FITCH RATES MASSACHUSETTS $621MM GO BONDS 'AA'

Fitch Ratings-New York-15 May 2009: Fitch Ratings assigns an 'AA' rating to the Commonwealth of Massachusetts' approximately $621,430,000 general obligation (GO) bonds, consisting of:

--$300,000,000 consolidated loan of 2009 series B;
--$250,000,000 consolidated loan of 2009 series C;
--$71,430,000 consolidated loan of 2009 series D (taxable).

The series B bonds are scheduled to be sold to retail investors through negotiation the week of May 18, 2009; the series C and D bonds are scheduled to be sold competitively on May 20, 2009. In addition, Fitch affirms the 'AA' rating on approximately $16 billion of outstanding Commonwealth GO and Commonwealth guaranteed bonds. The Rating Outlook is Stable.

The 'AA' rating reflects the Commonwealth's considerable economic resources and record of prudent financial management. With economic deterioration, tax revenue forecasts have been reduced significantly in the current fiscal year, most recently on May 4th in response to severe April underperformance. The Commonwealth's plans to maintain balance rely on spending cuts and controls enacted earlier in the fiscal year, extraordinary federal stimulus assistance, and a large reserve draw. Though significantly reduced, reserves remain to provide some hedge against the economically sensitive tax base. The Stable Rating Outlook assumes that the Commonwealth's final budget for fiscal 2010 will maintain an adequate reserve position to protect against downside risk, and that any further economic and revenue weakening will be addressed in a manner consistent with the state's demonstrated sound financial practices. Credit strengths are tempered by a very heavy debt burden. Net tax-supported debt of about $30 billion equals about 8.8% of preliminary 2008 personal income. Fitch expects that debt levels will remain high.

The tax revenue forecast for fiscal 2009 has been reduced four times since budget adoption, from $21.4 billion to $18.4 billion, about a 13% baseline drop compared to fiscal 2008. The most recent downward revision of $897 million was announced on May 4th, following the report of April baseline tax revenues that were down 34.5% from last year and $456 million below forecast. Revenues are weak across the board, and capital gains tax revenues, particularly significant to the Commonwealth's budget, were down substantially in April and by the end of fiscal 2009 are expected to be down by approximately 75% from the prior fiscal year. Year-to-date baseline tax revenues through April are down 11.3% from fiscal 2008, with income tax revenues down 13.5% and sales tax revenues 6%.

The gaps resulting from revenue forecast revisions earlier in fiscal 2009 were closed with spending cuts as well as stabilization fund draws and federal stimulus monies. Given the limited gap-closing options available so late in the fiscal year, the $953 million gap that emerged following the May revision is expected to be closed with additional draws on reserves and federal stimulus. Fiscal 2009 now incorporates about $1.2 billion in federal stimulus. The fiscal 2009 ending balance in the stabilization fund is now forecast at $766 million, down from $2.1 billion at the end of fiscal 2008.

Following the report of April revenue results, the consensus tax revenue estimate for fiscal 2010 was reduced from $19.5 billion to $18 billion on May 6th. The House passed a budget on May 1st that was based on the earlier estimate; it included a sales tax increase from 5% to 6.25% to generate an estimated $900 million and did not draw on reserves. The Senate Ways and Means committee on May 13th proposed a budget based on the revised estimate that included significant spending cuts and a $314 million stabilization fund draw but no sales tax increase. The governor's January budget proposal for the year was based on the earlier revenue estimate and is expected to be revised by the end of this month. The governor's original proposal included a $489 million stabilization fund draw.

Massachusetts has a fundamentally strong and wealthy economy, with the third highest personal income per capita in the nation (128% of the U.S.). The Commonwealth experienced among the

steepest employment drops in the country in the last recession and, despite registering year-over-year employment gains in every month from July 2004 to August 2008, did not regain its prior peak.
Employment began to decline in October 2008 and the rate of loss has accelerated every month since. March 2009 employment was down 3.2% from March 2008, compared to a 3.6% decline for the U.S., and the Commonwealth's unemployment rate rose to 7.8%, about 92% of the U.S. level. Job losses have been significant across all sectors except for the important education and health services sector and government. The largest March-over-March drops were registered in construction (down 13.3%), professional and business services (down 6.3%), and financial activities (down 5.7%).

The series B and C bonds will mature from July 1, 2010 to 2038, with call provisions to be determined. The series D bonds will mature July 1, 2010 to 2016 and are not callable prior to maturity.

Contact: Laura Porter +1-212-908-0575 or Richard Raphael +1-212-908-0506, New York.

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com.