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FITCH RATES MASSACHUSETTS' $1.2B GO RANS 'F1+'

Fitch Ratings-New York-10 September 2009: Fitch Ratings has assigned an 'F1+' rating to the Commonwealth of Massachusetts' $1.2 billion general obligation (GO) revenue anticipation notes (RANs), consisting of the following:

--$350 million 2009 series A RANs due April 29, 2010;
--$425 million 2009 series B RANs due May 27, 2010;
--$425 million 2009 series C RANs due June 24, 2010.

The notes are scheduled to sell competitively the week of Sept. 14, 2009.

The notes are general obligations to which Massachusetts' full faith and credit is pledged. The Commonwealth, which makes large quarterly local aid payments (about $1.2 billion per quarter in fiscal 2010), is a regular issuer of commercial paper and RANs. The $1.2 billion fiscal 2010 RANs borrowing is significantly larger than the $750 million issued in fiscal 2009; however, this reflects the Commonwealth's plan to meet all of its cash flow borrowing needs through RANs in fiscal 2010. Although up to $1 billion in commercial paper is available, no commercial paper issuance is planned. The Commonwealth is reserving this more flexible capacity in the event of unplanned needs. Both commercial paper and RANs must be repaid by the June 30 end of the fiscal year.

The $1.2 billion in RANs being issued represent a moderate 2.8% of projected fiscal 2010 cash receipts and are the only RANs planned for fiscal 2010. Coverage is strong at 5.9 times (x) for the series A maturity in April, 4.8x for the series B maturity in May and 3.7x for the series C maturity in June. The current cash flow forecast projects a fiscal 2010 non-segregated operating cash ending balance of $1.2 billion. Although sharply reduced, the balance in the Commonwealth's stabilization fund (currently $571 million) provides a further cushion against revenue underperformance.

Massachusetts' 'AA' long-term GO bond rating reflects considerable economic resources and a record of prudent financial management. Credit strengths are tempered by a very heavy debt burden. Net tax-supported debt of about $30 billion equals about 8.8% of personal income and Fitch expects that debt levels will remain high. The Rating Outlook is Stable based on the expectation that any further economic and revenue weakening will be addressed in a manner consistent with the state's demonstrated sound financial practices.

With economic deterioration, tax revenue forecasts were reduced significantly over the course of fiscal 2009 and actual receipts came in $177 million below the downwardly revised estimates. Total taxes were down 13% (baseline) compared to the prior year, sales taxes dropped 6%, and personal income taxes fell 15.5%, reflecting a steep drop in capital gains tax revenues, which are particularly significant to the Commonwealth's budget. The Commonwealth responded with spending cuts and controls, extraordinary federal stimulus assistance, and a large reserve draw. The stabilization fund balance dropped from $2.1 billion at the close of fiscal 2008 to $766 million at fiscal 2009 year-end.

The budget for fiscal 2010 included a 25% increase in the Commonwealth's sales tax rate (to 6.25%) and other revenue measures totaling about $1 billion as well as additional spending control, another reserve fund draw, and federal stimulus. The remaining stabilization fund balance of $571 million provides some hedge against the economically sensitive tax base. Revenues are in line with estimates through August. The forecast is scheduled to be formally reviewed in mid-October.

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