

# RatingsDirect®

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## Massachusetts; Gas Tax

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# Massachusetts; Gas Tax

## Credit Profile

US\$100.0 mil commonwealth transp fd rev bnds (Accelerated Br Prog) ser 2014 A due 06/01/2044

*Long Term Rating* AAA/Stable New

### Massachusetts Spl Oblig Gas Tax

*Long Term Rating* AAA/Stable Affirmed

## Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' long-term rating, and stable outlook, to Massachusetts' \$100 million commonwealth transportation fund (CTF) revenue bonds (accelerated bridge program [ABP]), series 2014A.

At the same time, Standard & Poor's has affirmed its 'AAA' rating, with a stable outlook, on approximately \$1.4 billion of CTF revenue bonds outstanding, and \$249.7 million of prior-lien special obligation gas tax bonds.

The CTF bonds are secured by pledged revenues that include motor fuel/gasoline taxes and motor vehicle registration fees levied statewide. The special obligation gas tax bonds are secured by a first lien on 6.86 cents of the state levied gas tax.

We base the ratings on what we view as the following credit strengths:

- A strong and diversified revenue mix that is collected statewide (population of 6.5 million) and has been relatively stable through economic cycles;
- The commonwealth's strong economic fundamentals, with a diverse economy and high income levels;
- Very strong 9.34x coverage of future maximum annual debt service (MADS), including combined debt service from prior-lien bonds, after this sale by fiscal 2014 pledged revenue; and
- Very strong bond covenants, including a very strong CTF additional bonds test requiring 4.0x coverage of MADS by historical pledged revenues, a closed lien on prior-lien bonds, and a covenant not to allow changes in the rate of motor fuels tax or registry fees unless pledged revenues equal at least 4x MADS.

In our view, the lack of a debt service reserve is offset largely the high coverage of debt service.

We understand that bond proceeds will be used to fund the repair and rehabilitation of bridges statewide. This bond issue is the fourth under the ABP authorized by the legislature in 2008. A total of \$2.98 billion was authorized to accelerate investment in bridge repair and renovation. The program will be financed by the CTF and separately secured federal highway grant anticipation notes. (See related report on Massachusetts' federal highway grant anticipation notes published Nov. 26, 2014, on RatingsDirect.)

Including these series 2-14 bonds, the commonwealth expects to issue additional CTF-supported debt in the amount of \$1.1 billion through fiscal 2018, including debt other than for the accelerated bridge program.

The major revenues supporting the bonds include a portion of motor fuels tax revenues, which accounted for 57.8% of

total pledged funds (chapter 64A, chapter 64E, and chapter 64F receipts) in fiscal 2014. The rate was increased to 24 cents from 21 cents in 2013, with 6.86 cents of that amount pledged to special obligation gas tax bonds outstanding on a first-lien basis, producing \$95 million of extra revenues annually. A successful voter initiative rolled back a recent statute that indexed gas tax receipts to inflation in this last November's election. However, it only reduces future revenue growth and does not affect existing revenue, and we believe the state has also had a history of increasing pledged transportation tax rates when necessary.

These gas taxes are collected monthly by gasoline distributors in the state with fewer than 250 payors in total. The major payors are somewhat concentrated in our view, but according to Massachusetts, the record of collections has been strong with no significant delinquencies over time. Before 2013, the gas tax had not been increased since 2000 and still remains below the average gas tax rates charged in the Northeast region.

The other key revenue supporting the program is motor vehicle registry fees (42.2% of total revenues in fiscal 2014), which are collected daily by the Registry of Motor Vehicles and swept daily by the state treasury and credited to various fee accounts.

Combined total pledged revenues in fiscal 2014 were \$1.26 billion, a 7.8% increase from the year before, partly the result of increases in both the gas tax and registry fees. Before fiscal 2014, revenue performance was relatively flat in our view, with a decline of 1.1% in fiscal 2009 due to the recession, and an earlier 4.7% decline in 2006. Registry fees were also adjusted in fiscal 2009, which offset flat-to-declining revenue performance in previous years. Fiscal 2014 pledged revenue covers combined future MADS on prior lien, parity debt outstanding, and estimated debt service after the sale of this new issue by what we consider a very strong 9.34x. Coverage on only the prior-lien MADS, by just the 6.86 cent portion of the tax pledged to those bonds on a first lien basis collected in fiscal 2013, was strong also at 3.57x. Using the commonwealth's estimate of future MADS for all liens, based on projected additional debt issuance through 2018, with no increase in pledged revenue from fiscal 2014, we calculate still very strong MADS coverage of 6.14x. While other additional debt could be authorized in the future that is secured by the CTF, the strong additional bonds test and the significant role that the CTF revenues play in funding annual statewide transportation annual funding will limit leverage, in our opinion.

(For more information on the state of Massachusetts' economy, please see the most recent full GO analysis published July 28, 2014.)

## Outlook

The stable outlook reflects what we view as the strong credit structure supporting the bonds, which insulates bondholders from future volatility or deterioration of pledged revenues. Over the two-year outlook time horizon, we do not see the potential for lowering the rating as we expect coverage levels to remain strong, despite additional planned debt issuance. Furthermore, we believe that the Massachusetts' substantial and diverse economy will continue to support stability in pledged revenues over time.

## Accelerated Bridge Program

This program was a key initiative of outgoing Governor Deval Patrick and was authorized by a unanimous vote of the Massachusetts legislature in 2008. The program was designed to improve structurally deficient bridges at a cost of nearly \$3 billion through an accelerated construction schedule, with a multi-pronged goal of cost savings, economic development, and public safety. The 2008 legislation authorized gas tax bonds and federal highway grant anticipation notes to fund the projects through 2016. Currently, program construction is about 80% complete according to the commonwealth and running under budget, with an expected final completion date in 2016. The commonwealth estimates that the number of structurally deficient bridges is now 418 -- under its goal of 450, and down from 543 in 2008.

## Pledged Funds: Stable And Diversified

### Fuel tax

The funds pledged to this bond program are levied statewide and have a long and stable collection history. The commonwealth has levied a fuel tax since 1928. There are a range of fuel taxes pledged to the CTF: The excise tax imposed by state statute (Chapter 64A) is the primary source of fuel tax revenue. The current tax rate is 24 cents following the legislative changes in 2013. Massachusetts has indicated that its gas tax rate is 14% below the national average, and below other New England states and New York except for New Hampshire, which charges 23.83 cents overall compared to Massachusetts at 26.5 cents per gallon overall. Of the 24-cent Massachusetts tax that is pledged, 6.86 cents is pledged to the senior-lien gas tax bonds. The taxes are paid monthly by distributors who collect from gasoline purchasers and the flow of receipts on a monthly basis is relatively even. The largest payers are concentrated, with the top 10 paying 62% of total annual gas tax collections in fiscal 2013, but we view monthly collections in the past two years as being relatively stable. The special fuels tax (Chapter 64E) is levied on special fuels sold or used in Massachusetts and is levied at a rate of 24 cents. All of the collections are pledged to the CTF. The motor carrier tax is levied on each gallon of gasoline and special fuels acquired outside and used within the commonwealth, and is levied at a rate of 24 cents. The rate for liquefied gas is 19.1% of the average price per gallon. All of the collections are pledged to the CTF.

### Motor vehicle registry fees

Registry and motor vehicle (RMV) fees are collected by the Registrar of Motor Vehicles or authorized agents and include three broad categories: license, registration, and registry information. Fees are set by statute or code. License fees include those for drivers licenses, identification cards, professional driving schools, and reinstatement. Registration fees include motor vehicle registration according to types of license plates. Registry information includes fees relating to motor vehicle title, inspection, court records, and to citations. The RMV fees were adjusted in fiscal 2009 and again in fiscal 2015, when passenger vehicle registration fees increased from \$50-\$60 generating an estimated additional \$25 million per year.

Current rates are as follows:

- Passenger vehicle registration renewal fees: \$60;

- Commercial vehicle registration renewals: \$20;
- New certificate of title fees: \$75;
- Class D license renewals: \$50;
- New passenger vehicle registrations: \$60; and
- New commercial vehicle registrations: \$20 per 1,000 lbs. of GVW for a 1-year registration.

The RMV funds are collected daily at 30 RMV locations, six AAA service centers, via call center, or online. Fees are paid by cash, check, electronic check, money order, credit card, and debit card. The funds are swept daily by the state treasury and credited to accounts, and recorded by the state comptroller's office into the state accounting system. The fee collection process is subject to MassDOT security measures and subject to internal audit.

### Commonwealth Transportation Fund Bond Coverage

(\$000s)

Fiscal year	Chapter 64A fuel tax	Chapter 64E and 64F fuel tax	Registry motor vehicle fees	Total pledged revenue	Total pledged revenue (%)	Coverage of combined first and second lien future MADS in 2017 after this sale*
1996	532,324	65,259	280,923	878,507	N/A	6.49
1997	535,040	66,528	313,215	914,783	4.1	6.76
1998	546,213	73,822	312,180	932,216	1.9	6.89
1999	561,714	73,549	297,658	932,921	0.1	6.90
2000	572,209	79,041	300,040	951,301	2.0	7.03
2001	576,974	81,547	322,808	981,328	3.2	7.25
2002	585,519	79,904	338,440	1,003,863	2.3	7.42
2003	593,691	81,255	397,683	1,072,629	6.9	7.93
2004	600,255	82,659	386,284	1,069,197	(0.3)	7.90
2005	599,736	84,382	413,481	1,097,599	2.7	8.11
2006	589,591	80,785	375,670	1,046,046	(4.7)	7.73
2007	594,892	79,545	388,496	1,062,934	1.6	7.86
2008	595,380	75,560	396,904	1,067,844	0.5	7.89
2009	578,691	73,462	403,780	1,055,687	(1.1)	7.80
2010	576,676	76,369	485,789	1,138,834	7.9	8.42
2011	580,031	79,152	496,034	1,155,217	1.4	8.54
2012	581,148	79,028	508,608	1,168,784	1.2	8.64
2013	570,477	79,302	522,199	1,171,978	0.3	8.66
2014	640,702	89,938	533,194	1,263,834	7.8	9.34

\*Includes prior lien 1994 trust agreement debt service. N/A--Not applicable.

## Bond Provisions

Payment from the CTF requires legislative appropriation annually. This is also the case for gas tax bonds outstanding that had been payable from the highway fund. Bond provisions provide that, in the event of non-appropriation or delayed appropriation, all CTF revenues accumulate in the revenue account and are not available for any other purpose until debt service funds are fully funded. Debt service is payable in December and June, five months into the

fiscal year, and in most cases, insulating bondholders from potential delays in the adoption of the state budget. Even in years when budgets are late, the legislature has adopted one-twelfth budgets monthly, including payment of debt service. After satisfying debt service requirements, surplus revenues can only be expended for transportation projects. Revenues are deposited monthly in an amount equal to one-fifth of the interest and one-tenth of the principal coming due. Massachusetts may amend statutes that govern pledged revenues, including changing rates, but under the terms of the trust agreement the state treasurer must deliver a certificate to the trustee demonstrating that the revenues received in 12 consecutive months out of the past 18 months are sufficient to cover MADS by 4.0x.

The additional bonds test also provides significant bondholder security in our view. Pledged funds for any 12 consecutive months out of the past 18 cover MADS on bonds outstanding and proposed bonds by 4.0x. The trust indenture allows for variable-rate bonds but the current financing plan for the program is expected to include only fixed-rate debt issuance. There is no parity or prior lien direct placement debt currently outstanding.

## Related Criteria And Research

### Related Criteria

- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- USPF Criteria: Special Tax Bonds, June 13, 2007

Ratings Detail (As Of December 1, 2014)		
Massachusetts spl oblig (gas tax) (FGIC) <i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Massachusetts sr lien gas tax <i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Massachusetts (Accelerated Bridge Prog) <i>Long Term Rating</i>	AAA/Stable	Affirmed

Many issues are enhanced by bond insurance.

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