

Rating Action: Moody's assigns Aa1 to Massachusetts' CTF 2022 bonds; outlook stable

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New York, June 09, 2022 -- Moody's Investors Service has assigned an Aa1 rating to the Commonwealth of Massachusetts' \$200 million Commonwealth Transportation Fund (CTF) Revenue Bonds (Rail Enhancement Program), 2022 Series A (Sustainability Bonds), and \$100 million CTF Revenue Bonds (Rail Enhancement Program), 2022 Series B. The outlook is stable.

RATINGS RATIONALE

The Aa1 rating reflects both the fundamentals of the pledge and the relationship of the credit to the Commonwealth of Massachusetts (Aa1 stable). Bondholder legal protections are strong, including legal considerations that incentivize the commonwealth to make required annual debt service appropriations and the constitutional limitation on the use of transportation revenues for transportation purposes. The bonds also benefit from strong debt service coverage levels, which were sustained through the decline in revenues through the pandemic.

The CTF rating is capped at the level of Massachusetts' issuer rating given ties to the commonwealth. Those ties include the ongoing need for annual appropriation of CTF debt service and the flow of pledged revenues through the commonwealth via the Department of Revenue and Registry of Motor Vehicles before they are deposited with the bond trustee to pay debt service.

RATING OUTLOOK

Massachusetts' stable outlook reflects our expectation that the commonwealth will continue its trend of strong financial management as it continues to navigate through the economic impacts of the coronavirus pandemic, including the significant revenue recovery coming out of the pandemic, as well as ongoing labor market recovery.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- An upgrade of Massachusetts' issuer rating
- A change in legal structure that permits debt service to be paid without an appropriation, regardless of budget authorization
- A change in the flow of funds that diverts the pledged revenues directly to the trustee rather than flowing through the commonwealth first

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- A downgrade of Massachusetts' issuer rating
- Additional leverage, or decline in the pledged revenues that materially weakens debt service coverage
- Non-appropriation of funds for debt service

LEGAL SECURITY

The CTF Bonds are special limited obligations of the commonwealth and are payable solely from the pledged revenues, which are primarily comprised of motor fuel taxes and registry fees.

The CTF bonds benefit from an additional bonds test (ABT) that requires the pledged revenues to equal 4.0 times maximum annual debt service on outstanding bonds, as well as the planned issuance, in any 12 of the prior 18 months prior to issuance. A strong non-impairment covenant allows the commonwealth to reduce the pledged revenue tax rates or base but only if that action would continue to result in at least 4.0 times coverage

of maximum annual debt service.

USE OF PROCEEDS

Proceeds from the CTF bonds will be used to fund costs of certain transportation projects of the commonwealth and to refund certain outstanding CTF bond maturities for economic savings. The majority of proceeds will fund rail projects, including the planned extension of MBTA's Green Line and extension of the South Coast rail line to the cities of Fall River (A3) and New Bedford.

PROFILE

The Commonwealth of Massachusetts is the 15th largest state by population, with about 7 million residents as of the 2022 census. Its 2022 gross domestic product, reaching \$637 billion, ranks 12th among the states. Per capita income was 130% of the national average in 2022, highest in the US.

METHODOLOGY

The principal methodology used in these ratings was US Public Finance Special Tax Methodology published in January 2021 and available at <https://ratings.moody.com/api/rmc-documents/70024>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moody.com/rating-definitions>.

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