MOODY'S
RATINGS

Rating Action: Moody's Ratings affirms Massachusetts' Aa1 issuer rating and related ratings and assigns Aa1 to Consolidated Loan of 2024, Series G through I GO bonds; outlook stable

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New York, December 03, 2024 -- Moody's Ratings (Moody's) has affirmed the Commonwealth of Massachusetts' Aa1 issuer rating, the Aa1 rating on approximately $28 billion of outstanding general obligation bonds, and has assigned a Aa1 rating to approximately $800 million of General Obligation Bonds Consolidated Loan of 2024, Series G, Series H and Series I. The affirmations reflect Massachusetts' strong economy, high wealth and strong governance, balanced against elevated long-term liabilities. The outlook is stable. Also affirmed were:

- Commonwealth GO-supported bonds issued by the Massachusetts Bay Transportation Authority (General Transportation System bonds) and the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority, MA (Steamship Bonds), at Aa1;

- The state Department of Transportation's Metropolitan Highway System bonds supported by state contract assistance payments at Aa2;

- Commonwealth Transportation Fund bonds, Unemployment Insurance Trust Fund bonds, and Massachusetts School Building Authority (MSBA) Senior Dedicated Sales Tax bonds, all at Aa1;

- Federal Highway Grant Anticipation Notes and MSBA-issued Subordinated Dedicated Sales Tax bonds, both at Aa2;

- Special Obligation Dedicated Tax (Convention Center program) bonds at Aa3

- Pledge-specific ratings on the Massachusetts Qualified Bond Program, the Massachusetts State College Building Authority State University Intercept Program and the Massachusetts State College Building Authority Community College Intercept Program, all at Aa2, and

- VMIG 1 ratings on General Transportation System Bonds, Variable Rate Demand Obligations, Series 2000 A-1 and 2000 Series A-2, and Metropolitan Highway System Revenue Refunding Bonds (Subordinated), Commonwealth Contract Assistance Secured, Variable Rate Demand Obligations, 2022 Series A-1, A-2 and A-3.

RATINGS RATIONALE

The state's Aa1 issuer rating is supported by its robust economic base, with a highly educated workforce and strong personal income that helps meet the demands of a comparatively heavy long-term liability burden. The commonwealth also faces rapid growth in spending, particularly for pension contributions and to support the Massachusetts Bay Transportation Authority, both of which likely will exert fiscal pressure in coming years. The balance in the Commonwealth Stabilization Fund has reached a record level and will help offset revenue volatility from the state's economically sensitive tax system. Massachusetts' governance framework is strong, including sound financial and budgetary management practices that serve it well during economic downturns. General obligation bonds issued by the state, the Massachusetts Development Finance Agency's Special Obligation Bonds (Commonwealth Contract Assistance) General Transportation System bonds issued by the Massachusetts Bay Transportation Authority and the Steamship Bonds are all rated Aa1 (the same as the issuer rating), based on the state's full faith and credit pledge.

The Aa2 rating on the subordinated Metropolitan Highway System (MHS) revenue bonds is supported by a limited pledge of $100 million of general obligation contract assistance from the commonwealth for subordinated MHS bond payment, along with a subordinate claim on toll revenue of the Massachusetts Department of Transportation - Metropolitan Highway System (senior lien rated Aa3 stable). The one-notch distinction from the commonwealth's general obligation rating incorporates the state GO pledge up to a limited amount. The $100 million will be more than sufficient to cover existing debt service through 2038, at which point the trust agreement allocates an additional $25 million GO contractual pledge amount (previously pledged to MHS senior lien bonds) to the subordinate bonds.

The Commonwealth Transportation Fund (CTF) bonds' Aa1 rating incorporates robust legal protections of pledged revenue, very strong debt service coverage from a broad pledge of commonwealth motor fuel tax and registry fee revenue, and an additional bonds test requiring 4.0 times coverage. Including 2024 issues, coverage of maximum annual debt service (MADS) by actual fiscal 2024 revenue is 5.1 times, and MADS coverage by 2024 revenue is projected at 4.5 times factoring in the additional CTF debt Massachusetts plans to issue through fiscal 2030.

The Aa2 rating on the commonwealth's Federal Highway Grant Anticipation Notes incorporates both the subordinate pledge of CTF revenue and strong coverage provided by a senior lien on federal highway reimbursements, a source that is subject to periodic federal reauthorization risk. Noteholder legal protections are strong.

The Aa1 rating on the Unemployment Insurance Trust Fund bonds is supported by a covenant to actively manage the assessment rate supporting debt service, and by the state's large and resilient economy. The bonds are primarily paid from a pledge of a special assessments levied on substantially all employers in the commonwealth, covering a $47.7 billion taxable wage base as of October 2023. The assessment is set at a rate that will generate semi-annual debt service coverage of at least 1.25 times. This debt service coverage ratio is narrow relative to other special tax credits, but the history of resiliency in the employment base through economic cycles and the security features that ensure timely payment support the high rating.

The Aa3 rating on the Special Obligation Dedicated Tax bonds incorporates the narrow nature of the pledged travel and hospitality revenue (primarily hotel taxes in three cities), and the credit of the Commonwealth of Massachusetts, which provides strong parental support that mitigates pledged revenue vulnerabilities. Solid coverage of maximum annual debt service (4.4 times using 2024 revenue) is also a consideration, although the additional bonds test allows leverage up to 1.5 times based on recent revenue.

The MSBA's Aa1 senior and Aa2 subordinated ratings on the Dedicated Sales Tax bonds are supported by the broad pledge of a portion of sales tax collected by the commonwealth. Pledged sales tax is collected on goods sold statewide, with some exceptions including for geographic areas that are part of convention center districts. Strong recent revenue growth, together with declining levels of outstanding program debt and debt service, bolsters maximum annual debt service coverage. Leverage constraints requiring MADS coverage of 1.4 times for new senior bonds and 1.3 times for subordinated and senior bonds combined are somewhat lax, although this consideration is mitigated by strengths that also include the essential nature of financed school facilities. In addition, the credit benefits from the state's covenant to refrain from diverting revenue allocated to the authority and from reducing the sales tax increment pledged to the bonds.

The Massachusetts Qualified Bond Program's Aa2 pledge specific rating, one notch below the commonwealth's Aa1 issuer rating, is supported by Massachusetts' credit quality as well as payment provisions of an established pre-default state aid intercept program. Under the program's governing statute, the state treasurer pays debt service on qualified bonds directly to a state approved paying agent, and then withholds an equal amount from the bond-issuing local government's quarterly state aid. The program has a proven history of timely payment and sound mechanics.

The State College Building Authority's State University Intercept program's Aa2 pledge specific rating is one notch lower than the state's issuer rating. This reflects Massachusetts' credit quality and its commitment to intercept funds appropriated to nine participating state universities to pay debt service if needed. The intercept mechanism has never been tested, but the multiple levels of notification of insufficient funds prior to debt service due dates provide a high degree of confidence debt service payments would be made in a timely manner.

The Aa2 rating on the State College Building Authority's Community College Intercept Program, also one notch below the state issuer rating, is supported by Massachusetts' commitment to intercept legislatively appropriated funds to the 15 participating community colleges to pay debt service if needed. As with the State University Intercept program, the multiple levels of notification of insufficient funds prior to debt service due dates provide a high degree of confidence that debt service payments will be completed on time.

The VMIG 1 ratings on the state's variable rate demand bonds (VRDBs) are derived from (i) the credit quality each bank, having a short-term Counterparty Risk (CR) Assessment of P-1(cr), providing liquidity support in the form of a Standby Bond Purchase Agreement (SBPA); (ii) the long-term rating of the VRDBs and (iii) our assessment of the likelihood of an early termination or suspension of such SBPAs without a mandatory purchase of the bonds. Events that would cause termination or suspension of the SBPAs without a mandatory purchase of the VRDBs are directly related to the credit quality of the commonwealth as reflected in the applicable long-term rating assigned to the VRDBs.

RATING OUTLOOK

Massachusetts' stable outlook is supported by strong financial management and the state's record reserve levels, which will accommodate moderating revenue growth even if spending pressures intensify and will help address challenges that emerge in an unexpected economic downturn.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Leverage that moderates in relation to sector median, reducing the gap by approximately one-third

- Fiscal sustainability measures that signal long-term capacity to maintain a Stabilization Fund balance equal to at least 15% of revenue

- For CTF bonds: significant broadening of pledged revenue base or creation of a legal framework that further segregates the flow of funds pledged to bondholders

- For hotel tax bonds: Enhancements to legal provision, such as a tighter constraint on additional debt

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Protracted structural budget imbalance reflected in repeated draws on financial reserves or other non-recurring measures

- Leverage that grows to more than 300% of revenue, combined with underperforming revenue and economic growth trends

- For CTF bonds: factors that materially weaken debt service coverage, such as unexpected revenue declines

- For unemployment insurance trust fund bonds: Decrease in debt service coverage as a result of severe economic contraction, coupled with lack of adjustment to assessments For hotel tax bonds: Reduction in debt service coverage to less than 1.5 times maximum debt service, resulting from factors including weaker revenue

- For MSBA bonds: Leverage increase that, combined with revenue trends, will likely drive MADS coverage below 2 times for an extended period

- For MSBA bonds: Statutory changes or economic conditions that undermine sale tax revenue

- For short-term ratings: Downgrade of the short-term CR Assessment of the applicable liquidity bank or a multi-notch downgrade of the long-term rating of the bonds

LEGAL SECURITY

General obligation bonds, including Steamship Bonds and General Transportation System Bonds as well as debt issued directly by the state, carry the full faith and credit support from the Commonwealth of Massachusetts. Debt service on the Massachusetts Development Finance Agency's Special Obligation Bonds is paid according to a state infrastructure development assistance contract. The commonwealth's obligation to make the payments is irrevocable and supported by a full faith and credit pledge, up to a limited amount. The commonwealth expects to pay debt service amounts directly to the trustee, from general, legally available revenues.

The Metropolitan Highway System debt service is derived from contract assistance payments supported by the commonwealth's general obligation, but limited to $100 million annually, rising to $125 million in 2038. The bonds also benefit from a subordinate lien on net toll revenue collected by the Metropolitan Highway System.

Commonwealth Transportation Fund (CTF) revenue bonds are payable from a combination of transportation-related taxes and fees collected statewide, with just over half of the revenue attributable to fuel taxes and the remainder to motor vehicle registration fees and similar collections. The pledged motor fuel taxes and vehicle registry fees are remitted monthly to the bond trustee (one-fifth of next interest payment and one-tenth of principal). Annual legislative appropriation is required for payment, but statute and the bond indenture prevent pledged revenue use for other purposes until debt service is provided, largely offsetting this risk.

The state's Grant Anticipation Notes are paid from reimbursement grants received under the Federal Aid Highway Program run by the Federal Highway Administration. Pledged revenue consists of all FHWA reimbursement grants as well as net pledged Commonwealth Transportation Fund revenue available after payment of debt service on CTF bonds. Noteholders benefit from strong legal protections that include an advance set-aside of federal revenues for debt service, a two-pronged additional bonds test that limits the issuance of parity GANs, and debt service payments that do not require appropriation from the state.

Unemployment assessment bonds are special limited obligations of the commonwealth, payable from the pledged funds that largely consist of special assessments levied on Massachusetts employers. As long as the 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 to refrain from diverting pledged funds from this account. 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.

Massachusetts' convention center bonds are special obligations payable from Boston, Cambridge, Springfield and Worcester hotel tax receipts; parking surcharges at three convention facilities; surcharges on Boston car rentals and sightseeing tours and cruises, and sales tax receipts from certain hotels and other retail establishments in Boston, Cambridge and Springfield.

The Massachusetts School Building Authority's senior and subordinated bonds are payable from a portion of statewide sales taxes (1 percentage point, out of the total 6.25%, with certain statutory exceptions from the revenue). The dedicated sales tax allocation includes the general sales tax, but revenue attributable to vendors in Boston and Springfield's convention center districts is exempted.

USE OF PROCEEDS

The Consolidated Loan of 2024 Series G, H, and I bonds will finance expenditures outlined in Massachusetts' five-year capital investment plan, encompassing transportation infrastructure, economic development, housing, environmental projects and local governments grants.

PROFILE

The Commonwealth of Massachusetts is the 16th-largest state by population, with an estimated seven million residents as of 2023, according to the US Census Bureau. Its gross domestic product, at $733.9 billion in 2023, ranks 12th among the states, according to the US Bureau of Economic Analysis. Adjusted per capita income was

118% of the national average in 2022, the second highest in the country.

METHODOLOGY

The principal methodology used in the issuer and long-term ratings was US States and Territories published in July 2024 and available at https://ratings.moodys.com/rmc-documents/425428 . The principal methodology used in the Other Notched General Government Obligation Non GO ratings was US State Aid Intercept Programs and Financings published in February 2024 and available at https://ratings.moodys.com/rmc-documents/415020 . The principal methodology used in the short-term ratings was US Municipal Short-term Debt published in October 2024 and available at https://ratings.moodys.com/rmc-documents/430699 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

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.moodys.com/rating-definitions .

For any affected securities or rated entities receiving direct credit support/credit substitution from another entity or entities subject to a credit rating action (the supporting entity), and whose ratings may change as a result of a credit rating action as to the supporting entity, the associated regulatory disclosures will relate to the supporting entity. Exceptions to this approach may be applicable in certain jurisdictions.

For ratings issued on a program, series, category/class of debt or security, certain regulatory disclosures applicable to each rating of a subsequently issued bond or note of the same series, category/class of debt, or security, or pursuant to a program for which the ratings are derived exclusively from existing ratings, in accordance with Moody's rating practices, can be found in the most recent Credit Rating Announcement related to the same class of Credit Rating.

For provisional ratings, the Credit Rating Announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating.

Moody's does not always publish a separate Credit Rating Announcement for each Credit Rating assigned in the Anticipated Ratings Process or Subsequent Ratings Process.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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