

RatingsDirect®

Summary:

Massachusetts; Gas Tax; Miscellaneous Tax

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Credit Profile

US\$300.0 mil commonwealth transp fd rev bnds (Rail Enhancement Prog) ser 2023A due 06/01/2053		
<i>Long Term Rating</i>	AAA/Stable	New
US\$200.0 mil commonwealth transp fd rev bnds (Rail Enhancement Prog) ser 2023B due 06/01/2052		
<i>Long Term Rating</i>	AAA/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to the Commonwealth of Massachusetts' estimated \$300 million 2023 series A (rail enhancement sustainability bonds) commonwealth transportation fund (CTF) revenue bonds and estimated \$200 million 2022 series B (rail enhancement) CTF revenue bonds.
- At the same time, S&P Global Ratings affirmed its 'AAA' rating on the state's \$3.4 billion parity bonds outstanding.
- The outlook is stable.

Security

The CTF bonds are secured by pledged revenues that include motor fuel and gasoline taxes and motor vehicle registration fees levied statewide.

Bond proceeds will be used to fund improvements for the South Coast Rail projects and other rail improvement projects for the commonwealth.

Credit overview

We rate the bonds based on our "Priority-Lien Tax Revenue Debt" criteria (published Oct. 22, 2018), which take into account the strength and stability of the pledged revenues as well as the general credit quality of the obligor where taxes are distributed and/or collected--in this case, the commonwealth. We consider the linkage between the priority-lien pledge and the Commonwealth of Massachusetts to be close; therefore, the rating on the CTF bonds is constrained by the GO rating.

Coverage has remained very strong for the pledged CTF revenues, albeit moderately lower than historical levels as a result of the COVID-19 pandemic. In fiscal 2023, pledged CTF revenues decreased by 1.4%, to \$1.3 billion from \$1.32 billion, in fiscal 2022, but grew slightly by 2.8% in fiscal 2022. Fiscal 2023 pledged revenues remained below pre-pandemic levels. Overall, we expect ongoing recovery in pledged CTF revenues.

Key credit considerations include our view of:

- Very strong and diverse economy of 7.08 million people generating pledged revenues;
- Low revenue volatility, with historically stable pledged revenues before the pandemic;
- Very strong debt service coverage (DSC) and liquidity, with over 5x coverage of pro forma maximum annual debt

service (MADS) following the series 2023 bonds, based on fiscal 2023 pledged revenue that captures revenue loss due to the effects of the pandemic;

- Very strong bond covenants, including a very strong CTF additional bonds test (ABT) requiring 4x coverage of MADS by historical pledged revenues 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, strong DSC mitigates the lack of a debt service reserve; and
- Our establishment of a one-notch upward limitation on the ratings from that of the GO rating on Massachusetts.

The CTF bonds are eligible to be rated above the sovereign because we believe pledged revenues 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), U.S. states are considered to have moderate sensitivity to country risk. State-derived revenues are the sole source of security on the bonds, and the institutional framework in the U.S. is predictable, with significant state autonomy and flexibility.

Environmental, social, and governance

We consider Massachusetts' chronic physical risks moderately negative in our analysis of the pledged revenues because of the commonwealth's coastal exposure to rising sea levels, with about two-thirds of its population in the Boston MSA and substantial property value in the combined Boston and Cape Cod area exposing the state to significant economic disruption following a high-impact event. However, we also note that the commonwealth has been addressing environmental risks through its Climate Protection Plan and has historically maintained a stable management and policy framework to respond to developing risks. We view social and governance as neutral to the credit rating analysis. For more information about our rating on the state, please see our analysis on Massachusetts, published April 14, 2023.

Outlook

The stable outlook reflects the also stable outlook on the commonwealth and our view that Massachusetts' underlying economy and currently very strong reserves could support its rating, despite its economically sensitive revenues and potential nationwide contraction. We also believe that Massachusetts' substantial and diverse economy will continue to support stability in pledged revenues over time.

Downside scenario

We could lower the rating if we lower our GO rating on Massachusetts. Although unlikely, should there be very significant deterioration in CTF bond DSC, we could also lower our rating on the CTF bonds. While the commonwealth's capital program for rail, bridges, and roads could require substantial new capital funding, we feel that the very strong current DSC and very strong ABT should provide strong protection against future debt dilution.

We could downgrade the state if we believe Massachusetts will fail to make budget adjustments to maintain structural balance or maintain strong reserves if its revenue weakens. Other factors that could lead to a downgrade include significant increases in debt or other fixed costs, or a significant decline in pension-funded levels due to the commonwealth falling significantly behind required pension funding contribution levels.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of September 1, 2023)		
Massachusetts GASTAX		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Massachusetts GASTAX		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Massachusetts GASTAX		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Massachusetts MISCTAX		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Massachusetts MISCTAX		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

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