MOODY'S
INVESTORS SERVICE

# New Issue: MOODY'S ASSIGNS Aa1 RATING TO $350 MILLION OF MASSACHUSETTS GENERAL OBLIGATION BONDS

**Global Credit Research - 19 Nov 2010**

**MORE THAN $17 BILLION OF GO DEBT OUTSTANDING; OUTLOOK IS STABLE**

Municipality
MA

**Moody's Rating**

| ISSUE | RATING |
|---|---|
| General Obligation Bonds, Consolidated Loan of 2010, Series E (Federally Taxable-Build America Bonds-Direct Pay to Issuer) | Aa1 |

| | |
|---|---|
| **Sale Amount** | $350,000,000 |
| **Expected Sale Date** | 11/22/10 |
| **Rating Description** | General Obligation |

## Opinion

NEW YORK, Nov 19, 2010 -- Moody's Investors Service has assigned a Aa1 rating to the Commonwealth of Massachusetts' $350 million General Obligation Bonds, Consolidated Loan of 2010, Series E (Federally Taxable - Build America Bonds - Direct Pay to Issuer). Proceeds of the bonds, scheduled to price on November 23, will be used to finance a portion of the commonwealth's capital plan.

RATING RATIONALE

The rating reflects the commonwealth's demonstrated willingness to cut spending and raise revenues to close budget gaps, a large and high wage education and health care sector that has helped to mitigate job losses in the current downturn, and debt levels that are among the highest in the nation. The outlook is stable. For our full discussion of Massachusetts' credit, please see our report dated August 18.

Credit Strengths:

-- Effective financial management during economic downturns, particularly a willingness to promptly identify and close budget gaps through both new revenues and expenditure reductions

-- Budget reserves that still provide an adequate cushion, although a reduced one, and a statutory mechanism to replenish them going forward

-- High wealth and high levels of educational attainment

-- The presence of large, highly-rated higher education and health care institutions in the Boston area have lent a degree of economic stability and have mitigated some job losses during recessions

Credit Challenges:

-- Managing expenditure pressures, especially from health care and social services, in a lower revenue environment, although collections have begun to improve

-- High unemployment persists, although at lower levels than the nation and employment has begun to grow slowly

-- Low pension funding levels, and debt ratios that are among the highest in the nation

RECENT DEVELOPMENTS

Massachusetts' fiscal and economic outlook continues to improve. Year-to-date through October, fiscal 2011 revenue collections are 10.1% greater than in the prior year and $413 million greater than the budgeted forecast. Total personal income tax collections are strong, reflecting 6.2% growth in withholding collections and 11.7% in nonwithholding collections. Most notably, personal income tax refunds have decreased by nearly 25% compared to the prior year, a positive development. High wealth states such as Massachusetts had been particularly hard hit by the need to make large refund payments during fiscal 2010 as final tax liabilities were substantially lower than estimated payments made by some taxpayers. Sales tax collections have increased by 14.6% through October, partly reflecting rate increases enacted last year. In the recent November election, voters approved a measure to eliminate the sales and use tax on alcohol starting January 1, 2011: the commonwealth estimates that will result in $46 million less revenue in the current fiscal year and between $105 million and $115 million annually after that. The commonwealth reports that its unemployment rate decreased in October to 8.1% (from 8.4% in September), while the U.S. rate is 9.6%. For the month, preliminary employment figures show a 1.2% gain in jobs compared to a year earlier. The commonwealth also recently released an updated actuarial valuation of its pension plans, which shows an increase in the aggregate funded ratio to 67.5% as of January 2010 from 62.7% in January 2009.

## Outlook

The outlook for Massachusetts is stable, based on expectations that the commonwealth will continue to quickly react to close emerging budget gaps as a result of weak revenues. The outlook also incorporates Moody's expectation that, with a plan in place, Massachusetts will again rebuild reserves as the economy recovers. Going forward, heavy reliance on one-time budget solutions, tighter cash margins, unexpectedly severe economic deterioration, or a large increase in tax-supported debt would pose credit concerns.

What would make the rating change - UP

-- Rapid rebuilding of reserves and establishment of stronger constraints on their use

-- Established trend of structural budget balance

-- Reduced debt ratios relative to Moody's 50-state median

What would make the rating change - DOWN

-- Protracted structural budget imbalance driven by deeper and/or prolonged economic downturn

-- Depletion of Budget Stabilization Fund

-- Increased leveraging of the commonwealth's resources to pay debt service

-- Narrowed cash flow that strains the commonwealth's liquidity

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Moody's State Rating Methodology published in November 2004.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, public information and confidential and proprietary Moody's Analytics information.

Moody's Investors Service considers the quality of information available on the credit satisfactory for the purposes of assigning a credit rating.

Moody's adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

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Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

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