

## Massachusetts

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**Credit Profile**

US\$375. mil RANs ser 2008C dtd 10/06/2008 due 05/29/2009

<b>Short Term Rating</b>	SP-1+	New
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US\$375. mil RANs ser 2008B dtd 10/06/2008 due 04/30/2009

<b>Short Term Rating</b>	SP-1+	New
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Massachusetts GO

Massachusetts GO

<b>Unenhanced Rating</b>	AA(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

**Rationale**

Standard & Poor's Ratings Services assigned its 'SP-1+' short-term rating to Massachusetts' revenue anticipation notes (RANs) 2008 series B and 2008 series C.

The rating reflects:

- The general creditworthiness of Massachusetts with a 'AA' general obligation (GO) rating; and
- Strong note debt service coverage.

The notes are general obligations of the commonwealth, secured by Massachusetts' full faith and credit pledge.

The notes are being issued to meet cash flow requirements for fiscal 2009. Massachusetts' cash balances were lower to start fiscal 2009 (\$1.2 billion or \$393 million below last year), which contributed to the issuance of commercial paper (CP) in August, compared with the October issuance last year. The series B notes will mature on April 30, 2009, and the projected coverage is a strong 5.5x. The series C notes will mature on May 29, 2009, and projected coverage is also strong at 4.1x. This RAN issue was initially scheduled for

September but was delayed due to market conditions. To meet cash flow requirements, \$101 million of CP was issued and the authorized withdrawal from the stabilization reserve was accelerated to September from December. Currently, there is \$518 million of CP outstanding. The current cash flow forecast is based on actual revenue and spending through July and estimates for the remainder of the year based on the adopted budget and current revenue forecast. Based on the current forecast, the year-end cash balance will decrease to \$782.5 million.

This RAN issue represents only 1.8% of total cash receipts. The state had previously indicated that there was the potential for a revenue shortfall of \$400 million for fiscal 2009. Based on revenue performance through September 15th and current economic conditions, the shortfall could be higher. On October 15th, the secretary of administration and finance is required by statute to certify fiscal 2009 revenues and make adjustments if necessary. If revenues are revised downward, spending would also be adjusted. The cash flows will be revised again in December. The commonwealth has \$1.9 billion in its stabilization fund, which is not included in the cash flows. Any transfer would require legislative authorization.

The 'AA' rating on Massachusetts' GO bonds reflects:

- Strong reserve levels, which have been rebuilt since fiscal 2004 and provide a cushion in the event of a drop in revenues in the current economic slowdown;
- A deep and diverse economic base and high income and wealth levels; and
- Strong management, with a focus on conservative revenue assumptions.

The commonwealth's high debt burden and large unfunded pension liability restrain the rating. The rating also reflects the current revenue structure in place to fund budget requirements. Personal income tax revenues account for nearly 60% of total tax revenues in fiscal 2008. An initiative petition will appear on the statewide general election ballot that reduces personal income tax by half in January 2009, and entirely one year later. It must be approved by a majority of voters and the legislature has the option to amend or repeal the petition if it is approved by the voters. If this ballot initiative receives voter approval, Standard & Poor's would place the Massachusetts' GO bonds on CreditWatch with negative implications pending legislative deliberation on the measure. The revenues for repayment of this note issue would not be affected by the ballot measure.

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