S&P Global Ratings

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Summary:

Massachusetts Massachusetts Bay Transportation Authority; General Obligation Equivalent Security

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Credit Profile		
US$55.105 mil gen transp sys bnds var rate demand oblig (Massachusetts) ser 2000A-2 dtd 03/03/2000 due 03/01/2030		
Long Term Rating	AA/A-1+/Stable	New
US$55.105 mil gen transp sys bnds var rate demand oblig (Massachusetts) ser 2000 A-1 dtd 03/03/2000 due 03/01/2030		
Long Term Rating	AA/A-1+/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AA/A-1+' dual rating to the Massachusetts Bay Transportation Authority's series 2000A-1 and 2000A-2 bonds based on the standby purchase agreement (SBPA) provided by TD Bank N.A.
- We also assigned our 'AA' long term rating to the bonds based on the long-term rating of the Commonwealth of Massachusetts.
- The outlook on the long-term ratings, where applicable, is stable.

Security

The long term rating on the bonds is based on obligation of the commonwealth to pay the required amount is a general obligation (GO) of the commonwealth and full faith and credit of the commonwealth are pledged to make such payment. If at any time the authority lacks funds to pay principal or interest, section 13 of the act provides that the authority will requisition the required amount from the commonwealth. The obligation of commonwealth to pay the required amount is a GO of the commonwealth and the full faith and credit of the commonwealth are pledged to make such payment. It should be noted, however, that Chapter 62F of the Massachusetts General Laws establishes a state tax revenue growth limit and does not exclude principal and interest payments on commonwealth obligations from the scope of the limit. The ability of the commonwealth to honor the guaranty, should the guaranty be called on, will depend on a number of factors.

The new SBPA, effective Sept. 21, 2022, covers principal and 186 days' interest at a maximum 10% annual rate for the purchase price of bonds not successfully remarketed. The SBPA covers bonds in the daily and weekly interest-rate modes (the rated modes). During the rated modes, we believe the SBPA coverage amount is sufficient to pay bond principal and maximum accrued interest.

The new SBPA is scheduled to expire on March 1, 2030, at which time we will remove the short-term component of the ratings unless the SBPA is either extended or terminated beforehand according to its terms. The SBPA provider's obligation to purchase tendered bonds will automatically terminate should certain events of default set forth in the

SBPA occur. These events, which we consider consistent with our published criteria, include the lowering of the rating on the bonds below 'BBB-'.

Credit overview

Massachusetts' 'AA' GO rating reflects a strong economy, with the second-highest per capita income level in the nation, partly due to an above-average presence of high-technology companies in the Boston metropolitan statistical area (MSA). The rating further reflects some historical cyclicality in financial results, although recent strong growth in tax collections and federal aid have led to large operating surpluses and reserves, as well as high debt, pension, and other postemployment benefit (OPEB) liabilities, with a history in recent years of funding less than full annual actuarial recommendations to its pension and OPEB funds.

So far in fiscal 2023, Massachusetts' revenues have continued to come in much better than the budgetary forecast. Through August 2022, fiscal 2023 tax collections for the year to date were up 5.2% over the same period the prior year. Strong recent tax growth has swelled the commonwealth's budget stabilization fund balance, which receives both excess general fund revenue, as well as capital gains tax above an annual benchmark, and certain other lesser revenue sources. The commonwealth's budget stabilization fund (BSF) is estimated at $6.9 billion, or a very strong 10.0% of expenditures and other uses at the end of fiscal 2022. The commonwealth's enacted fiscal 2023 budget projects that the fund will increase to 8.4 billion at the end of fiscal 2023.

Factors supporting the 'AA' GO rating include what we view as Massachusetts':

- Deep and diverse economy;
- High income levels, with per capita income at 132% of the nation in 2021, the second-highest among the states;
- History of timely monitoring of revenues and expenditures and swift action when needed to make adjustments;
- Strong financial, debt, and budget management policies, including annualized formal debt affordability statements and multiyear capital investment planning; and
- Strong BSF balance, equal to 8.9% of expenditures and other uses on a budgetary basis at fiscal year-end 2021, and an estimated increase in 2022 to 10.0%, in part due to currently strong capital gains tax.

Offsetting factors include high debt, pension, and OPEB liabilities.

For more information on the commonwealth, please refer to our most recent summary analysis on Massachusetts, published Jan. 20, 2022, on RatingsDirect.

Environmental, social, and governance

We consider Massachusetts' environmental risks moderately negative in our credit analysis because of the commonwealth's coastal exposure, with about two-thirds of its population in the Boston MSA and substantial property value in the combined Boston and Cape Cod area. We view social and governance as neutral to the credit analysis.

For more information about the commonwealth's environmental, social, and governance (ESG) risks, please refer to our "ESG Credit Indicator Report Card: U.S. States And Territories," published March 31, 2022, on RatingsDirect.

Outlook

The stable outlook reflects our view that Massachusetts has had a history of rebuilding its BSF after economic drawdowns and generally conservative budget forecasting, and that the commonwealth's economy will largely track national growth trends in the next two years.

Downside scenario

We could lower the rating if we believe Massachusetts will fail to make budget adjustments to maintain structural balance or rebuild its BSF after periods of economic softness. Factors that could pressure the rating include overly optimistic revenue projections; significant unexpected growth in Medicaid costs, even with increased federal reimbursement; significant increases in debt or other fixed costs; or material drawdowns of its BSF, even when underlying economic activity is strong. In particular, weak liquidity, significant deficit borrowing, or a significant fall in pension-funded levels due to the commonwealth falling significantly behind static pension funding contribution levels could trigger a negative outlook or downgrade.

Upside scenario

An upgrade would require the state to take measures to strengthen its pension funding discipline based on a prudent actuarial footing, while maintaining a strong BSF balance as a matter of budgetary policy during periods of strong economic activity.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022