

# RatingsDirect®

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## Summary:

# Massachusetts; Federal or State Grant Programs

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## Table Of Contents

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Rationale

Outlook

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### Credit Profile

US\$60.0 mil fed hwy GANs (Accelerated Bridge Prog) ser 2019A due 06/15/2029

*Long Term Rating* AAA/Stable New

Massachusetts GANs (Accelerated Br Prog)

*Long Term Rating* AAA/Stable Affirmed

## Rationale

S&P Global Ratings assigned its 'AAA' rating to Massachusetts' proposed \$60 million series 2019A federal highway grant anticipation notes (GANs). At the same time, S&P Global Ratings affirmed its 'AAA' rating on the commonwealth's GANs outstanding. The outlook is stable.

We believe specific credit strengths include the following factors:

- A strong security structure, including Massachusetts' share of Title 23 grant funds and an additional pledge under the 2010 trust agreement (TA) of excess Commonwealth Transportation Fund (CTF) revenues funded from gas taxes and vehicle-registration fees;
- Strong pro forma maximum annual debt service (MADS) coverage of approximately 4.6x based on 2020 federal highway reimbursements to the commonwealth, and very strong projected coverage of 12.7x incorporating excess CTF revenues. Both figures include full issuances of the CTF credits under the Accelerated Bridge program through 2024, as well as borrowings for programs specifically funded by the CTF credit only;
- A requirement that debt service payments be funded with the trustee a year in advance;
- Sound bond provisions that prohibit additional 2010 TA GAN issuances unless the commonwealth meets an effectively 4x pro forma MADS test; and
- Variable-but-generally-positive trends in obligation authority and receipts of Title 23 federal aid money, a track record of maximizing federal grants, and effective management of the grant reimbursement process.

In our opinion, credit weaknesses are similar to those of other grant anticipation revenue vehicle (GARVEE) notes. These include possibly lower pledged revenues from a decline in funds for states from the Highway Trust Fund (HTF) or in congressionally appropriated amounts; changes to the federal aid highway program; and delays to congressional reauthorization or the commonwealth's failure to manage the reimbursement process.

Bond proceeds will fund a portion of the state's Accelerated Bridge program to address structurally deficient bridges. The program began in 2008 and has completed 191 bridge projects, with seven remaining in construction as of Sept. 1, 2018. Proceeds will be used for bridges throughout the state and the commonwealth has the right to determine, at its discretion, the amount applied to each such purpose. In our view, the state has maintained a good track record of administering the program and delivering projects on time and within budget.

Massachusetts has approximately \$748.4 million in aggregate principal amount outstanding for GARVEEs at fiscal year-end 2018 and approximately \$2.81 billion in CTF-secured bonds. The state intends to issue approximately \$1.8 billion in additional CTF bonds through 2024. Although there are no proposed plans to issue additional GANs, there is legislation that, if approved, could authorize \$1.25 billion.

Unlike many grant-anticipation structures, the commonwealth GANs include an additional pledge, in the form of excess CTF pledged revenues, after payment of bonds that these revenues pledge. The commonwealth's most recent estimates indicate that about \$1.1 billion in excess CTF money will be available annually to pay the GANs, if necessary, through 2027. Although the legislature must appropriate excess CTF revenues if needed, the government may not use these for any other purpose than transportation until appropriated for debt service. Furthermore, debt service ascends gradually, to \$122.6 million in 2022 from \$85 million in 2018; thereafter, it is level near \$122 million, equal to pro forma MADS.

The rating on the Massachusetts GARVEE bonds, as with all other GARVEE ratings we maintain, assumes that the supportive legislative framework and congressional appropriations funding transportation grant programs will continue through the enactment of multiyear authorizations or continuing temporary extensions. We base this assumption on historical precedent, our view of the political and economic importance of national highway and mass transit systems, the broad historical bipartisan political support for transportation spending programs at all levels of government, and Congress' track record of continuing appropriations and extensions to budget authorizations when they expire.

The most recent highway transportation legislation, the Fixing America's Surface Transportation (FAST) Act, took effect Dec. 4, 2015, and authorizes federal funding through fiscal 2020. We believe the FAST Act generally supports the sector's credit quality due to a longer period of funding certainty and increased funding levels. The multiyear legislation will provide approximately \$230 billion for highways, \$60 billion for public transportation, \$10 billion for passenger rail, and \$5 billion for highway safety programs. This is an approximately 11% increase from current levels over five years. Furthermore, FAST provides a 5.1% increase in highway fund distributions to states for fiscal 2016, and growth rates of 2.1%-2.4% thereafter. Previous funding growth rates were lower, and until the FAST Act, S&P Global Ratings had cited federal budget deficits as a risk affecting highway funding levels.

S&P Global Ratings' credit ratings in this sector range from 'A-' to 'AA' where only federal funding is pledged; and as high as 'AAA' where state agencies blend the federal funding with an additional pledge of state funding. We base the relatively strong ratings in this sector on the issuer's pledge of HTF grants from the federal government. Overall, we believe the FAST Act's signing confirms our views on ongoing and widespread congressional support for preserving and expanding the national highway system. States and local transportation agencies that receive distributions from the HTF can confidently move forward with complex multiyear transportation projects because the question surrounding federal funding no longer looms. Nevertheless, we carefully evaluate the risks to state programs that leverage these funds, including the timing of receipts, level of funding, and erosion in dollars either due to lower authorized or appropriated levels or programmatic changes that negatively affect recipients. We will continue to monitor the sector to evaluate how each individual state issuer might adjust its debt or capital spending plans, given the new law.

Although reauthorization risk cannot be eliminated, it has been minimized through conservative financial structures

inherent in all rated GARVEE transactions, which have resulted in the relatively high ratings on these transactions. This includes the use of back-up credit support, debt service reserves, robust debt service coverage levels, shorter final maturities, and restrictive additional debt provisions. In addition, many nonquantitative credit factors influence the rating, such as funding mechanical and timing, evaluation of state processes for managing and administering the program, history of federal receipts and volatility, each state's donor status, underlying economy, transportation needs, and each state's respective political representation and congressional influence.

We rate the bonds one notch above the U.S. rating (AA+/Stable/A-1+). By applying our criteria "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions" (published Nov. 19, 2013), we view the fact that Massachusetts derives its share of various tax revenues pledged to the bonds locally as a strength. This, coupled with these pro forma revenues providing 8.3x MADS coverage through maturity at 2027 alone, mitigates the bond's exposure to federal revenue volatility.

## **Outlook**

The stable outlook reflects our expectation that Massachusetts' allocation of federal apportionments will remain consistent with historical trends over the two-year outlook period.

We could lower the rating if lower-than-expected MADS coverage occurs, either from increased additional debt needs or lower receipts.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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