MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aaa to $100M Massachusetts CTF bonds and Aa1 to $330M of ABP GANs; outlook stable

Global Credit Research - 01 Dec 2014

Aaa ratings on $1.4B of outstanding CTF bonds and Aa1 ratings on $353M GANs also affirmed; $178M of senior GANs affirmed at Aa1

MASSACHUSETTS (COMMONWEALTH OF)
State Governments (including Puerto Rico and US Territories)
MA

Moody's Rating

ISSUE		RATING
Commonwealth Transportation Fund Revenue Bonds (Accelerated Bridge Program), 2014 Series A		Aaa
Sale Amount	$100,000,000	
Expected Sale Date	12/03/14	
Rating Description	Special Tax: Transportation-Related	
Federal Highway Grant Anticipation Notes (Accelerated Bridge Program), 2014 Series A		Aa1
Sale Amount	$330,000,000	
Expected Sale Date	12/03/14	
Rating Description	Note: Tax and/or Revenue Anticipation	

Moody's Outlook STA

Opinion

NEW YORK, December 01, 2014 --Moody's Investors Service has assigned a Aaa rating to the Commonwealth of Massachusetts' $100 million Commonwealth Transportation Fund Revenue Bonds (Accelerated Bridge Program) 2014 Series A and affirmed the Aaa ratings assigned to $1.4 billion of outstanding parity debt. We have also assigned a Aa1 rating to the commonwealth's $330 million Federal Highway Grant Anticipation Notes (Accelerated Bridge Program) 2014 Series A and affirmed the Aa1 rating on $353 million of outstanding Accelerated Bridge Program grant anticipation notes (GANs). Additionally, we have affirmed the Aa1 the ratings assigned to $178 million of outstanding senior GANs, with a final maturity of June 15, 2015. Proceeds of the new bonds, scheduled to price the week of December 1, will be used to help finance the Accelerated Bridge Program, the commonwealth's five-year plan to repair or replace 550 structurally deficient bridges.

SUMMARY RATING RATIONALE

The Commonwealth Transportation Fund (CTF) rating reflects strong bondholder protections that include a 4 times additional bonds test; 4 times nonimpairment covenant; good historical performance of the pledged revenue sources and strong coverage of maximum annual debt service (10.8 times of the outstanding bonds and the current issue, 7.9 times including all planned issuance through fiscal 2018). The rating also reflects the need for the pledged revenues to be appropriated annually for debt service, balanced by a mechanism that prohibits their use for any purpose unless that appropriation is made, and the segregation of the pledged revenues from general obligation bondholders.

The Aa1 rating on the Federal Highway Grant Anticipation Notes (ABP GANs) reflects the strong coverage provided by a senior lien on Massachusetts' federal highway reimbursements (now that the existing senior lien on federal reimbursements has been closed and defeased) and a pledge of excess CTF revenues, and the strong bondholder protections provided by an advance set-aside of federal revenues for debt service and a two-pronged additional bonds test limiting the issuance of parity GANs.

STRENGTHS

-- For the CTF bonds, a strong additional bonds test that requires 4 times coverage of maximum annual debt service and the commonwealth's covenant not to alter the pledged revenues if it would result in maximum annual debt service coverage of less than 4 times

-- For the CTF bonds, the deposit and segregation of the pledged revenues with the bond trustee and a legal structure that provides sufficient insulation of them from the competing claims of the commonwealth's general obligation bondholders

-- For the CTF bonds, strong debt service coverage provided by the pledged gas taxes and motor vehicle-related fees

-- For the ABP GANs, strong coverage provided by a pledge of Massachusetts' federal highway reimbursements that became senior in June 2014 when the final trustee set-aside of debt service for the senior GANs was made

-- For the ABP GANs, additional strong coverage provided by a pledge of CTF funds after payment of senior CTF bonds

CHALLENGES

-- For the CTF bonds, the need for annual legislative appropriation for debt service, although that is balanced by a mechanism that prohibits the use of the pledged funds for any other purpose unless that appropriation is made and the separation of the pledged revenues from general obligation bondholders

-- For the CTF bonds, the aggregate limitation on debt secured by the pledged revenues is statutory and could be increased going forward

-- For the ABP GANs, no limit on additional subordinated bonds in the CTF indenture, though additional debt is limited by additional bonds tests of 2.5 times on CTF revenues and 1.5x on federal reimbursements in the ABP GANs indenture

-- For the ABP GANs, periodic reauthorization risk inherent in the federal program and uncertainty about the form of future federal highway aid programs

DETAILED CREDIT DISCUSSION

CTF REVENUE BONDS AND ABP GANS ISSUED TO HELP FINANCE STATEWIDE BRIDGE RECONSTRUCTION PROJECT

The CTF bonds and Federal Highway Grant Anticipation Notes (ABP GANs) are being issued as part of the commonwealth's Accelerated Bridge Program. The program is a five-year, $2.9 billion effort to repair or replace 550 structurally deficient bridges throughout the state through fiscal 2016. The current sale is the fourth issuance of CTF bonds and the third issuance of ABP GANs.

CTF BONDS SECURED BY A DIVERSE STREAM OF TRANSPORTATION-RELATED TAXES AND FEES; ABP GANS SECURED BY FEDERAL HIGHWAY REIMBURSEMENTS AND EXCESS CTF REVENUES

The CTF bonds are secured by a broad mix of transportation-related taxes and fees. The bonds have a first lien pledge on 73% of the commonwealth's 24 cent fuel excise tax, collected on each gallon of gasoline (other than aviation fuel), 100% of the tax collected on special fuels and liquefied gas sold in Massachusetts, and 100% of motor carrier taxes. Additionally, the bonds are secured by a first lien pledge of a variety of motor vehicle license, registration and title fees (commonly referred to as Registrar of Motor Vehicles or "RMV" fees). After debt service is paid on the commonwealth's outstanding 1994 Trust Indenture Special Obligation Revenue Bonds (senior and subordinate bonds both closed with final maturities in 2023, and rated Aa1/stable), the CTF bonds also are backed by the excess of 6.86 cents of the gasoline fuels excise. Combined, fuels excise taxes account for 59% of the pledged revenues and motor vehicle fees are 41%. Additionally, the federal Build America Bond and Recovery Zone Development Bond interest subsidies received in conjunction with the 2010 issuance (which total a maximum of $12.3 million annually) are pledged to the bonds.

Massachusetts increased its gas tax from 21 cents per gallon to 24 cents effective August 1, 2013 and is moderate compared to its northeast neighbors. An approved provision to further adjust the gas tax for CPI was repealed by voters on November 4.

RMV fees were increased in fiscal 2003 and again in fiscal 2009. Historical performance of the pledged revenues is good. Consumer responses to changes in gas prices over the long term is relatively inelastic, although during fiscal 2006 the taxes and fees that are now the pledged CTF revenues declined by 4.7%, the largest decrease since fiscal 1996. During the more recent economic downturn, collections of motor fuels taxes declined by 2.8% in fiscal 2009 while RMV fees increased by 1.7%, equaling a decline in total pledged revenues of 1.1%. Since then, the pledged revenues have grown modestly with collections increasing by 1.1% and 0.3% in fiscal years 2012 and, respectively. Strong growth of 7.8% in fiscal 2014 reflects the tax increase approved in 2013. For fiscal 2015, motor fuels taxes were up 7.2% in the first quarter compared with a year ago.

The ABP GANs are secured by a senior lien on federal reimbursements, and a backup pledge of excess CTF funds. The ABP GANs were previously subordinated to a senior lien on federal reimbursements, but the prior senior bonds have been defeased and that lien has been legally closed. Additionally, any federal interest rate subsidy received is pledged. If federal reimbursements are not expected to provide 1.5 times coverage of debt service, the governor required to request an appropriation from excess CTF funds to cure the deficiency. If no appropriation is made by the legislature, the trustee is prohibited from releasing CTF funds to the commonwealth for operations. As long as projected federal reimbursements meet the 1.5 times test, the indenture also requires that funds sufficient for the succeeding year's debt service be set-aside by the trustee one year in advance of each of the December 15 and June 15 debt service payment dates.

PLEDGED REVENUES PROVIDE STRONG DEBT SERVICE COVERAGE

The CTF pledged revenues provide strong debt service coverage. Based on fiscal 2014 CTF pledged revenues of $1.6 billion and debt service on the outstanding bonds and the current issue, coverage of maximum annual debt service (MADS) is 10.8 times. Using the same fiscal 2014 revenue and based on MADS on the full planned $980 million of CTF issuance (the outstanding and current issues, plus planned issues through 2018) coverage is a strong 7.9 times, indicating that even with higher leverage the pledged revenues can withstand another economic downturn and still maintain healthy coverage.

Massachusetts' federal highway aid obligation authority - the total amount of apportioned federal highway aid that the commonwealth can use in any fiscal year - was down slightly (1%) in federal fiscal year 2014 to $621.9 million and was just slightly below the ten year average of $635 million.

For the ABP GANs, MADS coverage is 8.2 times based solely on federal funds (federal fiscal year 2014 Obligation Authority of $621.9 million). Coverage remains healthy even in reasonable stress scenarios.

The senior GAN lien was closed and the final maturity is in June 2015 (with the final debt service set aside made in June 2014). Additional subordinate GANs may be issued subject to a two pronged additional bonds test that requires 1.5 times coverage of MADs by federal reimbursements for both the senior and subordinate GANs, and 2.5 times coverage by excess CTF revenues.

CTF REVENUES ARE SEGREGATED FROM COMPETING CLAIMS; ADDITIONAL BONDHOLDER PROTECTIONS INCLUDE STRONG ADDITIONAL BONDS TEST AND COMMONWEALTH NONIMPAIRMENT COVENANT

The CTF is one of the commonwealth's two major budgeted funds (the General Fund is the other), and makes essentially all of its transportation expenditures from it. The Massachusetts constitution limits the use of transportation-related revenues to transportation purposes, which could be interpreted broadly in certain circumstances. In our opinion, however, the CTF revenues are adequately enough segregated from competing claims, including those of general obligation bondholders, to result in a rating one notch higher than the commonwealth's general obligation rating of Aa1/stable.

That separation is based on several factors. The authorizing statute under which the bonds are issued, the Special Obligation Act, permits the state treasurer to enter into a trust agreement and to pledge the CTF revenues and all right and title to them to bondholders, a pledge the act says is perfected. The pledged revenues are collected by the commonwealth and, as required by the trust agreement, transferred by the state treasurer to the trustee monthly (within ten days of the end of the month) for deposit into the Revenue Account. That account is subject to the pledge created by the master trust and cannot be used for any other purpose until debt service on the CTF bonds has been paid.

Immediately after receiving the monthly transfer of CTF funds from the state treasurer, the trustee is required to make a deposit into the Debt Service Fund equal to one-fifth interest and one-tenth principal. Like general obligation bonds in Massachusetts, the use of CTF funds for debt service requires annual legislative appropriation, and as long as one is made, the trust agreement permits excess CTF revenues to be released to the commonwealth for operating uses by its department of transportation (MassDOT). If no debt service appropriation is made, the trustee is prohibited from releasing any CTF revenues, precluding their use for any other purpose and giving Massachusetts strong incentive to authorize use of the funds.

The master trust agreement also includes other strong bondholder protections. The additional bonds test (ABT) requires the pledged revenues to equal 4 times maximum annual debt service on outstanding bonds and the planned issuance in any 12 of the prior 18 months prior to issuance. A strong nonimpairment covenant allows the commonwealth to reduce the pledged revenue tax rates or base but only if that action would continue to result in at least 4 times coverage of maximum annual debt service. Inclusion of the BAB subsidies received as part of the 2010 issue in the pledged revenues somewhat dilutes those protections but not materially; they are still strong relative to similar credits and the ability to issue new bonds under the BAB program has expired.

OUTLOOK

The outlook for the Commonwealth of Massachusetts' Commonwealth Transportation Fund bonds and Federal Highway Grant Anticipation Notes is stable. For the CTF bonds, the outlook reflects the strong legal structure of the bonds and strong debt service coverage. For the ABP GANs, the outlook reflects expected levels of federal reimbursements and the backup pledge of CTF funds.

WHAT COULD MAKE THE RATING GO UP

-- For the ABP GANs, changes in legal structure that could include stronger limitations on CTF leverage at the senior and subordinate level

WHAT COULD MAKE THE RATING GO DOWN

-- For the CTF bonds, additional leverage or decline in the pledged revenues that materially weakens debt service coverage

-- For the CTF bonds, nonappropriation of funds for debt service

-- For the ABP GANs, a significant decline in federal reimbursements or obligation authority, or overall changes in the federal highway aid program that materially impact the funds that flow to Massachusetts

-- For the ABP GANs, large leverage of the CTF or material weakening in the CTF revenues that reduce backup coverage

RATING METHODOLOGY

The principal methodology used in this rating was US Public Finance Special Tax Methodology published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this 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. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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