

Rating Action: Moody's assigns Aa1 to Massachusetts GO Refunding Bonds, 2019 Series D & E and GO Bonds Consolidated Loan of 2019 Series G; outlook stable

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New York, August 21, 2019 -- Moody's Investors Service has assigned Aa1 ratings to the Commonwealth of Massachusetts' \$441 million General Obligation Refunding Bonds, 2019 Series D (Federally Taxable); \$190 million General Obligation Refunding Bonds, 2019 Series E; and \$600 million General Obligation Bonds Consolidated Loan of 2019, Series G. The two series of refunding bonds are expected to price the week of August 26 and the Series G is expected to price the week of September 2. The outlook is stable.

RATINGS RATIONALE

The Aa1 rating reflects Massachusetts' growing economy, anchored by the education, healthcare and technology sectors. Robust economic growth, combined with close monitoring of revenues and ample executive authority to make mid-year cuts, have resulted in balanced budgets. Strong year-over-year tax revenue growth, along with prudent planning, have afforded the commonwealth the opportunity to build reserves. Debt and pension liabilities are among the highest in the nation, though these figures include borrowing and benefits for local governments.

RATING OUTLOOK

The stable outlook reflects our expectation that Massachusetts will continue its trend of strong financial management, taking proactive measures to close budget gaps as they emerge. Reliance on one-time budget solutions or decreased liquidity would be indications of deviating from these practices.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Continued rebuilding of reserves and establishment of stronger constraints on their use
- Established trend of structural budget balance
- Moderated debt and pension burdens, especially relative to peers

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Protracted structural budget imbalance
- Reserves or liquidity that fall below adequate levels
- Growth in leverage relative to state GDP or rising fixed costs relative to state revenue

LEGAL SECURITY

The bonds are general obligations of the Commonwealth of Massachusetts, which has pledged its full faith and credit for the payment of principal and interest when due. We note, however, that state law limits annual tax revenue growth and does not exempt debt service payments from this limitation.

USE OF PROCEEDS

Proceeds from the Refunding Bonds 2019 Series D & E will be used to refund outstanding bonds for expected savings. Proceeds from the 2019 Series G bonds will be used for capital projects.

PROFILE

The Commonwealth of Massachusetts is the 15th largest state by population, boasting an estimated 6.9 million residents in 2018. Its gross domestic product, reaching \$543 billion, ranks 10th among the states. Per capita income was 131% of the national average in 2018, the 2nd highest.

METHODOLOGY

The principal methodology used in these ratings was US States and Territories published in April 2018. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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