FitchRatings

Tagging Info

Fitch Rates Massachusetts' $380MM GO Bonds 'AA+'; Outlook Stable

Ratings Endorsement Policy
30 Nov 2012 5:57 PM (EST)

Fitch Ratings-New York-30 November 2012: Fitch Ratings has assigned an 'AA+' rating to the following Commonwealth of Massachusetts general obligation (GO) bonds:

--$230,540,000 GO refunding bonds (SIFMA index bonds) 2012 series B;
--$150,000,000 GO bonds consolidated loan of 2012, series D.

The bonds are scheduled to sell through negotiation on Dec. 5, 2012.

In addition, Fitch affirms the following ratings:

--Approximately $19 billion of outstanding Commonwealth GO and Commonwealth guaranteed bonds at 'AA+'.

The Rating Outlook is Stable.

SECURITY

General obligations of the Commonwealth, to which its full faith and credit are pledged.

KEY RATING DRIVERS

--STRONG AND WEALTHY ECONOMY: Massachusetts has a broad and diverse economy with the second highest personal income per capita in the nation.

--PRUDENT FINANCIAL MANAGEMENT: The Commonwealth has benefited from conservative budgeting and sound financial practices over time. A limitation on the use of capital gains-related tax revenue has reduced the volatility of economically sensitive revenues in the budget, and the Commonwealth has shown a commitment to reserve funding.

--COMPARATIVELY HIGH LIABILITY BURDEN: Massachusetts' debt levels are high for a U.S. state government, and Fitch expects them to remain so. This is partially explained by the above-average role played by the Commonwealth in relation to local levels of government when compared to most other states. In addition, the Commonwealth is responsible for the pension benefits of not only Commonwealth employees but also teachers statewide, contributing to a combined burden of debt and pensions that is also well above the median for U.S. states rated by Fitch.

CREDIT PROFILE

Massachusetts' current financial position has stabilized following a period of steep decline in the recession. Strong revenue performance in fiscal 2011, which saw 9.3% year-over-year baseline tax revenue growth, allowed for an increase in the stabilization fund balance to $1.4 billion, up from $670 million at the end of fiscal 2010. The balance grew further to $1.65 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 year 2013, reserve funding is expected to remain solid at $1.4 billion.

Through October 2012, fiscal 2013 revenues are $256 million below budget estimates, with underperformance in all major revenue sources. The revenue estimate will be updated in January 2013 and the Commonwealth has been preparing for a likely reduction in the forecast. Overall, though substantial risk remains in the economic and revenue environment in

Massachusetts, as in most states, Fitch believes that the Commonwealth retains significant flexibility to address budget underperformance and has repeatedly demonstrated its commitment to do so.

The budget for fiscal 2012 addressed a large budget gap that reflected the phase-out of federal stimulus funds primarily through spending control, particularly in the area of health care. Savings were achieved and revenues came in slightly above upwardly revised estimates. Recovery continued, albeit at a more modest pace than the prior year, with 4% baseline growth in personal income tax revenues, a 4.7% rise in sales tax revenues, and a 3.5% overall baseline increase in tax collections compared to 9% year-over-year growth in fiscal 2011. The enacted budget for fiscal 2013 again relied on spending control to maintain balance. The budget assumes baseline tax revenue growth of 5.4% over fiscal 2012, while actual results through October show growth of 1.1%.

Strong fiscal 2011 revenue performance triggered an automatic drop in the state's flat income tax rate, from 5.3% to 5.25% effective Jan. 1, 2012, pursuant to a previously deferred tax-rate cut. The Commonwealth estimates the impact of the change at only approximately $55 million in fiscal 2012, rising to about $115 million in fiscal 2013. Another drop for 2013, to 5.2%, could be triggered based on recent results, which would have a similarly sized effect on the fiscal 2013 and 2014 budgets. Although up to three regional resort casinos and one slot facility have been authorized, much of the revenue is expected to go to local governments and there is no related money assumed in the Commonwealth's fiscal 2013 budget.

Massachusetts has consistently taken timely action to ensure budget balance in recent downturns while maintaining some level of reserves. This is important given the nature of the Commonwealth's revenue system, which quickly reflects changing economic conditions. With economic deterioration, tax revenue forecasts were reduced significantly over the course of fiscal 2009, from $21.4 billion in the enacted budget to actual results of $18.3 billion, and the year ended down 13% (baseline) compared to fiscal 2008. The budget for fiscal 2010 included a 25% increase in the Commonwealth's sales tax rate (to 6.25%) and other revenue measures totaling about $1 billion. Fiscal 2010 taxes were down 3.2% (baseline) versus fiscal 2009.

In addition to solid ongoing budget management, the Commonwealth has proactively taken steps to reduce the impact of volatile revenues on its budget in recent years. The variability and unpredictability of capital gains-related tax revenue has been a key factor in volatility over time. In response, the fiscal 2011 enacted budget included a new mechanism for budgeting capital gains-related tax revenue that limits the amount of such revenue that can be included in the Commonwealth's budget to $1 billion, with excesses dedicated to reserve funding. A similar change requires one-time judgments and settlement payments in excess of $10 million be deposited in the stabilization fund; the fund benefited from an unusually high $375 million of such revenue in fiscal 2012. Along the same lines, the Commonwealth has developed a long-term fiscal policy framework focused on budget sustainability.

Massachusetts has a fundamentally strong and wealthy economy. At 129% of the U.S. average, the Commonwealth's personal income per capita is the second highest of the states. After experiencing among the steepest employment drops in the country from 2002-2004, the Commonwealth's performance in the recent recession was significantly better than the national experience. Employment losses in 2009 were less severe than those of the U.S. (3.3% versus 4.4%), and Commonwealth employment rose 0.3% in 2010 while U.S. employment fell 0.7%. Employment continued to grow in 2011, with year-over-year growth of 0.6% in Massachusetts equaling about half the increase for the nation, and was up 1.3% year-over-year in October 2012, in line with the nation. Massachusetts' unemployment rate of 6.6% for October 2012 was 84% of the U.S. level.

The Commonwealth's net tax-supported debt equals a comparatively high 10% of personal income, including sales tax obligations of the Massachusetts Bay Transportation Authority and the Massachusetts School Building Authority, and contract assistance commitments to the Massachusetts Department of Transportation. The comparatively high debt levels are partially explained by the Commonwealth's above-average role in relation to local levels of government when compared to most other states. GO debt continues to represent the majority of outstanding debt. Fitch expects debt to remain high.

The Commonwealth is responsible for the pension benefits of not only Commonwealth employees but also teachers statewide. To avoid a large increase in the annual contribution for pensions in the fiscal 2012 budget, the schedule for amortizing the unfunded liability was extended from 2025 to 2040. The Commonwealth has undertaken some pension reforms and projects manageable growth in pension funding requirements going forward.

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In addition to the sources of information identified in Fitch's report 'Tax-Supported Rating Criteria', this action was additionally informed by information from IHS Global Insight.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria', Aug. 14, 2012;
--'U.S. State Government Tax-Supported Rating Criteria', Aug. 14, 2012.

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Tax-Supported Rating Criteria
U.S. State Government Tax-Supported Rating Criteria

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Fitch Rates Massachusetts' $230MM GO Bonds 'AA+'; Outlook Stable

Ratings Endorsement Policy
17 Dec 2012 3:32 PM (EST)

Fitch Ratings-New York-17 December 2012: Fitch Ratings has assigned an 'AA+' rating to the following Commonwealth of Massachusetts general obligation (GO) bonds:

--$230,540,000 GO refunding bonds (SIFMA index bonds) 2013 series A.

The bonds are expected to price through negotiation on Dec. 19, 2012.

The Rating Outlook is Stable.

In addition, Fitch has withdrawn the 'AA+' rating previously assigned to the commonwealth's GO refunding bonds (SIFMA index bonds) 2012 series B, as the bonds were not sold and have been replaced by the 2013 series A bonds.

For more information, please see the Fitch release titled 'Fitch Rates Massachusetts' $380MM GO Bonds 'AA+'; Outlook Stable' dated Nov. 30, 2012 and available at 'www.fitchratings.com'.

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Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'U.S. State Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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