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Ratings

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Summary:

Massachusetts; Federal or State Grant Programs

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Credit Profile		
US$142.64 mil fed hwy GANs ser 2017A due 06/15/2027		
Long Term Rating	AAA/Stable	New
Massachusetts GANs (Accelerated Br Prog)		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings has assigned its 'AAA' rating to Massachusetts'pro forma $142.6 million series 2017 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 5.2x based on 2016 federal highway reimbursements to the commonwealth, and very strong projected coverage of 15.1x incorporating excess CTF. Both figures include full issuances of the GAN and CTF credits under the Accelerated Bridge program through 2021, 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 the state's structurally deficient bridges. The program began in 2008 and since then the number of structurally deficient bridges has fallen to 432 from 543, or 20%, as of March 1, 2017. Proceeds will more specifically address repairs and renovations on four major bridges. In our view, the state has maintained a good track record of administering the program and delivering projects on time and within budget. In addition, bond proceeds will refund some debt outstanding.

The 2010A GANs (of which approximately $77 million are outstanding) have a final maturity of 2022. The commonwealth also has 2013A GANs (about $213 million), 2014A GANs (about $323 million) that mature in 2027, and the 2016 series (about $125 million) that matures in 2027. In addition to this 2017 series, Massachusetts plans to issue additional GANs totaling about $30 million with an issuance in 2021 up to the fully authorized limit.

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 $114.3 million in 2021 from $82.3 million in 2017; thereafter, it is level near $114.3 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 deferral fiscal 2020. We believe the FAST Act generally supports the sector's credit quality due to 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% to 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, on RatingsDirect), 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 near 10.0x 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.