

FITCH RATES MASSACHUSETTS' GO REFUNDING BONDS 'AA+'; OUTLOOK STABLE

Fitch Ratings-New York-20 December 2018: Fitch Ratings has assigned a 'AA+' rating to \$40.91 million in Commonwealth of Massachusetts general obligation (GO) refunding bonds, 2019 series B (delayed delivery).

The refunding bonds will be offered by negotiated sale on or about Jan. 24, 2019, with issuance and delivery scheduled on or about May 3, 2019.

The Rating Outlook is Stable.

SECURITY

The bonds are general obligations of the Commonwealth, to which its full faith and credit are pledged. A statutory state tax revenue growth limit does not exclude principal and interest on debt obligations from the limit.

ANALYTICAL CONCLUSION

Massachusetts' 'AA+' Issuer Default Rating (IDR) reflects its considerable economic resources, strong budget controls and a record of careful financial management. The Commonwealth carries a long-term liability burden that is well above average for a U.S. state but remains a moderate burden on resources. The Stable Outlook reflects the expectation that the Commonwealth will continue to act as needed to ensure budget balance and maintain an adequate budgeted reserve position.

Economic Resource Base

The Commonwealth has a broad and diverse economy. Employment growth is solid, education levels are high, and population growth continues to lead the region despite falling below the U.S. average. The Commonwealth's economic fundamentals include significant strength in the health care, technology and education sectors, leaving it well positioned for solid gains going forward. Measured by per capita personal income, Massachusetts is the second wealthiest state in the nation.

KEY RATING DRIVERS

Revenue Framework: 'aaa'

Tax revenues, while diverse, are dominated by personal income taxes (PIT), which are sensitive to economic conditions, particularly those related to capital gains. Baseline growth prospects for taxes are strong, driven by the Commonwealth's solid economic fundamentals.

Expenditure Framework: 'aaa'

Consistent with most states, the natural pace of spending growth is expected to marginally exceed expected revenue growth over time, requiring ongoing cost control. The Commonwealth has ample ability to reduce spending throughout the economic cycle.

Long-Term Liability Burden: 'aa'

Liability levels in Massachusetts, while high for a U.S. state, are a moderate burden on resources. The Commonwealth's above average liability position is partly the result of state funding for needs that are more commonly funded at the local level.

Operating Performance: 'aaa'

The Commonwealth has exceptional fiscal resilience, with strong gap-closing capacity stemming from a practice of building solid reserve balances and making revenue and spending changes as needed in response to changing circumstances. Conservative budgeting, ongoing economic and revenue monitoring, and mechanisms to protect the general fund from economically sensitive PIT and judgment and settlement receipts, support the Commonwealth's fiscal flexibility.

RATING SENSITIVITIES

The IDR is sensitive to Massachusetts' consistent commitment to strong financial management practices, including preserving budgetary flexibility and actively managing its relatively high long-term liability position

CREDIT PROFILE

Massachusetts' 'AA+' IDR reflects its solid credit attributes. The Commonwealth's dynamic, service-oriented economy, anchored by numerous institutions of higher education and health care, has solid growth prospects despite remaining sensitive to national trends. Tax-supported debt and net pension liabilities, recalculated based on a 6% discount rate, are high for a state but represent only a moderate burden on resources. The comparatively high debt level is partly explained by the Commonwealth's role in funding local capital needs.

Fitch believes the Commonwealth retains a high capacity to address cyclical downturns and operating under-performance and has repeatedly demonstrated its commitment to maintaining a solid financial position. Sources of fiscal flexibility include the balance in the stabilization fund, the balance of which has reached \$2 billion as of fiscal 2018. Budgetary mechanisms shift cyclical windfalls from volatile capital gains-related PIT receipts and judgment and settlement payments to the stabilization fund. Moreover, in the event of a mid-year forecast deficiency, the governor is required to reduce allotments or identify other balancing measures.

For additional information on the Commonwealth of Massachusetts, please see Fitch's press release, "Fitch Rates Massachusetts' GO Bonds 'AA+'; Outlook Stable", dated Dec. 18, 2018, at www.fitchratings.com.

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Date of Relevant Rating Committee: Aug. 8, 2018

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

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Additional information is available on www.fitchratings.com

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (pub. 03 Apr 2018)

<https://www.fitchratings.com/site/re/10024656>

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