

RatingsDirect®

Summary:

Massachusetts; Note

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Summary:

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Rationale

S&P Global Ratings assigned its 'SP-1+' short-term rating to the Commonwealth of Massachusetts' \$1.4 billion series 2019 general obligation (GO) revenue anticipation notes (RANs), consisting of \$500 million series A, \$500 million series B, and \$400 million series C issuances.

The short-term rating reflects our view of Massachusetts' strong note debt service cash coverage at maturity.

The RANs are general obligations of the commonwealth, secured by Massachusetts' full-faith-and-credit pledge, and are being issued to meet cash flow requirements for fiscal 2020.

Massachusetts does not use interfund borrowing for cash-flow purposes, and the sizable balance in its budget stabilization fund (BSF) is not available for general fund cash-flow requirements unless authorized by the legislature. As a result, the state typically sells RANs annually. The commonwealth's available nonsegregated general fund cash balance increased to \$4.497 billion at fiscal year-end 2019 (June 30); substantially higher than its projection a year ago of \$2.081 billion when it sold last year's RANs, and up from year-end fiscal 2018's nonsegregated cash position of \$3.608 billion. The state's cash-flow projection for fiscal 2020, based on the enacted state budget and cash received through September 2019, forecasts its fiscal year-end 2020 nonsegregated cash position will drop to a still-sizable \$3.495 billion, or 7.7% of projected full-year budgetary expenditures.

However, this most recent state projection, released in September 2019, does not yet fully incorporate supplemental appropriations or year-end transfers of undesignated year-end balances to the BSF and off-budget funds. The state estimates that based on fiscal 2019 tax collections, such actions could reduce ending cash balances by approximately

\$700 million-\$800 million, and accordingly we have reduced projected cash by \$800 million in our fiscal 2020 cash-note coverage calculations.

In our view, Massachusetts' revenues have recovered strongly since fiscal 2014, when the state last budgeted a drawdown in its BSF. In fiscal years 2019 and 2018, the state budgeted for near breakeven financial results in its operating funds. Strong personal income-tax growth resulted in substantial operating surpluses of about 3.1% of expenditures and other uses in fiscal 2019 and 2.1% in 2018, raising the state's BSF to an estimated \$2.8 billion, or 6.1% of expenditures at fiscal end 2019. The state is again budgeting for essentially breakeven operations in fiscal 2020, but cumulative tax revenue was 1.2% ahead of budget as of the end of September. The state's cash-flow projections assume budgetary cash tax revenue, not including sales tax transfers to the Massachusetts Bay Transportation Authority, will grow 0.9% in fiscal 2020 from the previous year's actual cash collection.

The prohibition against borrowing from the BSF for cash purposes contributes to a general fund cash-flow imbalance throughout the year, leading the commonwealth to issue cash-flow notes. Assuming this sale of \$1.4 billion 2019 series RANs, Massachusetts projects the lowest month-end minimum nonsegregated cash balance would be \$2.429 billion in March 2020, not including the potential further downward revision of as much as \$800 million from supplemental budget appropriations and fund transfers. In the past three years, Massachusetts issued \$1.5 billion of RANs annually, with a minimum month-end cash balance in fiscal 2019 of \$2.269 billion (in July 2018), after a \$513.9 million transfer to its BSF.

The 2019 series A, B, and C notes will mature on April 23, May 21, and June 18, 2020, respectively. There will be no revenue withholding in advance of note repayment, but the staggered maturity schedule provides for what we consider strong projected cash coverage at 6.92x, 4.65x, and 7.46x for those dates, respectively (by month-end cash available based on Massachusetts' projected cash flow, reduced by \$800 million for the potential effect of the supplemental budget reductions and year-end transfers). We calculate the commonwealth's fiscal 2019 cash-flow notes had actual cash coverage of 9.97x, 9.24x, and 9.71x, in April, May, and June, respectively, which is much better than the projected coverage at the time of the fiscal 2019 RANs sale of 5.54x, 3.95x, and 5.03x, respectively. In fiscal 2018, actual cash coverage of RANs also came in much better than what the commonwealth had originally projected at the time of the sale of its fiscal 2018 RANs.

Cash management is the responsibility of the state treasurer, and we believe the commonwealth has good cash forecasting processes, with detailed reporting and monitoring. The state's most recent cash-flow forecast was released Sept. 23, 2019.

We believe Massachusetts' forecast of tax revenue is reasonable in view of IHS Markit's forecast of 3.6% personal-income growth in calendar 2019 and 4.6% in calendar 2020. The enacted 2020 operating budget on a budgetary basis of accounting for the fiscal year ending June 30, 2020, projects 0.7% growth in total budgeted revenues and other sources, and growth in total expenditures and other uses of 3.4% (before pending supplemental appropriations and additional transfers out).

For more information on Massachusetts' long-term creditworthiness, see our most recent GO analysis, published Sept. 3, 2019, on RatingsDirect.

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