FITCH RATES MASSACHUSETTS $539MM GO SIFMA INDEX BONDS 'AA'; OUTLOOK STABLE

Fitch Ratings-New York-02 March 2010: Fitch Ratings assigns an 'AA' rating to the following Commonwealth of Massachusetts general obligation (GO) refunding bonds:

--$538,860,000 SIFMA Index Bonds 2010 series A.

The bonds, which are expected to sell via negotiation the week of March 8, 2010, will bear interest at a floating rate based on a fixed spread, established at pricing, to the SIFMA index rate. The 2010 series A bonds are expected to mature serially on Feb. 1, 2011-14, to be finalized based on market conditions at pricing, but the Commonwealth intends to undertake refinancings to maintain the amortization of the series 2005A variable-rate demand bonds that are being refunded with this offering. The series 2005A bonds have a final maturity in 2028.

In addition, Fitch affirms the 'AA' rating on the following:
--Approximately $17 billion of outstanding Commonwealth GO and Commonwealth guaranteed bonds.

The Rating Outlook is Stable.

RATING RATIONALE:
--Massachusetts has a fundamentally strong and wealthy economy, although population growth is slow and employment growth prior to the downturn was below average.
--The Commonwealth has benefited from conservative budgeting and sound financial practices over time. Although significantly reduced in the downturn, reserves remain to provide a hedge against the Commonwealth's somewhat volatile revenue stream.
--Debt levels are high.

KEY RATING DRIVER:
Continued timely action to ensure budget balance and maintenance of an adequate budgeted reserve position to protect against further downside risk.

SECURITY:
Massachusetts' 'AA' rating reflects considerable economic resources and a record of prudent financial management. Credit strengths are tempered by a very heavy debt burden; net tax-supported debt equals about 9% of personal income and Fitch expects that debt levels will remain high. The Rating Outlook is Stable based on the expectation that the Commonwealth will continue to act in a weak economic and revenue environment to ensure budget balance and maintain an adequate budgeted reserve position.

The Commonwealth, with a somewhat volatile revenue system that quickly reflects changing economic conditions, has taken timely action to maintain budget balance in recent downturns while maintaining some level of reserves. Most recently, in November 2009 the legislature approved $475 million in actions to address a $600 million reduction in the fiscal 2010 revenue forecast that was announced in October. The remaining gap was closed with above-forecast revenue performance that resulted in a subsequent $181 million increase in the estimate in January 2010. The Commonwealth also is managing about $426 million in net state fund spending pressures, largely social service caseload driven. Though significantly reduced from prior years, the reserve fund balance at fiscal 2010 year-end is forecast at $617 million, providing some hedge against the economically sensitive tax base.

With economic deterioration, tax revenue forecasts were reduced significantly over the course of fiscal 2009, which ended down 13% (baseline) compared to the prior year. Sales taxes dropped 6%, and personal income taxes fell 15.5%. The Commonwealth responded with spending cuts and controls, the application of extraordinary federal stimulus assistance funds, and a large reserve draw, and the year closed with a small surplus. The stabilization fund balance dropped from $2.1 billion at the close of fiscal 2008 to $841 million at fiscal 2009 year-end.

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, as well as additional spending control, another reserve fund draw, and federal stimulus to address a gap of about $5 billion. Through January 2010, a significant revenue month for the Commonwealth, actual revenue performance was about $36 million above the downwardly revised estimate of $18.5 billion (compared to the $18.9 billion estimate upon which the budget was based). Total taxes are down 8% (baseline) versus fiscal 2009, reflecting a 6.5% sales tax drop, a 9.2% personal income tax decline, and a 4.5% corporate and business tax decline.

The consensus tax revenue forecast for fiscal 2011 assumes baseline growth of 2.5% from fiscal 2010. The executive budget proposal for fiscal 2011, released on Jan. 27, 2010, addresses an estimated gap of $2.75 billion. About half is closed through federal stimulus funds, which total $1.4 billion, including more than $600 million from a yet-to-be-approved extension of federal stimulus funds related to the Medicaid program. (The governor plans to submit a revised budget proposal if this is not approved by the federal government by June 1, 2010.) The budget also includes up to $300 million from debt restructuring for budget relief and a $175 million reserve fund draw. Following the 25% increase in the sales tax rate that became effective on Aug. 1, 2009, the executive budget does not include any broad-based tax increases. Fitch will evaluate the adopted fiscal 2011 budget with a focus on plans for transitioning from reliance on federal stimulus funds.

The variability and unpredictability of capital gains-related tax revenue has been a key factor in the volatility of the Commonwealth's overall budget. The governor has proposed a new mechanism for budgeting capital gains-related tax revenue that would limit the amount of such revenue that could be included in the Commonwealth's budget going forward, with excesses dedicated to reserve and OPEB funding.

Massachusetts has a fundamentally strong and wealthy economy, with the third highest personal income per capita in the nation (127% of the U.S.). The Commonwealth experienced among the steepest employment drops in the country during the last recession and, despite registering year-over-year employment gains in every month from July 2004 to August 2008, did not regain its prior peak. Employment began to decline in October 2008 but losses have been below those of the U.S. The year-over-year rate of loss was 2.1% for December 2009, compared to 3% for the nation. The Commonwealth's unemployment rate rose to 9.4% in December 2009, the highest for Massachusetts since 1976 but 94% of the U.S. level. Job losses have been significant across all sectors except for the important education and health services sector.

Massachusetts has about $3.6 billion of variable-rate bonds outstanding, with the bulk synthetically fixed. This is the first offering of SIFMA Index Bonds by the Commonwealth. The bonds will be used to refund outstanding bank liquidity-backed variable-rate demand bonds; the associated floating-to-fixed-rate swap, which is based on SIFMA, will remain outstanding. The Commonwealth intends to refinance the 2010 series A bonds at or before their stated maturities with the issuance of new index bonds, variable-rate demand bonds, fixed-rate bonds, or by other means in order to maintain the original amortization of the 2005 series A bonds being refunded. Fitch is comfortable with the ability of the Commonwealth to execute such refinancings given the adequacy of the timing provisions, the relatively modest size of the maturities, and the Commonwealth's demonstrated market access.

Applicable criteria available on Fitch's website at 'www.fitchratings.com' include:
--'Tax-Supported Rating Criteria' (Dec. 21, 2009);
--'U.S. State Government Tax-Supported Rating Criteria', (Dec. 28, 2009).

Contact: Laura Porter +1-212-908-0575 or Doug Offerman +1-212-908-0889, New York.

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.