

RatingsDirect®

Summary:

Massachusetts; General Obligation

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Credit Profile

US\$600.0 mil GO RANs ser 2012 B dtd 10/03/2012 due 04/25/2013

Short Term Rating

SP-1+

New

US\$600.0 mil GO RANs ser 2012 A dtd 10/03/2012 due 04/25/2013

Short Term Rating

SP-1+

New

Rationale

Standard & Poor's Ratings Services assigns its 'SP-1+' rating to Massachusetts' \$1.2 billion of general obligation (GO) revenue anticipation notes (RAN), 2012 series A and series B.

The short-term rating reflects what we view as the general creditworthiness of Massachusetts ('AA+' GO 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 2013. The size of the RAN issuance is in line with the fiscal 2010 and fiscal 2011 RAN borrowings. The commonwealth has done larger RAN issuance in recent years and relied less on its commercial paper program for cash flow purposes. Massachusetts does not use interfund borrowing for cash flow purposes and the sizable balance in its budget stabilization fund (BSF;\$1.5 billion at present) is not available for general fund cash flow requirements unless authorized by the legislature.

Revenues have experienced strong recovery in the past two years, in our view, contributing to healthy budgetary results and an improved BSF. While this is positive from a credit standpoint, there is a legal prohibition to use the BSF for cash flow contributes to cash flow imbalance through the year despite this ongoing revenue improvement. The series A and B notes will mature on April 25 and May 23, 2013, respectively. There will be no revenue withholding in advance of note repayment but the staggered maturity schedule provides for strong coverage in our view--5.4x, and 5.1x, respectively. The current cash flow forecast is from the Aug. 31, 2012 statutory cash flow report based on the enacted budget and revenue forecast.

This RAN issue represents only 3.4% of the fiscal 2013 total budgetary revenues, which is lower than previous years.

(For further information on Massachusetts, see the full analysis published Sept 21, 2012, on RatingsDirect on the Global Credit Portal.)

Related Criteria And Research

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

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