

Massachusetts; Gas Tax

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Credit Profile		
US\$419.26 mil commonwealth transp fd rev bnds (Accelerated Bridge Program) ser 2012 A due 06/01/2041		
<i>Long Term Rating</i>	AAA/Stable	New
Massachusetts spl oblig (gas tax)		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Massachusetts commonwealth transp fd rev bnds 2010 (Accelerated Bridge Prog BABs/RZEDBs) ser A due 06/01/2040		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating, and stable outlook, to Massachusetts' series 2012A commonwealth transportation fund's (CTF) revenue bonds (accelerated bridge program). At the same time, Standard & Poor's affirmed its 'AAA' rating, with a stable outlook, on the commonwealth's gas tax bonds (senior lien and subordinated lien) outstanding.

The CTF bonds are secured by pledged revenues that include gasoline taxes and motor vehicle registration fees levied statewide. The 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 levied 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 second under the Accelerated Bridge Program (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 (see the related report published April 25, 2012, on RatingsDirect on the Global Credit Portal).

The commonwealth expects to issue a total of \$1.9 billion in CTF-supported debt for this program to aid the program through fiscal 2015. The major revenues supporting the bonds include gas tax revenues, which account for 50.2% of the total. The current rate is 21 cents, with 6.86 cents of that amount pledged to gas tax bonds outstanding on a first-lien basis. These funds 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. The gas tax has not been increased since 2000 and remains below the average gas tax rates charged in the Northeast region. The other key revenue supporting the program is motor vehicle registry fees (42.9% 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. Finally, there

are special fuels and motor carrier tax revenues pledged to the bonds that contribute another 6.9% to total revenues and are collected monthly. Total pledged revenues in fiscal 2011 were \$1.16 billion. Total revenues supporting the bond program have been stable, in our view, ranging from \$981 million in fiscal 2001 to \$1.16 billion in fiscal 2011. Revenues rose little in that time period, and the 7.8% increase in fiscal 2010 is due in part to registry fee increases; motor fuels tax experienced slight declines in fiscal years 2009 and 2010 due to the recession. Fiscal 2011 revenues (after deducting maximum annual debt service [MADS] on the current gas tax bonds [\$59 million]) cover MADS on debt outstanding by what we consider a strong 13.9x. The commonwealth projects that fiscal 2011 revenues would cover MADS by 9.1x on the entire anticipated bond borrowings based on the current financing plan. While additional debt could be authorized in the future, or more of the ABP program 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 commonwealth's substantial and diverse economy will continue to support stability in pledged revenues over time.

Accelerated Bridge Program

This program was a key initiative of Governor Deval Patrick and was authorized by a unanimous vote of the Massachusetts legislature in 2008. The Massachusetts Transportation Finance Commission estimated a funding gap of \$15 billion for transportation infrastructure in the next 20 years. Included in the estimate were 550 structurally deficient bridges at a cost of nearly \$3 billion. This bond program will accelerate construction of these projects 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. The commonwealth reports steady progress since the program commenced, with 56 bridges replaced, renovated, or preserved since 2010. In addition, 90% of the projects are in line with budget expectations and 82% are expected to be completed in a timely manner.

Transportation Reform

In June 2009, the Massachusetts legislature enacted, and the governor signed into law, transportation reform legislation designated Chapter 25 of the acts of 2009. This legislation created the Massachusetts Department of Transportation (MassDOT) to oversee four divisions, including highways, aeronautics, mass transit, and motor vehicles. As part of the reform legislation, a CTF was established in part to develop a new credit structure to support the accelerated bridge program.

Pledged Funds: Stable And Diversified

Fuel tax

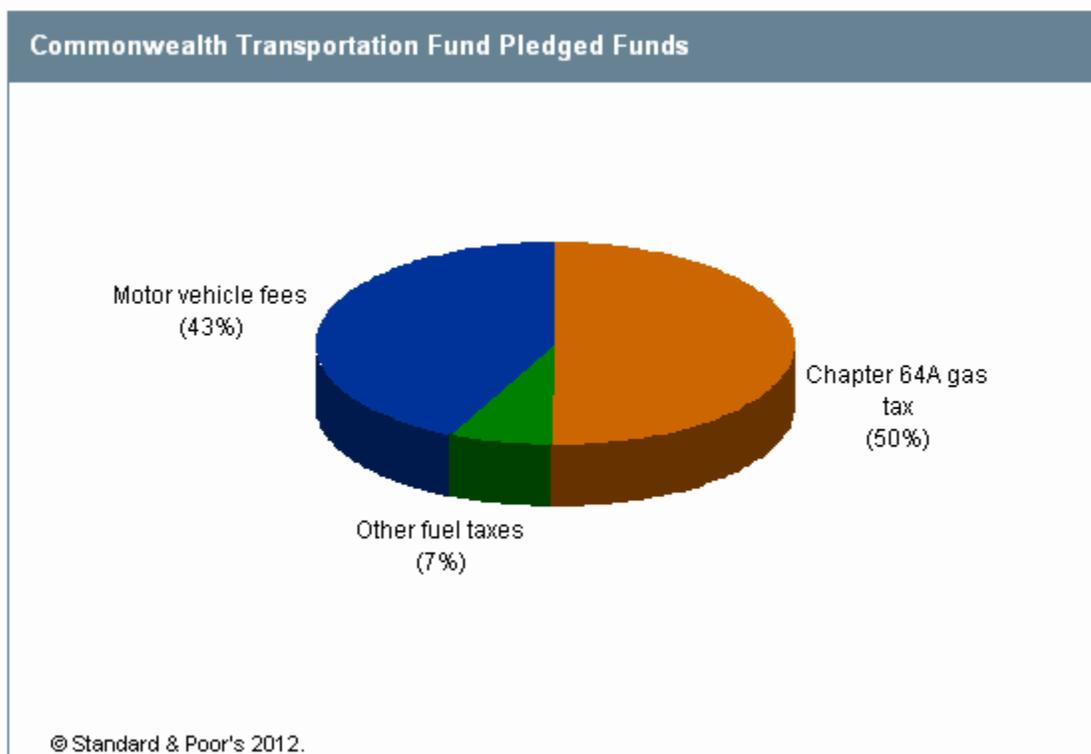
The funds pledged to this bond program are levied statewide and have a long and stable collection history. The commonwealth has levied a fuel tax since 1928. There are a range of fuel taxes that are pledged to the CTF: The excise tax imposed by state statute (Chapter 64A) is the primary source of fuel tax revenue for the CTF. The current tax rate is 21 cents and has been since 2000. The rate is below the northeast average rate of 24 cents per gallon and in line with the national average of 20.9 cents; 0.15% is dedicated to another fund with the remainder available as CTF pledged funds. Of the 21-cent tax, 6.86 cents is pledged to gas tax bonds outstanding on a senior-lien basis. We understand that the lien will be closed following the issuance of CTF bonds. The taxes are paid monthly by distributors who collect from gasoline purchasers. The largest payers are concentrated, with the top 10 paying for about 65% of the total tax, but the commonwealth indicates that there has not been any history of delayed payments. The special fuels tax (Chapter 64E) is levied on special fuels and liquefied gas sold or used in Massachusetts and is levied at a rate of 21 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 21 cents. 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 contributed to what we consider a significant increase of 20.3% in overall CTF revenues to \$485.8 million in fiscal 2010 and 2.1% in fiscal 2011. The increases were as follows:

- Passenger vehicle registration fees increased to \$50 from \$36;
- Commercial vehicle registration renewals increased to \$20 from \$15;
- New certificate of title fees increased to \$75 from \$50;
- Class D license renewals increased to \$50 from \$40;
- New passenger vehicle registrations increased to \$50 from \$36; and
- New commercial vehicle registrations increased to \$40 from \$15.

The RMV funds are collected daily at 30 RMV locations, 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 (see chart and table for breakdown of pledged funds).



Historic Commonwealth Transportation Fund Pledged Funds

(\$000s)

Fiscal year	Chapter 64A	Chapter 64E and 64F	Registry motor vehicle fees	Total
1996	532,324	65,259	280,923	878,507
1997	535,040	66,528	313,215	914,783
1998	546,213	73,822	312,180	932,216
1999	561,714	73,549	297,658	932,921
2000	572,219	79,041	300,040	951,301
2001	576,974	81,547	322,808	981,328
2002	585,519	79,904	338,440	1,003,863
2003	593,691	81,255	397,683	1,072,629
2004	600,255	82,659	386,284	1,069,197
2005	599,736	84,382	413,481	1,097,599
2006	589,591	80,785	375,670	1,046,046
2007	594,892	79,545	388,496	1,062,934
2008	595,380	75,560	396,904	1,067,844
2009	578,445	73,462	403,780	1,055,687
2010	576,676	76,369	485,789	1,138,834
2011	580,031	79,152	469,034	1,155,217

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 1/12 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 4x. 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 4x. 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.

Related Criteria And Research

USPF Criteria: Special Tax Bonds, June 13, 2007

Ratings Detail (As Of May 1, 2012)		
Massachusetts spl oblig (gas tax) (FGIC) <i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Massachusetts spl oblig (gas tax) (FGIC) (National) <i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Massachusetts sr lien gas tax <i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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