New Issue: Massachusetts (Commonwealth of)

MOODY'S ASSIGNS MIG 1 RATING TO MASSACHUSETTS GO REVENUE ANTICIPATION NOTES 2008 SERIES B ($375 M) AND 2008 SERIES C ($375 M)

LONG-TERM GENERAL OBLIGATION BONDS RATED Aa2 WITH STABLE OUTLOOK

State
MA

Moody's Rating

ISSUE		RATING
General Obligation Revenue Anticipation Notes 2008 Series B		MIG 1
Sale Amount	$375,000,000	
Expected Sale Date	10/07/08	
Rating Description	General Obligation Revenue Anticipation Notes	
General Obligation Revenue Anticipation Notes 2008 Series C		MIG 1
Sale Amount	$375,000,000	
Expected Sale Date	10/07/08	
Rating Description	General Obligation Revenue Anticipation Notes	

Opinion

NEW YORK, Oct 3, 2008 -- Moody's Investors service has assigned MIG 1 ratings to the Commonwealth of Massachusetts' $375 million General Obligation Revenue Anticipation Notes 2008 Series B and $375 million General Obligation Revenue Anticipation Notes 2008 Series C which the commonwealth plans to sell on October 2. The notes are secured by a general obligation pledge of Massachusetts and proceeds will be used to meet the commonwealth's cash flow needs. The 2008 Series B notes are scheduled to mature on April 30, 2009 and the 2008 Series C notes on May 30, 2009. The highest short-term rating reflects the Commonwealth of Massachusetts' (long-term general obligation bond rating of Aa2) full faith and credit pledge to the payment of these notes, satisfactory cash margins following note repayment, and the alternative liquidity afforded the notes by the commonwealth's budget stabilization fund. Cash flow projections are based on the adopted fiscal 2009 budget.

The commonwealth's general obligation bonds are rated Aa2 rating with a stable outlook.

Credit strengths are:

*Effective management through period of fiscal strain during 2001-2002 recession.

*Strong reserve levels, rapidly replenished following draws during recession.

*Healthy revenue growth with solid personal income tax gains offsetting continued softening in sales tax performance.

Credit challenges are:

*Consecutive years of structural imbalance in adopted budgets; significant one-time solutions used to balance FY2007 and FY2008 budgets, raise fiscal concerns.

*Rising healthcare costs related to Medicaid, pensions, healthcare reform as well as OPEB add to budget pressures.

*Despite employment gains, commonwealth's jobs remain below pre-recession peak.

*Debt ratios, already among highest in the nation, likely to rise as commonwealth lends credit support to related entities such as the Massachusetts Turnpike Authority

*Upcoming voter initiative in November 2008 will consider eliminating the personal income tax, the commonwealth's largest source of revenue

TIGHTER BUT SATISFACTORY CASH MARGINS; GENERAL OBLIGATION PLEDGE

Massachusetts plans to issue a total of $750 million in general obligation revenue anticipation notes to meet seasonal cash flow needs driven largely by quarterly aid payments totaling approximately $1 billion to localities. The commonwealth also relies on a general obligation commercial paper program consisting of five $200 million lines of credit for additional liquidity support. Due to an unprecedented lack of liquidity in the market this week, the commonwealth was able to place only $232 million in commercial paper, less than the $300 million to $400 million originally planned. However, cash margins were stronger than projected which, in combination with the commercial paper placed, enabled the commonwealth to meet its current cash flow needs. All short-term borrowings must be repaid by the end of the fiscal year (June 30).

Massachusetts' non-segregated operating cash margins are projected to be satisfactory at the end of the fiscal year following repayment of both Series B and C notes as well as the commercial paper program. At approximately $785 million, the projected ending balance provides an adequate margin of protection. However, the amount is significantly lower than the $1.2 billion fiscal 2008 year end cash balance which was lower than the fiscal year 2007 ending cash balance of approximately $1.6 billion. The commonwealth's tighter cash margins in part reflect prior year appropriations carried forward to be expensed in the following year which creates a structural imbalance.

Following recent disruptions in the capital markets, the treasurer accelerated to September 2008 the commonwealth's withdrawal from the budget stabilization fund (BSF), originally planned for December 2008. In addition, the commonwealth sold $232 million of its commercial paper program, bringing to $618 million the total amount of currently outstanding commercial paper. The commonwealth's cash flow projections indicate a commercial paper issuance of $400 million in September. Despite the market disruption, the commercial paper issuance was lower due to higher than expected monthly ending cash balances. The commonwealth expects to repay approximately $189 million in commercial paper in October.

In addition to the general obligation pledge of the commonwealth, a strong credit factor considered in the MIG 1 rating is size of the commonwealth's BSF. The balance at the end of fiscal year 2008 was approximately $2.25 billion (unaudited), down only slightly from a peak of $2.33 billion at the end of fiscal year 2007. The amount, which represents a healthy 7.3% of operating revenues, provides the commonwealth with additional financial flexibility although any unbudgeted draw is subject to appropriation. The BSF is a highly liquid segregated component of the Massachusetts Municipal Depository Trust, the commonwealth's cash and short-term bond fund. The commonwealth made substantial draws on the BSF following the 2001 recession but has more than rebuilt the fund with subsequent budget surpluses since then.

CASH FLOWS REFLECT ENACTED FY2009 BUDGET THAT ADDRESSED $1.3 BILLION PROJECTED SHORTFALL

Massachusetts faced a $1.3 billion structural gap for fiscal year 2009 representing about 4% of operating revenues. The projected operating deficit was similar in dollar magnitude to the shortfall the commonwealth faced going into the budget process for fiscal year 2008. Gaps in both years underscore continuing pressures on the spending side of the equation, especially related to the cost of healthcare reforms, as well as one-time actions taken to balance prior-year budgets. The adopted budget for fiscal year 2008 relied on the use of about $600 million in one-time reserve transfers from the budget stabilization fund (BSF) and the Healthcare Security Trust Fund (tobacco settlement money) as well as on $180 million carried forward from fiscal year 2007.

The enacted budget for fiscal year 2009 incorporates a combination of revenue enhancements, spending controls, and one-time BSF resources to eliminate the projected gap. On the revenue side, the commonwealth expects: 1) $285 million from corporate tax reforms, including closing loopholes followed by tax rate reductions in subsequent years; 2) $157 million from enhanced revenue collections and enforcement measures; and 3) $174 million from a $1 per pack increase in the cigarette tax which will be dedicated to health care costs. In terms of spending, the budget reflects about $175 million in reduced costs due to flat funding of various agencies and programs and reduced Medicaid costs from certain service changes and efficiencies. As in the prior year, the fiscal 2009 budget again relies on a draw on the BSF ($305 million) and saves $107 million by suspending the statutorily required deposit to the BSF and transferring fiscal 2009 investment earnings to the general fund. As reflected in the budget, combined reserves (reflecting unreserved, undesignated fund plus BSF balances) would be about 5.8% of operating revenues at the end of fiscal year 2009.

ECONOMIC WEAKNESS CONTINUES; REVISED ASSUMPTIONS MAY ADD FURTHER BUDGET CHALLENGES

The fiscal 2009 budget was based on a January 2008 consensus tax revenue forecast for which assumptions of a mild and short recession now appear optimistic. Given relatively weak sales tax performance over the past several years, with very modest growth of only 0.5% last year, budgeted sales tax growth of 4.9% for fiscal 2009 may be hard to achieve. Personal income tax growth is estimated at a more conservative 2.2% growth rate, after consecutive years of over performance that resulted in average annual growth of 9.2% since 2003. However, at about 40% of the commonwealth's operating resources, fluctuations in personal income receipts have a substantial impact on the budget. Even with the evident tax revenue recovery in recent years, it took the commonwealth five years for personal income tax receipts to surpass the peak levels of fiscal year 2001, underscoring the magnitude of the last recession's impact on the commonwealth's financial operations. Downward pressure on revenues was particularly harsh in fiscal 2002 when total tax receipts fell nearly 15%, driven by a 20% drop in personal income tax receipts primarily related to capital gains affected by the stock market decline.

The fiscal 2009 budget is vulnerable to many of the same downside economic risks that other states across the nation are facing. If the economic downturn is more severe or turns into a recession, revenue estimates may need to be revised downward. Month-to-date tax collections for September 2008 were down $200 million from the same period last year. The next forecast is scheduled for mid-October although Massachusetts already estimates that revenues could be $400 million below budget and expenditures may be $600 million higher. The housing downturn began earlier in Massachusetts than in other parts of the country, with negative effects showing up in the construction sector and weak sales tax performance. As in other high-wealth states, Massachusetts remains vulnerable to potential stock market fluctuations that could negatively impact the capital gains portion of its personal income tax results. While fiscal 2008 income tax receipts came in above budget, results may not be so positive next year.

For additional information please see Moody's report dated August 21, 2008

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