

### Summary:

## Massachusetts; General Obligation

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### Table Of Contents

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Rationale

Outlook

Related Criteria And Research

## Summary:

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Credit Profile		
US\$400.0 mil GO bnds cons loan of 2011 ser E due 12/01/2027		
<i>Long Term Rating</i>	AA+/Stable	New
Massachusetts GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Massachusetts GO VRDBs 1998A		
<i>Long Term Rating</i>	AA+/A-1/Stable	Downgraded

## Rationale

Standard & Poor's Ratings Services lowered its short-term rating on Massachusetts' series 1998A bonds to 'A-1' from 'A-1+'.

We base the downgrade on our recent downgrade on JPMorgan Chase Bank NA (JPMC). On Nov. 29, 2011, we lowered the long- and short-term ratings on JPMC to 'A+/A-1' from 'AA-/A-1+'. (For further information see "Criteria To 37 Of The Largest Rated Banks And Certain," published Nov. 29, 2011, on RatingsDirect on the Global Credit Portal.)

At the same time, Standard & Poor's assigned its 'AA+' long-term rating, and stable outlook, to Massachusetts' \$400 million GO bonds, consolidated loan of 2011, series E. Standard & Poor's also affirmed its 'AA+' rating, with a stable outlook, on the series 1998A parity debt outstanding.

We understand that bond proceeds of this issue will fund various capital projects.

On Sept. 16, 2011, we raised the rating on the commonwealth's GO debt, reflecting Massachusetts' ongoing progress in improving financial, debt, and budget management practices, while at the same time implementing cost-control and reform measures associated with its long-term liabilities. The upgrade also reflected the commonwealth's commitment to its stabilization fund. Formalized policies relating to debt affordability, capital investment planning, financial planning, and enhanced funding of the stabilization fund are key improvements from a credit standpoint.

Other factors supporting the 'AA+' rating, in our view, are:

- Massachusetts' relatively strong budget performance through the recent recession, with swift action to restore balance after identifying revenue shortfalls and a focus on structural solutions to budget balance;
- A commitment to maintaining and more recently increasing the budget stabilization fund balances, which provide flexibility to manage any budget volatility;
- High wealth and income levels; and
- The commonwealth's deep and diverse economy, which has recovered steadily in the past several months after weakness through the recent recession.

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 its total postretirement liabilities as relatively high, we believe Massachusetts has been actively managing these liabilities.

After declining through the recession, Massachusetts' economy is showing signs of steady recovery. Unemployment rates fell to 7.3% in October according to the Bureau of Labor Statistics, after peaking at 9.0% through most of 2010. The commonwealth estimates that the rate fell to 7% in November with 5,000 jobs added. The rate remains below the national average of 8.6%, and employment growth has been strong relative to other states throughout the recovery. A recent hearing on the fiscal 2013 consensus revenue estimate indicates a steady but modest pace of economic recovery by Global Insight, Moody's Economy.com, and the New England Economic Partnership. 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.

Revenue recovery for the state has also been fairly robust, which has contributed to improved budgetary performance and liquidity, in our opinion. On a budgetary basis, the commonwealth ended fiscal 2011 with a \$997.8 million surplus, due largely to stronger-than-forecast revenue performance. Revenues for fiscal 2011 were \$20.5 billion or \$723 million above the Jan. 18, 2011, estimate. The governor has signed supplemental budget legislation to allocate the surplus including a deposit of \$350 million to the stabilization fund and \$132.1 million in supplemental appropriations including resources for infrastructure and funding to local governments for natural disaster-related costs. The stabilization fund at June 30, 2011 was \$1.4 billion, compared with \$670 million in fiscal 2010. In addition to the deposit, there was a reversal of a planned drawdown in fiscal 2011, as well as the authorized deposit of 0.5% of fiscal 2011 tax collections in that fiscal year.

The fiscal 2012 budget was approved by the legislature on July 1, 2011, and signed by the governor on July 11. An interim budget was approved in advance of July 1 to start the year. The budget was balanced largely through spending reductions. There were some legislative adjustments to revenue, but there were no broad-based revenue enhancements. The budget significantly reduces its reliance on nonrecurring resources to balance the budget but included a \$200 million draw on the stabilization reserve and a suspension of the statutory contribution (0.5% of total tax revenues or \$103.7 million) for fiscal 2012. Year-to-date revenue performance for all of the major tax sources has been strong in our view. On Oct. 17, 2011, the revenue forecast was revised up by \$395 million to \$21 billion. Revenues through Nov. 30 were \$40.2 million above the revised revenue estimate. Year-to-date revenues were \$356.2 million above fiscal 2011 with growth in all major tax sources. There was an \$81.4 million deposit to the stabilization fund based on a recent statutory requirement to deposit one-time judgments and settlements into the fund. The fund is now forecast to be \$1.3 billion.

By most measures, Massachusetts' debt burden remains high compared with that of other states. The commonwealth has about \$18.4 billion of GO debt outstanding. Massachusetts has a range of other debt obligations outstanding, including those supported by the statewide sales tax, contract assistance debt, and debt subject to annual appropriation. On a budgetary basis, debt service was an affordable 6.1% of expenditures in fiscal 2011. The capital investment plan and debt affordability analysis through 2016 shows annual debt issuance ranging from \$1.75 billion in fiscal 2012 up to \$2.25 billion in fiscal 2016. This plan adheres to annual bond cap (debt service as a percent of budgeted revenue within the 8% limit) that is outlined in Massachusetts' annual debt affordability analysis. The capital investment plan totals \$17.2 billion.

The most recent actuarial valuation of the combined pension indicates improved funded ratios through Jan. 1, 2010. The funded ratio improved to 67% from 62% on Jan. 1, 2009. The unfunded actuarial liability is \$20 billion, down

from \$22 billion in 2009. The improved funded ratio was due largely to higher assets reflecting investment performance. The funded ratio remains below average relative to funded ratios for other U.S. states, but recent reform efforts implemented and under consideration are expected to lower liabilities. There is also what we consider a sizable amount (\$15 billion) of unfunded actuarial OPEB liability (in addition to pay-as-you-go costs). The commonwealth has established a trust fund to begin to accumulate assets toward the liability, which had a balance of \$310 million as of June 30, 2010. The 2012 enacted budget provides that 10% of all tobacco settlement payments to the state be dedicated to the trust fund with an additional 10% added each year until the deposit reaches 100% of the payments. This is expected to provide a recurring source of revenue to the trust.

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. (For the most recent analysis on Massachusetts, see the full report published Sept. 20, 2011, on RatingsDirect on the Global Credit Portal.)

## Outlook

The stable outlook reflects our expectation that Massachusetts will continue to proactively manage its budget. Recent actions to increase the budget stabilization fund should provide flexibility to manage future budget challenges. 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.

## Related Criteria And Research

USPF Criteria: State Ratings Methodology, Jan. 3, 2011

Ratings Detail (As Of December 19, 2011)		
Massachusetts GO VRDBs 2000B C		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
Massachusetts GO VRDBs 2001B		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
Massachusetts GO VRDBs 2006A		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
Massachusetts GO VRDBs 2006B		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
Massachusetts GO (wrap of insured) (ASSURED GTY & AMBAC) (SEC MKT)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Massachusetts GO (wrap of insured) (FGIC & BHAC) (SEC MKT)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Massachusetts GO (FGIC)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Upgraded
Massachusetts GO (MBIA) (Assured Gty)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
<b>Massachusetts GO</b>		

<b>Ratings Detail (As Of December 19, 2011) (cont.)</b>		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
<b>Massachusetts GO Rfd</b>		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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