



## RATING ACTION COMMENTARY

# Fitch Rates Massachusetts' \$2.7 Billion Special Obligation Revenue Bonds 'AAA'; Outlook Stable

Fri 24 Jun, 2022 - 5:14 PM ET

Fitch Ratings - San Francisco - 24 Jun 2022: Fitch Ratings has assigned a 'AAA' rating to \$2.7 billion of Commonwealth of Massachusetts Special Obligation Revenue Bonds (Unemployment Insurance Trust Fund) bonds, consisting of:

--\$1.995 billion Special Obligation Revenue Bonds (Unemployment Insurance Trust Fund) 2022 Series A (Federally Taxable);

--\$671 million Special Obligation Revenue Bonds (Unemployment Insurance Trust Fund) 2022 Series B (Federally Taxable).

The Rating Outlook is Stable.

The bonds are expected to be offered by negotiated sale during the week of July 18.

## SECURITY

The bonds are secured solely by a special COVID-19 Recovery Assessment levied on Massachusetts employers against the same state taxable wage base used for quotidian state

unemployment taxes.

## **ANALYTICAL CONCLUSION**

The 'AAA' rating reflects strong growth prospects for state wages which provide the base for special assessments, the unlimited nature of the revenue pledge, and the segregation of the security from the state's own operations.

## **KEY RATING DRIVERS**

--Strong State Wage Growth Prospects: Fitch considers the state's economic growth prospects as robust, supporting strong long-term wage growth. Pledged special assessments are levied on wages, based on a statutorily set base;

--Annual Rate Setting Provides Strong Coverage And Resilience: The Department of Unemployment Assistance (DUA) covenants to set the rate, without limit, at a level which provides at least 1.25x coverage of the following year's debt service in, as well as bond administrative costs;

--No Exposure to State Risk: Fitch rates the unemployment compensation revenue bonds distinct from the credit quality of both the DUA, and the Commonwealth of Massachusetts. DUA serves purely as a conduit for these bonds with no operational claim on the pledged revenues. Similarly, pledged revenues are entirely distinct from general commonwealth operating activity.

## **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Not applicable for 'AAA' rating.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Fundamental and material downward shift in long-term growth of state wages that impair the ability to levy sufficient COVID-19 Recovery Assessment revenues.

## **BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a

worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

## **CURRENT DEVELOPMENTS**

### Massachusetts Economic Update

Massachusetts recovered much of the significant lost economic activity from the pandemic's onset, though some room remains to full jobs recovery. Early in the pandemic, Massachusetts suffered a more severe job market shock than the nation as a whole, with non-farm payrolls falling 19% from February to April 2020, more severe than the national decline (15%).

While Massachusetts' jobs recovery started slower than the national pace of recovery, state jobs growth has outpaced national growth over the past year. By April 2022, Massachusetts unemployment sat at 4.1%, above the national rate of 3.5%. The state's employment to population ratio, a measure of the share of the adult population whom are employed, sat a relatively healthy 63.3%, above the 60.3% national rate. This approaches the state's pre-pandemic ratio 64.4%. See "U.S. States Labor Market: Disparities in Pandemic Job Losses to Persist Beyond 2022" at [www.fitchratings.com](http://www.fitchratings.com).

## **ECONOMIC RESOURCE BASE**

The commonwealth has a broad and wealthy economy. Education levels are high, and although population growth is below the U.S. average, it continues to lead the northeast region. The strength of the health care, technology and education sectors has supported GDP growth comparable with the nation's over time, and leaves it well-positioned for solid future gains. Measured by per capita personal income, Massachusetts is the second-wealthiest state in the nation.

## **DEDICATED TAX CREDIT PROFILE**

Pledged resources are insulated from state operations. There is no requirement for appropriation of funds. Fitch distinguishes the rating on the unemployment compensation revenue bonds from the credit quality of both the DUA, and the Commonwealth of Massachusetts. DUA serves purely as a conduit for these bonds with no operational claim on the pledged revenues. Legal and statutory provisions segregate pledged revenues with no nexus with general operations of the commonwealth.

The Commonwealth of Massachusetts is issuing the current bonds to fund repayment of federal advances to the state's Unemployment Insurance Trust Fund (UITF). These federal advances maintained the UITF's liquidity in the face of unprecedented draws during the first year of the pandemic. Massachusetts received a total of \$2.3 billion in advances, and used \$500 million in ARPA funds to partially offset the debt.

H.B. 90 (April 2021) authorized the issuance of up to \$7 billion in special obligation bonds, secured solely from a special COVID-19 Recovery Assessment administered by the state Department of Unemployment Assistance (DUA). The current issuance will repay the remaining \$1.8 billion balance, as well as replenish the UITF. Fitch expects the current \$2.7 billion issuance to be the sole debt incurred under this authorization, except for possible refundings for savings.

Pledged revenues are collected by the state Department of Unemployment Assistance (DUA), remitted to the trustee in a closed loop that cannot be used for general state purposes. The DUA covenants to set the rate at a level which provides 1.25x coverage of the following year's debt service, as well as administrative costs. There is no cap as to the rate.

In recognition of the highly seasonal nature of assessment collections, 10% of the January 15th payment is retained annually from the strongest collection period to mitigate the risk of shortfalls in the remainder of the year. There is no formal debt service reserve requirement.

The state's unemployment tax collection mechanisms are well-established, with a collection rate of approximately 97% within 90 days of the due date, and 99% overall. The pledged obligation assessment is collected in the same manner, and subject to the same penalties, as other unemployment taxes.

Pledged revenues are collected by the state Department of Unemployment Assistance (DUA), remitted to the trustee in a closed loop that cannot be used for general state purposes.

The COVID-19 Recovery Assessment is levied against a statutorily set taxable wage base. Fitch focused on total state wages as proxy for the soundness of underlying revenues, finding robust growth at a 5.1% compounded annual growth rate (CAGR) in fiscal 2021. Given the state's solid economic fundamentals, Fitch expects total state wages to continue growth at a robust pace.

The state covenants to set the COVID-19 Recovery Assessment rate, without limit, at a level which provides 1.25x coverage of the following year's debt service, as well as administrative

costs. The unlimited nature of the pledge insulates bondholders from the impact of economic sensitivity.

Fitch typically calculates the ratio of available revenues to debt service for dedicated tax bonds, but the unlimited nature of the pledge on the bonds eliminates the need for such calculations.

## DATE OF RELEVANT COMMITTEE

23 June 2022

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## RATING ACTIONS

### ENTITY / DEBT ↕

### RATING ↕

---

Massachusetts,  
Commonwealth of (MA)  
[General Government]

---

Massachusetts, Commonwealth of (MA) /Special Tax Revenues - Unemployment Trust Fund/1 LT	LT	AAA Rating Outlook Stable	New Rating
--	----	---------------------------	------------

---

[VIEW ADDITIONAL RATING DETAILS](#)

## FITCH RATINGS ANALYSTS

**Bryan Quevedo**

Director

Primary Rating Analyst

+1 415 732 7576

bryan.quevedo@fitchratings.com

Fitch Ratings, Inc.

One Post Street, Suite 900 San Francisco, CA 94104

**Douglas Offerman**

Senior Director

Secondary Rating Analyst

+1 212 908 0889

douglas.offerman@fitchratings.com

**Eric Kim**

Senior Director

Committee Chairperson

+1 212 908 0241

eric.kim@fitchratings.com

**MEDIA CONTACTS**

**Eleis Brennan**

New York

+1 646 582 3666

eleis.brennan@thefitchgroup.com

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

**PARTICIPATION STATUS**

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

**APPLICABLE CRITERIA**

[U.S. Public Finance Tax-Supported Rating Criteria \(pub. 04 May 2021\) \(including rating assumption sensitivity\)](#)

**APPLICABLE MODELS**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

## **ADDITIONAL DISCLOSURES**

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

## **ENDORSEMENT STATUS**

Massachusetts, Commonwealth Of (MA)

EU Endorsed, UK Endorsed

## **DISCLAIMER & DISCLOSURES**

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers.

Please read these limitations and disclaimers by following this link:

<https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at

<https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable

investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in



connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Copyright © 2022 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

**READ LESS**

## SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

## ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

---

US Public Finance   North America   United States

---