uses. The state is budgeting for essentially breakeven operations in fiscal 2019, with a small \$17 million operating deficit. The state's cash flow projections assume cash tax revenue, not including sales tax transfers to the Massachusetts Bay Transportation Authority, will shrink 0.3% in fiscal 2019 from the 2018 actual cash collection.

The prohibition against borrowing from the BSF for cash purposes contributes to a general fund cash flow imbalance

throughout the year, leading the commonwealth to issue cash flow notes. Massachusetts plans to issue the same \$1.5 billion amount of RANs as it has in the two previous fiscal years, or 3.2% of projected fiscal 2019 pledged tax revenues, with a projected minimum month-end cash balance of \$1.5 billion as of March 2019, somewhat lower than fiscal 2018's actual \$1.8 billion month-end minimum as of March 2018.

The series A, B, and C notes will mature on April 25, May 23, and June 20, 2019, respectively. There will be no revenue withholding in advance of note repayment, but the staggered maturity schedule provides for strong cash coverage in our view at 5.54x, 3.95x, and 5.03x for those dates, respectively, by month-end cash available based on Massachusetts' projected cash flow. We calculate the commonwealth's fiscal 2018 cash flow notes had actual cash coverage of 6.71x, 6.25x, and 8.09x, in April, May, and June, respectively, much better than the projected coverage at the time of the fiscal 2018 RAN sale of 5.12x, 3.94x, and 5.01x, respectively. In fiscal 2017, actual cash coverage of RANs was slightly higher than what the commonwealth had originally projected at the time of the sale of its fiscal 2017 RANs.

Cash management is the responsibility of the state treasurer, and we believe the commonwealth has good cash forecasting processes, with detailed reporting and monitoring. The state revises its cash forecast regularly to incorporate actual performance and the next revision is scheduled for Aug. 31, 2018.

We believe that Massachusetts' forecast of tax revenue is reasonable in view of IHS Markit's forecast of 3.9% personal income growth in calendar 2018, 5.2% in calendar 2019, and 4.6% in calendar 2020. The enacted 2019 operating budget on a budgetary basis of accounting for the fiscal year ending June 30, 2019, projects 4.0% growth in operating expenditures and other uses, including transfers out.

For more information about the state, see our most recent state GO rationale published Aug. 9, 2018, on RatingsDirect.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.