STANDARD
&POOR'S

Global Credit Portal
RatingsDirect®

November 19, 2010

Summary:
Massachusetts; General Obligation

Primary Credit Analyst:
Robin Prunty, New York (1) 212-438-2081; robin_prunty@standardandpoors.com

Secondary Credit Analyst:
David Hitchcock G, New York (1) 212-438-2022; david_hitchcock@standardandpoors.com

Table Of Contents

Summary:

Massachusetts; General Obligation

Credit Profile		
US$350. mil GO cons loan of 2010 taxable Build America bnds ser 2010E due 12/01/2021		
Long Term Rating	AA/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating, and stable outlook, to the commonwealth of Massachusetts' general obligation (GO) bonds

consolidated loan of 2010, series E (federally taxable - Build America bonds - direct pay to issuer). Standard & Poor's also affirmed its 'AA' long-term rating, and stable outlook, on the parity debt outstanding.

The 'AA' GO rating on Massachusetts reflects our view of the commonwealth's:

- Strong and conservative budget management practices, with swift action to restore balance after identifying revenue shortfalls throughout the recession;
- Continued budget stabilization reserve balances despite reductions in the past two years, which in our opinion provide flexibility to manage through the current economic climate;
- High wealth and income levels; and
- Deep and diverse economy that has experienced weakness in the past two year in line with national trends but is now showing signs of recovery.

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

Bond proceeds from this issue will finance statewide capital requirements.

After declining through the recession, Massachusetts' economy is showing signs of recovery. Unemployment rates fell to 8.1% in September, after averaging 9.0% through 2010, compared with 5.3% in 2008. The rate remains below the national average and employment growth was recorded in September after uneven performance in previous months. Job loss through this recession has been less severe than the 2001 recession and the recession of the early 1990s by what we consider a significant margin. While economic recovery is likely to be slow in our view, IHS Global Insight Inc. projects that Massachusetts will lead the region in recovery. We believe the commonwealth's economic fundamentals and key anchors, which are centered on higher education, technology, and health care, should contribute to positive economic growth prospects over time.

The commonwealth recently released the fiscal 2010 statutory basis financial report. Year-end operating funds ended in a slight $114 million deficit. The total fund balance was $903.0 million while the budget stabilization fund was $669.8 million (2.1% of expenditures). In line with most other states, Massachusetts has faced significant budget gaps for fiscals 2009 and 2010 (an $8 billion cumulative gap) due largely to declining revenues. Revenues were revised four times through fiscal 2009, which significantly lowered the revenue base for fiscal 2010.

Revenue recovery is evident through Oct. 31, 2010. Tax revenues for the first four months of the fiscal year were $558 million or 10.1% above fiscal 2010 levels and $414 million above the estimate for the current year. Potential additional spending requirements of $500 million have been identified due to higher use of health services but only $277 million would require state funding. On Oct. 15, 2010, the governor approved a supplemental budget that included $419 million in appropriations that were supported by the additional federal revenues that were authorized after the start of the fiscal year. The commonwealth expects its stabilization fund to be $670 million at fiscal year-end 2011 after reversing the planned drawdown for the current year. Cash flow has been stable and an increase in the year-end cash balance of about $39 million is now projected for fiscal 2011. There were two petitions on the November ballot relating to sales tax. One petition would remove the sales tax on alcoholic beverages and this measure passed with what we view as a modest $46 million impact for fiscal 2011, growing to more than $100 million in the next two years. The more significant measure to reduce the sales and use tax rate to 3% from 6% was defeated.

By most measures, Massachusetts' debt burden remains high compared with that of other states. The commonwealth has about $17 billion of GO debt. Of this amount, more than 80% is fixed rate and the remaining $3.3 billion is variable rate and hedged with interest-rate swaps. Massachusetts has a range of other debt obligations outstanding, including those supported by the statewide sales tax, contract assistance debt, and debt subject to annual appropriation. On a budgetary basis, debt service was about 6% of expenditures in fiscal 2010. The capital investment plan through 2015 totals $18 billion, with $9.5 billion of bond issuance projected. This represents about $1 billion less than the past year's bond authorization. This plan adheres to annual bond cap (debt service as a percent of budgeted revenue within the 8% limit) that is outlined in Massachusetts' annual debt affordability analysis.

The most recent actuarial valuation of the combined pension indicates improved funded ratios through Jan. 1, 2010. The funded ratio improved to 67% from 62% on Jan. 1, 2009. The unfunded actuarial liability is $20 billion, down from $22 billion in 2009. The improved funded ratio was due largely to higher assets reflecting investment performance. The funded ratio remains below average relative to funded ratios for other U.S. states. There is also what we consider a sizable $20 billion other postemployment benefit (OPEB) liability (in addition to pay-as-you-go costs). The commonwealth has continued to partially fund its OPEB costs, with a $397 million appropriation budgeted for fiscal 2011.

Outlook

The stable outlook reflects Standard & Poor's view of the commonwealth's proactive approach to managing budget volatility through the recession. Revenue adjustments have been frequent and gap-closing actions have been swift, successfully restoring balance. While diminished, the budget stabilization fund retains a balance that will continue to provide flexibility to manage the current fluid revenue environment. These are important credit factors for Massachusetts given its dependence on personal income (and related capital gains) tax revenues, which are volatile during economic cycles.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of November 19, 2010)		
Massachusetts GO		
Long Term Rating	AA/Stable	Affirmed
Massachusetts GO VRDBs 2000A		
Long Term Rating	AA/NR/Stable	Affirmed
Massachusetts GO VRDBs 2000B C		
Long Term Rating	AA/A-1+/Stable	Affirmed
Massachusetts GO VRDBs 2001B		
Long Term Rating	AA/A-1+/Stable	Affirmed
Massachusetts GO VRDBs 2006A		
Long Term Rating	AA/A-1/Stable	Affirmed
Massachusetts GO VRDBs 2006B		
Long Term Rating	AA/A-1/Stable	Affirmed
Massachusetts GO (wrap of insured) (ASSURED GTY & AMBAC) (SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Massachusetts GO (wrap of insured) (FGIC & BHAC) (SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Massachusetts GO (FGIC)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Massachusetts GO (MBIA) (Assured Gty)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Massachusetts GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Massachusetts GO RFD		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Massachusetts GO Rfd		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Complete ratings information is available to RatingsDirect subscribers on the Global Credit Portal at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.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.