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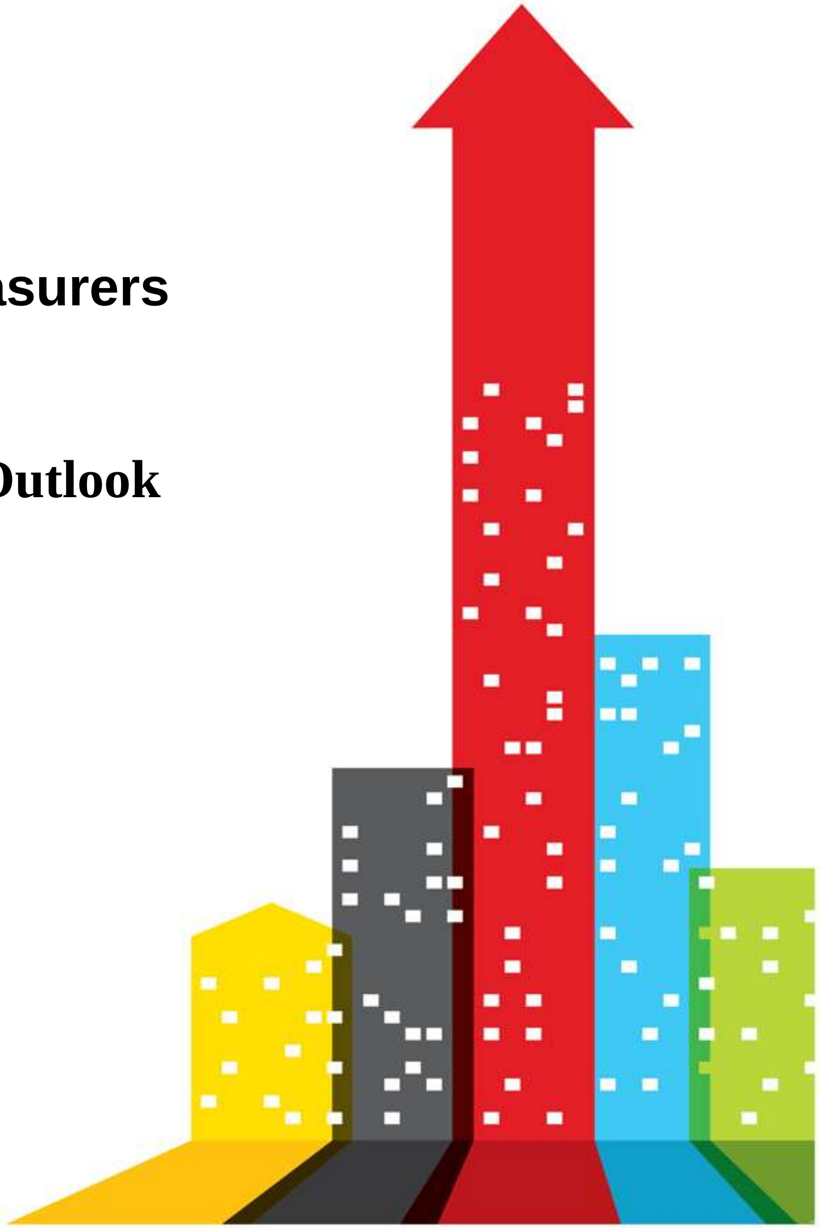
RATINGS SERVICES

Massachusetts Collectors and Treasurers Association
Annual Conference
2012 Massachusetts Credit Trends & Outlook



Victor Medeiros
Associate
State & Local Government Ratings

June 12, 2012

McGRAW-HILL

Agenda:

1. **Keep the presentation within 20 minutes!**
2. Provide overview of Massachusetts State and Local Ratings
3. Summarize credit strengths/weaknesses
4. Provide an update on S&P's economic and credit conditions forecast for the New England region
5. Provide an update on the new General Obligation criteria

- **Please email catherine_mullin@standardandpoors.com anytime during this conference to receive copies of all reports referenced.**

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S&P New England State Ratings Distribution

• Connecticut	AA/stable
• Maine	AA/stable
• **Massachusetts**	**AA+/stable**
• New Hampshire	AA/stable
• Rhode Island	AA/stable
• Vermont	AA+/stable

S&P Massachusetts Local Ratings Distribution

Rated Communities	**175**
AAA	**13%**
AA	**59%**
A	**27%**
BBB	**1%**

Massachusetts Credit Rating Factors -- Positives

Relative to national peers, in our view…

- Many rated issuers participate in or are near exceptionally broad and diversified economies.
- Many communities maintain an extremely strong, mature and diverse tax base.
- Have stable and predictable revenue sources.
- Maintain sufficient budgetary reserves and flexibility (unassigned fund balance, stabilization reserves, etc.)
- Have developed what view as good financial management practices and policies.
- Maintain a low fixed debt burden, with most having what we consider to be an aggressive principal debt amortization schedule.

Select Rating Measures

	Median Household EBI	Unemployment Rate	Per Capita Market Value
AAA	191	5.4	231,447
AA	137	6.9	165,041
A	104	9.1	96,218

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Massachusetts Credit Rating Factors -- Negatives

Relative to national peers, in our view…

- Many communities are built-out with many having minimal prospects for organic tax base growth.
- MA has a slower-growing population and slower growing employment.
- Many communities are revenue constrained due to proposition 2/12.
- Many communities have limited flexibility in managing labor costs.
- Many communities have higher pension and retiree health liabilities

MA Local Rating trends since 2008

	Upgrades	Downgrades
MA	35	5
CT	27	3
ME	14	0
NH	5	0
RI	11	6

Economic Conditions and Credit Forecast (New England)

Economic Output

- Economic output will exhibit stronger growth in 2013 driven by increase in the durables manufacturing, professional and business services, and scientific and technical service sectors
- Growth from state to state will be uneven; Massachusetts, the region's largest economy at roughly 48% of New England's GDP, will outpace all the other member states in economic output

Labor Market

- Will remain sluggish through the next year
- Nonfarm employment to increase by 1.3% in 2013 and no decline in government employment expected for the first time since 2008
- Overall, unemployment rate should be flat or see modest declines through the first quarter of 2013

Housing & Retail Sales

- Residential real estate market is showing signs of improvement; home values expected to recover after six consecutive years of decline (MA & CT are leading the way)
- Real retail sales will grow modestly, which is consistent with a gradual improvement in employment and housing

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Regional Baseline Credit Driver Forecasts

(Baseline scenario as of April 2012)

Percent change unless otherwise indicated

New England

Credit Rating Drivers	2012	2013
1. Real regional GDP	1.70	2.16
2. Federal Government spending	(1.48)	(2.87)
3. Employment, total nonfarm	1.05	1.31
4. Employment, government	(1.10)	(0.30)
5. Unemployment rate (%)	7.11	6.86
6. Real retail sales	3.08	2.14
7. Housing starts, total private	37.19	37.81
8. Home price, existing median	(3.81)	3.77

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On March 6, 2012 S&P requested comments on its proposed changes to its rating methodology for assigning issuer credit ratings (ICRs) and issue credit ratings based on general obligation (GO) pledges of local governments in the United States.

Key Themes

The scope of the proposed criteria

- All US local government issuer credit ratings and issue ratings on GO bonds issued by municipal governments that are not special purpose districts

1. This proposed criteria is intended to:

- Provide transparency into our rating process
  - -Should aid in understanding how we arrive at a specific rating
  - -Should aid in understanding how ratings may change given underlying conditions
- Enhance ratings comparability
- Be more forward looking

2. We expect rating implications to be moderate

3. RFC Comment Period through June 6th 2012

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Ratings Impact is Anticipated to be Minimal

The potential impact upon application:

- Proposed criteria affects approximately 3,800 credits
- We anticipate related rating changes to be moderate, most by one notch
- Assuming that governments maintain their current credit characteristics and that we are at the bottom of the credit cycle, testing suggests:
  - The majority are anticipated to remain the same (an estimated 65%)
    - Rating increases could be about 32%
    - Rating decreases could be about 3%
- **Ratings are a combination of both qualitative and quantitative aspects**
  - Our current testing focuses on the quantitative rating aspects

Improved Transparency and Comparability

- **This update provides transparency similar to that contained in the state criteria**
- **Greater clarity on how to derive Standard & Poor's Ratings Services' U.S. public finance ratings**
  - Building on similar underlying principles as we currently use
  - Allows for greater understanding of how we arrive at specific ratings
  - Should aid in understanding how ratings may change given underlying conditions
- **Criteria resulting in forward-looking and comparable ratings**
  - Comparability across sectors and regions

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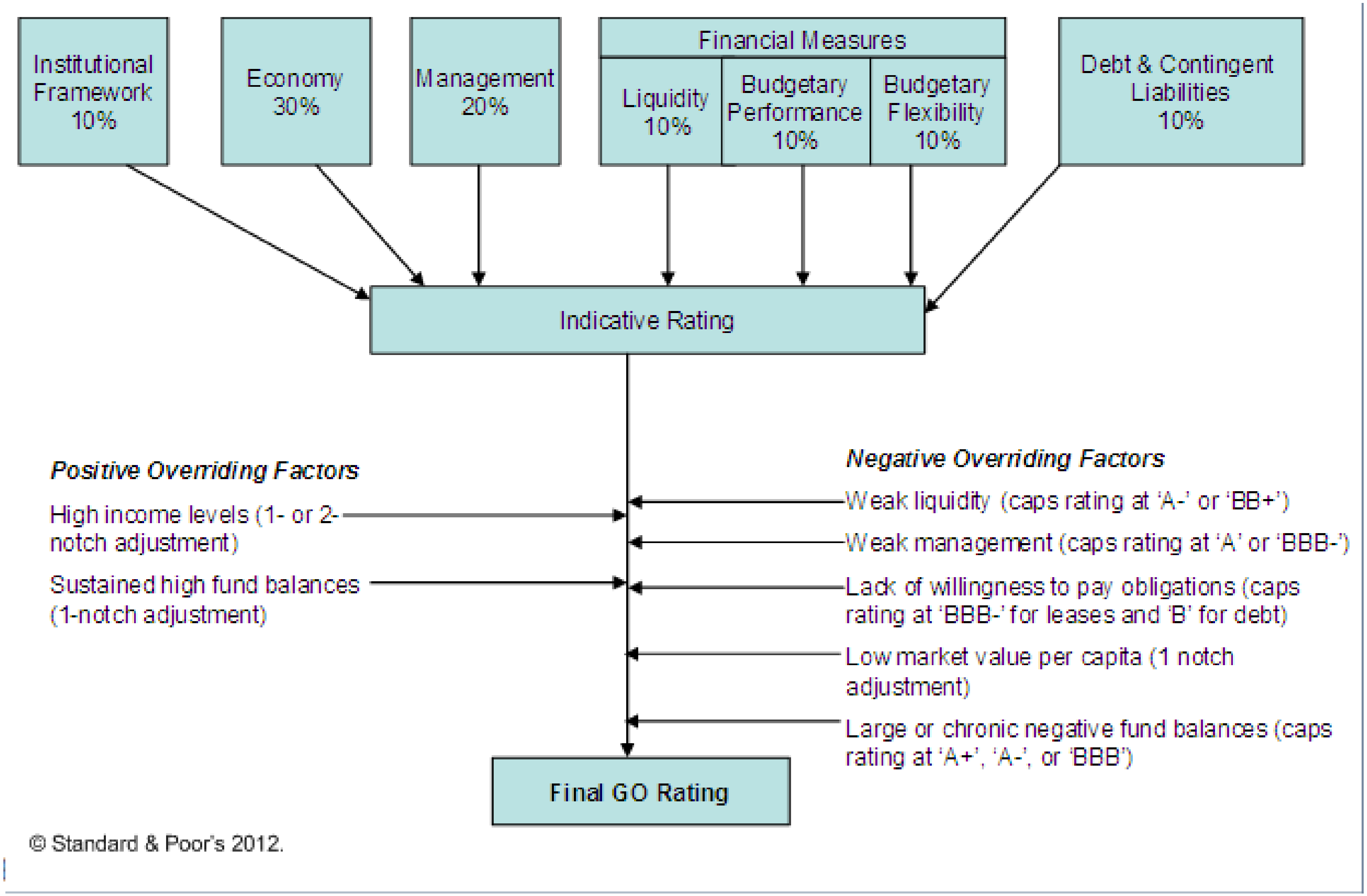
Analytical Framework For Local GO Ratings



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Related Research:

- “Bond Anticipation Note Rating Methodology” – Aug 31, 2011
- "Principles Of Corporate And Government Ratings" - June 26, 2007
- “Criteria: U.S. Public Finance: Short-Term Debt” – June 15, 2007
- “Criteria: U.S. Public Finance: Commercial Paper, VRDO, And Self-Liquidity ” – July 3, 2007
- “Criteria: Governments: U.S. Public Finance: GO Debt ” – October 12, 2006
- “Criteria: Governments: U.S. Public Finance: Appropriation-Backed Obligations ” – June 13, 2007
- “Criteria: Governments: U.S. Public Finance: Financial Management Assessment – June 27, 2006
- “Criteria: Request for Comment: U.S. Local Governments Methodology And Assumptions – February 24, 2012

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