



RATING ACTION COMMENTARY

Fitch Rates Massachusetts' \$705 Million GO Bonds 'AA+'; Outlook Stable

Tue 21 May, 2024 - 5:06 PM ET

Fitch Ratings - New York - 21 May 2024: Fitch Ratings has assigned a 'AA+' ratings to the following Commonwealth of Massachusetts general obligation (GO) bonds:

--\$650 million GO Bonds Consolidated Loan of 2024 Series B;

--\$55 million GO Refunding Bonds, 2024 Series C.

Par amounts are subject to change pending final sale. The bonds are expected to be offered by negotiation June 4 and 5, 2024. Proceeds will be used to finance or reimburse the Commonwealth for various capital expenditures and to refund outstanding bonds. Fitch has also affirmed the commonwealth's long-term Issuer Default Rating (IDR) at 'AA+' and the ratings on GO and other bonds linked to the commonwealth's IDR as detailed at the end of this release.

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT	RATING	PRIOR
Massachusetts, ...	LT IDR AA+ Rating Outlook Stable	AA+ Rating

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Massachusetts Turnpike Authority Metropolitan Highway System (MA) /Metro Highway System Revenues - Subordinated Obligations/2 LT	LT	AA+ Rating Outlook Stable	Affirmed	AA+ Rating Outlook Stable
Massachusetts, Commonwealth of (MA) /Commonwealth Guaranteed Revenues/1 LT	LT	AA+ Rating Outlook Stable	Affirmed	AA+ Rating Outlook Stable
Massachusetts, Commonwealth of (MA) /General Obligation - Unlimited Tax - MDFA/1 LT	LT	AA+ Rating Outlook Stable	Affirmed	AA+ Rating Outlook Stable
Massachusetts, Commonwealth of (MA) /General Obligation - Unlimited Tax/1 LT	LT	AA+ Rating Outlook Stable	Affirmed	AA+ Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

The Commonwealth of Massachusetts' (the commonwealth) 'AA+' Long-Term IDR reflects its considerable economic resources, adroit management of economic and revenue cyclicity, and strong budget controls. A strong reserve funding mechanism that shields the general fund from capital gains-related volatility has accelerated the building of Massachusetts' stabilization fund. The commonwealth carries a long-term liability burden

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The GO bonds are general obligations of the commonwealth, to which its full faith and credit are pledged. A statutory state tax revenue growth limit does not exclude P&I on debt obligations from the ramifications of the limit, but any impairment of debt service due to tax revenue growth is highly unlikely.

KEY RATING DRIVERS

Revenue Framework - 'aaa'

Tax revenues are diverse but dominated by individual income taxes, which are sensitive to economic conditions, particularly the components related to capital gains. Baseline growth prospects for tax revenues are strong and expected to match national GDP, driven by the commonwealth's underlying diverse economy that includes a significant knowledge-based industry component.

Expenditure Framework - 'aaa'

Consistent with most states, the natural pace of spending growth is likely to marginally exceed expected revenue growth over time, requiring ongoing cost control. The commonwealth has ample ability to reduce spending through the economic cycle.

Long-Term Liability Burden - 'aa'

Long-term liability levels in Massachusetts, while comparatively high for a U.S. state, are a moderate burden on resources. The commonwealth's above average liability position is partly the result of state funding of both capital needs and pensions that are more commonly funded at the local level, primarily for K-12 education.

Operating Performance - 'aaa'

The commonwealth has superior gap-closing capacity supported by conservative budgeting, ongoing fiscal monitoring and a requirement to cut spending in response to revenue gaps. Gap-closing capacity is also supported by a funding mechanism that redirects a portion of economically sensitive capital gains tax receipts into the stabilization fund, which functions as the commonwealth's rainy day fund.

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--A slowing of economic growth that signals the commonwealth's revenue growth prospects will trail national economic growth;

--Rapid growth in spending demands, particularly for fixed costs such as pension liabilities, that weakens Massachusetts' expenditure flexibility and historically strong operating performance;

--An increase in long-term liabilities that results in a liability burden consistently exceeding 20% of personal income.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Continued efforts to maintain structural balance during periods of economic growth, particularly in light of increasing carrying costs, and/or preservation of reserves at or near current levels could lead to an improvement in Fitch's assessment of budget management;

--A sustained reduction in the long-term liability burden closer to, or below, 10% of personal income, accompanied by a reduction in carrying costs.

PROFILE

The commonwealth has a broad and wealthy economy. Education levels are high and, although population growth is below the U.S. average, it is strong for 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.

ADDITIONAL SECURITY DETAILS

Fitch has affirmed the ratings on the commonwealth's GO and GO-linked bonds as follows:

--GO bonds at 'AA+';

--Massachusetts Development Finance Agency (MDFA) special obligation bonds (commonwealth contract assistance) at 'AA+';

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--Massachusetts Department of Transportation (MassDOT) metropolitan highway system (MHS) revenue bonds (subordinate), commonwealth contract assistance secured, at 'AA+'.

For the commonwealth contract assistance bonds issued by the MDFA and commonwealth-guaranteed bonds issued by the MBTA and University of Massachusetts Building Authority, the commonwealth's obligation under the contract to make payments equal to debt service is a GO of the commonwealth, to which its full faith and credit are pledged.

For the MassDOT MHS subordinate revenue bonds, the commonwealth's annual fixed, dedicated payments are a full faith and credit obligation of the commonwealth and are expected to cover all subordinated debt service, linking the rating to the commonwealth's 'AA+' rating, rather than to MHS toll revenues, which are also pledged to the bonds on a subordinated basis. A large share of outstanding debt is variable rate and thus exposed to the risks associated with interest rate volatility, but Fitch expects that MassDOT will work with the commonwealth to ensure annual payments are sufficient to cover debt service if interest rate risks increase.

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.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

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FITCH RATINGS ANALYSTS

Karen Krop

Senior Director

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Fitch Ratings, Inc.

Hearst Tower 300 W. 57th Street New York, NY 10019

Douglas Offerman

Senior Director

Secondary Rating Analyst

+1 212 908 0889

douglas.offerman@fitchratings.com

Michael D'Arcy

Director

Committee Chairperson

+1 212 908 0662

michael.darcy@fitchratings.com

MEDIA CONTACTS

Sandro Scenga

New York

+1 212 908 0278

sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

[U.S. Public Finance State Governments and Territories Rating Criteria \(pub. 02 Apr 2024\)](#)
(including rating assumption sensitivity)

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

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Massachusetts Bay Transportation Authority (MA)

EU Endorsed, UK Endorsed

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