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Ratings

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Summary:

Massachusetts; Note

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Credit Profile		
US$500.0 mil GO RANs 2018 ser C due 06/20/2019		
Short Term Rating	SP-1+	New
US$500.0 mil GO RANs 2018 ser B due 05/23/2019		
Short Term Rating	SP-1+	New
US$500.0 mil GO RANs 2018 ser A due 04/25/2019		
Short Term Rating	SP-1+	New

Rationale

S&P Global Ratings assigned its 'SP-1+' short-term rating to the Commonwealth of Massachusetts' $1.5 billion of general obligation (GO) revenue anticipation notes (RANs), 2018 series A, B, and C.

The short-term rating reflects what we view as the general creditworthiness of Massachusetts ('AA' GO rating) and strong note debt service cash coverage at maturity.

The notes are general obligations of the commonwealth, secured by Massachusetts' full faith and credit pledge, and are being issued to meet cash flow requirements for fiscal 2019.

Massachusetts does not use interfund borrowing for cash flow purposes and the sizable balance in its budget stabilization fund (BSF) is not available for general fund cash flow requirements unless authorized by the legislature. As a result, the state typically sells RANs annually. The commonwealth estimates its available nonsegregated general fund cash balance increased to $3.608 billion at fiscal year-end 2018 (June 30), from $2.058 billion at fiscal year-end 2017, based on actual cash collections through June 2018. Its cash flow projection for fiscal 2019, based on the enacted state budget, forecasts its fiscal year-end 2019 nonsegregated cash position will drop to a still-sizable $2.081 billion.

Massachusetts bases its cash flow projection on the enacted fiscal 2019 budget (including the governor's vetoes and overrides by the legislature). In our view, revenues have recovered strongly since fiscal 2014, when the state last budgeted a drawdown in its BSF. In fiscal 2018, the state budgeted for near breakeven financial results in its operating funds. However, strong personal income tax growth, due in part to the acceleration of capital gains tax as a result of changes in the federal tax code, resulted in an estimated $832 million operating surplus, or 1.9% of operating expenditures and other uses. As a result, the state estimates a net increase in its BSF attributable to fiscal 2018 of $493 million, to $1.8 billion, or 4.1% of estimated operating expenditures and other uses. The state is budgeting for essentially breakeven operations in fiscal 2019, with a small $17 million operating deficit. The state's cash flow projections assume cash tax revenue, not including sales tax transfers to the Massachusetts Bay Transportation Authority, will shrink 0.3% in fiscal 2019 from the 2018 actual cash collection.

The prohibition against borrowing from the BSF for cash purposes contributes to a general fund cash flow imbalance throughout the year, leading the commonwealth to issue cash flow notes. Massachusetts plans to issue the same $1.5 billion amount of RANs as it has in the two previous fiscal years, or 3.2% of projected fiscal 2019 pledged tax revenues, with a projected minimum month-end cash balance of $1.5 billion as of March 2019, somewhat lower than fiscal 2018's actual $1.8 billion month-end minimum as of March 2018.

The series A, B, and C notes will mature on April 25, May 23, and June 20, 2019, respectively. There will be no revenue withholding in advance of note repayment, but the staggered maturity schedule provides for strong cash coverage in our view at 5.54x, 3.95x, and 5.03x for those dates, respectively, by month-end cash available based on Massachusetts' projected cash flow. We calculate the commonwealth's fiscal 2018 cash flow notes had actual cash coverage of 6.71x, 6.25x, and 8.09x, in April, May, and June, respectively, much better than the projected coverage at the time of the fiscal 2018 RAN sale of 5.12x, 3.94x, and 5.01x, respectively. In fiscal 2017, actual cash coverage of RANs was slightly higher than what the commonwealth had originally projected at the time of the sale of its fiscal 2017 RANs.

Cash management is the responsibility of the state treasurer, and we believe the commonwealth has good cash forecasting processes, with detailed reporting and monitoring. The state revises its cash forecast regularly to incorporate actual performance and the next revision is scheduled for Aug. 31, 2018.

We believe that Massachusetts' forecast of tax revenue is reasonable in view of IHS Markit's forecast of 3.9% personal income growth in calendar 2018, 5.2% in calendar 2019, and 4.6% in calendar 2020. The enacted 2019 operating budget on a budgetary basis of accounting for the fiscal year ending June 30, 2019, projects 4.0% growth in operating expenditures and other uses, including transfers out.

For more information about the state, see our most recent state GO rationale published Aug. 9, 2018, on RatingsDirect.