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Summary:
Massachusetts; Note

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Table Of Contents

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Summary:

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Credit Profile		
US$600.0 mil GO rans ser 2011 B dtd 11/07/2011 due 05/31/2012		
Short Term Rating	SP-1+	New
US$600.0 mil GO rans ser 2011 A dtd 11/07/2011 due 04/26/2012		
Short Term Rating	SP-1+	New

Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' short-term rating to Massachusetts' $1.2 billion revenue anticipation notes (RANs) 2011 series A and B.

The short-term rating reflects what we view as:

- The general creditworthiness of Massachusetts ('AA+' general obligation rating); and
- Strong note debt service 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 2012. The size of the RAN issuance is in line with the fiscal 2010 RAN borrowing. The commonwealth has done larger RAN issuance in the past three fiscal years and relied less on its $1 billion commercial paper program for cash flow purposes. Massachusetts does not use interfund borrowing for cash flow purposes and the balance in its budget stabilization fund (BSF) is not available for general fund cash flow requirements unless authorized by the legislature. Revenues have experienced strong recovery in the past year, in our view, contributing to a strong surplus for fiscal year-end 2011. The commonwealth opted to make a discretionary transfer of a majority of the fiscal 2011 surplus to the BSF. The total deposit of $709 million represents the largest single deposit to the BSF in 25 years. The balance is projected at $1.5 billion (about 4.6% of total revenues) following an additional transfer of $81.4 million in one-time judgments and settlements as required by statute. While this is positive from a credit standpoint, the legal prohibition to use the BSF for cash flow contributes to cash flow imbalance through the year despite ongoing revenue improvement. The series A and B notes will mature on April 26 and May 31, respectively. There will be no revenue withholding in advance of note repayment but the staggered maturity schedule provides for strong coverage in our view--3.95x, and 2.91x, respectively. The current cash flow forecast is from the Aug. 31, 2011, statutory cash flow report based on the enacted budget and revenue forecast. The coverage numbers above are based on the official cash flow forecast, adjusted for a higher RAN borrowing level. Since August, there are several key changes that affect the cash flow analysis:

- The original cash flow envisioned a lower RAN amount of $800 million;
- The BSF transfer was higher than forecast ($306.4 million), with the transfer coming from the general fund;
- The cash balance at September 2011 was $101.4 million lower; and
- The cash flow does not include the Oct. 17, 2011, revisions to the fiscal 2012 budget, which includes an upward revenue adjustment of $395 million. The governor has also filed new supplemental appropriations of $161.2

million and the House and Senate are considering supplement budget legislation and the actual supplemental appropriations are uncertain.

Despite these changes, which will be included in the official cash flow forecast update to be released on Dec. 31, 2011, and are expected to lower cash balances, we believe that the note coverage on the respective maturity dates will be strong.

This RAN issue represents only 5.7% of the revised fiscal 2012 tax revenue estimate.

In September of 2011, we raised the general obligation bond rating on the Commonwealth of Massachusetts based on its ongoing progress in improving financial, debt, and budget management practices, while at the same time implementing cost-control and reform measures associated with its long-term liabilities. The upgrade also reflected the commonwealth's commitment to its stabilization fund. Formalized policies relating to debt affordability, capital investment planning, financial planning, and enhanced funding of the stabilization fund are key improvements from a credit standpoint.

Other factors supporting the 'AA+' rating, in our view, are:

- The commonwealth's relatively strong budget performance through the recent recession, with swift action to restore balance after identifying revenue shortfalls and a focus on structural solutions to budget balance;
- A commitment to maintaining and more recently growing the budget stabilization fund balances, which provide flexibility to manage any budget volatility;
- High wealth and income levels; and
- A deep and diverse economy, which has recovered steadily in the past several months after weakness through the recent recession.

Standard & Poor's believes the commonwealth's high debt burden and significant unfunded pension and other postemployment benefit liabilities are offsetting considerations to the current rating. While we view its total postretirement liabilities as relatively high, we believe Massachusetts has been actively managing these liabilities.

(For further information on Massachusetts see the full analysis published Sept. 20, 2011, on RatingsDirect on the Global Credit Portal.)

On Oct.17, 2011, the fiscal 2012 revenue forecast was adjusted to $21.0 billion from the original estimate of $20.6 billion (1.9%). The increase reflects strong revenue performance through the first quarter of fiscal 2012. Supplemental budget legislation to address spending requirements in various social service programs and other program areas is pending in the legislature.

Related Criteria And Research

- USPF Criteria: Short-Term Debt, June 15, 2007
- USPF Criteria: State Ratings Methodology, Jan. 3, 2011

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.