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Summary:
Massachusetts; General Obligation

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Credit Profile		
US$291.815 mil GO cons loan bnds (SIFMA Index Bnds) 2012 ser A due 09/01/2016		
Long Term Rating	AA+/Stable	New
US$171.24 mil GO rfdg bnds (SIFMA Index Bnds) ser 2012 A due 02/01/2017		
Long Term Rating	AA+/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating, and stable outlook, to Massachusetts' $171.24 million series 2012A general obligation (GO) refunding bonds (SIFMA index bonds) and $291 million consolidated loan GO bonds (SIFMA index bonds).

At the same time, Standard & Poor's affirmed its 'AA+' ratings, with a stable outlook, on the parity bonds outstanding.

Both series of bonds will be issued as Securities Industry And Financial Markets Association (SIFMA) bonds. The SIFMA bonds have a variable-rate coupon, issued with a fixed spread to SIFMA. There is no put risk and there will be staggered fixed maturities in the next five years for both series with the final maturity on Sept. 1, 2016, for the consolidated loan and Feb. 1, 2017, for the refunding bonds based on the current plan of finance. We understand that the refunding bond proceeds will refund, on a current basis, certain series 2010 and 2011 SIFMA index bonds outstanding that were issued to refund series 2005A GO variable-rate bonds. The swap associated with the series 2005 bonds remains in place and is tied to SIFMA so it will be a matched hedge, thereby eliminating basis risk. The commonwealth plans to maintain the amortization schedule of the original 2005 bonds.

The commonwealth has been actively managing its variable-rate debt to lower costs and minimize bank credit risk. In 2010, a formalized management policy was adopted specific to SIFMA bonds that outlines how the bond program will be managed including risk mitigation and administrative processes.

In addition to the staggered fixed maturity date, the bonds are subject to optional redemption six months before maturity, allowing additional time to refinance if necessary. Refinancing options would include the following: the issuance of new SIFMA index bonds, variable-, or fixed-rate debt; or use of cash or other resources.

Proceeds of the consolidated loan will fund various capital projects included in the capital investment plan.

On Sept. 16, 2011, we raised the rating on the commonwealth's GO debt, reflecting Massachusetts' ongoing progress in improving financial, debt, and budget management practices, while at the same time implementing cost-control and reform measures associated with its long-term liabilities. The upgrade also reflected the commonwealth's commitment to its stabilization fund. Formalized policies relating to debt affordability, capital investment planning, financial planning, and enhanced funding of the stabilization fund are key improvements from a credit standpoint.

Other factors supporting the 'AA+' rating are what we consider:

- Massachusetts' relatively strong budget performance through the recent recession, with swift action to restore balance after identifying revenue shortfalls and a focus on structural solutions to budget balance;
- A commitment to maintaining and, more recently, increasing, the budget stabilization fund balances, which provide flexibility to manage any budget volatility;
- High wealth and income levels; and
- The commonwealth's deep and diverse economy, which has recovered steadily in the past several months after weakness through the recent recession.

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 its total postretirement liabilities as relatively high, we believe Massachusetts has been actively managing these liabilities.

After declining through the recession, Massachusetts' economy is showing signs of steady recovery. Unemployment rates fell to 7% in November 2011 according to the Bureau of Labor Statistics, after peaking at 9% through most of 2010. The rate remains below the national average of 8.5%, and employment growth has been strong relative to other states throughout the recovery. Based on the pace of job growth to date, IHS Global insight Inc. projects that employment will reach its pre-recession peak in the second half of 2013. In our view, 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.

Massachusetts' recovery has also been fairly robust, which has contributed to improved budgetary performance and liquidity, in our opinion.

The consensus revenue forecast for fiscal 2013 was released on Jan. 12, 2012, and totals $21.95 billion. This represents growth of 4.5% above the revised tax revenue estimate of $21.01 billion for fiscal 2012, and is in line with the range of tax revenue growth estimates projected by various economists and others at a consensus revenue hearing held in December. A steady but modest pace of economic recovery was projected at the time by IHS Global Insight, Moody's Economy.com, and the New England Economic Partnership.

The legislature approved the fiscal 2012 budget was approved on July 1, 2011, and the governor signed it on July 11. An interim budget was approved in advance of July 1 to start the year. The budget was balanced largely through spending reductions. There were some legislative adjustments to revenue, but no broad-based revenue enhancements. The budget significantly reduces its reliance on nonrecurring resources to balance it but included a $200 million draw on the stabilization reserve and a suspension of the statutory contribution (0.5% of total tax revenues or $103.7 million) for fiscal 2012. Year-to-date revenue performance for all of the major tax sources has been strong in our view. On Oct. 17, 2011, the revenue forecast was revised up by $395 million to $21 billion. Revenues through Dec. 31 were $49 million below the revised revenue estimate and revenues in November and December were below prior-year revenue collections. Year-to-date revenues were $252 million, or 2.6% above fiscal 2011, with growth in all major tax sources. There was an $81.4 million deposit to the stabilization fund based on a recent statutory requirement to deposit one-time judgments and settlements into the fund. The fund is now forecast to be $1.3 billion at fiscal year-end 2012.

On a budgetary basis, the commonwealth ended fiscal 2011 with a $997.8 million surplus, due largely to stronger-than-forecast revenue performance. Revenues for fiscal 2011 were $20.5 billion or $723 million above the Jan. 18, 2011, estimate. The governor signed supplemental budget legislation to allocate the surplus including a deposit of $350 million to the stabilization fund and $132.1 million in supplemental appropriations, which included resources for infrastructure and funding to local governments for natural disaster-related costs. At June 30, 2011, the stabilization fund was $1.4 billion, compared with $670 million in fiscal 2010. In addition to the deposit, there was a reversal of a planned drawdown in fiscal 2011, as well as the authorized deposit of 0.5% of fiscal 2011 tax collections in that fiscal year. The comprehensive annual financial report was released on Jan. 6, 2012, and a surplus of $1.2 billion was recorded on a generally accepted accounted principles basis with a total general fund balance of $3 billion. Of this amount, $1.3 billion was unassigned.

By most measures, Massachusetts' debt burden remains high compared with that of other states. The commonwealth has about $18.5 billion of GO debt outstanding. 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 an affordable 6.1% of expenditures in fiscal 2011. The capital investment plan and debt affordability analysis through 2016 shows annual debt issuance ranging from $1.75 billion in fiscal 2012 up to $2.25 billion in fiscal 2016. 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 capital investment plan totals $17.2 billion.

The most recent actuarial valuation of the combined pension indicates improved funded ratios through Jan. 1, 2011. The funded ratio for the State Employees Retirement System improved to 81.0% from 76.5% on Jan. 1, 2010. The unfunded actuarial liability is $5.0 billion, down from $5.8 billion in 2010. The funded ratio for the Teachers Retirement System is much lower but improved to 66.3% from 63.0%. The unfunded actuarial liability is $11.8 billion, down from $12.5 billion in 2010. The improved funded ratio was due largely to higher assets reflecting investment performance. While pension liabilities are substantial, we expect recently enacted pension reforms to lower liabilities over time. There is also what we consider a sizable amount ($16.2 billion) of unfunded actuarial OPEB liability (in addition to pay-as-you-go costs) as of Jan. 1, 2011. The commonwealth has established a trust fund to begin to accumulate assets toward the liability, which had a balance of $350 million as of June 30, 2011. The 2012 enacted budget provides that 10% of all tobacco settlement payments to the state be dedicated to the trust fund, with an additional 10% added each year until the deposit reaches 100% of the payments. This is expected to provide a recurring source of revenue to the trust.

Based on the analytic factors we evaluate for states, on a scale of '1.0' (strongest) to '4.0' (weakest), we have assigned a composite score of '1.8' to Massachusetts. (For the most recent analysis on Massachusetts, see the full report published Sept. 20, 2011, on RatingsDirect on the Global Credit Portal.)

Outlook

The stable outlook reflects our expectation that Massachusetts will continue to manage its budget proactively. Recent actions to increase the budget stabilization fund should provide flexibility to manage future budget challenges. Standard & Poor's will continue to monitor the federal fiscal consolidation efforts stemming from the Budget Control Act of 2011 and, once these are identified, will evaluate their effect on the state's finances and officials' response to any funding or policy changes.

Related Criteria And Research

- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- State And Local Government Ratings Are Not Directly Constrained By That Of The U.S. Sovereign, Aug. 8, 2011

Ratings Detail (As Of January 17, 2012)		
Massachusetts GO		
Long Term Rating	AA+/Stable	Affirmed
Massachusetts go 1998B		
Long Term Rating	AA+/Stable	Affirmed
Massachusetts GO rfdg bnds var rate dem bnds ser C dtd 02/20/2001 due 01/01/2021		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Massachusetts GO VRDBs 1998A		
Long Term Rating	AA+/A-1/Stable	Downgraded
Massachusetts GO VRDBs 2000A		
Long Term Rating	AA+/A-1/Stable	Outlook Revised
Massachusetts GO VRDBs 2000B		
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	Upgraded
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

Many issues are enhanced by bond insurance.

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