FitchRatings

RATING ACTION COMMENTARY

Fitch Assigns 'AA+' to $1.4B Massachusetts GO Bonds; Outlook Stable

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Fitch Ratings - New York - 03 Jun 2020: Fitch Ratings has assigned a 'AA+' rating to approximately $1.4 billion in Commonwealth of Massachusetts general obligation (GO) bonds, consisting of:

--$175,000,000 GO refunding bonds, 2020 series A (multi-modal bonds);

--$500,000,000 GO bonds, consolidated loan of 2020, series D;

--$750,000,000 GO refunding bonds, 2020 series B.

The par amounts for both series of refunding bonds are subject to change pending final sale.

The 2020 series A multi-modal GO refunding bonds will be offered by negotiated sale the week of June 8, 2020. The 2020 series D GO bonds and the 2020 series B GO refunding bonds will be offered by negotiated sale the week of June 22, 2020.

In addition, Fitch has affirmed the Commonwealth's long-term Issuer Default Rating (IDR) at 'AA+' and the long-term and short-term ratings on GO and other bonds linked to the IDR of the state as detailed at the end of this release.

The Rating Outlook is Stable.

SECURITY

The GO bonds are general obligations of the Commonwealth, to which its full faith and credit are pledged. A statutory state tax revenue growth limit does not exclude principal and interest on debt obligations from the limit.

ANALYTICAL CONCLUSION

The 'AA+' IDR on the Commonwealth of Massachusetts is linked to its considerable economic resources, strong budget controls and a record of careful financial management. The Commonwealth carries a long-term liability burden that is well above average for a U.S. state but remains a moderate burden on resources. The Stable Outlook on the long-term ratings reflects the expectation that the Commonwealth will continue to act as needed to ensure budget balance and maintain an adequate reserve position.

ECONOMIC RESOURCE BASE

The Commonwealth has a broad and diverse economy. Education levels are high, and although population growth is below the U.S. average, it continues to lead the region. Economic fundamentals include significant strength in the health care, technology and education sectors, leaving it well positioned for solid gains going forward. Measured by per capita personal income, Massachusetts is the second wealthiest state in the nation. Economic performance in the expansion that followed the Great Recession was strong, with solid employment growth.

KEY RATING DRIVERS

Revenue Framework: 'aaa'

Tax revenues, while diverse, are dominated by individual income taxes, which are sensitive to economic conditions, particularly those related to capital gains. Baseline growth prospects for taxes are strong, driven by the Commonwealth's solid economic fundamentals.

Expenditure Framework: 'aaa'

Consistent with most states, the natural pace of spending growth is expected to marginally exceed expected revenue growth over time, requiring ongoing cost control. The Commonwealth has ample ability to reduce spending throughout the economic cycle.

Long-Term Liability Burden: 'aa'

Liability levels in Massachusetts, while high for a U.S. state, are a moderate burden on resources. The Commonwealth's above-average liability position is partly the result of state funding for needs that are more commonly funded at the local level.

Operating Performance: 'aaa'

The Commonwealth has exceptional fiscal resilience, with strong gap-closing capacity stemming from a practice of building solid reserve balances and making revenue and spending changes as needed in response to changing circumstances. Conservative budgeting, ongoing economic and revenue monitoring, and mechanisms to protect the general fund from economically sensitive individual income tax and judgment and settlement receipts, support the Commonwealth's fiscal flexibility.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--A sustained reduction in the long-term liability burden accompanied by a reduction in carrying costs.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Evidence that the Commonwealth is challenged in addressing the fiscal impact of the short but severe downturn expected under Fitch's coronavirus baseline scenario;

--An economic decline that is more severe and prolonged, corresponding to Fitch's downside scenario, and that leads to lower financial resilience relative to cyclical economic and revenue performance;

--Deterioration of strong financial management practices that have preserved budgetary flexibility and enabled it to manage its relatively high long-term liability position.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Public Finance issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

CURRENT DEVELOPMENTS

Sector-Wide Coronavirus Implications

The recent outbreak of the coronavirus and related government containment measures worldwide creates an uncertain global environment for U.S. state and local governments and related entities in the near term. As severe limitations on economic activity only began very recently, most state governments' fiscal and economic data do not reflect any credit impairment. Material changes in revenues and expenditures are occurring across the country and likely to worsen in the coming weeks and months as economic activity suffers and public health spending increases. Fitch's ratings are forward looking, and Fitch will monitor developments in state and local governments as a result of the virus outbreak as it relates to severity and duration, and incorporate revised expectations for future performance and assessment of key risks.

In its baseline scenario, Fitch assumes sharp economic contractions hit major economies in the first half of 2020 at a speed and depth that is unprecedented since World War 11. Recovery begins from the third quarter of 2020 onward as the health crisis subsides after a short but severe global recession. GDP remains below its fourth quarter 2019 level until mid-2022. Additional details, including key assumptions and implications of the baseline scenario and a downside scenario, are described in the April 2020 report 'Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases- Update' and 'Fitch Ratings Updates Coronavirus Scenarios for U.S. State and Local Tax-Supported Issuers' on www.fitchrat ings.com.

Federal Aid Provides Some Support for State Budgets

Federal aid measures enacted since the pandemic began are benefiting state budgets. The Families First Coronavirus Response included a 6.2%increase in the Federal Medical Assistance Percentage (FMAP) for Medicaid for every quarter of the national emergency declared by the president on March 13. FMAP is the rate at which the federal government reimburses states for Medicaid spending. Massachusetts estimates it will receive $530 million under this provision during fiscal 2020, corresponding to two quarters of the national emergency. The ultimate value of the FMAP rate increase will depend primarily on the Commonwealth's actual Medicaid spending.

Under the Coronavirus Aid, Relief and Economic Security (CARES) Act, the U.S. Treasury department distributed $150 billion to state and local governments using a population-based formula. The statute limits the use of funds to coronavirus expense reimbursement rather than to offset state tax revenue losses. Massachusetts and its eligible local governments (with a population of 500,000 or more) received almost $2.7 billion from the U.S. Treasury, with almost $2.6 billion flowing directly to the state.

CARES also provides for supplemental federal aid for local school districts, passed through state departments of education with the Elementary and Secondary School Emergency Relief Fund (ESSER). The act allocates $215 million to Massachusetts, with a minimum of approximately $193 million designated for local school districts, all to be spent within one year of receipt for a fairly broad set of allowable uses.

The Federal Reserve's $500 billion Municipal Liquidity Facility (MLF) provides a potential source of short-term liquidity for state and local governments. Under the MLF, the Federal Reserve Bank will set up a special purpose vehicle to directly purchase short-term debt issued by states, the District of Columbia and the largest counties and cities. Under terms of the program, Massachusetts could borrow over $7.8 billion to address cash flow needs, although it is still assessing the program and whether it could be used to meet liquidity needs.

Coronavirus - Massachusetts Liquidity Impacts

Fitch anticipates that Massachusetts, consistent with all states, will address short-term liquidity pressure with no interruption in timely payments for key operating expenses, including debt service. Massachusetts extended its deadline for filing individual income tax returns to July 15, in step with the federal filing delay, which has delayed collection of final income tax payments for the 2019 tax year. April receipts from the non-withholdingcomponents of the tax were nearly $1.9 billion below the benchmark, much of which will likely be collected in July.A range of other taxpayer relief measures affecting corporate taxes, sales and use tax, motor vehicle-related taxes and fees and other receipts were announced, but their impact on liquidity appears far more limited to date. The state plans on accruing deferred individual income tax receipts back into fiscal 2020.

Although fiscal 2020 operating cash is being affected by the tax filing delays noted above and the initial revenue impact of the economic shock, the Commonwealth has solid cash balances and has put in place measures to augment existing liquidity through fiscal 2021, if needed. The Commonwealth had $3.4 billion in non-segregated operating cash available as of Jan. 31, 2020, its last update, and another $3.4 billion in the stabilization fund, the Commonwealth's budget reserve. It issued $1.4 billion in revenue anticipation notes **(RANs)** for fiscal 2020 cash needs, with two of three maturities, $500 million each in April and May, already paid and the final $400 million maturity payable in June.

For liquidity needs going forward, the Commonwealth entered into a line of credit agreement with a syndicate of banks in May to provide up to $1.75 billion, due no later than May 10, 2021, the expiration date; to date, no funds have been drawn. The legislature also authorized the issuance of cash flow notes during fiscal 2020 that mature no later than June 30, 2021. Based on expected cash needs, issuance could move forward as early as mid-June.

Coronavirus - Massachusetts Budgetary Update

Beyond the initial liquidity impact of the coronavirus shock, the emerging recession is likely to have a severe impact on the Commonwealth's budgetary framework; however Fitch views it as being well-positioned to absorb near-term fiscal uncertainty.

The Commonwealth's operating performance was solid in the years leading up to the pandemic, and tax collections in fiscal 2020 had continued this solid trend through most of the fiscal year. Given coronavirus-related tax-filing deferrals and the initial impact of the lockdowns on economic activity, total tax collections YTD through April are 6% below the prior year and 7.7% below benchmark. The variance is largely due to individual income tax collections, which are 11.5% below the prior year driven by the non-withholdingcomponent of receipts; withholding receipts year-to-date through April remained 4% over the prior year level. Sales tax collections YTD through April were 3.4% over the prior year, but 2.9% below benchmark. Collections in April were down sharply, driven by the meals and motor vehicle components of the tax, although collection lags from vendors suggests declines in May will be more severe.

The Commonwealth has not updated its formal consensus tax revenue forecast for fiscal 2020 and 2021to reflect the pandemic and emerging recession but has modified expectations for some non-tax revenues and is expected to further refine its revenue outlook as it deliberates on the fiscal 2021budget. As of the January consensus, the Commonwealth forecasted fiscal 2020 and 2021tax collections rising 1.8% and 2.8%, respectively, to $30.3 billion (in fiscal 2020) and $31.2 billion (infiscal 2021.

Federal aid in fiscal 2020 is now expected to be $1.3 billion higher due to pandemic-related funding, including the FMAP increase. The governor has filed a bill appropriating $1 billion for supplemental spending in fiscal 2020 related to the coronavirus response. The Commonwealth's revised expenditure estimates before interfund transfers are nowforecasted to rise 6.9%, which assumes $1 billion in additional spending in health and human services, primarily Medicaid.

Massachusetts' credit quality has been supported by its adroit management of economic and revenue cyclicality, and Fitch's rating assumes the Commonwealth maintains this approach despite the magnitude of uncertainties it faces in fiscal 2021. Massachusetts has noted potential fiscal 2021pandemic-related tax revenue gaps ranging from $2 billion to $8 billion off the January consensus, based on legislative and outside groups' estimates. Budget agreement for fiscal 2021, which begins on July 1, is likely to be delayed into the new fiscal year, although the Commonwealth routinely passes interim budgets to authorize continued spending until budget consensus is finalized. Fitch expects the Commonwealth will ultimately reach consensus on a plan that matches spending to available revenues while maintaining sufficient flexibility to absorb further weakness.

FAST Scenario Analysis

The Fitch Analytical Stress Test (FAST} scenario analysis tool, which relates historical tax revenue volatility to GDP to support the assessment of operating performance under Fitch's criteria, has now been adjusted to reflect GDP parameters consistent with Fitch's global coronavirus forecast assumptions. FAST is not a forecast, but it represents Fitch's estimate of possible revenue behavior in an unaddressed downturn scenario based on historical revenue performance, providing a relative sense of a state's risk exposure related to other states. Actual revenue declines will vary from FAST results.

Massachusetts has robust financial resilience that should allow it to absorb the budgetary effects of Fitch's coronavirus baseline scenario and ultimately rebuild that resilience through the eventual recovery period, despite an above-average exposure to economic cyclicality. The coronavirus baseline scenario results in a first-year revenue decline of 23.3%, followed by a 10.3% increase and cumulative result over the three-year scenario of an 11.5% decline. This compares to the state median declines of 16.6% in the first year and 8.7% over the three-year scenario. A downside scenario would pose more of a challenge to the Commonwealth's financial resilience, with a first year decline 40%, and a cumulative three-year decline of 28%, weaker than the median 20.6%decline for all states, consistent with its greater historical susceptibility to national economic downturns.

CREDIT PROFILE

Massachusetts' 'AA+' IDR reflects its solid credit attributes. The Commonwealth's dynamic, service-oriented economy, anchored by numerous institutions of higher education and health care, has solid growth prospects despite remaining sensitive to national trends. Tax-supported debt and net pension liabilities, recalculated based on a 6% discount rate, are high for a state but represent only a moderate burden on resources. The comparatively high debt level is partly explained by the Commonwealth's role in funding local capital needs.

Fitch believes the Commonwealth retains a high capacity to address cyclical downturns and operating under-performance and has repeatedly demonstrated its commitment to maintaining a solid financial posit ion. Sources of fiscal flexibility include the balance in the stabilization fund, which has reached $3.4 billion as of fiscal 2019. Budgetary mechanisms shift cyclical windfalls from volatile capital gains-related individual income tax receipts and judgment and settlement payments to the stabilization fund. Moreover, in the event of a mid-year forecast deficiency, the governor is required to reduce allotments or identify other balancing measures.

For additional information on the Commonwealth of Massachusetts, please see Fitch's rating action commentary, "Fitch Rates Massachusetts' $650MM GO Bonds 'AA+'; Affirms IDR at 'AA+'; Rating Outlook Stable", dated Feb. 11, 2020, at www.fitchrat ings.com.

Related Affirmations

Fitch affirms the ratings on the Commonwealth's GO and GO-linked bonds of the Commonwealth as follows:

--Approximately $24.1 billion in GO bonds at 'AA+';

--Approximately $182 million in Massachusetts Development Finance Agency (MDFA) special obligation bonds (Commonwealth contract assistance) at 'AA+';

--Approximately $178 million in Commonwealth guaranteed bonds, issued by the University of Massachusetts Building Authority (UMBA) and the MBTA, at 'AA+';

--Approximately $94 million in UMBA (Commonwealth Guaranteed) refunding revenue bonds, series 2011-2 at 'AA+'/'F1+';

--Approximately $772 million in Massachusetts Department of Transportation (MassDOT) metropolitan highway system (MHS) revenue bonds (subordinate), Commonwealth contract assistance secured at AA+.

The Rating Outlook on the long-term ratings is Stable.

The long-term GO bonds carry the Commonwealth's full faith and credit pledge.

For the Commonwealth contract assistance bonds issued by MDFA and Commonwealth guaranteed bonds issued by UMBA and MBTA, the Commonwealth's obligation under the contract to make payments equal to debt service is a general obligation of the Commonwealth, to which its full faith and credit are pledged.

The short-term 'F1+' rating on the UMBAseries 2011-2 bonds is based on the long-term 'AA+' rating of the Commonwealth.

For the MassDOT MHS subordinate revenue bonds, the Commonwealth's annual fixed, dedicated payments are a full faith and credit obligation of the Commonwealth and are expected to cover all subordinated debt service, linking the rating to the 'AA +' rating of the Commonwealth, rather than to the MHS toll revenues, which are also pledged to the bonds on a subordinated basis. Although about half of outstanding debt is variable rate and thus exposed to potential, though unlikely, risks associated with variable rate debt, Fitch expects that MassDOT would work with the commonwealth if necessary to ensure that the annual payments are sufficient for debt service.

CRITERIA VARIATION

There were no criteria variations.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies}, either due to their nature or to the way in which they are being managed by the entity(ies}. For more information on Fitch's ESG Relevance Scores, visit www.fitchrat ings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING		
Massachusett s, Commonwealth of (MA) [General Government]	LT IDR	**AA+**	Affirmed
• Massachusetts Turnpike Authority Metropolitan Highway System (MA)/Metro Highway System Revenues-Subordinated Obligations/1 LT	LT	**AA+**	Affirmed

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Douglas Offerman
Senior Director
Primary Rating Analyst
+1212 908 0889
Fitch Ratings, Inc. Hearst Tower 300 W. 57th Street New York 10019

Kevin Dolan
Director
Secondary Rating Analyst
+1212 908 0538

Karen Krop
Senior Director
Committee Chairperson
+1212 908 0661

MEDIA CONTACTS

Sandro Scenga
New York
+1212 908 0278
sandro.scenga@thefi tchgroup.com

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

U.S. Public Finance Tax-Supported Rating Criteria (pub. 27 Mar 2020) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST States & Locals - Fitch Analytical Stress Test Model, v2.4.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Massachusetts Bay Transportation Authority (MA)	EU Endorsed
Massachusetts Department of Transportation (MA)	EU Endorsed
Massachusetts Development Finance Agency	EU Endorsed
M assachusett s, Commonwealth Of (MA)	EU Endorsed
University of Massachusetts Building Authority (MA)	EU Endorsed

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