FITCH RATES MASSACHUSETTS' $400MM GO BONDS 'AA+'; OUTLOOK STABLE

Fitch Ratings-New York-29 April 2010: Fitch Ratings assigns an 'AA+' rating to the following Commonwealth of Massachusetts general obligation (GO) bonds:

--$400 million consolidated loan of 2010, series A (federally taxable-Build America Bonds-direct pay to issuer).

In addition, Fitch affirms the following ratings:

--Approximately $17 billion of outstanding Commonwealth GO and Commonwealth guaranteed bonds at 'AA+'.
--Approximately $27 million of outstanding Route 3 North Transportation Improvement Association Commonwealth of Massachusetts lease revenue bonds series 2000 and series 2002A, which are payable from annual commonwealth appropriations, at 'AA'.

The Rating Outlook is Stable.

The series 2010A bonds are expected to sell via competitive bid the week of May 3, 2010.

On April 5, 2010, Fitch recalibrated its U.S. public finance credit ratings for states as well as the District of Columbia, New York City, and the Commonwealth of Puerto Rico; the above ratings reflect this recalibration. Fitch announced the recalibration in the 'Recalibration of U.S. Public Finance Ratings' special report, which was published on March 25, 2010 and is available at 'fitchratings.com' under the following headers: Sectors >> Public Finance >> U.S. Public Finance >> Research. For more detail on the rating adjustments, please see the March 25, 2010 report. Fitch will revise the remaining tax-supported ratings along with water and sewer, public power distribution-only, and public higher education ratings April 30, 2010, as detailed in the March 25, 2010 report.

RATING RATIONALE:

--Massachusetts has a fundamentally strong and wealthy economy, although population growth is slow.
--The Commonwealth has benefited from conservative budgeting and sound financial practices over time. Although significantly reduced in the downturn, reserves remain to provide a hedge against the Commonwealth's somewhat volatile revenue stream.
--Debt levels are high.

KEY RATING DRIVER:

--Continued timely action to ensure budget balance and maintenance of an adequate budgeted reserve position to protect against further downside risk.

SECURITY:

Massachusetts' 'AA+' 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 equals about 9% of personal income and Fitch expects that debt levels will remain high. The Rating Outlook is Stable based on the expectation that the Commonwealth will continue to act in a weak economic and revenue environment to ensure budget balance and maintain an adequate budgeted reserve position.
The Commonwealth, with a somewhat volatile revenue system that quickly reflects changing

economic conditions, has taken timely action to maintain budget balance in recent downturns while maintaining some level of reserves. In November 2009 the legislature approved $475 million in actions to address a $600 million reduction in the fiscal 2010 revenue forecast that was announced in October 2009, and the remaining gap was closed with above-forecast revenue performance that resulted in a subsequent $181 million increase in the estimate in January 2010. A new $118 million current-year gap identified in March 2010, reflecting increased spending needs (largely for social services), is expected to be closed with a combination of excess transportation fund monies, line-item spending cuts, and a $30 million stabilization fund draw. The resulting stabilization fund draw will still be $50 million below the amount included in the fiscal 2010 budget. Though significantly reduced from prior years, the reserve fund balance at fiscal 2010 year-end is forecast at $687 million, providing some hedge against the economically sensitive tax base.

With economic deterioration, tax revenue forecasts were reduced significantly over the course of fiscal 2009, which ended down 13% (baseline) compared to the prior year. Sales taxes dropped 6%, and personal income taxes fell 15.5%. The Commonwealth responded with spending cuts and controls, the application of extraordinary federal stimulus assistance funds, and a large reserve draw, and the year closed with a small surplus. The stabilization fund balance dropped from $2.1 billion at the close of fiscal 2008 to $841 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 to address a gap of about $5 billion. Through March 2010, actual revenue performance was just $9 million below the downwardly revised estimate of $18.5 billion. Total taxes are down 6.6% (baseline) versus fiscal 2009, reflecting a 5.4% sales tax drop, an 8% personal income tax decline, and a 3.7% corporate and business tax decline. Due to recent flooding, the 2009 income tax return filing deadline was extended to May 11, 2010 for seven counties (Bristol, Essex, Middlesex, Norfolk, Plymouth, Suffolk, Worcester); this will make the analysis of actual income tax results as compared to forecast difficult until late in May 2010.

The consensus tax revenue forecast for fiscal 2011 assumes baseline growth of 2.5% from fiscal 2010. The executive budget proposal for fiscal 2011, released on Jan. 27, 2010, addressed an estimated gap of $2.75 billion. About half is closed through federal stimulus funds, which total $1.4 billion, including more than $600 million from a yet-to-be-approved extension of federal stimulus funds related to the Medicaid program. (The governor plans to submit a revised budget proposal if this is not approved by the federal government by June 1, 2010.) The budget also includes up to $300 million from debt restructuring for budget relief and a $175 million reserve fund draw. Following the 25% increase in the sales tax rate that became effective on Aug. 1, 2009, the executive budget does not include any broad-based tax increases. The budget released by the House Ways and Means committee on April 14, 2010 removes the proposed reserve fund draw and revenue actions, replacing those monies with local aid and higher education cuts. Fitch will evaluate the adopted fiscal 2011 budget with a focus on plans for transitioning from reliance on federal stimulus funds.

The variability and unpredictability of capital gains-related tax revenue has been a key factor in the volatility of the Commonwealth's overall budget. The governor has proposed a new mechanism for budgeting capital gains-related tax revenue that would limit the amount of such revenue that could be included in the Commonwealth's budget going forward, with excesses dedicated to reserve and OPEB funding.

Massachusetts has a fundamentally strong and wealthy economy, with the third highest personal income per capita in the nation (127% of the U.S.). The Commonwealth experienced among the steepest employment drops in the country during the last recession and, despite registering year-over-year employment gains in every month from July 2004 to September 2008, did not regain its prior peak. Employment began to decline in November 2008 but losses have been below those of the U.S. The year-over-year rate of loss was 1.6% for March 2010, compared to 1.7% for the nation. The Commonwealth's unemployment rate of 9.3% in March 2010 was historically high for the commonwealth but 96% of the U.S. level. Job losses have been significant across all sectors except for the important education and health services sector.

Applicable criteria available on Fitch's website at 'www.fitchratings.com' include:

--'Tax-Supported Rating Criteria' (Dec. 21, 2009);
--'U.S. State Government Tax-Supported Rating Criteria', (Dec. 28, 2009).

Considerations for Taxable/Build America Bonds Investors
The following sector credit profile is provided as background for investors new to the municipal market.

State General Obligation Bonds:
The general obligation full faith and credit pledge is the broadest security a U.S. state government can provide to the repayment of its long-term borrowing, and therefore is the best indicator of its overall credit quality. State ratings generally fall within the two highest rating categories of 'AAA' or 'AA', with a few outliers. The top tier ratings reflect states' inherent strengths: states generally have broad economic and tax base resources and all possess sovereign powers under a federal government system, with substantial, although varying, control over revenue raising and spending. Given these inherent strengths, in only a few instances have the inability or unwillingness to address large financial challenges led to ratings below the 'AA' category. For additional information on State ratings, see U.S. State Government Tax- Supported Rating Criteria, dated Dec. 28, 2009.

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Additional information is available at 'www.fitchratings.com'.