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Ratings

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Summary:
Massachusetts; Gas Tax

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Summary:

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Credit Profile		
US$350.0 mil fd rev bnds (Rail Enhancement & Accelerated Bridge Progs) ser 2017A due 06/01/2047		
Long Term Rating	AAA/Stable	New
US$151.255 mil commonwealth tranps fd rev rfdg bnds ser 2017A due 06/01/2043		
Long Term Rating	AAA/Stable	New
Massachusetts Spl Oblig Gas Tax		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings has assigned its 'AAA' long-term rating, and stable outlook, to the Commonwealth of Massachusetts' $350 million commonwealth transportation fund (CTF) revenue bonds (rail enhancement & accelerated bridge programs) 2017 series A, and $151.255 million CTF revenue refunding bonds 2017 series A.

At the same time, S&P Global Ratings has affirmed its 'AAA' rating, with a stable outlook, on the commonwealth's $2.3 billion CTF parity revenue bonds outstanding, and $128.3 million closed prior-lien special obligation gas tax bonds outstanding.

The CTF bonds are secured by pledged revenues that include motor fuel/gasoline taxes and motor vehicle registration fees levied statewide. The special obligation gas tax bonds are secured by a first lien on 6.86 cents of the state-levied gas tax.

We base the ratings on what we view as the following credit strengths:

- A strong and diversified revenue mix that is collected statewide (population of 6.8 million) and has been relatively stable through economic cycles;
- The commonwealth's strong economic fundamentals, with a diverse economy and high income levels;
- Very strong 8.0x coverage of future maximum annual debt service (MADS), including combined debt service from prior-lien bonds, after this sale by fiscal 2017 pledged revenue, with state projections that annual debt service coverage will remain at approximately 6.0x even after substantial anticipated additional bonding; and
- Very strong bond covenants, including a very strong CTF additional bonds test (ABT) requiring 4.0x coverage of MADS by historical pledged revenues, a closed lien on prior-lien bonds, and a covenant not to allow changes in the rate of motor fuels tax or registry fees unless pledged revenues equal at least 4x MADS.

In our view, the lack of a debt service reserve is offset largely the high coverage of debt service.

Bond proceeds will finance various bridge and rail capital projects, and refund a portion of CTF supported bonds outstanding. In recent years, Massachusetts has also begun to issue CTF bonds to fund a portion of the Massachusetts Bay Transportation Authority's (MBTA) capital program. In our view, MBTA bonding represents a significant expansion of CTF bonding plans, although this is mitigated by expected continued high debt service coverage.

The fuel tax and registration fees pledged to the bonds are deposited in a revenue account of the CTF, where it is subject to annual appropriation by the state before transfer to the bond debt service account. We believe appropriation risk is mitigated by trust agreement covenants that prevent the large amount of surplus pledged revenue available (estimated at $1.1 billion in fiscal 2017) from being used for other purposes until debt service is paid first. Since the first issuance of special obligation bonds in 1992, the legislature has never failed to make the required appropriations.

The major revenues supporting the bonds include a portion of motor fuels tax revenue, which accounted for 56.2% of total pledged funds (chapter 64A, chapter 64E, and chapter 64F receipts) in fiscal 2017, not including federal Build America bond (BAB) interest subsidies. The fuel tax rate was increased to 24 cents from 21 cents in 2013, with 6.86 cents of that amount pledged to the closed-lien special obligation gas tax bonds on a first-lien basis. Excess revenues not needed to cover debt service on the closed first-lien special obligation bonds, flow to the CTF revenue bonds. Before 2013, the gas tax rate had not been increased since 2000, and still remains below the average gas tax rates charged in the Northeast region. Gas taxes are collected monthly by the state from gasoline distributors.

The other key revenue supporting the program is motor vehicle registry fees (43.8% of total revenues in fiscal 2017), which are collected daily by the Registry of Motor Vehicles and swept daily by the state treasury and credited to various fee accounts. Passenger vehicle registration fees rose to $60 from $50 in fiscal 2015. Registry fees were also adjusted in fiscal 2009, which offset flat-to-declining revenue performance in previous years. We believe the state has a history of increasing both pledged gas tax and registration fees when necessary to meet Massachusetts' transportation capital program.

Combined total pledged revenues in fiscal 2017 were $1.367 billion, not including $11.5 million of BAB subsidies. This represented a 1.6% increase from the year before, following a 0.71% increase in 2016, and a 5.7% increase in 2015 when registry fees were raised. Before fiscal 2014, revenue performance was relatively flat in our view, with small increases in most years and a decline of 1.1% in fiscal 2009 due to the recession, and an earlier 4.7% decline in 2006. We anticipate future revenue increases consistent with population growth and the state's currently strong economy. In calendar 2016, state population rose 0.4% to 6.81 million.

Fiscal 2017 pledged revenue covers combined future MADS after this issue, on combined prior- and parity-lien CTF debt, by what we consider a very strong 8.0x, not including BAB subsidy revenues. MADS coverage on only prior-lien debt secured by only the 6.86-cent fuel tax is also very strong at 9.5x as of fiscal 2016, the most recent available reported year.

Currently, the commonwealth anticipates issuing $1.037 billion of additional parity CTF debt over the next four fiscal years (2019-2022) for both the rail and accelerated bridge program after this issuance. Also anticipated over the next five fiscal years is issuance of $100.5 million of federal grant anticipation notes (GANs) that have a junior lien on CTF revenues, including $75.0 million of subordinate series 2017 GANs that are expected to be sold in November 2017. After issuance of the series 2017A CTF bonds, Massachusetts expects to issue an additional $250 million of parity CTF bonds in fiscal 2019, $200 million in fiscal 2020, $387 million in 2021, and $200 million in fiscal 2022.

We believe it is possible there could be additional bonding related to either bridge repair or mass transit, beyond the

$1.492 billion described above, but that the very strong 4.0x ABT and the need to use surplus CTF funds for transportation operations provide significant protection against debt service coverage dilution from future debt issuance. In particular, $30 million of series 2017A CTF bond proceeds will fund certain MBTA Green Line capital improvements. This line has seen cost estimate increases, with cost estimates from $700 million-$1 billion in 2016 rising to $2.3 billion currently. MBTA is also planning extension of its Orange and Red mass transit lines. Nevertheless, the commonwealth projects debt service coverage, including BAB subsidies, will remain strong, at least at 6.0x through 2049, based on current anticipated future debt issuance and assuming no future revenue growth beyond estimated 2018 revenue of $1.348 billion.

Massachusetts' CTF bonds are eligible to be rated above the sovereign because we believe the commonwealth can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013, on RatingsDirect), U.S. states are considered to have moderate sensitivity to country risk. State-derived revenues are the sole source of security on the bonds, the institutional framework in the U.S. is predictable with significant state autonomy, and flexibility is demonstrated by high debt service coverage and serial bond amortization as well as independent treasury management.

(For more information on Massachusetts' economy, please see the most recent full GO analysis published Oct. 12, 2017, on RatingsDirect.)

Outlook

The stable outlook reflects what we view as the strong credit structure supporting the bonds, which insulates bondholders from future volatility or deterioration of pledged revenues. One long-term risk is that the rail enhancement program could require substantial new capital funding beyond current authorizations. However, we feel that the currently very strong debt service coverage and very strong ABT should provide strong protection against future debt dilution. Over our two-year outlook time horizon, we do not see the potential for lowering the rating as we expect coverage levels to remain very strong, despite planned additional debt issuance. Furthermore, we believe that Massachusetts' substantial and diverse economy will continue to support stability in pledged revenues over time.

Ratings Detail (As Of October 20, 2017)		
Massachusetts commonwealth transp fd rev bnds (Rail Enhancement & Accelerated Bridge Progs)		
Long Term Rating	AAA/Stable	Affirmed
Massachusetts gas tax		
Long Term Rating	AAA/Stable	Affirmed
Massachusetts sr lien gas tax		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
Massachusetts (Accelerated Bridge Prog) gax tax		
Long Term Rating	AAA/Stable	Affirmed
Massachusetts (Accelerated Br Prog) GO transp fd		
Long Term Rating	AAA/Stable	Affirmed

Ratings Detail (As Of October 20, 2017) (cont.)		
Massachusetts (Rail Enhancement & Accelerated Bridge Progs)		
Long Term Rating	AAA/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.