MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns MIG 1 to $800M of Massachusetts GO revenue anticipation notes

Global Credit Research - 16 Sep 2013

MASSACHUSETTS (COMMONWEALTH OF)
State Governments (including Puerto Rico and US Territories)
MA

Moody's Rating

ISSUE		RATING
General Obligation Revenue Anticipation Notes 2013 Series B		MIG 1
Sale Amount	$300,000,000	
Expected Sale Date	09/18/13	
Rating Description	General Obligation	
General Obligation Revenue Anticipation Notes 2013 Series C		MIG 1
Sale Amount	$300,000,000	
Expected Sale Date	09/18/13	
Rating Description	General Obligation	
General Obligation Revenue Anticipation Notes 2013 Series A		MIG 1
Sale Amount	$200,000,000	
Expected Sale Date	09/18/13	
Rating Description	General Obligation	

Moody's Outlook

Opinion

NEW YORK, September 16, 2013 --Moody's Investors Service has assigned MIG 1 ratings to $800 million of Commonwealth of Massachusetts general obligation revenue anticipation notes, consisting of $200 million 2013 Series A, $300 million 2013 Series B, and $300 million 2013 Series C. Proceeds of the notes, scheduled to price on September 18, will be used to bridge seasonal imbalances between revenue inflows and expenditure outflows. The Series A notes mature April 24, 2014, the Series B notes mature May 29, 2014, and the Series C notes mature June 26, 2014.

SUMMARY RATING RATIONALE

The MIG 1 rating reflects the credit quality of the Commonwealth of Massachusetts (rated Aa1/stable) and its full faith and credit general obligation pledge to pay noteholders when due; the healthy cash margins available at each of the staggered note maturity dates; and substantial alternative liquidity that could be provided by the commonwealth's budget stabilization fund, subject to legislative appropriation, if necessary.

STRENGTHS

-- Healthy forecasted ending cash balances at each note maturity; well-developed cash management practices including quarterly cash flow forecasts; and ample alternative liquidity in the commonwealth's Budget Stabilization Fund, subject to appropriation

-- Strong financial management practices, particularly a willingness to promptly identify and close budget gaps through expenditure reductions, revenue increases and overall prudent use of reserves

-- Budget reserves that provide an adequate cushion to another downturn and the commonwealth's commitment to maintain them at healthy levels

-- An economic base characterized by high wealth and high levels of educational attainment that has provided a degree of stability to the commonwealth's employment situation

CHALLENGES

-- Funds for note repayment are not segregated in advance of maturity dates

-- Debt ratios that are among the nation's highest and large unfunded pension liabilities based on Moody's adjusted figures

-- Large health care and other social services costs that drive the budget and ongoing spending pressure related to the statewide transportation system

-- Managing the challenges from federal downsizing during the next several years, which could have a heavy impact on the commonwealth's important healthcare and research sectors

DETAILED CREDIT DISCUSSION

SIZE OF ANNUAL CASH FLOW BORROWING FALLS AMID HEALTHIER FINANCES AND SMOOTHER DISBURSEMENTS

Seasonal imbalances between receipt of Massachusetts' revenues and outflow of its expenditures drive its cash flow borrowing. The commonwealth's largest revenue source, the personal income tax (nearly 57% of estimate fiscal 2014 tax revenue), is received most heavily in the second half of the fiscal year (especially March, April and June). Local aid payments are one of the largest single expenditure line items (15% of the total). In prior years, those payments were made quarterly in approximately equal amounts; starting in fiscal 2014 they will be disbursed in equal monthly installments. Massachusetts has issued revenue anticipation notes (RANs) every year since fiscal 2009 and since fiscal 2010 they have been sized at $1.2 billion. Prior to 2009, Massachusetts relied on commercial paper for its interim cash flow needs but has more recently used RANs for a lower cost of funds. Now, the smoother outflow of the monthly payments and overall health of the commonwealth's finances (fiscal 2013 total tax collections were 4.8% greater than the prior year and $627 million greater than forecast) is reflected in the fiscal 2014 cash flow borrowing that is one-third less than the prior year.

The commonwealth's short-term borrowings are statutorily required to be repaid by the end of the fiscal year. The three staggered maturities of the notes (April 24, 2014, May 29, 2014, and June 26, 2014) is a key structural feature that provides strong cash margins for each separate series of notes.

Based on our analysis of the commonwealth's September 5, 2013 cash flow forecast, ending cash balances at each note maturity provide noteholders with a healthy cushion. At the April maturity of Series A, the ending cash balance is 9.8% of forecasted tax revenue and 6.5% of total revenue. For Series B, the ending cash balance is 7.6% of forecasted tax revenue and 5.0% of total revenue. For Series C, the ending cash balance is 9.6% of forecasted tax revenue and 6.3% of total revenue.

The commonwealth's rainy day fund, the Budget Stabilization Fund, is not included in the cash flow, although because the RANs are general obligations we consider it a possible source of alternative liquidity, subject to legislative appropriation. The stabilization fund ended fiscal 2013 with a balance of $1.6 billion, or 7.5% of tax revenue. The fiscal 2014 budget includes a $350 million withdrawal from the fund. Net of required deposits into the fund, its ending balance is projected to be $1.3 billion, or 6.0% of estimated fiscal 2014 tax revenue.

OUTLOOK

The outlook for Massachusetts is stable, reflecting its good reserve levels and efforts to regain structural budget balance. The outlook also reflects our expectation that the commonwealth will continue to take proactive measures to close budget gaps if they emerge and continue its trend of strong financial management. Going forward, reliance on one-time budget solutions, tighter cash margins, unexpectedly severe economic deterioration, or a large increase in tax-supported debt could pressure the rating at its current level.

WHAT COULD MAKE THE SHORT TERM RATING GO DOWN

-- Material weakening in the state's cash flow margins beyond current estimate

The principal methodology used in this rating was Short-Term Cash Flow Notes published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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