

## Commonwealth of Massachusetts Commonwealth Transportation Fund (CTF) Revenue Bonds

<b>Issuer: Commonwealth of Massachusetts</b>		
<b>Assigned</b>	<b>Rating</b>	<b>Outlook</b>
Commonwealth Transportation Fund Revenue Bonds (Rail Enhancement Program) 2021 Series A (Sustainability Bonds)	AAA	Stable
Commonwealth Transportation Fund Revenue Bonds (Rail Enhancement Program) 2021 Series B	AAA	Stable
Commonwealth Transportation Fund Revenue Refunding Bonds 2021 Series A	AAA	Stable
<b>Affirmed</b>	<b>Rating</b>	<b>Outlook</b>
Commonwealth Transportation Fund Revenue Bonds	AAA	Stable

### **Methodology:**

[U.S. Special Tax Revenue Bond Rating Methodology](#)

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**Rating Summary:** The CTF Revenue Bonds are special limited obligations of the Commonwealth and payable solely from the Pledged Funds, which primarily consist of Motor Fuels Tax revenues and various License and Registration Fees collected state-wide. The Commonwealth is selling about \$400 million in CTF Revenue Bonds for new money and \$320 million for refunding purposes.

The Commonwealth enacted comprehensive transportation reform legislation in 2009 which was partly designed to segregate certain revenues towards capital investment in critical transportation infrastructure projects. The legislation also enabled the Commonwealth to pledge some or all of these revenues to payment of CTF Revenue bonds. The segregated revenues, which consist primarily of a broad base of motor fuels taxes, driver's license fees, and vehicle registration fees, have a long history of observable efficient and effective collection characterized by diversity in timing that smooths seasonality. The Commonwealth has demonstrated willingness and ability to adjust pledged revenues as needed to finance expanded capital needs, and also to make adjustments to offset other factors that influence the underlying base of vehicle and fuel related transactions such as lengthier registration periods.

The pledged revenues experienced pronounced declines at the outset of the pandemic with April 2020 and May 2020 dropping 30% and 45%, respectively compared to April 2019 and May 2019. Pledged revenue collections began to improve from this low

point, however, in the subsequent months of 2020 and continuing in to calendar year 2021. The most recent month of April 2021 is up 40% compared to April 2020. Although April 2020 reflects the outset of the pandemic and a comparison to this month is somewhat distorted, it represents a significant recovery. The total pledged revenue collections in April 2021 are 98% of April 2019.

The current issue will substantially be used to continue the financing of the Rail Enhancement Program, authorized by Chapter 79. The Commonwealth plans to issue \$956 million in CTF revenue bonds (for estimated proceeds of \$1.26 billion including bond premium) through 2025 to finance further transportation capital projects. In January 2021, Governor Baker signed a new transportation bond act which authorizes about \$16.2 billion of total capital spending for the Commonwealth's transportation infrastructure. Major components of this authorization are \$5.1 billion for the Massachusetts Bay Transportation Authority (MBTA), \$5.4 billion for highway, rail and transit, \$4.4 billion for federally aided highway projects. The CTF Revenue bonds are expected to finance a significant portion of this overall plan as well, subject to the debt issuance restrictions of the 4.0X additional bonds test. The Transportation Bond bill stipulates that both CTF and general obligation bonds may be used for these programs, depending on the capital plan.

The current issue, together with outstanding CTF Revenue Bonds, are provided favorable coverage of 5.9X annual debt service. Assuming no growth in pledged revenues and the aforementioned additional issuance of CTF Revenue Bonds through 2025, coverage would drop to 4.9X based on 2020 pledged revenues, which is considered ample.

The CTF Bonds enjoy numerous legal protections that KBRA believes insulate the pledged revenues from budget operations of the Commonwealth. Among these protections, are Constitutional restrictions on the use of the revenues; covenants not to impair the rights or remedies of the Trustee; laws that prohibit the use of the pledged revenues for any purpose before appropriation to pay debt service; and restrictions on additional debt or changes to the pledged revenues unless maximum annual debt service coverage remains at least 4x.



The Stable Outlook reflects KBRA’s expectation that pledged revenues are resilient and unlikely to decline significantly enough to impair coverage of debt service, even in very adverse economic conditions. Further, KBRA believes the Commonwealth has no meaningful incentive to divert or dilute the pledged revenues in ways that would be detrimental to bondholders.

To view KBRA’s last full length report published November 5, 2020, click [here](#).

### Key Credit Considerations

KBRA continues to monitor the direct and indirect impacts of the COVID-19 virus. Click [here](#) to access KBRA’s ongoing research on the topic.

The rating actions reflect the following key credit considerations:

#### Credit Positives

- Very broad and resilient nature of the pledged revenues that generate nearly 6x coverage of maximum annual debt service requirements for all CTF bonds issued to date.
- Extensive legal protections that are collectively and effectively designed to insulate pledged revenues from Commonwealth budget operations.
- The Commonwealth’s diverse, wealthy, and growing economy.

#### Credit Challenges

- The motor fuels portion of pledged revenues (~56%) is economically sensitive and likely to decrease in a recession, as they have during the pandemic-induced downturn.
- Pledged revenues are subject to pressure over the longer term as the economy shifts to alternative fuels and motor fuel consumption is likely to decline.

### Rating Sensitivities

▪ Not applicable at AAA rating level.	+
▪ An unlikely scenario where there was a substantial and sustained decline in pledged revenues.	-

## Pledged Revenues Details

### Motor Fuels Tax

Chapter 64A Receipts: 24 cents/gallon Gasoline Tax levied statewide.

Chapter 64E and Chapter 64F Receipts: 24 cents/gallon tax on special fuels and tax of 19.1% of average price/gallon of liquefied gas sold or used in the Commonwealth (Special Fuels Tax); 24 cents/gallon tax on each gallon of gasoline and special fuels acquired outside and used within the Commonwealth (Motor Carrier Tax).

### Registry Fees

Chapter 90 Registry Fees: motor vehicle registration fees, motor vehicle license fees, miscellaneous fees relating to the operation and use of motor vehicles.

### Key Ratios

FYE June 30 (dollars thousands)

	2019	2020	Δ YOY
<b>Pledged Revenues and Coverage</b>			
Gas Tax (Ch 64A)	\$ 672,866	\$ 609,818	-9.4%
Sp. Fuels Tax (Ch 64E) / Motor Carrier Tax (Ch 64F)	100,923	96,477	-4.4%
Registry Fees (Ch 90)	616,830	561,867	-8.9%
Total	1,390,619	\$1,268,162	-8.8%

Annual Debt Service 214,183  
**Coverage** **5.9x**

MADS, Pro Forma w/Planned Issuance Through FY 2026 259,895  
**MADS Coverage** **4.9x**

### Commonwealth Economic Data

Registry of Motor Vehicles Transactions, FY 2020	5,411,091
YoY Chg.	-9.8%
Population (2019)	6,893,574
10-Yr CAGR	0.5%
Per Capita Income (2019)	\$46,241
as a % of US	130%
Real Gross State Product (2020)	\$500 billion
YoY	-3.8%
10-Year CAGR	1.6%

## Pledged Revenue Performance

Pledged revenues experienced steady growth in the years preceding onset of the pandemic, increasing at a 2.8% CAGR in the decade ended in FY 2019. The onset of the pandemic effected collections beginning in March 2020. Total pledged revenues collected in the 12 months ending June 30, 2020 declined 8.8% YoY. Total pledged revenues in the first 10 months of the 2021 fiscal year (July 2020 through April 2021) were down 3.4% YoY.

Figure 1

Trend in Pledged Revenues								
FYE June 30 (dollars thousands)								
Fiscal Year Ended	Pledged Motor Fuel Tax Receipts				Pledged Registry Fee Receipts Chapter 90 (b)	Δ YOY	Total Pledged Revenues (a+b)	Δ YOY
	Gas Tax Chapter 64A	Sp. Fuels and Motor Carrier Tax Chapters 64E and 64F	Total (a)	Δ YOY				
1996	\$ 532,324	\$ 65,259	\$ 597,583		\$ 280,923		\$ 878,506	
1997	535,040	66,528	601,568	0.7%	313,215	11.5%	914,783	4.1%
1998	546,213	73,822	620,035	3.1%	312,180	-0.3%	932,215	1.9%
1999	561,714	73,549	635,263	2.5%	297,658	-4.7%	932,921	0.1%
2000	572,209	79,041	651,250	2.5%	300,040	0.8%	951,290	2.0%
2001	576,974	81,547	658,521	1.1%	322,808	7.6%	981,329	3.2%
2002	585,519	79,904	665,423	1.0%	338,440	4.8%	1,003,863	2.3%
2003	593,691	81,255	674,946	1.4%	397,683	17.5%	1,072,629	6.9%
2004	600,255	82,659	682,914	1.2%	386,284	-2.9%	1,069,198	-0.3%
2005	599,736	84,382	684,118	0.2%	413,481	7.0%	1,097,599	2.7%
2006	589,591	80,785	670,376	-2.0%	375,670	-9.1%	1,046,046	-4.7%
2007	594,892	79,545	674,437	0.6%	388,496	3.4%	1,062,933	1.6%
2008	595,380	75,560	670,940	-0.5%	396,904	2.2%	1,067,844	0.5%
2009	578,691	73,462	652,153	-2.8%	403,780	1.7%	1,055,933	-1.1%
2010	576,676	76,369	653,045	0.1%	485,789	20.3%	1,138,834	7.9%
2011	580,031	79,152	659,183	0.9%	496,034	2.1%	1,155,217	1.4%
2012	581,148	79,028	660,176	0.2%	508,608	2.5%	1,168,784	1.2%
2013	570,477	79,302	649,779	-1.6%	522,199	2.7%	1,171,978	0.3%
2014	640,702	89,938	730,640	12.4%	533,194	2.1%	1,263,834	7.8%
2015	656,445	97,947	754,392	3.3%	581,686	9.1%	1,336,078	5.7%
2016	666,539	98,309	764,848	1.4%	580,426	-0.2%	1,345,274	0.7%
2017	670,093	97,762	767,855	0.4%	598,683	3.1%	1,366,538	1.6%
2018	667,866	99,654	767,520	0.0%	612,780	2.4%	1,380,300	1.0%
2019	672,866	100,923	773,789	0.8%	616,830	0.7%	1,390,619	0.7%
2020	609,818	96,477	706,295	-8.7%	561,867	-8.9%	1,268,162	-8.8%
2021 KBRA Proj. <sup>1</sup>	564,771	96,308	661,079	-6.4%	650,500	15.8%	1,311,579	3.4%
July 2019 to April 2020	\$545,600	\$82,584	\$628,184		\$468,069		1,096,253	
July 2020 to April 2021	\$466,868	\$79,342	\$546,210	-13.0%	\$512,421	9.5%	1,058,631	-3.4%

Source: POS and KBRA calculations.

<sup>1</sup>KBRA estimate based on unaudited monthly collections for July 2020 through April 2021 and KBRA projections for the final two months of the fiscal year. May and June 2021 revenues were projected by multiplying growth of actual April 2021 over April 2019 receipts by actual May 2019 and June 2019 receipts, respectively.

More recent collections of pledged revenues have shown continued improvement. Collections for the month of April 2021 are up 40% compared to April 2020 and represent 98% of April 2019 collections.

**Figure 2**

<b>Monthly Collections of Pledged Funds<sup>1</sup></b>					
FYE June 30 (dollars in thousands)					
	2019	Δ YOY	2020	Δ YOY	2021
July	\$ 98,065	1.3%	\$ 99,327	4.0%	\$ 103,320
August	112,422	0.4%	112,888	-6.9%	105,116
September	109,516	-0.6%	108,844	-5.1%	103,270
October	119,240	0.6%	119,918	-7.8%	110,573
November	136,020	13.4%	154,309	-19.6%	124,130
December	133,280	-8.2%	122,359	1.9%	124,716
January	116,935	-0.6%	116,205	-13.2%	100,890
February	98,859	-13.8%	85,172	0.2%	85,319
March	101,943	-2.5%	99,402	-7.1%	92,305
April	111,315	-30.1%	77,827	40.0%	108,992
May	111,302	-44.8%	61,430		
June	143,395	-21.9%	112,063		
July to April Sub-Total	1,137,595	-3.6%	1,096,251	-3.4%	1,058,631
Full Fiscal Year Total	1,392,292	-8.8%	1,269,744	n.a.	n.a.

Source: POS

<sup>1</sup>Amounts shown are gross collections.

### Debt Service Coverage

Debt service coverage of the current issue together with outstanding bonds is shown below. The prior lien 1994 bonds are fully amortized in 2022 and this lien is closed. The Commonwealth forecasts that with no further growth in pledged revenues and assuming the aforementioned issuance of additional CTF Revenue Bonds through 2025, debt service coverage would be 4.9X based on 2020 pledged revenues.

**Figure 3**

<b>Historic Debt Service Coverage</b>					
FYE June 30 (dollars thousands)					
Fiscal Year	Pledged Revenues	1994 Trust Agreement Bonds	CTF Bond Debt Service	Total Debt Service	Coverage
2011	\$ 1,155,217	\$ 58,932	\$ 14,318	\$ 73,250	15.77x
2012	1,168,785	58,939	32,623	91,562	12.76x
2013	1,171,978	58,922	58,108	117,030	10.01x
2014	1,263,834	52,704	86,093	138,797	9.11x
2015	1,336,078	52,701	101,922	154,623	8.64x
2016	1,345,274	51,382	106,707	158,089	8.51x
2017	1,366,538	51,276	124,825	176,101	7.76x
2018	1,380,300	29,825	149,968	179,793	7.68x
2019	1,390,619	29,818	176,189	206,007	6.75x
2020	1,268,162	29,822	184,361	214,183	5.92x
2021 Estimated <sup>1</sup>	1,311,579	29,821	189,083	218,904	5.99x

Source: CTF Bond Official Statements, POS, and KBRA Calculations

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## ESG Management

### Environmental Factors

Reliance on Oil Consumption: KBRA anticipates that the gasoline and diesel sales that underly about 56% of the pledged revenues will likely gradually decline in the coming decades due to the phase-in of alternative fuels and electric cars. Risk of a potentially declining revenue source however is balanced by the strong debt service coverage.

A portion of the new money proceeds of the current offering will finance the Green Line Extension (GLX), a project that extends the MBTA Green Line to serve the cities of Cambridge, Somerville, and Medford. The Commonwealth has designated the bonds as "Sustainability Bonds" under the Sustainability Bond Guidelines established by the International Capital Market Association, based upon the expectation that the GLX project will increase public transit ridership by about 50,000 trips and significantly reduce vehicle emissions.

### Bankruptcy Assessment

The United States Bankruptcy Code is not applicable to states. Because the Commonwealth is a state, it is thus not eligible for relief under the U.S. Bankruptcy Code.



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