MOODY'S INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aaa RATING TO $419.3 MILLION OF MASSACHUSETTS COMMONWEALTH TRANSPORTATION FUND REVENUE BONDS

Global Credit Research - 01 May 2012

RATINGS AFFIRMED ON $576 MILLION OF OUTSTANDING PARITY DEBT; OUTLOOK IS STABLE

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) 2012 Series A	Aaa

Sale Amount	$419,260,000
Expected Sale Date	05/08/12
Rating Description	Special Tax: Transportation-Related

Moody's Outlook N/A

Opinion

NEW YORK, May 01, 2012 --Moody's Investors Service has assigned a Aaa rating to the Commonwealth of Massachusetts' $419.3 million Commonwealth Transportation Fund Revenue Bonds (Accelerated Bridge Program) 2012 Series A. Proceeds of the bonds, scheduled to price on May 8, will be used to help finance the Accelerated Bridge Program, the commonwealth's five-year plan to repair or replace 550 structurally deficient bridges. Concurrently, we have affirmed the Aaa ratings assigned to $576 million of outstanding parity debt.

SUMMARY RATING RATIONALE

The Aaa rating reflects strong bondholder protections that include a 4 times additional bonds test; 4 times nonimpairment covenant; good historical performance of the pledged Commonwealth Transportation Fund revenue sources and strong debt service coverage; and the need for annual legislative appropriation for debt service. There is also a mechanism that prohibits the pledged funds' use for any purpose unless that appropriation is made and the segregation of the pledged revenues from the commonwealth's general obligation bondholders. The outlook is stable.

STRENGTHS

-- 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

-- 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

-- Strong debt service coverage provided by the pledged gas taxes and motor vehicle-related fees, even during economic downturns

CHALLENGES

-- The need for an 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

-- The aggregate limitation on debt secured by the pledged revenues is statutory and could be increased going forward

DETAILED CREDIT DISCUSSION

CTF REVENUE BONDS ISSUED TO HELP FINANCE STATEWIDE BRIDGE RECONSTRUCTION PROJECT

The Commonwealth Transportation Fund (CTF) bonds 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 commonwealth expects to finance the program through issuance of $1.7 billion of Commonwealth Transportation Fund revenue bonds, and $1.1 billion of grant anticipation notes secured by both federal highway reimbursements and excess CTF revenues. The commonwealth issued the first $576 million of CTF bonds in December 2010.

BONDS SECURED BY A DIVERSE STREAM OF TRANSPORTATION-RELATED TAXES AND FEES

The CTF bonds are secured by a broad mix of transportation-related taxes and fees. The bonds have a first lien pledge on two-thirds of the commonwealth's 21 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 an additional 6.86 cents of the gasoline fuels excise. Combined, fuels excise taxes account for 57% of the pledged revenues and motor vehicle fees are 43%. 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 from fiscal 2012 onward) are pledged to the bonds.

The gas tax in Massachusetts has been 21 cents since 2000 and is moderate compared to its northeast neighbors. 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 recovered well, with fiscal 2010 collections increasing by 7.9% and fiscal 2011 collections increasing by 1.4%. Fiscal 2012 year-to-date through February, the CTF pledged revenues are 0.9% less than the same period in the prior fiscal year.

PLEDGED REVENUES PROVIDE STRONG DEBT SERVICE COVERAGE

The pledged revenues provide strong debt service coverage. Based on fiscal 2011 actual CTF pledged revenues and debt service on the outstanding bonds and the current issue, coverage of maximum annual debt service (MADS) is 14.6 times. Using the same fiscal 2011 revenue and based on MADS on the full $1.7 billion of CTF issuance (the outstanding and current issues, plus planned issues in fiscal years 2013 through 2015) coverage is a strong 9.1 times, indicating that even with higher leverage the pledged revenues can withstand another economic downturn and still maintain healthy coverage.

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 is stable. The outlook reflects the strong legal structure of the bonds and strong debt service coverage.

WHAT COULD MAKE THE RATING GO DOWN

-- Additional leverage or decline in the pledged revenues that materially weakens debt service coverage

-- Nonappropriation of funds for debt service

The principal methodology used in this rating was US Public Finance Special Tax Methodology published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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