

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

Fitch Ratings-New York-10 September 2015: Fitch Ratings assigns an 'F1+' rating to the following Commonwealth of Massachusetts general obligation (GO) revenue anticipation notes (RANs):

- \$400 million 2015 series A RANs due April 27, 2016;
- \$400 million 2015 series B RANs due May 25, 2016;
- \$400 million 2015 series C RANs due June 22, 2016.

The notes are scheduled to sell through competitive bid on Sept. 22, 2015.

SECURITY

The notes are general obligations of the Commonwealth to which its full faith and credit is pledged.

KEY RATING DRIVERS

GO PLEDGE OF THE COMMONWEALTH: The notes are a general obligation of the Commonwealth. Fitch rates the Commonwealth's long-term GO bonds 'AA+' with a Stable Outlook.

STRONG COVERAGE BY PROJECTED CASH FLOWS: Projected receipts provide strong coverage of note repayment and the balance in the Commonwealth stabilization fund provides substantial additional cushion.

GENERAL COMMONWEALTH CREDIT FACTORS: Massachusetts benefits from a strong and wealthy economy and prudent financial management. A comparatively high liability burden is partially explained by the above-average role played by the Commonwealth in relation to local levels of government when compared to most other states.

RATING SENSITIVITIES

The rating is sensitive to the continued strength of cash flow coverage and the Commonwealth's general credit quality.

CREDIT PROFILE

Massachusetts is a regular annual issuer of RANs to cover cash flow needs. The \$1.2 billion fiscal 2016 RANs par amount matches the fiscal 2015 par amount and is the only cash flow borrowing forecast in fiscal 2016. Commercial paper, which is also used in some fiscal years for cash flow purposes, is not planned during fiscal 2016 and was last issued for cash flow needs in fiscal 2014.

Coverage for the 2015 series RANs is strong at about 5.5x for the series A maturity in April 2016, 4.6x for the series B maturity in May 2016, and 7.3x for the series C maturity in June 2016. The current official cash flow forecast projects a fiscal 2016 non-segregated operating cash ending balance of almost \$2.6 billion, up from the \$2.1 billion actual beginning balance on July 1, 2015.

The Commonwealth's stabilization fund is a segregated fund and thus is not included in the coverage numbers above. However, Fitch notes that the stabilization fund can be drawn on via legislative appropriation fairly expeditiously and, as such, provides substantial additional cushion. The stabilization fund balance, at \$1.18 billion at June 30, 2015, is projected to rise slightly in fiscal 2016.

Massachusetts has maintained a solid financial position in recent years. It retains significant flexibility to address budgetary under-performance and has repeatedly demonstrated its commitment to doing so, in Fitch's view. Although fiscal 2015 was more challenging than expected, the Commonwealth quickly addressed emerging revenue and spending challenges; fiscal 2016 budgetary performance is expected to remain steady with balanced operations. For more information on the Commonwealth's general credit, see Fitch's release 'Fitch Affirms 'AA+' Massachusetts GO Rating; Outlook Stable' dated Sept. 10, 2015 and available at www.fitchratings.com.

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Fitch recently published an exposure draft of state and local government tax-supported criteria (Exposure Draft: U.S. Tax-Supported Rating Criteria, dated Sept. 10, 2015). The draft includes a number of proposed revisions to existing criteria. If applied in the proposed form, Fitch estimates the revised criteria would result in changes to fewer than 10% of existing tax-supported ratings. Fitch expects that final criteria will be approved and published by Jan. 20, 2016. Once approved, the criteria will be applied immediately to any new issue and surveillance rating review. Fitch anticipates the criteria to be applied to all ratings that fall under the criteria within a 12-month period from the final approval date.

Applicable Criteria

Exposure Draft: U.S. Tax-Supported Rating Criteria (pub. 10 Sep 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869942
Tax-Supported Rating Criteria (pub. 14 Aug 2012)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015
U.S. State Government Tax-Supported Rating Criteria (pub. 14 Aug 2012)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686033

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