

RatingsDirect®

Summary:

Massachusetts; Gas Tax

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Summary:

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Credit Profile		
US\$365.0 mil commonwealth transp fd rev bnds (Accelerated Br Prog) ser 2013 A due 06/01/2033		
<i>Long Term Rating</i>	AAA/Stable	New
Massachusetts Spl Oblig Gas Tax		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' long-term rating, and stable outlook, to Massachusetts' \$365 million commonwealth transportation fund (CTF) revenue bonds (accelerated bridge program [ABP]), series 2013A.

At the same time, Standard & Poor's has affirmed its 'AAA' rating, with a stable outlook, on the CTF revenue bonds and special obligation prior lien gas tax bonds outstanding.

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 debt service coverage levels; and
- A strong credit structure that we believe insulates bondholders from future economic and revenue volatility with an additional bonds test of 4x.

We understand that bond proceeds will be used to fund the repair and rehabilitation of bridges statewide. This bond issue is the third 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 this new credit structure secured by the CTF and federal highway grant anticipation notes.

The commonwealth expects to issue an additional CTF-supported debt in the amount of \$273 million in fiscal 2014 and \$168 million in fiscal 2015.

The major revenues supporting the bonds include motor fuels tax revenues, which account for 55.5% of the total (chapter 64A, chapter 64E, and chapter 64F receipts). 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. The rate increase is expected to generate \$95 million of revenues annually for the program according to the commonwealth,

which we believe strengthens debt service coverage in the future. The legislature also approved indexing the gas tax receipts to inflation in 2014. This may be subject to a voter initiative petition but we don't view the potential lack of indexing as a significant credit weakness. It is important to note that voter-approved initiative petitions may be amended or appealed by the legislature.

These gas taxes are collected monthly by gasoline distributors in the state with about 250 payers in total. The major payers are somewhat concentrated but, according to Massachusetts, the record of collections has been strong with no significant delinquencies over time. Before 2013, the gas tax has 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 (44.5% of total revenues), which are collected daily by the Registry of Motor Vehicles and swept daily by the state treasury and credited to various fee accounts. Total pledged revenues in fiscal 2013 were \$1.17 billion. Total revenues supporting the bond program have been stable, in our view, and are expected to expand following the recent tax rate increase. Before this rate change, revenue performance was relatively flat with declines in fiscal years 2009 and 2010 due to the recession. Registry fees were increased in fiscal 2010, which offset flat-to-declining revenue performance in previous years. Fiscal 2013 revenues (after deducting maximum annual debt service [MADS] on the current gas tax bonds [\$52 million]) cover MADS on debt outstanding and estimated for this issue by what we consider a strong 11.7x. The commonwealth projects that fiscal 2014 revenues would cover MADS on bonds outstanding and anticipated issuance in fiscal years 2014 and 2015 by 9.6x, with annual coverage in excess of 10.0x. While additional debt could be authorized in the future, or more of the ABP could be funded with the CTF, the strong additional bonds test and the significant role that the CTF revenues play in funding statewide transportation infrastructure projects will, we believe, limit leverage.

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.

Related Criteria And Research

USPF Criteria: Special Tax Bonds, June 13, 2007

Ratings Detail (As Of October 30, 2013)		
Massachusetts spl oblig (gas tax) (FGIC) <i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Massachusetts spl oblig (gas tax) (MBIA) <i>Long Term Rating</i>	A/Stable	Affirmed
Massachusetts sr lien gas tax <i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed

Ratings Detail (As Of October 30, 2013) (cont.)

Massachusetts (Accelerated Bridge Prog)

Long Term Rating

AAA/Stable

Affirmed

Many issues are enhanced by bond insurance.

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