

Rating Action: Moody's assigns Aa1 to Massachusetts' Special Obligation Revenue Bonds (Unemployment Insurance Trust Fund); outlook stable

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New York, June 28, 2022 -- Moody's Investors Service has assigned an initial Aa1 rating to the Commonwealth of Massachusetts' \$1.98 billion Special Obligation Revenue Bonds (Unemployment Insurance Trust Fund), 2022 Series A (Federally Taxable) (Social Bonds) and \$722 million Special Obligation Revenue Bonds (Unemployment Insurance Trust Fund), 2022 Series B (Federally Taxable) (Social Bonds). The outlook is stable.

RATINGS RATIONALE

The Aa1 matches the commonwealth's issuer rating of Aa1, and reflects the strong security features of the bonds, the commonwealth's covenant to actively manage the assessment rate supporting debt service, and the large and resilient Massachusetts economy.

The bonds are primarily paid from a pledge of a special assessments levied on substantially all employers in the commonwealth of Massachusetts, covering a taxable wage base of nearly \$46 billion. The assessment is set at a rate that will generate semi-annual debt service coverage of at least 1.25 times. While the covenanted debt service coverage ratio is narrow relative to other special tax credits, the history of resiliency in the employment base through economic cycles and the security features in place to ensure timely payment support the high rating. Security features protecting bondholders include intra-year retained revenues, which act as a partial year liquidity reserve, the requirement to adjust the levy annually (with no prohibition on making mid-year adjustments), and the ability to pledge additional revenues if needed. While legislation can be changed in the future, the commonwealth's non-impairment covenant in place while bonds are outstanding is an added credit strength.

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 and labor market recovery, as well as inflationary pressures, coming out of the pandemic.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- An upgrade of Massachusetts' issuer rating

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- A downgrade of Massachusetts' issuer rating
- Unanticipated decrease in coverage levels as a result of severe economic contraction, coupled with lack of adjustment to assessments or lack of additional revenues pledged

LEGAL SECURITY

The Unemployment Insurance Trust Fund (UITF) revenue bonds are special limited obligations of the commonwealth, payable from the pledged funds, which largely consist of special assessments levied on Massachusetts employers.

As long as the UITF bonds are outstanding, the commonwealth has covenanted to hold the assessments in a separate fund, named the Special Contribution Unemployment Contribution Trust Fund (UCTF), and will not divert pledged funds out of this account. The transfer of the pledged assessments to the Special Contribution UCTF, and the payment of debt service, is not subject to appropriation by the Massachusetts legislature. Additionally, the commonwealth has covenanted not to

impair the pledge over the life of the bonds, and further to set the special assessment rate annually in order to generate revenues that will produce 1.25 times semi-annual debt service coverage. The special assessments are levied on experience-rated private, contributory employers, which means private employers that have been in business for 3 years and contribute to regular state unemployment taxes.

There is no debt service reserve fund associated with the bonds, but additional liquidity to support debt service is available if needed. The bond documents require the commonwealth to hold back revenues during the period of June through December each year equal to 10% of the January 15 debt service payment. The mid-year liquidity is the intra-year retained revenues, and provides a partial year ongoing reserve. Assuming sufficient revenues are available for the January and January payments, excess revenues will be used to repay Series B maturities early. Finally, if needed, additional revenues may be pledged to cover debt service, which could include a broad source of revenues legally available to the commonwealth.

USE OF PROCEEDS

Proceeds of the bonds will be used to repay the outstanding federal advance received by Massachusetts under the federal unemployment insurance program (\$1.7 billion currently outstanding), and to fund a deposit to pay future unemployment benefits.

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.

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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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