

Commonwealth of Massachusetts – Transportation Fund

Issuer: Commonwealth of Massachusetts		
Assigned	Rating	Outlook
Commonwealth Transportation Fund Revenue Bonds (Rail Enhancement Program) 2022 Series A (Sustainability Bonds)	AAA	Stable
Commonwealth Transportation Fund Revenue Bonds (Rail Enhancement Program) 2022 Series B	AAA	Stable
Affirmed	Rating	Outlook
Commonwealth Transportation Fund Revenue Bonds	AAA	Stable

Methodology

[U.S. Special Tax Revenue Bond Rating Methodology](#)

[ESG Global Rating Methodology](#)

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collections began to improve from this low point, however, in the subsequent months of 2020 and continuing into calendar year 2021. The most recent month of March 2022 is up 11% when compared to March 2021. The total pledged revenue collections in March 2022 represent 100.6% of March 2019 levels.

The current issues will substantially be used to continue the financing of the Rail Enhancement Program, authorized by Chapter 79. The Commonwealth plans to issue \$1.375 billion in CTF revenue bonds (for estimated proceeds of \$1.498 billion including bond premium) through 2026 to finance further transportation capital projects. In January 2021, Governor Baker signed a new transportation bond act which authorizes about \$16.2 billion of total capital spending for the Commonwealth's transportation infrastructure. Major components of this authorization are \$5.1 billion for the Massachusetts Bay Transportation Authority (MBTA), \$5.4 billion for highway, rail and transit, and \$4.4 billion for federally aided highway projects. The CTF Revenue bonds are expected to finance a portion of this overall plan as well, subject to the debt issuance restrictions of the 4.0x additional bonds test. The 2009 Transportation Bond bill stipulates that both CTF and general obligation bonds may be used for these programs, depending on the capital plan.

Projected FY 2023 revenues are estimated to provide favorable coverage of 5.7x pro forma debt service in FY 2023. Assuming no growth in pledged revenues and the aforementioned additional issuance of CTF Revenue Bonds through 2026, the Commonwealth forecasts achievement of maximum annual debt service of \$282.7 million in FY 2027, upon which projected receipts that year would provide strong coverage of 4.6x.

The CTF Bonds enjoy numerous legal protections that KBRA believes insulate the pledged revenues from budget operations of the Commonwealth. Among these protections, are Constitutional restrictions on the use of the revenues; covenants not to impair the rights or remedies of the Trustee; laws that prohibit the use of the pledged revenues for any purpose before appropriation to pay debt service; and restrictions on additional debt or changes to the pledged revenues unless maximum annual debt service coverage remains at least 4x. Several budgetary amendments for gas tax holidays were proposed in recent months, in response to the precipitous rise in gas prices nationwide. Each proposal to date has been voted down but the FY 2023 budget continues to be debated in the Legislature. It is notable that each proposal has included both a specified end date and a provision to backfill any declines in Transportation Fund collections with Commonwealth general fund reserves which, in KBRA's view, would alleviate the risk of material declines in ADS coverage should a gas tax holiday with similar provisions ultimately be adopted.

Rating Summary: The CTF Revenue Bonds are special limited obligations of the Commonwealth and payable solely from the Pledged Funds, which primarily consist of Motor Fuels Tax revenues and various License and Registration Fees collected state-wide. The Commonwealth is selling about \$300 million in CTF Revenue Bonds for new money.

The Commonwealth enacted comprehensive transportation reform legislation in 2009 which was partly designed to segregate certain revenues towards capital investment in critical transportation infrastructure projects. The legislation also enabled the Commonwealth to pledge some or all of these revenues to payment of CTF Revenue bonds. The segregated revenues, which consist primarily of a broad base of motor fuels taxes, driver's license fees, and vehicle registration fees, have a long history of observable efficient and effective collection characterized by diversity in timing that smooths seasonality. The Commonwealth has demonstrated willingness and ability to adjust pledged revenues as needed to finance expanded capital needs, and also to make adjustments to offset other factors that influence the underlying base of vehicle and fuel related transactions such as lengthier registration periods.

The pledged revenues experienced pronounced declines at the outset of the COVID-19 pandemic with April 2020 and May 2020 dropping 30% and 45%, respectively compared to April 2019 and May 2019. Pledged revenue

The Stable Outlook reflects KBRA’s expectation that pledged revenues are resilient and unlikely to decline significantly enough to impair coverage of debt service, even in very adverse economic conditions. Further, KBRA believes the Commonwealth has no meaningful incentive to divert or dilute the pledged revenues in ways that would be detrimental to bondholders.

To view KBRA’s last full length report published November 5, 2020, click [here](#).

Key Credit Considerations

The rating actions reflect the following key credit considerations:

Credit Positives

- Very broad and resilient nature of the pledged revenues that are projected to provide more than 5.7x coverage of annual debt service requirements in FY 2023 and at least 4.6x coverage each year through maturity.
- Extensive legal protections that are collectively and effectively designed to insulate pledged revenues from Commonwealth budget operations.
- The Commonwealth’s diverse, wealthy, and growing economy.

Credit Challenges

- The motor fuels portion of pledged revenues (~51% in FY2021) is economically sensitive and likely to decrease in a recession, as they have during the pandemic-induced downturn – though total pledged revenue volatility is reduced by the more cyclically resilient nature of Registry Fees (~48% of FY 2021 pledged revenues).
- Pledged revenues are subject to pressure over the longer term as the economy shifts to alternative fuels and motor fuel consumption is likely to decline.

Rating Sensitivities

- Not applicable at AAA rating level. +
- An unlikely scenario where there was a substantial and sustained decline in pledged revenues. -

Pledged Revenue Details

Motor Fuels Tax

Chapter 64A Receipts: 24 cents/gallon Gasoline Tax levied statewide.

Chapter 64E and Chapter 64F Receipts: 24 cents/gallon tax on special fuels and tax of 19.1% of average price/gallon of liquefied gas sold or used in the Commonwealth (Special Fuels Tax); 24 cents/gallon tax on each gallon of gasoline and special fuels acquired outside and used within the Commonwealth (Motor Carrier Tax).

Registry Fees

Chapter 90 Registry Fees: Motor vehicle registration fees, motor vehicle license fees, and miscellaneous fees relating to the operation and use of motor vehicles.

Key Ratios			
FYE June 30 (dollars thousands)			
	2020	2021	Δ YOY
Pledged Revenues and Coverage			
Gas Tax (Ch 64A)	\$ 609,818	\$ 565,194	-7.9%
Sp. Fuels Tax (Ch 64E) / Motor Carrier Tax (Ch 64F)	96,477	96,298	-0.2%
Registry Fees (Ch 90)	561,867	622,770	9.8%
Total	\$1,268,162	\$1,284,262	1.3%
Annual Debt Service	214,183	218,904	
Coverage	5.9x	5.9x	
Projected Revenues in MADS Year (FY 2027)		1,294,696	
Pro Forma MADS w/5 Years of Planned Future Issuance (FY 2027)		282,703	
Pro Forma MADS Coverage from Projected Revenues		4.6x	
Commonwealth Economic Data			
Registry of Motor Vehicles Transactions, FY 2021		5,493,001	
YoY Chg.		1.5%	
Population (2021)		6,984,723	
10-Yr CAGR		0.5%	
Per Capita Income (2021)		\$45,455	
as a % of US		127%	
Real Gross State Product (2021)		\$531 billion	
YoY		6.4%	
10-Year CAGR		2.2%	

Rating Determinants (RD)

1. Legal Framework	AAA
2. Nature of Special Tax Revenues	AAA
3. Economic Base and Demographics	AAA
4. Revenue Analysis	AAA
5. Coverage and Bond Structure	AAA

Pledged Revenue Performance

Pledged revenues experienced steady growth in the years preceding onset of the pandemic, increasing at a 2.8% CAGR in the decade ended in FY 2019. The onset of the pandemic effected collections beginning in March 2020. Total pledged revenues collected in the 12 months ending June 30, 2020 declined 8.8% YoY. Total pledged revenues for the 2021 fiscal year were up 1.3% YoY.

Figure 1

Trend in Pledged Revenues FYE June 30 (dollars thousands)								
Fiscal Year Ended	Pledged Motor Fuel Tax Receipts				Pledged Registry Fee Receipts Chapter 90 (b)	Δ YOY	Total Pledged Revenues (a+b)	Δ YOY
	Gas Tax Chapter 64A	Sp. Fuels and Motor Carrier Tax Chapters 64E and 64F	Total (a)	Δ YOY				
1996	\$ 532,324	\$ 65,259	\$ 597,583		\$ 280,923		\$ 878,506	
1997	535,040	66,528	601,568	0.7%	313,215	11.5%	914,783	4.1%
1998	546,213	73,822	620,035	3.1%	312,180	-0.3%	932,215	1.9%
1999	561,714	73,549	635,263	2.5%	297,658	-4.7%	932,921	0.1%
2000	572,209	79,041	651,250	2.5%	300,040	0.8%	951,290	2.0%
2001	576,974	81,547	658,521	1.1%	322,808	7.6%	981,329	3.2%
2002	585,519	79,904	665,423	1.0%	338,440	4.8%	1,003,863	2.3%
2003	593,691	81,255	674,946	1.4%	397,683	17.5%	1,072,629	6.9%
2004	600,255	82,659	682,914	1.2%	386,284	-2.9%	1,069,198	-0.3%
2005	599,736	84,382	684,118	0.2%	413,481	7.0%	1,097,599	2.7%
2006	589,591	80,785	670,376	-2.0%	375,670	-9.1%	1,046,046	-4.7%
2007	594,892	79,545	674,437	0.6%	388,496	3.4%	1,062,933	1.6%
2008	595,380	75,560	670,940	-0.5%	396,904	2.2%	1,067,844	0.5%
2009	578,691	73,462	652,153	-2.8%	403,780	1.7%	1,055,933	-1.1%
2010	576,676	76,369	653,045	0.1%	485,789	20.3%	1,138,834	7.9%
2011	580,031	79,152	659,183	0.9%	496,034	2.1%	1,155,217	1.4%
2012	581,148	79,028	660,176	0.2%	508,608	2.5%	1,168,784	1.2%
2013	570,477	79,302	649,779	-1.6%	522,199	2.7%	1,171,978	0.3%
2014	640,702	89,938	730,640	12.4%	533,194	2.1%	1,263,834	7.8%
2015	656,445	97,947	754,392	3.3%	581,686	9.1%	1,336,078	5.7%
2016	666,539	98,309	764,848	1.4%	580,426	-0.2%	1,345,274	0.7%
2017	670,093	97,762	767,855	0.4%	598,683	3.1%	1,366,538	1.6%
2018	667,866	99,654	767,520	0.0%	612,780	2.4%	1,380,300	1.0%
2019	672,866	100,923	773,789	0.8%	616,830	0.7%	1,390,617	0.7%
2020	609,818	96,477	706,295	-8.7%	561,867	-8.9%	1,268,162	-8.8%
2021	565,194	96,298	661,492	-6.3%	622,770	10.8%	1,284,262	1.3%

Source: Commonwealth of Massachusetts

More recent collections of pledged revenues have shown continued improvement. Gross collections for the month of March 2022 are up 11.0% compared to March 2021 and represent 100.6% of March 2019 collections. For the period of July-March 2022, gross collections are up 3.2% YoY, though still only represent 95.4% of 2019 levels.

Figure 2

Monthly Collections of Pledged Funds ¹ FYE June 30 (dollars in thousands)							
	Collections				Change from Same Period in FY 2019		
	2019	2020	2021	2022	2020	2021	2022
July	\$ 97,911	\$ 99,181	\$ 103,194	\$ 99,534	1.3%	5.4%	1.7%
August	112,262	112,721	104,981	104,187	0.4%	-6.5%	-7.2%
September	109,360	108,671	103,126	103,537	-0.6%	-5.7%	-5.3%
October	119,107	119,775	110,441	119,066	0.6%	-7.3%	0.0%
November	135,878	154,148	123,999	137,857	13.4%	-8.7%	1.5%
December	133,138	122,211	124,593	124,771	-8.2%	-6.4%	-6.3%
January	116,798	116,088	100,777	98,956	-0.6%	-13.7%	-15.3%
February	98,743	85,031	85,224	88,442	-13.9%	-13.7%	-10.4%
March	101,822	99,284	92,211	102,391	-2.5%	-9.4%	0.6%
April	111,185	77,717	108,886		-30.1%	-2.1%	
May	111,170	61,361	99,825		-44.8%	-10.2%	
June	143,243	111,973	127,004		-21.8%	-11.3%	
July to March Sub-Total	1,025,021	1,017,110	948,546	978,740			
Full Fiscal Year Total	1,390,617	1,268,162	1,284,262	n.a.			

Source: POS

¹Amounts shown are gross collections.

Debt Service Coverage

Debt service coverage of the current issue together with outstanding bonds is shown below. The prior lien 1994 bonds are fully amortized in 2022 and this lien is closed. Based on projected additional issuance through 2026, the Commonwealth forecasts achievement of maximum annual debt service of \$282.7 million in FY 2027, upon which projected receipts that year would provide strong coverage of 4.6x.

Figure 3

Historic Debt Service Coverage					
FYE June 30 (dollars thousands)					
Fiscal Year	Pledged Revenues	1994 Trust Agreement Bonds	CTF Bond Debt Service	Total Debt Service	Coverage
2011	\$1,155,217	\$ 58,932	\$ 14,318	\$ 73,250	15.77x
2012	1,168,785	58,939	32,623	91,562	12.76x
2013	1,171,978	58,922	58,108	117,030	10.01x
2014	1,263,834	52,704	86,093	138,797	9.11x
2015	1,336,078	52,701	101,922	154,623	8.64x
2016	1,345,274	51,382	106,707	158,089	8.51x
2017	1,366,538	51,276	124,825	176,101	7.76x
2018	1,380,300	29,825	149,968	179,793	7.68x
2019	1,390,619	29,818	176,189	206,007	6.75x
2020	1,268,162	29,822	184,361	214,183	5.92x
2021	1,284,262	29,821	189,083	218,904	5.87x

Source: Commonwealth of Massachusetts

Bankruptcy Assessment

The United States Bankruptcy Code is not applicable to states. Because the Commonwealth is a state, it is thus not eligible for relief under the U.S. Bankruptcy Code.

ESG Management

KBRA typically analyzes Environmental, Social, and Governance (ESG) factors through the lens of how issuers plan for and manage relevant ESG risks and opportunities. More information on KBRA's approach to ESG risk management in public finance ratings can be found [here](#). Over the medium-term, public finance issuers will likely need to prioritize ESG risk management and disclosure with the likelihood of expansions in ESG-related regulation and rising investor focus on ESG issues.

Environmental Factors

Reliance on Oil Consumption: KBRA anticipates that the gasoline and diesel sales that underly about half of the pledged revenues will likely gradually decline in the coming decades due to the phase-in of alternative fuels and electric cars. Risk of a potentially declining revenue source however is balanced by the strong debt service coverage.

Sustainability Bonds Designation: The 2022 Series A Bonds are designated Sustainability Bonds, reflecting the use of proceeds to finance projects that will provide mass transit commute options to more individuals. A portion of proceeds will finance the Green Line Extension (GLX), a project that extends the MBTA Green Line to serve the cities of Cambridge, Somerville, and Medford. An additional portion will fund the South Coast Rail Project (SCR) which will provide commuter rail access between underserved southeastern Massachusetts cities and Boston.

The Commonwealth has designated the bonds as "Sustainability Bonds" under the Sustainability Bond Guidelines established by the International Capital Market Association, based upon the expectation that the projects will increase public transit ridership and significantly reduce vehicle emissions.

Clean Energy and Climate Plan for 2025 and 2030 (CECP): On March 26, 2021, Governor Baker signed into law An Act Creating A Next-Generation Roadmap for Massachusetts Climate Policy, which requires the Secretary of the Executive Office of Environmental Affairs to set interim emissions limit and sector-specific sub-limits every 5 years. The 2030 emissions limit shall be at least 50% below the 1990 baseline, the 2040 emissions limit shall be at least 75% below the 1990 level, and a 2050 emissions limit that achieves at least net zero statewide greenhouse gas emissions, provided that in no event shall the level of emissions in 2050 be higher than a level 85% below the 1990 level. It also specifies July 1, 2022 as the deadline for the adoption of the 2025 and 2030 emissions limits and sublimits, as well as the release of a comprehensive plan to achieve those limits. In compliance with the new law, EEA will develop and finalize the 2025/2030 CECP by the deadline. At the same time, the Administration is continuing implementation of the strategies, policies, and actions outlined in the Interim 2030 CECP.



Social Factors

Public Engagement for Clean Energy and Climate Plan (CECP): Executive Office of Environmental Affairs (EEA) worked with stakeholders across the Commonwealth to ensure development of the Clean Energy and Climate Plan for 2025 and 2030 is an inclusive policy planning effort. Engagement included a public comment period on the Interim 2030 CECP from January 7 through March 22 of 2021. It followed up with public meetings on the approach to completing the CECP in October 2021 and public meetings on proposed interim emission reduction targets and carbon sequestration goals in April 2022. EEA has additionally been convening with the Global Warming Solutions Act Implementation Advisory Committee since 2012 on greenhouse gas reduction measures.



Governance Factors

Cybersecurity: Governor Baker in August 2017 established the Executive Office of Technology Services and Security (EOTSS), which is working to standardize the Commonwealth's IT infrastructure by adopting and implementing a standard operating environment which is being employed to an increasing portion of the State workforce over time. EOTSS provides annual cybersecurity awareness training for Commonwealth employees and maintains an integrated security technology framework that includes multi-factor authentication for applications and users, enhanced cloud and mail security tools, and network monitoring, among other tools. It also provides a range of enterprise-wide services including operation of a Security Incident Response Team (SIRT) which is coordinated through EOTSS' Security Operations Center. IT investments are guided by EOTSS' IT Investment Advisory Board comprising security, IT and business operation executives from across state government. The FY 2022 capital budget includes \$162 million for EOTSS, evidencing the State's commitment to cybersecurity initiatives.

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