FITCH RATES MASSACHUSETTS' $750MM GO RANS 'F1+'; OUTLOOK STABLE

Fitch Ratings-New York-30 September 2008: Fitch Ratings has assigned an 'F1+' rating to the Commonwealth of Massachusetts' (the Commonwealth) $750 million general obligation (GO) revenue anticipation notes (RANs), consisting of the following:

--$375 million 2008 series B RANs due April 30, 2009;
--$375 million 2008 series C RANs due May 29, 2009.

The notes are scheduled to sell competitively on Oct. 7, 2008.

The notes are general obligations to which the Commonwealth's full faith and credit is pledged. The Commonwealth's cash flow borrowing is through a $1 billion commercial paper program and RANs. The $750 million in RANs being issued represent a low 1.8% of projected fiscal 2009 cash receipts of $42.8 billion and are the only RANs planned for fiscal 2009. Coverage is strong at 5.5 times (x) for the series B maturity in April and 4.1x for the series C maturity in May.

The Commonwealth, which makes large quarterly local aid payments ($1.375 billion per quarter in fiscal 2009), is a regular issuer of commercial paper and RANs. Cash flow forecasts assume the issuance of $618 million in commercial paper in December 2008. The Commonwealth's outstanding commercial paper totaled $518 million as of Sept. 25, 2008. Both commercial paper and RANs must be repaid by the June 30 end of the fiscal year.

The Commonwealth's 'AA' long-term GO bond rating reflects considerable economic resources and a record of prudent financial management. The stabilization fund, with a balance of about $1.9 billion, provides a hedge against the commonwealth's economically sensitive tax base. Credit strengths are tempered by a very heavy debt burden. Net tax-supported debt of about $30 billion equals 9.3% of personal income. Fitch expects that debt will remain high.

Like most states, the commonwealth is currently experiencing a decline in the pace of economic and revenue growth. The current budget relies on a January 2008 consensus tax revenue forecast of $20.987 billion, adjusted for tax changes. Given fiscal 2008 revenue over-performance, excluding the one-time fiscal 2008 settlement payments, tax revenue would need to grow just 1.6% to meet the forecast, compared to the 3.8% growth assumption at the time of the consensus forecast. Nevertheless, in light of economic and financial developments since January and the weakening of revenue collections in the last few months it is possible that the revenue forecast will be reduced at the next review in October. The important capital gains forecast, in particular seems likely to be revised downward.

The Commonwealth is developing contingency plans in the event of lowered revenue forecasts and/or increased expenditure estimates, particularly for health care. As noted above, substantial projected coverage of the note maturities provides good financial cushion against revenue underperformance. The current cash flow forecast projects a fiscal 2009 non-segregated operating cash ending balance of $782 million.

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